



FOREST SECTOR  
CHARTER COUNCIL

ANNUAL REPORT 2019/2020

# The Forest Sector Charter Council

## Vision

“A transformed and sustainable Forest Sector fully compliant with the Forest Sector Code.”

## Mission

“To support, promote, guide and monitor transformation of the Forest Sector by securing stakeholders compliance with the requirements of the Forest Sector Code.”

## Values

The Council operates with the following values:

Good governance

Transparency

Commitment to service (responsiveness is implied)

People-centred

Dynamism

Respect for integrity

Respect for confidentiality

Trust among and between stakeholders



FOREST SECTOR  
CHARTER COUNCIL

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# Table of Contents

<b>Acronyms .....</b>	<b>2</b>
<b>Message from the Chairperson .....</b>	<b>3</b>
<b>The Forest Sector Charter Council's Main Activities .....</b>	<b>5</b>
The Forest Sector Charter Council (FSCC) .....	5
Council's Activities .....	7
Forestry Moves to Department of Environment, Forestry and Fisheries .....	8
<b>Industry Happenings .....</b>	<b>9</b>
Council Partners with FSA to Celebrate Women in Forestry.....	9
Council Interrelates with the National Forestry Advisory Council (NFAC).....	9
Council Engages Mpumalanga B-BBEE Provincial Advisory Council.....	9
Deputy Minister Hosts Arbor Month in Port Elizabeth .....	9
SAFCA celebrates 30 years .....	10
Council partakes in the DAFF African Forestry Wildlife Commission .....	10
<b>Report of Progress Made in the Implementation of the Forest Sector Charter Undertakings .....</b>	<b>11</b>
Instruments to Support Ownership Targets.....	11
Instruments to Support Skills Development Targets .....	11
Instruments to Support Enterprise and Supplier Development Targets .....	12
Instruments to Support Industry-Specific Initiatives .....	13
<b>Summary of the Status of Transformation .....</b>	<b>15</b>
Medium and Large Enterprises (MLEs) .....	15
Qualifying Small Enterprises (QSEs) .....	18
Exempted Micro-Enterprises (EMEs) .....	21
Conclusion .....	22
B-BBEE Reporting Entities .....	23
<b>Annual Financial Statements for the Year Ended 31 March 2020.....</b>	<b>24</b>
General Information.....	24
Index .....	25
Councillors' Responsibilities and Approval .....	26
Councillors' Report.....	27
Independent Auditor's Report.....	29
Statement of Financial Position as at 31 March 2020.....	31
Statement of Comprehensive Income.....	32
Statement of Changes in Equity .....	33
Statement of Cash Flows .....	34
Accounting Policies .....	35
Notes to the Annual Financial Statements.....	37
Detailed Income Statement .....	42
<b>Appreciation .....</b>	<b>44</b>



## Acronyms

AGM	Annual General Meeting
ARC	Audit and Risk Committee
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CFA	Community Forestry Agreement
CFO	Chief Financial Officer
COP	Community Outreach Programme
CASP	Comprehensive Agricultural Support Programme
DAFF	Department of Agriculture, Forestry and Fisheries
DDG	Deputy Director-General
DEDT	Department of Economic Development and Tourism
DFFE	Department of Forestry, Fisheries and the Environment
DPE	Department of Public Enterprises
DTA	Department of Traditional Affairs
DTIC	Department of Trade, Industry and Competition
EME	Exempted Micro-Enterprises
ESD	Enterprise and Supplier Development
FAO	Food Agricultural Organisation

FINCOM	Finance Committee
FP&M	Fibre Processing and Manufacturing
FSA	Forestry South Africa
FSC	Forest Sector Code
FSCC	Forest Sector Charter Council
HRC	Human Resources Committee
IDC	Industrial Development Corporation
KZN	KwaZulu-Natal
MLE	Medium and Large Enterprises
NFAC	National Forestry Advisory Council
PAMSA	Paper Manufacturers Association of South Africa
PBO	Public Benefit Organisation
PPGI	Public Private Growth Initiative
QSE	Qualifying Small Enterprises
SAFCA	South African Forestry Contractors Association
SAFCOL	South African Forestry Company Limited
SAWPA	South African Wood Preservers Association
SSA	Sawmilling South Africa
SSG	Small-Scale Growers
SSP	Sector Skills Plan
SAUPA	South African Utility Pole Association
YES	Youth Employment Service

## Message from the Chairperson

Our vision of 'a transformed and sustainable Forest Sector fully compliant with the Forest Sector Code' has emphasised our reformed strategies to realise the long-term goals of transforming the Forestry Industry. Our planned activities have made us reinforce the ideology of understanding that transformation is not only about knowing, but more so about doing.



Dr D.E. Mahango – Chairperson of Council

In many of the Forestry-related markets, the external environment continued to be very difficult, with unprecedented geopolitical challenges, currency volatility and suppressed customer confidence. Despite these headwinds, our Forestry Industry managed to maintain and reinforce a strong position across its markets. What I would like to indicate is that our conviction that the progress we made in 2019/2020, combined with our unique dedicated Council team and supportive Government departments, positions the Council and Industry well for future growth.

While reminiscing through the highlights of the year, our distinctive approach to our advisory and advocacy work, even in 2020, continued to provide an oversight to the B-BBEE programme. The visits to the industry champions, community-based forums and the youth, in particular, has shown that all our efforts and aspirations can lead to achievements previously labelled as 'impossible'. In this regard, I must gratefully acknowledge the collaboration of forestry executives and management and all parties involved. A resistance from the 'Heads' could have slowed

down our resolve to take the Council to the next level of its evolution.

The continued commitment by our Industry to embrace transformation is pleasing. The results of all our efforts, in both private and public sectors, are beginning to manifest. The 2019/2020 outcome of the Status of Transformation speaks volumes towards the Sector's commitment to transformation. While it shows the level and performance of the Sector, it also provides a practical understanding of how B-BBEE in Forestry is realised. Achieving a Status 4 level was not so easy but it was worthwhile, and surely indicates that we can't just rest on our 'oars' until we accomplish our goals.

Strong governance and transparent reporting have been critical to our long-term creation of value. The Council's commitment to corporate governance best practices plays a key role in maintaining the trust of our stakeholders. The more professional we are, the better are our chances of transforming the Sector. On a related note, building community trust through responsible and sustainable

*“ The visits to the industry champions, community-based forums and the youth, in particular, has shown that all our efforts and aspirations can lead to achievements previously labelled as 'impossible'. ”*



*Some members from Government departments.*

management through our community outreach activities, is an indispensable part of our culture, especially, in the current challenging times.

In closing, may I reiterate our optimism about the year ahead, despite continuing volatility across our territories. We will continue to deliver on our strategic commitment which drives our operational performance towards sustainable transformation in the Forest Sector. To our funders, I am sincerely grateful for your continued support despite the economic landscape.

It is equally important that I also extend our gratitude to our former Minister, Hon. Mr Senzeni Zokwana and his Deputy Mr Sifiso Buthelezi for supporting the Council earnestly. To our new Minister in the Department of Forestry, Fisheries and the Environment (DFFE) Hon. Ms Barbara Creecy and her Deputy Hon. Ms Maggie Sotyu and members of the Portfolio Committee, I wish to congratulate you on your appointments and pledge my support as we tackle transformation in the Sector.

To our partners from the B-BBEE Unit in the former DAFF – in particular, Ms Kwena Komape, Dr Madime Mokoena,

Mr Rudolph Abercrombie, Mr Tumelo Modiba and the entire department, our journey has been interesting but has unfortunately reached its destination. I can report with pride and gratitude that I have been blessed to get to know many of you personally, and I thank you for your friendship and the opportunities I have had to learn from you and your work. On behalf of the Council, I wish you all the best as you serve in your new department.

Additionally, may I wholeheartedly thank all Council members, Government and Industry at large for their continued support. I believe that our work from our normal Council meetings to our other means of engagements have strengthened our understanding of our mandate and key responsibilities.

Lastly, and on behalf of the Council, I would like to thank all employees for their tremendous efforts, passion and resilience in maintaining high performance standards within the current volatile environment. It is their added commitment and focus that enabled Council to realise substantial progress.

## The Forest Sector Charter Council's Main Activities

### The Forest Sector Charter Council (FSCC)

The year 2020 was one of the most successful for the Forest Sector Charter Council, (Council). As defined in the annual Business Plan, the Council managed to execute all its planned activities with a strong focus on communication, networking and improving relationships with external stakeholders. Many of our activities were triggered by previous recommendations and, of course, the mandate to popularise the Codes and the work of the Council.

The Council, as mandated and governed by good corporate governance and eluded to in the King IV report, continued to hold fruitful quarterly meetings. The culture of Council, having vast expertise and being shaped by good values, ensured that conversations or even debates in and out of Council meetings were not only robust and balanced but also in support of the objectives of transformation.

Topical matters ranging from industry's B-BBEE initiatives and competitiveness, to fronting practices, community expectations, changing economic and operating landscape, remained key agenda items in Council meetings.

The highlights for the year 2020 were mainly the intensive interactions with stakeholders, particularly, visits to companies through the 'CEO Visits' initiative, young forestry professionals – both at tertiary and in the field – as well as the community-based forestry forums.

Notably, all Council committees carried out their mandates effectively. The Finance Committee, 'Fincom' did not only produce a realistic Budget but successfully registered the Council as a 'Public Benefit Organisation' (PBO).

The Human Resources Committee (HRC) successfully recruited a researcher for the Council, a position that was assumed previously by the current Executive Director. Moreover, the Committee augmented its membership and welcomed Mr Penwell Lunga and Ms Tanucia Coopasamy as new members.

The identification of potential risks with proposed mitigation plans remained a key focus area for the Audit and Risk Committee (ARC). These risks, subject to review on a need-to-know basis, were ranked based on impact and frequency.

“ The highlights for the year 2020 were mainly the intensive interactions with stakeholders, particularly, visits to companies through the 'CEO Visits' initiative, young forestry professionals – both at tertiary and in the field – as well as the community-based forestry forums. ”



Members of the Forest Sector Charter Council and representatives from supporting institutions.

The table below reflects Council meeting attendance for the financial year ending 31 March 2020.

Names	Council Meetings			AGM	
	6 June 2019	22 Aug 2019	21 Nov 2019	20 Feb 2020	27 Jun 2019
Dr Diphoko E. Mahango (Chairperson)	√	√	√	√	√
Ms Thabitha Shange (Vice-Chairperson)	√	X	√	√	X
Mr Daniel Kivetts (ARC Chairperson)	√	√	√	√	√
Mr Tyrone Hawkes (Fincom Chairperson)	X	√	X	√	√
Ms Rally Moropa (HR Chairperson)	√	√	√	√	√
Mr Bruce Breedt	√	√	X	√	√
Dr Jaap Steenkamp	X	√	√	√	X
Mr Lulamile Xate	√	√	√	√	X
Mr Jacob Maputha	X/P	√	X	X/P	√
Mr Michael Peter	√	X	√	X	√
Mr Roy Southey	X	√	√	√	X
Ms Felleng Yende	X/P	X/P	X/P	X/P	X
Mr Pierre Tullis	X	X	√	X	X
Mr Penwell Lunga	√	X	X/P	X/P	√
Ms Sebueng Chipeta (acting DDG)	√	NA	NA	NA	X
Ms Susan Leseke (acting DDG)	NA	NA	X	X	NA
Ms Tanucia Coopasamy	NA	√	X	√	NA

**KEY**

Present	√	Absent	X	Proxy	X/P	Other	-
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## Council's Activities

### Council Partners with FSA, FP&M Seta and YES

The 2020 financial year served as the second of the FSCC Youth Outreach Programme. In 2020, outreach to tertiary institutions offering forestry qualifications was prioritised. The following institutions were prioritised: University of Venda; Nelson Mandela University; Fort Cox Agricultural College; and Stellenbosch University.

The FSCC partnered with three prominent players in the sector who were asked to participate in the outreach through live and web-based presentations. Forestry South Africa (FSA) was particularly supportive, joining most of the events through skype. Mr Norman Dlamini from FSA was a magnet for excellence, giving insights on opportunities, Industry current trends and future projections.

The Fibre, Processing and Manufacturing Seta (FP&M Seta) also joined the FSCC through Skype, giving a presentation on the skills development profile of the Forestry Sector with particular emphasis on scarce and critical skills and 'hard-to-fill' vacancies. This provided the youth with some context and foresight into where their focus should be. The Youth Employment Service (YES) also shared their presentation, explaining the purpose and origins of the initiative and urging the youth to register on the portal. Various young forestry professionals provided their perception of youth in the Sector and some tips on how to succeed in it. The three institutions must be sincerely thanked for this undertaking.



*Mr Norman Dlamini from FSA.*

### Council Hosts Young Professionals in Forestry

The Council engages with communities, industry and other relevant stakeholders through the Outreach Programme. For the first time, in the year under review, young forestry professionals in particular, those absorbed either directly or indirectly into the workstream from forest companies, were given preference under this programme. The Council engaged with young forestry professionals from four forestry-based provinces. The net effect of this programme was to ensure that young professionals in the industry are oriented on the prescripts of the Amended Forest Sector Code and in turn, are better positioned to contribute meaningfully towards the B-BBEE programme. In most of the interactions, young professionals outlined current opportunities and challenges in the sector and committed towards creating a stronger bond with Council



in support of B-BBEE recognition. FSA also played a key role in outlining the sector's perspective in terms of technological advancement and opportunities (including jobs) within the sector through Mr Norman Dlamini. The forestry professionals enthusiastically participated in this programme, with the FSCC pledging to host this activity on an annual basis in order to effectively keep abreast with matters concerning young professionals in forestry.

### **Sector Liaison Forums given a Lecture on B-BBEE Prescripts**

The Council understands the need to collaborate with both public and private sector settings. Forestry-based forums constituted by key forestry stakeholders and mostly established by DAFF were the recipients of the Community Outreach Programme (COP) in 2020. The conversation was more on how transformation can benefit mostly the previously disadvantaged forestry communities through B-BBEE and, of course, how beneficial and mutual relationships can be restored and maintained. The interactions were, nonetheless, driven by a common purpose, being 'transformation and empowerment success'. The administrative support from DAFF and DFFE in all the Forestry provinces cannot be underestimated.

### **SAWPA Prioritised for Knowledge and Sharing**

One of the founding mandates of the Council is to publicise the Amended FSC among stakeholders across the value chain. In order to transfer knowledge about the concept of transformation in the Sector, Council networked with the South African Wood Preservation Association (SAWPA) during the year 2020. This collaboration facilitated an opportunity for Council to reinforce the understanding of B-BBEE commitments while enabling the association to elaborate on their expectations. The Council is convinced that while raising awareness among the key industry participants, the chances of effective B-BBEE emancipation is also heightened. Our sincere thanks are extended to Mr Bruce Breedt (also a Council member) for facilitating the FSCC workshops during these interactions.

### **Council Trending on Radio Khwezi**

Our Strategy articulates a key imperative of remaining visible. The Council was privileged to be hosted by Radio Khwezi on Wednesdays under the subject 'Forestry Education'. The themes reflected on numerous realities aimed at encouraging empowerment in the sector and

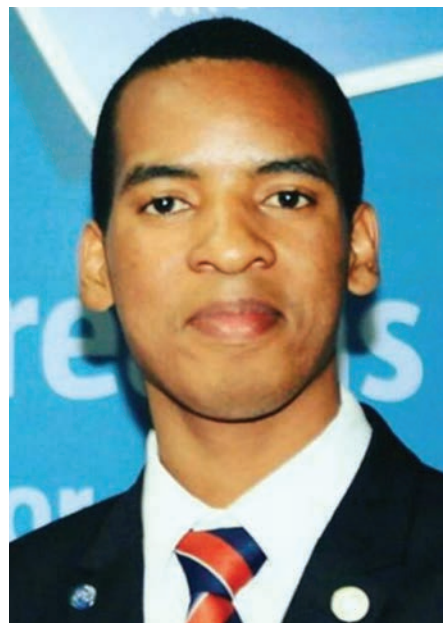
industry key events, including world-recognised forestry functions. Special gratitude is extended to the executives and officials from Radio Khwezi (in particular, Mr Saziso Dlamini) for the important role they have played in profiling the FSCC.

### **Forestry Moves to Department of Environment, Forestry and Fisheries**

In the year 2019-2020, Forestry was moved from DAFF to DFFE. This new consolidation is welcomed by Council and we believe it is a step in the right direction. We managed to maintain a good working relationship with DAFF officials and we further pledge to support fully the new department and commit to deliver on the transformation goals.

### **Council Appoints a Researcher**

The Council is excited to announce the appointment of Mr Sikhumbuzo K. Nxumalo as the new Researcher. Mr Nxumalo's accolades in Forestry from the Nelson Mandela University, formerly known as Saasveld, combined with his field expertise, have positioned him well to take up a leading role in the research portfolio. We are convinced that his appointment will lead the Council to greater heights. The Council welcomes Mr Nxumalo and wishes him well as he settles into the Council's work culture.



*Mr Sikhumbuzo K. Nxumalo was appointed as the new Researcher.*

## Industry Happenings

### Council Partners with FSA to Celebrate Women in Forestry

Forestry is often labelled as a male-dominated career-focused industry. In August 2019, FSA took a firm stance on women's participation in the Sector and showcased a number of women undertaking different activities. The platform was intended to entice more women and youth in particular, to recognise the sector as a potential career choice. A TV show organised by FSA that hosted Ms Khosi Mavimbela was used to further advocate for women's inclusion in the Sector as one of the dictates of the B-BBEE Forest Codes. FSA must be sincerely thanked for this initiative.

### Council Interrelates with the National Forestry Advisory Council (NFAC)

The NFAC has a fundamental role to play in the Department of Forestry, Fisheries and the Environment (DFFE). It is

mandated to provide strategic advice to the Department on all forestry matters of importance. The FSCC views the collaboration with the NFAC as essential. Even in 2020, the FSCC oriented the NFAC on the Sector's performance in terms of B-BBEE across different business sizes from the sub-sectors. There is no doubt that such deliberations will allow Council's diversified opinions to conclude comprehensively on transformation matters.

### Council Engages Mpumalanga B-BBEE Provincial Advisory Council

Our strategy articulates the key imperatives required to maintain a network of sound relationships. The Council, even during the year, managed to interrelate with the Mpumalanga B-BBEE advisory Council, established by the Department of Economic Development and Tourism (DEDT) to oversee transformation in the Province across the economic sectors. The Status of Transformation in the Sector (FY2018-19) was the key discussion point with a view to gather a perspective of the Sector's overall

“ *The Status of Transformation in the Sector (FY2018-19) was the key discussion point with a view to gather a perspective of the Sector's overall performance.* ”



*Members of the Mpumalanga B-BBEE Provincial Advisory Council with other industry stakeholders.*

performance. This would, in turn, enable the Advisory Council to make factual and sound recommendations on programmes and initiatives aimed at supporting black economic empowerment in the Province.

### Deputy Minister Hosts Arbor Month in Port Elizabeth

The Honourable Deputy Minister of Forestry, Fisheries and the Environment Ms Maggie Sotyú enthusiastically launched the 'Arbor Month' celebration in September 2019 in Port Elizabeth under the theme 'Forests and Sustainable Cities'. The event is aimed at recognising the valuable contribution of trees to food security and the environment while creating awareness about the protection and conservation of certain species from extinction. Key sponsors, forestry stakeholders from both the public and private sectors, including members of the NFAC, FSCC and students from most of the forestry-based institutions attended. Ms Sotyú also led a tree planting activity in New Brighton, Walmer and KwaZakhele communities. Best performing cities that collectively embraced greening activities in their programmes were acknowledged and

rewarded. We thank the Department for prioritising this important event in light of the realities of climate change.

### SAFCA celebrates 30 years

The South African Forestry Contracting Association (SAFCA) celebrated 30 years of service to forestry contractors. The significance of the celebration was characterised by a perfect mix of themes that showcased the evolution of contracting, technology advancement, financing and skilling in the contracting space business outlook of the contracting sector under different economic, forestry and global landscapes and, of course, the sector's contribution to B-BBEE. The entire SAFCA team under the leadership of Dr Jaap Steenkamp, also a member of the Council, is acknowledged for leading this association sincerely.

### Council partakes in the DAFF African Forestry Wildlife Commission

Honourable Ms M. Sotyú officiated the 22nd African Forestry Wildlife Commission in March 2020 in Skukuza, Kruger National Park. The event, hosted by DEFF in partnership with the Food Agricultural Organisation (FAO), deliberated on key matters as presented by a panel of experts. Dignitaries and guests from different African countries were afforded an opportunity to network and participate in the popular discussion on the role of Forestry in wildlife conservation. Acting Deputy Director-General (DDG) from DAFF, Forestry Ms Susan M. Leseke was nominated Chairlady for the event, a role she undertook with great confidence, dedication and tenacity. The Department is congratulated for outstandingly hosting this important event with excellence.



*Deputy Minister, Ms Maggie Sotyú, planting a tree with forestry students during Arbor Month launch.*

# Report of Progress Made in the Implementation of the Forest Sector Charter Undertakings

In order to support the implementation of the Amended FSC, Government and Industry are both expected to deliver on certain undertakings to support effective and sustainable B-BBEE in the Forest Sector. These are attached to each element and either committed for Government or Industry or both. The aim of this section is to highlight the achievements on undertakings in the year under review.

## Instruments to Support Ownership Targets

### Leveraging of State Forest Assets

The Amended FSC has allowed South African Forestry Companies Limited (SAFCOL), the only state-owned entity operating in the forest sector, to apply for B-BBEE Facilitator Status. SAFCOL has since made the application to the Department of Trade, Industry and Competition (dtic) and the processing of this application is at an advanced stage.

Two plantations have been prioritised for restructuring of State assets. In the Rambuda plantation, a Community Forestry Agreement (CFA) has been endorsed by Legal Service while in the Nebo plantation, a memorandum detailing the donation of the Nebo biological assets has been submitted to the Chief Financial Officer (CFO).

## Instruments to Support Skills Development Targets

### Sector Skills Plan for the Forest Sector

The Sector Skills Plan (SSP) for Forestry is reviewed annually and both industry and the Department of Forestry, Fisheries and the Environment (DFFE) provides input to the process. Both industry and DFFE additionally participate in all sector-linked activities undertaken by the Fibre, Processing and Manufacturing (FP&M) Seta. All training taking place through the FP&M Seta is reported to the entire Industry.

## Instruments to Support Enterprise and Supplier Development Targets

### Access to Funds and Financial Services for Emerging Black Entrepreneurs

The Industry continued to offer a broad range of ownership and financing models throughout the value chain and at extremely preferential rates. This is further substantiated by the virtuous achievement of Medium and Large Enterprises (MLEs) on the enterprise development target.

Fire insurance schemes are available for small-scale growers through SAFIRE in terms of developing cost-effective and accessible fire insurance schemes for emerging growers.

### Capacity Building and Business Support for Emerging Black Entrepreneurs

The industry has locally developed a timber winch calculated to extract harvested timber from steep compartments. A total of 21 people employed by small-scale community-based contractors have received the first training session on using the winch. It is anticipated that other follow-up sessions will be undertaken in order to adequately reinforce the skill of using such equipment.

Industry, through FSA, has given three small-scale growers or harvesters (one in Mpumalanga and two in KwaZulu-Natal), winches to use for a period of two years. Training



*Council interacting with Forestry Forum in Mpumalanga.*

has been conducted with these beneficiaries and constant feedback will be given to the design team.

Furthermore, the FP&M Seta approved a funding allocation to a myriad industry-led training initiatives. The quantum is yet to be determined for all the applicable sub-sectors of the Seta, which includes forestry, furniture, pulp and paper, packaging, wood products, etc.

### **Expedite the Authorisation Process for Afforestation and Paper and Sawmilling Facilities**

The Cooperation Agreement between DFFE and the Industrial Development Corporation (IDC) is in the process of being finalised. The process is still on hold pending agreements between the two.

### **Small-grower Certification**

An appropriate certification methodology is key for the sustainability of small-growers. A legal opinion is awaited on the criteria, indicators and standards for substantiable forest management of these entities.

### **Secure Land Rights and Holding Structures on Communal Land for New Afforestation**

The Communal Land Tenure Amendment Bill was approved for public comment. It is anticipated that the Department of Traditional Affairs (DTA) will host a Land Summit of Traditional Leaders to discuss, among others, the Bill. The Bill will be aligned with the recommendations of the Land Summit and the Presidential Advisory Panel on Land Reform and thereafter be presented for endorsement.

“ *The core objective of the Fibre Circle is to enforce separation of waste at source and encourage recycling while creating small businesses.* ”



### **Framework Agreements with Banks and other Funding Institutions**

There has been progress on the framework agreements with funding institutions. Landbank is piloting six projects submitted by Industry through FSA to test a new funding framework. Discussions are also underway regarding the disbursement of 10% of the Comprehensive Agricultural Support Programme (CASP) that is reserved for forestry enterprises.

### **Instruments to Support Industry-Specific Initiatives**

#### **Integrated Forest Sector Development in Provincial and Municipal Planning**

The Industry, through FSA and DFFE, has assisted the Mpumalanga Government in the development of the Forest Sector Development Plan Phase 1 as well as the KwaZulu-Natal (KZN) Government in the inclusion of forestry in the Provincial Agricultural Master Plan. FSA has submitted a provincial customised public-private growth initiative (PPGI) for the KZN Province to the KZN Growth Coalition for the approval by the executives. It is anticipated that the initiative will be replicated in other forestry provinces, i.e. Mpumalanga, Limpopo, Eastern Cape and Western Cape.

DFFE, together with other relevant stakeholders, is in the process of establishing an Industry association for the bio-char and charcoal industry that will give support to the sector across the entire value chain. It is projected that the Agro-Processing Support Scheme will provide financial support.

One of the collaborations between Industry, together with the government in relation to paper recycling, has led to the formation of the Fibre Circle constituted mostly of companies in the paper value chain. The core objective of the Fibre Circle is to enforce separation of waste at source and encourage recycling while creating small businesses. More support has also been provided to the Sawmilling industry through various programmes focusing on the growth of the industry including the Eastern Cape Small-Scale Sawmillers.

#### **Forestry Protection Services**

The Compliance Enforcement Strategy, intended to manage and control the risks posed by fires, has been submitted and awaits approval from the National Fire Working Group and recommendations from the Department's Executive Authority. The procurement process to outsource the development of Risk Classification Mapping began in September and was expected to be finalised before the end of March 2020.



*Council interacting with Forestry Forum in Western Cape.*

### **Strengthening Representative Industry Structures**

The Industry, through FSA, has more than an equitable representation of small-scale growers in all of its decision-making structures. FSA held nine regional meetings in which all growers were represented, and an additional nine consultation meetings were held to ensure that SSG-specific issues were properly captured and articulated. FSA established a new small-scale grower structure in the Zululand District Municipality representing 36

grower communities, who own about 6 000 ha. In total, FSA now has nine SGG committees out of the 10 district municipalities in KZN.

The Industry has further collaborated extensively with all the associations to produce a detailed five-year business plan for the entire value chain, which was presented to the President and many members of Cabinet. The plan forms part of the PPGI that is being managed at the level of the Presidency and has received much attention from both the private and public sectors.

“

*The Industry has further collaborated extensively with all the associations to produce a detailed five-year business plan for the entire value chain, which was presented to the President and many members of Cabinet.*

”



## Summary of the Status of Transformation

Global forces continue to dictate industry profitability to some extent as a significant number of forestry entities are involved in export of forestry products, as highlighted in the recently commissioned Research on the Forestry Value Chain Report. This suggests that the fluctuating dollar-rand exchange rate may have improved income for exporting entities.

Global demand of South African timber has also received a knock as one of the country's biggest buyers, China, currently has 1 million tons of timber stockpiled for the next 18 months. This will have a definitive impact on the industry in the medium- to long-term.

Locally, the industry is battling spikes in timber theft and illegal timber treatments. This will have dire consequences on industry operations and indirectly, transformation.

The year 2019/2020 marks the third year since the Amended Forest Sector Codes (FSC) were introduced. In the current reporting year, a total of 68 valid certificates were received, a decline from 70 certificates received in 2018/2019 but an improvement from the 53 valid certificates received in 2017/2018.

Medium and Large Enterprises (MLEs) submitted 21 certificates, with 14 attaching the underlying reports. Qualifying Small Enterprises (QSEs) submitted 26 B-BBEE certificates with 21 affidavits and five certificates, of which three were accompanied by underlying reports. Only 21 affidavits were obtained from Exempted Micro Enterprises (EMEs).

The forestry industry has continued to make great strides in transforming the socio-economic landscape of the sector, significantly improving performance in all five scorecard elements. A slight improvement was also recorded in

the tenacious Management Control element with MLEs improving their overall performance by more than 5%.

MLEs improved their rating to a level 4 (Level 6 previously) while QSEs and EMEs recorded average B-BBEE ratings of Level 2 and Level 3 respectively. The QSE Level 2 rating is largely a result of few submissions from unenhanced (non-black-owned) and mostly submissions of affidavits that were largely Level 2 (51% or more black-owned). EMEs received a Level 3 rating due to a high number of Level 4 certificates.

### Medium and Large Enterprises (MLEs)

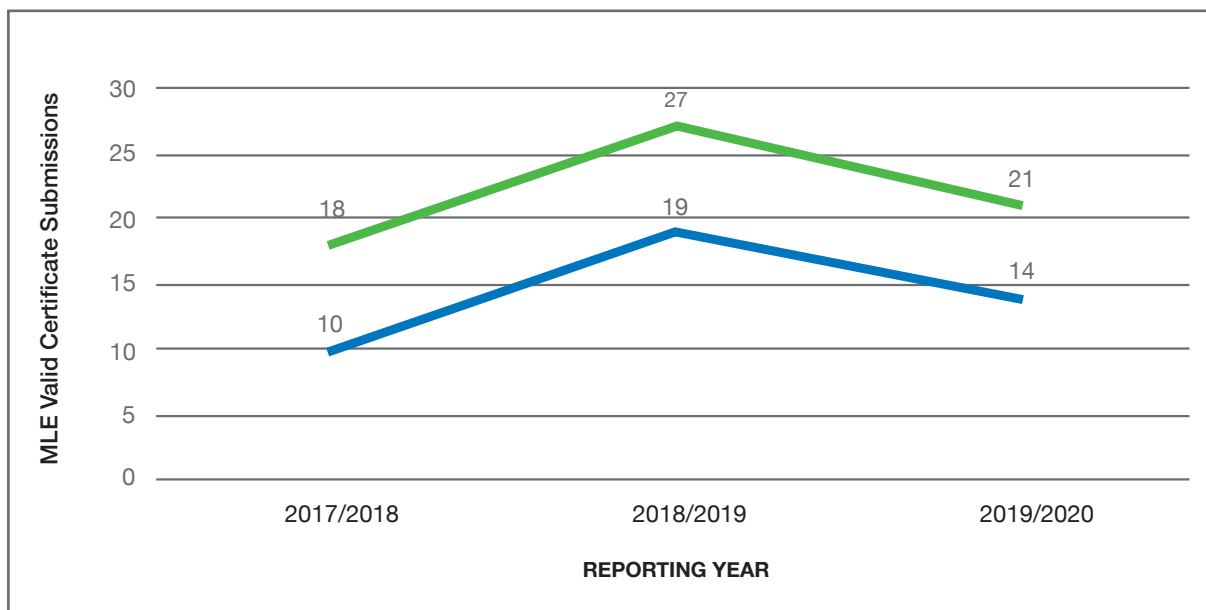
MLEs recorded an improvement in their overall B-BBEE performance for the year under review. The average rating for MLEs improved from a Level 6 in 2018/2019 to a Level 4 in 2019/2020.

A likely reason for the perceived improvement may be due to a number of entities achieving better levels even though there was a decline in certificate submissions from MLEs, as indicated in Figure 1 below (which reduced from 27 certificates to 21). Fourteen of the current MLE submissions were accompanied by an underlying report, a powerful tool used to gather real insight into the transformative landscape of the sector. The observed trend of receiving just over a third of the certificates with underlying reports continues.



Students from Forestry-based institutions during Arbor month launch.

Figure 1: MLE Certificate and Underlying Report Submissions, 2017/2018-2019/2020



Almost 30% of submitting MLEs achieved a Level 1 B-BBEE rating, with the majority of these high-performing entities belonging to the fibre subsector. The pole producers' subsector achieved a notable performance with an

average Level 3 B-BBEE rating among six MLEs (Figure 2). No submissions were received from the charcoal and contracting sub-sectors.

**Figure 2: MLE Overall Performance by Subsector and B-BBEE Level**

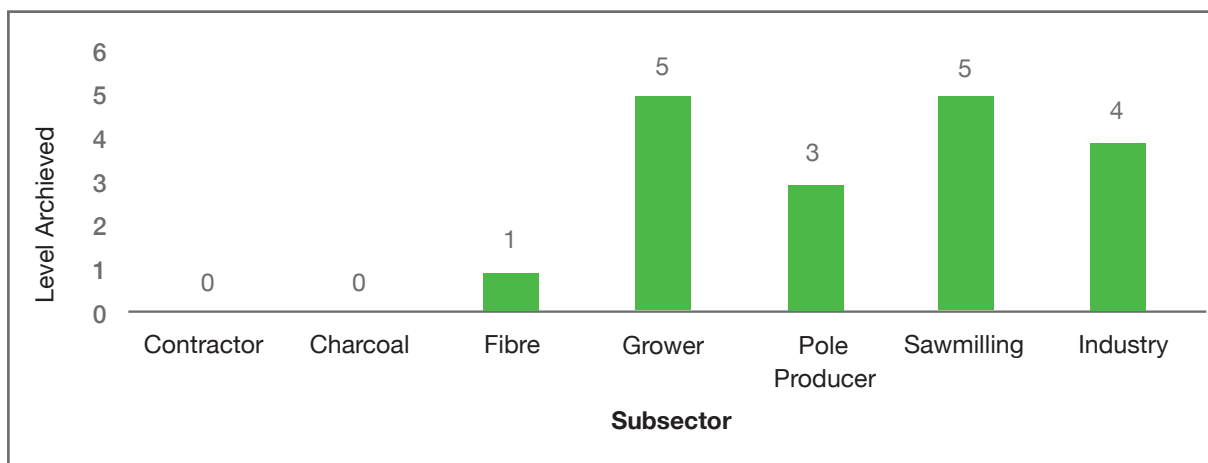
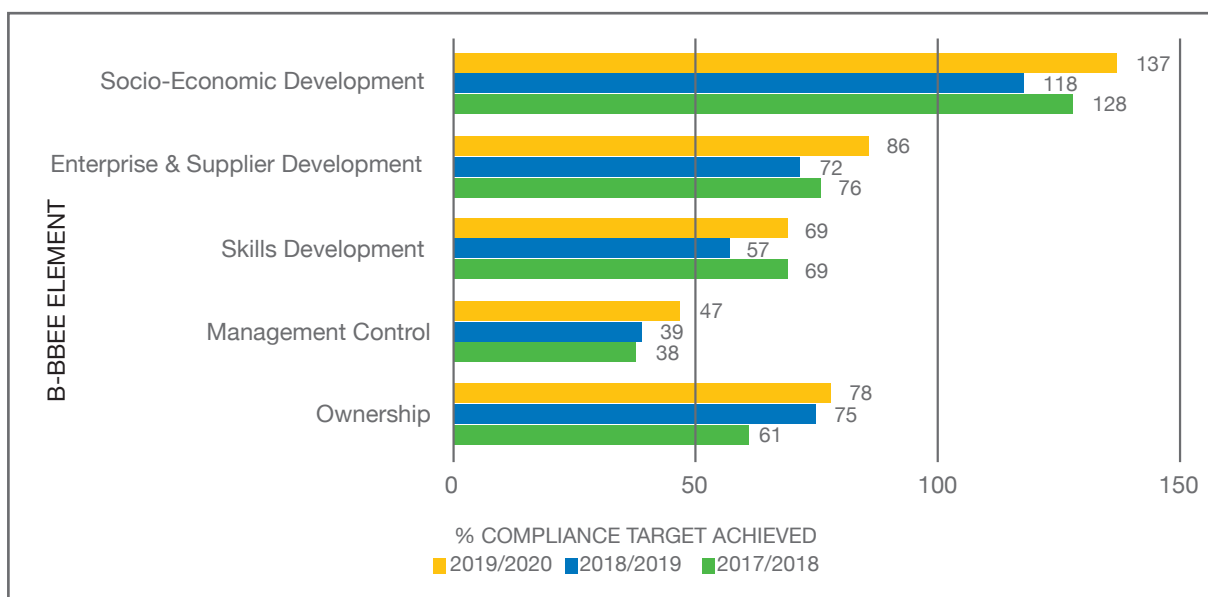


Figure 3 compares the percentage compliance target achieved per B-BBEE element for the past three years. The current year's performance reveals improvements in all

the five scorecard elements with significant improvements in ESD, SED and SD. Perhaps this indicates Industry's commitment to transformation.

**Figure 3: MLE Overall Performance per Element as a Percentage of the Compliance Target**



It is commendable that Industry has improved their performance to a Level 4 average and this is also likely a consequence of the good scores and improvements in all the scorecard elements, in particular Enterprise and Supplier Development (ESD) and Ownership, which collectively accounts for over 60% of the total scorecard points. MLEs seem to be achieving their target on economic interest and voting of black people and women, but struggling on the targets for broad-based groupings. SAFCOL improved their overall B-BBEE rating from Level 4 to a Level 3 in the current year. Due to its status as a state-owned entity, SAFCOL is not measured on its black ownership profile. An improvement was observed in the

ESD element while the Management Control and Socio-economic Development performances were maintained. Skills Development declined slightly.

Currently, SAFCOL has not also been granted a B-BBEE Facilitator Status. This has had a profound impact on its suppliers, particularly those whose procurement budget is largely allocated to SAFCOL. These entities' procurement from SAFCOL is not recognised as procurement from a black and black women supplier, resulting in losses of up to 13 points in the Enterprise and Supplier Development scorecard.



*Council interacting with Forestry Forum in KwaZulu-Natal.*

In terms of the discounting principle introduced in 2017 to emphasise the importance of elements such as Ownership, Skills Development and ESD, MLEs have improved with only four entities in total becoming discounted by 1 level. Only one of these entities was discounted on all three elements.

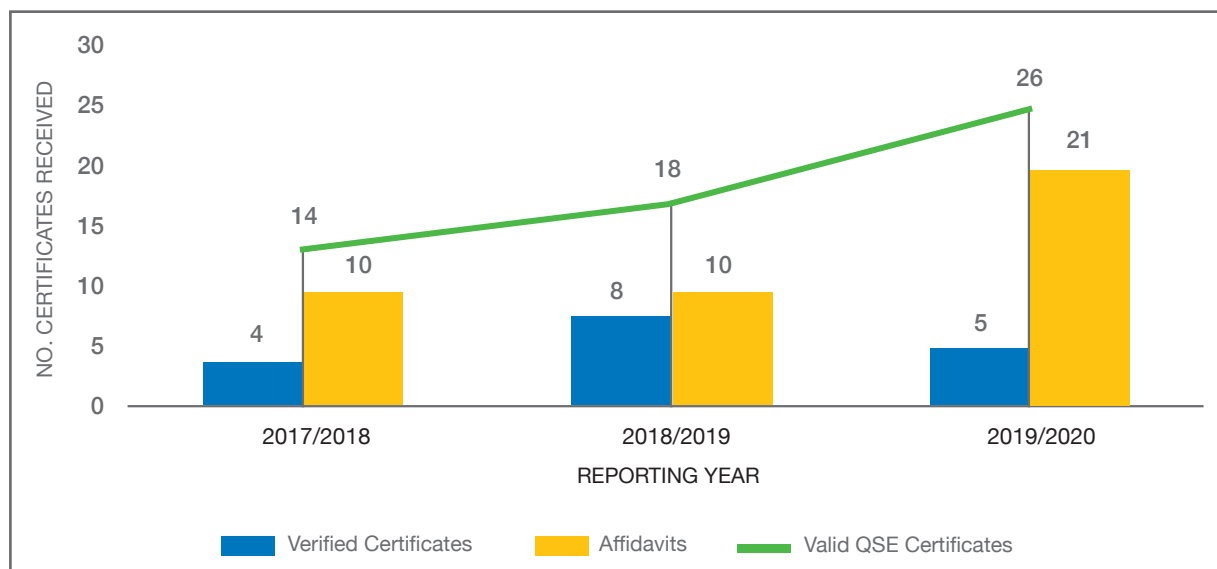
### Qualifying Small Enterprises (QSEs)

Measured entities whose turnover lies between R10 million and R50 million are classified as QSEs. This creates a unique situation where comparatively profitable entities (turnover > R35 million) are evaluated with the same criteria as less profitable entities (turnover < R15 million).

This group is also unique in that majority black-owned (51% and more) QSEs are required to produce an affidavit confirming their total turnover, black ownership profile and empowering status only. As such, they are exempted from contributing to the elements of the scorecard. The intention is to encourage majority black ownership within the Sector. Black ownership among the QSE category has increased in every reporting year as more majority black-owned QSEs submit their affidavits.

Figure 4 above compares the number of QSEs reporting in the last three years. The number of affidavit submissions has increased while the number of certificates has

**Figure 4: Valid QSE Certificate Submissions, 2017/2018 – 2019/2020**





*Council interacting with Forestry professionals in KwaZulu-Natal.*

declined, indicating that more of the QSEs are enhanced and majority black owned. In the current year, black ownership among QSEs increased from 48% in 2018/2019 to 63% in 2019/2020.

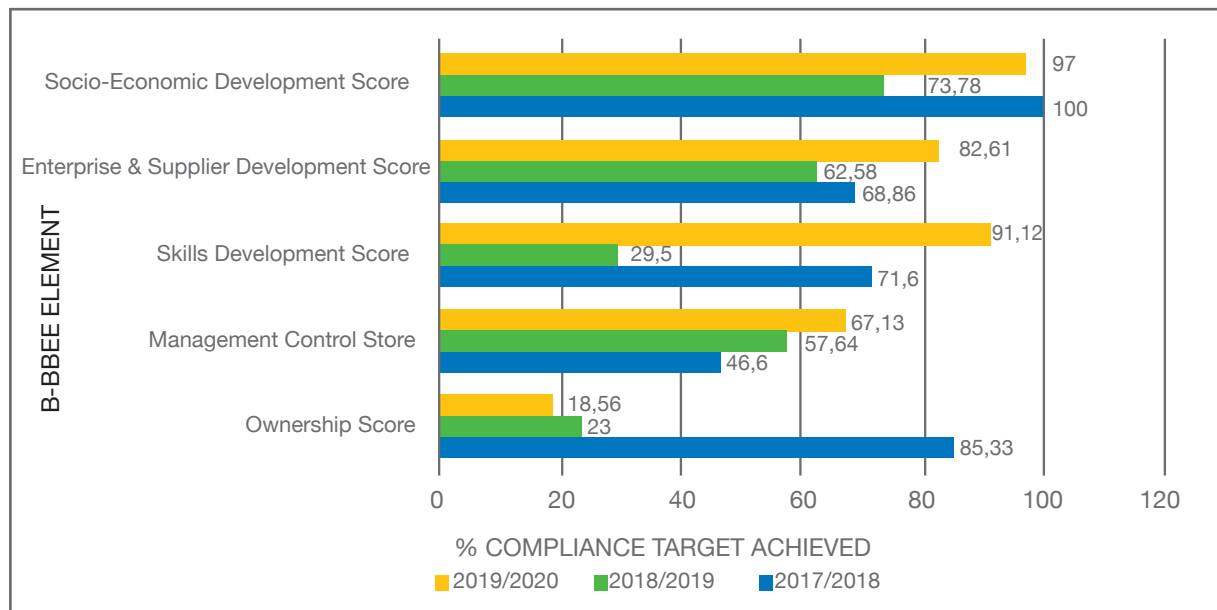
QSEs achieved an average Level 2 B-BBEE rating, primarily bolstered by the 21 affidavit submissions, of which 13 were Level 2 and eight were Level 1.

In relation to the five unenhanced QSEs, one entity achieved a Level 1, two entities a Level 2, with the other entity achieving a Level 3 and the remaining entity

attaining a non-compliant status. These five unenhanced entities averaged a total of 81,13 points, placing them at a Level 4 B-BBEE rating.

Figure 5 below displays the QSE performance per element for three years. The QSE data follows a similar trend to that of MLEs showing improvements in all the five scorecard elements. Ownership and Management Control have consistently improved despite the number of certificates submitted each year. The remaining three elements have improved noticeably in 2019/2020.

**Figure 5: QSE Overall Performance per Element**





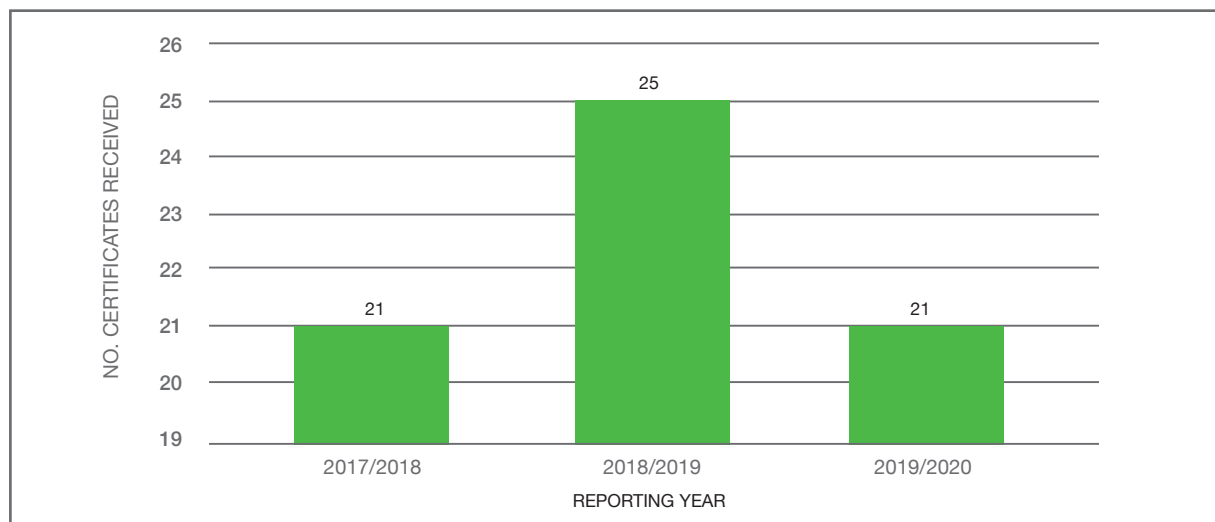
*Council interacting with Forest Students in Limpopo.*

QSEs, similarly to MLEs, seem to be struggling with Management Control, although they are performing slightly better than MLEs.

The underlying reports submitted in the current year in relation to Management control revealed that QSEs prioritise placement of black youth, especially males in their junior management positions. African males and females also benefit largely from Skills Development initiatives in this group. Skills Development expenditure is allocated to external training followed by mandatory sectoral training. It was observed that less than 5% is allocated to learnerships, apprenticeships and Category B, C and D learning programmes.

Analysis of enterprise and supplier development patterns of QSEs showed that a typical QSE can easily spend over R20 million in procurement per annum. While they are only expected to spend 15% of their procurement spend on black and black female-owned businesses, QSEs, on average, are spending roughly 12% of their procurement on these suppliers, reaching 80% of the target. Contributions to ESD largely comprise discounts, shorter payment periods and interest-free loans. Socio-economic Development contributions are largely targeted at schools.

**Figure 6: EME Certificates Received, 2017/2018-2019/2020**





*Chairperson, DR Mahango during CEO visits.*

### Exempted Micro-Enterprises (EMEs)

The smallest sized category of forestry is the EME group. These businesses make less than R10 million per annum in profit and are not expected to carry out specific B-BBEE initiatives to become verified and rated.

Majority black-owned EMEs just like the QSEs are awarded a Level 2 or Level 1 rating depending on the black ownership profile of the measured entity. Any other EME is automatically a Level 4 entity and may elect to be verified using the QSEs scorecard if they want to improve their level and maximise their B-BBEE recognition level. The number of certificate submissions among EMEs is shown in Figure 6 below. It is evident that there has been a slight decline from 25 to 21 in 2019/2020.

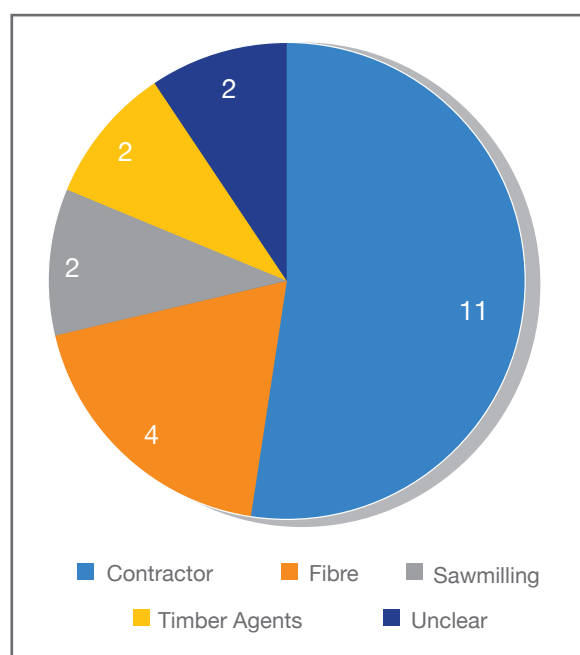
A total of 17 of the current submissions were from new entities with only four received from entities who previously reported. This highlights the inconsistency when analysing industry B-BBEE data mostly EMEs. Three EMEs who reported previously are now reporting as QSEs, indicating the possibility of growth and upward mobility within the Sector.

Reporting EMEs are further grouped into different forest sub-sectors. Figure 7 below shows that majority of EMEs are contractors and involved in activities such as harvesting, mulching, plantation maintenance as well as short haul transportation. The fibre entities are mostly manufacturers of crates and pallets.

The average black ownership profile within this group is 24% while the average black women ownership is 14%, not far behind MLEs who have an average black women ownership of 16%. Most EMEs (66%) are level 4, signifying majority white ownership while 3 EMEs are 100% black-owned (Level 1).

This may indicate that at the start-up level, there may be fewer black people starting forestry enterprises and they

**Figure 7: EME Certificate Submission by Subsector, 2019/2020**





may participate at a later stage, possibly through the acquisition of shares from the other business categories (QSE and MLE level).

The overall average B-BBEE rating for EMEs is Level 3, largely a consequence of the high number of Level 4 EMEs.

## Conclusion

The Forestry Industry has made consistent efforts to improve their B-BBEE performance through targeted efforts in the Enterprise and Supplier Development Ownership elements and Socio-economic Development. The average black ownership profile across all sizes of EMEs is above 30% (the industry target) and 10% for black women ownership. The large and medium-sized companies are also all achieving over 80% of the target for the Enterprise and Supplier Development element.

Unlike Skills Development, Management Control has consistently improved over the three-year period since gazetting of the Amended FSC, although the

improvements are not pronounced. This effort is laudable as it is not easy to make changes to management and ownership as these are long-term strategic decisions.

General trends observed are that more affidavits are being received from QSEs and some unenhanced QSEs don't feel obliged to report or conduct B-BBEE.

As a whole, the Industry is achieving a Level 4, breaking the magical Level 4 barrier reserved for 'preferred' entities in terms of procurement or allocating projects. Improvements were attained in all the scorecard elements in both MLEs and QSEs. Notable performances were observed from the fibre and pole producer's subsectors, averaging B-BBEE ratings of Level 1 and 3 respectively. QSEs achieved a Level 3 while EMEs achieved a Level 2. Council prioritised some visits to QSEs during this reporting year through the CEO Visits programme. This may have resulted in increased awareness by QSEs of the value for B-BBEE and their responsibility to report. The list of reporting entities is reflected in Table 1 over the page.

“

*Notable performances were observed from the fibre and pole producer's subsectors, averaging B-BBEE ratings of Level 1 and 3 respectively. QSEs achieved a Level 3 while EMEs achieved a Level 2.*

”





## B-BBEE Reporting Entities

MLEs	QSEs	EMEs
Corruseal	Holmbush Pallets	KZN Pallets & Crate Manufacturer
Maqhilika Timber	Indlovu Forestry cc	Lens Forestry Contractors
Mondi Limited	Masonga Contractors	Pulp & Timber Supplies
Mpact	Natal Box Factory	Winnie Logging Services
Natal Forest Products (R&B Timbers, Harding Treated Timbers)	Ngwenya Forestry Services	BJM Operations
Vuka Timbers PTY LTD	Philasiphile Contractors	CMO Logistics
Industrial Timber Supplies	Sibsa Weed Services cc	Kalah Forestry
Sappi Southern Africa Corruseal	Speed, Fence & Durban Poles	Savithi Mulching Co
Amathole (Rance Timber)	Timber Logging Solutions	AC Higgs Timber Harvesting
SAFCOL	TMM Forestry	African Timber Marketing
Timrite	BJM Plant Hire	Anchor Crates
Bedrock Mining Support	Gauteng Pallets East	J&J Timber Supplies
Evowood (Formerly Masonite)	GR Forestry (Bushbuck Silvics)	LD Logging
MTO Forestry	Imphisi Harvesting	Mill Timber Traders
York Timbers Holdings CC	Masibambisane Harvesting	Neville Barthus
Lion Match Company	Paulpietersburg Timbers	Nongena Wattle Management
Gauteng Pallets cc	Sibambane Forestry	RTS Pulp & Packaging
R&B timbers t/a Harding Treated Timbers	Siyakhula Forestry Contractors	San Cotona Investments
Normandien Farms (Tekwani Trading)	Somusa Forestry	SC Timbers
PG Bison	Spitzkop Sawmill	Sizanani Village Maintenance
World Hardwood	Themba Forestry Contractors	Umziki Forestry Consulting
	Thuthuka Forestry	
	UG Timbers	
	Umvuni Solutions	
	GDH Harvesting	
	B N Mitchell (BM Enterprise)	

# Annual Financial Statements for the Year Ended 31 March 2020

Forest Sector Charter Council NPC  
(Registration number 2009/006567/08)  
Annual Financial Statements  
for the year ended 31 March 2020

## General Information

<b>Country of incorporation and domicile</b>	South Africa
<b>Nature of business and principal activities</b>	Oversight over and facilitation of the implementation of the Forest Sector Code which, as its main objective, seeks to promote Broad-Based Black Economic Empowerment in and through the Forest Sector.
<b>Directors</b>	Dr Diphoko Mahango (Chairperson) Bruce Breedt Tyrone Hawkes Daniel Kivetts Jacob Maphutha Rally Moropa Michael Peter Thabitha Shange Roy Southey Dr Jaap Steenkamp Lulamile Xate Penwell Lunga
<b>Business address</b>	SAFCA 6 Hulley Road Isando 1690  Registered Auditors
<b>Level of assurance</b>	These Annual Financial Statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.



*Council interacting with Forestry professionals in Mpumalanga.*

## Index

The reports and statements set out below comprise the Annual Financial Statements presented to the shareholders:

<b>Index</b>	<b>Page</b>
Councillors' Responsibilities and Approval	26
Councillors' Report	27-28
Independent Auditor's Report	29-30
Statement of Financial Position	31
Statement of Comprehensive Income	32
Statement of Changes in Equity	33
Statement of Cash Flows	34
Accounting Policies	35-36
Notes to the Annual Financial Statements	37-42
The following supplementary information does not form part of the Annual Financial Statements and is unaudited: Detailed Income Statement	42-43

## Councillors' Responsibilities and Approval

The councillors are required by the Companies Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is their responsibility to ensure that the Annual Financial Statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditors are engaged to express an independent opinion on the Annual Financial Statements.

The Annual Financial Statements are prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The councillors acknowledge that they are ultimately responsible for the system of internal financial control established by the Council and place considerable importance on maintaining a strong control environment. To enable the councillors to meet these responsibilities, the Council sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Council and all employees are required to maintain the highest ethical standards in ensuring the Council's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Council is on identifying, assessing, managing and monitoring all known forms of risk across the Council. While operating risk cannot be fully eliminated, the Council endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The councillors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Annual Financial Statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The councillors have reviewed the Council's cash flow forecast for the year to 31 March 2021 and, in the light of this review and the current financial position, They are satisfied that the Council has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Council's Annual Financial Statements. The Annual Financial Statements have been examined by the Council's external auditors and their report is presented on page 29.

The Annual Financial Statements set out on page 31-41, which have been prepared on the going concern basis, were approved by the Council on 27 May 2020 and were signed on its behalf by:

### Approval of Annual Financial Statements



**Dr Diphoko Mahlongo (Chairperson)**

# Councillors' Report

The councillors have pleasure in submitting their report on the Annual Financial Statements of Forest Sector Charter Council NPC for the year ended 31 March 2020.

## 1. Review of financial results and activities

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the Council are set out in these Annual Financial Statements.

## 2. Councillors

The councillors in office at the date of this report are as follows:

### Councillors

Dr Diphoko Mahango (Chairperson)  
 Bruce Breedt  
 Tyrone Hawkes  
 Daniel Kivetts  
 Jacob Maphutha  
 Rally Moropa  
 Michael Peter  
 Thabitha Shange  
 Roy Southey  
 Dr Jaap Steenkamp  
 Kirk Walker  
 Lulamile Xate  
 Penwell Lunga

### Changes

Resigned Friday, 14 June 2019

## 3. Events after the reporting period

The councillors are not aware of any material event which occurred after the reporting date and up to the date of this report.

## 4. Going concern

The councillors believe that the Council has adequate financial resources to continue in operation for the foreseeable future and accordingly the Annual Financial Statements have been prepared on a going concern basis. The councillors have satisfied themselves that the Council is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The councillors are not aware of any new material changes that may adversely impact the Council. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

## Councillors' Report (continued)

### 5. Update on the SARS material non-compliance matter reported in the 2019 financial statements

#### *Status*

The councillors are pleased to advise that the material non-compliance with the requirements of the Income Tax Act has been addressed. The South African Revenue Service (SARS) granted the Council tax exempt status as an approved Public Benefit Organisation with effect from 5 January 2020. All the outstanding income tax returns from the 2010 to 2019 were filed and the SARS assessed the Council R2 975 300 in back taxes, penalties and interests. In response to an objection filed by the Council's accountants, SARS advised that the exemption status is not an automatic right for non profit organisations. Therefore, in the absence of an PBO approved status from SARS, non-profit organisations are taxed at the normal rate. Thus the benefits accruing to the Council's exempt status are applicable prospectively. The Council thus has recognised the R2 975 300 tax liability in the 2020 financials.

#### *Objection of assessment*

The Council is disputing the assessment with SARS. If this does not succeed, the Council will be applying for a waiver of assessed penalties and interests

#### *Cashflow impact*

SARS' established policy when it comes to objecting unfavourable tax assessments is that payments are still due notwithstanding the lodgement of an objection; an objection does not suspend a taxpayer's responsibility to pay. Accordingly, the Council will in the meantime settle the liability and wait for the outcome of the objection process. Should the objection succeed, SARS will credit the Council with the extent of relief sought.

Further, due to the effects of the national lockdown measures implemented to help fight the spread of the coronavirus that causes Covid-19, the Council faces significant uncertainty on the timing of membership receipts from both the Private Sector and Government. It is conceivable that for some time to come, the Council will have to meet the bulk of its operational expenses from its cumulative cash reserves, which stand at R9 746 901 as at 31 March 2020.

The net effect of the settlement of the tax liability and the uncertainty in the receipts of membership fees means that the Council will most likely just break even for the 2020/2021 financial year. Accordingly, Council will significantly cut back on its mandated activities in order to maintain cash resources to sustain itself during these difficult times.



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e-mail: [office@dziwainc.com](mailto:office@dziwainc.com)  
website: [www.dziwa-inc.com](http://www.dziwa-inc.com)

## Independent Auditor's Report

### To the members of Forest Sector Charter Council NPC Opinion

We have audited the annual financial statements of Forest Sector Charter Council NPC (the company) set out on pages 31 to 41, which comprise the statement of financial position as at 31 March 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Annual Financial Statements, including a summary of significant accounting policies.

In our opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of Forest Sector Charter Council NPC as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of Annual Financial Statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The directors are responsible for the other information. The other information comprises the information included in the document titled "Forest Sector Charter Council NPC Annual Financial Statements for the year ended 31 March 2020", which includes the Councillors' Report as required by the Companies Act 71 of 2008 and the Detailed Income Statement, which we obtained prior to the date of this report. The other information does not include the Annual Financial Statements and our auditor's report thereon.

Our opinion on the Annual Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Annual Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Independent Auditor's Report (continued)

### Responsibilities of the councillors for the Annual Financial Statements

The councillors are responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008, and for such internal control as the councillors determine is necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Annual Financial Statements, the councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the councillors either intend to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the Annual Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Annual Financial Statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Annual Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the councillors.
- Conclude on the appropriateness of the councillors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Annual Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the Annual Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the councillors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**SK Dziwa**  
**27 May 2020**  
**Bramley, Johannesburg**



## Statement of Financial Position as at 31 March 2020

Figures in Rand	Note(s)	2020	2019
<b>Assets</b>			
Non-current assets			
Property, plant and equipment	2	8 828	17 503
Current assets			
Trade and other receivables	3	241 820	396 423
Cash and cash equivalents	4	9 746 901	7 941 004
		<b>9 988 721</b>	<b>8 337 427</b>
<b>Total assets</b>		<b>9 997 549</b>	<b>8 354 930</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Retained income		7 020 365	7 840 268
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	5	1 884	514 662
Current tax payable	6	2 975 300	-
		2 977 184	514 662
<b>Total equity and liabilities</b>		<b>9 997 549</b>	<b>8 354 930</b>

## Statement of Comprehensive Income

Figures in Rand	Note(s)	2020	2019
<b>Revenue</b>	7	7 144 094	7 786 674
Other income	8	-	241 455
Operating expenses		(5 167 313)	(5 663 146)
<b>Operating surplus/(deficit)</b>	9	<b>1 976 781</b>	<b>2 364 983</b>
Investment revenue	12	178 616	-
<b>Profit before taxation</b>		<b>2 155 397</b>	<b>2 364 983</b>
Taxation	13	(2 975 300)	-
(Deficit)/surplus for the year		<b>(819 903)</b>	<b>2 364 983</b>
Other comprehensive income		-	-
<b>Total comprehensive income (deficit) for the year</b>		<b>(819 903)</b>	<b>2 364 983</b>

## Statement of Changes in Equity

Figures in Rand	Retained Income	Total Equity
<b>Balance at 1 April 2018</b>	<b>5 475 285</b>	<b>5 475 285</b>
Surplus for the year	2 364 983	2 364 983
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>2 364 983</b>	<b>2 364 983</b>
<b>Balance at 1 April 2019</b>	<b>7 840 268</b>	<b>7 840 268</b>
Deficit for the year	(819 903)	(819 903)
Other comprehensive income	-	-
<b>Total comprehensive loss for the year</b>	<b>(819 903)</b>	<b>(819 903)</b>
<b>Balance at 31 March 2020</b>	<b>7 020 365</b>	<b>7 020 365</b>
Note(s)		

## Statement of Cash Flows

Figures in Rand	Note(s)	2020	2019
<b>Cash flows from operating activities</b>			
Cash generated from operations	14	1 627 281	3 097 551
Interest income		178 616	-
Net cash from operating activities		<b>1 805 897</b>	<b>3 097 551</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	-	(2 599)
Total cash movement for the year		<b>1 805 897</b>	<b>3 094 952</b>
Cash at the beginning of the year		7 941 004	4 846 052
Total cash at end of the year	4	<b>9 746 901</b>	<b>7 941 004</b>

## Accounting Policies

### 1. Basis of preparation and summary of significant accounting policies

The Annual Financial Statements have been prepared on a going concern basis in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities, and the Companies Act 71 of 2008. The Annual Financial Statements have been prepared on the historical cost basis, except for biological assets at fair value less point of sale costs, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

#### 1.1 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one period.

Property, plant and equipment is initially measured at cost.

Cost includes costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the period in which they are incurred.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation Method	Average Useful Life
Office equipment	Straight line	6 years
Computer equipment	Straight line	3 years
Computer software	Straight line	6 years

When indicators are present that the useful lives and residual values of items of property, plant and equipment have changed since the most recent annual reporting date, they are reassessed. Any changes are accounted for prospectively as a change in accounting estimate.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

## Accounting Policies (continued)

### 1.2 Impairment of assets

The company assesses at each reporting date whether there is any indication that property, plant and equipment or intangible assets or goodwill or investment property on the cost model may be impaired.

If there is any such indication, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (or group of assets) in prior years. A reversal of impairment is recognised immediately in profit or loss.

### 1.3 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as leave pay and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

### 1.4 Revenue

Revenue is recognised to the extent that the company has transferred the significant risks and rewards of ownership of goods to the buyer, or has rendered services under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the company. Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes and discounts.

Interest is recognised, in profit or loss, using the effective interest rate method.

## Notes to the Annual Financial Statements

Figures in Rands 2020 **2019**

### 2. Property, plant and equipment

	2020			2019		
	Cost or revaluation	Accumulated Depreciation	Carrying Value	Cost or revaluation	Accumulated Depreciation	Carrying Value
Furniture and fixtures	122 313	(115 439)	6 874	122 313	(109 017)	13 296
Office equipment	23 662	(21 708)	1 954	23 662	(20 052)	3 610
Computer equipment	108 626	(108 626)	-	108 626	(108 029)	597
Computer software	1 999	(1 999)	-	1 999	(1 999)	-
<b>Total</b>	<b>256 600</b>	<b>(247 772)</b>	<b>8 828</b>	<b>256 600</b>	<b>(239 097)</b>	<b>17 503</b>

#### Reconciliation of property, plant and equipment – 2020

	Opening Balance	Depreciation	Closing Balance
Furniture and fixtures	13 296	(6 422)	6 874
Office equipment	3 610	(1 656)	1 954
Computer equipment	597	(597)	-
	<b>17 503</b>	<b>(8 675)</b>	<b>8 828</b>

#### Reconciliation of property, plant and equipment – 2019

	Opening Balance	Additions	Depreciation	Closing Balance
Furniture and fixtures	29 963	2 599	(19 266)	13 296
Office equipment	5 277	-	(1 667)	3 610
Computer equipment	15 939	-	(15 342)	597
	<b>51 179</b>	<b>2 599</b>	<b>(36 275)</b>	<b>17 503</b>

### 3. Trade and other receivables

Trade receivables	231 761	393 573
Other receivables	10 059	2 850
	<b>241 820</b>	<b>396 423</b>

### 4. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	3 568 285	7 941 004
Short-term deposits	6 178 616	-
	<b>9 746 901</b>	<b>7 941 004</b>

### 5. Trade and other payables

Trade payables	1 884	168 233
Payroll related accruals	-	251 062
Other payables (Councillors fees, S&T allowances and related claims)	-	95 367
	<b>1 884</b>	<b>514 662</b>

### 6. Current tax payable (receivable)

Prior years' 2010-2019 assessed income tax. Refer to paragraph 5 of the Councillors' Report.

## Notes to the Annual Financial Statements (continued)

Figures in Rands	2020	2019
<b>7. Revenue</b>		
Industry contributions – Members of the Forestry Sector	2 209 094	3 114 674
Government contribution – Department of Agriculture, Forestry and Fisheries	4 935 000	4 672 000
	<b>7 144 094</b>	<b>7 786 674</b>
<b>8. Other income</b>		
FP&M Seta grants	-	239 829
Internal recoveries	-	1 626
	-	<b>241 455</b>
<b>9. Operating surplus/(deficit)</b>		
Operating surplus/(deficit) for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Premises		
• Contractual amounts	119 355	104 069
Equipment		
• Contractual amounts	45 885	59 514
	<b>165 240</b>	<b>163 583</b>
Depreciation on property, plant and equipment:	8 675	36 275
Employee costs	1 825 907	2 090 671
<b>10. Employee costs</b>		
<b>Employee costs</b>		
Basic	1 292 154	1 494 360
PAYE, UIF and SDL	533 753	596 311
	<b>1 825 907</b>	<b>2 090 671</b>
<b>11. Depreciation, amortisation and impairments</b>		
The following items are included within depreciation, amortisation and impairments:		
<b>Depreciation</b>		
Property, plant and equipment	8 675	36 275
<b>12. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	178 616	-



## Notes to the Annual Financial Statements (continued)

Figures in Rands	2020	2019
<b>13. Taxation</b>		
<b>Major components of the tax expense</b>		
<b>Current taxation</b>		
South African normal tax - prior years	2 975 300	-
<p>The South African Revenue Services granted the Council income tax exemption status with effect from 05 January 2020. The exempt status is applicable prospectively and therefore prior to this date, the Council was assessed at the normal rate.</p>		
<b>14. Cash generated from operations</b>		
Surplus before adjustments	2 155 397	2 364 983
<b>Adjustments for:</b>		
Depreciation and amortisation	8 675	36 275
Interest received	(178 616)	-
<b>Changes in working capital:</b>		
Trade and other receivables	154 603	250 070
Trade and other payables	(512 778)	446 223
	<b>1 627 281</b>	<b>3 097 551</b>

## Notes to the Annual Financial Statements (continued)

Figures in Rands	2020	2019
<b>15. Related parties</b>		
<b>Relationships</b>		
Members of the Forest Industry	Paper Manufacturers Association of South Africa (PAMSA) Forestry South Africa (FSA) Sawmilling South Africa (SSA) South African Wood Preservers Association (SAWPA) South African Utility Pole Association (SAUPA) South African Forestry Contractors Association (SAFCA)	
Ultimate responsible authority	Department of Agriculture, Forestry and Fisheries (DAFF)	
<b>Related party balances and transactions</b>		
<b>Related party balances</b>		
<b>Amounts included in Trade receivable</b>		
Charcoal	-	6 102
FSA	50 349	243 043
FSA Non affiliated	-	255 588
Sawmilling South Africa	63 315	46 026
Sawmilling SA Non affiliated	-	263 874
SAUPA	-	31 728
Mining Timber	-	27 118
Non affiliated Pole Producers	-	12 612
PAMSA	118 096	125 756
PAMSA Non affiliated	-	263 449
SAFCA Non affiliated	-	114 026
Expense recognised for bad or doubtful debts relating to related party balance:		
FSA Non affiliated	190 063	255 588
PAMSA Non affiliated	-	263 449
Charcoal	-	6 102
Mining Timber	-	27 118
Sawmilling South Africa Non affiliated	-	263 874
SAFCA Non affiliated	-	114 026
Non affiliated Pole Producers	-	12 612
<b>Related party transactions</b>		
<b>Revenue received from related parties:</b>		
PAMSA	1 417 154	1 509 068
FSA	604 188	643 375
Charcoal	-	6 102
PAMSA Non affiliated	-	172 410
SAFCA Non affiliated	-	58 620
Non affiliated Pole Producers	-	12 612
Sawmilling SA Non affiliated	-	229 874
Mining Timber	-	27 118
Sawpa	32 850	34 981
Sawmilling South Africa	103 757	110 464
Saupa	29 796	31 728
Safca	21 349	22 734
DAFF	4 935 000	4 672 000
FSA Non affiliated	-	255 588

## Notes to the Annual Financial Statements (continued)

Figures in Rand	2020	2019
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### 16. Councillors' remuneration

#### Non-executive

2020	Attendance fees	Travel and subsistence allowances	Total
Dr Diphoko Mahango (Chairperson)	320 095	42 928	363 023
Daniel Kivetts	66 683	33 729	100 412
Rally Moropa	88 910	12 195	101 105
Thabitha Shange	41 280	7 339	48 619
	<b>516 968</b>	<b>96 191</b>	<b>613 159</b>
<b>2019</b>			
Dr Diphoko Mahango (Chairperson)	353 607	36 371	389 978
Daniel Kivetts	75 847	36 501	112 348
Rally Moropa	70 160	17 692	87 852
Thabitha Shange	33 870	-	33 870
	<b>533 484</b>	<b>90 564</b>	<b>624 048</b>

### 17. Income statement by project and function

Total income	7 322 691	-
CEO visits	(168 375)	-
Community outreach programme (Phase 2 &3)	(381 113)	-
Youth and women empowerment	(64 013)	-
Knowledge sharing & transfer programme	(146 570)	-
Research on value chain	(79 300)	-
Impact assessment of the amended FSC & environmental scanning exercise	(471 328)	-
Employee costs	(1 825 907)	-
Other operating expenses	(2 030 688)	-
<b>Surplus for the year before prior years tax adjustment</b>	<b>2 155 397</b>	<b>-</b>

## Detailed Income Statement

Figures in Rand	Note(s)	2020	2019
<b>Revenue</b>			
Government contribution – Department of Agriculture, Forestry and Fisheries		4 935 000	4 672 000
Industry contributions – Members of the Forestry Sector		2 209 094	3 114 674
	7	<b>7 144 094</b>	<b>7 786 674</b>
<b>Other income</b>			
FP&M Seta grants		-	239 829
Recoveries		-	1 626
		-	<b>241 455</b>
Expenses (Refer to page 20)		<b>(5 167 313)</b>	<b>(5 663 146)</b>
<b>Operating deficit</b>	9	<b>1 976 781</b>	<b>2 364 983</b>
Investment income		178 616	-
<b>Profit before taxation</b>		<b>2 155 397</b>	<b>2 364 983</b>
Taxation	13	(2 975 300)	-
<b>Surplus/(deficit) for the year</b>		<b>(819 903)</b>	<b>2 364 983</b>

## Detailed Income Statement (continued)

Figures in Rand	Note(s)	2020	2019
<b>Operating expenses</b>			
Accounting fees		(311 310)	(278 458)
Advertising and branding		(21 924)	(5 589)
Annual report		(27 715)	(19 895)
Audit fees		(73 000)	(69 483)
BBBEE impact analysis		(471 328)	-
Bad debts		(190 063)	(942 769)
Bank charges		(8 284)	(7 335)
Catering		(96 567)	(23 683)
Cleaning		(42 232)	(39 390)
Computer expenses		(64 500)	(58 000)
Consulting: amendment of FSCC codes		-	(47 373)
Consulting: grant registration and forestry skills development		-	(235 000)
Consulting: policy development and BEE scorecard		-	(13 633)
Depreciation, amortisation and impairments		(8 675)	(36 275)
Employee costs		(1 825 907)	(2 090 671)
Forest Sector Codes		-	(6 400)
Gifts		(20 807)	-
Insurance		(16 568)	(17 303)
Lease rentals on operating lease		(165 240)	(163 583)
Legal expenses		(32 500)	(55 200)
Meeting and workshop venues		(54 737)	(38 787)
Meeting attendance costs		(516 967)	(530 460)
Office consumables		-	(1 792)
Postage		-	(703)
Presentations		(5 750)	-
Printing and stationery		(33 169)	(40 132)
Repairs and maintenance		-	(851)
SARS penalties and interest		-	(10 897)
Telephone and fax		(76 229)	(99 184)
Travel and accommodation		(887 653)	(712 113)
Travel and subsistence claims - council members		(96 191)	(93 587)
Travel and subsistence claims - staff		(25 737)	(24 600)
Value chain analysis		(79 300)	-
Youth and women empowerment		(14 960)	-
		<b>(5 167 313)</b>	<b>(5 663 146)</b>

## Appreciation

Over the years, our focus has been on how the sector can contribute meaningfully to the objectives of B-BBEE. In the past three years, we have seen how the industry transitioned to the requirements of Amended FSC, which has brought about consequences for non-compliance on certain scorecard elements.



*Khosi Mavimbela – FSCC: Executive Director*

The latest feedback on the current status of transformation is, therefore, a measure of how the industry has adjusted. Our sincere thanks go to all the companies who prioritised B-BBEE implementation and incorporated the programme into their day-to-day key and strategic activities.

To all members of Council under the leadership of Dr D.E. Mahango, and supporting departments in particular, DFFE (DAFF), the dtic DPE, DALRRD (DRDLR), and DWS, your commitment and leadership towards B-BBEE in the Forest Sector can never be underestimated. The year was testing and demanded strong leadership.

Comprehending your deliberations and debates in Council meetings gave us the understanding of what a truly transformed industry should look like. We thank you for always putting the interests of Council at heart,

for executing your mandate with dedication and also for taking the right decisions for economic prosperity in the Sector.

To our funders, particularly DFFE (DAFF), and all Sector associations, you still preferred to prioritise funding for the activities of the Council despite the continued economic turmoil. The FSCC can only be proud and appreciative that you kept to your pledge.

To my colleagues, I am thankful that we continued to put the vision of the Sector first and carried our duties with much confidence.

*Khosi Mavimbela*

FSCC: Executive Director

*“ To our funders, particularly DFFE (DAFF), and all Sector associations, you still preferred to prioritise funding for the activities of the Council despite the continued economic turmoil. The FSCC can only be proud and appreciative that you kept to your pledge. ”*





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