

**ANNUAL  
REPORT  
2012/13**



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



*Selflessly  
contributing  
to education  
and changing  
lives*



## Part A: 1. general information



### **METAL AND ENGINEERING**

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



### **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.



### **PLASTICS MANUFACTURING**

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



### **MOTOR RETAIL 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.



### **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.

## 2. list of abbreviations/acronyms

AATP	Accelerated Artisan Training Programme
ABET	Adult Basic Education and Training
Act	The Skills Development Act No 97 of 1998 (as amended)
Administration costs	Means the costs contemplated in grant regulation 4(3) in terms of the Act
Alternate	A person appointed to act on behalf of a member of the Accounting Authority in the absence of the latter
AMEO	Automobile Manufacturers' Employers Organisation
AMIC	Automotive Manufacturing Industry Certificate
ASGISA	Accelerated Shared Growth Initiative of South Africa
ATR	Annual Training Report
ATRAMI	Artisan Training and Recognition Agreement for the Metal Industry
Audit and Risk Committee	The committee established in terms of schedule 5 clause 2(1) (b) of the constitution to monitor the Accounting Authority in discharging its duties relating to the management of the financial affairs of the merSETA
BBBEE	Broad-based Black Economic Empowerment
BSC	Balanced Scorecard
CBMT	Competency Based Modular Training
CBO	Community Based Organisation
CEPPWAWU	Chemical, Energy, Pulp, Paper, Wood and Allied Worker's Union
CFO	Chief Financial Officer
Chairperson	The Chairperson of the Accounting Authority nominated in terms of clause 9 of the constitution
Chambers	The chambers established in terms of schedule 5A of the constitution, as provided under section 12 of the Act
CHE	Council for Higher Education
Chief Executive Officer	The Chief Executive Officer of the merSETA who is appointed under clause 11 of the constitution
CLO	Client Liaison Officer
Committee	Any permanent committee, ad hoc or sub-committee of the merSETA, established in terms of the constitution



## list of abbreviations/acronyms (continued)

Constitution	The constitution of the merSETA, in terms of section 13 of the Skills Development Act, No 97 of 1998 (as amended)
DHET	The Department of Higher Education and Training
Director-General	The Director-General of Higher Education and Training
Discretionary Grants	Grants contemplated in grant regulation 7, in terms of the Act
DoE	Department of Basic Education
DoL	Department of Labour
DTI	Department of Trade and Industry
Education and Training	Registered statements of desired education and training outcomes and their associated standards assessment criteria as defined in the SAQA Act
ETQA	Education and Training Quality Assurance Body
Executive Committee	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
FET	Further Education and Training
Financial year	The period contemplated in terms of the Public Finance Management Act, which covers the period 1 April to 31 March
FRIDGE	Fund for Research into Industrial Development Growth and Equity
GAAP	Generally Accepted Accounting Practice
GDS	Growth and Development Summit
Governing Board	Accounting Authority of the merSETA
GRAP	Generally Recognised Accounting Practice
IDZ	Industrial Development Zone
ISOE	Institute of Sectoral and Occupational Excellence
Levies Act	The Skills Development Levies Act 999 (Act No 9 of 2003)
NAMB	National Artisan Moderation Body
QCTO	Quality Council for Trades and Occupations
QDP	Quality Development Partner

## Minister BN 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 2012 to 31 March 2013. 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 'Ray Patel', written over a horizontal line.

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

Registration Number: 17/merSETA/104/11  
Manufacturing, Engineering and Related Services  
RP132/2013  
ISBN: 978-0-621-41876-7

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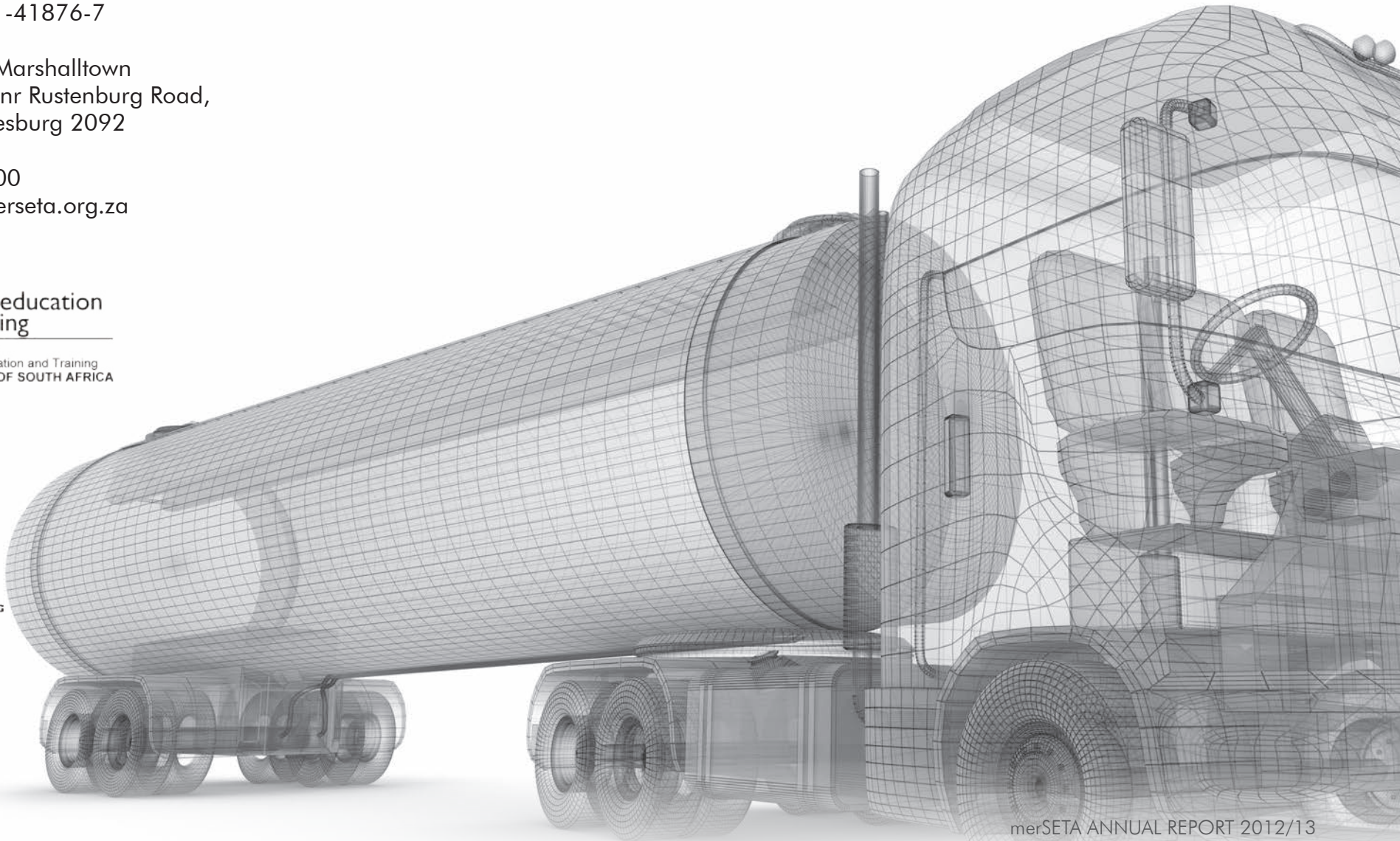
higher education  
& training

Department  
Higher Education and Training  
REPUBLIC OF SOUTH AFRICA



**merSETA**

MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA



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## 3. strategic overview

### 3.1 VISION

Leaders in Closing the Skills Gap

### 3.2 MISSION

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

### 3.3 VALUES

Respect  
Service Excellence  
Innovation  
Integrity  
Honesty



## 3.4 strategic outcomes

### Strategic outcome orientated goals:

- 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 FETCs 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; and
- Building career and vocational guidance.



## 4. legislative and other mandates

The merSETA mandate is derived from the Skills Development Act, 1998 (Act No. 97 of 1998) and its responsibilities include the following:

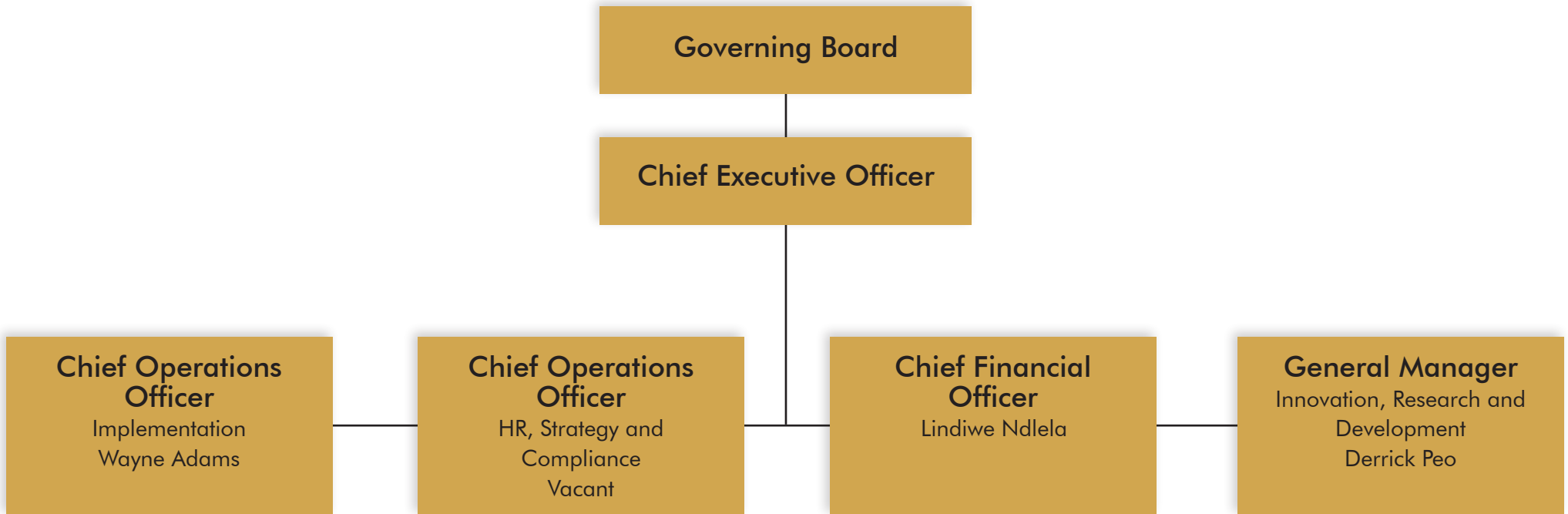
- i. Develop a Sector Skills Plan (SSP) within the framework of the National Skills Development Strategy (NSDS);
- ii. Establish and promote learnerships through:
  - Identifying the need for a learnership;
  - Developing and registering learnerships;
  - Identifying workplaces for practical work experience;
  - Supporting the development of learning materials;
  - Improving the facilitation of learning; and
  - Assisting in the conclusion and registration of learnership agreements
- iii. Collect and disburse the skills development levies in its sector; approving workplace skills plans and allocating grants in the prescribed manner to employers, education and training providers and workers;
- iv. Fulfil the functions of an ETQA as delegated by the QCTO; and
- v. Monitoring education and training in the sector.

The legislative framework in which merSETA functions and policy and legislative changes that influence programme spending plans are shown below:

- i. National Skills Development Strategy (NSDS III);
- ii. Skills Development Act No. 97 of 1998;
- iii. Skills Development Amendment Act 31 of 2003;
- iv. Skills Development Amendment Act 37 of 2008;
- v. Sector Education and Training Authorities (SETA) Grant Regulations regarding monies received by a SETA and related matters ("Grant Regulations") under Notice 35940 of 3 December 2012;
- vi. Skills Development Act (97/1998) Service Level Agreement Regulations under regulation number No. R716 of 18 July 2005;
- vii. Skills Development Levies Act 9 of 1999;
- viii. Regulations regarding the establishment of Sector Education and Training Authorities under Notice R106 of 4 February 2005,

- ix. ("SETA Establishment Regulations");  
Public Finance Management Act No. 1 of 1999 as amended ("PFMA");
- x. Treasury Regulations issued in terms of the Public Finance Management Act ("Treasury Regulations") of 2005;
- xi. Public Audit Act 25 of 2004;
- xii. Directive : Public Finance Management Act under GN647 of 27 May 2007;
- xiii. Government Notice GN52 of 6 February 2010: Extension of Existing Period of establishment of Sector Education and Training Authorities;
- xiv. Approval of the Constitution for the Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA) No. R.830 of 11 August 2006 ("merSETA Constitution");
- xv. Promotion of Access to Information Act;
- xvi. Promotion of Administrative Justice Act;
- xvii. Employment Equity Act, Labour Relations Act, Basic Conditions of Employment Act and Occupational Health and Safety Act; and
- xviii. Tax Laws.

## 5. organisational structure



## governing board



L-to-R: Mr Blackie Swarts, Prof Fiona Tregenna, Mr Anton Hanekom, Ms Nazrene Mannie, Mr Andrew Mashifane, Mr Alex Mashilo, Mr Derrick Peo, Ms Malebo Mogopodi, Mr John Wilson, Mr Johan van Niekerk, Mr Hermann Korstens, Mr Jakkie Olivier, Mr Wayne Adams, Ms Valerie Ndou, Ms Jeanne Esterhuizen (Deputy Chairperson), Dr Raymond Patel, Ms Phindile Baleni (Chairperson), Mr Xolani Tshayana (Deputy Chairperson), Ms Lindiwe Ndlela.

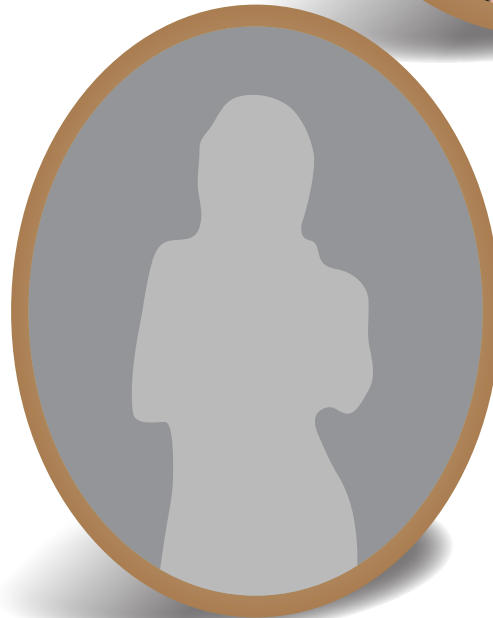
management committee



**Chief Executive Officer**  
Dr. Raymond Patel



**Chief Operations Officer**  
Implementation  
Wayne Adams



**Chief Operations Officer**  
HR, Strategy and Compliance - Vacant



**General Manager**  
Innovation, Research and  
Development  
Derrick Peo



**Chief Financial Officer**  
Lindiwe Ndlela

## 6. foreword by the chairperson



### Introduction

Once again, it is an honour to present the Annual Report (including the Annual Financial Statements) of the Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA) for the year 2012/13.

In the second year of my stewardship, it is a pleasure to announce that the merSETA has received another unqualified financial report – the 13th since its establishment.

The country's economic performance is still affected by the international economic woes. Indeed, the ebb and flow of world economies has necessitated that Government revise South Africa's economic growth forecast down to 2% in 2014 as national and international demand for our products and services falls.

The manufacturing sector, in particular, has been hit hard. Yet, it has also shown up as one of the most resilient sectors in the country, doggedly accounting for 15% of South Africa's economy.

So too, the merSETA continues to increase its outputs and deliverables despite losses in income-generation job opportunities.

As documented elsewhere in this report, the merSETA has trained and

quality-assured thousands of people in alignment with the Minister of Higher Education and Training's announcement of 2013 as "The Year of the Artisan".

The merSETA's contribution to skills development is comprehensive, spanning the development of new skills for the sector as well as enhancing the skills of the existing workforce.

The spectrum of apprenticeships and learnerships is wide, uptake is significant and the merSETA has consistently surpassed its targets for both registrations and achievements.

The merSETA's promotion of artisan development for employability remains the hallmark for progressive training trends as its comprehensive research indicates.

## Financial Overview

The application for discretionary grants in the current year was oversubscribed far beyond available funds. The discretionary grant reserves were fully committed as at 31 March 2013.

The merSETA has achieved all but one of its performance targets as set out in the Annual Performance Plan. The levy base has been substantial in the current year and once again a handsome growth from the prior year has been achieved. This growth has been consistent with industry wage increases.

The merSETA levy income grew by 11% in the 2012/13 financial year over prior year to reach R1 021 billion. The levy income exceeded the budgeted levy income by 5.4%, which indicates that our anticipated levy base growth was a reasonable estimate. The number of contributing employers increased slightly to 12 670 from 12 532, most of which are in the metal sector. The exemption threshold to paying levies remained at annual payroll level of R500 000.

A stable trend of mandatory grant disbursements was achieved through most of the year, with the exception of the last two months due to unforeseen challenges beyond the control of the merSETA. 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 96% committed in learnerships, apprenticeships and projects stretching over the next four years to the value of R916 million.

## Corporate Governance

The performance of the Accounting Authority as well as the Board committees is appraised on an annual basis. In line with the requirements of King III, the assessment of the performance of the Board and its committees for the year under review was conducted independently by an external service provider. The evaluation was conducted against duties as stipulated in the Board Charter and the terms of reference, the Standard SETA Constitution, the PFMA and Treasury Regulations as well as the King III Code on Corporate Governance.

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

The following Committees have functioned in terms of Schedule 5 (1) and (2) and Annexure 6 of the Standard SETA Constitution:

- Executive Committee;
- Audit and Risk Committee;
- Remuneration and Human Resources Committee;
- Education, Training, Quality Assurance Committee;
- Finance and Grants Committee;
- Innovation, Research and Development Committee;
- Chamber Committees; and
- Regional Committees.

I thank the Honourable Minister, Dr Blade Nzimande, Deputy Minister



## chairperson's foreword (continued)

Mr Mduzuzi Manana, the Parliamentary Portfolio Committee on Higher Education, the merSETA Deputy Chairs, Mr Xolani Tshayana and Ms Jeanne Esterhuizen, all other members of the Accounting Authority, our stakeholders, the Chief Executive Officer, management and staff for making all our achievements possible.

I am proud to be part of the merSETA. It radically advances artisan development for employability.



---

**Phindile Baleni** (née Nzimande)  
Chair



*"The financial and operational affairs of the merSETA are sound and the organisation's financial position remains strong."*

## 7. chief executive officer's overview



### 7. CHIEF EXECUTIVE OFFICER'S OVERVIEW

This financial year, we seek great literary inspiration and therefore consulted Charles Dickens and realised that his epic novel of a "Tale of Two Cities" best describes the period that we have just completed - and we deliver our report to you accordingly.

Allow us to quote extensively from Dickens who wrote "it was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was a season of darkness, it was the spring of hope, it was the winter of despair".

When we reported to you on our annual report last year, we gave an account of an organisation that was functioning well. This year, we say to you that we are celebrating the best annual report. The merSETA has applied its wisdom and belief in Skills Development and the National Growth Path of South Africa. We have seen the light by living the Spring of Hope, the Hope that was made possible through our founding fathers and in particular, the Hope that so many of us cherish and live. And we are reminded about this Hope through the Legacy of Nelson Rolihlahla Mandela. Allow me this year to be inspired by his great achievements. In a documentary on Mandela in America in 1990, he stated: "A form of economy will be decided solely by our determination to make the economy perform fully from the point of view of ensuring full employment,

maximum productivity and the development of a social consciousness. Any formula, any option which will enable us to do this, we will adopt."

It is these words that inspire the merSETA skills development eco-system which has its foundation in the National Growth Path, the National Development Plan and the National Skills Development Strategy III.

In the 2012/2013 financial year, these core policies enabled the merSETA objectives and goals to segue from a Sector Skills Plan to a five-year Strategic Plan set to end in March 2016. Out of this, the merSETA drew its Strategic Plan which was operationalised. Our Service Level Agreement with the Department of Higher Education and Training guided our targets and achievements.

Five strategic priorities were developed:

- Priority 1 is to develop a sector labour market intelligence (LMI) system;
- Priority 2 is the continued and increased focus on artisan development;
- Priority 3 is to establish and facilitate strategic partnerships that will impact on both the funding available for skills development and the improved quality of skills development;
- Priority 4 is to increase the flow of newly-skilled workers into the sector, through increasing the skills available to the sector to meet its short-term needs and improving the base level of learning; and
- Priority 5 is to develop the skills of the existing workforce as this is of primary importance for the development of the sector and for achieving outcomes that are consistent with decent work, equity and sector economic growth and employment.

We are further inspired by a statement that Madiba made in an interview with Scott MacLeod of Time Magazine on 26 February 1990 wherein he cites: "To go to prison because of your convictions, and be prepared to suffer for what you believe in, is something worthwhile. It is an achievement for a man to do his duty on earth irrespective of the consequences."

This has inspired merSETA once again to achieve and in many cases

exceed the targets. Among these milestones for the year were:

- i. Contributions to peer interaction and policy discourse resulting in positive contribution toward improving overall effectiveness of the collective SETA system;
- ii. The Accelerated Artisan Training Programme has placed merSETA at the forefront of SETAs that are responsive to the most urgent strategic priorities (programmes such as the AATP and Dual System Apprenticeships); and
- iii. merSETA has been successful in addressing a number of key priorities, linked to the National Skills Accord and National Development Plan, particularly with regard to artisan training.

Mandela has stated: "The role of Scientific Knowledge is to ensure decisions are made based on fact and knowledge rather than belief and superstition."

Allow me now to reflect on the facts and knowledge to which merSETA contributed during the year under review.

The merSETA conducted a ground breaking Post-Trade Test Tracer Study in September 2012 which yielded the following results for the employed group:

- 80% indicated they were working (53% permanently employed; 44% on contract; 3% part time);
- The Limpopo, Eastern Cape and Mpumalanga regions were the



## ceo's overview (continued)

- highest absorbers of artisans;
- Riggers, Fitters, Millwrights, Mechanics and Fitters and Turners are more likely to be employed (85% and above); and
- Of the artisans who left their original training company, 72% stated this was because the company could not take them on as employees.

This shows that the training programmes of the merSETA are impacting positively on skills development for key sectors of our economy.

However, there still remain challenges. On challenges, Mandela said: "I approach every problem with optimism" (14 February 1990 Speech in Soweto at his house).

Further work needs to be done to align industry needs with national development imperatives, policy directives and DHET priorities. Financial and budgetary constraints e.g. year-on-year applications for Discretionary Grants by companies still significantly exceed available funds while co-funding training, with employers, provinces, the UIF and various state departments, including "cluster" SETAs, needs further development.

The need to develop adequate management information systems to ensure improved data recording and reporting as well as multi-year funding commitments giving rise to the accumulation of financial reserves also remains on our radar.

But the organisation has fared well despite the economic slump that has led to decreased consumer demand and thus less production.

On his 90th birthday dinner in Hyde Park, London, 25 June 2008, Mandela stated that the world remained beset by so much suffering,

poverty and deprivation. It is in our hands to make our world a better one for all, especially the poor, vulnerable and marginalised.

Let us reflect what the merSETA has done for the unemployed and retrenched.

The merSETA's joint projects with the Unemployment Insurance Fund, the Government's Training Layoff Scheme and our own Retrenchment Assistance Programme have tackled the debilitating effects of the economic downturn.

Mr Mandela on Accepting the African Peace Award in Durban on 18 March 1993 said:

*"Africa has long traversed past a mindset that seeks to heap all blame on the past and on others. The era of renaissance we are entering is, and should be, based on our own efforts as Africans to change Africa's conditions for the better."*

Let us show how we strive to change South Africa for the better.

Our results show the organisational commitment:

Learning Interventions committed	Number of Learners
Apprentices	7 979
Section 18.1	7 131
Section 18.2	6 993
Experiential Training	3 058
Internships	666
Skills Programmes	13 182

ABET	4 691
Disabled learners	203
ATRAMI	412
Sector Specialists	2 434
NQF 2-4 (Learnership)	419
NQF 1 (Learnership)	93
NQF2 (Learnership)	1 612
NQF 3 (Learnership)	795
NQF4 (Learnership)	367
RPL	503
<b>Total</b>	<b>50 538</b>

In the course of the 2012/2013 financial year, the merSETA also aligned its customer service and commitment to the Batho Pele principles of government.



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



**WE BELONG:**  
It's about working together as teams with fellow colleagues



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

Roadshows were conducted in all regions to sensitise staff on the new customer-centric principles and the need to live the values of the organisation. We are proud to be an integral part of the skills development eco-system.

I conclude with a quote, from *“Long walk to Freedom, 1994”*

*“Education is the great engine of personal development. It is through education that the daughter of a peasant can become a doctor, that the son of a mineworker can become the head of the mine, that a child of farmworkers can become the president of a great nation. It is what we make out of what we have, not what we are given, that separates one person from another.”*

**Dr. Raymond Patel**  
Chief Executive Officer  
31 March 2013

## Part B: performance information

### 1. STATEMENT OF RESPONSIBILITY FOR PERFORMANCE INFORMATION

Statement of Responsibility for Performance Information for the year ended 31 March 2013

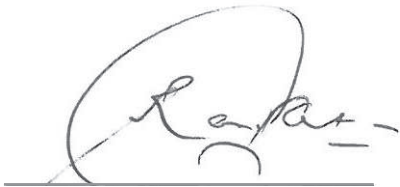
The Chief Executive Officer is responsible for the preparation of the public entity's performance information and for the judgements made in this information.

The Chief Executive Officer is responsible for establishing and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of performance information.

In my opinion, the performance information fairly reflects the actual achievements against planned objectives, indicators and targets as per the strategic annual performance plan of the public entity for the financial year ended 31 March 2013.

The merSETA performance information ended 31 March will be examined by the external auditors.

The performance information of the merSETA set out on pages 22 - 40 was approved by the Accounting Authority.



**Dr. Raymond Patel**  
Chief Executive Officer  
31 July 2013

## 2. AUDITOR'S REPORT: PREDETERMINED OBJECTIVES

Refer to pages 64 - 66 for the report of Auditor-General.

### 3. OVERVIEW OF merSETA PERFORMANCE

#### 3.1 Service Delivery Environment

The merSETA skills development eco-system has its foundation in the National Growth Path, the National Development Plan and the National Skills Development Strategy III.

In the 2012/2013 financial year, these core policies enabled the merSETA objectives and goals to segue from a Sector Skills Plan to a five-year Strategic Plan set to end in March 2016. Out of this, the merSETA drew its Strategic Plan which was operationalised. Our Service Level Agreement with the Department of Higher Education and Training guided our targets and achievements.

#### 3.2 Organisational Environment

In the 2012/2013 financial year, the merSETA developed objectives and goals to segue from a Sector Skills Plan to a five-year Strategic Plan set to end in March 2016. Out of this, the merSETA drew its Strategic Plan which was operationalised. Our Service Level Agreement with the Department of Higher Education and Training guided our targets and achievements.

#### 3.3 Strategic Outcome Oriented Goals

Five strategic priorities were developed:

- Priority 1 is to develop a sector labour market intelligence (LMI) system;
- Priority 2 is the continued and increased focus on artisan

- development;
- Priority 3 is to establish and facilitate strategic partnerships that will impact on both the funding available for skills development and the improved quality of skills development;
- Priority 4 is to increase the flow of newly-skilled workers into the sector, through increasing the skills available to the sector to meet its short-term needs and improving the base level of learning; and
- Priority 5 is to develop the skills of the existing workforce as this is of primary importance for the development of the sector and for achieving outcomes that are consistent with decent work, equity and sector economic growth and employment.



## 4. PERFORMANCE INFORMATION BY PROGRAMME

### MerSETA PERFORMANCE AGAINST NSDS III TARGETS 2012/2013

In the previous financial year, merSETA appointed a service provider to conduct an impact evaluation of merSETA's intervention within the NSDS II period. The study considered the performance indicators of NSDS II and compared them to those set for NSDS III. It was found that three indicators appeared to have been carried over from NSDS II, although they were worded differently. These indicators are:

- Increasing access to occupationally-directed programmes
- Encouraging better use of workplace-based skills development
- Encouraging and supporting cooperatives, small enterprises, worker-initiated NGOs and CBOs

The study found that the merSETA had met and in most cases exceeded the expectations of NSDS II. The most impressive achievements related to the following indicators:

- Skills development support provided to large and medium firms in order to meet employment equity targets
- Skills development support provided to small levy-paying firms
- Skills development support to increase the number of small BEE firms and BEE cooperatives
- Unemployed people assisted to enter, and at least 50% successfully complete programmes

Performance was less impressive against indicators related to ABET level 4 achievements and young people trained to form sustainable new

ventures. In these instances, the lower ratings had less to do with the capacity and intent to achieve these objectives, and more to do with other underlying system issues. For example, having to take responsibility for maintaining new ventures may be an unreasonable target for a SETA, as more support is required to achieve this, than merely training. Overall, when the achievements of merSETA within NSDS II are compared with national targets, the success of merSETA is very clear. An example is reflected by successful completion of learnerships and apprenticeships, for which merSETA achieved 44% of the national target.

The 2012/2013 financial year marked the second year of the third phase of the National Skills Development Strategy (NSDSIII).

After considering the actual performance in the previous financial year, national imperatives, the SETA budgetary framework and existing partnerships, merSETA set numerical targets against each of the predetermined indicators provided by the Department of Higher Education and Training (DHET).

The indicators were grouped according to the eight programmes that were identified by the Accounting Authority, and quarterly programme discussions were held to develop qualitative indicators and map out the programme activities against each indicator. Throughout the four quarters, actual performance was reported to the Accounting Authority, as well as to the DHET against the eight programmes and the overall annual performance is shown in the table below.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
4.1 Programme 1: Administration	Best practice effected in line with King III		All merSETA projects and processes are audited internally and externally, use of the fraud hotline is encouraged and sustainable practices are initiated and implemented. Board performance is externally assessed.	All performance and financial information has been audited throughout all four quarters of 2012/13. An energy audit has been conducted and consciousness around responsible use of water, energy, paper and disposal of various materials has been developed through various awareness interventions. Batho Pele values have been introduced and Accounting Authority assessments have been carried out.
	merSETA resources aligned to effectively execute the strategy		Organisational structure is reviewed; leaner and smarter operations are implemented and encouraged throughout the organisation.	Organisational renewal was carried out and finalised in September 2012. Review of this exercise took place in March 2013. Internship programme has been formalised and monitoring system in place. Cost-cutting measures have been implemented organisation-wide including restrictions on travel and accommodation and planned introduction of video-conferencing facilities.
	Compliance with all relevant legislation and regulations		Legal compliance register is developed and maintained.	Legal compliance register was developed and discussed in quarterly monitoring review meetings.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
4.1 Programme 1: Administration	Customer/stakeholder expectations met or exceeded		Stakeholder Experience Management Programme is initiated and Stakeholder Satisfaction Survey is conducted.	Service provider procured for SEMP and phase 1 to conduct stakeholder satisfaction survey has been completed. Business process flow diagram in development.
	Sound financial accountability		Improved budgetary control and contract and asset management.	Training on budget control and management provided to line managers, asset count conducted and risk register developed and maintained.
	Monitoring and evaluation of operations and projects		Internal capacity is built for holistic approach to M&E and data systems improved.	New Seta Management System being implemented, nearing completion.
4.2 Programme 2: Skills Planning	Capacity for research and skills planning established		Internal research capacity developed, regional skills plans developed and knowledge management strategy implemented.	Labour market specialist, research administrator and knowledge management specialist recruited and engaged during the final year.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Capacity building of stakeholders		Regional skills development forums, provider forums, bargaining councils, chamber and other committees utilised to build skills development capacity of stakeholders.	National roadshows conducted to communicate new SETA Grant Regulations. All other forums took place as planned, including chamber and regional committees.
	Grants aligned to the sector skills plan		Support provided for scarce, critical and priority skills.	Discretionary grant funding criteria were based on scarce, critical and priority skills needs within the MER sector.
	Implementation of partnerships for credible skills planning		Research partnerships established and chair for manufacturing skills development established.	Partnerships with local and international universities have been developed including institutions in Germany and the Czech Republic.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
4.3 Programme 3: Increasing Access to Occupationally directed Programmes	Employed Bursaries Entered	Number of employed learners who are recognised by merSETA as having been supported by a merSETA bursary to enter a qualifying programme in accordance with merSETA processes and procedures for the period being considered	116	77. The target was not achieved (only 65% achieved) due to changes in the bursary reporting mechanism which meant that learners who are being funded for second and third years were no longer counted as entered. Change was introduced in September 2012.
	Employed Bursaries Completed	Number of employed learners who are recognised by merSETA as having been supported by a merSETA bursary to complete a qualifying programme in accordance with merSETA processes and procedures for the period being considered	61	75. This target was achieved by 123%  Over-achievement due to funding of more one-year courses than longer courses, including the learner tracking exercise of learners who commenced a number of years ago.
	Unemployed Learnerships Entered	Number of unemployed learners who are recognised by merSETA as having commenced a registered learnership in accordance with merSETA processes and procedures for the period being considered	2021	2690. This target was achieved by 133%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Unemployed Learnerships Completed	Number of unemployed learners who are recognised by merSETA as having successfully completed a registered learnership in accordance with merSETA processes and procedures for the period being considered	1184	2650. Target was achieved by 223%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding.
	Unemployed Skills Programmes Entered	Number of unemployed learners who are recognised by merSETA as having commenced a registered skills programme in accordance to merSETA processes and procedures for the period being considered	806	2461. Target was achieved by 305%  Over-achieved due to two large Automotive Industry employers training unemployed learners to continue with production whilst employed learners undertook training.
	Unemployed Skills Programmes Completed	Number of unemployed learners who are recognised by merSETA as having successfully completed a registered skills programme in accordance with merSETA processes and procedures for the period being considered	188	1856. Target was achieved by 987%  Over-achieved due to two large Automotive Industry employers training unemployed learners to continue with production whilst employed learners undertook training.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Unemployed Bursaries Entered	Number of unemployed learners who are recognised by merSETA as having been supported by a merSETA bursary to enter a qualifying programme in accordance with merSETA processes and procedures for the period being considered	194	220. Target was achieved by 113%  Over-achievement due to a targeted recruitment and cost effective and inclusive bursary package being available to students.
	Unemployed Bursaries Completed	Number of unemployed learners who are recognised by merSETA as having been supported by a merSETA bursary to complete a qualifying programme in accordance with merSETA processes and procedures for the period being considered	43	94. Target was achieved by 219%  Over-achievement due to improved overall one-on-one support of bursary students.
	Internships entered	Number of unemployed learners who are recognised by merSETA as having been supported by merSETA to enter a qualifying internship programme in accordance with merSETA processes and procedures for the period being considered	180	377. Target was achieved by 209%  Over-achievement due to partnerships with institutions e.g. UJ and NMMU as well as EC Provincial Government in order to increase uptake of interns.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Internships Completed	Number of unemployed learners who are recognised by merSETA as having been supported by merSETA to complete a qualifying internship programme in accordance with merSETA processes and procedures for the period being considered	63	103. Target was achieved by 163%  Over-achievement as internships run for a duration of 6 - 12 months and some completions stem from previous year's entry. In addition, completion of internships is incentivised through discretionary grant funding.
	Employed Artisans Entered	Number of employed apprentices who are recognised by merSETA as having commenced a registered apprenticeship in accordance to merSETA processes and procedures for the period being considered	1504	1900. Target was achieved by 126%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding. In addition it is further supported via a dedicated Accelerated Artisan Training Programme.
	Employed Artisans Completed	Number of employed apprentices who are recognised by merSETA as having successfully completed a registered apprenticeship in accordance with merSETA processes and procedures for the period being considered	563	834. Target was achieved by 148%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding. In addition it is further supported via a dedicated Accelerated Artisan Training Programme where close monitoring by regional offices also enables higher completion rates.



Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Unemployed Artisans Entered	Number of unemployed apprentices who are recognised by merSETA as having commenced a registered apprenticeship in accordance with merSETA processes and procedures for the period being considered.	2204	3549. Target was achieved by 161%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding. In addition it is further supported via a dedicated Accelerated Artisan Training Programme.
	Unemployed Artisans Completed	Number of unemployed apprentices who are recognised by merSETA as having successfully completed a registered apprenticeship in accordance with merSETA processes and procedures for the period being considered.	1390	2115. Target was achieved by 152%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding. In addition it is further supported via a dedicated Accelerated Artisan Training Programme where close monitoring by regional offices also enables higher completion rates.
	Work Experience	Number of learners recognised by merSETA as being supported to acquire their P1 or P2 experience in order to get their qualification	555	1108. Target was achieved by 200%  The achievement has been a result of support through partnerships with institutions such as the University of Johannesburg, the Nelson Mandela Metropolitan University, the National Youth Development Agency and the Eastern Cape Provincial Government.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Work Placement	Number of learners who are recognised by merSETA as having found qualifying employment during or after completing a qualifying programme	210	352. Target was achieved by 168%  Improved relationships with participating companies has supported the over-achievement of this target.
4.4 Programme 4: Promote the responsiveness of FETCs to sector needs	FET College Partnerships	Number of FET colleges supported by merSETA	6	18. Target was achieved by 300%  merSETA has developed and implemented a clear and proactive FETC strategy, which is reliant upon linkages between colleges and industry.  merSETA has prioritised and facilitated these linkages through regular industry-college forums, in order to ensure appropriate support to FETCs.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
4.5 Programme 5: Address the low-level of youth and adult language and numeracy skills	Employed Skills Programmes Entered	Number of employed learners who are recognised by merSETA as having commenced a registered skills programme in accordance with merSETA processes and procedures for the period being considered	3099	4325. Target was achieved by 140%  A number of companies are committed to uplifting their employees and the advocacy role played by merSETA has resulted in this achievement.
	Employed Skills Programmes Completed	Number of employed learners who are recognised by merSETA as having successfully completed a registered skills programme in accordance with merSETA processes and procedures for the period being considered	1448	2177. Target was achieved by 150%  A number of companies are committed to uplifting their employees and the advocacy role played by merSETA has resulted in this achievement.
4.6 Programme 6: Promote workplace skills development in the sector	Employed Learnerships Entered	Number of employed learners who are recognised by merSETA as having commenced a registered learnership in accordance to merSETA processes and procedures for the period being considered	1732	3336. Target was achieved by 193%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Employed Learnerships Completed	Number of employed learners who are recognised by merSETA as having successfully completed a registered learnership in accordance with merSETA processes and procedures for the period being considered	940	2109. Target was achieved by 224%  Over-achievement is due to this being one of the Sector's core functions and is well supported through discretionary and mandatory funding.
	Mandatory Grants Paid to Large Companies	Number of large companies that have been paid out mandatory grants in accordance with merSETA processes and procedures for the period being considered	400	639. Target was achieved by 160%  Extensive marketing was conducted through regional roadshows and support in the submission of WSPs and ATRs was provided through regional offices.
	Mandatory Grants Paid to Medium Companies	Number of medium companies that have been paid out mandatory grants in accordance with merSETA processes and procedures for the period being considered	777	1122. Target was achieved by 144%  Extensive marketing was conducted through regional roadshows and support in the submission of WSPs and ATRs was provided through regional offices.

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
	Mandatory Grants Paid to Small Companies	Number of small companies that have been paid out mandatory grants in accordance with merSETA processes and procedures for the period being considered	1718	2286. Target was achieved by 133%  Extensive marketing was conducted through regional roadshows and support in the submission of WSPs and ATRs was provided through regional offices.
4.7 Programme 7: Cooperatives, small enterprises, NGOs and Community initiated training	Cooperatives	Number of cooperatives that have been supported by merSETA in any qualifying way according to merSETA processes and procedures	2	8. Target was achieved by 400%  Over-achievement due to a dedicated merSETA project aimed towards assisting cooperatives with meeting requirements for funding.
	Small Business Support	Number of small companies that have been supported by merSETA in any qualifying way according to merSETA processes and procedures	2087	2740. Target was achieved by 131%  Over-achievement as a result of ongoing support of small enterprises by merSETA Client Liaison Officers, who have provided guidance in skills planning and implementation.
	NGO, CBO, CBC	Number of NGOs, CBOs and CBCs that have been supported by merSETA in any qualifying way according to merSETA processes and procedures	9	25. Target was achieved by 278%  Over-achievement as a result of a dedicated merSETA project aimed at supporting NGOs, CBOs and CBCs.

performance information (continued)

Programme Goal	Performance Indicator	Indicator Definition	Target 2012/13	Achievement 2012/13 and Variance Explanation
4.8 Programme 8: Career Development	Career Guidance	Number of recipients who have received qualifying career awareness support in accordance with merSETA processes and procedures	1178	2570. Target was achieved by 218%  Over-achieved due to partnerships with various institutions including the SAGDA and NYDA. MerSETA has taken part in a large number of career exhibitions and conducted roadshows throughout the regions.

Figure 1: Performance against Numerical Targets (Part I)

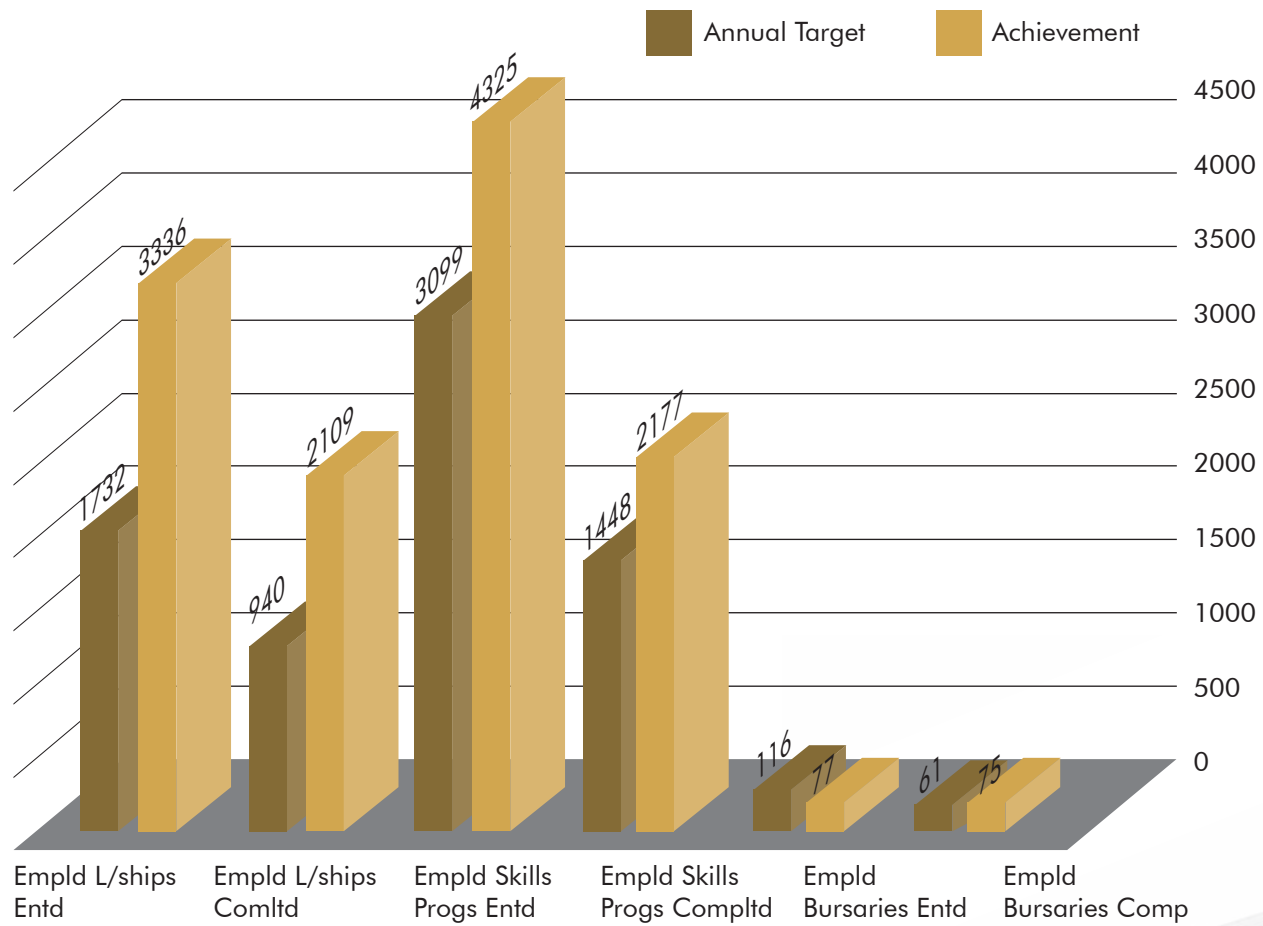


Figure 2: Performance against Numerical Targets (Part II)

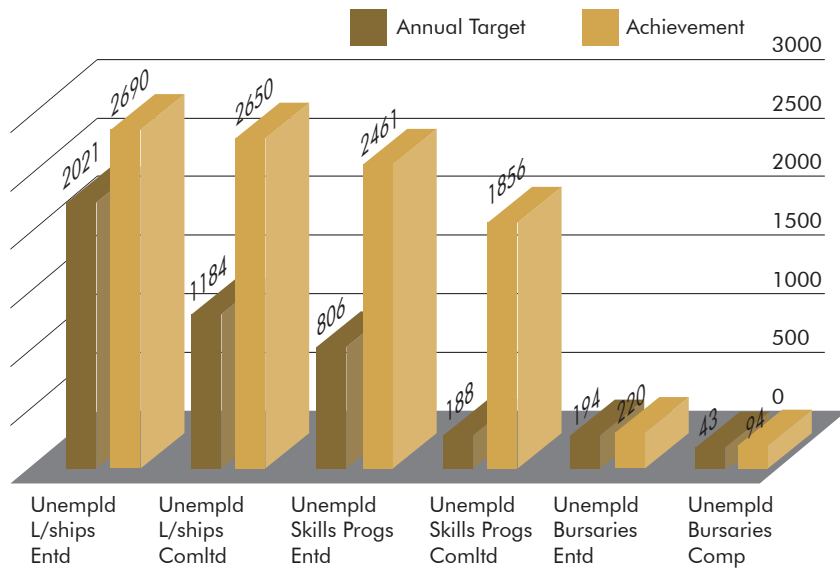
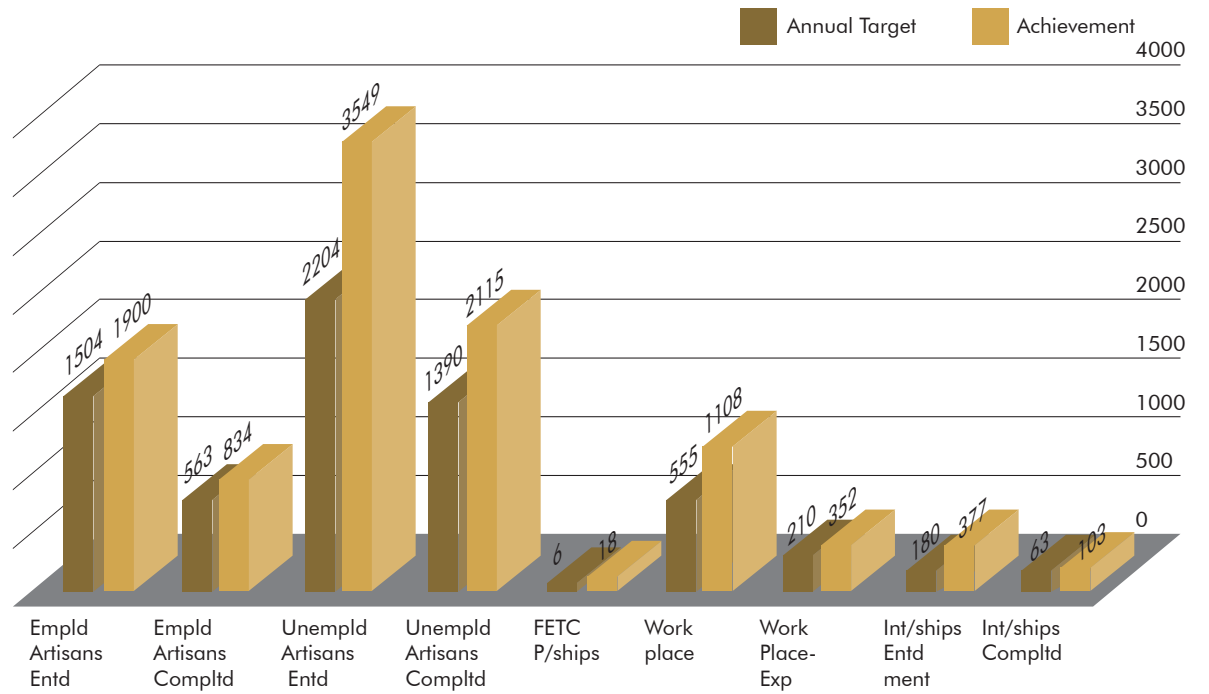


Figure 3: Performance against Numerical Targets (Part III)





performance information (continued)

PERFORMANCE INDICATOR	TARGET 2012/2013	GROSS ACHIEVEMENT 2012/2013	Funding breakdown			Overall % Achieved
	Number of learners	Partner	merSETA DG	merSETA MG		
Employed Learnerships Entered	1732	3336	14	672	2650	193
Employed Learnerships Completed	940	2109	0	410	1699	224
Unemployed Learnerships Entered	2021	2690	108	618	1964	133
Unemployed Learnerships Completed	1184	2650	4	850	1796	224
Unemployed Skills Programmes Entered	806	2461	90	850	1521	305
Unemployed Skills Programmes Completed	188	1856	0	958	898	987
Employed Skills Programmes Entered	3099	4325	559	2660	1106	140
Employed Skills Programmes Completed	1448	2177	528	1288	361	150
Internships entered	180	377	100	179	98	209
Internships Completed	63	103	0	74	29	163
Work Experience	555	1108	139	794	175	200
Work Placement	210	352	352	0		168
Employed Artisans Entered	1504	1900	121	1022	757	126

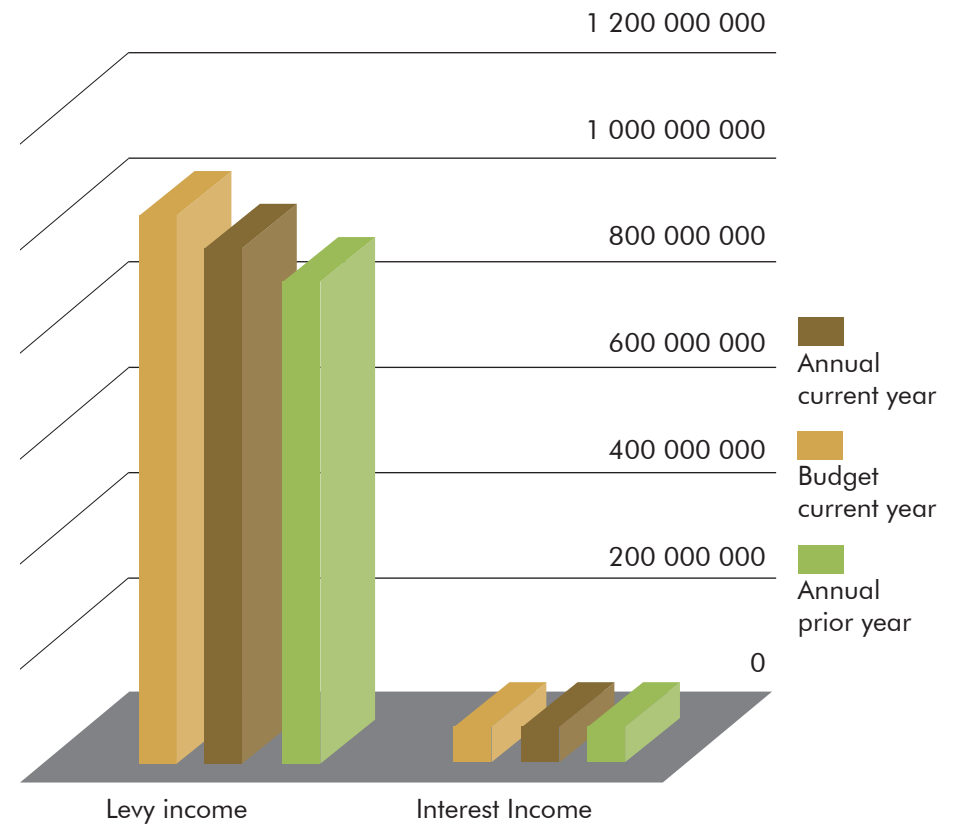
performance information (continued)

PERFORMANCE INDICATOR	TARGET 2012/2013	GROSS ACHIEVEMENT 2012/2013	Funding breakdown			Overall % Achieved
	Number of learners		Partner	merSETA DG	merSETA MG	
Employed Artisans Completed	563	834	0	373	461	148
Unemployed Artisans Entered	2204	3549	248	2873	428	161
Unemployed Artisans Completed	1390	2115	276	1092	747	152
Unemployed Bursaries Entered	194	220	0	220		113
Unemployed Bursaries Completed	43	94	0	94		219
Employed Bursaries Entered	116	77	0	36	41	66
Employed Bursaries Completed	61	75	0	50	25	123
Career Guidance	1178	2570	1788	782		218

## 5. summary of financial information

### 5.1 Revenue collection

Sources of revenue	2012/2013			2011/2012		
	Budget	Actual Amount Collected	(Over)/Under Collection Budget	Budget	Actual Amount Collected	(Over)/Under Collection
	R'000	R'000	R'000	R'000	R'000	R'000
Skills development levy income	969 139	1 021 254	-52 115	785 807	918 904	-133 097
Skills development penalties and interest	9 200	10 947	-1 747	4 500	8 679	-4 179
National Skills Fund Income	22 962	39 288	-16 326	100 783	62 623	38 160
Net gains from financial instruments	60 385	57 271	3 114	50 000	60 640	-10 640
Other income	49	53	-4	-	46	-46
<b>Total</b>	<b>1 061 735</b>	<b>1 128 813</b>	<b>-67 078</b>	<b>941 090</b>	<b>1 050 892</b>	<b>-109 802</b>





## summary of financial information (continued)

### Levies

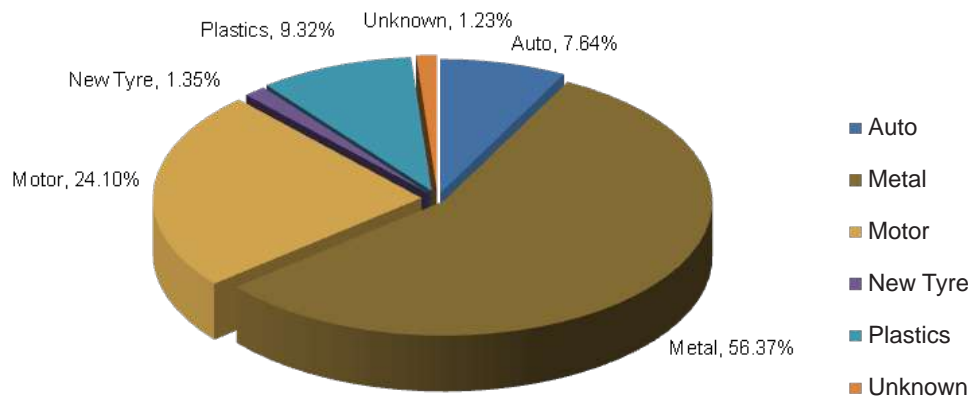
The merSETA levy income grew by 11% in the 2012/13 financial year over prior year to reach R1 021 billion. This exceeded the budgeted levy income by 5.4%. The number of contributing employers increased slightly to 12 670 from 12 532.

The increase in levy income from the prior year is mainly attributable to payroll increases within the contributing companies as the increase in the number of contributing companies was marginal.

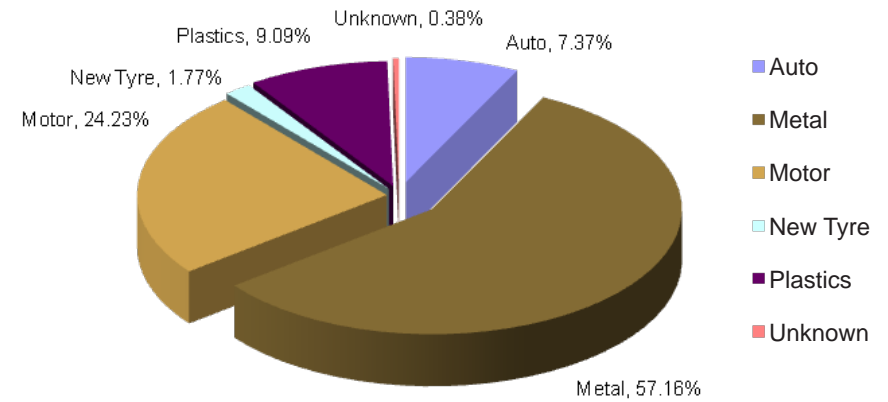
The breakdown of levies received per chamber as shown in Graph 1 below, shows a similar pattern to prior year, with the Metal Chamber contributing the largest share of levies at 56.37%. Most companies that were registered, active and contributing were based in Gauteng as per Graph 2 below.

### Graph 1

Percentage of Total Levies Paid by Chamber Year to Date - March 31, 2013 (Year 13)



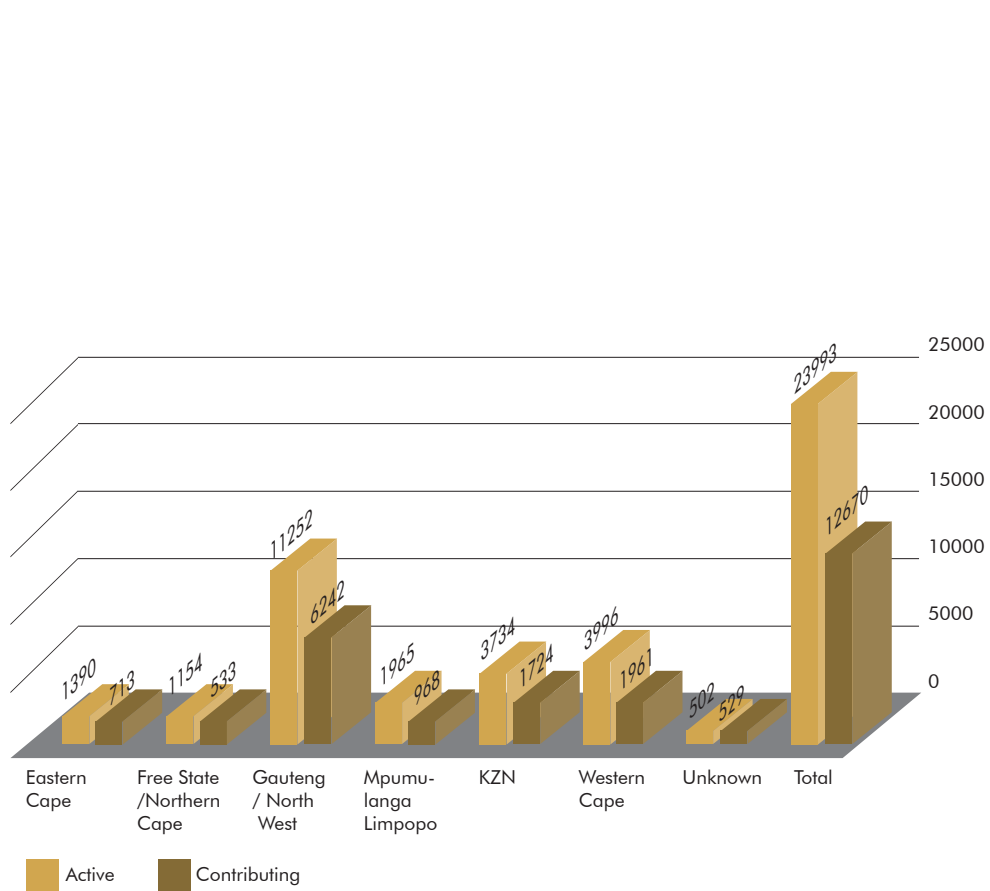
Percentage of Total Levies Paid by Chamber Year to Date - March 31, 2012 (Year 12)



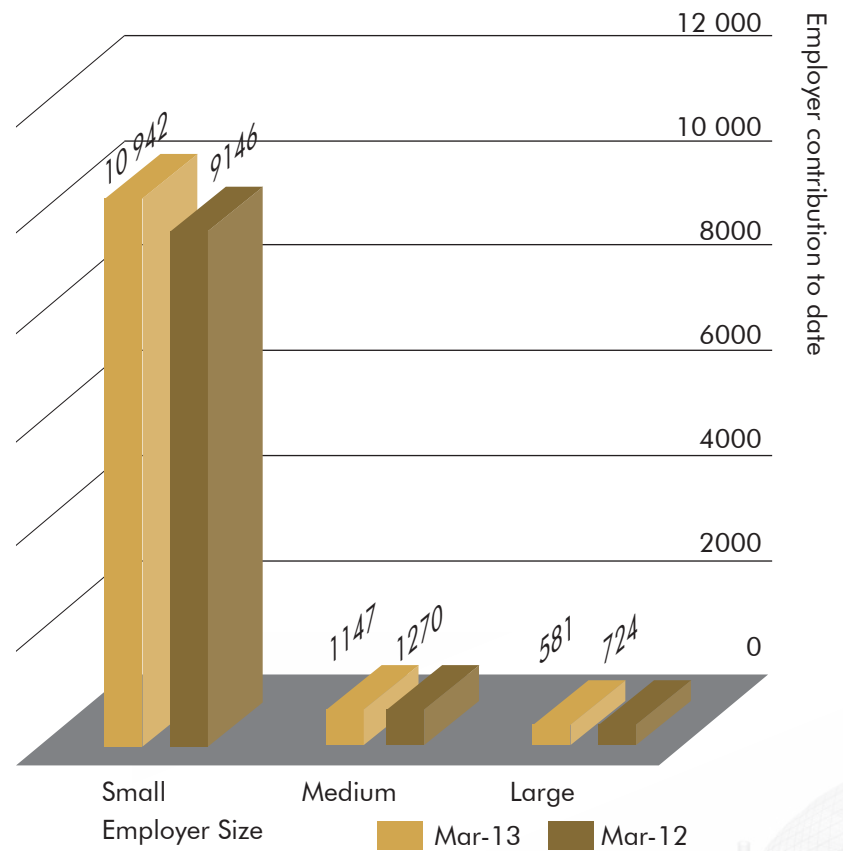
# summary of financial information (continued)

Graph 2

Total Levy Analysis by Province Year to Date March 31 2013



Size of Employer Contribution Analysis - 2011/12 vs 2012/13



## summary of financial information (continued)

### 5.2 Programme Expenditure

Programme Name	2012/2013			2011/2012		
	Budget	Actual Expenditure	(Over)/Under Expenditure	Budget	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Administration	150 370	136 110	14 260	126 537	105 620	20 917
Skills Planning	23 873	7 884	15 989	11 987	5 706	6 281
Increase access to occupationally directed programmes	753 039	369 063	383 976	640 110	368 421	271 689
Promoting the responsiveness of FETCs to intermediate skills needs of the sector	19 857	4 174	15 683	12 744	5 333	7 411
Addressing the low level of youth and adult language and numeracy skills to enable additional training	34 266	11 168	23 098	37 433	12 052	25 381
To promote workplace skills development within the sector	535 658	542 659	-7 001	542 664	512 378	30 286
Encouraging & supporting cooperatives, small enterprises, worker-initiated and community training initiatives	49 481	11 453	38 028	48 827	14 420	34 407
Career Development	14 813	7 201	7 612	9 158	3 279	5 879
<b>Total</b>	<b>1 581 357</b>	<b>1 089 711</b>	<b>491 646</b>	<b>1 429 459</b>	<b>1 027 209</b>	<b>402 250</b>

#### Mandatory Grants

The merSETA has had a consistent pattern in mandatory grant participation, as the claims ratio increased slightly from 80% in the prior year to 82% in the current year. Mandatory grant disbursement delays were experienced in the last two months of the financial year. The delay was due to a notification from the DHET that levy receipts were overstated by the UIF portion which SARS had erroneously allocated and distributed with skills development levies. Therefore the levy download files were not distributed on time as they had to be reconciled to the over-payments made and reversals put in place. The levy download files are an important database for the mandatory grant process as they

provide employer information necessary to pay the grants.

The mandatory grant expense in the current year increased by 15.5% to R514 million from R445 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 grants expense, including project expense, in 2012/13 amounted to R428 million, an increase of 1.7% from the prior year expense of R421 million.

## Part C: governance

### INTRODUCTION

The merSETA is involved with 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 merSETA processes conform to the Skills Development Act, No 97 of 1998 (as amended), supported by the Skills Levies Act, 97 of 2003, the SAQA Act, 58 of 1995, Public Finance Management Act of 1999 (as amended), Treasury Regulations, National Skills Development Strategy III as well as the Gazetted Standard Constitution of SETA Regulations. The merSETA has been certified for a period of 5 years from 01 April 2011 to 31 March 2016.

The merSETA applies the governance principles contained in King III and continues to further entrench and strengthen recommended practices in the governance structures, systems, processes and procedures.

### 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 Accounting Authority (previously known

as the Governing Board) is responsible for providing a strategic direction to the merSETA and ensuring that merSETA achieves its objectives and implements the goals of the National Skills Development Strategy III. The merSETA is stakeholder-driven and, in terms of the Skills Development Act, structures within the merSETA must be equally represented by organised labour and organised employers.

### STANDARD CONSTITUTION OF SETA REGULATIONS (STANDARD CONSTITUTION)

The Minister of Higher Education and Training approved the new Standard Constitution on 07 May 2012. The merSETA has implemented this Standard Constitution from November 2012 as per the directive from the Department of Higher Education and Training.

### ACCOUNTING AUTHORITY CHARTER

The Accounting Authority reviewed its charter during the period under review to ensure alignment with the King III report on Corporate Governance, the Standard Constitution, regulatory legislation and all other mandates for which it is responsible. The Accounting Authority Charter provides an overview of the role, powers, functions, duties and responsibilities of its members both collectively and individually. The basis for the aforementioned is the applicable legislation, Service Level Agreement and the Standard Constitution.

### **Composition and size of the Accounting Authority**

In line with the Standard Constitution, the Accounting Authority comprises fifteen (15) members in a non-executive and independent non-executive capacity.

The Accounting Authority members are appointed by the Minister of Higher Education and Training in terms of the Standard Constitution and represent organised labour and organised employers from the sector as well as three (3) members who are independent. Two (2) organised labour positions have been vacant during the year under review, and the nomination process is under way.

Members of the Accounting Authority are appointed for a five (5) year term of office. Members 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 Accounting Authority in any one term.



**Attendance at the Accounting Authority and Committee meetings**

NAME	ACCOUNTING AUTHORITY	EXECUTIVE COMMITTEE	REMUNERATION COMMITTEE	ETQA COMMITTEE	FINANCE AND GRANTS COMMITTEE	INNOVATION RESEARCH AND DEVELOPMENT COMMITTEE	RACE	GENDER
Alex Mashilo	2/4		5/5				B	M
Anton Hanekom	4/4			3/3	6/6		W	M
Carla McIntosh <sup>*3</sup>						2/2	W	F
Daniel de Villiers*	3/4			0/3			W	M
Deon Reyneke*	0/4			0/3	0/6		W	M
Fiona Tregenna	4/4				6/6		W	F
Jacobus (Jakkie) Olivier	4/4						W	M
Janet Lopes <sup>*1</sup>	3/4	2/4					W	F
Jeanne Esterhuizen	4/4	3/4		1/3		2/2	W	F
Johan van Niekerk	4/4			3/3	3/6		W	M
John Wilson	4/4	2/4		3/3	6/6		W	M
Karl Cloete	2/4			1/3		0/2	C	M
Kirtida Bhana <sup>*3</sup>						2/2	I	F
Malebo Mogopodi	4/4	4/4		3/3	6/6		B	F
Mantuka Maisela <sup>*5</sup>			3/5				B	F
Martin Kuscus <sup>*4</sup>					4/6		B	M
Nazrene Mannie <sup>*2</sup>	1/3					2/2	I	F
Neo Bodibe <sup>*3</sup>						2/2	C	M
Phindile Baleni	4/4	3/4					B	F
Romano Daniels			4/5				C	M
Sizeka Rensburg <sup>*5</sup>					4/6		B	F
Thapelo Molapo	4/4		5/5	0/3			B	M
Xolani Tshayana	4/4	4/4	4/5			1/2	B	M

### **The Chairperson of the Accounting Authority and Deputy Chairpersons**

The Chairperson of the Accounting Authority was appointed for a five (5) year term of office by the Minister of Higher Education and Training. Ms Phindile Baleni was appointed as the Chairperson of the Accounting Authority. She presides over meetings of the Board and the Executive Committee and performs other duties which are generally associated with the position of Chairperson.

Two (2) deputy Chairpersons were nominated by the Accounting Authority from organised labour and organised employers. Mr Xolani Tshayana represents organised labour whilst Ms Janet Lopes represented organised employers until her retirement on 25 November 2012. Ms Jeanne Esterhuizen is the new deputy Chairperson who represents organised employers.

### **The Chief Executive Officer**

The Chief Executive Officer, Dr. Raymond Patel, is responsible for the implementation of the decisions of the Accounting Authority, execution and promotion of the strategic planning and policy development. He also ensures a proper and responsible control of the merSETA finances in compliance with the financial management requirements of the PFMA.

### **Delegation of Authority**

The merSETA operates within an established delegation of authority framework. The Accounting Authority delegates certain of its duties to management without relinquishing its responsibilities. The Accounting

Authority reviewed and approved the delegation of authority framework during the year under review, to enhance efficiencies in respect of decision making and performance within the merSETA.

### **Board Performance Assessment**

Annually, the performance of the Accounting Authority as well as the Board committees is appraised. In line with the requirements of King III, the assessment of the performance of the Board and its committees for the year under review was conducted independently by an external service provider. The evaluation was conducted against duties as stipulated in the Board Charter and the terms of reference, Standard Constitution, the PFMA and Treasury Regulations as well as the King III Code on Corporate Governance. The Remuneration and Human Resources Committee is responsible for the evaluation of the performance of the Chief Executive Officer as per the Standard Constitution.

### **Induction and Orientation**

New members of the Accounting Authority undergo an induction programme which sets out their fiduciary duties, responsibilities, the nature of business of the merSETA and the legislation applicable to the merSETA.

### **Members' Remuneration**

The merSETA Accounting Authority 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.

### Company Secretariat Function

The Company Secretariat function resides within the Corporate Governance Division and its main function is to assist the Accounting Authority with Corporate Governance assurance as well as the monitoring of merSETA compliance with the PFMA and other relevant legislation. Members of the Accounting Authority and its Committees have unrestricted access to advice and services of the Corporate Governance Division.

### Code of Conduct

Members of the Accounting Authority are bound by the Code of Conduct included as Annexure 2 of the Standard Constitution.

### Conflict of interest

To uphold their independence and integrity, members of the Accounting Authority and its Committees 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 Accounting Authority

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

- Executive Committee;
- Audit and Risk Committee;
- Remuneration and Human Resources Committee;
- Education, Training, Quality Assurance Committee;

- Finance and Grants Committee;
- Innovation, Research and Development Committee;
- Chamber Committees; and
- Regional Committees.

All committees operate within written Terms of Reference which are regularly reviewed and approved by the Accounting Authority.

## EXECUTIVE COMMITTEE

### Composition

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

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 the Chamber Committees and any ad hoc Committees.

### Meetings

Four (4) meetings were held by the Executive Committee during the year under review.

### Standard constitution of SETA regulations (Standard Constitution)

The Minister of Higher Education and Training approved the new Standard Constitution on 07 May 2012. The merSETA has implemented

this Standard Constitution from November 2012 as per the directive from the Department of Higher Education and Training.

## REMUNERATION AND HUMAN RESOURCES COMMITTEE

### Composition

The Remuneration and Human Resources Committee comprises five (5) members, two (2) independent members, two (2) members representing organised labour and organised employers and one (1) member who has been appointed by the Minister.

### Purpose

The Remuneration and Human Resources Committee is responsible for the development of guidelines, and reviews the compensation and performance of the merSETA staff, reviews and approves corporate goals relevant to the compensation of the Chief Executive Officer. The Committee evaluates the performance of the Chief Executive Officer against the goals and objectives stipulated in applicable rules and regulations. The Remuneration and Human Resources Committee also takes responsibility for all Human Resources related matters.

### Meetings

Five (5) ordinary meetings and one (1) extended meeting were held by the Remuneration and Human Resources Committee 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 Accounting Authority.

### Meetings

The Committee convened three (3) meetings during the year under review.

## FINANCE AND GRANTS COMMITTEE

### Composition

The Finance and Grants Committee comprises seven (7) members. Two (2) members who represent organised labour, two (2) who represent organised employers, one member who is appointed by the Minister and two (2) independent members.

### Purpose

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

### Meetings

The Finance and Grants Committee convened five (5) meetings during the period under review.

## INNOVATION, RESEARCH AND DEVELOPMENT COMMITTEE

### Composition

The Innovation, Research and Development Committee comprises eight (8) members. Four members of the Accounting Authority, two (2) of whom represent organised labour, and two (2) represent organised employers, four experts from the industry and one member co-opted from the Department of Trade and Industry.

### Purpose

The merSETA Innovation, Research and Development Committee oversees the development and review of the sector innovation, research and development strategy. The Committee is responsible for oversight in respect of ensuring programme alignment with the merSETA strategy, industry needs and relevant national development priorities.

### Meetings

The Innovation, Research and Development Committee convened two (2) meetings during the period under review.

## CHAMBER COMMITTEES

### Composition

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 Section 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.

### Achievements and highlights

The financial year 2012/13 has proved to be another successful year for merSETA Chamber Committees based on milestones achieved in the course of implementing skills development within the NSDS III landscape.

### Skills Planning

Chamber committees for the first time in the history of merSETA were offered an opportunity to choose and pursue a sector skills plan research project to complement and enrich the next merSETA national Sector Skills Plan.

Research was conducted in the following significant areas:

- **New Tyre Chamber**

The New Tyre Chamber developed a diagnostic model and tool that seeks to assist with the accurate forecasting of priority and emerging skills in the New Tyre value chain. The research has the potential to bring more accuracy in forecasting priority skills within the New Tyre sector value chain. The significance of the New Tyre Chamber research is that the tool developed can be employed at any company or any sector within and outside merSETA.

- **Plastics Chamber**

The Plastics Chamber research provides insight and understanding of the shape and size of the Plastics Industry in South Africa; the factors impacting on its future and key drivers for change, with particular reference to skills priorities and possible growth scenarios.

The value chain approach followed in unpacking and dissecting the sector begins to offer more options for accurate approaches that can be followed for conducting sector skills plans. The detailed approach followed in this regard is worth considering for addressing skills development needs of any economic sector within and outside of the merSETA.

- **Motor Chamber**

The Motor Chamber research project looked at the existing skills to meet future skills development needs in the sector. The research informs of the existing skills gaps which could pose a risk should

solutions not be found now.

The skills gaps identified on the current learning interventions include the emergence of e-learning; the impact of social media and the green agenda.

The research is significant in that it begins to look beyond the National Skills Development Strategy III timeframes. The approach followed in the prediction of future skills needs in the sector could be customised to suit the needs of the other sectors.

- **Auto Chamber**

The Auto Chamber research brings a new dimension into the sector skills plan. The research is mainly about identifying the best way to recruit; train and place people with disabilities (PWD) on merSETA scarce skills learnerships within the automotive manufacturing sector.

Already other Chambers of merSETA have shown a keen interest in the outcomes of the research project which include a tool kit for guiding a potential employer intending to employ people with disabilities.

- **Metal Chamber**

The Metal Chamber research aims to quantify the number of vacancies not filled across the sector and to extrapolate data against the aging workforce to determine skills demands in the sector.

The outcome of this research will contribute towards enriching the merSETA national sector skills plan.

### Stakeholder capacity building

Stakeholder capacity building remains a necessary SETA intervention in empowering stakeholders to perform at their best in terms of their new SETA responsibilities. The following capacity building sessions were successfully conducted based on the capacity building needs identified by stakeholders during the period under review:

- The new SETA Management System (SMS) currently being introduced
- The new Quality Council for Trades Occupations (QCTO) and the National Qualifications Framework (NQF) occupational qualification development methodology.

### Governance

All Chamber Committees are now chaired by members of the merSETA Accounting Authority in line with the new Standard SETA Constitution. This important alignment will go a long way in enhancing communication flow between Chambers, the merSETA Accounting Authority and the Executive Committee.

## REGIONAL COMMITTEES

### Composition

MerSETA has seven Regional Committees with a maximum of eight (8) members each. Regional Committees comprise an equal number of member representatives from organised labour and organised employers. To enhance efficiencies, the Regional Committees are currently being reorganised.

### Purpose

The main function of this Committee, in terms of the resolution of the Accounting Authority, is to act in an advisory capacity. The Regional Committees' main objective is to encourage a smooth flow of information between merSETA Regional Committees and Chambers.

### Achievements and highlights

During the period under review, all seven merSETA Regional Committees were successfully launched in line with NSDS III.

The new members nominated by merSETA participating constituencies to serve on merSETA Regional Committees have successfully undergone merSETA stakeholder induction sessions. These sessions are designed to welcome new members to their new roles as skills development agents.

### Significance and Materiality Framework

The Treasury Regulations issued in terms of the Public Finance Management Act require that the Accounting Authority 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 Accounting Authority is responsible for the merSETA risk management process. The Audit and Risk Committee assists the Accounting Authority in carrying out its risk management responsibilities. The Accounting Authority has delegated to management the responsibility to design, implement and monitor risk management within 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 environmental, social and economic factors by adopting strategic objectives. This is evident in the reviews and reports presented in this Annual Report.

### **AUDIT AND RISK COMMITTEE**

The Committee performs the functions as contained 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 standards.

The Chairperson of the Audit and Risk Committee attends and presents a report to the Accounting Authority at its meetings (including the AGM). The Audit and Risk Committee operates in terms of the Terms of Reference (Audit Committee Charter) in accordance with the 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.

### **SOCIAL RESPONSIBILITY**

MerSETA staff participated in the hosting of learners during the national

“Take a Girl Child to Work” and “Men in the Making” initiatives. Staff volunteered for 67 minutes on Mandela Day by providing career guidance, painting school facilities and providing food to learners at various institutions.



## AUDIT AND RISK COMMITTEE REPORT

### 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 2013.

#### Audit and Risk Committee Members and Attendance

The Audit and Risk Committee consists of a maximum of five members three of whom are independent and two are members of the Accounting Authority. During the year under review, six meetings were held, one of which was a special meeting.

Name of member	Number of meetings attended
A Mashifane (Chairperson) (Independent)	5
F Mukaddam (Independent)	4
T Mashanda (Independent)	6
D de Villiers* (Member of the Accounting Authority)	4
J Olivier (Member of the Accounting Authority)	5

\* Resigned 27 November 2012

The Chief Executive Officer, Chief Financial Officer, Chief Operations

Officers, General Managers and representative(s) of the Auditor-General of South Africa, representative(s) from the outsourced internal audit firm, were invited to attend the meetings.

#### Audit and Risk Committee Responsibility

The Audit and Risk Committee reports that it has complied with its responsibilities as contained in sections 38(1) (a) of the PFMA and Treasury Regulations 3.1. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

#### The effectiveness of internal control and risk management

The merSETA system of controls is designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed.

The merSETA has a risk management strategy in place and keeps a risk register to continuously assess the organisation's risks throughout the year.

Based on the results of the formal documented review of the system of internal controls and risk management including the design, implementation and effectiveness of internal financial controls conducted by the outsourced internal auditors during the 2012/2013 financial year and considering information and explanations given by management and discussions with the Auditor-General of South Africa on the results of the audit, the Audit and Risk Committee has considered all significant control matters and associated action plans. Having

regard to the aforementioned and nature and impact of certain control deficiencies that management is addressing, nothing has come to the attention of the Audit and Risk Committee that leads it to conclude that the organisation's system of internal controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

The Audit and Risk Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to merSETA in its audit plan.

### **The quality of management quarterly reports submitted in terms of the PFMA**

The Audit and Risk Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by management during the year under review.

### **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 conclusion 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.

The Audit and risk Committee recommended the annual financial statements for the year ended 31 March 2013 for approval by the Accounting Authority on 23 July 2013.



.....  
**A MASHIFANE (Chairperson of the Audit and Risk Committee)**  
Date 29/07/2013.

## Part D: human resource management

### INTRODUCTION

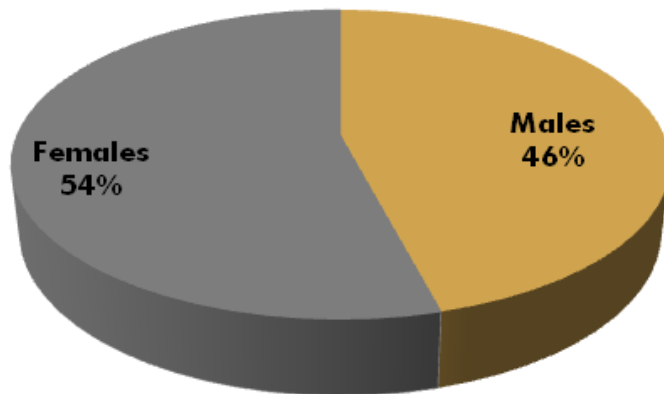
During the 2012-2013 period, the Human Resource Unit accomplished the following:

#### Compliance

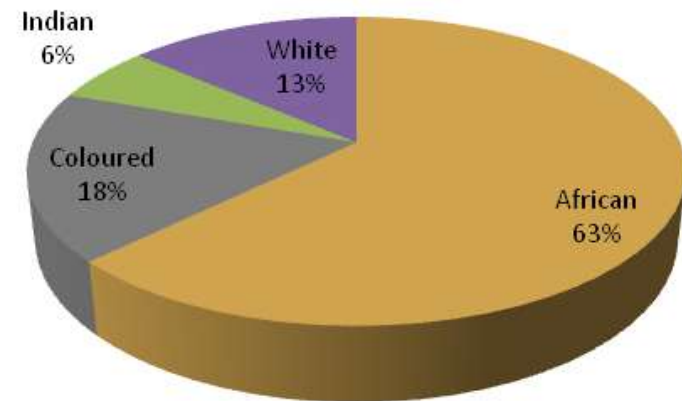
Human Resource Policies, Procedures and Systems are well established and no audit findings were raised during the ISO Accreditation Audit.

The merSETA WSP & ATR was submitted to the ETDP SETA in June 2012. The Employment Equity Report was submitted to the Department of Labour in September 2012. The graphs below represent the Employment Equity Profile of the merSETA:

#### merSeta Gender Split



#### merSeta EE Split



#### Organisational Development

The organisational structure was re-aligned to deploy human resources optimally towards meeting NSDS III objectives. This was done consultatively, without any job losses.

Change management processes were implemented to limit destabilisation and a loss of productivity.

Cross-functional task teams were established to operationalise the

## human resource management (continued)

various NSDS III programmes.

Team Building was conducted in all units to establish group identity, improve working relations and to enhance delivery through team work.

### Organisational Culture

Leadership roadshows as well as recognition awards reinforced the merSETA values that underpin the organisational culture by recognising staff and management who live the merSETA Values.

A national Staff Satisfaction Survey obtained organisational culture feedback from all staff and management. 71.6% of respondents reported that they were satisfied, working within the merSETA culture.

No grievances were raised against Management during the period under review.

### HR Practice Recruitment

The table represents all appointments made during the financial year:

Job Title	Grade	Race	Gender	Starting Date
Client Liaison Officer	C4	W	Female	16 April 2012
Client Liaison Coordinator	C4	W	Male	02 July 2012
Administrator: HR	B5	A	Male	30 July 2012
Administrator: Travel	B5	A	Male	01 August 2012
Client Liaison Officer	C4	A	Male	01 September 2012
Client Liaison Officer	C4	W	Male	10 September 2012

Administrator: Supply Chain	B5	A	Male	05 September 2012
Client Liaison Officer	C4	I	Male	01 October 2012
Client Liaison Officer	C4	A	Male	01 October 2012
Administrator	B5	C	Male	01 October 2012
Call Centre agent	B5	A	Female	01 October 2012
Assistant Client Liaison Coordinator	B4	A	Female	15 October 2012
Call Centre Agent	B5	W	Female	01 November 2012
Administrator	B5	A	Male	01 November 2012
Administrator Research Assistant	B5	A	Female	10 December 2012
Knowledge Specialist	D1	A	Male	04 February 2013
Client Liaison Officer	C4	C	Male	04 March 2013
Administrator	B5	A	Male	04 March 2013

## human resource management (continued)

### Staff Complement

Permanent Staff	221
Temporary Staff	5
Interns	26

The following external consultants performed work for the Human Resources unit:

- ICAS – Wellness Helpline Provider;
- VIP – Payroll and electronic payslips;
- CBARS – Electronic Performance Management System;
- PE Corporate Services – Job Grading & Salary Benchmarking;
- Tokiso – Mediation & Disciplinary Chairing;
- Vari Consulting and Commissioned Training – Accredited Group Training;
- Kgabolize, Options and Primeserve – Recruitment Agencies;
- Precision Human Resource Consultants and Landelhani – Supervisory and Management Competency Assessments; and
- Connemara – Personality Profiling (Team building initiative).

### Induction and Integration

Integration of new staff members was rolled out at divisional level through the buddy programme and at organisational level through bi-annual induction sessions hosted at Head Office. Integration effectiveness is assessed by HR.

### Learning and Development

Job related training (identified through a participative personal development planning process) and career development studies to the

value of R934 000 were implemented. Staff regularly attended seminars and conferences to encourage a culture of ongoing learning.

### ABET and Internships

merSETA successfully implemented an ABET training programme for A band staff members as well as an Internship Programme for 25 newly qualified graduates.

### Performance Management

The Performance Management System assesses performance bi-annually and provides developmental feedback. Underperforming individuals are supported through a formalised Performance Improvement Process that is monitored by HR.

### Succession Planning

A pool of possible successors were identified and offered developmental opportunities. Twenty one employees acted in higher positions to prepare them for succession opportunities.

### Reward

Remuneration practice is overseen by the Remuneration and Human Resources Committee constituted of Management, Board Members and independent experts.

A grading committee was established. The Paterson Grading System as well as industry benchmarking ensures internal equity and external parity. The grading and re-grading of positions was outsourced to experts in the field of job evaluation. In this way, fairness and objectivity was ensured.

## human resource management (continued)

The table below tabulates the positions that were graded or re-graded:

Division	Job Title	Outcome
Corporate Governance	COO: HR Strategy & Compliance	EU - upgraded from EL
Corporate Governance	HR Manager	D1 - New position
IRD	Manager: Special Projects	D3 - New position
Client Services	Manager: Career Development & Learner Support	D2 - stayed on the same grade
Client Services	Programme Manager: Curriculum and Learning Programmes Development	D3- stayed on the same grade
Finance	Financial Manager: Grants & Projects	D3 - stayed on the same grade
Client Services: ICT	Senior Manager: ITC	D5 - upgraded from D4
Corporate Governance	Senior Manager: HR	D4 - stayed on the same grade
Corporate Governance	Senior Manager: Strategic Management & Compliance	D5 - upgraded from D3
Client Services	Senior Manager: Client Services	D5 - stayed on the same grade
IRD	Specialist: Labour Market Sector Skills Planning	D1 - New

IRD	Specialist: Knowledge Management	D1 - New
Finance	Supervisor: Payroll Reporting	C4 - upgraded from C3
Finance	Payroll Administrator	C1 - upgraded from B5
Finance	Supervisor: Grants & Levy Administration & Projects	C4 - upgraded from C3
CEO's Office	Executive Assistant to the CEO	C4 - stayed on the same grade
IRD	Research Administrator	B5 - New position
Corporate Governance	Manager Quality Assurance & Compliance	D3 - upgraded from D2
Corporate Governance	Performance Information Analyst	D1- upgraded from C5
IRD	Project Manager: AATP	D1 - New position
Finance	Grant & Levy Administrator	B4 - New Position
Finance	Senior Accountant: Reporting	D3 - stayed on the same grade
Client Services	Client Liaison Coordinator	B5 - stayed on the same grade

The merSETA salary bill for the financial year was closed off at R87 665 878 against the budgeted R90 904 691. A positive variance of R3 238 813 can be reported.

## human resource management (continued)

Salaries were increased by 7% following a consultative process between the union and management.

The table below tabulates the approved salary bands:

Patterson Grade	Salary Band
F	1 406 769 – 1 592 388
E	872 214 – 1 212 813
D	409 038 - 1 168 409
C	182 848 - 522 300
B	81 736 - 233 478
A	50 421 - 104 369

### Recognition

Exceptional performance was recognised through the Performance Management Process. A Moderation Panel ensured fair ratings that culminated in performance bonuses.

The Annual Staff Recognition Function recognises top performers with regards to the merSETA targets as well as living the merSETA Values.

### Wellness

A 24-hour telephonic support service with regards to trauma, financial and legal counselling services are available to all staff and their direct family members. Various initiatives such as a Physical Wellness Day, Financial Planning and HIV/AIDS Voluntary Testing and Counselling were rolled out. Weekly wellness information sharing fliers as well as a poster campaign built the capacity of staff regarding a range of wellness issues. Flexible working hours further complemented the positive working

culture.

Regular social events were scheduled to coincide with public events such as Youth Day, Women's Day, Heritage Day and international Aids Day so as to establish a sense of community and belonging.

### Disciplinary Action

The attached table represents disciplinary matters concluded during the year under review:

Region	Division Name	Number of Written Warnings issued	Offence
Head Office	Corporate Governance: HR	1	Failure to follow a lawful instruction
Head Office	Client Services: ICT	1	Poor time keeping
Head Office	Corporate Governance: Marketing	1	Non compliance with merSETA leave policy
Head Office	Finance: Supply Chain	1	Failure to follow a lawful instruction
Head Office	Corporate Governance: HR	1	Negligence
Head Office	Client Services: ICT	1	Negligence

## human resource management (continued)

Region	Division Name	Number of Written Warnings issued	Offence
Western Cape	Client Services	1	Poor time keeping and failure to follow a lawful instruction
KwaZulu-Natal	Client Services	2	Abuse of telephone
Head Office	Client Services	2	Abuse of telephone

### Disciplinary Hearings

Region	Division	Offence	Sanction
Head Office	Operations: Discretionary Grants	Negligence	Demotion
Head Office	Corporate Governance: Compliance	Contravention of merSETA Code of Conduct Policy	Written Warning
Head Office	Client Services	Failure to follow an instruction and fraud	Dismissal

### Final Written Warning

Region	Division Name	Number of final written warnings issued	Offence
Western Cape	Client Services	1	Poor time keeping and abuse of merSETA leave policy

### CCMA Cases

Region	Division	Offence	Award
Head Office	Finance: Supply Chain	Non compliance with established procedures	Settlement Agreement reached

### Employee Relations

The management union forum engaged quarterly on various concerns of mutual interest. Various committees were established to support compliance and good practice.







## Part E: financial information for year ended 2012/2013

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## 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 (merSETA) set out on pages 77 to 130, which comprise the statement of financial position as at 31 March 2013, 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.

#### 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 Practises (SA Standards of GRAP), the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Skills Development Act, 1998 (Act No. 97 of 1998) (SDA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### 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 2013 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 and SDA.

## 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 77 to 130 of the annual report.

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's 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's 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).

9. 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

10. 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

11. 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 accounts receivables from non-exchange transactions were subsequently corrected.

### Internal control

12. I considered internal control relevant to my audit of the financial statements, 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.

### Financial and performance management

13. 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.

## Investigations

14. In the prior years, the public entity suffered a financial loss of R6 329 000 due to criminal conduct. The loss involved a former employee of the public entity diverting 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 public entity is in court to pursue the recovery of the money that was lost. The process of updating banking details has been reviewed and strengthened.

*Auditor-General*

Pretoria

31 July 2013



AUDITOR-GENERAL  
SOUTH AFRICA

Auditing to build public confidence

# report by the accounting authority

## TO THE EXECUTIVE AUTHORITY AND PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA

### FOR THE FINANCIAL YEAR ENDED 31 MARCH 2013

#### 1. General review of the state of affairs

The financial and operational affairs of the merSETA are sound and the financial position remains strong. The merSETA has achieved all, but one of its performance targets as set out in the Annual Performance Plan. The levy base has been substantial in the current year and once again a handsome growth from the prior year has been achieved. This growth has been consistent with the industry wage increases. A stable trend of mandatory grant disbursements was achieved through most of the year, with the exception of the last two months due to unforeseen challenges beyond the control of the merSETA. 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 95% committed in learnerships, apprenticeships and projects stretching over the next four years to the value of R 914 million.

##### a. Levies

The merSETA levy income grew by 11% in the 2012/13 financial year over prior year to reach R1,021 billion. The levy income exceeded the budgeted levy income by 5.4%, which indicates that our anticipated levy base growth was a reasonable estimate. The number of contributing employers increased slightly to 12,670 from 12,532, most of which are in the metal sector. The exemption threshold to paying levies remained at annual payroll level of R500,000. The levy payments have been made timeously through the year. However, delays in the receipt of the download files were experienced in the last two months of the financial year due to some South African Revenue Services (SARS) overpayments

of levy income that required correction. These overpayments arose as a result of SARS including UIF monies in the payment of levies to Department of Higher Education and Training (DHET) amounting to R18 million. These overpayments have been excluded from the final levy income as reported in the statement of financial performance.

##### b. Grants and Projects

The merSETA has experienced a consistent participation by the employers in their submission of WSP in the current year as the mandatory claims ratio is 82%, compared to 80% in the prior year. The merSETA continues to enforce strict deadlines for the submission of mandatory grant applications in line with regulations. The merSETA has made mandatory grants disbursements on a monthly basis, with the exception of the last two months due to the delays in the receipt of the levy download files from the Department of Higher Education and Training. A full accrual of the mandatory grants expense approved but not yet disbursed was made resulting in a 15.5% increase in mandatory grants expenses to R 514 million from R 445 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, remained consistent with a slight increase of 1.7% to R 428 million from R 421 million in the prior year. Although discretionary grant expenses are R 515 million below budget, they only comprise 30% 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 rolling impact of previous DG windows delays in funds allocations and learner registrations thus resulting in learners lagging behind in attaining the set milestones.
- II. DG 1 window which commenced in 2008 is still open to the value of R107

million at year end. There has been a delay in closing-out this window thus resulting in DG budget spent not being met. This window has been extended until the 30 June 2013, after which all existing MOAs will be terminated and the remaining funds allocated to new initiatives.

- III. The majority of the DG2 and DG3 2<sup>nd</sup> 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 2<sup>nd</sup> tranche payments and 100% completion for final tranche payments.
- IV. The majority of the DG4 MOAs were only signed during February and March 2012, thus resulting in mainly the first tranche payments been made and delays in 2<sup>nd</sup> tranche payments as the 50% completion requirement has been met by only a few apprentices.

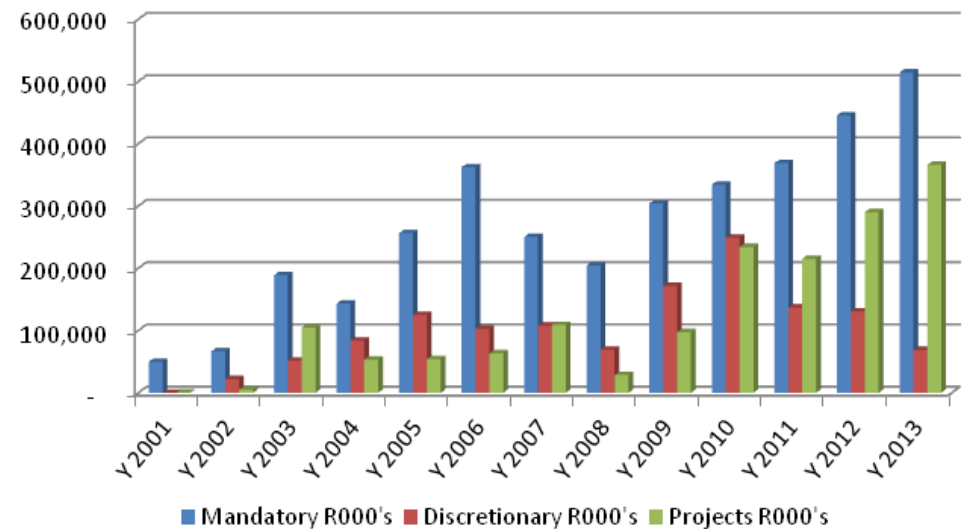
The merSETA continued to effect all first tranche payments at 10% of the MOA value once the company has submitted the signed MOA and the implementation report was submitted within 60 days of the signed MOA and approved by the merSETA.

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 to either effect remedial actions or 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
2013	514 279	68 794	359 252	942 325
<b>TOTAL</b>	<b>3 487 818</b>	<b>1 318 979</b>	<b>1 613 536</b>	<b>6 420 333</b>



The growth in grants paid over the period is largely influenced by the growth in the levy receipts since inception. Mandatory Grants trend is linked to growth

in number of participating employers and an increase in the claims ratio over the period. The claims ratio for 2012/13 is 82%.

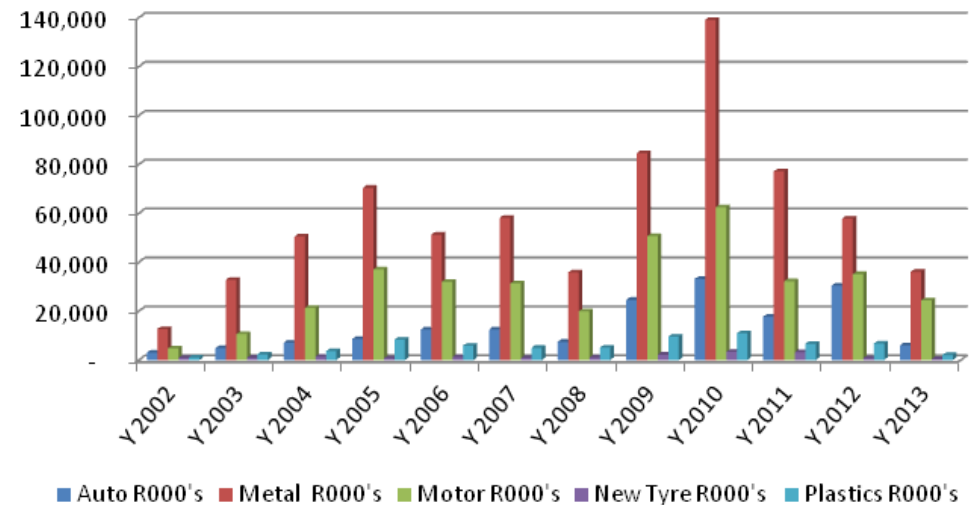
Although the discretionary grant commitments have increased substantially over the period, the payments have been stifled by delays in funds allocations and milestone delivery. The drop in the first tranche payments from 33.3% to 10% has also had an unfavourable impact on the growth trend of discretionary grants payments.

With the build up to the world cup in 2010, there was a major increase in new capital projects undertaken. The impact of this can be seen in the significant increase in discretionary grant during this period. 2008/09 saw the launch of the much renowned Accelerated Artisans Training programme (AATP). This had a profound impact on project expenditure in the ensuing years.

**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
2013	5 952	36 071	24 410	346	2 015	68 794
<b>TOTAL</b>	<b>167 871</b>	<b>706 139</b>	<b>361 758</b>	<b>16 518</b>	<b>66 693</b>	<b>1 318 979</b>

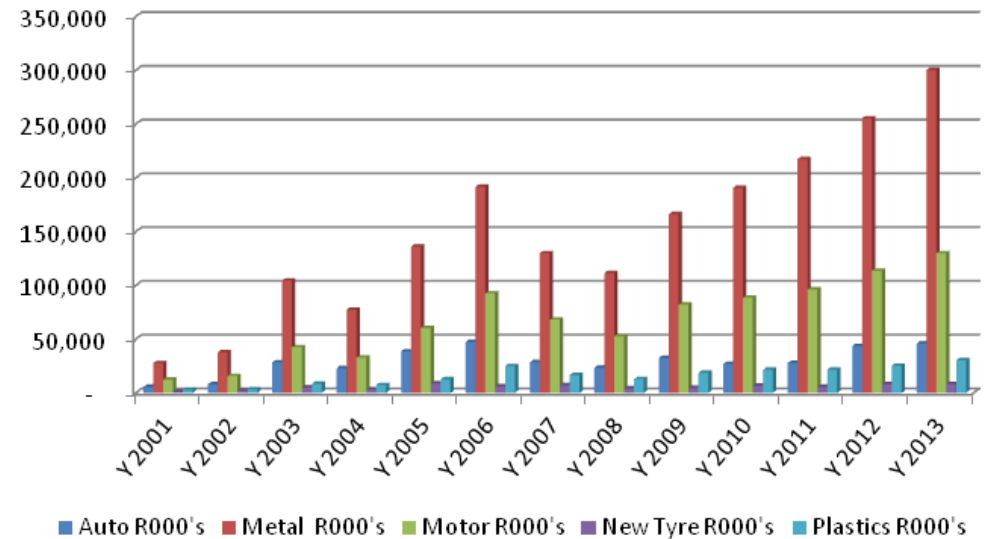


The allocation of discretionary grants by chamber is consistent with the contribution of each chamber in levies, with metal being the largest levy contributing chamber. The spike in 2010 is due to a large allocation of discretionary grants as a result of large surpluses that were carried down from previous years.



Mandatory Grants paid to date by chamber (R'000)

YEAR	Auto R000's	Metal R000's	Motor R000's	New Tyre R000's	Plastics R000's	TOTAL 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
2013	45 728	300 227	129 835	8 272	30 217	514 279
<b>TOTAL</b>	<b>378 851</b>	<b>1 945 030</b>	<b>887 145</b>	<b>70 740</b>	<b>206 052</b>	<b>3 487 818</b>



The growth in mandatory grants paid over the years is consistent with the levy growth, with the largest levy contributing chamber being paid the most grants.

a) **Planned utilisation of surpluses**

The merSETA has discretionary reserves of R 963 million, of which R 914 million is committed to signed contracts approved by the Accounting Authority. These will be applied to learnerships, apprenticeships, strategies and projects in the 2013/14 to 2015/16 financial years. Cash balances at year end amount to R 1,157 billion. The merSETA had received approval from National Treasury to carry forward surpluses for the 2011/12 financial year, and has applied for similar carry forward surpluses for the 2012/13 financial year in May 2013.

The merSETA carries R 9.6 million administration reserve in its statement

of financial position as at 31 March 2013. The administration reserves are equal to the net book value of the non-current assets.

## 2. Services rendered by the merSETA

The merSETA renders four broad services to its sector;

### a) 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 2012. The purpose of the mandatory grant is to reimburse companies who 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.

### b) 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.

### c) 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.

## 3. Human resources

During the current financial period, merSETA embarked on a new organisational structure re-design in order to ensure effective delivery of the new NSDS III. The new organisation structure has been approved by the Accounting Authority. The number of employees as at March 2013 is 252, an increase from the prior year number of 228 employees. The merSETA remained focused on customer service ensuring that the head office and regional offices are sufficiently resourced by competent staff to support the stakeholders and deliver project work.

**Employment data for key personnel for merSETA for the 2012/13 financial year:**

Rand 000's

Key Personnel	Cost to Company 2012/13	Performance Bonus 2012/13	Total 2012/13	Total 2011/12	Notes
Chief Executive Officer	1 497	456	1 953	2 003	Performance bonus is based on a provision
Chief Financial Officer	972	150	1 122	566	Commenced 01/10/2011
Chief Operating Officer: Implementation	1 140	164	1 304	1 284	
Chief Operating Officer: HR, Strategy and Compliance	503	-	503	1 140	Resigned 30/09/2012
General Manager: Innovation, Research and Development	970	129	1 099	1 019	
<b>TOTAL</b>	<b>5 082</b>	<b>899</b>	<b>5 981</b>	<b>6 012</b>	

One senior manager resigned during the year 2012/13, and his position remains vacant as at 31 March 2013.

The outcome of the organisation re-structure was that the functions of the GB: Corporate Governance and GM: Corporate Services were combined, and the position of the Chief Operating Officer: HR, Strategy and Compliance was created. This position of COO: HR, Strategy and Compliance was assumed by the previous GM: Corporate Governance.

The title for GM: Projects changed to GM: Innovation, Research and development.

#### 4. 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 R 136 million, of which R 47 million was received in the 2012/13 financial year, and R 13 million in the prior year. At the end of March 2013, R 2.6 million of these funds was on hand.

The merSETA also entered into an arrangement with the DHET for the Training Layoff Scheme in 2009/10 of which R 2.6 million was received in the 2012/13 financial year, and R 42 million in the prior year. At the end of March 2013, R 12.2 million of these funds was on hand.

#### 5. Business address

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

merSETA  
The Atrium  
95, 7<sup>th</sup> Avenue  
Melville  
Johannesburg

merSETA  
P O Box 61826  
Marshalltown  
2107

## 6. Discontinued activities/activities to be discontinued

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

## 7. New/proposed activities

The merSETA continues to align itself with government directive to focus on unemployed youth and capacity-building of the FET colleges.

New grant regulations were promulgated during December 2012 and are effective from 1 April 2013. The merSETA has fully engaged itself in the understanding of the new regulations, its impact on core activities and has put all necessary mechanisms in place to ensure full adoption and implementation.

## 8. 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 2012/13 financial year.

## 9. Performance information

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

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

The merSETA is in the process of improving its management information system, in an effort to improve the quality of information available as well as the ease and accuracy of record keeping and reporting.

During the 2012/2013 financial year, merSETA has achieved and exceeded all targets with the exception of the target for employed persons receiving bursaries for entry into part-time study programmes. The details of merSETA's performance achievements are provided in the section on Performance Information.

## 10. Corporate governance

The merSETA follows an integrated approach which has governance, risk management and compliance forming the three pillars that allow the organisations 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. Accounting Authority (previously: Governing Board)

The Accounting Authority which comprises 15 members including the independent Chairperson was appointed by the Minister of Higher Education and Training on 1 April 2011 for a 5 year term. 2 members of the Accounting Authority were directly appointed by the Minister while 12 members represent both organised labour and organised employers, 6 members per category. The Minister of Higher Education and Training introduced restrictions to Accounting Authority 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*

Two year ago the merSETA suffered a loss of R 6.3 million through diversion of mandatory grants which were owing to the employers. The investigation was completed in the prior year, the perpetrators were charged for fraud and a trial is underway. The merSETA has since reviewed the controls and processes surrounding the update of bank details.

During the financial year 2012/13, the merSETA has not suffered any known financial loss due to fraud.

#### *Internal Controls*

Key control deficiencies were identified in the organisation's SMS project management process. These weaknesses have been noted by management and preventative plans have been put in place for any future IT development projects.

The system of accounting and internal controls are being constantly monitored and improved, particularly around financial management, supply chain management and other core business functions. The internal auditors also conduct continuous reviews of the controls and processes in place and advise management of any improvements necessary.

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

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

The other committees of the Accounting Authority are:

- I. Executive Committee;
- II. Finance and Grants Committee;
- III. Remuneration Committee;
- IV. ETQA Committee;
- V. Innovation, Research and Development Committee;
- VI. Chamber Committees; and
- VII. Regional Committees.

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

**f. Policies**

The financial statements are prepared in accordance with Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. The merSETA's policies and procedures are aligned with GRAP.

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

**g. Supply Chain Management Unit**

In response to previous 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 system in the new financial year.

**h. IT Systems**

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, employers and users has been undertaken.

**i. Conflict of interest**

The merSETA's Accounting Authority 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.

**11. Approval**

The audited Annual Financial Statements for the year ended 31 March 2013, set out on pages 77 to 130, have been approved by the Accounting Authority in terms of section 51(1) (f) of the Public Finance Management Act (PFMA), No 1 of 1999 (as amended) on 23 July 2013, and are signed on their behalf by:



P Baleni (née Nzimande)  
(Chairperson)



R Patel  
(CEO)

	Note	2013			2012		
		Actual R'000	Budget R'000	Variance R'000	Actual R'000	Budget R'000	Variance R'000
<b>REVENUE</b>							
Skills development levy income	2	1 021 254	969 139	52 115	918 904	785 807	133,097
Skills development penalties and interest	3	10 947	9 200	1 747	8 679	4 500	4 179
National Skills Fund income	4	39 288	22 962	16 326	62 623	100 783	(38 160)
<b>Total non-exchange revenue</b>		<b>1 071 489</b>	<b>1 001 301</b>	<b>70 188</b>	<b>990 206</b>	<b>891 090</b>	<b>99 116</b>
Net gains from financial instruments	5	57 271	60 385	(3 114)	60 640	50 000	10 640
Other income	6	53	49	4	46	-	46
<b>Total exchange revenue</b>		<b>57 324</b>	<b>60 434</b>	<b>(3 110)</b>	<b>60 686</b>	<b>50 000</b>	<b>10 686</b>
<b>Total revenue</b>		<b>1 128 813</b>	<b>1 061 735</b>	<b>67 078</b>	<b>1 050 892</b>	<b>941 090</b>	<b>109 802</b>
<b>EXPENSES</b>							
Employer grant and project expenses	7	(942 325)	(1 442 343)	500 018	(866 167)	(1 230 450)	364 283
Administration expenses	8	(108 098)	(116 052)	7 954	(98 419)	(98 226)	( 193)
National Skills Fund expenses	4	(39 288)	(22 962)	(16 326)	(62 623)	(100 783)	38 160
<b>Total expenses</b>		<b>(1 089 711)</b>	<b>(1 581 357)</b>	<b>491 646</b>	<b>(1 027 209)</b>	<b>(1 429 459)</b>	<b>402 250</b>
<b>Net surplus/ (deficit) for the year</b>	1	<b>39 102</b>	<b>(519 622)</b>	<b>558 724</b>	<b>23 683</b>	<b>(488 369)</b>	<b>512 052</b>

STATEMENT OF FINANCIAL POSITION AS AT  
31 March 2013

financial statements

	Note	31 March 2013 R'000	31 March 2012 R'000
<b>ASSETS</b>			
<b>Current assets</b>			
Prepayments	9	75	1 211
Receivables from non-exchange transfers	10	10 483	28 535
Consumables		169	110
Financial instruments at fair value	11	1 020 000	935 000
Financial instruments at amortised cost	12	137 106	178 426
		<b>1 167 833</b>	<b>1 143 282</b>
<b>Non-current assets held for sale</b>			
	13	30	-
		<b>1 167 863</b>	<b>1 143 282</b>
<b>Non-current assets</b>			
Property and equipment	14	9 158	8 578
Intangible assets	15	402	694
		<b>9 560</b>	<b>9 272</b>
<b>Total Assets</b>			
		<b>1 177 423</b>	<b>1 152 554</b>



STATEMENT OF FINANCIAL POSITION AS AT  
31 March 2013

financial statements

	31 March 2013 R'000	31 March 2012 R'000
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Grants and transfers payable	16 179 693	192 090
Financial liabilities at amortised cost	17 23 906	25 709
Provisions	18 257	290
<b>Total Liabilities</b>	<b>203 856</b>	<b>218 089</b>
<b>Net Assets</b>	<b>973 567</b>	<b>934 465</b>
<b>Net assets represented by:</b>		
Administration reserve	9 560	9 272
Employer grant reserve	1 388	1 609
Discretionary reserve	962 619	923 584
<b>Total Net Assets</b>	<b>973 567</b>	<b>934 465</b>

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED  
31 March 2013

	Note	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 2011</b>		12 144	535	898 103	-	910 782
Net surplus for the year per statement of financial performance		-	-	-	23 683	23 683
Allocation of unappropriated surplus for the year	1	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>
Net surplus for the year per statement of financial performance		-	-	-	39 102	39 102
Allocation of unappropriated surplus for the year	1	24 014	118 251	(103 163)	(39 102)	-
Excess reserves transferred to discretionary reserve		(23 726)	(118 472)	142 198	-	-
<b>Balance at 31 March 2013</b>		<b>9 560</b>	<b>1 388</b>	<b>962 619</b>	<b>-</b>	<b>973 567</b>

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

The amount retained in the employer grant reserve is a mandatory grant provision for newly registered companies participating after the legislative cut-off date. This is noted under contingencies in note 20.

Note	2013			2012		
	Actual R'000	Budget R'000	Variance R'000	Actual R'000	Budget R'000	Variance R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
<b>Operating activities</b>						
Cash receipts from stakeholders and others	1 094 490	979 709	114 781	980 142	881 755	98 387
Levies, interest and penalties received	1 043 318	975 703	67 615	924 009	790 197	133 812
Income from National Skills Fund	51 119	3 956	47 163	56 087	91 558	(35 471)
Other income	53	50	3	46	-	46
Cash paid to stakeholders, suppliers and employees	(1 103 771)	(1 616 192)	512 421	(1 017 462)	(1 462 786)	445 324
Grants and project payments	(998 232)	(1 503 861)	505 629	(924 672)	(1 370 379)	445 707
Employment costs	(79 386)	(81 836)	2 450	(67 771)	(65 878)	(1 893)
Payments to suppliers	(26 153)	(30 495)	4 342	(25 019)	(26 529)	1 510
Cash (utilised in)/ generated from operations	(9 281)	(636 483)	627 202	(37 320)	(581 031)	543 711
Interest received	42 325	58 709	(16 384)	61 736	50 278	11 458
<b>Net cash inflow/ (outflow) from operating activities</b>	<b>33 044</b>	<b>(577 774)</b>	<b>610 818</b>	<b>24 416</b>	<b>(530 753)</b>	<b>555 169</b>

	Note	2013			2012		
		Actual R'000	Budget R'000	Variance R'000	Actual R'000	Budget R'000	Variance R'000
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>							
Purchase of property and equipment	15	(3 713)	(3 133)	(580)	(2 382)	(3 028)	646
Purchase of intangible assets	15	(1 058)	(886)	(172)	(796)	(672)	(124)
Proceeds from disposal of property and equipment		608	-	608	57	-	57
Net (purchase)/ disposal of financial instruments at fair value		(85 000)	451 538	(536 538)	75 000	-	75 000
<b>Net cash (outflow)/ inflow from investing activities</b>		<b>(89 163)</b>	<b>447 519</b>	<b>(536 682)</b>	<b>71 879</b>	<b>(3 700)</b>	<b>75 579</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(56 119)</b>	<b>(130 255)</b>	<b>74 136</b>	<b>96 295</b>	<b>(534 453)</b>	<b>630 748</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>171 325</b>	<b>171 325</b>	<b>-</b>	<b>75 030</b>	<b>1 085 030</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	12.2	<b>115 206</b>	<b>41 070</b>	<b>74 136</b>	<b>171 325</b>	<b>550 577</b>	<b>630 748</b>

	Approved original budget R'000	Revisions R'000	Approved final budget R'000	Actual R'000	Variance R'000
<b>REVENUE</b>					
Skills development levy income	969 139	-	969 139	1021 254	(52,115)
Skills development penalties and interest	9 200	-	9 200	10 947	(1,747)
National Skills Fund income	37 962	(15 000)	22 962	39 288	(16 326)
Total non-exchange revenue	1 016 301	(15 000)	1 001 301	1 071 489	(70 188)
Net gains from financial instruments	70 385	(10 000)	60 385	57 271	3 114
Other income	49	-	49	53	( 4)
Total exchange revenue	70 434	(10 000)	60 434	57 324	3 110
<b>Total revenue</b>	1 086 735	(25 000)	1061 735	1 128 813	( 67 078)
<b>EXPENSES</b>					
Employer grant and project expenses	(1 332 481)	(109 862)	(1 442 343)	(942 325)	(500 018)
Administration expenses	(116 552)	500	(116 052)	(108 098)	(7 954)
National Skills Fund expenses	(37 962)	15 000	(22 962)	(39 288)	16 326
<b>Total expenses</b>	(1 486 995)	(94 362)	(1 581 357)	(1 089 711)	(491 646)
Net (deficit)/surplus for the year	(400 260)	(119 362)	(519 622)	39 102	(558 724)

**Revisions to the original budget**

The co-funding arrangement with NSF for the training layoff scheme came to an end for all new learners. NSF indicated that no further funding will be received for new initiatives, thus the NSF income and expenditure budget was adjusted accordingly.

Net gains from financial instruments budget was adjusted due to a reduction in the REPO rate that took place in July 2012.

The Accounting Authority approved additional project expenditure to the amount of R110 million following the approval by National Treasury of the retention of the accumulated surplus.

**Comparison budget vs actual**

Actual levy income increased by 11% from the prior year. This is mainly attributable to payroll increases as contributing companies only increased marginally over the prior year (12 532 contributing companies in 2012 to 12 670 in 2013). merSETA budgeted for a conservative 6% increase in levies in anticipation of a slow down in the economy and manufacturing industry.

There was an anticipation of a drop in income and expenditure from the NSF due to communication that funding will not be extended to new entrants.

Net gains from financial instruments budget was reduced mid year due to a reduction in the REPO rate, yet the actual drop in net gains still proved to be beyond that which was anticipated.

The employer grant and project expenses were significantly below budget. Several projects were rolled out later than anticipated and expected milestones on projects were also not met. Expenditure on MOA contracts was also significantly below budget partly due to unanticipated reductions in commitments taking place during the year and also due to delays in milestone delivery. Budgets should have been limited to anticipated commitments for the current financial year only but in some cases included commitments into succeeding financial years. This resulted in budgets not being met. merSETA management has gone to great lengths to try to address some of these challenges in the 2013/14 budgeting process.

## 1 BASIS OF PREPARATION

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

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

## 2 CURRENCY

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

## 3 REVENUE RECOGNITION

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

### 3.1 Levy income

In terms of section 3(1) and 3(4) of the Skills Development Levies Act, 1999 (Act No. 9 of 1999), registered member companies of the merSETA pay a skills development levy of 1% of the total payroll cost to the South African Revenue Service (SARS). Companies with an annual payroll cost less than R500 000 are exempted in accordance with section 4(b) of the SDLA (1999) as amended, effective 1 August 2005.

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

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

Revenue is adjusted for interSETA transfers due to employers changing SETAs. Such adjustments are separately disclosed as InterSETA transfers. SDL transfers are made in terms of section 8 of the Skills Development Levies Act, 1999 (Act No 9 of 1999). The amount of the interSETA adjustment is calculated according to the latest Standard Operating Procedure issued by DHET.

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

### 3.2 Interest and penalties

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

### 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.

### 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.

### 3.5 Net gains from financial instruments

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

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

## 4 GRANT AND PROJECT EXPENDITURE

### 4.1 Mandatory grants

The grant payable and the related expenditure is recognised when the employer has submitted an application for a grant in the prescribed form within the legislated cut-off period and it is probable the grants will be paid. This grant is equivalent to 50% (2012: 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.

### 4.2 Discretionary grants and project expenditure

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

#### Project expenditure comprises:

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

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

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

#### 4.3 Government grant expenditure

Conditional government grants costs are recognised as expenses in the period in which they are incurred. The deferred government grant income is recognised as income on a systematic basis over the period necessary to match the grants with the related costs which they are intended to compensate. Where government grants costs on the project exceed government grant income, a receivable will be raised to the extent that such costs exceed government funding.

### 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)
- 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 material irregular, fruitless and wasteful expenditure is recognised against the specific class of expense to which it relates and disclosed in a note to the financial statements when it has been identified.

### 6 ASSETS HELD FOR SALE

Assets are classified as non-current assets held for sale when its carrying amount will be recovered primarily through a sale transaction rather than through continuing use.

All of the following criteria must be in place before an asset can be classified as held for sale:

- The asset must be available for immediate sale; and
- The asset must be available for sale in its present condition, subject only to terms that are usual and customary for sale of the asset; and
- The sale must be highly probable.

Assets that are held for sale comprise of property and equipment that are intended to be disposed of within one year. This is either through a sale or donation and management has a committed plan to dispose of these assets.

### 7 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:

**Asset class                      Depreciation period**

- Computer equipment              3 - 6 years
- Office furniture and fittings      5 - 10 years
- Office equipment                  5 - 10 years
- Motor vehicles                    4 - 8 years
- Other assets                        2 - 5 years

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.

**8 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 following:

**Asset class                      Amortisation period**

- Computer software                      1 - 3 years
- The useful lives of intangible assets are reassessed at the end of each financial year.

**9 CONSUMABLES**

Consumables 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.

**10 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.

**11 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%
<b>Total contribution</b>	<b>19.58%</b>

## 12 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. 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 11 above) are recognised during the period in which the employee renders the related service. Employee entitlements are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the reporting date. Provisions included in the statement of financial position are provisions for Workman's Compensation.

## 13 FINANCIAL INSTRUMENTS

### Recognition

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

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

Financial instruments carried on the statement of financial position include other receivables from exchange transactions, financial assets at fair value, financial assets at amortised cost, 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.

### Financial assets

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

The merSETA's principal financial assets are other receivables from exchange transactions, financial assets at fair value and financial assets at amortised cost.

### Financial assets at amortised cost

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

The merSETA classifies the cash and cash equivalents and receivables from exchange transactions as financial assets at amortised cost.

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

The initial measurement of other receivables from exchange transactions is at fair value including any transaction costs. The subsequent measurement is at amortised cost, using the effective interest rate method, where considered applicable. Impairment losses are recognised in an allowance account where the carrying value exceeds the present value of future cash flows, discounted at the original effective interest rate.

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

### **Financial assets at fair value**

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

The merSETA has classified its investments in fixed notice deposits, money market instruments and capital guaranteed equities as financial assets at fair value as these non-derivatives were designated at fair value in initial recognition and are held for trading as the intention is to earn short-term gains.

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

The net gains and losses for all financial assets at fair value are determined by the changes in the market value between the reporting periods. These net gains and losses include the interest income on fixed notice deposits which is accrued on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period of maturity.

### **Financial Liabilities**

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

The merSETA's principal financial liabilities are trade and other payables from exchange transactions.

### **Financial liabilities at amortised cost**

Trade and other payables from exchange transactions are classified as financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

### Derecognition

A financial asset or a portion thereof is derecognised when the merSETA realises the contractual rights to the benefits specified in the contract, the rights expire, the merSETA waives those rights or otherwise loses control of the contractual rights that comprise the financial asset and transfers to another party substantially all the risks and rewards of ownership of the financial asset.

On derecognition, the difference between the carrying amount of the financial asset and the sum of the proceeds receivable and any prior adjustment to reflect the fair value of the asset that had been reported in net assets is included in net surplus or deficit for the period.

### Fair value measurement considerations

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

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

### Offsetting

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

## 14 RESERVES

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

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

This sub-classification is 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:

	2013	2012
	%	%
Administration costs of the merSETA	10	10
Mandatory Workplace Skills Planning Grant	50	50
Discretionary grants and projects	20	20
Received by merSETA	80	80
Contribution to NSF	20	20
	100	100

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

Interest and penalties received from SARS as well as interest received on investments are utilised for discretionary 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.

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.

## 15 CONTINGENCIES

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

## 16 RELATED PARTY TRANSACTIONS

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

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

An individual or entity may be given oversight responsibility over the

merSETA, which gives them significant influence, but not control, over the financial and operating decisions of the entity.

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

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

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

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

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

## 17 COMPARATIVE FIGURES

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

## 18 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of 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 and residual values of property and equipment at the end of each annual reporting period, refer to note 14 for the carrying values of property and equipment. The merSETA's license was extended until 31 March 2016.

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

	Discretionary reserve					
	Total per Statement of Financial Performance	Administration reserve	Employer grants reserve	Discretionary grants	National Skills Fund grants	Total discretionary
	R'000	R'000	R'000	R'000	R'000	R'000
<b>Year ended 31 March 2013</b>						
<b>Total revenue</b>	<b>1 128 813</b>	<b>132 112</b>	<b>632 530</b>	<b>324 883</b>	<b>39 288</b>	<b>364 171</b>
Skills development levy income						
Admin levy income (10%)	132 112	132 112	-	-	-	-
Grant levy income (70%)	889 142	-	632 530	256 612	-	256 612
Skills development levy: penalties and interest	10 947	-	-	10 947	-	10 947
National Skills Fund income	39 288	-	-	-	39 288	39 288
Investment income	57 271	-	-	57 271	-	57 271
Other income	53	-	-	53	-	53
<b>Total expenses</b>	<b>1 089 711</b>	<b>108 098</b>	<b>514 279</b>	<b>428 046</b>	<b>39 288</b>	<b>467 334</b>
Employer grants and project expenses	942 325	-	514 279	428 046	-	428 046
Administration expenses	108 098	108 098	-	-	-	-
National Skills Fund expenses	39 288	-	-	-	39 288	39 288
<b>Net surplus per the statement of financial performance allocated</b>	<b>39 102</b>	<b>24 014</b>	<b>118 251</b>	<b>(103 163)</b>	<b>-</b>	<b>(103 163)</b>



	Discretionary reserve					
	Total per Statement of Financial Performance	Administration reserve	Employer grants reserve	Discretionary grants	National Skills Fund grants	Total discretionary
	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 31 March 2012						
<b>Total revenue</b>	<b>1 050 892</b>	<b>117 285</b>	<b>572 646</b>	<b>298 338</b>	<b>62 623</b>	<b>360 961</b>
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
National Skills Fund income	62 623	-	-	-	62 623	62 623
Investment income	60 640	-	-	60 640	-	60 640
Other income	46	-	-	46	-	46
<b>Total expenses</b>	<b>1 027 209</b>	<b>98 419</b>	<b>445 458</b>	<b>420 709</b>	<b>62 623</b>	<b>483 332</b>
Employer grants and project expenses	866 167	-	445 458	420 709	-	420 709
Administration expenses	98 419	98 419	-	-	-	-
National Skills Fund expenses	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>

The deficit incurred in the discretionary grants reserve was funded from cash reserves arising from prior years' surpluses that were committed to discretionary grant contracts.

2. **SKILLS DEVELOPMENT LEVY INCOME**

The total levy income per the statement of financial performance is as follows:

*Levy income: Administration*

Levies received from SARS  
InterSETA transfers in - Admin  
InterSETA transfers out - Admin  
Provision for refund SARS

*Levy income: Employer Grants*

Levies received from SARS  
InterSETA transfers in - Mandatory  
InterSETA transfers out - Mandatory  
Provision for refund SARS

*Levy income: Discretionary Grants*

Levies received from SARS  
InterSETA transfers in - Discretionary  
InterSETA transfers out - Discretionary  
Provision for refund SARS

Note	2013 R'000	2012 R'000
	132 112	117 285
	131 368	116 744
	61	136
	( 133)	( 173)
	816	578
	632 530	572 646
	629 041	569 944
	156	680
	( 749)	( 866)
	4 082	2 888
	256 612	228 973
	255 036	227 893
	122	272
	( 179)	( 347)
	1 633	1 155
	1 021 254	918 904

**3. SKILLS DEVELOPMENT LEVY PENALTIES AND INTEREST**

Penalties  
Interest  
InterSETA transfers

Note	2013	2012
	R'000	R'000
	5 711	3 407
	5 234	5 265
	2	7
	<b>10 947</b>	<b>8 679</b>

**4. NATIONAL SKILLS FUND GRANTS**

**AATP Programme**

Opening balance  
Funds received during the year  
Investment income  
Utilised and recognised as revenue - conditions met  
Closing balance

	(28 317)	4 120
	47 434	13 248
	70	13
	(16 579)	(45 698)
10	<b>2 608</b>	<b>(28 317)</b>

**TLS Programme**

Opening balance  
Funds received during the year  
Investment income  
Utilised and recognised as revenue - conditions met  
Closing balance

	31 006	5 105
	2 621	41 927
	993	899
	(22 709)	(16 925)
16	<b>11 911</b>	<b>31 006</b>

Balance of National Skills Fund

16	<b>14 519</b>	<b>2 689</b>
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These funds were received from the National Skills Fund for the purposes of funding the training layoff scheme and the accelerated artisan training programme.

5. NET GAINS FROM FINANCIAL INSTRUMENTS

Net gains from financial assets at fair value  
Interest income from financial assets at amortised cost  
Fair value adjustments

Note	2013 R'000	2012 R'000
	51 395	55 606
	5 751	5 166
	125	( 132)
	<b>57 271</b>	<b>60 640</b>

6. OTHER INCOME

Income from re-certification

	53	46
	<b>53</b>	<b>46</b>

7. EMPLOYER GRANT AND PROJECT EXPENSES

Mandatory grants

	514 279	445 458
--	---------	---------

Discretionary grants and projects

21.1	428 046	420 709
------	---------	---------

Discretionary grants

	68 794	130 680
--	--------	---------

Project expenditure

7.1	359 252	290 029
-----	---------	---------

	<b>942 325</b>	<b>866 167</b>
--	----------------	----------------

7.1 Project expenditure consists of:

Direct project costs

	333 315	264 703
--	---------	---------

Indirect project administration costs

8	25 937	25 326
---	--------	--------

7	<b>359 252</b>	<b>290 029</b>
---	----------------	----------------

8. ADMINISTRATION EXPENSES

	Note	2013 R'000	2012 R'000
Advertising, marketing and promotions, communication		3 716	3 256
Amortisation - intangible assets	15	1 340	522
Audit costs - internal audit		769	845
Audit costs - external audit		1 823	2 084
Bad debts		56	-
Bank charges		304	190
Accounting Authority and sub-committee costs		2 129	1 740
Remuneration to members of the audit committee		331	256
Accounting Authority and sub-committee members' fees		1 382	1 225
Accounting Authority and sub-committee assessment cost		177	104
Secretarial services		239	155
Cleaning and groceries		335	324
Depreciation	14	1 922	2 213
Employment costs		81 275	71 968
Recruitment costs		397	358
Salaries, wages and benefits	8.1	78 664	70 676
Staff training, development and welfare		2 214	934
Entertainment expenses		31	18
Fair value adjustments to plant and equipment		-	(216)
Gifts, donations and sponsorships paid		146	162

	Note	2013 R'000	2012 R'000
Impairment of property and equipment		274	-
Insurance and licence fees		1 309	1 295
Investigations and forensic costs		-	1 211
Legal fees		1 653	550
Loss on disposal of property and equipment		309	264
Operating lease rentals		10 545	11 214
Rental Buildings		9 040	9 775
Rental Parking		1 505	1 439
Printing, stationery and postages		2 819	2 277
Rates, water and electricity		2 928	2 454
Removal costs		-	449
Repairs, maintenance and running costs		3 220	2 177
R&M Buildings		1 941	1 374
R&M Property and equipment		1 279	803
Service provider administration fees		2 069	4 273
Special functions		967	1 137
Storage		338	192
Telecommunication expenses		4 520	4 761
Travel, subsistence and meeting expenses		9 238	8 385
Project expenses - administration direct			
		134 035	123 745
Less: amounts allocated to project expenditure	7.1	(25 937)	(25 326)
Net administration cost		108 098	98 419

ADMINISTRATION EXPENSES (continued)

8.1 **Salaries and wages**

Basic salaries  
Performance awards  
Other non-pensionable allowance  
Temporary staff  
Leave payments

**Social contributions**

Medical aid contributions  
Pension contributions: defined contribution fund  
UIF  
Insurance COIDA  
Other salary related costs

Note	2013 R'000	2012 R'000
	68 959	62 087
	57 836	52 381
	5 342	5 314
	3 741	3 753
	786	100
	1 254	539
	9 705	8 589
	2 507	2 200
	6 048	5 370
	316	290
	161	150
	673	579
	78 664	70 676
<b>Average number of employees</b>	242	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.

9. **PREPAYMENTS**

Prepayments - Insurance  
Prepayments - Bursaries  
Prepayments - Discretionary grants  
Closing balance

Note	31 March 2013 R'000	31 March 2012 R'000
	75	76
	-	107
	-	1 028
	<u>75</u>	<u>1 211</u>

10. **RECEIVABLES FROM NON-EXCHANGE TRANSFERS**

Employer receivable  
Receivable - investigations  
Government grants - National Skills Fund  
Receivable - UIF  
InterSETA receivable

10.1	4 172	-
10.2	-	-
4	-	28 317
	6 272	-
23.1	39	218
	<u>10 483</u>	<u>28 535</u>

10.1 **Employer receivable**

Overpayment to employers  
Allowance for doubtful debts  
Net effect of SARS retrospective adjustments on affected employers

13 496	4 938
(9 324)	(4 938)
<u>4 172</u>	<u>-</u>



The employer receivable of R 13,5 million (March 2012: R 4,9 million) is recognised due to SARS effecting retrospective adjustments on levies on which mandatory grants have already been paid. An amount of R 9,3 million (March 2012: R 4,9 million) was provided against such employer receivables.

The overpayment in levies as outlined in note 16.1 also raises the potential that a grant over-payment may also have occurred as a result of mandatory grants being paid on incorrect levies. Management thus deemed it prudent to provide an amount of R3,3 million for potential mandatory grant overpayments that may have resulted from this overpayment. Due to the current nature of the transaction, no provision for bad debts has been made against this amount as it is deemed likely to be recoverable from future grant payments.

	Note	31 March 2013 R'000	31 March 2012 R'000
10.2 Receivable - investigations			
Receivable arising from investigations		6 329	6 329
Allowance for doubtful debt		(6 329)	(6 329)
Net receivable from investigations		-	-

## 11. FINANCIAL INSTRUMENTS AT FAIR VALUE

Fixed notice deposits	280 000	935 000
Money market instruments	560 000	-
Capital guaranteed equity	180 000	-
	<b>1 020 000</b>	<b>935 000</b>

All the financial assets at fair value are measured at quoted prices as per the market determinable fair value from an active market at reporting date.

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

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

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in terms of Treasury Regulation 31.2. The weighted average interest rate on financial instruments at fair value was 5.58% (2012: 5.62%).

## 12. FINANCIAL INSTRUMENTS AT AMORTISED COST

Other receivables from exchange transactions

Cash and cash equivalents

Note	31 March 2013 R'000	31 March 2012 R'000
12.1	21 900	7 101
12.2	115 206	171 325
	<b>137 106</b>	<b>178 426</b>

### 12.1 Other receivables from exchange transactions

Deposits

Receivables due by employees

Sundry receivables

Less: fair value adjustment

Interest receivable

1 257	1,234
54	168
-	56
<b>1 311</b>	<b>1,458</b>
-	(199)
<b>1 311</b>	<b>1,259</b>
<b>20 589</b>	<b>5 842</b>
<b>21 900</b>	<b>7 101</b>

12.2 **Cash and cash equivalents**

Cash at bank  
Cash on hand  
Call accounts

Note	31 March 2013 R'000	31 March 2012 R'000
	1 478	2 007
	37	37
	113 691	169 281
	<b>115 206</b>	<b>171 325</b>

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in terms of Treasury Regulation 31.2. The weighted average interest rate for cash and cash equivalents was 4.61% (2012: 5.0%).

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

13. NON-CURRENT ASSETS HELD FOR SALE

Year ended 31 March 2013

Computer equipment  
Office furniture and fittings  
Office equipment  
Motor vehicles

Cost	Accumulated depreciation	Closing carrying amount
R'000	R'000	R'000
758	(758)	-
470	(470)	-
562	(562)	-
157	(127)	30
<b>1 947</b>	<b>(1 917)</b>	<b>30</b>

There were no assets held for sale in the prior year.

During the year some of the organisation's vehicles were sold to staff members by means of competitive bids. The last of these vehicles was sold in April 2013.

Office furniture and fittings and equipment will be donated to schools and other charitable institutions in the next financial year.

14. PROPERTY AND EQUIPMENT

Year ended 31 March 2013

Computer equipment  
Office furniture and fittings  
Office equipment  
Motor vehicles  
Other assets  
Balance at end of year

Cost	Accumulated depreciation	Closing carrying amount
R'000	R'000	R'000
7 805	(4 630)	3 175
7 145	(3 511)	3 634
3 421	(2 396)	1 025
576	( 19)	557
842	( 75)	767
<b>19 789</b>	<b>(10 631)</b>	<b>9 158</b>

**Year ended 31 March 2012**

Computer equipment
Office furniture and fittings
Office equipment
Motor vehicles
Other assets
<b>Balance at end of year</b>

Cost	Accumulated depreciation	Closing carrying amount
R'000	R'000	
7 219	(4 974)	2 245
7 307	(3 369)	3 938
3 811	(2 570)	1 241
2 215	(1 358)	857
301	( 4)	297
<b>20 853</b>	<b>(12 275)</b>	<b>8 578</b>

Opening carrying amount	Additions	Fair value adjustment/re-classification	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 2013**

Computer equipment	2 245	1 866	( 20)	( 125)	( 391)	( 715)	315	3 175
Office furniture & fittings	3 938	448	32	( 79)	( 294)	( 629)	218	3 634
Office equipment	1 241	282	( 12)	( 47)	( 87)	( 423)	71	1 025
Motor vehicles	857	576	( 30)	( 23)	(2 057)	( 84)	1 318	557
Other assets	297	541	-	-	-	( 71)	-	767
<b>Balance at end of year</b>	<b>8 578</b>	<b>3 713</b>	<b>( 30)</b>	<b>( 274)</b>	<b>(2 829)</b>	<b>(1 922)</b>	<b>1 922</b>	<b>9 158</b>

	Opening carrying amount	Additions	Fair value adjustment/re-classification	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
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 2012

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

The MerSETA reviewed the useful lives, residual values and depreciation method of assets in the current financial year. Assets were also tested for impairment.

### 15. INTANGIBLE ASSETS - COMPUTER SOFTWARE

#### Year ended 31 March 2013

Intangible assets

#### Year ended 31 March 2012

Intangible assets

Cost	Accumulated amortisation	Closing carrying amount
R'000	R'000	R'000
1 107	( 705)	402
3 240	(2 546)	694

	Opening carry- ing amount	Addi-tions	Fair value adjustment	Impairment cost	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	R'000
<b>Movement summary 2013</b>								
Intangible assets	694	1 058	-	-	(3 191)	(1 340)	3 181	402
<b>Movement summary 2012</b>								
Intangible assets	387	796	33	-	(1 009)	( 522)	1 009	694

16. GRANTS AND TRANSFERS PAYABLE

Grants payable		135 481	142 330
Refund owing to DHET due to levy overpay- ment	16.1	18 019	-
InterSETA payables	23.1	1 386	812
National Skills Fund income received in ad- vance	4	14 520	31 006
Provision for SARS refund	16.2	10 287	17 942
		<u>179 693</u>	<u>192 090</u>

16.1 Refund owing to DHET due to levy overpayment

In April 2013, The Department of Higher Education and Training advised that an amount of R18 million had been overpaid in levies, that should have been paid to the UIF. Although the detail of this is not available a corresponding adjustment has been made to levy income.

16.2 Provision for SARS refund

Opening carrying amount

Amount utilised

Additional provision during the period

Closing carrying amount

16

31 March 2013 R'000	31 March 2012 R'000
17 942	22 928
(1 054)	(1 189)
(6 601)	(3 797)
<u>10 287</u>	<u>17 942</u>

17. FINANCIAL LIABILITIES AT AMORTISED COST

Trade payables

Less: fair value adjustment

Accruals salaries and wages

13 683	14 218
-	(74)
<u>13 683</u>	<u>14 144</u>
10 223	11 565
<u>23 906</u>	<u>25 709</u>

18. PROVISIONS

Workman's Compensation provision

Opening carrying amount

Amounts utilised

Additional provision during the period

Closing carrying amount

290	124
( 223)	-
190	166
<u>257</u>	<u>290</u>

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



19. RECONCILIATION OF NET SURPLUS TO  
CASH UTILISED IN OPERATIONS.

	Note	2013 R'000 Actual	2013 R'000 Budget	2012 R'000 Actual	2012 R'000 Budget
Net surplus/ (deficit) as per the statement of financial performance		39 102	(519 622)	23 683	(488 369)
Adjusted for non-cash items:					
Depreciation property and equipment	14	1 922	2 666	2 213	2 623
Amortisation of intangible assets	15	1 340	1 180	522	659
Impairment of property and equipment	8, 14	274	-	-	-
Loss on impairment of property and equipment	8	309	-	264	-
Fair value adjustments to property and equipment	14	-	-	(214)	-
Movements in provisions		(33)	(290)	166	(40)
Adjusted for items separately disclosed					
Net gains from financial instruments		(42 325)	(58 709)	(61 736)	(50 278)
Adjusted for working capital changes:					
Decrease / (increase) in prepayments		1 136	1 211	28 488	(752)
Decrease /(increase)/ in receivables from non-exchange transfers		18 052	(2 965)	(27 717)	818
(Increase)/ decrease in other receivables from exchange transactions		(14 799)	(417)	1 138	1 530
(Increase) /decrease in consumables		(59)	5	(28)	(18)
(Decrease) /increase in grants and transfers payable		(12 397)	(54 273)	(10 301)	(50 000)
(Decrease)/ increase in trade and other payables from exchange transactions		(1 803)	(5 269)	6 202	2 796
Cash utilised in operations		(9 281)	(636 483)	(37 320)	(581 031)

**20. CONTINGENCIES**

Contingent liabilities comprise an Employer Grant Reserve of R1,4 million (2012: R1,6 million) 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 6 months and will be eligible for the mandatory grant once this has been approved by the merSETA.

**21. COMMITMENTS**

**21.1 Discretionary reserve commitments**

Of the balance of R962,6 million available in the discretionary reserve on 31 March 2013 an amount of R914,2 million 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.

Project/ discretionary grant programmes		Opening balance 2012	Administration expenditure/ other adjustments 2012	Approved contractual expenditure 2012	Charged to statement of financial performance 2012	Opening balance 2013	Administration expenditure/ other adjustments 2013	Approved contractual expenditure 2013	Charged to statement of financial performance 2013	Closing balance
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>PROG 1: ADMINISTRATION</b>										
17	Discretionary Grant Administration Expenditure	-	17 809	-	(17 809)	-	19 169	-	(19 169)	-
18	Project Administration Expenditure	-	7 499	-	(7 499)	-	6 767	-	(6 767)	-
22	Monitoring & Evaluation	-	292	971	( 583)	680	8	-	( 688)	-
74	Organisational Development	-	502	-	( 502)	-	687	-	( 687)	-
87	Interchamber Capacity Building	-	278	-	( 278)	-	-	-	-	-
B2	Marketing Project	-	390	-	( 390)	-	-	-	-	-
		-	26 770	971	(27 061)	680	26 628	-	(27 311)	-
<b>PROG 2: SKILLS PLANNING</b>										
31	SSP Review	510	2 186	3 729	(4373)	2052	2 244	5 286	(6 224)	3 358
40	Member Satisfaction Survey	-	151	-	( 151)	-	-	-	-	-
65	Occupational Trainer Qualification	-	( 30)	481	( 59)	392	51	-	( 443)	-
86	Labour & Stakeholder Capacity Building	-	460	-	( 460)	-	832	-	( 832)	-
94	Stakeholder Information Dissemination	-	1 678	-	(1 678)	-	386	-	( 386)	-
		510	4 445	4210	(5 705)	2 444	3513	5 286	(7 885)	3 358

**Discretionary reserve commitments continued**

Project/ discretionary grant programmes

**PROG 3: INCREASE ACCESS TO OCCUPATIONALLY DIRECTED PROGRAMMES**

	Opening balance 2012	Administration expenditure/ other adjustments 2012	Approved contractual expenditure 2012	Charged to statement of financial performance 2012	Opening balance 2013	Administration expenditure/ other adjustments 2013	Approved contractual expenditure 2013	Charged to statement of financial performance 2013	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
MAP SGB	53	( 20)	-	( 33)	-	-	-	-	-
Bursaries	20 902	4 804	16 018	(24 427)	17 297	883	28 305	(45 283)	1 202
UIF/MerSETA Artisan Development	-	-	-	-	-	-	40 275	(6 272)	34 003
Western Cape DOE FET Artisan Training	-	-	-	-	-	-	3 713	-	3 713
Denel Artisan Training Programme	-	-	-	-	-	-	3 708	-	3 708
Courseware & Curriculum Development	3 350	591	86	(3 966)	61	898	( 61)	( 898)	-
Apprenticeship Research	-	461	-	( 461)	-	-	-	-	-
Accelerated Artisan Training Programme	16 348	2 273	79 158	(28 952)	68 827	2 218	77 645	(55 146)	93 544
RPL Pilot Project	788	( 3)	433	( 485)	733	-	( 427)	-	306
Northern Cape Household Project	2 212	-	-	(2 120)	92	-	90	( 182)	-
Western Cape Household Programme	-	-	480	( 120)	360	-	-	-	360
KZN - Office of Premier Project	-	-	-	-	-	-	29 592	(2 959)	26 633
Skills Programme-Unemployed Youth	-	-	2 990	(1 086)	1 904	-	12 425	(2 735)	11 594

**Discretionary reserve commitments continued**

Project/discretionary grant programmes	Opening balance 2012	Administration expenditure/ other adjustments 2012	Approved contractual expenditure 2012	Charged to statement of financial performance 2012	Opening balance 2013	Administration expenditure/ other adjustments 2013	Approved contractual expenditure 2013	Charged to statement of financial performance 2013	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Eastern Cape - Office of Premier	-	-	22 368	(2 260)	20 108	-	-	(2 357)	17 751
QCTO Foundry Project	-	40	-	( 40)	-	-	-	-	-
Jaguar Land Rover Enrichment Project	-	-	4 500	( 450)	4 050	-	-	-	4 050
General Motors SA	-	-	7 532	(3 390)	4 142	-	-	(4 142)	-
QCTO CEP Pilot Project	-	787	801	(1 204)	384	1 798	1 476	(2 848)	810
MOA Project DG 1 & 2	421 928	3 803	33 864	(130 680)	328 915	-	(85 088)	(68 794)	175 033
MOA Project DG3	180 747	18 882	53 807	(67 669)	185 767	-	(10 260)	(57 141)	118 366
MOA Project DG4	-	-	248 677	(17 449)	231 228	-	195 250	(81 017)	345 461
	<b>646 328</b>	<b>31 618</b>	<b>470 714</b>	<b>(284 792)</b>	<b>863 868</b>	<b>5 797</b>	<b>296 643</b>	<b>(329 774)</b>	<b>836 534</b>

**PROG 4: PROMOTING THE RESPONSE OF FETC'S TO SKILLS SECTOR NEEDS**

Capacity Building FETC's	412	( 267)	-	( 145)	-	-	-	-	-
ISOE's	4 557	( 72)	7 108	(5 188)	6 405	(2 294)	10 969	(4 174)	10 906
	<b>4 969</b>	<b>( 339)</b>	<b>7 108</b>	<b>(5 333)</b>	<b>6 405</b>	<b>(2 294)</b>	<b>10 969</b>	<b>(4 174)</b>	<b>10 906</b>

**Discretionary reserve commitments continued**

Project/discretionary grant programmes continued

**PROG 5: ADDRESS LOW LEVELS OF LITERACY**

Maths and Science Student Project

ABET Project Phase 3 & 4

NEET Access Programme

	Opening balance 2012	Administration expenditure/ other adjustments 2012	Approved contractual expenditure 2012	Charged to statement of financial performance 2012	Opening balance 2013	Administration expenditure/ other adjustments 2013	Approved contractual expenditure 2013	Charged to statement of financial performance 2013	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
					-				
Maths and Science Student Project	580	508	2 451	(2 753)	786	925	12 822	(7 248)	7 285
ABET Project Phase 3 & 4	5 784	369	8 966	(6 128)	8 991	26	(1 989)	(3 388)	3 640
NEET Access Programme	-	-	3 172	(3 172)	-	24	8 241	( 533)	7 732
	<b>6 364</b>	<b>877</b>	<b>14 589</b>	<b>(12 053)</b>	<b>9 777</b>	<b>975</b>	<b>19 074</b>	<b>(11 169)</b>	<b>18 657</b>

**PROG 6: PROMOTE WORK PLACE SKILLS DEVELOPMENT**

Competency Model

Internships

Electronic Induction Model

Leadership Development Programme

New Venture Creation

Retrenchment Assistance Programme

GMET SGB

Tool Box Project

People with Disabilities

Accounting Technicians Project

Annual Conference

Competency Model	25	( 15)	-	( 10)	-	-	-	-	-
Internships	-	-	1 552	(1 552)	-	1 731	-	(1 731)	-
Electronic Induction Model	-	( 223)	-	223	-	-	-	-	-
Leadership Development Programme	-	111	-	( 111)	-	-	-	-	-
New Venture Creation	9 595	525	2 627	(9 794)	2 953	11	(1 072)	( 629)	1 263
Retrenchment Assistance Programme	54 088	( 213)	16 743	(48 934)	21 684	24	19 375	(18 252)	22 831
GMET SGB	266	-	30	( 296)	-	-	-	-	-
Tool Box Project	1 810	(1 746)	-	( 64)	-	-	-	-	-
People with Disabilities	975	17	4 000	(2 943)	2 049	114	12 334	(5 108)	9 389
Accounting Technicians Project	4 661	-	-	(1 963)	2 698	-	(1 038)	(1 660)	-
Annual Conference	-	1 603	-	(1 603)	-	1 698	-	(1 698)	-
	<b>71 420</b>	<b>59</b>	<b>24 952</b>	<b>(67 047)</b>	<b>29 384</b>	<b>3 578</b>	<b>29 599</b>	<b>(29 078)</b>	<b>33 483</b>

**Discretionary reserve commitments continued**

Project/discretionary grant programmes	Opening balance 2012	Administration expenditure/ other adjustments 2012	Approved contractual expenditure 2012	Charged to statement of financial performance 2012	Opening balance 2013	Administration expenditure/ other adjustments 2013	Approved contractual expenditure 2013	Charged to statement of financial performance 2013	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>PROG 7: SUPPORT CO-OPERATIVES, SMMEs AND NGO's</b>									
HIV AIDS Project	1 708	( 307)	-	(1 401)	-	11	286	( 214)	83
Non Levy Paying NGO's and CBO's	9 460	50	-	(7 237)	2 273	577	11 058	(7 318)	6 590
SME Voucher Project	11 538	(6 962)	4 829	(5 783)	3 622	3 246	-	(3 922)	2 946
	<b>22 706</b>	<b>(7 219)</b>	<b>4 829</b>	<b>(14 421)</b>	<b>5 895</b>	<b>3 834</b>	<b>11 344</b>	<b>(11 454)</b>	<b>9 619</b>
<b>PROG 8: CAREER DEVELOPMENT</b>									
World Skills	-	340	-	( 340)	-	520	-	( 520)	-
Career Path & Development	-	97	7 045	(2 196)	4 946	3 337	-	(6 653)	1 630
International Conferences	-	745	-	( 745)	-	28	-	( 28)	-
	-	1 182	7 045	(3 281)	4 946	3 885	-	(7 201)	1 630
<b>TOTAL COMMITMENTS</b>	<b>752 297</b>	<b>57 393</b>	<b>534 418</b>	<b>(420 709)</b>	<b>923 399</b>	<b>45 919</b>	<b>372 915</b>	<b>(428 046)</b>	<b>914 187</b>

## 21.2 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%.

Not later than one year

Later than one year and not later than five years

2013 R'000	2012 R'000
10 290	8 966
23 179	31 517
<b>33 469</b>	<b>40 483</b>

## 22. FINANCIAL INSTRUMENTS

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

### MARKET RISK

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

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

#### *Interest rate risk*

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

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

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

The merSETA limits further exposure to interest rate risk by dealing with well-established and good rated financial institutions approved by the National Treasury and included in the entity's investment policy.

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



FINANCIAL INSTRUMENTS (Continued)

	Floating rate		Fixed Rate			Non-interest bearing		TOTAL R'000
	Amount R'000	Effective interest rate	Amount R'000	Weighted average effective interest rate %	Weighted average period for which the rate is fixed in years	Amount R'000	Weighted average period until maturity in years	
<b>Year ended 31 March 2013</b>								
Cash and cash equivalents	1 515	4.61%	113 691	4.61%	6 months	-	-	115 206
Financial instruments at fair value	1 020 000	5.58%	-	-	-	-	-	1 020 000
Other receivables from exchange transactions	-	-	-	-	-	21 900	3 months	21 900
<b>Total financial assets</b>	<b>1 021 515</b>		<b>113 691</b>			<b>21 900</b>	<b>-</b>	<b>1 157 106</b>
<b>Liabilities</b>								
Trade Payables	-	-	-	-	-	13 683	30 days	13 683
Payroll related accruals	-	-	-	-	-	10 223	30 days	10 223
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23 906</b>		<b>23 906</b>
<b>Net financial assets</b>	<b>1 021 515</b>		<b>113 691</b>			<b>(2 006)</b>		<b>1 133 200</b>

FINANCIAL INSTRUMENTS (Continued)

	Floating rate		Fixed Rate			Non-interest bearing		TOTAL R'000
	Amount R'000	Effective interest rate	Amount R'000	Weighted average effective interest rate %	Weighted average period for which the rate is fixed in years	Amount R'000	Weighted average period until maturity in years	
<b>Year ended 31 March 2012</b>								
<b>Assets</b>								
Cash and cash equivalents	2 044	5.00%	169 281	5.00%	6 mon	-	-	171 325
Financial instruments at fair value	-	-	935 000	5.62%	3 mon	-	-	935 000
Other receivables from exchange transactions	-	-	-	-	-	7 101	3 months	7 101
<b>Total financial assets</b>	<b>2 044</b>		<b>1 104 281</b>			<b>7 101</b>		<b>1 113 426</b>
<b>Liabilities</b>								
Trade payables	-	-	-	-	-	14 144	30 days	14 144
Payroll related accruals	-	-	-	-	-	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>25 709</b>
<b>Net financial assets</b>	<b>2 044</b>		<b>1 104 281</b>			<b>(18 608)</b>		<b>1 087 717</b>

### FINANCIAL INSTRUMENTS (Continued)

#### *Equity market risk*

The merSETA is exposed to a pricing risk due to fluctuations in the equity market as it has an investment that is linked to equity instruments.

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

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

### SENSITIVITY ANALYSIS

At 31 March 2013, if interest rate was 100 basis point higher with all other variables held constant, then the surplus would have been R11,3 million higher arising from the increase in net gains on financial instruments. If the interest rate was 100 basis point lower with all other variables held constant, then the surplus would have been R 6,9 million lower arising from the decreased net gains in financial instruments than what was budgeted for.

At 31 March 2013, if skills development levy income grew only by 6% from the previous financial year, instead of the 10.6% growth and all other variables held constant, then a deficit of R8,3 million would have been incurred. If the skills development levy income grew by 20% and all other variables held constant, then a surplus of R120 million would have been earned.

### CREDIT RISK

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

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

The ageing of receivables from non exchange transfers:

	2013		2012	
	Gross	Impairment	Gross	Impairment
Current	4 773	( 601)	946	( 946)
30 Days	2 244	(2 244)	95	( 95)
60 Days	900	( 900)	318	( 318)
90 Days	470	( 470)	27	( 27)
91 Days to 6 Months	589	( 589)	22	( 22)
6 Months - 1 year	1 031	(1 031)	446	( 446)
1 Year plus	3 489	(3 489)	3 084	(3 084)
<b>Total</b>	<b>13 496</b>	<b>(9 324)</b>	<b>4 938</b>	<b>(4 938)</b>

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

The merSETA has entered into agreements with the 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 receivables that has not been adequately provided for. Receivables are presented net of an allowance for doubtful debts.

**FINANCIAL INSTRUMENTS (Continued)**

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

Employer receivable  
Debtors - investigations  
Sundry receivables  
Staff loans - education  
Discretionary grant prepayments  
Government grants - National Skills Fund  
InterSETA receivables

	2013 R'000	2012 R'000
Employer receivable	4,172	-
Debtors - investigations	-	-
Sundry receivables	-	56
Staff loans - education	54	168
Discretionary grant prepayments	-	1 028
Government grants - National Skills Fund	-	28 317
InterSETA receivables	39	218
	<b>4 265</b>	<b>29 787</b>

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

**LIQUIDITY RISK**

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

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

The merSETA manages liquidity risk through proper management of working capital, capital expenditure, actual against forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained and approval to retain reserves is obtained from National Treasury.

**FINANCIAL INSTRUMENTS (Continued)**

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

2013

	Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade and other payables from exchange transactions	13 683	13 683	13 683	-	-	-

2012

	Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade and other payables from exchange transactions	14 144	14 144	14 144	-	-	-

**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.

23. RELATED PARTY TRANSACTIONS

23.1 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:

	Note	2013 R'000		2012 R'000	
		Net transfers in/ (out) during the year	Amount receiv- able/(payable)	Transfers in/ (out) during the year	Amount receiv- able/(payable)
<b>Receivables</b>	10	<b>(356)</b>	<b>39</b>	<b>441</b>	<b>218</b>
CETA		(345)	-	200	-
AGRISETA		-	2	9	2
EWSETA (Previously ESETA)		(20)	-	-	21
FASSET		35	1	73	73
FP&M SETA		41	5	5	25
CHIETA		(93)	-	-	93
HW SETA		-	-	154	-
MICT SETA (Previously ISETT)		26	31	-	4
<b>Payables</b>	16	<b>(366)</b>	<b>(1 386)</b>	<b>(732)</b>	<b>(812)</b>
FP&M SETA (Previously CTFL, Forestry & MAPPP)		-	-	(4)	(4)
INSETA			(1)	-	-
W&R SETA		(366)	(1 385)	(728)	(808)
<b>Total</b>		<b>(722)</b>	<b>(1 347)</b>	<b>(291)</b>	<b>(594)</b>

RELATED PARTY TRANSACTIONS (continued)

23.2 Accounting Authority and independent committee members fees

	2013 R'000		2012 R'000	
<b>Accounting Authority and independent committee members</b>	<b>Net transfers in/(out) during the year</b>	<b>Amount receivable/ (payable)</b>	<b>Net transfers in/(out) during the year</b>	<b>Amount receivable/ (payable)</b>
D De Villiers *	( 37)	-	( 58)	( 58)
J Esterhuizen	( 124)	( 59)	( 84)	( 44)
A Hanekom *	( 103)	( 55)	( 125)	( 87)
C Khuzwayo **	-	-	( 6)	-
M Kuscus (Independent)	( 56)	( 37)	-	-
J Lopes **	( 67)	-	( 86)	( 43)
M Maisela (Independent)	( 91)	( 34)	-	-
N Mannie	( 10)	-	-	-
M Mogopodi	( 136)	( 5)	( 109)	( 49)
T Molapo	( 69)	( 57)	( 85)	( 85)
J Olivier *	( 117)	( 71)	( 83)	( 53)
E Olivier **	-	-	( 12)	-
S Rensburg (Independent)	( 63)	( 30)	-	-
F Tregenna	( 99)	( 48)	( 71)	( 71)
X Tshayana	( 136)	( 67)	( 163)	( 65)
T Tshikwavhavha **	-	-	( 6)	-
J Van Niekerk	( 116)	( 65)	( 98)	( 55)
J Wilson	( 128)	( 63)	( 130)	( 68)
R Daniels (Independent)	( 66)	( 48)	( 108)	( 39)
A Mashifane (Independent)	( 99)	( 12)	( 91)	( 17)
J Davis (Independent) **	-	-	( 22)	-
T Mashanda (Independent)	( 110)	( 11)	( 77)	( 11)
F Mukaddam (Independent)	( 83)	( 11)	( 33)	( 11)
D Murray (Independent) **	-	-	( 22)	-
W Sibuyi (Independent) **	-	-	( 11)	-
B Matibane (Independent)	( 3)	-	-	-
	(1 713)	( 673)	(1 480)	( 756)

These transactions and balances relate to Accounting Authority fees and independent committee members' fees.

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

\*\* These members have resigned



24. **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.

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

**CRIMINAL CONDUCT**

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

During the prior 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 merSETA's internal controls, which led to disciplinary action being taken against the staff member concerned.

**IRREGULAR EXPENDITURE**

**Opening Balance**

Add: Irregular Expenditure - Current year

Irregular Expenditure awaiting condonation

Analysis of expenditure awaiting condonation per age classification

Current year

Prior year

**Total**

	2013 R'000	2012 R'000
Opening Balance	6 353	1 715
Add: Irregular Expenditure - Current year	326	4 638
	<u>6 679</u>	<u>6 353</u>
Irregular Expenditure awaiting condonation	<u>6 679</u>	<u>6 353</u>
Analysis of expenditure awaiting condonation per age classification		
Current year	326	4 638
Prior year	6 353	1 715
<b>Total</b>	<u>6 679</u>	<u>6 353</u>

Details of Irregular Expenditure - Current year

Incident	Nature of transaction	Disciplinary steps taken/criminal proceedings	Remedial actions taken	Amount R000's
No contract is in place for this service provider. The provider is the original manufacturer for a number of the old printers that the entity uses and they occasionally get called in to service the equipment. Proper and due process was followed in the acquisition of the equipment, but there was no contract entered into with the supplier for on-going maintenance.	Computer Services	Not applicable	These old printers are being phased out and a new contract has been entered into with a new service provider. A retainer contract will be drafted with the old supplier for the continual servicing of the old equipment until they are disposed of.	326

**FRUITLESS AND WASTEFUL EXPENDITURE**

During the year the following fruitless and wasteful expenditure was incurred:

R 16,000 – Relates to late cancellation of hotel accommodation due to last minute changes of the planned travel.

R 56,000 – Relates to a 50% deposit paid in 2010 for furniture which was never delivered, the debt was written off in the current year as all reasonable steps taken to recover the debt proved to be unsuccessful and any further attempts would be uneconomical.

R 68,000 – Relates to registration fees paid for a conference where the delegates were unable to attend.

**FRUITLESS AND WASTEFUL EXPENDITURE (Continued)**

During the prior year 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 net book value of R 320,892 as at 31 March 2013. 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 R 320,892 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.

**26. 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

**27. EVENTS AFTER THE REPORTING DATE**

The merSETA has submitted a request to National Treasury for the retention of surplus funds. The merSETA received a response from National Treasury relating to the request to condone prior year's irregular expenditure. Regrettably, the opening balance was not condoned but National Treasury encouraged management of merSETA to continue identifying controls that would avoid incurring irregular expenditure in the future.

**28. 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:

	Statement	Effective Date
Segment Reporting	GRAP 18	No date determined
Related Parties Disclosures	GRAP 20	No date determined
Employee Benefits	GRAP 25	01-Apr-13
Transfer of Function between Entities Under Common Control	GRAP 105	No date determined
Transfer of Function between Entities Not Under Common Control	GRAP 106	No date determined
Mergers	GRAP 107	No date determined

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 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 is not expected to significantly impact the current accounting policies or disclosures.

**GRAP 105: Transfers of Functions between entities under common control**

This standard provides guidance on how to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It will not impact the current accounting policies or disclosures.

**GRAP 106: Transfers of Functions between entities not under common control**

This Standard provides guidance on how to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It will not impact the current accounting policies or disclosures.

**GRAP 107: Mergers**

This Standard provides guidance on how to establish accounting principles for the combined entity and combining entities in a merger. It will not impact the current accounting policies or disclosures.

# Part F: operations

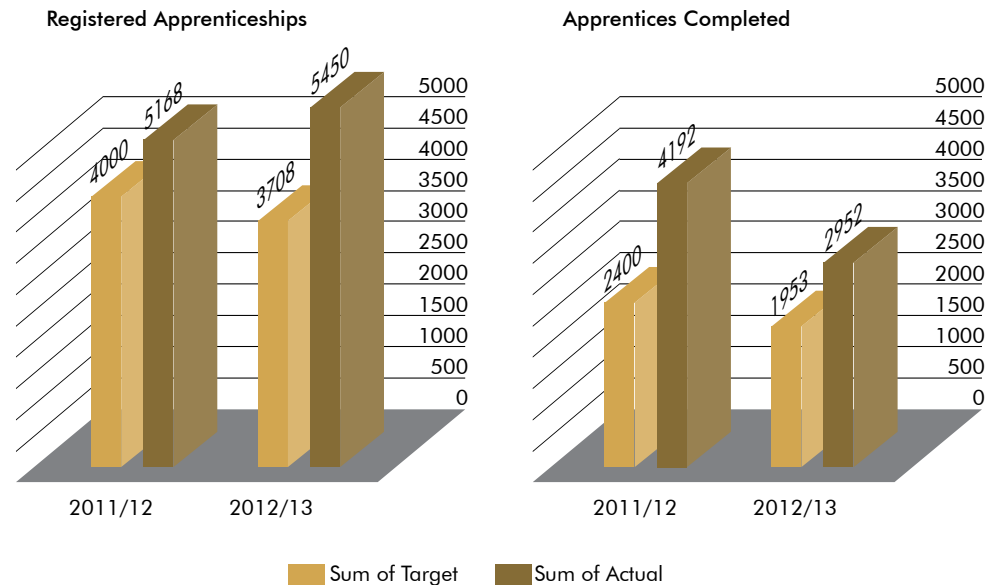
## INTRODUCTION

In fulfilling its mandate and achieving the National Skills Development Strategy III objectives, the Operations Division focused on the delivery of high quality services to merSETA stakeholders. The Operations Division committed to improve, strengthen and consolidate its systems and processes to facilitate more effective and efficient service delivery during the period under review.

The Operations Division once again managed to positively contribute to the success of merSETA in exceeding the majority of the targets in the year under review.

### 1. ADMINISTRATION UNIT

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



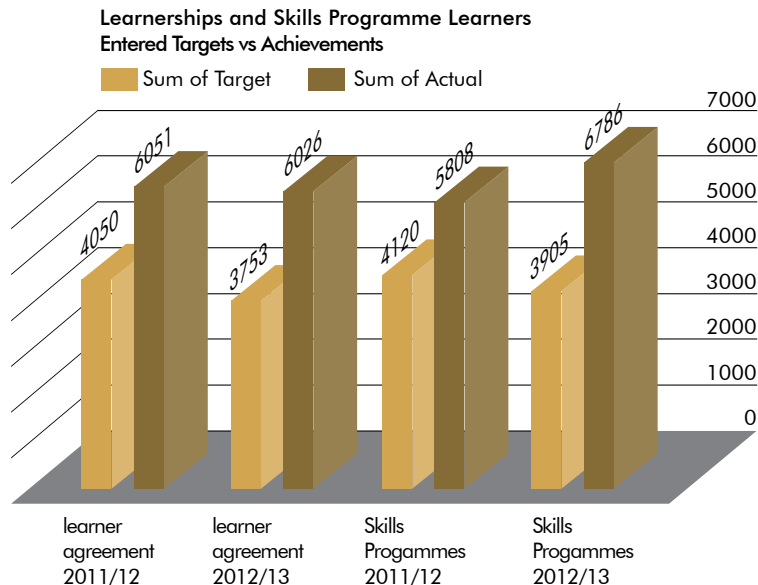
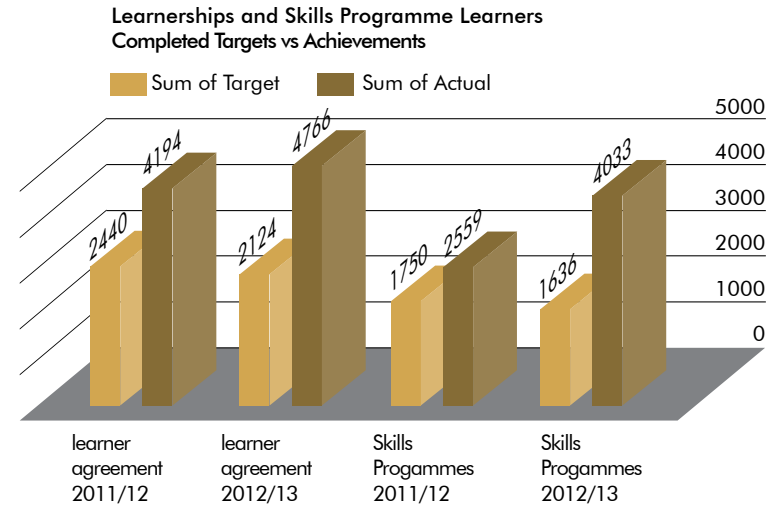
Between regions and central administration, the following obtains:

- 5 449 (147% of target met) apprenticeship contracts;
- 6 026 (160% of target met) learnership agreements; and
- 6 786 (133% of target met) skills programme learners were registered.

Also:

- 4 759 (224% of target met) full qualifications; and
- 4 033 (247% of target met) skills programme learners obtained statements of results towards qualifications at various levels on the National Qualifications Framework (NQF).

In the period under review, 7 263 level and trade test applications resulted in the issuing of 6 652 trade test dates, with 2 949 candidates being declared competent as artisans.

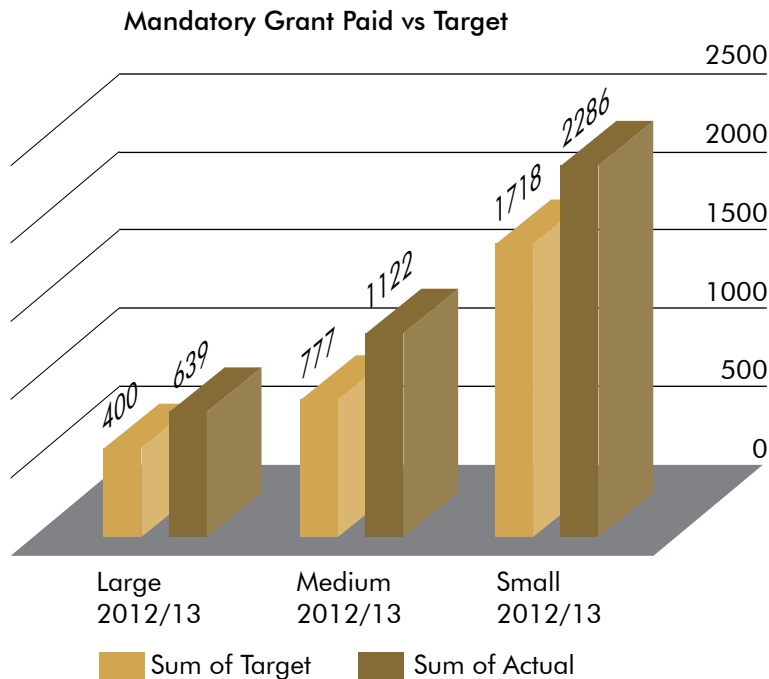


The number of level test results contributing to the achievements of the apprenticeship results was 1 603, noting that some results processed were for learners found not yet competent at that stage. The unit processed 10 384 assessment reports resulting in the issuing of certificates and statements of results for part qualifications where learners did not meet all the requirements for the award of full qualifications.

Rescission applications amounted to 468, representing 8,6% of the 5 450 apprentices registered at the end of the financial year.

As a proactive approach to inform Skills Development Facilitators in merSETA levy-paying companies, roadshows were conducted in preparation for the implementation of the new Grant Regulations promulgated in December 2012.

The merSETA once again exceeded its target for mandatory grant submissions as indicated below.



## 2. CLIENT SERVICES UNIT

A more customer-directed focus on service delivery was the drive for the past year for the Client Services Unit.

The merSETA has seven regional offices located in Bloemfontein, Durban,

Cape Town, Johannesburg, Port Elizabeth, Pretoria and Witbank, with three satellite offices located in Polokwane, East London and Kimberley.

The merSETA also has a presence in the majority of the Further Education and Training colleges (FETCs). In the year under review, the merSETA launched an initiative and championed and guided the various SETAs, which participated in the FETC/SETA collaboration working group, to partner with one another and to establish a SETA office within FET colleges.

The SETA office is managed by an identified lead SETA and the office is situated generally within the identified rural/township campuses of the specific FET colleges. The SETA office represents all SETAs. The merSETA is the lead SETA for the Buffalo City District which resulted in the set up of an office at the King William's Town Campus of the Lovemore College. The regional offices provide vital services to regional communities and promote the products and services of the merSETA, using a wide range of channels and instruments targeting various stakeholders such as government departments, artisans, learners, unemployed youth and the general public. It also ensures that the organisation's brand equity is maintained.

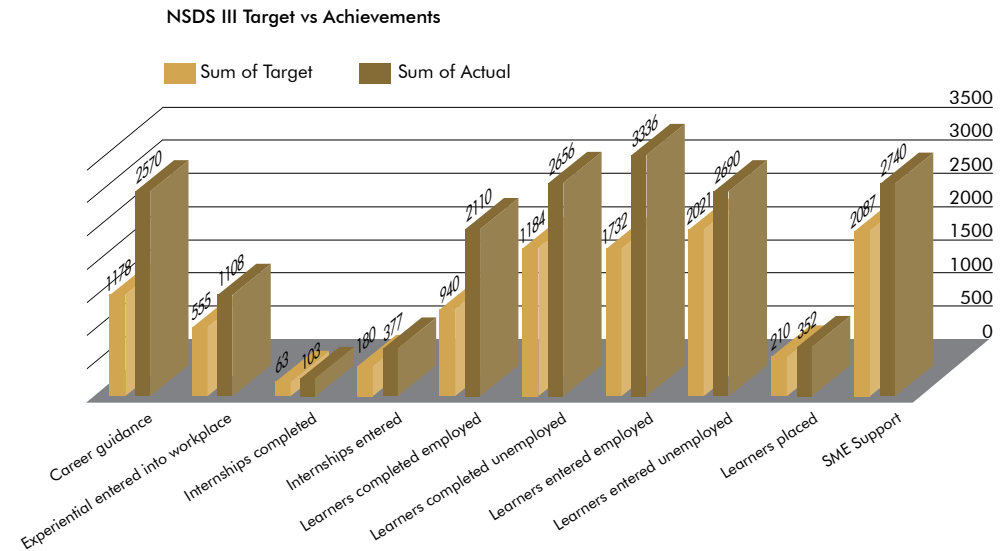
Our regional offices continued during the period under review to provide guidance and advice on different learning programmes, implementation of such programmes, monitoring quality for on-the-job training of learners, assistance with the completion of workplace skills plans and annual training reports, assistance with discretionary grant and project applications, 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.

Guidance and support was provided to enable the registration of Skills Development Facilitators (SDFs) and mandatory and discretionary grant submissions to take place. The successful mandatory grant workshops and consistent support from regional offices contributed towards merSETA exceeding its target during the financial year under review.

In the 2012/13 financial year, the merSETA commenced with sample verifications on the implementation workplace skill plans. Of the 210 workplace skills plans verified, 100 per cent maintained records to substantiate that training had indeed taken place. The merSETA is planning to widen the scope during the next financial year.

The regional offices, during the period of review, visited 2 740 Small and Medium Enterprises (SMEs) to guide and support SMEs on the implementation of various skills interventions within their organisations. The regions ensured that all merSETA-funded projects were implemented by various stakeholders in the regions. This task contributed significantly to the merSETA exceeding its targets as outlined in the graphs:



1 568 companies interested in participating in learnerships or apprenticeships were visited and given the necessary advice by the regional offices. Workplaces were evaluated and approved to ensure the required capacity to offer quality structured training. 932 new workplace approvals were undertaken and approved in the period under review.

Regions received and processed 4 698 new applications for recognition of prior learning through Section 28 trade tests, of which 2 725 applicants met the merSETA criteria and undertook the trade test. 2 004 candidates were declared competent as artisans.

610 ATRAMI moderations were carried out by the regional offices resulting in 439 candidates being issued with certificates after successful



completion of their learning programmes.

Induction workshops for both apprentices and learners were held for 1 250 apprentices and 2 023 learners respectively in the period under review.

The regional offices participated in 34 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 audience was grade 10-12 learners and the exhibitions exposed them to career choices in the technical fields.

The merSETA participated in nationwide events that set the tone and expectation for our increased participation in rural communities. The upcoming financial year will see the focus changing to technical high school students, and continuous interaction with learners in predominantly rural areas with the objective of increasing employment opportunities. The skills needs in the sector's workforce continue to develop and change. The merSETA must remain responsive to these changes. For this reason, the demand for funding of various skills development interventions for discretionary grants in the sector continues to grow. The Client Services team has a number of projects and discretionary Memoranda of Agreement with various stakeholders.

## 2.1 Provincial Government Initiatives

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

- KwaZulu-Natal Office of the Premiers Programme has 1 500 learners who were trained in various skills programmes and have been placed at various companies and government departments. In addition, the KwaZulu-Natal regional office is overseeing the implementation of the 200 Artisan Development Programme within the Provincial Government of KwaZulu-Natal. The partnership signing ceremony took place at Melmoth on 16 June 2012. Participating apprentices will be selected from the 61 municipalities in KwaZulu-Natal with the main focus on those in rural areas;
- The Department of Land and Rural Development is presently sponsoring 30 learners from rural areas outside of Durban on Welding Application and Practice level 2 learnerships. The merSETA will carry out the administration and quality assurance function for the learners.
- Mitchells Plain, Cape Town, was identified as an area with a large number of unemployed and unskilled youth. The programme resulted in 14 unemployed youth being placed on apprenticeships, 150 on NQF level 2–4 learnerships, 35 in experiential learning, 35 bursaries being awarded, 50 retrenched workers being trained in various skills programmes and 75 unemployed youth being trained in various skills programmes;

- A Wheel in Motion Phase 2 Programme in partnership with the Department of Education for the Northern Cape has created excitement with pupils of the province. The merSETA and the Department of Education of the Northern Cape shared resources with seven schools and 230 Grade 11 learners from the Northern Cape - from urban technical high schools to the most rural schools. The following schools participated and each built a fully track-ready Birkin S3 racing car to the value of about R150,000 each which becomes the property of the school.

**Schools:**

Emang Mmogo Comprehensive situated in Galeshewe  
Floors High School situated in Galeshewe  
NJ Heyns Special School situated in Kimberley  
Homevale High School situated in Galeshewe  
Baitiredi Commercial and Technical School situated in Mothibistad  
Kathu Technical High School situated in Kathu  
Veritas Secondary School situated in De Aar

The difference that this project has made in creating excitement and interest in Maths, Science and Technology subjects was emphasised by the Head of Department for Education at an awards ceremony held on 30 November 2012.

merSETA invested R3,824,370 in this project. University and university of technology bursaries were offered to some candidates and a number of the learners have become, or will

become, feeder candidates for apprenticeships or learnerships within the merSETA sector.



Street parade to display the Birkin S3

- The Department of Economic Development and Tourism has commenced with the placing of 500 interns from various FETCs throughout the Western Cape. These interns will be placed on apprenticeship or learnership programmes. The merSETA has played an active role to assist in the placement of these interns within merSETA companies. During the year under review, the merSETA has workplace approved 15 companies, and is in the process of placing 50 apprentices.
- The Green Cape Initiative is a sector development agency established by the Western Cape Provincial Government and the City of Cape Town. The merSETA has played a role and will continue to be an active partner in guiding and supporting

the qualification development process. The Client Relationship Manager of the Western Cape represented merSETA on a study tour to Germany on Renewable Energy;

- The Marine Industry Association of South Africa (MIASA) and NUMSA have rolled out learnerships and skills programmes in the boating industry in accordance with the MoA between the merSETA and NUMSA. 12 candidates were placed with various boating companies in the Western Cape and are currently enrolled with False Bay College on the Yacht and Boatbuilding Learnership;
- The partnership between merSETA and the National Youth Development Agency (NYDA) Practical Learner Development Programme, which looks at providing unemployed graduates with workplace experience and provides students at higher education institutions with experiential learning (Practical 1 and 2) which must be completed for their academic qualification, continued in the year under review. 75 learner graduates and 107 experiential learners have been placed at merSETA companies for relevant training.
- A partnership between merSETA and the University of Johannesburg was signed. The partnership allows the university to identify 200 experiential learners to be placed at merSETA companies to obtain the relevant on-the-job training for their academic qualification (National Diploma). 138 learners were placed in industry during the financial year under review.
- All regional offices are active in provincial skills development forums within the various provinces. These forums consolidate all training taking place in the province and ensure that such training ties up with the relevant Provincial Human Resource Development Strategy. The year under review recorded Client Relationship Managers attending 46 Provincial Skills Development Forums in the various regions.
- As part of the feeder system into industry, the merSETA launched a pilot project to adopt two technical high schools, Reiger Park Secondary School and Katlehong Technical Secondary School. MerSETA also called upon its stakeholders to contribute towards this initiative. Nissan SA donated two Nissan engines, gearboxes, crankshafts and engine blocks to the Katlehong Technical Secondary School.



## 2.2 Contract Management Team

The Contracts Management Team, within the Client Services Unit, administers and manages discretionary grants to address the critical and scarce skills shortages identified through various learning programmes. During the period under review, 3 155 MoAs were signed by employers, and 5 509 learners in various learning areas have been registered. The MoAs are monitored on a quarterly basis by the Regional Offices.

The Finance and Grants Committee has oversight functions on behalf of

the Accounting Authority.

The body approved the criteria for discretionary grant awards in accordance with the approved formulae and categories based on 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.

Continuing from the previous improvement of 50% disbursement of grants in the previous financial year, merSETA has continued to increase these disbursements. The period under review recorded the disbursement of R217 million based on milestones achieved by participating companies. The figure represents an improvement of over 4% compared to the previous financial year.

## 2.3 Programme Management Team

The Programme Management Team, within the Client Services Unit, administers and manages four programmes which address the support of small and medium enterprises, retrenched workers, the Training Layoff Scheme and a programme in partnership with the Unemployment Insurance Fund.

The SME Support Programme represents an inclusive menu of fit-for-purpose, needs-driven skills development programmes to respond to

the varied needs of the small and medium enterprise sector, including adequate support for the new generation of entrepreneurs.

The programme enables merSETA-sector SMEs (companies employing 1-49 employees) to access funding for training interventions and accredited and registered skills programmes that directly impact on business sustainability and growth. Through various course categories on offer, SMEs may train their staff from technical/industry specific courses to other overarching areas such as marketing, financial management, IT and human resources.

A total budget of R3,380,160 was allocated to 103 SME companies to train 599 learners in the various categories on skills programmes.

## 2.4 Unemployment Insurance Fund Programme

The merSETA has entered into a joint funding agreement with the Unemployment Insurance Fund (UIF) to train and qualify 1 500 apprentices in merSETA-related trades over a four-year period, ending 31 March 2016. Among the rules of the project is that suitably qualified unemployed candidates should be recruited from the Department of Labour's ESSA database. A total budget of R168,750,000 was allocated which will be co-funded by the parties on a 50/50 basis.

A total of 286 employers have submitted expressions of interest to date to which 115 MoAs to the value of R145,350,000 have been allocated in respect of 1 292 apprentices.

## 2.5 The Training Layoff Scheme Programme

The Training Layoff Scheme, a Government initiative that commenced in 2009, provided some degree of economic relief to companies in distress, whilst preventing the retrenchment of workers.

During the period under review, 25 merSETA levy-paying companies were approved for the scheme, of which 21 have already completed training and have reverted to normal operating conditions. A total of 5 912 workers have benefited from this intervention and have retained their employment. A further 22 companies have been approved to participate in the scheme and the applications are being processed. The total cost of training for these companies amounts to R41 million, whilst the total wage component amounts to R56,4-million.

## 2.6 Retrenchment Assistance Programme

The Retrenchment Assistance Programme caters for the training of retrenched workers within the merSETA sector and is aimed at equipping them with skills required to re-enter the labour market and/or to start their own business or co-operative. Since inception, 71 companies have been assisted in the programme of which 51 have completed. 5 678 workers have benefited from this intervention. Further to this, some 450 retrenched workers were assisted via applications through NUMSA.

A focus of the programme remains the provision of skills for sustainable livelihoods that contribute towards job creation and income generation. The total cost of the programme for the 2012/13 period amounted to R24 million.

### 3. INFORMATION COMMUNICATION AND TECHNOLOGY UNIT

The ICT Unit manages the IT infrastructure at merSETA, maintaining such infrastructure at the merSETA Head Office.

The unit provides 95% of support internally. The remaining 5% support is by service providers responsible for specialised support.

During the 2012-2013 financial year, the merSETA suffered no data loss, down time, virus or cyber threats.

The Seta Management System (SMS) was rolled out during the financial year, completing the ETQA Phase 2. Data was migrated successfully from Datanet to SMS. However, verification of data continues and the correction of functional errors is ongoing.

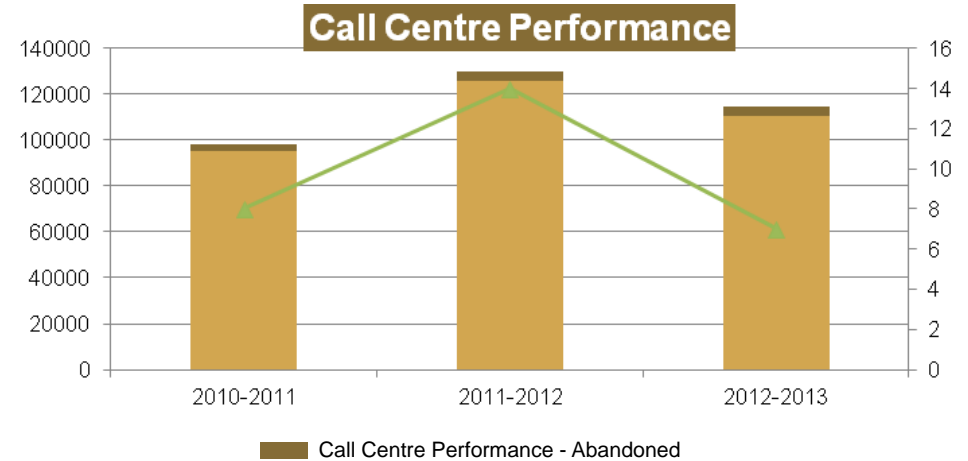
Discretionary Grant applications were successfully implemented on SMS, and Mandatory Grant applications opened on schedule for processing via the SMS system. Enhancements will continue on the system for Discretionary Grants in the new financial year.

The Internal Audit on the SMS Project indicated that the controls in place were acceptable; however, the audit report highlighted six areas where controls should be strengthened for future projects.

### 3.1 Call Centre Team

The Call Centre team, which falls under the ICT Unit, received 110 556 calls of which 96.3% were successfully dealt with.

The average answering speed is 7 seconds with an internal quality score of 92%.



To improve efficiency, the Customer Interaction Centre assisted with quality surveys, with 70% of visits conducted by the regional offices to member companies.

The purpose of these surveys was to determine whether the client was satisfied and to establish if any further assistance was required.

#### 4. EDUCATION AND TRAINING QUALITY ASSURANCE

The period under review saw the ETQA Unit actively involved in the implementation of activities of the Quality Council for Trades and Occupations (QCTO). The ETQA unit participated within the QCTO working committees to develop and draft policies and procedures in consultation with stakeholders. Likewise, the ETQA unit also participated in the drafting of policies with the National Artisan Moderation Body (NAMB). merSETA is in the process of signing agreements to become the Assessment Quality Partners (AQPs) for recently developed occupational qualifications.

NSDS III requires merSETA to form partnerships with public institutions and departments at a provincial and national level. In this regard, the ETQA Unit has signed 11 Memoranda of Understanding with public FET colleges and universities and universities of technology. The ETQA Unit, in partnership with regional offices, has rolled-out a strategy of bringing FET colleges together with companies to form co-funded models utilising National Skills Fund (NSF) funding.

Rural institutions and communities still form a key priority which has resulted in agreements to develop such communities being successfully implemented in the year under review. Examples include the NMMU agreement that worked with school teachers and learners in Mathematics and Science in Somerset East and Cradock. It further includes signing an agreement with the Mankwe Campus of Orbit Public FET College for the training of unemployed learners on skills programmes for BMW SA. Engagement with public FET colleges in the Eastern Cape was through an agreement with the Office of the Premier in the Eastern Cape on

learnerships and apprenticeships.

The ETQA Unit was formally delegated the quality assurance functions for all reregistered NQF qualifications for the next five years or until replaced by occupational qualifications.

The ETQA Unit took the lead in developing a pilot programme for placing learners from FET colleges in possession of the National Certificate (Vocational) NC (V) 4 on a career path to become artisans. This included identifying the gaps between the National Certificate (Vocational) and the registered learnership qualification leading to artisan status.

A process was put in place to close the gaps in preparation for candidates to be trade tested. The initial project initiative in the Eastern Cape has been extended to the Western Cape, KZN and Gauteng. Initial results are positive. The East Cape Midlands FET College had 20 learners, Coastal KZN FET College 10 learners, West Coast FET College 20 learners and Sedibeng FET College 10 learners.

The division is also responsible for the implementation and management of projects that include:

- Active agreements with 11 public FET colleges in most provinces, focusing on the development of FETC learners from NC (V) to qualified artisans.
- The merSETA embarked on a project between the British Council and the National Business Initiative wherein five further education colleges in the United Kingdom are linked to five South African FET colleges in "Skills for Employment". The final proposals were

received and agreements signed. Implementation will start early in the new financial year with the aim of skilling learners to be employed by linking the FET college with industry. Curriculum development and skills competitions also form part of this initiative.

- merSETA is forming an agreement with Belgium for the roll-out of learners in the National Certificate: Maintenance Coordination;
- merSETA has signed an agreement with the South African Technology Network (SATN) that gives merSETA access to all the university of technology members for, inter alia, experiential learning;
- The agreement between Mercedes Benz South Africa, the Department of Education Eastern Cape and merSETA has been signed to develop 20 artisans;
- The Office of the Premier Eastern Cape project is rolling out in the areas of artisans, learnerships, skills programmes and Practical 1 and Practical 2 university of technology learners;
- The agreement with the Western Cape Department of Education creates a career path for school learners with learning difficulties from disadvantaged schools through FET colleges to workplace exposure. The end result is qualified artisans;
- The University of the Western Cape is funded to manage their

programme in Maths and Science to undergraduates by ensuring smaller student to tutor ratios as well as offering a winter school in Maths and Science;

- merSETA met with the National Directorate for Skills Development of the Correctional Services and will start, via the Free State and Northern Cape regional office, to train parole-ready offenders in skills and make them economically active;
- The merSETA has been active in the launching of the “2013: Year of the Artisan” under the guidance of the Deputy Minister of Higher Education and Training, and will continue to be part of the roll-out at national level.

The ETQA Unit has conducted 904 accreditation visits. 1 045 moderations were conducted and 37 audits on accredited training providers were conducted to ensure the maintenance of the merSETA quality standards. A total of 4 698 Recognition of prior learning applicants were evaluated of which 2 725 applications met the merSETA criteria for the section 28 trade test.

Capacity building workshops with providers were increased to 12, to ensure that all new developments, particularly in the quality assurance arena, and the implementation thereof were communicated to stakeholders;

The interim process of the review of trade tests was completed. Providers were given the opportunity to offer the reviewed trade tests or to continue with the current trade test criteria. This decision was taken against the



background of occupational qualifications being developed.

merSETA maintained its “green status” on the SAQA National Learners’ Records Database yet again when learner data was submitted from the new SMS system during the period under review.

## 5. CAREER GUIDANCE AND STUDENT SUPPORT TEAM

Career Guidance is high on the list of priorities in the new NSDS III and directly addresses Goal 8. merSETA was in the forefront by introducing a fulltime unit to support career guidance and structuring of formal partnerships.

Achievements in career development for the financial year include the following:

### 5.1 Career Development:

- A budget of more than R6-million has been committed to practical outreach projects at different levels for school, out of school, students in FET colleges, universities of technology and university graduates. Most of the effort is concentrated on teachers and career guidance practitioners.
- A three-year contractual agreement that extends from January 2011 to January 2014 with the National Youth Development Agency (NYDA) for general career guidance has been successfully implemented. The partnership between merSETA and the NYDA supports and enriches the outreach capability and

qualitative value of the service offered by the NYDA. Utilising this partnership enables merSETA to reach out to learners on a national level, making use of the NYDA’s provincial and regional presence.

- During the period under review, 13 employed career guidance practitioners were trained to serve communities throughout South Africa. The NYDA agreement also has a strong presence in the schools arena, making learners aware of career opportunities in the manufacturing and engineering sector.

The following was achieved:

- Career guidance was delivered to 9 965 Grade 9 learners in 40 Technical High Schools in Gauteng province. This NYDA/merSETA partnership has managed to bring together key national and provincial stakeholders viz. SAQA, NAMB, Sci-Bono and Gauteng DoE to collaborate on the training sessions.
- An advocacy launch was hosted at Ekangala. This initiative has developed a network that supports this NYDA/merSETA partnership. 46 influential stakeholders attended.
- Individual counselling sessions with 58 Grade 11 learners were held in the rural school Ekangala Comprehensive High School. At the same school, 49 staff members and senior management were also trained on how to offer career guidance.
- The Start Here campaign offering general career guidance in a group setting reached 188 rural and 416 urban schools/youth

groups nationally.

- 35 already employed career development practitioners were supported to attend the National Career Guidance Conference. These practitioners were from: NYDA (14), Sci-Bono (5), Gauteng DoE (12), merSETA (4).
- A three-year agreement with the South African Qualifications Authority has successfully been completed. Four areas enjoyed focus in this programme. These were:
  - Practitioner Development;
  - Professional Practice Development;
  - Practice Network Data Establishment; and
  - Establishment of a permanent interface between the merSETA and SAQA for exchange of information.

The intention is to extend this agreement to take on another project as SAQA has been given the national mandate for career guidance by the Minister and the merSETA must remain part of it;

- A three-year partnership agreement was entered into with Sci-Bono, a registered Section 21 company which is mandated by the Gauteng Department of Education (GDE) to implement and manage the Gauteng Mathematics, Science and Technology Education Improvement Strategy. Sci-Bono acts as an agent with the authority of the GDE, in all educational matters relating to maths, science, technology and related areas of education.
- In the first project, the main focus was on technology teacher

development at the start up of 40 Artisan Clubs in 40 technical schools in Gauteng, a needs analysis and development plan for the KZN and Cape Town Science Centres and the merSETA Auto Motor Technology Awareness Programme. Results and findings are available for the exposure to 117 learners, but the exhibit is permanent and many learners will experience its benefits.

- The merSETA has committed R2,302,000 and Sci-Bono R2,000,000 in kind;
- The contractual arrangement with the Nelson Mandela Metropolitan University was to establish a high quality learner pipeline, and deal with systemic issues in further education and training which derives its benefit from the public school system in the Eastern Cape. This is implemented through the merSETA chair in Engineering Development at NMMU. During 2012/13, the campaign has attracted, supported and/or reached learners in schools that have received meaningful career guidance. Lecturer development in FET colleges is ongoing and technical school teacher capacity building takes place in technical schools. It also has extensive rural reach. The Mathematics Teacher Development project reached 110 teachers and 194 learners and will continue in the new financial year. The project also makes a concerted effort to attract women into Masters and Doctoral level programmes and thus far, one woman has been successfully registered;
- The merSETA and Services SETA participated in the International WorldSkills Competition. Many stakeholders support this venture.

The purpose is to attract talent to technical careers via skills competitions through developing a local, regional, national and global skills competition circuit. merSETA played a leading role in taking participants to the WorldSkills competition in Leipzig, Germany, in July 2013;

- The merSETA is a member of the International Association for Education and Vocational Guidance and has access to journals generated by them. merSETA also supports the work done by the South African Career Development Association.

## 5.2. Student Support:

The bursary reporting structure was changed by the DHET in that only new bursars may be accounted for. All continuing bursars may not be counted as entrants but only as completions at the end of their three to four-year period of study. This had a major impact on bursary numbers. Another impact was the increased targets from the Department against an already approved budget. The bursary and student support unit offered new bursaries to 77 employed and 234 unemployed bursars. This excludes all current bursars in the system. For the year of reporting, 94 unemployed learners and 75 employed learners benefited from bursaries by completing their studies at institutions of higher education.

## 6. QUALITY ASSURANCE AND COMPLIANCE UNIT

### Introduction

The Quality Assurance and Compliance unit has a responsibility to ensure full compliance with the quality management standards (ISO

9001:2008), regulatory and legislative requirements in which the merSETA operates.

### Highlights and Achievements

During the period under review, the unit successfully managed to maintain the ISO 9001:2008 status after undergoing a three year cycle assessment by PricewaterhouseCoopers. The certification has been extended from 30 August 2012 to 29 August 2015 and that is confirmation that the merSETA has continued to deliver quality service that is consistent with stakeholder requirements.

### Compliance with Regulations

Besides the day-to-day interaction of the unit with various divisions within merSETA and stakeholders, the unit has a responsibility to ensure and assist in the development, implementation and monitoring of systems and processes in line with the following core regulations and standards:

- ISO 9001:2008 Quality standard;
- King 3 Report of Corporate Governance;
- Public Finance Management Act;
- Treasury Regulations;
- Labour Relations Act;
- Skills Development Act;
- Skills Development Levies Act; and
- Health and Safety Act including Environment.

### Statistics

The number of compliments and complaints received, document change reviews and non conformances raised are as tabled below:

Activity/Inspections	Financial Year	
	2011/2012	2012/2013
Compliments received from stakeholders	102	119
Complaints received and resolved	15	23
Document change requests for new and revised procedures	52	70
Internal non conformances raised	45	6
External non conformances raised by PwC	13	6

A total of 119 compliments were received from our stakeholders where our staff members exceeded stakeholder expectation in terms of service delivery. An increase in the number of complaints was experienced in the year under review and all the complaints were resolved based on assistance and interaction with other divisions, hence an increase in the document review of our processes and procedures from 52 to 70.

During the year under review, fewer non conformances were identified in comparison with the year 2011/2012; this was due to the health and safety audit assessment that was conducted to ensure that safety and health issues were identified, corrective actions implemented to ensure the health and safety of staff personnel and stakeholders.

An improvement of our processes and service delivery assisted the organisation hence a reduction in the number of external non

conformances raised by PwC for the year under review from 13 to 6. The above is confirmation that, where gaps were identified in the system, the unit was able to address and correct the situation in order to comply with the requirements of the ISO 9001:2008 standard and for better service delivery.

### 7. MARKETING AND COMMUNICATIONS UNIT

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

During the financial year, the Marketing and Communications Unit once again 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 manufacturing, 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 2013. The magazine was directly mailed to 2 500 CEOs of merSETA's top levy-paying companies. The digital copy of the magazine was also given a more tactile feel in line with the latest trends.

The Marketing and Communications Unit published six editions of the internal digital newsletter, Eyethu, to ensure open-line communication

between management and staff. The newsletter's accessibility was also updated through page-turnover software.

An Advertising and Sponsorship Policy was completed and accepted, while a Corporate Identity Manual is being refined.

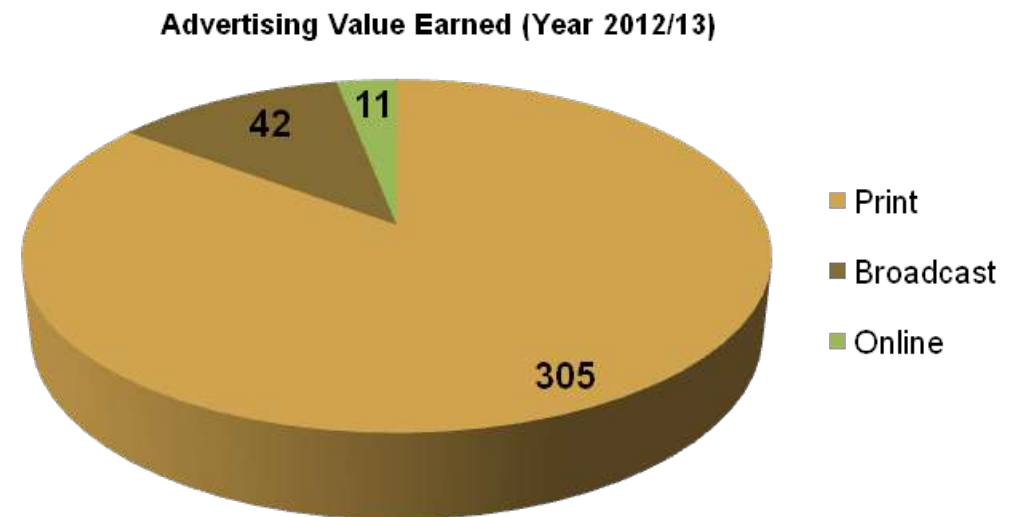
In addition, more than 360 000 brochures, trade guides and pamphlets dealing with careers advice concerning the five chambers were distributed to scores of schools. Promotional material was available at all expos and exhibitions.

The unit was responsible for the update and rebranding of the merSETA website, with a turnaround time of 24-hours for updates and new documentation.

Similarly, the intranet was rebranded and relaunched to make it a more interactive channel of communication with staff.

## 7.1 Summary of Media Coverage

Advertising Value Earned (R15,586,865)



## 7.2 Summary of Marketing and Communications Activities

Targets	Actual	Comments
<b>Communications</b>		
<b>Website</b>	Re-launch and rebranding of Website	Testing of new site successful. Stakeholder portal created. RSS live newsfeed. Faster search option. Five month statistics reveal 170,000 unique visitors to the site.
Corporate Identity	In-house production	Done.
<b>Publications</b>		
Achieve Newsletter	Four editions produced on time and within budget	The June 2012, September 2012, December 2012 and March 2013 editions were delivered and distributed. Top 2 500 CEOs of levy-paying companies and labour targeted in direct mailing drive. Articles published in magazine automatically rerouted to merSETA website, the Workplace in the Star, Cape Times, KZN Daily News and Cape Argus, IOL website and SABC.
<b>Digital Publications</b>		
Digital Newsletter	In-house production	Six Eyethu editions completed for the year.
Regional Newsletter	Consultations on format under way	Editorial policy for regional newsletter completed in April 2012.
<b>Promotional Material</b>		
Brochures	All merSETA regions received brochures and career guides for distribution at Career Expos	July 2012
Kiddie's T-shirts	Kiddies T-shirts for merSETA's annual kiddies party were procured.	October 2012

Targets	Actual	Comments
Lanyards	Lanyards were handed out at the DHET/SAQA Nelson Mandela Day Festival in Taung	July 2012
Stationery	Drawstring bags, rulers and pens were distributed	September 2012
Banners, flags, gazebos, media backdrop	Distributed for each region	July –September 2012
<b>Media Relations and Publicity</b>		
Media Relations and Publicity	April 2012 – Dec 2012	R8, 5-million free advertising value generated.
Reputation Scorecard	January 2013 – March 2013	R7-million free advertising value generated
Discretionary Grant advertisement in Sunday Times	7 September 2012	An advert on the opening of applications for discretionary grants.
SME advert in Sunday Times	7 September 2012	An advert for SMEs.
Good Luck matriculants advert in City Press	14 October 2012	Advert taken out by merSETA to send best wishes to the matriculants of 2012
Matric congratulatory message advert in City Press	04 January 2013	Advert taken out by merSETA to congratulate the matriculants of 2012
Leadership Magazine	February 2013	Focus on CEO

Targets	Actual	Comments
Mail and Guardian	8 February	Advert taken out by merSETA in the Careers Matter supplement of the Mail and Guardian
Talk Radio 702	May/June campaign 2012	Daily Gauteng audience of 500 000 leading opinion makers, key industry leaders and labour.
SABC (nine regional radio stations)	March/April 2012	Nightly CLO participation reached 3-million listeners in the period.
Automobil	April 2012-March 2013	Target audience reached.
Engineering News	April-December 2012	Target audience reached.
SEIFSA News magazine	April-December 2012	Target audience reached.
Metal and Working News, SA Plastics magazine, Post-Matric magazine, Skills Focus	April-December 2012	Target audience reached.
Achiever magazine	December 2012	Target audience reached.



## Part G: innovation, research and development

### INTRODUCTION

The year under review saw the rebranding of the old Projects Division into the new Innovation, Research and Development (IRD) Division. Having adopted the internal vision to be the engine of thinking and innovation in merSETA, the IRD Division set the following objectives to assist in reshaping the division:

To monitor external trends in vocational education and training, nationally and internationally, and promote a learning and development culture in order to support continuous improvement in the merSETA in order that the organisation retains and enhances its thought leadership role within the SETA landscape;

- To develop a robust and reliable sector Labour Market Intelligence (LMI) framework and institutional capacity in order to make informed planning decisions;
- To build capacity in the sector to support increased participation by ensuring dissemination of best practices, models, and research findings;
- To identify and leverage IRD partnerships;
- To provide a central point for the interpretation, development and communication of the Sector Skills Plan (SSP) and ensure incorporation of results into the SSP and relevant projects and programmes;

- To develop sectoral human resource capacity for Innovation, Research and Development in skills development to support job creation; and
- To ensure that new products and services are systematically developed with a focus on innovative provisioning and delivery models, through incubation/demonstration /pilot projects, focused on enhancing the stock and flow of skills at intermediate and high level.

### CURRICULUM AND LEARNING PROGRAMMES UNIT

The Curriculum and Learning Programmes Unit's (CLPU) mandate is cascaded from the Skills Development Amendment Act of 2008. The unit serves as one of the key implementation arms for the merSETA linked to the Act, and relates to the development of occupational qualifications and part qualifications (skills programmes) in line with the scarce and critical skills within the manufacturing and engineering sector. The delivery of the occupational qualifications also requires a platform to ensure that the provision is of high quality and standard. It is against this background that the unit is also involved in other projects that support the delivery of occupational qualifications.

The responsibility for the development and assessment of occupational qualifications is by legislation the responsibility of the Quality Council



for Trades and Occupations (QCTO). This function has been delegated to the QCTO partners such as the Development Quality Partner (DQP) and the Assessment Quality Partner (AQP). The merSETA's CLPU was delegated the function of the DQP.

Under its delegation, the unit initiated the development of nineteen occupations. Most of the priority occupations delegated to the unit related to the trades. Sixteen trades and three occupations were initiated and developed. The development of the occupational qualifications for trades represents a direct response to the shortage of artisans in the sector and it also positions the merSETA to reach its target of developing 20 000 artisans by 2015. In ensuring that the occupational qualifications are responsive to the sector needs, the unit has initiated a plan to pilot all the occupational qualifications approved by the QCTO and registered by the South African Qualifications Authority (SAQA).

Despite ongoing changes in the evolving QCTO procedures and processes, the CLPU managed to get five occupations approved by the QCTO evaluation committee. The merSETA is the only DQP that has managed to have more than one occupation approved by the QCTO during this financial year. The unit has also embarked on international benchmarking of the occupational qualifications under its delegation. The merSETA uses international benchmarking during the development process as opposed to a compliance exercise at the end of the development process. The other initiative by the unit in the development process is to ensure a future orientation, e.g. in addressing the green skills agenda. The unit also evaluated and registered 102 skills programmes in response to part qualifications where companies or providers cannot offer full qualifications as required by the Act.

The CLP unit distributed 262 copies of learning material for full qualifications and 197 copies of modules for part qualifications in support of the delivery of the occupational qualifications and part qualifications. The merSETA stakeholders and role players required an understanding of the development of the QCTO occupational qualifications, management of learning programmes and the legislation that governs such activities. The CLP unit conducted 10 capacity building workshops on the QCTO occupational qualifications model for the training provider forums, the chambers and the Further Education and Training Colleges (FETCs). The unit also ensured the involvement of relevant FETCs in the development of the sector's occupational qualifications.

The unit has also initiated projects that aim at strengthening the quality of provision for the occupational curricula within the sector. In this regard, the unit has initiated two projects in collaboration with the Services SETA and HAMK University in Finland. The first project is for the capacity building of FETC lecturers with regard to the methodology of teaching and the second project is with regard to capacity building of FETC entrepreneurship lecturers within the engineering focused FETCs. A further exciting development is the plan to convert certain engineering programmes within the FETC sector to an E-Learning platform.

As part of the monitoring of provision, the unit managed to evaluate and approve the termination of 81 contracts through the review committee. The contracts were terminated by mutual agreement between the company and the learner or apprentice, following evaluation by merSETA regional staff.

## SPECIAL PROJECTS UNIT

The Special Projects Unit (SPU) was established during the 2012/13 financial year to manage twelve sub-programmes. A Programme Manager was appointed in October 2012.

Several of the sub-programmes have been part of the merSETA's project portfolio for a number of years, inclusive of Mathematics and Science support, Adult Education and Training (including Adult Basic Education and Training), People with Disabilities, New Venture Creation (NVC), Non-governmental Organisations (NGOs) and HIV and AIDS in the workplace. These sub-programmes, primarily funded through discretionary grants, have a direct relationship to the NDSD III goals and the merSETA-specific programme goals. By March 2013, most of the sub-programmes mentioned had been through more than one implementation cycle and will be due for external review in 2013/14. Pending the evaluation outcomes, sub-programmes could possibly be mainstreamed into the merSETA's operations, closed out or repositioned as part of a strategic projects portfolio.

The Recognition of Prior Learning (RPL) project closed out in March 2013. A total of 181 learners from 28 companies participated, 11 located in the Western Cape. The New Tyre Chamber was the most active chamber in the project and 89 learners were from companies represented in this chamber. The closeout of the project culminated with the South African Qualification Authority's (SAQA's) publication of a reviewed RPL policy and guidelines, as well as a ministerial directive that RPL must be prioritised. The merSETA Accounting Authority also requested that a new RPL project must be scoped for 2013/14 and beyond.

A discretionary grant funding window was opened to pilot the newly registered Foundational Learning Competence (FLC). The FLC was one of the first certificates to be registered by the Quality Council for Trades and Occupations (QCTO) and is intended to replace the fundamentals that form part of the legacy qualifications. Only two merSETA companies applied to pilot the FLC, but one withdrew due to operational reasons.

The sub-programme for learners "Not in Employment, Education or Training" (NEETs) was implemented in collaboration with organised labour in different provinces. Six different contracts were signed by 31 March 2013, involving 187 learners on skills programmes, learnerships or apprenticeships. Most of the programmes are delivered by Further Education and Training (FET) colleges. The North West Youth Development project is a related initiative to train 700 learners on skills programmes, aimed at possible entrepreneurship activities.

The merSETA launched the Sustainable Green Skills Development sub-programme as a strategic intervention in September 2012, in collaboration with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The merSETA/GIZ agreement consists of a range of outcomes, inclusive of a survey of the merSETA levy-paying companies to determine the status of sustainable green skills activities, innovation and technology. The sub-programme will be prioritised to align with the National Development Plan and interventions focused on renewable and alternative energy, waste management and recycling, as well as a major drive to conduct advocacy at FET colleges, in communities and at workplaces.

Related to the green skills platform, merSETA entered into an agreement



in 2012 with the East London Industrial Development Zone to pilot learners on the Austrian Solarteur programme for Solar PV, contextualised to align with the South African certification requirements.

## RESEARCH AND SECTOR SKILLS PLANNING UNIT

Since the Accounting Authority decision to elevate the role of research as a critical component of the overall strategic thrust of the organisation, the Research and Sector Skills Planning Unit (RSSPU) has changed focus from simply undertaking the annual Sector Skills Plan (SSP) update, but ensuring focused sector and stakeholder-based research that dovetails with the national development agenda.

The research agenda is wide-ranging in its scope and suggests that the merSETA boldly goes where no other SETA does. Research has served not only to inform our work in the SETA, but also to provide a leading contribution to skills development in the country. It was indeed significant that we engaged and tried to understand the role of FET colleges long before it was fashionable to do so. Our partnership with the University of Nottingham in the UK has provided some key insights into the role of employability of FET college graduates. It began to explore the role of FET colleges and employers in terms of understanding the dimensions of the debates around employability. Similarly, the merSETA's partnership with the Human Sciences Research Council (HSRC) is providing important insights into the changing notion of artisan identity. Our engagement with this research entity laid the basis for the issue of artisanal research to be placed on the agenda in the national Labour Market Information Programme (LMIP) commissioned by the Department of Higher Education and Training (DHET).

Similarly, our engagement with the public Higher Education sector in line with the DHET objective to establish a co-ordinated post-school education and training sector, has been thorough. The merSETA partnership with the University of the Witwatersrand has also similarly borne fruit with the completion of a study into the local labour markets of Gauteng to engage supply and demand at the local level. We are also in the process of engagement with the Tshwane University of Technology to establish a Centre for Manufacturing Skills Research, which is likely to house a Research Chair in Manufacturing.

Involvement in conferences and academic discussions has led the merSETA not only to be the first port of call in understanding skills development in the country, but also to provide a firm quality check from the best minds internationally. The head of the Research Unit, Prof Salim Akoojee, was for example, involved on the International Conference on TVET held in Shanghai in May 2012, as peer reviewer of the "World Trends and Issues in Technical and Vocational Education and Training" adopted at the conference which was attended by more than 800 delegates. Similarly, preparations were undertaken to host the first ever International Network of Innovative Apprenticeships (INAP) to be held on African soil in partnership with the International Labour Organisation (ILO).

Research into Sector Skills Planning has, as is necessary, taken centre stage in our activity and deliberations with stakeholders. We have commenced a more robust research agenda that begins to do things differently, through the Chamber Special Research Projects. Not only have the five Chambers realised the complexity of the research undertaking, but there is a growing recognition that research that speaks to chamber needs is

the right thing to do. The Chamber Special Research Projects will directly link in to the sector skills planning agenda going forward. Similarly, the inception of Regional Sector Skills Plans provides a link between national planning processes and regional realities and complexities.

The research agenda has been expanded and consequently a widely expanded human resource infrastructure has been put in place in line with the new vision of the organisation. The appointment of specialists in Knowledge Management and Sector Skills Planning and Labour Market Intelligence is likely to enhance capacity to engage the research needs of the merSETA more effectively.

## ARTISAN INNOVATION AND DEVELOPMENT UNIT

In line with the priority status noted in the merSETA Annual Performance Plan of “continued and increased focus on artisan development – the most critical specific skills-development area for the merSETA to achieve its strategic intent”, the Artisan Innovation and Development Unit (AIDU) can highlight some significant milestones achieved during the past financial year. The Accelerated Artisan Training Programme (AATP) has remained as a platform to stimulate quality apprentice training in all chambers. At the financial year end, a total of 4,626 apprentices had been registered on the platform since its inception with 2,699 having successfully completed the trade test milestone, reflecting a participation growth rate of 18% over the period 1 April 2012 to 31 March 2013. Support for the identified scarce skills (skill level 3) continues in the occupations of Mechatronics Technician, Automotive Mechanic and Fitter, whilst Riggers and Welders also continue to be supported in the interests of just-in-time artisan development for the large infrastructure

projects such as Medupi and Kusile where apprentice candidates are mostly recruited from the surrounding rural communities. Equity is preserved on the AATP with an 84.4% Black African participation and provincial participation is spread across the provinces as follows: GP 41.9%, KZN 23.5%, MP 13.5%, LP 10.3%, WP 6.3%, NWP 2.2%, EC 1.4% and FSP 0.9%.

The qualitative interventions over the period have led to significant insights which will be shaping the way in which future skills development investment decisions are made. The high level findings of the Post Trade Test Tracer Study revealed that the percentage of project artisans passing the trade test at the first sitting had increased from 66% to 78% over the past four years, with a notable observation that holders of N3 qualifications achieve a significantly higher first time pass rate than their N2 counterparts – as much as 39% higher. The highest post trade test employment percentage was achieved through the CBMT trades where formal level tests are completed after each of the four development phases of the apprenticeship. This study also found that 15.69% of the artisan respondents were unemployed with explanations for this ranging from occupation specific reasons (i.e., Welders, Electricians and Boilermakers seemed more vulnerable to unemployment), to the number of attempts taken to pass the trade test (i.e., permanent employment negatively related to those who passed their trade test earlier), and geographic location (i.e., the North West, KwaZulu-Natal and Western Cape provinces recorded higher proportions of artisans not employed). The study also noted that artisans trained over and above the training companies’ needs were more likely to be vulnerable to periods of unemployment, with lack of experience and fewer job opportunities being cited.



## innovation, research and development (continued)

The findings of the tracer study reflected some parallels to the vocational competence research conducted in partnership with the University of Bremen in Germany. The report on this pilot research project was released in May 2012. Levels of vocational competence were measured against a validated competence model designed for engineering vocations with the possibility of international comparability of results. Three hundred young apprentices were tested from a mix of in-company training centres, a private training centre, a public FET college and a University of Technology. The high level findings of this project revealed the following trends: that 59% of apprentices tested will not be able to achieve the required competence level of a skilled worker according to international industrial competitiveness standards; the relatively low scores were not due to test motivation indicating unused potential; that reflected work experience is one of the most powerful triggers for competence development evidenced by those apprentices registered on in-company training systems; and finally, that there was a stagnation of competence development during the course of training underpinned by similar test scores for candidates in year one, two, three and four, with the root cause being cited as “modular/horizontal style” training packages that limit integrated work process learning.

Both the vocational competence studies and tracer study results have led to two primary interventions for the 2013/14 period - firstly, vocational teacher support towards teaching within the context of work-processes (i.e., work integrated learning) and secondly, curriculum adjustments to ensure integration of the National Curriculum (Vocational) (NCV) with the trade training schedule as it is defined by the QCTO. This development work will be implemented through Dual System Apprenticeships<sup>1</sup> at three FET colleges initially, after which other FET colleges and private providers

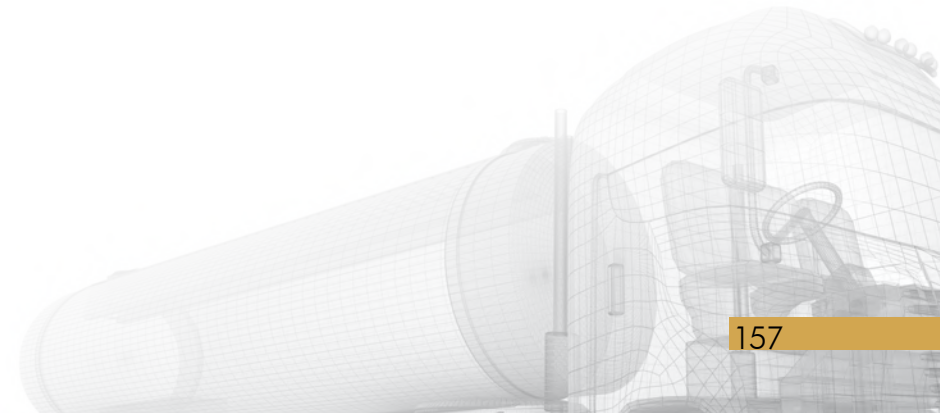
will be able to qualify to join the Dual System Apprenticeship Network at a staggered pace. All Dual System Apprenticeships will be managed off the AATP platform. The other apprenticeship learning pathways defined through entry qualifications of N3 or the NCV 4 will benefit from the development work indirectly. The tracer study process will continue in 2013/14 to track changes in employability status between the different learning pathways.

Another strategic issue noted in the merSETA Annual Performance Plan is that the merSETA’s funding under the current levy system will not be sufficient to support skills development to this level, necessitating the merSETA to consider strategic funding partnerships and to improve the overall efficiency of monies spent on training within the sector. The research in respect of occupations measured for Quality Cost and Return (QRC) on a standardised benchmarking instrument has shown that apprentice training can be self financing. Other nuanced factors become clearer through this instrument such as the finite differences in costs between the different occupations listed as trades, and breakeven points of the training investment achieved by different employers. Whilst the data in the first 36 cases is not definitive, it has encouraged the merSETA to develop the instrument further in the interests of decisions that would support more sustainable training investment solutions. It also becomes a powerful and confidential benchmarking system to guide employers towards the measurement of internal training efficiencies.

During the period of this annual report, particular emphasis has also been placed on supporting SMEs in the implementation of apprenticeships which has proven resource hungry and time consuming relative to experienced employers with the necessary support structures and staff.

The Dual System Apprenticeship will be encouraging participation from SMEs in the immediate vicinity of the FET college with dedicated college support to strengthen their participation in the spirit of “every workplace a training space”.

*1 Apprenticeships in both Germany and Switzerland are implemented through the dual system, in which apprentices spend most of their time working in host companies where they get on-the-job practical training, and the rest in dedicated training institutions where they get a mix of theory and sheltered practice. Typically, they may work for three to four days a week in the company and spend the remaining one or two days at a college.*





## Part H: success stories

### SET honour cream of the crop

**The Science, Engineering and Technology project held its yearly award ceremony at which achievers were recognised. The event took place at the University of Zululand.**

The award ceremony recognised the 2012 learners who performed well on the merSETA Star Schools Incubator Programme. The programme has produced learners recognised amongst the top 10 in KwaZulu-Natal since its inception three years ago.

The project aims at developing Science, Engineering and Technology capacity-building amongst schools and in the FET sector.

The merSETA Star Schools learners are part of a national priority which addresses the skills shortage in the country. The project places emphasis on the following three points:

- Increasing the number of learners who pass Physical Science;
- Increasing the number of learners who pass Mathematics; and
- Increasing the number of learners who achieve Bachelor passes.

SET Project Manager Azwifaneli Tshisikamulilo congratulated the learners, saying hard work paid excellent dividends.

“It is such commitment and devotion that encourages the merSETA to do even more in terms of taking the programme to another level. We have taken a more proactive stance in promoting maths, science and technology. We are pleased that we have managed to achieve the objective of creating a pool of learners willing to take up maths and science,” he noted.

The programme has recorded major success, producing a 100% pass rate in all grades in the last three years (grade 11 and 12). In 2010, 28 distinctions were received and more than 82% of learners achieved a university entrance pass. In 2011, five distinctions were received and more than 52% of learners achieved a university entrance pass in KwaZulu-Natal alone.

Out of 300 learners sponsored nationally by the merSETA, 218 achieved entry to university and 65 into universities of technology. A total of 283 learners were given the opportunity to further their studies at higher education institutions.

Star Schools Chief Operations Officer, Andrea Pratten stated that it is important that learners are recognised in front of their peers as they work hard towards these achievements, and this in turn motivates other learners to work harder for the end of year.

“It also creates awareness of the sponsorship and achievements at district





and provincial level. For parents, it creates involvement and support for their children and also shows the culmination of what we have been working towards throughout the year.”

Pratten attributed the success to highly competent and dedicated educators, with full-time coordinators on site every Saturday to manage the smooth running of the programme, the programme’s hands-on management approach and quality management systems as well as the Star Schools teaching and learning methodologies.

“Thanks to the merSETA for their unwavering support and sponsorship, dedicated learners and educators, not forgetting the parents,” he concluded.

Side bar:  
Grade 12 top achievers

English – Girishka Rameasar, 87%  
English – Lucky Gumede, 73%  
Physical Science – Sherice Kanaye, 83%  
Maths – Kodwo Maninvolewie – Azane, 81%

Overall achiever  
Kodwo Maninvolewie – Azane, 77%

## Skills development initiative bears fruit

**It was OR Tambo who once said: “A country that does not invest in its youth does not deserve its future.”**

In line with the late OR Tambo’s view, Kgabo Cars are reaping the rewards of investing in skills development initiatives.

It was a proud moment for learners when the company hosted a glittering graduation ceremony in Pimville, Soweto. Twelve learners graduated with Automotive Repair & Maintenance Learnership NQF level 3. Kgabo Cars, based in Soshanguve near Pretoria, partnered with McCarthy Automotive Artisan Academy on NQF Level 2 and Level 3 in the training of the learners.

Learners were taught how to service a vehicle using set criteria as per NQF requirements including, balancing a wheel, the cooling system, suspension checks and repairs, occupational health and safety and basic electrical maintenance.

Isaac Boshomane, the founder and executive of Kgabo Cars, said the objective was to follow the seven steps to becoming a qualified artisan, taking learners from Level 2 to Level 4 before preparing them for trade tests.

“We are currently waiting for the merSETA’s external moderation for Level 3, which the learners completed in January this year. In March, they will begin the NQF Level 4, and then do their trade test.”

Asked about the absorption of learners after qualifying, he said Kgabo Cars aimed to employ all 12 learners after they qualified as artisans.

“We have already entered into negotiations with the DHET and two FET colleges on how we can maximise quality output to develop and empower our learners to be employable,” he concluded.



## Disabled people prove their worth

It was James Keller who once said “a candle loses nothing by lighting another candle”. This was the case when Volkswagen South Africa (VWSA) and merSETA joined hands in equipping people with disabilities with a Certificate in Business Administration (NQF Level 3). It all culminated in a graduation ceremony that was held at Emperors Palace, Johannesburg.

The Training Academy of Volkswagen Group South Africa launched its first learnership in End User Computing for People with Disabilities in 2009. This was followed by the second successful learnership that was jointly funded by the merSETA and the Volkswagen Group South Africa in 2010 when a total of 54 of the original group of 60 learners achieved a Certificate in End User Computing.

The long standing relationship between VWSA and two key suppliers, namely Shangri-La Community Development and Training Excellence has enabled this Learnership to grow from strength to strength over a four year period.

In 2012 we yet again celebrate the successful graduation of an additional 58 People with Disabilities who in 2011 met the competencies required in order to obtain a Certificate in Business Administration (NQF Level 3).

“The 2011 learnership would not have been possible without the wonderful support that we receive from our partners, merSETA, our Volkswagen and Audi dealer network and internal departments at Volkswagen Group South Africa.

“We are very grateful to 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.

She commended all the stakeholders involved in the project for overcoming all the challenges that presented themselves in order to bring this project to a successful conclusion.

Delivering a keynote address, merSETA CEO Dr Raymond Patel said empowering the less-abled is a venture worthy of the highest praise.

“It is noteworthy that VWSA 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 VWSA”, elaborated Dr Patel.

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

Dr Patel reiterated the importance of making graduation ceremonies a norm throughout the country and skills development a champion for all.

Amongst the graduates was Heiron Joseph who matriculated in 1996 at Weston High School in Cape Town and unfortunately was involved in a

car accident that left him paralysed.

Mr Joseph was in high spirits and couldn't conceal his feelings. "It feels good to have finally completed the course and graduated. I know what it's like because you just need people to believe in you and the rest is history."



### Nissan SA invests in school upliftment

The strategic partnership between the merSETA and Nissan SA saw Katlehong Technical High School on the East Rand benefit from technical support in the form of new technical components.

Nissan SA donated new engines and gearboxes - one automatic, one manual rear wheel drive and one manual front wheel drive as part of a broader project to enhance motor technology at the school. The value of the components is about R140 000.

The generous donation is aimed at improving the quality of the motor mechanic qualification with up-to-date technology. "Nissan has in the past given learning equipment to technical high schools, this happens annually and mainly in the Tshwane areas. We, as big business, need to be involved in education and development as we need skilled people to draw labour from," said Keba Matlhako, Nissan's external and government relations coordinator.

Excited about their partnership with the merSETA, Matlhako added that as Nissan they believed in partnerships as this was the only vehicle to fill in the many developmental gaps in training and development. "Big business knows what skills are required, while SETAs and colleges must develop the appropriate skills required by business to meet their objectives. We see colleges training people in non-required skills due to the lack of partnerships and communication before the curriculum is developed," he elaborated.

He said Nissan would continue to work with institutions and colleges to

develop the skills necessary for the motor industry, and were committed to supporting schools and technical schools to enhance technology-related subjects.

Speaking on behalf of the merSETA, Sheryl Pretorius, client services senior manager, thanked Nissan SA for the donation. "Nissan SA is one of the first companies that bought into the merSETA strategy and vision. For the first time, the adoption of schools, specifically technical schools, is taking place in a constructive manner. The up-to-date technology components will help learners in taking fundamental learning from the classroom environment to a simulated environment linked to the world of work," she concluded.





## STI and the merSETA close the skills gap

**It was a moment never to be forgotten when 26 learners graduated at a glittering ceremony in Cape Town. The graduation ceremony saw 15 learners graduate in NQF Level 4 Spray Painting and 11 learners graduate in NQF Level 3 Body Repairers.**

Learners were overwhelmed by the occasion while sponsors of the programme, First Car Care Pty. Ltd T/A STI Autobody Repairers and the merSETA were equally proud.

Speaking at the event, merSETA CEO Dr Raymond Patel congratulated learners and said it was clear that excellence is attained by following a consistent road to success.

“Indeed, your commitment has been heart-warming, given the major odds against you. The greatest success is not on the stage of the world, it is in the deepest recesses of your own hearts. Deep down, everyone needs to form lasting bonds with others.”

Quoting the philosopher Khalil Gibran...“Always remember that work is love made visible. And if you cannot work with love but only with distaste, it is better that you should leave your work and sit at the gate of the temple and take alms of those who work with joy. For if you bake bread with indifference, you bake a bitter bread that feeds but half a man’s hunger. And if you grudge the crushing of the grapes, your grudge distils a poison in the wine. And if you sing though as angels, and love not the singing, you muffle man’s ears to the voices of the day

and the voices of the night.”

STI Project Administrator Abigail Warwick said: “Many learners had not completed their matric and are now in possession of a trade-related qualification. It is a great achievement for them. In the group receiving their certificates, there are five learners who achieved 100% for completing all unit standards and assignments, theory and practical examinations.”

The learners are from previously disadvantaged backgrounds and were also unemployed. They were selected for the programme in 2009 on NQF Level 2 and have now completed NQF Level 4 in the case of the Spray Painters.



Ms Warwick indicated the difficulties learners endured in their quest to obtain the qualification: "It was not an easy path for them; some struggled to get to classes and the workshops on time with the erratic transport system. Most of them are shack dwellers and some head up households for siblings whose parents have passed on. Despite the difficulties, they displayed tenacity and pushed through to artisan status. This is not only a first in the Western Cape but also a first nationally," she commented.

Part of the graduation ceremony was also to announce the winner of the SPRAY OUT competition. The objective of the competition was to find the best spray painter in the group consisting of the 15 learners, and all

the spray painting apprentices who qualified at the end of last year took part.

Cometh the day, cometh the hour...and Sandile Sigadi emerged the winner. The young lad could not contain his excitement. Holding back the tears, he said: "I was thrilled when my name was called, though I wasn't surprised. I knew what I wanted from the onset, and I had put in a lot of hard work on my own, whilst others were working in groups. I took courage from being in the top 8, and I took the competition very seriously.





## Youth speed through world car competition

**While all eyes were set on the Olympics in London, the Cape Speed Team quietly jetted out of the country to compete in the 2012 International Formula Student motorsport competition in Silverstone, United Kingdom.**

The competition saw 134 teams from 34 countries battling it out for top honours to design and build a new car. The South African team was unfazed by being the novices in the competition, and went on to show the international community that South Africa has what it takes to compete at the highest level. The “limitless youth” finished the contest ranked 27<sup>th</sup> in the endurance race and 65<sup>th</sup> overall, showing their mettle in the competition that attracted 3000 students from around the globe.

Four universities of technology from Africa participated in this year’s competition, a small number when you count the number of universities that we have on the continent. Three were from Egypt and South Africa’s representation was from the Cape Peninsula University of Technology (CPUT).

The Cape Speed team became the first African team to make it to the finals when they passed the brake test, setting the tone for fellow African team, Egypt. Interestingly enough, it was Egypt’s third time competing in this event.

However, none of their cars made it to the finals.

The Formula Student Initiative at the Adaptronics Advanced Manufacturing Technology (AMTL) started in 2009, when the Cape Speed Team was approached by the South African Kart Racing Academy to work together to develop Formula 1 racing in South Africa. The team started to design and manufacture the car in February 2011 and completed it in April 2012.

In such a gigantic project challenges are virtually insurmountable. During the design phase, the team acquired a drawing of the Honda CBR 600RR engine that they were to use for the car. All the team’s designs were based around the size of this engine. However, when they received the actual engine, it was much bigger than expected.

“The team had to work around the new size and incorporate it into various designs. We also faced funding problems as we were not able to secure much sponsorship. From the students’ perspective, we had to balance our class work activities and the project. This was not easy as the project demanded a lot of our time,” pointed out the merSETA bursary holder, Rushdia Benjamin.

Asked about lessons learned from competing in Silverstone, Rushdia commented that the reason other teams stood out was because they were trained at their universities. “The Formula Student project formed part of their studies and was an integral part of their learning to manage the business and technical side of engineering.”

The project was funded by the Adaptronics AMTL Unit and the CPUT, with associate sponsors in ArcRite and Mecad.

The format of the competition is threefold: Teams need to go through

technical and safety scrutiny to ensure the car is safe and can be allowed on the Silverstone track as well as ensuring the team's car complies with the rules set out by Formula Student.

Thereafter, there are a number of static events which comprised design, cost and presentation judging, the tilt test and lastly, brake and noise test. This is followed by dynamic (motion) tests; namely, skid pan, sprint, acceleration, endurance and fuel economy.

In order to participate in the dynamic tests, teams need to have passed the technical and safety scrutiny, the tilt test and brake and noise test. The Cape Speed team competed in all categories of the competition and were the first ever African team at formula student to get to the finals of the competition.

The team was exhilarated at having represented South Africa at an international student event and hopes to share the experience to inspire the youth to consider a career in engineering. It also hopes to create awareness about the need for engineering in the country and stimulate interest in Science and Technology amongst the youth.

The team is hopeful that big business will join in and assist the team in making resources available and backing them financially to compete in future events.

"In South Africa, we need technology that is aimed at developing light materials. You also look at the teams that are ranked in the top ten; they had more than 40 members, complemented by a number of big sponsors whereas our team had 12 members with limited sponsorship."



What was more gratifying about the Cape Speed team is the composition of the team. The team had two women - when South Africa had just celebrated women's month. They showed their grit and matched their counterparts shoulder to shoulder.

“There was no difference between males and females in terms of application as we were given the same tasks on the car as the guys. We all spoke the Science and Technology language, hence we felt that there was no difference. We all designed and manufactured our own parts and worked as a team,” notes Rushdia.

Asked about the future outlook of the project, CPUT’s AMTL programme director Professor Oscar Philander said that they aimed to send a team every alternate year to participate in Formula Student.

“In 2014, we aim to be within the top 10 in the competition. It is important for young engineers in the country to participate in such competitions as it allows students to experience the role of a modern engineer utilising the latest technology.”

### Buscor tackle skills shortage

A recent study has revealed that a mere 10 360 diesel mechanics service around 500 000 trucks. Realising the challenge at hand, Buscor rolled up its sleeves and up skilled 16 learners in this field.

Learners graduated in merSETA’s qualification, funded by the Transport Education and Training Authority (TETA), while Buscor provided expertise and training space for the training of the learners.

According to Buscor Training Manager, Louis Du Preez, learners were recruited on a 50-50 gender basis to address equity. They had to have N2 to be enrolled on the programme. They also had to undergo numeracy and language tests as per the minimum requirement of the qualification.

The graduates were in high spirits after displaying excellent performance and true class.

“All the learners are from previously disadvantaged backgrounds and were unemployed. Human capital investment is my passion and I believe in empowering the previously disadvantaged and sharing my passion with people who want to be up-skilled. The primary skill recognised in this qualification is the ability to apply the theory of repair and maintenance in order to diagnose and repair vehicles and components, and these are highly sought after skills,” noted Louis.

Motivated to assist the learners further, Buscor prepared them for a trade test at Indlela, and they passed Buscor’s average of 2 out of 4 credits

required for a qualified artisan. They will now complete the outstanding two credits.

At the event, the merSETA Client Relations Manager, Semodi Phiri, congratulated learners, saying their success had exceeded expectations.

“Today’s ceremony shows the importance of high calibre artisans. The FET colleges are a key cog for skills development that is why the Department of Higher Education and Training together with the SETAs are working hard to build a strong vocational and training system through the FET colleges,” she said.

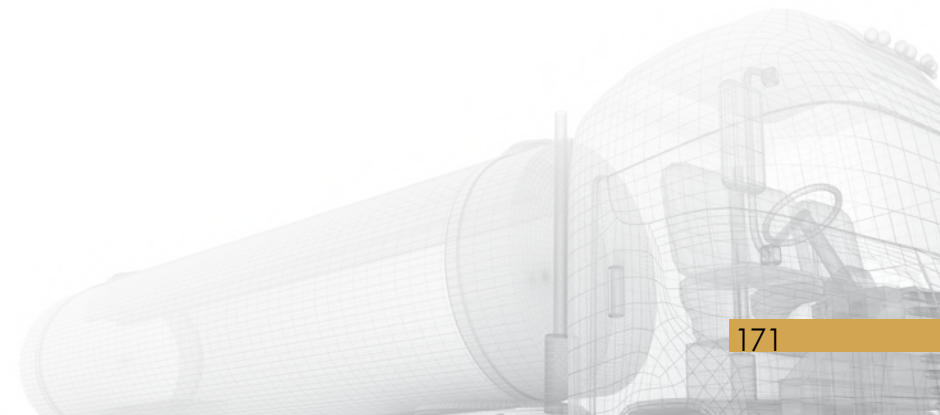


Addressing graduates, Buscor Executive Chairperson Ms Nora Fakude-Nkuna said the company was proud to assist unemployed youngsters prepare for the labour market.

“It is my honest belief that there are more opportunities now than ever before. However, we need a special kind of young person who can convert challenges into opportunities. I am confident that you are equipped to grasp the opportunities with ease.”

Speaking on behalf of the learners, Nokuthula Themba paid tribute to Buscor, the merSETA and TETA for the sterling role they played in preparing learners for a better future.

She said learners had learned how to overhaul vehicles as well as understanding the removal, dismantling and replacement of components and minor adjustments to vehicle systems. With this qualification, learners can work effectively in various small businesses in the commercial automotive industry and related industries.





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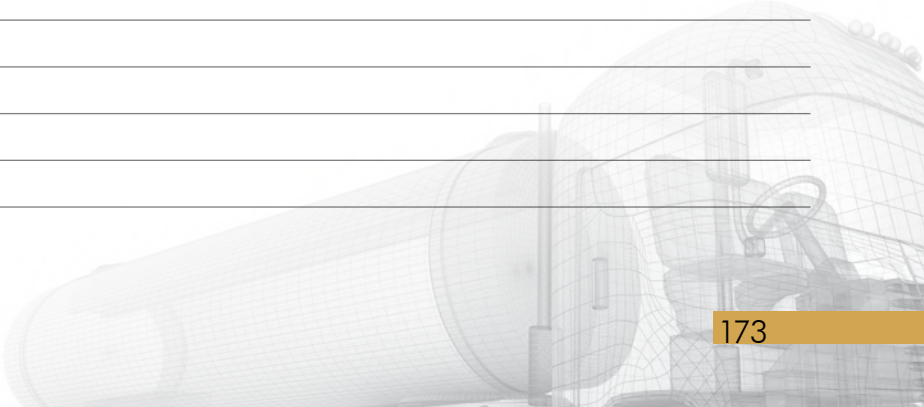
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