



merSETA

MANUFACTURING, ENGINEERING
AND RELATED SERVICES SETA

annualREPORT

2006/2007



labour

Department:
Labour
REPUBLIC OF SOUTH AFRICA

AUTOMOBILE MANUFACTURING

28,5% of the country's manufacturing output. Guided by policy instruments and initiatives from the state's Motor Industry Development Programme (MIDP).

METAL AND ENGINEERING

5,3% contributor to domestic product. Globally the sector is becoming increasingly linked with the electronics sector and is placing more emphasis on innovation and globalisation of production.

RETAIL MOTOR AND COMPONENTS

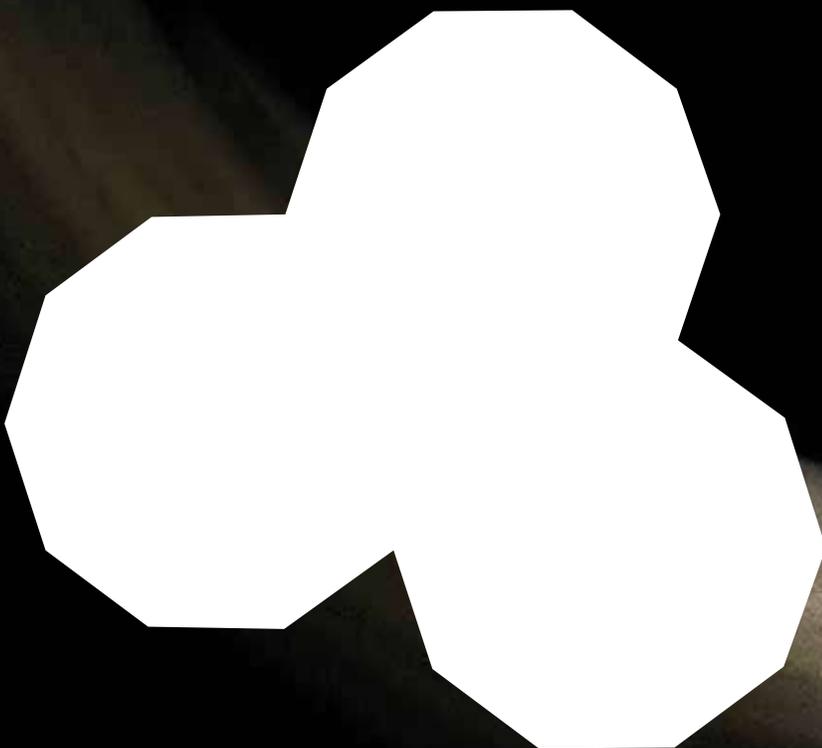
A crucial sector for future competitiveness of the South African manufacturing sector. Industry closely linked to the automotive sector, since the supply of components for motor vehicle assembly is a prime source of trade. The MIDP guides the industry in key areas.

NEW TYRE

Long history of contributing to import and export markets. 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 exports contracts and limited original equipment sales.

PLASTICS

The industry is a significant participant in the country's manufacturing sector accounting for more than half of the material used.



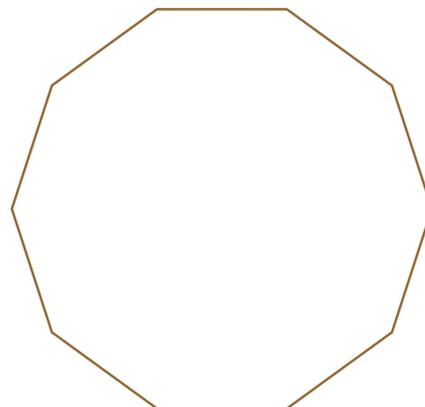


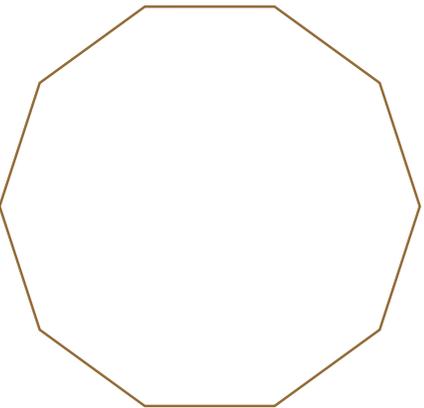
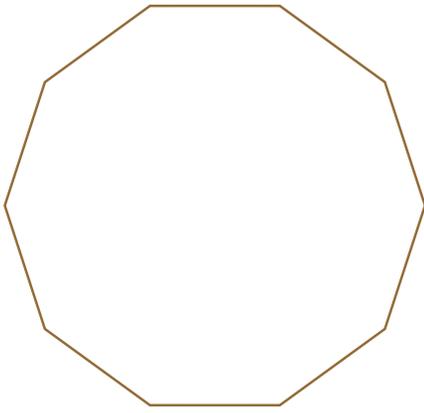
annualREPORT

1.	Chairperson's Report	4
2.	Chief Executive Officer's Report	6
3.	Human Resources Report	8
4.	Corporate Governance Report	14
5.	Skills Development Implementation Overview Report	24
6.	Education, Training and Quality Assurance Report	27

Vision

Leaders in closing the skills gap





Mission

To facilitate sustainable development of skills, transformation and to accelerate growth in manufacturing, engineering and related services.

7.	Finance Overview Report	29
8.	MERSETA’s Performance Against NSDS Targets	31
9.	Report of the Audit Committee	35
10.	Report of the Auditor General	36
11.	Annual Financial Statements	38
	• Report of the Accounting Authority	
	• Statement of Responsibility for financial statements	
	• Statement of Financial Performances	
	• Statement of Financials	
	• Statement of changes in Net Assets	
	• Cash Flow statements	
	• Note to the Annual Financial Statements	
12.	Glossary/Abbreviations	79



Anton Hanekom
Chairperson

“THIS TIME, LIKE ALL TIMES, IS A VERY GOOD ONE”

“These seemingly innocent words from the American essayist and philosopher Ralph Waldo Emerson cannot be further from the truth in terms of what is happening at the MERSETA.

It is my pleasure to present to all stakeholders the seventh MERSETA Annual Report.

Emerson wrote the famous words at a time when he and a group of other scholars had founded a literary movement called transcendentalism. This movement's core belief was an ideal state that 'transcends' the physical and empirical and is only realised through the individual's intuition, rather than through the doctrines.

As MERSETA, we are at a time where we see ourselves beginning to transcend the norm and the 'accepted rationale' in the skills development fraternity. We now see ourselves as taking the lead role in closing the skills gap in our country.

When I took over as chairperson of the Governing Board the pressing issue was to find a CEO who would assist and lead MERSETA to achieve its mandate. Included in this mandate was reviewing MERSETA Strategies, Corporate Governance and its achievement of NSDS II targets and meeting the needs of its stakeholders (levy paying companies, DoL, providers and learners).

In the past year there was renewed focus on corporate governance with emphasis on various acts and regulations. The appointment of the company secretary also helped to ensure more effectiveness and compliance. Most policies and procedures were reviewed and adjusted to support the implementation of the MERSETA strategy.

SETAs were also under pressure to disburse more of their funds on quality training and development with the focus on apprenticeships, learnerships, skills programmes, new venture creation and many other initiatives. I am proud to announce that MERSETA succeeded in this regard and reports an increased mandatory grant claim ratio of 62%.

Although we had to overcome many stumbling blocks in the first half of the financial year – in the absence of a CEO - I am glad to announce that we are now back on track with the appointment of Dr Raymond Patel as CEO with effect from October 2006. In the words of my predecessor “Dr. Patel comes highly recommended with extensive SETA experience and knowledge”. I would also like to convey the Board's sincere gratitude to Mr Wayne Adams and Ms Corli Janse van Rensburg who held the fort for nine months as joint acting CEOs.

With the appointment of the CEO we have set the ball rolling. MERSETA has recently started a process of repositioning and restructuring itself to become the thought leader in closing the skills gap in South Africa. We also adopted a new vision and mission.

“We now see ourselves as taking the lead role in closing the skills gap in our country.”

This time is surely a good one.

Secondly we have recognised the need to operate as a business and that we must deliver products and services that not only meet but exceed the expectations and needs of customers.

Our business strategy includes issues such as:

- Becoming more customer focused
- Simplifying systems and processes
- Tightening up on financial processes and procedures
- Creating an office specially dedicated to projects

In conclusion, this year would not have been as successful if it was not for the dedication of the MERSETA management team and staff and the commitment of strategies drawn from the Governing Board. To all of you, thank you for your contributions.

As we go out as a new organisation that has set out to transcend all norms and become the thought leader in closing the skills gap, I would like to borrow once again from Emerson in his 1836 Nature essay: “so shall we come to look at the world with new eyes. It shall answer the endless inquiry of the intellect.” **This time is definitely a very good one.**

Anton Hanekom
Chairperson of MERSETA





Dr. Raymond Patel
CEO

“UMUNTU NGUMUNTU NGABANTU”

In the Namib Desert there is a 2000 year-old plant, the “Welwitschia Mirabilis”, which is the oldest known plant in the world. It continues to survive in the harshest conditions known to man. But how does it survive? It harvests the moisture in the air and captures it in its leaves, then shares the moisture with animals that chew on the leaves. The chewing strengthens the Welwitschia and affords it the power to overcome illness. It has a strong seed that can last decades while it waits for the rain that will allow it to germinate. Desert animals use the plant for its shade and, during their visit, fertilise, the base of the plant to keep it nourished. The plant shows that surviving in the desert is possible if those who find themselves in such an environment work together, collaborate and share if they have to.

Although it has only existed for seven years, MERSETA has become the “Welwitschia Mirabilis” of the Metal Engineering and Related Services Sector. In the year under review it has re-invented itself and repositioned itself as the “thought leader in closing the skills gap”. MERSETA has offered its clients a better and more effective value proposition through a new approach to service delivery. The MERSETA realises it is unable to deliver without the assistance and collaboration of its most valuable stakeholders: labour; business; providers; and the learners.

This forms the basis of Ubuntu, a culture and tradition that we at MERSETA have adopted as our own. We embrace the principle of reciprocity, that “umuntu ngumuntu ngabantu” (a person is a person through others). We at MERSETA have learned from nature how to succeed in getting more without expecting the earth to produce more. If we need only a small part of the tree to produce paper, we must find out what to do with the rest. We cannot continue to take the best from nature for the least productive reasons. Not only must we learn to do more with the same resources that the earth offers us, we must create new value added products that generate income and, in turn, improve people’s quality of life. Until recently we took the development of our greatest asset for granted, “our human resources” development, and became stuck in a poverty mentality that tends to develop quasi-artisans and learners. Our sense of value has been eroded to almost nothing. It might be a good place from which to start afresh.

I am convinced that people like Gunter Pauli are proposing economic alternatives that will create the necessary conditions for sustainable socio-economic advancement. Similarly, scholars like Cherikh anta Diop have argued for years that the abundant energy sources available in the country must be cultivated as new economic resources to trade with the rest of the world.

Having recognised this, we, together with our stakeholders exceeded the training and development targets set for the MERSETA. During the period under review the MERSETA facilitated training of 3 933 employed workers of whom 949 entered learnerships and 2 329 entered apprenticeships. Through the efforts of employers, employees and MERSETA, 1 134 learners were declared competent during the year under review. An additional 139 learners embarked on Skills Programmes during the past year.

MERSETA has also ensured that new products were sourced during the last year, and an additional 2 403 unemployed learners entered learnerships and 132 entered apprenticeships. These new artisans will contribute significantly to the economy. They will also address the sector's shortage of skilled artisans.

MERSETA has, during the year under review, embarked on intensive research into the human resources needs of the Sector. A new Sector Skills Plan has reflected that the sector has shortages and should institute a plan to address its critical skills shortages. MERSETA responded immediately to the request of the sector and has availed R70 million for the Accelerated Development of Artisans in the Metal and Motor sectors, over and above other discretionary grant commitments made for learners, apprentices and skills programmes, in these and other sub-sectors.

A further R109 million has been expended on projects. Through these projects the Sector benefited in the areas of ABET where 4 968 learners entered and 399 completed training. In the Metal, Motor and Plastic Sectors, SME employees received training. Over 500 learners received training in the Fuel Retail Industry, and a further 29 learners in the Plastics Industry also benefited from the National Setters Project, and 292 learners qualified through the AIDC project. MERSETA also supported the initial two institutions identified to be MERSETA Institutes of Sectoral and/ or Occupational Excellence (ISOEs) in 2005, namely Eastern Cape Midlands FET College and West Coast FET College. Both these institutions were officially opened during the year under review.

MERSETA's total revenue for the year was R607 million which includes R40 million in interest from short term investments. This is an increase of 12,25% on the previous year's income. MERSETA has expensed over R499 million during the year under review.

This expenditure was made up of administration expenses, mandatory grants, discretionary grants and project expenditure. We at MERSETA are concerned about the high cash reserves that the SETA holds and will institute mechanisms to improve its position during 2007/ 2008.

MERSETA has increased its visibility during the year. An important vehicle to accomplish this was the new MERSETA brand, which was introduced to the sector. Visibility was further enhanced through participation in a number of conferences, workshops and exhibitions during the year under review.

In terms of its own human resources development, MERSETA (which employs 147 full-time staff) has encouraged its staff to improve their own qualifications through training and development programmes. Twelve staff members embarked on formal studies at institutions of high learning, and 52 embarked on short courses. We believe that by developing our own staff we will be in a better position to respond to the needs of the sector.

In conclusion, our most fundamental challenge is the ability to keep future generations in mind. When we take action, intervene or change the course of people lives, we have to face the impact of our choices and decisions on future generations.

It is important that we reach broad consensus on key areas where we can collaborate on the development of the human resources within the sector and the preparation of the new skills being brought into the sector. This will enable us to form our respective positions to respond to the primary economic challenges and human resources development needs and to support the national growth targets. Ultimately we take responsibility for the advancement of training and development in the sector. We have an obligation to make MERSETA attractive to its constituencies and stakeholders. We have made the emotional, moral and economic commitment to the advancement of scarce and critical skills within the Sector.

We at MERSETA believe we can improve our performance and service delivery to our clients during this and the next financial years because we have responded to your request. We have restructured the MERSETA to be more "client focused". We have adopted a balanced score card approach and in doing so we changed our Vision and Mission. This necessitated the MERSETA to change the methodology of offering services and products. Our new organogram boast a Finance Division, Clients Service Division, Learning Education Training and Quality Assured Division, Corporate Governance Division, Corporate Services Division and a new Projects Division. I am convinced through this structure we will be able to respond faster and more efficiently to customer needs.

The MERSETA has also set itself an ambitious target of training over 13 000 unemployed artisans by 2010. Learners will be trained via the apprentice and learnership route. The demands of a boisterous economy also demands that we train employed workers. The MERSETA is committed to contribute to the development of the South African economy and work in partnership with stakeholders to achieve the success.

To the Board and Stakeholders, we at MERSETA salute you for the support, dedication and contribution towards making MERSETA a "Welwitschia Mirabilis".

Dr Raymond Patel
CEO of MERSETA



Moketenyana Mayongo
HR Manager

In the year under review, the Human Resources Department focused extensively on activities that enhance the employee experience and result in a foundation for developing people and managing their performance.

Highlights of the year under review include the following:

- Implementation of the performance management system
- Improved labour relations
- Development of a WSP
- Establishment and training of the Equity Committee
- Review of HR policies
- Implementation of the Employee Assistance Programme

In the coming financial year, the follow activities will be given priority:

- Finalising the restructuring process
- Implementation of the new strategic plan
- Development of a competency model
- Development and implementation of a retention and succession management strategy
- Reviewing the performance management process.

Staff Complement

Permanent Staff	123
Fixed Term Contract	23

Staff Turnover

Reason	Female	Male
Resignation	1	4
Dismissal	1	1
Total	2	5

Job Evaluation

Total Positions Evaluated	
New Positions	9

Consultants

Certain Human Resources activities require the consultation of service providers offering specialised expertise. In the year under review MERSETA consulted with PE Corporate for salary surveys and job evaluations, and 21st Century for ad hoc benchmarking when this was required.

MERSETA Demographics as at March 2007

Categories	African		White		Asian		Coloured		Analysis	Annual Targets	
	M	F	M	F	M	F	M	F		2006	2007
Senior Management: EL & CEO	2	1	0	1	0	0	2	0		<ul style="list-style-type: none"> • Equal representation of men and women – 50% / 50% • 80% Black / 20% White 	<ul style="list-style-type: none"> • Equal representation of men and women – 50% / 50% • 80% Black / 20% White
Management (C5 – D4)	11	3	1	4	1	0	1	1	<ul style="list-style-type: none"> • Black men over-represented • Women under-represented 	<ul style="list-style-type: none"> • Equal representation of men and women – 50% / 50% • 80% Black / 20% White 	<ul style="list-style-type: none"> • Equal representation of men and women – 50% / 50% • 80% Black / 20% White
Specialists (C4 – C1)	9	13	3	3	3	1	4	2	<ul style="list-style-type: none"> • Women under-represented 	<ul style="list-style-type: none"> • Equal representation of men and women – 50% / 50% • 80% Black / 20% White 	<ul style="list-style-type: none"> • Equal representation of men and women – 50% / 50% • 80% Black / 20% White
Administration (A1 – B5)	5	44	0	5	0	1	1	2	<ul style="list-style-type: none"> • Men are under-represented 	<ul style="list-style-type: none"> • 65% female / 35% Male • 80 Black / 20% White 	<ul style="list-style-type: none"> • 55% female / 45% Male • 80% Black / 20% White
Permanent no grade	0	0	0	0	0	0	0	0			
Contractors - no grade	3	12	2	4	0	1	0	0			<ul style="list-style-type: none"> • 55% female / 45% Male • 80% Black / 20% White
TOTAL	30	73	6	17	4	3	8	5	TOTAL STAFF	: 146	

MERSETA Internal Skills Development

In the year under review, several initiatives were implemented to address the development and competence needs of MERSETA staff.

These initiatives were based on identified skills gaps which include:

- Management and leadership skills
- Computer skills
- Assessing and moderation skills
- Administration skills and customer service

Education and training priorities were identified and the resultant training interventions include:

Education and training priorities	NQF Level
Change management	5
Management control	5
Coaching and mentoring	4
Diversity management	4
Conflict management	7
Project management	5
Business writing skills	5
SDF training	5
Assessor training	5
Moderator training	5
Touch typing	5
Advanced driving	4
Microsoft training	4
ETDP training	4
Computer training	5
Customer service training	4
Minute taking	4
Administration skills	4
Receptionist training	4
Communication skills	4
Electronic diary management	4
Call centre training	5
Events management	5
Business English	5

These initiatives benefited staff on each occupation level. The number of beneficiaries per level is reflected below:

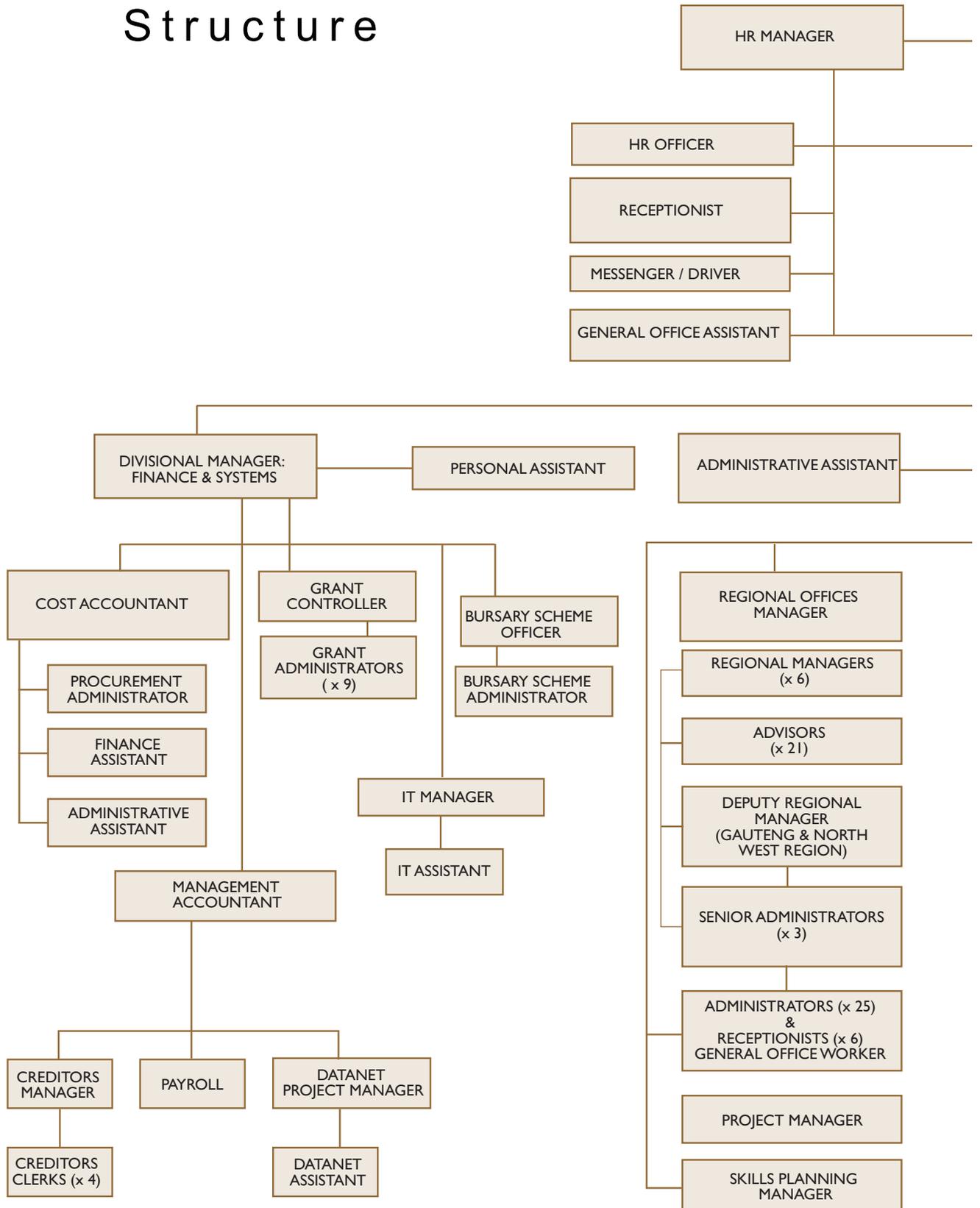
- Senior management – 5
- Professional / middle management – 12
- Professionals and specialists – 46
- Clerks and administrative workers – 51
- General office workers – 4

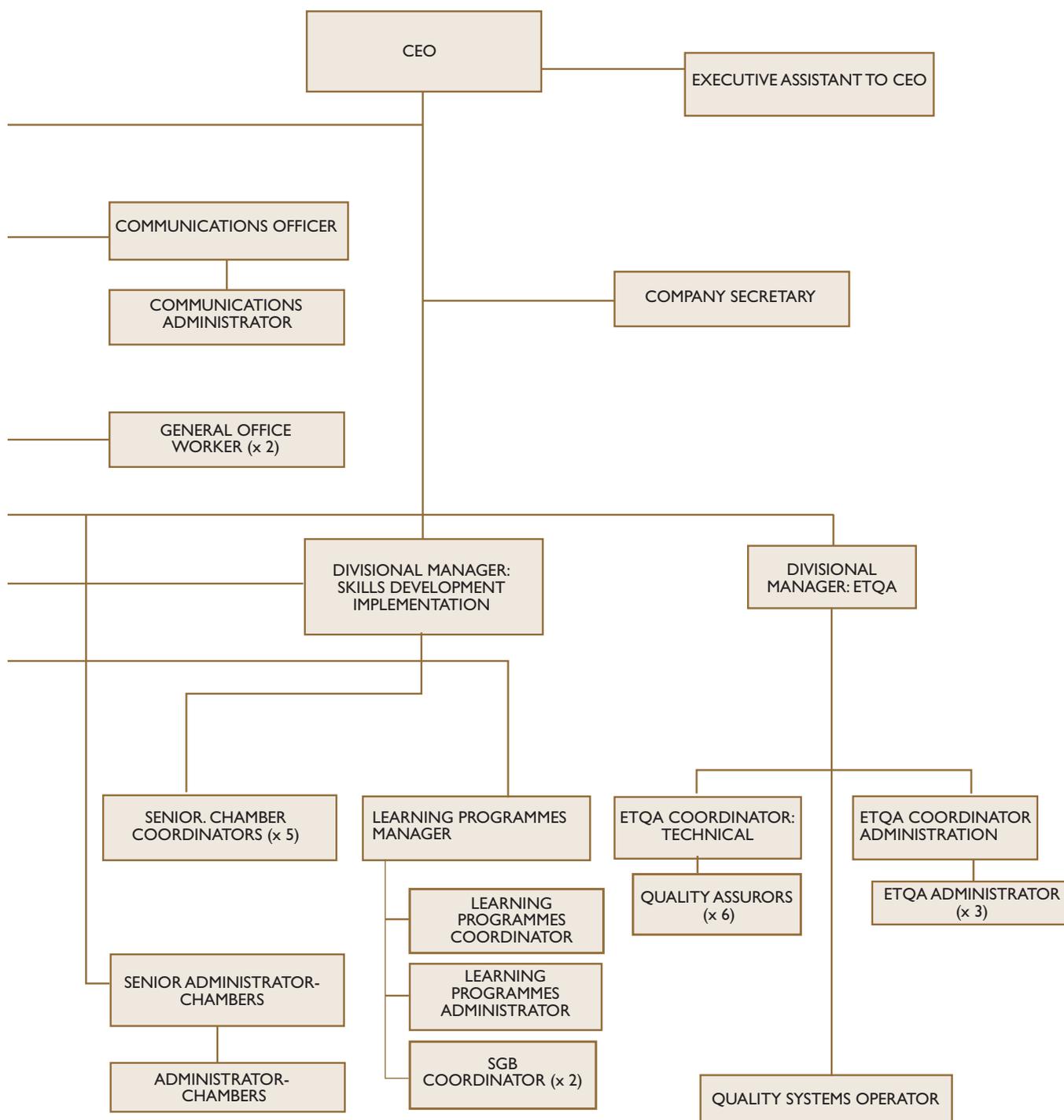
MERSETA Salary Scales – March 2007

CATEGORIES	AFRICAN		WHITE		ASIAN		COLOURED		Salary Range (000s) Guaranteed component
	M	F	M	F	M	F	M	F	
Senior Management: EL & CEO	1	0	0	1	0	0	2	0	530 000 – 1000 000
Management (C5 – D4)	12	4	0	4	0	1	1	1	208 733 – 477 000
Specialists (C4 – C1)	9	13	3	3	3	1	4	2	143 065 – 253 907
Administration (A1 – B5)	5	44	0	5	0	1	1	2	39 030 – 156 646

The above table excludes fixed term contract employees and temporary employees.

MERSETA Structure







Tom Mkhwanazi
Company Secretary

CORPORATE GOVERNANCE REPORT

Introduction

MERSETA's approach to Corporate Governance is to ensure that we go beyond compliance with the legislative requirements but also focus on performance that exceeds stakeholder expectations.

The main challenge of MERSETA is to ensure that there is a balance between conformance / compliance and performance in the management of the day-to-day operations.

MERSETA is a public entity established as a result of the Skills Development Act (SDA) No. 97 of 1998 as amended by the Skill Development Levies Act No. 31 of 2003 as well as the South African Qualifications Authority (SAQA) Act No. 58 of 1995.

The statutory responsibilities, liability and performance of the Governing Board Members (Accounting Authority) is regulated by the Public Finance Management Act (PFMA) No. 1 of 1999 as amended and are also guided by and intended to uphold the principles of the report on Corporate Governance for South Africa 2002 (King II Report).

During the year under review, MERSETA took steps to establish the Corporate Governance framework in terms of the following:

- Capacity building on Corporate Governance for chamber committee members. Training for the Governing Board will be finalised at the beginning of the new financial year;

- Commitment to undertake the evaluation of the Governing Board in the new financial year;
- Enhancing declarations of conflict of interest with the maintenance of the declaration of interest register;
- Renewal of submission documents to enhance information to ensure an efficient decision making process; and
- Mandate to review the terms of reference in the terms of the constitution.

Stakeholders

MERSETA is stakeholder-driven and these stakeholders, in terms of the SDA, must be equally represented from organised labour and organised employers.

Service Level Agreement

The Treasury regulations issued in terms of the PFMA require that MERSETA submits a strategic plan, which culminates in a service level agreement entered into with the Executive Authority (Department of Labour). Annually, MERSETA agrees with Department of Labour on the National Skills Development Strategy targets.

MERSETA Constitution

The MERSETA Constitution was approved by the Minister of Labour retrospectively on 1 July 2005 in terms of section 13(1) of the SDA. This Constitution was promulgated in the Government Gazette on 11 August 2006.

Governance Structures

Governing Board

MERSETA has a Governing Board that is comprised of 32 members in a non-executive capacity.

The Governing Board members, appointed by the Minister of Labour in terms of the MERSETA Constitution, represent organised labour and organised employers from our sector.

The Chairperson and the deputy Chairperson are elected during the Annual General Meeting on a yearly basis and where the Chairperson is elected from the members representing one stakeholder grouping, the Deputy Chairperson must be elected from another stakeholder grouping and vice versa. Each year the roles must be reversed unless otherwise agreed in terms of the MERSETA Constitution.

The term of office for a Governing Board member is three years and they may be re-appointed after the expiry of their term.

Mr R Daniels resigned in August 2006 and replaced by Mr P Welgemoed. Mr J Burgher resigned in March 2007. Mr J Pieterse and Mr L Whiteley were appointed to the Governing Board in March 2007.

Ms L Heunis resigned as a member of the Governing Board as well as the Chairperson of MERSETA in February 2007 and Mr A Hanekom was appointed in her place in March 2007.

Meetings of the Governing Board are scheduled annually and special meetings are convened if there is a need to consider specific urgent matters. During the year under review, three Governing Board meetings were convened and the attendance by members is reflected below:

Name	Constituency	Representing	Demographic Split	28.07.06	24.11.06	08.03.07
Mr A Dennis	New Tyre	Employer	Coloured Male	✓		✓
Mr B Angus	SEIFSA	Employer	White Male			✓
Mr P Bezuidenhout	UASA	Labour	White Male	✓	✓	✓
Mr J Burger	Solidariteit	Labour	White Male	✓		✓
Mr R Daniels	New Tyre	Employer	Coloured Male			
Mr L de Klerk	AMEO	Employer	White Male		✓	
Mr L Greyling	UASA	Labour	White Male		✓	
Mr A Hanekom	PFSA	Employer	White Male	✓	✓	✓
Ms L Heunis	RMI	Employer	White Female	✓	✓	✓
Mr D Hughes	PFSA	Employer	Black Male			
Mr. Mr D Jekwa	NUMSA	Employer	Black Male	✓	✓	✓
Mr B Khoza	NUMSA	Labour	Black Male		✓	✓
Mr E Kodisang	CEPPAWU	Labour	Black Male	✓	✓	✓
Mr E Kubeka	NUMSA	Labour	Black Male			✓
Mr G Lephallo	NUMSA	Labour	Black Male			✓
Ms J Lopes	SEIFSA	Employer	White Female	✓		✓
Mr L Mlangeni	NUMSA	Labour	Black Male			✓
Ms M Mogopodi	NUMSA	Labour	Black Female	✓	✓	✓
Mr V Mthethwa.	NUMSA	Labour	Black Male		✓	✓
Mr C Murray	SEIFSA	Employer	White Male	✓	✓	✓
Ms M Netshandama	NUMSA	Labour	Black Female			✓
Mr P Nodongwe	NUMSA	Labour	Black Male			✓
Ms N Nxumalo	NUMSA	Labour	Black Female	✓		
Mr J Olivier	RMI	Employer	White Male	✓		
Mr J Osborne	RMI	Employer	White Male			
Ms A Pretorius	PFSA	Employer	White Female	✓		✓
Mr D Rule	PISA	Employer	White Male	✓	✓	
Mr C Scheepers	UASA	Labour	White Male		✓	
Mr B Smith	New Tyre	Employer	White Male	✓	✓	
Mr B Swarts	Solidariteit	Labour	White Male			✓
Mr P Thobejane	NUMSA	Labour	Black Male		✓	✓
Mr D Truter	RMI	Employer	White Male	✓		✓
Mr X Tshayana	NUMSA	Labour	Black Male	✓	✓	✓
Mr T Tsiboli	NUMSA	Labour	Black Male		✓	
Mr U Badenhorst	AMEO	Employer	White Male			
Mr FH van Heerden	UASA	Labour	White Male	✓		

Name	Constituency	Representing	Demographic Split	28.07.06	24.11.06	08.03.07
Mr P Veldtman	Solidariteit	Labour	White Male	✓	✓	✓
Mr P Verryne	NUMSA	Labour	Coloured Male	✓		✓
Mr P Welgemoed	New Tyre	Employer	White Male	✓	✓	✓
Mr C Wessels	AMEO	Employer	White Male	✓		✓
Mr L Whiteley	RMI	Employer	White Male			✓
Mr J Wilson	New Tyre	Employer	White Male		✓	
Mr G Zamisa	New Tyre	Employer	Black Male			✓

Powers and Functions of the Governing Board

The powers and functions are stipulated in Section 8 of the MERSETA Constitution and, to adhere to good corporate governance practice, the Governing Board operates within the said ambit.

Delegation of Authority

The Governing Board of MERSETA operates with an understanding that they cannot delegate power, so the Board remains accountable for actions under delegation and does not divest any of its powers, duties or function by virtue of any delegation.

Board Evaluation and performance

The Governing Board considered the evaluation report based on the evaluation of performance by the Department of Labour in conjunction with Unisa and took necessary resolutions regarding the recommendations of the report.

Governing Board Committees

Executive Committee



Seated: Ms Janet Lopes(member), Mr Anton Hanekom(Chairperson), Dr Raymond Patel(CEO), Ms Malebo Mogopodi(member), Mr Daluxolo Jekwa(Deputy Chairperson), Ms Corli Janse van Rensburg(CFO), Mr Leon de Klerk (member)

Members not in photograph:

Ms Lizel Heunis (Chairperson, resigned in February)
 Mr Jakkie Olivier (member)
 Mr Johnny Burger (member resigned)

The Remuneration Committee is responsible for the performance evaluation of the Chief Executive Officer.

Induction and orientation

Training on governance processes was conducted for Chamber Committees and, going forward, new members will complete an induction programme to sharpen their understanding of the Skills Development legislative framework and the nature of the business of MERSETA.

Members' remuneration

Governing Board members do not earn any form of remuneration, in accordance with the MERSETA Code of Conduct.

Company Secretarial function

The Company Secretary was appointed in July 2006 to assist the Governing Board with Corporate Governance assurance as well as monitoring MERSETA's compliance in accordance with the PFMA and other relevant legislation, and to report to the Board in this regard.

Standing: Mr Tom Mkhwanazi (Company Secretary), Mr Wayne Adams (Divisional Manager: ETQA), Mr Piet Welgemoed(member), Mr Andrew Venter (Management Accountant), Mr Seya Shayi (Divisional Manager: SDI), Mr Brian Holmes (member), Mr Eliah Kodisang (member), Mr Pierre Bezuidenhout (member)

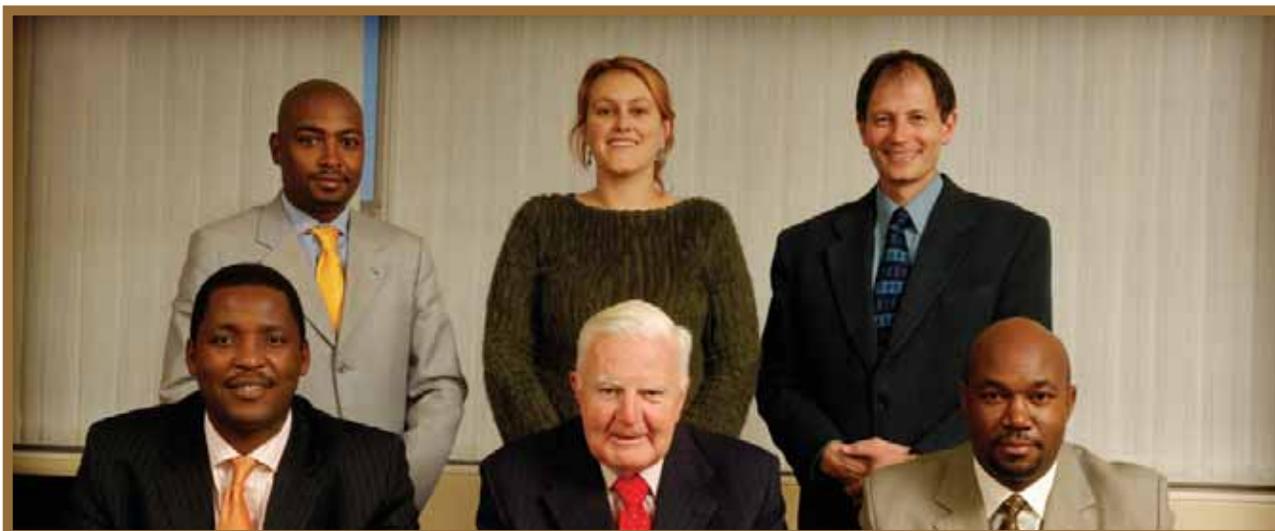
Mr Elias Kubeka (member)
 Mr Brian Angus (member)
 Mr Johan Pieterse (member)

The Executive Committee comprises 12 members who are equally representative of organised labour and organised employers. The Executive Committee is responsible for the oversight of management of the operational affairs of MERSETA and manages,

coordinates and monitors the activities of Functional Standing Committees, Chamber Committees and any other ad hoc Committees.

Name	Constituency	Representing	Demographic Split	04.04 .06	23.05 .06	06.06 .06	04.07 .06	01.08 .06	28.08 .06	05.09 .06	14.09 .06	03.10 .06	08.11 .06	04.12 .06	20.02 07
Mr P Bezuidenhout	UASA	Labour	White Male		✓								✓		✓
Mr J Burger	Solidariteit	Labour	White Male	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓
Mr D Jekwa	NUMSA	Employer	Black Male	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr L de Klerk	AMEO	Employer	White Male	✓	✓	✓	✓			✓		✓			✓
Mr A Hanekom	PFSA	Employer	White Male	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms L Heunis	RMI	Employer	White Female		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Mr B Holmes	MISA/SAMU	Labour	White Male	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr E Kodisang	CEPPAWU	Labour	Black Male		✓	✓	✓					✓			✓
Mr E Kubeka	NUMSA	Labour	Black Male		✓	✓	✓			✓	✓	✓	✓	✓	✓
Ms J Lopes	SEIFSA	Employer	White Female	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ms M Mogopodi	NUMSA	Labour	Black Female	✓	✓	✓	✓	✓	✓	✓			✓	✓	✓
Mr P Welgemoed	New Tyre	Employer	White Male			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr J Olivier	RMI	Employer	White Male												✓
Mr W Naude	PFSA	Employer	White Male	✓	✓			✓	✓		✓				
Mr B Angus	SEIFSA	Employer	White Male	✓	✓		✓		✓				✓	✓	✓
Mr J Chipako	RMI	Employer	Black Male	✓	✓	✓	✓								
Mr R Daniels	New Tyre	Employer	Coloured Male	✓		✓		✓	✓						

Audit Committee



Seated: Mr Andrew Mashifane (member), Mr Brian Hawksworth (Chairperson), Dr Raymond Patel (CEO)

Standing: Mr Tom Mkhwanazi (Company Secretary), Ms Corli Janse van Rensburg (CFO) Mr Andrew Venter (Management accountant)

Members not in photograph: Mr Graham Rosenthal, Mr Shati Govender, Mr John Davis

The committee is responsible for ensuring that MERSETA audits financial and risk areas that address appropriate policies, internal control, internal and external audit matters.

The audit committee reviews the annual financial statements and ensures that they have been properly prepared by management and reviewed by external auditors before being recommended to the Governing Board for approval

Finance Functional Standing Committee

The Finance Functional Standing Committee is comprised of 10 members equally representative of organised labour and organised employers.

The Committee monitors the financial, budgetary, personnel and financial affairs of MERSETA. It is also required to develop policies, principles, criteria and guidelines related to finance, for recommendation to the Executive Committee.

The Chairperson of the Audit Committee attended and presented a report to the Governing Board on 8 March 2007.

The Audit Committee operates according to the Terms of Reference (Audit Committee Charter) which was reviewed by the Governing Board during November 2007 in accordance with Treasury Regulations.

The Governing Board, at a meeting on 24 November 2006, resolved to dissolve the Committee due to the duplication of functions with other Committees.

One meeting was held during the year and the attendance of members at this meeting is indicated as follows:

Name	Constituency	Representing	Demographic Split	13.07.06
Ms J Lopes	SEIFSA	Employer	White Female	✓
Mr C Murray	SEIFSA	Employer	White Male	✓
Mr W Naude	PFSA	Employer	White Male	✓
Mr J Swart	Solidariteit	Labour	White Male	✓
Mr G Zamisa	New Tyre	Employer	Black Male	

Remuneration Committee

The Remuneration Committee is comprised of 4 members equally representative of organised labour and organised employers and two non-executive independent, non-voting members.

The Remuneration Committee is responsible for the development of guidelines and reviews the compensation and performance of staff of the organisation, reviews and approves corporate goals relevant to the compensation of the Chief Executive

Officer, evaluates the Chief Executive Officer's performance in light of these goals and objectives and assumes responsibility for all Human Resources related matters

During the year under review, attendance at meetings of the Remuneration Committee took place as follows:

Name	Constituency	Representing	Demographic Split	03.04.06	03.07.06	28.08.06
Mr B Angus	SEIFSA	Employer	White Male	✓	✓	
Mr R Daniels	New Tyre	Employer	Coloured Male	✓	✓	✓
Mr A Hanekom	PFSA	Employer	White Male			✓
Ms L Heunis	RMI	Employer	White Female			✓
Mr B Holmes	MISA/SAMU	Labour	White Male		✓	✓
Mr E Kodisang	CEPPWAWU	Labour	Black Male			

Education, Training, Quality Assurance (ETQA) Functional Standing Committee

The ETQA Functional Standing Committee is comprised of 10 members equally representative of organised labour and organised employers.

The ETQA Functional Committee is responsible for the monitoring on behalf of MERSETA of the quality assurance functions and

obligations of MERSETA in its role as an ETQA Body as provided for in the SAQA Act, and the Education and Training Quality Assurance Regulations, 1998.

During the year under review, three meetings of the ETQA Functional Standing Committee were held as reflected below:

Name	Constituency	Representing	Demographic Split	03.04.06	29.08.06	26.01.07
Mr A Dennis	New Tyre	Employer	Coloured Male	✓	✓	✓
Mr A Hanekom	PFSA	Employer	White Male	✓	✓	✓
Mr D van Rensburg	AMEO	Employer	White Male	✓	✓	✓
Mr E Kubeka	NUMSA	Labour	Black Male		✓	✓
Ms I Botes	RMI	Employer	White Female	✓	✓	
Ms J Lopes	SEIFSA	Employer	White Female		✓	✓
Mr J Burger	Solidarity	Labour	White Male	✓	✓	
Ms M Joubert	Solidarity	Labour	White Female		✓	✓
Mr P Frimas	SEIFSA	Employer	White Male	✓	✓	✓
Mr P Bezuidenhout	UASA	Labour	White Male		✓	
Mr P Verryne	NUMSA	Labour	Coloured Male	✓	✓	✓
Mr W Matthiae	SEIFSA		White Male	✓	✓	✓
Mr X Tshayana	NUMSA	Labour	Black Male			

Chamber Committees

MERSETA has 5 Chamber Committees:

- Automobile Manufacturing
- Metal and Engineering
- Motor Retail and components
- New Tyre
- Plastic

The Chamber Committee developed sub sectoral inputs into the Sector Skills Plan, identified education and training needs, and made inputs to education training policies and monitor the development and implementation of skill programmes.

Each chamber comprises an equal number of members representing organised labour and organised employers but this number shall not exceed 8 voting members.

The following meetings were held during the year for Chambers and the attendance of members at these meetings is reflected as follows:

1. Motor Retail and Components Chamber Committee Meetings

Name	Representing	29.03.06	10.11.06	02.11.06	14.03.07
Mr P Verryne	Labour				
Mr M Keyser	Employer	✓	✓		
Mr J Edwards	Employer	✓	✓	✓	✓
Mr B Holmes	Labour	✓			✓
Mr L Thain	Employer	✓	✓		
Ms L Heunis	Employer	✓	✓	✓	
Mr D Truter	Employer	✓	✓	✓	✓
Ms I Botes	Employer	✓	✓	✓	
Mr S Tsiane	Labour	✓	✓	✓	✓
Mr E Linda	Labour	✓	✓	✓	✓
Ms M Mogopodi	Labour		✓	✓	✓
Mr V Ramchander	Employer		✓		
Mr G Brink	Employer		✓		
Mr T Africa	Labour				
Mr E Mashiloane	Labour				
Mr T Minnie	Employer				✓
Mr M Mosia	Labour				✓
Mr L Whitely	Employer				✓
Mr L Mlangeni	Labour				
Mr E Kubeka	Labour		✓		✓

2. Plastics Chamber Committee Meetings

Name	Representing	14.03.06	13.06.06	14.11.06	13.02.07
Mr M Bullock	Employer	✓	✓		
Mr A Hanekom	Employer	✓	✓	✓	✓
Ms M Metshandama	Labour	✓	✓		✓
Mr Z Xaba	Employer	✓	✓	✓	✓
Mr E Kodisang	Labour	✓	✓	✓	✓
Mr B Naude	Employer	✓			
Mr G Lephallo	Labour			✓	✓
Ms A Pretorius	Employer				✓
Mr B Bond	Employer			✓	✓
Mr J Burger	Labour				✓
Mr P Bezuidenhout	Labour				✓

3. New Tyre Chamber Committee Meeting

Name	Representing	30.06.06	29.09.06	01.12.06	23.02.07
Mr A Dennis	Employer	✓	✓	✓	✓
Mr J Harris	Employer	✓	✓	✓	✓
Mr S Mandabana	Labour				
Ms M Mogopodi	Labour	✓	✓	✓	✓
Mr G Mosue	Labour		✓	✓	
Mr V Mthethwa	Labour	✓	✓		✓
Mr P Nodongwe	Labour	✓	✓	✓	✓
Mr R Nzimande	Employer	✓	✓		
Mr O Mdoda	Labour	✓	✓	✓	✓
Mr L Swart	Labour	✓	✓	✓	✓
Mr P Veldtman	Labour	✓	✓		✓
Mr G Wehmeyer	Labour		✓		
Ms V Stein	Labour	✓	✓		✓
Mr P Welgemoed	Employer		✓	✓	
Mr J Wilson	Employer	✓	✓	✓	✓
Mr S Zamisa	Employer	✓	✓	✓	✓
Mr A Mchunu	Labour	✓	✓	✓	✓
Mr W Myburgh	Labour			✓	
Mr M Joubert	Labour	✓			
Mr R Daniels	Employer	✓			
Mr D Rayners	Employer		✓	✓	✓
Mr K Mtyeku	Labour	✓	✓	✓	✓
Mr L Bosch	Employer	✓	✓	✓	✓
Mr C Xaluva	Labour			✓	
Mr H Ntlatleng	Labour			✓	
Mr Z Mge	Labour				✓
Mr M Govender	Employer				✓

4. Metal and Engineering Chamber Committee Meetings

Name	Representing	02.03.06	01.06.06	31.10.06	01.03.07
Mr V Zwane	Employer	✓	✓	✓	✓
Mr A Gibson	Employer	✓	✓		
Mr B Swarts	Labour	✓	✓	✓	✓
Mr C Khuzwayo	Labour	✓	✓	✓	✓
Mr D Naicker	Employer	✓	✓		✓
Dr E Wessels	Employer	✓	✓	✓	✓
Ms J Lopes	Employer	✓	✓	✓	✓
Mr J Kruger	Employer	✓	✓		
Mr J Burger	Labour	✓	✓	✓	
Ms M Mogopodi	Labour	✓		✓	✓
Mr P Thobejane	Labour	✓	✓		
Mr P Bezuidenhout	Labour	✓	✓	✓	
Mr T Vorias	Labour	✓			
Mr T Mahao	Labour	✓	✓	✓	✓
Mr T Tsiboli	Labour	✓	✓	✓	✓
Mr W Matthiae	Employer	✓		✓	
Mr R Kgagudi	Labour		✓		
Mr T Modise	Labour		✓		
Mr V Molekoka	Employer		✓		✓
Mr P Bhuda	Labour			✓	✓
Mr T Harrison	Employer				✓
Mr P Mogore	Labour				✓
Mr B Sishwili	Labour				✓
Mr J Maake	Labour				✓
Mr L Mthiyane	Labour			✓	✓

5. Automobile Manufacturing Chamber Committee Meetings

Name	Representing	07.04.06	23.06.06	06.12.06	30.03.07
Mr S Ntshalaba	Employer	✓	✓	✓	✓
Mr V Mkhungo	Labour	✓		✓	✓
Mr T Mnguni	Labour	✓	✓	✓	✓
Mr P Bazi	Labour	✓	✓		✓
Mr L Tsiane	Labour	✓	✓		
Mr D Mohajane	Labour	✓	✓	✓	
Mr P Kumm	Employer	✓	✓		
Ms T Laaka Daniels	Employer	✓	✓	✓	
Mr D Van Rensburg	Employer	✓	✓	✓	✓
Mr C Kemp	Employer	✓	✓	✓	
Mr C Davidson	Employer	✓	✓	✓	
Mr U Badenhorst	Employer	✓	✓	✓	✓
Mr X Tshayana	Labour	✓	✓	✓	✓
Mr E Swanepoel	Employer		✓		✓
Mr J Millard	Employer		✓		
Mr B Fouche	Employer		✓	✓	✓
Mr S Thusi	Labour			✓	✓
Ms J Abbott	Employer			✓	✓
Mr S Godd	Employer	✓	✓	✓	✓
Mr H Lovell	Employer				✓
Mr G Malan	Employer	✓	✓	✓	✓
Mr M Maleka	Labour			✓	✓
Mr O Mogale	Labour			✓	✓
Mr D Dladla	Labour				✓
Ms M Mogopodi	Labour				✓
Mr D Adams	Employer			✓	
Mr P Howe	Employer			✓	
Mr M Lucwaba	Employer			✓	

The Governing Board and its committees including Chamber Committees comprises of alternates.

Code of Conduct

The members of MERSETA's Governing Board are required to adhere to the Code of Conduct in that members share a commitment to high moral, ethical and legal standards. The code is incorporated in the MERSETA Constitution as approved by the Minister of Labour. As MERSETA is continuously improving, it is engaged in the process of reviewing the Code of Conduct to achieve the highest ethical standards. This code will be considered by the Governing Board at the beginning of the new financial year.

Materiality and Significant Framework

The Treasury regulations issued in terms of the PFMA require that the Governing Board compiles and agrees on a materiality and significant framework of acceptable levels with the Department of Labour. The approval of the framework has been agreed to and approved by the Minister through the service level agreement.

Risk management

MERSETA is continuously striving to improve. As a result, a risk assessment was performed by our internal auditors to ensure that we improve mechanisms for identifying and monitoring risks. This assessment will culminate in a risk management plan for MERSETA.

Sustainable Development

MERSETA commits to sustainable development by ensuring that its operations take cognisance of the environmental, social and economic impact by adopting strategic objectives that guide the business in the following ways:

- Good governance while exceeding stakeholder expectation. To further this commitment the Executive Committee approved the manual on the Access to Information Act during the year under review;
- Effective financial management through the collection and disbursement of funds;
- Human resources development that focuses on the creation of a culture of learning as well as the retention, attraction and motivation of employees, and becoming an employer of choice; and
- Making sure that MERSETA operations are conducted in a healthy and safe environment, an approach that will culminate in compliance with occupational health and safety requirements.

Management Committee

The Management Committee is chaired by the Chief Executive Officer who is charged with the responsibility and accountability for recruitment, appointment and management of all employees of MERSETA. The Chief Executive Officer is given direction and is supervised by the Executive Committee.

The Management Committee as at 31 March 2007, comprised of:

- Dr Raymond Patel : Chief Executive Officer
- Ms Corli Janse van Rensburg : Chief Financial Officer
- Mr Seya Shayi : Divisional Manager ; Skills Development Implementation
- Mr Wayne Adams : Divisional Manager: ETQA
- Mr Tom Mkhwanazi : Company Secretary
- Ms Moketenyana Mayongo : Human Resource Manager

The Management Committee meets at least twice a month.



Seya Shayi

Divisional Manager : Skill Development Implementation

The Skills Development Implementation (SDI) Division is made up of the following units:

- Six Regional Offices
- Five Chambers
- Learning Programmes Unit
- Projects

The regional offices are responsible for the implementation of MERSETA skills development initiatives through a regional outreach programme including support to companies, training providers and learners. Advocacy and implementation is also done through the regions.

The chambers coordinate the requirements of the industry in our sector and identify the areas where qualifications must be registered as well as where the needs for curriculum and courseware development are. The chambers further serve as a source of information with regards to changes and needs within the different sub sectors in order for MERSETA to adjust and align programmes to these. This information is crucial especially when it comes to technological advances within the different sub sectors, and in order for MERSETA to become a thought leader and remain a step ahead in the industry in terms of skills development, constant planning and alignment is necessary.

A number of projects have been implemented during this financial year. These included a few learnership projects, outside of the normal discretionary grants that were announced (in partnership with Automotive Industry Development Centre (AIDC); COEGA; Damelin; Umsubomvu and Indo German Toolroom. We also supported two MERSETA Institutes of Sectoral or Occupational Excellence (ISOE).

The Learning Programme Unit (LPU) is responsible for facilitating the development of qualifications identified by the chambers through different Standard Generating Bodies (SGBs). They are then responsible for the registration of learnerships and skills programmes against these qualifications.

Regional Outreach

MERSETA has 6 regional offices nationally. The offices are situated in the following provinces: Eastern Cape; Mpumalanga; Free State; Western Cape; KwaZulu Natal and Gauteng.

Although MERSETA do not have physical offices in Limpopo; North West; and Northern Cape, MERSETA covers those provinces through the Mpumalanga office situated in Witbank, the Gauteng office situated in Johannesburg and the Free State office situated in Bloemfontein respectively. Our regional managers that are responsible for these offices take accountability and make frequent visits to the companies in the area.

The main functions of the regional offices for the year included:

- Assisting companies with training centres and providers to attain Accreditation status
- Doing workplace approvals at companies to ensure that quality training is done
- Registering of learnership agreements, apprenticeships and learners on skills programmes
- Advise companies on Skills Development and initiatives in training
- Assist learners during their training
- Give input into provincial growth strategies and plans

The Projects

MERSETA is very focused and active in skills development where the National Government had identified economic hubs. Our projects have been structured mainly around learnership implementation during the financial year. This was done to ensure that these programmes are delivered in a structured way and that lessons around the administration and implementation of these can be used in future to make the process easier on MERSETA member companies. Some of the highlights of the year were:

Courseware Development

A challenge MERSETA faced was that courseware was needed for current registered qualifications. Providers submitted their courseware to the MERSETA ETQA for programme approval before implementation, but that still left numerous qualifications without the necessary curricula and courseware. Although courseware development is not considered to be a SETA responsibility, MERSETA identified and funded the development of the courseware for 29 qualifications. This resulted in the faster implementation of many of these programmes and enabled smaller organisations to get involved in training without having to lay out funds for the courseware development. MERSETA supplies all courseware developed by it free to all MERSETA Accredited providers.

Tooling Project

MERSETA funded 10 learners to study a tooling qualification at the Indo German Toolroom in India. This centre is regarded as one of the leading providers of training for toolmakers in the world. All of these learners graduated and came back to join the industry, and some have even joined universities of technology to as lecturers.



Capacity Building

MERSETA is dedicated to build capacity for all our stakeholders. Capacity building workshops are organised by our regional offices and head offices where applicable, for people serving in our governance structures.

We have structured workshops aimed at specifically shop stewards and training committees on skills development issues on a regular basis.

Different workshops were also presented to Companies and SDFs which includes MERSETA specific processes and procedures. This included all grant related issues as well as ETQA and other matters.

We have increased these road shows and presentations with regard to numbers as well as the topics that were discussed and feedback shows that everyone attending the presentations is more involved in skills development and better understands the spirit of skills development.

The photo below shows stakeholders in one of our workshop.



ISOE

MERSETA has assisted 2 colleges to become welding ISOEs under the published MERSETA criteria. It is a long-term project where we will continue to assist and advise these organisations to deliver the best possible training in our sector. They are the East Cape Midlands Further Education Training College (FET) in Uitenhage and the West Coast FET College near Saldanha.

Our objective is to strengthen FET colleges through capacitating them in MERSETA programmes and to support the industry by facilitating the provision of skills.

One of the ways in which MERSETA provides support was to assist the facilitators at the Welding Centres to obtain their international qualification in welding, supported by the International Institute for Welding (IIW). The state-of-the-art equipment was also funded for 20 welding bays in each college to ensure quality education.



MEC for education : Western Cape, Mr C Dugmore and MERSETA, CEO Dr R Patel

Graduations and Collaborations

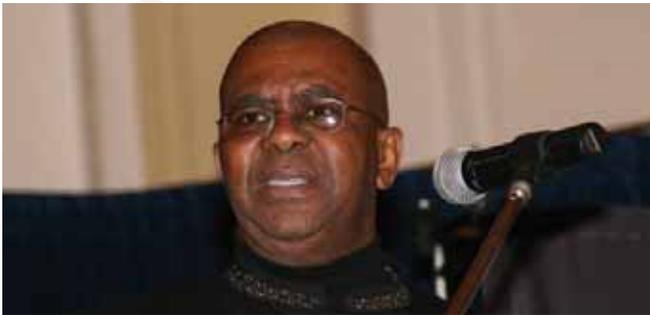
As previously mentioned, MERSETA partnered with certain organisations to deliver on learnership implementation projects, and the success indicator of these is always the graduation ceremony and seeing the learners complete their programmes successfully.

A graduation ceremony was held for 292 learners that were trained through the AIDC, where the Minister of Labour, Mr MMS Mdladlana was a guest speaker. This programme originally started with 300 learners, and eight of these learners found permanent employment during the programme and decided not to continue. This graduation was for the NQF1 course and MERSETA also funded these learners for their NQF2 certificate.

It was also imperative to establish partnerships for different Provincial Government departments to ensure that efforts within Skills Development are not duplicated and that programmes are focused to deliver on the mandate of the SETA. We are in the process of signing agreements with these departments that will accelerate the delivering of programmes regionally.

There have also been graduations through a programme with Pasdec, where 397 learners completed their NQF level 2 in Automotive Component Manufacturing and what makes this one special is that most of the candidates were female. These learners have also progressed to NQF level 3.

The first learners on Rubber Technology NQF Level 5 have qualified.



The Minister of Labour addressing the guests at the AIDC graduation



The chairperson of merSETA, Ms Lizel Heunis and the joint-acting CEO of merSETA, Ms Corli Janse Van Rensburg receiving a token of appreciation from the Managing Director of AIDC standing behind Mr S'thabiso Madondo

Career Exhibitions

The other critical responsibility is the advocacy of skills within the manufacturing and engineering sector. Through the input from Chambers, the MERSETA has developed a MERSETA career guide for all the relevant sub sectors within our scope. Career exhibitions were held around the country by MERSETA where personnel advised learners and distributed career guides and MERSETA information. These included: North-West Skills Development Conference and Exhibition; Human Resources Development Africa; Auto Africa; Department of Labour NSF Special Projects launch; Science Unlimited; and Working World Extravaganza.

Sectoral Chambers

MERSETA has 5 chambers in the sector of Manufacturing and Engineering and Related Services. The chambers are Automotive Manufacturing; Motor Retail and Components; Plastics; New Tyres; and Metal and Engineering.

The qualifications developed within our sector are identified and developed by subject matter experts selected from relevant chambers and industry. To date, MERSETA has registered 96 qualifications with the South Africa Qualification Authority (SAQA).

Learner Registration

MERSETA continues with the training of apprentices. There is a gradual increase in apprentice intake and progression yearly. The largest number of our apprentices is within the Metal chamber, followed by Motor Retail. It must be noted that about 235 apprentices from the Plastic chamber, and 12 from the New Tyres chamber, are included on the Metal chamber because the trades are similar. The distribution of apprentice intake in our sector is very important because it will avoid the same companies taking on apprentices and reaching a point of saturation. Our ETQA has a ratio of two apprentices for every artisan to ensure quality learning for the apprentices. Although the biggest intake of apprentices is January of every year, apprenticeship can be started at any time of the year.



Wayne Adams
Divisional Manager : ETQA

In the previous financial year (2005 / 2006) MERSETA's accreditation as an ETQA was extended for a further three years as a result of the development and implementation of the revised ETQA policies, procedures, criteria and guidelines.

Provider Accreditation

The number of provider site visits conducted within the financial period under review totalled 314, resulting in the full accreditation of 41 providers, provisional accreditation of 2 providers, 59 extensions of accreditation and 20 decentralised trade test centres accredited, of which eight were aligned to the revised ETQA criteria. The process of aligning the provider accreditation to the revised approved criteria is continuing as the expiry dates of existing accreditations are reached.

A total of 2 093 workplaces were approved as facilities with the required infrastructure to implement learnerships and skills programmes. 38 new learning programmes were submitted for programme evaluation and approved to extend the scope of coverage of accredited providers.

Assessor Registration

MERSETA has registered 729 Assessors and 97 Moderators in accordance with its Assessor/Moderator Registration Criteria during the year under review. These Assessors and Moderators cover the primary focus of MERSETA ETQA.

Monitoring and Auditing Activities

The focus of our strategy has changed from quantity to quality, resulting in 159 monitoring visits being conducted on accredited providers and 30 providers audited during

the period under review. Providers monitored were assisted with the implementation of their systems towards meeting the criteria for full accreditation as part of MERSETA's strategy to support provisionally accredited providers.

Memorandum of Understanding Agreements

Memorandum of Understanding Agreements (MOUs) were signed with all ETQAs where an overlap of functions exists.

The letter of cooperation signed with UMALUSI to facilitate a process towards the establishment of a formal relationship with the FET fraternity is still in force and MERSETA will continue to facilitate a working relationship with the FET Sector. MOUs were signed with the Gauteng and Western Cape Provincial Education Departments during the financial year under review. We will continue to engage the outstanding Provincial Departments of Education towards signing such MOUs.

Certification of Learners

A total of 7 502 certificates were issued for the period under review to learners in recognition of their achievements. The process for issuing certificates was streamlined ensuring that certificates are now issued within seven days of validation. The following categories of certificates were issued:

• National Qualification Certificates	3 105
• Trade Test Certificates Section 13	2 353
• Trade Test Certificates Section 28	1 551
• ATRAMI Certificates	56
• AMIC Certificates	437

SAQA Audit on management of holograms

A SAQA audit was conducted during the period under review on the management and issuing of the SAQA hologram in accordance with MERSETA Certification Policy. MERSETA was commended by SAQA on its best practice regarding the lamination of certificates resulting in the protection of the hologram.

Verification of Certificates

Requests for the verification of MERSETA issued certificates were received from stakeholders and overseas counterparts wanting to verify the authenticity of certificates issued. The verification resulted in the exposure of fraudulent certificates being issued under previous Industry Training Boards. This matter is currently under investigation by the South African Police Services.

Recognition of Prior Learning (RPL)

Progress regarding the implementation of RPL has been slow within MERSETA. From a policy perspective, MERSETA has however put in place the necessary infrastructure to roll out RPL within the Sector, emphasising the dual responsibility of both accredited providers and MERSETA in ensuring the successful implementation of RPL taking cognisance of the fact that quality cannot and will not be compromised.

Assessor, Moderator and Mentor Training Project

MERSETA continued within the financial year under review to fund the training of Assessors, Moderators and Mentors based on the need expressed by stakeholders.





Corli Janse van Rensburg
Chief Financial Officer

The financial overview is meant to give a visual snapshot of some of the financial matters in the MERSETA.

Firstly, the analysis of the number of companies in Graph 1 shows that there are over 44 000 registered companies. It is a concern that only 12 000 of these contribute levies. However, this figure does include approximately 20 000 small companies who are exempt from paying the SDL levy (outside the annual payroll threshold of R500 000). SARS is responsible for the collection of the levies and keeps 2% of levies for this purpose.

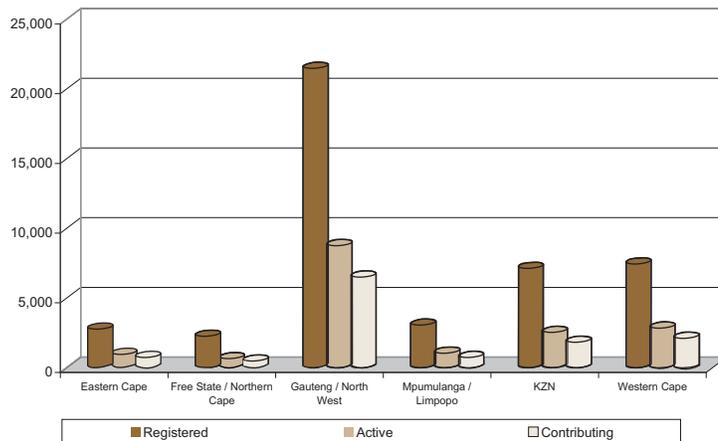
The companies contributing (Graph 2) are divided into three categories: small; medium; and large. Small companies have between 1 and 49 employees; medium between 50-149; and large more than 150 employees.

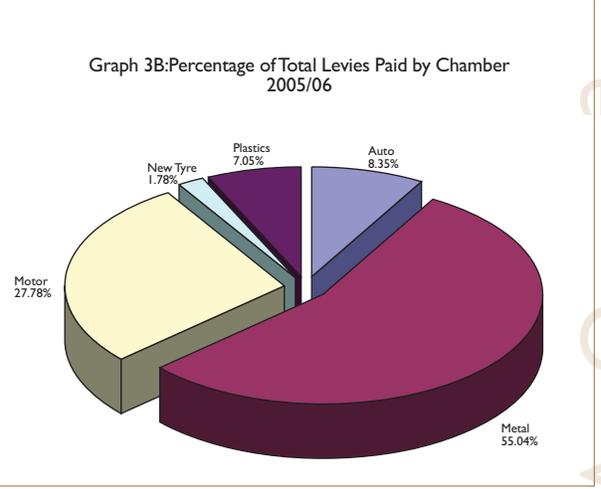
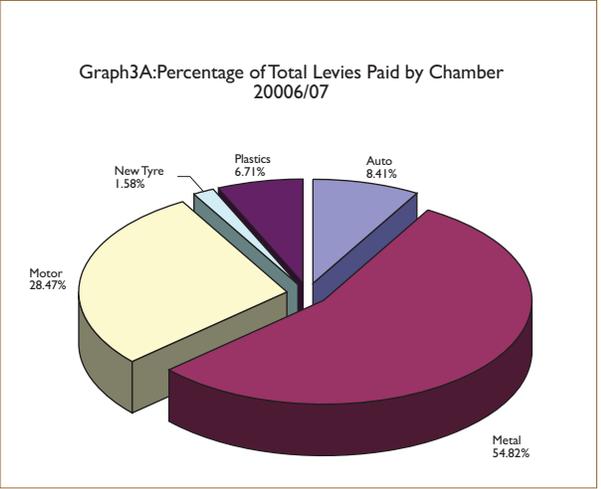
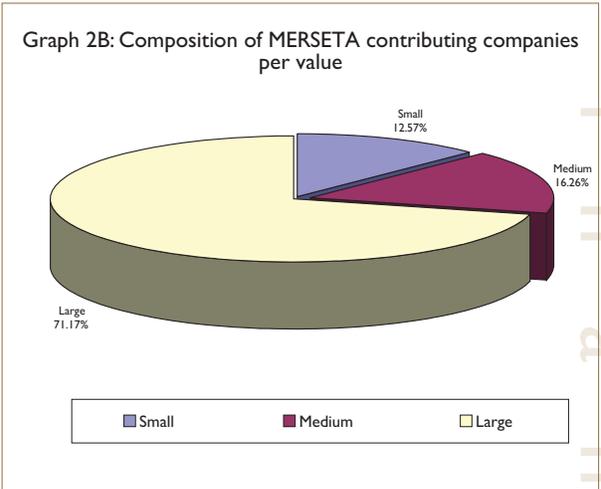
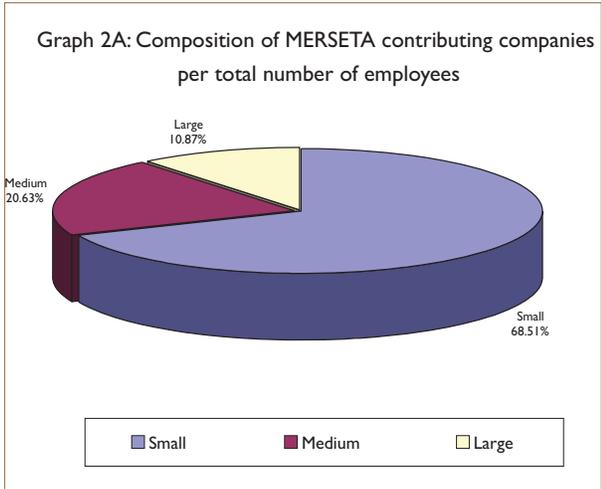
Only 10% of the contributing companies are categorised as large. However, these companies contribute more than 70% of the total levies.

The small companies that need to be supported through skills development initiatives are made up of 68% of contributing companies, plus the exempted companies as mentioned above.

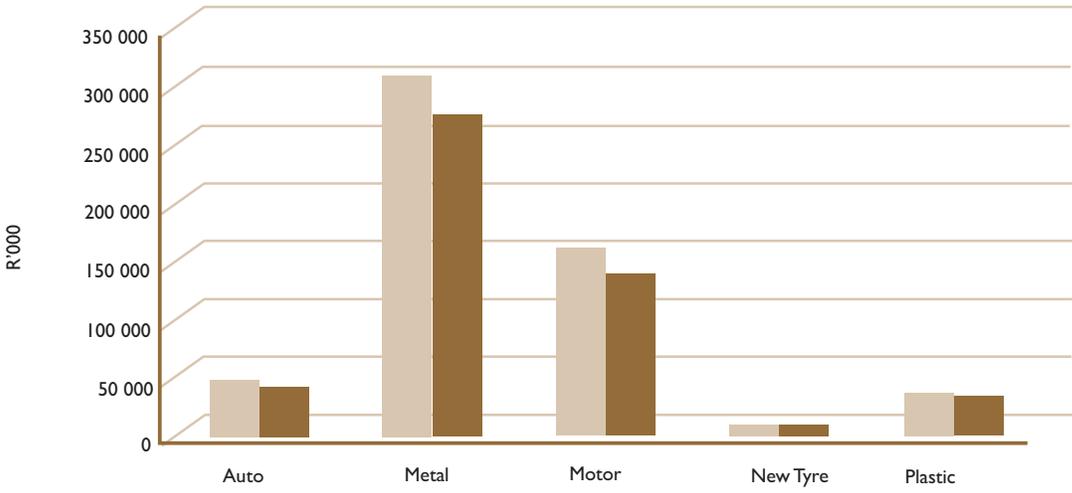
The breakdown of levies received per chamber (Graphs 3 and 4) shows that the Metal Chamber contributes over 50% of total levies. The Metal Chamber also has the biggest number of companies, both contributing and exempted.

Graph 1: Total Levy Analysis by Province





Graph 4: Levy contribution by chamber 2007 vs 2006



MERSETA'S PERFORMANCE AGAINST NSDS TARGETS

During the last quarter of 2005, the STi group of autobody repairers took part in discussions with insurance company Mutual & Federal, regarding training initiatives in the autobody repair industry. Agreement was reached to forge a partnership involving the two companies, which gave rise to the pilot project named ITHUBA.

The project commenced in August 2006 consisting of 23 previously disadvantaged individuals who were identified and screened as candidates for NQF level 2 spray-painting. Rustguard Panelbeaters, one of MERSETA's accredited training providers and the first to qualify on NQF level 1 in the Cape, was involved in the project from its early developing stages to implement the required ETQA standards and to ensure the continuous feed of NQF level 1 learners into the programme.

The ITHUBA project was very successful. 21 learners completed the programme and 17 of the original group are still in workshops.

In the process of rolling out this programme, the following was achieved:

Accreditation:

- Learnership Accreditation (main requirement to run a Learnership)
- Trade Assessment Accreditation
- Propose the accreditation of these Skills Programmes: Basic spray painting and Basic Panel beating

Course Material development:

- Workbooks were developed

Completion of the Learnership:

- First provider to complete the NQF Level 2 spray painter learnership
- Completed the project within the timeframe and budget
- 91% of learners completed NQF level 2 Spray Painter Learnership

All of the NQF Level 2 Spray Painter learners were placed with STi companies.

The programme also gave rise to a continuity plan for learners to proceed from NQF level 1 to NQF level 3 Spray Painter:

- NQF Level 3 spray painter - 21 learners will start NQF level 3 in August 2007

- NQF Level 2 spray painter - 23 NQF Level 1 Learners are currently in NQF Level 2 at the STi Training Centre, having graduated from the Rustguard Training Centre (Main feeder)

- NQF Level 1 - 25 NQF level 1 Learners are currently at Rustguard Training Centre

The following plans are in place for future growth:

- Implementation of the Automotive body repairer and spray painter learnership nationally
- Implementation of National Vocational Certificate (NVC) for administrative tasks in the industry
- Implementation of Skills Programmes in the industry
- Once the NQF level 3 Automotive Repair and Maintenance Qualification is registered, we will propose the registration of these Skills Programmes :
 - Advanced Spray Painting and;
 - Advanced Panelbeaters.

NSDS II

MERSETA's Performance Against NSDS Targets

(2 0 0 6 - 2 0 0 7)

	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2006 – 2007 Annual Targets and Outcomes	Achievements
1	1. Prioritising and communicating critical skills for sustainable growth, development and equity	Indicator 1.1 Skills development supports national and sectoral growth, development and equity priorities.	The SSP or Annual Update is signed of by the: a) SETA/ DoL agreed growth, development and equity strategy driver;b) DoL Executive Manager responsible for quality assurance of SSP. The SSP or Annual update submitted on time as per DoL Guidelines.	The updated MERSETA Sector Skills Plan was submitted to the Department of Labour on 14 December 2006.
2	1. Prioritising and communicating critical skills for sustainable growth, development and equity	Indicator 1.2 Information on critical skills widely available to learners. Impact of information dissemination researched, measured and communicated in terms of rising entry, completion and placement of learners.	A sector guide per sub sector (1 x 5 sub sectors) 21 SDFs or 690 Sector Specialists trained in sector for the year.	A sector guide covering the five sub sectors was produced. 1 065 Skills development facilitators and Sector Specialists were trained.
3	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.1 By March 2010 at least 80% of large firms' and at least 60% of medium firms' employment equity targets are supported by skills development. Impact on overall equity profile assessed.	The TARGET for large firms is 479 firms. The TARGET for medium firms is 755 firms. Two scores will be calculated, one for each sub sector. Score 3a for large companies and score 3b for medium companies.	467 large firms received WSP / ATR grants for the 2006 / 07 financial year. 768 medium firms received WSP / ATR grants for the 2006 / 07 fiscal year.
4	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.2 By March 2010 skills development in at least 40% of small levy paying firms supported and the impact of the support measured.	The TARGET for the different number of small firms is 3 700 firms (with reference to number of small firms after 1 August 2005)Note - The number of firms will be equal to the number of interventions supported.This will allow a company to be supported more than once.	5 168 small levy-paying firms were provided with skills development support interventions during the 2006 / 07 financial year.
5	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.4 By March 2010, at least 500 enterprises achieve a national standard of good practice in skills development approved by the Minister of Labour.	Not applicable for 2006 / 2007	Not applicable to MERSETA and its sub sectors.
6	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.5 Annually increasing number of small BEE firms and BEE co-operatives supported by skills development.Progress measured through an annual survey of BEE firms and BEE co-operatives within the sector from the second year onwards. Impact of support measured.	Conduct survey	The Sector Skills Plan review included a study of BEE firms within MERSETA. Sixty four BEE companies were provided with skills development support interventions during the 2006 / 07 financial year.
7	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.7 By March 2010 at least 700 000 workers have achieved at least ABET Level 4.	Target for the sector for the period 2006 to 2007 is 8 597 learners.	4 907 workers registered for ABET training on levels 1, 2, 3 and 4 during the 2006 / 2007 financial year, of whom 98% were black, 23% were female, and 30% were young people under 35.

	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2006 – 07 Annual Targets and Outcomes	Achievements
8	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.8 By March 2010 at least 125 000 workers assisted to enter and at least 50% successfully complete programmes, including learnerships and apprenticeships, leading to basic entry, intermediate and high level scarce skills. Impact of assistance measured.	Target for the sector for the period 2006 to 2007 is 3000 learners: Learnerships = 1 250 Apprenticeships = 1 000 Skills Programmes = 750	3 933 workers entered learning programmes during the 2006 / 07 financial year, of whom 2 951 were black workers, 369 were female, and 28 were disabled 1 134 workers completed their learning programmes, of whom 1 022 were black, 263 were female and 16 were disabled. A total of 3 353 were young people, of whom 667 completed their training.
9	3. Promoting employability and sustainable livelihoods through skills development	Indicator 3.2 By March 2010, at least 2 000 non-levy paying enterprises, NGOs, CBOs, and community-based co-operatives supported by skills development. Impact of support on sustainability measured with a targeted 75% success rate.	Target for the sector for the period 2006 to 2007 is 40 enterprises.	16 non-levy paying firms were provided with skills development interventions
10	4. Assisting designated groups, including new entrants to participate in accredited work, integrated learning and work based programmes to acquire critical skills to enter the labour market and self employment	Indicator 4.1 By March 2010 at least 125 000 unemployed people assisted to enter and at least 50% successfully complete programmes, including learnerships and apprenticeships, leading to basic entry, intermediate and high level scarce skills. Impact of assistance measured.	Target for the sector for the period 2006 to 2007 is 3000 learners. Learnerships = 1 250 Apprenticeships = 1 000 Skills programmes = 750 Bursaries = 100 Maths & Science = 120 Indo German Tool Room = 10 Provincial ESDLs = 350 AIDC ESDL = 292 Projects for critical skills COGSI = 300 PBMR = 300 Coega = 300 Other = 300	2 572 unemployed workers embarked upon learning programmes of whom 2 297 were black, 618 were female, and 13 were disabled. 1 378 unemployed workers completed their learning programmes, of whom 1 251 were black, 322 were female and 8 were disabled. A total number of 2 473 of these unemployed workers were young people, with a completion figure of 1 349.
11	4. Assisting designated groups, including new entrants to participate in accredited work, integrated learning and work based programmes to acquire critical skills to enter the labour market and self employment	Indicator 4.2 100% of learners in critical skills programmes covered by sector agreements from FET and HET institutions assisted to gain work experience locally or abroad, of whom at least 70% find placement in employment or self-employment	Target for the sector for the period 2006 to 2007 is 1 000 Learners.	461 learners were assisted in terms of workplace experience grants, of whom 291 were black, and 90 were female. A total number of 347 of these workers were young people.
12	4. Assisting designated groups, including new entrants to participate in accredited work, integrated learning and work based programmes to acquire critical skills to enter the labour market and self employment	Indicator 4.3 By March 2010, at least 10,000 young people trained and mentored to form sustainable new ventures and at least 70% of new ventures in operation 12 months after completion of programme.	Target for the sector for the period 2006 to 2007 is 139 young persons.	A total of 100 young black workers, including 19 females, commenced on the New Venture Creation programme.
13	5. Improving the quality and relevance of provision	Indicator 5.1 By March 2010 each SETA recognises and supports at least five Institutes of Sectoral or Occupational Excellence (ISOEs) within public and private institutions and through Public Private Partnerships (PPPs) where appropriate, spread as widely as possible geographically for the development of people to attain identified critical occupational skills, whose excellence is measured in the number of learners successfully placed in the sector and employer satisfaction ratings of their training.	Target for the sector for the period 2006 to 2007 is two institutes.	MerSETA continued to support two ISOEs recognised within the previous financial year.

	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2006 – 07 Annual Targets and Outcomes	Achievements
14	5. Improving the quality and relevance of provision	Indicator 5.2 By March 2010, each province has at least two provider institutions accredited to manage the delivery of the new venture creation qualification. 70% of new ventures still operating after 12 months will be used as a measure of the institutions' success.	Target for the sector for the period 2006 to 2007 is one institute.	This target was wrongly allocated as MERSETA cannot accredit providers for this qualification, however we continued to use providers accredited by Services Seta in the implementation of the New Venture Creation qualification.
15	5. Improving the quality and relevance of provision	Indicator 5.3 By March 2010, each province has at least two provider institutions accredited to manage the delivery of the new venture creation qualification. 70% of new ventures still operating after 12 months will be used as a measure of the institutions' success.	Note: A measurement methodology with outcomes, targets and criteria is to be developed in conjunction with SAQA and SETA ETQAs.	MERSETA continued to ensure that it complied with DoL requirements through timeous submission of relevant reports such as the Annual Report to Parliament, the QMR and performance scorecards. The ETQA status received a favourable audit report from SAQA.
16	5. Improving the quality and relevance of provision	Indicator 5.4 By March 2010, there is an NSA constituency based assessment of an improvement in stakeholder capacity and commitment to the National Skills Development Strategy.	Note: A measurement methodology with outcomes, targets and criteria is to be developed in conjunction with the NSA. Capacity building for chamber committees took place.	

AUDIT COMMITTEE REPORT

Report of the 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 No. 1 of 1999, as amended by Act No. 29 of 1999.

We are pleased to present our report for the financial year ended 31 March 2007.

Audit Committee Members and Attendance

The audit committee consists of a maximum of five independent members. The Chairperson of the Governing Board, the Chief Executive Officer, Chief Financial Officer, representative(s) of the Auditor-General, representative(s) from the outsourced Internal Audit Firm, are invited to attend meetings. These members, listed hereunder, met 7 times as per the approved terms of reference.

Name of Member	No. of Meetings attended
B M Hawksworth (Chairperson)	7
J L Davis (Independent)	7
S Govender (Independent)	5
A Mashifane (Independent)	6
G R Rosenthal (Independent)	4
R Patel (CEO from 01/10/06)	2
C Janse van Rensburg (acting CEO until 30/09/06)	5
L Heunis (Chairperson of merSETA)	5

Audit Committee Responsibility

The Audit Committee reports that it has adopted appropriate formal terms of reference as per 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 PFMA and the King II Report on Corporate Governance requirements, 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.

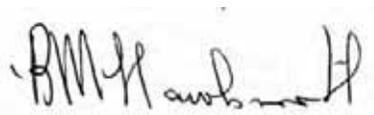
From the various reports of the Internal Auditors, the Audit Report and the Annual Financial Statements, it was noted that there continues to be an improvement in internal control, including procurement and corporate governance. Management will ensure that all matters in the 2007 Audit Report and Management Letter receive the necessary attention to prevent recurrence. The Audit Committee will monitor the progress quarterly as per the Audit Committee Charter

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 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 of the Audit Committee)
Date 30/08/2007

REPORT ON THE FINANCIAL STATEMENTS

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MANUFACTURING, ENGINEERING AND RELATED SERVICES SECTOR EDUCATION AND TRAINING AUTHORITY FOR THE YEAR ENDED 31 MARCH 2007

Introduction

1. I have audited the accompanying financial statements of the Manufacturing, Engineering and Related Services Sector Education and Training Authority (MERSETA) which comprise the statement of financial position as at 31 March 2007, appropriation statement, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 78 .

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:

- designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 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), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 647 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

6. An audit also includes evaluating the:

- appropriateness of accounting policies used
- reasonableness of accounting estimates made by management
- overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

Opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Manufacturing, Engineering and Related Services Sector Education and Training Authority as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting described in note 1 to the financial statements and in the manner required by the PFMA.

Emphasis of matter

10. I draw attention to the following matters:

Highlight of a matter included in the notes to the financial statements

Skills development levies

11. As indicated in accounting policy note 3 to the financial statements, the SETA does not have a legislative mandate to obtain and maintain source documentation to support revenue. As a result, the SETA experienced difficulties in ensuring that revenue was recorded on a complete and accurate basis. The National Treasury has amended the accounting policy on revenue recognition to take legislative constraints into account and the new accounting policy will be effective from 1 April 2007. The financial statements for the year under review have been prepared on a basis consistent with the previous year.

Irregular expenditure

12. The threshold amount per MERSETA procurement policy and procedures manual are not in line with the amount prescribed by National Treasury. This and a lack of a public bidding procedures resulted in irregular expenditure of R81.500 million disclosed in note 26.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Due to a lack of monitoring the following instances of non-compliance were noted

13. MERSETA did not advertise tenders in the Government Tender Bulletin as required by Treasury Regulation section 16A6(3)(c)

14. Contracts to the value of R209 000 were not motivated in writing justifying the reasons for deviation from the supply chain management process as required by Treasury Regulation 16A.

Material corrections made to the financial statements submitted for audit

15. The following errors were noted in the annual financial statements, as submitted on 31 May 2007, and corrected:

- Prior year understatement of mandatory grant provisions of R30.420 million corrected as a prior year adjustment
- Understatement of levy income and receivables for an amount of R5.7 million
- Property, plant and equipment stated at fair value of R2.914 million
- Investments amounting to R120 million were not disclosed appropriately
- An adjustment of R3.8 million was made to interseta payables, R1.6 million to interseta debtors and R2.2 million to levy income.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

14. I have audited the performance information as set out on pages 32 to 34.

Responsibility of the accounting authority

15. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

Responsibility of the Auditor-General

16. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*.

17. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

18. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit conclusions reported below.

Audit findings

19. Objectives included in the strategic plan were not always specific enough to address the overall objective per indicators.
20. The strategic plan of MERSETA states that for indicator 2.5 the target could not be set because the SETA was still conducting research in order to determine the baseline for the objective. However, in the annual report the SETA reported actual performance against indicator 2.5.

APPRECIATION

21. The assistance rendered by the staff of the Manufacturing, Engineering and Related Services Sector Education and Training Authority during the audit is sincerely appreciated.



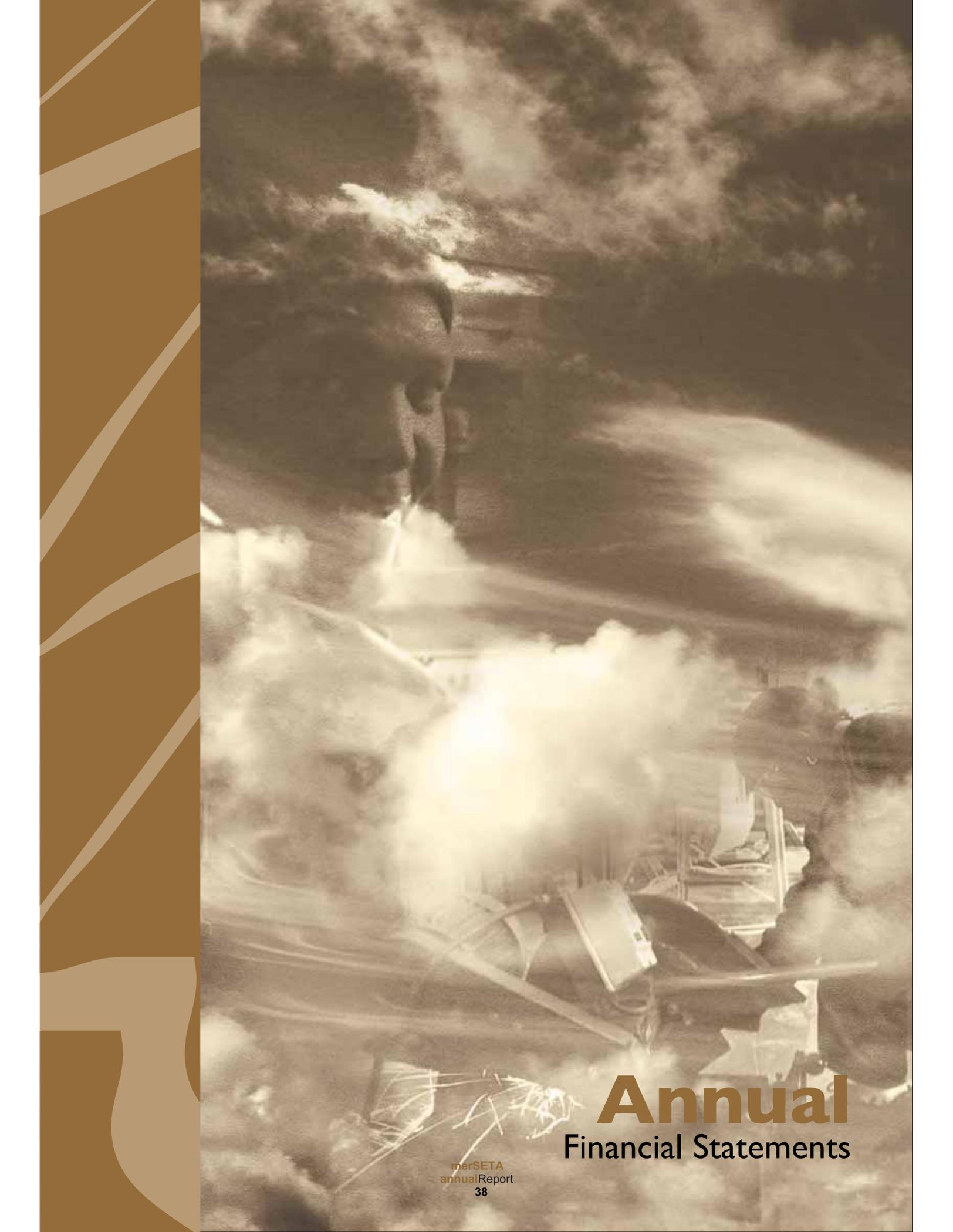
P Bhana for Auditor-General

Pretoria

30 August 2007



AUDITOR-GENERAL



Annual

Financial Statements

Manufacturing, Engineering and Related Services Sector Education and Training Authority

Annual Financial Statements

31 March 2007

Contents	Page
Report of the Accounting Authority	40 - 43
Statement of Financial Performance	44
Statement of Financial Position	45
Statement of Changes in Net Assets	46
Cash Flow Statement	47
Notes to the Annual Financial Statements	48-78

REPORT BY THE ACCOUNTING AUTHORITY TO THE EXECUTIVE AUTHORITY AND PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA

I. General review of the state of affairs

The financial affairs of 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

MERSETA experienced growth in its levy income base of 12.25% in the 2006/07 financial year. This is 6.9% more than the budgeted growth of 8%. The total number of companies contributing to the skills levy for the current year is 12 756. At the end of the year there were 11 165 contributing companies compared to 13 061 in the previous year. This decrease in companies contributing is mainly due to the ongoing effects of the increase of the payroll threshold announced during the previous financial year.

b) Grants and projects

MERSETA maintains a consistent flow of mandatory and discretionary grant payments. The average monthly payment amounts to R29.8 million compared to R31.8 million in the previous year. MERSETA also continues to adhere to the precedent set in the previous two years of enforcing the strict deadlines in the regulations for submission of mandatory grant applications, and companies appear to be growing more disciplined in their adherence to these deadlines.

There have been a number of project initiatives embarked on in the current financial year, in an effort to drive the achievement of the NSDS targets. MERSETA has spent in excess of R100 million in the 2006 / 2007 year on such projects.

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

Chamber	SDF	WSP	ATR	Discr grant	Total	% Total
Auto	2 860 878	71 197 890	69 172 763	38 565 854	181 797 385	12%
Metal	14 144 822	303 973 791	266 606 990	239 213 304	823 938 907	54%
Motor	5 351 697	150 030 842	118 233 585	136 035 080	409 651 204	26%
New Tyre	698 965	13 519 713	15 316 644	4 696 022	34 231 344	2%
Plastics	1 421 045	37 515 126	28 300 120	21 069 500	88 305 791	6%
Total:	24 477 407	576 237 362	497 630 102	439 579 760	1 537 924 631	100%
% of Total	2%	37%	32%	29%	100%	

2. Services rendered by the MERSETA

MERSETA renders four broad services to its sector;

- Grants disbursements:
 - Disbursement of mandatory grants, accounting for 50% of levies paid, and on applications received by 30 June 2006; and
 - Disbursement of discretionary grants, which is a minimum of 20%.
- Quality assurance functions which include but are not limited to:
 - Accreditation of workplaces and training providers for the purpose of quality training provision;

- Assessment and moderation and of learners against set criteria; and
- Auditing and monitoring of training providers and training
- Skills development functions as follows:
 - Development of unit standards and registration of these with the South African Qualifications Authority;
 - Development of curriculum and courseware for unit standards registered in the MERSETA's scope of coverage;
 - Conceptualisation and implementation of skills initiatives which promote the NSDS objectives and address training needs in the MERSETA's five sub sectors. (Refer to Special Projects in the Annual Report);
 - Research into sector training needs in terms of critical skills and future growth skills; and
 - Development and maintenance of a database for skills development reference and administration.
- Skills implementation functions as follows:
 - Skills development advice and assistance to companies and training providers;
 - Administration and maintenance of the apprenticeship system; and
 - Administration and maintenance of the learnership system.

3. Repositioning and strategic planning

The capacity constraints experienced in the previous two financial years were addressed and all significant management positions have now been filled. Service delivery has also been addressed and systems are continually being improved to ensure better delivery on all objectives in the future.

Since the appointment of the new CEO in October 2006, the organisation has embarked on a significant strategic planning and re-positioning exercise to structure itself in such a way as to maximise skills development delivery. An integral part of this is a rigorous planning process to align itself with the National Skills Development Strategy objectives.

The full effect of this initiative should only be felt in the next two to three years as the organisation prepares itself to implement the actions to achieve the goals and objectives identified through this process.

Employment data for key personnel for MERSETA for the 2005 / 2006 financial year:

Key personnel	Total	Travel Allowance	Perform. Bonus	Medical Aid	Pension	Period	Period
CEO	R698 209	R85 000	R118 750	R7 618	R40 393	Apr 05 – Jan 06 Vacant	Vacant: Feb 06-March 2006
CFO	R548 360	R55 000	R74 269	R16 578	R40 250	Apr 05 Vacant	May 05 – March 06
ETQA Div Manager	R479 400	R80 000	R66 250	-	R34 348	Apr 05 – May 05 Vacant	June 05 – March 06
SDI Div Manager	R66 906	R10 000	-	R1 330	R3 777	Apr 05 – Jan 06 Apr 05 – March 06	Feb 06 – March 06
HR Manager	R397 369	R60 000	R54 060	-	R28 422	Apr 05 – Jan 06 Apr 05 – March 06	
Total:	R2,190,244	R290 000	R313 329	R25 526	R147 190		

Employment data for key personnel for MERSETA for the 2006 / 2007 financial year:

Key personnel	Total	Basic Salary	Travel Allowance	Perform. Bonus	Medical Aid	Pension	Leave Pay	Period	Period
CEO	R445 990	R339 035	R66 000	75 000	-	R40 955	-	Oct 06 – Mar 07	Vacant: Apr 06 - Sep 2006
CFO	R788 023	R550 696	R60 000	R89 111	R21 147	R54 435	R12 634	Apr 06 - Mar 07	
ETQA Div Manager	R674 558	R458 174	R96 000	R76 280	-	R44 104	-	Apr 06 – Mar 07	
SDI Div Manager	R598 152	R407 377	R60 000	R67 640	R17 071	R46 064	-	Apr 06 – Mar 07	
HR Manager	R478 043	R327 470	R60,000	R54 058	-	R36 515	-	Apr 06 – March 07	
Company Secretary	R397 540	R271 340	R45 000	R44 955	R4 793	R31 452	-	Jul 06 – March 07	Vacant: Apr 06- June 06 - 2006
Total:	R3 457 306	R2 354 092	R387 000	R 407 044	R43 011	R253 525	R12 634		

The Salary package of the CFO and the ETQA Manager is inclusive of the acting allowance paid to them during the period when they were acting jointly as the Chief Executive Officer.

4. Utilisation of donor funds

MERSETA received no donor funds for the 2006/07 financial year.

5. Business address

The physical and postal addresses of the MERSETA are as follows;

**MERSETA
Metropolitan Park
8 Hillside Road
3rd Floor
PARKTOWN
2193**

**MERSETA
P O Box 61 826
MARSHALLTOWN
2107**

6. Discontinued Activities / Activities to be discontinued

MERSETA did not discontinue activities during the year under review.

7. New / proposed Activities

MERSETA, as is the case with the other 22 SETAs, will embark on aligning its operations with the national strategies of JIPSA and ASGISA (Accelerated and Shared Growth Initiative of South Africa). This will result in a reprioritisation of projects and funds allocated to different projects. In response to the afore-mentioned strategies, MERSETA approved an amount of R70 million for the Accelerated Artisan Training Programme for 1 300 artisans in the metal and engineering and motor retail and component sectors through a pilot which will result in approximately 12 000 artisans by 2010.

8. Events after the reporting date

MERSETA is not aware of any events after the balance sheet date which will affect the financial state of affairs of the organisation for the 2006 / 2007 financial year.

9. Performance information

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 2006 /2007 and for which a Service Level Agreement was signed between MERSETA and DoL. MERSETA has an extensive information database which it uses for record keeping and updating purposes, quality assurance requirements as well as reporting to the DoL.

10 Corporate Governance

MERSETA follows an integrated approach which has governance, risk management and compliance forming the three pillars that allow the organisation to achieve 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**

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.

• **Audit Committee**

The audit committee comprises of five independent members. The Audit Committee is advisory in nature and reports to the Governing Board. 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 Governing Board, has unrestricted access to all personnel, books of account, records, and to any other sources of relevant information that may be required from the Governing Board for the purpose of carrying out its duties and responsibilities. It is also authorised to seek such independent professional advice, as it considers necessary.

• **Other audits**

As part of the internal audit, MERSETA implemented corrective measures in response to a full audit on Corporate Governance and the Internal Control Environment. Most of the recommendations on this audit were implemented in the year under review. This included the appointment of the Company Secretary to ensure that these matters receive attention. A drive for capacity building among all stakeholders on Corporate Governance has already started and will be concluded in the new financial year including the Governing Board assessment.

• **Financial Management**

The monthly MERSETA Executive Committee meetings (six-weekly from 1 January 2007) are presented with a full financial management report from the Chief Financial Officer. An all-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 Governing Board and the Department of Labour.

• **Policies**

The policies and procedures are aligned with General Accepted Accounting Practices and Generally Recognised Accounting Practices.

The Governing Board has adopted the Manual in terms of the Access to Information Act No. 2 of 2000 section 14 and performs all other formalities in terms of sections 15 and 32 of the same Act.

• **Supply chain management unit**

The procurement policy as well as a supply chain management framework was reviewed by the MERSETA Governing Board in order to ensure compliance with relevant legislation. The Supply Chain Management Unit as prescribed by National Treasury consists of a cost accountant and procurement administrator. The cost accountant also acts as the compliance officer.

• **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, Datonet. The organisation's IT network is fully functional and stable and reaches its six regional offices effectively and efficiently.

• **Conflict of interest**

MERSETA's Governing Board maintains a declaration of interest register which was introduced during the year under review. This is over and above the requirement that members declare if they have an interest in any item on the agenda, to comply with the Public Finance Management act as well as good corporate governance practice.

Approval

The annual financial statement for the year ended 31 March 2007, set out on pages 44 to 78, have been approved by the Accounting Authority in terms of section 51 (1) (f) of the Public Finance Management Act, 1999 (Act No 1 of 1999) on 31 May 2007, and are signed on their behalf by:

The image shows two handwritten signatures on a document. The signature on the left is for R Patel (CEO) and the signature on the right is for A Hinekoni (Chairperson). Both signatures are written in black ink over a horizontal line.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

ANNUAL FINANCIAL STATEMENTS

31 MARCH 2007

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006/07 R'000	2005/06 R'000
REVENUE			
Skills Development Levy: income	3	559 689	500 493
Skills Development Levy: penalties and interest	4	4 664	4 246
Total non-exchange revenue		<u>564 353</u>	<u>504 739</u>
Investment income	5	40 048	35 531
Other income	6	3 317	633
Total exchange revenue		<u>43 365</u>	<u>36 164</u>
Total revenue		<u>607 718</u>	<u>540 903</u>
EXPENSES			
Employer grant and project expenses	7	(436 569)	(558 954)
Administration expenses	8	(62 921)	(60 809)
Total expenses		<u>(499 490)</u>	<u>(619 763)</u>
Net surplus/(deficit) for the year	2	<u>108 228</u>	<u>(78 860)</u>

Manufacturing, Engineering and Related Services Sector Education and Training Authority

ANNUAL FINANCIAL STATEMENTS

31 MARCH 2007

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2007

	Note	2006/07 R'000	2005/06 R'000
ASSETS			
Current assets			
Current portion of loan	9	292	361
Prepayments and advances	10	6 489	978
Receivables from non-exchange transfers	11	98 141	80 181
Trade and other receivables from exchange transactions	12	5 204	5 734
Assets held for sale	13	-	325
Held-to-maturity financial assets	14	120 000	233 153
Cash and cash equivalents	15	472 701	281 430
		<u>702 827</u>	<u>602 162</u>
Non-current assets			
Property, plant and equipment	16	8 845	6 491
Intangible assets	17	257	189
Loan	9	-	238
		<u>9 102</u>	<u>6 918</u>
Total Assets		<u>711 929</u>	<u>609 080</u>
LIABILITIES			
Current liabilities			
Grants and transfers payable	18	78 965	99 583
Trade and other payables from exchange transactions	19	24 507	9 121
Provisions	20	1 180	1 327
		<u>104 652</u>	<u>110 031</u>
Net Assets		<u>607 277</u>	<u>499 049</u>
Net Assets represented by:			
Administration reserve		15 905	14 585
Employer grant reserve		641	-
Discretionary grant reserve		590 731	484 464
Total Net Assets		<u>607 277</u>	<u>499 049</u>

Manufacturing, Engineering and Related Services Sector Education and Training Authority

ANNUAL FINANCIAL STATEMENTS

31 MARCH 2007

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2007

Note	Administration reserve R'000	Employer grant reserve R'000	Discretionary grant reserve R'000	Capitalisation reserve R'000	Unappropriated surplus/ deficit R'000	Total R'000
Balance at 1 April 2005	9 194	285 556	274 573	8 586	-	577 909
Prior year adjustment	29.1 3 539	-	(3 539)	-	-	-
Restated Balance	12 733	285 556	271 034	8 586	-	577 909
Net deficit for the year per	-	-	-	-	(78 860)	(78 860)
As previously stated	-	-	-	-	(48 440)	(48 440)
Understatement of mandatory grant provision	29.2 -	-	-	-	(30 420)	(30 420)
Transfer from capitalisation reserve	229	-	-	(229)	-	-
Realisation of capitalisation reserve	-	-	8 357	(8 357)	-	-
Allocation of unappropriated deficit for the year	2 2 452	(79 499)	(1 813)	-	78 860	-
As previously stated	2 452	(49 079)	(1 813)	-	48 440	-
Understatement of mandatory grant provision	-	(30 420)	-	-	30 420	-
Excess reserves transferred to discretionary reserve	(829)	(206 057)	206 886	-	-	-
As previously stated	(148)	(236 477)	236 625	-	-	-
Understatement of mandatory grant provision	29.2 -	30 420	(30 420)	-	-	-
Error in administration reserve allocation	29.1 (681)	-	681	-	-	-
Balance at 1 April 2006	14 585	-	484 464	-	-	499 049
As previously stated	11 727	-	517 742	-	-	529 469
Understatement of mandatory grant provision	29.2 -	-	(30 420)	-	-	(30 420)
Error in administration reserve allocation	29.1 2 858	-	(2 858)	-	-	-
Net surplus for the year per statement of financial performance	-	-	-	-	108 228	108 228
Allocation of unappropriated surplus for the year	2 10 240	99 956	(32 388)	-	(108 228)	-
Excess reserves transferred to discretionary reserve	(8 920)	(99 315)	108 235	-	-	-
Balance at 31 March 2007	15 905	641	590 731	-	-	607 277

Manufacturing, Engineering and Related Services Sector Education and Training Authority

ANNUAL FINANCIAL STATEMENTS

31 MARCH 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006/07 R'000	2005/06 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating activities			
Cash receipts from stakeholders and others		544 126	509 971
Levies, interest and penalties received		544 013	509 901
Other Income		113	70
Cash paid to stakeholders, suppliers and employees		(504 096)	(527 499)
Grants and project payments		(448 057)	471 212)
Compensation of employees		(31 765)	(21 521)
Payments to suppliers and other		(24 274)	(34 766)
Cash generated/(utilised) in operations	21	40 030	(17 528)
Interest received		40 638	35 270
Net cash inflow from operating activities		80 668	17 742
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	16	(3 454)	(5 639)
Purchase of intangible assets	17	(234)	(261)
Proceeds from disposal of property, plant and equipment		739	596
Purchase of held-to-maturity financial assets		113 153	(46 153)
Net cash outflow from investing activities		110 204	(51 457)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from loan		399	433
Net cash inflow from financing activities		399	433
Net increase in cash and cash equivalents		191 271	(33 282)
Cash and cash equivalents at beginning of year		281 430	314 712
Cash and cash equivalents at end of year	15	472 701	281 430

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

I Accounting Policies

The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board (replacing the equivalent GAAP statement as set out below) and the Public Finance Management Act, 1999 (Act No.1 of 1999) as amended

Standard of GRAP

GRAP 1: Presentation of financial statements
GRAP 2: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors

Replaced Statement of GAAP

AC101: Presentation of financial statements
AC118: Cash flow statements
AC103: Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following significant changes in the presentation of the financial statements:

i. Terminology differences:

Standard of GRAP

Statement of financial performance
Statement of financial position
Statement of changes in net assets
Net assets
Surplus/deficit for the period
Accumulated surplus/deficit
Contributions from owners
Distributions to owners
Reporting date

Replaced Statement of GAAP

Income statement
Balance sheet
Statement of changes in equity
Equity
Profit/loss for the period
Retained earnings
Share capital
Dividends
Balance sheet date

ii. The cash flow statement can only be prepared in accordance with the direct method.

iii. Specific information such as:

- (a) receivables from non-exchange transactions, including taxes and transfers;
 - (b) taxes and transfers payable;
 - (c) trade and other payables from non-exchange transactions;
- must be presented separately on the statement of financial position

iv. The amount and nature of any restrictions on cash balances is required to be disclosed

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

Paragraph 11 – 15 of GRAP 1 has not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

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.

1.1 Basis of preparation

The financial statements have been prepared on the historical cost basis, except where adjusted for present/fair values as required by accounting standards.

1.2 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.

1.3 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.

1.3.1 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 MERSETA pay a skills development levy of 1% of the total payroll cost to the South African Revenue Service (SARS).

Eighty percent (80%) of skills development levies are paid over to the MERSETA (net of a two percent (2%) collection cost to SARS and eighteen percent (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 and actual receipts after year end. Provision is made for SARS adjustments based on data obtained from SARS. This data is then compared to historical trends to establish the reasonableness of the information.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

Changes to prior year estimates are accounted for in revenue in the current year.

The MERSETA 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 MERSETA 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 overpayment, 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 MERSETA, the levies transferred by the former SETA are recognised as revenue and allocated to the respective category to maintain its original identity.

The accounting policy for the recognition and measurement of skills development levy income has been amended but will only be effective from 1 April 2007. This revision is based on a revised interpretation of the Skills Development Act, Act No 97 of 1998 and the Skills Development Levies Act, No 9 of 2001. This revision was completed and issued by National Treasury on 27 July 2007.

The new accounting policy allows SETAs to recognise revenue on the receipt of funds from the Department of Labour in the bank account of the SETA. This is in line with international practice for revenue recognition on an accrual basis. The accounting policy for 2006/07 is consistent with the previous year's policies and disclosures.

1.3.2 Interest and penalties

Income from interest and penalties on skills development levies is recognised when it accrues, based on the amount received.

1.3.3 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 MERSETA as a liability until the related eligible special project expenses are incurred, when the liability is extinguished and revenue recognised.

1.3.4 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.

1.3.5 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.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

I.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 Act 1999 (Act No 9 of 1999).

I.4.1 Mandatory grants

The grant payable and the related expenditure is recognised when the employer has submitted an application for a grant in the prescribed form within the legislated cut-off period and it is probable the grants will be paid. This grant is equivalent to 50% (2006: 50%) of the total levies paid by the employer and comprises a workplace skills planning grant.

A provision is recognised for mandatory grants once the specific criteria set out in the regulations to the Skills Development Act, 97 of 1998 have been complied with by member companies, it is probable that the MERSETA will approve the payment, and the amounts can be estimated reasonably accurately. The mandatory Grant provision was understated due to more levy payers participating in the skills strategy that was not previously estimated. This resulted in an under provision of R 30 420 000 in the current financial year.

I.4.2 Discretionary grants and project expenditure

MERSETA may out of any surplus monies determine and allocate discretionary grants to employers, education and training providers and any other body stipulated by gazetted grant regulations annually. These grants will only be paid if the conditions to qualify for such grants have been met and the application has been submitted, in the prescribed form, within the agreed upon cut-off period. The grant payable and the related expenditure is recognised when the application has been approved, and the conditions have been met.

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 MERSETA 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 MERSETA's small, medium, micro enterprise (SMME) projects are run by three associations; SEIFSA, RMI and PLASFED. These associations are directly related to the industry and they manage these projects on behalf of the MERSETA.

Discretionary grants and project costs, whether paid directly or through associations, are recognised as expenses in the period in which they are incurred and the liability is recognised accordingly. A receivable or payable 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.

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

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

1.5 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 recognised against the specific class of expense to which it relates and disclosed in a note to the financial statements when it has been identified.

1.6 Property, plant and equipment

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:

Asset class	Depreciation period
- Computer equipment	3 - 6 years
- Office furniture and fittings	5 - 10 years
- Office equipment	5 - 6 years
- Motor vehicles	4 - 6 years

The estimated useful life of the assets is limited to the remaining period of the licence issued to the MERSETA by the Minister of Labour. For the current year the remaining period is three years (2005/06: four years).

The useful lives of property, plant and equipment and their residual values are reassessed at the end of each financial year.

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

Profits 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 surplus or deficit.

1.7 Intangible Assets

Intangible assets that meet the recognition criteria are stated in the statement of financial position at amortised cost, being the initial cost price less any amortisation and impairment.

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives, using the straight-line method as following:

Asset class	Depreciation period
- Computer software	1 - 2 years

The useful lives of intangible assets are reassessed at the end of each financial year.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

I.8 Leasing

Rentals payable under operating leases are charged to surplus/deficit on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

I.9 Retirement benefit costs

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

I.10 Provisions

Provisions are recognised when the MERSETA 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. The provision is measured at the best estimate of expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the present value of the provision shall be the present value of the expenditure expected to settle the obligation.

Provision for employee related entitlements

The cost of other employee benefits (not recognised as retirement benefits - see note 1.9 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 reporting date. Provisions included in the statement of financial position are provisions for leave (based on the current salary rates), bonuses and Workman's Compensation.

I.11 Financial instruments

Recognition

Financial assets and financial liabilities are recognised on the MERSETA's statement of financial position when the MERSETA becomes a party to the contractual provisions of the instrument.

Financial instruments carried on the statement of financial position include a loan, trade and other receivables from exchange transactions, cash and cash equivalents, and trade and other payables from exchange transactions. Where relevant, the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

Measurement

Financial instruments are initially measured at fair value plus any transaction costs directly attributable to the acquisition or issue of financial asset/liability. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets

The MERSETA's principal financial assets are exchange receivables, loans and cash and cash equivalents.

Trade and other receivables

Trade and other receivables are measured at amortised cost, using the effective interest rate method, where considered applicable. Impairment losses are recognised in an allowance account where the carrying value exceeds the present value of future cash flows, discounted at the original effective interest rate.

Loan

The interest free loan granted is discounted on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The prevailing market rate for a similar instrument with a similar credit risk rating is used as the discount rate.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

Deposits paid are discounted on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The prevailing market rate for a similar instrument with a similar credit risk rating is used as the discount rate.

Financial liabilities

The MERSETA's principal financial liabilities are trade and other payables from exchange transactions. These liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition

A financial asset or a portion thereof is derecognised when the MERSETA realises the contractual rights to the benefits specified in the contract, the rights expire, the MERSETA 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 net assets is included in net surplus or deficit for the period.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

Fair value considerations

The fair values at which financial instruments are carried at the reporting 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 MERSETA could realise in the normal course of business.

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.

I.12 Net Assets

Net assets are sub-classified in the statement of financial position between the following funds and reserves:

- Administration reserve
- Employer grant reserve
- Discretionary grant reserve
- Accumulated surplus/deficit

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 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:

	2006/07	2005/06
	%	%
Administration costs of the MERSETA	10	10
Mandatory Workplace Skills Planning Grants	50	50
Discretionary grants and projects	20	20
	<u>80</u>	<u>80</u>

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

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS

31 MARCH 2007

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.

The amount retained in the administration reserve equates to the net book value of "administration" assets and liabilities. Excess cash reserves are transferred to the discretionary reserve.

Surplus funds in the employer grant reserve are transferred to the discretionary grant reserve at the end of the financial year. An amount is retained in the employer grant reserve, after consideration is given to new companies, which in terms of the regulations, have six months after joining to submit their workplace skills plan.

1.13 Comparative figures

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

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

2. ALLOCATION OF NET SURPLUS/(DEFICIT) FOR THE YEAR TO RESERVES:

Total per Statement of Financial Performance	Administ-ration reserve	Employer grants reserve			Discretionary reserve			Total
		Mandatory skills planning grant	Mandatory skills implementa-tion grant	Total	Discretio-nary grants	Learnership Projects	Other Projects	

Year ended 31 MARCH 2007

Total revenue	607 718	73 161	348 426	1 759	350 185	75 572	406	108 394	184 372
Skills development levy: income									
Admin levy income (10%)	69 957	69 957	-	-	-	-	-	-	-
Grant levy income (70%)	489 732	-	348 426	1 759	350 185	30 747	406	108 394	139 547
Skills development levy:									
penalties and interest	4 664	-	-	-	-	4 664	-	-	4 664
Investment income	40 048	-	-	-	-	40 048	-	-	40 048
Other income	3 317	3 204	-	-	-	113	-	-	113
Total expenses	499 490	62 921	219 762	47	219 809	107 960	406	108 394	216 760
Employer grants and project expenses	436 569	-	219 762	47	219 809	107 960	406	108 394	216 760
Administration expenses	62 921	62 921	-	-	-	-	-	-	-
Net surplus per the statement of financial performance allocated	<u>108 228</u>	<u>10 240</u>	<u>128 664</u>	<u>1 712</u>	<u>130 376</u>	<u>(32 388)</u>	<u>-</u>	<u>-</u>	<u>(32 388)</u>

Year ended 31 MARCH 2006

Total revenue	540 903	63 261	311 068	1 981	313 049	101 330	13 498	49 765	164 593
Skills development levy: income									
Admin levy income (10%)	62 698	62 698	-	-	-	-	-	-	-
Grant levy income (70%)	437 795	-	311 068	1 981	313 049	61 483	13 498	49 765	124 746
Skills development levy:									
penalties and interest	4 246	-	-	-	-	4 246	-	-	4 246
Investment income	35 531	-	-	-	-	35 531	-	-	35 531
Other income	633	563	-	-	-	70	-	-	70
Total expenses	619 763	60 809	207 093	185 455	392 548	103 143	13 498	49 765	166 406
Employer grants and project expenses	558 954	-	207 093	185 455	392 548	103 143	13 498	49 765	166 406
Administration expenses	60 809	60 809	-	-	-	-	-	-	-
Net deficit per the statement of financial performance allocated	<u>(78 860)</u>	<u>2 452</u>	<u>103 975</u>	<u>(183 474)</u>	<u>(79 499)</u>	<u>(1 813)</u>	<u>-</u>	<u>-</u>	<u>(1 813)</u>

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

3. Skills Development Levy Income

	Note	2006/07 R'000	2005/06 R'000
The total levy income per the statement of financial performance is as follows:			
Levy income: Administration		69 957	62 698
Levies received		67 912	63 441
Levies received from SARS		68 353	62 076
InterSETA transfers in		1 578	1 375
InterSeta transfers out		(2 019)	(10)
Movement in levies accrued		2 045	(743)
Levy income: Employer Grants		350 184	313 049
Levies received		339 964	327 177
Levies received from SARS		341 991	319 386
InterSETA transfers in		8 408	7 853
InterSETA transfers out		(10 435)	(62)
Movement in levies accrued		10 220	(14 128)
Levy income: Discretionary Grants		139 548	124 746
Levies received		135 459	115 813
Levies received from SARS		136 490	113 928
InterSETA transfers in		2 671	1 896
InterSETA transfers out		(3 702)	(11)
Movement in levies accrued		4 089	8 933
		<u>559 689</u>	<u>500 493</u>

4. SKILLS DEVELOPMENT LEVY: PENALTIES AND INTEREST

Penalties	2 540	2 538
Interest	2 124	1 708
	<u>4 664</u>	<u>4 246</u>

5. INVESTMENT INCOME

Interest income from short term deposits, bank and call accounts	40 077	35 490
Fair value adjustments	(29)	41
	<u>40 048</u>	<u>35 531</u>

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

6. OTHER INCOME

	Note	2006/07 R'000	2005/06 R'000
Profit on disposal of property, plant and equipment		290	340
Surplus from fair value adjustments to property, plant and equipment		2 914	223
Trade test fees received		113	70
		<u>3 317</u>	<u>633</u>

7. EMPLOYER GRANT AND PROJECT EXPENSES

Mandatory grants		219 809	392 548
Disbursed		250 579	319 575
Movement in provisions and accruals		(30 770)	72 973
Discretionary grants	23.1.2	107 959	103 143
Disbursed		108 916	103 143
Movement in provisions and accruals		(957)	-
Project expenditure	7.1, 23.1.1	108 801	63 263
Disbursed		94 324	65 539
Movement in provisions and accruals		14 477	(2 276)
		<u>436 569</u>	<u>558 954</u>

7.1 PROJECT EXPENDITURE CONSISTS OF:

Direct project costs		107 127	62 712
Project administration costs	8	1 674	551
	7	<u>108 801</u>	<u>63 263</u>

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

8. Administration Expenses

	Note	2006/07 R'000	2005/06 R'000
Depreciation	16	3 406	2 116
Prior to re-assessment of useful lives/ previously reported		2 571	2 033
Depreciation due to re-assessment of useful lives		835	83
Amortisation - intangible assets	17	156	62
Impairment of property, plant and equipment	16	426	107
Impairment of intangible assets	17	10	62
Losses arising from fair value adjustments to leases		-	26
Operating lease rentals		3 753	2 918
Buildings		3 648	2 232
Equipment		105	686
Repairs, maintenance and running costs		1 741	1 409
Buildings		451	303
Property, plant and equipment		1 290	1 106
Advertising, marketing and promotions, communication		2 015	988
Entertainment expenses		6	5
Gifts, donations and sponsorships paid		4	36
Service provider administration fees		1 170	9 478
EOH acquisition		-	2 000
Legal fees		223	327
Insurance		348	306
Cost of employment	8.1	31 618	22 149
Travel, subsistence and meeting expenses		5 814	2 753
Staff training and development		829	602
Recruitment costs		613	452
Remuneration to members of the audit committee		131	109
External auditor's remuneration		466	456
Internal auditor's remuneration		1 410	538
Allowance for losses resulting from levy reversals		-	1 788
SMME skills development facilitators		3 783	7 107
Other Administration expenses		6 673	5 566
Printing stationery and postages		1 543	1 030
Telecommunication expenses		2 766	2 219
Rates, water and electricity		752	1 145
Other administration expenses		1 612	1 172
Less: amounts allocated to project expenditure	7.1	(1 674)	(551)
		62 921	60 809

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

8.1 Cost of employment

	Note	2006/07 R'000	2005/06 R'000
Salaries and wages		27 909	19 254
Basic salaries		22 423	16 359
Performance awards		3 388	682
Other non-pensionable allowance		1 421	1 019
Temporary staff		261	726
Leave payments		416	415
Overtime payments		-	53
Social contributions		3 709	2 895
Medical aid contributions		1 040	886
Pension contributions: defined benefit plans		2 213	1 759
UIF		172	113
Insurance		34	67
Other salary related costs		250	70
		31 618	22 149
Allocation of cost of employment			
Administration expenses		31 618	21 598
Project expenses		-	551
	8	31 618	22 149
Average number of employees		143	105

Refer to the report by the Accounting Authority for disclosure concerning the emoluments of the Chief Executive Officer; the Chief Financial Officer and Senior Managers.

8.2 Retirement benefit costs

The MERSETA discloses information about the fund in accordance with the reporting requirements of IAS 19 (ACI 16) 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 MERSETA joined the fund seven years ago.
- The expense recognised in the income statement, equal to the contributions due for the year amounts to R 2 213 000 (2005/06: R 1 759 000) as disclosed in note 8.1 to the financial statements.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

9. Loan

	Note	2006/07 R'000	2005/06 R'000
Loan granted		292	599
Less: current portion		(292)	(361)
		<u>-</u>	<u>238</u>

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 loan bears no interest. The loan has been discounted at 7.45%, the internal rate of return.

10. Prepayments And Advances

Staff Advances		78	54
Prepayments - Insurance		87	74
Prepayments - Associations		6 324	850
Closing balance		<u>6 489</u>	<u>978</u>

The net prepayment in respect of associations amounts to R 4 845 000 (2005/06: a net payable of R 2 882 000). This comprises a prepayment of R6 324 000 (2005/06: R850 000) less the association payable (see note 19) of R1 479 000 (R2005/06: R3 732 000). In the books of the associations this comprises cash and cash equivalents of R6 714 000 (2005/06: R2 759 000), accounts receivable of R75 000 (2005/06: Rnil), and accounts payable of R1 944 000 (2005/06: R5 641 000).

11. Receivables From Non-exchange Transfers

Skills development levy receivable		93 758	77 404
Administration levy receivable		11 720	9 675
Employer grant levy receivable		58 598	48 378
Discretionary grant Levy receivable		23 440	19 351
InterSETA receivable	25.1	3 566	34
Skills development interest and penalties receivable		817	363
Employer receivable	11.2	-	2 380
		<u>98 141</u>	<u>80 181</u>

The accrual for skills development levy income is based on actual receipts after year end as well as estimates based on historical trends.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

11.1 Retrospective Amendments By Sars

	Note	2006/07 R'000	2005/06 R'000
Included in Skills Development Levy receivable is:			
SARS receivable			
Opening carrying amount		10 672	10 000
Net effect of SARS adjustments for the current year		(10 834)	(9 476)
Estimated adjustments included in levies received		10 162	10 148
Closing carrying amount		<u>10 000</u>	<u>10 672</u>

During the year under review, SARS advised the MERSETA of erroneously designated skills development levies received in prior periods, resulting in retrospective adjustments of R10 834 000 (2005/06: R9 476 000).

SARS payable			
Opening carrying amount		(9 805)	-
Net effect of SARS adjustments for the current year		4 282	-
Estimated adjustments included in levies received		(5 710)	(9 805)
Closing carrying amount		<u>(11 233)</u>	<u>(9 805)</u>

An amount of R11 233 000 has been provided in the current year for possible refunds to companies falling outside the SDL threshold but still contributing levies. The effective date of the exemption was 1 August 2005. The prior year comprised a provision of R6 524 000 for companies falling outside the SDL threshold and R3 281 000 for an overpayment by one of MERSETA's large constituent companies. This overpayment was rectified in the current financial year.

11.2 Employer receivable

Employer receivable			
Overpayment to employers		7 136	7 198
Allowance for doubtful debts		(7 136)	(4 818)
Net effect of SARS retrospective adjustments on affected employers		<u>-</u>	<u>2 380</u>

R 7 136 000 is 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 R7 136 000 was provided against such employer receivables. Refer also to policy note 1.3.1.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

12. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Note	2006/07 R'000	2005/06 R'000
Deposits		144	124
Interest receivable		5,032	5,593
Sundry receivables		28	17
		<u>5,204</u>	<u>5,734</u>

13. ASSETS HELD FOR SALE

Vehicles - cost	-	974
Accumulated depreciation	-	(649)
Carrying value at end of year	<u>-</u>	<u>325</u>

14. HELD-TO-MATURITY FINANCIAL ASSETS

Medium term investments/instruments	120,000	233,153
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15. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	203	687
Cash at bank	187	671
Cash on hand	16	16
Short term investments/instruments	472 498	280 743
Cash and cash equivalents at end of year	<u>472 701</u>	<u>281 430</u>

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 7.45% (2005/06: 6.86%).

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

16. Property, Plant And Equipment

Year ended 31 March 2007

	Cost R'000	Accumulated depreciation R'000	Closing carrying amount R'000
Computer equipment	3 694	(1 830)	1 864
Office furniture and fittings	3 453	(1 271)	2 182
Office equipment	2 079	(628)	1 451
Motor vehicles	5 675	(2 327)	3 348
Balance at end of year	<u>14 901</u>	<u>(6 056)</u>	<u>8 845</u>

All assets are owned by the MERSETA

Year ended 31 March 2006

	Cost R'000	Accumulated depreciation R'000	Closing carrying amount R'000
Computer equipment	3 607	(2 031)	1 576
Office furniture and fittings	2 137	(1 001)	1 136
Office equipment	563	(334)	229
Motor vehicles	5 669	(1 794)	3 875
Balance at end of year	<u>11 976</u>	<u>(5 160)</u>	<u>6 816</u>
Less vehicles held for sale	(974)	649	(325)
Balance at end of year	<u>11 002</u>	<u>(4 511)</u>	<u>6 491</u>

All assets are owned by the MERSETA

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

Opening carrying amount R'000	Reclassifications of assets R'000	Transfers (out)/ fair value adjustment R'000	Additions R'000	Impairment cost R'000	Disposals cost R'000	Depreciation/ Amortisation charge R'000	Accumulated depreciation on disposals R'000	Carrying amount R'000
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Movement summary 2007

Computer equipment	1 576	26	1 102	461	(326)	(130)	(954)	109	1 864
Office furniture and fittings	1 136	-	1 400	389	(81)	-	(662)	-	2 182
Office equipment	229	(26)	354	1 317	(19)	-	(404)	-	1 451
Motor vehicles	3 875	-	-	1 287	-	(1 280)	(1 386)	852	3 348
Balance at end of year	6 816	-	2 856	3 454	(426)	(1 410)	(3 406)	961	8 845

Movement summary 2006

Computer equipment	1 003	-	183	1 101	(4)	(106)	(684)	83	1 576
Office furniture and fittings	1 022	7	6	356	(76)	-	(179)	-	1 136
Office equipment	334	(7)	16	32	(27)	-	(119)	-	229
Motor vehicles	1 074	-	18	4 150	-	(814)	(1 134)	581	3 875
Balance at end of year	3 433	-	223	5 639	(107)	(920)	(2 116)	664	6 816

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

17. Intangible Assets - Computer Software	Note	2006/07 R'000	2005/06 R'000
Opening carrying amount		189	52
Cost		257	58
Accumulated amortisation		(68)	(6)
Movements during the year		68	137
Additions		234	261
Re-classification cost		7	-
Re-classification accumulated depreciation		(7)	-
Impairment - cost		26	(62)
Impairment - accumulated depreciation		(36)	-
Amortisation		(156)	(62)
Closing carrying amount		257	189
Cost		524	257
Accumulated amortisation		(267)	(68)
18. Grants And Transfers Payable			
Grants payable	18.1	67 449	99 176
InterSETA payables	25.1	11 516	163
InterSETA clearing account		-	244
		<u>78 965</u>	<u>99 583</u>
18.1 Grants Payable			
Opening carrying amount		99 176	26 203
Amounts utilised		(99 176)	(29 536)
Unutilised provision reversed		-	(403)
Additional provision/accrual made during the period		67 449	102 912
Closing carrying amount		<u>67 449</u>	<u>99 176</u>

The grant provision is based on grant applications currently in process that have been submitted by the due date, being 30 June 2007. Provision was only made where the status of these applications indicated that there was a good likelihood that these grants would still be paid.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

19. Trade And Other Payables From Exchange Transactions

	Note	2006/07 R'000	2005/06 R'000
Project payables		18 846	4 369
Association payables		1 479	3 732
Sundry payables		4 182	1 020
Accruals operating expenditure		1 682	925
Other payables		2 500	95
		<u>24 507</u>	<u>9 121</u>

20. Provisions

	Employee leave provision R'000	Employee bonus provision R'000	Workman's Compensation provision R'000	2006/07 R'000	2005/06 R'000
Opening carrying amount	632	617	78	1 327	707
Amounts utilised	(240)	(1 418)	(26)	(1 684)	(1 113)
Additional provision during the period	416	1 088	33	1 537	1 733
Closing carrying amount	808	287	85	1 180	1 327
Non-current	-	-	-	-	-
Current	808	287	85	1 180	1 327
Total	<u>808</u>	<u>287</u>	<u>85</u>	<u>1 180</u>	<u>1 327</u>

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.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

21. Reconciliation of Net Surplus (Deficit) to Cash Utilised in Operations.

	Note	2006/07 R'000	2005/06 R'000
Net surplus/(deficit) as per the statement of financial performance		108 228	(78 860)
Adjusted for non-cash items:			
Depreciation property, plant and equipment	8,16	3 406	2 116
Amortisation of intangible assets	8,17	156	62
Impairment of intangible assets	8,16	10	62
Impairment of property plant and equipment	8,16	426	107
Profit on disposal of property, plant and equipment	6	(290)	(340)
Fair value adjustments - Loan		(92)	(41)
Transfers out/ fair value adjustments to property, plant and equipment	16	(2 856)	(223)
Movements in provisions		(147)	620
Adjusted for items separately disclosed			
Investment income		(40 638)	(35 270)
Adjusted for working capital changes:			
(Increase)/decrease in prepayments and advances		(5 511)	18 253
(Increase)/decrease in receivables from non-exchange transfers		(17 960)	4 234
Decrease/(increase) in trade and other receivables from exchange transactions		530	(282)
(Decrease)/increase in grants and transfers payable		20 618	72 561
Increase in trade and other payables from exchange transactions		15 386	1 825
(Decrease) in VAT payable		-	(2 352)
Cash generated/(utilised) in operations		40 030	(17 528)

22. Contingencies

22.1 Surplus funds

In terms of the PFMA, all surplus funds as at year-end may be forfeited to National Treasury. After year end MERSETA applies for approval from National Treasury to retain surplus funds for the current financial year. Request for approval for the 2005/06 financial year has been obtained from National Treasury.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS

23. Commitments

31 MARCH 2007

23.1 Discretionary reserve

Of the balance of R 590 731 000 available in the Discretionary Reserve on 31 March 2007 an amount of R322 430 000 has been approved for future project expenses and discretionary grants as set out below. Amounts for expenses that have already been incurred, and therefore included in project and discretionary grant expenses in the statement of financial performance, are also indicated.

23.1.1 Projects

23.1.1 Projects	Opening	Adjustments/	Approved	Utilised	Total	Opening	Adjustments/	Approved	Total
	Balance	non contrac-	by			Balance	non contrac-	by	
	2005/2006	tual payments	Accounting	2005/06	R'000	2006/2007	tual payments	Accounting	R'000
	R'000	2005/06	Authority	R'000		R'000	2006/07	Authority	
		R'000	and				R'000	and	
			contracted					contracted	
			2005/06					2006/07	
			R'000					R'000	
MAP SGB	-	-	-	-	-	500	161	(661)	-
SSP Review	-	-	100	(100)	-	491	1 105	(1 596)	-
Annual Report Project	-	-	219	(219)	-	260	-	(260)	-
SMME Implementation SDFs	-	-	-	-	-	-	1 520	-	1 520
Unit standard project	110	(110)	-	-	-	-	-	-	-
SMME Implementation	9 948	-	49 789	(24 008)	35 729	-	-	(29 368)	6 361
Policies and procedures	16	(16)	-	-	-	-	-	-	-
Learnership Pilot Phase	-	-	1 777	(1 777)	-	-	-	-	-
Learnership Airconditioning	-	-	-	-	-	-	-	-	-
Project	-	-	111	-	111	8	-	(27)	92
ABET Project Phase I	6 166	-	1 070	(2 475)	4 761	-	-	(629)	4 132
Accreditation -									
External Providers	-	(16)	-	16	-	-	-	-	-
Vehicle Maintenance SGB	-	-	484	(484)	-	178	246	(424)	-
Advanced diesel (AIDC)	-	88	-	(88)	-	-	-	-	-
Career Development	-	-	-	-	-	-	195	(195)	-
Develop and assess									
trade test fees	8	(8)	-	-	-	-	-	-	-
Labour & Stakeholder									
Capacity Building Project	2 781	-	616	(875)	2 522	(2 340)	227	(409)	-
ABET Phase 2	13 983	-	11 906	(6 366)	19 523	-	-	(5 095)	14 428
Assessor and									
Moderator Training	41	-	5 062	(3 194)	1 909	328	396	(2 152)	481
Bursaries	-	-	5 528	(3 897)	1 631	-	5 333	(6 964)	-
Skills Requirements Projects	556	-	160	(408)	308	(182)	-	(126)	-
Courseware &									
Curriculum Development	1 267	-	22 276	(11 238)	12 305	287	473	(10 545)	2 520
Investors in People	-	-	-	-	-	63	98	(112)	49
ESDLE Project	2 266	-	9 569	(4 311)	7 524	-	-	(5 696)	1 828
Indo German Tool Room	-	100	1 000	(1 100)	-	-	-	-	-
Damelin	-	-	3 178	(1 063)	2 115	-	-	(1 695)	420
PRO STEP - Sigima	-	-	179 874	(687)	179 187	-	-	(27 824)	151 363
Unemployed youth learners	-	-	5 130	-	5 130	(630)	-	(4 500)	-
Centres of Excellence	-	-	5 700	-	5 700	12	-	(5 712)	-
General Motors -									
unemployed learners	-	-	4 410	-	4 410	-	-	(1 228)	3 182
National Setters	-	-	-	-	-	-	2 334	(388)	1 946
VWSA	-	-	-	-	-	-	4 864	(3 154)	1 710
Welding SGB	-	-	-	-	-	-	41	(41)	-
VAT on Projects	-	-	989	(989)	-	-	-	-	-
	37 142	38	308 948	(63 263)	282 865	(1 025)	16 993	(108 801)	190 032

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

23.1.2 Discretionary Grants

	Opening balance 2005/06	Adjustments /non contractual payments 2005/06	Approved funds committed to grants 2005/06	Utilised 2005/06	Opening balance 2006/07	Adjustments /non contractual payments 2006/07	Approved funds committed to grants 2006/07	Utilised 2006/07	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Employed learners	24 702	-	9 048	(14 272)	19 478	-	5 022	(12 663)	11 837
Unemployed learners	-	-	85 400	(33 690)	51 710	-	31 690	(34 059)	49 341
Apprenticeships	13 735	-	56 265	(36 512)	33 488	-	36 512	(44 148)	25 852
Non primary focus learners	-	-	-	-	-	-	15 600	(1 114)	14 486
Skills programmes	8 668	-	11 132	(5)	19 795	(6 595)	-	(2 976)	10 224
Skills priorities	13 947	-	5 672	(8 016)	11 603	(6 575)	-	(4 057)	971
Recognition of Prior Learning (RPL)	1 133	-	-	(25)	1 108	(1 108)	-	-	-
IT training	6 718	-	-	(1 324)	5 394	(5 390)	-	(4)	-
Experiential training	7 618	-	17 382	(4 998)	20 002	-	4 998	(5 313)	19 687
Trade test fees and other	-	-	4 301	(4 301)	-	-	3 625	(3 625)	-
	<u>76 521</u>	<u>-</u>	<u>189 200</u>	<u>(103 143)</u>	<u>162 578</u>	<u>(19 668)</u>	<u>97 447</u>	<u>(107 959)</u>	<u>132 398</u>

23.2 Administration reserve

The balance of R 15 905 000 (2005/06:R14 585 000) in the administration reserve, constitutes the net book value of administration assets and liabilities.

23.3 Operating Leases

Total of future minimum lease payments under non-cancellable leases:

	2006/07 R'000	2005/06 R'000
Not later than one year	3 124	2 640
Later than one year and not later than five years	5 578	7 826
	<u>8 702</u>	<u>10 466</u>

The operating leases relate to premises used for office accommodation. The lease agreements were entered into on various dates and will be operational for varying periods, the last expiring on 31/03/2010. 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%.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

24. Financial Instruments

In the course of the MERSETA operations it is exposed to interest rate, credit, liquidity and market risk. The MERSETA has developed a comprehensive risk strategy 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 MERSETA manages its interest rate risk by fixing rates on surplus cash funds using short term fixed deposits

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

	Floating rate		Fixed Rate			Non-interest bearing		Year ended 31 March 2007
	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	
Assets								
Loan						292	.75	292
Cash and cash equivalents	203	6.00	472 498	7.45	.25			472 701
Trade and other receivables from exchange transactions						5 204	.3	5 204
Total financial assets	203	6.00	472 498	7.45	.25	5 496	1.05	478 197
Liabilities								
Trade and other payables from exchange transactions						24 507	.2	24 507
Total financial liabilities	-	-	-	-	-	24 507	.2	24 507

Year ended 31 March 2006

Total financial assets	687	280 743	6 333	287 763
Total financial liabilities	-	-	(9 121)	(9 121)
Net financial assets	687	280 743	(2 788)	278 642

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

Credit risk

Financial assets, which potentially subject the MERSETA 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 non-exchange transfers receivable.

The MERSETA 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 Regulations.

Credit risk with respect to levy paying employers is limited due to the nature of the income received. The MERSETA does not have any material exposure to any individual or counter-party. The MERSETA's concentration of credit risk is limited to the manufacturing, engineering and related services industry in which the MERSETA operates. No events occurred in the manufacturing, 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 MERSETA manages liquidity risk through proper management of working capital, capital expenditure and actual vs. forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

Market risk

The MERSETA 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 MERSETA is aware of.

Fair values

The MERSETA's financial instruments consist mainly of cash and cash equivalents. No financial instrument 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.

Trade and other receivables from exchange transactions

The carrying amount of trade and other receivables from exchange transactions approximates fair value due to the relatively short-term maturity of these financial assets.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

Related Party Transactions

25.1 Transactions with other SETAs

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

		2006/07 R'000		2005/06 R'000	
Note		Net transfers in/(out) during the year	Amount receivable/ (payable)	Transfers in/(out) during the year	Amount receivable /(payable)
Receivables	11	8 345	3 566	5 886	34
AGRISETA		1	1	-	-
CETA		313	217	35	-
CHIETA		-	-	-	20
CTFL		43	43	31	-
EDTP SETA		115	-	5	-
ESETA		15	15	35	-
FASSET		87	21	8	12
FIETA		148	168	55	2
FOODBEV		8	-	9	-
HW SETA		154	33	87	-
MAPPP		141	82	132	-
MQA		153	117	1 247	-
PAETA		4	4	-	-
POSLEC		9	9	36	-
SERVICES		4 126	1 456	-	-
TETA		214	272	407	-
THETA		4	4	3 161	-
W&R SETA		2 810	1 124	638	-
Payables	18	(11 844)	(11 516)	5 155	(163)
CHIETA		(10 929)	(10 827)	-	-
INSETA		(238)	-	238	-
ISETT		(677)	(689)	20	(30)
SERVICES		-	-	4 897	(133)
Total		(3 499)	(7 950)	11 041	(129)

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS

31 MARCH 2007

**Board Members:
Representative
Company Transactions**

		2006/07 R'000		2005/06 R'000	
Company	Board members	Net transfers in/(out) during the year	Amount receivable/(payable)	Net transfers in/(out) during the year	Amount receivable/(payable)
RMI	J Osborne, J Olivier	(15 637)	576	(17 125)	-
SEIFSA	J Lopes, B Angus	(17 898)	(1 479)	(8 093)	-
Plasfed	A Hanekom	(8 315)	4 873	(1 097)	-
	E Kubeka, B Khoza, G Lephallo, P Thobejane,	-	-	(278)	-
NUMSA	V Mthethwa, M Mogopodi	2 806	-	3 124	-
BMW SA	C Wessels				
Bridgestone, Firestone SA	P Welgemoed	1 410	-	1 555	-
Cape Gate Pty Ltd	B Swart	1 149	-	2 476	-
Continental Tyre SA	G Zamisa, P Nodongwe	648	-	2 405	-
Daimler Chrysler SA	D Jekwa	2 996	-	3 114	-
Dunlop Tyres International	B Smith, J Wilson	1 362	-	1 646	-
Ford Motor Company of SA		-	-	3 170	-
Goodyear SA	A Dennis	928	-	1 056	-
Haggie	C Murray	-	-	493	-
Plasticolors Pty	D Rule	61	-	57	-
Volkswagen of SA	L De Klerk, X Tshayana	1 042	-	4 087	-
		(29 448)	3 970	(3 410)	-

All transactions with member representative companies are at arm's length

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

25.3 National public entities

	Net transfers in/ (out) during the year	Amount receivable/ (payable)	Net transfers in/(out) during the year	Amount receivable/ (payable)
Auditor General	620	-	308	-
Businesss Enterprises University of Pretoria	171	-	-	-
Cape Technikon	206	-	440	-
Central University of Technology - Free State	121	-	40	-
College Campus - Pretoria	21	-	-	-
College Campus of Cape Town	42	-	-	-
Department of Labour (Transfers)	126	-	-	-
Durban Institute of Technology	894	-	291	-
Eagle Skills ESDLE	120	-	-	-
East Cape Midland College	2 850	-	-	-
Eastern Cape Training Centre	23	-	25	-
Eastern Cape Technikon	471	-	214	-
EDSLE Mpumalanga	-	-	377	-
Mangosuthu Technikon	193	-	211	-
Nelson Mandela Metropolitan University	625	-	276	-
NMMU - South (Nelson Mandela)	923	-	-	-
Northlink College	363	-	105	-
Northwest University	31	-	61	-
Peninsula Technikon	290	-	13	-
PE Technikon	-	-	89	-
South Cape College	28	-	-	-
Telkom	1 275	-	1 181	-
Tshwane University of Technology	310	-	427	-
Umsobomvu Youth Fund	4 500	-	-	-
University of Cape Town	100	-	111	-
University of Jhb - Doornfontein	1 143	-	386	-
University of Jhb - Auckland Park Campus	66	-	490	-
University of Kwazulu Natal - Westville	16	-	39	-
University of KZN	405	-	195	-
University of Pretoria	1 075	-	104	-
University of Stellenbosch	48	-	81	-
University of Witwatersand	159	-	139	-
Vaal University of Technology	311	-	277	-
Varsity College - Sandton	34	-	-	-
Varsity College Gardens	55	-	-	-
Walter Sisulu University (Border Campus)	60	-	-	-
Weskus College Malmesbury #2	359	-	-	-
West Coast College	2 594	257	-	-
College of Cape Town	69	-	-	-
	20 697	257	5 880	-

All transactions with national public entities are conducted at arm's length

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

26. Material Losses Through Criminal Conduct, Irregular, Fruitless And Wasteful Expenditure

CRIMINAL CONDUCT

One of the MERSETA employees was dismissed during the year as a result of an investigation by the South African Police. No losses were incurred by MERSETA as a result thereof.

IRREGULAR EXPENDITURE

During the previous financial year, the Auditor General expressed a matter of emphasis on the irregular awarding of the contracts listed below. The MERSETA did not follow due procurement process. As a result MERSETA conducted a financial audit into the matter. The audit revealed that the MERSETA procurement processes needed to be adjusted in accordance with the Preferential Procurement Policy Framework Act (PPPFA) and the PFMA. These audits did not reveal any fraud on any of these contracts. MERSETA subsequently cancelled the Sigima contract at the end of March 2007. The rest of the contracts came to an end in March 2007.

Supplier	2006/07 R'000
SIGIMA	28 405
SEIFSA	17 898
RMI	15 549
Learning Network	306
Xasa	96
Volkswagen of SA	1 914
PLASFED	8 315
Media Works	2 700
CSIR/AMTS	228
AIDC	5 695
Fairchild McMorran	276
Mesong	194
	<hr/>
	81 576
	<hr/>

FRUITLESS AND WASTEFUL EXPENDITURE

Management is not aware of any losses incurred through fruitless and wasteful expenditure.

Manufacturing, Engineering and Related Services Sector Education and Training Authority

NOTES TO ANNUAL FINANCIAL STATEMENTS 31 MARCH 2007

27. Taxation

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

28. Events After The Reporting Date

Management is not aware of any material events impacting the Annual Financial Statements after the reporting date.

29. Prior Period Errors

29.1 Error in administration reserve allocation

The prior period error resulted from a change in the basis of accounting for the transfer of excess administration reserves to discretionary reserves. Section 7(3) of the Skills Development Act allows for the transfer of "surplus administration funds" from the administration reserve to discretionary reserve. In the past the funds have been transferred on the accrual basis but it is envisaged that it is only the cash reserves that should be transferred. The balance in the reserve will thus consist of the net value of the administrative assets and liabilities.

2006/07	2005/06
R'000	R'000

The effect of the above on the prior period is as follows:

Effect On Administration Reserve

Increase in the opening balance of administration reserve in the prior year	-	3 539
Increase in excess administration reserve transferred to discretionary reserve	-	(681)
Net effect of opening balance of administration reserve in the current year	-	2 858

Effect on discretionary reserve

Decrease in the opening balance of discretionary reserve in the prior year	-	(3 539)
Increase in excess administration reserve transferred to discretionary reserve	-	681
Net effect of opening balance of discretionary reserve in the current year	-	(2 858)

29.2 Understatement of mandatory grant provision

The prior year mandatory grant provision was understated by R30 420 000. The provision was originally calculated based on the status of applications that had a reasonable likelihood of being paid out (refer to accounting policy 1.4.1 and the narrative on note 18.1). However in the event many more levy payers participated in the skills strategy than originally estimated. An adjustment of R 30 420 00 has been made in the current year.

The effect of the above on the prior period is as follows:

Increase in grants and transfers payable	-	30 420
Decrease in discretionary reserve	-	(30 420)
	-	-

Glossary Definitions

Act	The Skills Development Act No 97 of 1998 (as amended).
Administration costs	Means the costs contemplated in grant regulation 4(3) in terms of the Act.
Audit Committee	The committee established in terms of sub-clause 13.1 of the constitution to monitor the Governing Board in discharging its duties relating to the management of the financial affairs of the MERSETA.
Alternate	A person appointed to act on behalf of a member of the Governing Board in the absence of the latter.
Chambers	The chambers established in terms of sub-clause 13.1(c) of the Constitution, as provided under section 12 of the Act.
Chairperson	The Chairperson of the Governing Board nominated in terms of clause 12 of the constitution.
Chief Executive Officer	The Chief Executive Officer of the MERSETA who is appointed under clause 14 of the constitution.
Committee	Any permanent committee, ad hoc or sub-committee of the MERSETA, established in terms of the constitution.
Constitution	Means the constitution of the MERSETA, in terms of section 13 of the Skills Development Act, No 97 of 1998 as amended).
Deputy Chairperson	The Deputy Chairperson of the Governing Board appointed in accordance with clause 12 of the constitution.
Director-General Education and training	Means the Director-General of Labour. Registered statements of desired education and training outcomes and their associated standards assessment criteria as defined in the SAQA Act.
Discretionary grants ETQA	Means grants contemplated in grant regulation 7, in terms of the Act. Education and Training Quality Assurance Body.
Executive Committee	The committee established in terms of sub-clause 13.1(a) of the constitution which has oversight of the management of the operational affairs of the MERSETA.
Financial year	Means the period contemplated in terms of the Act, which covers the period 1 April to 31 March.
Governing Board	Accounting Authority of the MERSETA.
Levy income	Means the total amount of money received by a SETA in terms of section 7(i) and 8(ii)(a) read with 8(iii)(b) of the Skills Development Act.
Mandatory grants merSETA	Means grants contemplated in grant regulation 6 in terms of the Act. Manufacturing, Engineering and Related Services Sector Education and Training Authority.
Minister	Means the Minister of Labour.
NSDS	National Skills Development Strategy.
Qualification	The formal recognition of the achievement of the required number and range of credits and such other requirements at specific levels of the National Qualifications Framework as may be determined by the relevant bodies registered for such purpose by the South African Qualifications Authority.
PFMA	Means the Public Finance Management Act, 1999 (Act No 1 of 1999) as amended, including Treasury Regulations.
Sector SMME	Means the Manufacturing, Engineering and Related Services Sector. Small, Medium and Micro Enterprise.
Levies Act	The Skills Development Levies Act 1999 (Act No 9 of 1999).
Treasury Regulations	Means the regulations issued in terms of Public Finance Management Act, 1999, as amended.
LRA	The Labour Relations Act 1995 (Act No 66 of 1995).
SAQA Act	The South African Qualifications Authority Act, 1995 (Act No 58 of 1995).

ABET	Adult Basic Education and Training.
AMEO	Automobile Manufacturers' Employers Organisation.
AMIC	Automotive Industrial Council.
ATR	Annual Training Report.
ATRAMI	Artisan Training and Recognition Agreement for the Metal Industry.
BEE	Black Economic Empowerment.
BSC	Balanced Scorecard.
CBO	Community Based Organisation.
CEPPAWU	Chemical, Energy, Pulp, Paper, Wood and Allied Workers Union.
CBMT	Competency Based Modular Training.
CHE	Council for Higher Education.
CFO	Chief Financial Officer.
COGSI	Cape Oil and Gas Strategic Initiative.
DoE	Department of Education.
DoL	Department of Labour.
DTI	Department of Trade and Industry.
ESDLE	Employment Skills Development Lead Employer.
FET	Further Education and Training.
FRA	Fuel Retailers Association.
FRIDGE	Fund for Research into Industrial Development Growth and Equity.
IDZ	Industrial Development Zone.
GAAP	Generally Accepted Accounting Practice.
GARP	Generally Recognised Accounting Practice.
GDS	Growth and Development Summit.
HET	Higher Education Training.
ISOE	Institute of Sectoral, Occupational Excellence.
MISA/SAMU	Motor Industry Staff Association — MISA/South African Motor Union.
MOU	Memorandum of Understanding.
NSDS	National Skills Development Strategy.
NSDS II	National Skills Development Strategy, 2005—2010.
NGO	Non-governmental Organisation.
ASGISA	Accelerated shared growth initiative of South Africa.
JIPSA	Joint Initiative for Priority Skills Acquisition.
ETQA manager	Education and Training Quality Assurance manager.
NQF	National Qualifications Framework.
NUMSA	National Union of Metalworkers of South Africa.
NTI	National Tooling Initiative.
PI	First practical six months' experiential work requirement to quality for a national diploma at a recognised university of technology.
P2	Second practical six months' experiential work requirement to quality for a national diploma at a recognised university of technology.
PLAS FED	Plastics Federation of South Africa.
PBMR	Pebble Bed Molecular Reactor.
PPP	Public Private Partnerships.
SDI Manager	Skills Development Implementation manager.
SCM	Supply Chain Management.
SEIFSA	Steel and Engineering Industries Federation of South Africa.
RPL	Recognition of Prior Learning.
RMI	Retail Motor Industry Organisation.
SAIW	Southern African Institute of Welding.
SETA	Sector Education and Training Authority.
SGB	Standards generating body.
SLA	Service Level Agreement.
SMME	Small, Medium and Micro Enterprise.
SSP	Sector Skills Plan.
UMALUSI	The Department of Education Quality Assurance Body.
NSDS	National Skills Development Strategy.
TASA	Toolmakers Association of South Africa.
WSP	Workplace Skills Plan.

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