



**merSETA**

MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA

*annual report 2011/12*



Expanding lifelong learning opportunities

## **NEW TYRE MANUFACTURING**

This sector has a long history of contributing to import and export markets. Given steady investment over an extended period, the industry has maintained a viable presence in southern hemisphere markets and made inroads into markets abroad via vehicle export contracts and original equipment sales.

## **METAL AND ENGINEERING**

The sector is becoming increasingly linked with the electronics industry and places more emphasis on innovation and product globalisation.

## **PLASTICS MANUFACTURING**

It is a significant participant in the country's manufacturing sector, accounting for more than 50 per cent of materials used.

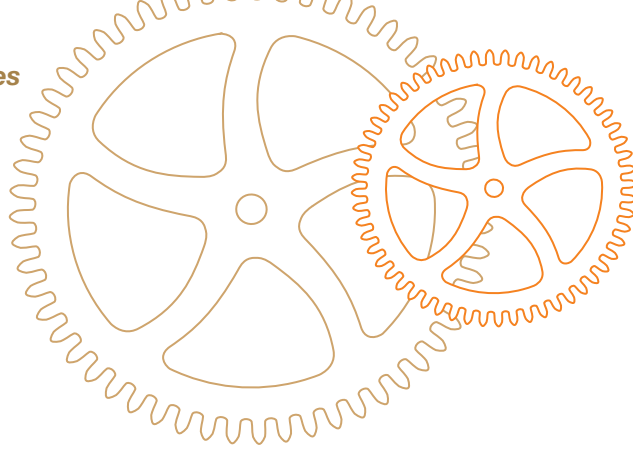
## **AUTOMOBILE MANUFACTURING**

It is a significant contributor to the country's manufacturing output guided by policy instruments and initiatives from the Department of Trade and Industry.

## **RETAIL MOTOR AND COMPONENTS MANUFACTURING**

This sector is closely linked to the automotive manufacturing sector as the supply of components for motor vehicle assembly and manufacture is a prime source of trade. Government policy instruments and initiatives apply to this sector.

Expanding lifelong learning opportunities



## VISION

merSETA, the leaders in closing the skills gap.

## 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.

## VALUES

- Respect
- Service Excellence
- Innovation
- Integrity
- Honesty

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higher education  
& training

Department:  
Higher Education and Training  
REPUBLIC OF SOUTH AFRICA



**merSETA**  
MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA



## **Minister B N Nzimande**

**MP, Minister of Higher Education and Training**

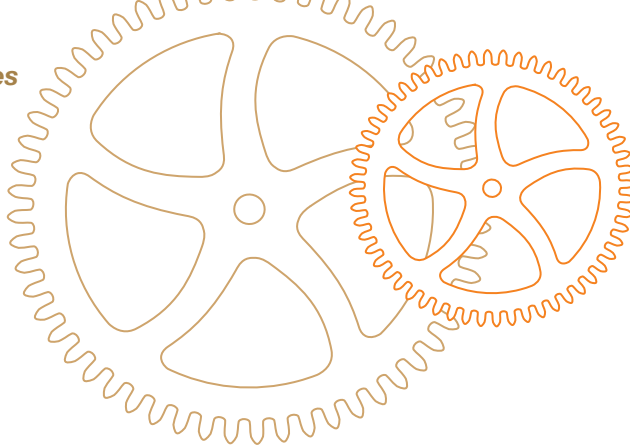
Honourable Minister

It is indeed a pleasure and a privilege to present to you the annual report of the Manufacturing, Engineering and Related Services SETA for the period 1 April 2011 to 31 March 2012. I thank you and your Ministry for the unwavering support received during this accounting period and trust that 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**

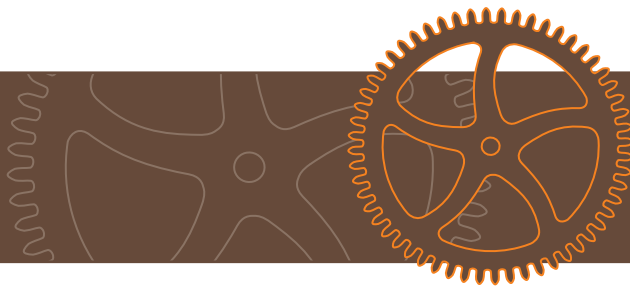
A handwritten signature in black ink, appearing to read 'Raymond Patel', written in a cursive style.

**Raymond Patel (Dr)  
Chief Executive Officer**



## **Strategic Objectives**

- Effective and efficient administration system for the merSETA;
- Establishing credible institutional mechanism for skills planning;
- Increasing access to occupationally-directed programmes;
- Promoting the responsiveness of the FETs to the intermediate skills needs of the Sector;
- Addressing the low level of youth and adult language and numeracy skills to enable additional training;
- Encouraging better use of workplace-based skills development;
- Encouraging and supporting cooperatives, small enterprises, worker-initiated, NGO and community training initiatives;
- Building career and vocational guidance.



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## INTRODUCTION

It is indeed an honour and pleasure to present the 2011/12 Annual Report (including the Annual Financial Statements) of the Manufacturing, Engineering and Related Services Sector Education and Training Authority (the merSETA).

As Chair of the Governing Board, I am pleased to announce that the merSETA has received yet another unqualified audit report – the twelfth since its establishment.

Positive progress is essential for the organisation despite the very challenging economic environment.

The reality of the global economy continuing to lose momentum since 2008 and the concomitant erosion of business confidence worldwide make innovative visionary and leadership all the more imperative.

But these circumstances have failed to derail the merSETA, which has upped its outputs and deliverables.

This past year, has clearly revealed that the merSETA, under the new Board, sub-committees and senior management, has remained true to the character for which it is renowned – that of creating training opportunities to ensure that South Africa continues to be a productive base in the highly competitive world economy.

*“The reality of the global economy continuing to lose momentum since 2008 and the concomitant erosion of business confidence worldwide make innovative visionary and leadership all the more imperative.”*



Ms Phindile Nzimande

## NEW BOARD

In line with the new course set by government's focus on the economy as a developmental state, it was necessary that a new strategic focus be implemented. On 1 April 2011, a new 15-member Governing Board was instituted with three independent members. This was no judgement on previous boards, but the realisation that the merSETA Board, like all other SETAs, had to include members with no vested interests in particular strategies.

Soon after the appointment, the Governing Board went about assessing the organisation's strengths and weaknesses, ensuring that all structures were aimed at augmenting and further strengthening organisational prowess.

These initiatives ran parallel to a host of processes, including formalising the Governing Board and its sub-committees.

In the year under review, the Governing Board approved its charter in line with the King III report on Corporate Governance, the merSETA Constitution, regulatory legislation and all mandates for which it is responsible. The Governing Board Charter provides an overview of the role, powers, functions, duties and responsibilities of Governing Board members, both collectively and individually. The basis for the aforementioned is the applicable legislation as well as the merSETA Constitution.

The Chairperson of the Governing Board was appointed for a five (5) year term of office by the Minister of Higher Education and Training in accordance with the provisions of the merSETA Constitution.

Two (2) deputy Chairpersons were nominated and appointed by the Governing Board from organised labour and organised employers. Mr Xolani Tshayana represents organised labour whilst Ms Janet Lopes represents organised employers.

The following Committees were established in terms of Schedule 5 (2) (1) and (2) and Schedule 5A of the merSETA Constitution:

- Executive Committee;
- Audit and Risk Committee;
- Remuneration Committee;
- Education, Training, Quality Assurance Committee;
- Finance and Grants Committee;
- Chamber Committees; and
- Regional Committees.

All Governing Board members underwent an induction programme which set out their fiduciary duties, responsibilities, the merSETA nature of business and the legislation applicable to the merSETA.

## THE CHIEF EXECUTIVE OFFICER

In addition, the Chief Executive Officer, Dr Raymond Patel, was duly appointed for a five (5) year term of office to March 2016 by the Minister following approval by Cabinet. He is responsible for all management functions, amongst which are the implementation of the decisions of the Governing Board and the advancement of the strategic planning and policy development. Dr Patel ensures proper and responsible control of the merSETA finances in compliance with the Public Finance Management Act and other legislation.

## FINANCIAL OVERVIEW

The financial performance of the merSETA with regards to income was successful as levy income exceeded forecasts. This growth in levy income resulted in increased disbursements of mandatory grants, as the participation level remained consistently high.

The application of the discretionary grant in the current year was oversubscribed far beyond available funds. The discretionary grant reserves were fully committed as at 31 March 2012.

## NEW STRATEGIC IMPERATIVES

The transition of the merSETA Chamber Committees from NSDS II to NSDS III was successfully achieved through the induction exercise that was conducted across all the merSETA Chambers.

Key to the induction exercise was the orientation of new and long-serving committee members to understand the new merSETA Constitution and how the merSETA reorganised itself to respond to the NSDS III mandate. The key responsibilities of the Chamber Committees are spelled out in the new merSETA Constitution.

It also became necessary during the period under review and the implementation of the NSDS III that the Chamber Unit of the merSETA, together with the newly-established Chamber committees, draw up a capacitating programme, reflecting more detail around the anticipated changes occasioned by the introduction of the NSDS III and the broad National Development Plan (NDP).

The capacity-building workshop commenced with the inter-Chamber workshop held in March 2012. Topics included the following:

- The merSETA Strategic Imperatives and Performance Plan;
- The new merSETA Innovation, Research and Development division – the reframing of the previous Projects Division;
- Latest developments with the Quality Council for Trades and Occupations (QCTO); and
- The Department of Higher Education and Training (DHET) Green Paper for Post-School Education and Training.

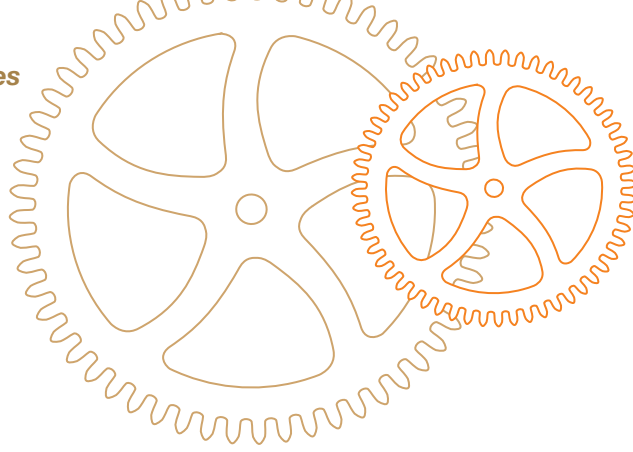
The DHET Green Paper on Post-School Education and Training reflects a new rigour to amplify skills development in South Africa. It is yet another hallmark for effective competitiveness in world rankings. The Further Education and Training colleges and the SETAs are set to solidify their positions as the leaders of artisanal/technical progress under the new initiatives.

It should be no other way as world trending in this direction is the new iteration.

The merSETA's adage of "doing the right things right the first time always" opens the portal to breaking the logjam of skills shortage that hamper economic growth.

The scene has been set, the milestones posted and the beacons of light are clearly marking the new direction.





The merSETA can only but succeed!

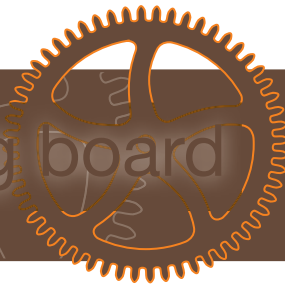
I thank the honourable minister, Dr Blade Nzimande, the merSETA Deputy Chairs, Mr Xolani Tshayana and Ms Janet Lopes, all other members of the new Governing Board, the Chief Executive Officer, management and staff for making all our achievements possible.

I also wish to extend a word of appreciation to the previous Board and incumbents of the merSETA for laying a solid foundation for growth.

A handwritten signature in black ink, appearing to read 'Phindile Nzimande'. The signature is fluid and cursive, with a large loop at the end.

**Phindile Nzimande (Ms)**  
**Chairperson of the Governing Board**

# the merSETA governing board



Ms Phindi Nzimande  
(Chairperson)



Mr Xolani Tshayana  
(Deputy Chairperson)



Ms Janet Lopes  
(Deputy Chairperson)



Ms Malebo Mogopodi



Ms Fiona Tregenna

# the merSETA governing board



Mr Thapelo Molapo



Mr Anton Hanekom



Mr Karl Cloete

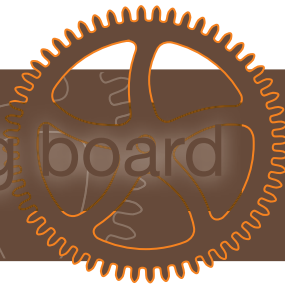


Mr John Wilson



Mr Dana De Villiers

the merSETA governing board



Mr Jakkie Olivier



Ms Jeanne Esterhuizen



Mr Johan van Niekerk



Mr Deon Reyneke



Mr Alex Mashilo



Dr Raymond Patel

Allow me this year to quote from Ancient Chinese philosophy where I turned my sights for wisdom. The readings date back from the middle of the first millennium BCE. It was Tao Te Ching, simply called Tao, who in his work "Returning to the Root", states: "Do your utmost to be empty, hold firmly to stillness. Thousands of events are occurring at any moment. Observe each event as they occur, and observe them pass. Nothing lasts. Events are like flowers, they bloom for a time and then sink back into their roots. Returning to the root is peace. Yes, peace consists in accepting what is, and knowing what endures. With that acceptance and knowledge your life descends into chaos and ruin. If you know what endures, you are generous, magnanimous, gracious and serene."

Let me now reveal to you how generous, magnanimous, gracious and serene the merSETA has been during the year under review. Tao says "when ambitions come to nothing, benevolence and righteousness takes their place". Let us show you how ambitious, benevolent and righteous we were during the year under review.

Our success in the year under review was remarkable – even more so given that the merSETA had to navigate new waters with regard to the National Skills Development Strategy III. It is Kung Fu Tzu (Confucius), another Great Ancient Chinese Scholar, who says: "When people wish to see a reflection of themselves, they do not look at running waters, they look at still waters."

Let us reflect.

Our operational reports show the course we successfully chartered.

The **Accelerated Artisan Training Programme (AATP)** continued to deliver qualified artisans to the sector at a structured pace. The year ended having accommodated **3 900** new entrants with **803** of these joining the project during the financial year. At the close of the financial year, **2 214** AATP apprentices had successfully passed their trade test since the programme's inception. The merSETA is pleased to report 91% successful completion rate for metal-related trades and 60% for motor-related trades. The AATP platform has now established a sustained level of maturity which has become the key enabler for the implementation of applied research in support of a quality workplace training agenda.

A total of **3 417 Memoranda of Agreement** were signed by employers of which **2 130** are still active and are monitored in the regions by our Client Liaison Officers. In the 2011/12 financial year, the MoAs constituted the following number of learners on different learning interventions:

- **6 937** apprentices;
- **9 537** learners on learnerships;
- **10 650** undertaking skills programmes;
- **3 136** ABET learners;
- **1 474** sector specialists;
- **772** interns; and
- **3 028** experiential learners.

The **Discretionary Grant Unit** improved disbursement of grants to our levy-paying and exempted companies. The period under review saw the disbursement of **R209 million** based on milestones achieved by participating companies. The figure represents an improvement of over **50%** compared to the previous financial year.

The **Recognition of Prior Learning Project**, rooted in each of the merSETA's five chambers, once again provided a sound platform to enhance articulation in the artisanal sphere. During the period under review, there was an increase in applicants for recognition of prior learning, with **4 483** applications being evaluated for Section 28 trade testing. **2 522** applicants met the merSETA criteria and **1 708** were declared competent as artisans.

The global economic recession continued to impact negatively on the manufacturing, engineering and related services sector. However, through the **Retrenchment Assistance Programme (RAP)**, the merSETA provided direct assistance to a further **22** companies in addition to the 32 assisted in the previous year. A further **975** individuals were earmarked for retrenchment assistance, with the total number reaching **5 102** since the project's inception. Through the national government initiative, the **Training Layoff Scheme (TLS)**, the merSETA, as at 31 March 2012, approved 11 new companies for the scheme with about R49.9 million claimed as training costs and learner allowances on their behalf from the National Skills Fund and the Unemployment Insurance Fund. A further seven companies are in the final stages of approval. The TLS enabled **2 283** employees within the merSETA sector to be retained in employment as opposed to being retrenched, with a total of **6 083** individuals having gone through the process since inception.

Tao says, "Water which is the softness and most pliant substance in the world flows over rocks, which is the hardest and most rigid substance. And as it flows, it enters even the tiniest crevices". In the same way the merSETA's reach covered the entire geography of our country.

**The merSETA Bursary Project** awarded **278** new bursaries to unemployed learners for the 2012 academic year. This brought the total number of unemployed learners currently sponsored to almost **600**, including 50 currently undergoing experiential learning. Forty-three students graduated at the end of 2011 and to date 22 of these are employed. The merSETA has working agreements with the Jacob Zuma Education Trust, NUMSA, the Nelson Mandela Metropolitan University and the Mitchells Plain Youth Project, giving opportunities to youth who would otherwise not have the prospect or funding to proceed with tertiary education.

In terms of support for **Small and Micro Enterprises (SMMEs)**, **4 762** companies were visited and given guidance on the implementation of various skills interventions within their organisations. **2 190** small companies were approved for Mandatory Grant payments. Also in the year under review, **250** learners were enrolled for training in New Venture Creation Learnerships and Skills Programmes at NQF Level 2. Two FET colleges also participated in delivering this programme.

In the 2011/12 financial year, the merSETA's objective for **non-governmental organisations** and **community-based organisations** was to implement a focused, integrated and sustainable strategy to support NGOs and CBOs. Ten NGOs and

CBOs in Gauteng were supported, two in KwaZulu-Natal, one in the Free State and one in Mpumalanga, with **1 094** learners being reached. The focus areas were Welding, Motor Mechanics, Electrical and Assessors and Moderators. Agreements were reached before the end of the financial year with a further five NGOs to implement learnerships and skills programmes for a further 166 beneficiaries.

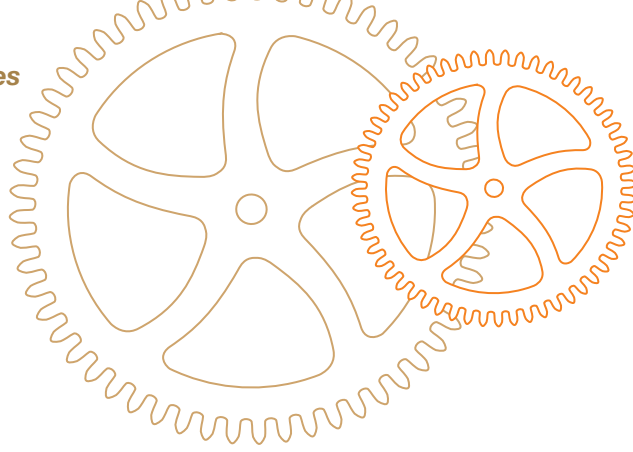
Following the success of the **HIV and AIDS Pilot Project** in the previous financial year, the merSETA refined its strategy to include direct support and mentoring. Company agreements have been concluded which reach more than **5 500** employees in the sector.

The **Accelerated ABET Project** utilises blended learning and modular approaches to ABET provisioning, curricula, methodologies and the scheduling of learning. It reached **663** learners in the year under review. The **Occupational ABET Project** aims to develop and provide ABET materials customised to each of the merSETA chambers to ensure a closer fit between ABET and the occupational needs of those sub-sectors. **339** learners were reached through this project. In addition, **1 198** employees in the sector were allocated funding in response to Discretionary Grant applications from companies.

The **Mathematics and Science Project** provides for enrichment, weekend and holiday classes in Mathematics, Science and English. The project aims to address shortages of appropriate candidates for entry into merSETA learning programmes. Results were excellent with **99%** of **300** learners passing, **219** with university entrance and **69** with university of technology entrance. **78** distinctions were obtained in Mathematics and Physical Science. Agreements have been entered into with five FET colleges and two universities in seven provinces for pre- and post-matric Maths, Science and Technology interventions, targeting **1 440** learners and more than **20** schools.

The **Project for People with Disabilities** promotes training and placement for the disabled in certain occupations in the manufacturing and engineering context. The project comprises a research and development phase to match disabilities against occupations, and **200** learners with disabilities were directly reached. In addition, the merSETA also entered into an agreement with the Disabled People of South Africa (DPSA) and rolled out technical learnerships for **140** candidates.

The **Research and Development Unit** was engaged in a range of national and international academic associations and conferences. Further, a range of



academic articles were published in international and national peer-reviewed journals and other publications, in addition to the highly significant applied research linked to the AATP platform. The following research projects were active in the 2011/12:

- **Wits EPU Mapping Skills Research** - Partnership engagement concluded. The study seeks to understand the geographical mapping of educational and employment opportunities for citizens of Gauteng Province. This project provides insight into the relationship between education and labour market in local contexts;
- **Artisan Project - HSRC Artisan Identity and Status** - This partnership project explores the changing nature of the identity and status of the artisan and artisanal milieu; and
- **RPL Study - Case Studies of RPL Implementation in the sector.** Fieldwork was undertaken in-house.

## WAY FORWARD

“True wisdom is wide and tranquil, false wisdom is narrow and busy. Wise words are precise and clear. When you sleep your spirit rams the earth as a peaceful observer. But when you are awake you become entangled with everything and everybody you encounter. Day by day your mind is caught up with problems – some trivial, some deep and some intense” (Chuang Tzu).

With these wise words we look at the year ahead and we state emphatically that the merSETA does its utmost to deliver on its mandate. The reality remains that more can be done to create opportunities, learnerships and apprenticeships for aspiring engineers and technicians. In particular, the focus on training women in key technical spheres needs to be upgraded.

The global crisis demands that sustainability be the key platform for the survival of individual companies. Inherent in this quest for sustainability is the need to ensure the availability of suitably skilled labour and expertise. Training for future upturns in the economy

is not just the core mandate of the merSETA, but should also be a strategic issue for all South African organisations. When the economic tide turns and global demand rises, South African companies will only benefit from a greater pool of scarce skills.

The merSETA management takes this opportunity of wishing the previous Board well. They were instrumental in ensuring the organisation became the benchmark for facilitators of post-school education and training.

The merSETA is a priority delivery agency.

Only with the help of the Board and stakeholder commitment can we achieve the landmarks set out by the DHET and the Minister.

We have a mandate to produce several thousand qualified artisans, and this gap between scarce and critical skills must be overcome if we are to have the amazing impact our societies need.

I end with a quote from Confucius: “Wise people are troubled by their own lack of abilities, not by the failure of others to appreciate those abilities. Wise people hope to be remembered for what they were; foolish people hope to be remembered for what they did. Wise people are aware of their own wisdom.”

I thank the Chairperson, the Board and the Audit Committee for their wisdom and guidance during the year under review, the management team and staff for their abilities, efforts and the people they are.

“There is no greater joy than to know that you are true to yourself” (Meng Tzu-Mencius).

I thank you.

**Dr R Patel**  
**Chief Executive Office**  
**Manufacturing, Engineering and Related**  
**Services SETA**

# the merSETA management team



Dr Raymond Patel  
Chief Executive Officer



Mr Wayne Adams  
Chief Operations Officer



Ms Lindiwe Ndlela  
Chief Financial Officer



Mr Derrick Peo  
General Manager: Projects



Mr Tom Mkhwanazi  
General Manager: Corporate Governance



The financial performance of the merSETA grew in the 2011/12 financial year as levy income rose beyond what was budgeted. This growth in levy income resulted in increased disbursements of mandatory grants as the participation level remained consistently high. The targets for discretionary grants and projects expenditure were not met due to delays in achievements of milestones.

Applications for the discretionary grant in the current year were over-subscribed beyond available funds. The discretionary grant reserves were fully committed as at 31 March 2012.

## LEVIES

The merSETA levy income grew by 18.4% in the 2011/12 financial year over the prior year to reach R911 million. This exceeded the budgeted levy income by 19.9%. The number of contributing employers increased to 12 532 from 11 003, most of which are companies employing more than 150 employees. The sector saw an increase in companies reaching the R500 000 annual payroll threshold, thus the increase in participating employers.

The breakdown of levies received per chamber (Graph 4) shows a similar pattern to the prior year, with the Metal Chamber contributing the largest share of levies at 58.4% as well as having the largest number of companies, both contributing and exempted. Most companies that were registered, active and contributing were based in Gauteng.

## MANDATORY GRANTS

The merSETA has had a consistent pattern in mandatory grant participation, as the claims ratio increased from 77% in the prior year to 80% in the current year. The disbursements of mandatory grants were delayed in the first half of the financial year due to late receipt of the levy download files from the Department of Higher Education and Training due to technical challenges. The levy download files are an important database for the mandatory grant process as they provide employer information necessary to pay the grants.

The delay experienced was managed in the second half of the year by frequent disbursements. This ensured that the backlog was eliminated.

The mandatory grant expense in the current year increased by 20.8% to R445 million from R367 million in the prior year.

Disbursements of mandatory grants are higher than budgeted as per the over-achievement in levy income. The mandatory grants are based on levy income and so follow a similar pattern over the chambers and provinces.

## DISCRETIONARY GRANTS AND PROJECTS EXPENDITURE

Discretionary grant expense, including project expense, in 2011/12 amounted to R421 million, an increase of 18.6% from the prior year expense of R352 million. The decrease was due to several factors:

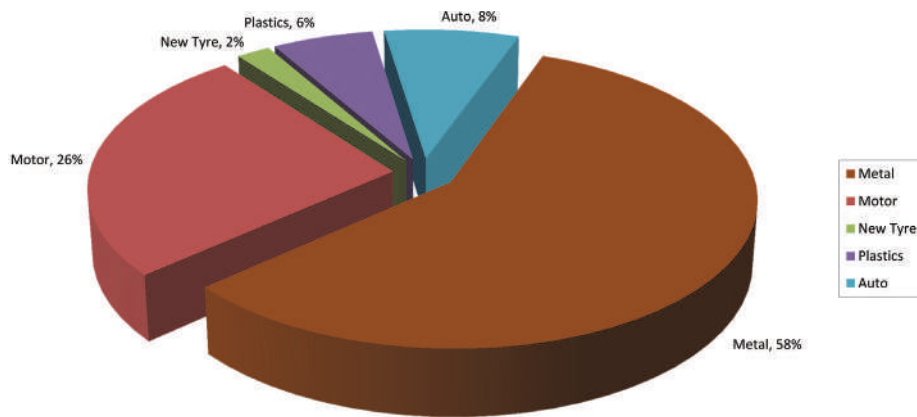
- The majority of the Discretionary Grant 3 (DG3) second tranche and final tranche payments for apprentices were not paid due to a number of apprentices not meeting the required milestones. Discretionary Grant 3 registrations took place later in the year 2010/2011, resulting in most apprentices lagging behind schedule in attaining the 50% completion for second tranche payments and 100% completion for final tranche payments;
- The majority of the Discretionary Grant 4 Memoranda of Agreements (MoAs) were only signed during February and March 2012, resulting in only a portion of the first tranche payments being made;
- Discretionary Grant 3 Internship Project and MoAs went out in February 2011, thus resulting in late registration of interns. Therefore, only the first tranche payments took place due to milestones not being met; and
- The implementation of the National Skills Development Strategy III (NSDS III) required a robust process of aligning projects to the NSDS III objectives and thus allocation of funds, this resulting in contract engagement and implementation delays.

The merSETA continues to monitor companies receiving discretionary grant pre-payments to ensure that training is implemented. The merSETA also vigorously pursues all companies not implementing remedial actions and/or requires them to return the grants already paid.

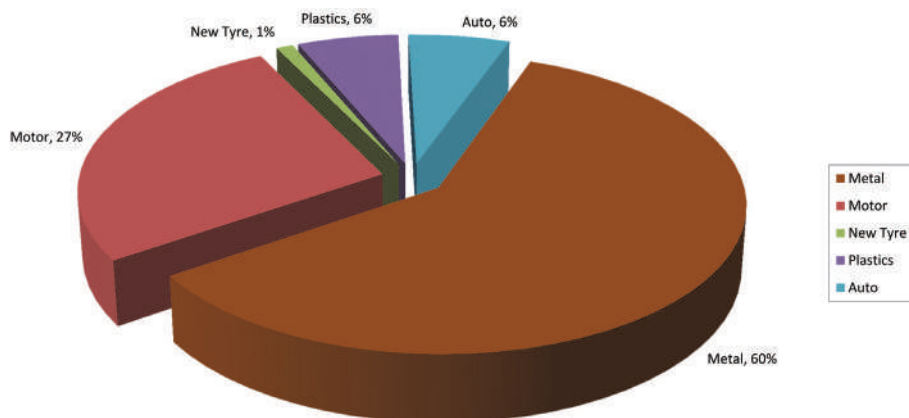
## FINANCIAL SYSTEMS AND INTERNAL CONTROLS

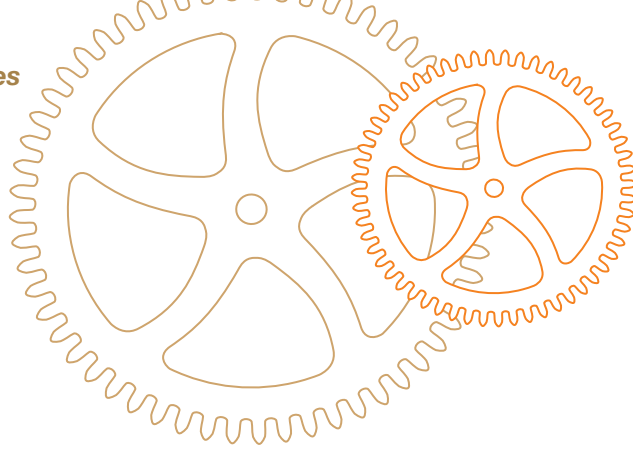
Internal controls' weaknesses have been identified in the supply chain management and fixed asset management. Management has addressed these weaknesses going forward by conducting a review of areas that need improvement and/or implementation of changes in procedures.

**GRAPH 1: PERCENTAGE OF TOTAL LEVIES PAID BY CHAMBER 2011/12**

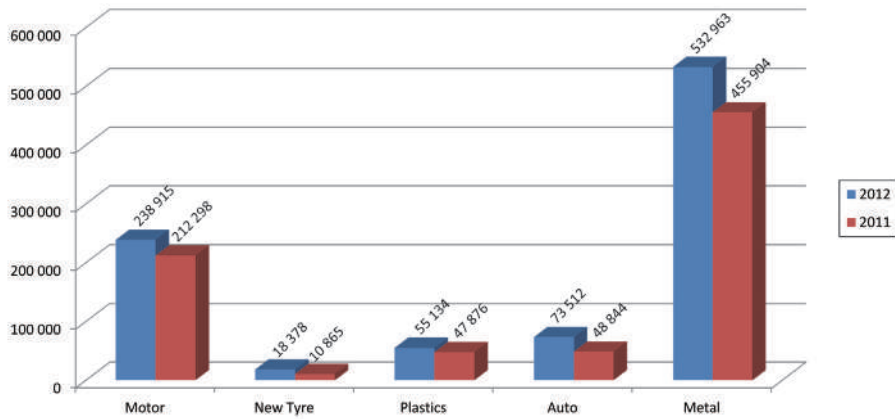


**GRAPH 2: PERCENTAGE OF TOTAL LEVIES PAID BY CHAMBER 2010/11**

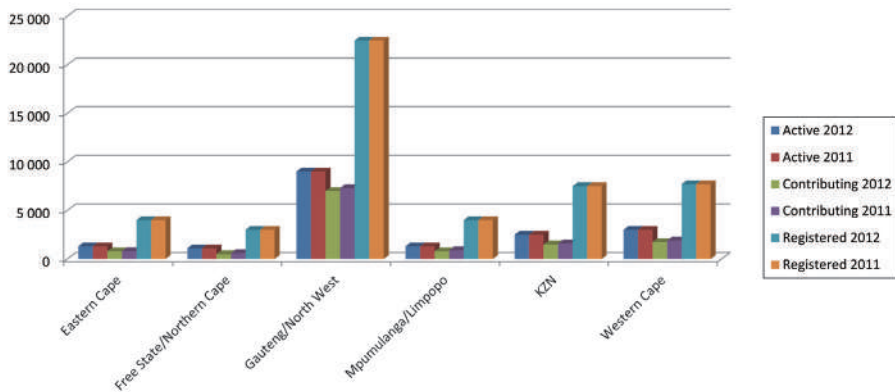




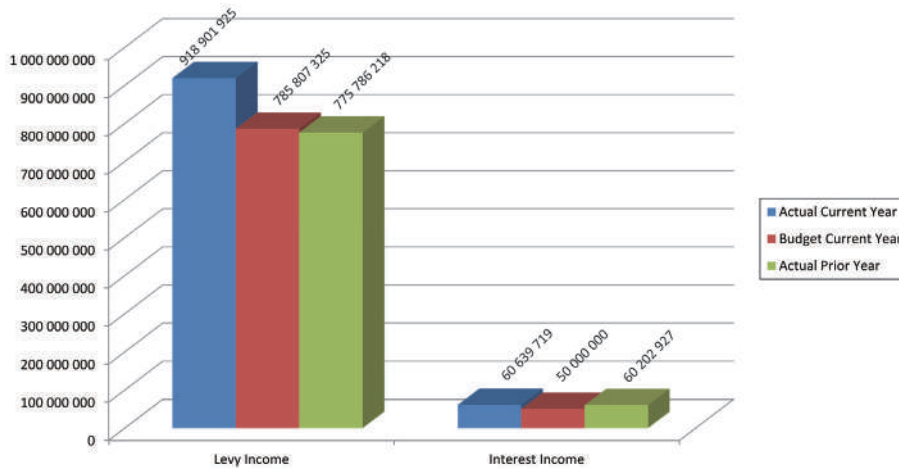
**GRAPH 4: LEVY CONTRIBUTION BY CHAMBER 2010/11 vs 2011/12**  
Rand 000's



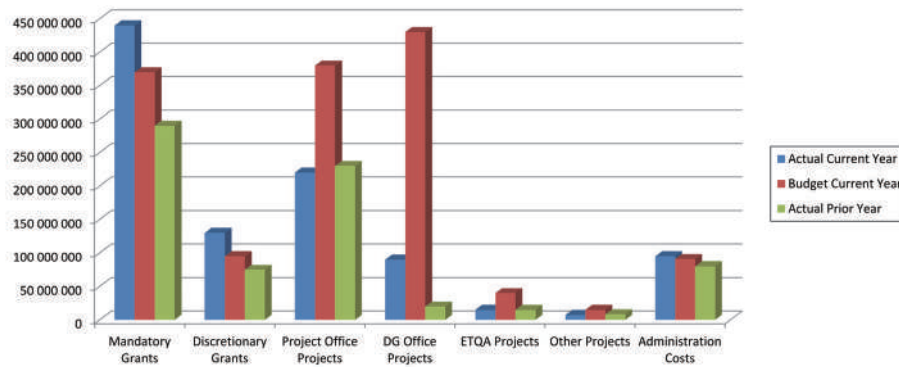
**GRAPH 5: TOTAL LEVY ANALYSIS BY REGION**

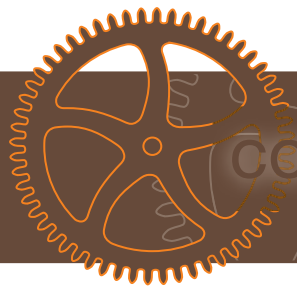


**GRAPH 6: 2011/12 INCOME  
RAND 000's**



**GRAPH 7: 2011/12 EXPENDITURE  
RAND 000's**





## HUMAN RESOURCES UNIT

In the 2011/12 financial, the Human Resource unit achieved the following:

### Recruitment

The table represents all appointments made in the financial year:

Position	Grade	Race	Gender	Contract Start Date
Junior Systems Developer	C2	A	F	06 May 2011
Administrator Projects	B5	A	M	01 June 2011
Senior Manager: Marketing and Communications	D5	C	M	01 July 2011
Manager: Legal and Secretariat	D3	A	F	01 August 2011
Senior Accountant	D3	I	M	03 August 2011
Client Liaison Officer	C4	A	M	12 September 2011
Network Administrator	B5	A	M	01 October 2011
Chief Financial Officer	EU	A	F	01 October 2011
Client Liaison Officer	C4	A	M	01 December 2011
Travel Desk Administrator	B5	A	F	13 February 2012
Client Liaison Officer	C4	A	F	01 March 2012

### Staff Complement

Permanent Staff	228
Temporary Staff	8

The following external consultants performed work for the Humans Resources Unit:

- VIP – Payroll and electronic payslips;
- Experiential Technologies – Talent Assessments;
- CBARS – Performance Management System;
- 21<sup>st</sup> Century – Job Grading;

- Tokiso – Mediation and Disciplinary Chairing; and
- Vari Consulting, Commissioned Training, On-Site Training, Regent Business School, BizTech Training and NDJ Consultants – Group Training.

### Integrating and on-Boarding of New Staff

New appointees received a welcome e-mail and information pack before their starting date. An electronic Induction System, a two-day Induction Programme and the Buddy System ensured that new joiners were fully integrated into the units and the merSETA as a whole.

### Performance Management

The electronic Performance Management System required staff, in consultation with management, to go through two formal performance reviews. A Moderation Panel ensured reliability and validity of performance scores before performance bonuses were paid.

A performance improvement plan was concluded for all staff who obtained below average scores at the end of the 2010/11 performance review cycle.

### Training and Development

Staff and management jointly develop Personal Development Plans for the year. These plans, together with union and management input, culminated in the merSETA Workplace Skills Plan for the year as well as an Annual Training Report, both of which were submitted to the ETDP SETA. Group training for Finance for Non-Financial Managers, Conflict Management, Diversity Management, Public Finance, Team Leadership, Customer Service, Creative Business Writing, Stress Management and Labour Relations were the courses implemented for the financial year 2011/12

### Disciplinary Action

The attached table represents disciplinary matters concluded during the year under review. One CCMA Unfair Labour Practice matter was concluded in favour of the merSETA.

## Corrective Counselling Sessions

Region	Division	Number of Counselling sessions conducted	Reason for Counselling Sessions
Head Office	Central Administration	One (1)	Misconduct: Not following established procedures
KwaZulu-Natal	Client Services	Two (2)	Misconduct: Abuse of telephone (first offence)

## Verbal Warnings

Region	Division	Number of Verbal Warnings issued	Reason
Head Office	Finance	Four (4)	Negligence
Head Office	LETQA	One (1)	Not following established procedures
Head Office	Client Services	One (1)	Poor timekeeping
Head Office	LETQA	One (1)	Poor timekeeping
Head Office	Corporate Governance	One (1)	Poor timekeeping
Head Office	Client Services	Two (2)	Negligence
Head Office	LETQA	One (1)	Abuse of telephone
KwaZulu Natal	Client Services	One (1)	Abuse of telephone
Western Cape	Client Services	Two (2)	Abuse of telephone

## Written Warnings

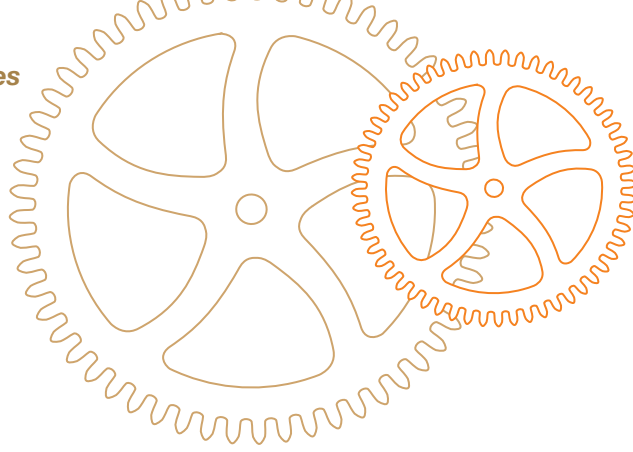
Region	Division	Number of Written Warnings issued	Reason
Head Office	Operations: Discretionary Grants	Seven (7)	Negligence
Head Office	Finance	One (1)	Non-compliance with established procedures
Head Office	Client Services	One (1)	Poor timekeeping
Head Office	Client Services	One(1)	Contravention of IT policy
Head Office	Corporate Governance	One (1)	Failure to follow instructions

## Final Written Warnings

Region	Division	Number of Written Warnings issued	Reason
Head Office	Finance	One (1)	Non-compliance with established procedures
Western Cape	Client Services	One (1)	Non-compliance with established procedures

## Disciplinary Hearings

Region	Division	Offence	Sanction
Gauteng North	Client Services	Negligence	Written Warning
Western Cape	Client Services	Non compliance with established procedures	Dismissal
Head Office	Finance	Non compliance with established procedures	Dismissal



### Grievances

No grievances were submitted in the year under review.

### Wellness

Revitalisation sessions were conducted throughout the organisation to mitigate potential negative impact of the uncertainty about the re-licensing of the merSETA.

All staff participated in various social events such as Heritage Day, Nelson Mandela Day and Women’s Day. Physical wellness events, poster campaigns and Voluntary Testing and Counselling were rolled out nationally.

A Staff Satisfaction Survey was conducted independently by the merSETA Wellness provider. The national satisfaction rate was 70%.

### Employee Relations

The Management Union Forum engaged regularly on various concerns of mutual interest. Wage negotiations were successfully concluded and a harmonious relationship that benefits both employees and management continues to exist.

### Recognition

Top Performers were recognised at a Top Performers’ Lunch as well as the year-end Staff Recognition and Awards Ceremony.

### Remuneration

The merSETA Remuneration Committee guided remuneration practice. New or changed role profiles were sent to 21<sup>st</sup> Century for independent Paterson grading or re-grading. The table below tabulates the positions that were graded or re-graded:

### Job Grades

Division	Job Title	Outcome
Client Services	Client Liaison Coordinator	B5 - stayed on the same job grade
Finance	Finance Administrator	C3 - upgraded from B5 to C3
Finance	Management Accountant: Grants	D2 - stayed on the same job grade
Corporate Services	Human Resources Coordinator	C3 - upgraded from C1
Corporate Services	Communications Coordinator	C3 - upgraded from C2
Corporate Services	Marketing and Communications Coordinator	C3 - upgraded from C2
Corporate Governance	Performance Information Analyst	C5 - stayed on the same job grade

All salaries from A to D band were benchmarked against the PE Corporate Services General Staff Remuneration Survey.

Salaries were adjusted to 100% of the lower quartile of the Salary Bands to ensure staff members are remunerated within the salary bands.

### Salary Bands

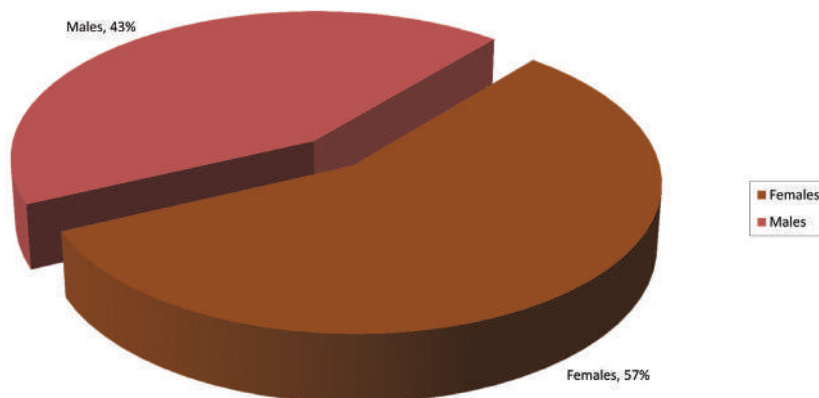
Paterson Grade	Salary Band
F	R1 339 518 – 1 508 967
E	R907 470 - 1 136 950
D	R457 960 - 775 740
C	R226 790 - 446 360
B	R115 330 - 220 860
A	R89 000 – 105 500

### Employment Equity

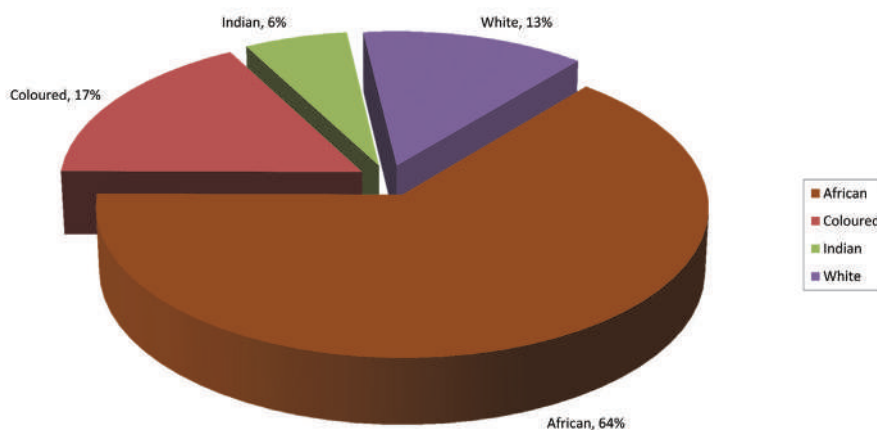
The merSETA Employment Equity Report was submitted to the Department of Labour before the September deadline.

The graphs below represent the various employment equity statistics.

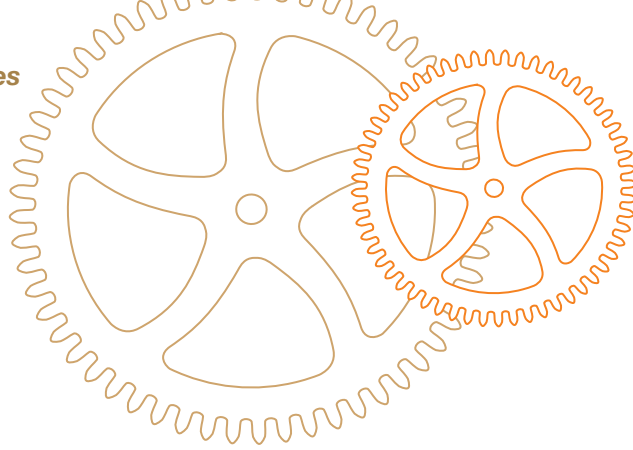
**THE merSETA: GENDER SPLIT**



**THE merSETA: EE SPLIT**







## MARKETING AND COMMUNICATIONS UNIT

The Marketing and Communications Unit promotes the initiatives and services of the merSETA, using a wide range of channels and instruments. It targets stakeholders, workers, artisans, learners and the general public. It also ensures the organisation's brand equity is maintained.

In the 2011/12 financial year, the merSETA coordinated mass publicity around the Mandatory Grant campaign for stakeholders, using print, electronic and radio channels.

General branding in targeted publications for stakeholders was also effected, particularly in media aimed at the metal and engineering, automobile manufacturing, plastics, motor retail and components manufacturing and new tyre manufacturing industries.

The merSETA magazine for stakeholders, **Achieve**, was printed and produced quarterly with four editions published for the year ending March 2012. An Achieve Editorial Policy was refined and accepted by the merSETA. An Advertising and Sponsorship Policy is being refined together with a Corporate Identity Manual.

In addition, more than 60 000 brochures and pamphlets dealing with careers in the five chambers were distributed to scores of schools. Promotional material was available at all expos and exhibitions.

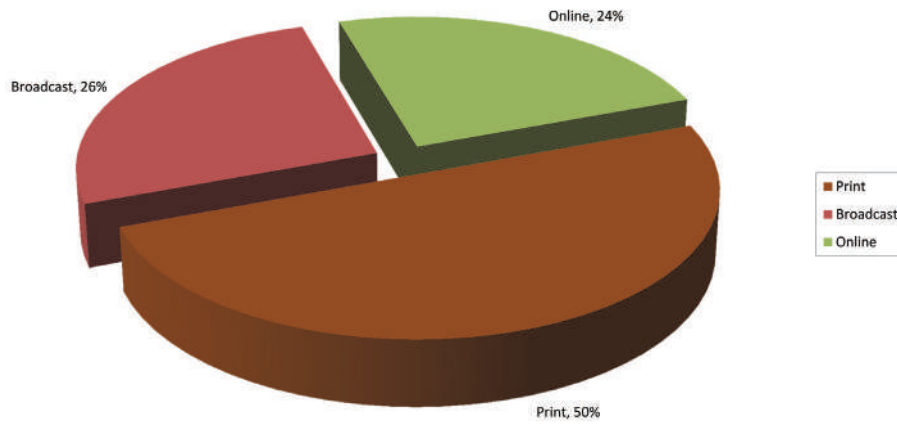
The unit was responsible for content management and the updating of the merSETA website and intranet, with a turnaround time of 24-hours for updates and new documentation.

The Marketing and Communications Unit also launched an internal digital newsletter, **Eyethu**, to ensure open-line communication between management and staff. The newsletter has been well received by staff.

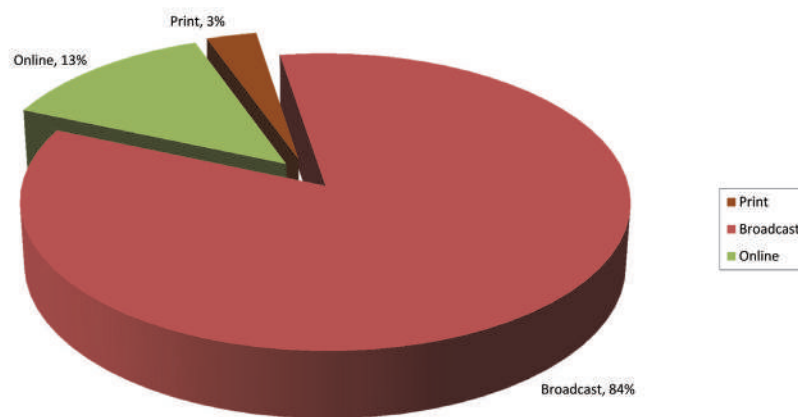
### SUMMARY OF MEDIA COVERAGE

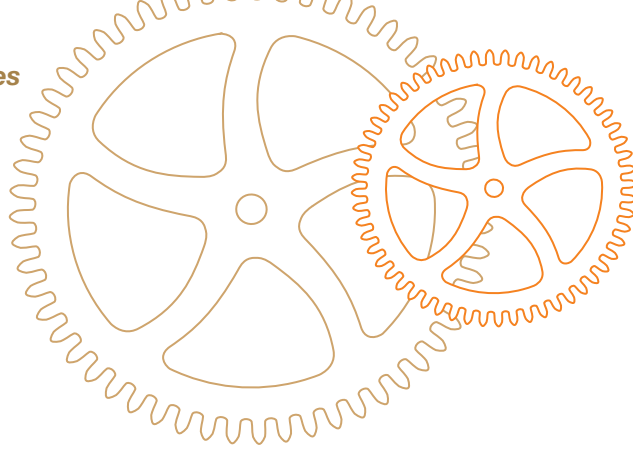
Total	Number	ADVERTISING VALUE EQUIVALENT
	139	R2 878 163.41
Print	69	R87 501.41
Broadcast	36	R2 412 000.00
Online	34	R378 662.00

**BREAKDOWN OF INSERTS IN PERCENTAGES  
(APRIL 2011 - MARCH 2012)**



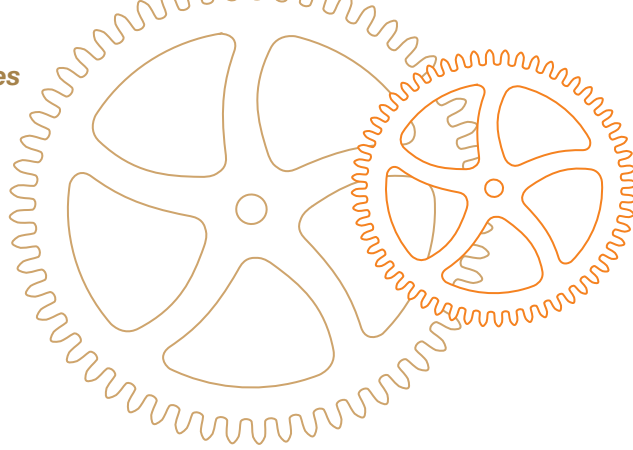
**BREAKDOWN OF ADVERTISING VALUE EARNED IN PERCENTAGES  
(APRIL 2011 - MARCH 2012)**





Events Management		
Exhibitions & Expos:		
1. Rural Women Workshop (the merSETA Sponsored Event)	28 -29 April 2011 – North West	The merSETA sponsored the event and rural women from various municipalities in NW were informed of our programmes as well other opportunities. A presentation on scarce and critical skills gave unemployed attendees the opportunity to pose relevant questions.
2. University of PTA Career Fair	11 May 2011 – Gauteng: Pretoria	About 2 000 students attended the career fair. Students were informed of the merSETA Bursary and Learnership Programmes as well as other opportunities provided by the merSETA.
3. Africa Expo 2011	25 May 2011 – Gauteng: Pretoria	The merSETA participated at the inauguration of the first Africa Expo which attracted delegates from around the continent. Ambassadors representing African countries visited the merSETA exhibition stand to find out more about the merSETA's projects aimed at closing the skills gap in our country. Youth and learners were also assisted at the merSETA stand.
4. STi Golf Day (the merSETA-Sponsored Event)	26 May 2011 – Western Cape: Kuils River	The merSETA hosted an exhibition table at one of the 18 holes where information, marketing material and refreshments were provided to players from various organisations/companies in the industry.
5. Department of Labour (UIF) Seminar	01 – 02 June 2011 – Gauteng: East Rand	The merSETA hosted an exhibition table to assist visitors with further information on our services. The merSETA COO did a presentation highlighting the merSETA's partnership with departments such as the DoL.
6. June / Youth Month Careers for the Future Expo (the merSETA-Sponsored Event)	17 June 2011 – Eastern Cape: East London	The audience included learners and educators. A merSETA presentation offered detailed information on our services including our bursary scheme, our fields of focus and other programmes.
7. Gauteng Provincial Legislature Youth Parliament	25 June 2011 – Gauteng: Randfontein - Mohlakeng Community Centre	Youth from Gauteng gathered at this event to discuss issues affecting them and suggestions to overcome those issues were tabled. The merSETA encouraged participants to make use of the opportunities available in the manufacturing, engineering and related services sector.
8. Education Week – Convention & Learning Expo	07 - 08 July 2011– Gauteng: Sandton Convention Centre	Over 2 000 education Industry representatives attended the expo.
9. Ekurhuleni Youth Expo	07 - 08 July 2011– Gauteng: The Birchwood Hotel & Conference Centre	800 learners and unemployed youth from the East Rand attended the expo.
10. SAQA Mandela Day Career Expo	18 -20 July 2011– Eastern Cape: Lusikisiki	More than 2 000 high school learners from Lusikisiki and surrounding area attended the career day exhibition.

Events Management		
11. National Science Week	01 – 02 August 2011 – Gauteng: Sci-Bono Discovery Centre	2 516 learners and 76 school teachers attended the Science Week.
12. Central University Career Fair	03 – 04 August 2011– Free State: Bloemfontein	2 700 university of technology students attended the expo.
13. UJ Career Fair: Soweto Campus	04 August 2011 – Gauteng: University of Johannesburg (Soweto campus)	250 students visited the merSETA stand.
14. Sol Plaatjie Youth Career Expo	17- 18 August 2011 - Northern Cape: Kimberley City Hall	1 700 visitors attended the expo. This included scholars, unemployed youth, youth entrepreneurs and FET students.
15. World of Work Career Fair	17 -19 August 2011 – KZN: Durban University of Technology	2 500 university of technology students attended the expo.
16. My Career Choice Expo	15 – 16 September 2011 – KZN: Moses Mabhida Stadium	Over 2 000 learners and unemployed youth from KZN attended the Career Expo.
17. Department of Labour Job/Career Fair	22 September 2011 – Gauteng: DoL Offices, Braamfontein	725 unemployed youth from the DoL database attended the event.
18. National Skills Conference	04 - 05 October 2011– Gauteng: Emperor's Palace, Kempton Park	More than 1 000 delegates attended the conference and visited various exhibition stands. It attracted academics, providers, community, organised labour and organised business.
19. Johannesburg International Motor Show	October 06 - 16 – Gauteng: JHB Expo Centre	More than 10 000 visitors attended the trade show and visited various exhibition stands.
20. SAQA/PACE International Career Guidance Conference (the merSETA Sponsored Event)	19 - 21 October 2011 – Western Cape: Cape Town International Convention Centre	About 400 conference delegates attended the conference and delegates consisted of local and international lecturers, academics, researchers and students involved in career guidance.
21. FEDUSA 5 <sup>th</sup> Annual Congress	08 November 2011 – Gauteng: Birchwood Hotel & Conference Centre	More than 300 delegates attended the congress and visited exhibition stands.
22. NW Youth Development Summit	23 – 25 November 2011 – North West: Mmabatho Convention Centre, Mafikeng	More than 1 000 delegates attended the conference and visited various exhibition stands. It attracted academics, education providers, community members, organised labour and organised business.
23. 2 <sup>nd</sup> Annual Women in Engineering Convention (the merSETA Sponsored Event)	28 - 30 November 2011– Gauteng: Gold Reef City	More than 120 delegates attended the three-day convention and visited exhibition stands. The Convention attracted women in engineering.
24. UIF/Department of Labour Pilot Project and Graduation ceremony	02 December 2011 - Emperors Palace	The merSETA COO and the Minister of Labour briefed the media on previous and current pilot projects that the merSETA and the DoL have partnered on.
25. the merSETA & Mercedes-Benz SA	3 January 2012 - Gauteng	The merSETA and Mercedes-Benz South Africa launched a learnership project - the three-year pilot programme is aimed at providing NQF 3 qualifications for an initial intake of 24 learners.
26. 2 <sup>nd</sup> Learnership Awareness Expo	8 - 10 February 2012 – FNB Wadley Stadium, Edendale, Umsunduzi Municipality, KZN	About 2 500 learners and unemployed youth from the municipality attended the Expo over the three-day period.



Events Management		
27. Edenvale High School Skills Day	13 February 2012 – Edenvale High School, Gauteng	182 Grade 12 Learners attended the Skills Day and a large number of learners with Maths and Science visited the merSETA stand. The learners were informed about the merSETA learnerships, apprenticeships and bursary programmes.
28. The merSETA & VWSA graduation ceremony	13 February 2012 - Gauteng	The merSETA and VWSA hosted a graduation ceremony in Johannesburg for 58 people with disabilities who graduated in business administration.
29. Education Indaba Career Exhibition 2012	18 February 2012 - Ulundi Legislature, KZN	More than 3 000 high school learners from Ulundi and surrounding areas attended the career expo, the targeted audience being grade 9-12 learners.
30. Working World Extravaganza	7 - 8 March 2012 – Feather Market Centre, Port Elizabeth	11 900 Learners representing 108 Schools from the Nelson Mandela Bay Municipality attended the extravaganza.
31. Sci-Bono Engineering Week - Gauteng	12 - 16 March 2012	Over 5 000 learners attended the Science Week at Sci-Bono and the merSETA interacted with learners from the province including schools from Soweto and the East Rand.
32. the merSETA Breakfast Symposium	28 March 2012	The merSETA stakeholders and affiliates attended the merSETA Green Paper Breakfast Symposium.

### Stakeholder Satisfaction

The merSETA measured the experiences of merSETA customers within the 2011/2012 financial year. The objective of the project was to determine the satisfaction with relationship, service, communication and products or programmes offered by the merSETA. In addition, the project sought to identify problem areas as well as to determine key drivers of stakeholder satisfaction.

The survey was conducted via telephonic and e-mail media in March 2012, and involved a sample of 493 companies and Skills Development Facilitators (SDFs). Results showed that overall, 33% of respondents were “delighted” by the total experience in dealing with the merSETA, 61% were passively satisfied and 6% indicated they were grossly dissatisfied by the experience.

17% of sampled respondents had experienced (and reported) a service problem at some point within the period under review. Of the 17%, only 11% reported that the problem had been fully resolved. This has been highlighted as a key focus area for the merSETA within the 2012/13 financial year, particularly honing in on improving the frequency and quality of feedback to customers as well as improving the quality and efficiency of administrative processes. The merSETA has developed terms of reference for a “Stakeholder Experience Management Programme” to improve the quality and efficiency of services to stakeholders through developing an internal service culture among staff.

Overall, the Customer Satisfaction Index (CSI) has shown an improvement from **24** in the period 2010/11 to **30** in the period 2011/12.



The Operations division has kept focus on the delivery of high quality service to the merSETA stakeholders as well as the achievement of objectives set for the year under review. All units played a pivotal role in ensuring the organisation once again exceeded targets set for the financial year.

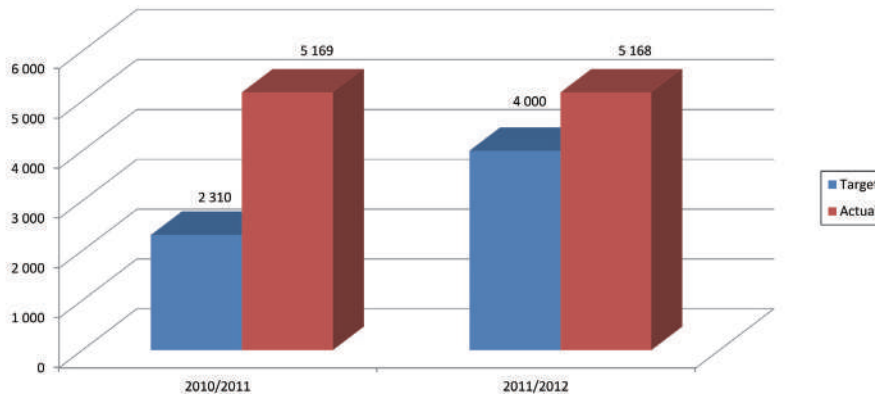
## CENTRAL ADMINISTRATION

The Administration Unit continued on the path developed over the last four years, being called upon to assist wherever their services were required.

In the period under review, the processing of **5 789** Level and Trade Test applications resulted in the issuing of **4 509** trade test dates, with **3 254** candidates being declared competent as Artisans. To achieve these results and ensure compliance with relevant regulation, the Administration Unit had to follow up on outstanding information from Providers for **5 092** applications for various certificates.

The number of level test results contributing to the achievement of the Apprenticeship results was **6 222**, noting that some results processed were for learners found not yet competent at that stage.

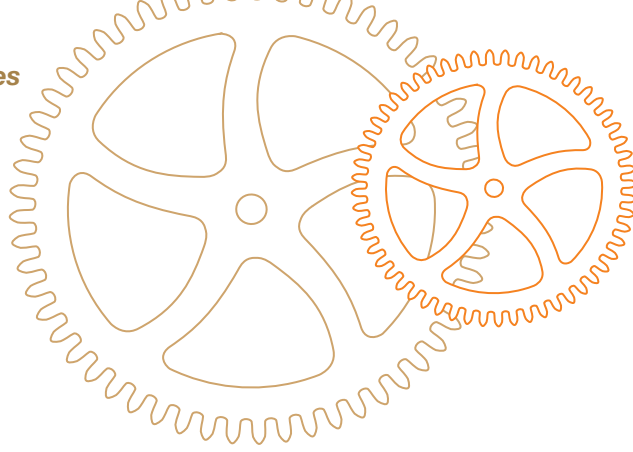
### REGISTERED APPRENTICESHIPS



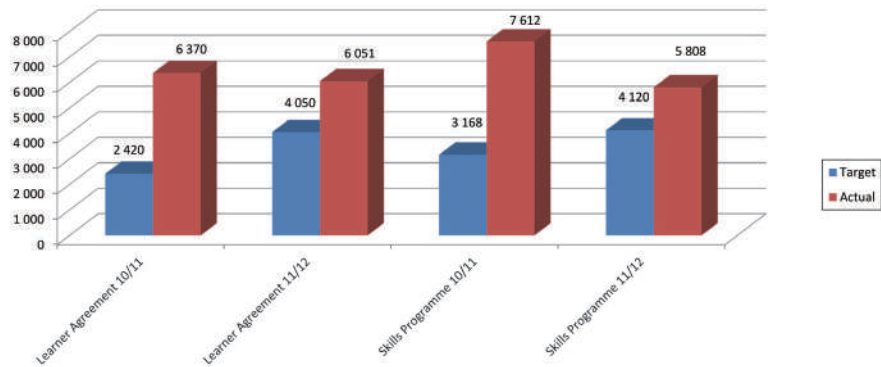
Between regions and central administration **5 168** apprenticeship contracts, **6 051** learnership agreements and **5 808** skills programme learners were registered in the period under review.

**4 194** learners obtained full qualifications and **2 559** skills programme learners obtained statements of results towards qualifications at various levels on the National Qualifications Framework (NQF).

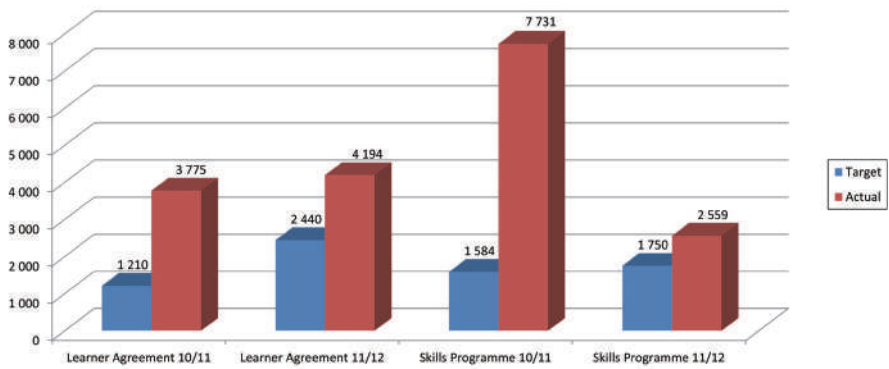
This resulted from the processing of **8 821** assessment reports. Some of these contributed to the issuing of part qualifications where learners did not meet all the requirements for the award of full qualifications.



**LEARNERSHIPS AND SKILLS PROGRAMME LEARNERS ENTERED  
TARGET vs ACHIEVEMENTS**



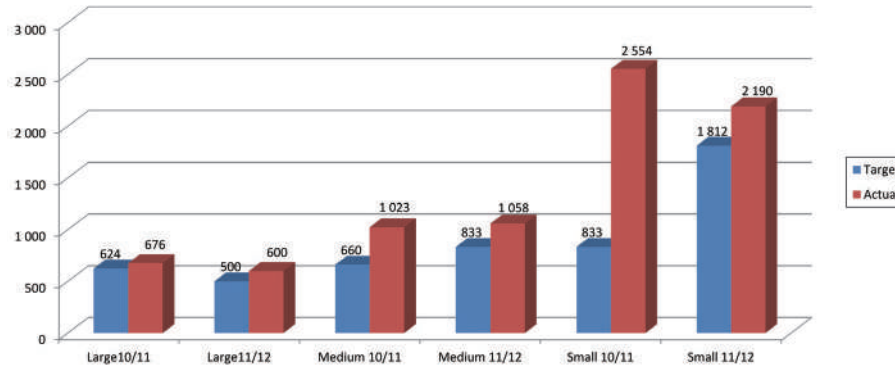
**LEARNERSHIPS AND SKILLS PROGRAMME LEARNERS COMPLETED  
TARGET vs ACHIEVEMENTS**



Rescission applications amounted to 227, representing 4% of the 5 168 Apprentices registered at the end of the financial year

The merSETA once again exceeded its target for Mandatory Grant submissions as indicated below:

### MANDATORY GRANTS PAID vs TARGETS



The merSETA embarked on a process of changing the existing Datanet to a new Seta Management System. The Skills Module, which concentrates on the registration of Skills Development Facilitators and Mandatory Grant applications, has been implemented.

Skills Development Facilitators registered themselves on the new Seta Management System and submission of Mandatory Grants occurred during the first quarter of 2011.

The implementation of a new information management system provided the merSETA with the opportunity to reload company bank details based on submission of original banking details. The unit processed the banking details for **4 612** companies, based on the submission of original documents from levy-paying companies for both Discretionary and Mandatory grant payments.

As a proactive approach to inform Skills Development Facilitators in merSETA levy-paying companies, road shows were conducted within various magisterial districts in preparation for the implementation in the next financial year of the Board-approved evaluation criteria.

The South African Revenue Service accompanied the merSETA and presented the amendments to the Tax incentives for the training of learners on learnerships and apprenticeships.

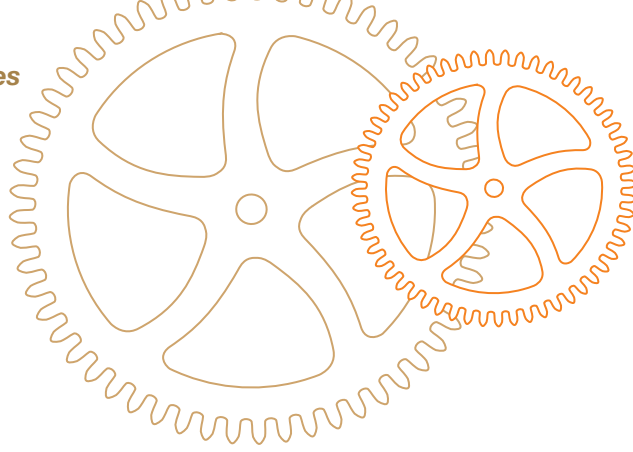
The unit aims to continue supporting regional offices in their drive to deliver an excellent service to our clients at all times.

### CLIENT SERVICES

The merSETA has seven regional offices with two satellite offices in Polokwane and Kimberley. The regional offices provide vital services such as guidance and advice on different learning programmes, implementation of these programmes, monitoring quality for on-the-job training of learners, support on completion of workplace skills plans and reports, guidance with accreditation, workplace approvals, advising employers with regard to inter-Seta transfers, advice on tax incentives and increasing the capacity of training committees, shop stewards and skills development facilitators.

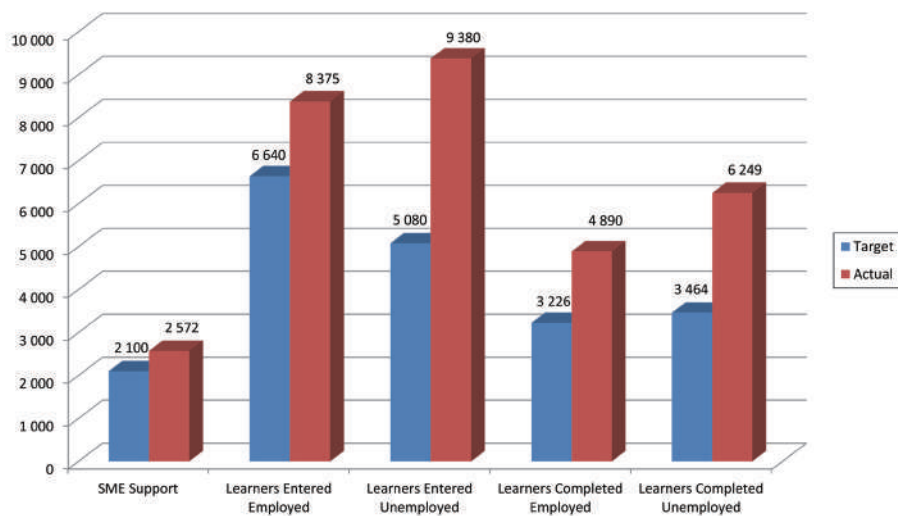
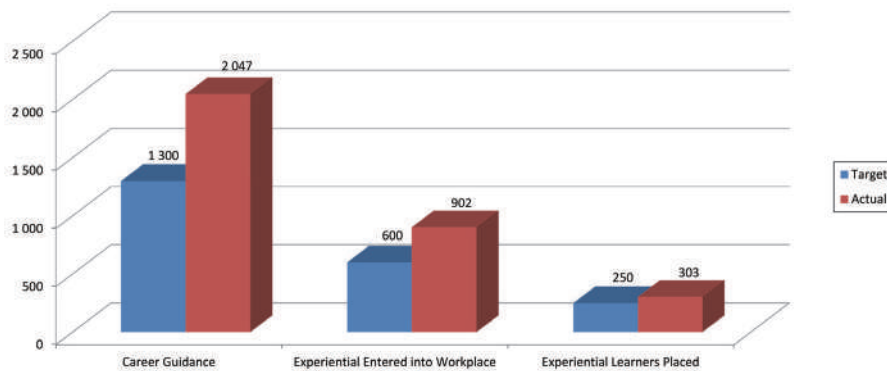
Our regional offices were also instrumental in ensuring that the merSETA contributed to provincial government initiatives and participated in structures within provinces to address the skills needs.





The regions ensured that all merSETA-funded projects were implemented by stakeholders within the regions. This task contributed significantly to the merSETA exceeding its targets as outlined below.

### NSDS III TARGETS vs ACHIEVEMENTS



The allocations of Discretionary grants via Memoranda of Agreement (MoAs) are implemented, monitored and managed at regional level.

A total of **3 417** MoAs were signed by employers of which **2 130** are still active and are monitored in the regions by the Client Liaison Officers.

The MoAs constituted the following number of learners on the different learning interventions:

- 6 937 apprentices;
- 9 537 learners on learnerships;
- 10 650 skills programmes;
- 3 136 ABET learners;
- 1 474 sector specialists;
- 772 interns; and
- 3 028 experiential learners.

The regional offices, during the period of review, visited **4 762** Small Micro Enterprises (SMEs). Companies were given guidance and support on the implementation of various skills interventions within their organisations. Added to this guidance, support was provided to enable SDF registration, Mandatory and Discretionary grant submissions. This resulted in **2 190** small companies being approved for Mandatory Grant payments.

The successful Mandatory Grant workshops and consistent support from regional offices resulted in **4 559** Mandatory Grant applications being submitted.

**2 751** companies interested in taking on learners or apprentices, through a structured learning process, were visited and given the necessary advice by our Client Liaison Officers. Workplaces of companies were evaluated and approved to ensure the required capacity is available to provide the required quality structured training. **1 240** new workplace approvals were undertaken and approved in the period under review.

Regions received and processed **4 483** new applicants for Recognition of Prior Learning through Section 28 trade tests, of which **2 522** applicants met the merSETA criteria and undertook the trade test. **1 708** candidates were declared competent as Artisans.

**243** ATRAMI moderations were carried out by the Client Liaison Officers which resulted in **108** candidates being issued with certificates after successful completion of their learning programmes.

Induction workshops for both apprentices and learners were held for **6 051** apprentices and **5 160** learners respectively in the period under review.

**44** Skills Development Forums were held regionally. The forums provided the merSETA with an opportunity to disseminate information on services, learning opportunities, projects offered as well as advocacy on how to access Discretionary and Mandatory grants. Participants were also provided the opportunity to discuss issues related to learnerships, skills programmes, registered qualifications, apprenticeships, workplace skills planning and reporting.

The regional offices were also instrumental in implementing projects for people with disabilities, especially for the hearing-impaired. Visual learning materials were designed to cater for these learners.

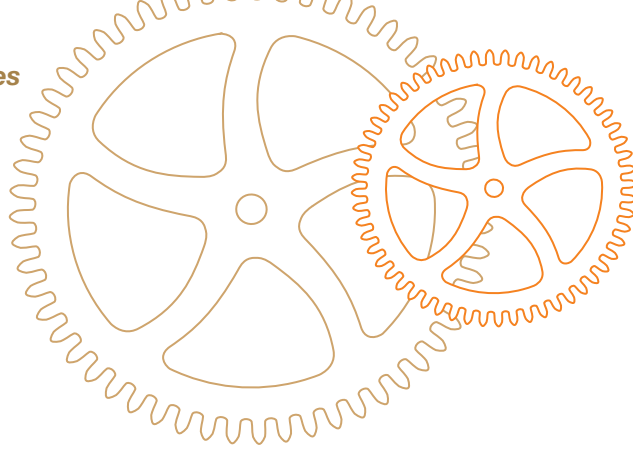
The regional offices participated in **51** career exhibitions for the year under review. This included exhibitions hosted by the Department of Labour, the Department of Basic Education, the Department of Higher Education and Training, universities of technology and FET colleges. Some of these exhibitions were held in the rural areas. The target audiences were grade 10-12 learners and the exhibitions exposed them to career choices in the technical fields.

## LEARNING, EDUCATION, TRAINING AND QUALITY ASSURANCE

The Learning, Education, Training and Quality Assurance (LETQA) Unit in the Operations Division once again contributed positively to the achievements of the merSETA. During the period under review, LETQA was actively involved in the implementation of the activities of the newly-established Quality Council for Trades and Occupations (QCTO). The unit served as the convener of the Steering Committee responsible for the articulation between the qualification development process under the QCTO and the envisaged review of the NATED courses (N-courses) under UMALUSI.

The merSETA signed **13** Service Level Agreements with the QCTO, in which the merSETA was delegated the responsibilities of Development Quality Partners (DQPs). As a DQP, the organisation facilitated the development of Occupational Qualifications for the Manufacturing, Engineering and Related sector, based on the QCTO model.

A formal agreement was signed between the QCTO and the merSETA to develop new policies and procedures for the QCTO that will be based on best-practices within the SETA fraternity.

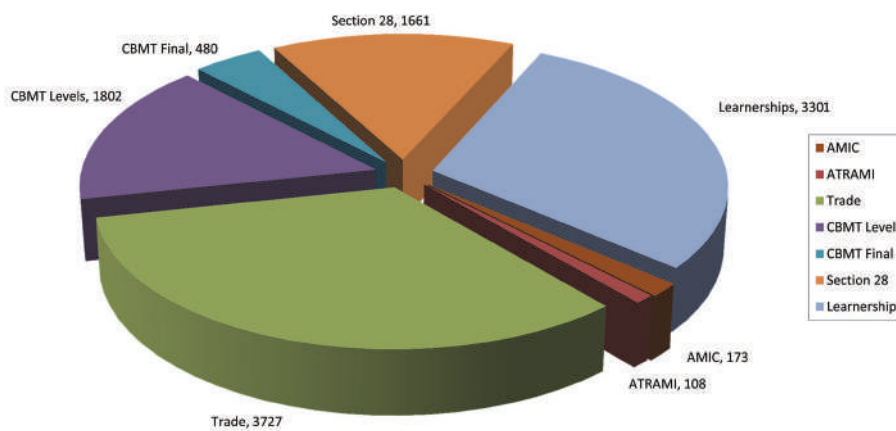


LETQA also actively participated in the implementation of the functions of the National Artisan Moderation Body (NAMB). This included providing inputs and comments and consolidating the inputs and comments from industry on the draft regulations, paving the way for a standardised and simplified process of artisan development in South Africa.

The division's delegated key responsibilities as an ETQA within the merSETA have been extended by the South African Qualification Authority (SAQA) to end September 2012.

LETQA continued to ensure the fulfilment of its functions as the Quality Assurance Authority for the qualification and unit standards within its primary focus. **908** accreditation and approval visits were conducted, resulting in the full accreditation of **81** providers and the approval of **61** learning programmes, as well as **18** decentralised trade test centre approvals, as part of the extension of the scope of existing providers. The merSETA Quality Assurors conducted **980** moderation visits that yielded **10 772** certificates as indicated in the chart below.

### CERTIFICATES ISSUED



The issuing of trade certificates improved during the period of reporting, largely due to the fact that the merSETA assisted in building capacity within the division responsible for processing certificates at the Department of Higher Education and Training.

**101** providers were audited in the period under review to ensure the merSETA-accredited providers maintained the quality standards expected by their respective clientele.

In the spirit of the NSDS III, LETQA extended the merSETA's working relationships with public FET colleges as well as universities and universities of technology. Ten (10) FET colleges and one university of technology entered into formal partnerships with the merSETA and the merSETA continued to support these institutions through linkages with our stakeholder companies.

During the period under review, there was an increase in the number of recognition of prior learning candidates as **4 483** applications were evaluated for Section 28 trade testing.

The changes resulting from the amendments and proposed draft regulations were workshopped within provider forums in all provinces to ensure our provider constituency is fully informed about current and proposed changes.

The merSETA maintained its "green status" on the SAQA National Learners' Records Database for the period under review

As a delegated DQP, the merSETA assumed the responsibility of facilitating the development of the following **13** new Occupational Qualifications in conjunction with stakeholders from the industry:

- Mechatronics;
- Millwright;
- Fitter and Turner;
- Fitter General;
- Engineering Patternmaker;
- Foundry Moulder;
- Melter;
- Electroplater;
- Lift Mechanic;
- Lubrication Equipment Mechanic;
- Vehicle Damage Quantifier;
- Wind Turbine Service Technician; and
- Armature Winder.

In addition to the above, LETQA applied to be a DQP for the following six (6) occupational qualifications:

- Panel beating;
- Vehicle Painter;
- Automotive Machinist;
- Automotive Electrician;
- Ship builder; and
- Rubber Production Machine Operator.

The first Occupational Qualification will be submitted to the QCTO for evaluation and registration in the first quarter of the next financial year.

This unit is also currently involved in new Green initiatives such as the Wind Turbine Service Mechanic in conjunction with GIZ.

**29** learnerships were developed and registered in the period under review compared to **42** in the previous financial year. This is due to the change-over from qualifications registered under the SAQA criteria and the newly introduced Occupational Framework of the QCTO.

**48** Skills Programme applications were evaluated and registered during this financial year.

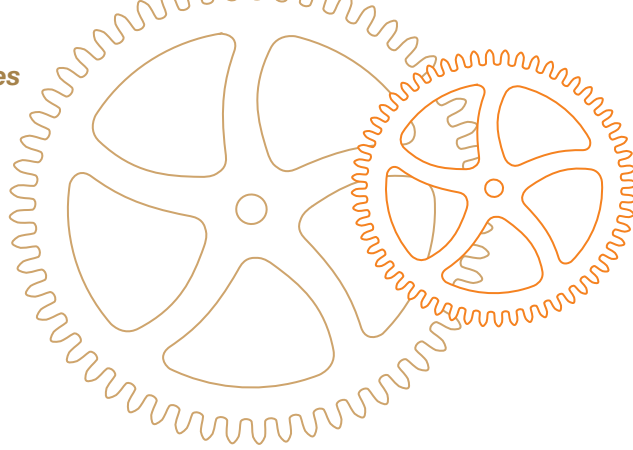
**92** one-sided applications for termination of contracts were evaluated and approved during this financial year. An analysis to determine trends in rescissions as well as refining the applications and motivation documentation to ensure sound labour relations practices is under way.

During the 2011/12 financial year, **388** new assessors were registered and **186** assessors were re-registered, with **244** assessors applying for extensions of registration.

**125** new moderators were registered, **52** moderators applied and were re-registered and **59** moderators had their registration extended to incorporate additional qualifications

**8 262** verifications were conducted for the year in comparison to the **6 244** verifications conducted in the previous financial year. These verifications are done based on requests from stakeholders to verify the authenticity of certificates issued by the merSETA and the previous Industry Training Boards.

**1 118** new workplaces were evaluated and approved as sites for the implementation of merSETA learning programmes, indicating an expansion of our capacity to implement skills development programmes within the workplace.



The Courseware Project ran over a three-year period. Courseware for **44** qualifications was developed in the period under review. The courseware consisted of learner modules and the related facilitator assessment guides.

As a support service, Compact Discs with courseware material were distributed at no cost to accredited providers during the period of reporting.

The merSETA embarked on a process of developing DVDs for learners with a hearing disability in the Body Repair discipline. It is intended to extend this service to other areas of disability.

Once the new occupational qualifications are registered, material will be developed to support these qualifications.

## **CAREER DEVELOPMENT**

The merSETA career gateway innovation network was established in the year under review to market and communicate career pathways and opportunities. During the period under review, a budget of over R6 million was committed to practical outreach projects as follows:

- In terms of a partnership agreement with the National Youth Development Agency (NYDA) for general career guidance, **511 000** young people in urban and rural areas directly benefited from career guidance. Twelve (12) Career Guidance



SAQA/the merSETA hosted 60 international and local presenters and 523 local and international conference delegates in a three-day practical and academic conference which focused on career development

- Practitioners were trained to serve communities in nine cities in South Africa; and
- A three-year partnership agreement was entered into with the South African Qualifications Authority (SAQA) focusing on Practitioner Development, Professional Practice Development, Practice Network Data Establishment and the establishment of a permanent interface between the merSETA and SAQA information systems regarding career development and career guidance.

Through our partnership with SAQA, the merSETA was able to host the first International Career Development Conference. During the three days, **60** international and local presenters and **523** local and international conference delegates were hosted.

**72** delegates sponsored by the merSETA were from schools and non-profit organisations.

The focus of the conference was on practitioner development, the establishment and registration of the South African Career Development Association, current initiatives on career development in participating countries and the development of an international database of practitioners.

The merSETA also participated in the Sixth Symposium on Career Development and Public Policy in Budapest, Hungary, and formed part of the South African Team alongside SAQA that presented the state of career development in South Africa.

The theme of the conference was the changing role of career guidance and career guidance policies, the challenges and opportunities in lifelong guidance policy as part of integrated human resource development, the changing world and the changing role of career guidance, the skills and competencies for lifelong guidance practitioners and evidence-based practice and policies.

This provided an opportunity to ensure the alignment of our career development and career guidance systems and processes with globally-recognised best practices.

During the period under review, a partnership agreement was established with Sci-Bono, a Section 21 Company mandated by the Gauteng Department of Education (GDE) to implement and manage the Gauteng Mathematics, Science and Technology Education Improvement Strategy.

In the year under review, our relationship with the Nelson Mandela Metropolitan University (NMMU) continued. The merSETA funds the Chair in Engineering Development within NMMU. One of the functions of the Chair is the implementation of Mathematics Programmes to improve the success rate, with a focus on both learners and educators in rural communities in the Eastern Cape. **110** Teachers and **194** learners were beneficiaries of the implementation of mathematics programmes. This relationship also provided a platform to **1 118** learners in 10 schools for meaningful career guidance. Another focus area was to attract women into Masters' and Doctoral level programmes in Engineering, and one woman was successfully registered in the period under review.

The merSETA participated in the International World Skills Competition. A team of eight competitors and seven experts participated in six skill areas within the merSETA's primary focus. The merSETA participants have consistently improved, indicating that the organisation is making headway in its initiatives to improve skills development in South Africa.

## DISCRETIONARY GRANTS UNIT

The Discretionary Grant (DG) Unit within the Operations Division administers and manages Discretionary Grants to address the critical and scarce skills shortage identified through various learning programmes.

The Finance and Grants Committee has oversight functions on behalf of the Governing Board.



Incubator School learners receiving their resources



South African World Skills Team of Competitors in London 2011

Furthermore, the body approved the Discretionary Grant awards in accordance with the approved formulae and categories based on the available budget.

The active participation of stakeholders during the period under review indicated the huge demand for funding to implement a wide range of learning programmes. This clearly indicated the need for the merSETA to explore other sources of funding to address its future Discretionary Grant funding needs.

The unit, through the efforts invested by the regional offices and other units within the merSETA, has managed to improve disbursement of grants to our levy-paying and exempted companies. The period under review saw the disbursement of R209 million based on milestones achieved by participating companies. The figure represents an improvement of over 50% compared to the previous financial year.

The internal review process has identified communication as a challenge in the implementation of DG Grants and this will be prioritised in the next financial year to improve service delivery both internally and externally.



Mathematics Incubator School in Somerset East, Eastern Cape



Award-winning learners in Somerset East, Eastern Cape, with the merSETA staff and school principal

The Discretionary Grant Unit has also initiated a new addendum for Discretionary Grants 4 which splits the original second tranche into two equal tranches of 30% each. The new addendum encourages the acceleration of Discretionary Grant disbursements to employers, and assists employers, particularly small and medium enterprises (SMEs), to offset training costs between tranche payments.

## INFORMATION TECHNOLOGY, CALL CENTRE AND TRAVEL DESK

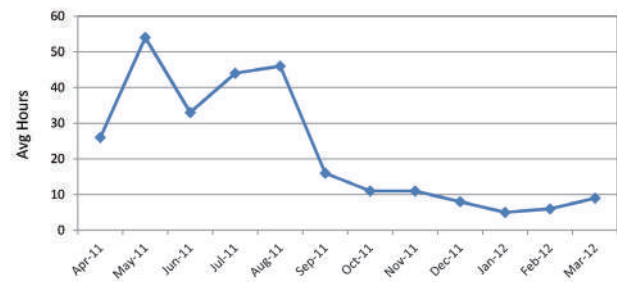
### Information Technology

The Information Technology (IT) Helpdesk made significant improvements in responding to and resolving user requests. The average time to resolve user requests has been reduced from its highest 53 hours to less than six hours.

IT Systems remained stable and minimal service interruptions were recorded during this financial year. An average of 99.95% system up-time was recorded for the year.

IT also successfully upgraded legacy systems and depreciated hardware in the financial year under review. No data loss or data corruptions were recorded for the financial year.

### Average Response Time



### Call Centre

The Call Centre received **120 551** calls during the financial year with an average queue waiting time of eight seconds. The Call Centre has achieved a service level of 87.4% and a quality score of 91%.

### Travel Desk

The year under review saw the travel desk improving delivery of booking confirmations, and it exceeded its target with booking confirmations being sent to the Divisions, requesting to travel 96 hours prior to travel, based on a current target of 48 hours.

The travel desk has significantly improved its processes and financial controls. The process has improved delivery times on paying creditors. All invoices were reconciled and processed for payment within 30 days.

Financial reconciliations of supplier accounts were provided to the Supply Chain Unit seven to 10 days before payment due date. This is a significant improvement in reconciling and paying supplier accounts.

## **MANAGEMENT INFORMATION SYSTEM**

During the period under review, the Seta Management System (SMS) development resulted in stakeholders being able to register as Skills Development Facilitators (SDFs) and to submit their Mandatory Grant applications on the new system.

In the absence of a finance integration module being ready at the time of submission of the Mandatory grants, all approved grants were processed via Datanet and paid from Great Plains.

Stakeholders were able to register as stakeholder applicants and were able to submit Discretionary Grant 3 and 4 applications online. The relevant reports were drawn from the SMS system to allow regional offices to undertake the verification process.

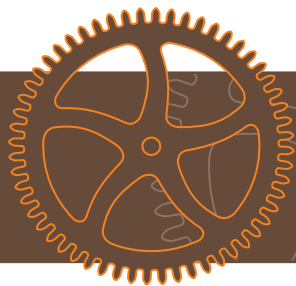
The DG payment module was also developed and tested. Areas of improvement were identified and submitted to an outside provider for further development.

The ETQA module was developed in two phases. The first phase included learning programmes, assessor and moderator registration, provider accreditation and workplace approval. The first phase of the module is due to go live. The second phase concentrates directly on the learner enrolments and achievement process. The user acceptance testing has taken place and areas of improvement and certain functionality matters have been identified for implementation.

The first phase of data migration for ETQA phase one was tested and completed. The Mandatory Grant submission information from the previous years was successfully imported into the SMS system, enabling stakeholders to import the data from the previous year's submission to the year 12 application.

The delay in development and implementation of the ETQA phase two module has had an impact on the go live timeframe which needed to be revisited.





## NEW VENTURE CREATION (NVC)

In the year under review, **250** learners were enrolled for training in New Venture Creation Learnerships and Skills Programmes (based on skills sets) at NQF Level 2. Two FET colleges also participated in delivering this programme. The learners are spread across five provinces and are from previously disadvantaged communities. The project was due to close-out on 30 June 2012. To improve the impact of the NVC programme, a tracking and mentoring programme with **230** New Venture learners was piloted. The project would draw to a close at the end of July 2012, and lessons learned would be carried over into other merSETA entrepreneurship initiatives.

## NGO AND CBO PROJECT

This year, the merSETA's objective for NGO and CBO support was to implement a focused, integrated and sustainable strategy to support NGOs and CBOs in the sector. Ten NGOs and CBOs were supported in Gauteng, two in KwaZulu-Natal, one in the Free State and one in Mpumalanga, with **1 094** learners being reached. The focus areas covered were Welding, Motor Mechanics, Electrical and Assessors and Moderators. Agreements were reached before the end of the financial year with a further five NGOs to implement Learnerships and Skills Programmes for a further **166** beneficiaries.

## ADULT BASIC EDUCATION AND TRAINING (ABET)

The Accelerated ABET Project utilises blended learning and modular approaches to ABET provisioning, curricula, methodologies and the scheduling of learning. It reached **663** learners in the financial year. The Occupational ABET Project aims to develop and provide ABET materials customised to each of the merSETA chambers to ensure a closer fit between ABET and the occupational needs of those sub-sectors. **339** learners were reached through this project. In addition, **1 198** employees in the sector have been allocated funding through this project in response to Discretionary Grant applications from companies.

## MATHEMATICS AND SCIENCE PROJECT

This project provides for enrichment, weekend and holiday classes in Mathematics, Science and English. The project aims to address problems experienced in the learner pipeline that results in shortages of appropriate candidates for entry into merSETA learning programmes. In the original project, 2011 results were good as **99%** of **300** learners passed, **219** with university entrance and **69** with university of technology entrance. **78** distinctions were obtained in Mathematics and Physical Science. Agreements have been entered into with five FET Colleges and two universities in seven provinces for pre- and post-matric Maths, Science and Technology interventions, targeting **1 440** learners and more than 20 schools.

## HIV AND AIDS PROJECT

Following the success of the HIV and AIDS Pilot Project, the merSETA has refined its strategy to include direct support and mentoring, and allows it to disseminate information, support and insight into best practices more cost effectively and to a larger number of SMEs. Company agreements have been concluded that involve directly reaching more than **5 500** employees in the sector.

## PROJECT FOR PEOPLE WITH DISABILITIES

The purpose of the project is to develop a strategic and implementation plan to promote training and placement for the disabled in certain occupations in the manufacturing and engineering context, and utilise the initiative as a vehicle for addressing key policy and legislative objectives and obligations. The project comprises a research and development phase to match disabilities against occupations, and **200** learners with disabilities have been directly reached. The merSETA has developed a framework for skills development of people with disability and has entered into an agreement with Disabled People of South Africa (DPSA) to test the framework by rolling out technical learnerships for **140** candidates.

## RETRENCHMENT ASSISTANCE PROGRAMME (RAP)

The merSETA's Retrenchment Assistance Programme (RAP) is aimed at retraining workers retrenched or in the process of being retrenched as a result of the industry downturn or workplace closure. Eligible individuals are entitled to articulate in accredited and/or duly registered training programmes to a maximum of R12 500.00 each to enable them to either upgrade their skills or to develop new skills to re-enter the labour market or embrace entrepreneurship. In addition, the project also caters for weekly learner allowances to a maximum of R375.00 per person. The RAP Guidelines have been further amended to accommodate training pre-assessment to a maximum of R1 000.00 per learner to cater for counselling, orientation and RPL. Post-training support to a maximum R12 500 has also been included to provide for placement and mentoring, cooperative formation and support, business plan development, business services and coaching.

The RAP Project was initiated with a budget of **R80 million** with an **additional R53 million** allocated for the 2011/2012 financial year. As at 31 March 2012, there were **22 new** companies approved in the project for the benefit of about **975** individuals and **5 102** learners have benefited from the project since inception.

## TRAINING LAYOFF SCHEME (TLS)

The Training Layoff Scheme is a national government initiative aimed at providing financial relief to companies in distress. The TLS facilitates training and subsistence assistance in the case of the temporary suspension of an employee or a group of employees for training purposes and as an alternative to retrenchment.

It enables employees to be kept in employment during the economic downturn while being re-skilled as an investment for future economic recovery. On approval by the CCMA, companies may, via the relevant SETA, claim for learner allowances of up to 75% of their wage bill from the National Skills Fund (NSF) and/or the Unemployment Insurance Fund (UIF) for the duration of the layoff period. The merSETA has actively promoted the TLS since its inception and is currently leading the way with a total of **21 member** companies participating in the scheme. As at 31 March 2012, **11 new** companies had been approved for the scheme with about R49.9 million claimed as training costs and learner allowances on their behalf from the NSF and UIF.

A **further seven** companies are in the final stages of approval and will begin the layoff training in due course. In the 2011/2012 financial year, the Training Layoff Scheme enabled some **2 283** employees within the merSETA sector to be retained in employment as opposed to being retrenched, with a total of 6 083 individuals having gone through the process since inception.

## BURSARIES PROJECT

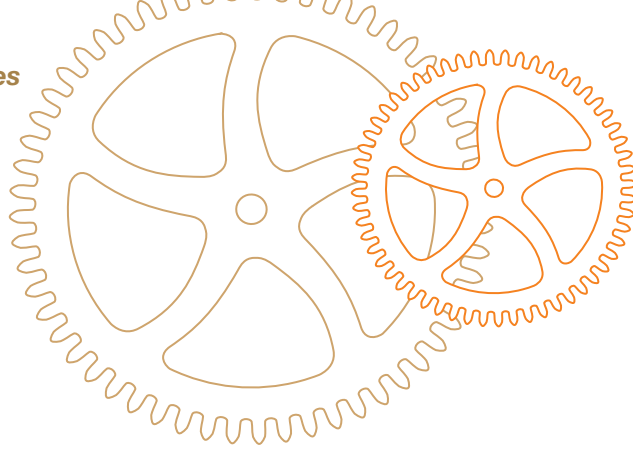
**278 new** bursaries were awarded to unemployed learners for the 2012 academic year. This brought the total number of unemployed learners currently sponsored to almost **600**, including **50** currently undergoing experiential learning. Forty-three students graduated at the end of 2011 and to date **22** of these have been employed.

The merSETA has working agreements with the Jacob Zuma Education Trust, NUMSA, the Nelson Mandela Metropolitan University and the Mitchells Plain Youth Project, giving opportunities to youth who would otherwise not have the prospect or funding to proceed with tertiary education. In line with the NSDS III priorities, this project is being extended to include FET Colleges and, where applicable, opening opportunities for FET college students to enter tertiary study. The merSETA has also been approached by NPOs and NGOs to partner in reaching untapped potential among rural youth and encourage them to enter engineering fields.

Through our management development programme, 53 employees in the sector graduated in 2011/12 academic year in courses as diverse as National Diploma Operation Management to an MBA for a woman who started as a Human Resources assistant in a small merSETA enterprise and is now Human Resources manager for a large group. **132** new bursaries were awarded to merSETA-sector employees, mainly in job specific development programmes to enhance management expertise within the industry and instil a system of continuous career development. The merSETA hopes to foster a lifetime learning culture with career pathing and continuous development becoming the norm within the industry at all levels.

## ACCELERATED ARTISAN TRAINING PROGRAMME

The Accelerated Artisan Training Programme (AATP) has continued to deliver qualified artisans to the sector at a structured pace. The year ended having accommodated a total of **3 900** new entrants with



803 of these joining the project during the financial year. At the close of the year, 2 214 AATP apprentices had successfully passed their trade test, with 923 of those achieving this milestone in this financial year. The merSETA is pleased to report **91% successful** completion rate for **metal-related trades** and **60%** for **motor-related trades**. The AATP platform has now established a sustained level of maturity which has become the key enabler for the implementation of applied research in support of a quality workplace training agenda.

## SECTOR SKILLS PLAN

The Sector Skills Plan (2011/2 - 2015/6) was updated and submitted to the DHET in March 2012. It incorporated a finalised priority (scarce and critical skills) update and key features of the economic dynamics pertaining to the sector after extensive review by stakeholders. It is notable that, for the first time, explicit linkages between the merSETA SSP and the organisation's Strategic Plan have been achieved.

## RESEARCH

Research areas, including competence diagnostics, vocational identity and commitment, and a cost-benefit analysis, were scoped and implemented under the supervision of the University of Bremen in Germany utilising the AATP platform.

This study has demonstrated a bold move on the part of the merSETA to shape the skills development landscape in South Africa, with particular emphasis on its strategic intent to support the National Programme for Artisan Development. Some related findings have highlighted the potential for explicitly higher levels of competence if dual vocational education and training is organised in accordance with international standards. The final report also suggests that the current modular training system does not sufficiently support the core element of "reflected work experience" and that learning in work processes requires more emphasis. Other

findings include that integrated outcomes-based curricula should be continued and extended; that new methods of assessment during the learning process are needed to support professional shaping and action competence; that working groups should be maintained and strengthened in support of trainer development on a defined list of topics; and that trade tests should be modernised to include both practical assessment of complex work tasks connected to real work orders and theoretical assessment to examine work process knowledge. Within the context of vocational commitment, the test results show that learners are extremely proud of being able to learn and become professional, but that this high estimation of what they are doing partially hinders an analysis of their own and structural weaknesses. The report also highlights through case studies that in-company training of apprentices can be organised as a self-financing system. The full research report and its findings are available.

The Research and Development Unit was also engaged in a range of national and international academic associations, and conferences and a range of academic articles were published in international and national peer-reviewed journals and other publications. In addition to the highly significant applied research linked to the AATP platform, the following research projects were active in 2011/12:

- **Wits EPU Mapping Skills Research - Partnership engagement concluded.** The study seeks to understand the geographical mapping of educational and employment opportunities for citizens of Gauteng Province. This project provides insight into the relationship between education and labour market in local contexts;
- **Artisan Project - HSRC Artisan Identity and Status** - This partnership project explores the changing nature of the identity and status of the artisan and artisanal milieu; and
- **RPL Study - Case Studies of RPL Implementation in the sector.** Fieldwork was undertaken in-house.



## INTRODUCTION

The merSETA pursues the development of a skilled workforce within the Manufacturing, Engineering and Related Services Sector (“the Sector”). Its scope of coverage is determined by the Minister of Higher Education and Training in terms of the Skills Development Act 97 of 1998. All the merSETA processes conform to the merSETA Constitution, the Skills Development Act, No 97 of 1998 (as amended), supported by the Skills Levies Act, 97 of 2003, as well as the SAQA Act, 58 of 1995, Public Finance Management Act of 1999 (as amended) and Treasury Regulations.

In fulfilling its mandate and to achieve the objectives of the National Skills Development Strategy III, the merSETA subscribes to the principles contained in the Code of Corporate Practices and Conduct as set out in the King III Report.

## STAKEHOLDERS

The merSETA is a schedule 3a public entity and reports to the Department of Higher Education and Training. The Minister of Higher Education and Training is the main stakeholder on behalf of Government and is defined as the Executive Authority. The Governing Board is defined as the Accounting Authority in terms of the Public Finance Management Act of 1999 (as amended) and Treasury Regulations.

The merSETA is stakeholder-driven and in terms of the Skills Development Act, it must be equally represented by organised labour and organised employers.

## STRATEGIC PLAN

In terms of Regulation 30 of the Treasury regulations issued in terms of the Public Finance Management Act, the merSETA is required to submit a Strategic Plan, which culminates in a service level agreement with the Executive Authority (Department of Higher Education and Training). Each year, the merSETA enters into a Service Level Agreement accompanied by the Strategic Plan and the Annual Performance Plan in line with the Department of Higher Education and Training’s National Skills Development Strategy targets.

## THE merSETA CONSTITUTION

The merSETA Constitution was approved by the Minister of Higher Education and Training on 1 April 2011 in terms of section 13 (1) of the Skills Development Act 97 of 1998. The Minister of Higher Education and Training announced in November 2010 that the merSETA had been certified for the period 01 April 2011 to 31 March 2016.

## GOVERNING BOARD CHARTER

The Governing Board has approved its charter which is in line with the King III Report on Corporate Governance, the merSETA Constitution, regulatory legislation and all mandates for which it is responsible. The Governing Board Charter provides an overview of the role, powers, functions, duties and responsibilities of Governing Board members, both collectively and individually. The basis for the aforementioned is the applicable legislation and the merSETA Constitution.

## COMPOSITION AND SIZE OF THE GOVERNING BOARD

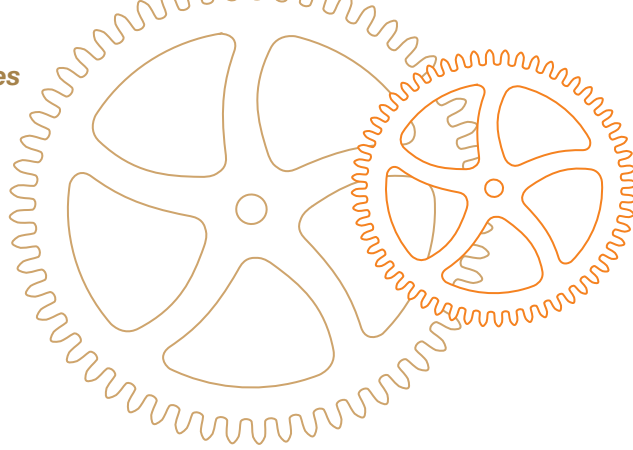
In line with the merSETA Constitution, the Governing Board comprises 15 members in a non-executive and independent non-executive capacity.

Governing Board members are appointed by the Minister of Higher Education and Training in terms of the merSETA Constitution and twelve (12) of the members are nominated and represent organised labour and organised employers from the Sector as well as three (3) members who are independent and are directly appointed by the Minister.

The term of office of members of the Governing Board is five (5) years and they are eligible for re-appointment upon expiry of the term of office, provided that the reappointed members do not exceed one third of the members of the Governing Board at any one term.

### Governing Board and its Committees: Meeting Attendance

Meetings of the Governing Board are scheduled annually and special meetings are convened if there is a need to consider urgent specific matters.



During the year under review, the following meetings were held by the Governing Board and its committees:

NAME	GOVERNING BOARD	EXECUTIVE COMMITTEE	ETQA COMMITTEE	REMUNERATION COMMITTEE	FINANCE AND GRANTS COMMITTEE	RACE	GENDER
Alex Mashilo	4/6			5/8		B	M
Anton Hanekom	6/6		1/1		4/4	W	M
Cecilia Khuzwayo*				1/8		B	F
Daniel de Villiers	4/6		1/1			W	M
Deon Reyneke	4/6		0/1		2/4	W	M
Elmarie Olivier*				2/8		W	F
Ephraim Tshikwavhavha#	3/6					B	M
Fiona Tregenna	4/6					W	F
Jacobus Olivier	5/6		0/1			W	M
Janet Lopes	6/6	3/3				W	F
Jeanne Esterhuizen	4/6	2/3	1/1			W	F
Johan van Niekerk	6/6		1/1			W	M
John Wilson	6/6		1/1		4/4	W	M
Karl Cloete	0/6		0/1			C	M
Malebo Mogopodi	6/6	1/3	1/1		3/4	B	F
Phindile Nzimande	6/6					B	F
Romano Daniels				8/8		C	M
Thapelo Molapo	6/6		0/1	6/8		B	M
Xolani Tshayana	6/6	3/3		6/8		B	M

\* Term of office ended 31 May 2011 as independent member of the Remuneration Committee

# Term of office ended 30 November 2011

### The Chairperson of the Governing Board and Deputy Chairpersons

The Chairperson of the Governing Board, who may not be the Chief Executive Officer at the merSETA, was appointed for a five (5) year term of office by the Minister of Higher Education and Training as per the merSETA Constitution.

Ms Phindile Nzimande was appointed as Chairperson of the Governing Board; she presides over meetings of the Governing Board and the Executive Committee and performs other duties associated with the position of a Chairperson.

Two (2) deputy Chairpersons were nominated and appointed by the Governing Board from organised labour and organised employers. Mr Xolani Tshayana represents organised labour whilst Ms Janet Lopes represents organised employers.

### The Chief Executive Officer

The Chief Executive Officer, Dr Raymond Patel, was appointed for a five (5) year term of office to March 2016 by the Minister of Higher Education and Training after approval by Cabinet. He is responsible for all management functions, amongst which are the implementation of the decisions of the Governing

Board and the promotion of the strategic planning and policy development. Dr Patel ensures proper and responsible control of the merSETA finances in compliance with the PFMA.

### **Delegation of Authority**

The merSETA operates within an established delegation of authority framework. The Governing Board delegates certain authority to management without relinquishing its duties and responsibilities. The Governing Board has reviewed and approved the delegation of authority framework during the year under review, to enhance efficiency in respect of decision making and performance within the merSETA.

### **Board Evaluation and Performance**

The Governing Board Self-Assessment was not conducted during the year under review against Accounting Authority duties as stipulated in the merSETA Constitution, the PFMA and Treasury Regulations as well as the principle of the Report on Corporate Governance for South Africa 2010 (King III Report) due to the fact that the Governing Board was only appointed on 1 April 2011. It will be done during the 2012/13 financial year and programmes will be implemented to address shortcomings identified in the Evaluation Report.

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

### **Induction and Orientation**

New members of the Governing Board went through an induction programme which sets out their fiduciary duties, responsibilities, the merSETA nature of business and the legislation applicable to the merSETA.

### **Members' Remuneration**

The merSETA Governing Board members are remunerated in accordance with Category S of the National Treasury circular on remuneration tariffs of office bearers which has also been approved by the Minister of Higher Education and Training.

### **Company Secretariat Function**

The Company Secretariat function resides within the Corporate Governance Division and its main function is to assist the Governing Board with Corporate Governance assurance as well as the

monitoring of merSETA compliance with the PFMA and other relevant legislation. The Governing Board members have unrestricted access to advice and services of the Corporate Governance Division.

### **Code of Conduct**

Members of the Governing Board are bound by the Code of Conduct included as Schedule 2 of the merSETA Constitution.

### **Conflict of interest**

To uphold their independence and integrity, members of the Governing Board disclose all material interests as they arise. There is a system in place where members' interests are formally recorded. Members are required to declare and update their activities at every meeting.

### **Committees of the Governing Board**

The following Committees have been established in terms of Schedule 5 (2) (1) and (2) and Schedule 5A of the merSETA Constitution:

- Executive Committee;
- Audit and Risk Committee;
- Remuneration Committee;
- Education, Training, Quality Assurance Committee;
- Finance and Grants Committee;
- Chamber Committees; and
- Regional Committees.

All committees operate within Terms of Reference which are regularly reviewed and approved by the Governing Board.

## **EXECUTIVE COMMITTEE**

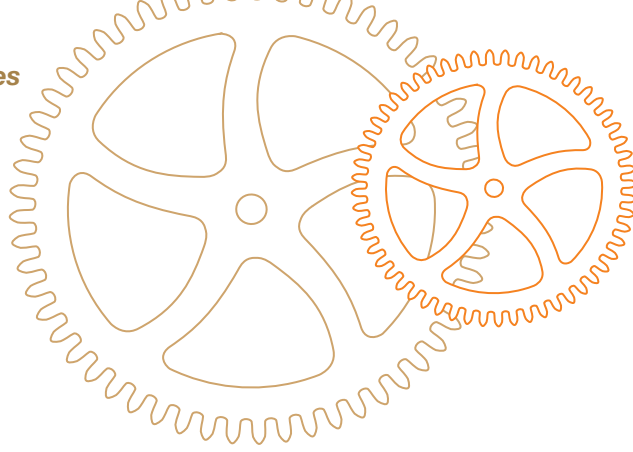
### **Composition**

The Executive Committee comprises five (5) members including the Chairperson, who equally represent organised labour and organised employers.

The Executive Committee is responsible for overseeing the management of the operational affairs of the merSETA. It also manages, coordinates and monitors the activities of Chamber Committees.

### **Meetings**

Three (3) meetings of the Executive Committee were held during the year under review.



## AUDIT AND RISK COMMITTEE

The Committee performs the functions as contemplated in the PFMA. It is responsible for, amongst other functions, ensuring the adequacy and effectiveness of the risk management process, internal control systems, the internal audit function and reviewing the annual financial statements to ensure that these have been prepared in accordance with the PFMA and related Treasury Regulations as well as the applicable accounting framework.

The Chairperson of the Audit and Risk Committee attends and presents a report to the Governing Board meeting (including the AGM) at least twice a year.

The Audit and Risk Committee operates in terms of the Terms of Reference (Audit Committee Charter) in accordance with Treasury Regulations.

The information regarding the composition and the meetings of the Audit and Risk Committee is covered in the chapter dealing with the Audit and Risk Committee Report.

## REMUNERATION COMMITTEE

### Composition

The Remuneration Committee comprises five (5) members, two (2) of whom are independent, two (2) members representing organised labour and organised employers and one (1) member who has been appointed by the Minister. One (1) independent member position has been vacant during the year under review. However, the selection process is under way.

### Purpose

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

relevant to the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer's performance in light of these goals and objectives and takes responsibility for all Human Resources related matters.

### Meetings

Eight (8) meetings of the Remuneration Committee were held during the period under review.

## EDUCATION, TRAINING, QUALITY ASSURANCE (ETQA) COMMITTEE

### Composition

The ETQA Committee comprises ten (10) members equally representing organised labour and organised employer.

### Purpose

The ETQA Committee is responsible for the oversight of the execution of the quality assurance functions and obligations of the merSETA on behalf of the Governing Board.

### Meetings

The Committee convened one (1) meeting during the year under review.

## FINANCE AND GRANTS COMMITTEE

### Composition

The Finance and Grants Committee comprises seven (7) members. Two (2) represent labour, two (2) represent employers, one is appointed by the Minister and there are two (2) independent members. The positions of independent members are currently vacant and the recruitment process to fill these positions is at an advanced stage.

## Purpose

The merSETA Finance and Grants Committee is responsible for the oversight role in respect of the management of Grant disbursement by the merSETA.

## Meetings

The Finance and Grants Committee convened four (4) meetings during the period under review.

## CHAMBER COMMITTEES

### Composition

The merSETA has five (5) Chamber Committees

- Automobile manufacturing;
- Metal and Engineering;
- Retail Motor and components manufacturing;
- New Tyre manufacturing; and
- Plastics manufacturing.

Each chamber consists of a maximum of eight (8) members who equally represent organised employers and organised labour plus two (2) alternates per chamber.

### Purpose

The Chamber Committee develops sub-sectoral inputs into the Sector Skills Plan, identifying education and training needs, makes inputs to education and training policies and monitors the development and implementation of learning programmes as well as other training in the sub-sector.

## STAKEHOLDER MANAGEMENT

The section of stakeholder management in the merSETA 2011 - 2012 Annual Report reflects on the activities of chambers and Regional Committees serviced through the chamber unit of the Corporate Governance division.

### Chambers

The merSETA's five chambers represent five main economic sub-sectors in the sector which include Auto manufacturing; Metal and Engineering; Motor Retail and components manufacturing; New Tyre manufacturing and Plastics manufacturing sectors.

Chamber committees are mainly responsible for identifying industry training needs and contributing to the development of the Sector Skills Plan.

## REGIONAL COMMITTEES

The merSETA Regional Committees form a strategic link with regard to the flow of information between chambers and merSETA Regional Committees structured in line with the country's nine provinces.

There are seven Regional Committees based at merSETA's seven Regional Offices, that is, Gauteng South; Gauteng North which includes the North West Province; Western Cape; Free State and Northern Cape; Mpumalanga and Limpopo; KwaZulu-Natal; and the Eastern Cape Regional office.

The period under review, being the first year of the National Skills Development Strategy III (NSDS III), ushered in new hope and revitalised commitment from merSETA stakeholders in their mission to deliver and make impact through the implementation of skills development and more particularly in those sub-sectors within the ambit of the merSETA.

### Objectives

The key objectives in the period 2011/12 have been the establishment of the merSETA chambers and Regional Committees in line with the new merSETA Constitution and the NSDS III mandate. These processes were followed by induction workshops initiating new and previous members into the brand merSETA.

### The achievements and highlights

- The Chamber Committee re-establishment process for the NSDS III term:

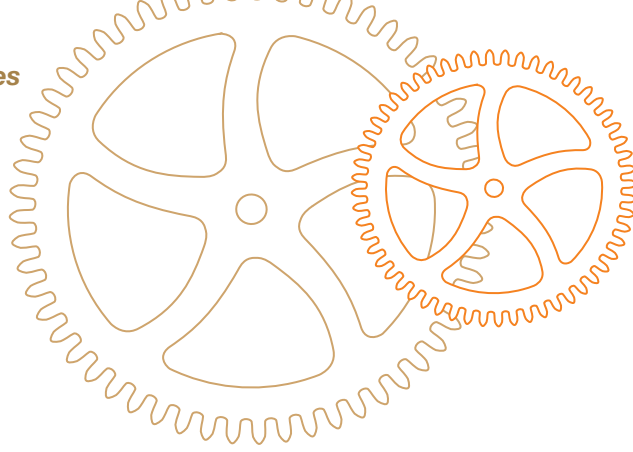
During the period under review, the merSETA successfully re-established the five (5) Chamber Committees in line with its new Constitution and the NSDS III.

The first year of the NSDS III saw the merSETA celebrate its renewal through welcoming both new and previous committee members across chambers, with new and re-energised office bearers looking forward to taking merSETA Chamber Committees to greater heights.

The new members brought in new thinking whilst long-serving members ensured much needed continuity to consolidate gains made in the past and sustain the organisation into the future presented in the NSDS III.

- The induction of the newly established Chamber Committees in line with NSDS III imperatives:





The transition of merSETA Chamber Committees from NSDS II to NSDS III was successfully achieved through the induction exercise that was conducted across all merSETA chambers. Key to the induction exercise was the orientation of new and long-serving committee members to the new merSETA Constitution and how merSETA has reorganised itself to respond to the NSDS III mandate. The key responsibilities of the Chamber Committees are spelled out in the new merSETA Constitution.

It became necessary during the period under review and the implementation of the NSDS III that the Chamber Unit of the merSETA, together with the newly-established chamber committees, strongly consider drawing up a capacitation programme reflecting more detail around the changes expected with the commencement of the NSDS III and the broad National Development Plan (NDP).

The capacity-building workshop commenced with the inter-chamber workshop held in March 2012. Topics included the following:

- The merSETA Strategic Imperatives and Performance Plan;
- The new merSETA Innovation, Research and Development division – the reinvention of the previous Projects Division;
- Latest developments with the Quality Council for Trades and Occupations (QCTO); and
- The Department of Higher Education and Training (DHET) Green Paper for Post-School Education and Training.

#### **Proposed goals for the new financial year (2012/13)**

The year under review (2011/12), given the number of activities carried out with the newly-established Chamber Committees for the new NSDS III term, can be described as providing building blocks for the next financial year. In the new financial year, the merSETA will continue to partner with public and private strategic stakeholders in its quest to close the skills gaps.

#### **Significance and Materiality Framework**

The Treasury Regulations issued in terms of the Public Finance Management Act require that the Governing Board compile and agree on a materiality and significance framework of acceptable levels with the Department of Higher Education and Training. The approval has been agreed to and approved by the Minister through the Service Level Agreement.

#### **Risk Management**

The Governing Board is responsible for the merSETA risk management process. The Audit and Risk Committee assists the Governing Board in carrying out its risk management responsibilities. The Governing Board has delegated to management the responsibility to design, implement and monitor risk management within the merSETA.

The merSETA continuously strives to improve its risk management processes and a risk assessment process is performed regularly to ensure a continual and effective risk management environment.

#### **Sustainable Development**

The merSETA commits to sustainable development by making sure its operations take cognisance of the environmental, social and economical impact by adopting strategic objectives. This is evident in the reviews and reports presented in this Annual Report.

### **QUALITY MANAGEMENT SYSTEMS**

The merSETA has, and continues to maintain, good relationships with its independent certification body -- PricewaterhouseCoopers. The results of the audit assessments have indicated the good strides that the organisation has made in maintaining the ISO 9001:2008 status quo.

The merSETA has entered its third year of its certification through ensuring that 19 non-conformances issued in 2011/2012 compared to

14 in 2010/2011 have been effectively implemented by the various units as part of the continuous improvement of our processes, systems and, ultimately, service delivery.

The year under review saw the issuing and processing of 30 internal non-conformances as compared to 25 in 2010/2011, indicating that processes that were not incorporated into the quality management system have been identified and are now part of the system.

The processing of 53 document change requests in 2010/2011 compared to 56 in the year under review as a result of the above non-conformances assisted the merSETA in ensuring that newly-developed and revised policies and procedures were approved for implementation by the various units.

The implementation of the complaints email and the subscription to Hellopeter.com has been beneficial to both the merSETA and stakeholders. The intention of the e-mail and the subscription was to create a platform for our stakeholders to express any dissatisfaction with the service that the

merSETA provides, thereby improving our systems, processes and service delivery.

During the year under review, the merSETA recorded 15 expressions of dissatisfaction from stakeholders as compared to 20 in 2010/2011, indicating that the merSETA continuously improves on concerns raised by stakeholders by taking corrective action to minimise expressions of dissatisfaction.

Our stakeholders played a critical role in ensuring that the merSETA was complimented accordingly for going the extra mile in the delivery of service. The above was evident based on the compliments recorded from 85 in 2010/2011 to 101 in the year under review.

The unit has conducted Quality Awareness Training for staff members as part of building a culture of quality and played a role in ensuring that the organisation contributed to the merSETA vision of “leaders in closing the skills gap”. Through the quality awareness training feedback, it was evident that the quality training was not only beneficial to merSETA staff but also to staff households.



## THE merSETA PERFORMANCE AGAINST NSDS III TARGETS 2011/2012

2011 marked the start of the third phase of the National Skills Development Strategy (NSDS III), which brought changes in terms of national skills priorities, as well as a more distinct emphasis on the need for SETAs to measure and report on the qualitative impact of their skills development investments.

The DHET developed a new quarterly monitoring reporting template with a total of 28 indicators against which SETAs were requested to develop targets and report performance. After considering various factors, including previous performance, current resource capacity and established partnerships, the merSETA submitted targets (as shown in Table 1 below).

During the strategic planning workshop of the Governing Board (September 2011), eight specific programme goals were developed based on the goals of the NSDS III, and strategic objectives and outcomes were developed against each of the eight goals. The 28 indicators were divided amongst these eight programme goals as shown in Table 1 and these were represented in the same way in the merSETA Strategic Plan and Annual Performance Plan.

Actual performance was reported against targets throughout the four quarters of 2011/12 and the total performance against targets is shown in the same table, both as a number and a percentage.

Overall, the merSETA has shown very good performance across all 28 indicators, particularly in the entry and completion of learnerships, skills

programmes, internships, artisanal trades, work experience and work-placements, all of which are reported at over 120% achievement against set targets.

In addition, the merSETA has exceeded 120% achievement against indicators related to the establishment of partnerships with FET colleges, the provision of career guidance within the sector as well as support provided to small businesses, CBOs and NGOs. Financial support provided to small, medium and large companies in the form of mandatory grants has also exceeded the set target (over 120% achievement). The merSETA has developed a large number of projects and partnerships to address the pressing needs of the sector as well as to respond to national skills priorities. Table 1 shows the details of the different initiatives that have assisted the merSETA in meeting and exceeding its targets for the 2011/12 financial year.

As we enter the second year of NSDS III, the merSETA is focusing its efforts not only on sustaining good performance against quantitative targets, but also on developing indicators to enable measurement of qualitative performance and impact, which is a key priority of NSDS III.

## NSDS II IMPACT EVALUATION

The merSETA commissioned an evaluation study on the impact of its interventions during the term of the National Skills Development Strategy II. The objective of the evaluation was to assist the merSETA in gaining an improved understanding of bottlenecks and drawbacks to efficient, effective, economic and equitable service provision to the sector. The impact study is currently drawing to a close and the first draft report is under development. Once complete, the final report will be available for download from the merSETA website.

NSDS III Goal	the merSETA Programme Goal & Outcome	Performance Indicator	Target 2011/2012	Achievement 2011/12	Variance Explanation
4.2 Increasing access to occupationally-directed programmes	Increased access to occupationally-directed programmes	Employed Bursaries Entered	120	130	Target has been exceeded by an additional 10 bursaries. It is difficult to accurately predict bursary uptake.
		Employed Bursaries Certified	55	52	Target has been under-achieved by only 3 completions. These bursars are all studying via correspondence as they are employed and they often take longer to complete than expected. Further to this, drop-outs are common due to job changes.
		Unemployed Learnerships Entered	2 250	3 619	Target has been exceeded by 1369 learnerships. This is one of the merSETA's core functions and is well-supported through discretionary grant funding.
		Unemployed Interns Entered	200	320	Target has been exceeded by 120 interns. This is a key core area for the merSETA that has not previously enjoyed significant uptake by employers. The merSETA has therefore initiated a number of partnerships with institutions (e.g. UJ & NMMU) as well as the EC Provincial Government in order to address this.
		Unemployed Bursaries Entered	230	278	Target has been exceeded by 48 bursaries. There are many more deserving applicants than bursaries available. The merSETA makes an effort to maximise the number of students in line with available funding.
4.2 Increasing access to occupationally-directed programmes	Increased access to occupation-directed programmes	Unemployed Skills Programmes Entered	1 000	1 978	Target has been exceeded by 978 skills programmes. A number of partnership projects have been initiated with Provincial governments (e.g. Free State Blood Hound project and NC Household project) in various skills programmes.
		Unemployed Learnerships Certified	1 400	2 544	Target has been exceeded by 1 144 learnership completions. This is one of the merSETA's core functions and is well-supported through discretionary grant funding.
		Unemployed Internships Certified	100	142	Target has been exceeded by 42 internship completions. Internships run for a duration of approximately 6-12 months and these completions stem mainly from entries from the previous year. Completions are also incentivised by the discretionary grant system.
		Unemployed Bursaries Certified	42	43	Target has been exceeded by 1 bursary completion. The merSETA is making an effort to maximise the number of students graduating via a mentoring intervention which has recently been introduced.



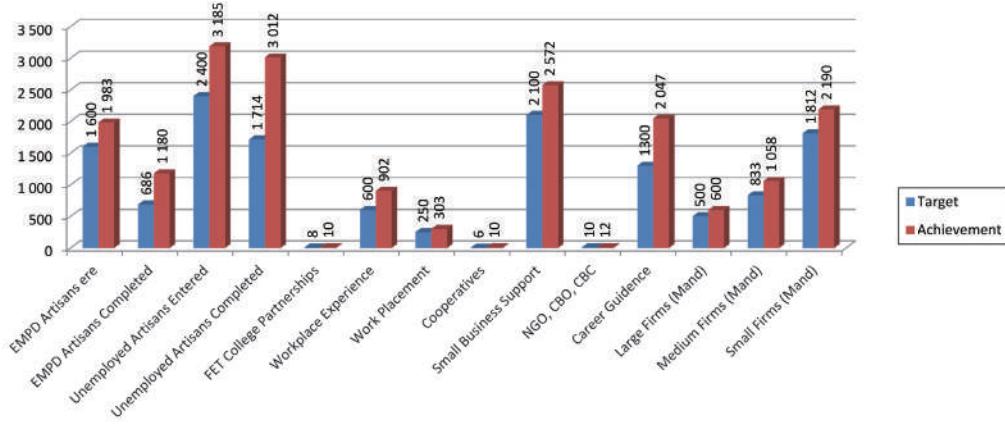
NSDS III Goal	the merSETA Programme Goal & Outcome	Performance Indicator	Target 2011/2012	Achievement 2011/12	Variance Explanation
4.2 Increasing access to occupationally-directed programmes	Increased access to occupation-directed programmes	Unemployed Skills Programmes Certified	250	551	Target has been exceeded by 301 skills programme completions. This corresponds to more than 200% achievement of the target. A number of partnership projects have been initiated with Provincial governments (e.g. Free State Blood Hound project and NC Household project) in various skills programmes. Completion is also supported and incentivised through the discretionary grant funding system.
		Total employed Artisans Entered	1 600	1 983	Target has been exceeded by 383 artisans. This is a core merSETA function which is incentivised through the discretionary grant system as well as a dedicated Accelerated Artisan Training Programme.
		Total employed Artisans Certified	686	1 180	Target has been exceeded by 494 artisan completions, which corresponds to more than 170% achievement against target. These completions stem from entries from previous years and are supported through the discretionary grant monitoring system. In addition, the Accelerated Artisan Training Programme assists with successful completion.
4.2 Increasing access to occupationally-directed programmes	Increased access to occupation-directed programmes	Total Unemployed Artisans Entered	2 400	3 185	Target has been exceeded by 785 artisans. This is a core merSETA function which is incentivised through the discretionary grant system as well as a dedicated Accelerated Artisan Training Programme.
		Unemployed Artisans Certified	1 714	3 012	Target has been exceeded by 1 298 artisan completions, which corresponds to more than 175% achievement against target. These completions stem from entries from previous years and are supported through the discretionary grant monitoring system. In addition, the Accelerated Artisan Training Programme assists with successful completion.
		Work Experience	600	902	Target has been exceeded by 302 people offered work experience in the sector. This is a key core area for the merSETA that has not previously enjoyed significant uptake by employers. The merSETA has therefore initiated a number of partnerships with institutions (e.g. UJ & NMMU) as well as the EC Provincial Government in order to address this.

NSDS III Goal	the merSETA Programme Goal & Outcome	Performance Indicator	Target 2011/2012	Achievement 2011/12	Variance Explanation
4.3 Promoting the growth of a public FET college system that is responsive to sector, local, regional and national skills needs and priorities	Promote the responsiveness of FETs to Sector Skills Needs	FET College Partnerships	8	10	<p>Target has been exceeded by 2 additional partnerships formed with FET colleges. It is the merSETA's mission to structure partnerships with FET Colleges throughout the country. There are ±50 FETs nationally and the merSETA planned to have formal partnerships with at least 10 (20%) of colleges this year.</p> <p>Because these partnerships will be developed around key areas and niche markets of colleges, establishing partnership agreements is not a simple matter. Further to this, the merSETA would like to have partnerships with colleges in all provinces, and not focus only on one or two provinces.</p>
4.4 Addressing the low level of youth and adult language and literacy skills, to enable additional training	Increased access of youth and adults to AET Programmes in support of additional training	Employed Skills Programmes Entered	3120	3830	Target has been exceeded by 710 workers entering skills programmes. This is one of the merSETA's core functions and is well-supported through discretionary grant funding.
		Employed Skills Programmes Certificated	1500	2008	Target has been exceeded by 508 workers completing skills programmes. This is one of the merSETA's core functions and is well-supported through discretionary grant funding.
4.5 Encouraging better use of workplace-based skills development	Improved workplace equity and enhanced workplace productivity	Workers completed learnerships	1040	1650	Target exceeded by 610 workers completing learnerships. This is one of the merSETA's core functions and is well-supported through discretionary grant funding.
		Workers registered on to learnerships	1800	2432	Target exceeded by 632 workers entering learnership programmes. This is one of the merSETA's core functions and is well-supported through discretionary grant funding.
4.5 Encouraging better use of workplace-based skills development	Improved workplace equity and enhanced workplace productivity	Work placement	250	303	Target exceeded by 53 additional people placed within the sector. This target has not been easy to achieve. The merSETA has developed improved relationships with participating companies and this has resulted in a more advanced learner tracking system.
		Mandatory grants paid to large firms	500	600	Target exceeded by 100 additional firms to which mandatory grants were paid. Extensive marketing was carried out by the merSETA through regional roadshows to guide employers on the use of the new SMS system. Regional satellite-based work stations at providers that have IT facilities (e.g. FET colleges) have been established to assist employers in completion and submission of WSP/ATRs.

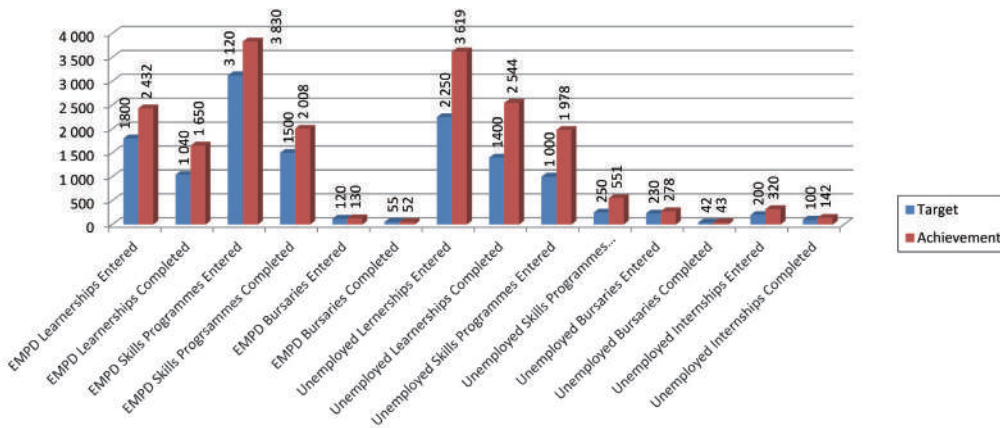


NSDS III Goal	the merSETA Programme Goal & Outcome	Performance Indicator	Target 2011/2012	Achievement 2011/12	Variance Explanation
4.5 Encouraging better use of workplace-based skills development	Improved workplace equity and enhanced workplace productivity	Mandatory grants to medium-sized firms	833	1 058	Target exceeded by 225 additional firms to which mandatory grants were paid. Extensive marketing was carried out by the merSETA through regional roadshows to guide employers on the use of the new SMS system. Regional satellite-based work stations at providers that have IT facilities (e.g. FET colleges) have been established to assist employers in completion and submission of WSP/ATRs.
4.5 Encouraging better use of workplace-based skills development	Improved workplace equity and enhanced workplace productivity	Mandatory grants paid to small firms	1 812	2 190	Target exceeded by 378 additional firms to which mandatory grants were paid. Extensive marketing was carried out by the merSETA through regional roadshows to guide employers on the use of the new SMS system. Regional satellite-based work stations at providers that have IT facilities (e.g. FET colleges) have been established to assist employers in completion and submission of WSP/ATRs.
4.6 Encouraging and supporting cooperatives, small enterprises, worker-initiated, NGOs and community training initiatives	Encouraging and supporting Cooperatives, Small Enterprises, Worker-initiated, NGO and Community Training Initiatives	Cooperatives supported by the merSETA	6	10	Target exceeded by 4 cooperatives supported by the merSETA. The merSETA has a dedicated project aimed at assisting Cooperatives through supporting them to meet the development requirements for funding.
		Small businesses supported by the merSETA	2 100	2 572	Target exceeded by 472 small businesses supported by the merSETA. The merSETA has supported small companies with skills planning and implementation. On-going support is provided by Client Liaison Officers.
		NGOs, CBOs and CBCs supported by the merSETA	10	12	Target exceeded by 2 additional organisations/ cooperatives supported. The merSETA has a dedicated project aimed at assisting NGOs, CBOs and CBCs through supporting them to meet development requirements for funding.
4.8 Building career and vocational guidance	To position the Manufacturing, Engineering and related services industry as providing attractive pathways for personal and career development to young people	Career guidance provided by the merSETA	1 300	2 047	Target exceeded by additional 747 persons supported with career guidance. The merSETA has conducted at least 2 roadshows in each magisterial district on skills development and career guidance, as well as exhibitions at schools, FET colleges and other providers.

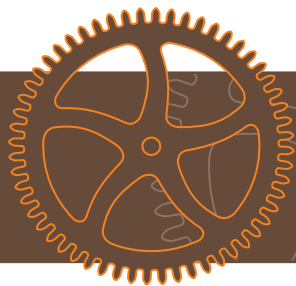
**FIGURE 1: OVERALL PERFORMANCE AGAINST TARGETS (PART I)**



**FIGURE 2: OVERALL PERFORMANCE AGAINST TARGETS (PART II)**







## TEAM SA - REMARKABLE IMPROVEMENT

Team South Africa came back with their heads high from competing in London at the WorldSkills competition. South Africans vied for top honours in their chosen trades. The competition was held over four days at the ExCel London exhibition centre in the United Kingdom between October 5 and 8.

More than 150 000 visitors graced the event, which saw 1 000 artisans from throughout the world compete against each other. Team SA sent eight competitors and they didn't disappoint - the results revealed a significant improvement. Out of 48 countries that took part, Team SA moved up the ranks and is currently ranked 42 compared to the 2009 results when it was ranked 47.

WorldSkills is a biennial event that showcases the skills of young people (younger than 23 years) in 46 skills categories including landscape gardening, graphics design, automobile technology, beauty care, welding, mechatronics, refrigeration and floristry to name a few. WorldSkills is open to agencies or bodies promoting vocational education and training in their respective countries/regions.

It provides a unique means of exchange and comparison of world-class competency standards in industrial trades and service sectors of the global economy. The merSETA and Services Seta once again were the driving force behind the country's participation in WorldSkills.

Given the imperative of developing a skilled work force that is employable and globally competitive, the two Setas have been providing the funding and scouting the country for skilled competitors for the competition since 2003.

Commenting about the benefits of participating in the competition, the technical delegate for South Africa, Mr Andre Vermeulen, says it allows for the benchmarking of skills taught in each country against the highest levels in 46 skills areas.

This year, South Africa competed in six skills areas namely welding, mechatronics, autobody repairs, refrigeration, automobile technology and mobile robotics.

"Our young skilled professionals got an opportunity to test their 'real world' skills against the most highly skilled competitors in the world," said Mr Vermeulen. The London competition saw the return of SA's participation in automobile technology and auto body repairs, two skills areas where we have not competed since 1999.

"The competition was an exploratory one for these skills so that we can touch base with the latest technologies, techniques, processes and assessment procedures internationally in preparation for the 2013 competition.

"As for mechatronics, mobile robotics, refrigeration and welding, this was a third attempt to improve on the results achieved in previous competitions. An enormous effort at great cost due to geographical logistics has gone into the training of competitors; it was now up to them to achieve the best results they can," he explained.

Welder Chris Van Zijl represented South Africa at the 41st WorldSkills Competition and says it was a great honour for him to represent the country. Van Zijl holds the title of The Southern African Institute of Welding (SAIW) 2010 Young Welder of the Year.

"It was a very big break for me and I am privileged to have been afforded an opportunity to represent my country," says the 21 year-old from the Eastern Cape Midlands FET College.

"The competition has helped to raise my profile locally and competing with the world's best was a dream come true for me."

Besides the eight competitors, the two Setas also sent a delegation of trade experts to the competition as a learning experience. These experts brought back to SA new insights regarding latest technologies and trends.

They will also assist in preparing the next generation of WorldSkills competitors and in encouraging more young people to pursue technical and vocational careers – an area where there is a dire shortage of skills.

South Africa is not alone in promoting vocational training and the trades - the biggest name in UK vocational education, City & Guilds, has for the past six years produced the Vocational Rich List. The list charts the wealth of UK millionaires – dubbed “skillionaires” - who made big money while following vocational careers.

“You don’t need to marry into money, appear on Big Brother or go to university to become rich. The City & Guilds Vocational Rich List shows all you need is talent and ambition to become the next ‘Skillionaire’,” Aidan Jones, chief executive of WorldSkills London 2011, commented.

“The competition aims to open people’s eyes and capture people’s imaginations, allowing thousands to discover their career aspirations and show that you can achieve your ambitions through skills.”

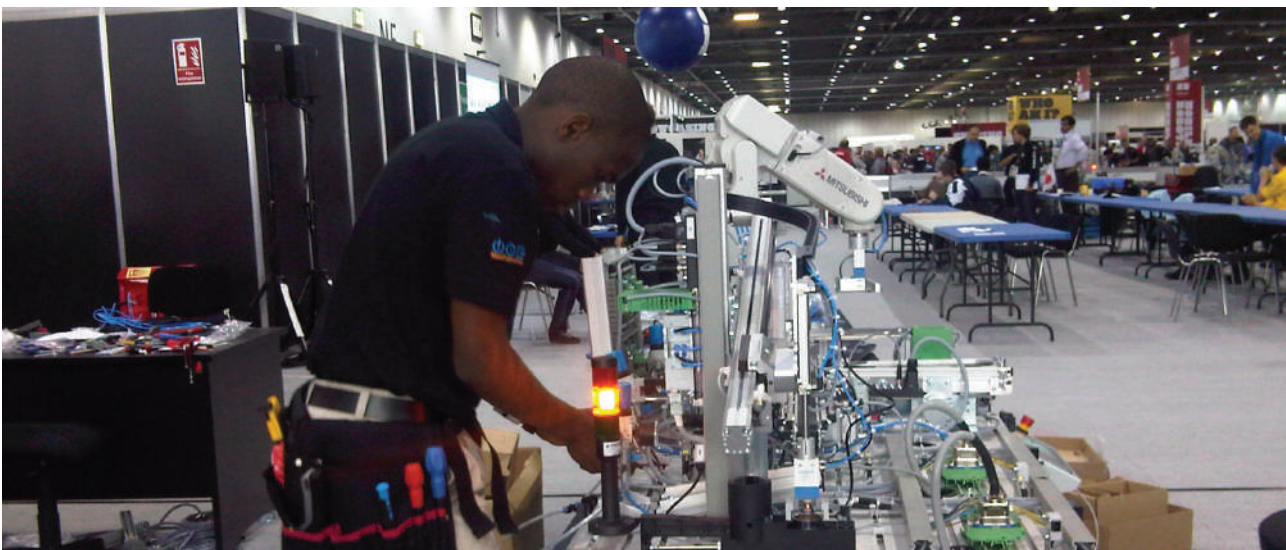
The SA delegation consisted of eight competitors, 15 experts, three officials and the head of the delegation was the merSETA CEO, Dr Raymond Patel.

The eight-man competitor’s team competed in six skills areas: welding - Christiaan van Zijl; Mechatronics - Tulani Mzayidume and Khumbulani Sigenu; mobile robotics – Tremaine Ferrira and Allan van den Berg; refrigeration - Dewet Britz; Auto Body Repair - Tasleem Nicholas; Auto Technology - Frederik Bezuidenhout.

**SA participation in WorldSkills through the years**

- 1990 - South Africa becomes a member of WorldSkills International;
- 1993 - Competition held in Taiwan. SA sent 12 competitors to the then Youth Skills Olympics;

- 1995 - Competition held in France and then called EUROEXPO. Total of 28 countries, 478 competitors and 350,000 visitors participated. SA competed in 14 competitions and improved its performance;
- 1997 - WorldSkills competition held in Switzerland. SA competed in nine competitions but struggled to perform due to lack of exposure to high level of technology;
- 1999 - WorldSkills held in Canada. Total of 33 countries and 567 competitors. SA competed in six areas demonstrating much improved performance;
- 2001 - WorldSkills in South Korea. South Africa’s membership halted due to the implementation of the new Skills Development Act;
- 2003 - WorldSkills Switzerland. South Africa’s membership is reinstated with Services Seta driving the process in an attempt to create an international platform as a benchmark for SA skills. SA competed with 36 member countries in only one competition, namely hairdressing;
- 2005 - Competition held in Finland. Thirty-four countries and 696 competitors. Services Seta and Chemical Seta funded participation of four South Africans;
- 2007 - Competition held in Japan. Total of 46 countries, 706 competitors. Services Seta and the merSETA funded participation of six SA competitors;
- 2009 - WorldSkills in Canada with 46 countries and 845 competitors. Services Seta and the merSETA supported the participation of 12 South Africans;
- 2011 - WorldSkills in London. The merSETA and Services Seta covered the costs of participation of eight competitors and supporting team. Forty-eight participating countries.



The merSETA participant in the World Skills Competition



The merSETA Eastern Cape Client Liaison Manager, Mr Zwelethemba Ngayeka, and high flying Vuyisile Ngema

## HARDWORK AND FORTITUDE PAY-OFF

Leaving behind his family to work in the city of gold as a core driller was a dream for Vuyisile Ngema.

“Things didn’t work out for me in Johannesburg and I decided to go back home to the Eastern Cape. After working as a tyre-fitter, I joined Coca Cola Fortune as a workshop shop assistant,” explains Vuyisile.

With the passion and the drive to achieve even more, he felt a missing link in his career – the desire to be a qualified diesel mechanic. This meant he had to undergo a trade test assessment.

In 2006, he applied for the section 28 trade testing with guidance and assistance from the merSETA Eastern Cape Regional Office. He was advised to undergo a pre-assessment and to improve his education. In 2007, he enrolled for the Adult Basic Education (ABET) course. “It was very difficult but I knew what I wanted and in 2009 I successfully obtained my ABET level 4 certificate,” comments Vuyisile.

It is often the last key in the bunch that opens the lock. After four unsuccessful attempts, Vuyisile achieved success in the January 2011 test and was issued with a trade test certificate.

Indeed, life is not about how fast you run or how high you climb, but how well you bounce back. He passed the practical trade test at DTTC in the Eastern Cape in April this year with distinction.

He extended his gratitude to Coca Cola, ABET Educator Mr Fred Ras and the merSETA for their assistance in closing his educational gaps and making his dream come true.

He now calls himself a “Diesel Mechanic-Ambagsman”, and is now in a position to send his children to university and provide his family a better life.

Vuyisile is living testimony of not knowing how many miles you have to run when chasing a dream. As Ralph Waldo Emerson put it: “Our greatest glory is not in never failing, but in rising up every time we fail”.

The merSETA is proud of playing its part in closing the skills gap; Vuyisile can take a bow for his relentless effort and determination.

## DRIVING MEANINGFUL UPLIFTMENT OF PEOPLE WITH DISABILITIES

It was James Keller who once said a candle loses nothing by lighting another candle. This was the case when Volkswagen South Africa, the merSETA, Shangri-La Community Development Project and Training Excellence joined hands in equipping disabled people with certificates in Business Administration NQF Level 3. It all culminated in a graduation ceremony which took place in Johannesburg recently where 58 people with disabilities graduated in business administration.

This learnership combined quality training in a classroom environment with work experience within the Volkswagen and Audi dealer network and internal departments at Volkswagen South Africa.

“We applaud the Dealer Principals and mentors at our dealerships, as well as the managers and the mentors at our Volkswagen Group South Africa head office, who did an outstanding job in terms of providing on-the-job guidance and coaching for our 2011 learners,” commented Volkswagen Group Training Academy Quality Manager, Ms Terri Russell.

Strong partnership and team work have enabled this learnership to grow from humble beginnings in 2009 to an industry benchmark in 2012.

Speaking at the graduation ceremony, Ms Russell commended the stakeholders involved in the project for overcoming the challenges to make the project a success.

The long-standing relationship between Volkswagen Group South Africa, the merSETA and two key service providers, Shangri-La Community Development Project and Training Excellence, has enabled this learnership to grow from strength to strength in a four-year period.

The focus has shifted from providing an opportunity for people with disabilities to gain a qualification to finding employment for successful candidates. A total of 27 learners (41% of the total group) have gained employment.

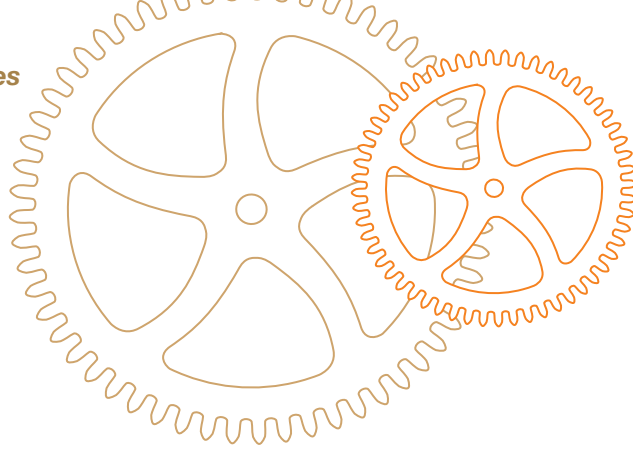
Factors that have enabled the success of this learnership include:

- A stringent recruitment and assessment process;
- Professional project management by a dedicated team of people who have expertise in dealing with the unique issues facing this group of learners;
- A dedicated team of trainers, assessors and moderators who are prepared to go the extra mile to ensure all learners who complete the year gain their qualification;
- Sufficient resources to ensure quality output (people and money);
- Daily management of EQ and work readiness;
- A targeted EQ and work readiness; and
- A targeted approach to ensuring the qualification meets the demands and needs of the workplace.

Among the graduates was Mr Heiron Joseph, a quadriplegic who was recruited by Volkswagen Group South Africa for a learnership in 2011.



Dr Raymond Patel and Ms Mususumeli Mutshushu handing over the certificate to one of the graduates



Mr Joseph broke his neck in a vehicle accident. An accident like that can change your life in an instant, but it is your attitude and the support you receive that can turn a potential tragedy into a success story.

“Everyday, it’s a challenge. When I wake up in the morning, I’ve got to motivate myself. I’ve decided that nothing is going to get me under. I just need to focus and carry on with life,” says Mr Joseph. He is one of 58 dedicated individuals who overcame personal challenges to achieve a Certificate in Business Administration in 2011.

Volkswagen Group South Africa has continued its commitment to training and employing people with disabilities – contracting another 50 learners from 1 February 2012 on an NQF level 4 Business Administration Learnership.

Delivering the keynote address at the graduation ceremony of the 2011 Learners with Disabilities, the merSETA CEO Dr Raymond Patel said empowering the less-abled is a venture worthy of the highest praise.

“It is noteworthy that Volkswagen Group South Africa has chosen to continue its training initiatives in spite of the recession. But it is the focus on the less-abled that warrants accolades for Volkswagen Group South Africa,” said Dr Patel.

Dr Patel pointed out that many companies believe the obstacles for people living with disabilities are too large to surmount. “But today is proof that the reverse is true. Last year, VWWSA went out of its way to train the less-abled. And today’s graduates prove the company’s efforts are not once-off.”

He added that empowering the less-abled is a venture worthy of the highest praise.

Dr Patel pointed out that many companies believed that obstacles for those not fully functional are too large to surmount.

Dr Patel reiterated the importance of making graduations ceremonies a norm in championing skills development for all.

## **EASTERN CAPE - RECLAIMING ITS PLACE IN THE SKILLS DEVELOPMENT REVOLUTION**

Celebrations around Mandela Day resonated strongly in the Eastern Cape, where the East London Industrial Development Zone (ELIDZ) held a glittering graduation ceremony for 72 learners.

The Eastern Cape Strategic Skills Project, which is coordinated by the province’s Office of the Premier, is funded by the National Skills Fund and runs in partnership with district municipalities, IDZs, SETAs, FET colleges and various provincial departments.

Aimed at making a strategic economic contribution to the Eastern Cape Provincial Gross Domestic Product (PGDP) by developing critical and scarce skills among the youth, the project provides effective work-based training and learning within industry.

The project yielded fruit recently when learners graduated in the following trades: National Certificate: Welding Application and practice NQF L2-12; National Certificate: Welding Application and practice NQF L3-12; National Certificate: Automotive Component Manufacturing and Assembly NQF L2-12; National Certificate: Automotive Component Manufacturing and Assembly NQF L3-18; National Certificate: Mechatronics NQF L2-8 and National Certificate: Fitting and Machining NQF L3-8.

Speaking at the graduation ceremony, the merSETA Chief Operations Officer, Mr Wayne Adams, said it was inspirational that during the week of the Mandela Day celebrations, the 72 graduates were receiving their certificates.

Flanked by their parents and family members, graduates were in high spirits as Mr Adams pointed out: “As has been said, there is no passion to be found playing small – in settling for a life that is less than the one you are capable of living. A man who devoted 67 years of his life to public service, Madiba sets the standard for service worldwide, whether we are students, shopkeepers or farmers, cabinet



The merSETA and East London Industrial Development Zone graduates

ministers or presidents. He calls on us to serve our fellow human beings, and better our communities.” Mr Adams pointed out that the merSETA is known as the artisan and engineering hub.

“We’re known as this hub because of our stakeholders and the role they play in the well-being of the merSETA. The field of engineering, whether we are referring to the trades, technicians, engineers or research and development in this context, means that we have to ensure there is a continuous supply of qualified people for this skills pipeline.

“It also means that there are ample opportunities for our learners in career development, as well as lifelong learning. However, we can only do this and provide these skills development opportunities if we work together. These initiatives would also not be possible without the employers and industry. We celebrate the success of our learners as a family of collaborative partners and merSETA is proud to be of support in this partnership.”

MEC for Education in Eastern Cape, Mr Mandla Makupula, said the graduation was the culmination of work begun in 2007.

“South Africa is part of the constantly changing world.... 2008-2009 saw massive job losses in the manufacturing sector as a result of the economic meltdown. The 2009 Ford survey indicated that three million young people between 18-24 years are unemployed in South Africa or have no formal education.”

Mr Makupula urged young people to make use of education and training opportunities to make a better life for themselves and their communities.

Ecstatic about his achievement, Automotive Component graduate Mr Wanda Ntwana said his training had opened a new vista in his chosen discipline.

“It was never easy - there were challenges along the way. The theory we learned at college as well as the practicals we were doing at the plant were not the same. Practical are more intense, whilst theory makes things look easier.”

He pointed out that he would use his acquired skills to fulfil his childhood dream.

Ms Nondumiso Ntlongweni, who graduated in fitting and machine level 4, said being a woman and disabled made no difference to her dream.

“I never doubted my abilities and potential as a person. As a woman, especially a disabled person, you need to have a thick skin. I told myself that I am not going to let anyone discourage me. As a person, you don’t need people feeling sorry for you - you need to make things happen. I am standing here today proud of what I have achieved; it’s a wonderful feeling to know that I can now operate a machine.”

As the merSETA we join in congratulating the graduates. We call on them to make South Africa a better country by using their skills in a meaningful manner. They resemble the embodiment of hope and a brighter South Africa.



The merSETA provided funding for the training of hearing impaired students

## DEAF STUDENTS GRADUATE FROM WHISPER BOAT BUILDING ACADEMY

The first group of 18 deaf students enrolled at the Whisper Boat Building Academy (WBBA) graduated with sterling honours in the art of boat building, showing that people with disabilities can reach the same heights as others.

Statistics shows that 40% of young South Africans between 16 and 25 years are unemployed and do not go to school. Disabled people have an even larger challenge and face greater obstacles as there are not many opportunities or job facilities that cater for their specific needs.

The regional training manager at Plastics|SA, Mr Jo Fitzell, was pleased with the support from the Manufacturing, Engineering and Related Services Seta (the merSETA).

“Our heartfelt gratitude to the merSETA for the grant they provided in training these students. They learned valuable skills in the past six months. These skills will help them become active and contributing members of our nation’s workforce.”

This sentiment was echoed by Mr Anton Hanekom, Executive Director of Plastics|SA, the umbrella organisation for the local plastics industry and leading provider of education and training services in the plastics and related sector.

“There is a shortage of skilled labour in the fibreglass industry and the deaf students, who managed to successfully complete the six months training, offer a welcome relief to this scarcity. Although this has been a steep learning curve for everybody involved in this project, it has also been very rewarding,” said Mr Hanekom.

Mike Harvey, of the Whisper Boat Building Academy - a non profit organisation that has been teaching deaf students from disadvantaged communities the art of boat building in Khayelitsha since 2004 - said they had reached important milestones with the partnership. This included moving to new and centrally located premises as well as equipping and creating new, basic sign language signs for concepts and terminologies used in the industry every day.

“Although the learning process is ongoing, these graduates are now in the ideal position to be employed as apprentices”, he said.

One of the students, Dirk Smit, who suffered serious injuries during an explosion that left him blind in one eye and injured in one leg 10 years ago, in addition to being deaf, was on cloud nine and couldn’t contain his excitement.

“It was the first time I have worked with laminates, but I was able to apply my past knowledge and experience in boiler-making and I am thankful for the opportunity to again work with my hands and feel the pride of seeing a job well done.”

Mr Hanekom said the initiative was bound to grow both in the number of students who graduate and the number of businesses that partner with us.

“We are therefore calling on local businesses to help us provide these students with practical hands-on experience in a variety of fields in the plastics industry, ranging from working as laminators for boat builders, to swimming pool constructors, canopy constructors and other composite fields,” concluded Mr Hanekom.



## REPORT OF THE AUDIT AND RISK COMMITTEE

**Report of the Audit and Risk Committee required by Treasury Regulations 27.1.7 and 27.1.10 (b) and (c) issued in terms of the Public Finance Management Act 1 of 1999, as amended by Act 29 of 1999**

We are pleased to present our report for the financial year ended 31 March 2012.

### Audit and Risk Committee Members and Attendance

The Audit and Risk committee consists of a maximum of five members of which three are independent members and two are non executive members of the Governing Board. The Chief Executive Officer, Chief Financial Officer, Chief Operations Officer, representative(s) of the Auditor-General of South Africa and representative(s) from the outsourced Internal Audit Firm attend meetings in terms of the charter. The committee met five times during the financial year as per its approved terms of reference.

Name of Member	Number of Meetings Attended
A Mashifane (Chairperson)*#	5
JL Davis (Independent)*	2
D de Villiers (Non -executive)* <sup>1</sup>	2
F Mukaddam (Independent)#	3
T Mashanda (Independent)*#	5
C Murray (Independent)*	2
J Olivier (Non- executive)* <sup>1</sup>	2
W Sibuyi (Independent)*	1

\* Term of office ended 30 September 2011 due to a reduction in the number of members serving on this Committee in line with the new dispensation

# Appointed 1 October 2011

\*# Reappointed 1 October 2011

<sup>1</sup> Term of service started 1 October 2011 (also a member of the Governing Board)

### Audit and Risk Committee Responsibility

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

### The effectiveness of internal control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the Audit and Risk Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk assessment process; adoption of risk based approach, as well as the recommendation of corrective actions where defective controls have been identified together with enhancements to the controls and processes.

From a review of various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements, and management letter of the Auditor-General of South Africa, the committee noted that the system of internal control was not entirely effective for the year under review as compliance with prescribed policies and procedures was lacking in certain instances.

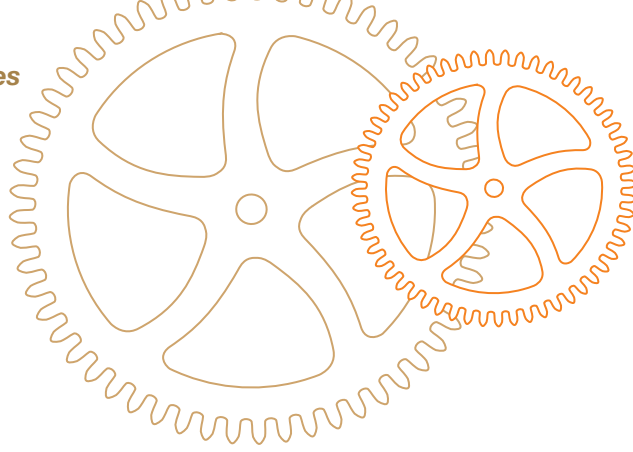
There has been improvement in some of these areas and others are receiving attention. Management will ensure that these matters receive attention to prevent recurrence in the future.

### Evaluation of Annual Financial Statements

The Audit and Risk Committee has

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General of South Africa and the Accounting Officer;
- Reviewed the Auditor-General of South Africa's management letter and management's response thereto;
- Reviewed changes in accounting policies and practices ; and
- Reviewed significant adjustments resulting from the audit.





The Audit and Risk Committee concurs and accepts the Auditor-General of South Africa's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General of South Africa.

**A MASHIFANE (Chairperson of the Audit and Risk Committee)**  
24 July 2012



Mr Andrew Mashifane  
(Chairperson)



Adv. Fariyal Mukaddam



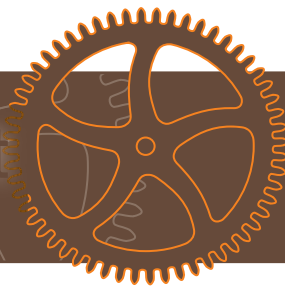
Ms Thulisile Mashanda



Mr Dana De Villiers



Mr Jakkie Olivier



## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE MANUFACTURING, ENGINEERING AND RELATED SERVICES SECTOR EDUCATION AND TRAINING AUTHORITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

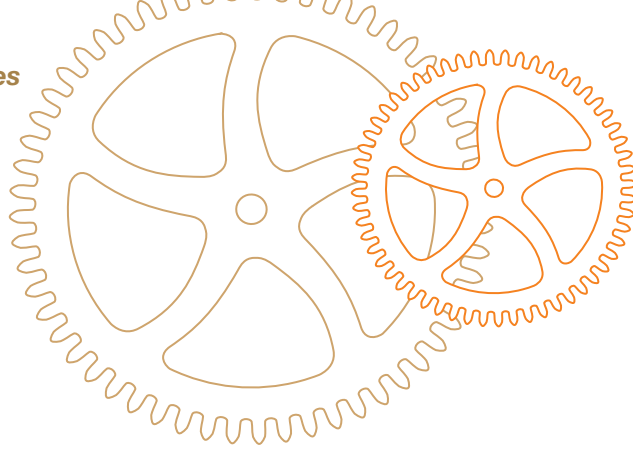
1. I have audited the financial statements of the Manufacturing, Engineering and Related Services Sector Education and Training Authority (the merSETA) set out on pages 64 to 119, which comprise the statement of financial position as at 31 March 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### The accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No 1 of 1999) (PFMA), 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.

#### Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Manufacturing, Engineering and Related Services Sector Education and Training Authority as at 31 March 2012 and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the PFMA.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

7. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the information in the merSETA annual report as set out on pages 45 to 50 of the annual report.
9. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

10. There were no material findings arising from the audit of the merSETA annual performance report concerning the usefulness and reliability of the information.

### Compliance with laws and regulations

11. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General notice* issued in terms of the PAA, are as follows:

### Annual financial statements

12. The accounting authority submitted financial statements for auditing that were not prepared, in all material aspects, in accordance with generally accepted accounting practice, as required by section 55(1)(b) of the PFMA. The material misstatements identified by the AGSA with regard to discretionary grants accrual and commitments were subsequently corrected.

## **Procurement and contract management**

13. As disclosed in note 29 to the annual financial statements, I have identified the following non-compliance with laws and regulation:

- Goods and services with a transaction value between R10 000 and R500 000 were procured without inviting at least three written price quotations from prospective suppliers, as per the requirements of Treasury Regulation 16A6.1 and National Treasury Practice Note 8 of 2007-08.
- Goods and services with the transaction value above R500 000 were procured without ensuring that the bid documentation includes the evaluation and adjudication criteria, as per the requirements of Treasury Regulation 16A6.3(b) and National Treasury Practice Note 2 of 2006.
- Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as per the requirements of Treasury Regulation 16A.6.4 and National Treasury Practice Note 8 of 2007-08.

## **Expenditure management**

14. The accounting authority did not take adequate, effective and appropriate steps to prevent irregular expenditure, as per the requirements of section 51(1)(b) of the PFMA. Details of irregular expenditure incurred are disclosed in note 29 to the annual financial statements.

## **Internal control**

15. I considered internal control relevant to my audit of the financial statements of the merSETA's performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies on the findings arising from the audit of compliance with laws and regulations included in this report.

## **Oversight responsibility regarding reporting and compliance**

16. Management and staff should fulfil their duties and responsibilities with regard to the overall process of assessing compliance with laws and regulations when procuring goods and services. These regulatory requirements are stated in the entity's supply chain management policy, but not adhered to.

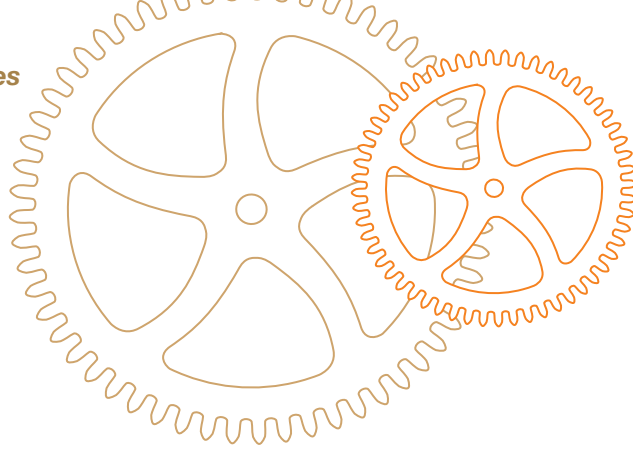
## **Monitoring of compliance with laws and regulations**

17. The public entity should implement sufficient monitoring controls to ensure the proper implementation of the overall process of procurement and contract management with regard to invitation and evaluation of quotations and competitive bids in accordance with laws and regulations governing the processes.

## **Financial and performance management**

### **Accuracy and completeness of the financial statements**

18. The financial statements contained numerous misstatements relating to the discretionary grant accrual and commitments that were corrected by management. This was mainly due to the fact that internal controls were not sufficiently designed to ensure that discretionary grants are accrued correctly at year-end.



## Investigations

19. As disclosed in note 29 to the financial statements:

- In the prior year, the public entity suffered a financial loss of R6 329 000 due to criminal conduct. The loss involved diversion of mandatory grants due to employers by a former employee of the public entity. The amount has been fully provided for under mandatory grant expenses and the affected employers reimbursed. The case is still under investigation and a police case has been opened. The public entity will pursue recovery of the loss through legal processes. The process of updating banking details has been reviewed and strengthened.

*Auditor-General.*

Pretoria  
31 July 2012



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## Annual Financial Statements

annual financial  
statements

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

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2012

#### GENERAL REVIEW OF THE STATE OF AFFAIRS

The financial affairs of the merSETA are sound and the financial position remains strong. The merSETA has achieved most of its performance targets as set out in the Annual Performance Plan. The levy base has been substantial in the current year and significant growth has been experienced in the industry. Unforeseen challenges were experienced with the disbursements of mandatory grants earlier in the year, however the merSETA managed to rise above these challenges and a consistent trend of disbursements was achieved. An increase in the disbursements of discretionary grants from the prior year was experienced indicating the milestone achievements on planned training initiatives. The merSETA maintains substantial reserves which are 100% committed in learnerships, apprenticeships and projects stretching over the next four years to the value of R923 million.

#### LEVIES

The merSETA levy income grew by 18.4% in the 2011/12 financial year over prior year to reach R919 million. The levy income exceeded the budgeted levy income by 16.9%, as the sector and number of contributing employers' growth was higher than anticipated. The number of contributing employers increased substantially to 12 532 from 11 003, most of which are companies employing over 150 employees. The exemption threshold to paying levies remained at an annual payroll level of R500 000. IT Technical problems in the Department of Higher Education and Training resulted in delays in the receipt of levy payments and download files. This was rectified in the second half of the year and the backlog of monthly disbursements was addressed before the end of the financial year-end.

#### GRANTS AND PROJECTS

The merSETA has seen a steady increase in participation by the employers in their submission of WSPs in the current year as the mandatory claims ratio is 80%, compared to 77% in the prior year. The merSETA continues to enforce strict deadlines for the submission of mandatory grant applications in line with regulations. The merSETA had to undertake vigorous processes and escalate the frequency of grant disbursements in the second half of the year in order to reduce the backlog that had accumulated due to delays in the receipt of levy income and levy download files from the DHET. A full accrual of the mandatory grants expense approved but not yet disbursed was made resulting in a 20.8% increase in mandatory grant expenses to R445 million from R367 million in the prior year. Disbursements of mandatory grants are above budget in line with the levy income earned in excess of budget.

This year discretionary grants expense, including project expense, increased by 19.5% to R421 million from R352 million in the prior year. Although discretionary grant expenses are R542 million below budget, they comprise 34% of the budgeted amount for total grants expenditure.

The discretionary grant expense is below the budgeted amount due to several factors including the following:

- i. The majority of the DG3 second tranche and final tranche payments for apprentices were not paid, due to a number of apprentices not meeting the required milestones. Discretionary Grant 3 registrations took place later in the year 2010/2011, thus resulting in most apprentices lagging behind schedule in attaining the 50% completion for second tranche payments and 100% completion for final tranche payments.

- ii. The majority of the DG4 MoAs were only signed during February and March 2012, thus resulting in only a portion of the first tranche payments being made.
- iii. Discretionary Grant 3 Internship Project and MoAs went out in February 2011, thus resulting in late registration of interns. Therefore only the first tranche payments have taken place due to milestones not being met.
- iv. The implementation of the NSDS III required a robust process of aligning projects to the NSDS III objectives and thus allocation of funds, this resulting in contract engagement and implementation delays.

The merSETA continued to effect all first tranche payments at 10% and a new requirement was introduced in the current year whereby the implementation reports were now signed upfront before the first tranche payment is made. In the past, the implementation report was signed after the first tranche payments had been made. In 2011/2012 all companies were paid 10% of the first tranche, provided that they had submitted the signed MoA and the merSETA had approved the implementation report submitted within 60 days of the signed MoA.

The introduction of this new requirement has ensured that the first tranche payments can be recorded as an expense instead of a prepayment as was the previous practice. The merSETA continues to monitor all the companies that were given discretionary grants as prepayments in the prior years to ensure that training is being implemented. The companies that are not implementing training as per the signed MoA are requested either to effect remedial actions or to refund the grants paid to them.

**GRANTS PAID TO DATE PER GRANT TYPE SINCE INCEPTION:  
R'000**

YEAR	Mandatory	Discretionary	Projects	TOTAL
	R000's	R000's	R000's	R000's
2001	49 714	-	350	50 064
2002	66 640	22 144	4 984	93 768
2003	188 778	51 530	104 803	345 111
2004	143 170	83 794	53 143	280 107
2005	256 227	125 061	53 830	435 118
2006	362 128	102 719	63 263	528 110
2007	250 228	107 811	108 801	466 840
2008	204 274	69 114	28 280	301 668
2009	303 908	171 534	97 451	572 893
2010	334 254	248 928	234 176	817 358
2011	368 759	136 870	215 174	720 803
2012	445 459	130 680	290 029	866 168
<b>TOTAL</b>	<b>2 973 539</b>	<b>1 250 185</b>	<b>1 254 284</b>	<b>5 478 008</b>



**DISCRETIONARY GRANTS PAID TO DATE BY CHAMBER  
R'000**

YEAR	Auto	Metal	Motor	New Tyre	Plastics	TOTAL
	R000's	R000's	R000's	R000's	R000's	R000's
2002	3 016	12 637	4 674	819	998	22 144
2003	4 828	32 781	10 663	941	2 317	51 530
2004	7 113	50 477	21 257	1 351	3 596	83 794
2005	8 650	70 412	37 077	661	8 261	125 061
2006	12 516	51 227	31 959	1 187	5 830	102 719
2007	12 496	58 152	31 363	851	4 949	107 811
2008	7 438	35 829	19 844	1 021	4 982	69 114
2009	24 606	84 552	50 676	2 169	9 531	171 534
2010	33 139	139 088	62 494	3 342	10 865	248 928
2011	17 729	77 123	32 205	3 169	6 644	136 870
2012	30 388	57 790	35 136	661	6 705	130 680
<b>TOTAL</b>	<b>161 919</b>	<b>670 068</b>	<b>337 348</b>	<b>16 172</b>	<b>64 678</b>	<b>1 250 185</b>

**MANDATORY GRANTS PAID TO DATE BY CHAMBER  
R'000**

YEAR	Auto	Metal	Motor	New Tyre	Plastics	TOTAL
	R000's	R000's	R000's	R000's	R000's	R000's
2001	5 537	27 686	12 429	1 134	2 928	49 714
2002	7 990	37 628	15 725	1 986	3 311	66 640
2003	28 412	104 438	42 469	5 060	8 399	188 778
2004	22 962	77 101	32 670	3 171	7 266	143 170
2005	38 581	135 903	60 275	8 744	12 724	256 227
2006	47 140	191 523	92 510	6 116	24 839	362 128
2007	28 585	129 838	68 159	7 039	16 607	250 228
2008	23 316	111 250	52 610	4 210	12 888	204 274
2009	32 330	166 167	82 165	4 591	18 655	303 908
2010	26 921	190 632	88 582	6 674	21 445	334 254
2011	27 865	217 415	96 164	5 703	21 612	368 759
2012	43 484	255 222	113 552	8 040	25 161	445 459
<b>TOTAL</b>	<b>333 123</b>	<b>1 644 803</b>	<b>757 310</b>	<b>62 468</b>	<b>175 835</b>	<b>2 973 539</b>

**PLANNED UTILISATION OF SURPLUSES**

The merSETA has discretionary reserves of R924 million and cash balances of R1.106 billion at year-end. The merSETA had received approval to carry forward these surpluses for the 2010/11 financial year, and has applied for similar carry forward surpluses for the 2011/12 financial year in May 2012. The merSETA has committed to utilise R923 million in Governing Board approved learnerships, apprenticeships, strategies and projects in the 2012/13 to 2015/16 financial years.

The merSETA carries R9.2 million administration reserve in its statement of financial position as at 31 March 2012. The Governing Board has approved that sufficient administrative reserve should be accumulated for the purchase of an office building.

## SERVICES RENDERED BY THE merSETA

The merSETA renders four broad services to its sector:

### e. Grant disbursements:

- Disbursements of mandatory grants accounts for 50% of levies paid. This is subject to the companies submitting a valid workplace skills plan received by 30 June 2011. The purpose of the mandatory grant is to reimburse companies that undertake training; and
- Disbursements of discretionary grants accounts for a minimum of 20%. The discretionary grant is intended to support learners and apprentices and also to undertake special projects that address critical sector needs.

### f. Quality Assurance functions which include but are not limited to:

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

### g. Skills implementation functions as follows:

- Development of unit standards and registration of these with the South African Qualifications Authority;
- Development of curriculum and courseware from unit standards registered in the merSETA's scope of coverage;
- Conceptualisation and implementation of skills initiatives which promote the NSDS objectives and address training needs in the merSETA's five sub-sectors;
- Research into sector training needs in terms of critical skills and future growth skills;
- Development and maintenance of a database for skills development reference and administration;
- Skills development advice and assistance to companies and training providers; and
- Administration and maintenance of the apprenticeship and learnership systems.

## HUMAN RESOURCES

The merSETA has experienced attrition and new entrants during the year. However, the number of employees as at 31 March 2012 is 228, the same as the prior year. The merSETA remained focused on customer service ensuring that the regional offices are sufficiently resourced by competent staff to support the stakeholders and deliver project work.

### EMPLOYMENT DATA FOR KEY PERSONNEL FOR THE merSETA FOR THE 2011/12 FINANCIAL YEAR: RAND 000'S

Key Personnel	Cost to Company 2011/12	Performance Bonus 2011/12	Total 2011/12	Total 2010/11	Notes
Chief Executive Officer	1 491	512	2 003	1 859	
Chief Financial Officer 1	527	-	527	1 092	Resigned 30/09/2011
Chief Financial Officer 2	454	112	566	-	Commenced 01/10/2011
Chief Operations Officer	1 137	147	1 284	1 201	
General Manager: Corporate Services	209	-	209	944	Resigned 30/06/2011
General Manager: Corporate Governance	1 020	120	1 140	1 001	
General Manager: Projects	907	112	1 019	947	
<b>TOTAL</b>	<b>5 745</b>	<b>1 003</b>	<b>6 748</b>	<b>7 044</b>	

Two senior managers resigned during the year 2011/12, and the Chief Financial Officer's position was filled immediately.

Upon the resignation of the GM: Corporate Services, a decision was taken by the Board to change the senior management structure and the corporate services duties and responsibilities were consolidated with those of the GM: Corporate Governance.

The salary package of the GM: Corporate Governance is inclusive of the acting allowance paid to him from July 2011 for taking on the corporate services responsibilities.

## **UTILISATION OF DONOR FUNDS**

The merSETA entered into an agreement for co-financing of the Accelerated Artisan Training Programme with the National Skills Fund in March 2009 worth R136 million. R13 million was received in the 2011/12 financial year, and R42 million in the prior year. At the end of March 2012, R28 million of these funds was outstanding, of which R27 million was received in the new financial period in April 2012.

The merSETA also entered into an arrangement with the DHET for the Training Layoff Scheme in 2009/10 of which R42 million was received in the 2011/12 financial year, and R 18 million in the prior year. At the end of March 2012, R31 million of these funds was on hand.

## **BUSINESS ADDRESS**

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

merSETA  
The Atrium  
95, Corner 7<sup>th</sup> Avenue and Rustenburg Road  
Melville  
Johannesburg

merSETA  
P O Box 61826  
Marshalltown  
2107

## **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.

## **NEW/PROPOSED ACTIVITIES**

The merSETA, in line with the government directive, will continue to focus on unemployed youth and capacity-building of the FET colleges.

## **EVENTS AFTER THE REPORTING DATE**

The merSETA is not aware of any events after the reporting date which will affect the financial state of affairs of the organisation for the 2011/12 financial year.

## **PERFORMANCE INFORMATION**

The merSETA's performance is measured by the Department of Higher Education and Training against the National Skills Development Strategy objectives which were translated into targets by the merSETA in 2011/12 and for which a Service Level Agreement together with a Strategic Plan and the Annual Performance Plan was submitted to the Department of Higher Education and Training. The merSETA has an extensive information database which it uses for record keeping and updating purposes, quality assurance requirements as well as reporting to the Department of Higher Education and Training.

The merSETA has met its targets as set by the Department of Higher Education and Training for 2011/12 except the target for employed bursaries certified. The details of this are shown under the section on Performance Information.

## **CORPORATE GOVERNANCE**

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

### **a. Governing Board**

A new Governing Board was appointed by the Minister of Higher Education and Training comprising of 15 members including an independent chairperson and two members directly appointed by the Minister on 1 April 2011. The Minister of Higher Education and Training has also introduced restrictions to board members' term in office in terms of the reappointment.

### **b. Internal Audit**

The merSETA internal audit function is outsourced to an independent audit firm that carries out its function on an approved three year internal audit plan. The independent internal auditors perform and report in terms of an approved charter and in line with the Audit and Risk Committee Charter.

### **c. Financial Management**

#### *Fraud*

In the prior year, the merSETA suffered a loss of R6.3 million through diversion of mandatory grants due to employers. The investigation was completed in the prior year. However, the legal prosecution process is still under way. The merSETA has since reviewed the controls and processes surrounding the update of bank details.

During the financial year 2011/12, the merSETA suffered a financial loss of R37 000 due to criminal conduct. A travel desk employee used the merSETA travel vouchers to book accommodation for personal use. Appropriate disciplinary action was taken by management. The employee has since resigned and efforts to recover the loss are under way.

#### *Internal Controls*

Internal controls deficiencies were reported around supply chain management, caused by non-compliance with laws and regulations and inadequate document management systems.

Further internal control deficiencies were identified around the fixed asset management process, whereby a number of assets in use were not capitalised and several old assets captured on the fixed asset register could not be physically verified.

Key weaknesses were also identified in the organisation's IT governance. Several IT policies were either not in place or were inadequately documented. Review processes were not in place for logon violations reports and access controls were found to be inadequate.

The system of accounting and internal controls are being constantly monitored and improved, particularly around the supply chain management. The weaknesses that were identified around the IT system were immediately addressed and new measures put in place to mitigate the identified risks. The internal auditors also conduct continuous reviews of the controls and processes in place and advise management of any improvements necessary.

Other than the internal control deficiencies detailed above, the merSETA's financial management remains sound and compliant with the PFMA and National Treasury regulations. The merSETA Executive Committee meetings are presented with a full financial management report from the Chief Financial Officer.

An all inclusive budgeting process formed part of the Business Plan process and is used as a benchmark for levy income, grant administration and capital expenditure. A quarterly report showing financial performance results against budget is presented to the merSETA Governing Board and the Department of Higher Education and Training.

In terms of the Skills Development Act, total administration expenditure may not exceed 10% of total levy income. The merSETA has kept within the limit.

#### **d. Audit and Risk Committee**

The Audit and Risk Committee comprises three independent members and two Governing Board members. The Audit and Risk Committee is advisory in nature and reports to the Governing Board. The committee's charter is aligned to the duties prescribed by the PFMA and Treasury Regulations and has been approved by the Governing Board. The Audit and Risk Committee's responsibilities also cover oversight of risk management processes.

#### **e. Other committees**

The other committees of the Governing Board are:

- I. Executive Committee;
- II. Finance and Grants Committee;
- III. Remuneration Committee;
- IV. ETQA Committee;
- V. Chamber Committees; and
- VI. Regional Committees.

The committees function within the terms of reference approved by the Governing Board and are functioning satisfactorily. The Governing Board has approved the formation of the Innovation, Research and Development Committee. The terms of reference for this committee are still being considered by the Governing Board in the new financial year. More details on the committees' functions are presented under the Corporate Governance section of the annual report.

#### **f. Policies**

The financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including all interpretations of such statements issued by the Accounting Practices Board, with effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statements. The merSETA's policies and procedures are aligned with GAAP and GRAP.

Existing policies are reviewed at least every two years, or as necessary, to comply with changes in GAAP, GRAP or within the organisation.

#### **g. Supply Chain Management Unit**

In response to audit reports detailing non-compliance within the supply chain management processes, the merSETA has reviewed all processes and has amended the manual controls procedures to address the weaknesses and will also implement a computerised supply chain management module with the organisation-wide MIS system migration.

#### **h. IT systems**

The merSETA has continued to use the Datanet system for processing mandatory grants payments and management of learner registrations, assessments and certifications.

Great Plains was used throughout the year for the capturing, recording, maintenance and reporting of financial information.

VIP was the system used for capturing, maintenance and processing of employee remuneration and benefits.

The new Seta Management System (SMS) MIS system hosted by an independent consulting firm is being implemented in stages. Major processes like the employer grants and the online submission of WSPs are operational. The training of staff and employers has been undertaken.

**i. Conflict of interest**

The merSETA's Governing Board maintains a declaration of interest register. This is over and above the requirements that members declare if they have an interest in any item on the agenda, to comply with the Public Finance Management Act as well as good corporate governance practice.

**APPROVAL**

The audited annual financial statements for the year ended 31 March 2012 set out on pages 73 – 119, 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) on 24 July 2012, and are signed on their behalf by:



P.Nzimande  
(Chairperson)



R. Patel  
(Chief Executive Officer)

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2012

Notes	2012			2011			
	Actual	Budget	Variance *	Actual	Budget	Variance	
	R'000	R'000	R'000	R'000 Restated	R'000	R'000	
<b>REVENUE</b>							
Skills development levy income	3	918 904	785 807	133 097	775 787	728 068	47 719
Skills development penalties and interest	4	8 679	4 500	4 179	6 050	4 500	1 550
Government grant income	5	62 623	100 783	(38 160)	56 902	32 500	24 402
<b>Total non-exchange revenue</b>		<b>990 206</b>	<b>891 090</b>	<b>99 116</b>	<b>838 739</b>	<b>765 068</b>	<b>73 671</b>
Investment income	6	60 640	50 000	10 640	60 203	50 000	10 203
Other income	7	46	-	46	43	-	43
<b>Total exchange revenue</b>		<b>60 686</b>	<b>50 000</b>	<b>10 686</b>	<b>60 246</b>	<b>50 000</b>	<b>10 246</b>
<b>Total revenue</b>		<b>1 050 892</b>	<b>941 090</b>	<b>109 802</b>	<b>898 985</b>	<b>815 068</b>	<b>83 917</b>
<b>EXPENSES</b>							
Employer grant and project expenses	8	(866 167)	(1 230 450)	364 283	(720 803)	(1 077 414)	356 611
Administration expenses	9	(98 419)	(98 226)	(193)	(96 664)	(91 001)	(5 663)
Government grant expense	5	(62 623)	(100 783)	38 160	(56 902)	(32 500)	(24 402)
<b>Total expenses</b>		<b>(1 027 209)</b>	<b>(1 429 459)</b>	<b>402 250</b>	<b>(874 369)</b>	<b>(1 200 915)</b>	<b>326 546</b>
<b>Net surplus/(deficit) for the year</b>	2	<b>23 683</b>	<b>(488 369)</b>	<b>512 052</b>	24 616	(385 847)	410 463

\* Material variances between budget and actual are explained in the report of the Accounting Authority.

## STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2012

	Notes	31 March 2012 R'000	31 March 2011 R'000 Restated
<b>ASSETS</b>			
<b>Current assets</b>			
Prepayments and advances	10	1 379	29 867
Receivables from non-exchange transfers	11	28 535	818
Other receivables from exchange transactions	12	6 933	8 071
Inventories	13	110	82
Available-for-sale financial assets	14	935 000	1 010 000
Cash and cash equivalents	15	171 325	75 030
		<b>1 143 282</b>	<b>1 123 868</b>
<b>Non-current assets</b>			
Property and equipment	17	8 578	8 549
Intangible assets	18	694	387
		<b>9 272</b>	<b>8 936</b>
<b>Total Assets</b>		<b>1 152 554</b>	<b>1 132 804</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Grants and transfers payable	19	192 090	202 391
Trade and other payables from exchange transactions	20	25 709	19 507
Provisions	21	290	124
<b>Total Liabilities</b>		<b>218 089</b>	<b>222 022</b>
<b>Net Assets</b>		<b>934 465</b>	<b>910 782</b>
<b>Net assets represented by:</b>			
Administration reserve		9 272	12 144
Employer grant reserve		1 609	535
Discretionary grant reserve		923 584	898 103
<b>Total Net Assets</b>		<b>934 465</b>	<b>910 782</b>



## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2012

Notes	Administration reserve R'000	Employer grant reserve R'000	Discretionary grant reserve R'000	Unappropriated surplus R'000	Total R'000
<b>Balance at 1 April 2010</b>	11 869	1 015	873 282	-	886 166
Net surplus for the year per statement of financial performance	-	-	-	24 616	24 616
Allocation of unappropriated surplus for the year	275	116 121	(91 780)	(24 616)	-
As previously stated	275	116 121	(70 644)	(45 752)	-
Restatement due to prior year error			(21 136)	21 136	-
Excess reserves transferred to discretionary reserve	-	(116 601)	116 601	-	-
<b>Balance at 31 March 2011</b>	<b>12 144</b>	<b>535</b>	<b>898 103</b>	<b>-</b>	<b>910 782</b>
Net surplus for the year per statement of financial performance	-	-	-	23 683	23 683
Allocation of unappropriated surplus for the year	18 866	127 188	(122 371)	(23 683)	-
Excess reserves transferred to discretionary reserve	(21 738)	(126 114)	147 852	-	-
<b>Balance at 31 March 2012</b>	<b>9 272</b>	<b>1 609</b>	<b>923 584</b>	<b>-</b>	<b>934 465</b>

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 24.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

		2012			2011		
		Actual	Budget	Variance	Actual	Budget	Variance
		R'000	R'000	R'000	R'000	R'000	R'000
Notes					Restated		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
<b>Operating activities</b>							
		980 142	881 755	98 387	838 975	763 926	75 049
	Cash receipts from stakeholders and others						
	Levies, interest and penalties received	924 009	790 197	133 812	778 330	726 951	51 379
	Income from National Skills Fund	56 087	91 558	(35 471)	60 602	36 975	23 627
	Other income	46	-	46	43	-	43
	Cash paid to stakeholders, suppliers and employees	(1 017 462)	(1 462 786)	445 324	(782 525)	(1 198 054)	415 529
	Grants and project payments	(924 672)	(1 370 379)	445 707	(691 576)	(1 113 499)	421 923
	Compensation of employees	(67 771)	(65 878)	(1 893)	(64 272)	(71 656)	7 384
	Payments to suppliers and other	(25 019)	(26 529)	1 510	(26 677)	(12 899)	(13 778)
	Cash (utilised in)/generated from operations	(37 320)	(581 031)	543 711	56 450	(434 128)	490 578
23	Interest received	61 736	50 278	11 458	61 726	50 267	11 459
	<b>Net cash inflow/(outflow) from operating activities</b>	<b>24 416</b>	<b>(530 753)</b>	<b>555 169</b>	<b>118 176</b>	<b>(383 861)</b>	<b>502 037</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>							
	Purchase of property and equipment	(2 382)	(3 028)	646	(1 528)	(3 909)	2 381
17							
	Purchase of intangible assets	(796)	(672)	(124)	(564)	(1 515)	951
18							
	Proceeds from disposal of property and equipment	57	-	57	97	-	97
	Net disposal/(purchase) of available-for-sale financial assets	75 000	577 446	(502 446)	(130 000)	380 000	(510 000)
	<b>Net cash inflow/(outflow) from investing activities</b>	<b>71 879</b>	<b>573 746</b>	<b>(501 867)</b>	<b>(131 995)</b>	<b>374 576</b>	<b>(506 571)</b>
	<b>Net increase in cash and cash equivalents</b>	<b>96 295</b>	<b>42 993</b>	<b>53 302</b>	<b>(13 819)</b>	<b>(9 285)</b>	<b>(4 534)</b>
	<b>Cash and cash equivalents at beginning of year</b>	<b>75 030</b>	<b>75 030</b>	<b>-</b>	<b>88 849</b>	<b>88 849</b>	<b>-</b>
	<b>Cash and cash equivalents at end of year</b>	<b>171 325</b>	<b>118 023</b>	<b>53 302</b>	<b>75 030</b>	<b>79 564</b>	<b>(4 534)</b>
15							

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

## 1. ACCOUNTING POLICIES

### 1.1 BASIS OF PREPARATION

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

The actual and budget information has been prepared and presented on the same basis, being the accrual basis.

### 1.2 CURRENCY

#### 1.2.1 *Functional and presentation currency*

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

#### 1.2.2 *Foreign currency transactions*

Levies and reimbursements received in a foreign currency are recognised at the exchange rate ruling on the date of recognition.

### 1.3 REVENUE RECOGNITION

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

#### 1.3.1 *Levy income*

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

Eighty percent (80%) of skills development levies are paid over to the merSETA (net of a two percent (2%) collection cost to SARS and eighteen percent (18%) contribution to the National Skills Fund).

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. SDL transfers are made in terms of section 8 of the Skills Development Levies Act, 1999 (Act No 9 of 1999). The SDL transfer is measured at the fair value of the consideration received.

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### **1.3.1 Levy income (continued)**

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

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

### **1.3.2 Interest and penalties**

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

### **1.3.3 Funds allocated by the National Skills Fund for Special Projects**

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

### **1.3.4 Government grants and other donor income**

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

### **1.3.5 Investment income**

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

## **1.4 GRANT AND PROJECT EXPENDITURE**

### **1.4.1 Mandatory grants**

The grant payable and the related expenditure is recognised when the employer has submitted an application for a grant in the prescribed form within the legislated cut-off period and it is probable the grants will be paid. This grant is equivalent to 50% (2011: 50%) of the total levies paid by the employer and comprises a workplace skills planning grant.

A provision is recognised for mandatory grants once the specific criteria set out in the regulations to the Skills Development Act, 97 of 1998 have been complied with by member companies, it is probable that the merSETA will approve the payment, and the amounts can be estimated with reasonable accuracy.

### **1.4.2 Discretionary grants and 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 gazetted grant regulations annually. These grants will only be paid if the conditions to qualify for such grants have been met and the application has been submitted, in the prescribed form, within the agreed upon cut-off period. The grant payable and the related expenditure is recognised when the application has been approved and the conditions have been met.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 1.4.2 *Discretionary grants and project expenditure (continued)*

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 grants and 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 Board, has been entered into, but has not been accrued or provided for, it is disclosed as a commitment in the notes to the financial statements.

### 1.4.3 *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.

## 1.5 **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 (updated); and
- The Skills Development Act, No 97 of 1998 (updated).

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is recognised against the specific class of expense to which it relates and disclosed in a note to the financial statements when it has been identified.

## 1.6 **PROPERTY AND EQUIPMENT**

Property and equipment comprise tangible assets held for administrative use and are expected to be used during more than one accounting period. Property and equipment are stated at cost less any subsequent 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:

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 1.6 PROPERTY AND EQUIPMENT (CONTINUED)

<u>Asset class</u>	<u>Depreciation period</u>
- 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

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

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

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

Profits and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating surplus or deficit.

### 1.7 INTANGIBLE ASSETS

Intangible assets that meet the recognition criteria are stated in the statement of financial position at amortised cost, being the initial cost price less any 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 follows:

<u>Asset class</u>	<u>Amortisation period</u>
- Computer software	1 - 3 years

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

### 1.8 INVENTORIES

Inventories consist of consumables held for administrative use. These are recognised as assets on the date of acquisition and are measured at the cost of acquisition. They are subsequently recognised in surplus or deficit as they are consumed.

### 1.9 LEASING

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

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

## 1.10 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 payments from the entity and employees, taking into account the recommendations of independent qualified actuaries.

Payments to the defined contribution benefit plans 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	<u>19.58%</u>

## 1.11 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 1.10 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 Workmen's Compensation.

## 1.12 FINANCIAL INSTRUMENTS

### **Recognition**

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

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

### **Measurement**

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

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

## 1.12 FINANCIAL INSTRUMENTS (CONTINUED)

### **Financial assets**

The merSETA's principal financial assets are exchange receivables, available-for-sale financial assets, and cash and cash equivalents. The classification depends on the purpose for which the asset was acquired.

#### *Other receivables from exchange transactions*

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

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative assets that are not classified in any other categories. Where the merSETA no longer has the ability or intention to hold to maturity assets previously classified as held-to-maturity financial assets, these are reclassified as available-for-sale financial assets and re-measured at fair value. The difference between the carrying amount of the assets and fair value is recognised directly in reserves.

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.

#### *Cash and cash equivalents*

Cash and cash equivalents are measured at fair value.

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

### **Financial liabilities**

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

### **Derecognition**

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

### **Fair value considerations**

The fair values at which financial instruments are carried at the reporting date have been determined using available market values. Where market values are not available, fair values have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values have been estimated using available market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that the merSETA could realise in the normal course of business.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

## 1.12 FINANCIAL INSTRUMENTS (CONTINUED)

### **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.

## 1.13 NET ASSETS

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

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

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

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

	<b>2012</b>	2011
	%	%
Administration costs of the merSETA	<b>10</b>	10
Mandatory Workplace Skills Planning Grant	<b>50</b>	50
Discretionary grants and projects	<b>20</b>	20
	<b>80</b>	80

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

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

The minimum amount retained in the administration reserve equates to the net book value of non current assets. The merSETA has obtained Board approval to accumulate available administration reserves for the purpose of purchasing a head office building. Once sufficient funds are accumulated, management would still have to undertake the correct procurement processes to identify the building and the Board would have to approve this. Furthermore, the purchase of the building is subject to National Treasury approval.

During the current year the merSETA obtained Board approval to transfer a portion of the administrative reserve to the discretionary grants reserve.

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 1.14 CONTINGENCIES

Contingencies comprise an Employer Grant Reserve for newly registered member companies participating after the legislative cut-off date.

### 1.15 RELATED PARTY TRANSACTIONS

Transactions are disclosed as related party transactions where the merSETA has in the normal course of its operations, entered into transactions with entities related to the Department of Higher Education and Training (DHET) or which had a nominated representative serving on the merSETA accounting authority.

interSETA transactions arising from employers moving from one SETA to another, are treated as related party transactions.

Transactions with Board and independent members, as well as transactions with any organisation affiliated with Board and independent members are treated as related party transactions.

### 1.16 COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The notes affected by prior year adjustments in the current year are note 8 and note 19.

### 1.17 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 estimation 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.

#### **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. The merSETA reviews the estimated useful lives of property and equipment at the end of each annual reporting period. Refer to note 17 for the carrying values of property and equipment. The merSETA's license was extended until 31 March 2016.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

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

The following useful lives are used in the calculation of depreciation:

- 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

The merSETA has reviewed the residual values used for the purposes of depreciation calculations in light of the amended definition of residual value. Residual values of certain IT equipment and motor vehicles were adjusted. Residual values are reviewed on an annual basis.

#### **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.

### 1.8 CHANGE IN ACCOUNTING ESTIMATES

At the beginning of the current financial period, management revised their estimate on the following assets in order to reflect the actual pattern of service potential derived from the assets:

	Previous estimate	Current estimate
- Computer software	1 - 2 years	1 - 3 years
- Motor vehicles	4 - 6 years	4 - 8 years
- Other assets	2 years	2 - 5 years

The effect of the revision has decreased the current year's depreciation charge by R297 000.

### 1.9 ERRORS

The merSETA has corrected its financial statements to comply with the requirements of GRAP 19. This is to recognise a provision when there is a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated. A prior period error has resulted due to non-compliance with the Standard.

A retrospective adjustment of the error from 2011 has been made by raising a discretionary grant provision for all training that was completed before the year-end. An adjustment of R21 136 000 was made against the opening balance of the discretionary grant reserve and against grants and transfers payable.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 2. 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 reserve		
				Discretionary grants R'000	Government grants R'000	Total discretionary R'000
<b>Year ended 31 March 2012</b>						
<b>Total revenue</b>	1 050 892	117 285	572 646	298 338	62 623	360 961
Skills development levy: income						
Admin levy income (10%)	117 285	117 285	-	-	-	-
Grant levy income (70%)	801 619	-	572 646	228 973	-	228 973
Skills development levy: penalties and interest	8 679	-	-	8 679	-	8 679
Government grant income	62 623	-	-	-	62 623	62 623
Investment income	60 640	-	-	60 640	-	60 640
Other income	46	-	-	46	-	46
<b>Total expenses</b>	1 027 209	98 419	445 458	420 709	62 623	483 332
Employer grants and project expenses	866 167	-	445 458	420 709	-	420 709
Administration expenses	98 419	98 419	-	-	-	-
Government grant expense	62 623	-	-	-	62 623	62 623
<b>Net surplus per the statement of financial performance allocated</b>	<b>23 683</b>	<b>18 866</b>	<b>127 188</b>	<b>(122 371)</b>	<b>-</b>	<b>(122 371)</b>
<b>Year ended 31 March 2011</b>						
<b>Total revenue</b>	898 985	96 939	484 880	260 264	56 902	317 166
Skills development levy: income						
Admin levy income (10%)	96 939	96 939	-	-	-	-
Grant levy income (70%)	678 848	-	484 880	193 968	-	193 968
Skills development levy: penalties and interest	6 050	-	-	6 050	-	6 050
Government grant income	56 902	-	-	-	56 902	56 902
Investment income	60 203	-	-	60 203	-	60 203
Other income	43	-	-	43	-	43
<b>Total expenses</b>	874 369	96 664	368 759	352 044	56 902	408 946
Employer grants and project expenses	720 803	-	368 759	352 044	-	352 044
Administration expenses	96 664	96 664	-	-	-	-
Government grant expense	56 902	-	-	-	56 902	56 902
<b>Net surplus per the statement of financial performance allocated</b>	<b>24 616</b>	<b>275</b>	<b>116 121</b>	<b>(91 780)</b>	<b>-</b>	<b>(91 780)</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 3. SKILLS DEVELOPMENT LEVY INCOME

	Notes	2012 R'000	2011 R'000
The total levy income per the statement of financial performance is as follows:			
Levy income: Administration		117 285	96 939
Levies received from SARS		116 744	96 160
interSETA transfers in		136	77
interSeta transfers out		(173)	-
Provision for refund SARS		578	702
		<b>572 646</b>	<b>484 880</b>
Levy income: Employer Grants		569 944	480 984
Levies received from SARS		680	387
interSETA transfers in		(866)	-
interSETA transfers out		2 888	3 509
Provision for refund SARS			
		<b>228 973</b>	<b>193 968</b>
Levy income: Discretionary Grants		227 893	192 409
Levies received from SARS		272	155
interSETA transfers in		(347)	-
interSETA transfers out		1 155	1 404
Provision for refund SARS			
		<b>918 904</b>	<b>775 787</b>

### 4. SKILLS DEVELOPMENT LEVY PENALTIES AND INTEREST

Penalties	3 407	4 471
Interest	5 265	1 577
interseta transfers	7	2
	<b>8 679</b>	<b>6 050</b>

### 5. GOVERNMENT GRANTS

National Skills Fund grant	TLS programme	AATP programme	Total 2012	Total 2011
Opening balance	5 105	4 120	9 225	5 525
Funds received during the year	41 927	13 248	55 175	60 009
Investment income	899	13	912	593
Utilised and recognised as revenue - conditions met	(16 925)	(45 698)	(62 623)	(56 902)
<b>Closing balance</b>	<b>31 006</b>	<b>(28 317)</b>	<b>2 689</b>	<b>9 225</b>
	Note 18	Note 11		

These funds were received from the National Skills Fund for the purposes of funding the Training Layoff and Accelerated Artisan Training Programme. R28 317 000 was owing by the NSF for the AATP programme at 31 March 2012, of which R27 907 000 was paid in April 2012.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 6. INVESTMENT INCOME

	Notes	2012 R'000	2011 R'000
Interest income from short-term deposits, bank and call accounts		60 772	60 316
Fair value adjustments		(132)	(113)
		<u>60 640</u>	<u>60 203</u>

### 7. OTHER INCOME

Trade test fees received		46	43
		<u>46</u>	<u>43</u>

### 8. EMPLOYER GRANT AND PROJECT EXPENSES

Mandatory grants		445 458	368 759
Discretionary grants	25.1.2	130 680	136 870
Discretionary grants paid through a memorandum of agreement (MoA)		105 178	101 619
Other discretionary grants		25 502	35 251
Project expenditure	8.1, 25.1.1	290 029	215 174
		<u>866 167</u>	<u>720 803</u>
<b>8.1 Project expenditure consists of:</b>			
Direct project costs		264 703	191 440
Indirect project administration costs	9	25 326	23 734
	8	<u>290 029</u>	<u>215 174</u>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 9. ADMINISTRATION EXPENSES

	Notes	2012 R'000	2011 R'000
Advertising, marketing and promotions, communication		3 256	4 910
Amortisation - intangible assets	18	522	1 000
Prior to re-assessment of useful lives/residual values		646	1 000
Amortisation due to re-assessment of useful lives/residual values		(124)	-
Audit Costs - Internal audit		845	937
Audit Costs - External audit		2 084	2 011
Bank Charges		190	229
Board and sub-committee costs		1 740	1 009
Remuneration to members of the audit committee		256	308
Capacity building of Board and sub-committee members		1 225	320
Board and sub-committee assessment cost		104	132
Secretarial services		155	249
Cleaning and groceries		324	296
Depreciation	17	2 213	3 010
Prior to re-assessment of useful lives/residual values		2 334	3 009
Depreciation due to re-assessment of useful lives/residual values		(121)	1
Employment costs		71 968	69 020
Recruitment costs		358	66
Salaries, wages and benefits	9.1	70 676	67 400
Staff training, development and welfare		934	1 554
Entertainment expenses		18	7
Fair value adjustments to plant and equipment	17	(216)	-
Gifts, donations and sponsorships paid		162	166
Insurance and licence fees		1 295	1 454
Investigations and forensic costs		1 211	587
Legal fees		550	334
Loss on disposal of property and equipment		264	95
Operating lease rentals		11 214	10 621
Buildings		9 775	9 645
Parking		1 439	976

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 9. ADMINISTRATION EXPENSES (CONTINUED)

	Notes	2012 R'000	2011 R'000
Printing, stationery and postages		2 277	2 365
Rates, water and electricity		2 454	2 024
Removal costs		449	3
Repairs, maintenance and running costs		2 177	1 181
Buildings		1 374	524
Property and equipment		803	657
Service provider administration fees		4 273	2 136
Special functions		1 137	786
Storage		192	97
Telecommunication expenses		4 761	5 160
Travel, subsistence and meeting expenses		8 385	10 960
		123 745	120 398
Less: amounts allocated to project expenditure		(25 326)	(23 734)
		98 419	96 664
<b>9.1</b>			
Salaries and wages		62 087	59 740
Basic salaries		52 381	49 437
Performance awards		5 314	4 968
Other non-pensionable allowance		3 753	3 985
Temporary staff		100	679
Leave payments		539	671
Social contributions		8 589	7 660
Medical aid contributions		2 200	2 186
Pension contributions: defined contribution fund		5 370	4 521
UIF		290	292
Insurance		150	235
Other salary related costs		579	426
		70 676	67 400
Average number of employees		228	228

Refer to the report by the Accounting Authority for disclosure concerning the emoluments of the Chief Executive Officer; the Chief Financial Officer and Senior Managers. The defined contribution fund is administered by Momentum Funds at Work. 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.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 10. PREPAYMENTS AND ADVANCES

	Notes	31 March 2012 R'000	31 March 2011 R'000
Staff Loans - Education		168	111
Prepayments - Insurance		76	58
Prepayments - Bursaries		107	-
Discretionary grant prepayments	10.1	1 028	29 698
Closing balance		1 379	29 867
<b>10.1 Discretionary grants prepayment arising from non-exchange transactions</b>			
		-	
Discretionary grants detailed below have been accounted for as prepayments due to the specific terms detailed in the Memorandum of Agreements entered into with qualifying employers.			
Opening balance		29 698	30 108
Disbursements		200 110	101 914
Expense charged to the statement of financial performance		(208 045)	(96 858)
Net recoveries, accruals and other adjustments		(9 264)	5 721
		12 499	40 885
Provision for impairment		(11 471)	(11 187)
Net discretionary grant prepayments	10	1 028	29 698
<b>11. RECEIVABLES FROM NON-EXCHANGE TRANSFERS</b>			
Employer receivable	11.1	-	-
Receivable - investigations	11.2	-	-
Government grants - National Skills Fund	5	28 317	-
interSETA receivable	27.1	218	818
		28 535	818
<b>11.1 Employer receivable</b>			
Overpayment to employers		4 938	4 755
Allowance for doubtful debts		(4 938)	(4 755)
Net effect of SARS retrospective adjustments on affected employers		-	-

The employer receivable of R4 938 000 (March 2011: R4 755 000) is recognised due to SARS effecting retrospective adjustments on levies on which mandatory grants have already been paid. An amount of R4 938 000 (March 2011: R4 755 000) was provided against such employer receivables.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 11. RECEIVABLES FROM NON- EXCHANGE TRANSFERS (CONTINUED)

Notes	31 March 2012 R'000	31 March 2011 R'000
<b>11.2 Receivable - investigations</b>		
Receivable arising from investigations	6 329	6 329
Allowance for doubtful debt	(6 329)	(6 329)
Net receivable from investigations	-	-
<b>12. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Deposits	1 234	1 177
Sundry receivables	56	155
	1 290	1 332
Less: fair value adjustment	(199)	(80)
	1 091	1 252
Interest receivable	5 842	6 819
	6 933	8 071
<b>13. INVENTORIES</b>		
Consumables stock	110	82
<b>14. AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>		
Short-term investments/instruments	935 000	1 010 000

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in Treasury Regulation 31.2. The weighted average interest rate on short-term bank deposits was 5.6% (2011: 6.2%).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 15. CASH AND CASH EQUIVALENTS

Notes	31 March 2012 R'000	31 March 2011 R'000
Cash at bank and on hand	2 044	986
Cash at bank	2 007	953
Cash on hand	37	33
Short term investments/instruments cash	169 281	74 044
Cash and cash equivalents at end of year	<u>171 325</u>	<u>75 030</u>

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in Treasury Regulation 31.2. The weighted average interest rate on short-term bank deposits was 5.0% (2011: 5.5%).

### 16. CHANGE IN ACCOUNTING ESTIMATES FOR PROPERTY, EQUIPMENT AND INTANGIBLES

The entity has reassessed the useful lives and residual values of property, plant and equipment which has resulted in changes of useful lives for certain assets. Refer to note 1.18 for further details of changes in useful lives. The effect of the change in useful lives has resulted in a decrease in the depreciation expense of R297 000 for the current period. The effect of future periods is an increase in depreciation expense of R186 000 per year.

The following information regarding the depreciable assets is available:

	Motor Vehicles R000's	Computer Software R000's	Other Assets R000's	Total R000's
Carrying amount at the beginning of the 2012 financial year	924	387	14	1 325
Depreciation/ Amortisation per year	242	3 032	218	3 492

Changing the remaining useful lives will change the current period 2012, as well as future periods in the following way:

	Motor Vehicles R000's	Computer Software R000's	Other Assets R000's	Total R000's
Depreciation/ Amortisation per year with new estimate	178	646	10	834
Carrying amount at the end of the 2012 financial period	857	695	296	1 848
Depreciation for future periods	43	844	73	960

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 17. PROPERTY AND EQUIPMENT

	Cost R'000	Accumulated depreciation R'000	Closing carrying amount R'000
<b>Year ended 31 March 2012</b>			
Computer equipment	7 219	(4 974)	2 245
Office furniture and fittings	7 307	(3 369)	3 938
Office equipment	3 811	(2 570)	1 241
Motor vehicles	2 215	(1 358)	857
Other assets	301	(4)	297
<b>Balance at end of year</b>	<b>20 853</b>	<b>(12 275)</b>	<b>8 578</b>

<b>Year ended 31 March 2011</b>			
Computer equipment	7 945	(5 431)	2 514
Office furniture and fittings	6 349	(2 928)	3 421
Office equipment	3 950	(2 274)	1 676
Motor vehicles	2 215	(1 291)	924
Other assets	28	(14)	14
<b>Balance at end of year</b>	<b>20 487</b>	<b>(11 938)</b>	<b>8 549</b>

Opening carrying amount	Fair value adjustment	Additions	Impairment	Disposals cost	Depreciation charge	Accumulated depreciation on disposals	Closing carrying amount
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000

#### Movement summary 2012

Computer equipment	2 514	118	746	(148)	-	(985)	-	2 245
Office furniture & fittings	3 421	50	1 098	(63)	-	(568)	-	3 938
Office equipment	1 676	13	237	(88)	-	(597)	-	1 241
Motor vehicles	924	-	-	-	-	(67)	-	857
Other assets	14	-	301	(22)	-	4	-	297
<b>Balance at end of year</b>	<b>8 549</b>	<b>181</b>	<b>2 382</b>	<b>(321)</b>	<b>-</b>	<b>(2 213)</b>	<b>-</b>	<b>8 578</b>

#### Movement summary 2011

Computer equipment	3 376	9	457	-	(99)	(1 298)	69	2 514
Office furniture & fittings	3 236	10	776	-	-	(601)	-	3 421
Office equipment	2 063	6	295	-	(24)	(672)	8	1 676
Motor vehicles	1 313	-	-	-	(314)	(242)	167	924
Other assets	231	-	-	-	(486)	(218)	487	14
<b>Balance at end of year</b>	<b>10 219</b>	<b>25</b>	<b>1 528</b>	<b>-</b>	<b>(923)</b>	<b>(3 031)</b>	<b>731</b>	<b>8 549</b>

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 18. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	Cost	Accumulated amortisation	Closing carrying amount
	R'000	R'000	R'000
<b>Year ended 31 March 2012</b>			
Intangible assets	3 240	(2 546)	<b>694</b>

<b>Year ended 31 March 2011</b>			
Intangible assets	3 419	(3 032)	<b>387</b>

	Opening carrying amount	Fair value adjustment	Additions	Disposals cost	Amortisation charge	Accumulated amortisation on disposals	Closing carrying amount
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Movement summary 2012</b>							
Intangible assets	387	33	796	(1 009)	(522)	1 009	<b>694</b>

<b>Movement summary 2011</b>							
Intangible assets	823	-	564	-	(1 000)	-	<b>387</b>

### 19. GRANTS AND TRANSFERS PAYABLE

	Notes	2012 R'000	2011 R'000
Grants payable		<b>142 330</b>	170 238
InterSETA payables	27.1	<b>812</b>	-
Government grant income received in advance	5	<b>31 006</b>	9 225
Provision for SARS refund	19.1	<b>17 942</b>	22 928
		<b>192 090</b>	<b>202 391</b>

#### 19.1 Provision for SARS refund

Companies with annual payrolls below R500 000 are exempted from paying skills development levies. A provision has been made for possible refunds to companies falling below the SDL threshold but still contributing levies. The effective date of the exemption was 1 August 2005.

	Notes	2012 R'000	2011 R'000
Opening carrying amount		<b>22 928</b>	26 473
Amount utilised		<b>(1 189)</b>	(8 130)
Additional provision during the period		<b>(3 797)</b>	4 585
Closing carrying amount	19	<b>17 942</b>	<b>22 928</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 20. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Notes	2012 R'000	2011 R'000
Trade payables	14 218	10 768
Less: fair value adjustment	(74)	(87)
	<u>14 144</u>	<u>10 681</u>
Accruals salaries and wages	11 565	8 826
	<u>25 709</u>	<u>19 507</u>

### 21. PROVISIONS

#### Workmen's Compensation provision

Opening carrying amount	124	80
Amounts utilised	-	(80)
Additional provision during the period	166	124
Closing carrying amount	<u>290</u>	<u>124</u>

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

### 22. CORRECTION OF ERROR

The entity has made a prior period correction due to non-compliance with GRAP 19 regarding raising a provision for discretionary grant training that was completed before the year-end.

The effect on the current and prior period is shown below:

(Decrease)/increase in discretionary grant expense	(21 136)	21 136
Increase/ (decrease) in grants and transfers payable	<u>21 136</u>	<u>(21 136)</u>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 23. RECONCILIATION OF NET SURPLUS/(DEFICIT) TO CASH UTILISED IN OPERATIONS

		2012	2012	2011	2011
		R'000	R'000	R'000	R'000
Note		Actual	Budget	Actual	Budget
	Net surplus/(deficit) as per the statement of financial performance	<b>23 683</b>	(488 369)	24 616	(385 847)
	Adjusted for non-cash items:				
	Depreciation property and equipment	17	2 213	2 623	3 031
	Amortisation of intangible assets	18	522	659	1 938
	Loss on disposal of property and equipment	9	264	-	95
	Transfers out/fair value adjustments to property and equipment	17	(214)	-	(25)
	Movements in provisions		166	(40)	44
	Adjusted for items separately disclosed				
	Investment income		(61 736)	(50 278)	(61 726)
	Adjusted for working capital changes:				
	Decrease/(increase) in prepayments and advances		28 488	(752)	557
	(Increase)/decrease in receivables from non-exchange transfers		(27 717)	818	82
	Decrease in other receivables from exchange transactions		1 138	1 530	718
	Increase in inventories		(28)	(18)	(10)
	Increase/(decrease) in grants and transfers payable		(10 301)	(50 000)	93 556
	Increase/ (decrease) in trade and other payables from exchange transactions		6 202	2 796	(5 488)
	Cash (used in)/generated by operations		<b>(37 320)</b>	<b>(581 031)</b>	<b>56 450</b>
					<b>(434 128)</b>

### 24. CONTINGENCIES

Contingent liabilities comprise an Employer Grant Reserve of R1 609 000 (2011: R535 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 (6) months and will be eligible for the mandatory grant once this has been approved by the merSETA.

## 25. COMMITMENTS

### 25.1 Discretionary reserve

Of the balance of R923 584 000 available in the discretionary reserve on 31 March 2012 an amount of R923 399 000 has been approved for future project expenses and discretionary grants as set out below. Amounts for expenses that have already been incurred, and therefore included in project and discretionary grant expense in the statement of financial performance, are also indicated.

#### 25.1.1 *Project commitments*

Project/ discretionary grant name	NSDS 3 indicator	2011		2011		2011		2012		2012	
		Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Charged to statement of financial performance R'000	Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Charged to statement of financial performance R'000	Closing balance R'000	
ABET Project Phase 3	4.2.1	28 214	1 110	(537)	(23 003)	5 784	189	2 594	(4 180)	4 387	
ABET Project Phase 4	4.2.1	-	-	-	-	-	180	6 372	(1 948)	4 604	
Accelerated Artisan Training Programme	4.2.2	32 798	2 653	733	(19 836)	16 348	2 273	79 158	(28 952)	68 827	
Accounting Technicians Project	4.2.1	-	(1 100)	6 738	(977)	4 661	-	-	(1 963)	2 698	
Annual Conference	N/A	-	1 867	-	(1 867)	-	1 603	-	(1 603)	-	
Artisan Innovation Project	4.2.2	-	-	-	-	-	-	1 251	(1 016)	235	
MoA Project DG3	4.2.1/ 4.2.2	-	(19 048)	201 723	(1 928)	180 747	18 882	53 807	(67 669)	185 767	
MoA Project DG4	4.2.1/ 4.2.2	-	-	-	-	-	-	248 677	(17 449)	231 228	
Apprenticeship Research	4.2.2	-	-	-	-	-	461	-	(461)	-	



NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012

25. COMMITMENTS (CONTINUED)

Project/ discretionary grant name	NSDS 3 indicator	2011		2011		2011		2012		2012	
		Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Charged to statement of financial performance R'000	Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Charged to statement of financial performance R'000	Closing balance R'000	
Assessor and Moderator Training	4.3	1 129	4	(308)	(825)	-	-	-	-	-	-
Bursaries	4.2.1	1 239	(4 827)	48 116	(23 626)	20 902	4 804	16 018	(24 427)	17 297	
Capacity Building FET Colleges	4.3.2.2	-	342	412	(342)	412	(267)	-	(145)	-	
Career Path & Development	4.8	-	594	-	(594)	-	97	7 045	(2 196)	4 946	
Competency Model	N/A	-	90	115	(180)	25	(15)	-	(10)	-	
Courseware & Curriculum Development	4.2.1	846	2 062	7 699	(7 257)	3 350	591	86	(3 966)	61	
Eastern Cape - Office of Premier	4.2.1/ 4.2.2	-	-	-	-	-	-	22 368	(2 260)	20 108	
Electronic Induction Model	N/A	-	223	-	(223)	-	(223)	-	223	-	
General Motors SA	4.2.2	-	-	-	-	-	-	7 532	(3 390)	4 142	
GMET SGB	4.2.1	-	-	355	(89)	266	-	30	(296)	-	
HIV AIDS Project	N/A	7 116	610	3 247	(9 265)	1 708	(307)	-	(1 401)	-	
Interchamber Capacity Building	N/A	-	257	-	(257)	-	278	-	(278)	-	
International Conferences	N/A	-	1 844	-	(1 844)	-	745	-	(745)	-	
Internships	4.2.1	-	634	-	(634)	-	-	1 552	(1 552)	-	
ISOEs	4.3.2.2	812	258	5 458	(1 971)	4 557	(72)	7 108	(5 188)	6 405	
Jaguar Land Rover Enrichment Project	4.2.1	-	-	-	-	-	-	4 500	(450)	4 050	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012

25. COMMITMENTS (CONTINUED)

Project/ discretionary grant name	NSDS 3 indicator	2011				2012				
		Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Charged to statement of financial performance R'000	Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Charged to statement of financial performance R'000	Closing balance R'000
Labour & Stakeholder Capacity Building	4.8	-	951	-	(951)	-	460	-	(460)	-
Leadership Development Programme	N/A	-	546	-	(546)	-	111	-	(111)	-
MAP SGB	4.2.1	365	439	178	(929)	53	(20)	-	(33)	-
Marketing Project	N/A	-	52	630	(682)	-	390	-	(390)	-
Maths and Science Student Project Member	4.2.1	-	652	4 720	(4 792)	580	508	2 451	(2 753)	786
Satisfaction Survey	N/A	-	(34)	136	(102)	-	151	-	(151)	-
Monitoring & Evaluation	All	-	-	-	-	-	292	971	(583)	680
NEET Access Programme	4.2.1	-	-	-	-	-	-	3 172	(3 172)	-
New Venture Creation	4.2.1	12 624	548	7 477	(11 054)	9 595	525	2 627	(9 794)	2 953
Non Levy Paying NGOs and CBOs	4.6.3	-	9	12 285	(2 834)	9 460	50	-	(7 237)	2 273

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012

25. COMMITMENTS (CONTINUED)

Project/ discretionary grant name	NSDS 3 indicator	2011		2011		2011		2011		2012		2012		2012				
		Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Northern Cape Household Project	4.2.1	-	-	2 896	(684)	2 212	-	-	(2 120)	92								
Occupational Trainer Qualification	4.2.1	-	-	-	-	-	(30)	481	(59)	392								
Organisational Development	N/A	-	208	-	(208)	-	502	-	(502)	-								
People with Disabilities	4.2.1	2 150	(299)	400	(1 276)	975	17	4 000	(2 943)	2 049								
QCTO Foundry Project	4.2.1	-	-	-	-	-	40	-	(40)	-								
QCTO CEP Pilot Project	4.3.2.2	-	-	-	-	-	787	801	(1 204)	384								
Retrenchment Assistance Programme	4.2.1	-	32 294	47 262	(25 468)	54 088	(213)	16 743	(48 934)	21 684								
RPL Pilot Project	4.2.1	410	(249)	2 498	(1 871)	788	(3)	433	(485)	733								
Skills Programme - Unemployed Youth	4.2.1	-	-	-	-	-	-	2 990	(1 086)	1 904								
SME Voucher Project	4.6.2	28 157	3 420	12 846	(32 885)	11 538	(6 962)	4 829	(5 783)	3 622								
SSP Review	N/A	825	1 660	618	(2 593)	510	2 186	2 478	(3 357)	1 817								
Stakeholder Information Dissemination	N/A	-	1 970	-	(1 970)	-	1 678	-	(1 678)	-								

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012

25. COMMITMENTS (CONTINUED)

Project/ discretionary grant name	NSDS 3 indicator	2011		2011		2011		2011		2012		2012		Closing balance
		Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Tool Box Project	4.2.2	7 017	-	-	(5 207)	1 810	(1 746)	-	-	-	(64)	-	-	-
Vehicle Maintenance SGB	4.2.1	257	(54)	-	(203)	-	-	-	-	-	-	-	-	-
Western Cape Household Programme	4.2.1/ 4.2.2	-	-	-	-	-	-	480	(120)	360	-	-	-	360
World Skills	N/A	-	2 465	-	(2 465)	-	340	-	(340)	-	-	-	-	-
Discretionary Grant														
Administration Expenditure	N/A	-	16 410	-	(16 410)	-	17 809	-	(17 809)	-	-	-	-	-
Project Administration Expenditure	N/A	-	7 326	-	(7 326)	-	7 499	-	(7 499)	-	-	-	-	-
		123 959	55 887	365 697	(215 174)	330 369	53 590	500 554	(290 029)	594 484				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012

25. COMMITMENTS (CONTINUED)

25.1.2 Discretionary Grants

Project/ discretionary grant name	NSDS 3 indicator	2011		2011		2011		2012		2012	
		R'000	R'000	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	Opening balance	Adjustments/ non contractual payments	Approved by Accounting Authority and contracted	Charged to statement of financial performance	Closing balance
Employed learners	4.2.1	96 373	11 921	(17 708)	(21 255)	69 331	495	5 570	(21 312)	54 084	
Unemployed learners	4.2.1	93 373	6 859	(16 390)	(19 669)	64 173	446	5 153	(19 721)	50 051	
Apprenticeships	4.2.1	234 291	67 875	(49 409)	(59 179)	193 578	939	15 507	(59 336)	150 688	
Skills programmes	4.2.1	89 940	(22 168)	(11 081)	(13 321)	43 370	375	3 491	(13 357)	33 879	
Experiential training	4.2.1	87 612	(47 683)	(6 529)	(7 848)	25 552	222	2 056	(7 869)	19 961	
ABET	4.2.2	-	12 183	(1 992)	(2 395)	7 796	68	627	(2 401)	6 090	
ATRAMI	4.2.2	-	6 726	(1 100)	(1 322)	4 304	38	347	(1 326)	3 363	
Assessors & Moderators	N/A	-	5 234	(856)	(1 029)	3 349	28	270	(1 031)	2 616	
Internships	4.2.1	-	16 369	(2 676)	(3 218)	10 475	92	843	(3 227)	8 183	
Retrenchment assistance	4.2.1	29 204	(29 204)	-	-	-	-	-	-	-	
Sector Specialists	4.8	39 940	(39 940)	-	-	-	76	-	(76)	-	
Other discretionary grant expenditure	4.2.1	-	7 634	-	(7 634)	-	1 024	-	(1 024)	-	
		670 733	(4 194)	(107 741)	(136 870)	421 928	3 803	33 864	(130 680)	328 915	
Total projects and discretionary grants		794 692	51 693	257 956	(352 044)	752 297	57 393	534 418	(420 709)	923 399	

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 25. COMMITMENTS (CONTINUED)

#### 25.2 Operating Leases

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

The operating leases relate to premises utilised for office accommodation. The lease agreements were entered into on various dates and will be operational for varying periods, the last expiring on 31 March 2016. For purposes of calculating the lease commitments, options to renew the leases on expiry have been ignored. The rental escalations vary from lease to lease, the average being 8%.

	2012 R'000	2011 R'000
Not later than one year	8 966	8 335
Later than one year and not later than five years	31 517	40 441
	40 483	48 776

### 26. 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 comprises interest rate risk and currency risks. The merSETA does not have exposure to currency risks. The merSETA is exposed to fluctuations in the employment market. For example sudden increases in unemployment and changes in the wage rates. No significant events occurred during the year that the merSETA is aware of.

#### Interest rate risk

The merSETA manages its interest rate risk by fixing rates on surplus cash funds using short to medium term fixed deposits.

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 26. 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
Amount	Effective interest rate	Amount	Weighted average effective interest rate %	Weighted average period for which the rate is fixed in years	Amount	Weighted average period until maturity in years	
R'000		R'000			R'000		R'000

#### Year ended 31 March 2012

Cash and cash equivalents	2 044	5.0%	169 281	5.0%	6 months	-	-	171 325
Available-for-sale financial assets	-	-	935 000	5.6%	3 months	-	-	935 000
Other receivables from exchange transactions	-	-	-	-	-	6 933	3 months	6 933
<b>Total financial assets</b>	<b>2 044</b>		<b>1 104 281</b>			<b>6 933</b>		<b>1 113 258</b>
<b>Liabilities</b>								
Trade payables	-	-	-	-	-	14 144	30 days	14 144
Other payables from exchange transactions	-	-	-	-	-	11 565	30 days	11 565
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25 709</b>	<b>-</b>	<b>25 709</b>
<b>Net financial assets</b>	<b>2 044</b>		<b>1 104 281</b>			<b>(18 776)</b>		<b>1 087 549</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 26. FINANCIAL INSTRUMENTS (CONTINUED)

Floating rate		Fixed Rate			Non-interest bearing		TOTAL
Amount	Effective interest rate	Amount	Weighted average effective interest rate %	Weighted average period for which the rate is fixed in years	Amount	Weighted average period until maturity in years	
R'000		R'000			R'000		R'000

#### Year ended 31 March 2011

##### Assets

Cash and cash equivalents	986	5.5%	74 044	5.5%	6 months	-	-	75 030
Available-for-sale financial assets	-	-	1 010 000	6.2%	3 months	-	-	1 010 000
Other receivables from exchange transactions	-	-	-	-	-	8 071	3 months	8 071
<b>Total financial assets</b>	<b>986</b>		<b>1 084 044</b>			<b>8 071</b>		<b>1 093 101</b>
<b>Liabilities</b>								
Trade payables	-	-	-	-	-	10 681	30 days	10 681
Other payables from exchange transactions	-	-	-	-	-	8 826	30 days	8 826
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19 507</b>		<b>19 507</b>
<b>Net financial assets</b>	<b>986</b>		<b>1 084 044</b>			<b>(11 436)</b>		<b>1 073 594</b>

#### SENSITIVITY ANALYSIS

At 31 March 2012, if the interest rate was 100 basis points higher with all other variables held constant, then the surplus would have been R12.4 million higher arising from the increase in investment income. If the interest rate was 100 basis points lower with all other variables held constant, then a surplus would have been R 12.4 million lower arising from the decreased investment income than what that which budgeted.

At 31 March 2012, if the skills development levy income grew only by 6% from the previous financial year instead of the 18.4% growth and all other variables held constant, then a deficit of R72.9 million would have been incurred. If the skills development levy income grew by 20% and all other variables held constant, then a surplus of R35.7 million would have been earned.

#### CREDIT RISK

Financial assets, which potentially subject the merSETA to the risk of non-performance by counter-parties and thereby subject to credit concentrations of credit risk, consist mainly of cash and cash equivalents, available-for-sale financial assets and receivables from non-exchange transfers.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 26. FINANCIAL INSTRUMENTS (CONTINUED)

The ageing of receivables from non exchange transfers:

	2012		2011	
	Gross	Impairment	Gross	Impairment
Current	(40)	40	703	(703)
30 Days	1 234	(1 234)	27	(27)
60 Days	(304)	304	-	-
90 Days	361	(361)	133	(133)
91 Days to 6 Months	34	(34)	867	(867)
6 Months - 1 year	201	(201)	76	(76)
1 Year plus	3 452	(3 452)	2 949	(2 949)
<b>Total</b>	<b>4 938</b>	<b>(4 938)</b>	<b>4 755</b>	<b>(4 755)</b>

Credit risk with respect to levy payments by employers is limited due to the nature of the income received. The merSETA is exposed to credit risk in regard to payments made in advance on discretionary grants whereby not all the conditions have been met. The merSETA has entered into agreements with qualifying employers in regard to these grants whereby some payments are recoverable until 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 the manufacturing, engineering and related services industry during the financial year that may have an impact on the accounts receivable that has not been adequately provided for. Accounts receivable are presented net of an allowance for doubtful debts.

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

	2012 R'000	2011 R'000
Employer receivable	-	-
Debtors - investigations	-	-
Other receivables	56	155
Staff loans - education	168	111
Prepayments - insurance	76	58
Prepayments - bursaries	107	-
Discretionary grant prepayments	1 028	29 698
Government grants - National Skills Fund	28 317	-
interSETA receivables	218	818
	<b>29 970</b>	<b>30 840</b>

The merSETA manages the risk of staff loans by systematic deductions of amounts owing from the monthly salaries paid or from leave payouts due upon termination of services.

#### LIQUIDITY RISK

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 26. FINANCIAL INSTRUMENTS (CONTINUED)

2012

Trade and other payables from exchange transactions

Carrying Amount	Contractual Cash Flows	6 months or less
14 144	14 144	14 144

2011

Trade and other payables from exchange transactions

Carrying Amount	Contractual Cash Flows	6 months or less
10 681	10 681	10 681

#### **Fair values**

The merSETA's financial instruments consist mainly of cash and cash equivalents, available-for-sale financial assets, 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 and available-for sale financial assets**

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

#### **Other receivables from exchange transactions**

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 27. RELATED PARTY TRANSACTIONS

#### 27.1 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:

		2012		2011	
		R'000		R'000	
Notes		Net transfers in/ (out) during the year	Amount receivable/ (payable)	Transfers in/ (out) during the year	Amount receivable/ (payable)
	<b>Receivables</b>	<b>441</b>	<b>218</b>	<b>(619)</b>	<b>818</b>
	CETA	200	-	(100)	-
	AGRISETA	9	2	-	-
	EWSETA (Previously ESETA)	-	21	-	21
	FASSET	73	73	-	-
	FP&M SETA	5	25	-	20
	CHIETA	-	93	-	92
	HW SETA	154	-	-	-
	MICT SETA (Previously ISETT)	-	4	-	5
	SERVICES	-	-	(393)	-
	TETA	-	-	(20)	-
	W&R SETA	-	-	(106)	680
	<b>Payables</b>	<b>(732)</b>	<b>(812)</b>	<b>-</b>	<b>-</b>
	FP&M SETA (Previously CTFL, FIETA and MAPPP)	(4)	(4)	-	-
	W&R SETA	(728)	(808)	-	-
	<b>Total</b>	<b>(291)</b>	<b>(594)</b>	<b>(619)</b>	<b>818</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 27.2 RELATED PARTY TRANSACTIONS (continued)

Company	Board and independent committee members	2012 R'000		2011 R'000	
		Net transfers in/(out) during the year	Amount receivable/(payable)	Net transfers in/(out) during the year	Amount receivable/(payable)
RMI	A Dunn, J Esterhuizen, J Olivier, L Whitely	(167)	(96)	(36)	-
SEIFSA	G Harris, J Lopes, W Nsele	( 86)	-	(49)	-
PLASFED	A Hanekom, D Rule, Z Xaba	(125)	(87)	(239)	-
PCASA	A Hanekom, J Pieterse	-	-	( 5)	-
NUMSA	K Cloete, E Kubeka, G Lephallo, A Mashilo, M Mogopodi, V Mthethwa, E Nodongwe, X Tshayana, T Tshikwavhavha, T Tsiboli, P Verryne,	(278)	(114)	(63)	-
MISA	D De Villiers	(58)	(58)	(3)	-
SOLIDARITY	A Gerristen, D Reyneke, J Swarts, P Veldman	(20)	(20)	(45)	-
CEPPWAWU	M Netshandama	-	-	(10)	-
UASA	P Bezuidenhout, T Kruger, L Greyling, J Van Niekerk	(98)	(55)	(7)	-
MEWUSA	R Kgagudi	-	-	(5)	-
BMW SA	C Christian	-	-	(3 697)	(670)
NERSA	P Nzimande	-	-	-	-
Labore Management Solutions	E Olivier	(12)	-	-	-
University of Johannesburg	F Tregenna	(705)	(571)	-	-

These transactions and balances are due to board fees, independent members' fees, and grants and consulting fees paid to companies related to the members.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 27.2 RELATED PARTY TRANSACTIONS (continued)

Company	Board and independent committee members	2012		2011	
		R'000		R'000	
		Net transfers in/(out) during the year	Amount receivable/(payable)	Net transfers in/(out) during the year	Amount receivable/(payable)
Independent	C Khuzwayo	(6)	-	-	-
Bridgestone	R Daniels				
Firestone	(Independent), P Welgemoed	(3 572)	(189)	(3 045)	(450)
Cape Gate	J Swarts	-	-	(1 735)	(160)
Continental Tyre SA	N Abrahams, J Harris	-	-	(551)	(350)
Apollo Tyres	V Mthethwa, J Wilson	(1 389)	(1 802)	(2 927)	(260)
Dynamic Automotive Systems	P Verryne	-	-	(40)	(10)
East Cape Training Centre	X Tshayana	(799)	-	(549)	-
Goodyear SA	C McIntosh	-	-	(1 554)	(195)
Precision Valve	M Netshandama	-	-	(70)	(36)
Sandown Motors	A Dunn	-	-	(2 257)	(260)
Toyota SA	T Molapo	(17 690)	(38)	(3 529)	290
Wispeco	T Tshikwavhavha	(667)	(530)	(771)	(56)
Technicolour	J Esterhuisen	(221)	(4)	(121)	(12)
Volkswagen of SA	X Tshayana	(25 602)	(516)	(12 917)	(830)
Bell Equipment	G Harris	-	-	(2 098)	(66)
Macsteel	W Nsele	-	-	(6 725)	(470)
Independent	A Mashifane	(91)	(17)	-	-
Independent	J Davis	(22)	-	-	-
Independent	C Murray	(22)	-	-	-
Independent	W Sibuyi	(11)	-	-	-
Independent	T Mashanda	(77)	(11)	-	-
Independent	F Mukaddam	(33)	(11)	-	-
		(51 751)	(4 119)	(43 048)	(3 535)

These transactions and balances are due to Board fees, independent members' fees, and grants and consulting fees paid to companies related to the members.

All transactions with member representative companies are at arm's length. This disclosure includes members whose term ended at 31 March 2011 and those whose term commenced on 1 April 2011.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 27.3 NATIONAL PUBLIC ENTITIES

Organisation name	Nature of transaction	2012		2011	
		R'000		R'000	
		Net transfers in/(out) during the year	Amount receivable/(payable)	Net transfers in/(out) during the year	Amount receivable/(payable)
Auditor-General	Auditing work	(1 846)	(181)	(1 931)	-
Business Enterprises - University of Pretoria	Learnerships	(481)	-	(644)	(200)
Cape Peninsula University of Technology	Bursary payments	-	-	(9)	-
College of Cape Town	ISOEs & NVC project	(461)	-	(952)	-
Department of Labour (Transfers)	Trade test fees	-	-	(1)	-
Eastern Cape Training Centre	Retrenchment Assistance Programme	(799)	-	(549)	-
Eastern Cape Socio-Economic Consulting Council	Research	(54)	-	-	-
Human Sciences Research Council	Audit FET report	(375)	-	-	-
Nelson Mandela Metropolitan University	Bursary payments	(2 289)	(409)	(671)	(491)
NMMU - South ( Nelson Mandela)	Bursary payments	-	-	(186)	-
Northlink College	ISOE Project	(278)	-	(184)	-
Rhodes University	Bursary payments	(161)	-	(300)	-
SA Quality Institute (SAQI)	Subscriptions	(200)	-	-	-
South African Qualifications Authority	Sponsorships	(1 334)	-	-	-
Telkom	Telephone & Datalines	(1 206)	(103)	(2 453)	(2)
University of Jhb - Doornfontein	Bursary payments	(66)	-	-	-
University of Jhb - Auckland Park Campus	Bursary payments	(555)	(500)	(36)	-
University of Jhb - Conference centre	Bursary payments	(13)	-	(371)	(25)
University of KZN	Bursary payments	(5)	-	-	-
University of Stellenbosch	Bursary payments	(90)	-	(86)	-
University of the Witwatersrand	Bursary payments	(255)	(103)	-	-
University of Zululand	Bursary payments	-	-	(3)	-
UNISA - University of South Africa	Bursary payments	(81)	-	(470)	-
Vaal University of Technology	Bursary payments	(25)	-	-	-
WITS Business School	Bursary payments	(41)	-	(81)	-
WITS PLUS Language School	Bursary payments	(54)	-	(24)	-
		(10 669)	(1 296)	(8 951)	(718)

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 28. GOING CONCERN

The merSETA was set up in terms of the Skills Development Act No 97 of 1998. The Minister extended the merSETA's licence for a period of 5 years up to 31 March 2016. Accordingly, the merSETA has drawn up and presented these financial statements on a going concern basis.

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

#### CRIMINAL CONDUCT

During the current year the merSETA suffered a loss of R37 000 due to criminal conduct. An ex employee used travel vouchers for accommodation for personal use. The fraud was soon discovered through the merSETA's internal controls. An attempt is being made to recover the funds via the pension payouts to the ex employee

In the prior year the merSETA suffered a loss of R6 329 000 (see note 11.2) due to criminal conduct. The loss involved diversion of mandatory grants due to employers. The amount has been fully provided for under mandatory grant expenses and the affected employers reimbursed. The case is still under investigation and a police case has been opened. The merSETA will pursue recovery of the loss through legal processes. The process of updating bank details has been reviewed and strengthened.

#### IRREGULAR EXPENDITURE

	2012 R'000	2011 R'000
Opening Balance	1 715	-
Add: Irregular Expenditure - Current year	4 638	1 715
	<b>6 353</b>	<b>1 715</b>
<b>Irregular Expenditure awaiting condonation</b>	<b>6 353</b>	<b>1 715</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	4 638	1 715
Prior year	1 715	-
<b>Total</b>	<b>6 353</b>	<b>1 715</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### Details of Irregular Expenditure - Current year

Incident	Nature of transaction	Disciplinary steps taken/ criminal proceedings	Remedial actions taken	Amount R000's
Services awarded to provider without obtaining three quotes.	Consulting Services	The responsible employee has left the services of the merSETA after disciplinary actions were instituted.	Appointment of service providers is authorised by the CFO, and no appointment letters are authorised without the supporting evidence that three quotations were obtained.	93
Contract irregularly awarded. There were no specific evaluation criteria included in the terms of reference.	Media Buying and Advertising services	The responsible employee has left the services of the merSETA after disciplinary actions were instituted.	All terms of reference are signed off by the Bid Specification Committee before being sent out to ensure that the evaluation criteria have been included.	1 678
Services awarded to provider without obtaining three quotes.	Hotel Accommodation	Services were procured with consideration for cost reduction, thus booking of travel services was kept in-house instead of using a travel agent. Management to investigate other cost effective, transparent & effective alternatives.	Management to investigate other cost effective, transparent and effective alternatives.	1 554
Services awarded to provider without obtaining three quotes.	Car Rentals	Services were procured with consideration for cost reduction, thus booking of travel services was kept in-house instead of using a travel agent. Management to investigate other cost effective, transparent and effective alternatives.	Management to investigate other cost effective, transparent and effective alternatives.	370



**NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2012**

<b>Incident</b>	<b>Nature of transaction</b>	<b>Disciplinary steps taken/ criminal proceedings</b>	<b>Remedial actions taken</b>	<b>Amount R000's</b>
Contract awarded to supplier without a valid tax clearance certificate.	Shuttle Services	Investigation is to be conducted.	A document checklist has been developed and checked to all tender/quotes submissions. All submissions with missing documents are disqualified from any further consideration. Vendor database clean-up was conducted on all old awards.	147
Contract awarded to supplier without a valid tax clearance certificate and a signed declaration of interest form (SBD 4).	Shuttle Services	Investigation is to be conducted.	A document checklist has been developed and checked to all tender/quotes submissions. All submissions with missing documents are disqualified from any further consideration. Vendor database clean-up was conducted on all old awards.	155
Contract awarded to supplier without a valid tax clearance certificate and a signed declaration of interest form (SBD 4).	Marketing Materials	Disciplinary action was taken against responsible employee, who has since left the merSETA.	A document checklist has been developed and checked to all tender/quotes submissions. All submissions with missing documents are disqualified from any further considerations. Vendor database clean-up was conducted on all old awards.	259

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

Incident	Nature of transaction	Disciplinary steps taken/ criminal proceedings	Remedial actions taken	Amount R000's
Contract awarded to supplier without a valid tax clearance certificate and a signed declaration of interest form (SBD 4).	Printing	Disciplinary action was taken against responsible employee, who has since left the merSETA.	A document checklist has been developed and checked to all tender/quotes submissions. All submissions with missing documents are disqualified from any further consideration. Vendor database clean-up was conducted on all old awards.	99
Contract awarded to supplier without a valid tax clearance certificate and a signed declaration of interest form (SBD 4).	QMS Consulting	Disciplinary action was taken against responsible employee, who has since left the merSETA.	A document checklist has been developed and checked to all tender/quotes submissions. All submissions with missing documents are disqualified from any further consideration. Vendor database clean-up was conducted on all old awards.	37
The process followed for evaluation was not fair and equitable, due to the evaluators lack of understanding that the cost of paper is the key determinant on the overall price. The bidders were evaluated on quotations that had different paper specifications.	Printing of annual report	None, corrective actions will be put in place.	The terms of reference used to invite bidders are now reviewed and signed off by the requesting unit manager to ensure that all the technical specifications are addressed and are not vague.	246
<b>TOTAL</b>				<b>4 638</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 29. MATERIAL LOSSES THROUGH CRIMINAL CONDUCT, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (CONTINUED)

#### **FRUITLESS AND WASTEFUL EXPENDITURE**

During the year-end fixed asset count, a number of assets in the fixed asset register could not be physically verified. These assets were acquired between 2001 and 2009 and had a net book value of R320 892 as at 31 March 2012. Additional verification processes were undertaken to ensure the completeness and accuracy of the asset count results, and the final outcome was the scrapping of fixed assets to the value of R320 892 due to non-existence thereof. Management has reviewed the fixed asset management procedures in order to address the weaknesses in the process and any future misappropriation of assets.

During the prior year the merSETA lost equipment valued at R33 820 due to theft from head office. The matter was reported to SAPS. Due to a condition for an alarm activation not being met, the amount was not recoverable from insurance.

During the prior year, a penalty of R26 120 was paid to the Workmen's Compensation Fund due to a shortfall on payment of the levies. The merSETA did not receive the return on time. The Fund could not provide the assessments when follow up visits were conducted.

During the prior year, inaccurate leave payments of R31 579 were paid due to errors on the payroll package.

### 30. TAXATION

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

### 31. EVENTS AFTER THE REPORTING DATE

The merSETA has submitted a request to National Treasury for the retention of surplus funds.

### 32. NEW ACCOUNTING PRONOUNCEMENTS

At the date of authorisation of these financial statements, there are Standards and Interpretations in issue but not yet effective. These include the following Standards and Interpretations that are applicable to the merSETA and may have an impact on future financial statements:

	<b>Statement</b>	<b>Effective Date</b>
Segment Reporting	GRAP 18	No date
Related Parties Disclosures	GRAP 20	No date
Impairment of Non-cash-generating Assets	GRAP 21	1 April 2012
Revenue from Non-exchange Transactions (Taxes and Transfers)	GRAP 23	1 April 2012
Presentation of Budget Information in Financial Statements	GRAP 24	1 April 2012
Employee Benefits	GRAP 25	No date
Impairment of Cash-generating Assets	GRAP 26	1 April 2012
Heritage Assets	GRAP 103	1 April 2012
Financial Instruments	GRAP 104	1 April 2012

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

## 32. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Transfer of Function between Entities Under Common Control	GRAP 105	No date
Transfer of Function between Entities Not Under Common Control	GRAP 106	No date
Mergers	GRAP 107	No date

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 18: Segment Reporting

The Standard provides guidance on accounting for determination of reporting segments and will require additional disclosure.

### 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 21: Impairment of Non-cash Generating Assets

The standard provides guidance on accounting for impairment losses of non-cash-generating assets. It is similar to IFRS and is not expected to significantly impact disclosures on the financial statements.

### GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)

The Standard provides guidance on accounting and disclosure for non-exchange revenue and also provides South African public sector specific examples. The application of this standard will result in a change in accounting policy for the accounting of National Skills Fund Grant and Receivables from Non-exchange transfers.

### GRAP 24: Presentation of Budget Information in Financial Statements

The Standard prescribes the presentation of a comparison of budget and actual amounts in the financial statements of entities that are publicly accountable for the use of their funds. The presentation may be in the form of additional financial statements or additional budget columns in their financial statements. The Standard becoming effective is not expected to significantly impact future disclosures since we have applied the principles outlined in GRAP 24 to inform our current disclosure.

### GRAP 25: Employee Benefits

This Standard prescribes the accounting treatment for employee benefits. The changes prescribed from the current applicable Standard relate mainly to the accounting requirements of defined benefit plans and as such are not expected to significantly impact the current accounting policies or disclosures.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

### 32. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

#### **GRAP 26: Impairment of Cash Generating Assets**

This Standard prescribes the accounting treatment for the impairment of cash generating assets and does not significantly differ from IAS 36. It is not expected that this Standard will significantly impact future disclosures.

#### **GRAP 103: Heritage Assets**

The Standard prescribes the accounting treatment of heritage assets. This Standard will currently not impact disclosures on the financial statements.

#### **GRAP 104: Financial Instruments**

GRAP 104 prescribes recognition, measurement, presentation and disclosure requirements for financial instruments and makes significant modifications to the principles in the previous Standards applied in order to:

- simplify the recognition, measurement and disclosure of financial instruments; and
- accommodate the types of financial instruments entered into in the public sector.

The definitions of the various categories of financial instruments in IAS 39 have been streamlined and replaced which will require us to change our accounting policy accordingly.

The following disclosures required under IAS are encouraged but not required:

- The disclosure of fair values for financial instruments.
- Certain disclosures about the use of the fair value using the three tiered hierarchy.
- A market sensitivity analysis.



<b>AATP</b>	Accelerated Artisan Training Programme	<b>Constitution</b>	Means the constitution of the merSETA, in terms of section 13 of the Skills Development Act, No 97 of 1998 (as amended)
<b>ABET Act</b>	Adult Basic Education and Training The Skills Development Act No 97 of 1998 (as amended)	<b>DHET</b>	The Department of Higher Education and Training
<b>Administration costs</b>	Means the costs contemplated in grant regulation 4(3) in terms of the Act	<b>Director-General</b>	Means the Director-General of Higher Education and Training
<b>Alternate</b>	A person appointed to act on behalf of a member of the Governing Board in the absence of the latter	<b>Discretionary grants</b>	Means grants contemplated in grant regulation 7, in terms of the Act
<b>AMEO</b>	Automobile Manufacturers' Employers Organisation	<b>DoE</b>	Department of Basic Education
<b>AMIC</b>	Automotive Industrial Council	<b>DoL</b>	Department of Labour
<b>ASGISA</b>	Accelerated Shared Growth Initiative of South Africa	<b>DTI</b>	Department of Trade and Industry
<b>ATR</b>	Annual Training Report	<b>Education and Training</b>	Registered statements of desired education and training outcomes and their associated standards assessment criteria as defined in the SAQA Act
<b>ATRAMI</b>	Artisan Training and Recognition Agreement for the Metal Industry	<b>ETQA</b>	Education and Training Quality Assurance Body
<b>Audit and Risk Committee</b>	The committee established in terms of schedule 5 clause 2(1)(b) of the constitution to monitor the Governing Board in discharging its duties relating to the management of the financial affairs of the merSETA	<b>Executive Committee</b>	The committee established in terms of sub-clause 8.1 (a) of the constitution which has oversight of the management of the operational affairs of the merSETA
<b>BBBEE</b>	Broad-based Black Economic Empowerment	<b>FET</b>	Further Education and Training
<b>BSC</b>	Balanced Scorecard	<b>Financial year</b>	Means the period contemplated in terms of the Public Finance Management Act, which covers the period 1 April to 31 March
<b>CBMT</b>	Competency Based Modular Training	<b>FRIDGE</b>	Fund for Research into Industrial Development Growth and Equity
<b>CBO</b>	Community Based Organisation	<b>GAAP</b>	Generally Accepted Accounting Practice
<b>CEPPWAWU</b>	Chemical, Energy, Pulp, Paper, Wood and Allied Workers Union	<b>GDS</b>	Growth and Development Summit
<b>CFO</b>	Chief Financial Officer	<b>Governing Board</b>	Accounting Authority of the merSETA
<b>Chairperson</b>	The Chairperson of the Governing Board nominated in terms of clause 9 of the constitution	<b>GRAP</b>	Generally Recognised Accounting Practice
<b>Chambers</b>	The chambers established in terms of schedule 5A of the constitution, as provided under section 12 of the Act	<b>IDZ</b>	Industrial Development Zone
<b>CHE</b>	Council for Higher Education	<b>ISOE</b>	Institute of Sectoral, Occupational Excellence
<b>Chief Executive Officer</b>	The Chief Executive Officer of the merSETA who is appointed under clause 11 of the constitution.	<b>Levies Act</b>	The Skills Development Levies Act 1999 (Act No 9 of 2003)
<b>CLO</b>	Client Liaison Officer	<b>NAMB</b>	National Artisans Moderation Body
<b>Committee</b>	Any permanent committee, ad hoc or sub-committee of the merSETA, established in terms of the constitution	<b>QCTO</b>	Quality Council for Trades and Occupations
		<b>QDP</b>	Quality Development Partner



**merSETA**

MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA

## *annual report 2011/12*

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