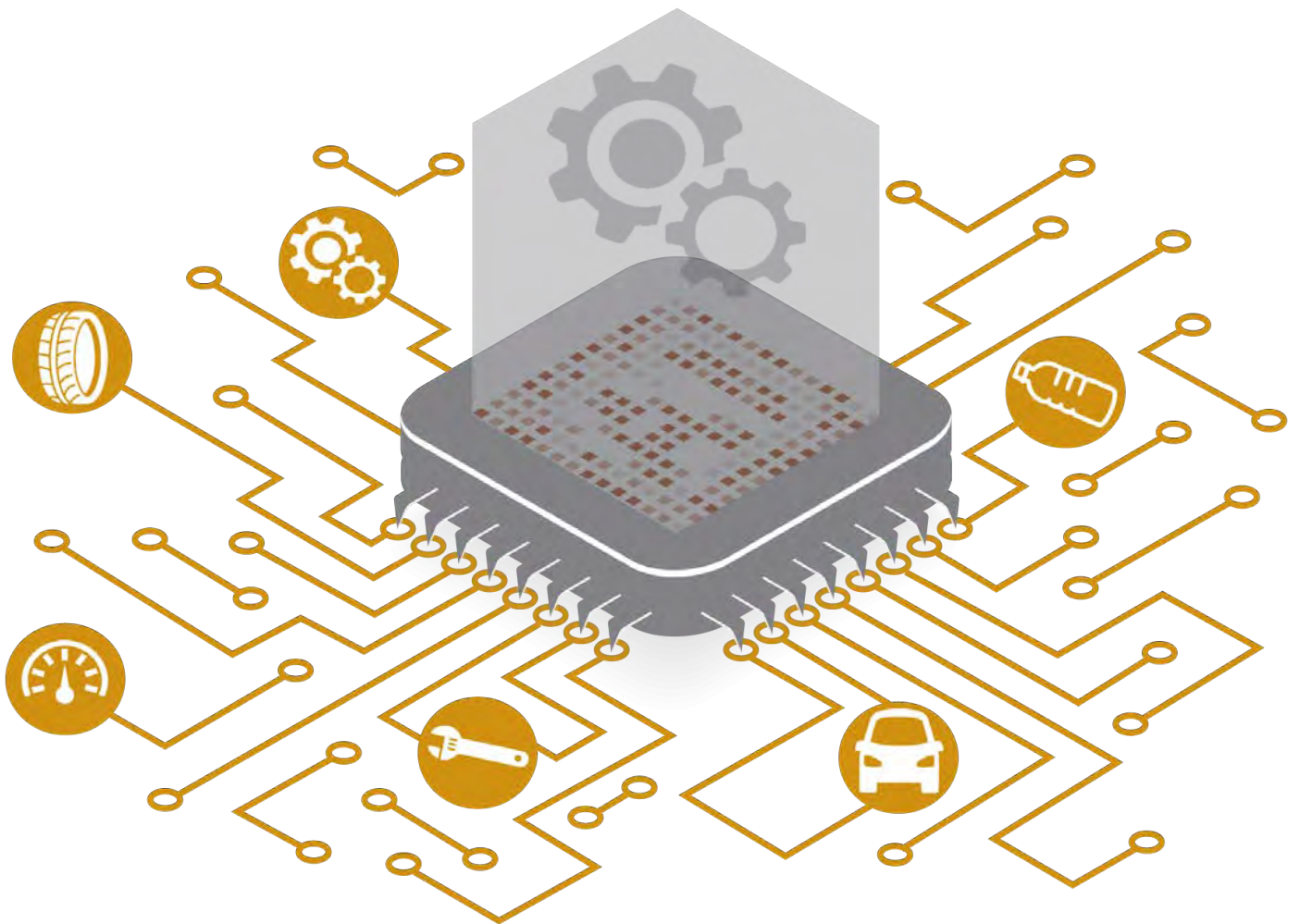




**merSETA**

MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA



**LEADERS IN CLOSING THE SKILLS GAP**

# **ANNUAL REPORT**

## 2022|2023





## HONOURABLE MINISTER

**DR BLADE NZIMANDE**

Minister of Higher Education,  
Science and Innovation

---

DR B E NZIMANDE, MP

It is indeed a pleasure and privilege to present to you the Annual Report of the Manufacturing, Engineering and Related Services SETA (merSETA) for the period 1 April 2022 to 31 March 2023.

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

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Disa Mpande', written over a horizontal line.

**Disa Mpande (Mrs)**

Acting Chief Executive Officer

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# PART A:

GENERAL INFORMATION

# 1. Public Entity's General Information

<b>Registered Name:</b>	Manufacturing Engineering & Related Services Education and Training Authority (merSETA)
<b>Registration Number:</b>	17/MERSETA/1/04/20
<b>Registered Office Address:</b>	Metropolitan Park, Block C, 8 Hillside Road, Parktown, Johannesburg, 2193
<b>Postal Address:</b>	PO Box 61826, Marshalltown, Johannesburg, 2107
<b>Contact Telephone Number:</b>	010 219 3000
<b>Website Address:</b>	<a href="http://www.merseta.org.za">www.merseta.org.za</a>
<b>External Auditors:</b>	Auditor-General South Africa
<b>Bankers:</b>	Standard Bank Ltd
<b>Company Secretary:</b>	Lebogang More
<b>ISBN Number:</b>	978-0-621-51153-6
<b>RP Number:</b>	RP167/2023



## 2. List of Abbreviations and Acronyms

4IR	Fourth Industrial Revolution
AET	Adult Education and Training
AGSA	Auditor-General South Africa
AI	Artificial Intelligence
APP	Annual Performance Plan
AR	Augmented Reality
ARC	Audit and Risk Committee
ARPL	Artisan Recognition of Prior Learning
ATR	Annual Training Report
B-BBEE	Broad-Based Black Economic Empowerment
CBO	Community-Based Organisation
CET	Community Education and Training
CoS	Centre of Specialisation
DG	Discretionary Grant
DHET	Department of Higher Education and Training
DPWI	Department of Public Works and Infrastructure
EE	Employment Equity
ETQA	Education, Training, Quality Assurance (Committee)
Exco	Executive Committee
FGC	Finance and Grants Committee
GDP	Gross Domestic Product
GRAP	Generally Recognised Accounting Practice
GSC	Governance and Strategy Committee
HEI	Higher Education Institution
HR	Human Resources
HRRC	Human Resources and Remuneration Committee
ICT	Information and Communication Technology
IPAP	Industrial Policy Action Plan
IRD	Innovation, Research and Development
ISA	International Standards on Auditing
ISO	International Organization for Standardization
merSETA	Manufacturing, Engineering and Related Services Sector Education and Training Authority
MoA	Memorandum of Agreement
MR	Mixed Reality
NDP	National Development Plan
NGO	Non-Governmental Organisation
NLPE	Non-Levy-Paying Entity
NPO	Non-Profit Organisation
NSDMS	National Skills Development Management System
NSDP	National Skills Development Plan
NSDS	National Skills Development Strategy
OEM	Original Equipment Manufacturers
PSET	Post-School Education and Training
QCTO	Quality Council for Trades and Occupations
RPL	Recognition of Prior Learning
SDF	Skills Development Facilitator
SDLA	Skills Development Levies Act
SETA	Sector Education and Training Authority
SIC	Standard Industrial Classification
SLA	Service Level Agreement
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
SSP	Sector Skills Plan
TVET	Technical and Vocational Education and Training
VR	Virtual Reality
WSP	Workplace Skills Plan



**Kate Moloto**  
Chairperson

### 3. CHAIRPERSON'S FOREWORD

In the past financial year, the merSETA broke new ground via a host of innovative projects and smart training initiatives in the post-school education and training sphere.

Through consistent strategic output reviews by the Accounting Authority, and implementation by the organisation's management, staff and external stakeholders, the organisation boosted and burnished hopes of employment and entrepreneurship in South Africa in the 2022/23 financial year.

The bouquet of interventions included focal points on technical and vocational education and training institutions and key upgrading in lecturer development as well as interventions in curricula development for the Fourth Industrial Revolution (4IR).

As 4IR relentlessly changes the depth of work knowledge, especially in the manufacturing sector, such collaborative initiatives are crucial for sustainable jobs in a sluggish economy with abnormal levels of unemployment.

President Cyril Ramaphosa's five-year initiative to attract R1.2 trillion exceeded the target. Government's checklist showed 160 pledges are under construction, 45 projects have already been completed and R450 billion was spent.

These investments and pledges provide a good base for growth as fiscal and structural challenges are tackled, especially through the national Operation Vulindlela.

But programmes and projects of this magnitude need the highest level of skills and knowledge that are grounded in the correct curricula and knowledge set at higher education and training institutions.

Creating and burnishing hope through high-set skills and work-integrated upgrading is thus fast becoming a key merSETA output.

#### Strategic Overview

The South African gross domestic output grew at an annualised rate of 1.1% in the first quarter of 2023 according to the Bureau of Economic Analysis. This is far below the required growth rate for absorption of the thousands of new matriculants as well as the millions of others seeking employment, even temporary work.

And the majority of businesses in the mer-sector still struggled in the past financial year to keep productivity and sales at pre-COVID-19 levels.

Companies continued to close as they struggled to remain viable in a sluggish economy while being structurally unprepared for the technological rush of 4IR. This was made worse by the energy crisis in South Africa that also saw record high increases in fuel prices and rolling blackouts. The unemployment rate soared close to 33% and could even be higher given the poor economic growth. This has triggered a socio-economic crisis and is likely to increase poverty, unemployment and inequality.

These conditions impacted our workplace training schemes in the past financial year. On-site and work-integrated training and learning did not resurge to previous levels as training workspaces were simply unavailable in the light of company and factory closures and cut-backs.

## PART A: GENERAL INFORMATION

The bright spark has been the automotive sector and its related industries which continued to invest heavily in plants and productive capacity for the export markets.

One international company announced an investment of more than R15 billion in new and extended plants in South Africa in the previous financial year. Work has already begun on the plants, machinery installations and robotics. This will cascade to hundreds of companies that are component manufacturers for that vehicle manufacturer, thus offering thousands of opportunities of employment for those with the right skills.

The World Bank's latest forecast sees South Africa's economy growing by 0.5% in 2023. The South African Reserve Bank sees growth of just 0.2%, while the International Monetary Fund sees growth of 0.1%.

In this economic maelstrom, a sustainable solution for the growing unemployment rate is required.

The Accounting Authority manages the merSETA risks in a way that supports the organisation in setting and achieving its strategic objectives. In the year under review, the Accounting Authority considered the organisation's risk profile, appetite, mitigation and aggravation factors as well as strategic interventions.

As this annual report shows, the merSETA has mounted sustainable solutions through its stakeholders and tertiary/training partners to stem the growing ranks of unemployed by enabling skills that have been directly identified by the labour market through our chambers.

Through research conducted by our six chambers, we are better placed to implement solutions that arise from the main consumers of labour and capital.

A key study by one of our chambers in the mer-sector is set to map out Automotive Components Manufacturing SIC Codes and Activities of Companies to understand and recommend measures to ensure this sector's readiness for 4IR. This means including micro-enterprises in future training in 4IR modules.

We have also upped the ante in our traditional role of supporting government's socio-economic efforts through skills development for self-employment, entrepreneurship, cooperatives, the informal sector and small business. These upskilling schemes are vital to supporting sustainable livelihoods in communities and the broader social economy.

### Strategic Relationships

Speaking at the National Assembly on the state of readiness for the 2023 academic year earlier this year, the Minister of Higher Education, Science and Innovation, Dr Blade Nzimande, said new strategies for Post-School Education and Training (PSET) had been implemented.

Each academic year, he said, must be approached as a milestone in taking forward the country's goals to improve access and success in the PSET system. More than R2.8 billion had been spent on the development and refurbishment of 16

new TVET campuses to enable expansion of the TVET system in the medium term, the minister pointed out.

In keeping with this, the merSETA earmarked ten colleges throughout the country for such interventions, which included establishing and equipping 4IR centres at the TVET colleges with high-set 4IR equipment and tools.

Two fully functional 4IR laboratories/workshops have been established at the Maluti and Motheo TVET colleges, while centres of specialisation for high-skill outputs are still receiving funding from the organisation.

The merSETA is also funding the development of curricula that will have crucial components such as Awareness Training for Industry 4.0, the Introduction to Industry 4.0 for Management as well as Industry 4.0 Applications and Practice.

A merSETA-funded project with the University of the Western Cape (UWC) focused on capacity building of TVET college lecturers through the PhD candidates' field work.

A further success of this intervention was to enable access for TVET college lecturers to South Africa's new suite of qualifications for TVET college lecturers.

The Postgraduate Diploma in TVET (PGDIP: TVET) was the first qualification within this qualification framework to achieve accreditation by the Department of Higher Education and Training (DHET) and the Council on Higher Education.

The merSETA funding for 80 TVET college lecturers to enrol in and graduate from the PGDIP: TVET has not only built pedagogic capacity within public TVET colleges but also contributes to the expansion of TVET as a research field. Successful graduates of the PGDIP: TVET are able to enrol in Master's degrees and UWC is in the final stages of obtaining accreditation of a Master's Degree in TVET in addition to the accredited PhD in TVET.

The merSETA also funded the development of an Engineering Technology elective module for the PGDIP: TVET, which provides specialised pedagogical leadership for TVET college lecturers teaching engineering programmes at TVET colleges.

Thus, the merSETA has emerged as a leading SETA with its focus on building capacity for manufacturing and engineering within South Africa. These interventions demonstrate the organisation's ability to ensure the successful transfer of leading technologies knowledge, especially in the design and implementation of competence assessment to gauge the efficacy of South Africa's artisan training capacity.

This is an important contribution to South Africa's PSET system.

### Investigations

Following thorough investigations into the contractual activities and conduct of specific officials, merSETA has put a hold on four contracts with beneficiaries of discretionary grants. During the past year, these contracts were presented to the court for re-evaluation and potential cancellation.

The investigations have highlighted the crucial need for a comprehensive review of the discretionary grant awarding process. The objective of this is to identify and address any weak points or risks that might compromise compliance and efficiency.

In situations where there were suspicions of staff members being involved in inappropriate behaviour, such individuals have been placed on precautionary suspension. This action is taken in anticipation of the results from the ongoing investigations.

This by and large is the reason for the dip in audit outcomes and overall performance rates.

## Conclusion

I express my deepest gratitude to every member of the Accounting Authority, the chamber committees, the merSETA staff, and our stakeholders for their unwavering dedication and valuable contributions throughout the 2022/23 financial year.



**Kate Moloto**

Chairperson



**Disa Mpande (Mrs)**

Acting Chief Executive Officer

### 4. Chief Executive Officer's Overview

Amidst the creeping uncertainty and unpredictability of artificial intelligence (AI), the merSETA in the past financial year recalibrated its programmes and projects in innovative ways to face the sudden onset of this challenge.

Artificial intelligence is the new menacing face of the Fourth Industrial Revolution and the threat it poses to society, work and social relations is unfathomable at this stage.

Extensive work needs to be done by thought and information technology leaders on harnessing the impact of AI on production, workplaces, education and training and society as a whole.

Yet the merSETA, in the 2022/23 financial year, found novel ways and means to counter the existential threat to jobs and training of this burgeoning AI process, primarily through innovative partnerships around the new world-of-work.

Innovation is a crucial strategy of the merSETA in the development of skills for the new world – or Society 5.0 – and the accompanying surge in new methods of manufacturing and engineering.

In the year under review, the organisation re-prioritised and then proceeded to provide financial resources to stakeholders, including employer partnerships, public entity partnerships, universities, TVET colleges, NGOs, private skills development providers and international partners.

#### **Industry Transformational Projects**

One of the most innovative projects yet launched in South

Africa is the EON-merSETA partnership based primarily on artificial intelligence and its various components. This includes relevant hardware, software and training in “soft” skills.

In 2022/23, the merSETA and EON Reality, a California-based IT-company, began rolling out the EON Knowledge Metaverse (EKM) Programme, a hands-on, easy-to-use extended reality (XR) education and training solution that includes extensive simulation.

With XR solutions, learners and trainers enter immersive environments where soft skills for customer service and technical abilities make training far more accessible and enjoyable.

The target is 50 000 learners and 7 500 intern/worker computer licences for virtual learning at the highest level. South African learners, interns and workers now form part of an all-encompassing global project to build a new and improved inter-connected world to learn, train and perform using XR.

XR education allows students, interns and workers to work and learn together in virtual environments as though they were physically there in a working/studying environment. Interactivity between students and educators in real time

## PART A: GENERAL INFORMATION

sets it apart from other platforms that are often bedevilled by cacophony during live sessions.

Fifteen higher education institutions and training providers are part of the project. By enhancing their educational quality, institutions can expect to see a significant return on investment due to increased student enrolment, retention, satisfaction and engagement.

In yet another breakthrough, the merSETA has approved the funding of R141 million for NSFAS for a period of three years. The funding is aimed at the “missing middle” – a key point of debate in past years – and the agreement links the payment of administration fees to submission of project reports.

The agreements provide for more than 300 learners per year where claims could be less than the maximum of funded value as there is provision for learners from both TVET colleges and Higher Education Institutions.

Our funding in infrastructure has also increased. The merSETA approved R55 million for tools and equipment for 11 technical schools that fall under the Gauteng Department of Education.

Further, R172 million was earmarked in 2022/23 for the training of 5 000 learners in the Solar PV Microgrid and Business skills and Entrepreneurial Training scheme via the Gauteng City Region Academy. With consistent load shedding and society’s priority on South Africa’s abundant solar energy as an alternative to fossil fuels, this training scheme will widen the scope for penetration of solar energy both for industry and households.

Indeed, the merSETA has grasped and acted upon the energy crisis in our country.

In the Free State, the merSETA approved funding of R174 million for ten technical schools, the Motheo TVET college and other institutions for various skills development that fall under the provincial government’s departments.

A further amount of R70 million was allocated to the Motheo TVET college, the Central University of Technology and the University of the Free State for student debt relief. In effect, students unable to receive their graduation certificates due to dire circumstances will be helped through this fund.

For the Northern Cape Provincial Government, the merSETA granted R210 million for a host of training programmes including skills training for 950 learners (solar installation, welding and hand tools), Clinical Engineering Training and similar high-set skills.

Seven Youth Service Centres focusing on training in electrical, welding and computer equipment will also be launched after the merSETA agreed to broaden the scope of its interventions in the Northern Cape.

The North West Provincial Government’s Cooperative Governance and Traditional Affairs Department will receive about R12 million to fund 44 learners in candidacy programmes run by the department.

These innovative projects are apart from the standard training in the traditional modes of work that the merSETA has undertaken in the past 23 years.

In the 2022/23 financial year, the merSETA entered and exited more than **13 000** learners in learnerships, artisanal and ARPL programmes.

The merSETA also maintained 29 partnerships with TVET colleges and 12 with Higher Education Institutions (HEI), while it continued support of three Centres of Specialisation.

### Finance

The merSETA’s revenue is on a sound footing and is more than **R1.8 billion**.

The merSETA evaluated applications and awarded discretionary grants valued at more than **R800 million** in the year under review.

The merSETA focus is on initiatives that contribute to the sustainability, growth and profitability of grant recipients and industries within the mer-sector.

As listed above, we earmarked a considerable amount of disbursement on innovative projects that take in the new world-of-work, especially artificial intelligence components. Again, the bulk of discretionary grants was disbursed for artisan training and learnerships. These two interventions account for 75% of the Discretionary Grant budget.

In the financial year of 2022/23, the merSETA approved **3 781** companies for Mandatory Grants, amounting to about **R267 million**.

The levy breakdown per chamber remained almost unchanged from previous years, with the Metal Chamber contributing the largest share. Most contributing companies are in the “small category”, with little over 13 000 companies paying levies, mostly in Gauteng and North West.

### Organisational Transformation

In the 2021/22 year, the merSETA launched the Organisational Design Project.

The intention was to realign the merSETA’s organisational structure and HR processes with appropriate competencies (staff, governance, structures, implementing partners and stakeholders) to achieve its mandate.

The core focus of the programme was on change enablement and empowerment of the organisation’s leaders and employees.

In 2022/23, a robust consultative process that involved several stakeholders across the organisation was launched. The current operating environment demands the right calibre, capability and capacity of human resources. Accordingly, the merSETA will continue to implement its strategy on transforming the HR function to be more responsive to business requirements underpinned by

implementing an HR operating model and integrated HR information management system.

### Way Forward

The Fourth Industrial Revolution and its most advanced progeny, artificial intelligence, will bring major disruptions in the manufacturing, engineering and related services sector.

What began as an immersive component of the entertainment and gaming spheres, is now fast becoming the centre of digitisation of production and communication. Problem-solving in the manufacturing space is now a question and click away with demonstrable tactics. Real world simulations are the zenith for pre-production manufacturing.

Thus, a competitive manufacturing and engineering sector depends on the capacity of firms to master advanced technology domains, to innovate and to meet the precise needs of customers.


This has created an opportunity for the merSETA to partner with stakeholders like EON Reality, HEIs, research councils, non-profit organisations and employers to promote

innovation and keep abreast of advanced manufacturing technologies, data analytics, the application of robotics,

The green, blue and circular economies have been identified as sustainable development imperatives with the potential for job creation, and AI and its associated components will advance technical application in these spheres.

New business and manufacturing opportunities will abound. This is an indicator of the type of future skills built from an entrenched approach to lifelong learning.

The role of digitisation in revolutionising curricula, teaching, learning and skills development cannot be overemphasised. The merSETA is up to the task.



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**Disa Mpande (Mrs)**

Acting Chief Executive Officer



## 5. Statement of Responsibility and Confirmation of Accuracy for the Annual Report

To the best of my knowledge and belief, I confirm the following: All information and amounts disclosed in the Annual Report are consistent with the annual financial statements audited by the Auditor-General.

The Annual Report is complete, accurate and is free from any omissions. The Annual Report has been prepared in accordance with the guidelines on the annual reports as issued by National Treasury.


The annual financial statements (Part E) have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) standards applicable to the public entity.

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

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

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the Annual Report fairly reflects the operations, performance information, human resources information and financial affairs of the entity for the financial year ended 31 March 2023.



**Disa Mpande**

Acting Chief Executive Officer  
31 March 2023



**Kate Moloto**

Accounting Authority Chairperson  
31 March 2023



## 6. Strategic Overview

### 6.1 VISION

Leaders in closing the skills gap.

### 6.2 MISSION

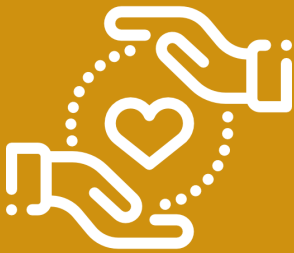
To increase access to high quality and relevant skills development and training opportunities.

To support economic growth in order to reduce inequalities and unemployment.

To promote employability and participation in the economy.

### 6.3 VALUES

We care.



We belong.



We serve.



# 7. Legislative and Other Mandates

The merSETA mandate is derived from the Skills Development Act No 97 of 1998 and the National Skills Development Plan (NSDP) gazetted by the Department of Higher Education and Training (DHET) on 7 March 2019.

The NSDP and aligned merSETA strategic priorities require the merSETA to do the following:

### Develop the Sector Labour Market Intelligence System

- Promote and develop an institutional base for providing robust and reliable sector data by aligning internal information and communications technology (ICT), administration functions and monitoring and evaluation with the requirements of credible research and sector skills planning; and
- implement systematic development of research partnerships with higher education institutions (HEIs) and develop knowledge management in the organisation.

### Continued and Increased Focus on Artisan Development

- Include pathways to artisan status from learner progression, career guidance, and sector and company perspective;
- involvement of stakeholders in the planning and governance of qualifications, curriculum development and assessment as well as provider-employer cooperation and scalable workplace learning;
- programmes and projects for strengthened relationships among TVET colleges, industry training centres and industry; and
- promoting artisan recognition of prior learning, and enhancing capacity of small and medium enterprises (SMEs) to offer artisan training.

### Establish and Facilitate Strategic Partnerships

- Engage with government, non-government, employer associations, labour organisations and bargaining councils for greater coordination; and
- efficiently pursue partnerships with local and international HEIs to ensure new ideas and research outcomes to benefit the sector.

### Increase Flow of Newly Skilled Workers into the Sector

- Address skills shortages currently experienced, whilst accommodating planned growth, impact of technological changes and replacement demand;

- provide access to work experience opportunities;
- address transformation imperatives of race, gender, class, geography, disability, and age; and
- increase career guidance and development in rural areas

### Develop the Skills of the Existing Workforce

- Lifelong learning and creation of career pathways consistent with decent work, equity and sector economic growth;
- identify occupational pathways for existing workers and those at risk of retrenchment, thus implementing upskilling, reskilling and trans-skilling; and
- provide continuous education, post-qualification programmes, continuous professional development and management development.

### 7.1 Legislative Mandate

The merSETA derives its mandate from the following key legislation (this list is not exhaustive):

- Constitution of the Republic of South Africa Act No 108 of 1996;
- Skills Development Act No 97 of 1998 (as amended) and the regulations thereof (there are two types of regulations, i.e. grant regulations and Standard Constitution of SETA Regulations);
- Public Finance Management Act No 1 of 1999 (as amended) and the regulations thereof;
- Skills Development Levies Act No 9 of 1999 and the regulations thereof;
- merSETA Constitution;
- The merSETA is a schedule 3a public entity and reports to the Department of Higher Education and Training;
- Promotion of Access to Information Act No 2 of 2000;
- Promotion of Administrative Justice Act No 3 of 2000; and
- Labour market legislation.

### 7.2 Policy Mandate

The merSETA subscribes to the following policy imperatives:

- National Skills Development Plan (NSDP);
- Human Resource Development Strategy for South Africa 2015;
- New Growth Path 2011;
- National Development Plan (NDP) 2011; and
- Industrial Policy Action Plan (IPAP).

## 8. Organisational Structure

### Accounting Authority



Kate Moloto  
**Accounting Authority  
Chairperson**



Japhta Elias Kubeka  
**Accounting Authority**



Louis van Huyssteen  
**Accounting Authority**



Thandeka Phiri  
**Accounting Authority**



Neil Rademan  
**Accounting Authority**



Dr Alex Mashilo  
**Accounting Authority**



Sumaya Hoosen  
**Accounting Authority**

## Organisational Structure

### Accounting Authority



Kirtida Bhana  
**Accounting Authority**



Thapelo Molapo  
**Accounting Authority**



Dr Lesley Lee  
**Accounting Authority**



Siboniso Mdletshe  
**Accounting Authority**



Renai Moothilal  
**Accounting Authority**



Jacobus Koos de Beer  
**Accounting Authority**



Ruth Ntlokotse  
**Accounting Authority**



## Management Committee



Disa Mpande (CA)  
**Acting Chief Executive  
Officer**



Andrew Venter  
**Acting Chief Financial Officer**



Naphtaly Mokgotsane  
**Acting Chief Operations  
Officer**



Dr More Manda  
**Acting Strategy and  
Research Executive**



Rajesh Jock  
**Corporate Services Executive**



Tebogo Moepi  
**Chief Information Officer**



# PART B:

PERFORMANCE INFORMATION

# 1. AUDITOR'S REPORT: PREDETERMINED OBJECTIVES

The AGSA/auditor currently performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to management, with material findings being reported under the Predetermined Objectives heading in the Report on other legal and regulatory requirements section of the auditor's report.

Refer to page 63 of the Report of the Auditors Report, published as Part F: Financial Information.



# 2. OVERVIEW OF PERFORMANCE

## 2.1 Service Delivery Environment

Political conditions play a significant role in the growth of the manufacturing sector, and of the economy in general.

Political stability is key in creating a conducive environment for developing and implementing development-oriented policy that stimulates the growth of the economy and addresses socio-economic challenges such as poverty, unemployment and inequality.

Corruption remains one of the wicked problems in South Africa. Allegations of corruption against some government officials have once again drawn attention to the extent of this scourge. There is a call to strengthen government's efforts in accelerating the fight against corruption as this is key in restoring confidence and credibility in the democratically elected government.

Civil society, government and business all have a role to play in fighting corruption, which is rooted not just in the public sector but in the private sector as well.

SETAs, as schedule 3A public entities, play a critical role in helping government implement its policy agenda, particularly around strengthening efforts to fight poverty, inequality and unemployment through skills development.

Skills development is expected to play a role in supporting the implementation of national priorities aimed at promoting economic transformation by expanding access to education and training opportunities. Key to that is the ability of SETAs to leverage their role as intermediary bodies to partner with other social partners in advancing the economic transformation agenda.

Government efforts have been focused on economic recovery following years of sluggish growth. The economy overall has not demonstrated strong indications of growth. The South African GDP grew at an annualised rate of 1.1% in the first quarter of 2023 according to the Bureau of Economic Analysis.

The majority of businesses have struggled. Companies continue to close as they struggle to remain viable in the prevailing economic conditions. This has been worsened by the energy crisis in South Africa that has seen record high increases in fuel and rolling blackouts.

The unemployment rate has soared to close to 33% and could even be higher given the sluggish economic growth. This has triggered a socio-economic crisis and is likely to increase poverty, unemployment and inequality.

A sustainable solution to the growing unemployment rate is required.

SETAs also have a key role in supporting government's efforts through skills development to support employment (including self-employment), entrepreneurship, cooperatives, the informal sector and small businesses as a means of supporting sustainable livelihoods in communities and the broader social economy.

New jobs and occupations are expected to emerge in the new economy driven by localisation, economic patriotism, a strengthened informal sector and infrastructure development and maintenance. However, leveraging these opportunities will require collaboration between government and industry. SETAs, as facilitators of skills development, need to be at the forefront of identifying these opportunities to prepare the labour market and the sector.

South Africa has been thrown into a deep social crisis with increasing unemployment, inequality and poverty. Unemployment in South Africa has reached alarming levels, as the South African economy continues to shed jobs in critical sectors such as mining and manufacturing.

According to Statistics SA (2023), the unemployment rate reached 32.9% in the first quarter of 2023. Increasing unemployment has resulted in a shrinking tax revenue base, which has constrained the national fiscal, resulting in an increasing number of people relying on social grants.

Long-term solutions, such as job creation and stimulating the social economy, are key in alleviating the social crisis as the distress grant is only a temporary measure, and is not sustainable in the long term.

The merSETA has a critical role to play in developing and implementing initiatives aimed at addressing challenges such as unemployment through skills development initiatives aimed at increasing the employability (including self-employment) of youth. Interventions should also cater for workers in the sector who might lack the relevant skills as a result of the digitisation of the mer-sector.

Unlocking the social economy remains one of the key strategies in fighting poverty and increasing inequality.

The SETAs' focus has to be strengthened to support the creation of economic opportunities and sustainable livelihood for the youth, women, people living with disabilities, township entrepreneurship, rural development and marginalised communities' upliftment.



### 2.2. Organisational Environment

The Accounting Authority has played a pivotal role in guiding management with implementing priorities identified in the five-year strategy. The merSETA's management in the year under review continued to develop systems and structures to support the implementation of the strategy. Key projects implemented in the year under review include the merSETA digital ecosystem project (ProgrammePhetogo) that seeks to digitally transform the merSETA in line with developments in 4IR so as to improve the merSETA's responsiveness to opportunities and challenges brought by the digitally-driven revolution. The organisational transformation project is another key project implemented to achieve a professional and capable organisation grounded in ethical leadership, best practice, governance and management, appropriate competencies (staff, governance, structures, implementing partners and stakeholders), good employee experience supported by policies, systems, processes and fair remuneration as well as performance-based impact delivery of products and service, and best practice consequence management in line with the 2020/21 – 2024/25 strategic plan.

### 2.3 Key Policy Developments and Legislative Changes

The NSDP is set to become the key policy to inform the work of the merSETA until 2030 and has been crafted in the context of the National Development Plan. The Steel and Automotive masterplans, in collaboration with nationwide stakeholders, is set to be implemented.

### 2.4. Progress towards Achievement of Institutional Impacts and Outcomes

#### 2.4.1. Strategic Outcomes

The five outcomes of the merSETA discussed below are a direct response to the priorities set in the NSDP and the NDP.

**Outcome 1:** Ethical governance and resourcing capable merSETA operations, established and maintained to equitably provide skills development-related services, goods and products responsive to occupations and skills growth demand of the merSETA sector industries, and labour market.

Promoting accountability, transparency and the optimal use of resources is critical in building a SETA that is capable of fulfilling its developmental and transformational role.

Moreover, promoting a culture of innovation, continuous improvement, learning, recognition and high performance is key in enabling the merSETA to fulfil its mandate. Developing a team of skilled leaders, managers and staff with expertise in core and support functions of the merSETA will remain critical. The merSETA operates within an ecosystem, thus collaboration, learning networks and partnerships remain key for its success.

**Outcome 2:** Skills for productive enterprises within the social economy to support integration into the merSETA sector's engineering and industry value chains.

Skills development is essential in supporting the creation of economic opportunities and sustainable livelihood for the youth, women, and people living with disabilities, as well as township, rural and marginalised communities. The merSETA has taken a decision to prioritise the funding of skills development projects that address the needs of the social economy and community development.

**Outcome 3:** PSET education, training and skills development at public institutions are responsive to the changing occupations and skills demand required for the merSETA sector's engineering and manufacturing industries, as well as the related labour market.

The merSETA plays a pivotal role in building a responsive PSET system driven by the economy, socio-economic context as well as other national priorities. This calls for the need to balance competing national, regional, sectoral, and community priorities as well as the needs of the workers (current and new) and employers/businesses. The merSETA must challenge its various stakeholders (including labour, business, government and education and training institutions) to collaborate on skills development initiatives that foster common goals in the attempt to move the sector and economy forward.

**Outcome 4:** Skills for the transformed South African merSETA sector's engineering and manufacturing industries to support Employment Equity demographic transformation, changing business models of production and technology, and transforming the diversification of ownership, control and management.

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A transformed local manufacturing sector driven by technology, innovation, sustainability, globalisation and changing global manufacturing value chains is essential in promoting employment and inclusive growth. Using a value chain approach, the merSETA has identified priority sectors to support the responsiveness of the South African sector to the digitisation of manufacturing, engineering and related industries in the age of the Fourth Industrial Revolution (4IR). Technological advancements and innovations in the age of 4IR have seen an increase in the digitisation of manufacturing, engineering and related industries. The sector has an opportunity to benefit not only from the localisation strategy (through the local manufacturing value chain), but the global automotive manufacturing value chain.

**Outcome 5:** A skilled, agile and flexible current and future workforce for emerging/transforming/new occupations and employment opportunities within the merSETA sector's engineering and manufacturing industries, and related labour market.

Advances in manufacturing, globalisation, technology, and consumer markets, and local and international regulations have placed pressure on the modern worker to be agile in adapting to these changes. The reality is that new jobs will emerge while others disappear. The SETA shall unpack underlying skills of emerging occupations and respond with a multipronged strategy for current workers, new entrants, and future workers. Skilling and reskilling of the current workers, new entrants and future workers should not only focus on current and immediate needs, but also on future needs.

### 2.4.2. Sector Profile

The Manufacturing, Engineering and Related Services Education and Training Authority (merSETA) is one of 21 SETAs established through the Skills Development Act (Act No 97 of 1998). It covers a range of manufacturing activities and a few related service and retail activities. It facilitates skills development in the following six sub-sectors:

1. metals and engineering;
2. auto manufacturing;
3. motor retail and aftermarket;
4. new tyre manufacturing;
5. plastics manufacturing; and
6. automotive components manufacturing.

Previously, large companies accounted for well over 70% of employees. However, this year a higher proportion of employees are employed in medium and small companies. The metal, motor retail and plastics sectors have a higher proportion of workers employed by medium and small enterprises. It is these sectors who would also tend to have representation in the informal sector in terms of business activities.

In terms of the occupational profile of employees in the sector, the majority of employees are either machine operators, artisans/skilled trade workers or elementary workers.

Based on the three-digit standard industrial classification (SIC) codes used in capturing data for the national accounts, figure 1 below outlines the industrial activities aligned to the merSETA scope of coverage and classifies them by chamber. The figure depicts the interrelationships among the chambers and demonstrates the flow of inputs.

### The merSETA SCOPE OF COVERAGE BY CHAMBER

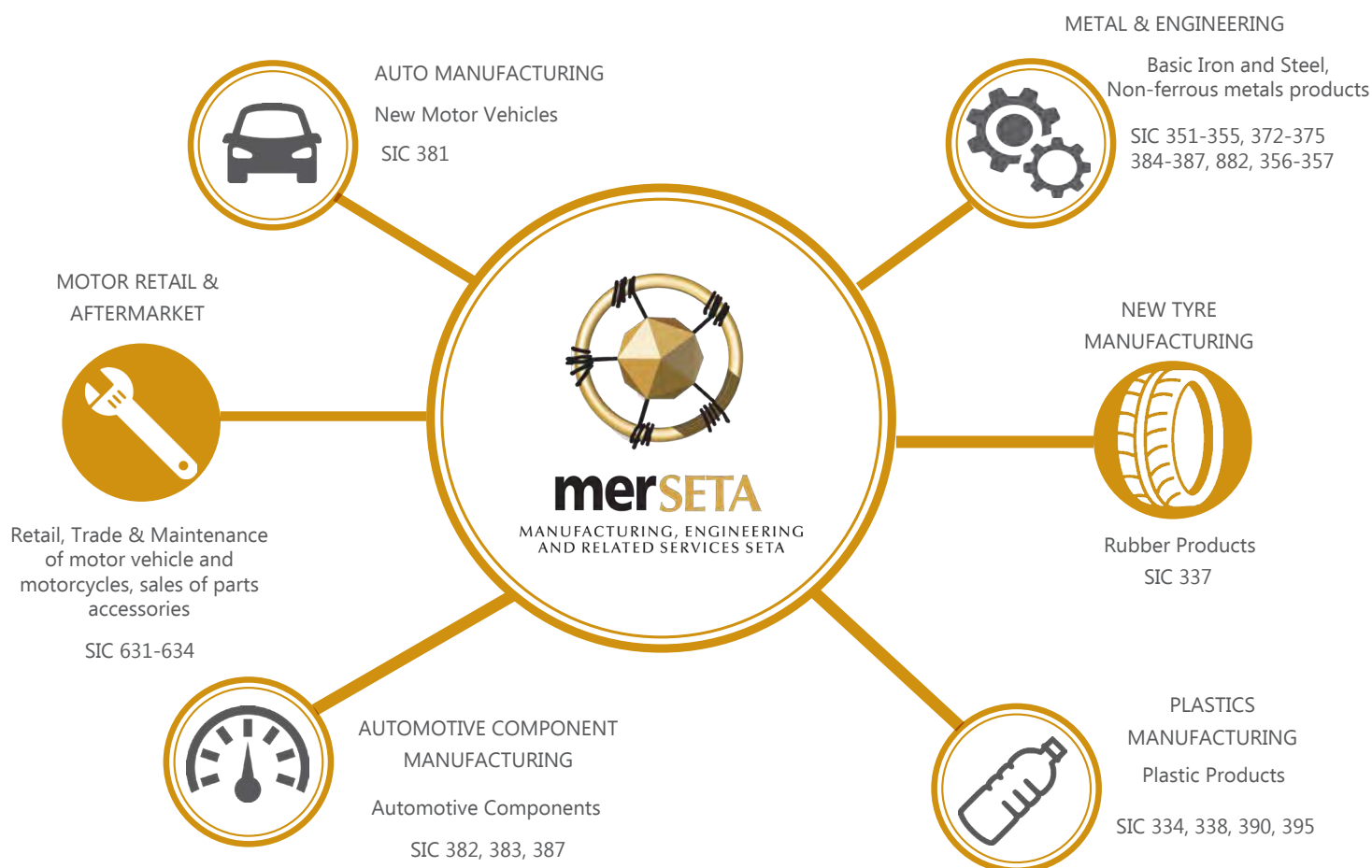


Figure 1: merSETA Scope of Coverage by SIC Code and Chamber.

#### 2.4.3. Automotive Sector

The automotive sector is the cornerstone of South Africa's industrial base which accounts for over 5% of the country's GDP (gross domestic product). All six chambers within the merSETA are associated with the automotive sector as either a direct input such as materials (metal and plastics) or components manufacturing, or the rendering of services associated to the sector such as aftermarket services and sales.

The automotive sector consists of the original equipment manufacturers (OEMs), tyre manufacturing, motor retail and components companies that are linked to each other through the automotive production and distribution value chains.

#### 2.4.4. Auto Manufacturing Chamber

Due to the capital requirements and technical nature of producing vehicles there are only a handful of auto OEMs in

South Africa, all of which are international brands (merSETA Supply and Demand Study, 2018). South Africa's main sites for automobile production are the Eastern Cape, specifically Gqeberha and East London; Gauteng, specifically Rosslyn and Silverton (Pretoria); and KwaZulu-Natal, specifically Durban (merSETA Supply and Demand Study, 2018). The auto sector has some of the largest scales of operation of all the sectors.

#### 2.4.5. Automotive Components Manufacturing Chamber

This chamber comprises manufacturers that produce vehicle components, parts and equipment. Components are sold to independent parts sellers and aftermarket service providers. Due to the increased resource needs and skills required to produce some components (i.e., compliance to meet the standards of auto OEMs), major employers in this sector tend to be larger businesses. Components that are manufactured relate to various phases of the auto value chain from upstream manufacturing of casts to downstream trimming (merSETA Supply and Demand Study, 2018). The components

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manufacturing sub-sector is one of the key sub-sectors in South Africa's re-industrialisation and localisation efforts. Standard industrial classification of this sector comprises bodies for vehicles, trailers and semi-trailers (SIC 382), parts and accessories for motor vehicles and their engines (SIC 383) and transport equipment (SIC 387).

### 2.4.6. New Tyre Manufacturing Chamber

The new tyre sector plays a significant role in the automotive assembly and component manufacturing sector in South Africa. The different types of tyres produced in the country include tyres for passenger, commercial, agricultural, mining, construction and industrial vehicles and associated machinery (Bridgestone, 2019). There are four multinational manufacturers of tyres in South Africa which include Goodyear, Bridgestone, Continental Tyres and Sumitomo Rubber. The Standard Industrial Classification code is 337 (rubber products) and its value chain is shown below.

### 2.4.7. Motor Retail and Aftermarket Chamber

The motor retail sector is a key part of the automotive sector. It is this sector that is responsible for the retail sale, maintenance and repair of motor vehicles, parts and accessories. The Motor Retail SIC comprises fabricated metal products (SIC 359) and motor trade activities including sale of vehicles (SIC 631), vehicle maintenance and repair (SIC 632), sale of vehicle parts and accessories (SIC 633) and the sale, maintenance and repair of motorcycles, their parts and accessories (SIC 634). The value chain for this chamber is described below.

### 2.4.8. Metals and Engineering Chamber

The metals sector represents the largest of the sectors under the merSETA scope of coverage. The metal and engineering sector entails capital equipment, foundries, transport equipment, metal fabrication and related sub-sectors. The metal and engineering sector is an important sector in manufacturing because it produces machinery and equipment used in production and is critical to all forms of manufacturing inputs.

This sector has the widest range of SIC codes under the merSETA scope of coverage. Primary activities are those directly involved in the conversion process of basic raw materials into final output/products including the receipt of basic raw materials from suppliers and marketing of output/products to customers (ZEPARU, 2014). They are grouped into two types of activities related to product and market. Product-related activities are activities performed by the organisation to add value to the product and services itself. Market-related activities are activities performed by the organisation to transfer the finished product or services

to the customers (Acharyulu, Subbaiah & Rao, 2015). The secondary or support activities are those not directly involved in the conversion process but support the primary activities in their functions.

### 2.4.9. Plastics Chamber

The plastics sector is well developed and is one of the most dynamic industries in South Africa. It comprises polymer producers and importers, converters, machine suppliers, fabricators and recyclers that cater for both domestic and international markets. The leading markets for plastics in South Africa are packaging, building and construction, as well as the automotive industries (DTI, 2019). Plastics are used in a vast array of different applications such as preserving and protecting food and medicines, electronic devices like computers and smartphones, and helping make transport more fuel-efficient.

According to industrial classifications, the Plastics Chamber is wholly situated in the manufacturing sector. It comprises basic chemicals and plastic products as well as furniture and recycling.

The merSETA chamber committees are sub-committees of the Accounting Authority established to support the board in carrying out its mandate. Chamber committees operate in accordance with schedule 6 of the standard SETA Constitution. Chambers have a consulting, monitoring, evaluation and advisory role and are accountable to the merSETA Executive Committee.

The merSETA scope of coverage incorporates six chamber committees representing manufacturing, engineering, and related sub-sectors as noted above.

### 2.4.10. Composition

The chamber committees include a maximum of nine members each per organised constituency of participating employer associations and trade union constituent parties.

### 2.4.11. Roles and Responsibilities

The committees ensure the merSETA carries out its responsibilities by:

- developing research and innovation projects from sub-sector inputs into the SSP in accordance with the merSETA and DHET guidelines;
- developing a chamber research agenda, approving research and innovation project proposals prior to submission to the Governance and Strategy Committee, approving an organisation to manage the project in

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accordance with the merSETA's procurement procedures, and monitoring the implementation of the chamber research and innovation projects;

- advising the regional committees and their constituencies on sub-sector needs, scarce skills, programmes, projects, grants, and other appropriate matters;
- identifying education and training needs in the sub-sector for consideration by management in developing the SSP, APP and Strategic Plan;
- monitoring the development and implementation of programmes and projects in the sub-sector;
- making inputs into education and training policies and systems that make an impact on the sub-sector;
- liaising with bargaining councils, forums and professional associations on matters pertaining to the implementation of training at local, provincial and national level, and outside of the scope of the merSETA.

The period under review has been remarkable for merSETA chamber committees. Through lessons learnt from mitigating against the effects of the COVID-19 pandemic and the ongoing organisational digitization transformation process, chamber committees continued to successfully meet and sustain membership by embracing hybrid meeting platforms. A successful hybrid InterChamber Conference was held in the past financial year. The conference theme was "Building Capable and Strategic Chamber Committees for Improving Stakeholder Participation in the merSETA Implementation of the National Skills Development Plan (NSDP)".

The conference's keynote address was by Professor Stephanie Matseleng-Allais, offering her inaugural lecture presented at Wits University, titled "Why can't we get the right skills?"

During the 2022/23 financial year, the following research projects were successfully concluded and implemented:

- **Metal Chamber:** The effects of gender-based violence on firms in the Metal and Engineering Sector.
- **Automotive Components Chamber:** Unpacking automotive components manufacturing SIC codes and activities of companies within the mer-sector for sectoral profiling to assess and understand industry readiness for the fourth industrial revolution.

The following research and innovation pilot projects were scoped for approval and funding in the next financial year:

- **Auto Chamber:** Establishment of a nationally standardised digital learning content platform for the delivery of sector related occupational trades' theoretical training modules;
- **Metal Chamber:** Metals Incubation Hubs – Supporting basic metal product fabrication into viable businesses – A practical model for sustainable income generating opportunities;
- **Combined merSETA affiliated Trade Unions:** Digital literacy training;
- **Motor Chamber:** Using mobile skills labs and business centres for piloting the provision of Occupational Skills Programmes in the vehicle service industry to remote communities through TVET college participation;
- **New Tyre Chamber:** Piloting the implementation of the Industry Career Online Map tool; and
- **Plastics Chamber:** Skills which underpin the Plastics and Environment pillar of the Plastics Masterplan that are mer-sector related and mapped against current qualifications and gaps identified.

### 3. Institutional Programme Performance Information

#### Outcomes, Outputs, Output Indicators, Targets and Actual Achievements Table

##### 3.1. Programme 1

PROGRAMME 1: ADMINISTRATION									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/annual target
<b>Outcome 1:</b> Ethical governance and resourced capable merSETA operations established to equitably provide skills development-related services, goods and products responsive to occupations and skills growth demand of the merSETA sector industries, and labour market.	<b>Strategic Output 1:</b> Effective and efficient governance and leadership practice implemented.	1.1. Percentage of compliance with Corporate Governance Compliance report.	100%	100%	100%	100%	0	n/a	n/a

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### 3.2. Programme 2

PROGRAMME 2: SKILLS PLANNING									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
<b>Outcome 2:</b> Skills for productive enterprises within the social economy to support the integration into the merSETA sector's engineering and industry value chains.  <b>Outcome 3:</b> PSET education, training and skills development in public institutions responsive to the changing occupations and skills demand required for the merSETA sector's engineering and manufacturing industries and related labour market.  <b>Outcome 4:</b> Skills for transformed SA merSETA sector's engineering and manufacturing industries to support EE demographics transformation, changing business models of production and technology, and the transformation for the diversification of ownership, control and management.	<b>Strategic Output 2:</b> Establishment of credible and effective systems and strategies for research, planning, monitoring and evaluation.	2.1. Number of WSPs and ATRs approved for small firms: (49 or less employees).	2 338	2 271	1 800	2 311	511	There were more submissions from small entities, hence the overachievement.	n/a
		2.2. Number of WSPs and ATRs approved for medium firms: (50-149 employees).	883	878	918	919	1	The achievement of this target is submission driven, hence the overachievement.	n/a
		2.3. Number of WSPs and ATRs approved for large firms: (150+ employees).	536	523	551	551	0	n/a	n/a
		2.4. Number of learners who completed workplace-based learning programmes absorbed into employment or self-employment.	2 369	0	636	2 452	1 816	The survey yielded a poor response rate (full data for only 53 learners). Assessments were then based on employed learner numbers from WSP data. Target was thus overachieved.	n/a
		2.5. Number of sector research agreements signed for TVET growth occupationally directed programmes.	0	1	2	0	-2	Insufficient discretionary grant applications to meet the target.	n/a



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### PROGRAMME 2: SKILLS PLANNING

Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
<b>Outcome 5:</b> A skilled, agile and flexible current and future workforce for emerging and employment opportunities within the merSETA sector's engineering and manufacturing industries and related labour market.		2.6. Number of established and emergent cooperatives trained on sector and national identified priority occupations or skills.	n/a	0	30	0	-30	Insufficient demand from discretionary grant applications to meet the target.	n/a
		2.7. Number of small and emerging enterprises trained on sector and national identified priority occupations or skills.	n/a	736	730	614	-116	Shortfall is due to issued MoAs to entities not all returned to meet the target.	n/a

### 3.3. Programme 3

#### PROGRAMME 3: PROGRAMMES AND PROJECTS

Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
<b>Outcome 2:</b> Skills for productive enterprises within the social economy to support the integration into the merSETA sector's engineering and industry value chains.  <b>Outcome 3:</b> PSET education, training and skills development in public institutions responsive to the changing occupations and skills demand required for the merSETA sector's engineering and manufacturing industries and related labour market.	<b>Strategic Output 3:</b> Facilitation of skills development interventions to enable increased access to employment opportunities and support to economic growth opportunities.	3.1. Percentage of total approved Discretionary Grants (DG) allocations to employers, allocated to programmes or projects aimed at developing high-level skills e.g. managers, professionals and technicians and associate professionals.	21%	20%	22%	18.5%	-4%	Achievement of target is demand driven. Of the 3 allocation indicators, a higher allocation percentage was achieved in developing Intermediate Skills in relation to High level skills.	The indicator revised to ensure adherence to the SMART criteria, as recommended by the AGSA during the 2021/22 audit cycle.
		3.2. Percentage of total approved Discretionary Grants (DG) allocations to employers, allocated to programmes or projects aimed at developing mid-level skills e.g., clerical, sales and service, skilled craft and trade workers.	57%	63%	55%	59.7%	5%	Achievement of target is demand driven. Of the 3 allocation indicators, a higher allocation percentage was achieved in developing Intermediate Skills..	The indicator revised to ensure adherence to the SMART criteria, as recommended by the AGSA during the 2021/22 audit cycle.



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PROGRAMME 3: PROGRAMMES AND PROJECTS									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
<b>Outcome 5:</b> A skilled, agile and flexible current and future workforce for emerging and future occupations and employment opportunities within the merSETA sector's engineering and manufacturing industries and related labour market.	<b>Strategic Output 3:</b> Facilitation of skills development interventions to enable increased access to employment opportunities and support to economic growth opportunities.	3.3. Percentage of total approved Discretionary Grants (DG) allocations to employers, allocated to programmes or projects aimed at developing elementary skills e.g. machine operators and elementary workers.	22%	16%	23%	21.8%	-1%	Achievement of target is demand driven. Of the 3 allocation indicators, a higher allocation percentage was achieved in developing Intermediate Skills in relation to elementary skills.	The indicator revised to ensure adherence to the SMART criteria, as recommended by the AGSA during the 2021/22 audit cycle
		3.4. Number of unemployed learners registered for WIL programmes from TVET colleges.	724	10	475	114	-361	Number of learners rejected due to poor compliance documents submitted for reporting purpose.	n/a
		3.5. Number of unemployed learners completing WIL programmes from TVET colleges.	9	74	225	47	-178	Insufficient demand from discretionary grant applications from learners entering WIL TVETs leading to reduced pipeline to meet the completion target.	n/a
		3.6. Number of unemployed learners registered for WIL programmes from HEIs.	78	176	280	220	-60	Number of learners rejected due to poor compliance documents submitted for reporting purpose.	n/a
		3.7. Number of unemployed learners completing WIL programmes from HEIs.	147	18	200	262	62	Insufficient demand from discretionary grant applications from learners entering WIL HEIs leading to reduced pipeline to meet the completion target.	n/a

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PROGRAMME 3: PROGRAMMES AND PROJECTS									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
		3.8. Number of unemployed learners registered for workplace experience/ internships.	191	40	350	129	-221	Insufficient demand from discretionary grant applications to meet the target.	n/a
		3.9. Number of unemployed learners completing workplace experience/ internships.	93	166	170	50	-120	Insufficient demand from applications of learners entering internships to meet the completion target.	n/a
		3.10. Number of unemployed learners registered for skills programmes.	2 608	3 687	3 000	5 146	2 146	Increased demand for unemployed learners entering skills programmes resulted in an overachievement of the target.	n/a
		3.11. Number of unemployed learners completing skills programmes.	1 130	2 380	2 570	5 257	2 687	High volumes of moderation reports have been received for unemployed skills programmes completions.	n/a
		3.12. Number of unemployed learners registered for learnership programmes.	2 300	1 407	3 000	3 520	520	Increased demand for unemployed learners entering learnerships resulted in an overachievement of the target.	n/a
		3.13. Number of unemployed learners completing learnership programmes.	1 173	2 018	2 583	2 624	41	Target set was exceeded due to higher learner throughput from funded organisations.	n/a
		3.14. Number of unemployed engineering graduates registered for candidacy programmes.	70	0	25	27	2	A strategic partnership with Resolution Circle to train Candidate Engineers has resulted in an overachievement of the target.	n/a
		3.15. Number of unemployed engineering graduates completing candidacy programmes.	0	0	3	0	-3	Insufficient demand from discretionary grant applications to meet the target. This programme to professional registration takes three to four years and learners in the pipeline have not completed.	n/a

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PROGRAMME 3: PROGRAMMES AND PROJECTS									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
		3.16. Number of unemployed learners registered for bursary programmes (new entries).	31	115	110	63	-47	There were no new bursary funding agreements signed to enrol new first time university entrants. This is due to misalignment of the academic year and financial year which results in learners falling into prior year.	n/a
		3.17. Number of unemployed learners registered for bursary programmes (continuing).	277	246	309	448	139	The target was exceeded due to learners from various projects with institutions and bursary organisations reported in the last quarter.	n/a
		3.18. Number of unemployed learners completing bursary programmes.	9	20	50	99	49	The funded learners from various partnerships only completed during this period. This indicator is dependent on throughput from institutions.	n/a
		3.19. Number of employed learners registered for learnership programmes.	678	443	1 440	904	-536	Insufficient demand from discretionary grant applications to meet the target.	n/a
		3.20. Number of employed learners completing learnership programmes.	381	606	1 183	854	-329	Insufficient demand from discretionary grant applications from learners entering employed skills programme leading to reduced pipeline to meet the completion target.	n/a
		3.21. Number of employed learners registered for bursary programmes (new entries).	19	27	104	34	-70	Insufficient demand from discretionary grant applications to meet the target.	n/a
		3.22. Number of employed learners registered for bursary programmes (continuing).	5	0	50	0	-50	Insufficient demand from discretionary grant applications to meet the target.	n/a

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PROGRAMME 3: PROGRAMMES AND PROJECTS

Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
		3.23. Number of employed learners completing bursary programmes.	30	9	36	4	-32	Insufficient demand from discretionary grant applications from learners for this indicator. This indicator is dependent on throughput from institutions.	n/a
		3.24. Number of employed learners registered for skills programmes.	1 096	495	2 000	1 172	-828	Insufficient demand from discretionary grant applications to meet the target.	n/a
		3.25. Number of employed learners completing skills programmes.	417	544	2 094	674	-1 420	Insufficient demand from discretionary grant applications from learners entering employed skills programmes leading to reduced pipeline to meet the completion target.	n/a
		3.26. Number of employed or unemployed learners registered for AET programmes.	485	227	510	438	-72	Insufficient demand from discretionary grant applications to meet the target. Number of records have been rejected due to poor compliance documents submitted.	n/a
		3.27. Number of employed or unemployed learners completing AET programmes.	7	0	500	191	-309	Insufficient demand from discretionary grant applications from learners entering employed AET programme leading to reduced pipeline to meet the completion target.	n/a
		3.28. Number of learners registered for trade/artisan qualifications (new registration).	1 665	881	3 000	2 138	-862	Number of learners rejected due to poor compliance documents submitted.	n/a
		3.29. Number of learners completing trade/artisan qualifications.	1 828	2 077	3 460	1 709	-1 751	Insufficient number of apprentices registered in time leading to reduced numbers for completion target.	n/a

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PROGRAMME 3: PROGRAMMES AND PROJECTS									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
<b>Outcome 3:</b> PSET education, training and skills development for public institutions responsive to the changing occupations and skills demand required for the merSETA sector's engineering and manufacturing industries and related labour market.  <b>Outcome 4:</b> Skills for transformed South African merSETA sector's engineering and manufacturing industries to support EE demographics transformation, changing business models of production and technology, and the transformation for the diversification of ownership, control and management.  <b>Outcome 5:</b> A skilled, agile and flexible current and future workforce for emerging and future occupations and employment opportunities within the merSETA sector's engineering and manufacturing industries and related labour market.	<b>Strategic Output 4:</b> Strategic skills development related collaborations and partnerships to respond to national, provincial, local and sector strategic priorities.	3.30. Number of learners entering Artisan Recognition of Prior Learning (ARPL) programme.	n/a	345	1 000	862	-138	Insufficient demand from discretionary grant applications to meet the target. Unfunded learners processed have been rejected due to poor compliance documents submitted.	n/a
		3.31. Number of learners completing Artisan Recognition of Prior Learning (ARPL) programme.	374	516	1 040	742	-298	Insufficient number of ARPL registered in time leading to reduced numbers for completion target.	n/a
		3.32. Number of active TVET college partnerships established.	23	30	25	29	4	Target overachieved as it includes active partnerships initiated in previous years.	n/a
		3.33. Number of active SETA-HEI partnerships established.	14	16	12	12	0	n/a	n/a
		3.34. Number of active CET partnerships established.	2	3	3	3	0	n/a	n/a
		3.35. Number of new SETA-Employer partnerships established.	1 570	1 347	1 400	1 023	-377	Shortfall is due to issued MoAs to entities not all returned to meet the target.	n/a

## PART B: PERFORMANCE INFORMATION

PROGRAMME 3: PROGRAMMES AND PROJECTS									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
<b>Outcome 2:</b> Skills for productive enterprises within the social economy to support the integration into the merSETA sector's engineering and industry value chains.	<b>Strategic Output 5:</b> Facilitation of skills development interventions to support the development and establishment of sustainable SMEs, cooperatives, and local or community-based employment and income generation activities aligned to merSETA's engineering and manufacturing value chain.	3.36. Number of Cooperatives funded for skills that enhance enterprise growth and development.	0	4	10	1	-9	Insufficient demand allocated to meet the target.	
		3.37. Number of small businesses funded for skills that enhance enterprise growth and development.	1 440	53	50	50	0	n/a	n/a
		3.38. Number CBOs/ NGOs/NPOs funded for skills to grow/ develop and sustain their activities or organisations.	42	20	25	25	0	n/a	n/a
		3.39. Number of trade unions supported through skills development.	4	1	4	0	-4	Insufficient demand from discretionary grant applications to meet the target.	n/a
		3.40. Number of rural development projects supported through skills development.	4	4	4	4	0	n/a	n/a
		3.41. Number of people trained on entrepreneurship supported to start their business (number of people funded for enterprise growth/enterprise development skills).	0	0	300	416	116	A partnership with HEIs on a number of skills programmes has resulted in an overachievement of the target.	n/a

## PART B: PERFORMANCE INFORMATION

### 3.4. Programme 4

PROGRAMME 4: QUALITY ASSURANCE									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations	Reason for revisions to outputs/ indicators/ annual target
<b>Outcome 3:</b> PSET education, training and skills development in public institutions responsive to the changing occupations and skills demand required for the merSETA sector's engineering and manufacturing industries and related labour market.	<b>Strategic Output 6:</b> Support to the growth and quality improvement of technical and vocational education and training (TVET) colleges.	4.1. Number of TVET Centres of Specialisation (CoS) supported.	2	5	3	3	0	n/a	n/a
		4.2. Number of TVET colleges funded for merSETA occupational programmes, equipment and workshop infrastructure.	3	5	3	3	0	n/a	n/a
		4.3. Number of TVET college lecturers awarded bursaries.	0	12	20	0	-20	Insufficient demand from discretionary grant applications to meet the target.	n/a
		4.4. Number of TVET college managers receiving training on curriculum related studies.	0	0	No target planned	n/a	n/a	n/a	
	4.5. Number of TVET college lecturers exposed to industry through skills programmes.	0	13	60	0	-60	Insufficient demand from discretionary grant applications to meet the target.	n/a	
	4.6. Number of SETA offices maintained in TVET colleges.	3	4	3	3	0	n/a	n/a	
	4.7. Number of CET college lecturers awarded skills development programmes.	0	0	No target planned	n/a	n/a	n/a		
	4.8. Number of CET college managers receiving training on curriculum-related studies.	0	0	No target planned	n/a	n/a	n/a		
	<b>Strategic Objective 7:</b> Support to the growth and quality improvement of community education and training (CET) colleges.								

## PART B: PERFORMANCE INFORMATION

PROGRAMME 4: QUALITY ASSURANCE									
Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual achievement 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Deviation from planned target to actual achievement 2022/23	Reason for deviations to outputs/ indicators/annual target	Reason for revisions to outputs/ indicators/annual target
<b>Outcome 5:</b> A skilled, agile and flexible current and future workforce for emerging and future occupations and employment opportunities within the merSETA sector's engineering and manufacturing industries and related labour market.		4.9. Number of CET colleges funded for merSETA occupational programmes, equipment and workshop infrastructure.	0	2	3	2	-1	The third CET college did not sign the agreement by 31 March 2023. It will be committed under the current financial year.	n/a
		4.10. Number of CET learners accessing AET programmes.	0	0	15	31	16	A partnership with the Community Education and Training Colleges on a number of skills programmes has resulted in an overachievement of the target.	n/a
	<b>Strategic Output 8:</b> Support career development services.	4.11. Number of career development events in urban areas on occupations in high demand.	12	15	15	15	0	Target overachieved due to a number of urban events merSETA was invited to and could exhibit at.	n/a
		4.12. Number of career development events in rural areas on occupations in high demand.	22	15	15	19	4	Q4 target was not achieved due to less rural events due to school holidays at the beginning of the quarter and towards the end, however, annual target was overachieved due to sufficient rural events in the previous quarters.	n/a
		4.13. Number of career development practitioners trained.	31	24	30	38	8	The service provider trained more candidates to mitigate any unforeseen dropouts. That's the reason this indicator exceeded the set target.	n/a
		4.14. Number of capacity-building workshops on career development services initiated.	5	6	7	7	0	n/a	n/a



### Programme 3: Prior Year Achievements

Outcome	Output	Output indicator	Audited actual performance 2020/21	Audited actual performance 2021/22	Planned annual target 2022/23	Actual achievement 2022/23	Prior year achievement
<b>Outcome 2:</b> Skills for productive enterprises within the social economy to support the integration into the merSETA sector's engineering and industry value chains.  <b>Outcome 3:</b> PSET education, training and skills development in public institutions responsive to the changing occupations and skills demand required for the merSETA sector's engineering and manufacturing industries and related labour market.	<b>Strategic Output 3:</b> Facilitation of skills development interventions to enable increased access to employment opportunities and support to economic growth opportunities.	3.4. Number of unemployed learners registered for WIL programmes from TVET colleges.	724	10	475	114	50
		3.5. Number of unemployed learners completing WIL programmes from TVET colleges.	9	74	225	47	16
		3.6. Number of unemployed learners registered for WIL programmes from HEIs.	78	176	280	220	230
		3.7. Number of unemployed learners completing WIL programmes from HEIs.	147	18	200	262	177
		3.8. Number of unemployed learners registered for workplace experience/internships.	191	40	350	129	122
		3.9. Number of unemployed learners completing workplace experience/internships.	93	166	170	50	8
		3.10. Number of unemployed learners registered for skills programmes.	2 608	3 687	3 000	5 146	4 741
		3.11. Number of unemployed learners completing skills programmes.	1 130	2 380	2 570	5 257	408
		3.12. Number of unemployed learners registered for learnership programmes.	2 300	1 407	3 000	3 520	2 892
		3.13. Number of unemployed learners completing learnership programmes.	1 173	2 018	2 583	2 624	407
		3.14. Number of unemployed engineering graduates registered for candidacy programmes.	70	0	25	27	1
		3.15. Number of unemployed engineering graduates completing candidacy programmes.	0	0	3	0	4
		3.16. Number of unemployed learners registered for bursary programmes (new entries).	31	115	110	63	82
		3.18. Number of unemployed learners completing bursary programmes.	9	20	50	99	12
<b>Outcome 4:</b> Skills for transformed SA merSETA sector's engineering and manufacturing industries to support EE demographics transformation, changing business models of production and technology, and the transformation for the diversification of the diversification of ownership, control and management.  <b>Outcome 5:</b> A skilled, agile and flexible current and future workforce for emerging and future occupations and employment opportunities within the merSETA sector's engineering and manufacturing industries and related labour market.	3.19. Number of employed learners registered for learnership programmes.	678	443	1 440	904	908	
	3.20. Number of employed learners completing learnership programmes.	381	606	1 183	854	81	
	3.21. Number of employed learners registered for bursary programmes (new entries).	19	27	104	34	94	
	3.23. Number of employed learners completing bursary programmes.	30	9	36	4	1	
	3.24. Number of employed learners registered for skills programmes.	1 096	495	2 000	1 172	736	
	3.25. Number of employed learners completing skills programmes.	417	544	2 094	674	15	
	3.26. Number of employed or unemployed learners registered for AET programmes.	485	227	510	438	747	
	3.27. Number of employed or unemployed learners completing AET programmes.	7	0	500	191	2	
	3.28. Number of learners registered for trade/artisan qualifications (new registration).	1 665	881	3 000	2 138	993	
	3.29. Number of learners completing trade/artisan qualifications.	1 828	2 077	3 460	1 709	194	
	3.30. Number of learners entering Artisan Recognition of Prior Learning (ARPL) programme.	N/A	345	1 000	862	379	
	3.31. Number of learners completing Artisan Recognition of Prior Learning (ARPL) programme.	374	516	1 040	742	169	

## PART B: PERFORMANCE INFORMATION

### Reporting on the Institutional Response to the COVID-19 Pandemic

#### Progress on Institutional Response to the COVID-19 Pandemic

Programme/ Sub-Programme	Intervention	Geographic location (province/ district/local municipality) (where possible)	No. of beneficiaries (where possible)	Disaggregation of beneficiaries (where possible)	Total budget allocation per intervention (R'000)	Budget spent per intervention	Contribution to the outputs in the APP (where applicable)	Immediate outcomes
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

### Linking Performance with Budgets

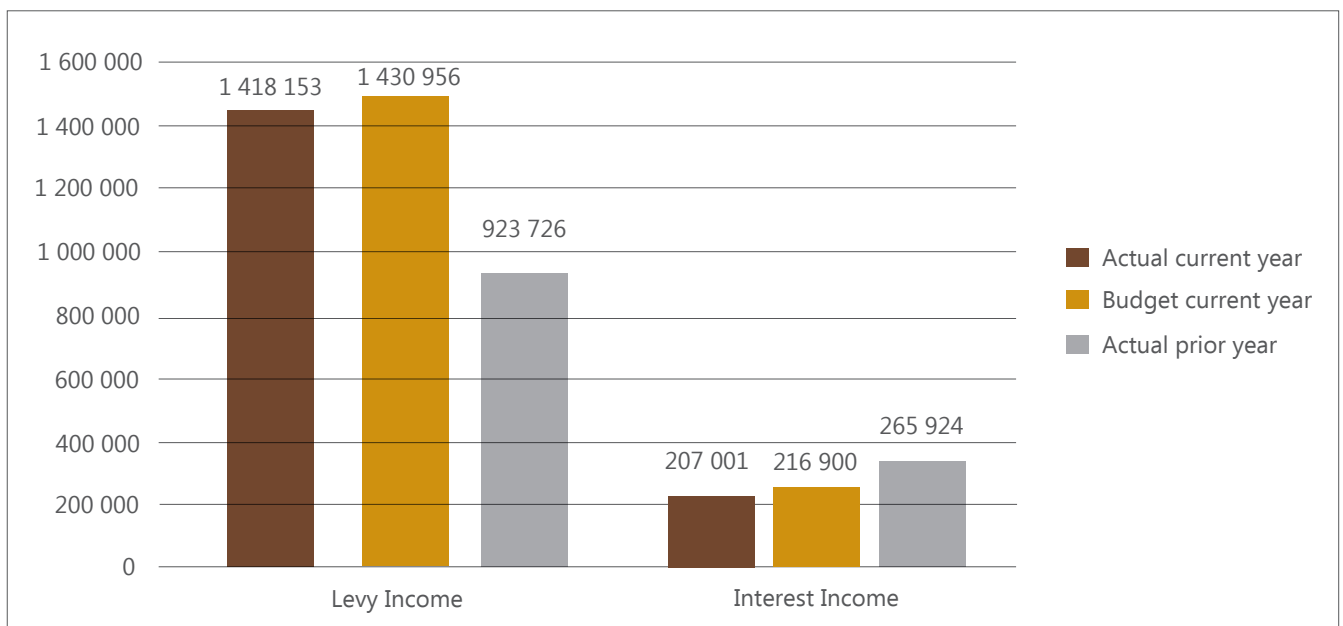
In assessing the achievement of the outputs in comparison to the planned targets, the public entity must consider the linkages and the relation to the resources available to the public entity, in particular the financial resources. Therefore, the following financial information should be presented. The financial information must agree with the information in the annual financial statements. Include the narrative after the table discussing how expenditure contributed to the achievement of outputs during the period under review.

PROGRAMME EXPENDITURE VS BUDGET 2023						
Programme/activity/objective	2022/2023			2021/2022		
	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	262 527	249 737	12 790	239 872	227 168	12 704
Skills planning	90 489	39 072	51 417	79 778	47 239	32 539
Learning programmes & projects	1 484 135	1 067 523	416 612	1 109 352	1 037 213	72 139
Quality assurance	2 467	1 463	1 004	1 298	158	1 140
Total	1 839 618	1 357 795	481 823	1 430 300	1 311 778	118 522

## 4. Revenue Collection

The following table must be presented with the relevant financial information. Include the narratives after the table

Programme/activity/objective	2022/2023			2021/2022		
	Budget	Actual Expenditure	(Over)/Under Expenditure	Budget	Actual Expenditure	(Over)/Under Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000
Skills development levy income	1 560 434	1 589 547	(29 113)	1 430 956	1 418 577	12 379
Skills development penalties and interest	15 888	15 098	790	19 643	20 217	(574)
Interest income	263 290	289 274	(25 984)	216 900	207 001	9 899
Other income	6	-	6	12	3	9
<b>Total</b>	<b>1 839 618</b>	<b>1 893 919</b>	<b>(54 301)</b>	<b>1 667 511</b>	<b>1 645 798</b>	<b>21 713</b>



## 5. Capital Investment

The following table must be presented with the relevant financial information. Include the narratives after the table

Infrastructure projects	2022/2023			2021/2022		
	Budget	Actual expenditure	(Over)/Under expenditure	Budget	Actual expenditure	(Over)/Under expenditure
	-	-	-	-	-	-
<b>Total</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>



# PART C:

GOVERNANCE



Lebogang More  
**Compliance Officer  
and Company Secretary**

## 1. Introduction

The merSETA Accounting Authority is appointed by the Minister of Higher Education, Science and Innovation in consultation with the National Skills Authority in terms of section 11 of the Skills Development Act 97 of 1998. The Chairperson and 14 members of the Accounting Authority are appointed on a five-year term as provided for in the Act.

## 2. Portfolio Committee

The merSETA is a schedule 3A public entity and reports to the Minister of Higher Education, Science and Innovation. The merSETA reports to Parliament through the Minister.

## 3. Executive Authority

The Minister of Higher Education, Science and Innovation is the merSETA's Executive Authority and the Minister is accountable to Parliament for the merSETA activities. The merSETA has made all the required submissions to the Executive Authority, National Treasury and Parliament, which includes quarterly reports (financial and performance), the Annual Report, the Annual Performance Plan, Sector Skills Plan and the Service Level Agreement during the period under review.

## 4. The Accounting Authority

The Accounting Authority of merSETA was appointed from 1 April 2020 for a five-year term. Ms Kate Moloto was appointed Chairperson of the Accounting Authority in 2020 while Ms Ruth Ntlokotse and Mr Louis van Huyssteen both served as Deputy Chairpersons in the year under review. The following members served as non-executive members: Dr Alex Mashilo, Mr Japhta Elias Kubeka, Ms Kirtida Bhana, Dr Lesley Lee, Ms Thandeka Phiri, Mr Renai Moothilal, Mr Siboniso Mdletshe, Mr Jacobus de Beer, Ms Sumaya Hoosen, Mr Neil Rademan and Mr Thapelo Molapo.

## PART C: GOVERNANCE

### Attendance at the Accounting Authority and Committee Meetings

Details of attendance of the members at the meetings during the 2022/23 financial year are summarised in the table below:

Name	Accounting authority	Audit & risk committee	Executive committee	HR & remuneration committee	Finance & grants committee	Governance & strategy	Other meetings
Kate Moloto (AA Chairperson)	15/15		7/7				11
Ruth Ntlokotse (AA Deputy Chairperson)	14/15		7/7		8/9		7
Louis van Huyssteen (AA Deputy Chairperson) **	14/15		6/6			3/4	4
Dr Alex Mashilo**	11/15					4/4	1
Dr Lesley Lee**	8/15		5/7	5/8			3
Kirtida Bhana**	14/15					4/4	8
Siboniso Mdletshe	13/15					1/4	
Mokgatle (Thapelo) Molapo**	13/15	1/1	1/1	8/8	9/9		9
Thandeka Phiri**	13/15		5/7	6/6			4
Renai Moothlal**	13/15	6/8			9/9		9
Japhta (Elias) Kubeka**	15/15				8/9	4/4	7
Jacobus (Koos)de Beer**	15/15	7/7		8/8		4/4	7
Sumaya Hoosen**	9/15				4/9		4
Neil Rademan**	15/15			5/5		4/4	6
Juliana Makapan*	2/2			3/3			
Lindelwa Ndziba*	2/2			3/3			
Mochele Noge*	1/2				3/4		
Siyabonga Msweli*	3/4					4/4	
Khumo Mzozoyana*	14/14	8/8	1/1				5
Margaret Phiri*	2/3	8/8					
Tshepo Fari*	3/3	8/8					2

\*Includes Accounting Authority activities (AA Strategic Review Workshop and Annual General Meeting).

\*\*Includes Chamber meetings, other AA and committee meetings attended by some members.



## PART C: GOVERNANCE

### Remuneration of the Accounting Authority

The payments in the table below were made to members of the Accounting Authority and its committees in accordance with the remuneration rates stipulated by National Treasury as well as the merSETA Accounting Authority and Committee Remuneration Policy.

Name	Remuneration R'000	Other allowances R'000	Other re-imbursements R'000	Total R'000
Kate Moloto (Accounting Authority and EXCO Chairperson)	348	-	-	348
Ruth Ntlokotse (Accounting Authority Deputy Chairperson)	299	6	-	305
Louis van Huyssteen* (Accounting Authority Deputy Chairperson)	246	-	-	246
Dr Alex Mashilo (GSC Chairperson)	80	-	-	80
Dr Lesley Lee	187	-	-	187
Kirtida Bhana* (Plastics Chamber Chairperson)	222	6	-	228
Siboniso Mdletshe	118	6	-	124
Mokgatle (Thapelo) Molapo (FGC and Metal Chamber Chairperson)	362	6	-	368
Thandeka Phiri (Motor Chamber Chairperson) and HRRC Chairperson	253	-	-	253
Renai Moothlal (ACM Chamber Chairperson)	312	6	-	318
Japhta (Elias) Kubeka (Auto Chamber Chairperson)	288	6	-	294
Jacobus (Koos) de Beer	354	6	-	360
Sumaya Hoosen	127	1	-	128
Neil Rademan (New Tyre Chamber Chairperson)	278	6	-	284
Juliana Makapan**	43	2	-	45
Lindelwa Ndziba**	43	2	-	45
Mochele Noge**	26	-	-	26
Siyabonga Msweli**	65	5	-	70
Khumo Mzozoyana** (ARC Chairperson)	514	6	-	520
Margaret Phiri**	221	6	-	227
Tshepo Fari	240	6	-	246
<b>Total</b>	<b>4 626</b>	<b>76</b>	<b>-</b>	<b>4 702</b>

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

\*\*Independent committee members paid for attending Accounting Authority activities (AA Strategic Review Workshop and Annual General Meeting).



## 5. Risk Management

The Accounting Authority manages the merSETA risks in a way that supports the organisation in setting and achieving its strategic objectives. Through the Audit and Risk Committee, the Accounting Authority considers the organisation's risk profile, appetite, mitigation and aggravation factors, and strategic interventions.

## 6. Internal Audit and Audit Committee

The merSETA's internal audit function is outsourced to an independent audit firm that carries out its function on an approved three-year internal audit plan. SHUMBA Inc. was appointed as the merSETA's internal auditors during the year under review. The independent internal auditors perform and report in terms of an approved Internal Audit Charter and Plan. Furthermore, the Audit and Risk Committee reviews the performance of internal auditors on behalf of the Accounting Authority.

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

### THE AUDIT AND RISK COMMITTEE (ARC)

#### Composition

The ARC is comprised of five members, of which three are independent members, namely Ms K Mzozoyana (Chairperson), Ms M Phiri, Mr T Fari and two Accounting Authority members, Mr R Moothilal and Mr K de Beer\*.

\*Mr K de Beer was appointed during the year under review.

#### Roles and Responsibilities

The ARC provides oversight of the merSETA's financial affairs and monitors compliance with applicable laws and adherence to non-binding rules, codes and standards. The ARC also ensures an effective risk-based internal audit and risk management function as well as the effectiveness of internal controls and corporate governance systems. The ARC evaluates the independence, objectivity and effectiveness of the external and internal auditors and addresses any concerns identified by the auditors.

The ARC is also responsible for promoting the accuracy, reliability and credibility of financial reporting, and reviews the annual financial statements as well as the Annual Report prior to approval by the Accounting Authority.

## 7. Compliance with Laws and Regulations

The merSETA has a Corporate Governance and Legislative Compliance Checklist in place which is reviewed as and when legislation changes. The checklist is reported on a quarterly basis to the Audit and Risk Committee. The regular review of said document ensures that the merSETA monitors compliance with all relevant laws and regulations. Any issues of non-compliance are investigated and steps are taken to ensure compliance and corrective measures. The merSETA furthermore actively participates in the proposed changes to legislation, in particular, enacted legislations which have a direct impact on the merSETA operations.

## 8. Fraud and Corruption

The merSETA has a Fraud Prevention Plan in place which is regularly reviewed to ensure effectiveness. The entity has a fraud and corruption hotline, which is fully operational and a register of all reported cases is periodically maintained and reported through the governance structures. The whistle blower report is periodically submitted to the Audit and Risk Committee which decides on appropriate action to be taken.

## 9. Minimising Conflict of Interest

Members of the Accounting Authority as well as all staff and officials of the merSETA are required to avoid direct or indirect conflicts or that which may possibly conflict with the merSETA's interests. A Conflict of Interest Policy was approved by the Accounting Authority in March 2020 and is due for review in 2025. It outlines policy imperatives for disclosure by the Accounting Authority and staff. Members and staff also have an obligation to declare their interests on an annual basis in order for the organisation to avoid issuing contracts to employees or members and/or their related parties. It is also compulsory for members and management to disclose their interests at Accounting Authority, committee and management committee meetings.

## 10. Code of Conduct

The merSETA has in place a Code of Conduct for employees and members, as well as an organisation-wide Code of Ethics. Both are reviewed periodically. Both codes set out the parameters within which an employee and an Accounting Authority member should conduct themselves within the SETA as well as when the employee or member is representing the merSETA on different platforms. The codes are made available to members and employees upon their appointment and the recipients are required to familiarise themselves with these codes. The codes are readily available on the electronic database.

## 11. Health, Safety and Environmental Issues

A national Occupational Health and Safety Committee ensures compliance with the Occupational Health and Safety Act No 85 of 1999, the ISO 9001:2015 Quality Management System as well as the National Environment Management Act No 107 of 1998.

## 12. Company Secretary

Ms Lebogang More was the Compliance Officer and Company Secretary during the year under review. She is responsible for advising and supporting the Accounting Authority, Accounting Authority Committees and the merSETA management on matters related to corporate governance and provides overall legal support to the organisation.

## 13. Social Responsibility

All the merSETA programmes are aligned to the national policy framework that aims to contribute to and assess the impact on social transformation, environmental preservation and economic upliftment. Initiatives during the period under review were linked to the National Skills Development Plan (NSDP).

## 14. THE REPORT OF THE AUDIT AND RISK COMMITTEE



### **MANDATE AND TERMS OF REFERENCE:**

The audit and risk committee (the committee) presents its report in terms of the requirements of the PFMA and in accordance with the King IV Report on Corporate Governance for South Africa for the financial year ended 31 March 2023. The role of the committee is defined in its mandate as outlined in its charter. It covers, among others:

- its statutory duties and assistance to the Accounting Authority with the oversight of financial and non-financial reporting and disclosure,
- internal control system,
- risk management,
- internal and external audit functions.

The committee fulfilled all its statutory duties as required by the Treasury Regulations. The committee 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 contained therein.

### **Oversight of financials and disclosure**

The committee considered the annual financial statements for fair presentation with the relevant requirements of the PFMA, Treasury Regulations and Generally Recognised Accounting Practice (GRAP). Execution of functions in the conduct of its duties the committee has, inter alia, reviewed the following areas: Oversight of financial and non-financial reporting and disclosures. The committee considered the key judgements, estimates and accounting for significant transactions in the annual financial statements. Where appropriate, the committee sought the input and views of the external auditors and encouraged rigorous challenging of controls, accounting and disclosure matters.

The committee focused on specific control issues, in particular, the controls relating to the PFMA reporting. The committee concluded that the internal control environment requires attention, particularly with regard to the allocation and disbursement

## PART C: GOVERNANCE

of discretionary grants. Furthermore, the review and reconciliations of the commitment schedules and the overall accounting of accruals requires improvement. The committee appreciates managements' concerted efforts to detect irregular expenditure even though improvement is necessary in the prevention of irregular expenditure.

There are still concerns with reporting of performance information, the committee notes with concern the issues that continue to persist in relation to performance information and the SETA not managing to meet its performance targets. Commitment by management to improve and take corrective measures with regards to performance information has been noted by the committee. Concerted efforts are required on performance information particularly because the Auditor General will be expressing an opinion on performance information.

The committee had oversight on various investigation reports and is satisfied that recommendations from the reports are being implemented by the organisation.

The committee considered the following:

- effectiveness of internal control systems and governance processes,
- legal matters that could have a material impact on the merSETA,
- effectiveness of the system and process of risk management,
- financial reporting,
- internal financial controls,
- the effectiveness of the entity's compliance with legal and regulatory requirements,
- annual audit plan,
- audit charter, and
- independence, effectiveness, coordination with external auditors.

### OPINION:

The committee is of the opinion, based on the information and explanations provided by management that:

- the expertise, resources and experience of the finance function under the leadership of the chief financial officer are adequate,
- the system and process of risk management is required attention,
- the compliance framework requires improvements and there should be more focus on the application thereof, especially in terms of PFMA requirements,
- the internal accounting controls were not adequate to ensure that the financial records may be relied upon for preparing the financial statements and accountability for assets and liabilities is maintained,
- the internal audit charter approved by the committee was adhered to,
- the audit charter was adhered to,
- the information contained in the annual report is reliable and does not contradict the information in the annual financial statements.

The committee is concerned, that the SETA has received a qualified audit opinion which signifies control weaknesses that management need to address as a matter of urgency.

### RECOMMENDATION:

The committee has evaluated the Annual Financial Statements of merSETA for the year ended 31 March 2023 and, based on the information provided to it, considers that they comply, in all material respects, with the requirements of the PFMA and GRAP. The committee concurs that the adoption of the going-concern premise in the preparation of the Annual Financial Statements is appropriate. The committee has therefore recommended the adoption of the financial statements by the Accounting Authority. The committee concurs and accepts the Auditor-General's opinion regarding the Annual Financial Statements and proposes that the audited financial statements be accepted and read together with the report from the Auditor-General. The merSETA has received a qualified Audit Opinion for the 2022/23 financial year which is a regression from the previous year.

## 15. B-BBEE Compliance Performance Information

The merSETA underwent a verification audit in the year under review and achieved a B-BBEE level 8 contributor status.

The merSETA interprets and applies preferential procurement directly from the Preferential Procurement Policy Framework Act No 5 of 2000 and took into account the amended Preferential Procurement Regulations which took effect in the year under review.

Has the Public Entity applied any relevant Code of Good Practice (B-BBEE Certificates Levels 1-8)		
Criteria	Response Y/N	Discussion
Determining qualification criteria for the issuing of licences, concessions or other authorisations in respect of economic activity in terms of any law?	Y	All bidding documentation has evaluation criteria stipulated. This sets out the criteria for all evaluations commencing from initiation up until award.
Developing and implementing a preferential procurement policy?	Y	The merSETA has developed and implemented a Preferential Procurement Policy.
Determining qualification criteria for the sale of state-owned enterprises?	N	This is not applicable to the merSETA.
Developing criteria for entering into partnerships with the private sector?	Y	The merSETA has in place an approved Granting Funding and Criteria policy that guides and informs entering into partnerships with the private sector.
Determining criteria for the awarding of incentives, grants and investment schemes in support of Broad-Based Black Economic Empowerment?	Y	The merSETA has in place an approved Granting Funding and Criteria policy that guides and informs the awarding of Grants in support of Broad-Based Black Economic Empowerment.



# PART D:

## HUMAN RESOURCE MANAGEMENT



# 1. Introduction

### Overview of Human Resources (HR) Matters at the Public Entity

High performance and staff connectivity, safety and confidence are key drivers of the Human Resources unit. The COVID-19 pandemic cast a shadow over in-person meetings during the year under review. The first two quarters saw the HR unit implement remote working agreements that ensured the merSETA mandate and delivery mechanisms remained in place. High occupational safety levels in line with the government's COVID-19 regulations were implemented throughout the merSETA's offices.

### Workforce Planning Framework and Key Strategies to Attract and Recruit a Skilled and Capable Workforce

During the period under review, vacancies were advertised internally and externally in line with recruitment policy. Placement decisions were informed after extensive background and reference checks.

The internship programme was disrupted by COVID-19, which resulted in HR extending internship contracts to ensure the workplace learning programme achieved its goals.

### Employee Well-Being and Business Continuity

As an HR unit, we recognise that the health and well-being of the workforce directly underpins the organisation's ability to achieve its strategic goals and are essential components of organisational success. The focus on increasing employee engagement and communication during the course of the pandemic was noted. This culminated into the introduction of the merSETA Employee Well-Being Programme that aimed to support and promote the wellness of employees and their immediate families by offering a number of services on a 24-hour basis.

### Organisational Transformation

From 2021/22, we witnessed the implementation of the Organisational Design Project. In the 2022/23 financial year, this project took on further shape with the intention being to realign the merSETA's organisational structure and HR processes with appropriate competencies (staff, governance, structures, implementing partners and stakeholders) to achieve its mandate. A core focus of the programme was on change enablement and empowerment of the organisation's leaders and employees, including robust consultative processes that involved all stakeholders across the organisation.

### 2022/23 Focus Areas

The current operating environment demands the right calibre, capability and capacity of human resources. Accordingly, the merSETA will continue to implement its strategy on transforming the HR function to be more responsive to business requirements underpinned by implementing an HR operating model and integrated HR information management system.

### HR Strategy

The HR functional strategy for Human Resources is to entrench an employee value proposition towards influencing a meaningful working environment that enables the integration of technology, innovation and people through strategic partnerships. This will include the following key deliverables:

- increased employee engagement and empowerment;
- HR policy education and awareness; and
- performance enhancement and talent management.

## 2. Human Resource Oversight Statistics

### Employment and Vacancies

#### 2.1 Personnel Costs by Occupational Level

Occupational level	Personnel expenditure (Permanent staff) R'000s	% of personnel expenditure to total personnel costs	Number of employees (Permanent staff)	Average annual cost per employee R'000s
Top management	R2 400	1,9 %	1	R2 400
Senior management	R5 359	4,2%	3	R1 786
Professional qualified	R35 901	28,2%	33	R1 088
Skilled	R55 150	43,3%	91	R606
Semi-skilled	R26 820	21,0%	75	R358
Unskilled	R1 869	1,4%	12	R156
<b>Total</b>	<b>R127 499</b>	<b>100%</b>	<b>215</b>	<b>R593</b>

#### 2.2 Training Costs

Programme	Personnel expenditure R'000s	Training expenditure R'000	Training expenditure as % of personnel costs	Number of employees	Average annual training cost per employee R'000s
Recruitment	R127 499	1 965	1,5%	215	R9

#### 2.3 Head Count and New Posts

Programme/activity/ objective	2022/23 number of employees	2022/23 new approved posts	2021/22 number of employees	2021/22 new approved posts
Recruitment	215	2	225	0

Occupational level	2021/22 number of employees	2022/2023 approved posts	2022/23 number of employees	Number of vacancies	%
Top management	1	0	1	0	0%
Senior management	3	0	3	1	4%
Professional qualified	39	2	33	7	26%
Skilled	93	0	91	11	41%
Semi-skilled	77	0	75	8	29%
Unskilled	12	0	12	0	0%
<b>Total</b>	<b>225</b>	<b>2</b>	<b>215</b>	<b>27</b>	<b>100%</b>



## PART D: HUMAN RESOURCE MANAGEMENT

### 2.4 Employment Changes

Occupational level	Employment at beginning of period (1 April 2022)	Appointments 2022/23	Terminations 2022/23	Employment at end of the period (31 March 2023)
Top management	1	0	0	1
Senior management	3	0	0	3
Professional qualified	39	1	6	33
Skilled	94	4	11	91
Semi-skilled	78	5	5	75
Unskilled	12	0	0	12
<b>Total</b>	<b>227</b>	<b>10</b>	<b>22</b>	<b>215</b>

### 2.5 Reasons for Staff Leaving

Reason	Number	% of total number of staff leaving
Death	0	0%
Resignation	13	28%
Dismissal	0	0%
Retirement	8	17%
Ill-health	1	3%
<b>Total</b>	<b>22</b>	<b>100%</b>

### 2.6 Labour Relations: Misconduct and Disciplinary Action

Nature of disciplinary action	Number
Verbal warning	7
Written warning	14
Disciplinary hearing – Not guilty	0
Disciplinary hearing – Verdict pending	2
Dismissal	0
Resignation during hearing	2
Grievance	3

### 2.7 Employment Equity Status

Employee racial group	Target	Achieved
African	78%	80%
Coloured	12%	11%
Indian	3%	3%
White	6%	6%
Disability	3,90%	0,30%

Occupational Levels	Male				Female						Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	FNM	FNF	
Top management	0	1	0	0	0	0	0	0	0	0	1
Senior management	0	0	1	0	2	0	0	0	0	0	3
Professionally qualified	11	1	0	3	10	4	1	2	1	0	33
Skilled technical	33	9	4	5	31	6	1	2	0	0	91
Semi-skilled	25	1	0	0	41	4	0	4	0	0	75
Unskilled	1	0	0	0	9	2	0	0	0	0	12
<b>Total permanent</b>	<b>69</b>	<b>11</b>	<b>5</b>	<b>8</b>	<b>93</b>	<b>18</b>	<b>2</b>	<b>8</b>	<b>1</b>	<b>0</b>	<b>215</b>
<b>Temporary employees</b>	<b>27</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>48</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>80</b>
<b>Grand total</b>	<b>96</b>	<b>12</b>	<b>6</b>	<b>8</b>	<b>141</b>	<b>20</b>	<b>2</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>295</b>



# PART E:

PFMA COMPLIANCE REPORT

# 1. Irregular, Fruitless and Wasteful Expenditure and material losses

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

- The Public Financial Management Act, 1999 (Act No. 1 of 1999) (PFMA);
- The Skills Development Act, 1998 (Act No. 97 of 1998) as amended;
- Instructions and circulars issued by the National Treasury.

The merSETA may have received value for such irregular expenditure.

Irregular expenditure is recorded in the annual report when it is either:

- confirmed;
- under assessment, determination and/or investigation;
- condoned by the relevant authority; or
- transferred to receivables for recovery; or
- written off if it is not recoverable; or
- not condoned and removed.

## 1.1 Irregular Expenditure

Description	2022/2023	2021/2022
	R000's	R000's
Opening balance	811 451	31 371
Add: Irregular expenditure confirmed	487 766	782 897
Less: Irregular expenditure condoned	-	-
Less: Irregular expenditure not condoned and removed	(4 053)	(2 817)
Less: Irregular expenditure recoverable	-	-
Less: Irregular expenditure not recovered and written off	-	-
<b>Closing balance</b>	<b>1 295 164</b>	<b>811 451</b>

### a) Reconciling Notes

Description	2022/2023	2021/2022
	R000's	R000's
Irregular expenditure that was under assessment in 2021/22	-	-
Irregular expenditure that relates to 2021/22 and identified in 2022/23**	-	779 097
Irregular expenditure for the current year	487 766	3 800
<b>Total</b>	<b>487 766</b>	<b>782 897</b>

\*\*During the year ended March 2023, an amount of R778 million was identified as irregular expenditure incurred in 2021/22 but was identified in the 2022/23 year by internal auditors during a review of irregular expenditure transactions.

## PART E: PFMA COMPLIANCE REPORT

### b) Current Year Irregular Expenditure

Detail of Irregular Expenditure	2022/2023	2021/2022
	R000's	R000's
i. Discretionary grant contracts signed in contradiction with the delegation of authority. This was reported to the Accounting Authority.	463 782	731 241
ii. Board fees of the Accounting Authority members whose appointment were not made in line with the Skills Development Act, no 97 of 1998 (SDA) as amended	-	639
iii. Expenditure incurred outside SCM legislation	23 984	51 017
<b>Total</b>	<b>487 766</b>	<b>782 897</b>

### c) Details of current and previous year irregular expenditure (under assessment, determination, and investigation)

Description	2022/2023	2021/2022
	R000's	R000's
Irregular expenditure under assessment	-	-
Irregular expenditure under determination	-	-
Irregular expenditure under investigation	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

### d) Details of current and previous year irregular expenditure condoned

Description	2022/2023	2021/2022
	R000's	R000's
Irregular expenditure condoned	-	-
<b>Total</b>	<b>-</b>	<b>-</b>

### e) Details of current and previous year irregular expenditure removed – (not condoned)

Description	2022/2023	2021/2022
	R000's	R000's
Board fees of the Accounting Authority members whose appointment were not made in line with the Skills Development Act, no 97 of 1998 (SDA) as amended Irregular expenditure NOT condoned and removed	1 369	-
Expenditure incurred outside SCM prescripts	2 684	2 817
<b>Total</b>	<b>4 053</b>	<b>2 817</b>

During the prior year National Treasury did not condone irregular expenditure in regards to board fees arising from non-compliance with legislation in the appointment of board members in 2020. The Accounting Authority removed this expenditure amounting to R1 369 thousand. This non-compliance was due to inter-institutional arrangement where the merSETA was not responsible for the non-compliance.

National Treasury did not condone irregular expenditure in regards to non-compliance with SCM prescripts. The Accounting Authority removed this expenditure amounting to R2,7 million.

### f) Details of current and previous year irregular expenditure recovered

There was no current and prior year irregular expenditure recovered.

### g) Details of current and previous year irregular expenditure written off (irrecoverable)

There was no current and prior year irregular expenditure written off (irrecoverable).

## PART E: PFMA COMPLIANCE REPORT

**h) Additional disclosure relating to Inter-Institutional Arrangements Details of non-compliance cases where an institution is involved in an inter-institutional arrangement (where such institution is not responsible for the non-compliance).**

Description	2022/2023	2021/2022
	R000's	R000's
Amounts relating to non-compliance cases where an institution is involved in an inter-institutional arrangement where merSETA was not responsible for the non-compliance.	-	639
<b>Total</b>	<b>-</b>	<b>639</b>

The merSETA incurred irregular expenditure through board fees paid to Accounting Authority members whose appointment was not compliant with the legislation. DHET was responsible for the process of appointment of the Accounting Authority members.

**i) Details of non-compliance cases where an institution is involved in an inter-institutional arrangement (where such institution is responsible for the non-compliance)**

There were no cases non-compliance cases where merSETA was involved in an inter-institutional arrangement where merSETA is responsible for the non-compliance.

**j) Details of current and previous year disciplinary or criminal steps taken as a result of irregular expenditure**

Disciplinary steps taken
During the current year one verbal warning was issued to a staff member for contravention of SCM prescripts. There were five such verbal warnings issued in the previous year.
The merSETA undertook various training and capacity building sessions to employees who were involved in transactions which were deemed irregular during the year.

### 1.2 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is recorded in the annual report when it is either -

- a) confirmed;
- b) under assessment, determination and/or investigation;
- c) recovered or transferred to receivables for recovery; or
- d) written off if it is not recoverable; or
- e) details of current and previous year disciplinary or criminal steps taken as a result of fruitless and wasteful expenditure.

**a) Reconciliation of Fruitless and Wasteful Expenditure**

Description	2022/2023	2021/2022
	R000's	R000's
Opening balance	46 103	535
Add: Fruitless and wasteful expenditure confirmed	1 366	46 103
Less: Fruitless and wasteful expenditure written off	(13)	(535)
Less: Fruitless and wasteful expenditure recoverable	-	-
<b>Closing balance</b>	<b>47 456</b>	<b>46 103</b>

## PART E: PFMA COMPLIANCE REPORT

### b) Reconciling Notes

Description	2022/2023	2021/2022
	R000's	R000's
Fruitless and wasteful expenditure that was under assessment in 2022/23	-	-
Fruitless and wasteful expenditure that relates to 2021/22 and identified in 2022/23	-	46 090
Fruitless and wasteful expenditure for the current year	1 366	13
<b>Total</b>	<b>1 366</b>	<b>46 103</b>

### c) Details of current and previous year fruitless and wasteful expenditure (under assessment, determination, and investigation)

Description	2022/2023	2021/2022
	R000's	R000's
Fruitless and wasteful expenditure under assessment	-	-
Fruitless and wasteful expenditure under determination	-	-
Fruitless and wasteful expenditure under investigation**	22 292	46 711
<b>Total</b>	<b>22 292</b>	<b>46 711</b>

\*\*There is an investigation underway into one of merSETA's contractual agreements that led to the suspension of the agreement in the year under review.

### d) Details of current and previous year fruitless and wasteful expenditure recovered

There was no fruitless and wasteful expenditure recovered in current or prior year.

### e) Details of current and previous year fruitless and wasteful expenditure not recovered and written off

Description	2022/2023	2021/2022
	R000's	R000's
Interest on late payment of supplier invoices	13	-
merSETA incurred expenditure in relation to disciplinary charges against former employees. A civil claim will not be pursued due to the costs involved. A case was opened with the SAPS.	-	91
An overpayment was made to a merSETA organisation.	-	112
Penalties and interest charged by SARS as a result of a late payment of PAYE for the month of December 2018. An appeal was made to SARS but it was unsuccessful.	-	215
Bank charges incurred as a result of an urgent payment made without notice to the bank.	-	3
DHET asked merSETA to transport the merSETA virtual stand for the DHET July Vote Debate but the stand was not used and had to be returned without being utilised.	-	114
<b>Total</b>	<b>13</b>	<b>535</b>

### f) Details of current and previous year disciplinary or criminal steps taken as a result of fruitless and wasteful expenditure

There was no disciplinary or criminal steps taken as a result of fruitless and wasteful expenditure in current or previous year.

### 1.3 Additional disclosure relating to material losses in terms of PFMA Section 55(2)(b)(i) and (iii)

Description	2022/2023	2021/2022
	R000's	R000's
Theft	-	-
Other material losses	-	-
Less: Recovered	-	-
Less: Not recovered and written off	-	-
<b>Total</b>	-	-

The amounts have not been determined as reports emanating from investigations conducted during the year have been forwarded to the South African Police Services.

## 2. Late and/or Non-Payment of Suppliers

Description	Number of invoices	Consolidated value
	R'000	R'000
Valid invoices received	3 539	312 730
Invoices paid within 30 days or agreed period	2 761	290 805
Invoices paid after 30 days or agreed period	778	21 925
Invoices older than 30 days or agreed period (unpaid and without dispute)	-	-
Invoices older than 30 days or agreed period (unpaid and in dispute)	-	-

Some invoices were paid late due to constraints on the part of the supplier. This is due to such matters like outstanding bank details, invoices needing correction, or awaiting further supporting documents or evidence.

A number of invoices were paid late due to internal processes such as budget constraints that first needed to be resolved, delays in obtaining required signatures or late submissions by project owners. The timing of payments is being monitored and corrective action is being taken to remedy delays that are related to internal processes.



## 3. Supply Chain Management

### 3.1. Procurement by other means

Project description	Name of supplier	Type of procurement by other means	Contract number	Value of contract R'000
Annual Manage Engine – License Renewal, Maintenance and Support Services	ITR Technology	Single Source	Once off payment	591
Annual license fee for Desktop Central UEM edition	ITR Technology	Single Source	Once off payment	216
Exhibition at the Manufacturing Indaba 2022	Manufacturing Indaba	Single Source	Once off payment	55
merSETA SDF/Provider Forum – 30 August 2022	Goldfields TVET	Single Source	Once off payment	11
Catering for Graduation	Witwatersrand	Single Source	Once off payment	11
National Learner Records Database Qualification and Unit Standard XML Files for a period of 36 months	South African Qualifications Authority (SAQA)	Sole Source	Once off payment	47
Upgrading of Manage Engine Support Desk services	ITR Technology	Single Source	Once off payment	18
Single source motivation: Additional venue hire at AGM-appointed venue	Southern Sun Cape Town	Single Source	Once off payment	19
Urgent cCatering on 06 February 2023	Rammase Catering and Events	Single Source	Once off payment	6
Motivation for payment for additional delegates at Leadership engagement in Western Cape	Southern Sun Cape Town	Single Source	Once off payment	3
Motivation for payment for additional delegates at Leadership engagement in Eastern Cape	Southern Sun The Marine	Single Source	Once off payment	2
Annual Enhancement Fee for Microsoft Great Plains (GP)	Praxis	Single Source	Once off payment	160
Urgent procurement for catering services for the signing of the MoU with NSFAS on 27 March 2023 held at the merSETA Head Office	Underwraps	Single Source	Once off payment	7
Render urgent security services at merSETA head office (month to month )	Sirius Risk Management Company	Single Source	Term payment	207
Urgent rental of laptop	Govtek Technologies	Single Source	Term payment	300
Urgent rental of laptop	Govtek Technologies	Single Source	Term payment	165
<b>Total</b>				<b>1 818</b>

### 3.2 Contract variations and expansions

Project description	Name of supplier	Contract modification type (Expansion or Variation)	Contract number	Original contract value R'000	Value of previous contract expansion/s or variation/s (if applicable) R'000	Value of current contract expansion or variation R'000
Extension of office accommodation lease for merSETA Regional Office – Mpumalanga	De Bruyn Commercial Property	Variation	DEB001	1 449	3 429	973
Extension of office accommodation lease for merSETA Regional Office – Gauteng North	Supplier Park Development Company (Gauteng North)	Variation	SUP008	913	2 127	159
Extension of contract in excess of the threshold: merSETA Regional Office – Eastern Cape	Mauveine Investments	Variation	MAU001	1 049	7 160	542
Extension of office accommodation lease for merSETA Regional Office – KwaZulu-Natal	Retcon	Variation	RET004	2 122	7 605	669
Microsoft Azure Hosting (Servers)	Crayon SA	Variation	CRA005	356	53	100
Forensic investigation	Khumalo & Mabuya Consortium	Variation	KHU008	1 000	925	400
Internal Audit Services	Shumba Inc.	Variation	SHU002	1 478	68	317
Career Bus Storage	African Mobility Solutions	Variation	AFR028	69		6
Organisational culture survey	Nkululeko Leadership Consulting	Variation	NKU003	220	-	6
<b>Total</b>					<b>21 367</b>	<b>3 172</b>



# PART F:

FINANCIAL INFORMATION

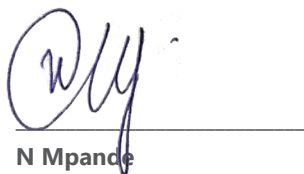
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The audited Annual Financial Statements for the year ended 31 March 2023, set out on pages 74 to 114, have been approved by the Accounting Authority in terms of section 51(1) (f) of the Public Finance Management Act (PFMA), No 1 of 1999 (as amended) on 20 September 2023, and are signed on their behalf by:



**K Moloto**  
(Chairperson)



**N Mpande**  
(Acting Chief Executive Officer)

# 1. Report of the auditor-general to parliament on Manufacturing Education and Related Services Sector Training Authority

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Manufacturing Education and Related Services Sector Training Authority (MerSETA) set out on pages 74 to 114 which comprise the statement of financial position as at 31 March 2023, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the public entity as at 31 March 2023, and financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Skills Development Act 97 of 1998 (SDA).

### Basis for qualified opinion

#### Discretionary reserve commitments - Contractual

3. The discretionary grant reserve commitments disclosed in note 20.1 were materially misstated and not correctly accounted for as required by GRAP 1. The entity omitted the expenditure and accruals associated with the discretionary grants commitments, which resulted a misstatement of the commitment balance. I could not determine the full extent of the misstatement on grants and transfers payable, employer grant and expenses, because it was impractical to do so. This resulted in a misstatement of the discretionary reserve commitments of R 4 575 115 000 (R 4 060 017) in the financial statements.

### Context for opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
5. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Other matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### National Treasury Instruction Note No. 4 of 2022-23: PFMA Compliance and Reporting Framework

8. On 23 December 2022, the National Treasury issued Instruction Note 4 of 2022-23, which came into effect on 3 January 2023, in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA. The instruction note deals with the PFMA compliance and reporting framework and addresses, amongst others, the disclosure of unauthorised expenditure, irregular

## PART F: FINANCIAL INFORMATION

expenditure and fruitless and wasteful expenditure. Irregular expenditure and fruitless and wasteful expenditure incurred in prior financial years and not yet addressed no longer need to be disclosed in either the annual report or the disclosure notes to the annual financial statements. Only the current year and prior year figures are disclosed in note 24 to the financial statements of the public entity. Movements in respect of irregular expenditure and fruitless and wasteful expenditure also no longer need to be disclosed in the notes to the annual financial statements. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) is now included as part of the other information in the annual report of the public entity. I do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

### Retention of 2021-22 surplus

9. Deliberations are currently underway with the National Treasury and the Department of Higher Education and Training regarding the appropriate approval process for the retained surplus of R 4 530 935 000, for the financial year 2021-22, as disclosed in note 19 to the financial statements. The ultimate outcome of the matter could not be determined and no provision for any liability was disclosed in the financial statements.

### Responsibilities of the accounting authority for the financial statements

10. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the PFMA and the 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.
11. In preparing the financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern; disclosing, as applicable, matters relating to going concern; and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations or has no realistic alternative but to do so.

### Responsibilities of the auditor-general for the audit of the financial statements

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

### Report on the audit of the annual performance report

14. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected programmes presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.
15. I selected the following programmes presented in the annual performance report for the year ended 31 March 2023 for auditing. I selected programmes that measure the public entity's performance on its primary mandated functions and are of significant national, community or public interest.

## PART F: FINANCIAL INFORMATION

Programme	Page numbers	Purpose
Programme 2: Skills Planning	29 - 30	Establishment of credible and effective systems and strategies for research, planning, monitoring and evaluation.
Programme 3: Learning programmes and projects	31 - 36	Facilitation of skills development interventions to enable increased access to employment opportunities and support to economic growth opportunities

16. I evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides users with useful and reliable information and insights regarding public entity's planning and delivery on its mandate and objectives.

17. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the public entity's mandate and the achievement of its planned objectives.
- the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.

18. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance conclusion.

19. The material findings on the performance information of the selected programme are as follows:

### Programme 2: Skills planning

20. I did not raise any material findings on the reported performance information of programme 2: Skills planning.

### Programme 3: Learning programmes and projects

#### Various indicators

21. Based on audit evidence, the actual achievement for three indicators did not agree to what was reported. I could not determine the actual achievement, but I estimated them to be materially more or less than reported.

Indicators	Target	Reported Achievement
3.41. Number of people trained on entrepreneurship supported to start their business (number of people funded for enterprise growth/enterprise development skills)	430	416
3.17. Number of unemployed learners registered for bursary programmes (continuing)	309	448
3.12. Number of unemployed learners registered for learnership programmes	3000	3520



## Other matters

22. I draw attention to the matters below.

### Achievement of planned targets

23. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- and under achievements. This information should be considered in the context of the material findings on the reported performance information.

24. The public entity plays a key role in delivering services to South Africans. The annual performance report includes the following service delivery achievements against planned targets:

	Planned target	Reported achievement
<b>Programme 2: Skills planning</b> Targets achieved: 57% Budget spent: 8%		
2.1 Number of WSPs and ATRs approved for small firms: (49 or less employees).	1800	2311
2.2 Number of WSPs and ATRs approved for medium firms: (50-149 employees)	918	919
2.4 Number of learners who completed workplace-based learning programmes absorbed into employment or self-employment	636	2452
2.5. Number of sector research agreements signed for TVET growth occupationally directed programmes.	2	0
2.6. Number of established and emergent cooperatives trained on sector and national identified priority occupations or skills.	30	0
2.7. Number of small and emerging enterprises trained on sector and national identified priority occupations or skills.	730	614
<b>Programme 3: Programmes and projects</b> Targets achieved: 34 % Budget spent: 78 %		
3.1 Percentage of total approved discretionary grant (DG) allocations to employers, programmes or projects aimed at developing high-level skills, e.g. managers, professionals and technicians and associate professionals	22%	18,5%
3.2. Percentage of total approved Discretionary Grants (DG) allocations to employers, allocated to programmes or projects aimed at developing mid-level skills e.g., clerical, sales and service, skilled craft and trade workers	55%	21,8%
3.3 Percentage of total approved DG allocations to employers, programmes or projects aimed at developing elementary skills, e.g. machine operators and elementary workers	23%	21,8%
3.4. Number of unemployed learners registered for WIL programmes from TVET colleges.	475	114
3.5. Number of unemployed learners completing WIL programmes from TVET colleges.	225	47
3.6. Number of unemployed learners registered for WIL programmes from HEIs.	280	220
3.7. Number of unemployed learners completing WIL programmes from HEIs.	350	139
3.8. Number of unemployed learners registered for workplace experience/internships.	170	50
3.9. Number of unemployed learners completing workplace experience/internships.	3	0
3.10. Number of unemployed learners registered for skills programmes.	110	63
3.11. Number of unemployed learners completing skills programmes.	309	448
3.13. Number of unemployed learners completing learnership programmes.	2583	2624
3.14. Number of unemployed engineering graduates registered for candidacy programmes.	25	27
3.15. Number of unemployed engineering graduates completing candidacy programmes.	510	438
3.16. Number of unemployed learners registered for bursary programmes (new entries).	500	191
3.18. Number of unemployed learners completing bursary programmes.	50	99
3.19. Number of employed learners registered for learnership programmes.	1440	904
3.20. Number of employed learners completing learnership programmes.	1183	854

	Planned target	Reported achievement
3.21. Number of employed learners registered for bursary programmes (new entries).	104	34
3.22. Number of employed learners registered for bursary programmes (continuing).	50	0
3.23. Number of employed learners completing bursary programmes.	36	4
3.24. Number of employed learners registered for skills programmes.	2000	1172
3.25. Number of employed learners completing skills programmes.	2094	674
3.26. Number of employed or unemployed learners registered for AET programmes.	510	438
3.27. Number of employed or unemployed learners completing AET programmes.	500	191
3.28. Number of learners registered for trade/artisan qualifications (new registration).	3000	2138
3.29. Number of learners completing trade/artisan qualifications.	3460	1709
3.30. Number of learners entering Artisan Recognition of Prior Learning (ARPL) programme.	1000	862
3.31. Number of learners completing Artisan Recognition of Prior Learning (ARPL) programme.	1040	742
3.32. Number of active TVET college partnerships established.	25	29
3.35. Number of new SETA- Employer partnerships established.	1400	1023
3.36. Number of Cooperatives funded for skills that enhance enterprise growth and development.	10	1
3.39. Number of trade unions supported through skills development	4	0

25. Reasons for the underachievement of targets are included in the annual performance report on pages [29 to 36].

#### Material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of programme 3: Learning programme and projects. Management did not correct all the misstatements and I reported material findings in this regard.

#### Report on compliance with legislation

27. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the public entity's compliance with legislation.
28. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings on engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
29. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the public entity, clear to allow for consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
30. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

#### Annual financial statements, performance and annual report

31. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1) (b) of the PFMA.
32. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

#### Consequence management

33. I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1) (e) (iii) of the PFMA. This was because some investigations into irregular expenditure were not performed.

## Expenditure management

34. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R1, 267 billion as disclosed in note 24 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by non compliance with the Grant Regulations.
35. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R 47, 5 million, as disclosed in note 24 to the annual financial statements, as required by section 51(1) (b) (ii) of the PFMA. The majority of the fruitless and wasteful expenditure disclosed in the financial statements was caused by expenditure incurred on discretionary grant projects that were never completed and value not received.

## Other information in the annual report

36. The accounting authority is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.
37. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
38. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
39. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

40. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
41. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
42. Management's inability to implement adequate internal controls related to the financial reporting process, which resulted in non-compliance with the requirements of the applicable financial reporting framework. This deficiency may have contributed to errors or misstatements in the financial statements.
43. The processing and reconciling controls implemented by management during the financial year were not always adequate and effective as accounting records and schedules presented for audit were not always accurate and complete. The controls over daily and monthly processing of transactions did not prevent and detect deficiencies in some instances.
44. Management did not establish sufficient oversight controls for the performance reporting process, leading to inaccuracies in performance reporting. The lack of adequate oversight may have compromised the reliability and accuracy of reported performance metrics.
45. Management's oversight of compliance with performance information was inadequate, leading to repeat findings on the annual financial statements, performance reports, and annual report. The lack of adequate oversight raises concerns about the organisation's adherence to legal and regulatory requirements.

*Auditor - General.*  
Pretoria  
22 September 2023



# Annexure to the auditor's report

The annexure includes the following:

- the auditor-general's responsibility for the audit
- the selected legislative requirements for compliance testing.

## **Auditor-general's responsibility for the audit**

### **Professional judgement and professional scepticism**

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected programmes and on the public entity's compliance with selected requirements in key legislation.

### **Financial statements**

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

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

### **Communication with those charged with governance.**

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

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## PART F: FINANCIAL INFORMATION

### Compliance with legislation - selected legislative requirements.

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Treasury Regulations	Treasury regulation 16A6.1 Treasury regulation 16A3.2 (fairness) Treasury regulation 16A3.2(a) and (b) Treasury regulation R16A6.3 (a), (b),(c) & (e) Treasury regulation 16A6.4 Treasury regulation 16A6.5 Treasury regulation 16A6.6 Treasury regulation 16A.7.1 Treasury regulation 16A.7.3 Treasury regulation 16A.7.6 Treasury regulation 16A.7.7 Treasury regulation 16A8.3 Treasury regulation 16A8.4 Treasury regulation 16A9.1(b)(ii), (d), (e) Treasury regulation 16A9.1(d), (e) & (f) Treasury regulation 16A9.2(a)(ii) Treasury regulation 8.2.1 Treasury regulation 8.2.2 Treasury regulation 29.1.1(a) & (c) Treasury regulation 29.3.1 Treasury regulation 30.1.1 Treasury regulation 30.1.3(a), (b) & (d) Treasury regulation 30.1.3(b) Treasury regulation 30.1.3(d) Treasury regulation 30.2.1 Treasury regulation 31.1.2(c) Treasury regulation 31.2.1 Treasury regulation 31.3.3 Treasury regulation 33.1.1 Treasury regulation 33.1.3
PFMA Instruction Note 3 of 2021-22	Par. 4.1 Par. 4.2(b) Par. 4.3 Par. 4.4 Par. 4.4(c), (d)
PFMA SCM Instruction Note 03 of 2021-22	Definition Par4.1. Par. 4.2(b) Par. 4.3 & par. 4.4 Par. 4.4(c) Par. 4.4(d) Par. 7.2
SCM Instruction Note 02 of 2021-22	Par. 3.2.1 Par.3.2.4 Par. 3.3.1 Par. 4.1.
SCM Instruction Note 3 of 2016	Note 3
SCM Instruction Note 3 of 2016	Note 6
National Treasury Instruction Note 01 of 2021-22	Par. 4.1
Treasury Instruction Note 11 of 2020-21	Par. 3.1 Par 3.4(b) Par. 3.9

Legislation	Sections or regulations
National Treasury Instruction Note 5 of 2020-21	Par. 1 Par. 2 Par. 4.8 Par. 4.9 Par. 5.3
National Treasury Instruction Note 07 of 2017-18	Par. 4.3
National Treasury Instruction Note 4A of 2016-17	Par. 6
National Treasury Instruction Note 4 of 2015-16	Par. 3.4
Practice Note 7 of 2009-10	Par. 4.1.2
Practice Note 5 of 2009-10	Par. 3.3
PFMA	PFMA 35(4) PFMA 38(1)(b) PFMA44 PFMA 45(b) PFMA 51(1)(b)(ii) PFMA 51(1)(e)(iii) PFMA 52(b) PFMA 54(2)(c), (d) PFMA 57(b) PFMA 55(1)(a), (b) PFMA 55(1)(c)(i)
PPPFA	Definition "acceptable tender" Section 2(1)(a) and (b) Par. 2(1)(f)
Preferential Procurement Regulations 2011	Regulation 9(1), 9(5)
Preferential Procurement Regulations 2017	Under functionality Regulations 4(1), 4(2) Regulations 5(1), 5(3), 5(6), 5(7) Regulation 6(8), Regulation 7(8) Regulations 8(2), 8(5) Regulation 9(1) Regulation 10(1) Regulation 11(1)
Preferential Procurement Regulations 2022	Regulation 4(4)
CIBD Act	Section 18(1)
CIBD Regulations	Regulation 17 Regulation 25(7A)
SBD	SBD 6.2 issued in 2015-16
Sita Act	Section 7(3)
Public Service Regulations	Regulation 18(1), (2)
PRECCA	Section 34(1)
Grants Regulations	GNR. 990 2(1) GNR. 990 3(3) & (4) GNR. 990 4(3), (8) GNR. 990 6(9)(iii)

## PART F: FINANCIAL INFORMATION

### 2. Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2023

	Note	2023			2022		
		Actual R'000	Budget R'000	Variance R'000	Actual R'000	Budget R'000	Variance R'000
REVENUE							
Non-exchange revenue							
Skills development levy income	2	1 589 547	1 560 434	29 113	1 418 577	1 430 956	(12 379)
Skills development levy penalties and interest	3	15 098	15 888	(790)	20 217	19 643	574
Total non-exchange revenue		1 604 645	1 576 322	28 323	1 438 794	1 450 599	(11 805)
Exchange revenue							
Interest income	4	289 274	263 290	25 984	207 001	216 900	(9 899)
Other income	5	-	6	(6)	3	12	(9)
Total exchange revenue		289 274	263 296	25 978	207 004	216 912	(9 908)
Total revenue		1 893 919	1 839 618	54 301	1 645 798	1 667 511	(21 713)
EXPENSES							
Employer grant and project expenses	6	(1 184 176)	(1 656 274)	472 098	(1 129 809)	(1 238 588)	108 779
Administration expenses	7	(173 619)	(183 344)	9 725	(181 969)	(191 712)	9 743
Total expenses		(1 357 795)	(1 839 618)	481 823	(1 311 778)	(1 430 300)	118 522
Net surplus for the year	1	536 124	-	536 124	334 020	237 211	96 809



## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### STATEMENT OF FINANCIAL POSITION

as at 31 March 2023

	Note	2023			2022		
		Actual R'000	Budget R'000	Variance R'000	Actual R'000	Budget R'000	Variance R'000
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and cash equivalents	8	5 310 896	4 805 861	505 035	4 836 082	4 700 127	135 955
Receivables from exchange transactions	9	9 217	10 362	(1 145)	45 848	36 200	9 648
Receivables from non-exchange transactions	10	16 480	17 300	(820)	11 691	9 000	2 691
Consumables	11	319	400	(81)	367	450	(83)
		<b>5 336 912</b>	<b>4 833 923</b>	<b>502 989</b>	4 893 988	4 745 777	148 211
<b>Non-current assets</b>							
Property and equipment	12	9 674	12 234	(2 560)	10 813	14 872	(4 059)
Intangible assets	13	1 456	2 021	(565)	1 038	1 025	13
		<b>11 130</b>	<b>14 255</b>	<b>(3 125)</b>	11 851	15 897	(4 046)
<b>Total Assets</b>		<b>5 348 042</b>	<b>4 848 178</b>	<b>499 864</b>	4 905 839	4 761 674	144 165
<b>LIABILITIES</b>							
<b>Current liabilities</b>							
Payables from exchange transactions	14	9 603	10 000	(397)	9 249	5 800	3 449
Grants and transfers payable	15	220 922	250 025	(29 103)	309 115	268 000	41 115
Other payables	16	1 234	1 300	(66)	1 212	1 380	(168)
Provisions	17	37 006	43 700	(6 694)	43 110	40 650	2 460
		<b>268 765</b>	<b>305 025</b>	<b>(36 260)</b>	362 686	315 830	46 856
<b>Net assets</b>		<b>5 079 277</b>	<b>4 543 153</b>	<b>536 124</b>	4 543 153	4 445 844	97 309
Administration reserve		11 130	14 255	(3 125)	11 851	15 897	(4 046)
Employer grant reserve		532	780	(248)	709	709	-
Discretionary reserve		5 067 615	4 528 118	539 497	4 530 593	4 429 738	100 855
<b>Total net assets</b>		<b>5 079 277</b>	<b>4 543 153</b>	<b>536 124</b>	4 543 153	4 446 344	96 809

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2023

	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 31 March 2021</b>		14 444	1 248	4 193 441	-	4 209 133
Net surplus for the year per statement of financial performance		-	-	-	334 020	334 020
Allocation of unappropriated surplus for the year	1	4 224	107 926	221 870	(334 020)	-
Excess reserves transferred to discretionary reserve		(6 817)	(108 465)	115 282	-	-
<b>Balance at 31 March 2022</b>		<b>11 851</b>	<b>709</b>	<b>4 530 593</b>	<b>-</b>	<b>4 543 153</b>
Net surplus for the year per statement of financial performance		-	-	-	536 124	536 124
Allocation of unappropriated surplus for the year	1	35 016	127 697	373 411	(536 124)	-
Excess reserves transferred to discretionary reserve		(35 737)	(127 874)	163 611	-	-
<b>Balance at 31 March 2023</b>		<b>11 130</b>	<b>532</b>	<b>5 067 615</b>	<b>-</b>	<b>5 079 277</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 19.1.2.

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### CASH FLOW STATEMENT

for the year ended 31 March 2023

Note	2023			2022		
	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	<b>1 598 210</b>	<b>1 578 189</b>	<b>20 021</b>	1 439 240	1 451 690	(12 450)
Levies, interest and penalties received	1 598 210	1 578 183	20 027	1 439 237	1 451 678	(12 441)
Other income	5	-	6	3	12	(9)
Cash paid for grants and projects	<b>(1 277 149)</b>	<b>(1 723 078)</b>	<b>445 929</b>	(1 071 185)	(1 229 200)	158 015
Employment costs	(60 920)	(63 318)	2 398	(37 521)	(39 970)	2 449
Mandatory grants	(280 436)	(294 504)	14 068	(242 869)	(266 011)	23 142
Discretionary grant and projects	(935 793)	(1 365 256)	429 463	(790 795)	(923 219)	132 424
Cash paid for administration	<b>(168 380)</b>	<b>(175 173)</b>	<b>6 793</b>	(179 802)	(185 630)	5 828
Employment costs	(93 739)	(103 202)	9 463	(113 294)	(114 073)	779
Payments to suppliers	(74 641)	(71 971)	(2 670)	(66 508)	(71 557)	5 049
Cash generated from (utilised in) operations	18	<b>152 681</b>	<b>(320 062)</b>	<b>472 743</b>	<b>188 253</b>	<b>36 860</b>
Interest received	326 033	298 983	27 050	193 417	212 509	(19 092)
<b>Net cash inflow from operating activities</b>	<b>478 714</b>	<b>(21 079)</b>	<b>499 793</b>	381 670	249 369	132 301
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
Purchase of property and equipment	12	(1 654)	(5 379)	3 725	(892)	(4 541)
Purchase of intangible assets	13	(2 246)	(3 763)	1 517	(1 675)	(1 650)
Proceeds from disposal of property and equipment	-	-	-	30	-	30
<b>Net cash outflow from investing activities</b>	<b>(3 900)</b>	<b>(9 142)</b>	<b>5 242</b>	(2 537)	(6 191)	3 654
<b>Net increase in cash and cash equivalents</b>	<b>474 814</b>	<b>(30 221)</b>	<b>505 035</b>	379 133	243 178	135 955
<b>Cash and cash equivalents at beginning of year</b>	4 836 082	4 836 082	-	4 456 949	4 456 949	-
<b>Cash and cash equivalents at end of year</b>	8	<b>5 310 896</b>	<b>4 805 861</b>	<b>505 035</b>	4 836 082	4 700 127

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended 31 March 2023

	Original budget R'000	Revisions R'000	Final approved budget R'000	Actual R'000	Variance R'000
<b>REVENUE</b>					
Skills development levy income	1 473 886	86 548	1 560 434	1 589 547	29 113
Skills development penalties and interest	20 233	(4 345)	15 888	15 098	(790)
<b>Total non-exchange revenue</b>	<b>1 494 119</b>	<b>82 203</b>	<b>1 576 322</b>	<b>1 604 645</b>	<b>28 323</b>
Interest income	227 745	35 545	263 290	289 274	25 984
Other income	13	(7)	6	-	(6)
<b>Total exchange revenue</b>	<b>227 758</b>	<b>35 538</b>	<b>263 296</b>	<b>289 274</b>	<b>25 978</b>
<b>Total revenue</b>	<b>1 721 877</b>	<b>117 741</b>	<b>1 839 618</b>	<b>1 893 919</b>	<b>54 301</b>
<b>EXPENSES</b>					
Employer grant and project expenses	(1 333 431)	(322 843)	(1 656 274)	(1 184 176)	472 098
Administration expenses	(206 361)	23 017	(183 344)	(173 619)	9 725
<b>Total expenses</b>	<b>(1 539 792)</b>	<b>(299 826)</b>	<b>(1 839 618)</b>	<b>(1 357 795)</b>	<b>481 823</b>
<b>Net surplus for the year</b>	<b>182 085</b>	<b>(182 085)</b>	<b>-</b>	<b>536 124</b>	<b>536 124</b>

#### REVISIONS TO THE ORIGINAL BUDGET

Skills development levy income was increased by R87 million. The original budget made provision for a 3% increase, but actual levy income showed a 12% increase over the previous year.

Skills development penalties and interest income was reduced by R4 million as there was decline in this income compared to previous years.

Interest income, which represents interest earned on cash and cash equivalents was increased by R35 million. Interest rates rose due to increases in the REPO rate during the year.

Employer grant and project expenses were increased by R323 million in order to utilise the available surpluses in the current financial year.

Administration expenses were reduced by R23 million due to a change in the apportionment policy during the year. This policy determines the way in which operational administration expenses are apportioned to project administration expenses.

#### COMPARISON OF BUDGET VERSUS ACTUAL

Levy income is slightly above budget. The increase in levies was consistent throughout the year and this was anticipated in the revised budget.

Interest received from cash and cash equivalents is 10% more than budget. This is due to rising interest rates and increasing cash reserves.

Disbursements of employer grants and projects is 29% below budget. This variance is largely due to low expenditure on discretionary projects as mandatory grants only showed a 2% variance from budget. The mandatory grants claim ratio for 2023 is 72%. The low expenditure on discretionary projects is partly due to cancellation of contracts or reductions of commitments during the year amounting to R761 million. The window for the MOA contracts for 2023 was extended to the end of August 2022 and another window was opened in January 2023 to allow for further submissions. The result

is that the most of the expenditure related to these contracts will only be incurred in the 2023/24 financial year and beyond. Only 29% of the R200 million budgeted for 2022/23 MOA contracts was spent in the year under review. There is a need for better and more timely planning to anticipate challenges and measures have already been put in place to address this in the 2023/24 financial year.

Administration expenses are 5% below budget. This is mainly due to salary costs. Some vacancies were put on hold until the organisational restructuring exercise was completed. These posts will be filled in the next financial year.

The surplus for the year is R536 million against a budgeted surplus of nil. The main contributor was the lower than budgeted disbursement of grant and project expenses.

## ACCOUNTING POLICIES

### 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 Financial Statements fairly present the entity's financial position, financial performance and cash flows as per the requirements of GRAP 1.

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

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

### 2. CURRENCY

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

### 3. REVENUE RECOGNITION

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

#### 3.1 Skills development levy income

In terms of section 3(1) and 3(4) of the Skills Development

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

SARS pays eighty percent (80%) of skills development levies to the merSETA, eighteen percent (18%) is paid to the National Skills Fund (NSF) and the remaining two percent (2%) is retained by SARS as a collection cost.

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

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

The merSETA makes refunds to employers in the form of grants, based on levies received from SARS. SARS can make retrospective amendments to levies collected. This may result in grants that have been paid to certain employers being in excess of the amount the merSETA is permitted to have granted. These overpayments need to be recovered from the employers and a receivable for the amount of the overpayment is raised.

Adjustments to revenue already recognised, arise from the completion of a South African Revenue Services (SARS) internal review process, and/or the outcome of an external appeal or objection process undertaken by employer companies. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. Refunds are recovered directly from monthly revenues by SARS, and the SETA recognises revenue on net basis as and when it is received. The SETA has no access to or control to the appeal or review process carried on by SARS, and hence could not reasonably be expected to have access to reliable information at the initial stage of recognition. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process are therefore accounted for as a change in an accounting estimate, and not as a correction of an error.

### 3.2. Skills development penalties and interest

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

### 3.3. 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.

### 3.4. Other income

Other income is recognised when it is received.

## 4. GRANT AND PROJECT EXPENSES

### 4.1. Mandatory grants

The grant payable and the related expenses is recognised when the employer has submitted an application for a grant in the prescribed form, within the legislated cut-off period and it is probable the grants will be paid. This grant is equivalent to 20% of the total levies paid by the employer and represents a workplace skills planning grant.

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

### 4.2. Discretionary project expenses

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

Discretionary project expenses are:

- 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 consistently allocated using methods that are systematic and rational. Discretionary project costs are recognised as expenses in the period in which they are incurred and the liability is recognised accordingly.

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. Operational administration expenses reapportioned to project administration expenses

Administration expenses comprises operational administration expenses and project administration expenses. Operational administration expenses are apportioned as follows:

1. In principle there is no allocation done from non-core units and support units. The full cost of these units are treated as operational administration costs. The only exception is where certain operational costs within these units are centralised. Apportionment of these costs are done on the basis of the levy income ratio.
2. Apportionment of the administration costs of core business units is done on the basis of the levy income ratio with the exception of the Administration Unit. 62.5% of the costs of these units are allocated to project administration.
3. A large portion of the work done by the Administration Unit relates to mandatory grants. It was determined that 80% of the work done by the Administration unit is on mandatory grants, thus 20% of the costs are allocated to project administration costs.

### 4.4. Administration expenses

The Skills Development Levies Act (Act No. 9 of 1999 as amended) (SDLA) stipulates that a maximum of ten percent (10%) of levy income may be used for operational administration expenses. A maximum of half a percent (0.5%) of levy income is used for administration expenses of the Quality Council for Trades and Occupations (QCTO). Operational expenditure includes employee costs, operating lease rental, consulting costs and operational travel and subsistence costs, amongst others.

An expense is recognised when merSETA consumes the economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets.

## PART F: FINANCIAL INFORMATION

### 5. 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 cash and cash equivalents, receivables from exchange transactions, payables from exchange transactions and other payables. Where relevant, the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

#### 5.1. 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 cash and cash equivalents and receivables from exchange transactions.

#### Cash and cash equivalents

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

#### Receivables from exchange transactions

merSETA assesses its deposits and receivables for impairment at the end of each financial reporting period. In determining whether an impairment loss should be recorded in the Statement of Financial Performance, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. Receivables from exchange transactions are measured at amortised cost with interest calculated by using the effective interest method.

#### 5.2. 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.

#### Payables from exchange transactions

The merSETA's principal financial liabilities are payables from exchange transactions. Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

#### Derecognition

A financial asset or a portion thereof is derecognised when:

- The merSETA realises the contractual rights to the benefits specified in the contract;
- The rights expire;
- The merSETA waives those rights or otherwise loses control of the contractual rights that comprise the financial asset and transfers to another party substantially all the risks and rewards of ownership of the financial asset.

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

#### 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.

### 6. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS

Refunds are made to employers in the form of mandatory grants, based on information from SARS. Where SARS retrospectively amends the information on levies collected this may result in grants that have been paid to affected employers being in excess of the amount that would have been granted to those employers had all information been available at the time of paying those grants.

Contracts are entered into with employers for the payment of discretionary grants. Where an employer withdraws from a contract or the contract value is reduced, a receivable will be raised to the extent that payments made under the contract exceed the revised total contract value.



## PART F: FINANCIAL INFORMATION

A receivable relating to such overpayments of mandatory or discretionary grants is recognised at the amount of the grant overpayment, net of bad debts and allowance for irrecoverable amounts.

Other receivables from non exchange transactions relate to transactions with the UIF and other SETAs.

### 7. CONSUMABLES

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

### 8. PROPERTY AND EQUIPMENT

Property and Equipment are recognised as assets when it is probable that the expected economic benefits will flow to the entity and the cost can be measured reliably. They comprise tangible assets held for administrative use and are expected to be used during more than one accounting period. Property and equipment are initially recognised at cost price on date of acquisition. They are subsequently recognised at cost less any accumulated depreciation and adjusted for any impairments. Depreciation has been calculated on the straight-line method to write off the cost of each asset at acquisition to estimated residual value over its estimated useful life as follows:

Asset class	Depreciation period current year	Depreciation period prior year
Computer equipment	3 - 8 years	3 - 8 years
Office furniture and fittings	5 - 14 years	5 - 14 years
Office equipment	5 - 10 years	5 - 10 years
Motor vehicles	4 - 10 years	4 - 10 years
Other assets	2 - 5 years	2 - 5 years

The useful life of assets were assessed by class, after consideration of the average life of disposed or retired assets. Expectations about the useful lives of office equipment and motor vehicles has changed since the previous reporting date as indicated above.

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

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

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

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

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

### 9. INTANGIBLE ASSETS

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

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

Asset class	Amortisation period
Computer software	1 - 3 years

The useful lives and residual values of intangible assets are reassessed at the end of each financial year. There were no changes to the amortisation period in the current year.

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

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

### 10. OTHER PAYABLES

Other payables constitute salary and wage related accruals. These are recognised in the period in which the employee renders the related service.

### 11. PROVISIONS

Provisions are recognised when the merSETA has a present legal and constructive obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated. The provision is measured at the best estimate of expenses 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 expenses expected to settle the obligation. The merSETA provides for onerous contracts when the expected benefits to be derived from the contract are less than the unavoidable costs of meeting the obligation under the contract.

#### 11.1. Provision for SARS refunds

Companies with annual payrolls below R500 000 are exempted from paying skills development levies. SARS will be refunded where levies have been paid by such exempt companies. In terms of Skills Development Circular No 09/2013, issued by DHET on 25 August 2013, SETAs are able to utilise exempted amounts contributed after the expiry date of five years as stipulated in terms of Section 190 (4) of the Tax Administration Act. These amounts have been transferred to the discretionary funds in line with the aforementioned circular.

#### 11.2. Provision for mandatory grants

Provision is made for the payment of mandatory grants where the grant has not yet been approved at the end of the financial year but an application has been submitted which could still potentially be approved.

#### 11.3. Provision for employee related entitlements

The cost of other employee benefits (not recognised as retirement benefits - see policy note 16) are recognised during the period in which the employee renders the related service. Employee entitlements are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the reporting date. Provisions included in the statement of financial position are provisions for Workman's Compensation, leave pay and performance bonuses.

#### Leave Pay

The merSETA recognises a liability and an expense for accumulating leave as and when employees render services that entitle them to leave days. The amount of the liability and expense is determined as the additional amount payable as a result of unused leave days owed to employees at the end of the period.

#### Performance bonuses

The merSETA recognises a liability and an expense for accumulating leave as and when employees render services that entitle them to leave days. The amount of the liability and expense is determined as the additional amount payable as a result of unused leave days owed to employees at the end of the period.

### 12. RESERVES

merSETA sub-classifies reserves into various categories based on the restrictions on the usage of skills development funds received as per the Skills Development Act, 1998 (Act No. 97 of 1998). merSETA measures reserves using accrual basis accounting; thus, reserves are not an indication of cash used or available at the end of the year.

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

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

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

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

	2023 %
Administration costs of the merSETA	10
QCTO Administration costs	0,5
Mandatory Workplace Skills Planning Grant	20
Discretionary projects	49,5
Received by the merSETA	80
Contribution to NSF	20
	100

#### Administration reserve

This reserve represents the carrying amount of the non-current assets of merSETA.

#### Mandatory grant reserve

This reserve represents funds maintained for paying back to employers a percentage of the contributed levies (mandatory grants). The residual balance of this reserve is transferred to the discretionary grant reserve in line with the grant regulations.

## PART F: FINANCIAL INFORMATION

### ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS RESERVES (continued)

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.

#### Discretionary grant reserve

This reserve represents discretionary grant funds set aside to fund learning programmes of the SETA to address the scarce and critical skills needed in the sector. The reserve is supported by retained surplus for the year, net current assets, and commitments disclosed in the notes to the Annual Financial Statements.

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

### 13. LEASING

#### Operating leases

An operating lease is a lease other than a finance lease. Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the merSETA. Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

### 14. RETIREMENT BENEFIT COSTS

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

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

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

Contribution by employee	7,50%
Contribution by employer	12,08%
<b>Total contribution</b>	<b>19,58%</b>

### 15. CONTINGENCIES

Contingent liabilities are possible obligations whose existence will be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within the control of the merSETA. Contingent liabilities are not recognised but are disclosed in the notes to the Annual Financial Statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Section 53 (3) of the PFMA a public states that an entity may not accumulate surpluses unless the prior written approval of the National Treasury has been obtained. At the end of May each year a formal request to retain surpluses is submitted to National Treasury. Should such submission not be approved, surpluses would need to be refunded to National Treasury.

The amount retained in the Employer Grant Reserve is for newly registered companies. These companies have up to six months after registration to submit work place skills plans.

### 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, sub-committees of the Accounting Authority or other equivalent body is considered as significant influence.

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

Close members of the family of a person are considered to be those family members who may be expected to influence,

## PART F: FINANCIAL INFORMATION

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. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

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

- The Public Finance Management Act (PFMA), No. 1 of 1999 (as amended).
- The Skills Development Act, No. 97 of 1998 (as amended.)
- Instructions and circulars issued by National Treasury.

Fruitless and wasteful expenditure means expenses that were incurred in vain and would have been avoided had reasonable care been exercised.

Where an instance of irregular expenditure or fruitless and wasteful expenditure has been identified, the incident is recorded in a register, investigated and reported to the Accounting Authority.

In line with National Treasury Instruction no 4 of 2022/23, irregular expenditure and fruitless and wasteful expenditure is recognised in the notes to the annual financial statements when confirmed after assessment. The merSETA recognises irregular expenditure and fruitless and wasteful expenditure incurred and confirmed during the current year, unless it is impractical to determine, then a note to that effect is disclosed.

Current year irregular and fruitless and wasteful expenditure is recognised against the respective class of expense in the period in which it is incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered in the same accounting period, it is shown net of any recoveries.

Expenditure recognised in the prior year include amounts:

- confirmed in that financial year;
- amounts that were under assessment in the prior year but only confirmed in the current financial year, and

- amounts that relate to the prior year but were only identified and confirmed in the current financial year.

If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps are taken thereafter to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write-off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register is updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto is shown against the relevant programme/expenditure item, is disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

In line with National Treasury Instruction no 4 of 2022/23, current year irregular expenditure is derecognised when it is either recovered or condoned by National Treasury in that year, or in cases where National Treasury has declined to condone, removed or written off by the Accounting Authority. Prior year irregular expenditure is derecognised in the Annual Financial Statements in line with National Treasury instructions no 4 of 2022/23.

Current year fruitless and wasteful expenditure is removed from the notes to the annual financial statements when it is either recovered, or removed by the Accounting Authority in line with the framework issued by National Treasury.

### 18. COMPARATIVE FIGURES

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

### 19. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

#### Key sources of estimation uncertainty

The following are the key assumptions concerning the future,

## PART F: FINANCIAL INFORMATION

and other key sources of estimating uncertainty at year end, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### **Useful lives of property and equipment**

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

### **Provision for below threshold levies received**

Companies with annual payrolls below R500 000 are exempted from paying skills development levies. However, there are still exempt companies that are paying skills development levies. The merSETA estimates the value and makes provision to

refund these levies. The provision is only held for five years as in terms of section 190(4) of the Tax Administration Act a person is only entitled to a refund if claimed within five years of the date of assessment. Unclaimed levies older than five years are transferred to the discretionary grant reserve. This is also in compliance with Skills Development Circular 09/2013 issued by the Department of Higher Education and Training, dated 25 August 2013.

### **Provision for doubtful debts: receivables from non exchange transactions**

The provision for doubtful debts is based on an estimate, using a percentage of gross debt. In arriving at the relevant percentage, consideration is given to actual recovery against the gross receivable over the past three financial years.

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2023

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

	Total per Statement of Financial Performance R'000	Administration reserve R'000	Employer grants reserve R'000	Discretionary grants R'000
<b>Year ended 31 March 2023</b>				
<b>Total revenue</b>	<b>1 893 919</b>	<b>208 635</b>	<b>397 197</b>	<b>1 288 087</b>
Skills development levy income				
Admin levy income (10,5%)	208 635	208 635	-	-
Grant levy income (69,5%)	1 380 912	-	397 197	983 715
Skills development levy: penalties and interest	15 098	-	-	15 098
Investment income	289 274	-	-	289 274
Other income	-	-	-	-
<b>Total expenses</b>	<b>1 357 795</b>	<b>173 619</b>	<b>269 500</b>	<b>914 676</b>
Employer grants and project expenses	1 184 176	-	269 500	914 676
Administration expenses	173 619	173 619	-	-
Net surplus per the statement of financial performance allocated	<b>536 124</b>	<b>35 016</b>	<b>127 697</b>	<b>373 411</b>
<b>Year ended 31 March 2022</b>				
<b>Total revenue</b>	<b>1 645 798</b>	<b>186 193</b>	<b>354 417</b>	<b>1 105 188</b>
Skills development levy income				
Admin levy income (10,5%)	186 190	186 190	-	-
Grant levy income (69,5%)	1 232 387	-	354 417	877 970
Skills development levy penalties and interest	20 217	-	-	20 217
Investment income	207 001	-	-	207 001
Other income	3	3	-	-
<b>Total expenses</b>	<b>1 311 778</b>	<b>181 969</b>	<b>246 491</b>	<b>883 318</b>
Employer grants and project expenses	1 129 809	-	246 491	883 318
Administration expenses	181 969	181 969	-	-
Net surplus per the statement of financial performance allocated	<b>334 020</b>	<b>4 224</b>	<b>107 926</b>	<b>221 870</b>

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2023

Note	2023 R'000	2022 R'000
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#### 2. SKILLS DEVELOPMENT LEVY INCOME

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

Levy income: Administration	<b>208 635</b>	186 190
Levies received from SARS	207 766	186 189
InterSETA transfers	894	56
Provision for refund SARS	(25)	(55)
Levy income: Employer Grants	<b>397 197</b>	354 417
Levies received from SARS	395 558	354 415
InterSETA transfers	1 687	106
Provision for refund SARS	(48)	(104)
Levy income: Discretionary Grants	<b>983 715</b>	877 970
Levies received from SARS	979 620	877 966
InterSETA transfers	4 215	262
Provision for refund SARS	(120)	(258)
	<b>1 589 547</b>	1 418 577

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

Penalties	8 836	11 841
Interest	6 262	8 376
	<b>15 098</b>	20 217

#### 4. INTEREST INCOME

Interest income from cash and cash equivalents	<b>289 274</b>	207 001
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#### 5. OTHER INCOME

Income from re-certification	-	3
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## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2023

#### 6. EMPLOYER GRANT AND PROJECT EXPENSES

Note	2023 R'000	2022 R'000
<b>Mandatory grants</b>	<b>269 500</b>	246 491
Mandatory grants	272 336	243 764
Bad debts written off	44	495
Movement in allowance for doubtful debts	(2 880)	2 232
<b>Discretionary projects</b>	<b>914 676</b>	883 318
Discretionary projects direct costs	842 302	857 768
Discretionary projects administration costs	71 721	40 776
Bad debts written off	3 242	1 321
Movement in allowance for doubtful debts	(623)	(12 389)
Other discretionary project costs	(1 966)	(4 158)
	<b>1 184 176</b>	1 129 809

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#### 7. ADMINISTRATION EXPENSES

Note	2023 R'000	2022 R'000
Advertising, marketing and promotions, communication	1 394	2 012
Amortisation - intangible assets	1 828	1 865
Audit costs - internal audit	716	801
Audit costs - external audit	5 856	5 356
Audit costs - other audits	50	91
Bank charges	467	413
Accounting Authority and sub-committee costs	<b>5 281</b>	4 360
Remuneration to members of the audit committee	863	471
Accounting Authority and sub-committee members' fees	3 763	3 148
Board assessments	29	180
Secretarial services	626	561
Cleaning and groceries	435	395
Depreciation	2 187	2 253
Depreciation - adjustment due to change in useful lives of assets	12 (229)	(196)
Employment costs	<b>146 567</b>	140 834
Recruitment costs	238	293
Salaries, wages and benefits	7.1 143 340	137 653
Staff training, development and welfare	2 989	2 888
Gifts, donations and sponsorships paid	-	3
Insurance and licence fees	1 686	1 820
Investigations and forensic costs	3 011	573
Legal fees	2 922	1 191
Loss on disposal of property and equipment	18 473	842
Operating lease rentals	<b>15 088</b>	15 116
Buildings	13 119	13 286
Parking	1969	1 830
Printing, stationery and postages	1 778	1 546
QCTO administration cost	9 191	6 886
Rates, water and electricity	3 028	5 199
Rental - computer equipment	204	42
Rental - office equipment	28	-
Repairs, maintenance and running costs	<b>9 798</b>	3 043
Buildings	8 971	1 270
COVID-19 expenditure	257	1 121
Property and equipment	570	652
Security	493	1 583
Service provider administration fees	8 857	8 213
Special functions	968	40
Storage	363	915
Telecommunication expenses	13 892	12 402
Travel, conferences and meeting expenses	9 008	5 147
	<b>245 340</b>	222 745
Less: amounts allocated to project expenses	6 (71 721)	(40 776)
Net administration cost	<b>173 619</b>	181 969

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#### 7. ADMINISTRATION EXPENSES (continued)

Note	2023	2022
	R'000	R'000

##### 7.1 Salaries and wages

	125 482	119 997
Basic salaries	109 033	106 702
Performance awards	7 525	8 196
Arbitration award	-	555
Other non-pensionable allowance	2 896	2 992
Temporary staff	4 088	3 010
Leave pay	1 940	(1 458)

##### *Social contributions*

	17 858	17 656
Medical aid contributions	4 435	4 548
Pension contributions: defined contribution fund	11 475	11 226
UIF	480	448
Insurance	197	202
Other salary related costs	1 271	1 232
	<b>143 340</b>	<b>137 653</b>

##### NUMBER OF EMPLOYEES

Average number of employees during the year	<b>264</b>	272
Permanent staff	230	237
Interns	34	35
Number of employees at the end of the year	<b>290</b>	242
Permanent staff	235	235
Interns	55	7

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

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#### 8. CASH AND CASH EQUIVALENTS

Note	31 March 2023 R'000	31 March 2022 R'000
Cash on hand	30	30
Cash at bank	221 925	106 870
Call accounts	2 442 410	3 729 182
Corporation for Public Deposits	2 646 531	-
Fixed notice deposits	-	1 000 000
	<b>5 310 896</b>	<b>4 836 082</b>

Cash and cash equivalents at the end of the reporting period comprise of bank balances and fixed notice deposits held by the organisation at various banks as required in National Treasury Regulation 31.2.1. The weighted average interest rate for cash and cash equivalents was 6.04% (2022: 4.61%).

Surplus funds were invested in line with the Investment Policy approved by the Accounting Authority as required by Treasury Regulation 31.3.5.

Public entities are required to invest surplus funds with the Corporation for Public Deposits in terms of Treasury Regulations, unless specifically exempted.

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

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

#### 9. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Deposits	1 783	1 655
Interest receivable	7 434	44 193
	<b>9 217</b>	<b>45 848</b>

#### 10. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Employer receivable - discretionary grants	10.1	5 731	6 427
Employer receivable - mandatory grants	10.2	1 171	2 218
Receivable - discretionary projects (UIF)	10.3	2 581	2 581
InterSETA receivable	22.2	6 997	465
		<b>16 480</b>	<b>11 691</b>

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for the year ended 31 March 2023

Note	31 March 2023 R'000	31 March 2022 R'000
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#### 10. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

##### 10.1 Employer receivable - discretionary grants

Employer receivable - discretionary grants	10.1.1	25 303	24 819
Allowance for doubtful debts	10.1.2	(19 572)	(18 392)
Net receivable from employers	10	<b>5 731</b>	6 427

The employer receivable of R 25,3 million (March 2022: R 24,8 million) represents recoverable amounts due to MOA contracts with employers where tranches were paid but training was not implemented according to the original contract.

An amount of R 19,6 million (March 2022: R 18,4 million) was provided against such employer receivables.

##### 10.1.1 Ageing of receivables

	2023		2022	
	Gross	Impairment	Gross	Impairment
Current	505	(343)	3 156	(1 957)
30 Days	186	(126)	167	(103)
60 Days	4 851	(3 299)	1 235	(766)
90 Days	630	(428)	135	(84)
91 Days to 6 months	3 240	(2 203)	2 514	(1 559)
6 Months to 1 year	614	(418)	1 979	(1 227)
1 Year plus	15 277	(12 755)	15 633	(12 696)
<b>Total</b>	<b>25 303</b>	<b>(19 572)</b>	<b>24 819</b>	<b>(18 392)</b>

##### 10.1.2 Allowance for doubtful debts

Note	31 March 2023 R'000	31 March 2022 R'000
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Opening carrying amount	(18 392)	(22 915)
Amount utilised	1 791	1 321
Reduction/(addition) to provision during the period	(2 971)	3 202
Closing carrying amount	<b>(19 572)</b>	(18 392)

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for the year ended 31 March 2023

Note	31 March 2023 R'000	31 March 2022 R'000
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#### 10. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

##### 10.2 Employer receivable-mandatory grants

Employer receivable - mandatory grants recoveries	2 252	6 180
Allowance for doubtful debts	(1 081)	(3 962)
Net receivable from employers	<b>1 171</b>	2 218

The employer receivable of R 2,3 million (March 2022: R 6,2 million) represents recoverable amounts due to SARS retrospective adjustments to levies on which mandatory grants have already been paid.

An amount of R 1,1 million (March 2022: R 4,0 million) was provided against such employer receivables.

##### 10.2.1 Ageing of receivables

	2023		2022	
	Gross	Impairment	Gross	Impairment
Current	267	(88)	1	(1)
30 Days	7	(2)	535	(332)
60 Days	-	-	453	(281)
90 Days	-	-	174	(107)
91 Days to 6 months	77	(25)	1 693	(1 050)
6 Months to 1 year	-	-	2 105	(1 305)
1 Year plus	1 901	(966)	1 219	(886)
<b>Total</b>	<b>2 252</b>	<b>(1 081)</b>	<b>6 180</b>	<b>(3 962)</b>

##### 10.2.2 Allowance for doubtful debts

Opening carrying amount	(3 962)	(1 729)
Amount utilised	44	495
Reduction/(addition) to provision during the period	2 837	(2 728)
Closing carrying amount	<b>(1 081)</b>	(3 962)

##### 10.3 Receivable - UIF

Receivable - discretionary projects (UIF)	10.3.1	9 404	11 208
Allowance for doubtful debts	10.3.2	(6 823)	(8 627)
Net receivable from UIF	10	<b>2 581</b>	2 581

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for the year ended 31 March 2023

Note	31 March 2023 R'000	31 March 2022 R'000
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### 10. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

The receivable of R 9,4 million (March 2022: R 11,2 million) represents recoverable amounts from the UIF for the training layoff project.

An amount of R 6,8 million (March 2022: R 8,6 million) was provided against the receivable from the UIF.

#### 10.3.1 Ageing of receivables

Current	-	-
30 Days	-	110
60 Days	-	-
90 Days	-	-
91 Days to 6 months	-	188
6 Months to 1 year	-	37
1 Year plus	9 404	10 873
<b>Total</b>	<b>10</b>	<b>11 208</b>

#### 10.3.2 Allowance for doubtful debts

Opening carrying amount	(8 627)	(16 493)
Amount utilised	1 450	8 201
Reduction/(addition) to provision during the period	354	(335)
Closing carrying amount	10.3 <b>(6 823)</b>	(8 627)

### 11. CONSUMABLES

Opening carrying value	367	413
Consumables purchased	568	624
Consumables issued	(589)	(732)
Adjustments	(27)	62
Closing carrying value	<b>319</b>	367



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#### 12. PROPERTY AND EQUIPMENT

	Cost R'000	Accumulated depreciation impairments R'000	Closing carrying amount R'000
<b>Year ended 31 March 2023</b>			
<b>Owned assets</b>			
Computer equipment	11 588	(6 685)	<b>4 903</b>
Office furniture and fittings	7 690	(5 438)	<b>2 252</b>
Office equipment	3 235	(1 798)	<b>1 437</b>
Motor vehicles	4 794	(3 712)	<b>1 082</b>
<b>Total owned assets</b>	<b>27 307</b>	<b>(17 633)</b>	<b>9 674</b>
<b>Year ended 31 March 2022</b>			
<b>Owned assets</b>			
Computer equipment	11 529	(6 186)	<b>5 343</b>
Office furniture and fittings	7 805	(5 232)	<b>2 573</b>
Office equipment	3 174	(1 746)	<b>1 428</b>
Motor vehicles	4 794	(3 325)	<b>1 469</b>
<b>Balance at end of year</b>	<b>27 302</b>	<b>(16 489)</b>	<b>10 813</b>

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#### 12. PROPERTY AND EQUIPMENT (continued)

	Opening carrying amount R'000	Additions R'000	Disposals cost R'000	Depreciation charge R'000	Accumulated depreciation on disposals R'000	Reclassification of assets R'000	Closing carrying amount R'000
<b>Movement summary 2023</b>							
<b>Owned assets</b>							
Computer equipment	5 343	1 076	(497)	(1 305)	383	(97)	4 903
Office furniture and fittings	2 573	-	(116)	(287)	82	-	2 252
Office equipment	1 428	578	(1 036)	(341)	711	97	1 437
Motor vehicles	1 469	-	-	(387)	-	-	1 082
<b>Total owned assets</b>	<b>10 813</b>	<b>1 654</b>	<b>(1 649)</b>	<b>(2 320)</b>	<b>1 176</b>	<b>-</b>	<b>9 674</b>

#### Movement summary 2022

<b>Owned assets</b>							
Computer equipment	6 870	680	(3 251)	(1 543)	2 587	-	5 343
Office furniture and fittings	2 904	9	(116)	(309)	85	-	2 573
Office equipment	1 654	203	(1 053)	(252)	876	-	1 428
Motor vehicles	1 787	-	-	(318)	-	-	1 469
<b>Balance at end of year</b>	<b>13 215</b>	<b>892</b>	<b>(4 420)</b>	<b>(2 422)</b>	<b>3 548</b>	<b>-</b>	<b>10 813</b>

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

In the current year the assets were tested for impairment. 103 Assets were found to be obsolete, broken or otherwise impaired. The net book value of the assets amounted to R497 000. The Management Committee of merSETA gave approval for these assets to be written off.

In the current year an exercise was undertaken to assess the useful life of assets. The useful life of some of the assets were extended resulting in a reversal of depreciation of R229 000 (see note 7).

#### 13. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	Cost R'000	Accumulated amortisation R'000	Closing carrying Amount R'000
<b>Year ended 31 March 2023</b>			
Intangible assets	2 592	(1 136)	<b>1 456</b>

<b>Year ended 31 March 2022</b>			
Intangible assets	1 957	(919)	<b>1 038</b>

	Opening carrying amount R'000	Additions R'000	Disposals cost R'000	Amortisation charge R'000	Accumulated amortisation on disposals R'000	Closing carrying amount R'000
<b>Movement summary 2023</b>						
Intangible assets	1 038	2 246	(1 610)	(1 828)	1 610	1 456
<b>Movement summary 2022</b>						
Intangible assets	1 229	1 675	(2 096)	(1 866)	2 096	1 038

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Note	31 March 2023 R'000	31 March 2022 R'000
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#### 14. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables from exchange transactions	<b>9 603</b>	9 249
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#### 15. GRANTS AND TRANSFERS PAYABLE

Grants payable - discretionary	146 396	229 129
Grants payable - mandatory	71 927	77 389
Payable - Training Layoff Scheme (UIF)	2 581	2 581
InterSETA payables	22.2 18	16
	<b>220 922</b>	309 115

#### 16. OTHER PAYABLES

Accruals salaries and wages	<b>1 234</b>	1 212
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#### 17. PROVISIONS

Provision for SARS refund	17.1	18 708	18 613
Provision for mandatory grants	17.2	609	7 130
Provision for leave pay	17.3	9 148	8 310
Provision for Workman's Compensation	17.3	196	218
Provision for performance bonuses	17.3	8 345	8 839
		<b>37 006</b>	43 110

##### 17.1 Provision for SARS refund

Opening carrying amount	18 613	18 254
Amount utilised	(4 017)	(3 999)
Additional provision during the period	4 112	4 358
Closing carrying amount	17 <b>18 708</b>	18 613

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

##### 17.2 Provision for mandatory grants

Opening carrying amount	7 130	1 662
Amount utilised	(491)	(1 662)
Provision reversal/additional provision during the period	(6 030)	7 130
Closing carrying amount	17 <b>609</b>	7 130

Provision is made for the payment of mandatory grants where the grant has not yet been approved at the end of the financial year but an application has been submitted which could still potentially be approved.

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##### 17.3 Payroll related provisions

	Leave pay R'000	Workman's compensation R'000	Performance bonuses R'000
Opening carrying amount 2022	10 499	418	8 899
Amounts utilised 2022	(698)	(418)	(8 066)
Additional provision during the period	(1 491)	218	8 006
Closing carrying amount 2022	<b>8 310</b>	<b>218</b>	<b>8 839</b>
Amounts utilised 2023	(1 232)	(241)	(8 601)
Additional provision during the period	2 070	219	8 107
Closing carrying amount 2023	<b>9 148</b>	<b>196</b>	<b>8 345</b>

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

#### 18. RECONCILIATION OF NET SURPLUS TO CASH UTILISED IN OPERATIONS

	Note	2023 R'000 Actual	2023 R'000 Budget	2022 R'000 Actual	2022 R'000 Budget
Net surplus per the statement of financial performance	1	536 124	-	334 020	237 211
<b>Adjusted for non-cash items</b>					
Depreciation property and equipment	12	2 320	3 958	2 422	2 884
Amortisation of intangible assets	13	1 828	2 780	1 866	1 854
Loss on disposal of property and equipment	7	473	-	842	-
Movements in provisions	17	(6 104)	590	3 378	918
<b>Adjusted for items separately disclosed</b>					
Interest received		(326 033)	(298 983)	(193 417)	(212 509)
<b>Adjusted for working capital changes</b>					
Decrease/(increase) in receivables from exchange transactions	9	36 631	35 486	(14 041)	(4 393)
(Increase) in receivables from non-exchange transactions	10	(4 789)	(5 609)	(3 245)	(1 054)
Decrease/(increase) in consumables	11	48	(33)	46	(37)
Increase in payables from exchange transactions	14	354	751	3 733	284
(Decrease)/increase in grants and transfers payable	15	(88 193)	(59 090)	52 752	11 637
Increase/(decrease) in other payables	16	22	88	(103)	65
Cash utilised in operations		<b>152 681</b>	<b>(320 062)</b>	188 253	36 860

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#### 19. CONTINGENCIES

##### 19.1 Contingent Liabilities

##### 19.1.1 Refunds to National Treasury

In terms of the PFMA, all surplus funds as at year-end may be forfeited to National Treasury should an application for retention of surplus funds be denied.

National Treasury instruction 12 of 2020/21 states that the surplus should be based on the following:

	Note	31 March 2023 R'000	31 March 2022 R'000
Cash and cash equivalents at the end of the year	8	5 310 896	4 836 082
Add: Receivables from exchange transactions	9	9 217	45 848
Add: Receivables from non-exchange transactions	10	16 480	11 691
Less: Current Liabilities		(268 765)	(362 686)
<b>Total surplus per current legislation</b>		<b>5 067 828</b>	<b>4 530 935</b>

SETAs are required to submit their surplus retention applications to National Treasury through their Executive Authority, DHET. The surpluses mainly cover discretionary grant commitments entered into, where the work will be undertaken in the following years. The SETA Grant regulations require that SETAs be 95% committed at each financial year end. The SETAs may motivate to DHET to support their application to retain any surpluses if they have not reached this target.

merSETA's position in regards to commitments not included in the above surplus calculation is as follows:

	Note	31 March 2023 R'000	31 March 2022 R'000
Total surplus per current legislation		5 067 828	4 530 935
Less: discretionary grant commitments		(4 575 115)	(4 060 017)
<b>Uncommitted surplus</b>		<b>492 713</b>	<b>470 918</b>

National Treasury informally delegated the approval of the SETAs 2021/22 surpluses to DHET in 2022/23. National Treasury is still to formalise this delegation through legislation. DHET approved merSETA's 2021/22 surplus in March 2023 and merSETA did not forfeit any funds. National Treasury is still to decide whether DHET will continue to handle the SETA surpluses going forward. merSETA will submit the request for approval of 2022/23 surpluses to both National Treasury and DHET in August 2023.

##### 19.1.2 Mandatory grants for newly registered companies

Contingent liabilities comprise an Employer Grant Reserve of R532 000 (2022: R 709 000) for newly registered member companies participating after the legislative cut-off date.

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

### 19.1.3 Pending Litigations

Pending litigations in the year under review are as follows:

Two disputes arose in 2020 and 2021 with service providers and these are currently being adjudicated through the courts.

Two disputes arose between the merSETA and two former employees in the year under review. Both employees were put through a disciplinary hearing wherein one employee was dismissed and thereafter referred the matter to the Commission for Conciliation, Mediation and Arbitration (CCMA). The CCMA accordingly upheld the dismissal as substantively and procedurally fair. The other employee resigned on the eve of the disciplinary hearing and the merSETA proceeded with an urgent legal process to take further action and the matter is being dealt with through a civil and criminal process.

Four disputes arose in the financial year under review with discretionary grant recipients which has resulted in said agreements/contracts being suspended and referred to court to be reviewed and set aside.

Due to the uncertainty of the outcome of these matters and the avenues available to the merSETA thereafter, the potential liability cannot be reliably estimated at this time.

### 19.1.4 Outcome of the Minister of Higher Education and Training (DHET) and employers, represented by Business Unity South Africa (BUSA) case

In December 2012, the Minister promulgated Regulation 4(4) of the 2012 Grant Regulations which reduced the mandatory grant payable to employers from 50% to 20%. This led to BUSA challenging the reduction of grants at the Labour Court. The litigation between the parties began in 2015 and was finally settled by the Labour Appeals Court (LAC) in October 2020, which held that Regulation 4(4) was "irrational and lacking in any legal justification" and was consequently set aside. Despite the said regulation being set aside, the LAC ruling is silent on the percentage quantum that must be paid back to employers, which creates uncertainty as to what percentage of mandatory grants should be paid or accrued by the SETA during the reported year. The merSETA received no communication from the department on the percentage to be paid and the merSETA continued with paying 20% towards mandatory grant applications.

The Minister published a proposed amendment to the SETA Grant Regulations on 27 January 2023 for public comment. The regulations in this form have indicated that the percentage to be paid for mandatory grants will remain at 20% but until such time as the SETA Grant Regulations are promulgated, the merSETA will continue to allocate 20% towards mandatory grants.

## 20. COMMITMENTS

### 20.1 Discretionary reserve commitments - Contractual

Of the balance of R5 068 billion available in the discretionary reserve on 31 March 2023 an amount of R4 575 billion has been approved for future discretionary projects as set out below. This represents a commitment ratio of 90%. Amounts for expenses that have already been incurred, and therefore included in the discretionary project expense in the statement of financial performance, are also indicated.

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Project/discretionary grant programmes	Opening balance 2022 restated R'000	Administration expenses/other adjustments 2022 restated R'000	Approved contractual expenses and reductions 2022 restated R'000	Charged to statement of financial performance 2022 R'000	Opening balance 2023 restated R'000	Administration expenses/other adjustments 2023 R'000	Approved contractual expenses and reductions 2023 R'000	Charged to statement of financial performance 2023 R'000	Closing balance 2023 R'000
<b>PROG 1: ADMINISTRATION</b>									
N4 Media Symposiums	-	969	-	(969)	-	985	-	(985)	-
86 Stakeholder Capacity Building	2 088	-	-	(1 143)	945	337	-	(337)	945
60 Knowledge Management Project	437	1 879	-	(2 316)	-	1 870	-	(1 870)	-
	<b>2 525</b>	<b>2 848</b>	<b>-</b>	<b>(4 428)</b>	<b>945</b>	<b>3 192</b>	<b>-</b>	<b>(3 192)</b>	<b>945</b>
<b>PROG 2: SKILLS PLANNING</b>									
31 SSP Strategy & Research	1 937	1 523	-	(2 937)	523	1 734	-	(2 257)	-
N5 Chamber Development Programme	500	1 935	1 190	(3 125)	500	2 699	-	(3 199)	-
30 Monitoring & Evaluation Project	1 713	546	-	(1 541)	718	235	-	(953)	-
D1 Dual System Apprenticeship Pilot	-	3 048	-	(3 048)	-	3 483	-	(3 483)	-
K4 Walter Sisulu University	34 902	553	-	(1 560)	33 895	-	-	(9 233)	24 662
P8 Research Project - Skills 4.0	12 261	-	(8 052)	(4 209)	-	-	1 997	(1 997)	-
Q4 CIPSET Student Association	3 832	-	-	(3 217)	615	-	-	(615)	-
S4 Post School Educ (PSET Cloud)	81 570	-	-	(25 016)	56 554	40	(41 762)	(14 832)	-
S5 Black Industrialists	1 250	-	-	(1 250)	-	-	-	-	-
S6 UWC Professional TVET Lecturer	3 181	-	-	(1 280)	1 901	-	(777)	(1 125)	(1)
Q5 Skills for Entrepreneurs	5 005	-	-	(1 335)	3 670	-	-	(2 502)	1 168
	<b>146 151</b>	<b>7 605</b>	<b>(6 862)</b>	<b>(48 518)</b>	<b>98 376</b>	<b>8 191</b>	<b>(40 542)</b>	<b>(40 196)</b>	<b>25 829</b>



## PART F: FINANCIAL INFORMATION

	Project/discretionary grant programmes	Opening balance 2022 restated R'000	Administration expenses/other adjustments 2022 restated R'000	Approved contractual reductions 2022 restated R'000	Charged to statement of financial performance 2022 R'000	Opening balance 2023 restated R'000	Administration expenses/other adjustments 2023 R'000	Approved contractual reductions 2023 R'000	Charged to statement of financial performance 2023 R'000	Closing balance 2023 R'000
PROG 3: LEARNING PROGRAMMES & PROJECTS										
M8	Durban University of Technology	2 922	-	(1 549)	(1 373)	-	-	-	-	-
M5	Dept. of Basic Education - Technology	3 310	-	7 220	(3 547)	6 983	-	2 372	(1 625)	7 730
O6	Innovation, Research & Sup - U.Venda	4 500	(3 042)	-	(1 458)	-	3 042	(3 042)	-	-
N3	Mangosuthu University Of Technology	10 283	-	18 920	(4 730)	24 473	-	-	(7 348)	17 125
70	Bursaries	-	2 155	41 651	(12 215)	31 591	5 634	16 919	(24 244)	29 900
F6	UIF/MerSETA Artisan Development	2 250	(635)	(1 280)	(335)	-	354	-	(354)	-
E1	KZN - Office of Premier Project	62 031	-	(2 645)	(4 815)	54 571	-	(18 151)	(2 857)	33 563
E3	Eastern Cape - Office of Premier	10 395	-	36 900	(9 225)	38 070	4 175	43 426	(8 074)	77 597
H9	MOA Project DG7 (Year 2015)	-	105	-	(105)	-	-	-	-	-
J8	MOA Project DG8 (Year 2016)	7 435	-	66	(1 621)	5 880	(5 880)	-	-	-
L7	MOA Project DG9 (Year 2017)	203 864	-	(99 038)	(40 543)	64 283	-	(51 997)	(7 123)	5 163
N7	MOA Project DG10 (Year 2018)	257 015	-	(23 932)	(39 992)	193 091	(236)	(123 057)	(23 564)	46 234
P5	MOA Project DG11 (Year 2019)	432 007	3 583	(30 403)	(22 717)	382 470	235	(22 744)	(18 047)	341 914
S1	MOA Project DG12 (Year 2020)	505 369	(6 608)	(26 038)	(36 287)	436 436	(4)	(20 580)	(29 013)	386 839
U9	MOA Project DG13 (Year 2021)	507 054	(1 952)	78 110	(96 710)	486 502	78	(29 770)	(39 453)	417 357
V6	MOA Project DG14 (Year 2022)	-	-	650 780	(169 166)	481 614	55	7 643	(65 788)	423 524
W3	MOA Project DG15 (Year 2023)	-	-	-	-	-	-	515 063	(58 477)	456 586
V7	Stakeholder Experience Program	-	509	-	(509)	-	928	-	(928)	-
H2	Limpopo Department of Public Works Western Cape - Department of Economic	1 936	-	(706)	(1 230)	-	-	-	-	-
H3	Development & Trade	35 140	(7 827)	8 864	(2 913)	33 264	7 826	(52 178)	11 088	-
H5	Correctional Services Kimberly	250	-	-	-	250	-	-	-	250
J7	National Department of Public Works (NDPW)	5 925	(75)	(2 775)	(1 350)	1 725	75	(1 352)	(186)	262
L3	North West Office of Premier	14 428	-	-	(3 124)	11 304	-	12 705	-	24 009
J5	Gauteng Dept of Education (GDE)	37 215	23 562	(16 512)	(115)	44 150	(17 636)	(30 278)	3 764	-
M2	Free State Office of Premier	35 363	-	42 100	(10 525)	66 938	-	-	-	66 938
N6	Chinese Cultural Training Centre	43 534	(387)	-	(18 363)	24 784	387	(387)	-	24 784
O1	Offenders Awaiting Parole (FS)	13	-	(13)	-	-	-	-	-	-
O3	Offenders Awaiting Parole (KZN)	1 498	-	-	(406)	1 092	-	-	(350)	742
O9	Office of Premier - Limpopo	10 888	-	44 751	(15 150)	40 489	-	-	(5 163)	35 326
B3	False Bay Public FET College	-	143	-	(143)	-	-	-	-	-
B8	ISOEs	1 750	(1 750)	-	-	-	-	-	-	-
K3	TVET NCV Learners	213 846	10 662	25 732	(23 187)	227 053	(7 054)	53 942	(44 588)	229 353
H1	Central University of Technology	16 374	(8 149)	-	(1 162)	7 063	-	-	(1 230)	5 833
N9	Spray painting Simulator - TVET	6 787	(787)	(3 525)	(2 475)	-	788	(788)	-	-
O7	Innovation, Research & Support - University of North West	13 463	-	-	(4 384)	9 079	-	(5 798)	(3 281)	-
L8	Cape Peninsula Univ Technology	3 538	(793)	12 403	-	15 148	2 232	(4 098)	(5 167)	8 115

## PART F: FINANCIAL INFORMATION

Project/discretionary grant programmes	Opening balance 2022 restated R'000	Administration expenses/other adjustments 2022 restated R'000	Approved contractual expenses and reductions 2022 restated R'000	Charged to statement of financial performance 2022 R'000	Opening balance 2023 restated R'000	Administration expenses/other adjustments 2023 R'000	Approved contractual expenses and reductions 2023 R'000	Charged to statement of financial performance 2023 R'000	Closing balance 2023 R'000
<b>PROG 3: LEARNING PROGRAMMES &amp; PROJECTS (continued)</b>									
H4 Tshwane University of Technology - Institute for Advanced Tooling	2 871	-	-	-	2 871	-	(565)	(2 306)	-
81 Internships	-	2 515	-	(2 515)	-	3 472	-	(3 472)	-
C1 Retrenchment Assistance Programme	27 657	-	22 134	(12 326)	37 465	(302)	68 896	(7 382)	98 677
C9 People with Disabilities	10 709	(112)	20 591	(5 817)	25 371	-	(781)	(732)	23 858
K8 Saldhana Bay - Industrial Development Zone	3 317	-	-	(1 733)	1 584	-	(461)	(272)	851
A8 Non Levy Paying NGOs and CBOs	185 252	380	59 107	(46 595)	198 144	(294)	(80 237)	(40 027)	77 586
K9 Mpumalanga Education Depart.	25 204	-	(1 888)	(704)	22 612	-	-	-	22 612
M9 Department of Small Business Develop.	55 656	-	(342)	(713)	54 601	(3 304)	681	(7 701)	44 277
J9 Worker Initiated Project	50 094	-	1 400	(8 741)	42 753	-	29 950	(3 316)	69 387
73 Skills Conferences & Competitions	-	449	-	(449)	-	19	-	(19)	-
83 Career Path & Development	-	362	-	(362)	-	3 802	-	(3 802)	-
F5 Mobile Skills Development	-	582	-	(582)	-	419	-	(419)	-
G7 National Students Financial Aid scheme (NSFAS)	202 500	-	-	-	202 500	-	(3 817)	(56 933)	141 750
P6 ISFAP Bursaries	115 271	-	-	(40 763)	74 508	-	(2 550)	(44 704)	27 254
S2 Centre of Specialisations	20 749	(82)	38 823	(15 695)	43 795	-	46 422	(3 871)	86 346
Q8 TVET Quality Prog Skills 4.0	45 930	-	-	(9 227)	36 703	-	-	(19 390)	17 313
T1 East Cape Mid College 4.0	108 000	-	-	(7 673)	100 327	-	-	-	100 327
T2 Univ FS Chair in Engin. 4.0	27 436	-	-	(14 077)	13 359	-	29 955	(4 917)	38 397
T3 False Bay C Swartklip Artisan	26 929	-	-	-	26 929	-	-	-	26 929
T4 Univ WC IDC Hub	6 200	-	-	-	6 200	-	-	(6 200)	-
T6 CUT Chair in Innovation	2 700	-	-	-	2 700	-	-	-	2 700
T9 Work Integrated Learn. (UNISA)	4 224	-	(2 992)	(1 232)	-	-	11 352	(2 838)	8 514
T7 College CT Welding Centre	713	-	-	-	713	-	(713)	-	-
U1 Learning factories (CSIR)	48 673	-	-	(10 000)	38 673	-	-	(23 296)	15 377
U2 Chair on Intelligent Man. (TUT)	9 969	-	-	(5 785)	4 184	-	-	(609)	3 575
U3 Labour rep. trn legisl -Rhodes	1 693	(333)	-	(1 360)	-	332	(332)	-	-
U4 Ind 4.0 Dev. Cen. Supp (NMU)	5 446	-	-	(630)	4 816	-	-	(3 746)	1 070
U6 Trn & mentor small bus (RMT)	855	-	3 403	(512)	3 746	-	-	(209)	3 537
U7 Robotics trn high School-FSDOE	9 201	-	-	(8 288)	913	-	(913)	-	-
U8 Prog Raspberry PI (DUT)	2 797	-	-	(1 133)	1 664	-	-	(1 664)	-
T5 NMU Chair in Engineer	3 769	-	-	-	3 769	-	-	(2 253)	1 516

## PART F: FINANCIAL INFORMATION

Project/discretionary grant programmes	Opening balance 2022 restated	Administration expenses/other adjustments 2022 restated	Approved contractual expenses and reductions 2022 restated	Charged to statement of financial performance 2022	Opening balance 2023 restated	Administration expenses/other adjustments 2023	Approved contractual expenses and reductions 2023	Charged to statement of financial performance 2023	Closing balance 2023
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>PROG 3: LEARNING PROGRAMMES &amp; PROJECTS</b>									
V1 Engineering Development	24 025	-	-	(2 928)	21 097	-	-	(4 847)	16 250
V2 TUT TVET Skills Development	42 610	-	-	-	42 610	-	-	(7 645)	34 965
V3 COVID Relief - Special Stipend	-	18	-	(18)	-	-	-	-	-
V4 Viro- Vent COVID Response	27 266	(1 859)	-	(25 407)	-	1 860	15 217	(213)	16 864
V9 TVET Occupational Support	102 673	-	28 013	(17 680)	113 006	-	33 836	(27 692)	119 150
W2 UJ CET Support & Incubation	5 666	-	-	(1 330)	4 336	-	(50)	(4 286)	-
V8 Private Skills Devel. Providers	15 595	-	33 263	(14 585)	34 273	-	60 009	(31 739)	62 543
V5 CUT Advanced Rubber Technology	-	8 150	-	(1 750)	6 400	-	-	(2 800)	3 600
T8 Umgundgluvo Col Richmond Centre	-	1 750	(1 750)	(14 179)	-	-	-	-	-
W5 Enterprise Development	-	-	63 948	(85)	49 769	-	62 927	(31 989)	80 707
W6 TVET College Project	-	-	850	-	765	-	-	(765)	-
W7 CET Support Programme 4	-	-	10 701	-	10 701	-	31 112	(386)	41 427
W9 EON Knowledge Metaverse	-	-	-	-	-	-	114 154	(114 154)	-
W8 World Skills MoA	-	-	38 503	-	38 503	-	-	-	38 503
X2 Gauteng City Region Academy	-	-	-	-	-	-	172 500	-	172 500
X3 Office of the Premier Free State - skills	-	-	-	-	-	-	245 682	-	245 682
X4 Gauteng Department of Education - tech schools	-	-	-	-	-	-	55 000	-	55 000
X5 Office of the Premier Northern Cape	-	-	-	-	-	-	210 136	-	210 136
	<b>3 672 033</b>	<b>20 534</b>	<b>1 072 845</b>	<b>(804 749)</b>	<b>3 960 663</b>	<b>1 003</b>	<b>1 385 260</b>	<b>(798 602)</b>	<b>4 548 324</b>

### PROG 4: QUALITY ASSURANCE

E9 QCTO CEP Pilot Project	109	(26)	20	(70)	33	69	-	(85)	17
J3 Assessment Quality Partner	-	3	-	(3)	-	227	-	(227)	-
	<b>109</b>	<b>(23)</b>	<b>20</b>	<b>(73)</b>	<b>33</b>	<b>296</b>	<b>-</b>	<b>(312)</b>	<b>17</b>
<b>TOTAL CONTRACTUAL COMMITMENTS</b>	<b>3 820 818</b>	<b>30 964</b>	<b>1 066 003</b>	<b>(857 768)</b>	<b>4 060 017</b>	<b>12 682</b>	<b>1 344 718</b>	<b>(842 302)</b>	<b>4 575 115</b>

### Prior period adjustment

<b>TOTAL CONTRACTUAL COMMITMENTS</b>	3 820 818	30 964	1 066 003	(857 768)	4 060 017
AS PREVIOUSLY STATED	3 818 525	30 944	1 057 163	(857 768)	4 048 864
<b>ADJUSTMENT TO OPENING BALANCE</b>	2 293	20	8 840	-	11 153

The prior year balances of commitments has been restated. The total value of commitments in the prior year was reported as R4.049 billion. This has been adjusted to R4.060 billion, an adjustment of R11.2 million. This adjustment was made because some transactions effecting commitments were not accounted for in the appropriate year.

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2023

#### 20.4 Operational Commitments

Nature of commitment	2023		2022	
	Not later than one year	Later than one year but not later than 5 years	Not later than one year	Later than one year but not later than 5 years
Annual report	-	-	377	-
Culture survey	7	-	-	-
Fraud Hotline	-	-	61	-
Debt collection services	1 305	-	-	-
General ICT maintenance & support*	9 474	1 267	1 199	713
General marketing programmes	487	-	-	-
Hot and cold water dispensers	115	96	-	-
Human resource related services	47	-	-	-
Hybrid AGM	340	340	-	-
Internal audit services	-	-	258	258
Leases**	13 336	47 841	9 950	45 042
Maintenance & support of NSDMS system	-	-	3 605	4 212
Organisational design	-	-	855	-
Quality management system audit	4	-	64	-
Short term Insurance	1 860	2 812	309	-
Shuttle Services	622	-	-	-
Staff wellness programme	213	479	909	568
Stakeholder Management Programme	529	-	1 246	-
	<b>28 339</b>	<b>52 835</b>	<b>18 456</b>	<b>50 793</b>

\* Included under general ICT maintenance and support is a contract with a telecommunication company for R7.3 million. The contract terminates in March 2023. Only R1.4 million has been spent on the contract to date as it took long to set up the infrastructure. It is expected that a similar amount will be spent in the 2023/24 financial year, so the full remaining balance of R5.9 million left on the contract will not be utilised.

\*\* MerSETA has six non-cancellable operating lease contracts for the rental of premises. One is for the head office in Parktown, Johannesburg and the others are for five regional offices in various provinces. All these contracts are for a five year term and escalate at a rate of between 6% and 8%.

#### 21. 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. merSETA's exposure to market risk is in the area of interest rate risk.

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

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

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##### Interest rate risk

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

The merSETA manages its interest rate risk by investing in fixed notice deposits that earn short-term gains at fixed rates and are relatively low risk.

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

##### Year ended 31 March 2023

##### FINANCIAL ASSETS

Financial instrument	Floating rate		Fixed rate			Non-interest bearing		Total
	Amount	Effective interest rate	Amount	Weighted average effective interest rate %	Weighted average period for which the rate is fixed in months	Amount	Weighted average period until maturity in months	
	R'000		R'000			R'000		R'000
Cash and cash equivalents	5 310 896	6.09%	-	-	-	-	-	5 310 896
Receivables from exchange transactions	-	-	-	-	-	9 217	36	9 217
Employer receivable - discretionary grants	-	-	-	-	-	5 731	1	5 731
Receivable - UIF	-	-	-	-	-	2 581	1	2 581
<b>Total</b>	<b>5 310 896</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17 529</b>	<b>-</b>	<b>5 328 425</b>

##### FINANCIAL LIABILITIES

Trade Payables	-	-	-	-	-	9 603	1	9 603
Discretionary grants Payable	-	-	-	-	-	146 396	1	146 396
Payable - Training Layoff Scheme (UIF)	-	-	-	-	-	2 581	1	2 581
<b>Total financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>158 580</b>	<b>-</b>	<b>158 580</b>
<b>Net financial assets</b>	<b>5 310 896</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(141 051)</b>	<b>-</b>	<b>5 169 845</b>

## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2023

Year ended 31 March 2022

##### FINANCIAL ASSETS

Financial instrument	Floating rate		Fixed rate			Non-interest bearing		Total
	Amount	Effective interest rate	Amount	Weighted average effective interest rate %	Weighted average period for which the rate is fixed in months	Amount	Weighted average period until maturity in months	
	R'000		R'000			R'000		R'000
Cash and cash equivalents	3 836 082	3.25%	1 000 000	4.86%	12	-	-	4 836 082
Receivables from exchange transactions	-	-	-	-	-	45 848	12	45 848
Employer receivable - discretionary grants	-	-	-	-	-	6 427	1	6 427
Receivable - UIF	-	-	-	-	-	2 581	1	2 581
<b>Total</b>	<b>3 836 082</b>	<b>-</b>	<b>1 000 000</b>	<b>-</b>	<b>-</b>	<b>54 856</b>	<b>-</b>	<b>4 890 938</b>

##### FINANCIAL LIABILITIES

Trade Payables	-	-	-	-	-	9 249	1	9 249
Discretionary grants Payable	-	-	-	-	-	229 129	1	229 129
Payable - Training Layoff Scheme (UIF)	-	-	-	-	-	2 581	1	2 581
<b>Total financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>240 959</b>	<b>-</b>	<b>240 959</b>
<b>Net financial assets</b>	<b>3 836 082</b>	<b>-</b>	<b>1 000 000</b>	<b>-</b>	<b>-</b>	<b>(186 103)</b>	<b>-</b>	<b>4 649 979</b>

##### Prior period error

In the prior year an amount of R3,7 billion of cash and cash equivalents was classified under fixed rates instead of floating rates. Assets and liabilities in the prior year were also adjusted to include receivables and payables from non-exchange transactions relating to discretionary grants. Previously these were understood not to fall within the definition of a financial instrument as they are grant related. Due to the fact that there are contracts underpinning the discretionary grants, these are now deemed to fall within the definition of a financial instrument.

The effect of the adjustment is shown below:

Total assets as previously stated	106 900	-	4 729 182	-	-	45 848	-	4 881 930
Total liabilities as previously stated			-	-	-	9 249	-	9 249
Net financial assets as previously stated	106 900	-	4 729 182	-	-	36 599		4 872 681
Net assets restated	3 836 082	-	1 000 000	-	-	(186 103)		4 649 979
Adjustment to prior net assets	3 729 182	-	(3 729 182)	-	-	(222 702)	-	(222 702)

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### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

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for the year ended 31 March 2023

#### 21. FINANCIAL INSTRUMENTS (continued)

##### 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 receivables from exchange transactions.

The merSETA is exposed to credit risk in regard to payments made in advance on discretionary grants whereby not all deliverables as agreed upon in the Memorandum of Agreement have been met. The merSETA has entered into agreements with the qualifying employers, whereby other tranche payments are payable only once training has been implemented.

The merSETA does not have any material exposure to any individual or counter-party. The merSETA's concentration of credit risk is limited to the manufacturing, engineering and related services industry in which the merSETA operates. No events occurred in this sector during the financial year that may have an impact on the receivables that has not been adequately provided for. Receivables are presented net of an allowance for doubtful debts.

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

	Note	2023 R'000	2022 R'000
Employer receivable	10	5 731	6 427
InterSETA receivable	10	6 997	465
		<b>12 728</b>	6 892

##### 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 expenses, actual against forecast cash flows and its investment policy. Adequate reserves and liquid resources are also maintained.

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

2023	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade payables from exchange transactions	9 603	9 603	9 603	-	-	-

2022	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade payables from exchange transactions	9 249	9 249	9 249	-	-	-

##### Fair values

The merSETA's financial instruments consist mainly of cash and cash equivalents and receivables and payables from exchange transactions. No financial instrument was carried at an amount in excess of its fair value and fair values could be reliably measured for all financial instruments. The following methods and assumptions are used to determine the fair value of each class of financial instruments:



## PART F: FINANCIAL INFORMATION

### Manufacturing, Engineering and Related Services Sector Education and Training Authority ANNUAL FINANCIAL STATEMENTS

#### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2023

#### 21. FINANCIAL INSTRUMENTS (continued)

##### Cash and cash equivalents

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

##### Receivables from exchange transactions

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

#### 22. RELATED PARTY TRANSACTIONS

merSETA as a schedule 3A public entity is related to all entities in national government spheres. However as per GRAP 20 we only disclose transactions and balances undertaken not at arms length. Related parties of merSETA are:

1. Accounting Authority (refer to note 22.1 for disclosure)
2. Audit and Risk Committee (refer to note 22.1 for disclosure)
3. Executive and senior managers (refer to note 22.3 for disclosure)
4. Relatives of the above (no transactions)
5. Employers of Accounting Authority members (refer to note 22.1 for disclosure)
6. Entities under common control are entities operating under the auspices of Department of Higher Education and Training (DHET), which are QCTO, SAQA, NSFAS, NSA, TVET's, Universities and other SETAs. The related party transactions with these entities relate to merSETA funded learning programmes which are consistent with normal grant funding processes (terms and conditions) as directed by the Grants Policy. This will include any transaction that may occur during the period under review recognised in the statement of financial performance, any balance outstanding at the year under review recorded, the statement of financial position as well as any committed balance for learning programmes which are not completed at the end of the reporting date refer to note 22.4 for disclosure)

##### 22.1 Accounting Authority and independent committee members fees

Accounting Authority and independent committee members	2023 R'000		2022 R'000	
	Net transfers in/(out) during the year	Amount receivable/ (payable)	Net transfers in/(out) during the year	Amount receivable/ (payable)
J Esterhuizen (Deputy Chair, AA/Chairperson, Motor Chamber) **	-	-	(112)	-
T Molapo (Chair, FGC)	(362)	(48)	(299)	(22)
K Bhana *	(222)	(23)	(187)	-
J A De Beer	(354)	(43)	(277)	-
T Fari	(240)	(41)	(19)	-
S Hoosen *	(127)	(38)	(121)	-
J S Kubeka	(288)	(45)	(178)	(15)
L Lee (Chair, HRRC)	(187)	(31)	(264)	16
J Makapan (Independent) ***	(43)	(3)	(108)	-
K Moloto (Chairperson, Accounting Authority & EXCO)	(348)	(53)	(300)	(13)
A Mashilo (Chairperson, Governance and Strategy)	(80)	(19)	(39)	-
S C Mdletshe	(118)	(13)	(65)	-
R Moothilal	(312)	(55)	(216)	2
S Msweli (Independent)	(65)	(3)	(56)	-

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for the year ended 31 March 2023

#### 22. RELATED PARTY TRANSACTIONS (continued)

Accounting Authority and independent committee members	2023 R'000		2022 R'000	
	Net transfers in/(out) during the year	Amount receivable/(payable)	Net transfers in/(out) during the year	Amount receivable/(payable)
K Mzozoyana (Chair, ARC)	(514)	(91)	(388)	-
C Nciki (Independent) **	-	-	(38)	-
L Ndziba	(43)	-	(108)	-
M Noge (Independent) ***	(26)	(1)	(47)	(9)
R Ntlokotse	(299)	(65)	(225)	(10)
T Phiri (Chairperson, Motor Chamber)	(253)	(42)	(164)	(20)
M Phiri	(221)	(41)	(124)	-
N Rademan	(278)	(25)	(37)	-
L Van Huyssteen *	(246)	(33)	(143)	-
J Van Niekerk **	-	-	(48)	-
S Zuma (Independent) ***	-	-	(56)	-
	<b>(4 626)</b>	<b>(713)</b>	<b>(3 619)</b>	<b>(71)</b>

These transactions and balances relate to Accounting Authority (AA) fees and Independent Committee Members' fees. These were for AA meetings, chamber meetings, in committee meetings, AGM's, strategy sessions, and other special matters the AA was required to attend to.

\* AA Fees for these members are paid to the employer body or representative union

\*\* These members have resigned or are deceased

\*\*\* These members have reached the end of their term of office

#### 22.2 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	2023 R'000		2022 R'000	
		Net transfers in/(out) during the year	Amount receivable/ (payable)	Transfers in/(out) during the year	Amount receivable/ (payable)
<b>Receivables</b>	10	<b>6 814</b>	<b>6 997</b>	<b>440</b>	<b>465</b>
EWSETA		-	14	14	14
HWSETA		-	210	185	210
W&R SETA		837	837	241	241
MICT SETA		5 936	5 936	-	-
MQA		41	-	-	-
<b>Payables</b>	15	<b>(18)</b>	<b>(18)</b>	<b>(16)</b>	<b>(16)</b>
CHIETA		-	-	(16)	(16)
FOODBEV		(18)	(18)	-	-
<b>Total</b>		<b>6 796</b>	<b>6 979</b>	<b>424</b>	<b>449</b>

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#### 22.3 Key management personnel costs

Key personnel	Basic salary R'000	Travel Allowance R'000	Medical Aid R'000	Pension Fund R'000	Performance Bonus R'000	Acting Allowance R'000	Total 2023 R'000	Total 2022 R'000	Notes
Chief Executive Officer	2 095	96	-	209	-	-	2 400	2 830	April 22 to March 23
Acting Chief Executive Officer	-	-	-	-	-	161	161	-	November 22 to March 23
Chief Financial Officer	1 664	60	48	166	270	-	2 208	2 096	April 22 to March 23
Acting Chief Financial Officer	-	-	-	-	-	120	120	-	November 22 to March 23
Chief Operating Officer	1 668	-	35	179	-	-	1 882	-	April 22 to March 23
Acting Chief Operating Officer	-	-	-	-	-	144	144	-	October 22 to March 23
Executive: Corporate Services	1 350	-	-	141	199	-	1 690	1 161	April 22 to March 23
Executive: Strategy and Research	-	-	-	-	-	-	-	2 272	Vacant during 2023
Acting Executive: Strategy and Research	-	-	-	-	-	314	314	-	April 22 to March 23
<b>Total</b>	<b>6 777</b>	<b>156</b>	<b>83</b>	<b>695</b>	<b>469</b>	<b>739</b>	<b>8 919</b>	<b>8 359</b>	

\* Note that the performance bonus of the CEO and executives is based on a provision as the performance review process was not finalised by 31 March 2023.

#### 22.4 Educational Institutions

Entities under the common control of the DHET are considered related to the merSETA. merSETA is a National Public Entity controlled by DHET. It is therefore considered to be related to other SETAs, QCTO, NSF, SAQA and the 26 public universities. Transactions between the merSETA and its identified related parties are consistent with normal operating relationships between the entities and were conducted under normal terms and conditions.

The merSETA recognises that the related party transactions can present potential or actual conflicts of interest. It is therefore the policy of the merSETA that at the time of evaluating contractual engagements, the contracting parties are requested to provide evidence of company registrations and ownership/directorship. All the stakeholders are also requested to declare their interest prior to the start of all official meetings.

Type of entity	Nature of transaction	2023 R'000			2022 R'000		
		Net transfers in/(out) during the year	Amount receivable/(payable)	Commitment value at end of year	Net transfers in/(out) during the year	Amount receivable/(payable)	Commitment value at end of year
Colleges	Bursaries and training	(102 232)	(2 516)	304 706	(92 431)	(8 689)	480 636
CSIR	Research	(25 293)	-	15 377	(13 222)	-	38 673
Department of Education	Training interventions	-	-	77 613	-	-	74 624
NSFAS/ISFAP	Bursaries and training	(101 638)	-	169 004	(40 762)	-	238 909
QCTO	Administration fees	(9 191)	-	-	(6 886)	-	-
Schools	Student exposure	(2 843)	-	-	(1 329)	(1 547)	-
Universities	Bursaries and training	(83 035)	(13 807)	210 778	(91 700)	(8 960)	263 548
<b>Total</b>		<b>(324 232)</b>	<b>(16 323)</b>	<b>777 478</b>	<b>(246 330)</b>	<b>(19 196)</b>	<b>1 096 390</b>

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#### 23. GOING CONCERN

These financial statements have been prepared based on the expectation that the merSETA will continue to operate as a going concern for at least the next 12 months. The SETA has commitments for up to the next 4 years and has available reserves of R5,1 billion. The merSETA has evaluated its ability to continue as a going concern and reviewed its cash flows and therefore believes it is going to be able to run as such for the next 12 months.

#### 24. MATERIAL LOSSES THROUGH CRIMINAL CONDUCT, IRREGULAR, FRUITLESS AND WASTEFUL EXPENSES

##### CRIMINAL CONDUCT

The reports emanating from investigations conducted during the year have been forwarded to the South African Police Services. See note 19.1.3 relating to pending litigations.

##### IRREGULAR EXPENDITURE AND FRUITLESS AND WASTEFUL EXPENDITURE

Note	2023 R'000	2022 R'000
Irregular expenditure	487 766	782 897
Fruitless and wasteful expenditure	1 366	46 103
	<b>489 132</b>	<b>829 000</b>

Irregular expenditure of R1,267 billion was identified during the 2022/23 financial year. R1,195 billion arose as a result of contracts that were signed in contradiction to the delegation of authority. Irregular expenditure to the amount of R72 million arose as a result of non-compliance with procurement prescripts.

Irregular expenditure of R779 million identified in the current year related to prior years.

Fruitless and wasteful expenditure of R47,5 M was identified in the current financial year. R47,3 million related to expenditure on contracts that were suspended without deriving value. R200 thousand was due to the late cancellation of a venue and loss of consumable stock.

Fruitless and wasteful expenditure of R46 million identified in the current year related to prior years.

#### 25. CHANGE IN ACCOUNTING POLICY

During the year under review the merSETA changed its apportionment policy. This policy had not been reviewed for a number of years. It also arose as a need to find a more equitable way of apportioning costs.

This policy determines the amount of operational administration expenditure that is apportioned to project administration expenditure. Previously operational administration expenditure was allocated on a head count basis. This has been changed to allocate according to the way levies are split in terms of the grant regulations. See policy note 4.3.

The effect had the accounting policy been implemented in the prior year is shown below:

Note	2023 R'000	2022 R'000
<b>Statement of financial performance</b>	-	26 392
<i>Increase in project administration expenditure</i>	-	(26 392)
<i>Decrease in operational administration expenditure</i>	-	-
	<b>-</b>	<b>-</b>

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#### 26. TAXATION

No provision has been made for taxation as the merSETA qualifies for an exemption in terms of Section 10 of the Income Tax Act, 1962 (Act 58 of 1962).

#### 27. EVENTS AFTER THE REPORTING DATE

The merSETA commenced with an investigation into one of its contractual agreements which led to the suspension of the agreement during the year under review. Subsequently, the agreement in question was terminated on 04 April 2023. The merSETA has launched an application in the appropriate court to review and set aside the agreement and await the outcome of same.

#### 28. NEW ACCOUNTING PRONOUNCEMENTS

merSETA has not applied the changes on the following standards:

##### GRAP 25 EMPLOYEE BENEFITS

Employee benefits - the effective date has not yet been gazetted by the minister. • Impact: No impact.

##### GRAP 104 Financial instruments

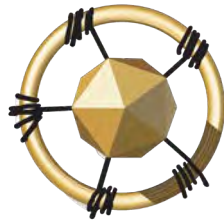
The effective date has not yet been gazetted by the minister. • Impact: No impact - merSETA has no transactions that are affected by the suggested changes to this standard.











**merSETA**

MANUFACTURING, ENGINEERING  
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