merSETA
MANUFACTURING, ENGINEERING
AND RELATED SERVICES SETA

ANNUAL REPORT
2016/2017

TRAINING TODAY'S
WORKERS FOR TOMORROW

VISION & MISSION

VISION

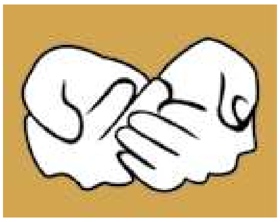
Leaders in closing the skills gap.

MISSION

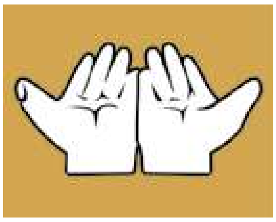
To increase access to high quality and relevant skills development and training opportunities in order to reduce inequalities and unemployment and to promote employability and participation in the economy.

VALUES

WE CARE
It's about caring for people
we render services to



WE BELONG
It's about working together
with colleagues



WE SERVE
It's about going beyond
the call of duty

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PART A

GENERAL INFORMATION

HONOURABLE MINISTER
B E NZIMANDE

MP HIGHER EDUCATION AND TRAINING

It is indeed a pleasure and privilege to present to you the Annual Report of the Manufacturing, Engineering and Related Services SETA for the period 1 April 2016 to 31 March 2017.

I thank you and your Ministry for the unwavering support received during this accounting period and trust you will find the Report in order and share our pride in contributing to the strategic objective of meaningful skills development in South Africa.

Yours Faithfully

CHIEF EXECUTIVE OFFICER
Raymond Patel (Dr)

1. PUBLIC ENTITY'S GENERAL INFORMATION

REGISTERED NAME:	merSETA (Manufacturing, Engineering and Related Services SETA)
REGISTRATION NUMBER:	17/merSETA/1/04/11
PHYSICAL ADDRESS:	95, 7th Avenue, cnr Rustenburg Road Melville Johannesburg 2092
POSTAL ADDRESS:	PO Box 61826 Marshalltown Johannesburg 2107
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EXTERNAL AUDITORS:	Auditor General (SA)
BANKERS:	Standard Bank Ltd
COMPANY SECRETARY:	Mr Madimetja Tisana
ISBN NUMBER:	978-0-621-45518-2-SETAmerSETA
RP NUMBER:	RP/64/2017

higher education & training
Department:
Higher Education & Training
REPUBLIC OF SOUTH AFRICA

merSETA
MANUFACTURING, ENGINEERING AND RELATED SERVICES SETA

merSETA Social

@merSETASocial

merSETASocial

2. **ABBREVIATIONS** AND ACRONYMS
(used in S&R input)

AA	Accounting Authority
APP	Annual Performance Plan
ARPL	Artisan Recognition of Prior Learning
COMET	Competence Measurement in Education and Training
CBQ	Cost Benefit Quality
DSAP	Dual System Apprenticeship Programme
ETDP-SETA	Education Training Development Practices Sector Education and Training Authority
HEI	Higher Education Institution
ICT	Information Communication Technology
M&E	Monitoring and Evaluation
MTEF	Medium Term Expenditure Framework
NCV	National Certificate: Vocational
NQF	National Qualifications Framework
NSDS	National Skills Development Strategy
PIVOTAL	Professional Internship Vocational Occupational Technical Academic Learning
SDF	Skills Development Facilitator
SME	Small and Medium sized Enterprises
Stats SA QLFS	Statistics South Africa Quarterly Labour Force Survey
TVET	Technical Vocational Education and Training
WSP	Workplace Skills Plan

3. CHAIRPERSON'S FOREWORD

"TRAINING TODAY'S WORKERS FOR TOMORROW"

(Annual Report Theme)

In this world of propelling technological accomplishment, the tone and format of traditional artisanal work is dramatically changing.

Not anymore the foreman in an industrial-era factory who does not need to give much thought to what is produced or to the people making the product; nor the need to implacably follow orders, organise tasks, assign the right resources to those tasks, synchronise results and ensure the job gets done as ordered. The focus then was on efficiency, albeit at the cost of immense alienation during the productive process.

In the new technology-driven economy, it is now an issue of harmonising process/productive "chaos" with order.

As new forms of production march on, it is becoming ever clearer that innovation guided by leadership is key to solving the conundrum of high inclusive economic growth yet persistent and rising unemployment.

The "knowledge worker," spoken of consistently in the past, is now a reality; there is, therefore, a need to refocus education and skills on "training today's workers for tomorrow."

Fortunately, the merSETA has recognised the deficit in old-style training and in the past financial year has pioneered initiatives to align today's workers for tomorrow's uncertainty.

The merSETA has conceptualised, developed and implementing dual apprenticeships and learning schemes that directly link shop floor techniques with the world of virtual learning.

At the same time, the organisation has also developed an internet-based tool designed for each of its members to assess the positive financial impact of taking on apprentices and learners.

The merSETA's financial management remains sound and reflects compliance with the PFMA and National Treasury regulations. There were no instances of non-compliance during the 2016/17 year.

Yet again, we are proud to announce that the merSETA has received an unqualified audit for 2016/17 – the 17th consecutive unqualified audit.

Since its inception, more than 300 00 artisans, learners and specialists have had their training facilitated by the merSETA. We are proud to also have initiated a PhD programme through partnerships with South African and international universities.

In line with government's Operation Phakisa – the initiative to unlock the economic potential of our oceans – the merSETA's cooperation agreements with the country's higher education institutions in coastal areas are bearing fruit. Faculties are now gearing curricula towards specialists in the ocean economy while the numbers of entrants in the past year have also risen.

STRATEGIC FINANCIAL RESULTS AND CORPORATE GOVERNANCE

In the last financial year, the Accounting Authority continued to endorse and implement the King III Code on Corporate Governance for South Africa. It is now preparing to implement King IV.

The term of the Accounting Authority, which comprises 15 members -- six members representing organised labour and six members representing organised employers, - has been extended until 31 March 2018.

The merSETA held one Inter-Chamber Strategic workshop for the year 2016/17 – the focus being the regulatory and policy environment affecting industry.

Despite the economic slowdown, the merSETA's levy income for the 2016/17 financial year amounted to R1.308 billion, compared to R1.307 billion in the previous year.

The merSETA's financial management remains sound and reflects compliance with the PFMA and National Treasury regulations. There were no instances of non-compliance during the 2016/17 year.

The number of employers contributing during the year increased slightly to 14,614 from 13,399 in 2015/16.

The introduction of co-funding between the merSETA and companies allowed additional investment of R244 million over and above the merSETA allocation. Exciting progress was reported on special projects where nine NGOs were allocated funding contracts. Through such interventions, the merSETA supported the establishment and support of Co-operatives in KZN, Mpumalanga, Gauteng and Eastern Cape. Recognised Trade Unions received support, which was aimed at growing and strengthening the capacity of trade unions on credit bearing and non-credit bearing programmes in line with identified needs.

4057 companies were successfully approved for mandatory grants, compared to 4005 in 2015/16. This resulting claims ratio was 73.3% for the year under review. A number of partnerships with different National and Provincial Government Departments, managed by the merSETA, have been entered into during the period under review.

THE FUTURE: CAREER AWARENESS AND INDUSTRY TRAINING:

Partnerships with all TVET colleges allow such companies to train their workers on site, while setting aside a portion of workers' time to attend theoretical learning at the higher education institutions.

In line with this, the merSETA also upped the ante on career guidance and awareness. It is also set to roll out a regional career awareness and guidance campaign that will spotlight specific needs and requirements of local industry in each of the seven regions.

The need for this programme emanates from, amongst others, sub-standard career guidance at school level, the changing need of new generation learners towards experiential learning, the impact of Industry 4.0 on jobs for the future and the national imperative to guide youth effectively towards career choices that will equip them for employability.

In the last financial year, the merSETA hosted six colloquia on the state of manufacturing in South Africa. The theme was "The Future of Manufacturing in South Africa." The key aim of the Critical Thinking Colloquia was to stimulate robust conversations about the future of manufacturing in South Africa. Outcomes of these debates will influence the merSETA programmes and interventions in the economy and give stakeholders an opportunity to contribute to shaping these programmes in future. It was also to open up a conversation about economic development.

All of this proves that we have a long-range perspective on education and training; that we are innovators, people-focused, original and our programmes engender trust between labour and industry.

This dimension is crucial, if the country has to survive the world's economic woes.

In line with the Department of Trade and Industry's 2017/18 Industrial Policy Action Plan (IPAP), the merSETA is expected to respond as it speaks to economic growth and re-industrialisation through various interventions including skills.

IPAP 2017/18 places emphasis on job creation with a continuously strengthening focus on labour intensity that links the productive sectors of the economy, across integrated value chains.

Again looking forward, the merSETA is shifting its planning from action-based planning to a results-based planning approach. This will allow the merSETA to use evidence to demonstrate the change and impact that it has on the sector.

We will focus on:

- Determining the skill needs of employers by occupation using the Organising Framework for Occupations in their sector;
- Supporting the skills developments needs of the employer within the national priorities and prescripts;
- Securing workplace-based learning opportunities for learners; and
- Supporting institutional and workplace-based learning of the current workforce.

CONCLUSION

The 2016/17 financial year has seen enormous progress by the merSETA in the face of stagnating economic growth and the concomitant high unemployment.
Elaboration on this aspect is contained in the narratives by the organisation's various divisions.

The statistics prove that there is serious return on investment when people are trained for the new economy. For we know that value will come from the knowledge of people who are not mere cogs in an industrial process but are all leaders in the way business, resources and technology are organised.

This is Industry 4.0 and the merSETA is geared to training today's workers for tomorrow.

CHAIRPERSON
Ms P Baleni (née Nzimande)

4. CHIEF EXECUTIVE OFFICER'S OVERVIEW

This annual report is presented to you in the year that our country celebrates the year of Oliver Reginald Tambo who was deeply passionate about education and understood that education is the key driver for development.

In the words of Thabo Mbeki: "Oliver Tambo was an intellectual in the best meaning of the word. He was a person of rational thought and rational action. It is a great ability, a great gift, that gift of reason. And I think it was central to Oliver Tambo's make-up and control to his behaviour. With Oliver Tambo, you had a person who could deal with both the concrete and the abstract, the specific, the particular and the general between tactics and strategy; that dialectical interaction Oliver Tambo understands very well."

Oliver Tambo was a maths and science teacher, who firmly believed that a liberated South Africa would require a well-educated population to govern the new democratic State. Therefore, we at the merSETA have responded to that call during the past 17 years: "Training today's worker for tomorrow."

Archbishop Trevor Huddleston, a great friend of Oliver Tambo, commented: "History is never simply a chronicle of the past. It is always a challenge to contemporary thought for the future." The life, character and contributions of Oliver Tambo to our national wellbeing, a better Africa and a better world will continue to be relevant to future generations because the values he personified are universal norms that underlie all great struggles for freedom as well as the universal effort to build a people-centred human society. For the sake of our heritage, identity and pride as a nation, all of us, South Africans, dare not allow ourselves to forget what Oliver Tambo did to reclaim our human dignity. Without the memory and spirit of O R Tambo in our midst -- serving as our guide -- our present and future will carry the taint of barrenness, because they will be deformed by a poverty of meaning.

"Oliver Tambo was an intellectual in the best meaning of the word. He was a person of rational thought and rational action. It is a great ability, a great gift, that gift of reason. And I think it was central to Oliver Tambo's make-up and control to his behaviour. With Oliver Tambo, you had a person who could deal with both the concrete and the abstract, the specific, the particular and the general between tactics and strategy; that dialectical interaction Oliver Tambo understands very well."

Allow us to reflect on the contribution of O R Tambo to the country that we live and toil in. Speaking about toil in, let us not forget that the country we live in has been built by the workers who toil in our factories from dusk to dawn. Coming from all corners to toil in the different metropolis, we at the merSETA celebrate the contributions of the workers who build the economy, those who make South Africa a better place to live and work in and those who contribute and build the Manufacturing and Engineering sector.

In line of recognising O R Tambo as one of our outstanding workers and one who symbolically represents the worker of this country and this sector, we now focus on what and how we contributed to "training today's worker for tomorrow".

It is inevitable that the durability of the merSETA's good work and contribution would outlast the short life of the SETA, and would continue to turn the history of this organisation into a material force that continues to transform the destinies of the poor, the unemployed, youth, women and the geographically and socially marginalised.

During the year under review we contributed R1, 146 744 million towards training today's worker for tomorrow. From this amount, we dispersed R247 million on mandatory grants and R754 million on discretionary grants. Further contracts were also entered into with the Unemployed Insurance Fund to the value of R75 million and an agreement with the Gauteng Department of Education was concluded for an amount of R44,6 million as well as the National Department Public Works to the value of R23,3 million. This has ensured the merSETA commitments towards skilling the nation remains above 98%.

The merSETA in the year under review implemented the training of unemployed youth through skills programmes, bursaries, learnerships and apprenticeships. Further, in order to reduce inequalities and social injustices, the merSETA assisted with the development of black females through the Black Females Leadership Development Programme. The merSETA also focused on the training and development of semi-skilled and unskilled workers in the sector to promote structural transformation in the labour market. The merSETA promoted work integrated learning in response to increasing the employability of TVET graduates through the NCV-to-artisan project. The merSETA also exposed 200 young people to a Work Integrated Learning Programme in the Peoples Republic of China.

It is Leo Tzu who states "that a leader is best when people barely know he exists when his work is done; when his aim is fulfilled, they will say: we did it ourselves".

O R Tambo said "the fight for freedom must go on until it is won, until our country is free and happy and peaceful as part of the community of man. We cannot rest". This statement has spurred us on toil in ever harder and to ensure that our sector remains competitive. Our target for objective 3 (Increase access to occupationally-directed programmes) was 18 012 and we succeeded in meeting this target by enrolling 27 648. Our target for objective 4 (Continue and increase focus on artisan development) was 9 600 and our impressive result was 12 722. For objective 5 (increase literacy and numeracy of workers) our target was 5 300 and we succeeded in training our 9 244 workers.

Our target for objective 6 (Co-operatives, small enterprises, worker-initiated and community organisations are supported to implement skills) was 1 758 and our achievement was 2 240. For objective 7 (Building Career and vocational guidance), our target was 27 and our achievement 43. For objective 8 (Promote partnerships with post-school education and training institutions and workplaces), our target was 4 638 and our partnerships were 3 596.

In setting targets and budgeting for APP 2016/17, the merSETA identified those areas where funding constraints existed and embarked on an approach to finance key focus areas and special projects through partnerships and co-funding principles (Page 16 APP 2016/17). The performance information report contained herein is provided in accordance with this approach and principle. This approach and principle translated into a business

model that enabled the merSETA to achieve required targets for the sector's skills needs through both full grants funding for some skills development interventions and by using its grants to leverage funding from forging partners through co-funded agreements. This business model enabled the merSETA to encourage industry, government and public entities to take more learners in response to the needs of the sector and national socio-economic growth and development goals.
Again reflecting on the words of Oliver Tambo at Georgetown University on January 27, 1987: "It is our responsibility to break down barriers of division and create a country where there will be neither Whites nor Blacks, just South Africans, free and united in diversity."
Let us proceed to inform you that our staff complement at year end was 256, 29 were interns, 14, 1% are white. The personnel expenditure was 11, 67% of the merSETA's total expenditure.

Allow us to thank the Minister of Higher Education and Training for his guidance and extending the SETA licence to 2020. In the next few months, the Minister will appoint a new Accounting Authority for the next iteration of the SETA mandate. We look forward to the contribution of the new members and it is our fervent hope that they will build on the foundations that the outgoing Accounting Authority has set.

We wish those members who will not return to the Accounting Authority everything, of the best in the future.

The merSETA has already commenced with elaborate plans to deal with the sectoral challenges in the face of Industry 4.0.
O R Tambo, on receiving the degree of Doctor of Laws Honoris Causa from the Jawaharlal Nehru University in New Delhi on 9 May 1986, said: "Today, I stand before this august and eminent assembly to receive an honorary degree of Doctor of Laws. The question I have pondered without results from the day I first learnt of this possibility and since my arrival in this country three days ago, when I learnt of this occasion, has been: Why me? Why pick on me? In what way do I, more than other South Africans, more than other political leaders and activists of yesterday, today, and tomorrow, deserve to be honoured with a Doctorate by any university, least of all by one that carries the immortal name of Jawaharlal Nehru?"

Today, we celebrate our 17th unqualified Audit Report. Such great achievements are only made possible through our collective efforts. Allow me to thank the people of South Africa, the merSETA sector, our partners, the Accounting Authority and all Accounting Authority Committees, the management and staff of the merSETA for bestowing on me the honour to have led the merSETA for more than 11 years. I truly am thankful to have been called to perform this honourable task. It is an honour to be entrusted with the responsibility to be of service to this great country.

CHIEF EXECUTIVE OFFICER
Raymond Patel (Dr)

5. STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY OF THE ANNUAL REPORT

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor General.

The annual report is complete, accurate and free from any omissions.

The annual report has been prepared in accordance with the guidelines on the annual report issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with Generally Recognised Accounting Practice (GRAP).

The Accounting Authority is responsible for the preparation of the annual financial statements and for the judgements made in this regard.

The Accounting Authority is responsible for establishing and implementing a system of internal control, which has been designed to provide reasonable assurance regarding the integrity and reliability of the performance information, the human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.
In our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2017.

R Patel (Dr)
Chief Executive Officer
31 March 2017

P Baleni (Ms)
Chairperson AA
31 March 2017

6. STRATEGIC OVERVIEW

6.1 VISION
Leaders in closing the skills gap

6.2 MISSION
To increase access to high quality and relevant skills development and training opportunities to support economic growth in order to reduce inequalities and unemployment and to promote employability and participation in the economy

6.3 VALUES
Batho Pele – People First

WE CARE | **WE BELONG** | **WE SERVE**

7. **LEGISLATIVE** AND OTHER MANDATES

The merSETA's mandate is derived from the Skills Development Act No. 97 of 1998 and National Skills Development Strategy (NSDS)

Develop the sector Labour Market Intelligence System – promote and develop an institutional base for providing robust and reliable sector data by aligning internal ICT, administration functions and M&E with the requirements of credible research and sector skills planning as well as implementing systematic development of research partnerships with HEIs and the development of knowledge management within the organisation

Continued and increased focus on artisan development – includes pathways to artisan status from learners progression, career guidance, and sector and company perspective; involvement of relevant stakeholders in the planning and governance of qualifications and curriculum development and assessment as well as provider – employer cooperation and scalable workplace learning; programmes and projects for strengthened relationships among TVET colleges, industry training centres and industry; promoting artisan recognition of prior learning (ARPL); and enhancing capacity of SMEs to offer artisan training

Establish and facilitate strategic partnerships – engage with government, non government, employer associations, labour organisations and bargaining councils for greater levels of coordination and efficiency; and, pursue partnerships with local and international HEIs to ensure new ideas and research outcomes to benefit the sector

Increase flow of newly skilled workers into the sector – addressing skills shortages currently experienced whilst accommodating for planned growth, impact of technological changes and replacement demand; providing access to work experience opportunities; addressing transformation imperatives with respect to race, gender, class, geography, disability and age; and, increased to career guidance and development in rural areas

Develop the skills of the existing workforce – lifelong learning and creation of career pathways consistent with decent work, equity and sector economic growth; identifying occupational pathways for existing workers and those at risk of retrenchment and thus implementing up-skilling, re-skilling and trans-skilling; and, the provision of continuing education, post qualification programmes, continuous professional development and management development

The legislative framework in which the merSETA functions, and the policies and legislation that influence programme spending plans, are as follows:

- National Skills Development Strategy (NSDS)
- Skills Development Act No. 97 of 1998(as amended)
- Sector Education and Training Authorities(SETA) Grant Regulations regarding monies received by a SETA and related matters("Grant Regulations") under Notice 35940 of 3 December 2012
- Skills Development Levies Act 9 of 1999 (as amended)
- Regulations regarding the establishment of Sector Education and Training Authorities under Notice R106 of 4 February 2005, ("SETA Establishment Regulations")
- Government Notice No 39260 of 6 October 2015 as amended by Government Notice No 336 of 18 March 2016. Re-establishment of Sector Education and Training Authorities(SETAs)
- Public Finance Management Act No 1 of 1999 as amended ("PFMA")
- National Treasury Regulations issued in terms of the Public Finance Management Act("Treasury Regulations") of 2005
- Public Audit Act 25 of 2004 (as amended)
- Government Gazette 39394 of 11 November 2015: Extension of tenure for SETA Accounting Authorities
- The Standard Constitution of SETA Regulations of 7 May 2012
- Promotions of Access to Information Act
- Promotion of Administrative Justice Act
- Employment Equity Act, Labour Relations Act, Basic Conditions Of Employment Act and the Occupational Health and Safety Act
- Tax Laws

8. **ORGANISATIONAL** STRUCTURE

CHAIRPERSON
Ms Phindile Baleni

CHIEF EXECUTIVE OFFICER
Dr Raymond Patel

STRATEGY & RESEARCH EXECUTIVE
Ms Sebolelo Mokhobo-Nomvete

CHIEF OPERATIONS OFFICER
Mr Wayne Adams

CHIEF FINANCIAL OFFICER
Ms Lindiwe Ndlela

CORPORATE SERVICES EXECUTIVE
Ms Ester van der Linde

9. **ACCOUNTING** AUTHORITY

Ms Phindile Baleni (Chairperson)

Ms Jeanne Esterhuizen (Deputy Chairperson)

Mr Xolani Tshayana (Deputy Chairperson)

Ms Malebo Lebona

Mr Mustak Ally

Mr Anton Hanekom

Mr Jonathan Swarts

Mr Thapelo Molapo

Mr Jacobus Olivier

Prof Fiona Tregenna

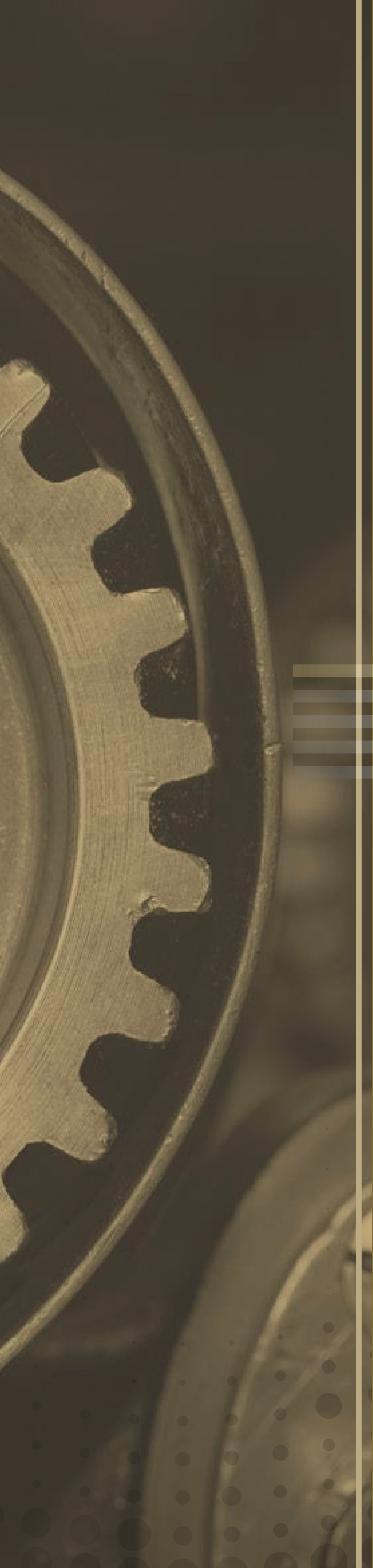
Mr Johan van Niekerk

Mr Herman Kostens

Mr Andrew Chirwa

Mr Alex Mashilo

Ms Helen von Maltitz



PART B

PERFORMANCE INFORMATION

1. **SITUATIONAL** ANALYSIS

1.1 SERVICE DELIVERY ENVIRONMENT

In the wake of the increasingly uncertain political, economic and social environment, merSETA is cognisant of changes in these areas and continuously seeking sector specific solutions to address national economic and social development challenges.

As economic inequalities and social divisions are still prevalent, the South African government is intensifying its focus on addressing the underlying structural challenges of unemployment, poverty and inequality. The country's escalating unemployment rate is partly as result of the lack of skills among youths. Through skills development it is believed, the country could address unfair discrimination and increase access to education and training opportunities.

The merSETA response in the year under review implemented the training of unemployed youth through skills programmes, bursaries, learnerships and apprenticeships. Further, in order to reduce inequalities and social injustices, the merSETA assisted with the development of black females through the Black Females Leadership Development Programme. merSETA also focussed on the training and development of semi-skilled and unskilled workers in the sector to promote structural transformation in the labour market. The merSETA also promoted work integrated learning in response to increasing the employability of TVET graduates through the NCV to artisan project.

Economically, South Africa is in the midst of de-industrialisation with job losses and factory closures, along with rising imports and declining exports. In response to the economic de-industrialisation and job loss, the merSETA implemented programmes that increased investment in the development of artisans and engineering professionals in formal and informal, SME and Cooperative enterprise s as potential growth areas for the manufacturing sector. It is also imperative to better understand and monitor small, medium and informal business segments in order to leverage skills development opportunities. The merSETA has thus commissioned the Demand and Supply Research project to understand more deeply the supply and demand of skills in large, small, medium and informal sector so as to design and expand innovative skills development solutions for these potential growth areas.

A competitive manufacturing and engineering sector depends on the capacity of firms to master advanced technology domains, innovation, to keep up-to date with advances in technologies and to meet the needs of customers. Through the modernisation and advancement of manufacturing, government and business is attempting to increase the competiveness of the manufacturing sector. With new and disruptive technologies, comes the requirement for highly skilled workers resulting in a rise in joblessness for semi-skilled and unskilled workers. Workers in the sector need opportunities to be up skilled to meet the high level skills demands of modern day manufacturing. Workers need to be equipped with skills that allow agility in an ever-changing labour (skills) market. This also emphasises the importance of focusing on future skills as well as lifelong learning. Advanced manufacturing and beneficiation also requires investment in the country's Innovation, Research and Development (IRD) capability requiring skills at masters and PhD level. Curricula need to be informed by industry to ensure a capable workforce in sync with industry trends. In responding to competitiveness, modernisation and advancement of the manufacturing sector, the merSETA supports research chairs in HEIs aimed at promoting advance manufacturing and innovation.

The merSETA further supports the Masters and PhD postgraduate at HEIs to increase innovation capabilities for the sector. The merSETA has in response to the green and blue economy initiated the development of occupational qualifications and curriculum for the Wind Turbine Service Technician and Solar Photovoltaic Technician and also provides support for the Marine engineering. It has embarked on interventions aimed at re-skilling and up-skilling of the current workforce to ensure they remain relevant and employable.

1.2 ORGANISATIONAL ENVIRONMENT

During the year under review, the uncertainty surrounding the SETA license renewal posed a major challenge. Despite its potentially disruptive impact on the morale and productivity within the organisation, the organisation managed to maintain a below average staff turnover rate. In addition to this, the Annual Climate Survey reported a 72% staff satisfaction rate.

Despite the uncertain environmental circumstances, the human resource practices ensured that the merSETA is still regarded as an employer of choice. Staff received onsite and after hours, personal and professional support services, through the merSETA Wellness programme. Staff remuneration was kept competitive and equitable through national benchmarking against the private and public sectors. The development of the merSETA Priority Skills list as well as the implementation of a Leadership Development Programme added depth to the already existing skills development practice. An organisational development initiative was implemented to streamline the operations of some units so as to strengthen the organisation's ability to implement the annual performance plan.

Annual Performance Plan 2016/17 (translating strategic imperatives into goals and objectives)

GOAL: An effective, efficient and optimally functioning merSETA

OBJECTIVES
- Improve governance and innovative leadership of the SETA
- Improve administration, financial and human resource management

GOAL: A skilled and capable workforce for the manufacturing sector

OBJECTIVES
- Increase access to occupationally directed programmes
- Continue and increase focus on artisan development
- Increase literacy and numeracy of workers
- Cooperatives, small enterprises, worker initiated and community organisations are supported to implement skills development training initiatives
- Building career and vocational guidance
- Promote partnerships with post school education and training institutions and workplaces

GOAL: Appropriate research for evidence based decision-making

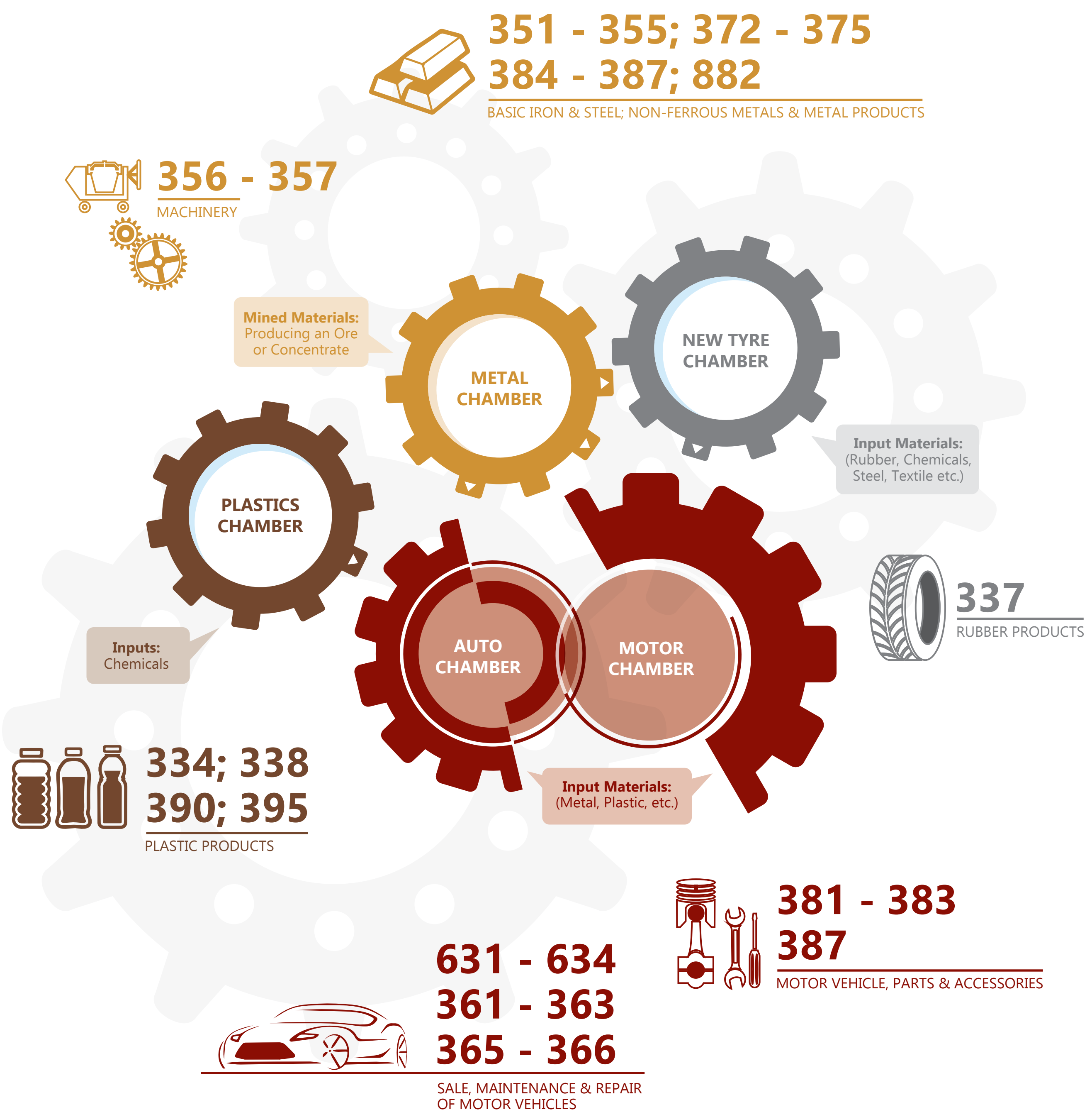
OBJECTIVES
- Increase research capacity

1.3 BENEFICIARIES

Employers and workers are the primary beneficiaries of merSETA skills development.

1.3.1 COMPANIES

The merSETA, established in terms of the skills development legislation of 1998, includes a range of manufacturing activities in addition to a few related service and retail activities. The figure below outlines the industrial activities aligned to the merSETA scope of coverage and classifies them by chamber (sub-sector). The figure depicts the interrelationships between the chambers (sub-sectors). In terms of the size of companies in the merSETA sector most are small and medium, but they only employ 35% of all employees, large companies account for 65% of employment. In terms of the provincial distribution of the companies within merSETA's five chambers, most are concentrated in Gauteng, the Western Cape, KwaZulu-Natal and the Eastern Cape. The metal sector also has a footprint in the Northern Cape and Mpumalanga. The Motor sector shows a footprint in all other provinces, as do the other sectors, but to a lesser degree.


351 - 355; 372 - 375
384 - 387; 882
BASIC IRON & STEEL; NON-FERROUS METALS & METAL PRODUCTS
356 - 357
MACHINERY
Mined Materials: Producing an Ore or Concentrate
METAL CHAMBER
NEW TYRE CHAMBER
Input Materials: (Rubber, Chemicals, Steel, Textile etc.)
PLASTICS CHAMBER
337
RUBBER PRODUCTS
AUTO CHAMBER
MOTOR CHAMBER
Inputs: Chemicals
334; 338
390; 395
PLASTIC PRODUCTS
Input Materials: (Metal, Plastic, etc.)
381 - 383
387
MOTOR VEHICLE, PARTS & ACCESSORIES
631 - 634
361 - 363
365 - 366
SALE, MAINTENANCE & REPAIR OF MOTOR VEHICLES

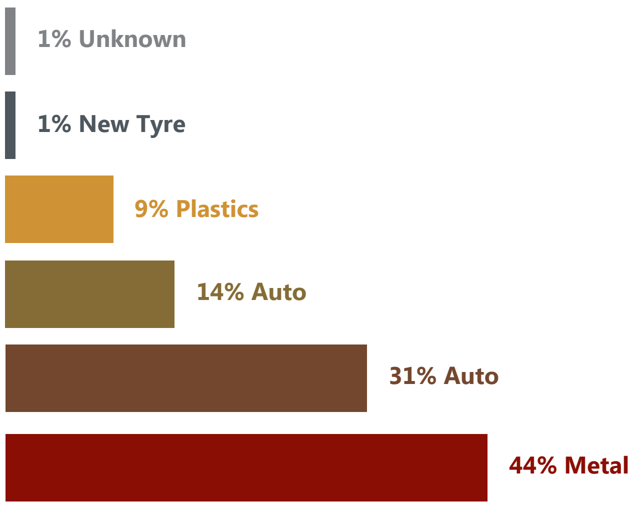
Individuals – Employees/Workers

The manufacturing sector (under the merSETA scope of coverage) provided employment for about 1.2 million people (both formal and informal) or 13.1% of the total employed population. In terms of the formal and informal employment split within the merSETA scope of coverage, overall 84% are formally employed, with 16% employed informally (merSETA calculations, Stats SA QLFS, 2015). About 75% of merSETA employees have a minimum NQF level 4 qualification with only 1 % having less than NQF level 1 (basic education). In terms of race, more than half (58.0%) of merSETA employees are African and almost a quarter (24%) are classified White. Indians constitute 5% while Coloureds constitute 13%. White employees form the largest racial group in the occupational categories of managers (66%) and professionals (53%). Africans make up the majority of workers for technician and associate professionals (47%), service and sales workers (40%) and clerical support workers (40%).

merSETA's sectors are male dominated with 78% males and 22% females representing the gender profile of the sector. merSETA is a youthful sector; in 2016, 41% of all employees were younger than 35 years and only 10% was between 55 and 64 years old.

The elementary occupations have a relatively large proportion of workers younger than 35 years (51%). This group is to a larger extent composed of semi-skilled people with basic entry level qualifications (grade 12). The highest proportion of those aged over 35 are at managerial or professional level.

Employees with disabilities by Chamber (merSETA WSP data, 2016)
Disabled Employees by Chamber



1.4 STRATEGIC OUTCOME ORIENTED GOALS

Achievements impacting on NSDS goals

NSDS III GOALS	
Goal 1: Establishing a credible institutional mechanism for skills planning	**Outcome:** National need in relation to skills development is researched, documented and communicated to enable effective planning across all economic sectors

The 2016/2017 SSP is the flagship document, which sets the tone in terms of key strategic issues that impact on the "MER" sectors. Other research studies conducted through primary and secondary research methods informs the SSP as well as skills interventions/projects. One of these is the composites skills mapping study, which profiled the advanced composites industry using a value chain approach. Another example is the annual chamber-led research projects, which solicit key sector needs as expressed by the sectors themselves. There was also a study coordinated by the merSETA research unit on the State of Manufacturing in South Africa, which found that employment opportunities were limited for semi-skilled occupations due to stagnation in the sector. Other applied research projects also contribute to the institutional mechanism; these include the Comet study, which was a large-scale vocational competency measurement tool, which helped identify strengths and weaknesses in VET. Another project is the CBQ, which is a cost, benefits and quality analysis instrument, used to measure the costs associated with the implementation of apprenticeships and encourages better use of workplace based skills development resources. All these projects are aimed at strengthening the credibility of the work that we do as a SETA.

Goal 2: Increasing access to occupationally-directed programmes	**Outcome:** A thorough analysis and reflection is conducted on provision of education and training within the public sector and the contribution of the various role players Education and training plans for the public sector are revised and programmes are implemented to build capacity

The Dual System Apprenticeship was a shift from increasing the number of apprenticeships in the system to a deeper focus of quality and high competence levels in artisan training. It has been the catalyst to linking the TVET colleges and workplaces for structured work integrated learning. Duality is a key enabler in this learning pathway as both theoretical knowledge and the practical component is achieved at the same time. It is important to note that the DSAP apprentice's level of competence has been found through the 2016 COMET report to be 30% higher compared to the non-DSAP apprentice.

Goal 3: Promoting the growth of a public TVET college system that is responsive to sector, local, regional and national skills needs and priorities	**Outcome:** The National Certificate (Vocational) and N-courses are recognised by employers as important base qualifications through which young people are obtaining additional vocational skills and work experience, entering the labour market with marketable skills, and obtaining employment Partnerships between DHET, SETAs, employers, private providers and public FET colleges are resulting in increased capacity to meet industry needs throughout the country. The academic staff at colleges is able to offer relevant education and training of the required quality.

By March 2017, the merSETA had entered into more than 50 active multiyear partnership agreements with TVET colleges. The majority of these agreements support NCV (4) learners to become fully qualified and trade-tested artisans. Eleven of these agreements support 33 TVET college lecturers to achieve full artisan status as well. The partnership agreements form part of a larger number of agreements, which include universities, universities of technology, national and provincial departments.

The merSETA further sponsored multiple PhD Scholarships in support of the development of new knowledge systems for skills planning, manufacturing technology and TVET. The merSETA has also implemented the Dual System Apprenticeships Pilot Project (DSAP) to link FET Colleges to workplaces for structured work-integrated- learning on a bi-weekly student rotational plan in order to meet sector needs expeditiously.

Goal 4: Addressing the low level of youth and adult language and numeracy skills to enable training	**Outcome:** A national strategy is in place to provide all young people leaving school

The merSETA remained focused on support for adults requiring Adult Basic Education and Training, as well as other interventions towards self-development. Some of the interventions included short courses for shop floor workers and SDF training. The merSETA supports the notion of informed workers as empowered workers.

Goal 5: Encouraging better use of workplace-based skills development	**Outcome:** Training of employed workers addresses critical skills, enabling improved productivity, economic growth and the ability of the workforce to adapt to change in the labour market.

The merSETA provided capacity building to both employers and trade unions through road shows to enhance better understanding and benefits of training interventions to enable improved productivity. Capacitating trade unions in the merSETA Sector, for the benefit of educating and developing their members through skills development-related programmes, which form part of their duties as shop stewards to participate in training and development interventions.

Goal 6: Encouraging and supporting cooperatives, small enterprises, worker-initiated, NGO and community training initiatives	**Outcome:** Cooperatives, supported with skills training and development, expand and contribute to sector economic and employment growth. Partnership projects to provide training and development support to small businesses are established in all sectors and their impact reported on Worker, NGO and community-based education programmes are supported and their impact measured and reported on

During 2016/17, the merSETA's dedicated efforts to address the diversity of training and development needs in civil society and community-based organisations resulted in a range of successful developmental interventions. Contracts were negotiated and financially committed with four of the unions, active in the merSETA's sub-sectors. The technical training project for co-operative members resulted in 120 members, of nearly 30 co-operatives, being trained. NPOs remained active across the country, networking communities into merSETA's training support initiatives and small businesses were actively engaged.

Goal 7: Increasing public sector capacity for improved service delivery and supporting the building of a development state	**Outcome:** Education and training plans for the public sector are revised and programmes are implemented to build capacity

The merSETA Human Resources contributes positively to the NSDS III on the education and training within the public sector via the Leadership Development that has been introduced throughout the levels of the organisation. The Funds from the ETDP SETA are also channelled to the development of the Senior Black Female Managers to build capacity for future leaders. In addition, the funds also are utilised for the Internship Programme to cater for their development on the job training relevant to the field of placement to help them enhance their skills for future employment.

Goal 8: Building career and vocational guidance	**Outcome:** Career paths are mapped to qualifications in all sectors and sub-sectors, and communicated effectively, contributing to improved relevance of training and greater mobility and progression

In the 2016/17 financial year, the merSETA utilised its mobile career bus equipped with twelve satellite-liked computer stations to provide the career guidance to the school learners, out-of-school-youth and unemployed people. merSETA participated in different career expos across the country, both in rural and urban areas. Schools were visited where learners were exposed to career guidance information sessions. The merSETA promotional materials containing different programme interventions were dispersed during the career guidance sessions.

2. **PERFORMANCE INFORMATION** BY PROGRAMME

merSETA's performance against Annual Performance Plan targets 2016/17

1. The 2016/17 financial year was the sixth year of the NSDS III. The approved merSETA Annual Performance Plan (APP) 2016/17 comprised of five programmes that were identified by the Accounting Authority. Upon approval of the APP, merSETA and the Department of Higher Education and Training (DHET) signed a service level agreement (SLA) that was the basis for reporting quarterly performance against the quantitative targets contained in the APP.

2. In setting targets and budgeting for APP 2016/17, the merSETA identified those areas where funding constraints exist and embarked on an approach to financing key focus areas and special projects through partnerships and co-funding principles (p 16 APP 2016/17). The performance information report contained here-in is provided in accordance with this approach and principle. This approach and principle translated into a business model that enabled merSETA achieve required targets for the sector's skills needs through both full grants funding for some skills development interventions and by using its grants to leverage funding from implementing partners through co-funded agreements. This business model enables the merSETA encourage industry, government and public entities to take on more learners in response to the needs of the sector and the needs in response to national socio-economic growth and development.

3. Companies submit workplace skills plans on which they indicate the number of learners they will train. They also submit the annual training report on which they indicate the number of learners they have trained. Mandatory grants are then approved based on submitted WSP and ATR.

4. Discretionary grants are allocated per agreement for learners covered by the agreement. Discretionary grants are allocated in accordance with the merSETA grants policy through the combination of either the maximum and, or a proportion of the discretionary grants for the number of learners covered by the agreement.

PROGRAMME 1: GOVERNANCE AND LEADERSHIP						
OBJECTIVE 1	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Improve governance and innovative leaderships of the SETA	Compliance with policies, strategies and plans	N/A	100%	Complied with relevant policies, strategies and plans	None	None

PROGRAMME 2: ADMINISTRATION, FINANCIAL AND HUMAN RESOURCE MANAGEMENT						
OBJECTIVE 2	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Improve administration, financial and human resource management	Effective and efficient financial, material and Human Resource Management	N/A	Unqualified Audit	merSETA obtained an Unqualified Audit in the 2015/16 year. The audit of the 2016/17 year is still underway	None	None
	Monitoring, evaluating and reporting on SETA performance.	N/A	Unqualified Audit	Performance reports for 2016/17 submitted to DHET approved	None	None
	Staff turnover below 7% annually	N/A	7%	The staff turnover for the merSETA was 5.86	None	None
	Staff performance evaluated bi-annually	N/A	100% Evaluated	The merSETA has evaluated 100% of its performance management for the staff	None	None
	At least 1% of payroll budgeted annually	N/A	1%	Training costs for the 2016_17 year is 2.7% of payroll budget. The requirement is that at least 1% of payroll be allocated to training. merSETA allocates more funding due to its emphasis on the importance of staff development and training	None	None
	merSETA Workplace Skills Plan and annual training Report submitted to ETDP SETA annually in June	N/A	Plan and Report submitted by deadline	The merSETA has submitted the WSP and ATR to the ETDP SETA on the 16th April 2017 before the deadline	None	None
	merSETA Employment equity report submitted to department of labour annually in October	N/A	Report submitted by deadline	The EE report for the merSETA has been submitted to the Department of Labour on the 13 January 2017 due to latest requirement to submit before 31st January	None	None

PROGRAMME 3: ACCESS TO OCCUPATIONALLY-DIRECTED PROGRAMMES

OBJECTIVE 3	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Increase access to occupationally-directed programmes	Unemployed Learnerships Entered	4202	2343	1579	(764)	The total DG awards to companies for learnership training was 4959. At the time of reporting the companies would not necessarily have concluded their recruitment and registration process. The merSETA had other interventions in the form of.co-funded partnerships interventions for this indicator from which an additional 3630 learners entered making the total entry to be 5209
	Unemployed Interns Entered	275	397	385	(12)	The merSETA funded achievement could not be met due to the fact that some organisation had not registered the learners at the time of reporting The merSETA had other interventions in the form of co-funded partnerships interventions for this indicator from which an additional 153 learners entered making the total entry to be 538
	Unemployed Skills Programmes Entered	4467	2500	2168	(332)	The total DG awards to companies for Skills programme training was 3043. At the time of reporting the companies would not necessarily have concluded their recruitment and registration process. Although grants were awarded to companies for the training of learners on multiple skills programmes, the merSETA may only report on one learner per intervention even though learners may have done multiple skills programmes. This reporting is per new DHET requirements. The merSETA had other interventions in the form of.co-funded partnerships interventions for this indicator from which an additional 3910 learners entered making the total entry to be 6078
	Unemployed Learnerships Completed	2302	1500	1207	(293)	The merSETA funded target achievement could not be met due to the fact that learners had not completed their training at the time of reporting. There were also other co-funded partnerships moderation and monitoring interventions for this indicator through which an additional 1364 learners who completed the programme making the total for completion to be 2571
	Unemployed Internships Completed	197	350	90	(260)	Internships could range between 12 and 24 months. merSETA could only report on internship learners who have completed their 12 months period. The remaining will be reported in the next financial year. There were also other co-funded partnerships, monitoring interventions for this indicator from which an additional 106 learners completed internships making the total completion to be 196

PROGRAMME 3: ACCESS TO OCCUPATIONALLY-DIRECTED PROGRAMMES (Continued)

OBJECTIVE 3 (CONTINUED)	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Increase access to occupationally directed programmes	Unemployed Skills Programmes Completed	2329	1800	1016	(784)	The merSETA funded target achievement could not be met, as many learners were still busy with their programmes. In addition, it must be noted that although grants were awarded to companies for the training of learners on multiple skills programmes, the merSETA may only report on one learner per intervention although the learner may have done multiple skills programmes as opposed to the past where the merSETA could report all skills programmes linked to the learner. There were also other co-funded partnerships, moderation and monitoring interventions for this indicator through which an additional 1286 learners completed making the total entry to be 2302
	Employed Bursaries Entered	243	200	425	225	Students who entered in the last quarter of the 2015/16 (February to March) whose entry evidence records were received in the 2016/17 financial year were only reported in the current reporting period. There was an additional 101 co-funded learners to the total of 526 who entered bursary programmes
	Employed Bursaries Completed	92	160	17	(143)	The requirements for reporting for the year under review are against learners who have successfully completed their year of study. Although funding has occurred, merSETA is not allowed able to report on learners who have failed as these are not classified as achievements. There were an additional 34 learners through co-funded arrangements making a total of 51
	Unemployed Bursaries Completed	25	450	163	(287)	The merSETA transferred grants to NSFAS but did not get the evidence based report from NSFAS on time for reporting. . There were 7 additional learners who completed through co-funding arrangements making the total for completions to be 170
	Unemployed Bursaries Entered (NSFAS)	1770	901	346	(555)	The merSETA transferred grants to NSFAS but did not get the evidence based report form NSFAS on time for reporting. NSFAS provided a letter stating that reports will be delayed
	Employed Learnerships Completed	1847	2600	990	(1610)	A number of learners registered through DG awards have not concluded their final summative assessment process, which has had a direct impact on this indicator. There was an additional 1199 learners who completed the programme through the co-funding arrangement making the total to be 2189

PROGRAMME 3: ACCESS TO OCCUPATIONALLY-DIRECTED PROGRAMMES (Continued)

OBJECTIVE 3 (CONTINUED)	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Increase access to occupationally directed programmes	Employed Learnerships Entered	4256	1343	1360	17	The total awards to companies for learnership training was 4959. At the time of reporting the companies had not necessarily concluded their recruitment and registration process. There were also other co-funded, partnerships, moderation and monitoring interventions for this indicator through which an additional 2475 learners entered the programme, making the total entry to be 3835
	Companies being paid mandatory grants: large	580	500	540	40	Due to the elaboration of criteria required for approval during the advocacy campaign the number of approvals increased
	Companies being paid mandatory grants: medium	1000	833	926	93	Due to the elaboration of criteria required for approval during the advocacy campaign the number of approvals increased
	Companies being paid mandatory grants: small	2071	2135	2171	36	Due to the elaboration of criteria required for approval during the advocacy campaign the number of approvals increased

PROGRAMME 3: ACCESS TO OCCUPATIONALLY-DIRECTED PROGRAMMES (Continued)

OBJECTIVE 4	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Continue and increase focus on artisan development	Total Artisans Entered	1330	3600	2732	(868)	The total awards to companies for learnership training was 5120. At the time of reporting the companies had not necessarily concluded their recruitment and registration process There were also other co-funded partnerships moderation and monitoring interventions for this indicator through which an additional 2656 learners entered the programme, making the total entry to be 5388
	Total Artisans Completed	3227	5500	1565	(3935)	The merSETA funded target achievement could not be met due to the fact that the number of learners, that were awarded discretionary grants in previous years, were not illegible for trade test at the time of reporting. There were also other co-funded partnerships moderation and monitoring interventions for this indicator through which an additional 2610 learners completed the programme, making the total for completion to be 4175
	Recognition of Prior Learning (RPL)	2577	500	317	(183)	692 grants were awarded for RPL learners to undertake pre-assessment, gap training and trade testing. At the time of reporting many of the candidates had not concluded the process and would therefore not been eligible to undertake the trade test Some of the RPL candidates earmarked towards this target could not meet the qualifying criteria in terms of eligibility to attempt the trade test where as some were deemed not competent on attempting the trade test. There were an additional 2842learners who were supported through co-funding and administrative support for the programme, making the total for RPL to be 3159

PROGRAMME 3: ACCESS TO OCCUPATIONALLY-DIRECTED PROGRAMMES (Continued)

OBJECTIVE 5	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Increase literacy and numeracy of workers	Employed Skills Programmes Entered	4622	2500	2522	22	The grant awarding only occurred during the end of the third quarter which resulted in learners being enrolled on the programme during the following financial year There were also other co-funded partnerships moderation and monitoring interventions for this indicator through which an additional 4184 learners entered the programme making the total entry to be 6706
	Employed Skills Programmes Completed	1739	2000	1206	(794)	The merSETA funded target achievement could not be met as many learners were still busy with their programmes. In addition, it must be noted that although grants were awarded to companies for the training of learners on multiple skills programmes, the merSETA may only report on one learner even though the learner has done multiple skills programmes There were also other co-funded partnerships moderation and monitoring interventions for this indicator through which an additional 496 learners completed the programme making the total entry to be 1702
	AET Programmes Entered	710	500	448	(52)	Though there was effective support by Clients Liaisons Officers, it was not enough to achieve the target as union projects started late and only limited numbers could be trained before end of the year
	AET Programmes Completed	462	300	388	88	Effective support through extended Client Liaison Officer activities and training of union members in the merSETA sector on non NQF aligned programmes contributed to the exceeding of this target

PROGRAMME 3: ACCESS TO OCCUPATIONALLY-DIRECTED PROGRAMMES (Continued)

OBJECTIVE 6	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Co-operatives, small enterprises, worker-initiated and community organisations are supported to implement skills	Co-operatives Support	35	18	36	18	The partnership with the DTI and Department of Small Business Development assisted in training more Cooperatives than initially anticipated. The DTI project has been completed but DSBD is still on going
	Small Business Support	1851	1500	1894	394	Effective support through extended Client Liaison Officer activities contributed to the exceeding of this target
	NGO	24	20	28	8	The overachievement was the results of new contracts implemented and part of the support given through DSBD contract
	CBO	6	7	7	0	
	NLPE	271	200	258	58	Effective support through extended Client Liaison Officer activities contributed to the exceeding of this target
	Trade Union	5	4	4	0	
	Rural Development Projects	15	9	13	4	This was achieved through partnership with different Premier Offices, National Departments like Public Works, rural TVET colleges and some Universities having programmes to develop learners in rural areas
OBJECTIVE 7	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Building Career and vocational guidance	Candidacy entered	New	100	0	(100)	The indicator is not applicable to the merSETA in that candidacy is reported under internships. The merSETA has written a letter to DHET requesting exemption from reporting against this indicator
	Candidacy completed	New	0	0	0	
	Career Guidance Events	37	27	43	16	Increased internal capacity and alignment of human capital led to greater participation. There was also increased capacity at regional office level to participate in DHET and non-DHET events

PROGRAMME 4: PROMOTE PARTNERSHIPS

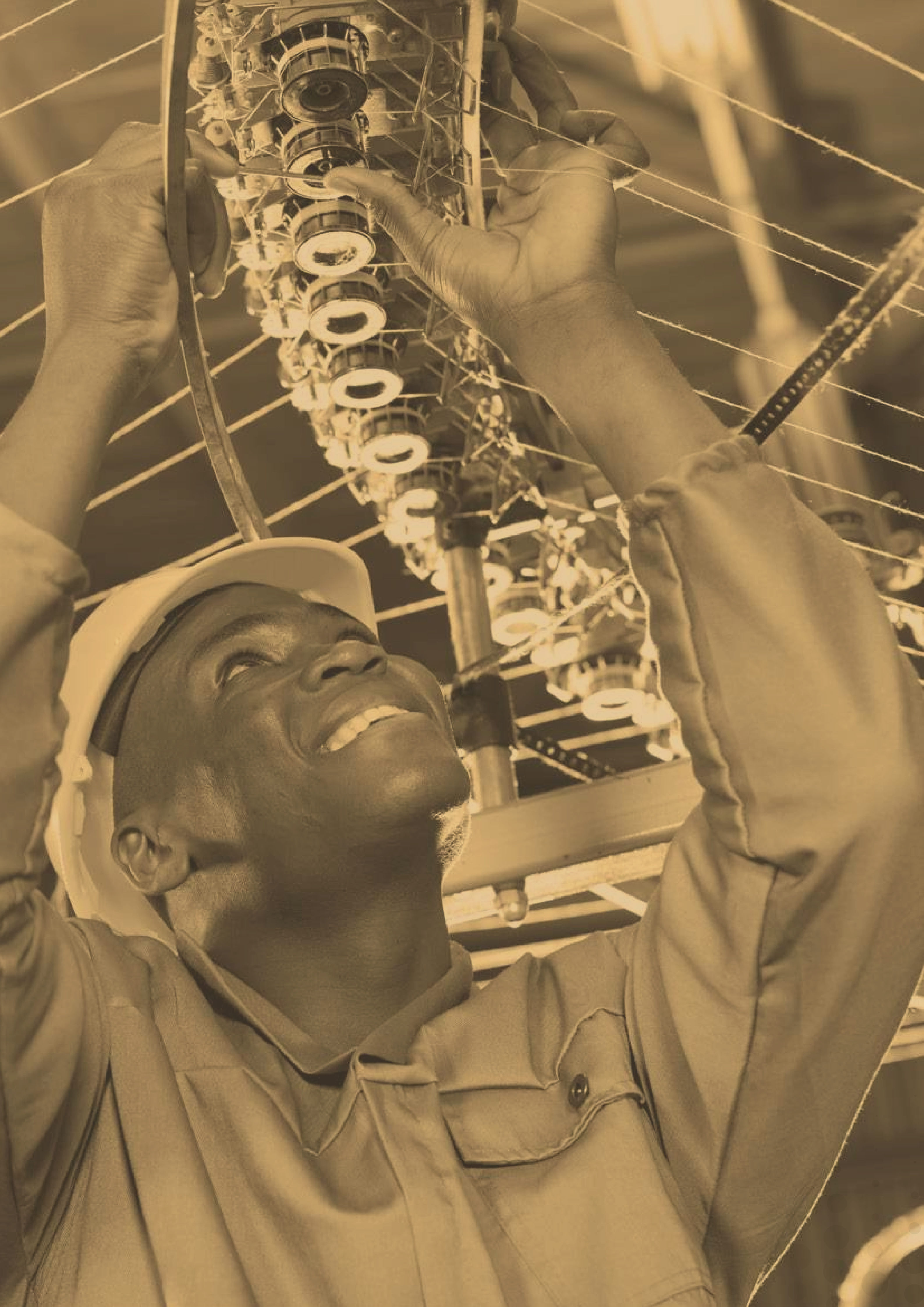
OBJECTIVE 8	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Promote partnerships with post-school education and training institutions and workplaces	TVET Student Placement Entered	616	820	272	(548)	Under achievement on the target TVET student placement entered was mainly due to majority of the merSETA TVET student placements having being entered into structured learning programmes such as apprenticeships and learnerships, which does not meet the DHET technical definition of this target. There were other 137 co-funded learners making the total placement to be 409
	TVET Student Placement Completed	191	750	37	(713)	Under achievement on TVET student placement completed was mainly due to majority of the merSETA TVET student placements having being entered into structured learning programmes such as apprenticeships and learnerships, which does not meet the DHET technical definition of this target. There were other 23 co-funded learners making the total for the intervention to be 60
	Universities Student Placement Entered	879	681	656	(25)	Although 1602 grants were awarded during the period under review, the recruitment of these students would only be finalised during the first quarter of the next financial year. There were another 323 co-funded learners through partnerships making the total placement to be 979
	Universities Student Placement Completed	697	600	257	(343)	The main reason for not meeting this target is due to the fact that merSETA can only report on a learner once upon completion of Practical 2 unlike previous years where practical 1 and 2 could be reported on individually. In addition, the target was not aligned to the decision under the new requirements. Additional learners were place through co-funding making the total to be 320
	TVET college Partnerships	34	25	14	(11)	The reporting requirement from the Department of Higher Education and Training changed from reporting on continuing active partnerships to newly signed agreements. There are limited TVET Colleges that have capacity and resources to implement programmes within the merSETA scope

PROGRAMME 4: PROMOTE PARTNERSHIPS

OBJECTIVE 8 (CONTINUED)	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
	SETA / Universities Partnerships	13	12	6	(6)	The reporting requirement from the Department of Higher Education and Training changed from reporting on continuing active partnerships to newly signed agreements. There are limited HEIs that have capacity and resources to implement programmes within the merSETA scope
	SETA / Employer Partnerships	2320	1450	1696	246	There was an increase on the number of companies applying for discretionary grants and signing MOAs with merSETA. Also strategic partnership projects with the UIF, different Premier Offices and National Department of Public Works contributed
	Lecturer Development Programmes Entered	163	150	60	(90)	Funding was made available for lecturers to be placed at the workplace to achieve artisan status. However upon placement the lecturers demanded additional remuneration for the workplace exposure in addition to their normal salary. This resulted in low take up of the programme
	Lecturer Development Programmes Completed	151	150	52	(98)	Funding was made available for lecturers to be placed at the workplace to achieve artisan status. However upon placement the lecturers demanded additional remuneration for the workplace exposure in addition to their normal salary. This resulted in low take up of the programme

PROGRAMME 5 : RESEARCH CAPACITY

OBJECTIVE 9	Performance Indicators	2015/16 Achievements	2016/17 Targets	2016/17 Achievements	Deviation from Planned Targets to Actual	Comment on deviation
Increase research capacity	SSP R&S (impact assessment)	N/A	1	0	(1)	The Strategy and Research division was instructed to go through re-alignment of its structure. Realignment was only finalised in October 2016. Following the re-alignment, decision was taken to conduct evaluation of a number of projects and not only SSP R&S (impact assessment). The Evaluation Plan on impact assessment was subsequently approved by MANCO for implementation in 2017/18
	Walter Sisulu University	N/A	1	0	(1)	After considering the earlier similar project with Walter Sisulu University not fully implemented, the existing partnership research project was reviewed and an addendum was developed to that effect
	University of Johannesburg	N/A	1	0	(1)	There was an urgent need for an intervention with the University of Johannesburg and this planned intervention was implemented in the 2015/16 financial year
	Apprentice research	N/A	1	0	(1)	Considering that there was a similar intervention started in earlier years on apprenticeship research i.e COMET, the new proposed research intervention was discontinued until the results of COMET were finalised
	Courseware and Curriculum Development	N/A	1	0	(1)	The courseware and curriculum project was intended as an intervention to legacy qualifications (not QCTO occupational based). QCTO encouraged SETAs to replace legacy qualifications through the new QCTO policy framework, and the project was not implemented
	GMET SGB	N/A	1	0	(1)	The GMET SGB (Generic Manufacturing Engineering and Trades Standards Generating Body) project was intended as an intervention to legacy qualifications (not QCTO occupational based). When QCTO encouraged replacing legacy qualifications through the new QCTO policy framework and the project was not implemented
	QCTO CEP pilot project	N/A	1	0	(1)	The project was implemented in 2015/16 financial year as a result of an urgency to move away from the legacy qualifications by QCTO
	Assessment Quality Partner	N/A	1	0	(1)	The project was implemented in 2015/16 financial year as a result of an urgency to move away from the legacy qualifications by QCTO
	MerSETA conferences	N/A	1	2	1	Over and above the planned inter-chamber conference, the merSETA supported the colloquium conferences across our six regions



PART C

GOVERNANCE

COMPANY SECRETARY
Madimetja Tisana

1. INTRODUCTION

In line with the Skills Development Act, (no 97 of 1998) the Minister must appoint the Chairperson of the Accounting Authority of a SETA, after consultation with the National Skills Authority. The Minister must appoint 14 persons as members of the Accounting Authority as follows:

1. Six persons who must be nominated by organised labour;
2. Six persons who must be nominated by organised employers;
3. Two persons who must be nominated by-
   - 3.1 any government department that has an interest in the relevant sector and that is not an organised employer
   - 3.2 any interested professional body;
   - 3.3 any bargaining council with jurisdiction in the sector in question; or
   - 3.4 any organisation in a community that has an identified interest in skills development in the sector in question.

Members of the Accounting Authority are appointed for a five-year term of office. The activities of merSETA are regulated in terms of the Standard Constitution, which is part of the Skills Development Act Regulations.

2. PORTFOLIO COMMITTEE

The merSETA is a schedule 3a public entity and reports to the DHET. merSETA reports to Parliament through the Portfolio Committee on Higher Education and Training.

3. EXECUTIVE AUTHORITY

The merSETA is a schedule 3a public entity and reports to the DHET. The Minister of Higher Education and Training is the main stakeholder on behalf of Government.

The Minister of Higher Education and Training is merSETA's Executive Authority and the Minister is accountable to Parliament for the activities of merSETA. The merSETA has made all the required submissions to the Executive Authority, which includes Quarterly Reports (financial and performance), the APP and the Service Level Agreement during period under review.

COMPOSITION OF THE ACCOUNTING AUTHORITY

Ms Phindile Baleni was the Chairperson of the Accounting Authority during the year under review while Mr Xolani Tshayana and Ms Jeanne Esterhuizen both served as Deputy Chairpersons. The Following members served as Independent Non Executive Members: Mr Alex Mashilo, Mr Anton Hanekom, Professor Fiona Tregenna, Mr Jacobus Olivier, Mr Jonathan Swarts, Mr Johan van Niekerk, Ms Malebo Lebona, Mr Herman Kostens, Mr Andries Chirwa, Mr Thapelo Molapo, Ms Helen von Maltitz and Mustak Ally (Mr Ally resigned).

4. COMMITTEES OF THE ACCOUNTING AUTHORITY

The following Committees have been established in terms of Annexure 5 (1) and (2) and Annexure 6 of the Standard Constitution:

- Executive Committee (EXCO);
- Audit and Risk Committee (ARC);
- Human Resources & Remuneration Committee (HRRC);
- Finance and Grants Committee (FGC);
- Governance and Strategy Committee(GSC);
- Chamber Committees and
- Regional Committees

All committees operate within written terms of references, which are regularly reviewed and approved by the Accounting Authority.

THE EXECUTIVE COMMITTEE

Purpose
The Executive Committee (EXCO) acts in an independent non-executive capacity to oversee the Management of the merSETA. The Committee operates in accordance with section 9 of the Standard SETA Constitution, Terms of reference subject to the direction of the Accounting Authority.

Composition
The Executive Committee comprises five members, all of whom are members of the Accounting Authority, namely Ms Phindile Baleni, Ms Jeanne Esterhuizen, Mr Xolani Tshayana, Ms Malebo Lebona. There is a vacancy for the organised Employers constituency. The members are appointed for the term of the Accounting Authority. The Chairperson of the Accounting Authority is also the Chairperson of EXCO.

Roles and Responsibilities
The Executive Committee ensures that merSETA carries out its responsibilities in line with section 9(4) of the Standard SETA Constitution. The Committee must among others:

- On behalf of the Accounting Authority, exercises oversight over the management of the affairs of merSETA.
- Coordinates and supervises the implementation of the Accounting Authority's policies.
- Exercises oversight over the management of budgets and business plans of the merSETA.
- Coordinates the functioning of the Chamber Committees and the Education and Training Quality Assurance Committee and monitors their activities to ensure that they act within the terms of any powers delegated to them by the Accounting Authority.

THE AUDIT AND RISK COMMITTEE

Purpose
The Audit and Risk Committee is an independent and non-executive Committee. The Committee advises and assist the Accounting Authority and Executive Management to secure transparency, accountability, compliance and sound management of revenue, expenditure, assets and liabilities of merSETA. The Committee operates in accordance with:

- Public Finance Management Act 199 (No 1 of 1999 as amended)
- National Treasury Regulations

Composition
The ARC comprises five members. Three independent members, namely Ms Thulisile Mashanda the Chairperson from 1 august 2015, Ms Kholeka Zama and Advocate Fay Mukaddam; two are Accounting Authority Members: Mr Jacobus Olivier and Mr Jonathan Swarts. The committee Chairperson attends Accounting Authority meetings by invitation.

Roles and Responsibilities
The Audit and Risk Committee fulfils a supervisory and monitoring role on behalf of the Accounting Authority, overseeing the Company's financial affairs and its relationship with the internal and external auditors as well as risk management.

The Committee monitors the quality, integrity and reliability of the Company's compliance with the relevant legislation, ensuring that an appropriate system of internal controls is maintained to protect the assets of the organisation. The ARC is also responsible for the evaluation of the independence, objectivity and effectiveness of the external and internal auditors, considering the accounting and auditing policies and addressing any concerns identified by the auditors.

The Audit and Risk Committee is also responsible for promoting the accuracy, reliability and credibility of financial reporting and reviewing the annual financial statements as well as the annual report of the organisation prior to approval by the Accounting Authority. In addition, the ARC is responsible for the implementation and monitoring of risk management systems on behalf of the Accounting Authority.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

Purpose
The objective of this Committee is to assist the merSETA Accounting Authority in its responsibility for the setting and administering remuneration and human resources policies and procedures. The Committee operates in accordance with item (12) sub-item (2) of the Standard SETA Constitution. The Committee acts in an independent and non-executive capacity.

Composition
The Human Resources & Remuneration Committee comprises five members. Two are independent members, namely Mr Romano Daniels and Ms Japhtaline Maisela Mantunka; and three Accounting Authority Members: Mr Thapelo Molapo (Chairperson), Mr Alex Mashilo and Mr Xolani Tshayana.

Roles and Responsibilities
The Accounting Authority has delegated among others the following responsibilities:

- Advises the Accounting Authority on any matter relating to the remuneration in order for the Accounting Authority to develop consistent, fair and impartial strategies, policies, procedures and processes for the compensation of members of staff.
- Advises the Accounting Authority on the guidelines and reviewing of compensation and performance for members of staff.
- Reviews corporate goals that are relevant for the compensation of the Chief Executive Officer.
- Reviews human resources policies and procedures.
- Reviews and reassess annually, the adequacy of the remuneration policy.

FINANCE AND GRANTS COMMITTEE

Purpose
The Finance and Grants Committee acts in an independent and non-executive capacity. The Committee advises the Accounting Authority and Executive Management to comply with financial requirements related to the Skills Development Act 97 of 1998 as amended as well as the Public Finance Management Act 1 of 1999 as amended and the relevant Regulations.

The Finance and Grants Committee (FGC) plays an oversight role in terms of the management of grant disbursements as well as monitoring the financial implications of policies, decisions and changes to the budget and business plan of merSETA.

Composition
The Finance and Grants Committee comprises seven members. Two are independent members, namely Mr Martin Kuscus and Ms Sizeka Rensburg and four Accounting Authority Members namely Mr Anton Hanekom (Chairperson), Mr Fiona Tregenna, Mr Malebo Lebona, Ms Jeanne Esterhuizen and Mr Jonathan Swarts.

Roles and Responsibilities
The Finance and Grants Committee is responsible for among others the following:

- Evaluating and recommending the budget, cash flow and Financial statements to the Accounting Authority.
- Evaluating and recommending financial policies and grants guidelines to the Accounting Authority.
- Reviewing the investment Policy and making recommendations to the Accounting Authority.
- Reviewing the investment strategy
- Reviewing risk assessments and other related controls with regard to the investments.
- Evaluating and making recommendations to the Accounting Authority regarding the Discretionary Grants Criteria and ensuring that such criterion is aligned to the Sector Skills Plan as well as NSDS III.
- Evaluating and making recommendations to the Accounting Authority regarding Mandatory Grant Criteria in line with Grant Regulations.

GOVERNANCE AND STRATEGY COMMITTEE

Purpose
The Governance and Strategy Committee assists the Accounting Authority in its responsibility for the development of policies, principles, criteria and guidelines that are necessary for the governance and strategic function of the merSETA. The Committee operates in accordance with item 13 sub-item (2) of the Standard SETA Constitution. The Committee acts in an independent and non-executive capacity.

Composition
The Governance and Strategy Committee comprises two independent member, Ms Khulekelwe Mbonambi and Dr Marlo Swardt and seven Accounting Authority Members, namely Mr Alex Mashilo (Chairperson), Mr Xolani Tshayana, Ms Jeanne Esterhuizen, Ms Malebo Lebona, Mr Herman Kostens, and Mr Anton Hanekom. There is a vacancy for the organised Employer constituency.

Roles and Responsibilities
The Governance and Strategy Committee is responsible for among others the following:

- Monitoring compliance in terms of Standard SETA Constitution, Public Finance Management Act, Skills Development Act, King IV principles and the relevant Regulations.
- Considering matters of corporate governance and creating, maintain and periodically reviewing the corporate governance principles and codes of ethics of the merSETA.
- Addressing possible cases of conflict of interest involving members of the Accounting authority and its Committees.
- Overseeing the governance of Information Communication Technology Systems.

- Making recommendations to the Accounting Authority on matters pertaining to strategy development and implementation.
- Overseeing the review of the strategy on an ongoing basis and recommending the Strategic Plan, Annual Performance Plan and Service Level Agreement to the Accounting Authority.

CHAMBER COMMITTEES

Purpose
The Chamber Committees are sub-committees of the Accounting Authority, established to support merSETA in carrying out its mandate. The Chambers operate in accordance with the Schedule 6 of the Standard SETA Constitution. The Committees have a consulting, monitoring, evaluation and advisory roles, with the accountability to the Executive Committee.

merSETA established five chamber Committees as follows:

- Plastics manufacturing
- Automobile manufacturing
- Metal engineering
- New tyre manufacturing
- Retail motor and components manufacturing

Composition
The Chamber committees are composed of a maximum of ten members each per organised employers and organised labour constituency.

Roles and Responsibilities
The Chamber Committees ensure that merSETA carries out its responsibilities by:

- Developing sub-sector/s input into the sector skills plan in accordance with the current merSETA and Department of Higher Education and Training guidelines;
- Developing a Chamber research agenda, approve research proposals, prior to submission to the Innovation, Governance and Strategy Committee, and approving a lead organisation to manage the research in accordance with that organisation's procurement procedures, and monitoring the implementation of the Chamber Research Project;
- Advising and reporting to the Regional Committees, and their respective constituencies, on sub-sector(s) needs, scarce skills and relevant grants, programmes and projects, and other appropriate matters;
- Identifying education and training needs in the sector for consideration by management in developing the Sector Skills Plan, Annual Performance Plan and Strategic Plan of the merSETA;
- Monitoring the development and implementation of relevant programmes and projects in the sub-sector;
- Making inputs to education and training policies and systems that make an impact on the sub sector(s);
- Liaising with relevant bargaining councils, forums professional associations on matters pertaining to the implementation of training at local level, outside of the scope of the merSETA.

REGIONAL COMMITTEES

Purpose
The Regional Committees act in a stakeholder capacity, as advisors to assist the Chamber Committees to carry the mandate of the Accounting Authority. The Committees operates in accordance with Schedule 5 item 2 of the Standard SETA Constitution. The Committees have a consulting, monitoring, evaluation and advisory roles, with the accountability to the Chamber Committees.

merSETA has Regional Committees as follows:

- Eastern Cape Regional Committee
- Free State and Northern Cape Regional Committee
- Gauteng North and North West Regional Committee
- Gauteng South Regional Committee
- KwaZulu-Natal Regional Committee
- Mpumalanga and Limpopo Regional
- Western Cape Regional Committee

Composition
The Regional Committees comprises of 24 member representatives from both organised Employers and Labour. Each constituency is entitled to four alternates.
Roles and Responsibilities

The Regional Committees ensures that merSETA carries out its responsibilities as they relate to:

- Developing sub-sectoral input into the skills plan in accordance with the principles, criteria, policies and guidelines of the merSETA.
- Reviewing the activities of the Regional Committees and reporting to these committees on sector and sub-sectoral needs, scarce skills and other appropriate matters.
- Identifying education and training needs in the region.
- Monitoring and evaluating skills development regarding the implementation of all learning programmes as well as all other training initiatives in the sector and sub-sectors.
- Interacting with relevant Provincial Skills Development Forums, Human resources Development Council, Bargaining Councils/Forums, Professional Associations and reporting to Regional Committees on sector and sub-sectoral needs.

5. OTHER STRATEGIC COMMITTEES/STRUCTURES

The following committee also plays a crucial role in ensuring that the mandate of the organisation is achieved:

EDUCATION, TRAINING, QUALITY ASSURANCE COMMITTEE (ETQA)

Purpose
The ETQA Committee is responsible for the oversight of the execution of the quality assurance functions and obligations of the merSETA. The Committee operates in accordance with the Standard SETA Constitution subject to the directions of the Accounting Authority.

Composition
The ETQA Committee comprises maximum of 10 (ten) members drawn from both the Accounting Authority and the Chamber Committees of the merSETA.

Roles and Responsibilities
The ETQA has the following responsibilities:

- The consistency of accreditation of skills development providers and workplace approvals related to historic qualifications under the QCTO delegation.
- Monitors, evaluates and makes recommendations on the execution of the quality assurance functions to the Accounting Authority.
- Quality assures the assessment and moderation of the specific qualifications and unit standards in the Sector and sub-sectors in terms of criteria that may be established for this purpose.
- Ensures that the merSETA maintains an appropriate database for its quality assurance and certification function in order to upload to the National Learners Records Database (NLRD).
- Perform quality assurance function as delegated by Quality Assurance Partners as well as the function of the Assessment Quality for registered occupational qualifications.

ATTENDANCE AT THE ACCOUNTING AUTHORITY AND COMMITTEES MEETINGS

NAME	ACCOUNTING AUTHORITY	AUDIT AND RISK COMMITTEE	EXECUTIVE COMMITTEE	HUMAN RESOURCES AND REMUNERATION COMMITTEE	FINANCE AND GRANTS COMMITTEE	GOVERNANCE AND STRATEGY	METAL CHAMBER	MOTOR CHAMBER	PLASTICS CHAMBER	NEW TYRE CHAMBER	AUTO CHAMBER
Phindile Baleni	6/8		3/3	2/3							
Jeanne Esterhuizen	6/8		3/3		2/4	4/6		0/4			
Xolani Tshayana	8/8		3/3	2/3		6/6					4/5
Alex Mashilo	7/8			3/3		5/6					
Andries Chirwa	2/8										
Anton Hanekom	7/8				4/4	4/6			3/4		
Fiona Tregenna	7/8				4/4						
Jacobus Olivier	8/8	9/9									
Jonathan Swarts	8/8	8/9			4/4		4/4		4/4		
Johan van Niekerk	7/8										
Mustak Ally ** (resigned with effect from 1 August 2016)	1/8					2/6					
Malebo Lebona	7/8		3/3		4/4	6/6	3/4	4/4		4/4	5/5

NAME	ACCOUNTING AUTHORITY	AUDIT AND RISK COMMITTEE	EXECUTIVE COMMITTEE	HUMAN RESOURCES AND REMUNERATION COMMITTEE	FINANCE AND GRANTS COMMITTEE	GOVERNANCE AND STRATEGY	METAL CHAMBER	MOTOR CHAMBER	PLASTICS CHAMBER	NEW TYRE CHAMBER	AUTO CHAMBER
Thapelo Molapo	5/8			3/3							
Helen von Maltitz	6/8									4/4	
Herman Kostens	8/8					2/6		2/4			
Martin Kuscus					3/4						
Romano Daniels				0/3							
Sizeka Rensburg					4/4						
Mantuka Maisela				3/3							
Kholeka Zama (Appointment effective from 1 July 2016)		5/9									
Fay Mukkadam		6/9									
Thulisile Mashanda	7/8	9/9									
Masaccha Mbonambi						4/6					
Marlo de Swardt (Appointment effective from 1 July 2016)						3/6					

* Accounting Authority had 4 special meetings
** Audit and Risk Committee had 5 special meetings

6. ACCOUNTING AUTHORITY AND AA COMMITTEE ASSESSMENT

During the year under review, the Accounting Authority procured the services of Price Waterhouse Coopers to assess the Accounting Authority and the following Committees:

1. Executive Committee
2. Governance & Strategy Committee
3. Audit and Risk Committee
4. Human Resources and Remuneration Committee
5. Finance and Grants Committee

The main conclusion of the assessment was that the Accounting Authority is effective and that it appears to be supported by the relevant governance structures and processes, as required by the leading governance practices, allowing the Accounting Authority to function effectively in discharging its responsibilities.

The assessment established that, the majority of Accounting Authority members are satisfied with the composition of members representing organised labour, members representing organised employers, relevant government departments and interested professionals.

The assessment established that members of the Accounting Authority agree that with the approval of the Minister of Higher Education and Training, the Accounting Authority has the right Committees, with the necessary skills and approved Terms of reference in place to support and enhance AA effectiveness. The members are satisfied that they receive regular and adequate feedback on the activities of its Committees.

7. APPLICATION OF KING III PRINCIPLES

To ensure compliance with relevant legislation, merSETA's Legislative Compliance Register is reviewed on a quarterly basis to monitor compliance. Systems are in place to detect changes in legislation as and when they arise. Changes in legislation and statutory requirements are reported to the Accounting Authority on a quarterly basis an as and when it becomes necessary.

During the year under review, in addition to Legislative framework above, merSETA applied the King III Corporate governance principles. The report provides "All entities should by way of explanation make a positive statement about how the principles have been applied or have not been applied."

merSETA ensured that all the King III principles were applied and in this regard, the principles were included in the Legal and Compliance register, which is presented on quarterly basis at the Audit and Risk Committee meetings.

8. COMPLIANCE WITH LAWS AND REGULATIONS ETHICS AND CODE OF CONDUCT

The Accounting Authority set the tone for ethical behaviour, leadership and values through out merSETA. The members of the Accounting Authority ensures that the merSETA ethics are managed effectively through building an ethical culture, setting ethics into risk management, operations, performance management and disclosure. Effective communication channels exist for employees and others to raise concerns in confidence about possible improprieties in matters of financial reporting and related matters.

The merSETA Code of Conduct acts as a guideline to employees with regard to what is expected of them from an ethical point of view, both in their individual conduct and in their relationships with merSETA Stakeholders. It also assists employees to conduct themselves in accordance with the highest standards of integrity and ethics and in compliance with the Skills Development Act and other legislation related to objectivity, independence and conflict of interest. The primary purpose of the Code is to promote exemplary conduct.

9. RISK MANAGEMENT

The Accounting Authority is responsible for the merSETA risk management process. The Audit and Risk Committee assists the Accounting Authority in carrying out its risk management responsibilities.

The merSETA continuously strives to improve its risk management processes and risk assessments are carried out on a regular basis to determine the effectiveness of its risk management strategy and to identify new and emerging risks. The Accounting Authority approved the merSETA's risk tolerance and appetite during the year under review.

10. INTERNAL AUDIT

The merSETA's internal audit function is outsourced to an independent audit firm that carries out its function on an approved three year internal audit plan. Sizwe Ntsaluba Gobodo (SNG) was merSETA's Internal Auditors during the year under review. The independent internal auditors perform and report in terms of an approved internal audit plan. The Risk and Audit Committee reviews the internal audit Charter as well as the performance of the internal auditors on an annual basis.

In the year under review, SNG independently appraised the adequacy and effectiveness of the entity's systems, financial internal controls and accounting records and reported their findings to the Audit and Risk Committee. The internal control environment of merSETA was found to be in good standing.

11. **FRAUD** AND CORRUPTION

merSETA has a fully implemented Fraud Prevention Plan in place, which is regularly reviewed to ensure effectiveness.

The entity has a fraud and corruption hotline, which is fully operational and a register of all reported cases is maintained and reported through the governance structures periodically. All cases are investigated to determine validity and appropriate action is taken in cases where allegations are found to be true.

Fraud and Corruption report is a standing item on the Audit and Risk Committee

12. **MINIMISING CONFLICT** OF INTEREST

Members of the Accounting Authority as well as Senior Management are required to avoid situations where they have or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. Procedures have been put into place for the disclosure by the directors of any such conflicts, and these procedures have been operating effectively. Members of staff also have an obligation to declare their interests on an annual basis in order for the organisation to avoid issuing contracts to related parties.

13. **SOCIAL AND ENVIRONMENTAL** RESPONSIBILITY

All of the merSETA programmes are aligned to the national policy Framework that aims to contribute and assess the impact on social transformation, environmental preservation and economic upliftment. Initiatives during the period under review were linked to the National Skills Development Strategy (NSDIII); White paper for Post-School education and Training (2012); Human Resource Development Strategy for South Africa; New Growth Path; Industrial Policy Action Plan; Medium-Term Strategic Framework; Rural Development Strategy; National Development Plan and Operation Phakisa.

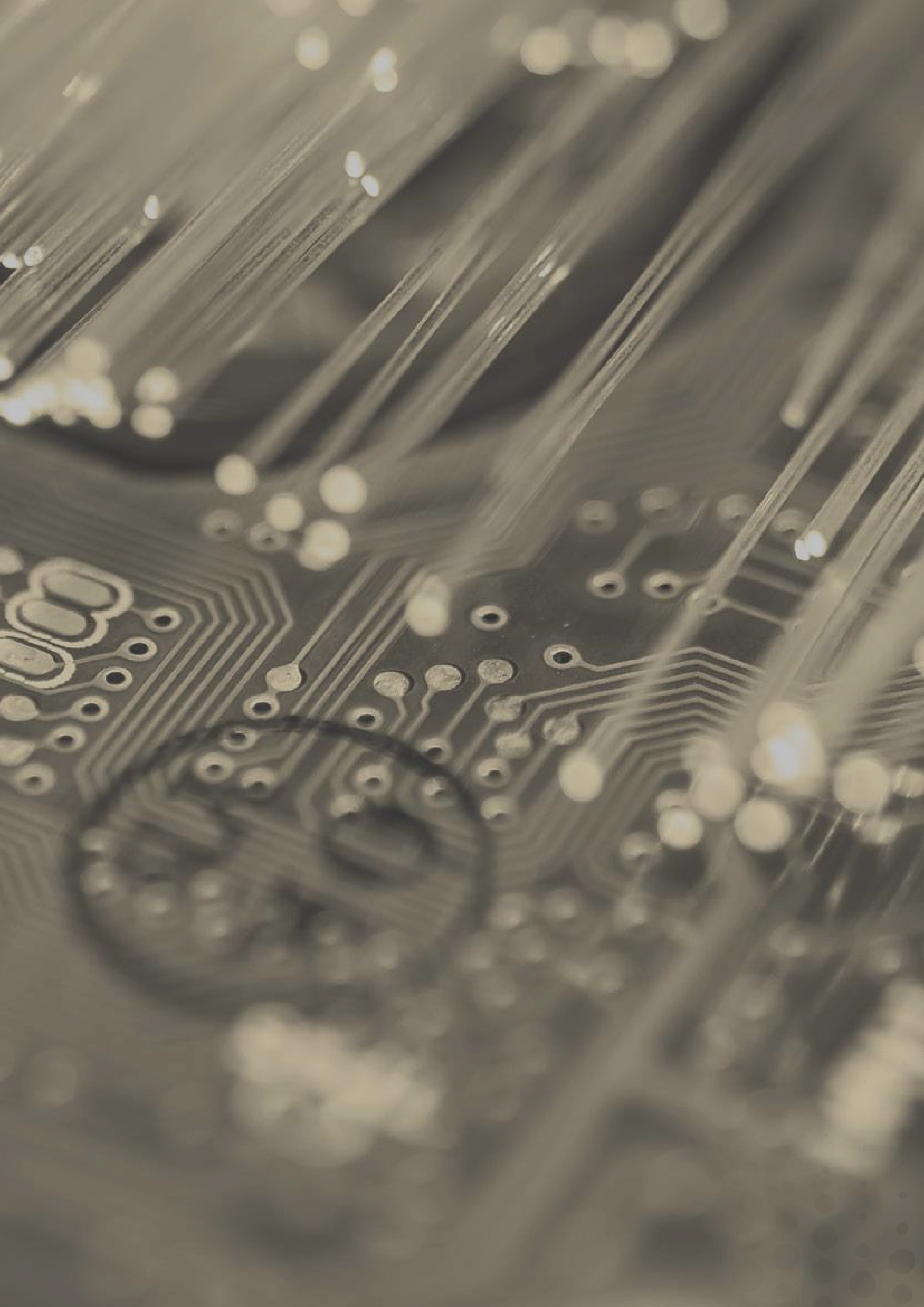
14. **HEALTH** AND SAFETY

A national Occupational Health & Safety Committee ensures compliance to the Occupational Health & Safety Act No 85 of 1999, the ISO 9001:2008 Quality Management System as well as the National Environment Management Act No 107 of 1998.

15. **COMPANY SECRETARY** AND COMPLIANCE OFFICER

During the year under review, merSETA appointed a Company Secretary & Compliance Officer, Mr Madimetja Tisana. The Company Secretary & Compliance Officer is responsible to advice the Accounting Authority, AA Committees, Chambers and Executive Management on matters related to compliance with procedures and applicable regulations and Statutes.

Members of AA, AA Committees, Chambers and Executive Management have full and timely access to information, which helps them fulfil their duties. The Company Secretary & Compliance Officer is responsible to facilitate training for AA members and its Committee members on matters related to Corporate Governance



PART D

HUMAN RESOURCE MANAGEMENT

1. INTRODUCTION

The 2015/2016 Human Resource Strategy is aligned to the National Skills Development III programme goals and is central to the Administration programme (programme 1), which aims to instil a culture of effectiveness and efficiency.

All human resources policies and practices are fully compliant with the legislative framework and promotes a challenging, rewarding and fulfilling working experience that leads to a learning culture and successful implementation of the merSETA's strategy.

2. HUMAN RESOURCE STRATEGIC ACHIEVEMENTS

All activities and initiatives were mapped to the Human Resources Strategic Objectives highlighted below.

2.1 ATTRACTION & RETENTION OF TALENTED INDIVIDUALS

Best practice in attracting, recruiting and selection ensured the appointment of high calibre candidates so as to sustain the continued achievement of organisational goals, whilst working towards achieving employment equity. Salary benchmarking ensured internal equity and external parity in remuneration practices so as to reward high performance and encourage Retention. Talent Management and Succession Planning further enhanced the nurturing, development and up-skilling of human capital. The resignation of two Executive Managers did not disrupt operations, which provides evidence of a successful attraction and succession plan.

The merSETA staff complement at year-end was 256 of which 227 were permanent staff members and 29 interns. The gender ratio reflects the national statistics (52% females and 48% males), as reported by Statistics South Africa.

The internal equity ratio of the merSETA is compared with the national statistics in the table below. The overall equity ratio is considered acceptable Whilst targets have been set to meet the national benchmark.

	% African	% Coloured	% White	% Indian
merSETA	64.3%	17.2%	14.1%	4.4%
National	80.4%	8.8%	8.3%	2.5%

Staff turnover rate was recorded at 4.85%, which is well below the average level.

2.2 HIGH PERFORMANCE LEARNING CULTURE

A culture of lifelong learning and knowledge sharing lead to an interdependent, innovative and engaged workforce. Staff were generous with their time and talents and continually collaborated to better position the merSETA for dealing with the complexities within the external environment. Staff members were exposed to continuous learning, development, collaboration & innovation opportunities.

A bi-annual performance management and moderation process translated broad organisational performance drivers into divisional, unit and individual performance targets, whilst also recognising and rewarding behaviour that is in line with the merSETA's values.

2.3 ORGANISATIONAL WELLNESS

Employee and organisational wellness programmes focused on holistic wellbeing to support employees in achieving success in the workplace and in their personal lives.

2.4 COMPLIANCE

A harmonious and productive working environment was established through ensuring that HR Policies, Procedures, Standards and Practices that are aligned, legally compliant and integrated within the organisation. Critical risks were identified and controls implemented to mitigate their potential impact.

2.5 LABOUR RELATIONS

The Management/ NEHAWU Relationship was healthy and the consultative approach adopted union promoted collaboration and inclusivity. A Diversity Committee was established and regular Bilateral Meetings took place.

3. HUMAN RESOURCE OVERSIGHT STATISTICS

3.1 PERSONNEL COSTS

Total expenditure for the entity '000	Personnel expenditure '000	Personnel exp. as a % of total exp.	No. of employees	Average personnel cost per employee '000
103 3100	120 581	11.67	**227	531

* Includes staff that are designated to specific projects and remunerated from the project
**Excludes interns

3.2 PERSONNEL COST BY SALARY BAND

	MALES				FEMALES				
Levels	African R'000	Coloured R'000	White R'000	Indian R'000	African R'000	Coloured R'000	White R'000	Indian R'000	Total R'000
Top Management	0	1923	0	0	0	0	0	0	1923
Senior Management	0	1466	0	0	2656	0	1192	0	5314
Professional qualified	11113	1333	1593	875	5790	2644	1453	0	24901
Skilled	13457	5291	3548	3083	8945	2538	2746	833	40411
Semi-skilled	5489	805	263	0	8760	1845	1514	239	18915
Unskilled	758	180	0	0	2188	146	0	60	3332
Total	**30817**	**10998**	**5404**	**3958**	**28339**	**7173**	**6905**	**1132**	**94796**

3.3 PERFORMANCE REWARDS

	MALES				FEMALES				
Levels	African R'000	Coloured R'000	White R'000	Indian R'000	African R'000	Coloured R'000	White R'000	Indian R'000	Total R'000
Top Management	0	0	0	0	0	0	0	0	0
Senior Management	0	0	0	0	0	0	0	0	0
Professional qualified	667	153	121	298	296	134	416	0	2085
Skilled	975	368	117	222	476	121	96	61	2436
Semi-skilled	413	50	0	0	406	111	74	6	1060
Unskilled	16	0	0	0	50	13	0	0	79
Total	**2071**	**571**	**238**	**520**	**1228**	**379**	**586**	**67**	**5660**

3.4 TRAINING COSTS

Programme/activity/objective	Personnel expenditure R'000	Training expenditure R'000	Training expenditure as % of personnel cost	No. of employees	Average training cost per employee R'000
Staff training	120 581	1 938	1.61	104	18.63

3.5 EMPLOYMENT AND VACANCIES

Programme/activity/objective	2014/2015 No. of employees	2014/2015 Approved posts	2015/2016 No. of employees	2015/2016 Vacancies	Percentage of vacancies
Recruitment	*226	5	**227	15	6.6

** Average number of employees

3.6 EMPLOYMENT CHANGES

Salary Band	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top Management	1	0	0	1
Senior Management	5	1	2	4
Professional qualified	39	4	2	41
Skilled	93	3	4	92
Semi-skilled	77	15	14	78
Unskilled	11	2	2	11
Total	**226**	**25**	**24**	**227**

*Appointments include internal promotions.
* Terminations include those who were promoted from their lower bands.

3.7 REASONS FOR STAFF LEAVING

Reason	Number	% of total no of staff leaving
Death	1	2.94
Resignation	24	70.59
Dismissal	0	0
Retirement	0	0
Ill-health	1	2.94
Expiry of contract / Temporary	8	23.53
Other	0	0
TOTAL	**34**	**100**

3.8 LABOUR RELATIONS: MISCONDUCT AND DISCIPLINARY ACTION

Nature of disciplinary action	Number
Counselling	3
Verbal warning	19
Written warning	19
Final written warning	3
CCMA	1

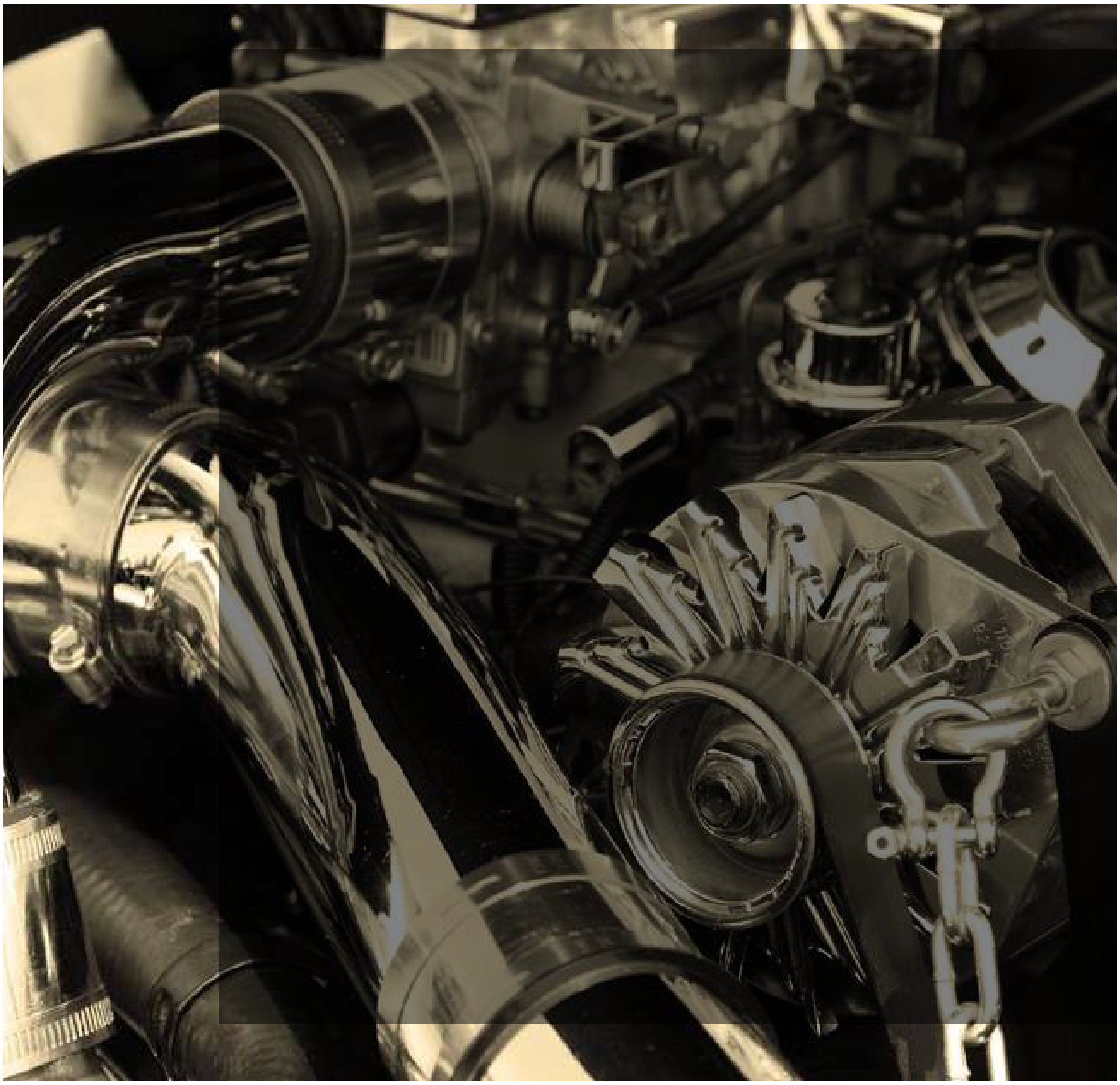
3.9 EQUITY TARGET AND EMPLOYMENT EQUITY STATUS

	MALES							
Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0	0	1	0	0	0	0	0
Senior Management	0	0	1	0	0	0	2	0
Professional qualified	15	1	4	0	1	1	4	0
Skilled	30	0	11	0	6	0	8	0
Semi-skilled	23	0	3	0	0	0	1	0
Unskilled	2	0	0	0	0	0	0	0
Total	**70**	**1**	**20**	**0**	**7**	**1**	**15**	**0**

	FEMALE							
Levels	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0	0	0	0	0	0	0	0
Senior Management	2	1	0	0	0	0	1	0
Professional qualified	8	2	4	1	0	1	5	0
Skilled	23	0	6	0	2	1	6	0
Semi-skilled	34	0	8	0	1	0	5	0
Unskilled	9	0	1	0	0	0	0	0
Total	**76**	**3**	**19**	**1**	**3**	**2**	**17**	**0**

3.10 DISABLED STAFF

	DISABLED STAFF			
Levels	Male		Female	
	Current	Target	Current	Target
Top Management	0	0	0	0
Senior Management	0	0	0	0
Professional qualified	0	0	0	0
Skilled	2	0	0	0
Semi-skilled	0	0	0	0
Unskilled	0	0	1	0
Total	**2**	**0**	**1**	**0**



3.11 REMUNERATION OF THE ACCOUNTING AUTHORITY AND COMMITTEE MEMBERS

Name	Remuneration	Other Allowances	Other Reimbursements	Total
	R	R	R	R
Alex Mashilo	152 928			152 928
Andries Chirwa	15 516			15 516
Anton Hanekom*	162 900			162 900
Jonathan Swarts	271 512		10 687 50	378.382
Fay Mukaddam	151 677		360	118102
Fiona Tregenna	100 664			93 096
Herman Kostens*	108 612			108 612
Helen Von Maltitz	121 896			121 896
Jakkie Olivier*	147 402			147 402
Jeanne Esterhuizen	131 974			131 974
Johan Van Niekerk	54 306		888	55 194
Masaccha Mbonambi	31 032			31 032
Malebo Lebona	297 18			297 081
Mantuka Maisela	31 032			31 032
Martin Kuscus	23 274			23 274
Mustak Ally** (resigned with effect from 1 August 2016)	30 272			30 272
Phindile Baleni**** (member does not get remunerated)				
Romano Daniels	7 758			7 758
Sizeka Rensburg	31 032			31 032
Thapelo Molapo	68 706			68 706
Thulisile Mashanda*** (Paid for other work outside meeting)	410 381			410 381
Xolani Tshayana	279 858		3600	283 458
Kholeka Zama (Appointment effective from 1 July 2016)	84 265			84 265
Marlo de Swardt (Appointment effective from 1 July 2016)	46 548		2 295	48 843

* Board fees for these members were paid to the employer body or representative union
** These members have resigned
*** Paid for other work outside meeting
**** Member does not get remunerated

PART E

FINANCIAL INFORMATION

1. **Report of the auditor-general** to Parliament on Manufacturing, Engineering and Related Services Education and Training Authority

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Manufacturing, Engineering and Related Services Education and Training Authority(merSETA) set out on pages 70 to 133, which comprise the statement of financial position as at 31 March 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the merSETA as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Skills Development Act of South Africa, 1998 (Act No. 97 of 1998)(SDA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of financial statements section of my report.

4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Emphasis of matter

6. I draw attention to the matter below. My opinion Is not modified in respect of this matter.

Restatement of corresponding figures

7. As disclosed in note 28 to the financial statements, the corresponding figures for 31 March 2016 have been restated as a result of errors in the financial statements of the public entity at, and for the year ended 31 March 2017.

Responsibilities of the accounting authority for the financial statements

8. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the PFMA and SDA and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

9. In preparing the financial statements, the accounting authority is responsible for assessing the Manufacturing, Engineering and Related Services Education and Training Authority's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority intends either to liquidate the Manufacturing, Engineering and Related Services Education and Training Authority or to cease operations, or has no realistic alternative but to do so.

Auditor-general’s responsibilities for the audit of the financial statements

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

11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PM) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Objective 3 - increase access to occupationally-directed programmes	28 – 30
Objective 4 - continue and increase focus on artisan development	31
Objective 5 - increase literacy and numeracy of workers	32
Objective 8 - promote partnerships with post-school education and training institutions and workplace	34 – 35
Objective 9 - increase research capacity	36

15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

16. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective 9: Increase research capacity

Various indicators and related targets

17. When the indicators and related targets listed below were planned, it was not determined how the achievements would be measured and monitored as the source information and method of calculation of the achievements was not clearly defined and the targets were not specific in clearly identifying the nature and required level of performance and measurable during the planning process as required by the Framework for Managing Programme Performance Information (FMPPI). This was due to a lack of technical indicator descriptions and formal standard operating procedures. I was unable to test whether the indicators were well defined and related targets were specific by alternative means.

18. In addition, I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against these indicators, as required by the FMPPI. This was due to a lack of technical indicator descriptions and formal standard operating procedures. I was unable to validate the existence of systems and processes by alternative means. As a result, I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the reported achievements. I was unable to confirm whether the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

19. The indicators findings above refers to the following indicators:

    a. SSP R&D (impact assessments)
    b. Walter Sisulu University
    c. University of Johannesburg
    d. Apprenticeship Research
    e. Courseware and Curriculum Development
    f. GMETSGB
    g. QCTO CEP Pilot Project
    h. Assessment Quality Partner
    i. merSETA Conferences

20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- **Objective 3** -increase access to occupationally-directed programmes
- **Objective 4** -continue and increase focus on artisan development
- **Objective 5** -increase literacy and numeracy of workers
- **Objective 8** -promote partnerships with post-school education and training institutions and workplace

Other matters

Achievement of planned targets

21. Refer to the annual performance report on pages 24 to 36; for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 17-19 of this report.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of objective 3 - increase access to occupationally-directed programme, objective 4 - continue and increase focus on artisan development, objective 5 - increase literacy and numeracy of workers, objective 8 - promote partnerships with post-school education and training institutions and workplaces and objective 9 -increase research capacity. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

24. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements

25. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (a) and(b) of the PFMA. Material misstatements of current assets, expenditure and disclosure items identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. Effective steps were not taken to prevent irregular expenditure amounting to R4 838 000 as disclosed in note 27 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.

Procurement and contract management

27. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1. This resulted in irregular expenditure reported in paragraph 26 above.

28. Invitations for competitive bidding were not always advertised, at least in the government tender bulletin, as required by Treasury Regulation 16A6.3(c).

Other information

29. The merSETA accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the Accounting Authority's report, the CEO's report, audit committee's report and the company secretary's report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

30. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

31. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially Inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

32. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate. At the time of signing this report the other information had not been submitted

Internal control deficiencies

33. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

34. Leadership did not adequately exercise appropriate oversight over performance management and reporting and related internal controls to ensure credibility of information submitted for audit. Action plan developed to address prior years audit findings were not adequately monitored to reduce the risks of reported performance information that is not credible.

Financial and performance management

35. Daily and monthly processing and reconciliations were not always effective to ensure that the information reported in the financial statements and annual performance report is accurate and reliable.

36. Non-compliance with Supply Chain Management's (SCM) prescripts could have been prevented had compliance been properly reviewed, monitored and control measures implemented.

Other reports

37. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

38. Ongoing investigations that emanated from prior years relating to alleged irregularities on supply chain conducted by various external parties are still underway. As at the date of this report, these investigations had not been formally concluded.

Auditor-General

Pretoria
31 July 2017

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

ANNEXURE A – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
- conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the merSETA ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a public entity to cease operating as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

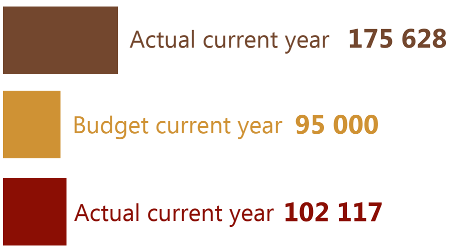
2. **SUMMARY OF** FINANCIAL INFORMATION

3.1 REVENUE COLLECTION

	2016/2017			2015/2016		
	Budget	**Actual Amount Collected**	**(Over)/Under Collection Budget**	**Budget**	**Actual Amount Collected**	**(Over)/Under Collection Budget**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Skills development levy income	1 184 128	1 308 132	(124 004)	1 269 994	1 306 676	(36 682)
Skills development penalties and interest	26 000	27 519	(1 519)	11 236	36 071	(24 835)
Net gains from financial instruments	95 000	175 628	(80 628)	67 500	102 117	(34 617)
Other income	175	141	34	-	224	(224)
Total	**1 305 303**	**1 511 420**	**(206 117)**	**1 348 730**	**1 445 088**	**(96 358)**

Levy Income

Interest Income

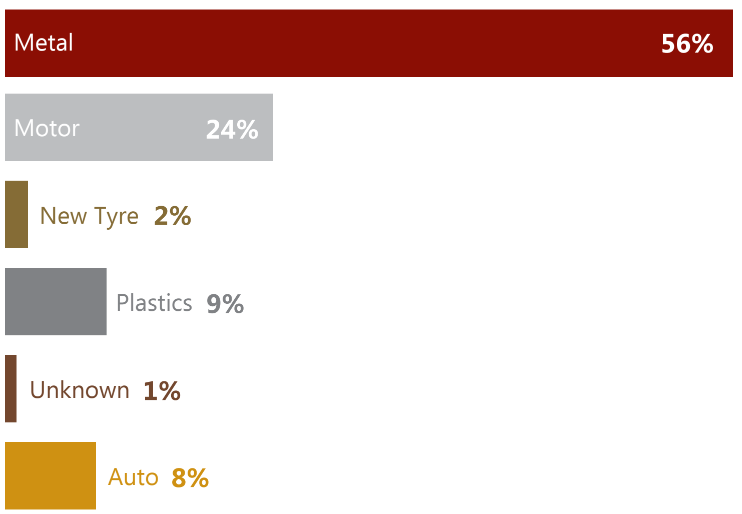


Levies

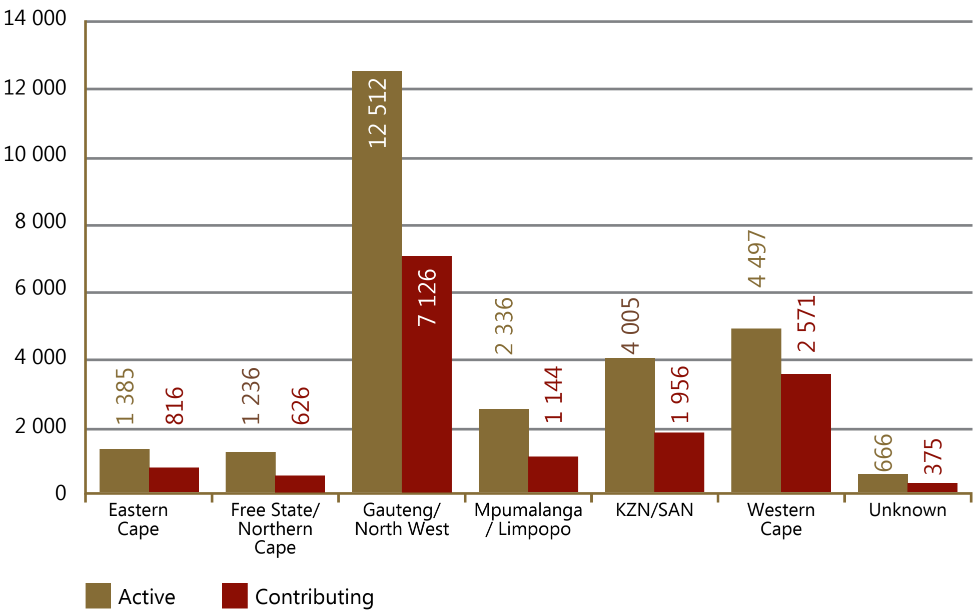
The merSETA levy income grew marginally by 0.11% in the 2016/17 financial year over prior year to reach R 1,308 billion. The manufacturing and engineering sector faced significantly low economic production at the beginning of the year, and showed gradual recovery as the year progressed. This is reflected in an almost flat growth from the previous year even though contributing employers have increased.

Levy income exceeded the budgeted levy income by 10.47%. The number of contributing employers increased to 14,614 from 13,958. This is mainly due to an increase in the number of qualifying companies as their payroll values reach the minimum threshold of R500,000 per annum. The breakdown of levies received per chamber as shown in Graph 1 below, shows a similar pattern to prior year, with the Metal Chamber contributing the largest share of levies at 56%. Most companies that were active and contributing were based in Gauteng and the North West as per Graph 2 below.

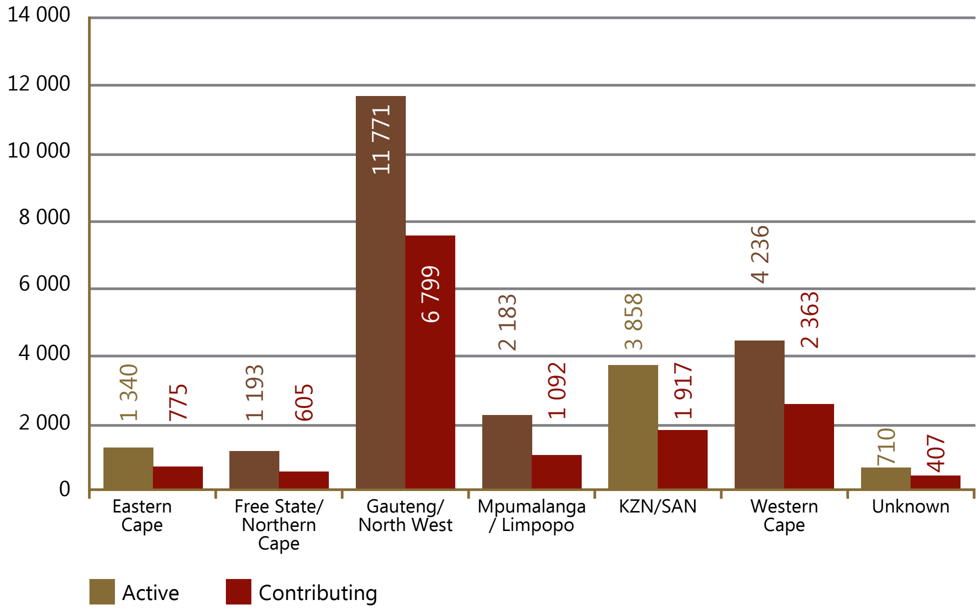
Graph 1
Percentage of Total Levies Paid by Chamber Year to Date - March 31, 2017 (Year 17)



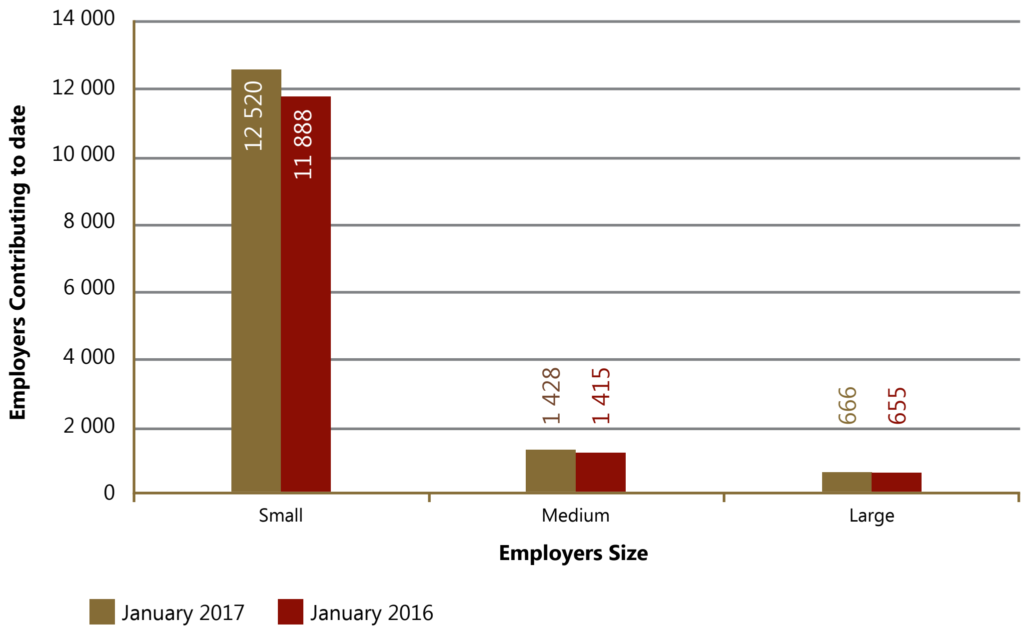
Graph 2
Total Levy Analysis by Province Year to Date March 2017



Total Levy Analysis by Province Year to Date March 2017



Graph 3
Size of Employer Contribution Analysis - 2015/16 vs 2016/17



3.2 PROGRAMME EXPENDITURE

Programme Expenditure vs Budget 2017

	2016/2017			2015/2016		
	Budget	Actual Expenditure	(Over)/Under Expenditure	Budget	Actual Expenditure	(Over)/ Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Administration	204 508	182 824	21 684	193 735	165 678	28 057
Skills Planning	73 528	28 877	44 651	21 119	8 209	12 910
Increase access to occupationally directed programmes	710 814	624 695	86 119	673 073	518 299	154 774
Promoting the responsiveness of FETCs to the intermediate skills needs of the sector	31 859	15 007	16 852	76 744	19 189	57 555
Addressing the low level of youth and adult language and numeracy skills to enable additional training	1 701	1 446	255	5 263	418	4 845
Promoting workplace skills development within the sector	345 485	278 373	67 112	344 891	306 014	38 877
Encouraging & supporting co-operatives, small enterprises, worker-initiated and community training initiatives	13 849	11 668	2 181	19 522	5 216	14 306
Career development	10 988	3 854	7 134	14 383	9 696	4 687
Total	**1 392 732**	**1 146 744**	**245 988**	**1 348 730**	**1 032 719**	**316 011**

MANDATORY GRANTS

The merSETA has experienced an increase in mandatory grant participation with the claims ratio increasing slightly from 73.7% in the prior year to 74.2% in the current year. A total number of 4057 companies were successfully approved for mandatory grants, compared to 4005 in the prior year.

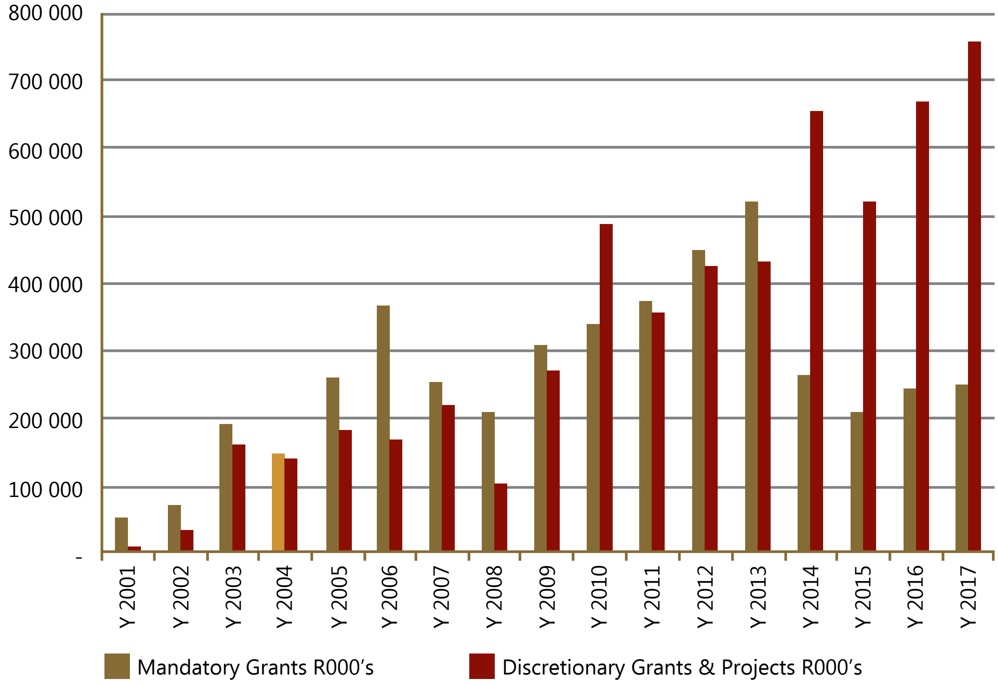
The mandatory grant expense in the current year increased slightly by 2,% to R247 million from R241 million in the prior year.

Disbursements of mandatory grants are higher than budgeted by 4,28%, as the budget had been reduced to align to the levy income budget.

DISCRETIONARY GRANTS AND PROJECTS EXPENDITURE

Discretionary project expenses in 2016/17 amounted to R754 million, an increase of 13.2% from the prior year expense of R666 million. The increase is mainly due to the fact that the allocation of discretionary grants was concluded earlier than the prior year, thus allowing for timeous implementation and milestone delivery.

GRANTS AND PROJECT EXPENSES



3. REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee reports that it has complied with its responsibilities arising from Section 38(1)(a) of the Public Finance Management Act Treasury Regulation 3.1. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Charter was reviewed during the year under review. The Committee has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

THE EFFECTIVENESS OF INTERNAL CONTROL AND RISK MANAGEMENT

The merSETA systems of controls are designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. The merSETA has a Risk management Framework and policy in place and these were reviewed during the year under review. The Audit and Risk Committee consider and review the Legal and Compliance register on a quarterly basis. The Compliance register includes all the relevant principles of King III.

The Committee considers all significant control matters and associated action plans. The merSETA internal control systems and risk management processes are effective and form a sound basis for the preparation of reliable annual financial statements.

MANAGEMENT AND QUARTERLY REPORTS

The merSETA complies with the DHET Governance Standards by submitting quarterly governance reports to the Executive authority during the year under review.

EVALUATION OF FINANCIAL STATEMENTS

The Audit and Risk Committee reviewed the draft Annual Financial Statements prepared by the public entity.

AUDITOR'S REPORT

The Audit and Risk Committee reviewed the public entity's implementation plan for audit issues raised in the prior year and the Committee is satisfied that the matters have been adequately addressed. The Committee concurs and accepts the conclusions of the external auditor on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the auditor.

CHAIRPERSON OF THE AUDIT AND RISK COMMITTEE
Ms Thulisile Mashanda

MANUFACTURING, ENGINEERING AND RELATED SERVICES EDUCATION AND TRAINING AUTHORITY

FOR THE YEAR ENDED 31 MARCH 2017

The audited Annual Financial Statements for the year ended 31 March 2017, set out on pages 70 to 133, have been approved by the Accounting Authority in terms of section 51(1) (f) of the Public Finance Management Act (PFMA), No 1 of 1999 (as amended) on 26 July 2017, and are signed on their behalf by:

P Baleni
(Chairperson)

R Patel
(Chief Executive Officer)

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

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

1. GENERAL REVIEW OF THE STATE OF AFFAIRS OF THE MERSETA

The merSETA prides itself in its achievements of good governance and sound administration during the 2016/2017 financial year. The merSETA has achieved 25 out of the 57, of its performance targets as set out in the Annual Performance Plan. It should be noted that the candidacy entered target was combined with the internship entered target.

Challenges were experienced in the following indicators:

- Bursary learner (unemployed entered and completed) - merSETA entered into an agreement with NSFAS for the provision of targets to be met, however the reporting on these targets was hampered by the lack of sufficient supporting documents from National Student Financial Aid Scheme (NSFAS).
- Bursary workers completed - in previous years, merSETA reported on bursary funding being awarded and not necessarily completed. The requirements for reporting for the year under review are against learners who have successfully completed their year of study. Although funding was provided, merSETA has not reported on the learners who were unsuccessful in the completion of their studies.
- Internships unemployed completed - internships could range between 12 and 24 months. In some instances, merSETA could only report on learners who have completed their 12 months period. The remaining will be reported in the next financial year.
- Artisans entered - merSETA's target was set at 3 600 however merSETA only achieved 2 732. It should be noted that 5 120 was the number of awarded discretionary grants for artisans for the period under review. A number of these learners are still in the application phase and will thus be registered within the next financial year.
- Artisans completed - the target set for this financial year was a challenge as it stretched beyond the number of learners that were ready to undertake the trade test.
- Learnerships workers completed - a number of learners registered have not concluded their final summative assessment process, which has had a direct impact on this indicator.
- Candidacy entered - this indicator was incorporated with internships entered.
- (Technical and Vocational Education and Training) TVET student placement entered - was mainly due to the fact that the majority of the merSETA TVET students are being entered into structured learning programmes such as apprenticeships and learnerships, which does not meet the technical definition of this target.
- TVET student placement completed - was due to the same reason as that of the TVET student placement entered target.
- University student placements - in previous years, practical 1 and practical 2 could be reported on separately. The reporting of this indicator has changed for the year under review where merSETA can only report on a learner after completion of practical 2.
- SETA TVET/University partnerships – the reporting requirement from the Department of Higher Education and Training changed from reporting on continuing active partnerships and newly signed agreements to only reporting on newly signed agreements. There are limited TVET Colleges, Universities and University of Technologies that have capacity and resources to implement programmes within the merSETA scope.
- Lecturer development programmes entered and completed - funding was made available for lecturers to be placed at the workplace to achieve artisan status, however various challenges with regards to remuneration and lecturer substitutions were experienced that hampered the achievement of this target.

The levy base remained at the same level as the prior year, which is not unexpected considering the slow down in the economy. Anticipating the slowdown, levies were conservatively budgeted at 7 % below the budget of the previous year. Penalties and interest on skills development levy income have dropped by 23.7% compared to the previous year.

Bank balances and fixed notice deposits comprise cash and cash equivalents held by merSETA on a short term basis with original maturity of 12 months or less. The carrying amount of these assets approximates their fair value. The increased returns are due to a REPO rate hiking cycle, which has seen a total of 125 basis points increase over the last two years. The average return on financial instruments at fair value was 6.7% compared to 5.6% of the previous year. The resulting interest income is R176 million compared to R102 million in the previous year.

Monthly mandatory grant disbursements were made throughout the year which amounted to R247 million compared to the R241 million in the previous year. This is 4% more than the budgeted amount of R237 million.

Disbursements of discretionary grants and projects have increased by 13% over the previous year, growing from R666 million in 2015/16 to R754 million in 2016/17. The merSETA has been consistently driving its discretionary grant milestones.

The discretionary grant reserves of R2.496 billion are 94.4% committed to multiyear learnerships, apprenticeships and projects stretching over an average period of four years. There are also other binding funding agreements with public entities amounting to R121 million which are not part of these commitments. This brings the real amount of committed discretionary reserves to 99.3%.

a) Member companies and levies

The merSETA's levy income for the 2016/17 financial year amounted to R1.308 billion, compared to R1.307 billion in the previous year. This exceeded budgeted levy income by 10%.

The number of employers contributing during the year increased slightly to 14 614 from 13 958 in 2015/16. This movement is shown in the table below:

Chamber	Contributing employers 2015/16	Movement	Contributing employers 2016/17
Auto	9	-	9
Metal	7 325	446	7 771
Motor	4 968	191	5 159
New Tyre	5	-	5
Plastics	1 651	19	1 670
TOTAL	13 958	656	14 614

b) Grants and Projects

Continuous improvements in the management of discretionary grant funding allocations enabled more companies to conclude signing of MoAs before the end of the third quarter. The introduction of co-funding between the merSETA and companies has resulted in an increased access to learning interventions due to the additional investment of R244 million over and above the merSETA allocation.

Progress in special projects has resulted in nine NGOs being allocated funding contracts. It is through such interventions that the merSETA supported the establishment and support of co-operatives in Kwa-Zulu Natal (KZN), Mpumalanga, Gauteng and Eastern Cape. Recognised trade unions received support which is aimed at growing and strengthening their capacity on credit bearing and non credit bearing programmes in line with identified needs.

A total number of 4 057 companies were successfully approved for mandatory grants, compared to 4 005 in 2015/16. This resulted in a claims ratio of 74.2% for the year under review compared to 73.7% in the previous year.

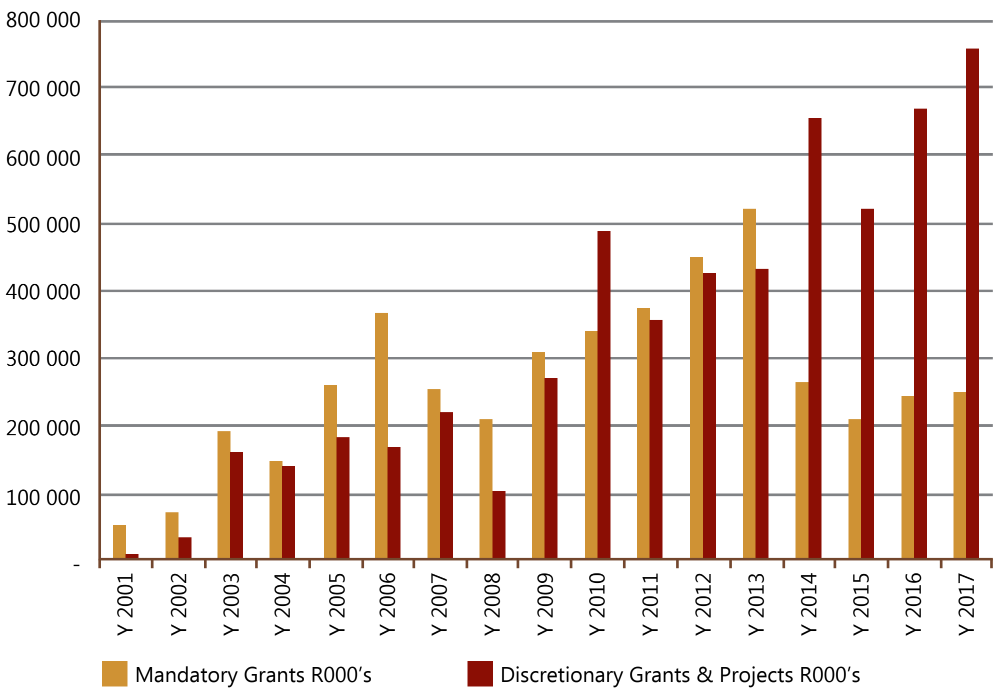
The merSETA continuously provides support to all the companies that have been awarded discretionary grants to ensure quality training is provided and that MoA deliverables are effectively implemented. Companies that fail to adhere to the terms of the signed MoA are requested either to effect remedial action or to refund the portion of discretionary grant funds paid to them.

A number of merSETA-managed partnerships with different National and Provincial Government Departments, have been entered into during the period under review, and are listed below:

- National Department of Public Works to train 200 apprentices;
- Department of Correctional Services to train parole awaiting offenders on 625 skills programmes (Northern Cape, Gauteng, East London and Kwa-Zulu Natal);
- Unemployed Bursaries for the funding of 2 308 unemployed students (Central University of Technology, Nelson Mandela Metropolitan University, Tshwane University of Technology, University of Cape Town, University of Johannesburg, Vaal University of Technology, Wits University, Cape Peninsula University of Technology, University of Pretoria and NSFAS).
- TVET Colleges to train 1 262 learners on programmes leading to artisan status (Motheo, Northlink, Northern Cape Urban, Northern Cape Rural, Orbit, Sedibeng, Boland, Capricorn, Coastal Kwa-Zulu Natal, Ekurhuleni East, Waterberg and West Coast College).
- Offices of the Premier (Western Cape, Free State and Limpopo) to train 64 learners on learnerships, 155 learners on skills programmes, 200 experiential learners, 170 learners on internship programmes and 100 learners on apprenticeships.
- A co-funded partnership was entered into with the Gauteng Education Department to train 595 apprentices including trade related learnerships and the Chinese Government to train 200 experiential and internship learners.

Grants paid to date per grant type since inception:

Year	Mandatory grants R000's	Discretionary grants & projects R000's	Total R000's
2001	49 714	350	50 064
2002	66 640	27 128	93 768
2003	188 778	156 333	345 111
2004	143 170	136 937	280 107
2005	256 227	178 891	435 118
2006	362 128	165 982	528 110
2007	250 228	216 612	466 840
2008	204 274	97 394	301 668
2009	303 908	268 985	572 893
2010	334 254	483 104	817 358
2011	368 759	352 044	720 803
2012	445 459	420 709	866 168
2013	514 279	428 046	942 325
2014	261 222	650 009	911 231
2015	206 405	515 613	722 018
2016	240 847	665 973	906 820
2017	247 151	753 615	1 000 766
TOTAL	**4 443 443**	**5 517 725**	**9 961 168**



The growth in grants paid over the period is largely influenced by the growth in the levies received. Discretionary project expenditure increased significantly over the period, which reflects the increasing drive by companies and training providers to implement the MoA deliverables more effectively as well as to making a significant contribution to the achievement goals of the Sector Skills Plan and Annual Performance Plan.

The drop in mandatory grants in the year 2014 and thereafter is due to the changes in the Grant Regulations, whereby the percentage allocation to mandatory grants from levies received was reduced from 50% to 20%. This change also influenced a decline in the participation ratio in the first two years after changes were effective, however through the ongoing support and awareness by merSETA, a marked increase was seen in 2016 and this level has been maintained in 2017.

c) Planned utilisation of surpluses

The merSETA has discretionary reserves of R2.496 billion, of which R2.357 billion is committed to signed contracts. These apply to learnerships, apprenticeships, skills programmes and projects that will continue to be implemented in ensuing years.

Cash and other financial instruments at year end amount to R 2.582 billion. The merSETA received approval from National Treasury and the Department of Higher Education and Training to carry forward surpluses for the 2015/16 financial year, and has applied for a similar carry forward of surpluses for the 2016/17 financial year in May 2017.

The merSETA carries a R9.2 million administration reserve in its Statement of Financial Position as at 31 March 2017. The administration reserves are equal to the net book value of the non-current assets.

2. SERVICES RENDERED BY THE MERSETA

The merSETA renders three broad areas of services to its sector:

a) Grant disbursements:

- Disbursement of mandatory grants accounts for 20% of levies paid. This was subject to the companies submitting a valid workplace skills plan received by 30 April 2016. The purpose of the mandatory grant is to provide an incentive for employers to plan and implement training for their workforce and to provide credible data about their employees and training needs in order for the merSETA to establish the skills needs of the sector for inclusion in the merSETA Sector Skills Plan.
- Disbursements of discretionary grant funds account for a minimum of 49.5%. The discretionary grant is intended to support the training of learners and apprentices and also to undertake special projects that address critical sector needs and strategic priorities as outlined in the strategic plan and annual performance plan.

b) Quality Assurance functions, inclusive of but not limited to:

- Accreditation of workplaces and training providers for the purpose of quality training provision;
- Assessment and moderation of learners against set criteria; and
- Auditing and monitoring of training providers for the purpose of assessing the quality of training provision.

c) Skills implementation functions are as follows:

- Development of occupational qualifications and registration of these with the South African Qualifications Authority (SAQA);
- Conceptualisation and implementation of skills initiatives which promote the National Skills Development Strategy (NSDS) objectives and address training needs in the merSETA's five sub sectors;
- Skills development advice and assistance to companies and training providers; and
- Administration and maintenance of the apprenticeship and learnership systems.

3. HUMAN RESOURCES

The Human Resource and Remuneration Committee (HRRC) continue to provide leadership towards achieving valuable and resourceful human resource practices.

The management of human resources (HR) also continues to provide positive results in line with the HR Strategic Objectives.

Major human resource achievements during this period are as follows:

- All annual performance reviews, except those of the executives, have been finalised and moderated.
- Regular bilateral meetings with the recognised union are conducted. Diversity and policy review meetings continues to contribute towards workplace harmony.
- The merSETA Human Resources has improved its performance in ensuring that all staff receives the appropriate level of training as required in line with their Personal Development Plans (PDP) for this period. A minimum of 65% of the PDPs have been implemented.
- The Implementation of the merSETA Leadership Development Programme at both executive and senior management has been the highlight of the period under review. The executive managers have also started their mentoring and coaching sessions and the last roll out will be the senior managers in the first quarter of the new financial year.
- Job evaluations and the Internal Salary Equity reviews were conducted during the year under to ensure internal alignment.

- The Annual merSETA Wellness Day took place in all regions and at the head office. HR has started appropriate initiatives to aid problematic areas that were highlighted in the final report.

4. UTILISATION OF DONOR FUNDS

The merSETA continued supporting companies in distress via the Training Layoff Scheme. The merSETA funds the training component while Unemployment Insurance Fund (UIF) funds the wages. The merSETA has been assigned the responsibility to disburse the wage component on behalf of the UIF.

5. BUSINESS ADDRESS

The physical and postal addresses of the merSETA are as follows:

merSETA
The Atrium 95, 7th Avenue, Melville, Johannesburg

merSETA
P O Box 61826, Marshalltown, 2107

6. DISCONTINUED ACTIVITIES/ACTIVITIES TO BE DISCONTINUED

The merSETA did not discontinue any major activity during the year under review and has no plans to discontinue any activities in the next financial year.

7. NEW/PROPOSED ACTIVITIES

The merSETA continues to align itself with government directives to address unemployment, specifically unemployed youth.

The growth and support of Technical, Vocational Education and Training colleges (TVET colleges) is also a priority. In this regard the merSETA entered into an additional 14 agreements with TVET Colleges to place a further 185 NCV learners into artisan related programmes towards becoming qualified artisans and 25 Artisan RPL candidates. Five additional agreements with the TVET Colleges were signed to train 100 young engineers in motor racing maintenance.

The overarching strategic focus is in response to the broader socio-economic skills development needs of communities and the country as a whole, as articulated in the White Paper on Post-School Education and Training. A range of new partnership agreements will be implemented in 2017/18 to support specific needs, inclusive of the following agreements:

- The merSETA and the Chinese Government entered into a partnership to train 200 interns and experiential learners through integrating them in a real work learning methodology that is utilized by the top 500 Chinese companies.
- The merSETA entered into an agreement with the Blood Hound Project to train 45 school children from Floors High School to experience the land high speed record event.
- The merSETA has signed a medium-term skills development agreement to support parole-awaiting offenders with technical skills towards their re-integration into society with various Correctional Services.

8. EVENTS AFTER THE REPORTING DATE

merSETA is required to obtain an approval from National Treasury to retain its accumulated surpluses on an annual basis. A submission was made to National Treasury on 31 May 2017 for the current financial year.

9. PERFORMANCE INFORMATION

The merSETA's performance is monitored continually and reported to the Department of Higher Education and Training (DHET) on a quarterly basis. Performance is measured against merSETA's strategic programmes, which are based on the objectives of the National Skills Development Strategy III.

The Service Level Agreement between merSETA and DHET contains numerical targets for the financial year, which must be reported in the Annual Report at the end of the financial year.

The details of merSETA's performance achievements are provided in the Annual Report under the section on Performance Information.

10. RESEARCH AND DEVELOPMENT

In line with the merSETA's strategic intent, the Research and Innovation Projects Unit has continued to progress its work in the following areas:

- Strengthening of research partnerships with Higher Education Institutions both locally and internationally;
- Large scale diagnostic instruments, building an understanding of effective work-integrated learning models between TVET Colleges and their industrial counterparts; and
- Pilot projects for testing research recommendations – including innovative projects conceptualised by Chamber Committees.
- Lecturer development through the provision of post graduate studies including PhD studies.

11. MARKETING AND COMMUNICATIONS

The vision of the Marketing and Communications unit is to keep the organisation speaking with one voice across a vast number of regions and customer interactions. The unit is guided by these strategic objectives:

- Improving and enhancing marketing and communication efforts between the merSETA and its target audiences;
- Strengthening and maintaining stakeholder relationships;
- Assisting in the facilitation of a positive work culture and climate;
- Enhancing the positive merSETA brand among stakeholders; and
- Profiling the merSETA as valuable, rare, difficult to imitate and hard to substitute.

The following are the Marketing and Communications achievements of the year:

- Four editions of Achieve magazine were produced and distributed each quarter to 3 000 top levy-paying companies;
- R1.7 million worth of advertising was placed in major local, regional and national media;
- Six colloquia on the "State of Manufacturing in South Africa" were held through the country. Opinion formers and makers, academics, organised labour and business engaged each other on policy initiatives to stem the tide of manufacturing deindustrialisation. Two of the colloquia were broadcast live on radio while reports on the debates were published and read by more than 1-million people in the country's major newspapers;
- The merSETA Twitter and Face book social pages are operational. The fan base on these pages continues to grow where the fans/stakeholders are assisted with various queries. Queries are often related to merSETA learnership and apprenticeship programmes;
- 30 merSETA generated events were handled by the Marketing and Communications Unit in the financial year, including career awareness workshops, exhibitions, workshops and special events. Among these, the merSETA sponsored the National Artisan Development Strategy Consultation Conference. The merSETA leadership participated in the event;
- The merSETA participated in the World Skills South Africa Competition held in Durban, KZN. Competitors in a vast array of specialities competed in the event which will have its world finale in Abu Dhabi;
- The website had more than 800 000 visitors during the 2016/17 financial year;
- Opinion pieces and editorials were published in major national and electronic media; and
- Radio campaign focusing on learner opportunities was launched with an educational partner agency.

12. CORPORATE GOVERNANCE

The merSETA follows an integrated approach, with governance, risk management and compliance forming the three pillars that enable the organisation to achieve its strategic objectives. The elements which are fundamental to governance, risk management and compliance effectiveness have either been addressed by the merSETA or are being addressed as follows:

- **Accounting Authority**

The Accounting Authority which comprises of 15 members, including the three independent members appointed by the Minister of Higher Education and Training (of whom one is the Chairperson), was approved by the Minister of Higher Education and Training on 1 April 2011 for a five year term. Six members represent organised labour and six members represent organised employers. The appointment of the existing Accounting Authority has been extended by a further two years, until 31 March 2018.

- **Internal Audit**

The merSETA internal audit function is outsourced to an independent audit firm that carries out its functions based on an approved three year internal audit plan. The independent internal auditors perform and report in terms of the approved Internal Audit Charter.

- **Financial Management**

Fraud

The fraud prevention plan was in place and implemented throughout the year, and a revised plan was approved by the Accounting Authority toward the end of the financial year. This will be implemented in the coming year.

There were no instances of fraud that were uncovered during the year 2016/17, however there are on-going investigations pertaining to alleged fraudulent activities that were reported in the previous years as stated under "Special Matters" below.

Internal Controls

The system of accounting and internal controls is constantly monitored and improved, particularly with regard to financial management, supply chain management, performance management and other core business functions. The internal auditors also conduct continuous reviews of the controls and processes in place and advise management of any improvements necessary. The merSETA's financial management remains sound and committed to comply with the Public Finance Management Act (Act 1 of 1999, as amended) (PFMA) and National Treasury regulations. There were no instances of non compliance during the 2016/17 year.

The merSETA Executive Committee, Audit and Risk Committee, Finance and Grants Committee and the Accounting Authority are presented with a full financial management report by the Chief Financial Officer on a quarterly basis.

An all-inclusive budgeting process forms part of the Annual Performance Plan (APP) development process and is used as a benchmark for levy income, grant administration and capital expenditure. A quarterly report showing financial performance results against budget is presented to the merSETA Accounting Authority and the Department of Higher Education and Training.

In terms of the Skills Development Act, total administration expenditure may not exceed 10.5% (this being inclusive of monies payable to the QCTO) of total levy income. The merSETA has kept within the limit.

• Audit and Risk Committee

The Audit and Risk Committee is comprised of three independent members and two members of the Accounting Authority. The Audit and Risk Committee has an oversight role and reports to the Accounting Authority. The Committee's charter is aligned to the duties prescribed by the PFMA and Treasury Regulations and has been approved by the Accounting Authority. The Audit and Risk Committee's responsibilities also include oversight of risk management processes.

• Other Committees

The other Committees of the Accounting Authority are:

I. Executive Committee;
II. Finance and Grants Committee;
III. Human Resource and Remuneration Committee;
IV. Governance and Strategy Committee;
V. Chamber Committees; and

The merSETA has the following advisory committees:

- Education, Training and Quality Assurance Committee
- Regional Committees.

The Committees function within the terms of reference approved by the Accounting Authority and are functioning satisfactorily. More details on the Committees' functions are presented under the Corporate Governance section of the Annual Report.

• Policies

The financial statements are prepared in accordance with Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. The merSETA's policies and procedures are aligned with GRAP and the Public Finance Management Act, 1999 (Act 1 of 1999, as amended) (PFMA).

Existing policies are reviewed at least every two years, or as necessary to comply with changes in the relevant legislation.

• Supply Chain Management Unit

Irregular expenditure of R4.8 million was identified during the financial period 2016/17. Supply Chain Management policies and procedures were reviewed, updated in accordance with all Treasury Regulation changes that occurred during the year and approved by the Accounting Authority.

The electronic supply chain management system was in use throughout the financial period.

• IT Systems

During the 2016/2017 financial year the merSETA ICT (Information communication and Technology) department has maintained its alignment and compliance to the Corporate Governance of Information, Communication and Technology Policy Framework (CGICTPF). The merSETA ICT department maintained its compliant status while focusing on continued improvements.

Critical systems are monitored continuously throughout the year and a 98% uptime has been achieved on all systems during the current financial year.

The merSETA has suffered no critical virus infections or data loss during this financial year.

Two audits were conducted during this financial year (ICT Security and General Controls). Both received an acceptable audit report with minor housekeeping and administrative issues being mentioned.

The development of the new NSDMS (National Skills Development Management System) has been initiated. The appointment of a service provider to run the project has been concluded and they will develop and implement the NSDMS system by the end of the 2017/2018 financial year.

• Conflict of interest

The merSETA's Accounting Authority maintains a declaration of interest register. This is over and above the requirements that members declare whether they have an interest in any item on the agenda of Accounting Authority and subcommittee meetings, to comply with the PFMA as well as good corporate governance practice.

• Special matters

Fraud

In 2010 the merSETA suffered a loss of R 6.3 million through diversion of mandatory grants earmarked for levy-paying employers. The investigation was completed, the perpetrators were charged with fraud, found guilty and sentenced. Immediately after the incident the merSETA reviewed the controls and processes in this area and implemented changes that led to a stronger control environment.

All attempts to recover the funds proved unsuccessful and during the year under review the Accounting Authority approved that the amount be written off.

Forensic investigations

Despite a number of parallel investigations into the affairs of merSETA since 2011, no adverse findings have been reported to date.

The latest being, the Department of Higher Education and Training has commissioned a forensic investigation on merSETA based on allegations of irregularities in the appointment of service providers and other alleged misconducts. The investigation was still underway at the close of the financial reporting period.

The allegations have been raised by former employees who were facing a disciplinary process for fraud and misconduct at the time. The employees were subsequently dismissed on grounds of misconduct. The employees appealed the dismissals, however all labour appeals and mediation processes have ruled for the dismissals to be upheld as a valid decision.

13. APPROVAL

The audited annual financial statements for the year ended 31 March 2017 set out on pages 78 – 133, have been approved by the Accounting Authority in terms of Section 51 (1)(f) of the Public Finance Management Act, 1999 (Act 1 of 1999, as amended) on 26 July 2017, and are signed on their behalf by:

P Baleni
(Chairperson)

R Patel
(Chief Executive Officer)

5. STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017			2016		
		Actual R'000	Budget R'000	Variance R'000	Actual Restated R'000	Budget Restated R'000	Variance R'000
REVENUE							
Skills development levy income	2	1 308 132	1 184 128	124 004	1 306 676	1 269 994	36 682
Skills development penalties and interest	3	27 519	26 000	1 519	36 071	11 236	24 835
Government grant income	28.1	-		-	-	-	-
Total non-exchange revenue		**1 335 651**	**1 210 128**	**125 523**	**1 342 747**	**1 281 230**	**61 517**
Net gains from financial instruments	5	175 628	95 000	80 628	102 117	67 500	34 617
Other income	6	141	175	(34)	224	-	224
Total exchange revenue		**175 769**	**95 175**	**80 594**	**102 341**	**67 500**	**34 841**
TOTAL REVENUE		**1 511 420**	**1 305 303**	**206 117**	**1 445 088**	**1 348 730**	**96 358**
EXPENSES							
Employer grant and project expenses	7	(1 000 766)	(1 230 354)	229 588	(906 820)	(1 199 949)	293 129
Administration expenses	8	(145 978)	(162 378)	16 400	(125 899)	(148 781)	22 882
Government grant expenses	28.1	-	-	-	-	-	-
TOTAL EXPENSES		**(1 146 744)**	**(1 392 732)**	**245 988**	**(1 032 719)**	**(1 348 730)**	**316 011**
Net surplus/ (deficit) for the year	**1**	**364 676**	**(87 429)** *	**452 105**	**412 369**	**-**	**412 369**

*Executive authority approval for the year 2016/17 budgets as well as National Treasury approval for the retention of surplus funds for the year ended 31 March 2016 was obtained as per the requirements of section 53 of the PFMA.

6. STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2017

	Note	31 March 2017 R'000	31 March 2016 Restated R'000
ASSETS			
Current assets			
Prepayments	9	62	-
Receivables from non-exchange transfers	10	44 248	8 455
Consumables	11	505	320
Financial assets at fair value	12	105 617	1 714 321
Receivables from exchange transactions	13	80 040	5 551
Cash and cash equivalents	14	2 396 644	569 146
		2 627 116	**2 297 793**
Non-current assets			
Property and equipment	15	8 949	6 066
Intangible assets	16	263	540
		9 212	**6 606**
TOTAL ASSETS		**2 636 328**	**2 304 399**
LIABILITIES			
Current liabilities			
Grants and transfers payable	17	88 535	138 880
Payables from exchange transactions	18	26 405	10 770
Other payables	19	1 075	1 002
Provisions	20	14 113	12 223
		130 128	**162 875**
NET ASSETS		**2 506 200**	**2 141 524**
Administration reserve		9 212	6 606
Employer grant reserve		735	183
Discretionary reserve		2 496 253	2 134 735
TOTAL NET ASSETS		**2 506 200**	**2 141 524**

7. STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Administration reserve R'000	Employer grant reserve R'000	Discretionary grant reserve R'000	Unappropriated surplus R'000	Total R'000
Balance at 31 March 2015		**9 763**	**1 934**	**1 717 458**	**-**	**1 729 155**
Net surplus for the year per statement of financial performance		-	-	-	412 369	412 369
Allocation of unappropriated surplus for the year	1	45 709	91 594	275 066	(412 369)	-
Excess reserves transferred to discretionary reserve		(48 866)	(93 345)	142 211	-	-
Balance at 31 March 2016		**6 606**	**183**	**2 134 735**	**-**	**2 141 524**
Net surplus for the year per statement of financial performance		-	-	-	364 676	364 676
Allocation of unappropriated surplus for the year	1	25 812	80 930	257 934	(364 676)	-
Excess reserves transferred to discretionary reserve		(23 206)	(80 378)	103 584	-	-
Balance at 31 March 2017		**9 212** *	**735** **	**2 496 253**	**-**	**2 506 200**

* The amount retained in the administration reserve is equal to the net book value of the non-current assets.

** The amount retained in the employer grant reserve is a mandatory grant provision for newly registered companies participating after the legislative cut-off date. This is noted under contingencies in note 22.1.2.

8. CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

		2017			2016		
	Note	Actual R'000	Budget R'000	Variance R'000	Actual Restated R'000	Budget Restated R'000	Variance R'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating activities							
Cash receipts from stakeholders and others		1 335 564	1 210 998	124 566	1 342 870	1 278 345	64 525
Levies, interest and penalties received		1 335 423	1 210 823	124 600	1 342 692	1 278 345	64 347
Other income	6	141	175	(34)	178	-	178
Cash paid to stakeholders, suppliers and employees		(1 212 156)	(1 355 651)	143 495	(1 011 606)	(1 319 959)	308 353
Direct grants and project payments		(1 012 638)	(1 194 347)	181 709	(860 504)	(1 146 476)	285 972
(Outflow) /inflow relating to the TLS and AATP programme		(25 426)	(1 397)	(24 029)	6 610	9 723	(3 113)
Employment costs		(114 227)	(121 798)	7 571	(105 687)	(115 153)	9 466
Payments to suppliers		(59 865)	(38 109)	(21 756)	(52 025)	(68 053)	16 028
Cash generated from (utilised in)/ operations	21	123 408	(144 653)	268 061	331 264	(41 614)	372 878
Interest received		100 952	94 096	6 856	100 836	39 331	61 505
Net cash inflow from operating activities		224 360	(50 557)	274 917	432 100	(2 283)	434 383
CASH FLOW FROM INVESTING ACTIVITIES							
Purchase of property and equipment	15	(5 342)	(9 535)	4 193	(933)	(2 295)	1 362
Purchase of intangible assets	16	(314)	(4 358)	4 044	(1 105)	(939)	(166)
Proceeds from disposal of property and equipment		90	-	90	85	-	85
Net disposal/ (purchase) of financial instruments at fair value		1 608 704	1 594 321	14 383	(318 508)	(50 690)	(267 818)
Net cash inflow from investing activities		1 603 138	1 580 428	22 710	(320 461)	(53 924)	(266 537)

8. CASH FLOW STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017			2016		
		Actual R'000	Budget R'000	Variance R'000	Actual Restated R'000	Budget Restated R'000	Variance R'000
CASH FLOW FROM FINANCING ACTIVITIES							
Proceeds from borrowings		-	-	-	-	(1 300)	1 300
Net increase/ (decrease) in cash and cash equivalents		1 827 498	1 529 871	297 627	111 639	(57 507)	169 146
Cash and cash equivalents at beginning of year		569 146	569 146	-	457 507	457 507	-
Cash and cash equivalents at end of year	14	2 396 644	2 099 017	297 627	569 146	400 000	169 146

9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2017

	Original approved budget R'000	Revisions R'000	Final approved budget R'000	Actual R'000	Variance R'000
REVENUE					
Skills development levy income	1 348 735	(164 607)	1 184 128	1 308 132	124 004
Skills development penalties and interest	11 932	14 068	26 000	27 519	1 519
Total non-exchange revenue	**1 360 667**	**(150 539)**	**1 210 128**	**1 335 651**	**125 523**
Net gains from financial instruments	71 685	23 315	95 000	175 628	80 628
Other income	-	175	175	141	(34)
Total exchange revenue	**71 685**	**23 490**	**95 175**	**175 769**	**80 594**
TOTAL REVENUE	**1 432 352**	**(127 049)**	**1 305 303**	**1 511 420**	**206 117**
EXPENSES					
Employer grant and project expenses	(1 280 719)	50 365	(1 230 354)	(1 000 766)	229 588
Administration expenses	(151 633)	(10 745)	(162 378)	(145 978)	16 400
TOTAL EXPENSES	**(1 432 352)**	**39 620**	**(1 392 732)**	**(1 146 744)**	**245 988**
Net (deficit)/ surplus for the year	**-**	**(87 429)**	**(87 429)**	**364 676**	**452 105**

9. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

REVISIONS TO THE ORIGINAL BUDGET

During the year, the budget for levy income was downscaled due to the effects of the challenging economic climate at the time, however the manufacturing sector experienced economic recovery in the second half of the financial year. Wage increase agreements in the sector were also finalised in the second half of the year.

Employer grant and project expenses were reduced to be aligned to the pace of milestone delivery and also to ensure affordability in line with the reduced projected levy income.

QCTO costs included the administration budget were brought in line with actual QCTO costs for the year as determined by the Minister of Higher Education and Training.

The budget for net gains from financial instruments was increased based on the good month to month performance of financial instruments, particularly the fixed notice deposits.

COMPARISON OF BUDGET VERSUS ACTUAL

Actual levy income received is 10% above budget. A conservative view was taken in budgeting for levy income due to the slowdown in the economy. However, an upturn in the economic climate in the second half of the financial year ensured that levy income was maintained at the same level as the prior year.

The financial instruments performance was 84% above the budgeted amount. The investments have continued to perform above expectations, due to the interest rate hikes over the financial year and the large amount of reserves that are invested in the financial institutions.

Disbursements of employer grants and projects, although 19% below budget, have increased by 10% over the previous year, growing from R907 million in 2015/16 to R1 billion in 2016/17. This consistently high level of disbursements is maintained through the merSETA continuing to drive the milestones and deliverables of its projects.

Administration expenses are 10% below budget. The contributors to this were mainly:

- Computer services are 87% below budget due to the delay in finalising the appointment of the supplier for the National Skills Development Management System which was only completed 21 March 2017.
- Employment costs are 7% below budget due to vacant posts.
- Depreciation and maintenance of computers are 39% below budget due to acquisitions and maintenance of computers delayed till the 2017/18 financial year.
- Amortisation of intangibles is 61% below budget due to planned computer software acquisitions for 2016/17 not materialising.
- Marketing expenses are 29% below budget due to cheaper printing costs, less advertorials taken out and several campaigns not materialising due to internal processes.

10. ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The actual and budget information has been prepared and presented on an accrual basis.

2 CURRENCY

These financial statements are presented in South African Rands as this is the currency in which the majority of the entity's transactions are denominated. The level of rounding used in presenting amounts in the financial statements is to the nearest thousand, unless otherwise stated.

3 REVENUE RECOGNITION

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

3.1 Levy income

In terms of section 3(1) and 3(4) of the Skills Development Levies Act (Act No. 9 of 1999 as amended) (SDLA), 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). Companies with an annual payroll cost less than R500 000 are exempted in accordance with section 4(b) of the SDLA, effective 1 August 2005.

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).

Skills Development Levy (SDL) transfers are recognised when it is probable that future economic benefits will flow to the merSETA and these benefits can be measured reliably. This occurs at the earlier of the time the Department of Higher Education and Training (DHET) makes the allocation or payment is made to the merSETA.

Revenue is adjusted for interSETA transfers due to employers changing SETAs. Such adjustments are separately disclosed as interSETA transfers. SDL transfers are made in terms of section 8 of the SDLA. The amount of the interSETA adjustment is calculated according to the latest Standard Operating Procedure issued by DHET.

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.

3.2 Interest and penalties

Income from interest and penalties on skills development levies is recognised at the earlier of the time the DHET makes the allocation or payment is made to the merSETA.

3.3 Government grants and other donor income

Conditional government grants and other conditional donor funding received are recorded as deferred income when they are received 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 government grants and other unconditional donor income is recognised as income at the time the amounts are received.

3.4 Net gains from financial instruments

Gains and losses on financial instruments are due to changes in the fair market value and interest income.

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

4 GRANT AND PROJECT EXPENDITURE

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 20% of the total levies paid by the employer and represents 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 (Act 97 of 1998, as amended) (SDA), have been complied with by member companies, it is probable that the merSETA will approve the payment, and the amounts can be estimated with reasonable accuracy.

4.2 Discretionary project expenditure

The merSETA may, out of any surplus monies, determine and allocate discretionary grants to employers, education and training providers and any other body stipulated by the 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 and 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.

Discretionary 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.

Discretionary project costs 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 Accounting Authority, 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.

4.3 Government grant expenditure

Conditional government grants costs are recognised as expenses in the period in which they are incurred. The deferred government grant income is 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. Where government grants costs on the project exceed government grant income, a receivable will be raised to the extent that such costs exceed government funding.

Unconditional government grants costs are recognised as expenses in the period in which they are incurred.

10. ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

5 IRREGULAR, 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 Public Finance Management Act (PFMA), No. 1 of 1999 (as amended)
- The Skills Development Act, No. 97 of 1998 (as amended)

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

6 PROPERTY AND EQUIPMENT

Property and Equipment are recognised as assets when it is probable that the expected economic benefits will flow to the entity and the cost can be measured reliably. They comprise tangible assets held for administrative use and are expected to be used during more than one accounting period. Property and equipment are initially recognised at cost price on date of acquisition. They are subsequently recognised at cost less any accumulated depreciation and adjusted for any impairments. Depreciation has been calculated on the straight-line method to write off the cost of each asset at acquisition 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 - 10 years
• Motor vehicles	4 - 8 years
• Other assets	2 - 5 years

Expectations about the useful lives and residual value of property and equipment have not changed since the previous reporting date.

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).

Repairs and maintenance costs are charged to the statement of financial performance.

An item of property and equipment is derecognised when the asset is disposed or when there are no further economic benefits from the use of the asset.

Profits and losses on disposal of property and equipment are determined as the difference between the proceeds on disposal and the carrying amount. The profits or losses are taken into account in determining operating surplus or deficit.

Property and equipment are assessed at each reporting period during the asset count as to whether there are any indications that the asset may be impaired. An asset is impaired if its carrying amount exceeds its recoverable service amount. An impairment loss is recognised in the operating surplus or deficit.

7 INTANGIBLE ASSETS

Intangible assets are recognised when it is probable that the expected future economic benefits will flow to the entity, and the cost of the asset can be measured reliably. Intangible assets are initially recognised at cost. They are subsequently recognised in the statement of financial position at amortised cost, being the initial cost price less any accumulated amortisation and impairment losses.

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

Asset class	Amortisation period
• Computer software	1 - 3 years

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

Intangible assets are derecognised when the asset is disposed of or when there are no future economic benefits expected from the use of the asset.

The gain or loss arising on the disposal of the intangible asset is determined as the difference between the proceeds on disposal and the carrying amount and is included in operating surplus or deficit when the asset is derecognised.

Intangible assets are assessed at each reporting period during the asset count as to whether there are any indications that the asset may be impaired. An asset is impaired if its carrying amount exceeds its recoverable service amount. An impairment loss is recognised in the operating surplus or deficit.

8 CONSUMABLES

Consumables are charged to consumable stock on acquisition at cost price. At financial year end consumables are measured at the lower of cost or net realisable value, using the average cost basis.

9 LEASING

Finance Lease
A lease is an agreement between two parties whereby the one party (the lessor) allows the other party (the lessee) to use its assets for an agreed period of time in return for a payment, or series of payments.

A finance lease is a lease arrangement that transfers substantially all the risks and rewards incidental to ownership to the lessee.

At recognition, an asset and liability is recognised at the lower of: fair value of asset; or present value of minimum lease payment at a rate implicit in lease (or incremental borrowing rate if the preceding cannot be determined).

The leased asset is subsequently measured as per GRAP 17: Property, Plant and Equipment.

Lease payments are discounted at the rate that causes the present value of the minimum lease payments and unguaranteed residual value to be equal to the sum of the fair value of the leased asset plus any direct costs of the lessee.

Operating lease
An operating lease is a lease other than a finance lease.

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.

10. ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

10 RETIREMENT BENEFIT COSTS

The merSETA participates in the Momentum Funds at Work Umbrella Pension Fund. This fund is a defined contribution plan and the assets are held in separate trustee-administered funds. The plan is generally funded by both employer and the employee contributions. The expense or obligation at each reporting period is determined by the amounts to be contributed for that period.

Payments to the defined contribution plan are charged to the statement of financial performance in the year to which they relate.

The rules of the defined contribution plan determine the following in respect of contributions:

• Contribution by employee	7,50%
• Contribution by employer	12,08%
• Total contribution	19,58%

11 PROVISIONS

Provisions are recognised when the merSETA has a present legal and constructive 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. The merSETA provides for onerous contracts when the expected benefits to be derived from the contract are less than the unavoidable costs of meeting the obligation under the contract.

Provision for employee related entitlements
The cost of other employee benefits (not recognised as retirement benefits - see note 10 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 Workman's Compensation, leave pay and performance bonuses.

12 FINANCIAL INSTRUMENTS

Recognition
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest in another entity.

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 financial assets at fair value, receivables from exchange transactions, cash and cash equivalents and payables from exchange transactions. Where relevant, the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Financial assets
Financial assets are defined as cash, or a residual interest of another entity, or a contractual right to receive cash or another financial asset from another entity.

The merSETA's principal financial assets are financial assets at fair value, cash and cash equivalents and receivables from exchange transactions.

Financial assets at fair value

Financial assets at fair value are either derivatives, combined instruments that are designated at fair value, instruments held for trading, non-derivatives designated at fair value in initial recognition and financial instruments that do not meet the definition of amortised cost or cost.

The merSETA has classified its investments (money market instruments and equity linked deposits) as financial assets at fair value as these non-derivatives were designated at fair value in initial recognition and are held for trading as the intention is to earn short-term gains.

The initial measurement of financial assets at fair value is at fair value. The subsequent measurement is at fair value based on quoted price where an active market exists, or by using a valuation technique if no active market exists.

The net gains and losses for all financial assets at fair value are determined by the changes in the market value between the reporting periods.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial instruments, with fixed and determinable payments, excluding those that are held for trading or designated at fair value at initial recognition.

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.

The initial measurement of receivables from exchange transactions is at fair value including any transaction costs. The subsequent measurement is 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.

Cash and cash equivalents

Cash and cash equivalents are initially measured at fair value. The subsequent measurement is at amortised cost with interest calculated by using the effective interest rate method.

Financial Liabilities

Financial liabilities arise where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial instruments with another entity under potentially unfavourable conditions.

Financial liabilities at amortised cost

The merSETA' s principal financial liabilities are payables from exchange transactions. Financial liabilities are initially recognised at fair value and 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 waives those rights or otherwise loses control of the contractual rights that comprise the financial asset and transfers to another party substantially all the risks and rewards of ownership of 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.

10. ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

12 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value measurement considerations

The fair value at which financial instruments are carried at reporting date have been determined using the available market values. The market values are readily and regularly available from an active market where transactions are on an arm's length basis. Where market values are not available, the fair value is determined using a valuation technique such as:

- Recent arm's length market transaction;
- If available, reference to the current fair value of another instrument that is substantially the same; and
- Discounted cash flow analysis, discounting the future receipts/payments of a financial instrument over the period of the contract, by using a market-related interest rate (adjusted for credit risk), to its present value.

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.

13 RESERVES

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 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:

	2017 %	2016 %
Administration costs of the merSETA	10	10
QCTO Administration costs	0,5	0,5
Mandatory Workplace Skills Planning Grant	20	20
Discretionary projects	49,5	49,5
Received by the merSETA	80	80
Contribution to NSF	20	20
	100	100

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.

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

The minimum amount retained in the administration reserve equates to the net book value of non-current assets.

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.

14 CONTINGENCIES

In terms of the PFMA a public entity may not accumulate surpluses unless the prior written approval of the National Treasury has been obtained. Approval for the retention of surpluses as at 31 March 2017 has been requested.

Newly registered member companies have up to six months after registration to submit work place skills plans. The amount retained in the Employer Grant Reserve makes provision for such a contingency.

15 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control (or jointly control) the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

All departments and public entities in the national sphere of government are related parties as they are ultimately under common control.

An individual or entity may be given oversight responsibility over the merSETA , which gives them significant influence, but not control, over the financial and operating decisions of the entity.

Representation of individuals to the Accounting Authority Body, sub-committees of the Accounting Authority or other equivalent body is considered as significant influence.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that member of management in their dealings with the entity.

A related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged.

Only transactions with related parties where the transactions are not concluded within the normal operating procedures or on terms that are no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

16 COMPARATIVE FIGURES

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

17 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the merSETA's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty
The following are the key assumptions concerning the future, and other key sources of estimating uncertainty at year end, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

10. ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

17 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Useful lives of property and equipment
All classes of property and equipment are depreciated on a straight-line basis over the asset's useful life.

Provision for below threshold levies received
Companies with annual payrolls below R500,000 are exempted from paying skills development levies. Each year, the merSETA estimates the value and makes provision for levies paid when the company should not have paid the levies as its annual payroll falls below the threshold. The provision is only held for five years as in terms of section 190(4) of the Tax Administration Act a person is only entitled to a refund if claimed within five years of the date of assessment. Unclaimed levies older than five years are transferred to the discretionary grant reserve. This is also in compliance with Skills Development Circular 09/2013 issued by the Department of Higher Education and Training, dated 25 August 2013.

18 SEGMENT REPORTING

A segment is an activity of the merSETA:

- That generates economic benefits or service potential (including economic benefit or service potential relating to transactions between activities of the same entity):
- whose results are regularly reviewed by management to make decisions about resource to be allocated to that activity and in assessing its performance, and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on the segment report. They are segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria is met.

Measurement
The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the merSETA's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring corresponding amounts in the merSETA's financial statements.

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

1 ALLOCATION OF NET SURPLUS FOR THE YEAR TO RESERVES:

	Total per Statement of Financial Performance R'000	Administration reserve R'000	Employer grants reserve R'000	Discretionary grants R'000
Year ended 31 March 2017				
TOTAL REVENUE	**1 511 420**	171 790	328 081	1 011 549
Skills development levy income				
Admin levy income (10.5%)	**171 717**	171 717	-	-
Grant levy income (69.5%)	**1 136 415**	-	328 081	808 334
Skills development levy: penalties and interest	**27 519**	-	-	27 519
Investment income	**175 628**	-	-	175 628
Other income	**141**	73	-	68
TOTAL EXPENSES	**1 146 744**	145 978	247 151	753 615
Employer grants and project expenses	**1 000 766**	-	247 151	753 615
Administration expenses	**145 978**	145 978	-	-
Net surplus per the statement of financial performance allocated	**364 676**	**25 812**	**80 930**	**257 934**
Year ended 31 March 2016 restated				
TOTAL REVENUE	1 445 088	171 608	332 441	941 039
Skills development levy income				
Admin levy income (10.5%)	171 445	171 445	-	-
Grant levy income (69.5%)	1 135 231	-	332 441	802 790
Skills development levy: penalties and interest	36 071	-	-	36 071
Investment income	102 117	-	-	102 117
Other income	224	163	-	61
TOTAL EXPENSES	1 032 719	125 899	240 847	665 973
Employer grants and project expenses	906 820	-	240 847	665 973
Administration expenses	125 899	125 899	-	-
Net surplus per the statement of financial performance allocated	**412 369**	**45 709**	**91 594**	**275 066**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

2 SKILLS DEVELOPMENT LEVY INCOME

	Note	2017 R'000	2016 R'000
The total levy income per the statement of financial performance is as follows:			
Levy income: Administration		**171 717**	171 445
Levies received from SARS		171 950	171 613
Inter-SETA transfers		(144)	(246)
Provision for refund SARS		(89)	78
Levy income: Employer Grants		**328 081**	332 441
Levies received from SARS		327 467	330 869
Inter-SETA transfers		(327)	17
Provision for refund SARS		941	1 555
Levy income: Discretionary Grants		**808 334**	802 790
Disc Levies received from SARS		810 622	805 544
Inter-SETA transfers		(724)	(1 742)
Provision for refund SARS		(1 564)	(1 012)
		1 308 132	1 306 676

3 SKILLS DEVELOPMENT LEVY PENALTIES AND INTEREST

	2017 R'000	2016 R'000
Penalties	**15 487**	19 847
Interest	**12 046**	16 242
Inter-SETA transfers	**(14)**	(18)
	27 519	36 071

4 GOVERNMENT GRANTS

4.1 National Skills Fund

	Note	2017 R'000	2016 R'000
TLS Programme			
Opening balance		176	10 690
Funds received during the year		-	7 023
Investment income		-	193
Utilised and recognised as revenue - conditions met		-	(7 963)
Refund to National Skills Fund		(176)	(9 767)
Closing balance	17	**-**	**176**

Funds were received from the National Skills Fund (NSF) for the purposes of funding the wage portion of the Training Layoff Scheme. Unutilised monies were reimbursed to the NSF. The balance in the account at 31 March 2017 represented interest which was reimbursed on 1 April 2016.

5 NET GAINS FROM FINANCIAL INSTRUMENTS

	Note	2017 R'000	2016 Restated R'000
Net gains from financial assets at fair value		**37 412**	86 941
Interest income from cash and cash equivalents		**138 216**	15 176
		175 628	102 117

6 OTHER INCOME

	Note	2017 R'000	2016 Restated R'000
Surplus on disposal of property and equipment		**-**	46
Fair value adjustment of property and equipment		**2**	-
Income from re-certification		**43**	61
Management fee income		**71**	117
Bad debts recovered		**25**	-
		141	224

Management fee income constitutes income from the National Department of Public Works for the training and development of artisans. One of the conditions of the contract is that a 5% management fee is to be paid to the merSETA for the administration of the contract.

7 EMPLOYER GRANT AND PROJECT EXPENSES

	Note	2017 R'000	2016 Restated R'000
Mandatory grants		**247 151**	240 847
Mandatory grants		**247 285**	241 151
Bad debts - mandatory		**(134)**	(304)
Discretionary projects		**753 615**	665 973
Discretionary projects	7.1, 23.1	**753 733**	664 443
Bad debts - discretionary		**(118)**	1 530
		1 000 766	906 820

7.1 Discretionary project expenditure consists of:

	Note	2017 R'000	2016 Restated R'000
Direct project costs		**720 756**	626 121
Discretionary grants		**-**	1 189
Indirect project administration costs	8	**32 977**	37 133
	7	**753 733**	664 443

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

8 ADMINISTRATION EXPENSES

	Note	2017 R'000	2016 R'000
Advertising, marketing and promotions, communication		**3 541**	3 981
Amortisation - intangible assets		**590**	1 194
Audit costs - internal audit		**1 616**	1 221
Audit costs - external audit		**1 869**	2 675
Audit costs - other audits		**22**	-
Bad debts		**216**	-
Bank charges		**311**	326
Accounting Authority and sub-committee costs		**3 268**	2 374
Remuneration to members of the audit committee		**437**	325
Accounting Authority and sub-committee members' fees		**2 324**	1 886
Accounting Authority and sub-committee assessment cost		**369**	-
Stakeholder training		**138**	48
Secretarial services		**-**	115
Cleaning and groceries		390	298
Depreciation		1 841	2 445
Employment costs		**116 190**	105 773
Recruitment costs		**338**	302
Salaries, wages and benefits	8.1	**112 280**	103 090
Staff training, development and welfare		**3 572**	2 381
Entertainment expenses		**11**	10
Gifts, donations and sponsorships paid		**250**	568
Impairment of property and equipment		**-**	45
Insurance and licence fees		**1 231**	1 203
Investigations and forensic costs		**387**	228
Legal fees		**1 387**	1 050
Loss on disposal of property and equipment	21	**49**	-
Operating lease rentals		**12 065**	10 760
Rental Buildings		**11 795**	10 513
Rental Parking		**270**	247
Printing, stationery and postages		**2 387**	2 211
QCTO administration cost		**7 041**	4 762
Rates, water and electricity		**3 395**	3 151
Repairs, maintenance and running costs		**2 940**	2 488
R&M Buildings		**1 546**	1 180
R&M Property and equipment		**1 394**	1 308

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

8 ADMINISTRATION EXPENSES (CONTINUED)

	Note	2017 R'000	2016 R'000
Service provider administration fees		**3 850**	3 458
Special functions		**260**	476
Storage		**277**	242
Telecommunication expenses		**4 420**	4 376
Travel, conferences and meeting expenses		**9 151**	7 717
		178 955	163 032
Less: amounts allocated to project expenditure	7.1	**(32 977)**	(37 133)
Net administration cost		**145 978**	125 899
8.1 Salaries and wages		**97 742**	89 995
Basic salaries		**83 707**	78 040
Performance awards		**7 523**	6 681
Arbitration awards		**-**	-
Other non-pensionable allowance		**3 140**	3 275
Temporary staff		**1 974**	767
Leave payments		**1 398**	1 232
Social contributions		**14 538**	13 095
Medical aid contributions		**3 967**	3 664
Pension contributions: defined contribution fund		**9 011**	8 060
UIF		**399**	378
Insurance COIDA		**186**	75
Other salary related costs		**975**	918
		112 280	103 090
Average number of employees during the year		**270**	252
Permanent staff		**233**	229
Interns		**37**	23
Number of employees at the end of the year		**267**	249
Permanent staff		**238**	230
Interns		**29**	19

The defined contribution fund is administered by Momentum. It is a sub-fund under the Funds at Work umbrella fund. The expense recognised in the statement of financial performance equates to the contributions due for the year.

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

9 PREPAYMENTS

	Note	31 March 2017 R'000	31 March 2016 R'000
Prepayments - Insurance		**62**	-

10 RECEIVABLES FROM NON-EXCHANGE TRANSFERS

	Note	31 March 2017 R'000	31 March 2016 R'000
Employer receivable	10.1	**3 171**	-
Receivable - investigations	10.2	**-**	-
Receivable - discretionary projects (UIF)	10.3	**15 221**	7 279
Receivable - Training Layoff Scheme (UIF)	10.3	**25 250**	-
National Department of Public Works (NDPW)	10.3	**606**	1 176
		44 248	8 455

10.1 Employer receivable

	Note	31 March 2017 R'000	31 March 2016 Restated R'000
Employer receivable		**9 689**	14 790
Allowance for doubtful debts	10.1.1	**(6 518)**	(14 790)
Net receivable from employers		**3 171**	-

The employer receivable of R 9,7 million (March 2016: R 14,8 million) represents recoverable amounts due to:
a) SARS retrospective adjustments to levies on which mandatory grants have already been paid.

b) MOA contracts with employers where tranches were paid but training was not implemented according to the original contract.

An amount of R 6,5 million (March 2016: R 14,8 million) was provided against such employer receivables.

Restatement of prior period balances

In the prior year the employer receivable and allowance for doubtful debts were disclosed as R7.7 million instead of R14.8 million. Recoveries due on MOA contracts were excluded from the receivable in error. This has no other effect on the financial statements other than as disclosed in this note as the net effect is nil. This has been rectified in the current year.

10.1.1 Allowance for doubtful debts:

	Note	31 March 2017 R'000	31 March 2016 R'000
Opening carrying amount		**(14 790)**	(16 489)
Bad debts written off		**8 020**	2 925
Additional provision during period	7	**252**	(1 226)
Closing carrying amount		**(6 518)**	(14 790)

10 RECEIVABLES FROM NON-EXCHANGE TRANSFERS (CONTINUED)

Ageing of receivables:	2017		2016	
	Gross	Impairment	Gross	Impairment
Current	**1 983**	**-**	1 421	(1 421)
30 days	**1 188**	**-**	1 170	(1 170)
60 days	**390**	**(390)**	367	(367)
90 days	**281**	**(281)**	518	(518)
91 days - 6 months	**1 847**	**(1 847)**	1 223	(1 223)
6 months - 1 year	**640**	**(640)**	548	(548)
1 year plus	**3 360**	**(3 360)**	9 543	(9 543)
TOTAL	**9 689**	**(6 518)**	14 790	(14 790)

	Note	31 March 2017 R'000	31 March 2016 R'000
10.2 Receivable - investigations			
Receivable arising from investigations		**-**	6 329
Allowance for doubtful debts		**-**	(6 329)
Net receivable from investigations		**-**	-
10.2.1 Allowance for doubtful debts:			
Opening carrying amount		**(6 329)**	(6 329)
Provision Revised		**6 329**	-
Closing carrying amount		**-**	(6 329)

The opening balance of R6 329 million was carried unchanged since 2011. Every effort to recover the funds has proved unsuccessful and during the current financial year the Accounting Authority approved the write off of the debt.

10.3 Receivable - UIF and NDPW

Ageing of receivables:	2017		2016	
	UIF	NDPW	UIF	NDPW
Current	**1 785**	**150**	101	35
30 days	**4 723**	**-**	360	139
60 days	**686**	**-**	135	-
90 days	**3 341**	**-**	84	70
91 days - 6 months	**29 936**	**2**	4 146	549
6 months - 1 year	**-**	**-**	968	383
1 year plus	**-**	**454**	1 485	-
TOTAL	**40 471**	**606**	7 279	1 176

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

11 CONSUMABLES

	Note	31 March 2017 R'000	31 March 2016 R'000
Opening carrying value		**320**	221
Consumables purchased		**851**	1 087
Consumables issued		**(666)**	(988)
Closing carrying value		**505**	320

12 FINANCIAL ASSETS AT FAIR VALUE

	Note	31 March 2017 R'000	31 March 2016 Restated R'000
Money market instruments		**105 617**	1 612 964
Equity-linked deposit		**-**	101 357
		105 617	1 714 321

All the financial assets at fair value are measured at quoted prices as per the market determinable fair value from an active market at reporting date. This amount consists of the capital investment and the returns earned.

The fair value measurements recognised are at a Level 1 hierarchy as they are based on quoted prices (unadjusted) in an active market.

No significant transfers between the fair value measurements hierarchy levels have occurred during the reporting period.

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in terms of Treasury Regulation 31.2. The weighted average interest rate on financial instruments at fair value was 6.72% (2016: 5.62%).

13 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Deposits		**1 255**	1 446
Receivables due by employees and stakeholders		**13**	9
Sundry receivables	13.1	**-**	-
Interest receivable		**78 772**	4 096
		80 040	5 551

Receivables due by employees relates to payroll related amounts that were paid to employees incorrectly.

Sundry receivables represents a deposit on a lease agreement for the KZN regional office which the landlord is withholding. The lease expired at the end of 2016. Attempts are being made to recover the funds through legal process.

13.1 Receivable - investigations

Sundry receivables	**216**	-
Allowance for doubtful debts	**(216)**	-
Net sundry receivables	**-**	-
Allowance for doubtful debts:		
Opening carrying amount	**-**	-
Additional provision during period	**216**	-
Closing carrying amount	**216**	-

14 CASH AND CASH EQUIVALENTS

	Note	31 March 2017 R'000	31 March 2016 Restated R'000
Cash on hand		**30**	30
Cash at bank		**3 215**	1 413
Call accounts		**180 899**	267 703
Fixed notice deposits		**2 212 500**	300 000
		2 396 644	569 146

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in terms of Treasury Regulation 31.2. The weighted average interest rate for cash and cash equivalents was 7.90% (2016: 6.22%).

Fixed notice deposits are held at various banks as approved by the National Treasury. These deposits are held on a short term basis with original maturity of 12 months or less.

As the merSETA was exempted by the National Treasury from the requirements of Treasury regulation 31.3 to invest surplus funds with the Corporation for Public Deposits. Surplus funds were invested in line with an investment policy approved by the Accounting Authority as required by Treasury regulation 31.3.5.

Cash on hand constitutes petty cash that is spread across eight regional offices, including head office.

15 PROPERTY AND EQUIPMENT

	Cost R'000	Accumulated depreciation/ impairments R'000	Closing carrying amount R'000
Year ended 31 March 2017			
Owned assets			
Computer equipment	8 567	(6 591)	**1 976**
Office furniture and fittings	6 624	(4 622)	**2 002**
Office equipment	3 035	(2 137)	**898**
Motor vehicles	4 794	(727)	**4 067**
Other assets	1 024	(1 018)	**6**
Total owned assets	**24 044**	**(15 095)**	**8 949**
Year ended 31 March 2016			
Owned assets			
Computer equipment	8 517	(6 147)	2 370
Office furniture and fittings	6 629	(4 275)	2 354
Office equipment	3 419	(2 538)	881
Motor vehicles	576	(185)	391
Other assets	1 024	(954)	70
Balance at end of year	20 165	(14 099)	6 066
Leased assets			
Motor vehicles	**4 162**	**(4 162)**	**-**
Total asset balance at end of year	**24 327**	**(18 261)**	**6 066**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

15 PROPERTY AND EQUIPMENT (CONTINUED)

	Opening carrying amount R'000	Impairment cost R'000	Fair value adjustment/ reclassification R'000	Additions R'000
Movement summary 2017				
Owned assets				
Computer equipment	2 370	-	2	735
Office furniture and fittings	2 354	-	-	78
Office equipment	881	-	-	311
Motor vehicles	391	-	-	4 218
Other assets	70	-	-	-
Total owned assets	**6 066**	**-**	**2**	**5 342**
Movement summary 2016				
Owned assets				
Computer equipment	2 968	**(8)**	-	766
Office furniture and fittings	2 654	(6)	-	137
Office equipment	1 157	**(31)**	-	30
Motor vehicles	452	**-**	-	-
Other assets	431	**-**	-	-
Balance at end of year	**7 662**	**(45)**	**-**	**933**
Leased assets				
Motor vehicles	1 472	-	-	-
Balance at end of year	**9 134**	**(45)**	**-**	**933**

No assets have been pledged as security or collateral for any liability.

In the current year the MerSETA tested the assets for impairment.

Disposals cost R'000	Depreciation charge R'000	Accumulated depreciation on disposals R'000	Closing carrying amount R'000
(689)	(1 044)	602	1 976
(83)	(416)	69	2 002
(695)	(256)	657	898
-	(542)	-	4 067
-	(64)	-	6
(1 467)	**(2 322)**	**1 328**	**8 949**

Disposals cost R'000	Depreciation charge R'000	Accumulated depreciation on disposals R'000	Closing carrying amount R'000
(156)	(1 325)	125	2 370
(17)	(425)	11	2 354
(2)	(274)	1	881
-	(61)	-	391
(206)	(360)	205	70
(381)	**(2 445)**	**342**	**6 066**
-	(1 472)	-	-
(381)	**(3 917)**	**342**	**6 066**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

16 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	Cost R'000	Accumulated amortisation R'000	Closing carrying amount R'000
Year ended 31 March 2017			
Intangible assets	1 968	(1 705)	**263**
Year ended 31 March 2016			
Intangible assets	1 654	(1 114)	**540**

	Opening carrying amount R'000	Impair-ment cost R'000	Fair value adjustment/ reclassifi-cation R'000	Additions R'000	Disposals cost R'000	Depreciation charge R'000	Accumulated depreciation on disposals R'000	Closing carrying amount R'000
Movement summary 2017								
Intangible assets	540	-	-	314	-	(591)	-	263
Movement summary 2016								
Intangible assets	629	-	-	1105	(348)	(1 194)	348	540

17 GRANTS AND TRANSFERS PAYABLE

	Note	31 March 2017 R'000	31 March 2016 R'000
Grants payable		**71 958**	121 899
Provision for SARS refund	17.1	**15 877**	15 094
Inter-SETA payables	25.1	**700**	1 711
National Skills Fund income received in advance	4.1	**-**	176
		88 535	138 880

17.1 Provision for SARS refund

	Note	31 March 2017 R'000	31 March 2016 R'000
Opening carrying amount		**15 094**	15 741
Amount utilised		**(3 492)**	(4 455)
Additional provision during the period		**4 275**	3 808
Closing carrying amount	17	**15 877**	15 094

Companies with annual payrolls below R500,000 are exempted from paying skills development levies. SARS will be refunded where levies have been paid by such exempt companies.

18 PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables from exchange transactions	**26 405**	10 770

19 OTHER PAYABLES

Accruals salaries and wages	**1 075**	1 002

20 PROVISIONS

Provision for leave pay	**5 818**	4 857
Provision for Workman's Compensation	**208**	186
Provision for performance bonuses	**8 087**	7 180
	14 113	12 223

	Leave pay R'000	Workman's compensation R'000	Performance bonuses R'000
Opening carrying amount 2016	4 068	250	7 868
Amounts utilised 2016	(484)	(153)	(7 868)
Additional provision during the period	1 273	89	7 180
Closing carrying amount 2016	4 857	186	7 180
Amounts utilised 2017	(502)	(186)	(7 180)
Additional provision during the period	1 463	208	8 087
Closing carrying amount 2017	**5 818**	**208**	**8 087**

The Workman's Compensation provision is calculated in accordance with the Workman's Compensation Act no 130 of 1993.

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

21 RECONCILIATION OF NET SURPLUS TO CASH UTILISED IN OPERATIONS

	Note	2017 R'000 Actual	2017 R'000 Budget	2016 R'000 Actual	2016 R'000 Budget
Net surplus per the statement of financial performance		**364 676**	**(87 429)**	412 369	-
Adjusted for non-cash items:					
Depreciation property and equipment	15	**2 322**	**1 559**	3 917	4 478
Amortisation of intangible assets	16	**591**	**2 145**	1 194	663
Impairment of property and equipment	8, 15	**-**	**-**	45	-
Loss on disposal of property and equipment	8	**49**	**-**	-	-
Surplus on disposal of property and equipment	8	**-**	**-**	(46)	-
Fair value adjustments to property and equipment	15	**(2)**	**-**	-	-
Movements in provisions		**1 890**	**(9 223)**	37	755
Adjusted for items separately disclosed					
Net gains from financial instruments		**(100 952)**	**(94 096)**	(100 836)	(39 331)
Adjusted for working capital changes:					
(Increase)/ decrease in prepayments		**(62)**	**(93)**	185	93
(Increase)/ decrease in receivables from non-exchange transfers		**(35 793)**	**(45)**	7 328	7 804
(Increase) in receivables from exchange transactions		**(74 489)**	**(899)**	(1 289)	(27 947)
(Increase)/ decrease in consumables		**(185)**	**80**	(99)	1
(Decrease)/ increase in grants and transfers payable		**(50 345)**	**46 120**	9 676	10 559
Increase/ (decrease) in payables from exchange transactions from exchange transactions		**15 635**	**(1 770)**	(1 266)	1 311
Increase/ (decrease) in other payables		**73**	**(1 002)**	49	-
Cost utilised in operations		**123 408**	**(144 653)**	331 264	(41 614)

22 CONTINGENCIES

22.1 Contingent Liabilities

22.1.1 Refunds to National Treasury

In terms of the PFMA a public entity may not accumulate surpluses unless the prior written approval of the National Treasury has been obtained. Approval for the retention of surpluses as at 31 March 2017 has been requested.

Instruction 6 of 2017/18 issued in May 2017 clarified that the surplus should be based on the following:

	Note	31 March 2017 R'000	31 March 2016 R'000
Cash and cash equivalents at the end of the year	14	**2 396 644**	569 146
Add: Financial assets at fair value	12	**105 617**	1 714 321
Add: Receivables from non-exchange transfers	10	**44 248**	8 455
Add: Receivables from exchange transactions	13	**80 040**	5 551
Less: Current Liabilities		**(130 128)**	(162 875)
Less: Commitments	23.1	**(2 356 868)**	(1 986 835)
Total surplus		**139 553**	147 763

The discretionary reserves of merSETA amount to R2,496 billion. merSETA is 94.4% committed in terms of these reserves. The grant regulations allows for a 5% margin in determining the amount of uncommitted funds refundable to National Treasury. This means merSETA is obliged to refund 0.6% (100% - 99.4%) of its discretionary reserves to National Treasury. This amounts to R15 million.

22.1.2 Mandatory grants for newly registered companies

Contingent liabilities comprise an Employer Grant Reserve of R735 000 (2016: R183 000) for newly registered
member companies participating after the legislative cut-off date.

These newly registered member companies are required to submit their Workplace Skills Plan within six months and will be eligible for the mandatory grant once this has been approved by the merSETA.

22.2 Contingent Assets

Financial instruments

A portion of monies invested with a fund to the value of R2,24 million was placed with an entity that went under curatorship, and the funds were placed in a retention fund.

The curator has suspended trading in these assets, and has instructed that neither the capital nor the interest may be released without his final instruction.

These assets are liquid - this means they cannot be bought or sold, as the curator has removed the demand for them in the market. The unit holdings in the retention fund cannot be sold for cash.

Caution must be taken when determining the fair value of the financial instrument, as they are traded in an open market and as a result, valued in accordance to the market value of the day. If and when the fixed interest investments, currently held in side pockets, become tradable (and this is not guaranteed), the market will determine their value.

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

23 COMMITMENTS

23.1 Discretionary reserve commitments

Of the balance of R2,496 billion available in the discretionary reserve on 31 March 2017 an amount of R2,357 billion has been approved for future discretionary projects as set out below. Amounts for expenses that have already been incurred, and therefore included in the discretionary project expense in the statement of financial performance, are also indicated.

Project/ discretionary grant programmes	Opening balance 2016 Restated R'000	Administration expenditure/ other adjustments 2016 R'000	Approved contractual expenditure & reductions 2016 Restated R'000	Charged to statement of financial performance 2016 R'000
PROGRAMME 1: ADMINISTRATION				
Discretionary Grant Administration Expenditure	-	27 792	-	(27 792)
Project Administration Expenditure	-	7 808	-	(7 808)
Media Symposiums	-	-	-	-
	-	**35 600**	**-**	**(35 600)**
PROGRAMME 2: SKILLS PLANNING				
SSP Review	2 044	4 512	1 864	(6 669)
Strategic Planning Project	1 295	633	842	(2 630)
University of Johannesburg (UJ) - Workplace Integrated Learning	5 494	-	(5 494)	-
Labour & Stakeholder Capacity Building	-	173	-	(173)
SA TYRE Manufacturers (SATMC)	-	-	135	-
Partnership WITS University	-	-	34 000	-
Central University of Technical Services	-	-	330	-
Institute Of Motor Industry	-	-	3 500	-
University Of Western Cape	-	-	9 036	-
Durban University of Technology	-	-	8 002	-
Vaal University of Technology	-	-	24 960	-
Dept. Of Basic Education -Technology	-	-	29 264	-
Young Motor Engineers TVET	-	-	-	-
Innovation, Research & Support - Uni. Free State	-	-	-	-
Innovation, Research & Sup - University of Venda	-	-	-	-
Resolution Circle - P1, P2 & Intern Development	-	-	-	-
Mangosuthu University Of Technology	-	-	16 158	-
	8 833	**5 318**	**122 597**	**(9 472)**

Opening balance 2017 Restated R'000	Administration expenditure/ other adjustments 2017 R'000	Approved contractual expenditure & reductions 2017 R'000	Charged to statement of financial performance 2017 R'000	Closing balance R'000
-	26 264	-	(26 264)	-
-	6 206	-	(6 206)	-
-	698	3 005	(3 703)	-
-	**33 168**	**3 005**	**(36 173)**	**-**
1 751	5 471	486	(7 358)	350
140	7	-	(147)	-
-	-	-	-	-
-	-	-	-	-
135	-	(135)	-	-
34 000	-	-	(8 362)	25 638
330	-	-	(330)	-
3 500	16	-	(3 052)	464
9 036	-	-	(4 535)	4 501
8 002	-	(2)	(1 550)	6 450
24 960	-	-	(2 404)	22 556
29 264	-	3 000	(1 428)	30 836
-	-	12 192	-	12 192
-	-	8 700	-	8 700
-	-	8 456	-	8 456
-	-	24 914	-	24 914
16 158	-	-	-	16 158
127 276	**5 494**	**57 611**	**(29 166)**	**161 215**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

23 COMMITMENTS (CONTINUED)

23.1 Discretionary reserve commitments (Continued)

Project/ discretionary grant programmes	Opening balance 2016 Restated R'000	Administration expenditure/ other adjustments 2016 R'000	Approved contractual expenditure & reductions 2016 Restated R'000	Charged to statement of financial performance 2016 R'000
PROGRAMME 3: INCREASE ACCESS TO OCCUPATIONALLY DIRECTED PROGRAMMES				
Bursaries	7 037	-	(370)	(3 352)
UIF/MerSETA Artisan Development	26 815	(341)	(5 987)	(3 038)
Western Cape Department of Education - FET Artisan Training	2 683	-	(2 683)	-
Denel Artisan Training Programme	779	-	-	-
Courseware & Curriculum Development	-	24	-	(24)
Accelerated Artisan Training Programme	44 904	-	(13 725)	(19 474)
Recognition of Prior Learning (RPL) Pilot Project	-	60	-	(60)
KZN - Office of Premier Project	37 946	-	-	(7 893)
Eastern Cape - Office of Premier	10 607	-	22 086	(4 061)
Jaguar Land Rover Enrichment Project	1 215	-	-	-
Goldfields Public FET	525	-	-	(525)
QCTO CEP Pilot Project	552	740	1 663	(1 951)
MOA Project DG 1 & 2	3 073	813	(2 697)	(1 189)
MOA Project DG3 (Year 2011)	22 754	(659)	(17 773)	(4 173)
MOA Project DG4 (Year 2012)	158 749	(378)	(70 059)	(64 319)
MOA Project DG5 (Year 2013)	31 725	32	(3 449)	(6 369)
MOA Project DG6 (Year 2014)	326 231	(33)	(20 070)	(82 154)
MOA Project DG7 (Year 2016)	565 365	(986)	(76 540)	(76 603)
MOA Project DG8 (Year 2017)	-	1 426	708 814	(185 590)
MOA Project DG9 (Year 2018)	-	-	-	-
Dual System Apprenticeship Pilot	8 050	3 046	4 729	(9 387)
School Support	7 374	-	-	(2 543)
DPWRT- Mpumalanga Provincial	2 262	-	326	(1 238)
Limpopo Department of Public Works	1 170	-	-	(374)

Opening balance 2017 Restated R'000	Administration expenditure/ other adjustments 2017 R'000	Approved contractual expenditure & reductions 2017 R'000	Charged to statement of financial performance 2017 R'000	Closing balance R'000
3 315	349	54 884	(18 534)	40 014
17 449	(8 224)	58 770	(23 004)	44 991
-	-	-	-	-
779	-	-	(618)	161
-	112	-	(112)	-
11 705	(54)	(5 666)	(5 985)	-
-	-	-	-	-
30 053	-	-	(5 613)	24 440
28 632	-	-	-	28 632
1 215	-	(1 215)	-	-
-	-	-	-	-
1 004	382	194	(930)	650
-	-	-	-	-
149	28	(108)	(69)	-
23 993	(68)	(12 232)	(11 130)	563
21 939	(372)	(6 202)	(7 111)	8 254
223 974	(303)	(16 854)	(49 998)	156 819
411 236	(2 957)	(35 380)	(92 045)	280 854
524 650	(4 630)	(38 007)	(89 756)	392 257
-	135	768 564	(205 194)	563 505
6 438	2 700	6 152	(6 911)	8 379
4 831	-	-	(450)	4 381
1 350	-	(1 114)	(67)	169
796	-	2 883	(1 339)	2 340

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

23 COMMITMENTS (CONTINUED)

23.1 Discretionary reserve commitments (Continued)

Project/ discretionary grant programmes	Opening balance 2016 Restated R'000	Administration expenditure/ other adjustments 2016 R'000	Approved contractual expenditure & reductions 2016 Restated R'000	Charged to statement of financial performance 2016 R'000
PROGRAMME 3: INCREASE ACCESS TO OCCUPATIONALLY DIRECTED PROGRAMMES (CONTINUED)				
Western Cape - Department of Economic Development & Trade	8 996	-	-	(4 176)
SA Tyre Manufacturing (SATMC)	-	-	3 684	(605)
ETQA Committee	-	18	-	(18)
EW SETA	5 000	-	2 800	-
National Department of Public Works (NDPW)	19 474	(3 226)	1 609	(1 770)
Department of Military Veterans	1 703	-	-	-
Nelson Mandela Metro University	30 000	-	(39)	(3 138)
Cape Peninsula University of Technology	1 401	-	32 106	-
Walter Sisulu University	26 000	-	-	(1 367)
Gauteng Dept of Education (GDE)	15 309	61	21 140	(5 555)
Matriculation - 2016	45 937	(600)	(5 688)	(2 410)
Office of Premier - North West Province	-	-	12 256	-
Assessment Quality Partner	-	-	-	-
Chinese Cultural Training Centre	-	-	-	-
Offenders Awaiting Parole (KZN)	-	-	-	-
Offenders Awaiting Parole (KIM)	-	-	-	-
Skills Development - Saldanha & Atlantis	-	-	-	-
School Children - Land Speed Record	-	-	-	-
Office of Premier - Limpopo	-	-	-	-
East Cape Training Centre - Artisans	-	-	4 181	-
	1 413 636	**(3)**	**596 314**	**(493 356)**

Opening balance 2017 Restated R'000	Administration expenditure/ other adjustments 2017 R'000	Approved contractual expenditure & reductions 2017 R'000	Charged to statement of financial performance 2017 R'000	Closing balance R'000
4 820	-	-	(1 288)	3 532
3 079	-	-	(2 250)	829
-	72	-	(72)	-
7 800	-	-	(7 800)	-
16 087	(1 526)	5 356	(4 947)	14 970
1 703	-	-	-	1 703
26 823	-	-	(4 288)	22 535
33 507	-	-	-	33 507
24 633	-	-	(1 286)	23 347
30 955	139	(4 029)	(9 864)	17 201
37 239	(151)	(2 006)	(3 107)	31 975
12 256	-	23 840	(7 021)	29 075
-	35	-	(35)	-
-	-	23 000	(8 800)	14 200
-	-	2 198	-	2 198
-	-	4 500	-	4 500
-	-	16 712	-	16 712
-	-	743	-	743
-	-	19 900	-	19 900
4 181	-	(4 181)	-	-
1 516 591	**(14 333)**	**860 702**	**(569 624)**	**1 793 336**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

23 COMMITMENTS (CONTINUED)

23.1 Discretionary reserve commitments (Continued)

Project/ discretionary grant programmes	Opening balance 2016 Restated R'000	Administration expenditure/ other adjustments 2016 R'000	Approved contractual expenditure & reductions 2016 Restated R'000	Charged to statement of financial performance 2016 R'000
PROGRAMME 4: PROMOTING THE RESPONSE OF FETCs TO SKILLS SECTOR NEEDS				
False Bay Public FET College	30 786	-	(123)	(8 045)
ISOEs	9 371	19	2 203	(5 731)
TVET Learner Support	5 574	-	-	(766)
TVET Lecturer Support	92 318		66 204	(19 265)
Goldfields Public TVET College	2 455	-	-	-
The British Council	-	-	2 500	(500)
Central University of Technology	3 585	-	5 146	(4 913)
Co-operatives and TVETs	-	-	-	-
NC(V) learners to Artisan - TVET	-	-	-	-
Spray painting Simulator - TVET	-	-	-	-
Offenders Awaiting Parole - E/Cape	-	-	-	-
Innovation, Research & Support - University of North West	-	-	-	-
Young Motor Engineers TVET	-	-	-	-
Cape Peninsula University of Technology	-	-	2 880	-
	144 089	**19**	**78 810**	**(39 220)**
PROGRAMME 5: ADDRESS LOW LEVELS OF LITERACY				
Maths and Science Student Project	-	-	1 351	-
ABET Project - Phase 3 & 4	1 300	(24)	67	(418)
NEET Access Programme	637	-	(112)	(101)
FLC Rural Outreach Project	570	-	(269)	(301)
Tshwane University of Technology - Institute for Advanced Tooling	579	-	21 372	(535)
University of Johannesburg Project	3 070	-	5 495	(5 361)
	6 156	**(24)**	**27 904**	**(6 716)**

Opening balance 2017 Restated R'000	Administration expenditure/ other adjustments 2017 R'000	Approved contractual expenditure & reductions 2017 R'000	Charged to statement of financial performance 2017 R'000	Closing balance R'000
22 618	(15)	(9 806)	(3 485)	9 312
5 862	30	6 805	(3 576)	9 121
4 808	-	(418)	(732)	3 658
139 257	64	735	(38 038)	102 018
2 455	-	-	(1 205)	1 250
2 000	-	-	(1 000)	1 000
3 818	-	8 900	(1 860)	10 858
-	-	9 100	(2 777)	6 323
-	-	10 500	-	10 500
-	-	15 000	-	15 000
-	-	1 344	-	1 344
-	-	21 500	-	21 500
-	-	917	-	917
2 880	-	-	(1 104)	1 776
183 698	**79**	**64 577**	**(53 777)**	**194 577**
1 351	-	-	(1 216)	135
925	(2)	(128)	(230)	565
424	-	(424)	-	-
-	-	-	-	-
21 416	-	-	(10 051)	11 365
3 204	-	(30)	(2 680)	494
27 320	**(2)**	**(582)**	**(14 177)**	**12 559**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

23 COMMITMENTS (CONTINUED)

23.1 Discretionary reserve commitments (Continued)

Project/ discretionary grant programmes	Opening balance 2016 Restated R'000	Administration expenditure/ other adjustments 2016 R'000	Approved contractual expenditure & reductions 2016 Restated R'000	Charged to statement of financial performance 2016 R'000
PROGRAMME 6: PROMOTE WORK PLACE SKILLS DEVELOPMENT				
Internships	-	2 287	-	(2 287)
Retrenchment Assistance Programme	37 667	493	47 516	(34 526)
People with Disabilities	4 476	(26)	2 172	(2 067)
Saldanha Bay - Industrial Development Zone	4 995	-	-	(808)
Annual Conference	-	479	-	(479)
Knowledge Management Project	-	-	-	-
Black Female Management Project	-	-	-	-
University of Johannesburg - Multi Year Project	-	-	4 100	-
	47 138	**3 233**	**53 788**	**(40 167)**
PROGRAMME 7: SUPPORT CO-OPERATIVES, SMMEs AND NGOs				
Non Levy Paying NGOs and CBOs	1 408	8	2 825	(1 975)
Co-operatives	-	-	1 007	(101)
Department of Trade & Industry	1 500	-	19 788	(1 547)
Small, Medium Enterprise (SME) Project	7 689	(65)	(913)	(1 313)
Green Skills	-	-	1 401	(280)
Department of Small Business Develop.	-	-	10 000	-
Worker Initiated Project	-	-	2 958	-
	10 597	**(57)**	**37 066**	**(5 216)**

Opening balance 2017 Restated R'000	Administration expenditure/ other adjustments 2017 R'000	Approved contractual expenditure & reductions 2017 R'000	Charged to statement of financial performance 2017 R'000	Closing balance R'000
-	2 565	-	(2 565)	-
51 150	420	14 831	(12 933)	53 468
4 555	-	(602)	(2 244)	1 709
4 187	-	-	(2 302)	1 885
-	(342)	-	342	-
-	702	342	(930)	114
-	-	963	(241)	722
4 100	-	-	(1 580)	2 520
63 992	**3 345**	**15 534**	**(22 453)**	**60 418**

2 266	133	3 416	(2 502)	3 313
906	27	-	(933)	-
19 741	-	(5 229)	(5 914)	8 598
5 398	61	(413)	(951)	4 095
1 121	-	-	(981)	140
10 000	-	-	(387)	9 613
2 958	-	18 320	(4 073)	17 205
42 390	**221**	**16 094**	**(15 741)**	**42 964**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

23 COMMITMENTS (CONTINUED)

23.1 Discretionary reserve commitments (Continued)

Project/ discretionary grant programmes	Opening balance 2016 Restated R'000	Administration expenditure/ other adjustments 2016 R'000	Approved contractual expenditure & reductions 2016 Restated R'000	Charged to statement of financial performance 2016 R'000
PROGRAMME 8: CAREER DEVELOPMENT				
World Skills	568	5 244	999	(6 243)
Career Path & Development	-	722	-	(722)
Mobile Skills Development	2 194	292	-	(2 486)
National Students Financial Aid scheme (NSFAS)	25 000	-	25 000	(25 000)
Corporate Social Investment	-	245	-	(245)
	27 762	**6 503**	**25 999**	**(34 696)**
TOTAL COMMITMENTS	**1 658 211**	**50 589**	**942 478**	**(664 443)**
FUNDING AGREEMENTS				
UIF - Project 2	-	-	75 000	-
National Dept. Public Works	10 869	-	-	-
GDE Apprentice Support Programme	-	-	-	-
TOTAL	**10 869**	**-**	**75 000**	**-**

Funding agreements represent contracts with public institutions, where the agreement is that payments will be made to the company or organisation that undertakes the training. The amounts reflected represent that portion of the funding agreement that has not yet translated into contracts with these companies or organisations. These amounts can not be disclosed as commitments but the funds have been set aside for the public institutions listed.

Opening balance 2017 Restated R'000	Administration expenditure/ other adjustments 2017 R'000	Approved contractual expenditure & reductions 2017 R'000	Charged to statement of financial performance 2017 R'000	Closing balance R'000
568	1 456	-	(1 456)	568
-	160	-	(160)	-
-	1 927	-	(1 927)	-
25 000	-	75 000	(8 769)	91 231
-	310	-	(310)	-
25 568	**3 853**	**75 000**	**(12 622)**	**91 799**
1 986 835	**31 825**	**1 091 941**	**(753 733)**	**2 356 868**
75 000	-	(32 400)	-	42 600
10 869	-	23 311	-	34 180
-	-	44 625	-	44 625
85 869	**-**	**35 536**	**-**	**121 405**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

23 COMMITMENTS (CONTINUED)

23.2 Operating Leases

This represents the total of future minimum lease payments under non-cancellable operating leases:

The operating leases relate to premises utilised for office space. The existing leases come to an end on 31 March 2018, with an average escalation of 8%.

In the prior year most lease contracts, including head office had not been signed by the close of the financial year, hence a commitment could not be raised as there was no contractual obligation in place.

	2017 R'000	2016 R'000
Not later than one year	**12 659**	1 029
Later than one year and not later than five years	**-**	1 111
	12 659	2 140

24 FINANCIAL INSTRUMENTS

In the course of the merSETA operations, it is exposed to market risk, credit risk and liquidity 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:

MARKET RISK

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk, namely, interest rate risk, currency risk and other price risks.

The merSETA does not have exposure to currency risks as none of the financial instruments are denominated in a foreign currency.

Interest rate risk

The merSETA is exposed to interest rate risk as it has invested its cash mainly in interest-bearing instruments.

The merSETA manages its interest rate risk by diversifying its portfolio to include fixed notice deposits that earn short-term gains at fixed rates.

The money market instruments are designed to mitigate the interest rate risk to an acceptable level as the interest is linked to JIBAR rates and the instrument weighted over different maturity periods.

The merSETA limits further exposure to interest rate risk by dealing with well-established institutions. These institutions have been approved by National Treasury and highly rated to be included in the merSETA's investment policy.

24 FINANCIAL INSTRUMENTS (CONTINUED)

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		TOTAL
Financial instrument	Amount R'000	Effective interest rate	Amount R'000	Weighted average effective interest rate%	Weighted average period for which the rate is fixed in years	Amount R'000	Weighted average period until maturity in years	R'000
Year ended 31 March 2017								
Cash and cash equivalents	3 245	6,75%	2 393 399	7,90%	12 months	-	-	2 396 644
Financial instruments at fair value	105 617	6,72%	-	-	-	-	-	105 617
Receivables from exchange transactions	-	-	-	-	-	80 040	12 months	80 040
Total	**108 862**	**-**	**2 393 399**	**-**	**-**	**80 040**	**-**	**2 582 301**
Liabilities								
Trade Payables	-	-	-	-	-	26 405	30 days	26 405
Net financial assets	**108 862**	**-**	**2 393 399**	**-**	**-**	**53 635**	**-**	**2 555 896**
Year ended 31 March 2016								
Assets								
Cash and cash equivalents	1 443	5,85%	567 703	6,22%	6 months	-	-	569 146
Financial instruments at fair value	1 714 321	5,62%	-	-	-	-	-	1 714 321
Receivables from exchange transactions	-	-	-	-	-	5 551	3 months	5 551
Total Financial Assets	**1 715 764**	**-**	**567 703**	**-**	**-**	**5 551**	**-**	**2 289 018**
Liabilities								
Trade Payables	-	-	-	-	-	10 770	30 days	10 770
Net financial assets	**1 715 764**	**-**	**567 703**	**-**	**-**	**(5 219)**	**-**	**2 278 248**

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

24 FINANCIAL INSTRUMENTS (CONTINUED)

Equity market risk

The merSETA was partly exposed to a pricing risk due to fluctuations in the equity market as it had an investment that was linked to equity instruments, which matured on 31 July 2016.

The equity market risk is managed by ensuring that the capital amount invested is guaranteed by the financial institution. The capital guarantees arising from contractual arrangements with the financial institutions, thus are enforceable by law.

The investment policy that has been approved by the accounting authority states the requirements for the capital preservation on equity-linked instruments and a limited percentage of total investments can be invested in equity-linked instruments.

SENSITIVITY ANALYSIS

The financial period under review was faced with a number of economic challenges such as a high inflation rate, a depreciating currency, a severe drought, low growth prospect and a downgrade of the country's sovereign credit rating. As a result, the interest rate hike cycle as seen in the previous year was halted during the financial period. Most economic forecasts had anticipated an interest rate increase of 25 basis point during the year, therefore management determines that a fluctuation interest rate of 25 basis points is reasonable for sensitivity analysis.

At 31 March 2017, if the weighted average interest rate was 25 basis point higher with all other variables held constant, then the surplus would have been R8.4 million higher to R371 million, arising from the increase in net gains on financial instruments. If the weighted average interest rate was 25 basis point lower with all other variables held constant, then the surplus would have been R3.2 million lower to R359 million, arising from the decreased net gains in financial instruments.

The Metal and Engineering sector has been facing an economic crisis marked by reduced production, job losses and businesses shutting down in the last two years. A slight improvement in the sector's economic standing has been seen in last two quarters of the financial period. Levy income growth in 2017 was marginal at 0.1% when compared 4% growth in 2016. Therefore, management determines that a variant of 0% to 4% fluctuating in levy income is reasonable for the sensitivity analysis.

At 31 March 2017, if skills development levy income grew only by 2% from the previous financial year, instead of the 0.1% growth and all other variables held constant, then a surplus of R387.5 million would have been incurred. If the skills development levy income declined by 2% and all other variables held constant, then a surplus of R335.3 million would have been earned.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The financial assets which potentially subject the merSETA to the risk of non-performance to counter-parties and thereby subject to credit risk are the receivables from exchange transactions. The ageing of receivables is disclosed in note 10.

The merSETA is exposed to credit risk in regard to payments made in advance on discretionary grants whereby not all deliverables as agreed upon in the Memorandum of Agreement have been met.

The merSETA has entered into agreements with the qualifying employers, whereby other tranche payments are recoverable only once training has been implemented.

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 this sector during the financial year that may have an impact on the receivables that has not been adequately provided for. Receivables are presented net of an allowance for doubtful debts.

24 FINANCIAL INSTRUMENTS (CONTINUED)

The entity's maximum exposure to credit risk is as follows:

	Note	2017 R'000	2016 R'000
Employer receivable	10	**3 171**	-
Receivables due by employees	13	**13**	9
		3 184	9

LIQUIDITY RISK

Liquidity risk is the risk that the entity could experience difficulties in meeting its commitments to creditors as financial liabilities fall due for payment.

The merSETA is exposed to liquidity risks as it has outstanding obligations to make payments to levy-paying employers and training providers for training that has been completed and also payments to trade creditors for goods delivered and services rendered.

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

Maturity analysis on the entity's contractual cash flows for its non-derivative financial liabilities :

2017	Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade payables from exchange transactions	**26 405**	**26 405**	**26 405**	**-**	**-**	**-**

2016	Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade payables from exchange transactions	10 770	10 770	10 770	-	-	-

Fair values

The merSETA's financial instruments consist mainly of cash and cash equivalents and receivables and payables from exchange transactions. 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 to medium-term maturity of these financial assets.

Receivables from exchange transactions

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

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

25 RELATED PARTY TRANSACTIONS

25.1 Transactions with other SETAs

Interest 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:

		2017 R'000		2016 R'000	
	Note	**Net transfers in/ (out) during the year**	**Amount receivable/ (payable)**	**Transfers in/ (out) during the year**	**Amount receivable/ (payable)**
Receivables	10	**-**	**-**	**(6)**	**-**
HW SETA		-	-	2	-
EWSETA (Previously ESETA)		-	-	(8)	-
Payables	17	**(1 195)**	**(700)**	**(1 965)**	**(1 711)**
CETA		(15)	(15)	(109)	(109)
CHIETA		(107)	(108)	-	-
ESETA		(245)	(119)	(35)	(35)
FOODBEV		-	-	(4)	(4)
FP&M SETA		12	-	(60)	(60)
MICT		(45)	(2)	(47)	(59)
MQA		(61)	(61)	-	-
SERVICES SETA		(379)	(386)	-	-
TETA		(75)	-	(672)	(677)
W&R SETA		(280)	(9)	(1 038)	(767)
Total		**(1 195)**	**(700)**	**(1 971)**	**(1 711)**

25 RELATED PARTY TRANSACTIONS (CONTINUED)

25.2 Accounting Authority and independent committee members fees

	2017 R'000		2016 R'000	
Accounting Authority and independent committee members	**Net transfers in/ (out) during the year**	**Amount receivable/ (payable)**	**Transfers in/ (out) during the year**	**Amount receivable/ (payable)**
X Tshayana	(280)	(8)	(226)	-
J Esterhuizen	(132)	-	(104)	-
J Swarts	(271)	-	(195)	(18)
M Lebona	(298)	(8)	(252)	(15)
A Hanekom *	(164)	-	(176)	(10)
T Molapo	(69)	-	(79)	-
F Tregenna	(101)	-	(68)	-
J Olivier *	(147)	-	(83)	-
J Van Niekerk	(54)	-	(76)	-
H Korstens *	(108)	(2)	(106)	(8)
N Chirwa	(16)	-	(30)	-
R Daniels (Independent)	(8)	-	(38)	-
M Maisela (Independent)	(31)	-	(38)	-
M Kuscus (Independent)	(23)	-	(23)	-
S Rensburg (Independent)	(31)	-	(15)	-
M Ally	(30)	-	(114)	-
H Von Maltitz	(122)	(10)	(102)	(10)
A Mashifane (Independent) **	-	-	(50)	-
T Mashanda (Independent) ***	(410)	-	(183)	-
F Mukaddam (Independent)	(152)	-	(118)	-
A Mashilo	(153)	-	(97)	-
K Mbonambi (Independent)	(31)	-	(38)	-
M De Swardt	(46)	-	-	-
K Zama (Independent) ****	(84)	-	-	-
	(2 761)	**(28)**	**(2 211)**	**(61)**

These transactions and balances relate to Accounting Authority fees and independent committee members' fees. The Chairperson of the Accounting Authority is a public servant and is therefore not paid fees.

* Board fees for these members were paid to the employer body or representative union

** These members have resigned

*** T Mashanda also attended Accounting Authority meetings as Chairperson and representative of the Audit and Risk committee. The fees stated above include an amount of R133 000 for attending such meetings. The Chairperson was also paid an amount of R73 000 for special investigative work requested by the Accounting Authority.

**** K Zama was appointed during the year.

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

25 RELATED PARTY TRANSACTIONS (CONTINUED)

25.3 Key management personnel costs

Key Personnel	Basic salary R000's	Travel Allowance R000's	Medical Aid R000's	Pension Fund R000's	Performance Bonus R000's	Total 2017 R000's	Total 2016 R000's	Notes
Chief Executive Officer	1 591	132	56	161	271	**2 211**	2 162	
Chief Financial Officer	1 343	-	21	139	178	**1 681**	1 581	
Chief Operating Officer	1 329	96	-	129	206	**1 760**	1 672	
Executive: Corporate Services	1 064	67	26	106	148	**1 411**	967	Vacant Sep to Dec 2015 (Prior Year)
Executive: Strategy and Research	1 176	-	41	125	158	**1 500**	1 264	Vacant Dec 2015 (Prior Year)
TOTAL	**6 503**	**295**	**144**	**660**	**961**	**8 563**	**7 646**	

* Note that the performance bonus of the CEO and executives is based on a provision as the performance review process was not finalised by 31 March 2017.

26 GOING CONCERN

The merSETA was set up in terms of the Skills Development Act No 97 of 1998. The Minister of Higher Education and Training has extended the MerSETA's licence up to 31 March 2020. Accordingly, the merSETA has drawn up and presented these financial statements on a going concern basis.

27 MATERIAL LOSSES THROUGH CRIMINAL CONDUCT, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

CRIMINAL CONDUCT

There were no losses suffered through criminal conduct in the current or previous year.

IRREGULAR EXPENDITURE	2017 R'000	2016 R'000
Opening balance	**999**	934
Less: Expenditure where condonation obtained	**(999)**	(934)
Add: Irregular expenditure - current year	**4 838**	999
	4 838	999
Irregular expenditure awaiting condonation - current year		
Analysis of expenditure awaiting condonation per age classification		
Current year	**4 838**	999
Prior year	**-**	-
Total	**4 838**	999

Irregular expenditure was identified in the current year. Condonation for the irregular expenditure of the prior year was obtained after the financial year end date but prior to the issuing of the financial statements.

27 MATERIAL LOSSES THROUGH CRIMINAL CONDUCT, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (CONTINUED)

Incident	Nature of transaction	Disciplinary steps taken/criminal proceedings	Remedial actions taken	Amount R000's
merSETA failed to obtain an approval for deviation from a competitive bidding process.	Acquisition of a mobile bus.	Not applicable	Not applicable	4 838

On the 14 April 2016, CEO and CFO wrote a deviation memo for approval by the Accounting Authority requesting to extend the lease agreement for 2 years until 31 March 2018. At the board meeting held on 24 May 2016, this memo was ratified by the Accounting Authority. The Accounting Authority further instructed management to do a cost benefit analysis that shows whether it would be cheaper to buy or continue leasing the bus from the same service provider.

The analysis presented 3 options. Scenario 1 was to continue leasing the bus from the same service provider for an amount of R4 945 320 including operating costs. Scenario 2A was the outright purchasing of the bus from the same service provider with operations being managed in-house at total cost of R5 255 085. Scenario 2B was the outright purchasing of the bus from the same service provider with operations being outsourced at a cost of R4 435 387. Management tabled the cost benefit analysis at a board meeting held on 26 July 2016.

At the meeting it was noted that management was recommending Scenario 2B as the most cost effective option. It was further noted that all SETA assets will automatically become assets of the DHET at the end of the licensing period. The Accounting Authority recommended that if the operations of the career bus are to be outsourced, management should make sure that a solid contract with the service provider is in place to prevent loopholes which could impact negatively on merSETA. The Accounting Authority approved Scenario 2B at a cost of no more than R4 435 387. The contract was to be effective 1 September 2016 as reflected on the SLA.

FRUITLESS AND WASTEFUL EXPENDITURE

No fruitless and wasteful expenditure was identified during the current year or the prior year.

28 PRIOR YEAR ERRORS

28.1 Government grants

Contracts with the UIF for the Training Layoff Scheme (TLS) was treated under the principles of a government grant. This contract does not constitute a government grant. This has been corrected to align to the principles of GRAP 9.

	2017 R'000	2016 R'000
The effect on the current and prior periods are shown below:		
Statement of Financial Position		
Asset	-	-
Liability	-	-
Statement of Financial Performance		
Decrease in income	-	(18 711)
Decrease in expenditure	-	18 711
Net surplus/ (deficit)	-	-

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

28 PRIOR YEAR ERRORS (CONTINUED)	**2017 R'000**	**2016 R'000**

28.2 Financial Instruments at fair value

In the prior year fixed notice deposits have been included in financial instruments at fair value. The correct accounting treatment is to treat these deposits as cash and cash equivalents. This has been corrected in the current year.

The effect on the current and prior periods are shown below:

Statement of Financial Position		
Asset	-	-
Liability	-	-
Statement of Financial Performance		
Decrease in income	-	-
Decrease in expenditure	-	-
Net surplus/ (deficit)	-	-

28.3 Commitments

In prior years contracts with certain public institutions were committed based on funding agreements with these institutions. These funding agreements do not represent valid commitments as payments were not made to these institutions but to the relevant companies or organisations that undertook the training. Commitments have now only been recognised to the extent that contracts were entered into with these companies and organisations. Adjustments only affected the commitment schedule.

The effect on the current and prior periods are shown below:

Commitment Schedule		
Decrease in 2016 opening balances	-	(10 869)
Decrease in approved contractual expenditure & reductions 2016	-	(75 000)
Net adjustment to 2017 opening balance	-	(85 869)

29 TAXATION

No provision has been made for taxation as the merSETA qualifies for an exemption in terms of Section 10 of the Income Tax Act, 1962 (Act 58 of 1962). However the application process to obtain SARS approval of the exemption is currently underway.

30 SEGMENT REPORTING

The merSETA has identified the levy categories of mandatory, discretionary and admin levies as the reportable segments based on the type of expenditure that may be funded from each category of levies per legislation. Mandatory levies are utilised for mandatory grants paid to qualifying levy paying stakeholders in the sector who submit a Work Place Skills Plan and Annual Training Report in the prescribed format within the legislated time frames. This levy is currently 20% of the skills development levy received by the SETA. The discretionary levy is currently 49.5% of the levy received by the SETA and is utilised to fund discretionary projects and programmes within the sector that are aligned with the national skills and sector skills priorities and are approved by the sector.

Any investment and other income is swept into the discretionary grant reserves and funds discretionary projects. Administration levies accounts for 10.5% of the levies paid to the SETA. It is used to fund QCTO and administration cost of the SETA including research.

The assets and liabilities that are directly attributable to each segment are reported within the segment whilst those assets utilised across the entity are shown separately. The merSETA does not use geographical segments for reporting or decision-making, except to the extent that the concentration of stakeholders in any geographical area determines the positioning of regional offices. This method is also not used for internal reporting.

30 SEGMENT REPORTING (CONTINUED)

2016/17

				Reconciliation to the statement of financial performance			
Segment Reporting	**Mandatory**	**Discretionary**	**Administration**	**Total segmental reporting**	**Non segmented amounts**	**Total**	**Note**
Segment Revenue							
Total non-exchange revenue	328 081	835 853	171 717	1 335 651	-	1 335 651	1
Total exchange revenue	-	175 696	73	175 769	-	175 769	1
Total revenue	**328 081**	**1 011 549**	**171 790**	**1 511 420**	**-**	**1 511 420**	
Segment Expenditure							
Employer grant and project expenses	(247 151)	(753 615)	-	(1 000 766)	-	(1 000 766)	7
Administration expenses	-	-	(145 978)	(145 978)	-	(145 978)	8
Total Expenditure	**(247 151)**	**(753 615)**	**(145 978)**	**(1 146 744)**	**-**	**(1 146 744)**	
SURPLUS (DEFICIT) FOR THE PERIOD	**80 930**	**257 934**	**25 812**	**364 676**	**-**	**364 676**	
Assets							
Non-current assets							
Property and equipment	-	-	-	-	8 949	8 949	15
Intangible assets	-	-	-	-	263	263	16
Current assets							
Prepayments	-	-	-	-	62	62	9
Receivables from non-exchange transfers	1 018	43 230	-	44 248	-	44 248	10
Consumables	-	-	-	-	505	505	11
Financial assets at fair value	-	-	-	-	105 617	105 617	12
Receivables from exchange transactions	-	-	-	-	80 040	80 040	13
Cash and cash equivalents	-	-	-	-	2 396 644	2 396 644	14
Total assets	**1 018**	**43 230**	**-**	**44 248**	**2 592 080**	**2 636 328**	

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

30 SEGMENT REPORTING (CONTINUED)

2016/17 (CONTINUED)							
				Reconciliation to the statement of financial performance			
Segment Reporting	Mandatory	Discretionary	Administration	Total segmental reporting	Non segmented amounts	Total	Note
Liabilities							
Current liabilities							
Grants and transfers payable	43 626	42 342	1 867	87 835	700	88 535	17
Payables from exchange transactions	-	25 223	1 182	26 405	-	26 405	18
Other payables	-	-	1 075	1 075	-	1 075	19
Provisions	-	-	14 113	14 113	-	14 113	20
Total liabilities	**43 626**	**67 565**	**18 237**	**129 428**	**700**	**130 128**	
NET ASSETS AND LIABILITIES	**(42 608)**	**(24 335)**	**(18 237)**	**(85 180)**	**2 591 380**	**2 506 200**	
Funds and reserves							
Administration reserve	-	-	9 212	9 212	-	9 212	
Employer grant reserve	735	-	-	735	-	735	
Discretionary reserve		2 496 253	-	2 496 253	-	2 496 253	
				-			
TOTAL FUNDS AND RESERVES	**735**	**2 496 253**	**9 212**	**2 506 200**	**-**	**2 506 200**	

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

30 SEGMENT REPORTING (CONTINUED)

2015/16

Segment Reporting	Mandatory	Discretionary	Administration	Reconciliation to the statement of financial performance: Total segmental reporting	Non segmented amounts	Total	Note
Segment Revenue							
Total non-exchange revenue	332 441	838 861	171 445	1 342 747	-	1 342 747	1
Total exchange revenue	-	102 178	163	102 341	-	102 341	1
Total revenue	**332 441**	**941 039**	**171 608**	**1 445 088**	**-**	**1 445 088**	
Segment Expenditure							
Employer grant and project expenses	(240 847)	(665 973)	-	(906 820)	-	(906 820)	7
Administration expenses	-	-	(125 899)	(125 899)	-	(125 899)	8
Total Expenditure	**(240 847)**	**(665 973)**	**(125 899)**	**(1 032 719)**	**-**	**(1 032 719)**	
SURPLUS (DEFICIT) FOR THE PERIOD	**91 594**	**275 066**	**45 709**	**412 369**	**-**	**412 369**	
Assets							
Non-current assets							
Property and equipment	-	-	-	-	6 066	6 066	15
Intangible assets	-	-	-	-	540	540	16
Current assets							
Receivables from non-exchange transfers	-	8 455	-	8 455	-	8 455	10
Consumables	-	-	-	-	320	320	11
Financial assets at fair value	-	-	-	-	1 714 321	1 714 321	12
Receivables from exchange transactions	-	-	-	-	5 551	5 551	13
Cash and cash equivalents	-	-	-	-	569 146	569 146	14
Total assets	**-**	**8 455**	**-**	**8 455**	**2 295 944**	**2 304 399**	

11. NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

30 SEGMENT REPORTING (CONTINUED)

2015/16 (CONTINUED)

				Reconciliation to the statement of financial performance			
Segment Reporting	**Mandatory**	**Discretionary**	**Administration**	**Total segmental reporting**	**Non segmented amounts**	**Total**	**Note**
Liabilities							
Current liabilities							
Grants and transfers payable	45 243	90 149	1 777	137 169	1 711	138 880	17
Payables from exchange transactions	-	10 527	243	10 770	-	10 770	18
Other payables	-	-	1 002	1 002	-	1 002	19
Provisions	-	-	12 223	12 223	-	12 223	
Total liabilities	**45 243**	**100 676**	**15 245**	**161 164**	**1 711**	**162 875**	
NET ASSETS AND LIABILITIES	**(45 243)**	**(92 221)**	**(15 245)**	**(152 709)**	**2 294 233**	**2 141 524**	
Funds and reserves							
Administration reserve	-	-	6 606	6 606	-	6 606	
Employer grant reserve	183	-	-	183	-	183	
Discretionary reserve		2 134 735	-	2 134 735	-	2 134 735	
TOTAL FUNDS AND RESERVES	**183**	**2 134 735**	**6 606**	**2 141 524**	**-**	**2 141 524**	

31 EVENTS AFTER THE REPORTING DATE

Application to National Treasury to seek approval for the retention of accumulated surpluses as at 31 March 2017 has been made.

32 NEW ACCOUNTING PRONOUNCEMENTS

The ASB has issued the following standards of GRAP for which effective dates have not yet been gazetted by the Minister of Finance:

	Statement
Related Parties Disclosures	GRAP 20
Service Concession Arrangements: Grantor	GRAP 32
Statutory Receivables	GRAP 108
Accounting by principals and agents	GRAP 109
Service concession arrangements where a grantor controls a significant residual interest in an asset	IGRAP 17

The ASB has approved the following Directive, which is not yet effective, but can be early adopted:

Directive 12 – The selection of an appropriate reporting framework by public entities.

An entity shall apply Standards of GRAP for Annual Financial Statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the PFMA.

GRAP 20 : Related Parties Disclosures

This Standard provides guidance on related-party disclosures to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

GRAP 32 : Service Concession Arrangements: Grantor

This Standard prescribes the accounting for service concession arrangements by the grantor, a public sector entity.

GRAP 108: Statutory Receivables

This Standard prescribes accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

IGRAP 17: Service concession arrangements where a grantor controls a significant residual interest in an asset

This Standard prescribes accounting requirements where a grantor controls a significant residual interest in an asset.

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