ANNUAL REPORT 2004/2005

merSETA
MANUFACTURING, ENGINEERING AND RELATED SERVICES SETA

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Advancement Through Training

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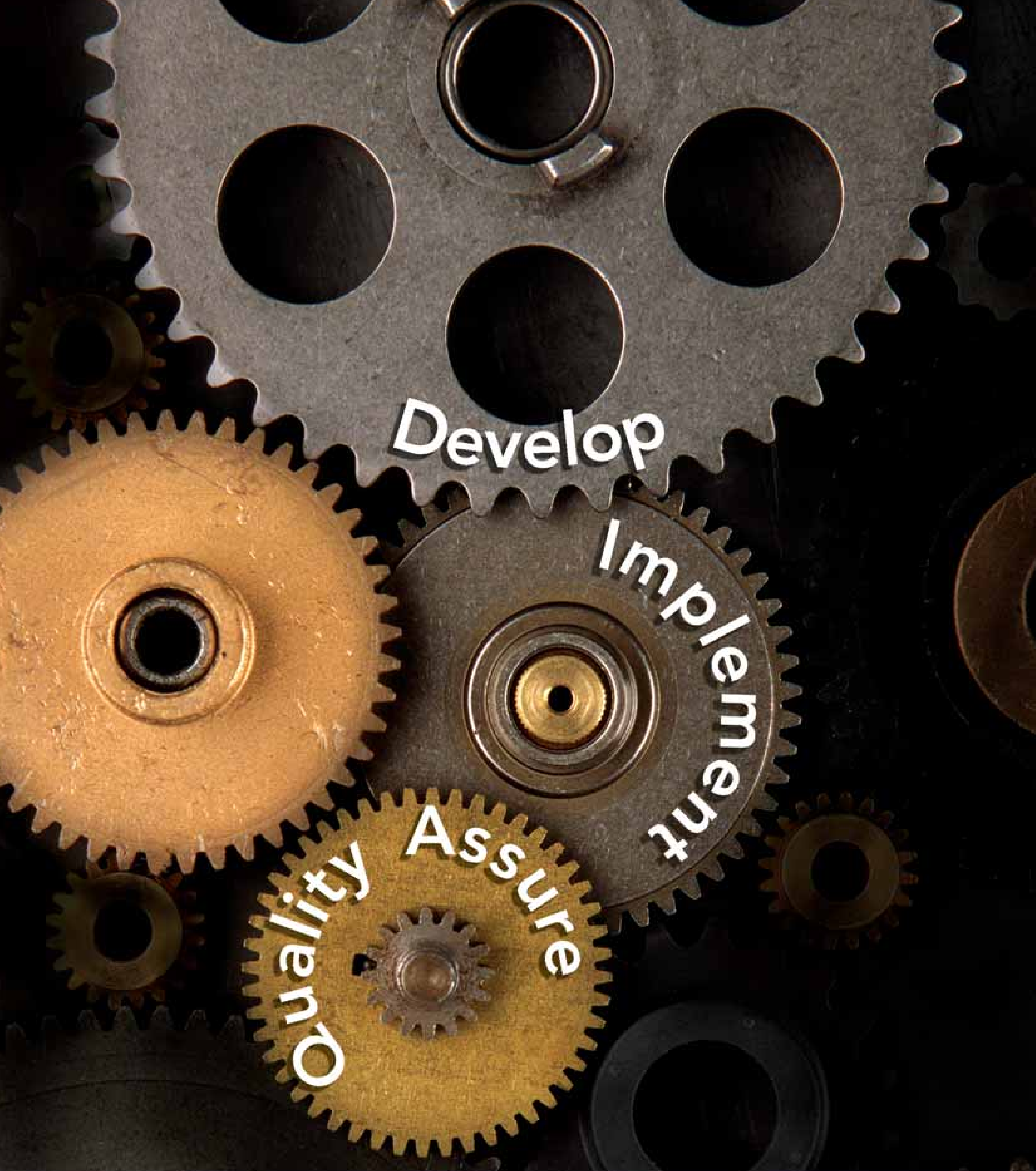
PROUDLY SOUTH AFRICAN



Advancement through training

MERSETA
VISION

"To promote economic and employment growth and social and economic development, redress inequalities in education and training, and facilitate and advance employment equity in the sector."

MISSION

"To promote provision of quality education and training by accredited providers to all learners in the MERSETA sector enhancing the skill of individuals and the capacity of the entire sector, in a manner that is consistent with the objectives of MERSETA."

CONTENTS

JOINT CHAIR AND *DEPUTY CHAIR REPORT*

Daluxolo Jekwa
Chairperson

Lizel Heunis
Deputy chairperson

This is the fifth annual report of the Manufacturing, Engineering and Related Services Sector Education and Training Authority (MERSETA).

Even though the focus of this annual report is on the last chapter of the first five years since the establishment of MERSETA, it is opportune to reflect on the overall achievements, successes and identified areas of improvement of MERSETA over this period and to look ahead with anticipation to the National Skills Development Strategy (NSDS) strategy: 2005 – 2010, and the opportunities the strategy presents to MERSETA.

During the past year, MERSETA further strengthened its relationship with its levy-paying companies and their employees in the industry in several delivery and focus areas:

- Apprenticeships and learnerships: A well-developed strategy and incentive scheme encouraged employers to take on even more apprentices and learners. MERSETA took a strategic decision three years ago that all learnerships developed for the industry would be supported by courseware.
- Accreditation of providers: A number of providers received accreditation from MERSETA's ETQA division.
- Increased participation in claiming grants from MERSETA. The number of employers who submitted WSPs increased during the period under review.
- SMME (small, medium and micro enterprises) support project. This project again proved very valuable in assisting employers to claim grants from MERSETA, and ensuring increased participation in training and development by offering sponsored training to SMMEs.
- Bursary scheme: 104 bursaries were awarded to learners during the past year.
- Adult basic education and training (ABET): As with previous levy-grant years, ABET was a major focus area of MERSETA. SMMEs were again supported with the offer of free ABET training and larger employers were encouraged to take on learners through MERSETA's discretionary grant system.

“We are building on five years of achievements, successes and identified areas of improvement to grow from strength to strength.”

That leaves us with the focus of MERSETA in the next five years. The motto of our CEO, Bettie van Straaten, echoes the common thread throughout the NSDS: 2005 – 2010, “Quality, quality, and more quality”. Under her guidance, the MERSETA team produced a well-developed discretionary grant document aligned with this motto, and designed to facilitate achieving at least four NSDS objectives through discretionary grants alone, centering on quality training provision resulting in suitably-qualified learners.

One of the biggest challenges facing MERSETA is to keep employers who will be exempted from paying the skills levy from 1 August 2005 in the MERSETA fold. MERSETA is actively trying to achieve this goal through various initiatives such as collaborating with other SETAs, discussions with government policy makers and its own employer associations. The benefits far outweigh the 1% of payroll that employers currently contribute in the form of skills development levies and MERSETA is committed to bringing skills to all the companies in the sector.

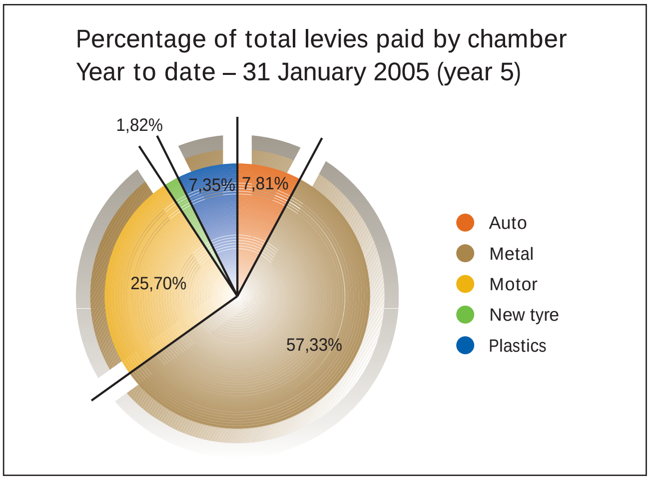
Our commitment is to continue the search for experiences and ideas that will stimulate deep, significant and lasting skills development.

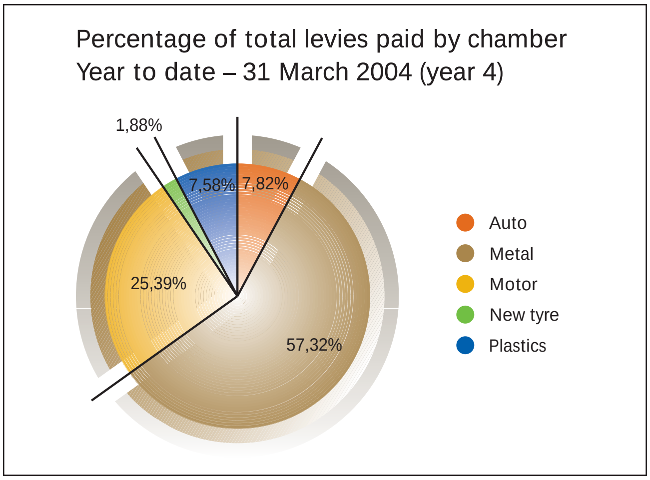
Meeting our objectives will thus mean researching and implementing different approaches depending on the need, but is always underpinned by the principle that people’s own capacity to learn from experience is the foundation of their knowledge and development.

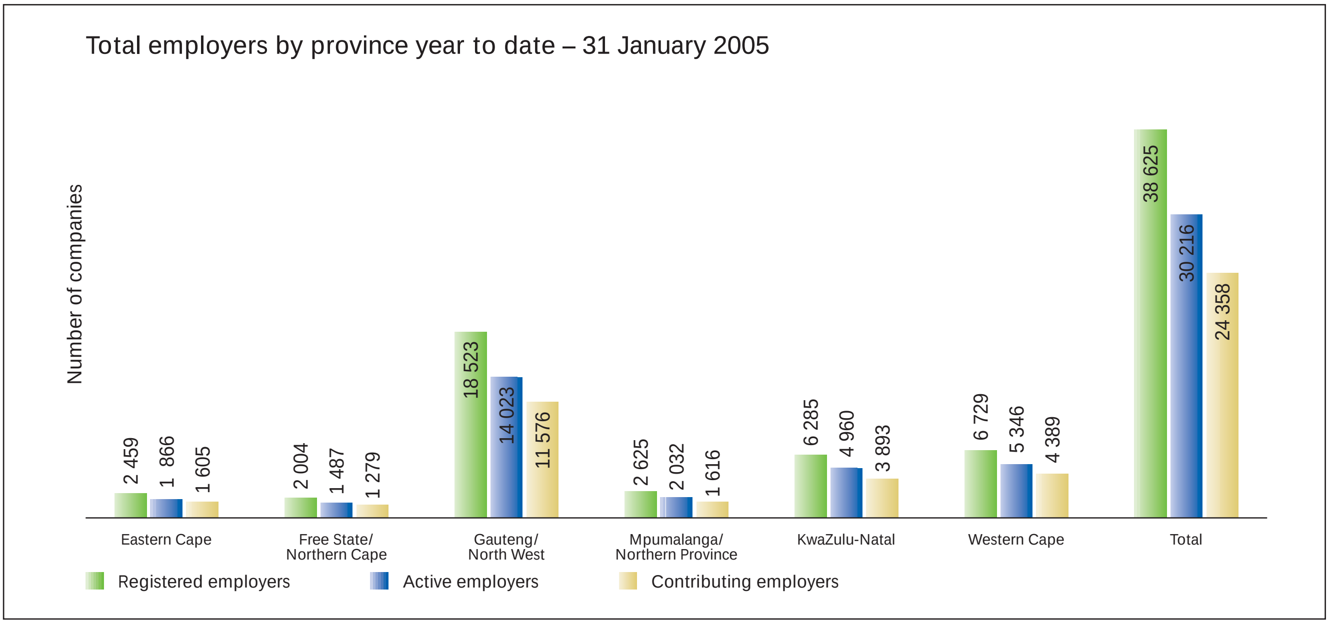
Finally, we are confident that MERSETA will grow from strength to strength in the next five years, with a clear vision and commitment from its CEO, her team and all stakeholders.

“Development is indeed a momentous engagement with freedom’s possibilities”
Amartya Sen

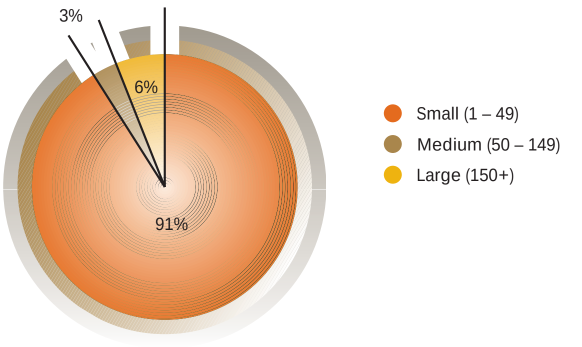
FINANCE
OVERVIEW



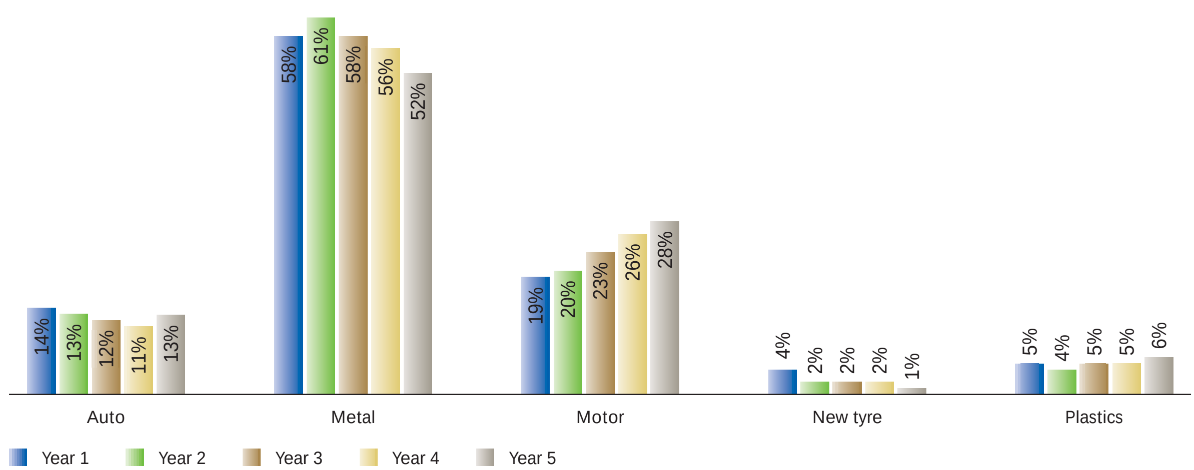




Composition of MERSETA contributing companies per number of employees



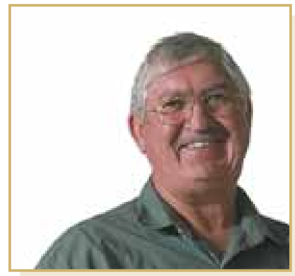
Grants paid by chamber by year (as a percentage of total grants paid)



EXCO *MEMBERS*

E Kodisang

B Angus



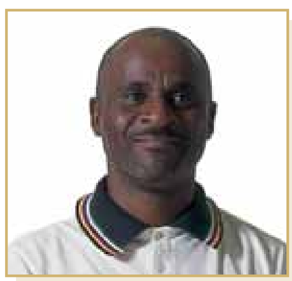
J Burger

P Bezuidenhout

M Mogopodi

M Bara

R Seiler



D Jekwa

J Lopes

M Roberts

L Heunis

					Meeting							
Title	Name	Constituency	Representing	Demo-graphic split	4 May 2004	4 June 2004	11 June 2004	15 July 2004	26 July 2004	18 August 2004	19 October 2004	15 February 2005
Mr	B Angus	Seifsa	Employer Rep (alternate)	White male	*	*	*	*	*	*	*	*
Ms	J Lopes	Seifsa	Employer Rep	White female	*	*	*	*	*	*	*	*
Mr	R Seiler	Ameo	Employer Rep	White male	*	*		*	*	*	*	
Ms	L Heunis	RMI	Employer Rep	White female	*	*	*	*	*	*	*	*
Mr	M Roberts	RMI	Employer Rep (alternate)	White male	*	*	*	*	*	*	*	*
Mr	J Burger	Solidarity	Labour Rep	White male				*				*
Mr	E Kodisang	CEPPWAWU	Labour Rep	Black male	*	*		*		*		
Mr	M Bara	Numsa	Labour Rep	Black male	*	*	*	*	*		*	
Ms	M Mogopodi	Numsa	Labour Rep	Black female	*		*	*	*			*
Mr	D Jekwa *	Numsa	Labour Rep	Black male	*	*	*	*	*	*	*	*
Mr	P Bezuidenhout	Uasa	Labour Rep	White male	*			*	*	*	*	*
Mr	J Maluleke		MERSETA (non-voting)	Black male	*	*	*	*	*	*		
Ms	B van Straaten		MERSETA (non-voting)	White female	*	*	*	*	*			

* appointed November 2004

AUTHORITY *MEMBERS*

Title	Name	Constituency	Representing	Demographic split	Meeting: 16 July 2004	Meeting: 3 August 2004	Meeting: 19 November 2004
Mr	B Angus	Seifsa	Employer	White male			*
Mr	L de Klerk	Ameo	Employer	White male		*	
Mr	A Dennis	New Tyre	Employer	Coloured male		*	
Mr	M Bullock	Plastics Federation	Employer	White male			*
Ms	J Lopes	Seifsa	Employer	White female	*	*	*
Mr	C Murray	Seifsa	Employer	White male	*	*	*
Mr	W Naude	Plastics Federation	Employer	White male	*	*	*
Mr	D Rule	Plastics Federation	Employer	White male	*	*	*
Mr	R Seiler	Ameo	Employer	White male		*	*
Mr	B Smith	New Tyre	Employer	White male			
Mr	C Snyman	New Tyre	Employer	White male			
Mr	D Truter	RMI	Employer	White male			*
Mr	C Wessels	Ameo	Employer	White male	*		*
Ms	L Heunis	RMI	Employer	White female	*	*	*
Mr	M Roberts	RMI	Employer	White male	*		
Mr	S Beyers	Misa/Samu	Labour	White male			*
Mr	J du Plessis	Solidarity	Labour	White male			
Ms	M Netshandama	CEPPWAWU	Labour	Black female			*
Mr	P Nodongwe	Numsa	Labour	Black male			*
Mr	P Verryne	Numsa	Labour	Coloured male		*	*
Mr	J Burger	Solidarity	Labour	White male		*	
Mr	E Kodisang	CEPPWAWU	Labour	Black male	*	*	*
Ms	M Mogopodi	Numsa	Labour	Black female	*		*
Mr	D Jekwa	Numsa	Labour	Black male			*
Mr	P Bezuidenhout	Uasa	Labour	White male			*
Mr	M Bara	Numsa	Labour	Black male		*	*
Mr	E Byleveld	Misa/Samu	Labour	White male		*	
Mr	S Dolley	Numsa	Labour	Indian male		*	*
Mr	F Msomi	Numsa	Labour	Black male			
Ms	M Tebogo	Numsa	Labour	Black female			
Mr	J Maluleke		MERSETA	Black male		*	
Ms	B van Straaten		MERSETA	White female		*	

FIVE-YEAR *REVIEW*

MERSETA's five-year existence can be described in three stages:

- The establishment period (2000 to 2001) saw former industry training boards amalgamated under the jurisdiction of new SETA parameters, along with resourcing and instituting systems and procedures.
- The period 2002 to 2003 aligned the new structure with research and development, comprising interpretation and clarification of roles and responsibilities and alignment with other frameworks such as the NQF, which underpins the development of learnerships, curriculums and courseware and assessment.
- Implementation (since 2003) moved activities towards the rollout of learnerships, SMME and ABET programmes. During this period, numerous mandatory grants were regularly paid out to levy-paying companies to implement their own training.

From the onset, MERSETA adopted a flexible approach to implementing skills development in manufacturing industries while reducing barriers of access to training. MERSETA acknowledged the importance of levy-paying companies in the sector as the main drivers of training and development of workers. The primary aim was to get more companies positive about training and thus more workers and unemployed people into training. This was achieved through attractive discretionary grants, offering assistance, and developing special projects for SMMEs that make it easier to participate in training.

NSDS Objective 1 : Developing a culture of high quality life-long learning.

Indicator 1.1: By March 2005, 70% of all workers have at least NQF Level 1 qualification

The majority of the workforce in MERSETA's sectors do not have (the equivalent of) NQF Level 1. This is a huge challenge for MERSETA in its quest to discharge its developmental mandate of redress, achieving equity and complementing and enhancing a national human resources development strategy.

Indicator 1.2: By March 2005, a minimum of 15% of workers will have enrolled in structured learning programmes, with a 50% pass rate

With approximately 500 000 workers in the sector in 2001, 15% is 75 000 workers. MERSETA enabled between 60 000 and 102 000 learners annually to train in skills programmes, learnerships and apprenticeships with an increasing emphasis on accredited training. Grants were aligned with sector skills priorities as identified in MERSETA's 2001 sector skills plan.

During 2003, MERSETA established a bursary scheme. Currently in its second year, the scheme has 159 students in the following fields of study: chemical engineering; electrical engineering – heavy current; electrical engineering – light current; industrial engineering; mechanical engineering; metallurgy; mechanical/electrical; production management and electronics/electrical. Of these, 17 have successfully completed their courses. Women comprise 57 of the total and blacks number 133.

In addition, the number of learners accessing structured learning programmes through MERSETA's SMME and ABET projects, established during 2002, has increased exponentially.

Indicator 1.3: Investors in People programme

During 2004, MERSETA actively promoted the Investors in People standard through a series of workshops in all regions. Currently, 19 companies in the sector have signed the certificate of commitment and MERSETA has a project team working towards assessment against this standard.

NSDS Objective 2: Fostering skills development in the formal economy for productivity and employment growth

Levies paid to MERSETA increased significantly over the years in line with industry salary increases.

The number of levy-paying companies increased from 18 051 in 2001 to 24 358 in 2004. Overall, there is an increase in absolute as well as relative terms in the number of companies claiming grants in all categories.

Indicator 2.3: By March 2005, learnerships are available in every sector

To ensure alignment with the National Qualifications Framework, MERSETA developed and registered 67 new qualifications with the South African Qualifications Authority (SAQA), and 92 of those learnerships were registered with the Department of Labour.

MERSETA was instrumental in the development of curriculum and courseware for these registered learnerships. The availability of learning material for the NQF Level 1 learnership contributed towards the substantial intake of unemployed learners on this programme in 2004 and, in doing this, MERSETA reached the Growth and Development Summit (GDS) target with the successful intake of well over 8 831 unemployed learners on learnerships and apprenticeships.

The availability of incentives to companies, the registration of the GETC manufacturing, engineering and related activities NQF Level 1 learnership and the availability of curriculum and courseware for an increasing number of learnerships ensured an increase of companies participating in skills development initiatives. Apprenticeships and learnerships have become more accessible for learners.

NSDS Objective 3: Stimulating and supporting skills development in small businesses

Indicator 3.1: By March 2005, at least 20% of new and existing small businesses to be supported in skills development

In 2001, it became apparent that very few SMMEs were participating in the levy grant system and MERSETA investigated reasons for non-participation. While acknowledging the lack of understanding about new legislation and MERSETA, bureaucratic frustration seemed to be the main reason for SMMEs not claiming grants. Since then, MERSETA has successfully encouraged SMMEs in the manufacturing sector to participate in skills development by simplifying the grant application process.

In addition, a two pronged SMME initiative was launched in 2002 with the appointment of 21 skills development facilitators focusing exclusively on promoting and marketing skills development to SMMEs as well as implementing more than 24 sponsored training programmes over 3 sub sectors (Plastics, Motor Retail and Components and Metal and Engineering) resulting in training of over 11 000 employees in SMME companies.

In 2001, MERSETA was granted NSF research funding to assess ABET delivery in the manufacturing industry. Results showed that only 7% of companies in the sector were providing ABET to their workers. This prompted the establishment of an ABET delivery project in November 2002. This project forms an integral part of MERSETA's efforts to reach SMMEs, and has yielded 4 500 learners ranging from ABET Level 1 to Level 4. This service is provided free to SMME companies.

NSDS Objective 5: assisting new entrants into employment

Indicator 5.1: By March 2005, a minimum of 80 000 people under the age of 30 have entered learnerships

MERSETA translated this target into 3 210 learners. In June 2003, MERSETA was allocated an additional target of 8 831 unemployed learners after the Growth and Development Summit. Since 2001, the total intake of unemployed learners has been 11 268, of whom 4 333 are unemployed learners and 6 935 are apprentices.

“Meeting and exceeding challenging targets while complying with legislative requirements.”

MERSETA’s apprentice intake has only yielded modest improvements in relation to the GDS/NSDS target of achieving employment equity and affirmative action targets, which stipulate 85% black, 54% female and 4% disabled.

INTERNAL BUSINESS SYSTEMS

MERSETA’s operational priorities are characterised by the same developmental stages of establishment, alignment, and implementation.

During 2000 to 2001, MERSETA focused on establishing its operational structure: regional offices were established in Bloemfontein, Cape Town, Durban, Johannesburg and Port Elizabeth, and a sixth regional office was opened in 2003 in Witbank, serving the Mpumalanga and Limpopo provinces. MERSETA’s head office in Johannesburg was set up to carry out grant payments, skills planning, development of ETQA policies and procedures, and to support day-to-day service delivery to stakeholders.

Human resources policies and procedures were developed and adopted. A communications unit was established in 2002, and this office took charge of developing much-needed information material: bi-monthly newsletters, the website, information brochures and posters.

From 2002, MERSETA started improving service delivery and introduced user-friendly documentation. Grant applications were made available online on the website and the number of pages reduced for SMMEs. Staff skills were further developed to ensure the efficient and effective execution of new tasks and responsibilities such as learnership implementation and moderation of OBE assessments.

MERSETA has to ensure that all legislative requirements are fulfilled, and has recently established a supply chain management unit. The quality management system, which was developed in 2002, will be reviewed and updated. The training committee and employment equity committee, established in 2001, will have to ensure better collaboration and synergy to achieve meaningful training and development of staff – including achieving employment equity targets.

CHAMBER PROFILE
AUTO

The automotive manufacturing industry within MERSETA is limited to assemblers known as original equipment manufacturers (OEMs). The industry is the third largest in the South African economy, contributing 6,3% of GDP, and the leading manufacturing sub-sector which accounts for more than 28,5% of the country's manufacturing output. It is guided by policy instruments and initiatives from the state's Motor Industry Development Programme (MIDP). There are seven major companies in this sub-sector: DaimlerChrysler, BMW, Volkswagen, Toyota, Nissan, Delta and Ford, collectively employing approximately 22 000 people. The key occupational groups in the sector are machining and tooling, stamping, automation, body assembly, body painting, vehicle assembly and finishing, process planning engineering and IT, vehicle logistics, sales and marketing and management.

AUTO CHAMBER COMMITTEE

Title	Name	Constituency	Representing	Demographic split
Mr	U Badenhorst	Toyota SA	Employer	White male
Mr	L de Klerk	VW SA	Employer	White male
Mr	C Kemp	Ford SA	Employer	White male
Mr	R Quin	GMSA	Employer	White male
Mr	H Geyer	Nissan SA	Employer	White male
Mr	C Davidson	BMW SA	Employer	White male
Ms	M Deyeshana	DCSA	Employer	Black male
Mr	L Tsiane	Numsa	Labour	Black male
Mr	X Tshayana	Numsa	Labour	Black male
Mr	D Mohajane	Numsa	Labour	Black male
Mr	F Msomi	Numsa	Labour	Black male
Mr	H Ntlatleng	Numsa	Labour	Black male
Mr	M Nazo	Numsa	Labour	Black male
Mr	P Bazi	Numsa	Labour	Black male
Ms	Y Mnguni	Numsa	Labour	Black female
Ms	M Mogopodi	Numsa	Labour	Black female

"Auto accounts for almost one-third of the country's manufacturing output."

SUCCESSFULLY BUILDING THE POOL OF SCARCE SKILLS

DaimlerChrysler SA commenced a pilot project of 20 learners on mechatronics NQF Level 2 in September 2002. Three of these learners are women and 10 were unemployed. All learners have now successfully completed level 4.

The field of mechatronics deals with the installation, maintenance and commissioning of integrated manufacturing systems that must conform to the highest standards of quality and safety. In MERSETA, this learnership was considered the catalyst in bridging the gap between the FET and HET bands of the NQF, as learners would enter at NQF Level 2 and exit at NQF Level 5.

In the field of autotronics, VW South Africa started two parallel pilot projects now in their third year. The field of autotronics replaces the old auto electrical field and emphasis is placed on electronics as opposed to electrics. The skills requirements include a high level of analytical skills (diagnostics), and a sound basis in electronics which is the basis for moving on to autotronics.

The projects commenced with 14 learners from Delta and VW, in a combination of employed and unemployed (5:8), male and female (10:3), black and white (12:1). The learnerships started off on level 2, which most learners have completed, and are currently on level 3. Learners have completed all competency assessments.

The second project commenced in August 2004 with 73 learners. Of these, 37 are on mechatronics, and seven on autotronics; 13 have enrolled for engineering and fitting, 10 for mechanical tool making and 6 for mechanical fitter and turner. Fifty-six are male and 17 are female, while 62 are black and nine white. These learners have all progressed on level 2 and are preparing their portfolios of evidence.

VW has converted its internal training programme for employees into a learnership with five staff in autotronics and five in mechatronics, including one female.

CHAMBER PROFILE
METAL AND ENGINEERING

The metal and engineering sub-sector contributes approximately 5,3% to GDP. The machinery and equipment sector plays an extremely important role in almost all primary and manufacturing sectors by providing and servicing capital equipment, while the manufacture of transport equipment ensures efficient distribution of goods. The value chain of the sector is complex, given that it obtains inputs from upstream metal producers as well as the electrical and electronic sector, and produces outputs for downstream manufacturers, as well as for the machinery and equipment sector itself. Globally, the sector is becoming increasingly linked with the electronics sector and is placing more emphasis on innovation and globalisation of production. There are approximately 14 000 companies employing some 300 000 workers. The key occupational groups are metallurgists, materials engineers, mechanical engineers, electricians, toolmakers, fitter and turners, welders, machinists, fettlers, metrologists, shop-floor operators and machine operators.

METAL AND ENGINEERING CHAMBER COMMITTEE

Title	Name	Constituency	Representing	Demographic split
Mr	M Bara	Numsa	Labour	Black male
Mr	P Bezuidenhout	Uasa	Labour	White male
Mr	J Burger	Solidarity	Labour	White male
Mr	R Kgagadi	Mewusa	Labour	Black male
Mr	S Khumalo	Numsa	Labour	Black male
Mr	L Mthinyane	Numsa	Labour	Black male
Mr	V Singh	Numsa	Labour	Indian male
Mr	B Swarts	Solidarity	Labour	White male
Mr	T Vorias	Solidarity	Labour	White male
Mr	A Gibson	EE AIA	Employer	White male
Mr	J Kruger	Seifsa	Employer	White male
Ms	J Lopes	Seifsa	Employer	White female
Mr	W Matthiae	Seifsa	Employer	White male
Mr	D Naicker	Seifsa	Employer	White male
Dr	E Wessels	Seifsa	Employer	White male
Mr	V Zwane	Seifsa	Employer	Black male

> *A primary contributor to gross domestic product and important economic sector.*

EFFECTIVE TOOLS FOR THE TOOLING MANUFACTURE INDUSTRY

Globally, tooling industries are high-technology industries and a country with a thriving tool-making sector has a significant advantage in attracting investment. The South African government has recognised the importance of the tooling industry in the advanced manufacturing technology strategy, coupled with the need to establish industry growth platforms in terms of its integrated manufacturing and national research and development strategies. This follows the examples of successful developing countries such as Korea and Taiwan, which prioritised the success of their tooling industries given the fundamental integrated understanding of global manufacturing markets and local realities.

Even though South Africa has most of the primary input resources required for a successful manufacturing sector, it lacks the skills and technology to transform this into wealth. Today, the South African tooling industry is barely able to survive or compete in the global market.

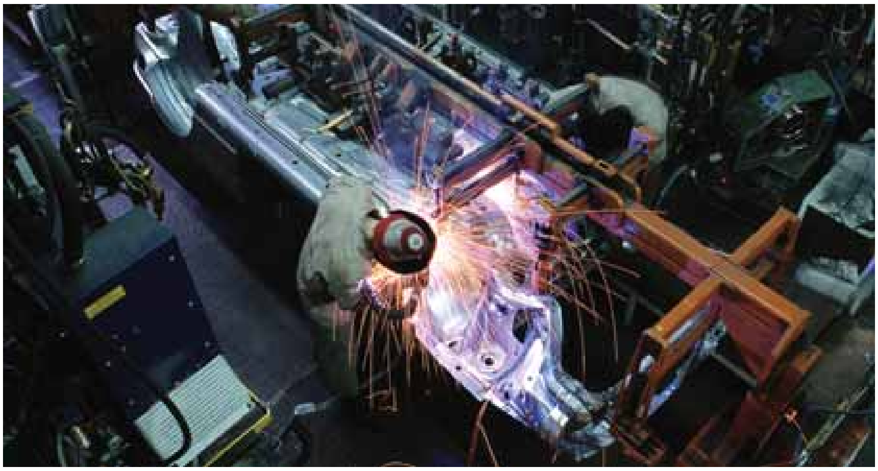
Industry sources note that the shortage of skills in tool design and manufacture is the main obstacle to competitiveness and economic growth in the metal and engineering industry. Accordingly, an industry development strategy has been crafted by key stakeholders, including MERSETA, in which the need for skills development underpins all initiatives and plans aimed at developing the domestic tooling industry to meet the demands of the South African market.

MERSETA is assisting the South African tooling industry in a unique skills transfer programme: graduates from local universities of technology were sent to India and, on their return, will form part of the training provider network (Institutes of Advanced Tooling), specialising in teaching tooling manufacture. The necessary qualifications have been registered with the National Qualifications Framework and further support is being extended to facilitate learnerships that will provide much-needed skills for the sector. Other plans include establishing new enterprises, and networking with existing enterprises to develop the capabilities necessary for global competitiveness.

WELDING PROJECT CREATES SELF-EMPLOYMENT IN FORMAL SECTOR

In 2002 MERSETA commenced providing funding to three employer associations (Seifsa, the RMI and the Plastics Federation) for sponsored and appropriate SMME training for registered, levy-paying companies.

One of the highlights of this programme is the project run by the Southern African Institute of Welding (SAIW) under the metal and engineering chamber for non-levy-paying welding entrepreneurs in which unemployed or retrenched welders are developing their technical and entrepreneurial skills to build their own small businesses. During a six-week training programme with a strong welding component, groups of 20 are taught to manufacture welded articles for sale. At the end of the programme, trainees receive certificates and a free welding kit and safety equipment. Since the project's inception, over 100 people have graduated and many have found employment in the formal sector.



CHAMBER PROFILE
RETAIL MOTOR AND COMPONENTS

Skills challenges in the Motor Sector is three fold; manufacturing (or component manufacturing), vehicle maintenance, repairs and servicing, sales marketing and management. These categories result in two mainstream skills development activities namely technical and non-technical skills.

The motor retail and components industry is closely linked to the automotive sector, since the supply of components for motor vehicle assembly is a prime source of trade. The Motor Industry Development Programme (MIDP) guides the industry in key areas. There are some 13 085 companies in this sub-sector, employing almost 189 900 staff.
The key occupational groups are:

Automotive aftermarket: vehicles dealers (new and used), fuel dealers, automotive body repairers and spraypainters, automotive component remanufacturers, engine remanufacturers, workshops, motorcycle dealers, vehicle body builders, new and used parts and equipment dealers, diesel fuel injection pump rooms, vehicle testing stations, tyre dealers and fitment centres.

Components manufacturing:

- Materials development and processing, specialised automotive materials, including high-tensile steels, specialised alloys and plastics.
- Tooling: design, manufacturing and commissioning tools to be used in converting plastics, light metals and steel components.
- Processing: converting plastics and composite material, light metals (aluminium and magnesium) and steel components for high quality, precision and finish.
- Manufacturing processes require increased electronic control and monitoring. Equipment manufactured also exhibits extensive and increasing electronic capabilities, which implies that electronic development and support are crucial for the future competitiveness of the South African manufacturing sector.

MOTOR CHAMBER COMMITTEE

Title	Name	Constituency	Representing	Demographic split
Mr	P Verryne	Numsa	Labour	Coloured male
Mr	E Khubeka	Numsa	Labour	Black male
Mr	E Linda	Numsa	Labour	Black male
Ms	M Mogopodi	Numsa	Labour	Black female
Mr	S Tsiane	Numsa	Labour	Black male
Mr	S Beyers	Misa/Samu	Labour	White male
Mr	M Roberts	RMI	Employer	White male
Mr	D Truter	RMI	Employer	White male
Ms	L Heunis	RMI	Employer	White female
Mr	G Brink	RMI	Employer	White male
Mrs	I Botes *	RMI	Employer	White female
Mr	L Thain	RMI	Employer	White male
Mr	M Poulteney	FRA	Employer	White male
Mr	P Morgan	FRA	Employer	White male
Mr	M Keyser *	FRA	Employer	White male

* Alternate member

A crucial sector for the future competitiveness of the South African manufacturing sector.

FIRST GRADUATES FOR SOUTH AFRICAN MOTOR INDUSTRY

In August 2005, the first group of 14 non-technical trainees in the motor retail industry graduated with NQF Level 4 certificates in vehicle sales and vehicle servicing. This national initiative was spearheaded by MERSETA levy payer, McCarthy Limited. These previously unemployed learners were recruited and employed for the programme, and will now embark on NQF Level 5 management qualifications.

McCarthy currently has 258 learners registered in the company, and provides training for a further 140 learners in companies to which it provides a technical training service.

Acknowledging that South Africa can only reach world standards and achieve meaningful economic growth with people whose knowledge base is aligned with the requirements of the 21st century, McCarthy has been proactive on training, which plays a vital role in providing quality customer service and boosting staff motivation, as well as facilitating employment equity.

SAFETY TRAINING SAVING LIVES

Another highlight is the safety and security training course offered to forecourt attendants under the successful SMME support project that began in May 2003. This initiative was conceptualised as a result of an HSRC report which was commissioned after several fatal incidents had been recorded.

Over 6 700 forecourt attendants have already received training. The entire country, including rural areas (last year 47% of all trainees came from rural areas; since inception 29%) is covered under this project.

Dealer surveys indicate that this training has had a direct impact on attendants' behaviour and security on site, particularly in avoiding life-threatening situations. To build on these results, the oil industry and dealers have requested further training for forecourt attendants, including management training.

CHAMBER PROFILE
NEW TYRE

The new tyre industry of the South African manufacturing sector has a long and distinguished history of providing products for new vehicles and supplying the aftermarket needs of a wide variety of vehicles in the private and commercial transport sectors.

Given steady investment over an extended period, the industry has maintained a viable presence in southern hemisphere markets and made initial inroads into markets abroad via vehicle export contracts and limited original equipment sales.

As the main market is based on product consumption, the industry enjoys relatively stable operating conditions and continues to project modest year-on-year business growth of around 2% (www.statssa.gov.za). Currently classified under this sector are at least five large importers and distributors of new tyres with significant market share.

The new tyre industry is the third-largest exporter of components under the MIDP scheme. It employs approximately 8 000 staff. Key occupational groups employed within this sector range from broad management to skilled labour, with some dedicated focus on tyre and tyre components as well as rubber and polymer technology resulting in specific training needs.

NEW TYRE CHAMBER COMMITTEE

Title	Name	Constituency	Representing	Demographic split
Mr	A Mchunu	Numsa	Labour	Black male
Ms	M Mogopodi	Numsa	Labour	Black female
Mr	V Mthethwa	Numsa	Labour	Black male
Mr	P Nodongwe	Numsa	Labour	Black male
Mr	L Swart	Solidarity	Labour	White male
Mr	P Veldtman	Solidarity	Labour	White male
Ms	V Stein	Solidarity	Labour	White female
Mr	S Zamisa	Numsa	Labour	Black male
Mr	M Simandla	Numsa	Labour	Black male
Mr	J Harris	Employer	Continental Tyres PE	White male
Mr	L Bosch	Employer	Bridgestone	Coloured male
Mr	A Dennis	Employer	Goodyear	Coloured male
Mr	B Phalezweni	Employer	Goodyear	Black male
Mr	G Mosue	Employer	Bridgestone	Black male
Mr	J Wilson	Employer	Dunlop	White male
Mr	S Mandabana	Employer	Goodyear	Black male
Mr	R Nzimande	Employer	Dunlop	Black male
Mr	P Welgemoed	Employer	Bridgestone	White male

"Contributing to import and export markets in a key economic sector."

A COURSE TOWARDS LIFE-LONG LEARNING

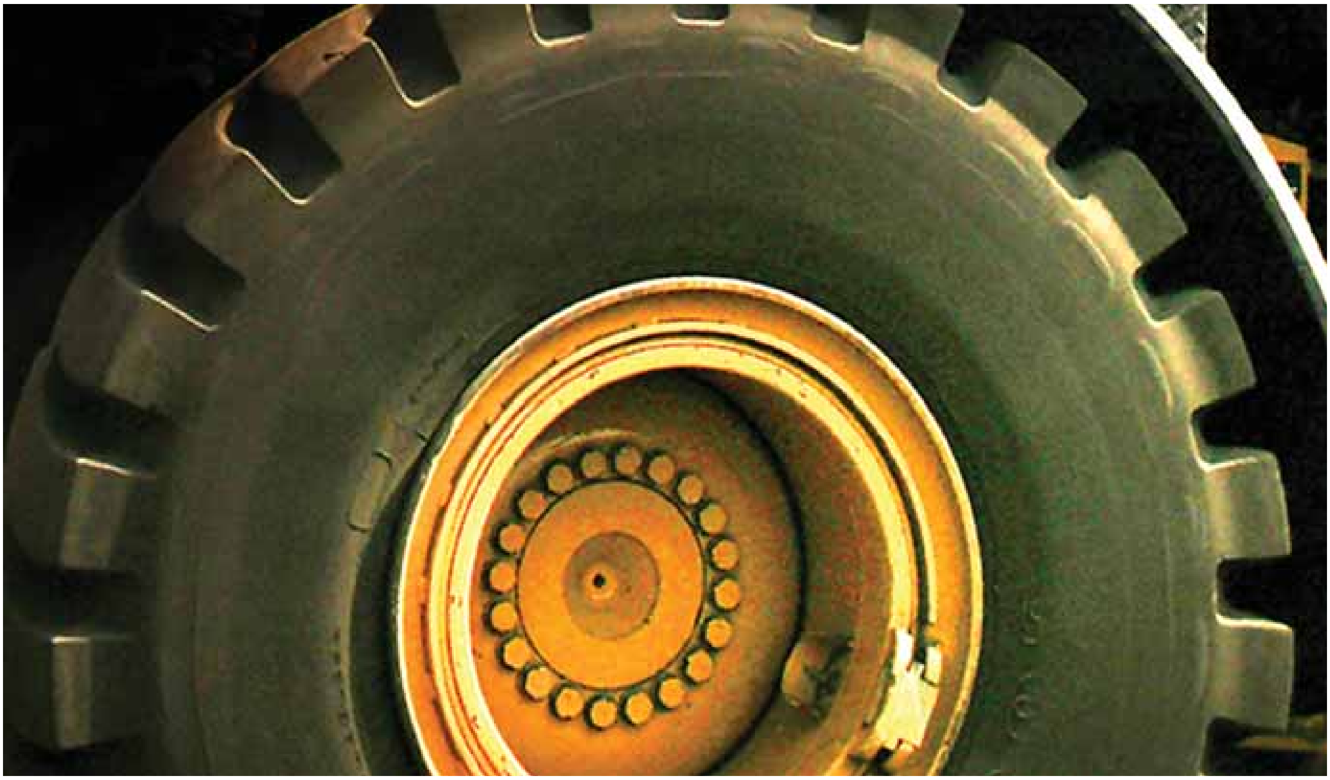
The adult basic education and training programme started at Continental Tyre two years ago with 104 learners. There are now 188 attending both English and maths classes.

From the outset, all stakeholders (shop stewards, learners, Continental management and service provider facilitators) were actively involved in the successful implementation of this programme. Stakeholders meet monthly to monitor attendance and progress as well as actual results achieved by learners and to address any problems encountered.

This programme has been exceptionally successful, primarily because it endorses the principle of life-long learning. Learners complete a portfolio of evidence, and once competency has been attained, they progress to the next level. Continental learners have progressed twice in one year and some are already doing NQF Level 2 English.

The skills development service provider submits monthly reports to Continental, and supplies all learning and teaching material. Qualified facilitators, who are registered assessors, are continuously trained on required unit standards, available material and outcomes-based education. The national training manager conducts regular visits to monitor the quality of the learning event.

The Continental experience is proof of life-long learning in action and the anticipation of many years of continued training and development.



CHAMBER PROFILE
PLASTICS

The plastics industry is a significant participant in the manufacturing sector and accounts for more than half of the material used. Other fields such as automotive, medical, white goods (domestic appliances), leisure, electrical, electronics and computer, accounts for the balance.

The plastics industry has recorded growth over the last ten years as the demand for raw materials has grown rapidly. Raw materials used in this sector are locally manufactured (all commodity polymers with speciality grades). The broader industry comprises companies ranging from raw material suppliers to tool rooms specialising in manufacturing plastic injection moulds used for manufacturing plastic components as well as end-product producers.

The industry employs approximately 35 000 people. Key occupational groups are tool making, machine maintenance, production management, polymer engineers, business skills and financial skills.

PLASTICS CHAMBER COMMITTEE

Title	Name	Constituency	Representing	Demographic split
Mr	S Mijikwa	CEPPWAWU	Labour	Black male
Mr	E Kodisang	CEPPWAWU	Labour	Black male
Mr	G Lephallo	NUMSA	Labour	Black male
Mr	P Bezuidenhout	UASA	Labour	White male
Mr	M Metshandama	CEPPWAWU	Labour	Black male
Mr	M Bullock	PCA	Employer	White male
Mr	A Hanekom	PSFA	Employer	White male
Mr	W Naude	PSFA	Employer	White male
Mr	D Rule	Pisa	Employer	White male
Mr	Z Xaba	Kaymac	Employer	Black male

"Skilled facilitators are delivering the best training available and help to uplift learners, which spills over into learners' communities."

LEARNERSHIPS – DEVELOPING SCARCE SKILLS

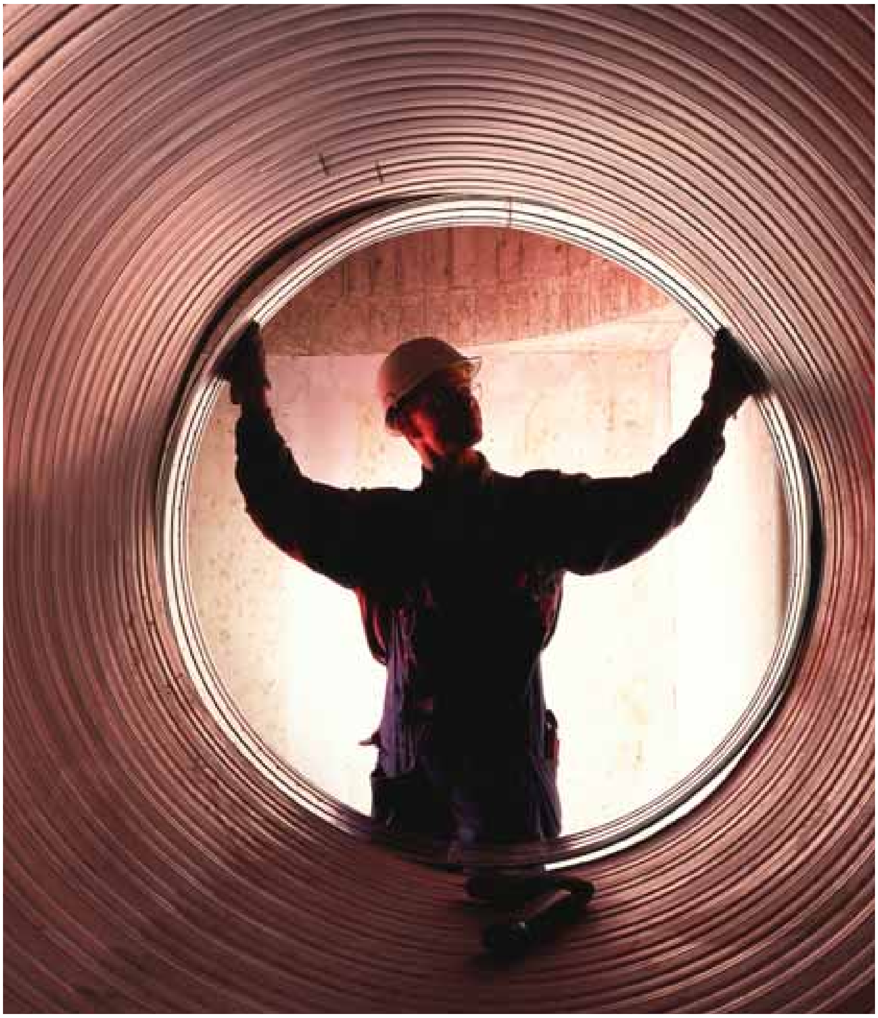
The innovative concept of learnerships gives companies the opportunity to develop skills among unemployed people in areas that were not available a few years ago.

Recognising that insufficient training was being offered to people wanting to work in the composite field, Beekman Super Canopies initiated the National Certificate in Polymer Composite Fabrication – NQF Level 2. This learnership ensures that Beekman has workers who are properly trained and have the correct skills and knowledge to be an asset to the company, and that the composite industry has well-trained people.

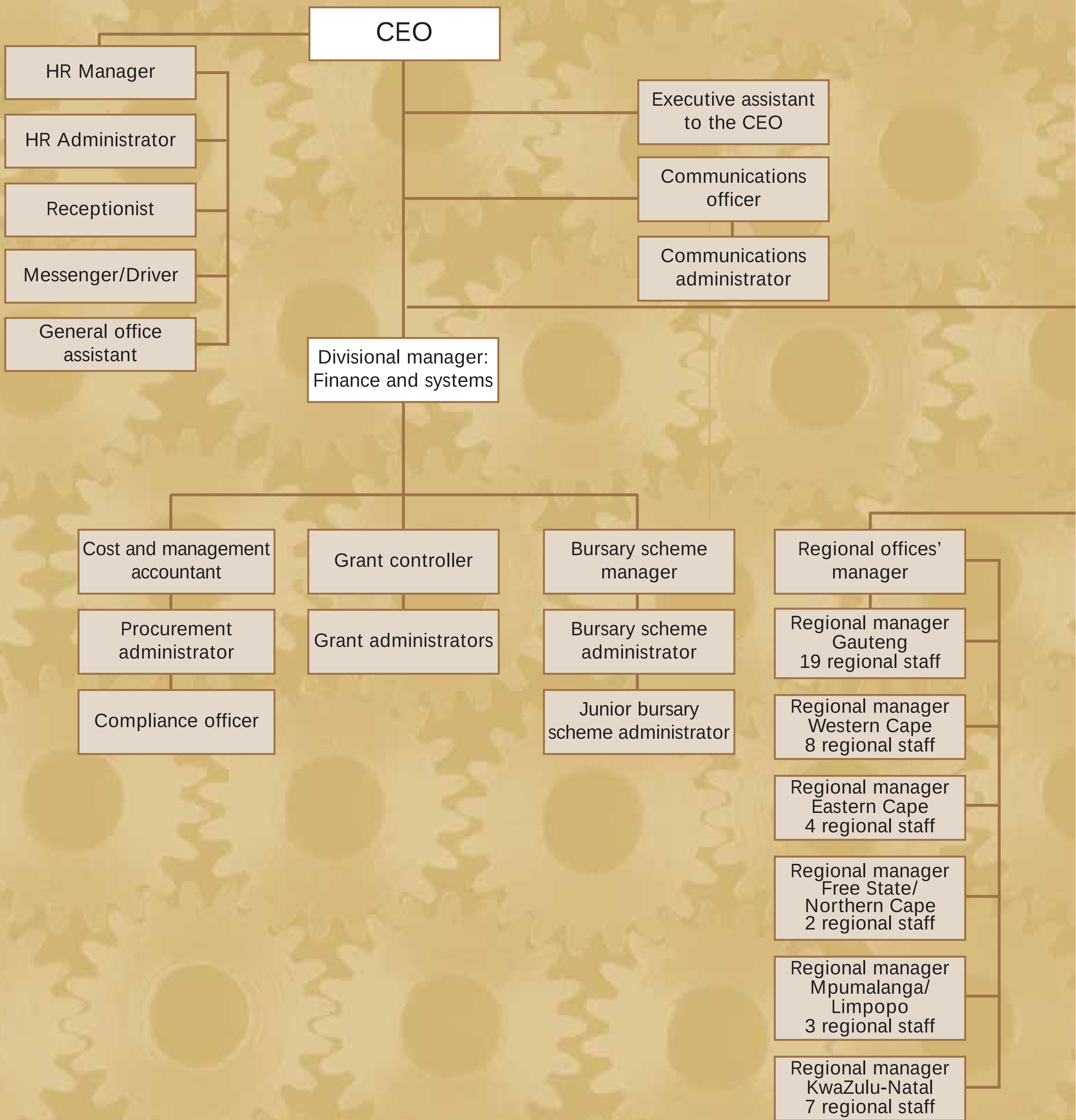
Over 100 learners have been declared competent and Beekman presently has 20 learners who are developing their skills in composite fabrication. Many graduates are now employed by the company and all learners have the opportunity to enrich their personal lives and to market themselves with a national certificate.

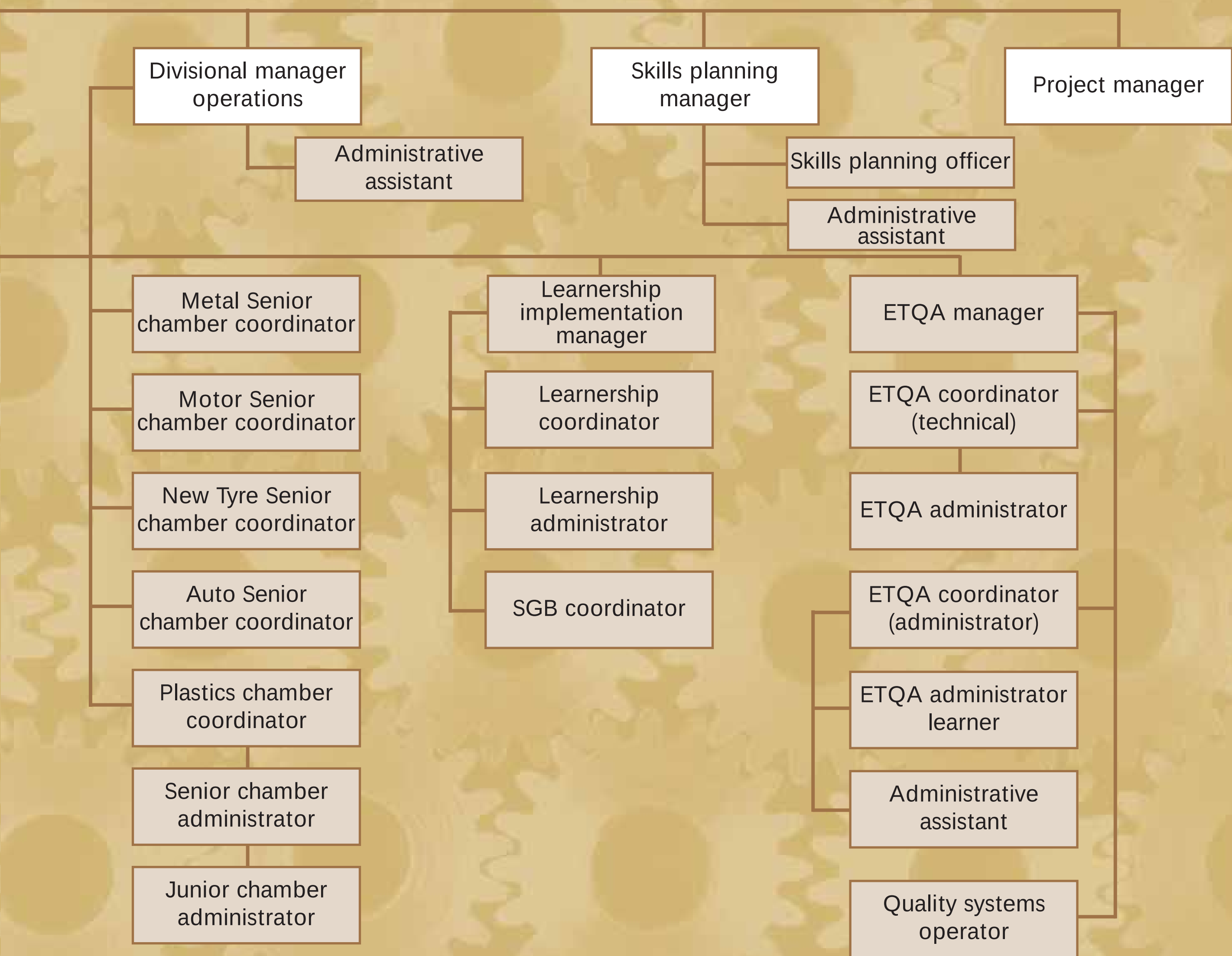
Skilled facilitators are delivering the best training available and helping to uplift learners, which spills over into learners' communities. There are nine assessors at Beekman ensuring that learners receive the proper training and support while completing the practical part of their learnership. The strong relationship between assessors and learners has become an advantage in taking on new students.

Beekman is dedicated to uplifting, enriching and training people to help themselves. The company has effective facilitators, assessors and mentors and a workforce that imparts knowledge to learners. The commitment begins at senior management level and permeates the company – the enthusiasm is heartening and augurs well for future learnership development.



MERSETA
ORGANOGRAM JUNE 2004




Divisional manager operations
Administrative assistant
Skills planning manager
Skills planning officer
Administrative assistant
Project manager
Metal Senior chamber coordinator
Motor Senior chamber coordinator
New Tyre Senior chamber coordinator
Auto Senior chamber coordinator
Plastics chamber coordinator
Senior chamber administrator
Junior chamber administrator
Learnership implementation manager
Learnership coordinator
Learnership administrator
SGB coordinator
ETQA manager
ETQA coordinator (technical)
ETQA administrator
ETQA coordinator (administrator)
ETQA administrator learner
Administrative assistant
Quality systems operator

STAFF
DEMOGRAPHICS

Categories	African		White		Asian		Coloured		Analysis	Annual targets	
	M	F	M	F	M	F	M	F		2005	2006
Senior management: E1 to E3 and CEO	0	0	0	0	0	0	0	0		• Equal represen-tation of men and women – 50%/50% • 80% black/ 20% white	• Equal represen-tation of men and women – 50%/50% • 80% black/ 20% white
									4 Vacancies as at 31 March 2005		
Management (C5 – D3)	8	2	0	3	0	0	1	0	• Black men over represented • Women under represented – especially black	• Equal represen-tation of men and women – 50%/50% • 80% black/ 20% white	• Equal represen-tation of men and women – 50%/50% • 80% black/ 20% white
									2 Vacancies as at 31 March 2005		
Specialists (C4 – C1)	5	3	5	3	3	0	2	3	• Women under represented	• Equal represen-tation of men and women – 50%/50% • 80% black/ 20% white	• Equal represen-tation of men and women – 50%/50% • 80% black/ 20% white
									2 Vacancies as at 31 March 2005		
Administration (A1 – B5)	3	22	0	8	0	0	1	2	Men are under represented	• 65% female/ 35% male • 80% black/ 20% white	• 55% female/ 45% male • 80% black/ 20% white
									2 Vacancies as at 31 March 2005		
Total	16	27	5	14	3	0	4	6	Total staff: 75 Total vacancies: 10 Total complement: 85		
	21%	36%	7%	19%	4%	0%	5%	8%			

1. Resignations from April 2004 to 31 March 2005

	African		Asian		Coloured		White	
	M	F	M	F	M	F	M	F
	1	6	0	1	0	1	1	4
Total 14								

2. Disciplinary

	African		Asian		Coloured		White	
	M	F	M	F	M	F	M	F
	1		0	0	0	0	0	1
Total 2								

3. Leave
Employees are utilising their leave in line with the MERSETA leave policy.

SALARY SCALES AND POSITION GRADING

AS AT 31 MARCH 2005

Grading brands		Minimum	Midpoint	Maximum	MERSETA POSITIONS
		SALARY SCALE			
	3	40 188,92	50 236,16	60 283,39	
E	2	36 009,07	45 011,33	54 013,64	Divisional managers: Finance, LETQA and SDI
	1	25 312,79	30 375,35	36 450,42	Divisional managers: PRE and HR, Communications and office administration
	3	22 316,79	27 157,38	32 238,11	Regional offices manager, Bursary scheme manager
D	2	22 051,99	25 367,31	30 065,10	Accountant, Project manager (SDI)
	1	19 715,42	22 726,99	26 298,04	Regional manager: Gauteng Communications officer
	5	15 481,04	18 577,00	23 221,57	Regional managers, Senior chamber coordinators, Qualification and standards coordinator
	4	14 963,11	16 942,70	18 831,42	ETQA coordinators, Learnership coordinator, Executive assistant to CEO, Research coordinator
C	3	12 855,00	14 933,26	17 598,24	Skills development advisors, SDI grant controller, senior SD administrator Gauteng, Plastics chamber coordinator, SGB coordinator, Compliance officer
	2	10 462,62	12 026,82	13 715,65	Quality control operator, senior SD administrator Western Cape media coordinator, HR administrator
	1	10 610,61	12 533,08	13 639,05	Committee secretary (LETQA), Communications administrator
	5	8 847,80	11 322,19	11 617,93	Procurement administrator, bursary scheme, Skills development, Grant, Learnership and ETQA administrators
	4	7 021,39	8 419,42	9 907,04	Head office receptionist, assistant SD administrator
B	3	5 593,48	6 563,15	7 772,97	SDI secretary/administrator, Regional receptionist
	2	4 696,49	5 602,57	6 522,91	Administration/filing clerk, PRE administrative assistant
	1	4 426,49	4 984,67	5 789,50	General office assistant
A	1	2 894,74	3 301,05	3 843,64	General office worker

REPORT OF THE MERSETA
AUDIT COMMITTEE

REQUIRED BY TREASURY REGULATIONS 27.1.7 AND 27.1.10 (B) AND (C) ISSUED IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT 1 OF 1999, AS AMENDED BY ACT 29 OF 1999

We are pleased to present our report for the financial year ended 31 March 2005.

Audit committee members and attendance

The audit committee consists of a maximum of seven members. This consists of no more than five independent members, the chief executive officer and the chairperson of the MERSETA board. These members are listed hereunder and meet four times per annum as per its approved terms of reference. Four meetings were held during this financial year.

Name of member		Number of meetings attended
BM Hawksworth	(chairperson)	4
JL Davis	(independent)	3
S Govender	(independent)	3
A Mashifane	(independent)	3
GR Rosenthal	(independent)	4
J Maluleke	(CEO resigned 30/09/2004)	2
D Kirby	(acting CEO appointed 1/12/2004)	1
J Lopes	(chairperson, resigned 19/11/2004)	2
J Jekwa	(chairperson appointed 19/11/2004)	1

Audit committee responsibility

The audit committee reports that it has adopted appropriate formal terms of reference as its audit committee charter has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the requirements of the PFMA and the King II Report on Corporate Governance, internal audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the internal auditors, the audit report on the annual financial statements, and the management letter of the auditor-general, it was noted that the system of internal control was not entirely effective for the year under review as compliance with certain prescribed policies and procedures was lacking in certain instances. These deficiencies are receiving attention. The effect of these instances has been included in the annual financial statements and the report of the Accounting Authority.

Evaluation of annual financial statements

The audit committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the auditor-general and the accounting officer;
- Reviewed the auditor-general's management letter and management's response thereto;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the audit.

The audit committee concurs and accepts the auditor-general's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the auditor-general.

BM Hawksworth (chairperson)
27 July 2005

REPORT OF THE
AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE MANUFACTURING, ENGINEERING AND RELATED SERVICES SETA (MERSETA) FOR THE YEAR ENDED 31 MARCH 2005

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 30 to 59, for the year ended 31 March 2005, have been audited in terms of section 188 of the constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No 25 of 2004) and section 14(6)(a) of the Skills Development Act, 1998 (Act No 97 of 1998). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority.
My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General directive No 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the MERSETA at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act 1999 (Act No 1 of 1999) as amended.

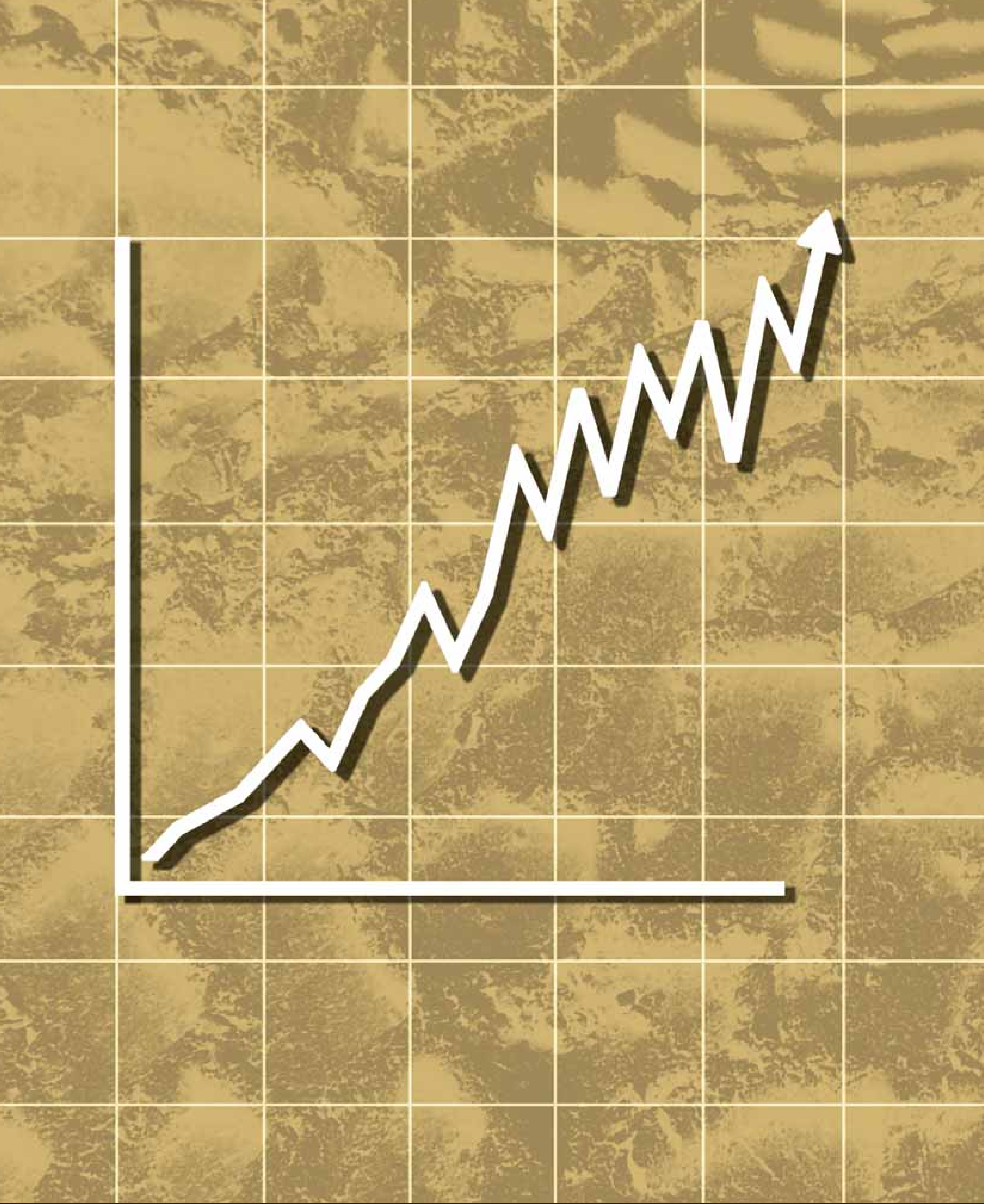
4. APPRECIATION

The assistance rendered by the staff of the MERSETA during the audit is sincerely appreciated.

N. Manik

N Manik for Auditor-General
Pretoria
31 July 2005

AUDITOR–GENERAL



MERSETA FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

The annual financial statements for the year ended 31 March 2005, set out on pages 30 to 59, were approved by the Accounting Authority in terms of section 51(1) (f) of the Public Finance Management Act (PFMA), No 1 of 1999 on 27 July 2005, and are signed on MERSETA's behalf by:

B van Straaten (chief executive officer)
27 July 2005

DW Jekwa (chairperson)
27 July 2005

CONTENTS

REPORT OF THE ACCOUNTING AUTHORITY

1.1.1.1 GENERAL REVIEW OF THE STATE OF AFFAIRS

The financial affairs of the MERSETA are sound as is evident from its substantial levy income base and effective mandatory and discretionary grant disbursement and expenditure on skills development initiatives in the form of projects.

(a) Levies

The MERSETA experienced considerable growth of 58,82% in its levy income base since inception in 2000 and in the 2004/2005 financial year is expecting levies of R457,7 million. The total number of companies contributing to the skills levy increased from 15 707 in 2001 to 24 946 currently. Disappointing is the number of companies registered for the skills levy against the number of companies actually paying the levy (30 480 registered versus 24 946 contributing). Unfortunately, as collection of levies is SARS' duty, this cannot be improved by the SETAs. The receipt of levies via the Department of Labour stabilised satisfactorily in the last two years, making forecasting and subsequent planning easier.

(b) Grants and projects

MERSETA's level of mandatory grants paid remained constant in relation to the previous year(s), and although annual training report grants for 2004/2005 have not been paid yet, early indications are that these will be in line with previous years' grants. Encouraging is that the number of companies accessing grants, particularly in the SMME sector, has increased, mainly due to MERSETA's SMME project.

Grants paid to date per grant type and chamber since inception of MERSETA:

Chamber	SDF	WSP	ATR	Discretionary grant	Total	% total
Auto	7 728 476	22 046 911	46 803 269	11 126 363	87 705 019	12
Metal	10 250 375	95 054 746	172 286 149	140 436 961	418 028 231	57
Motor	3 035 195	39 066 997	67 388 872	65 409 687	174 900 751	24
New tyre	1 435 942	4 288 426	9 550 534	1 536 721	16 811 623	2
Plastics	674 797	8 762 923	14 163 523	12 926 085	36 527 328	5
Total	23 124 786	169 220 003	310 192 347	231 435 817	733 972 953	100
% of total	3	23	42	32	100	

1.1.1.2 SERVICES RENDERED BY MERSETA

MERSETA renders the following services to its sector:

- Grant disbursements:
  - Disbursement of mandatory grants, which accounts for 60% of levies paid;
  - Disbursement of discretionary grants, which at minimum is 10% of levies received but, in MERSETA's case, accounts for 32% of levies received.
- Quality assurance functions which include but are not limited to:
  - Accreditation of workplaces and training providers for the purpose of quality training provision;
  - Moderation and assessment of learners against set criteria;
  - Auditing and monitoring of training providers and training.
- Skills development functions:
  - Development of unit standards and qualifications and registration of these with the South African Qualifications Authority;
  - Development of curriculum and courseware for unit standards registered in MERSETA's scope of coverage;
  - Conceptualisation and implementation of skills initiatives which promote the NSDS objectives and address training needs in MERSETA's five sub-sectors. Refer to special projects in the annual report.

1.1.1.2 SERVICES RENDERED BY MERSETA (continued)

- Skills development functions: (continued)
  - Research into sector training needs in terms of critical skills and future growth skills;
  - Development and maintenance of a database for skills development reference and administration.
- Skills implementation functions:
  - Skills development advice and assistance to companies and training providers;
  - Administration and maintenance of the apprenticeship system;
  - Administration and maintenance of the learnership system.

1.1.1.3 CAPACITY CONSTRAINTS

Capacity constraints facing MERSETA and the action taken to reduce or remove the impact of these constraints are detailed underneath.

MERSETA went through a change in management and leadership during the 2004/2005 financial year, and for a period of at least six months, functioned without some of its key senior managers such as the Chief Executive Officer, Divisional Manager Finance and Systems, Skills development implementation manager, Quality assurance manager and Human resources manager. These capacity constraints delayed the implementation of projects for which R122,9 million was budgeted, resulting in under-expenditure during the financial year. Delays in certain processes due to the above was inevitable but have since been addressed by filling four key positions and MERSETA is, as all SETAs, going through a rigorous planning process to align itself to the new National Skills Development Strategy objectives. The organisation has also structured itself to maximise skills development delivery and has separated learnerships from the quality assurance function and added it to the responsibilities of the skills development implementation unit.

The MERSETA Exco is the Accounting Authority. Exco members do not receive any remuneration.

The following table reflects the employment data for key personnel for MERSETA for the financial year:

Key personnel	**Total**	**Basic salary**	**Travel allowance**	**Bonus**	**Medical Aid**	**Pension**	**Leave pay**	**Period**	**Period**
CEO	R364 444	R260 535	R56 000	R13 634		R27 065	R7 210	Apr 04 – Oct 04	Vacant: Nov 04 – March 05
Divisional Manager Finance and Systems	R283 954	R154 328	R29 289	R24 739	R3 565	R18 141	R53 892	Apr 04 – Sept 04	Vacant: Oct 04 – March 05
ETQA divisional manager	R138 870	R71 939	R30 000	R10 878	R3 503	R9 112	R13 438	Apr 04 – July 04 Vacant	Vacant: Aug 04 – March 05 Vacant
SDI divisional manager									Vacant April 04 – March 05
HR manager	R99 426	R59 767	R13 915	R4 783	R4 286	R7 010	R9 665	Apr 04 – July 04	Vacant: Aug 04 – Jan 05
HR manager	R51 494	R33 602	R10 000	R3 222		R4 670		Feb 05 – March 05	
Total	**R938 188**								

REPORT OF THE ACCOUNTING AUTHORITY

1.1.1.4 UTILISATION OF DONOR FUNDS

MERSETA received R94 000 from the European Union for assessor training purposes and is expecting another R100 000 in the 2005/2006 financial year for the same purpose.

1.1.1.5 BUSINESS ADDRESS

The physical and postal addresses of MERSETA are as follows:

MERSETA	MERSETA
Metropolitan Office Park	PO Box 61826
8 Hillside Road	Marshalltown
3rd Floor	2107
Parktown	
2193	

1.1.1.6 DISCONTINUED ACTIVITIES/ACTIVITIES TO BE DISCONTINUED

The MERSETA did not discontinue any activities during the year under review. However, it will be discontinuing with activities reflected in the National Skills Development Strategy for 2000 to 2005 as it has been replaced by the National Skills Development Strategy for 2005 to 2010. The discontinuation will not have a financial effect on MERSETA and grants payable per the previous national skills development strategy will be honoured and have been provided for.

1.1.1.7 NEW/PROPOSED ACTIVITIES

MERSETA, as with the other 22 SETAs, will embark on the National Skills Development Strategy for 2005 to 2010 as from 1 April 2005. The activities listed under the NSDS objectives will not affect the organisation financially and are in line with the Skills Development Act and Skills Development Levies Act and new grant regulations that govern the Sector Educational Training Authorities.

1.1.1.8 EVENTS AFTER THE BALANCE SHEET DATE

The MERSETA is not aware of any events after balance sheet date which will affect the financial state of affairs of the organisation for the 2004/2005 financial year.

1.1.1.9 PERFORMANCE INFORMATION

The MERSETA's performance is measured by the Department of Labour against the National Skills Development Strategy objectives which were translated into targets by MERSETA in 2000 and for which a memorandum of understanding was signed between MERSETA and the Department of Labour. MERSETA has an extensive information database which it uses for record keeping and updating purposes, quality assurance requirements as well as reporting to the Department of Labour.

1.2 CORPORATE GOVERNANCE

MERSETA follows an integrated approach in terms of which governance, risk management and compliance form the three pillars to assist the organisation in achieving its strategic objectives. The elements which are basic to governance, risk management and compliance effectiveness have either been addressed by MERSETA or are being addressed as follows:

Internal audit

The MERSETA's internal audit function is outsourced to an independent audit body which operates on an approved three-year internal audit plan. The independent internal auditors report to the audit committee. MERSETA has recently appointed a grant auditor to assist in verifying actual training against grants claimed for training.

Audit committee

The audit committee comprises a maximum of seven permanent members of which five must be independent. The audit committee is advisory in nature and reports to the authority. The committee's charter is aligned to the duties as prescribed by the PFMA and treasury regulations. The committee has the authority to seek any information it requires from any officer or employee of the authority, has unrestricted access to all personnel, books of account, records, and to any other sources of relevant information that may be required from the authority for the purpose of its duties and responsibilities. It is also authorised to seek such independent professional advice as it considers necessary. The internal audit provider submits its reports to the audit committee.

Other audits

MERSETA underwent a voluntary forensic audit in February 2004 which resulted in investigations into the conduct and related decisions of employees. The outcome of the forensic audit resulted in disciplinary action taken against an employee and gave rise to a settlement agreement with another.

Financial management

MERSETA's financial management remains sound and is compliant with PFMA and national treasury regulations. Comprehensive financial reporting is presented by the Divisional Manager Finance and Systems to the organisation's well-attended finance functional standing committee's bi-monthly meetings. The MERSETA monthly executive committee meetings are also presented with a summary report and a full report from the Divisional Manager Finance and Systems as is the independent audit committee. An inclusive budgeting process formed part of the business plan process and is used as a benchmark for levy income and grant, administration and capital expenditure. A quarterly report of these is presented to the MERSETA authority.

Policies

Existing policies and procedures are reviewed annually and include a recently-adopted fraud prevention policy. These policies and procedures are aligned to generally accepted accounting practices and generally recognised accounting practices. The Divisional Manager Finance and Systems inputs on several MERSETA executive committee sub-committees such as the human resources and remuneration and the project management committee.

Supply chain management unit

The MERSETA is compliant with the supply chain management unit as prescribed by National Treasury which consists of a Cost accountant, Procurement administrator and Compliance officer. MERSETA has successfully implemented a procurement policy in 2003 and is currently reviewing the policy and procedures manual to comply with new guidelines.

Systems

MERSETA's information technology systems are fully operational, cost effective and well supported. The organisation is committed to continuous and systematic development of its database, Datanet. The organisation's IT network is fully functional and stable and reaches its six regional offices effectively and efficiently. A disaster recovery plan is in place and relocation of the MERSETA offices from the Johannesburg CBD to Parktown in September last year went smoothly and without IT support interruptions.

INCOME STATEMENT (STATEMENT OF FINANCIAL POSITION)

FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004/05 R'000	2003/04 R'000
REVENUE			
Skills development levy: income	2	**457 711**	383 250
Skills development levy: penalties and interest		**4 192**	4 063
National Skills Fund income	16	**3 950**	–
Donations for special projects	17	**94**	428
Investment income	3	**37 786**	42 351
Other income	4	**13**	596
Total revenue		**503 746**	430 688
EXPENSES			
Employer grant and project expenses	5	**(408 350)**	(220 574)
Administration expenses	6	**(41 395)**	(40 426)
Finance costs	7	**(5)**	(2)
National Skills Fund expenses	16	**(3 950)**	–
Special project expenditure	17	**(94)**	(428)
Total expenses		**(453 794)**	(261 430)
NET SURPLUS FOR THE YEAR	1	**49 952**	169 258

BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

AT 31 MARCH 2005

	Note	2004/05 R'000	2003/04 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**2 494**	3 616
Loan	9	**700**	1 100
		3 194	4 716
Current assets			
Current portion of loan	9	**433**	400
Prepayments and advances	10	**19 231**	6 592
Accounts receivable	11	**89 887**	115 285
Cash and cash equivalents	12	**501 712**	457 937
		611 263	580 214
TOTAL ASSETS		**614 457**	584 930
FUNDS AND LIABILITIES			
Funds and reserves			
Administration reserve		**8 470**	2 893
Employer grant reserve		**285 556**	262 504
Discretionary reserve		**274 494**	252 675
Capitalisation reserve		**8 586**	9 082
		577,106	527,154
Current liabilities			
Accounts payable	14	**34 291**	50 918
VAT payable	15	**2 352**	5 702
Provisions	18	**708**	1 156
		37 351	57 776
TOTAL FUNDS AND LIABILITIES		**614 457**	584 930

STATEMENT OF CHANGES IN FUNDS

FOR THE YEAR ENDED 31 MARCH 2005

	Note	Administration reserve R'000	Employer grant reserve R'000	Discretionary reserve R'000	Capitalisation reserve R'000	Unappropriated surplus R'000	Total R'000
Balance at 1 April 2003		–	56 994	148 962	10 406	–	216 362
Prior year adjustment	26	2 539	158 149	(19 154)	–	–	141 534
Restated balance		2 539	215 143	129 808	10 406	–	357 896
Net surplus per income statement	1	–	–	–	–	169 258	169 258
Allocation of unappropriated surplus	1	3 177	163 625	2 456	–	(169 258)	–
Transfer from capitalisation reserve		1 324	–	–	(1 324)	–	–
Excess reserves transferred to discretionary reserve		(4 147)	(116 264)	120 411	–	–	–
Balance at 1 April 2004		2 893	262 504	252 675	9 082	–	527 154
Net surplus per income statement	1	–	–	–	–	49 952	49 952
Allocation of unappropriated surplus	1	9 544	163 393	(122 985)	–	(49 952)	–
Transfer from capitalisation reserve		496	–	–	(496)	–	–
Excess reserves transferred to discretionary reserve		(4 463)	(140 341)	144 804	–	–	–
Balance at 31 March 2005		**8 470**	**285 556**	**274 494**	**8 586**	**–**	**577 106**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004/05 R'000	2003/04 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating activities			
Cash receipts from stakeholders		**476 961**	370 185
Levies, interest and penalties received		**476 961**	370 185
Cash paid to stakeholders, suppliers and employees		**(482 169)**	(275 143)
Grants and project payments		**(440 058)**	(235 666)
Special projects		**(4 044)**	(428)
Compensation of employees		**(17 543)**	(16 627)
Payments to suppliers and other		**(20 524)**	(22 422)
Cash (utilised in)/generated from operations	19	**(5 208)**	95 042
Investment income		**45 038**	43 690
Finance cost	7	**(5)**	(2)
Net cash inflow from operating activities		**39 825**	138 730
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	**(481)**	(2 307)
Proceeds from disposal of property, plant and equipment		**20**	1 742
Net cash outflow from investing activities		**(461)**	(565)
CASH FLOW FROM FINANCING ACTIVITIES			
Grants, transfers and funds received	16 & 17	**4 044**	–
Proceeds from borrowings/loans		**367**	400
Net cash inflow from financing activities		**4 411**	400
Net increase in cash and cash equivalents		**43 775**	138 565
Cash and cash equivalents at beginning of year	12	**457 937**	319 372
Cash and cash equivalents at end of year	12	**501 712**	457 937

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS

AT 31 MARCH 2005

The annual financial statements have been prepared in accordance with Statements of Generally Accepted Accounting Practice and the Public Finance Management Act (PFMA), Act 1 of 1999 as amended.

The principal accounting policies adopted in the preparation of these financial statements are set out below and are, in all material respects, consistent with those of the previous year, except as otherwise indicated.

1. Basis of preparation

The financial statements have been prepared on the historical cost basis.

2. Currency

These financial statements are presented in South African Rands since that is the currency in which the majority of the entity's transactions are denominated.

3. Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably.

3.1 Levy income

In terms of section 3(1) and 3(4) of the Skills Development Levies Act, 1999 (Act No. 9 of 1999), registered member companies of the SETA pay a skills development levy of 1% of the total payroll cost to the South African Revenue Service (SARS).

80% of skills development levies are paid over to the SETA (net of the 2% collection cost to SARS and 18% contribution to the National Skills Fund).

Levy income is recognised on the accrual basis.

The estimate of outstanding levies due at year-end is based on average levies received during the year. Changes to prior year estimates are accounted for as revenue in the current period.

The SETA refunds amounts to employers in the form of grants, based on information from SARS. Where SARS retrospectively amends the information on levies collected, it may result in grants that have been paid to certain employers that are in excess of the amount the SETA is permitted to have granted to employers. A receivable relating to the overpayment to the employer in earlier periods is raised at the amount of such grant over payment, net of losses resulting from levy reversals by SARS and allowance for losses resulting from levy reversals by SARS.

Revenue is adjusted for interSETA transfers due to employers changing SETAs. Such adjustments are separately disclosed as InterSETA transfers. The amount of the interSETA adjustment is calculated according to the Standard Operating Procedure of the Department of Labour issued in June 2001.

When a new employer is transferred to the SETA, the levies transferred by the former SETA are recognised as revenue and allocated to the respective category to maintain its original identity.

3.2 Interest and penalties

Interest and penalties on the skills development levies are recognised when received.

3.3 Funds allocated by the National Skills Fund for special projects

Funds transferred by the National Skills Fund (NSF) are accounted for in the financial statements of the SETA as a liability until the related eligible special project expenses are incurred, when the liability is extinguished and revenue recognised.

3.4 Government grants and other donor income

Conditional government grants and other conditional donor funding received are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the period necessary to match the grants with the related costs which they are intended to compensate. Unconditional grants and other unconditional donor income are recognised as income at the time the amounts are received.

3.5 Investment income

Interest income is accrued on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity.

4. Grants and project expenditure

A registered company may recover a maximum of 70% of its total levy payment by complying with the grant criteria in accordance with the Skills Development Regulations issued in terms of the Skills Development Levies Act 1999 (Act No 9 of 1999).

4.1 Mandatory grants

The grant payable and the related expenditure are recognised when the employer has submitted an application for a grant in the prescribed form within the agreed upon cut-off period and the application has been approved as the payment then becomes probable. The grant is equivalent to 15% and 45% (2004:15% and 45%) of the total levies paid by the employer during the corresponding financial period for the skills planning grant and skills implementation grant respectively. Refer also to policy note 9.2.

4.2 Discretionary grants

A SETA may, out of any surplus monies, determine and allocate discretionary grants to employers, education and training providers and workers of the employers who have submitted an application for a discretionary grant in the prescribed form within the agreed upon cut-off period. The grant payable and the related expenditure are recognised when the application has been approved.

4.3 Project expenditure

Project expenditure comprises:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the project; and
- such other costs as are specifically chargeable to the SETA under the terms of the contract.

Such costs are allocated using methods that are systematic and rational and are applied consistently to all costs having similar characteristics.

The SETAs small, medium, micro enterprise (SMME) projects are run by three bodies known as the associations. The associations are directly related to the industry and manage these projects on behalf of the SETA.

Project costs, whether paid directly or through associations, are recognised as expenses in the period in which they are incurred. A receivable is recognised net of a provision for irrecoverable amounts for incentive and other payments made to the extent that expenses have not yet been incurred in terms of the contract.

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

5. Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA,
- The Skills Development Act,

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All irregular, fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

6. Property, plant and equipment

Land is not depreciated as it is deemed to have an indefinite life. Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and adjusted for any impairments. Depreciation is calculated on the straight-line method to write off the cost of each asset to estimated residual value over its estimated useful life as follows:

• Training equipment and syllabi	20%
• Computer equipment	33,33%
• Computer software	100%
• Office furniture and fittings	10%
• Office equipment	20%
• Motor vehicles	25%

The estimated useful life of the assets are limited to the remaining period of the licence issued to the SETA by the Minister of Labour. For the current year the remaining period is five years (2003/04: 1 year).

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (ie impairment losses are recognised).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

7. Leasing

Finance leases as per the Treasury Regulations refers to a contract that transfers the risks, rewards, rights and obligations incident to ownership to the lessee and is recorded as a purchase of equipment by means of long-term borrowing. All other leases are classified as operating leases.

Payments in respect of operating leases are charged to the income statement in accordance with the terms of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

8. Retirement benefit costs

The SETA participates in the Engineering and Related Services Staff Pension Fund, a multi-employer defined benefit fund that provides pensions linked to salaries. It is funded on a pay-as-you-go basis, contributions being set at a level that is expected to cover the benefits falling due in the same period. Future benefits earned during the current period will be paid out of future contributions.

The SETA recognises the benefit plan as if it were a defined contribution plan. This is due to the fact that the fund does not hold separate assets and liabilities for the various participating employers and is valued globally.

The SETA recognises contributions to the fund as an expense in the period in which the employee renders the service.

9. Provisions

Provisions are recognised when the SETA has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated. Long-term provisions are discounted to net present value.

9.1 Provision for employee related entitlements

The cost of other employee benefits (not recognised as retirement benefits – see note 8 above) are recognised during the period in which the employee renders the related service. Employee entitlements are recognised when they accrue to employees.
A provision is made for the estimated liability as a result of services rendered by employees up to the balance sheet date. Provisions included in the balance sheet are provisions for leave (based on the current salary rates), bonuses and Workman's Compensation.

9.2 Provision for grants

A provision is recognised for mandatory grants once the specific criteria set out in the regulations to the Skills Development Act, 97 of 1998 has been complied with by member companies and it is probable that the SETA will approve the payment. Refer also to policy note 4.1.

9.3 Provision for projects

No provision is made for projects approved at year-end, unless the service in terms of the contract has been delivered or the contract is of an onerous nature. Where a project has been approved, but has not been accrued or provided for, it is disclosed as a commitment in the notes to the financial statements.

10 Financial instruments

Recognition

Financial assets and financial liabilities are recognised on the SETA's balance sheet when the SETA becomes a party to the contractual provisions of the instrument.

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, prepayments and advances, the current portion of loans, and provisions and accounts payable. Where relevant, the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

Financial assets

The SETA's principal financial assets are accounts and other receivables and cash and cash equivalents.

Accounts and other receivables

Accounts and other receivables are stated at their fair value, being their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Financial liabilities

The SETA's principal financial liabilities are account and other payables. Account and other payables are stated at nominal value.

Derecognition

A financial asset or a portion thereof is derecognised when the SETA realises the contractual rights to the benefits specified in the contract, the rights expire, the SETA surrenders those rights or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and the sum of the proceeds receivable and any prior adjustment to reflect the fair value of the asset that had been reported in equity is included in net profit or loss for the period.

Fair value considerations

The fair values at which financial instruments are carried at the balance sheet date have been determined using available market values. Where market values are not available, fair values have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values have been estimated using available market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that the SETA could realise in the normal course of business. The carrying amounts of financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair value due to the short-term trading cycle of these items.

Offsetting

Financial assets and financial liabilities are offset if there is any intention to realise the asset and settle the liability simultaneously and a legally enforceable right to set off exists.

11. Reserves

Equity is sub-classified in the balance sheet between the following funds and reserves:

- Administration reserve
- Employer grant reserve
- Discretionary reserve
- Capitalisation reserve

This sub-classification is made based on the restrictions placed on the distribution of monies received in accordance with the Regulations issued in terms of the Skills Development Act, 1998 (Act No. 97 of 1998).

Member employer company levy payments are set aside in terms of the Skills Development Act and the regulations issued in terms of the Act, for the purpose of:

	2004/05 %	2003/04 %
Administration costs of the SETA	**10**	10
Employer Grant Fund levy	**60**	60
Mandatory Workplace Skills Planning Grant	**15**	15
Mandatory Workplace Skills Implementation Grant	**45**	45
Discretionary grants and projects	**10**	10
	80	80

In addition, contributions received from public service employers in the national or provincial spheres of government may be used to pay for SETA administration costs.

Interest and penalties received from SARS as well as interest received on investments are utilised for discretionary grants and projects. Other income received is utilised in accordance with the original source of the income.

Due to the limited life of the SETA, management considers it prudent to retain funds in the administration reserve equal to the net book value of property plant and equipment after reducing it by the deferred capital reserve relating to such property plant and equipment. Funds are also retained to cover administration commitments on projects. The remainder of the funds in the administration reserve are swept to the discretionary reserve on an annual basis.

Surplus funds in the employer grant reserve are transferred to the discretionary grant reserve after 12 months. The balance in the employer grant reserve thus constitutes excess funds for the current financial year.

Capitalisation reserve

The capitalisation reserve includes a capital reserve relating to the carrying value of net assets acquired from the former Industry Training Boards as well as deferred capital expenditure. The reserve relating to the deferred capital expenditure will be reduced by an amount equal to the annual depreciation charge of the assets, until such time as the assets are fully depreciated. On disposal, repayment or recovery, an amount equal to the net book value of disposed assets will be transferred to the Administration Fund.

12. Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

1. ALLOCATION OF NET SURPLUS FOR THE YEAR TO RESERVES:

Year ended 31 March 2005

	Total per income statement	**Administration reserve**	Employer grants reserve: Mandatory skills planning grant	Employer grants reserve: Mandatory skills implementation grant
Total revenue	503 746	**50 944**	85 251	263 662
Skills development levy: income				
Administration levy income (10%)	50 931	**50 931**	–	–
Grant levy income (70%)	406 780	**–**	85 251	263 662
Skills development levy: penalties and interest	4 192	**–**	–	–
National Skills Fund income	3 950	**–**	–	–
Donations for special projects	94	**–**	–	–
Investment income	37 786	**–**	–	–
Other income	13	**13**	–	–
Total expenses	(453 794)	**(41 400)**	(61 419)	(124 101)
Employer grants and project expenses	408 350	**–**	61 419	124 101
Administration expenses	41 395	**41 395**	–	–
National Skills Fund expenses	3 950	**–**	–	–
Special project expenditure	94	**–**	–	–
Finance costs	5	**5**	–	–
Net surplus/(deficit) per income statement allocated	49 952	**9 544**	23 832	139 561

ALLOCATION OF NET SURPLUS FOR THE YEAR TO RESERVES:

Year ended 31 March 2004

	Total per income statement	**Administration reserve**	Employer grants reserve: Mandatory skills planning grant	Employer grants reserve: Mandatory skills implementation grant
Total revenue	430 688	**43 605**	72 993	218 062
Skills development levy: income				
Administration levy income (10%)	43 009	**43 009**	–	–
Grant levy income (70%)	340 241	**–**	72 993	218 062
Skills development levy: penalties and interest	4 063	**–**	–	–
Donations for special projects	428	**–**	–	–
Investment income	42 351	**–**	–	–
Other income	596	**596**	–	–
Total expenses	(261 430)	**(40 428)**	(40 205)	(87 225)
Employer grants and project expenses	220 574	**–**	40 205	87 225
Administration expenses	40 426	**40 426**	–	–
Special project expenditure	428	**–**	–	–
Finance costs	2	**2**	–	–
Net surplus/(deficit) per income statement allocated	169 258	**3 177**	32 788	130 837

Total	Discretionary grants	Special projects	Learnerships	Normal projects	Total discretionary
	Discretionary reserve				
348 913	99 845	4 044	–	–	103 889
–	–	–	–	–	–
348 913	57 867	–	–	–	57 867
–	4 192	–	–	–	4 192
–	–	3 950	–	–	3 950
–	–	94	–	–	94
–	37 786	–	–	–	37 786
–	–	–	–	–	–
(185 520)	(165 800)	(4 614)	(5 725)	(50 735)	(226 874)
185 520	165 800	570	5 725	50 735	222 830
–	–	–	–	–	–
–	–	3 950	–	–	3 950
–	–	94	–	–	94
–	–	–	–	–	–
163 393	(65 955)	(570)	(5 725)	(50 735)	(122 985)
291 055	95 600	428	–	–	96 028
–	–	–	–	–	–
291 055	49 186	–	–	–	49 186
–	4 063	–	–	–	4 063
–	–	428	–	–	428
–	42 351	–	–	–	42 351
–	–	–	–	–	–
(127 430)	(59 805)	(428)	(6 523)	(26 816)	(93 572)
127 430	59 805	–	6 523	26 816	93 144
–	–	–	–	–	–
–	–	428	–	–	428
–	–	–	–	–	–
163 625	35 795	–	(6 523)	(26 816)	2 456

During the year the definition of “Employer grants reserve” was changed to exclude grants C and D (discretionary grants)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2005

	2004/05 R'000	2003/04 R'000
2. SKILLS DEVELOPMENT LEVY INCOME		
The total levy income per the income statement is as follows:		
Levy income: Administration	**50 931**	43 009
Levies received	**52 710**	40 835
Levies received from SARS	**52 026**	40 438
Interseta transfers in	**773**	749
Interseta transfers out	**(89)**	(352)
Movement in levies accrued	**(1 779)**	2 174
Levy income: Employer grants	**348 913**	291 054
Levies received	**359 591**	278 007
Levies received from SARS	**354 708**	276 410
Interseta transfers in	**5 418**	3 478
Interseta transfers out	**(535)**	(1 881)
Movement in levies accrued	**(10 678)**	13 047
Levy income: Discretionary grants	**57 867**	49 187
Levies received from SARS	**59 646**	47 013
Levies received	**59 000**	46 639
Interseta transfers in	**744**	683
Interseta transfers out	**(98)**	(309)
Movement in levies accrued	**(1 779)**	2 174
	457 711	383 250

R14,4 million (2003/04: R10,5 million) of levy income is due to an increase in actual receipts over prior year estimates. Refer also to note 11.1.

	2004/05 R'000	2003/04 R'000
3. INVESTMENT INCOME		
Interest income		
Bank deposits	**37 786**	42 351
4. OTHER INCOME		
Other income comprises:		
Profit on disposal of property, plant and equipment	**13**	596

	Note	2004/05 R'000	2003/04 R'000
5. EMPLOYER GRANT AND PROJECT EXPENSES			
Mandatory grants		**185 520**	127 430
Disbursed		**190 099**	121 758
Movement in provisions and accruals		**(4 579)**	5 672
Discretionary grants		**165 800**	59 805
Disbursed		**165 800**	59 805
Movement in provisions and accruals		**–**	–
Project expenditure	5.1	**57 030**	33 339
Disbursed		**72 867**	40 185
Movement in provisions and accruals		**(15 837)**	(6 846)
		408 350	220 574

R27,6 million (2003/04: R16,8 million) of employer grant and project expenses is due to an increase in actual payments over prior year estimates.

	Note	2004/05 R'000	2003/04 R'000
5.1 Project expenditure consists of:			
Direct project costs		**56 499**	32 879
Direct salaries and wages		**531**	460
		57 030	33 339

	Note	2004/05 R'000	2003/04 R'000
6. ADMINISTRATION EXPENSES			
Depreciation		**1 596**	2 131
Operating lease rentals (minimum lease payments)		**2 110**	2 143
Buildings		**1 447**	1 495
Plant, machinery and equipment		**663**	648
Maintenance, repairs and running costs		**119**	72
Property and buildings		**117**	27
Machinery and equipment		**2**	45
Advertising, marketing and promotions, communication		**1 659**	1 491
Entertainment expenses		**15**	3
Gifts, donations and sponsorships paid		**56**	2
Consultancy and service provider fees		**8 191**	8 149
Legal fees		**640**	–
Cost of employment	6.1	**17 504**	16 774
Travel and subsistence		**1 893**	2 664
Staff training and development		**184**	446
Remuneration to members of the audit committee		**59**	20
External auditor's remuneration		**250**	81
Audit fees		**250**	69
Fees for other services		**–**	12
Allowance for losses resulting from levy reversals		**2 790**	240
Other		**4 860**	6 670
Printing stationery and postages		**990**	892
Telecommunication expenses		**1 736**	1 515
Other administration expenses		**2 134**	4 263
Less: Amounts allocated to project expenditure		**(531)**	(460)
		41 395	40 426

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2005

		Note	2004/05 R'000	2003/04 R'000
6.	**ADMINISTRATION EXPENSES (continued)**			
6.1	Cost of employment			
	Salaries and wages		**15 335**	14 758
	Basic salaries		**12 371**	12 225
	Performance awards		**465**	50
	Other non-pensionable allowance		**892**	1 104
	Temporary staff		**1 113**	851
	Leave payments		**413**	454
	Overtime payments		**81**	74
	Social contributions		**2 169**	2 016
	Medical aid contributions		**703**	536
	Pension contributions: defined benefit plans		**1 254**	1 258
	UIF		**82**	81
	Insurance		**74**	85
	Other salary related costs		**56**	56
			17 504	16 774
	Allocation of cost of employment			
	Administration expenses		**16 973**	16 314
	Project expenses		**531**	460
		6	**17 504**	16 774

6.2 The SETA discloses information about the fund in accordance with the reporting requirements of AC116 and furnishes the following information:

- The fund was last actuarially valued in 2003 in terms of the fund rules.
- At that date the fund was financially sound and had a surplus of R47,7 million. The actuarial valuation shows that there were no unfunded past service liabilities.
- Contribution rates have remained consistent since the SETA joined the fund five years ago. Due to the financial stability of the fund, contributions will not increase in the 2005/06 financial year.
- The expense recognised in the income statement, equal to the contributions due for the year amounts to R1 254 000 (2004: R1 258 000) as disclosed in note 6.1 to the financial statements.

		2004/05 R'000	2003/04 R'000
	Average number of employees	**83**	83

Refer to the report by the Accounting Authority for disclosure concerning the emoluments of members of the Accounting Authority, the Chief Executive Officer, the Divisional Manager Finance and Systems and Senior Managers.

		2004/05 R'000	2003/04 R'000
7.	**FINANCE COSTS**		
	Interest expense:		
	Other interest	**5**	2

8. PROPERTY, PLANT AND EQUIPMENT

	Cost R'000	Accumulated depreciation/ impairment R'000	Closing carrying amount R'000
Year ended 31 March 2005			
Computer equipment	**3 555**	**(2 902)**	**653**
Computer software	**53**	**(1)**	**52**
Office furniture and fittings	**659**	**(215)**	**444**
Office equipment	**776**	**(478)**	**298**
Motor vehicles	**3 043**	**(1 996)**	**1 047**
Training equipment and syllabi	**1 656**	**(1 656)**	**–**
Balance at end of period	**9 742**	**(7 248)**	**2 494**

All assets are owned by the SETA.

	Cost R'000	Accumulated depreciation/ impairment R'000	Closing carrying amount R'000
Year ended 31 March 2004			
Computer equipment	3 306	(2 324)	982
Computer software	134	(134)	–
Office furniture and fittings	540	(157)	383
Office equipment	730	(390)	340
Motor vehicles	3 043	(1 282)	1 761
Training equipment and syllabi	1 656	(1 506)	150
Balance at end of period	9 409	(5 793)	3 616

All assets are owned by the SETA.

	Carrying amount 2004 R'000	Additions R'000	Disposals cost R'000	Depreciation/ amortisation charge R'000	Accumulated depreciation on disposals R'000	Carrying amount 2005 R'000
Movement summary 2005						
Computer equipment	**982**	**263**	**(14)**	**(585)**	**7**	**653**
Computer software	**–**	**53**	**(134)**	**(1)**	**134**	**52**
Office furniture and fittings	**383**	**119**	**–**	**(58)**	**–**	**444**
Office equipment	**340**	**46**	**–**	**(88)**	**–**	**298**
Motor vehicles	**1 761**	**–**	**–**	**(714)**	**–**	**1 047**
Training equipment and syllabi	**150**	**–**	**–**	**(150)**	**–**	**–**
Balance at end of period	**3 616**	**481**	**(148)**	**(1 596)**	**141**	**2 494**

Movement summary 2004

	Carrying amount 2003 R'000	Additions R'000	Disposals cost R'000	Depreciation/ amortisation charge R'000	Accumulated depreciation on disposals R'000	Carrying amount 2004 R'000
Land and buildings	964	–	(964)	–	–	–
Computer equipment	1 342	786	(267)	(964)	85	982
Computer software	44	–	–	(44)	–	–
Office furniture and fittings	365	69	–	(51)	–	383
Office equipment	154	302	–	(116)	–	340
Motor vehicles	1 235	1 150	–	(624)	–	1 761
Training equipment and syllabi	482	–	–	(332)	–	150
Balance at end of period	4 586	2 307	(1 231)	(2 131)	85	3 616

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2005

		Note	2004/05 R'000	2003/04 R'000
9.	**LOAN**			
	Loan granted		**1 133**	1 500
	Less: Short-term portion		**(433)**	(400)
			700	1 100

The loan is secured, by a second mortgage bond over Stands 4 and 5 of Erf 207 Randjiespark Extension 69, Midrand and bears interest at rates determined from time to time by the lender upon written notice to the borrower from January 2003. It is repayable in equal monthly instalments over five years commencing January 2003 and ending December 2007. The lender will, from time to time, make training grants available in lieu of interest as determined to the borrower in order to facilitate training.

		Note	2004/05 R'000	2003/04 R'000
10.	**PREPAYMENTS AND ADVANCES**			
	Prepayments and advances			
	Staff advances		**62**	77
	Prepayments – Insurance		**77**	51
	Prepayments – Associations		**19 092**	6 464
	Closing balance		**19 231**	6 592

The R19 092 000 (2003/04: R6 464 000) comprises cash of R19 749 000 (3003/04: R6 464 000) and a VAT liability of R657 000 (2003/04: nil).

		Note	2004/05 R'000	2003/04 R'000
11.	**ACCOUNTS RECEIVABLE**			
	Skills development levy debtors		**83 342**	97 578
	Administration levy debtors		**10 418**	12 197
	Employer grant levy debtors		**62 506**	73 184
	Discretionary grant debtors		**10 418**	12 197
	Interseta debtors	24	**53**	86
	Employer receivables	11.2	**4 071**	5 162
	Deposits		**49**	39
	Interest receivable		**5 373**	12 625
	Sundry debtors		**29**	35
	Allowance for losses resulting from levy reversals	11.2	**(3 030)**	(240)
			89 887	115 285
11.1	Retrospective amendments by SARS			
	Included in Skills Development Levy debtors is:			
	SARS receivable			
	Opening carrying amount		**–**	–
	Estimated adjustments included in levies received		**24 436**	10 534
	Net effect of SARS adjustments for the current year		**(14 436)**	(10 534)
	Closing carrying amount		**10 000**	–

During the year under review, SARS advised the SETA of erroneously designated skills development levies received in prior periods, resulting in a retrospective adjustment of R14 436 000 (2003/04: R10 534 000). The current year's additional estimated adjustment amounts to R10 000 000.

	Note	2004/05 R'000	2003/04 R'000
11. ACCOUNTS RECEIVABLE (continued)			
11.2 Employer receivable			
Overpayment to employers		**4 071**	5 162
Allowance for losses resulting from levy reversals		**(3 030)**	(240)
Net effect of SARS retrospective adjustments on affected employers		**1 041**	4 922
R4 071 000 was recognised as an employer receivable due to the overpayment of grants in earlier periods and is based on the amount of such overpayment. An amount of R3 030 000 was provided against such employer receivables. Refer also to policy note 3.1.			
12. CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		**180**	378
Cash at bank		**164**	362
Cash on hand		**16**	16
Short-term investments/instruments		**501 532**	457 559
Cash and cash equivalents at end of year		**501 712**	457 937
As required in Treasury Regulation 31.2, National Treasury approved the banks where the bank accounts are held. The weighted average interest rate on short-term bank deposits was 7,15% (2004:10,18%).			

13. BORROWINGS/LOANS

In terms of PFMA section 66(3)(c), public entities may only:
- borrow money through the Minister of Finance; and
- issue guarantees or an indemnity, or provide security through the Minister of Labour acting with the concurrence of the Minister of Finance

In terms of Treasury Regulation 32.1.1, SETAs as schedule 3A public entities may borrow money for bridging purposes with the approval of the Minister of Finance, subject to certain conditions.

No such borrowings were entered into during the year.

	Note	2004/05 R'000	2003/04 R'000
14. ACCOUNTS PAYABLE			
Skills development grants payable – mandatory		**22 353**	26 932
Project creditors		**6 645**	22 482
Interseta payables	24	**839**	50
Service provider fees outstanding		**–**	89
Sundry payables		**4 454**	1 365
Accruals operating expenditure		**525**	580
Grant creditors		**3 849**	785
Other payables		**80**	–
		34 291	50 918

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2005

		2004/05 R'000	2003/04 R'000
15.	**VALUE ADDED TAX PAYABLE**		
	VAT creditor	**296**	320
	VAT on levy income accrued	**1 126**	1 497
	Output VAT on project accruals	**930**	3 885
		2 352	5 702
	The VAT output tax liability on the surplus of employer grants levies utilised for projects has been calculated on the actual project expenditure incurred or committed.		
16.	**NATIONAL SKILLS FUND: SPECIAL PROJECTS**		
	Opening balance	**–**	
	Received during the year	**3 950**	–
	Courseware and curriculum development	**3 950**	
	Utilised and recognised as revenue – conditions met	**(3 950)**	–
	Courseware and curriculum development	**(3 950)**	–
	Closing balance	**–**	–
	Conditional funds of R3 950 000 were received from the National Skills Fund on 24 December 2004 for the purposes of training unemployed learners and developing curriculum and courseware material. This amount was recognised as a liability until the conditions attached were met. During the year, R34 500 000 eligible project special expenses were incurred. Only R3 950 000 was received and brought to income. Attempts are being made to recover the amount of R30 600 000 but for the sake of prudence, a debtor has not been raised.		
17.	**GOVERNMENT GRANTS AND DONOR FUNDING RECEIVED IN ADVANCE**		
	Opening balance	**–**	428
	Received during the year	**94**	–
	Assessor training	**94**	–
	Interest received	**–**	–
	Utilised and recognised as income – conditions met	**(94)**	(428)
	Assessor training	**(94)**	(428)
	Closing balance	**–**	–
	During the year conditional grant funds of R94 000 were received from the Department of Labour for the purposes of assessor training. The full amount was utilised as the conditions relating to the grant were met.		

18. PROVISIONS

	Employee leave provision	Employee bonus provision	Workman's Compensation	Insurance	Professional services	2004/05 R'000	2003/04 R'000
Opening carrying amount	549	172	41	9	385	**1 156**	1 008
Amounts utilised	(461)	(1 501)	(41)	–	(282)	**(2 285)**	(1 277)
Change in estimate	412	1 490	47	(9)	(103)	**1 837**	1 425
Closing carrying amount	500	161	47	–	–	**708**	1 156
Non-current	–	–	–	–	–	**–**	–
Current	500	161	47	–	–	**708**	1 156
Total	500	161	47	–	–	**708**	1 156

Employee leave provision is based on the value of leave days due to each employee. The bonus provision is a pro rata amount based on one month's salary. The Workman's Compensation provision is calculated in accordance with the Workman's Compensation Act No 130 of 1993.

	2004/05 R'000	2003/04 R'000
19. RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO NET SURPLUS		
Net surplus as per income statement	**49 952**	169 258
Adjusted for non-cash items		
Depreciation	**1 596**	2 131
Profit on disposal of property, plant and equipment	**(13)**	(596)
(Decrease)/increase in provisions	**(448)**	148
Special project income recognised	**(4 044)**	(428)
Adjusted for items separately disclosed		
Investment income	**(45 038)**	(43 690)
Finance costs	**5**	2
Adjusted for working capital changes		
Increase in prepayments and advances	**(12 639)**	(6 541)
Decrease/(increase) in receivables	**25 398**	(21 077)
Decrease in payables	**(16 627)**	(3 959)
Decrease in VAT payable	**(3 350)**	(206)
Cash (utilised in)/generated from operations	**(5 208)**	95 042

20. CONTINGENCIES

In terms of the PFMA, all surplus funds as at year-end may be forfeited to National Treasury. As at year-end, this amount could not be quantified as National Treasury has not defined surplus funds. No formal approval has been obtained from National Treasury to retain surplus funds.

21. COMMITMENTS

21.1 Employer grant reserve

Of the balance of R285 556 000 available in the employer grant reserve on 31 March 2005, R160 272 000 has been approved and allocated for mandatory grants.

21.2 Discretionary reserve

Of the balance of R274 494 000 available in the discretionary reserve on 31 March 2005, R55 121 000 has been approved and allocated for discretionary grants. In addition, an amount of R37 142 000 has been approved for future project expenses as set out below. Amounts for expenses that have already been contracted or incurred, and therefore included in project expenses in the income statement, are also indicated. A request for the accumulation of these funds has been submitted to National Treasury. At the time of compiling the financial statements, no reply had been received.

	Opening balance 2003/04 R'000	Approved by Accounting Authority R'000	Utilised 2003/04 R'000	Opening balance 2004/05 R'000	Approved by Accounting Authority R'000	Utilised 2004/05 R'000	Total R'000
MAP SGB	–	284	(284)	–	263	**(263)**	–
Learnership Implementation Phase	–	307	(307)	–	–		–
Capacity Building Project	–	588	(588)	–	6	**(6)**	–
SMME Project – Set Up Phase	–	13	(13)	–	–		–
Communication Project	–	34	(34)	–	–		–
QMS Project	–	4	(4)	–	–		–
SSP Review	–	21	(21)	–	119	**(119)**	–
Annual Report Project	–	173	(173)	–	213	**(213)**	–
Unit Standard Project	30	683	(713)	–	294	**(184)**	110
Resource Room Project	–	8	(8)	–	8	**(8)**	–
Training of company SDFs	–	296	(296)	–	25	**(25)**	–
Policies and Procedures	–	12	(12)	–	60	**(44)**	16
RPL Assessor Training Project	–	1 034	(1 034)	–	1 719	**(1 678)**	41
Train The Trainer Project	–	147	(147)	–	–		–
Accreditation Project	–	1 484	(1 484)	–	125	**(125)**	–
Member Satisfaction Index	–	147	(147)	–	–		–
SMME Implementation SDFs	–	2 347	(2 347)	–	25	**(25)**	–
SMME Implementation	–	30 125	(12 080)	18 045	8 129	**(16 226)**	9 948
Learnership Pilot Phase	1 234	2 596	(3 830)	–	2 218	**(2 218)**	–
Learnership Mechatronics Project		2	(2)	–	–	**–**	–
Learnership Autotronics Project	–	18	(18)	–	–		–
Learnership Airconditioner Project	–	179	(179)	–	46	**(46)**	–
Plastics Project	–	(295)	295	–	51	**(51)**	–
Courseware Development	3 390	(3 079)	(311)	–	–		–
Metal Project	–	3	(3)	–	–		–
ABET Project Phase 1	–	7 659	(6 739)	920	11 368	**(6 122)**	6 166
Bursary Scheme Administration	–	629	(629)	–	736	**(736)**	–
Provider Indabas and Workshops	–	77	(77)	–	333	**(333)**	–
RPL Advisor Training	–	573	(573)	–	15	**(15)**	–
Accreditation – External Providers	–	792	(792)	–	3	**(3)**	–
Skills Requirements Project	–	55	(55)	–	928	**(928)**	–
Skills Requirements Project	–	26	(26)	–	47	**(47)**	–
Skills Requirements Project	–	175	(175)	–	642	**(86)**	556

	Opening balance 2003/04 R'000	Approved by Accounting Authority R'000	Utilised 2003/04 R'000	Opening balance 2004/05 R'000	Approved by Accounting Authority R'000	Utilised 2004/05 R'000	Total R'000
Skills Requirements Project	–	315	(315)	–	921	**(921)**	–
Skills Requirements Project	–	26	(26)	–	8	**(8)**	–
Pilot NQF Level 1	–	160	(160)	–	300	**(300)**	–
Tyre Project	–	11	(11)	–	2	**(2)**	–
Motor Project	–	146	(146)	–	405	**(405)**	–
Customer Relations Other	–	20	(20)	–	–		–
MAP SGB	–	438	(438)	–	–	**–**	–
Learnership Implementation Strategy	–	79	(79)	–	–		–
Learnership Roll Out Strategy	–	336	(336)	–	2 433	**(2 324)**	109
Rubber Technology Project	–	138	(138)	–	–		–
Advance Diesel (AIDC)	–	177	(177)	–	(77)	**77**	–
University Bursaries	–	–	–	–	699	(699)	–
Technikon Bursaries	–	55	(55)	–	1 545	**(1 545)**	–
IMM Bursaries	–	–	–	–	121	(121)	–
Advance Tooling (AIDC)	–	46	(46)	–	(7)	**7**	–
Autotronics (AIDC)	–	21	(21)	–	–		–
Supervisor Training (AIDC)	–	416	(416)	–	–		–
Logistics (AIDC)	–	119	(119)	–	–		–
Curriculum Development	–	–		–	352	**(32)**	320
Develop & Assess Trade Test Fees	–	–	–	–	2 521	**(2 513)**	8
Courseware Development	–	–	–	–	4 222	**(3 397)**	825
Maths and Science Student Project	–	–		–	17	**(17)**	–
Labour Capacity Building Project	–	–		–	3 546	**(765)**	2 781
Audit – Accredited Providers	–	–		–	4	**(4)**	–
Curriculum Development	–	–		–	140	**(127)**	13
KZN – FET Project	–	–		–	268	**(268)**	–
ABET Phase 2	–	–	–	–	17 998	**(4 015)**	13 983
SGB Welding	–	–		–	–	**–**	–
Investors in People	–	–		–	99	**(99)**	–
AIDC – ESDLE Project	–	–	–	–	9 229	**(6 963)**	2 266
	4 654	49 620	(35 309)	18 965	72 119	**(53 942)**	37 142

21.3 Administration reserve

Of the balance of R8 470 000 in the administration reserve at 31 March 2005, R6 205 000 has been approved and set aside for the payment of SMME skills development facilitators.

	2004/05 Rm	2003/04 Rm
21.2 Operating leases		
Total of future minimum lease payments under non-cancellable leases:		
Not later than one year	**2 343**	2 126
Later than one year and not later than five years	**7 316**	934
	9 659	3 060

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2005

The operating leases relate to building premises used for office accommodation and office equipment. The lease agreements were entered into on various dates and will be operational for varying periods, the last expiring on 31 December 2009. For the purposes of calculating the lease commitments, options to renew the leases on expiry have been ignored. The rental escalation percentage varies from lease to lease, the average being about 8%.

22 EVENTS AFTER BALANCE SHEET DATE

Effective from 1 April 2005, the SETA has been deregistered as a VAT vendor in terms of the amended VAT Act.

23. FINANCIAL INSTRUMENTS

In the course of the SETA operations, it is exposed to interest rate, credit, liquidity and market risk. The SETA has developed a comprehensive risk strategy in terms of Treasury Regulation 28.1 in order to monitor and control these risks. The risk management process relating to each of these risks is discussed under the headings below.

Interest rate risk

The SETA manages its interest rate risk by fixing rates on surplus cash funds using short-term fixed deposits.

The SETA's exposure to interest rate risk and the effective interest rates on financial instruments at balance sheet date are as follows:

	Floating rate		**Fixed rate**			**Non-interest bearing**		
	Amount R'000	**Effective interest rate %**	**Amount R'000**	**Weighted average effective interest rate %**	**Weighted average period for which the rate is fixed in years**	**Amount R'000**	**Weighted average period until maturity in years**	**Total R'000**
Year ended 31 March 2005								
Assets								
Loans					–	1 133	2,75	1 133
Cash			501 712	7,15	0,25			501 712
Accounts receivable						89 887	0,2	89 887
Total financial assets	–	–	501 712	7,15	0,25	91 020	2,95	592 732
Liabilities								
Accounts payable						34 291	1,0	34 291
Total financial liabilities	–	–	–	–	–	34 291	1,0	34 291
Year ended 31 March 2004								
Total financial assets	–		457 937			116 785		574 722
Total financial liabilities	–		–			50 918		50 918
	–		457 937			167 703		625 640

23. FINANCIAL INSTRUMENTS (continued)

Credit risk

Financial assets, which potentially subject the SETA to the risk of non-performance by counter-parties and thereby subject to credit concentrations of credit risk, consist mainly of cash and cash equivalents and accounts receivable.

The SETA manages/limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by National Treasury through the approval of their investment policy in terms of Treasury Regulation.

Credit risk with respect to levy paying employers is limited due to the nature of the income received. The SETA does not have any material exposure to any individual or counter-party. The SETA's concentration of credit risk is limited to the motor, engineering and related services industry in which the SETA operates. No events occurred in the motor, engineering and related services industry during the financial year that may have an impact on the accounts receivable that has not been adequately provided for. Accounts receivable are presented net of an allowance for doubtful debts.

Liquidity risk

The SETA manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

Market risk

The SETA is exposed to fluctuations in the employment market. For example, sudden increases in unemployment and changes in the wage rates. No significant events occurred during the year that the SETA is aware of.

Fair values

The SETA's financial instruments consist mainly of cash and cash equivalents, account and other receivables, and account and other payables. No financial instruments were carried at amounts in excess of their fair values. The following methods and assumptions are used to determine the fair value of each class of financial instrument.

No financial asset was carried at an amount in excess of its fair value and fair values could be reliably measured for all financial instruments.

The following methods and assumptions are used to determine the fair value of each class of financial instruments:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets.

Accounts receivable

The carrying amount of accounts receivable, net of allowance for losses resulting from levy reversals, approximates fair value due to the relatively short-term maturity of these financial assets.

Accounts payable

The carrying amount of account and other payables approximates fair value due to the relatively short-term maturity of these financial liabilities.

24. RELATED PARTY TRANSACTIONS

Transactions with other SETAs

Interseta transactions and balances arise due to the movement of employers from one SETA to another. No other transactions occurred during the year with other SETAs.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 MARCH 2005

The balances at year-end included in receivables and payables are:

	Note	2004/05 R'000 Transfers in/(out) during the year	2004/05 R'000 Amount receivable/ (payable)	2003/04 R'000 Transfers in/(out) during the year	2003/04 R'000 Amount receivable/ payable
24. RELATED PARTY TRANSACTIONS (continued)					
Receivables	11	**4 281**	**53**	1 563	86
CETA		**2 940**	**30**	681	–
CHIETA		**–**	**17**	3	72
ESETA		**216**	**–**	–	–
FASSET		**611**	**4**	130	12
FIETA		**–**	**2**	–	2
FOODBEV		**47**	**–**	–	–
HW SETA		**91**	**–**	212	–
MAPPP		**–**	**–**	158	–
MQA		**233**	**–**	8	–
PAETA		**7**	**–**	29	–
POSLEC		**87**	**–**	335	–
SETASA		**49**	**–**	7	–
Payables	14	**540**	**(839)**	(293)	(50)
CTFL		**(18)**	**–**	11	–
ESETA		**–**	**(1)**	(899)	–
FOODBEV		**–**	**(9)**	(14)	–
ISETT		**(56)**	**–**	(1)	–
MAPPP		**–**	**(163)**	–	–
MQA		**–**	**(83)**	–	–
POSLEC		**–**	**(52)**	–	–
SERVICES		**380**	**(135)**	1 000	–
TETA		**405**	**(351)**	(62)	(50)
THETA		**(169)**	**–**	(40)	–
W&RSETA		**(2)**	**(45)**	(288)	–
Total		**4 821**	**(786)**	1 270	36

25. MATERIAL LOSSES THROUGH CRIMINAL CONDUCT, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

During the current year, an alleged transgression by employees was investigated through an independent forensic audit that resulted in the prosecution and termination of an employee. The total cost of the investigation, legal fees as well as the settlement amounted to R1 138 000.

In addition, unauthorised expenditure arising from this transgression and incurred by the said employee, amounted to R610 000.

Other than the above, management is not aware of any other fruitless or wasteful expenditure.

26. PRIOR YEAR ADJUSTMENTS

26.1 Change in accounting policy

During the year the SETA changed its accounting policy with respect to the treatment of transfers between administration, employer grant and discretionary reserves. Previously no specific policy existed for such transfers but amounts were transferred from the employer grant reserve to the discretionary reserves to meet the following year's discretionary and project commitments. In order to conform more with the Skills and Development Levies Act, the SETA has adopted a policy to only transfer excess reserves from the employer grant reserve to the discretionary reserve after 12 months. Previously administration reserves were swept to the discretionary reserve on an annual basis but funds are now retained in the administration reserve to cover the net book value of property, plant and equipment and administration commitments on contracts. The comparative amounts have been appropriately restated.

26. PRIOR YEAR ADJUSTMENTS (continued)

26.2 Fundamental error

26.2.1 Association expenses

In prior years, payments to associations had been expensed at the time the payment was made and prepaid amounts were not recognised. Prior year figures have been restated to reflect prepayments and advances of R6 464 000 and an equivalent reduction in grant and project expenses. Refer also to policy note 4.3.

26.2.2 Provision for Annual Training Report grants (ATRs)

In prior years, the ATR provision was based on the amount of levies received, the provision being determined with reference to the proportion of such levies historically expended on grants. In terms of current accounting practice no present obligation exists for these grants and a provision is only raised where the annual training report has actually been received by the SETA. Comparative figures have been restated.

The net effect of these changes on net income and retained earnings for the 2003/04 year and the years prior to 2003/04 are shown in the table below:

	Administration reserve R'000	Employer grant reserve R'000	Discretionary reserve R'000	Total R'000
Prior year (2003/04)				
Effect on net income				
Mandatory grants	–	15 742	–	15 742
Discretionary grants	–	–	23 746	23 746
Association expenses	–	–	6 464	6 464
Transfers between reserves	(2 539)	(36 398)	38 937	–
Total	**(2 539)**	**(20 656)**	**69 147**	**45 952**
Effect on retained earnings				
Mandatory grants	–	137 493	–	137 493
Discretionary grants	–	–	43 529	43 529
Association expenses	–	–	6 464	6 464
Total	**–**	**137 493**	**49 993**	**187 486**
Years prior to 2003/04				
Effect on retained earnings				
Mandatory grants	–	121 751	–	121 751
Discretionary grants	–	–	19 783	19 783
Transfers between reserves	2 539	36 398	(38 937)	–
Total	**2 539**	**158 149**	**(19 154)**	**141 534**

27. TAXATION

No provision has been made for taxation as the SETA is exempt from tax in terms of section 10 of the Income Tax Act.

ADMINISTRATION

HEAD OFFICE
PO Box 61826, Marshalltown, 2107
Metropolitan Office Park, Third floor
8 Hillside Road, Parktown
Tel: 011 484 9310
Fax: 011 484 9319

EASTERN CAPE
PO Box 2890, North End
Port Elizabeth, 6056
Third Floor, ABSA Building
726 Govan Mbeki Avenue, North End
Tel: 041 487 2407
Fax: 041 487 3817

FREE STATE AND NORTHERN CAPE
PO Box 6848, Bloemfontein, 9300
52 Krause Street, Oranjesig
Tel: 051 430 1263
Fax: 051 447 8873

GAUTENG AND NORTH WEST
PO Box 62297, Marshalltown, 2107
First Floor, Metal Industries House
42 Anderson Street, Johannesburg
Tel: 011 832 2604
Fax: 011 832 2698

MPUMALANGA AND LIMPOPO
PO Box 13660, Leraatsfontein, 1038
21 Geringer Street, Del Judor Proper
Witbank
Tel: 013 692 4616/7
Fax: 013 692 4637

KWAZULU-NATAL
PO Box 10279, Marine Parade, Durban, 4056
Third Floor, Fassifern Building, 35 Ridge Road, Berea
Tel: 031 208 4600
Fax: 031 208 4626

WESTERN CAPE
PO Box 2383, Bellville, 7535
DJ Woods Way, Tyger Terraces 1 Building
Off Mike Pienaar Boulevard, Bellville
Tel: 021 948 6606
Fax: 021 948 6676

P0 Box 61826 Marshalltown 2107

Metropolitan Office Park, Third Floor, 8 Hillside Road, Parktown

Tel: 011 484 9310

Fax: 011 484 9319

Website: www.merseta.org.za