



**merSETA**

MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA

ANNUAL  
REPORT

| **08/09**

LEADERS IN CLOSING THE SKILLS GAP





## **NEW TYRE**

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

## **METAL AND ENGINEERING**

Globally, the sector is becoming increasingly linked with the electronics chamber and is placing more emphasis on innovation and globalisation of production.

## **PLASTICS**

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

## **AUTOMOBILE MANUFACTURING**

Significant contributor to the country's manufacturing output. Guided by policy instruments and initiatives from the State's Motor Industry Development Programme (MIDP).

## **RETAIL MOTOR AND COMPONENTS**

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



# labour

Department:  
Labour  
REPUBLIC OF SOUTH AFRICA



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



## VISION

merSETA, leaders in closing the skills gap.

## MISSION

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

## VALUES

- Respect
- Service Excellence (External and Internal)
- Innovation
- Integrity
- Honesty

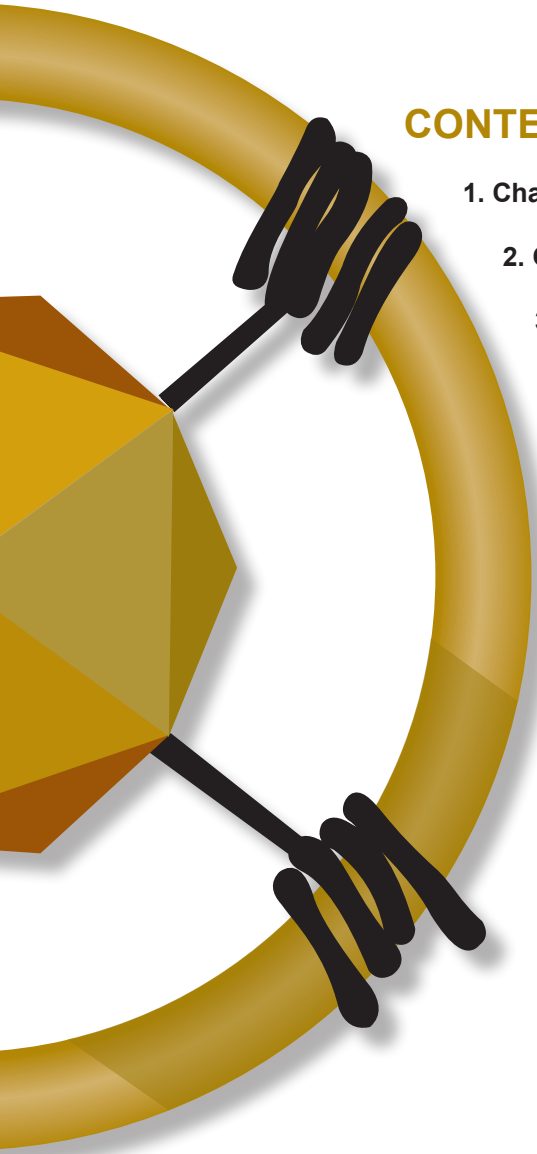
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## STRATEGIC OBJECTIVES

Increase skills available to the sector to meet its short-term needs by investing and encouraging investment and innovative thinking	Stock of skills
Strengthen the skills pipeline in the medium to long-term supply of skills into the sector	Flow of skills
Enhance the capacity of various types of employers in the sector to realise greater returns on training investment to enable employees to benefit from training	Workplace learning
Empower beneficiaries and employers to realise greater benefit from training by improving the base	Growing the base
Strengthen sector mechanisms for skills planning, implementation and partnerships	Skills infrastructure





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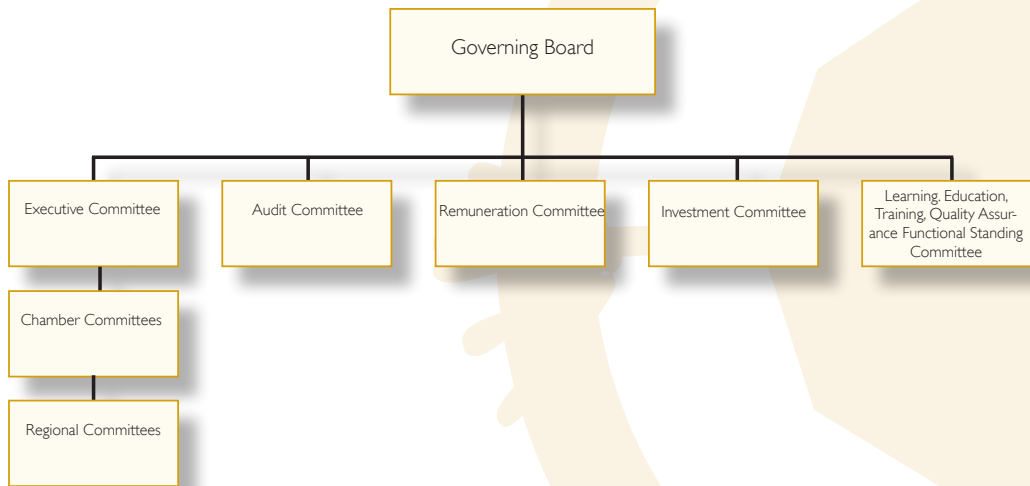
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# 01

## CHAIRPERSON'S OVERVIEW



Ms Jeanne Esterhuizen



## “The World Must Do Better”

It is with honour and humility that I present the ninth annual report of the Manufacturing, Engineering and Related Services Sector Education and Training Authority (merSETA).

This at a point when responses to the global economic crisis both locally and internationally unequivocally declare that **now is the time** for us to be more responsible and proactive in finding solutions to economic imbalances around the world. The Framework for South Africa's response to the international crisis encapsulates this view by subscribing to the principles of decent work. By decent work, it is meant an increase in employment levels as well as improving the quality of jobs – a view proactively shared by merSETA.

Noted USA executive James A Bell put it succinctly when he said: “To face tomorrow, with the thought of using the methods of yesterday, is to envision life at a standstill. To keep ahead, each one of us, no matter what our task, **must search for new and better methods**, for even that which we now do well, must be done better tomorrow.”

In the financial year 2008/9, the merSETA engaged actively in our country's economic, social and environmental development by developing the skills of 23 762 people in the past year. The number of learners and apprentices released to the sector as qualified artisans and employees was 7891. Small and medium enterprises that received assistance from the merSETA numbered 6778.

### Performance

The performance of merSETA in this period is beyond reproach due to the synergy of vision by stakeholders, management and employees. Our emphasis focused on evaluating and improving the quality of skills development initiatives as well as improving service to stakeholders. This increased interaction with stakeholders led to an improved understanding of their needs and further resulted in the revision of some programmes. Other programmes, too, were developed to address specific sector needs in line with the National Skills Development Strategy II.

The merSETA Project Division prioritised the objective of quality training. The Adult Basic Education and Training initiative evolved into Accelerated ABET, Business ABET and Occupational ABET as a result of the findings of an impact study commissioned by merSETA.

### The Voucher Implementation Project (VIP)

entered its second phase in the 2008/09 financial year following a successful pilot previously known as the SMME Voucher Project. Slight changes were approved by the merSETA Governing Board to address shortfalls this year.

### The Accelerated Artisan Training Programme (AATP)

project focus for the 2008/9 period was to prioritise the objective of quality training in the context of the modern apprenticeship model of the AATP. Towards this end, participating employers demonstrated remarkable transparency in sharing best practice in apprentice training with other employers on the project. This was achieved through monthly meetings and an Annual AATP Conference, held in September 2008. Performance monitoring & improvement strategies have been implemented, including tracking systems of the actual productive contributions of apprentices towards employer operations. Careful attention was also placed on monitoring the cost of training an apprentice to trade test, with benchmarks set and shared. Another highlight was the SARS Partnership Road show which focused on the new tax allowances introduced by the National Treasury in October 2008. Many new practical training simulation systems were also demonstrated at the various training sites in an effort to evaluate and implement more up to date industry simulations.

### A Recognition of Prior Learning (RPL) service

provider was appointed by merSETA at the beginning of the financial year to develop and implement the RPL Pilot Project against the NSDS principles. The successful completion of the project within the SETA legislative framework resulted in an increased awareness by stakeholders of the complexities associated with Recognition of Prior Learning. The combination of industry and RPL experts resulted in a robust energy that ensured the credible success of the second phase of the project.





Seeking to address the problem of a stable and high quality learner “pipeline” as a strategic objective, the **Science, Maths and Technology (SMT)** Project was commissioned in the fourth quarter of the financial year.

Of significant importance this year was the establishment of **Research and Development** within the Projects Division. Sector Skills Planning, cementing relationships with national research entities and universities across borders, giving meaning to The Organising Framework for Occupations, producing a range of skills development research and impact assessments as well as ensuring the constructive participation of all chambers resulted from this research dynamic. Indeed, the merSETA is now viewed by stakeholders as a “Leader in Closing the Skills Gap”.

To maximise discretionary grant disbursement, the merSETA introduced an innovative approach to **Discretionary Grants** this year. This was conducted within a project and risk management framework regulated by a Memorandum of Agreement (MoA), and accompanying monitoring and evaluation of discretionary grant implementation procedures.

Due to the impact of the global economic crisis, the merSETA Governing Board also approved a **Retrenchment Assistance Plan** towards the end of the financial year. The aim of the merSETA Retrenchment Assistance Plan is to prevent job losses and a decline in employment where possible - and if retrenchments are unavoidable, to manage large scale retrenchment and reduce its effects on individuals, companies and local economies.

Although a number of policies were reviewed by various merSETA committees this financial year, the most important approved by the Governing Board were:

- The Related Party Disclosure Policy and Procedure;
- The Risk Management Policy; and
- The Fraud Prevention Plan and Policy.

The financial affairs of the merSETA are sound. The levy base is substantial and the merSETA maintains a steady stream of mandatory and discretionary grants disbursement. In the year under review, discretionary grants and expenditure on skills development initiatives were expedited substantially due to

changes in disbursement. The merSETA financial position is strong with substantial financial assets.

The Corporate Governance Division performed exceptionally well in its duty in assisting the Governing Board with Corporate Governance assurance in the period under review. The Governing Board members had unrestricted access to the advice and services of this Division and we believe the governance environment has significantly improved in the past two years. An improved understanding, as a result of the formal induction required of new Board Members, resulted in fewer tendencies towards micro-management and less involvement in processes beyond stakeholder mandate. The focus areas during induction are “fairness, accountability, responsibility and transparency”. This resulted in a more focused approach by Board members on strategic priorities befitting a Board of the Manufacturing, Engineering and Related Services Sector Education and Training Authority.

The merSETA's performance was once again measured by the Department of Labour against the National Skills Development Strategic objectives. These objectives were translated into targets and a service level agreement was signed between the Department of Labour and the merSETA for the period under review. This laid the foundation for determined strategies to achieve the best possible score.

This year, our performance exceeded expectation and targets were met, except for ABET and the disbursement of funds. To improve stakeholder participation, both these went under review during the first half of this year.

In 2008, a Customer Satisfaction Survey was commissioned by the merSETA with the aim of identifying areas of dissatisfaction. The survey indicated an average 60% satisfaction rate with the merSETA and its initiatives. The exercise proved invaluable as a management tool to address the shortfalls in service delivery. Stakeholder input proved invaluable in improving the overall performance of the merSETA.

### Application for renewal

The merSETA application for re-establishment 2010-2015 was submitted to the Department of Labour after extensive

consultation with stakeholders in March 2009. A consensus position was reached during the process of consultation. All stakeholders support the re-establishment of the merSETA.

Apart from formulating answers to key questions arising from the Regulations, of significant importance was how to address key weaknesses generally associated with SETA's in public policy discourse. The merSETA sought to address key objectives of the Skills Development Act and monitor how well government/NSA/high-level stakeholder priorities were understood and responded to.

### Way Forward

Although the merSETA represents some of the sectors hardest hit by the Global Economic Crisis, efficient and effective leadership by executive management, supported by the Governing Board, constantly monitored the situation to ensure strategic objectives were aligned to the training needs of these sectors.

We have also embarked on long-term projects which will impact on the national economy in the coming years. The Voucher Implementation Project is a focused, integrated and sustainable three-year strategy for SMME development in the metal, engineering and related services sector.

Financial sustainability is also a priority. The merSETA's reserves are substantial, with at least 70% committed to learnerships, apprenticeships and projects in the next four years.

Although the National Skills Development Strategy is derived from the Human Resources Development Strategy, stakeholders firmly believe the skills development system is not properly serving human, social and economic development. While we continually strive to meet all our mandated objectives, stakeholders are increasingly noting the tension between objectives and targets conferred on us through regulation, and those objectives and targets our stakeholders would prefer us to focus on. The sector requires that the mandate of the SETA's assurance that "quality skills provision for growth" should take centre stage in future.

The merSETA information technology infrastructure is constantly under review to ensure stakeholders are able to participate at all levels with their education and training authority.

As stakeholders, we have to be realistic about the evolutionary process that our country is going through at present. The implementation of Skills Development Strategies needs the collective input and support of all the merSETA stakeholders.

In light of this, we are positive about the merSETA's future, in particular overcoming the challenges that will face all SETAs in the coming period.

Government has sent out positive signals about the SETAs and their role in the education and training sphere. We are under obligation to align national, provincial and local strategies to ensure the coherence so desperately needed for ultimate implementation success. This would need much improved communication strategies and greater interaction between governments, business and labour, especially at provincial and local level. We are up to it!

### Conclusion

As a firm believer in "Ubuntu", it would be remiss of me not to recognise the pivotal role individuals played in the overall achievement of the merSETA this past year.

In accepting leadership, the merSETA Governing Board Members have dedicated themselves beyond the call of duty to the service of the organisation. They conducted themselves in a manner that brought great credit to the organisation.

In return, the CEO, Dr Raymond Patel, and his senior management team worked tirelessly at our side in advancing the vision of merSETA "To become Leaders in Closing the Skills Gap". As the merSETA Governing Board, we are aware that the great achievements of this past year will be the basis for dynamic advances in the future.

Under the inspiring leadership of Dr Patel, we are confident the transition period currently affecting both the merSETA and its stakeholders will be effectively and efficiently managed. It was an inspiration for me personally to work with a scholar



and educator who identifies opportunities for creativity in meeting the challenges of Skills Development in our complex environment.

My sincere appreciation also to Mr Tom Mkhwanazi, the General Manager: Corporate Governance, who served and advised me daily, the Chief Operations Officer, Mr Wayne Adams, who shared my passion for service delivery as well as the Deputy Chairperson, Mr Xolani Tshayana, for his quiet wisdom.

I also commend the Chairperson of the Investment Committee, Mr Anton Hanekom, for his guidance on matters related to investment as well as Ms Monica Netshendama, the Chairperson of the Learning, Education and Training Quality Assurance Committee, for her firm belief in efficient quality assurance systems.

In addition, I thank the Chairperson of the Audit Committee, Mr Andrew Mashifane, and the Chairperson of the Remuneration Committee, Mr Romano Daniels, for their superb contribution to the overall success of the merSETA.

It was our pleasure as the merSETA Governing Board to serve you, the stakeholders, who have placed your faith in us to best serve your collective interest.

Although we achieved much, we must daily strive to do better!

Chairperson  
J Esterhuizen

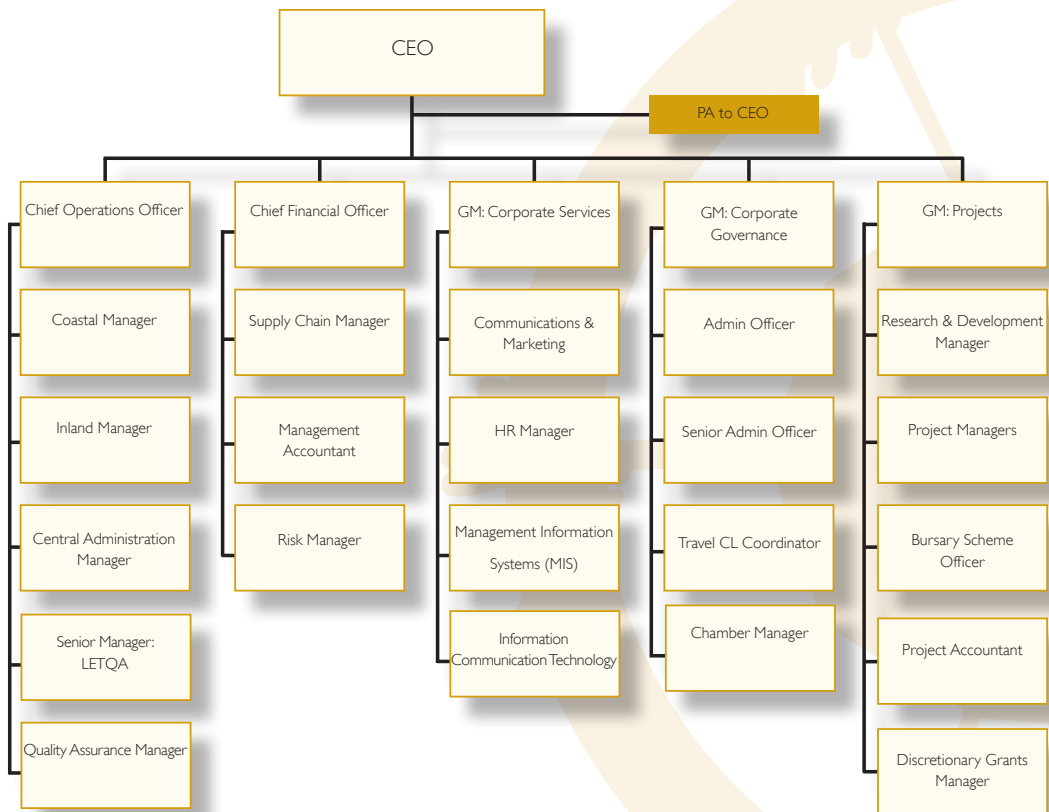


# 02

## CEO'S FOREWORD



Dr Raymond Patel



## Introduction

Many years ago, when colonialism was in vogue, African tribes sounded a cowhide drum to alert fellow villagers about impending danger. They even perfected the art of making the tom-tom mimic the exact sound of a person's voice. In achieving that, they were able to convey messages with a clarity that equals the 21st century's hi-tech telephony. Fast forward to today and South Africa's Sector Education and Training Authorities have failed to convey the message/success they have enjoyed in the past nine years of their existence. But merSETA's message in this report is one of avowed success – a message that is relayed throughout the contents of our 2008/09 annual report. We are indeed Leaders in Closing the Skills Gap.

The international community is currently plagued by global economic disturbances. This economic meltdown, that became apparent in November of the year under review, has hit our sector the hardest – and merSETA had to embark on a radical refocus of its priorities to ensure the auto sector as well the steel manufacturing and the motor retail and component manufacturers could weather the storm. We have seen how companies in the USA economy reached dire straits, resulting in major bailouts of the big three, General Motors, Chrysler and Ford. This affected the South African industry, which was among the first to start shedding thousands of jobs. In the year under review, the sector shed more than 40 000 jobs. Yet the merSETA's financials remain sound and well accounted for. The levy income for the period under review was R697 million and additional income brought our total revenue to R817 million. The number of contributing companies decreased to 11 913 from 12 784 the previous year, yet our levies rose.

To increase our efficiency at client level, merSETA streamlined its operations by combining the Clients Services Division and LETQA to form the Operations Division. A Chief Operations Officer was appointed in the year under review to head this division. Among our major successes as a result of the new division has been the strong and effective ties with various institutions at a decentralised level, the opening of two offices in the North West province and Gauteng North respectively and the positive impact on small and medium enterprises.

Since the introduction of the Voucher Implementation System, whereby extensive support and training is given to entrepreneurs, more than 6 700 SMEs have managed their affairs through merSETA intervention on the training front. These programmes included switchboard training, communications, management improvement, mentorship, financial capacity and skills. This programme touches all – from sweeper to managing director.

Further, on the internal front, we have increased human resources to cater for the rapid expansion of merSETA's services and products as well as delivering on its mandate. Our internal training has been enhanced and staff is better equipped to service clients. In doing so, we once again proved that merSETA are Leaders in Closing the Skills Gap. We have appointed specialist skills in our research division, thus increasing internal capacity for research, while reducing our reliance on external experts/consultants. In extending stakeholder involvement and commitment, the merSETA hosted its first national skills conference at the end of February. This conference, looking at skills development beyond 2010, broke new ground as delegates asked critical questions around the SETA landscape. The delivery of the bouquet of SETA products, the efficacy of QCTO, is the merSETA the correct vehicle for increasing the skills base in the manufacturing, engineering and related services sector – all were hotly debated, with the emphatic conclusion that the merSETA is undoubtedly a major success on the SETA horizon.

For the period under review, merSETA also made a major impact on youth seeking careers in the sectors under the organisation. More than 30 000 learners were reached through merSETA's participation in career expos throughout South Africa.

However, a major challenge in the period under review was the reliability of our information technology systems. A major challenge was its obsolescence as it did not take into cognisance the growth of the organisation. An IT review recognised the need for a major technological revamp. As a result of this expansion, real-time decision making at decentralised level, the MIS and accuracy are now benchmarks while service provision to clients is more interactive.



In like vein, merSETA also revisited the concept of ABET. In tandem with leading the sector, it introduced the Accelerated ABET, business ABET and occupation ABET. These programmes are cutting edge with the merSETA taking cognisance of androgogy in the learning methodology.

Overall, more than 21 000 beneficiaries have been reached through our learnerships, apprenticeships, bursaries and experiential learning.

In the year under review, our Board also achieved recognition as one of the best-functioning. Extensive training on a host of corporate governance principles occurred, including those enshrined in the King II Report on Corporate Governance. This meant that the merSETA Board could operate with the necessary fiduciary responsibilities required in best practice. The Board led the sector in creative thinking of the merSETA's fit in the training and development sphere. All committee and sub-committees of the Board functioned at optimal level.

A key project that further expounds our success is the expansion of the Accelerated Artisan Training Programme – this programme has received the sanction of a host of institutions including the SANDF, the SA Navy and other relevant institutions. Indeed, we are Leaders in Closing the Skills Gap.

### Global Recession

The merSETA, acknowledging the need for direct intervention in the face of the global economic downturn, launched the New Venture Creation Learnership – which had 613 beneficiaries for the period under review. The aim of this intervention is to upskill artisans with business acumen. Following a board decision, we also availed R80 million for the Retrenchment Assistance Plan which assists companies and business facing downscaling in these harsh times. merSETA makes money available for further training rather than retrenchment so that when the economy is revitalised, workers can return to full productivity. This is ground-breaking and heralds a new and exciting intervention by government-supported institutions.

### Way Forward

Like all other organisations, the merSETA is also pondering the re-establishment of SETAs. We have submitted our application for re-establishment, but are aware of the recent political change that will affect the way SETAs operate and have operated in the past. It is imperative we take cognisance of government's realignment of its education and training policies. The Honourable President Mr Jacob Zuma, in his new cabinet, split education into two departments, namely Basic Education and Higher Education and Training. The Department of Higher Education and Training, headed by the Honourable Dr B Nzimande, is expected to further align SETAs. The implications are that SETAs have to perform better and have closer relationships with the FET and university sectors to produce the required human resources in the scarce and critical spheres. We will thus be required to play a more fundamental and dynamic role in the up skilling of this country's most precious resources – human resource capital.

This report lays out what the merSETA has done for the period under review. We state unequivocally that these are its best results ever since its launch in 2000.

It is an honour for me as CEO to lead this dynamic and thought-leadership group of people.

I thank my staff, senior management and the Board for their assistance and guidance throughout the year.

Thank you.

**R A Patel (Dr)**  
CHIEF EXECUTIVE OFFICER



## Manufacturing, Engineering and Related Services Education and Training Authority

merSETA GOVERNING BOARD MEMBERS



### merSETA GOVERNING BOARD MEMBERS

**Front Row Seated (Left to Right):** Ms Chrystal Christian, Mr Anton Hanekom, Ms Janet Lopes, Mr Xolani Tshayana (Deputy Chairperson), Ms Jeanne Esterhuizen (Chairperson), Ms Nomvula Nxumalo, Mr Elias Kubeka, Ms Malebo Mogopodi, Mr Vukani Mthethwa, Mr Piet Verryne

**Middle Row (Left to Right):** Mr William Nsele, Mr Piet Welgemoed, Mr Daniel Rayners, Mr John Harris, Mr Pierre Bezuidenhout, Mr Phumzile Nodongwe, Mr Blackie Swart, Mr Gibson Lephallo, Mr Ephraim Tshikwavhava, Mr Thapelo Molapo

**Standing (Left to Right):** Mr Guy Harris, Mr Len Whiteley, Mr John Wilson, Mr Dirkie Truter, Mr Wickus Greyling, Mr Zamo Xaba, Mr Anton Gerresten, Mr Piet Veldtman, Mr Johan Pieterse





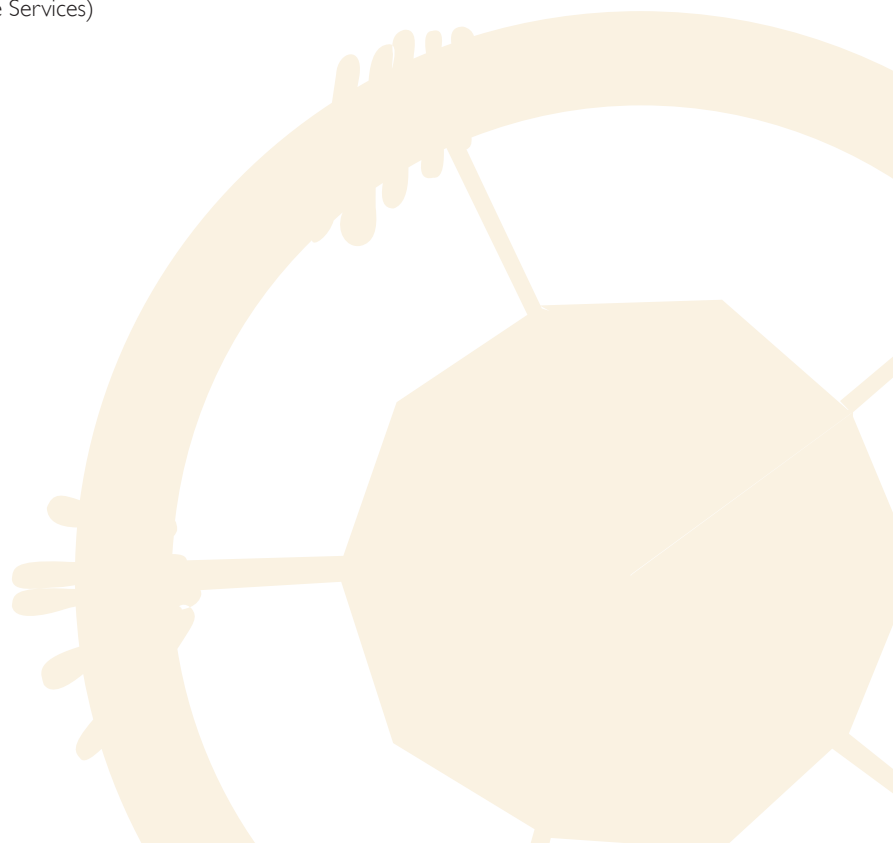
## Manufacturing, Engineering and Related Services Education and Training Authority

merSETA MANAGEMENT TEAM



### merSETA MANAGEMENT TEAM

Mr Tom Mkhwanazi (General Manager : Corporate Governance), Dr Raymond Patel (Chief Executive Officer), Mr Derrick Peo (General Manager : Projects), Ms Beula Dziruni ( Chief Financial Officer), Mr Wayne Adams (Chief Operating Officer), Ms Moketenyana Mayongo (General Manager : Corporate Services)

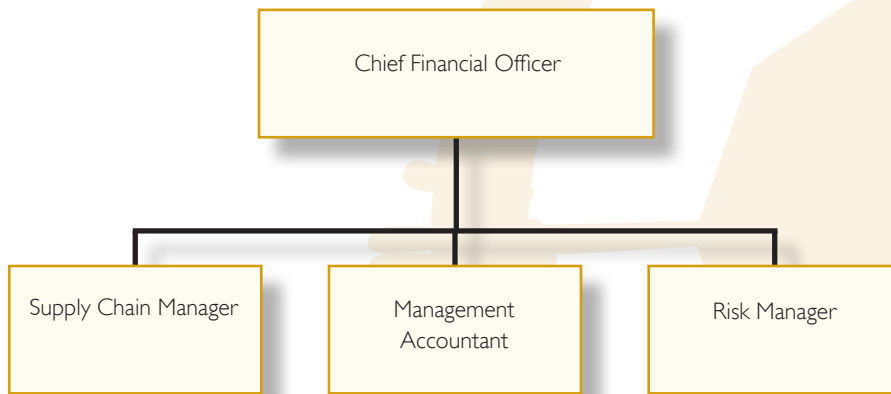


# 03

## FINANCIAL OVERVIEW



Ms Beaula Dziruni



## The financial affairs of the merSETA remain sound.

### • Levies

merSETA experienced growth in its levy income of 11% in the 2008/9 financial year. The growth is mainly due to inflation and the effect of retrenchment packages as the number of contributing firms decreased to 11 913 from 12 784 the previous year. The point of levy recognition is on the earlier of receipt of funds or allocation from DoL which is approximately two months after employers pay the levies.

Only 10% of the contributing companies are categorised as large and they contribute 75% of total levies. The small companies that need to be supported through skills development initiatives make up 68% of the number of contributing companies, and contribute 8% of levies.

The breakdown of levies received per chamber (Graph 4) shows that the Metal Chamber contributes over 50% of total levies. The Metal Chamber also has the largest number of companies, both contributing and exempted. As in prior years, most of the firms registered, active or contributing, are in Gauteng.

### • Grants Paid

The mandatory grant payout ratio improved by eight percent to 70% from 62% the previous year. merSETA expended R304 million in mandatory grants this year. Mandatory grant expense in 2008/9 increased by 25% over 2007/8. Strict deadlines in the regulations for submission of mandatory grant applications continue to be enforced and most companies adhere to them. The merSETA also explored various initiatives that allowed companies to submit WSPs and training plans electronically. In line with levies paid, companies under the Metals Chambers claimed more than 50% of the grants.

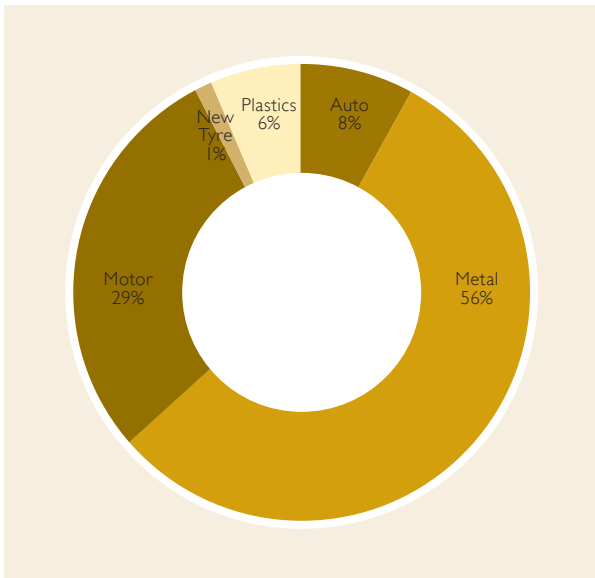
Discretionary grant expense, excluding project expense, was 149% above the prior year at R172 million. Actual disbursements are R291 million, 333% above prior years.

However, R123 million of disbursed funds were classified as pre-payments until companies implemented training. In the year under review, the merSETA changed its approach to discretionary grant payments by requesting companies to apply for their entire grant funding needs for the year. A Memorandum of Agreement (MoA) with each company was entered into in regard to that year's funding. Under this MoA, one third of the grant funding was paid upfront on signature of the agreement. To ensure companies implement training, the MoA states that all funds paid are recoverable until proof of training is received by the merSETA. The merSETA also regularly monitors training implementation through field visits and implementation reports and takes necessary action to recover the funds if progress is inadequate. By paying one third upfront, the merSETA enabled companies to begin recruitment of learners and this has expedited discretionary grant payments.

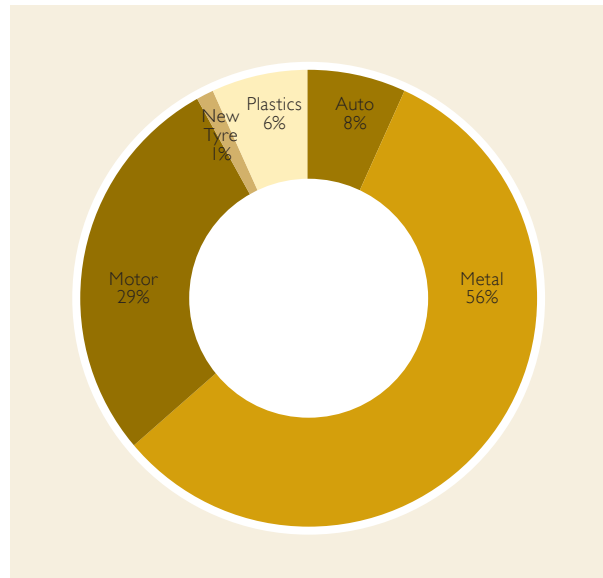
### • Project Expenditure

Projects expenditure increased by 243,10%.

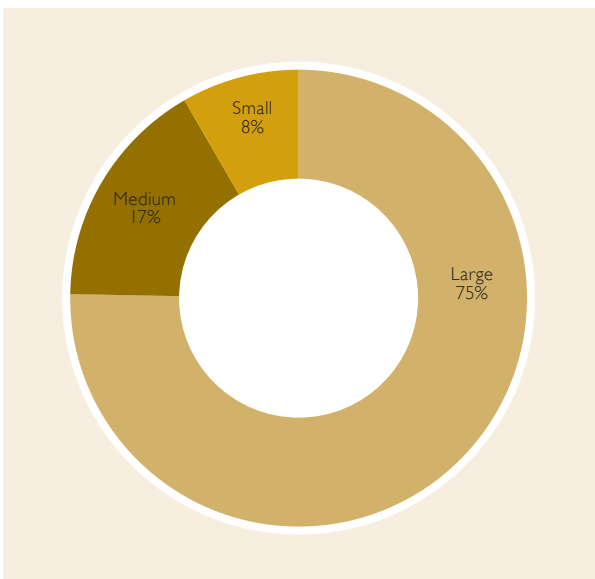
Graph 1: Total Levy Paid by Chamber 2008/09



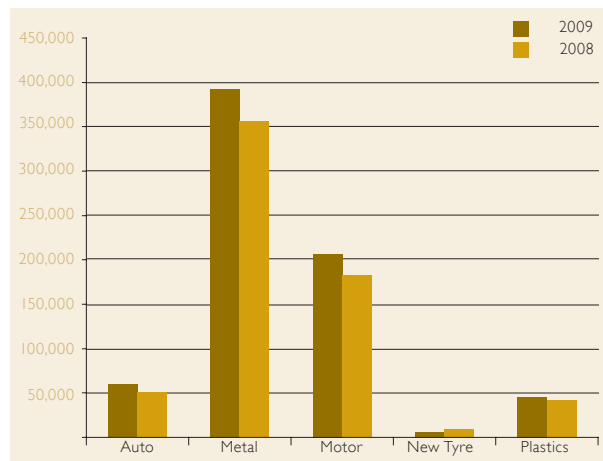
Graph 2: Total Levies Paid by Chamber 2007/08



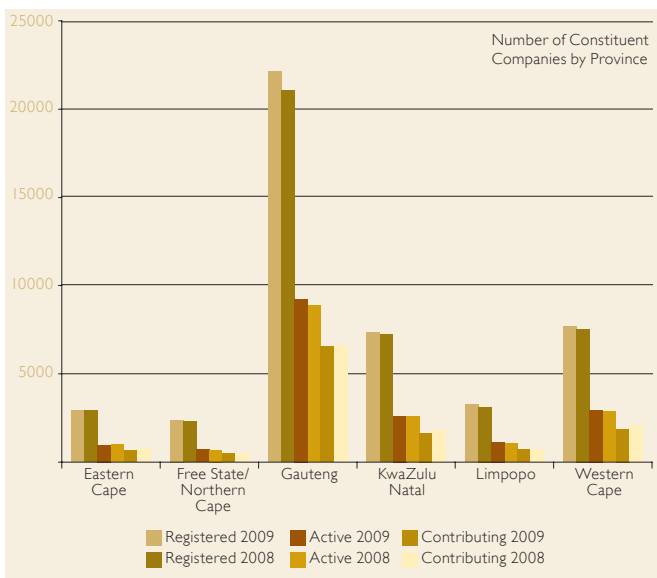
Graph 3 : Levy Income by size of Company



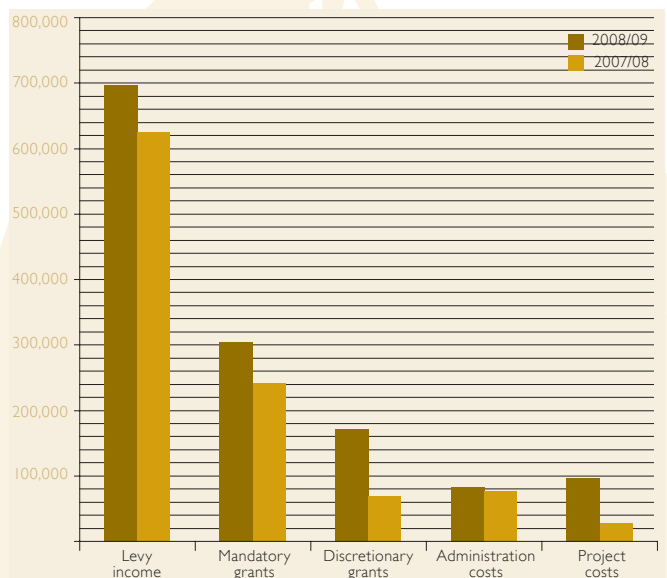
Graph 4: Levy Contribution by Chamber 2008/09 vs 2007/08



Graph 5: Total Levy Analysis by Province



Graph 6: 2008/09 Income & Expenditure

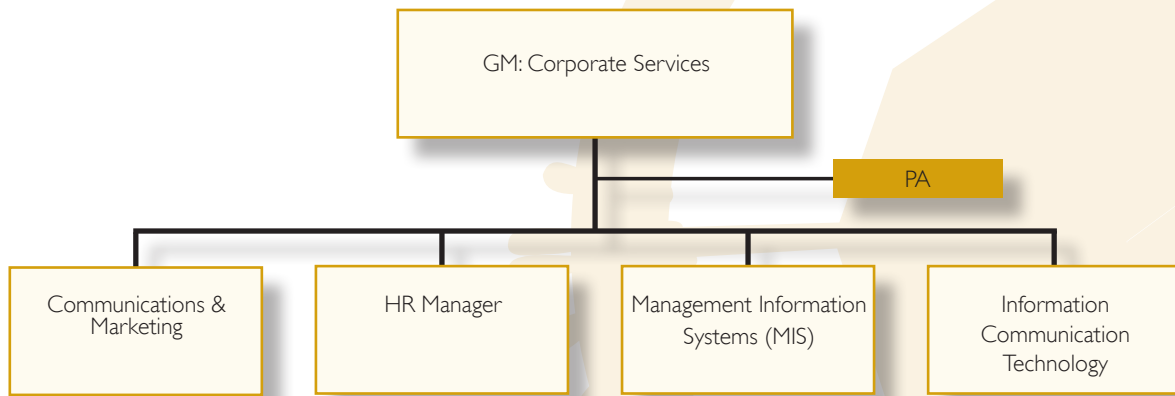


# 04

## CORPORATE SERVICES REPORT



Ms Mocketenyana Mayongo



The Corporate Services Division comprises the Human Resources unit, Information Communication Technology unit, the Information Management unit and the Marketing and Communications unit.

### Human Resources Unit

The Human Resource's main role is to attract and retain competent staff and create a culture of learning and high performance in order to make merSETA an employer of choice.

In the year under review, Human resources successfully implemented the following projects:

- Employee wellness programmes and financial support programmes facilitated by ICAS;
- Implemented a Buddy system which integrates new employees into the organisation as part of their orientation;
- Improved employee relations as well as morale through a number of interventions;
- Initiated a talent management and succession planning process by assessing middle managers and supervisory staff in order to identify talent as well as developmental areas; and
- Improved the human resources information management system by implementing online performance management as well as a leave management system.

### Information Communication Technology Unit

The Information Communication Technology Unit provides network administration services and a Customer Interactive Centre, which is the first and single point of contact for clients to log all their request services. During the 2008/9 financial year, the IT division worked actively on its strategy to move from Information Technology and Telephony into ICT (Information, Communication and Technology). The objective was to merge Information Technology and Telephony into one. With the installation of the Customer Interaction Centre (CIC) and the rollout of the CIC to regional offices, the strategy was realised.

The following projects were successfully completed in the year under review:

#### - **Network Upgrade;**

The merSETA Virtual Private Network (VPN) was upgraded from a Point-to-Point network to a Multi-Protocol Label Switching VPN. The old point-to-point network had the following limitations:

- Could not support Multiple protocols;
- Had limited bandwidth (maximum 128 kb/s);
- Remote sites could only connect to head offices with no connectivity between regional offices; and
- Did not support VoIP (Voice over IP)

With the implementation of the MPLS VPN, the merSETA could merge its IT infrastructure with its Telephony, allowing internal staff to make telephone calls over its IT network. The cost savings are significant as inter-branch calls are at no cost to the merSETA.

#### - **Greater Control and Security**

The IT division implemented greater control of resource usage and security by implementing a Proxy Server and improved Firewall. The Proxy Server allowed the IT division to control internet usage, limiting users to internet sites required for business usage only. The Proxy Server also allows for greater monitoring of internet bandwidth usage by individuals. The Firewall safeguards the merSETA from unauthorised intrusion into its network. The Firewall also monitors internal traffic to the merSETA domain and unknown traffic is passed to the firewall for restrictions.

#### - **Improved Resource Performance**

The IT division identified core and critical applications used by the merSETA and improved hardware resources in this sphere. Applications like Datanet, Great Plains and Employee Self-Service (ESS) were provided with dedicated servers, Uninterrupted Power Supply and improved backup for sustainability and redundancy.

#### - **Improved Service Delivery**

To improve service delivery, the IT division was split into two, **Hardware and Network** and **Software and Applications**. Two dedicated teams were established with its own Manager to ensure effective and efficient service delivery.





## Information Management Unit

The Information Management Unit manages all information regarding the merSETA learning programmes and the payment of grants. It also reports on a quarterly basis to the Department of Labour. Several challenges remained in the year under review. The merSETA awarded a tender to a service provider for implementation of a new information management system to assist the organisation in maintaining its data integrity.

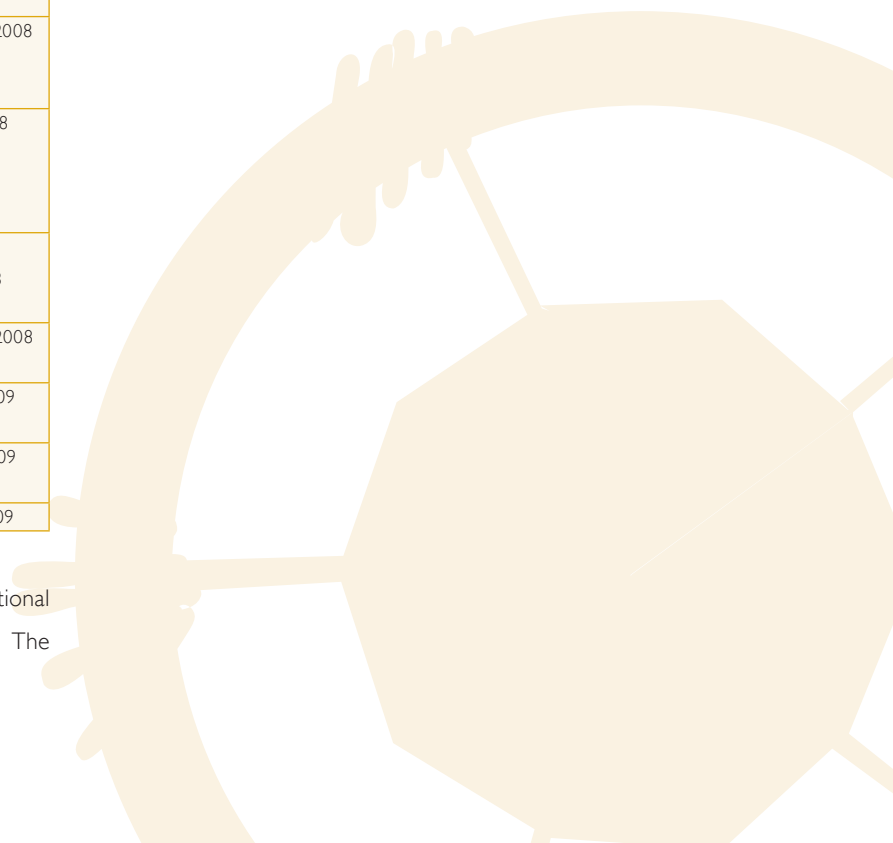
## Marketing and Communications Unit

The Marketing and Communications Unit promotes products and services of the organisation to stakeholders as well as to the general public. It also ensures that merSETA's brand equity is maintained.

During the financial year, the merSETA participated in the following public Expos:

1. Mabopane Youth Development Career Exhibition	Mabopane, Pretoria	19 April 2008
2. 5 <sup>th</sup> BHP Exhibition	Newtown, Jhb	12-13 May 2008
3. AIDC Conference & Exhibition	CSIR International Convention Centre, Pretoria	09-10 June 2008
4. Youth Day Career Expo	Crystal Ministries Centre in Hatfield, Pretoria	16 June 2008
5. Cell C Career Expo	Taung, North West	18 September 2008
6. Annual Career Expo	Mohlakeng Stadium, Jhb	10 September 2008
7. National Skills Conference & Career Exhibition	Gallagher Estate, Jhb	15-17 October 2008
8. Ekurhuleni Career Exposition	Germiston Council Chambers, Jhb	17 October 2008
9. JIMS Exhibition	NASREC, Jhb	30 October - 09 November 2008
10. SABS Career Expo	Sandton, Jhb	29-31 October 2008
11. 2 <sup>nd</sup> Mabopane career expo	Mabopane, Pretoria	26-27 March 2009
12. The Star Workplace	Coca Cola Dome, Jhb	20-22 March 2009
13. West Rand Career Expo	West Rand, Jhb	10-12 March 2009

In addition, the merSETA also held its first ever national congress in March 2009 which attracted 500 delegates. The theme was: *“Driving Skills Development beyond 2010.”*

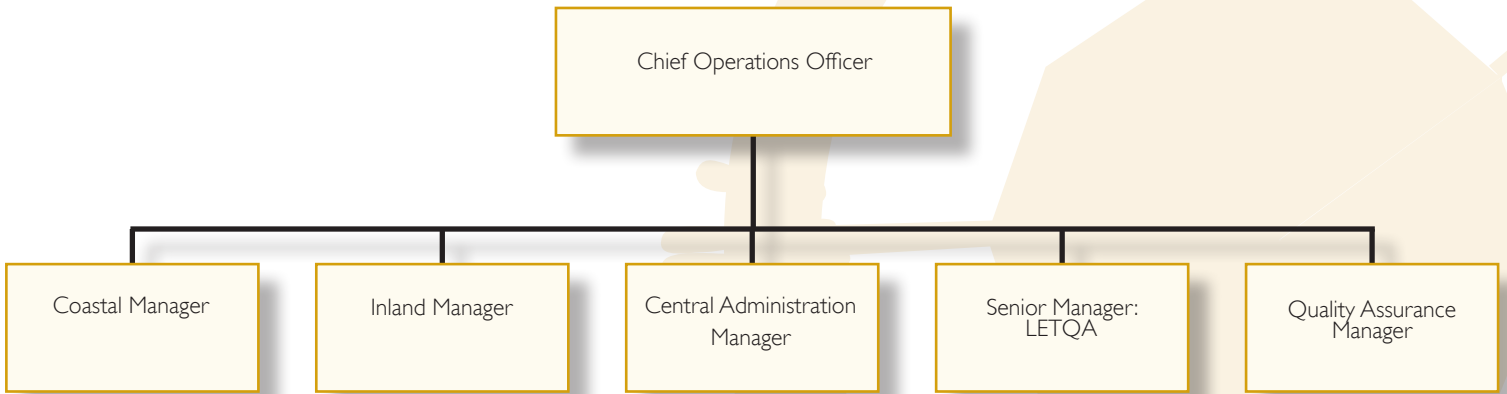


# 05

## OPERATIONS REPORT



Mr Wayne Adams



## The year under review saw the creation of the Operations division consisting of Client Services, Central Administration and LETQA.

The mission has been bold – to deliver excellence, quality focus services, guidance and support to merSETA clients to ensure transformation through skills development. The 2008/9 financial year was, therefore, geared towards consolidating a division in which excellence would become the norm and not the exception. The reduction of customer complaints and queries was evidence of achieving this goal. From an average of 10-a-day complaints, merSETA now witnesses eight complaints a week.

The Operations Division is responsible for about 80% of SETA targets, and merSETA exceeded the majority of targets in the year under review. The division set the target of streamlining processes to create a division responsive to the requirements of customers. Stakeholder involvement strengthened considerably in the year under review. Successful roadshows across the country were held with the Retail Motor Industry, celebrating its 100 years of existence, sponsoring the initiative. merSETA's relationship with representative Labour was also strengthened, with several capacity building engagements effectively conducted.

The year under review saw merSETA recognising the Top Training Companies in various categories based on the following criteria:

### **Category 1: Established Companies**

- Are up to date with levy payments;
- Have received Mandatory Grants for the last three years, if applicable;
- Have an average pass rate of 65% in implementation of learnerships and apprenticeships;
- Have a training committee if they have more than 50 employees; and
- Have a progression or placement average of 50%.

### **Category 2: Developmental Companies**

- Companies up to date with levy payments, and have some exposure and track record in skills development but do not meet all the criteria to be classified as an established client.

## Client Services

The seven regional offices have dedicated Client Liaison Officers who were employed to market merSETA as well as to guide and support employers through various skills development initiatives.

The establishment of various fora such as the Skills Development Facilitators Forums and the Discretionary Grant Memorandum of Agreement Forums within the regions has assisted merSETA in reaching large numbers of clients through limited resources. The fora further played leading roles in identifying customer needs and expectations.

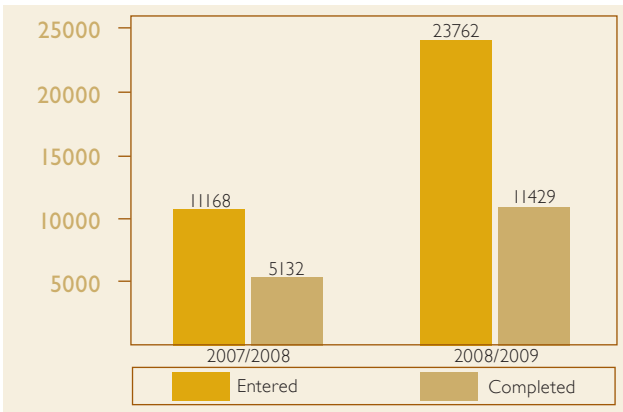
The year under review saw the recognition of our Top Training Companies based on their contribution as partners in closing the skills' gap. MoAs were signed with such companies to address their internal skills needs and these MoAs were managed through regional offices.

## Central Administration

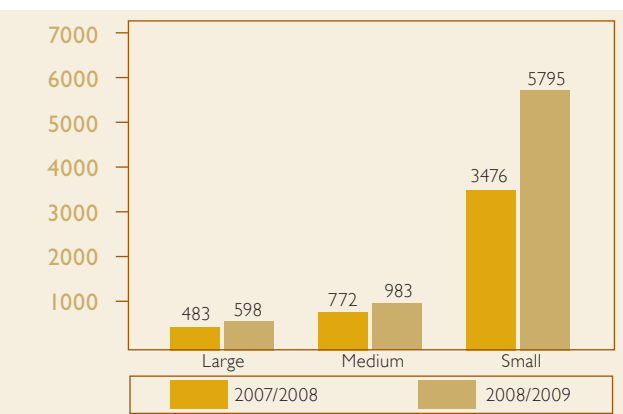
The Division also implemented an improved centralised administration function and streamlined administration processes and systems resulting in the substantial reduction of turnaround times for the registration of learners and apprentices. The processing of trade test applications also improved considerably through the centralised administrative process. The turnaround times were improved from an average of three months to 20 days.

Provider workshops were facilitated across the country, ensuring a common understanding on goals and targets among merSETA-accredited providers, including decentralised Trade Test Centres (DTTCs).

Our administration function, inclusive of administrative work by the regions, resulted in 23 762 learning programmes being registered, with 11 429 completed. This was more than a 100% increase on the previous year's tally.



The year under review saw the registration of 11 211 Apprentices and Learners contributing towards JIPSA targets as established by Government, whilst also addressing the skills needs of our stakeholders. The numbers of learners and apprentices released to the sector as qualified artisans and employees numbered 7891. The number of rescinded contracts also decreased in this financial year. In 2008/09, 430 apprentices and 140 learnerships were rescinded compared to 2007/08, when 830 apprentices and 1856 learnerships were rescinded. The total number of Mandatory grant applications amounted to 3374, of which 2748 were approved. This exceeded targets. A total of 6778 SMEs were supported in the year under review i.e. 983 medium firms (indicator 2.1) and 5795 small levy paying firms (indicator 2.2). The support consisted of Mandatory grants paid, advice on skills development initiatives and actual skills development through the merSETA SME Voucher system.



### LETQA

The LETQA Division ensures the required infrastructure exists for implementation of learning programmes:

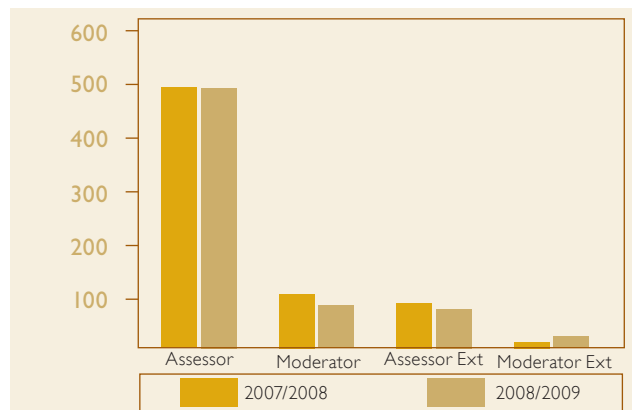
- 550 accreditation and programme approval visits reflect an increase of 69% from the previous financial year;
- 658 moderation visits conducted with active accredited providers in the year under review showed

- a 32% increase from the previous financial year;
- 56 provider audits show an increase of 51% from the previous financial year;
- 12 Capacity Building Workshops conducted with providers in 2008/9 ensured continuous improvement and promotion of quality delivery within the sector; and
- Enabling the unit to give effect to its mandate of ensuring quality of delivery, eight (8) new ETQA Quality Assurors were appointed, increasing the staff compliment to fourteen (14).

### Assessors/Moderators Registration

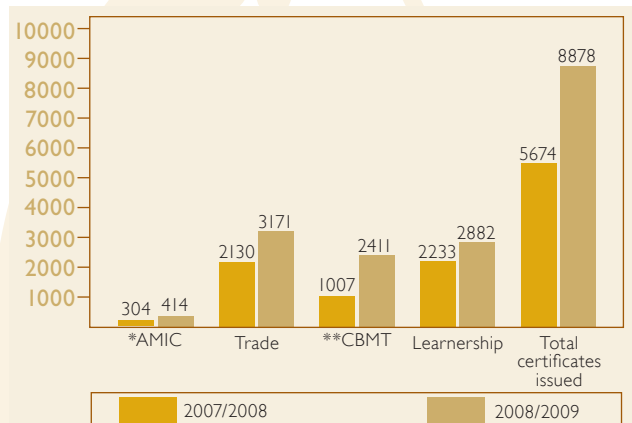
- 495 Assessors were registered, with 94 applications for extension of registration; and
- 116 Moderators were registered with 11 applications for extension of registration.

### Registrations



### Certification of Learners

A total of 8878 certificates for 2008/2009 were issued to learners:



\* Automotive Industrial Council \*\* Competency Based Modular Training

### Verification of Certificates

merSETA verified the authenticity of 3402 certificates issued this financial year following requests for such service from stakeholders.

### Workplace Approvals

A total of 1732 workplaces were approved after they met merSETA requirements for on-site job training to learners and apprenticeships in the year under review.

### Qualifications Development

Through the funding of Standards Generating Bodies, the merSETA facilitated the development of 38 qualifications and 27 specialisations/learning programmes, which represents an increase of 18% and 69% respectively over the previous year.

- **Manufacturing Assembly and Processing, SGB**
- **Vehicle Maintenance SGB**
- **Welding SGB**
- **Engineering SGB**
- **Generic Manufacturing, Engineering and Technology SGB**
- **Refrigeration and Air Conditioning SGB**

The year under review also saw an extensive assessment of existing unit standards and qualifications to avoid duplication. This was remedied by merging unit standards and qualifications that were similar in outcomes. This refined the SGB processes tremendously and ensured registration with SAQA happened faster. The merSETA operates in a multifaceted sector; we therefore cannot develop or review qualifications in isolation. There was also an increase in collaborations with other SETAs where merSETA-related qualifications are also functional.

merSETA took a proactive role in ensuring the SGBs were prepared for the “new” qualifications landscape by capacitating SGB members on the National Occupations Pathway Framework (NOPF), the Organising Framework for Occupational (OFO) as well as the new approach to curriculum design and qualifications development framework.

During the period under review, 50 new learnerships were developed and submitted to Department of Labour of which 40 were registered. This constitutes an 80% increase compared to the previous financial year.

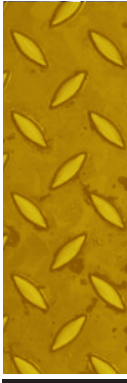
Procedures and criteria guidelines were developed for skills programmes registration. The improved turn-around time allows for acknowledgements for registered skills programmes to take place within a week after the review committee. The merSETA Regional offices were capacitated on the evaluation and completion of Skills Programmes applications. Minimal returns for corrections of applications are a result of the capacity workshops.

## COURSEWARE PROJECT

The Courseware Project was launched in August 2008. The project focused on the development of training and learning materials for 44 registered SAQA qualifications. The project consists of five phases:

- Phase 1 was implemented in January 2009 when eight service providers were contracted for curriculum and materials development for 24 qualifications (eight suites, each ranging from NQF Level 2 to 4). The development work is workshop-based and each contracting group works with six or more subject matter experts (SMEs). By March 2009, the curriculum frameworks for the eight suites were signed off by the SMEs and submitted to merSETA for evaluation.
- By April 2009, Phase 2 of the project will be implemented to bring on board the remainder qualifications. The aim is to have training and learning materials for the 44 qualifications available by March 2010.

The role of the SMEs is to ensure that the curricula are in line with the workplace learning requirements and the outcomes of the registered qualifications. These curricula are then verified after development and signed off by the SMEs.



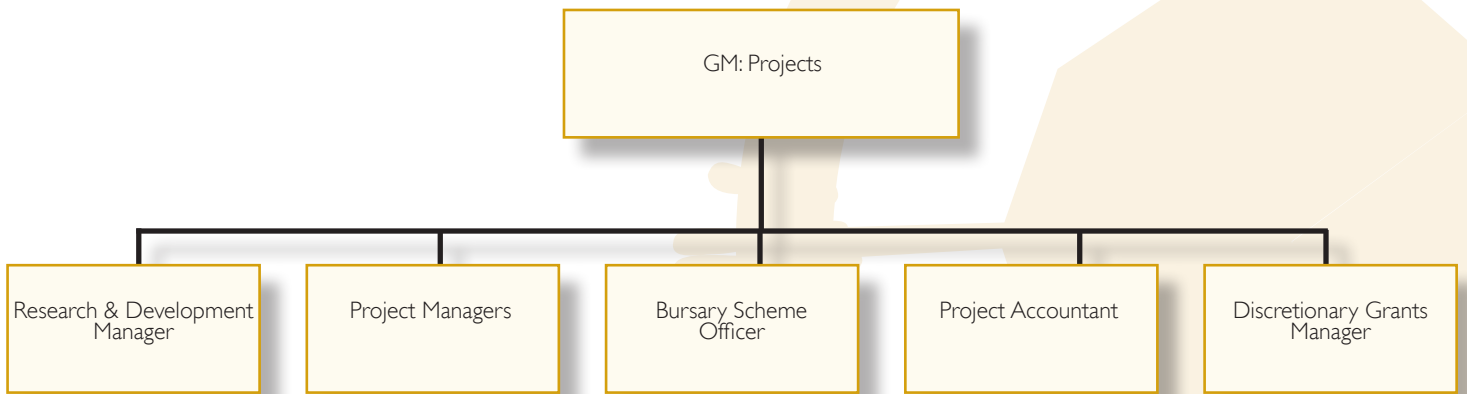
# 06

## PROJECTS REPORTS



Mr Derrick Peo





The Projects Division has three functional streams:

- i. It leads and facilitates **projects**, as commissioned by the Governing Board, that are either outside the regular operations of the merSETA, are very large in scale or are new initiatives that need a pilot or development phase;
- ii. It is responsible for managing a **research and development** agenda linked to the Sector Skills Plan, aligned to the National Skills Development Strategy; and
- iii. Commencing in the year under review, the Projects Division also managed **Discretionary Grants**.

## I. PROJECTS

### a. Accelerated Artisan Training Programme (AATP)

The 2008/09 financial year ended with a total uptake of 1 659 AATP apprentices who are following the accelerated training format. The programme was scoped in 2007 by the merSETA in response to the JIPSA call for an extraordinary effort in speeding up the number of qualified artisans in the engineering sector.

The project focus for the year under review was to prioritise the objective of quality training in the context of the modern apprenticeship model of the AATP. Towards this end, participating employers demonstrated remarkable transparency in sharing best practice in apprentice training with other employers on the project. This was achieved through monthly meetings and an Annual AATP Conference, held in September 2008. Through these opportunities, apprentice management systems have been shared, selection & orientation programmes and advice have been compared, and performance monitoring & improvement strategies have been implemented, which included the tracking of actual productive contributions of apprentices towards employer operations. Another highlight was the SARS Partnership Roadshow which focused on new tax allowances introduced by the National Treasury in October 2008. Practical training simulation systems were demonstrated at various training sites to evaluate and implement more up to date industry simulations.

The project duration makes provision for new apprentice registrations up to March 2010, whereupon project management systems and procedures will be maintained until the last apprentice is qualified in July 2012. The merSETA secured a multi-year funding agreement from the National Skills Fund, to the value of R136 million. The first tranche of these funds was received in the first quarter of 2009/10 financial year.

The merSETA also launched a cooperation programme to support other large Employers and Local Governments in the implementation of accelerated apprenticeships. The need for qualified engineering artisans remains a priority, and besides the AATP Project, normal apprenticeships with a duration of three to four years continue at a constant registration status of more than 8000 apprentices nationally.

### b. Recognition of Prior Learning (RPL)

The RPL Pilot Project started at the beginning of the financial year and enrolled 87 learners from three merSETA-affiliated companies. Sixty-two learners were found competent against the metal production qualification, while RPL assessment instruments and exemplars were developed against a further four qualifications from different sub-sectors. Through the pilot, lessons have been learned that will inform the rolling out of Phase I of the actual project, which will be governed by a dedicated RPL Steering Committee nominated by the five Chambers.

### c. Science, Maths and Technology (SMT)

To address the problem of a stable and high quality learner "pipeline" into merSETA projects and programmes, the Science, Maths and Technology (SMT) Project was commissioned in the fourth quarter of the financial year. The project enrolled 900 Learners from Gauteng, KwaZulu-Natal and the Western Cape. Progress reports for the first academic term indicated a significant improvement in the Maths and Science results of participating learners.

### d. Adult Basic Education and Training (ABET)

In view of the finding from the ABET Impact Study,

the merSETA invited service providers through an open tender process in November 2008, to provide ABET Training in the following three modalities:

- **ABET Project 1: Accelerated ABET**

Utilising advanced approaches to ABET provisioning, curricula, methodologies and the scheduling of learning, (including blended learning and modular approaches), the aim was to demonstrate how adult basic education and training could be “accelerated” in high potential learners - 1250 unemployed and 1250 employed at ABET Levels 2 and 3.

- **ABET Project 2: Business ABET**

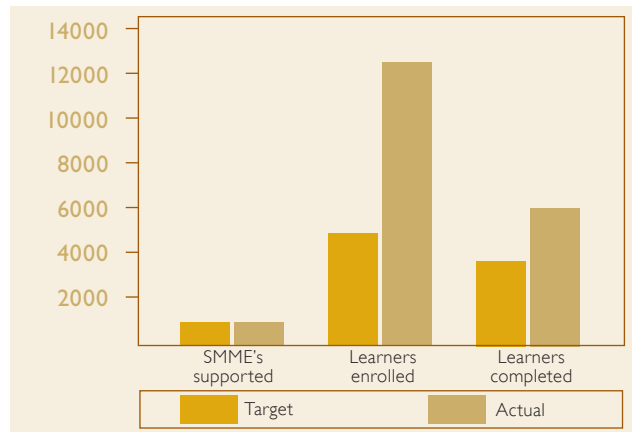
This project provides a bridging qualification in the form of a General Education and Training Certificate Business Practice learning programme at NQF 1 as an alternative to traditional ABET training. The qualification facilitates entry to work opportunities and also articulates with the FET Level and further learnership opportunities. Through the provision of a generic Business ABET model, the project will provide a bridge between the first and second economies in South Africa to 500 employed and 500 unemployed learners.

- **ABET Project 3: Occupational ABET**

Building on learning in context theory, this project aims to develop and provide five (5) ABET curricula and learning materials at ABET L2, L3 and L4, customised to each of the merSETA Chambers to build a closer fit between ABET and the occupational needs of those sub-sectors. Apart from the courseware development component of the project, it is expected that 750 employed and 750 unemployed Learners will be reached through this project.

- e. **Voucher Implementation Programme (VIP)**

The Voucher Implementation Project (VIP) entered its second phase in the 2008/09 financial year, following a successful pilot. The primary objective is to implement a focused, integrated and sustainable three-year strategy for SMME development in the metal, engineering and related services sector.



Eighty-four percent of the R34, 2 million budget was allocated to training vouchers in 2008/09. A further R43, 2 million has been set aside for the project in 2009/10 and is set to exceed the previous year's achievements.

- f. **New Venture Creation (NVC)**

In the year under review, 613 learners were enrolled for training and 130 new ventures were sustained for 12 months.

- g. **Bursaries**

The merSETA Bursary programme for Higher Education for the primary objectives of enhancing skills at all levels within the sector, promoting employment equity and increasing global productivity and competitiveness. In the context of the current global economic downturn, it has become more imperative that South Africa and South Africans of all backgrounds are equipped to be employable by the industry. merSETA's role is to provide financial assistance for this learning and self improvement. At the end of the 2008/09 financial year, about 500 students were on the bursary register. Of those, some 320 were “employed learners” – learners already employed within the sector where they or their companies had identified skills gaps where skill enhancement would boost the industry. These included 16 employees of the Auto industry on a specialist Certificate in Auto Retail Management, 54 Masters in Business Administration; 144 Certificates in Management and 42 Certificates in Business Management. Fifty-five women in supervisory or administration levels were included on a Fundamental Management programme while 24 women from the

pilot phase of this programme completed successfully during the year. Four shop stewards enrolled on an Intermediate Management Programme in February. Approximately R8-million was expended on the development of existing sector employees through the bursary programme in 2008/9. Also during 2008/9, 20 students successfully graduated in their chosen fields, most finding employment in South Africa while two are studying for their Masters in Industrial Engineering. A further 133 successfully completed their study year and are continuing with experiential training (17) or continuing to study with merSETA funding. A total of R 11 million was utilised to fund unemployed learners during the financial year. In January, 100 National Diploma students and 91 B Engineering or B Tech students covering all but mining and civil engineering disciplines were on merSETA's books.

## 2. RESEARCH & DEVELOPMENT

The period 2008/9 saw the establishment of the Research and Development office within the Projects Division. The following are the key areas of achievement:

### a. Sector Skills Planning

The 2008/09 Sector Skills Plan was developed and accepted by the Department of Labour as responding to the needs of the sector. The involvement of all merSETA stakeholders was a critical feature of this process, and led to the establishment of the Research and Development Sub-Committee to determine skill needs to augment legitimate scientific methodologies. Importantly, merSETA's decision to employ OFO codes means it may be able to influence the future direction of this South African OFO classification system. While the plan identified key scarce and critical skills within the sector nationally, there was a deliberate attempt to ensure that chambers were intricately involved in the process from inception. Research related to the SSP included the commissioning of two flagship projects: (i) the development of a Scarce and Critical Skills Modelling instrument, and (ii) a trend analysis of Workplace Skills Plans and Annual Training Reports for the period 2004-7. The modelling project, the first of its kind undertaken by a SETA, will provide

invaluable assistance to skills development planning nationally. The trend analysis of our workplace skills plans and Annual Training Reports will provide merSETA with valuable direction in charting future company reporting.

### b. Liaison with research entities and higher education institutions

The research office was engaged in cementing relationships with national research agencies and universities. A memorandum of understanding was signed between the merSETA and the Human Sciences Research Council, whereby the two entities agreed to work closely on project of mutual benefit. Initiatives are also underway to share research and development expertise between merSETA and various universities, including the University of KwaZulu-Natal, the University of the Witwatersrand, the University of Cape Town, the University of Stellenbosch and UNISA. The merSETA is also involved in a range of research collaborations with local, national and international entities. A research project exploring the role of "employability" is already underway under the auspices of the British Council's 'Education Partnerships for Africa Programme, together with the University of Nottingham (UK), UKZN, UCT and other partner FET Colleges. The research office is also associated in a SAQA project on understanding "FET teacher identity" and identifying the role of FET educators in workplace learning.

### c. Impact Research

The research office has produced a range of skills development research and impact assessments. The HSRCs study of apprentices and learnerships at merSETA since its inception provided insightful analysis of the role of merSETA in skills development. The purpose of the study was to ascertain the efficiency and effectiveness of the learnership and apprenticeship systems and their impact on the demand for and supply of skills for the industry. The merSETA also commissioned a research study to determine the current status and impact of ABET training within the merSETA sector.

Although the findings on the effectiveness of ABET implementation were inconclusive, mainly due to gaps in the tracking of learner progress, the study did, nevertheless, reveal there was a need to develop and communicate the links between ABET training and productivity, i.e. the training provided needed to be more relevant, flexible and functional in its course content and structure. This study directly informed the conceptualisation of three ABET modalities for a new ABET initiative programme. In addition, the merSETA collaborated with GTZ (German international co-operation enterprise) in the development of an Impact Monitoring and Evaluation Project to develop a model for SETA-supported Skills Development Interventions. The IM&E model is intended to promote the continuous monitoring and evaluation of the planning and implementation of skills development interventions in order to track the results and overall impact of these interventions in the workplace.

#### **d. Research Dissemination: Conferences and Publications**

The research office was actively involved in ensuring merSETA is indeed seen as a “leader in closing the skills gap”. Academic presentations were made at various national and regional academic fora including the Development Conference hosted by the Development Bank of South Africa and the Human Sciences Research Council. The merSETA was also represented in the International Vocational and Training (IVETA) conference held in Livingstone (Zambia). The conference, attended by representatives from more than 20 countries, provided an important platform to highlight the strides made in South African skills development legislation. While in many developing countries, the discussion of skills development levies was still in its infancy, South Africa’s experiences loomed large as an example of what can be achieved by collaboration between government, business and labour when partnerships are nurtured. A number of academic publications were published in peer-reviewed accredited national and international journals in the past year.

### **3. DISCRETIONARY GRANTS**

In the year under review, the merSETA introduced an innovative approach to Discretionary Grants, which sought to maximise discretionary grant disbursement, within a project and risk management framework and regulated by a Memorandum of Agreement (MoA). This was accompanied by monitoring and evaluation of discretionary grant implementation procedures. An overarching principle was to allocate 75% of available discretionary grants to 300+ top training companies in the sector, dubbed “Established” companies, and the remaining 25% to “Developmental” companies. Established companies were identified on the basis of meeting the following criteria approved by the Governing Board:

- Are up to date with levy payments;
- Have received Mandatory Grants for last three years, if applicable;
- Have an average pass rate of 65% in implementation of Learnerships and Apprenticeships;
- Have a training committee in place if they have more than 50 employees; and
- Have a progression or placement average of 50%

Concurrently, the Board also approved significant increases in the funding formulae for grants to increase the incentive to train across different categories - most notably, funding for Apprenticeships increased from R30 000 to R90 000 each. Learners are remunerated according to their respective bargaining council agreements. Discretionary Grants were awarded to more than 700 companies for apprenticeships, learnerships, New Venture Creation, Skills Programmes, ABET, Workplace experience and internships (graduate development) and sector specialist training.



# 07

**merSETA PERFORMANCE  
AGAINST NSDS TARGETS  
AND HIGHLIGHTS**





## NSDS II 2008 – 2009 Targets and achievements

No	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2008 – 2009 Annual Targets and Outcomes	Achievements	Reasons for Variances
1	I. Prioritising and communicating critical skills for sustainable growth, development and equity	Indicator 1.1 Skills development supports national and sectoral growth, development and equity priorities.	The SSP or Annual Update is signed of by the:  a) SETA/DoL agreed growth, development and equity strategy driver.  b) DoL Executive Manager responsible for quality assurance of SSP.  The SSP or Annual update submitted on time as per DoL Guidelines.	The updated merSETA Sector Skills Plan was submitted to the Department of Labour within the required timeframes	No variance
2	I. Prioritising and communicating critical skills for sustainable growth, development and equity	Indicator 1.2 Information on critical skills widely available to learners. Impact of information dissemination researched, measured and communicated in terms of rising entry, completion and placement of learners.	A sector guide per sub sector (1 x 5 sub sectors)  711 SDFs or Sector Specialists trained in sector for the year.	A sector guide covering the five sub sectors was produced.  701 Skills development facilitators and Sector Specialists were trained	Although merSETA has surpassed this target by 44% due to regular interaction with stakeholders, as well as interventions in preparation for submission of WSPS and ATRS resulting from the changes in our templates this figure does not reflect our achievement. A process is underway to make the necessary adjustment with DoL through the correct templates
3	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.1 By March 2010 at least 80% of large firms' and at least 60% of medium firms' employment equity targets are supported by skills development. Impact on overall equity profile assessed.	The TARGET for the large firms is 533 firms.  The TARGET for medium firms is 828 firms.  Two scores will be calculated, one for each sub sector. Score 3a for Large companies and score 3b for medium companies.	598 large firms received WSP / ATR grants for the 2008/09 financial year.  983 medium firms received WSP / ATR grants for the 2008/2009 fiscal year.	Our marketing campaign has proved to be successful in spite of the changes to include reporting on the OFO codes resulting in merSETA surpassing its targets by:  Large Companies: 12% Medium Companies: 19%





No	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2008 – 2009 Annual Targets and Outcomes	Achievements	Reasons for Variances
4	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.2 By March 2010 skills development in at least 40% of small levy paying firms supported and the impact of the support measured.	The TARGET for the different number of small firms is 4412 firms  Note- The number of firms will be equal to the number of interventions supported. This will allow a company to be supported more than once.	5 795 small levy paying firms were provided with skills development support interventions during the 2008 / 2009 financial year	Assistance were provided on a continuous process to our SME's and the implementation and continuation of our SME Voucher system has proved to be extremely successful ensuring that merSETA surpasses its targets by 26%
5	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.4 By March 2010, at least 500 enterprises achieve a national standard of good practice in skills development approved by the Minister of Labour.	Not applicable for 2008 - 2009	Not applicable to merSETA and its sub sectors	N/A
6	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.5 Annually increasing number of small BEE firms and BEE co-operatives supported by skills development. Progress measured through an annual survey of BEE firms and BEE co-operatives within the sector from the second year onwards. Impact of support measured	33 Small BEE firms and 9 BEE Co-Operatives targeted and supported	197 small BEE firms and BEE cooperatives were supported by skills development during the 2008/09 financial year.	Exceeded target through the merSETA SME project ensure the inclusion and focus on small BEE and BEE Co-operatives
7	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.7 By March 2010 at least 700 000 workers have achieved at least ABET Level 4.	Target for the sector for the period 2008 to 2009 is 1978 learners enter ABET & 2250 achieve ABET.	1650 Entered 233 Achieved	The merSETA has finalised its research on the ABET requirements within its sector resulting in the identification of three ABET Programmes being: Accelerated ABET, Occupational ABET and Business ABET. The projects are in the process of implementation and will produce the required results including the shortfall within this financial year.



No	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2008 – 2009 Annual Targets and Outcomes	Achievements	Reasons for Variances
8	2. Promoting and accelerating quality training for all in the workplace	Indicator 2.8 By March 2010 at least 125 000 workers assisted to enter and at least 50% successfully complete programmes, including learnerships and apprenticeships, leading to basic entry, intermediate and high level scarce skills. Impact of assistance measured.	Target for the sector for the period 2008 to 2009 is:  4675 employed learners entered  2337 Employed Learners completed	15 739 Employed learners entered  6325 Employed learners Completed	A dedicated focus on artisan development and the continuation of the AATP programme in line with the priorities identified by JIPSA has resulted in the overachievement of this Target.
9	Promoting employability and sustainable livelihoods through skills development	Indicator 3.2 By March 2010, at least 2000 non-levy paying enterprises, NGOs, CBOs, and community-based co-operatives supported by skills development. Impact of support on sustainability measured with a targeted 75% success rate.	Target for the sector for the period 2008 – 2009 is:  40 Non-Levy Paying 25 NGOs 10 CBOs 5 CB Co-Ops	The following 550 organisations were supported during the year consisting of:  496 Non Levy Paying 33 NGOs 8 CBOs & 13 CB Co-Ops	The implementation of our SMME voucher project resulted in us exceeding our contribution to non-levy paying enterprises. Because of our permanent regional presence we are able to engage effectively with CBOs and CB Co-ops. The under achievement of CBO's receiving skills development support is as a result of our focus being on technical training and most of the CBO's tend to focus on soft skills training.
10	Assisting designated groups, including new entrants to participate in accredited work, integrated learning and work based programmes to acquire critical skills to enter the labour market and self employment	Indicator 4.1 By March 2010 at least 125 000 unemployed people assisted to enter and at least 50% successfully complete programmes, including learnerships and apprenticeships, leading to basic entry, intermediate and high level scarce skills. Impact of assistance measured.	Target for the sector the period 2008 to 2009 is 4500 Unemployed learners entered and  2255 Unemployed Learners Completed	8023 unemployed learners entered and  5104 Unemployed Learners completed	A dedicated focus on artisan development and the continuation of the AATP programme in line with the priorities identified by JIPSA has resulted in the overachievement of this Target.
11	Assisting designated groups, including new entrants to participate in accredited work, integrated learning and work based programmes to acquire critical skills to enter the labour market and self employment	Indicator 4.2 100% of learners in critical skills programmes covered by sector agreements from FET and HET institutions assisted to gain work experience locally or abroad, of whom at least 70% find placement in employment or self-employment	Target for the sector for the period 2008 to 2009 is:  1738 learners assisted in workplace experience	1561 learners were assisted in workplace experience	Our engagement with HET institutions resulted in us just under achieving but this shortfall will be made up within the next financial year.



No	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2008 – 2009 Annual Targets and Outcomes	Achievements	Reasons for Variances
12	Assisting designated groups, including new entrants to participate in accredited work, integrated learning and work based programmes to acquire critical skills to enter the labour market and self employment	Indicator 4.3 By March 2010, at least 10 000 young people trained and mentored to form sustainable new ventures and at least 70% of new ventures in operation 12 months after completion of programme	Target for the sector for the period 2008 to 2009 is: 400 NVC trained  100 Above sustained for 12 months	613 were assisted  130 sustained for 12 Months	Negative variance is as a result of us piloting this project in this financial year and the shortfall will be made up within the next financial year.
13	Improving the quality and relevance of provision	Indicator 5.1 By March 2010 each SETA recognises and supports at least five Institutes of Sectoral or Occupational Excellence (ISOE) within public & private institutions and through Public Private Partnerships (PPPs) where appropriate, spread as widely as possible geographically for the development of people to attain identified critical occupational skills, whose excellence is measured in the number of learners successfully placed in the sector and employer satisfaction ratings of their training.	Target for the sector for the period 2008 to 2009 is: 1 institute.	merSETA continued to support 2 ISOE's recognised and continue to support of those recognised within the previous financial years	Positive variance is due to our positive relationships with our provider constituency
14	Improving the quality and relevance of provision	Indicator 5.2 By March 2010, each province has at least two provider institutions accredited to manage the delivery of the new venture creation qualification. 70% of new ventures still operating after 12 months will be used as a measure of the institutions' success.	Target for the sector for the period 2008 to 2009 was not applicable.	Not applicable	N/A

No	NSDS 2005 - 2010 Objectives	NSDS 2005 - 2010 Success Indicators, National Targets and Outcomes	SETA Plan for 2008 – 2009 Annual Targets and Outcomes	Achievements	Reasons for Variances
15	Improving the quality and relevance of provision	Indicator 5.3 By March 2010 there are measurable improvements in the quality of the services delivered by skills development institutions and those institutions responsible for the implementation of the NQF in support of the NSDS.	Note: A measurement methodology with outcomes, targets and criteria is to be developed in conjunction with SAQA and SETA ETQAs.  merSETA: Qualifications review  New qualifications developed (SGBs)  Courseware development	merSETA continued to ensure that it complied with DoL requirements through timeous submission of relevant reports such as the Annual Report to Parliament, the QMR and performance scorecards. The ETQA status received a favourable audit report from SAQA.	Our systems are running well
16	Improving the quality and relevance of provision	Indicator 5.4 By March 2010, there is an NSA constituency based assessment of an improvement in stakeholder capacity and commitment to the National Skills Development Strategy.	Note: A measurement methodology with outcomes, targets and criteria is to be developed in conjunction with the NSA.  Capacity building for chamber committees took place.		No variance.



R A Patel (Dr)  
CHIEF EXECUTIVE OFFICER

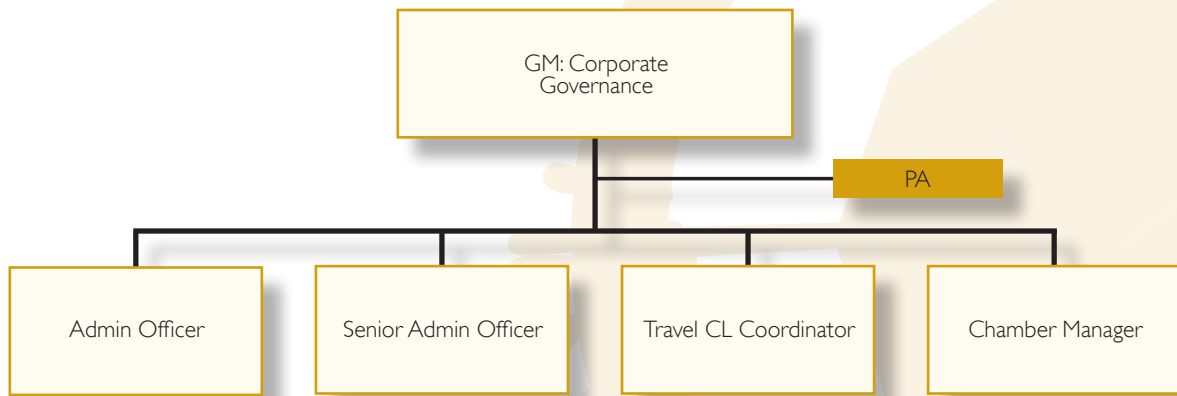


# 08

## **CORPORATE GOVERNANCE REPORT**



Mr Tom Mkhwanazi



## Introduction

To achieve its National Skills Development Strategy II objectives, the merSETA has built sound corporate governance structures and processes in compliance with the Skills Development Act, No 97 of 1998 (as amended), supported by the Skills Levies Act, 97 of 2003, as well as the SAQA Act, 58 of 1995, the Public Management Act of 1999 (as amended) and Treasury Regulations, that are regularly reviewed by National Treasury. The merSETA is also guided by and upholds the principle of the report on Corporate Governance for South Africa 2002 (King II Report).

## Stakeholders

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

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

## Service Level Agreement

The Treasury regulations issued in terms of the Public Finance Management Act require that the merSETA submits a strategic plan, which culminates in a service level agreement entered with the Executive Authority (Department of Labour). Each year, the merSETA enters into a Service Level Agreement and agrees with the Department of Labour on the National Skills Development Strategy targets.

## merSETA Constitution

The merSETA Constitution was approved by the Minister of Labour retrospectively on 1 July 2005 in terms of section 13 (1) of the Skills Development Act, 97 of 1998. This Constitution was promulgated in the Government Gazette on 11 August 2006.

## Board Charter

The Governing Board has adopted a charter, which provides an overview of the role, powers, functions, duties and responsibilities of Governing Board members, both collectively and individually. The basis for the aforementioned is the applicable legislation, Service Level Agreement and the merSETA Constitution.

## The Structure, Composition and Size of the Governing Board

### Structure, Composition and Size

In terms of the merSETA Constitution, the Governing Board comprises 32 members in a non-executive capacity as well as 10 alternates.

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

In terms of Schedule 3 clause 4.1 of the merSETA Constitution, the Governing Board must review the list of organised employers and organised labour every two (2) years. If the Governing Board deems it appropriate, the Governing Board must call on organised employers and trade unions (not employers and employees) to participate in the nomination of members to the Governing Board. The purpose of such an invitation is to ensure the Governing Board is properly represented by members representing organised Employers and organised Labour and that the representation is reviewed on a biannual basis.

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

The Governing Board, in the year under review, had a number of changes due to the resignation, retirement and review of membership by relevant constituencies as follows:





- Mr E Kodisang (CEPPWAWU) on 08 April 2008
- Mr C Wessel (AMEO) on 30 July 2008
- Mr B Bullock (PCA) on 30 August 2008
- Mr J Pieterse (Solidarity) on 30 August 2008
- Mr B Farquhar (RMI) on 25 September 2008
- Mr L De Klerk (AMEO) on 26 September 2008
- Mr B Khoza (NUMSA) on 20 November 2008
- Mr D Carson (SEIFSA) on 02 March 2009
- Mr J Meyer (AMEO) on 10 March 2009

The following members were appointed to replace the above members:

- Mr D Rayners (New Tyre) on 30 May 2008
- Mr T Molapo (AMEO) on 21 July 2008
- Mr M Toyer (New Tyre) on 27 July 2008
- Mr J Meyer (AMEO) on 1 September 2008
- Mr J Pieterse (PCA) on 26 September 2008
- Mr D Truter (RMI) on 26 September 2008
- Mr G Harris (SEIFSA) on 03 March 2009.
- Ms C Christian (AMEO) on 11 March 2009
- Mr K Cloete (NUMSA) on 26 March 2009



## Governing Board Membership and Meeting Attendance

Meetings of the Governing Board are scheduled annually and special meetings are convened if there is a need to consider urgent specific matters. During the year under review, the following meetings were held by the Governing Board and its committees:

Name	Race & Gender	Constituency Representing	Governing Board	Executive Committee	Investment Committee	LLETQA FSC
Mr. U. Badenhorst	White Male	Employer	5			
Mr. P. Bezuidenhout	White Male	Labour	5	2		
Mr. D. Carson	White Male	Employer	3	4		
Ms. C. Christian	Coloured Female	Employer	1			
Mr. K. Cloete	Coloured Male	Labour	0			
Mr. L. De Klerk	White Male	Employer	2	2		
Mr. D. de Villiers	White Male	Labour	4			
Ms. J. Esterhuizen	White Female	Employer	6	3		2
Mr. A. Gerresten	White Male	Labour	2			
Mr. L. Greyling	White Male	Labour	2			
Mr. A. Hanekom	White Male	Employer	6	5	3	2
Mr. G. Harris	White Male	Employer	1			
Mr. R. Kgagudi	Black Male	Labour	2			
Mr. B. Khoza	Black Male	Labour	4			
Mr. E. Kodisang	Black Male	Labour	0	1		
Mr. E. Kubeka	Black Male	Labour	4	2		
Mr. G. Lephallo	Black Male	Labour	5			
Ms. J. Lopes	White Female	Employer	5	4		0
Mr. J. Meyer	White Male	Employer	1	2		
Ms. M. Mogopodi	Black Female	Labour	5	4		
Mr. T. Molapo	Black Male	Employer	1			
Mr. V. Mthethwa	Black Male	Labour	6			
Ms. N. Netshandama	Black Female	Labour	6	1		1
Mr. E. Nodongwe	Black Male	Labour	3			
Ms. N. Nxumalo	Black Female	Labour	6	1	3	
Mr. W. Nsele	Black Male	Employer	6			
Mr. J. Olivier	White Male	Employer	4	1		
Mr. J. Pieterse	White Male	Employer	3	1		
Mr. D. Rayners	Coloured Male	Employer	4			
Mr. D. Rule	White Male	Employer	5			
Mr. J. Swarts	White Male	Labour	6	4		2
Mr. M. Toyer	Indian Male	Employer	1			
Mr. D. Truter	White Male	Employer	4			
Mr. X. Tshayana	Black Male	Labour	6	5		2
Mr. T. Tsiboli	Black Male	Labour	4			
Mr. M. Tshikwabhavha	Black Male	Labour	5			
Mr. P. Veldtman	White Male	Labour	3	2		
Mr. P. Verryne	Coloured Male	Labour	5			2
Mr. P. Welgemoed	White Male	Employer	6	5		
Mr. L. Whiteley	White Male	Employer	6	5		
Mr. J. Wilson	White Male	Employer	4			2
Mr. Z. Xaba	Black Male	Employer	3			

- **Governing Board meetings** - **6**
- **Executive Committee meetings** - **5**
- **LETQA Functional Standing Committee meetings** - **2**
- **Investment Committee meetings** - **3**



## The Chairperson and the Deputy of the Governing Board

The merSETA Constitution stipulates that: the Chairperson and the Deputy Chairperson be elected during the Annual General Meeting on a yearly basis and where the Chairperson is elected from members representing one stakeholder grouping, the Deputy Chairperson must be elected from another stakeholder grouping, and vice versa. Each year, the roles must be reversed unless otherwise agreed.

Ms J Esterhuizen was elected as the Chairperson, with Mr X Tshayana as the Deputy Chairperson, of the Governing Board during the Annual General Meeting held on 18 September 2008.

The merSETA Constitution provides for the appointment of an independent Chairperson if the Governing Board so decides. The Governing Board has decided not to opt for this as there has been tremendous improvement in Corporate Governance practices with the initiatives that have been implemented.

The role of the Chairperson and Chief Executive Officer does not vest in the same person.

The Chief Executive Officer is not a voting member of either the Governing Board or the Executive Committee due to the fact that the Skills Development Act does not allow for such practice.

### Delegation of Authority

The Governing Board of merSETA operates with an understanding that they cannot delegate the power to delegate, hence the Board remains accountable for actions under delegation and does not divest any of its powers, duties or function by virtue of any delegation. During the 2008/2009 financial year, the Governing Board reviewed and approved the Delegation of Authority to enhance efficiency in respect of decision making and performance of merSETA.

### Board Evaluation and Performance

The Governing Board Self-Assessment was conducted in

the year under review and such evaluation was done against Accounting Authority duties as stipulated in the merSETA Constitution, the PFMA and Treasury Regulations as well as the principle of the report on corporate Governance for South Africa 2002 (King II Report). Programmes were put in place to address shortcomings identified in the Evaluation Report.

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

### Induction and Orientation

New members of the Governing Board are taken on an induction programme to sharpen their understanding of Skills Development legislative framework and the nature of business of the merSETA. All members of the Governing Board attended the orientation workshops on Financial Management during the year under review.

### Members' Remuneration

Governing Board members do not receive any form of remuneration in accordance the merSETA Code of Conduct. The payment is made to constituencies to assist with the provision of resources for the preparation and attendance of meetings.

### Company Secretariat Function

The Company Secretariat function resides within the Corporate Governance Division and its main function is to assist the Governing Board with Corporate Governance assurance as well as the monitoring of merSETA compliance with the PFMA and other relevant legislation. It reports to the Board in this regard.

Governing Board members have unrestricted access to advice and services of the Corporate Governance Division.

### Code of Ethics

The Governing Board has approved the Code of Ethics that sets the ethical and behavioural standards at merSETA. The Code of Ethics is based on the following values that regulate

the conduct and behaviour of Board members, management and the general staff:

- Respect;
- Service Excellence (External and Internal);
- Innovation;
- Integrity; and
- Honesty.

### Committees of the Governing Board

Clause 7 of the merSETA Constitution establishes various committees that assist the Governing Board in carrying out its responsibilities. The Governing Board has the following Committees:

- Executive Committee;
- Audit Committee;
- Remuneration Committee;
- Investment Committee;
- Learning, Education, Training, Quality Assurance Functional Standing Committee;
- Chamber Committees; and
- Regional Committees.

All above committees operate within Terms of Reference approved and also reviewed by the Governing Board on a regular basis to ensure their relevance.

### Executive Committee

#### Composition

The Executive Committee comprises 10 members equally represented from organised Labour and organised Employers. The Executive Committee is responsible for the oversight of management of the operational affairs of the merSETA and manages, coordinates and monitors the activities of Functional Standing Committees, Chambers Committee and any other ad hoc Committees.

#### Meetings

Five (5) meetings were held by the Executive Committee in the year under review.

### Audit Committee

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

The Audit Committee review the Annual Financial Statements and ensures that they have been properly prepared by management and reviewed by external auditors before being recommended to the Governing Board for approval.

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

The Audit Committee operates in terms of the Term of Reference (Audit Committee Charter) which was reviewed by the Governing Board in November 2008 in accordance with Treasury Regulations.

The information regarding the composition and meetings of the Audit Committee will be found in the chapter that deals with the Audit Committee Report.

### Remuneration Committee

#### Composition

The Remuneration Committee comprises three (3) non-executive independent members, and the Chairperson and Deputy Chairperson of the Governing Board who are non-voting.

The Governing Board took a decision to appoint independent non-executive members to the Remuneration Committee to strengthen independence in line with Corporate Governance best practice.

#### Purpose

The Remuneration Committee is responsible for the development of guidelines, and reviews the compensation and performance of staff of the organisation, reviews and approves corporate goals relevant to the compensation of the Chief Executive Officer, evaluates the Chief Executive Officer's performance in light of these goals and objectives and takes responsibility for all Human Resources-related matters.



### Meetings

Three meetings were held by the Remuneration Committee in 2008/9:

Name	Race	Gender	No. of meetings attended
Mr. R. Daniels	Coloured	Male	3
Ms. C. Khuzwayo	Black	Female	2
Ms. E. Olivier	White	Female	3

## Learning, Education, Training, Quality Assurance Functional Standing Committee

### Composition

The LETQA Functional Standing Committee comprises 10 members equally represented from organised Labour and organised Employer.

### Purpose

The LETQA FSC is responsible for the monitoring on behalf of the merSETA of the quality assurance functions and obligations of the merSETA in its role as an Education and Training Quality Assurance Body as provided in the South African Qualifications Authority Act, No 58 of 1995, and the Education and Training Quality Assurance Regulations, 1998.

### Meetings

The LETQA Functional Standing Committee convened two (2) meetings in the year under review.

## Chamber Committees

### Composition

The merSETA has five (5) Chamber Committees

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

Each chamber comprises an equal number of members representing Organised Employers and Organised Labour but shall not exceed eight (8) voting members.

### Purpose

The Chamber Committees develop sub-sectoral inputs into the Section Skills Plan, identifies education and training needs, makes inputs into education training policies and monitors the development and implementation of learning programmes as well as other training in the sub-sector.

### Meetings

Four meetings were held by each Chamber Committee in the year under review.

## Regional Committees

### Composition

The merSETA has six Regional Committees and each one comprises an equal number of member representatives from organised Labour and organised Employers, but shall not exceed seven (7) members a side.

### Purpose

The main function of this committee, in terms of the resolution by the Governing Board, is to act in an advisory capacity.

### Meetings

Each Regional Committee convened four meetings in the year under review in terms of the merSETA constitution.

## Materiality and Significant Framework

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

### Risk Management

The merSETA Governing Board approved the Risk Management Framework that includes the Risk Management Policy, and the establishment of the Risk Management Committee with its Terms of Reference.

The Governing Board is responsible for Risk Management although the Audit Committee performs most of the oversight functions on behalf of the Governing Board.

The merSETA continuously strives to improve its risk management and, as result, the risk assessment was performed by our internal auditors to ensure we improve mechanisms for identifying and monitoring risks. This assessment will culminate in a Risk Management Plan for merSETA in the new financial year.

## Sustainable Development

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

## Stakeholder Involvement

### Chambers

The 2008/9 financial year saw merSETA put to the test its newly-adopted operational plan that came up with the restructuring exercise accomplished in the last quarter of 2007.

The Chamber Unit, like other units of the merSETA, had to undergo transformation.

The unit was initially located within the Client Services Division (CSD) but was later relocated to the Corporate Governance Division. In the year under review, the Chamber Unit out-performed itself on a number of activities set jointly with Chamber Committees through an activity plan being adopted at the beginning of the year and monitored every time Chambers meet during quarterly meetings. The tool in the main seeks to transform Chambers to have more focus and be goals oriented.

In accordance with merSETA targets set by the Department of Labour; Chamber Terms of Reference (ToR) as in the merSETA Constitution and the 2008/9 Chamber activity plan as set by Chambers, the following activities were successfully achieved:

- **Sector Skills Plan (SSP)**

- The 2008/09-updated merSETA Sector Skills Plan was delivered timeously; and
- A Research and Development Unit was launched to engage stakeholders on all matters relating to SSP, including the exploration of a merSETA skills forecasting tool for merSETA's SSP model;

- **Identify Education and Training Needs in the Sub-Sector**

- The Auto Manufacturing Industry Certificate (AMIC) conversion process in the Auto Chamber;
- Development of courseware for 16 core unit standards – a process known as “provision of training modules for operators in the New Tyre Chamber”;
- The Organising Framework of Occupation workshops for capacitating and familiarising all Chamber and Regional stakeholders and staff with the new OFO tool;
- Labour capacity-building on the alignment of industry grades and NQF levels;
- Capacitation on the new Quality Council for Trades and Occupations (QCTO);

### Monitor Implementation of Training

Chambers closely interacted and engaged with the Projects Division on projects implemented during the period under review, in particular:

- The Discretionary Grant Process ushered in a new approach which categorises companies into “Top Trainers” and “Developmental Companies” for the purpose of grant allocations and committing companies to multi-year training agreements referred to as memorandum of agreements (MoA);
- Accelerated Artisan Development Project (AATP) which contributed immensely to merSETA's Metal Chamber apprentice intake, breaching a 4000 mark for the first time in nearly a decade;
- The SMME Voucher Training Project which seeks to fast-track, training in the SMME sector;
- A Bursary scheme which now hosts the Engineering Development Programme (EDP), which was initiated by the Auto Chamber for the provision and supply of engineers in the sector; and

- The RPL Pilot Project – a training intervention never tried before.

#### Liaising with Bargaining Structures and Other Fraternal Institutions

On an ad hoc basis, joint meetings were held with the Department of Trade and Industry through customised sector programmes (CSP) to explore possibilities of developing the downstream phase of the Plastics Sub-Sector.

On 17 March 2008, a ground breaking joint meeting with all merSETA-related bargaining structures was held to look into converging areas as well as collaboration into the future.

#### Inter-chamber Activities

New Bi-annual Inter-Chamber meetings focuses on synergy platforms across the bodies, ensuring no overlap in projects.

#### Regional Committee (RC) meetings

Regional Committees continue to be an integral part of Chambers Committee, mainly for the cascading of information at provincial and regional level.

#### Management Committee

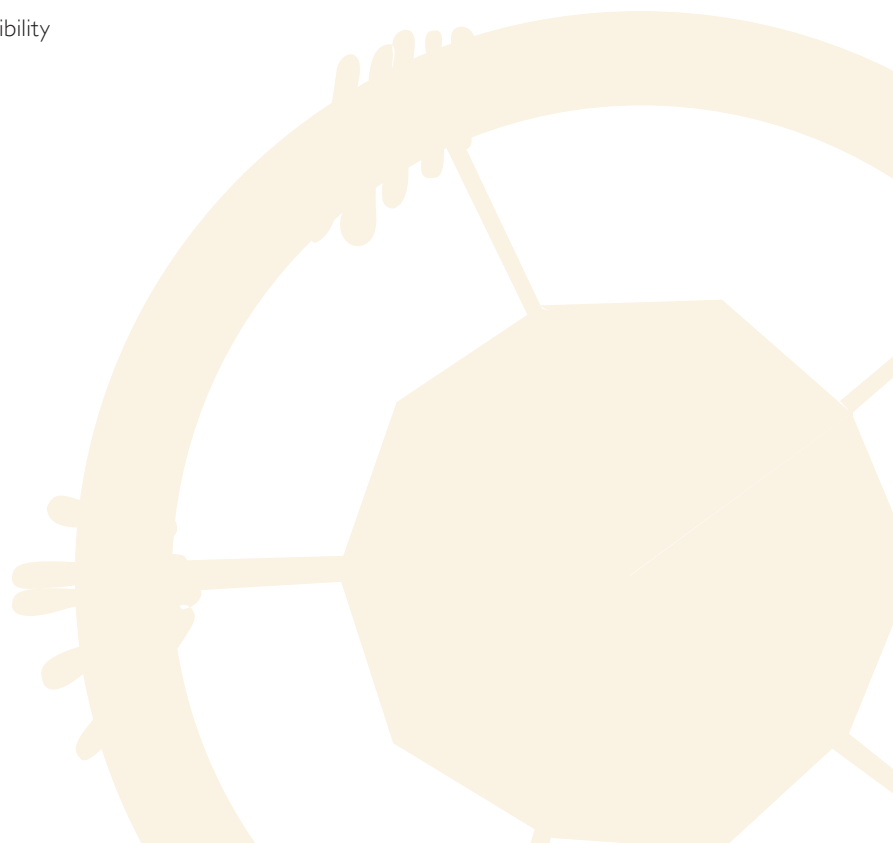
The Management Committee is chaired by the Chief Executive Officer who is charged with the responsibility

and accountability for the recruitment, appointment and management of all employees of merSETA. The Chief Executive Officer is given the direction and is supervised by the Executive Committee.

The Management Committee up until 31 March, 2009, comprised:

- **Dr Raymond Patel** :Chief Executive Officer
- **Ms Beaula Dziruni** :Chief Financial Officer
- **Mr Wayne Adams** :Chief Operations Officer
- **Mr Derrick Peo** :General Manager: Projects
- **Ms Moketenyana Mayongo** :General Manager:  
Corporate Services
- **Mr Tom Mkhwanazi** :General Manager:  
Corporate Governance

The Management Committee meets at least twice a month.



# 09

## REPORT OF THE AUDIT COMMITTEE

Required by Treasury Regulations 27.1.7 And 27.1.10 (B)  
and (c) issued in terms of the Public Finance Management  
Act 1 of 1999, as amended by Act 29 of 1999 ("PFMA")









### AUDIT COMMITTEE

**Front Row Seated (Left to Right):** Mr A Mashifane (Chairperson), Ms T Mashanda (Member), Mr J Davis (Member)  
**Standing (Left to Right):** Mr C Murray (Member), Adv W Sibuyi (Member)

We are pleased to present our report for the financial year ended 31 March 2009.

### Audit Committee Membership and Attendance

The audit committee consists of a maximum of five independent non-executive members appointed by the

Governing Board. The Chairperson and the Deputy Chairperson of the Governing Board, Chief Executive Officer, Chief Financial Officer, representatives of the outsourced Internal Auditors and the Auditor-General attended meetings of the audit committee. The Audit Committee met five times during the year and has therefore complied with the minimum number of meetings as set out in its approved Audit Committee charter (at least four times). Listed hereunder is a list of members and number of meetings attended by each.

Name of Member	Number of Meetings Attended
Mr. A. Mashifane (Chairperson of the Audit Committee)	5
Mr. J.L. Davis (Independent member)	5
Mr. C Murray (Independent member)	5
M. T. Mashanda (Independent member)	5
Adv. W. Sibuyi (Independent member)	4

## Audit Committee Responsibility

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

### The effectiveness of internal control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and the King II Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

From the various reports of the Internal Auditors, the unqualified audit report on the annual financial statements and management letter of the Auditor-General, it was noted that the system of internal control had improved significantly compared with prior year as management had engaged in a rigorous process of ensuring compliance with prescribed accounting and internal policies and procedures. The Audit Committee is satisfied with management's response and action plans proposed with regard to weaknesses identified as included in various reports of the outsourced internal auditors and the Auditor General. The Audit Committee will monitor management's progress towards resolving these matters on regular basis as required in terms of the Audit Committee Charter.

Having considered the above, the audit committee has no reason to believe that any material breakdown in the

functioning of these controls, procedures and systems has occurred during the period under review.

## Evaluation of Annual Financial Statements

The Audit Committee has:

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

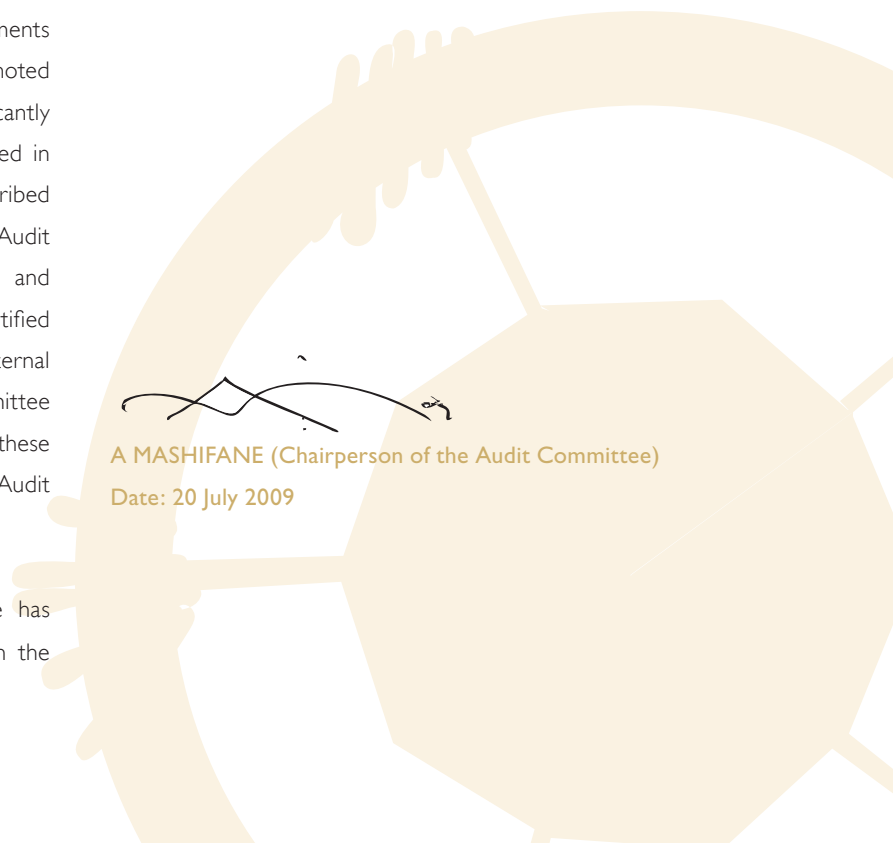
The Audit Committee having considered the financial position of the merSETA, the report of the Accounting Authority and audit report of the Auditor-General, concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the audit report of the Auditor-General and has therefore recommended the adoption and approval of the financial statements by the Governing Board.



A MASHIFANE (Chairperson of the Audit Committee)

Date: 20 July 2009



# 10

## AUDITOR-GENERAL'S REPORT





# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MANUFACTURING, ENGINEERING AND RELATED SERVICES EDUCATION AND TRAINING AUTHORITY FOR THE YEAR ENDED 31 MARCH 2009

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Manufacturing, Engineering and Related Services Education and Training Authority (merSETA) which comprise the statement of financial position as at 31 March 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 62 to 109.

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

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 14(6)(a) of the Skills Development Act, 1998 (Act No. 97 of 1998), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

7. In my opinion the financial statements present fairly, in all material respects, the financial position of the merSETA as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the PFMA.

**Basis of accounting**

8. Without qualifying my opinion, the public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

**Other matters**

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

**Re-licensing**

9. SETAs were established for a five-year period until 31 March 2010. merSETA has applied for the renewal of its certificate of establishment. It is expected that the legislated renewal process will be concluded by 31 March 2010.

**Governance framework**

10. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

**Key governance responsibilities**

11. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
<b>Quality of financial statements and related management information</b>			
2	The financial statements were not subject to any material amendments resulting from the audit.	✓	
3	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
<b>Timeliness of financial statements and management information</b>			
4	The annual financial statements were submitted for auditing as per the legislated deadlines [section 55 of the PFMA].	✓	
<b>Availability of key officials during audit</b>			
5	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6	Audit committee		

No.	Matter	Y	N
	<ul style="list-style-type: none"> <li>The public entity had an audit committee in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.</li> </ul>	✓	
7	Internal audit		
	<ul style="list-style-type: none"> <li>The public entity had an internal audit function in operation throughout the financial year.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>	✓	
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.</li> </ul>	✓	
8	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	✓	
12	Powers and duties have been assigned, as set out in section 56 of the PFMA.	✓	
<b>Follow-up of audit findings</b>			
13	The prior year audit findings have been substantially addressed.	✓	
<b>Issues relating to the reporting of performance information</b>			
14	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
15	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
16	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the merSETA against its mandate, predetermined objectives, outputs, indicators and targets [Treasury Regulations 29.1/30.1].	✓	
17	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

12. The overall governance framework of merSETA is adequate.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

13. I have reviewed the performance information as set out on pages 36 to 40.

### The accounting authority's responsibility for the performance information

14. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure



that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

#### The Auditor-General's responsibility

15. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
16. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
17. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

#### APPRECIATION

18. The assistance rendered by the staff of the merSETA during the audit is sincerely appreciated.

*Auditor - General.*

Pretoria

31 July 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



# 11

## ANNUAL FINANCIAL STATEMENTS





Manufacturing, Engineering and Related Services Education and Training Authority  
ANNUAL FINANCIAL STATEMENTS  
31 MARCH 2009

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REPORT BY THE ACCOUNTING AUTHORITY TO THE EXECUTIVE AUTHORITY AND PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA FOR THE FINANCIAL YEAR ENDED 31 MARCH 2009

## I. General review of the state of affairs

The financial affairs of the merSETA are sound with substantial financial assets. The levy base is substantial and the merSETA maintains a steady stream of mandatory and discretionary grant disbursements. The discretionary grants and expenditure on skills development initiatives speeded up substantially in the year under review. Its substantial reserves are 70% committed in learnerships, apprenticeships and projects stretching over the next four years to the value of R684 million.

### a) Levies

merSETA experienced growth in its levy income of 11,5% in the 2008/9 financial year to reach R697 million. The levy income exceeded budget by three percent. The growth is mainly due to inflationary growth in companies' payroll costs and the effect of retrenchment packages. The exemption to paying levies threshold remained at annual payrolls of R500,000. The number of contributing employers decreased to 11,913 from 12,784 the previous year. The change in the point of revenue recognition that took effect from last year has made it critically important that the Department of Labour transfers or allocates the levies timeously each month. Unfortunately, there was a delay in payment of levies by the Department of Labour in April 2008. However, the levies were received timeously for all other months.

### b) Grants and Projects

merSETA expensed R304 million in mandatory grants this year. Mandatory grant expense in 2008/9 increased by 25% over 2007/8. The payout increased by eight percent to 70% compared to the previous financial year. Strict deadlines in the regulations for submission of mandatory grant applications continue to be enforced and most companies adhere to them. The merSETA also explored various initiatives that

allowed companies to submit WSPs and training plans electronically.

Discretionary grant expense excluding project expense are 149% above prior year at R172 million. Actual disbursements are R291 million, 333% above prior year's disbursement. However, R123 million of disbursed funds are classified as pre-payments until companies implement training. In the year under review, the merSETA changed its approach to discretionary grant payments by requesting companies to apply for the entire grant funding needs for the year. A Memorandum of Agreement (MoA) with each company were entered into in regard to that year's funding. Under this MoA, one third of the grant funding was paid upfront on signature of the agreement. To ensure companies implement training, the MoA states that all funds paid are recoverable until proof of training is received by the merSETA. The merSETA also regularly monitors the training implementation through field visits and implementation reports and takes necessary action to recover the funds if progress is inadequate. By paying one third upfront, the merSETA enabled companies to begin recruitment of learners and this has expedited discretionary grant payments. The merSETA also changed its approach to discretionary grant allocation to the top-training companies.

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

Rand Millions

Chamber	SDF	WSP	ATR	Disc. Grant	Total	% of Total
<b>Auto</b>	3	131	71	57	262	12%
<b>Metal</b>	14	603	265	315	1,197	54%
<b>Motor</b>	6	292	122	179	599	26%
<b>New Tyre</b>	1	20	12	6	39	2%
<b>Plastics</b>	1	69	28	33	131	6%
<b>Total</b>	25	1,115	498	590	2,228	100%
<b>% of Total</b>	1%	50%	22%	27%	100%	

**c) Planned Utilisation of Surpluses**

The merSETA had reserves of R988 million and cash balances of R931 million at year end. The merSETA has applied and received approval to carry forward these surpluses for the 2007/8 year, and will apply for similar carry forward of surpluses for the 2008/9 year in June 2009. The merSETA has committed R684 million in board-approved learnerships, apprenticeships, strategies and projects in the 2009/10 to 2011/12 financial year. The commitments cover 70% of the reserves at year-end.

**d) Re-licensing and Going Concern**

The Setas, including merSETA, were established in terms of the Skills Development Act, No 97 of 1998, for a five-year period until 31 March 2010. The merSETA applied for the renewal of its certificate of establishment on 31 March 2009. It is expected that the legislated renewal process will be concluded by 31 March 2010. The process of re-establishment is governed by the Skills Development Act Regulations, No 20442 dated September 1999.

The government has publicly voiced its support for continued skills development. The merSETA covers important sectors of the South African industry which have long established routes of training skills via apprenticeships and learnerships which merSETA funds. The Accounting Authority believes the merSETA will be granted a new certificate. Accordingly, the merSETA has compiled and presented these financial statements on a going concern basis.

## 2. Services rendered by the merSETA

The merSETA renders the following broad services to its sector;

**a) Grants disbursements:**

- Disbursement of mandatory grants accounts for 50% of levies paid. This is subject to companies submitting an appropriate workplace skills plan by 30 June 2009. This reimburses companies which undertake training; and
- Disbursement of discretionary grants accounts for a minimum of 20%. The merSETA supports

learners and apprentices with such grants and also undertakes special projects that will benefit the sector at large.

**b) Quality assurance functions which include but are not limited to:**

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

**c) Skills implementation functions as follows:**

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

## 3. Human resources

A new position of Chief Operating Officer was created to head operations and client services. The old position of General Manager: Client Services was made redundant. The number of employees increased from 165 to 197 in the year under review. In response to stakeholder needs, an additional office in Rosslyn, Pretoria, was opened to cover Gauteng North and the North West Province. The positive effects of restructuring in prior years can be seen as the merSETA has become more focused on customers and service delivery.

Employment data for key personnel for merSETA for the 2008/9 financial year: merSETA Financial Year – April 2008 to March 2009 Rand 000's

Key Personnel	Basic Salary	Other Allowances and Costs	Performance Bonus	Total	Total	Period in office	Period in office
	2008/9	2008/9	2008/9	2008/9	2007/8	2008/9	2007/8
<b>CEO</b>	895	260	253	1,408	1,176	Full year	Full year
<b>CFO</b>	624	127	99	850	55	Full year	1 month
<b>COO*</b>	348	84	109	541	- *	6 months	Nil
<b>GM: Client Services**</b>	50	70	-	120	768	1 month	Full year
<b>GM: LETQA</b>	240	77	-	317	674	6 months	Full year
<b>GM: Corp Services</b>	578	123	85	786	647	Full year	Full year
<b>GM: Corp Governance</b>	548	155	91	794	723	Full Year	Full year
<b>GM: Projects</b>	618	78	86	782	582	Full year	10 months
<b>TOTAL</b>	<b>3,901</b>	<b>974</b>	<b>723</b>	<b>5,598</b>	<b>4,625</b>		

\*The positions of GM: Client Services and GM: LETQA were consolidated in September 2008 into the position of COO. The GM: LETQA assumed the newly-created position.

\*\*The GM: Client Services position had been vacant since May 2008.

The HR Manager is no longer considered part of senior management; therefore is no longer shown.

## 4. Utilisation of donor funds

The merSETA utilised the remaining R218,000 from the National Skills Fund as co-financing for the SME provider capacity-building. In March 2009, the merSETA signed an agreement for further co-financing from the National Skills Fund for the 2009/10 year.

## 5. Business address

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

merSETA  
Metropolitan Park  
8 Hillside Road  
3<sup>rd</sup> Floor  
Parktown  
2193

merSETA  
P O Box 61826  
MARSHALLTOWN  
2107

## 6. Discontinued Activities/Activities to be discontinued

The merSETA did not discontinue any activities in the year under review and has no plans to discontinue any activities.

## 7. New/Proposed Activities

In the next financial year several new strategies are proposed including a retrenchee training programme, accounting technicians project, toolbox project and HIV project.

## 8. Events after the reporting date

The merSETA is not aware of any events after the reporting date which will affect the financial state of the organisation for the 2008/9 financial year.

## 9. Performance Information

The merSETA's performance is measured by the Department of Labour against the National Skills Development Strategy objectives which were translated into targets by merSETA in 2008/9 and for which a Service Level Agreement was signed between merSETA and Department of Labour. merSETA has an extensive information database which it uses for record keeping and updating purposes, quality assurance requirements as well as reporting to the Department of Labour.

## 10. Corporate governance

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

### a) Internal audit

The merSETA's internal audit function is outsourced to an independent audit firm which operates on an approved three year internal audit plan. The independent internal auditors report in terms of their charter and in line with the Audit Committee Charter. In response to matters raised in the audit and risk assessment, a review of the merSETA's IT platforms and controls within the Human Resources division are being undertaken. The systems of accounting and internal controls are also being constantly monitored and improved.

### b) Audit committee

The Audit Committee comprises of five independent members. The Audit Committee is advisory in nature and reports to the Governing Board. The committee's charter is aligned to the duties prescribed by the PFMA and Treasury Regulations. The Audit Committee's responsibilities also cover oversight of risk management processes. During the year an extensive risk assessment was undertaken. The Risk Management Committee comprises of management and reports to the Audit Committee. The committee has the authority to seek such independent professional advice, as it considers necessary.

### c) Other committees

The other committees of the Governing Board are:

- i. Executive Committee;
- ii. Investment Committee;
- iii. Remuneration Functional Standing Committee;
- iv. Chambers Committees; and
- v. Regional Committees.

All committees function within terms of reference approved by the Governing Board and are functioning satisfactorily. More details on their functions are presented under the Corporate Governance section of the annual report.

### d) Financial management

The merSETA's financial management is sound and compliant with the PFMA and National Treasury regulations. The six-weekly merSETA Executive Committee meetings were presented with a full financial management report from the Chief Financial Officer. An all-inclusive budgeting process formed part of the Business Plan process and was used as a benchmark for levy income and grant administration and capital expenditure. A quarterly report showing actual results against budget was presented to the merSETA Governing Board and the Department of Labour.

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

### e) Policies

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

The merSETA's policies and procedures are aligned with GAAP and GRAP.

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

### f) Supply chain management unit

The procurement policy as well as a supply chain management framework is reviewed annually in light of changes in operations and legislation. The Supply



Chain Management Unit was managed as prescribed by National Treasury.

**g) Human Resources**

Management has implemented policies and procedures to address concerns previously raised by internal audit.

**h) IT Systems**

High level risks have been identified in regard to our information technology systems and in particular the Datanet system used for learner information management. The merSETA has gone to open tender to obtain a new system which should be functional by mid year. This system will cover all our eight operational offices. The merSETA is the process of reviewing its disaster recovery framework for IT.

**i) Conflict of Interest**

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

## II. Approval

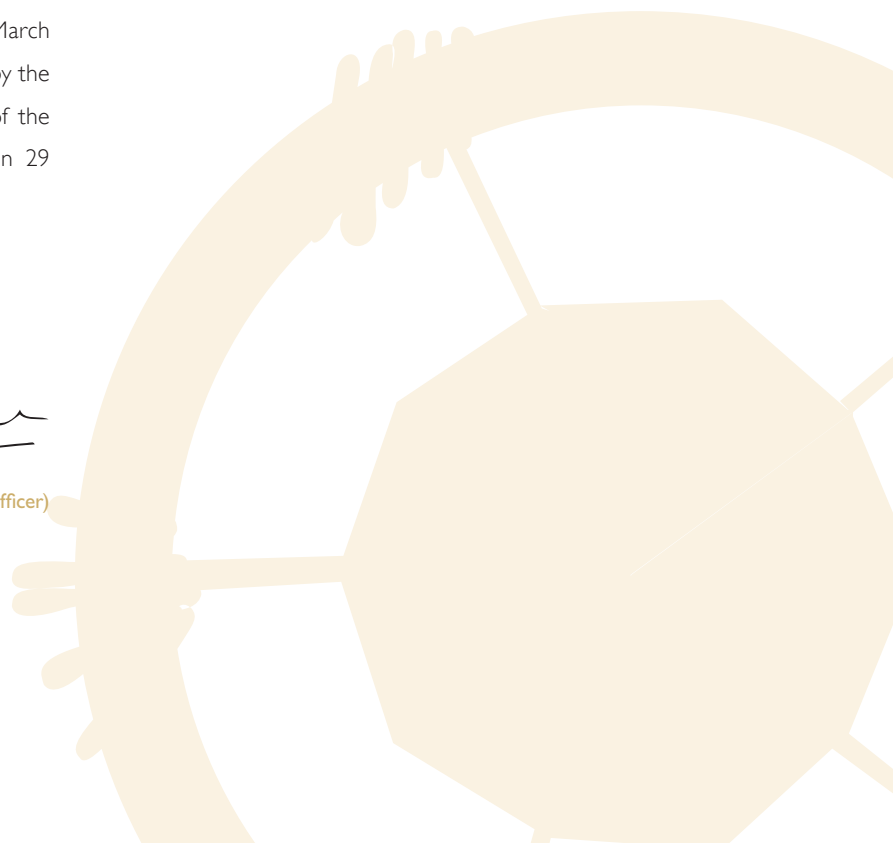
The annual financial statements for the year ended 31 March 2009 set out on pages 65 to 109, have been approved by the Accounting Authority in terms of Section 51 (l) (F) of the Public Finance Management Act, 1999 (Act 1 of 1999), on 29 May 2009, and are signed on their behalf by:



J. Esterhuizen (Chairperson)



Dr R Patel (Chief Executive Officer)



## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2009

	Note	2008/09 R'000	2007/08 R'000
<b>REVENUE</b>			
Skills Development Levy: income	3	697 001	625 327
Skills Development Levy; penalties and interest	4	5 034	4 925
Government grant income	5	218	46
<b>Total non-exchange revenue</b>		<b>702 253</b>	<b>630 298</b>
Investment income	6	114 760	73 697
Other income	7	189	391
<b>Total exchange revenue</b>		<b>114 949</b>	<b>74 088</b>
<b>Total revenue</b>		<b>817 202</b>	<b>704 386</b>
<b>EXPENSES</b>			
Employer grant and project expenses	8	(572 676)	(339 576)
Administration expenses	9	(83 716)	(76 582)
Government grant expense	5	( 218)	( 46)
Finance cost	10	-	( 26)
<b>Total expenses</b>		<b>(656 610)</b>	<b>(416 230)</b>
<b>Net surplus for the year</b>	2	<b>160 592</b>	<b>288 156</b>

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2009

	Note	31 March 2009 R'000	31 March 2008 R'000 Restated
<b>ASSETS</b>			
<b>Current assets</b>			
Prepayments and advances	11	123 928	1 537
Receivables from non-exchange transfers	12	2 450	1 006
Other receivables from exchange transactions	13	20 010	8 380
Inventories	14	205	75
Held-to-maturity financial assets	15	-	240 000
Available-for-sale financial assets	16	925 020	-
Cash and cash equivalents	17	6 153	632 900
		<u>1 077 766</u>	<u>883 898</u>
Assets held for sale	18	142	2 518
<b>Non-current assets</b>			
Property and equipment	19	8 939	6 839
Intangible assets	20	1 254	339
		<u>10 193</u>	<u>7 178</u>
<b>Total Assets</b>		<b>1 088 101</b>	<b>893 594</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Grants and transfers payable	21	82 712	53 883
Trade and other payables from exchange transactions	22	16 851	11 706
Provisions	23	80	139
<b>Total Liabilities</b>		<b>99 643</b>	<b>65 728</b>
<b>Net Assets</b>		<b>988 458</b>	<b>827 866</b>
<b>Net assets represented by:</b>			
Administration reserve		10 193	7 178
Employer grant reserve		3 892	5 253
Discretionary grant reserve		974 373	815 435
<b>Total Net Assets</b>		<b>988 458</b>	<b>827 866</b>

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2009

	Note	Administra- tion reserve R'000	Employer grant reserve R'000	Discretionary grant reserve R'000	Unappropri- ated surplus R'000	Total R'000
<b>Balance at 1 April 2007</b>		9 102	641	529 967	-	539 710
Restatement due to prior year error	35	-	-	-	-	-
Net surplus for the year per statement of financial performance		-	-	-	288 156	288 156
Allocation of unappropriated surplus for the year	2	1 810	148 509	137 837	(288 156)	-
Excess reserves transferred to discretionary reserve		(3 734)	(143 897)	147 631	-	-
<b>Balance at 31 March 2008</b>		<b>7 178</b>	<b>5 253</b>	<b>815 435</b>	<b>-</b>	<b>827 866</b>
Net surplus for the year per statement of financial performance		-	-	-	160 592	160 592
Allocation of unappropriated surplus for the year	2	3 196	131 791	25 605	(160 592)	-
Excess reserves transferred to discretionary reserve		(181)	(133 152)	133 333	-	-
<b>Balance at 31 March 2009</b>		<b>10 193</b>	<b>3 892</b>	<b>974 373</b>	<b>-</b>	<b>988 458</b>

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 March 2009

	Note	2008/09 R'000	2007/08 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Operating activities</b>			
Cash receipts from stakeholders and others		713 081	622 077
Levies, interest and penalties received		712 892	621 646
Donor income from NSF		-	264
Other income		189	167
Cash paid to stakeholders, suppliers and employees		(753 545)	(410 079)
Grants and project payments		(678 523)	(339 534)
Compensation of employees		(43 126)	(38 182)
Payments to suppliers and other		(31 896)	(32 363)
Cash generated by operations	24	(40 464)	211 998
Interest received		103 274	70 653
<b>Net cash inflow from operating activities</b>		<b>62 810</b>	<b>282 651</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	19	(3 832)	(2 435)
Purchase of intangible assets	20	(1 852)	( 484)
Proceeds from disposal of property and equipment		1 147	193
(Purchase) / Disposal of held-to-maturity financial assets		240 000	(120 000)
(Purchase) / Disposal of available-for-sale financial assets		(925 020)	-
Proceeds from loan		-	300
<b>Net cash (outflow) / inflow from investing activities</b>		<b>(689 557)</b>	<b>(122 426)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Interest paid		-	( 26)
<b>Net cash outflow from financing activities</b>		<b>-</b>	<b>( 26)</b>
Net increase in cash and cash equivalents		(626 747)	160 199
Cash and cash equivalents at beginning of year		632 900	472 701
<b>Cash and cash equivalents at end of year</b>	17	<b>6 153</b>	<b>632 900</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009

### L ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

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

i. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

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

iii. Specific information has been presented separately on the statement of financial position such as:

- (a) Receivables from non-exchange transactions, including taxes and transfers;
- (b) Taxes and transfers payable;
- (c) Trade and other payables from non-exchange transactions;

iv. The amount and nature of any restrictions on cash balances must be disclosed

Paragraph 11 – 15 of GRAP 1 has not been implemented due to the fact that the local and international budget reporting standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objectives of the financial statements.

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

#### 1.1 Basis of preparation

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 1.2 Currency

#### 1.2.1 Functional and presentation currency

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

#### 1.2.2 Foreign currency transactions

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

### 1.3 Revenue recognition

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

#### 1.3.1 Levy income

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

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

Skills Development Levy (SDL) transfers are recognised when it is probable that future economic benefits will flow to the merSETA and these benefits can be measured reliably. This occurs at the earlier of the time the department of labour (DoL) makes the allocation or payment is made to the merSETA. SDL transfers are made in terms of section 8 of the Skills Development Levies Act, 1999 (Act No 9 of 1999). The SDL transfer is measured at the fair value of the consideration received.

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

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

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

#### 1.3.2 Interest and penalties

Income from interest and penalties on skills development levies are recognised at the earlier of the time the department of labour (DoL) makes the allocation or payment is made to the merSETA

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

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

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

### 1.3.4 Government grants and other donor income

Conditional government grants and other conditional donor funding received are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the period necessary to match the grants with the related costs which they are intended to compensate. Unconditional grants and other unconditional donor income are recognised as income at the time the amounts are received.

### 1.3.5 Investment income

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

## 1.4 Grants and project expenditure

### 1.4.1 Mandatory grants

The grant payable and the related expenditure is recognised when the employer has submitted an application for a grant in the prescribed form within the legislated cut-off period and it is probable the grants will be paid. This grant is equivalent to 50% (2007/08: 50%) of the total levies paid by the employer and comprises a workplace skills planning grant.

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

### 1.4.2 Discretionary grants and project expenditure

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

Project expenditure comprises:

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

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

Discretionary grants and project costs are recognised as expenses in the period in which they are incurred and the liability is recognised accordingly. A receivable or payable is recognised net of a provision for irrecoverable amounts for incentive and other payments made to the extent that expenses have not yet been incurred in terms of the contract.

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 1.5 Irregular and fruitless and wasteful expenditure

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

- The PFMA,
- The Skills Development Act,

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

### 1.6 Property and equipment

Property and equipment comprise tangible assets held for administrative use and are expected to be used during more than one accounting period. Property and equipment are stated at cost less any subsequent accumulated depreciation and adjusted for any impairments. Depreciation has been calculated on the straight-line method to write off the cost of each asset at acquisition to estimated residual value over its estimated useful life as follows:

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

The estimated remaining useful life of the assets is limited to the remaining period of the licence issued to the merSETA by the Minister of Labour. For the current year the remaining period is one year. (2007/08: two years).

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

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

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

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

### 1.7 Intangible assets

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

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

Asset class	Amortisation period
- Computer software	1 - 2 years

The useful lives of intangible assets are re-assessed at the end of each financial year.

### 1.8 Inventories

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

### 1.9 Leasing

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

### 1.10 Retirement benefit costs

The merSETA participates in the Engineering and Related Services Staff Pension Fund, a multi-employer defined benefit fund that provides pensions linked to salaries. It is funded on a pay-as-you-go basis, contributions being set at a level that is expected to cover the benefits falling due in the same period. Future benefits earned during the current period will be paid out of future contributions.

The merSETA recognises the benefit plan as if it were a defined contribution plan. This is due to the fact that the fund does not hold separate assets and liabilities for the various participating employers and is valued globally.

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

### 1.11 Provisions

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

#### Provision for employee related entitlements

The cost of other employee benefits (not recognised as retirement benefits - see note 1.10 above) are recognised during the period in which the employee renders the related service. Employee entitlements are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the reporting date. Provisions included in the statement of financial position are provisions for Workman's Compensation.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### I.12 Financial instruments

#### Recognition

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

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

#### Measurement

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

#### Financial assets

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

#### Other receivables from exchange transactions

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

#### Loans

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

#### Held-to-maturity financial assets

These are non-derivative financial assets that have a fixed maturity date, where the merSETA has the positive intention and ability to hold to maturity. These are initially measured at fair value plus transaction costs. Subsequently these are carried at amortised cost using the effective interest rate method less any impairment losses. Interest income from these is recognised in the statement of financial performance using the effective interest method.

#### Available-for-sale financial assets

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

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

### Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

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

### Financial liabilities

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

### Derecognition

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

### Fair value considerations

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

### Offsetting

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

## I.13 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset or group of assets is available for immediate sale in its present condition subject only to terms that are usual and customary.

On initial classification as held for sale, non-current assets (other than financial assets and inventory) are measured in accordance with IFRS 5 at the lower of the carrying amount and fair value less costs to sell. Any differences are taken to the statement of financial performance.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### I.14 Net assets

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

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

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

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

	2008/09 %	2007/08 %
Administration costs of the merSETA	10	10
Mandatory Workplace Skills Planning Grant	50	50
Discretionary grants and projects	20	20
	<u>80</u>	<u>80</u>

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

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

The amount retained in the administration reserve equates to the net book value of property, equipment and intangible assets. Excess cash reserves are transferred to the discretionary reserve.

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

### I.15 Contingencies

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. We have on the 5 June 2009 submitted an application to the Department of Labour for retention of surplus funds. As in the previous year, the merSETA expects that National Treasury will approve the retention of surplus funds.

### I.16 Related Party transactions

Transactions are disclosed as other related party transactions where the seta has in the normal course of its operations, entered into certain transactions with entities either related to the Department of Labour (DoL) or which had a nominated representative serving on the Seta accounting authority.

Transactions are disclosed as other related party transactions where Intersetra transactions arise due to the movement of employers from one Seta to another.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 1.17 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The note affected by prior year adjustments in the current year is note 35.

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

	Total per Statement of Financial Performance R'000	Administration reserve R'000	Employer grants reserve			Discretionary reserve			
			Mandatory skills planning grant R'000	Mandatory skills implementation grant R'000	Total R'000	Discretionary grants R'000	Projects R'000	Government grants R'000	Total discretionary R'000
<b>Year ended 31 March 2009</b>									
<b>Total revenue</b>	<b>817 202</b>	<b>86 912</b>	<b>435 699</b>	<b>-</b>	<b>435 699</b>	<b>197 499</b>	<b>96 874</b>	<b>218</b>	<b>294 591</b>
Skills development levy: income									
Admin levy income (10%)	86 912	86 912	-	-	-	-	-	-	-
Grant levy income (70%)	610 089	-	435 699	-	435 699	77 516	96 874	-	174 390
Skills development levy: penalties and interest	5 034	-	-	-	-	5 034	-	-	5 034
Government grant income	218	-	-	-	-	-	-	218	218
Investment income	114 760	-	-	-	-	114 760	-	-	114 760
Other income	189	-	-	-	-	189	-	-	189
<b>Total expenses</b>	<b>656 610</b>	<b>83 716</b>	<b>303 908</b>	<b>-</b>	<b>303 908</b>	<b>171 894</b>	<b>96 874</b>	<b>218</b>	<b>268 986</b>
Employer grants and project expenses	572 676	-	303 908	-	303 908	171 894	96 874	-	268 768
Administration expenses	83 716	83 716	-	-	-	-	-	-	-
Government grant expense	218	-	-	-	-	-	-	218	218
Finance cost	-	-	-	-	-	-	-	-	-
Net surplus per the statement of financial performance allocated	160 592	3 196	131 791	-	131 791	25 605	-	-	25 605
<b>Year ended 31 March 2008</b>									
<b>Total revenue</b>	<b>704 386</b>	<b>78 418</b>	<b>391 177</b>	<b>(441)</b>	<b>390 736</b>	<b>206 951</b>	<b>28 235</b>	<b>46</b>	<b>235 232</b>
Skills development levy: income									
Admin levy income (10%)	78 194	78 194	-	-	-	-	-	-	-
Grant levy income (70%)	547 133	-	391 177	(441)	390 736	128 162	28 235	-	156 397
Skills development levy: penalties and interest	4 925	-	-	-	-	4 925	-	-	4 925
Government grant income	46	-	-	-	-	-	-	46	46
Investment income	73 697	-	-	-	-	73 697	-	-	73 697
Other income	391	224	-	-	-	167	-	-	167
<b>Total expenses</b>	<b>416 230</b>	<b>76 608</b>	<b>242 040</b>	<b>187</b>	<b>242 227</b>	<b>69 114</b>	<b>28 235</b>	<b>46</b>	<b>97 395</b>
Employer grants and project expenses	339 576	-	242 040	187	242 227	69 114	28 235	-	97 349
Administration expenses	76 582	76 582	-	-	-	-	-	-	-
Government grant expense	46	-	-	-	-	-	-	46	46
Finance cost	26	26	-	-	-	-	-	-	-
Net surplus per the statement of financial performance allocated	288 156	1 810	149 137	(628)	148 509	137 837	-	-	137 837

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 3. SKILLS DEVELOPMENT LEVY INCOME

Notes	2008/09 R'000	2007/08 R'000
The total levy income per the statement of financial performance is as follows:		
<b>Levy income: Administration</b>	<b>86 912</b>	<b>78 194</b>
Levies received from SARS	88 176	77 988
InterSETA transfers in	265	1 582
InterSeta transfers out	( 33)	(1 539)
Provision for refund SARS	(1 496)	163
<b>Levy income: Employer Grants</b>	<b>435 699</b>	<b>390 736</b>
Levies received from SARS	442 026	390 017
InterSETA transfers in	1 323	8 249
InterSETA transfers out	( 171)	(8 345)
Provision for refund SARS	(7 479)	815
<b>Levy income: Discretionary Grants</b>	<b>174 390</b>	<b>156 397</b>
Levies received from SARS	176 919	155 687
InterSETA transfers in	524	2 814
InterSETA transfers out	( 61)	(2 430)
Provision for refund SARS	(2 992)	326
	<b>697 001</b>	<b>625 327</b>

### 4. SKILLS DEVELOPMENT LEVY: PENALTIES AND INTEREST

Penalties	3 112	2 671
Interest	1 922	2 254
	<b>5 034</b>	<b>4 925</b>

### 5. GOVERNMENT GRANTS

<b>National Skills Fund grant</b>		
<b>Opening balance</b>	<b>218</b>	<b>-</b>
Received during the year for SME provider capacity building	-	264
Utilised and recognised as revenue - conditions met	(218)	(46)
<b>Closing balance</b>	<b>21</b>	<b>218</b>

### 6. INVESTMENT INCOME

Interest income from short term deposits, bank and call accounts	114 734	73 509
Fair value adjustments	26	188
	<b>114 760</b>	<b>73 697</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

	Note	2008/09 R'000	2007/08 R'000
<b>7. OTHER INCOME</b>			
Surplus arising from fair value adjustments to property and equipment		-	224
Trade test fees received		189	167
		<b>189</b>	<b>391</b>
<b>8. EMPLOYER GRANT AND PROJECT EXPENSES</b>			
Mandatory grants		303 908	242 227
Disbursed		294 179	231 270
Movement in provisions and accruals		9 729	10 957
Discretionary grants	26.1.2	171 894	69 114
Disbursed		290 999	67 198
Amount prepaid		(122 470)	-
Movement in provisions and accruals		3 365	1 916
Project expenditure	8.1, 26.1.1	96 874	28 235
Disbursed		99 530	44 464
Movement in provisions and accruals		(2 656)	(16 229)
		<b>572 676</b>	<b>339 576</b>
<b>8.1 Project expenditure consists of:</b>			
Direct project costs		89 678	21 296
Project administration costs	9	7 196	6 939
	8	<b>96 874</b>	<b>28 235</b>
<b>9. ADMINISTRATION EXPENSES</b>			
Advertising, marketing and promotions, communication		3 492	5 558
Amortisation - intangible assets	20	937	402
Audit costs - Internal audit		725	1 682
Audit costs - External audit		568	603
Bank charges		229	181
Board costs		647	289
Remuneration to members of the audit committee		203	123
Capacity building of board members		230	-
Board assessment cost		105	-
Secretarial services		109	166
Cleaning and groceries		177	156
Depreciation	19	2 789	1 869
Prior to re-assessment of useful lives/ residual values		2 822	2 789
Depreciation due to re-assessment of useful lives/ residual values		(33)	(920)



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 March 2009

	Note	2008/09 R'000	2007/08 R'000
Employment Costs		52 513	42 367
Recruitment costs		702	950
Salaries, wages and benefits	9.1	50 363	39 935
Staff training, development and welfare		1 448	1 482
Entertainment expenses		7	10
Fair value adjustments to property and equipment		7	-
Gifts, donations and sponsorships paid		47	211
Impairment of property and equipment		18	-
Impairment of intangible assets			-
Insurance and license fees		899	429
Legal fees		270	206
Loss on disposal of property and equipment		147	90
Operating lease rentals		7 517	6 285
Buildings		6 785	5 648
Equipment		1	-
Parking		731	637
Printing stationery and postages		2 031	2 391
Rates, water and electricity		1 077	1 020
Removal costs		24	211
Repairs, maintenance and running costs		1 516	4 276
Buildings		361	2 497
Property and equipment		1 155	1 779
Service provider administration fees		2 371	2 227
Special functions		1 006	1 095
Storage		128	245
Telecommunication expenses		4 245	3 624
Travel, subsistence and meeting expenses		7 884	8 094
		91 271	83 521
Less: amounts allocated for discretionary expenditure		( 359)	-
Less: amounts allocated to project expenditure		(7 196)	(6 939)
		<b>83 716</b>	<b>76 582</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

	Note	2008/09 R'000	2007/08 R'000
9.1			
<b>Salaries and wages</b>		<b>45 074</b>	<b>35 161</b>
Basic salaries		36 353	29 036
Performance awards		3 660	2 710
Other non-pensionable allowance		3 716	1 908
Temporary staff		311	236
Leave payments		1 034	1 271
<b>Social contributions</b>		<b>5 289</b>	<b>4 774</b>
Medical aid contributions		1 528	1 218
Pension contributions: defined benefit plans		3 518	2 885
UIF		257	209
Workman's compensation		10	106
Other salary related costs		(24)	356
		<u>50 363</u>	<u>39 935</u>
<b>Allocation of cost of employment</b>			
Administration expenses		46 481	36 952
Project expenses		3 882	2 983
	<b>9</b>	<u><b>50 363</b></u>	<u><b>39 935</b></u>
Average number of employees		<u>197</u>	<u>165</u>

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

### 9.2 Retirement benefit costs

The merSETA participates in the Engineering and Related Services Pension Fund. It is a defined benefit fund and is administered by independent fund managers. All employees are required to join this pension fund. The merSETA recognises the pension plan as a defined contribution plan, as it is a multi-employer plan and all assets and liabilities for the various participating employers are held globally.

- The fund was last actuarially valued in 2006 in terms of the fund rules.
- At that date the fund was financially sound and had a surplus of R5 040 375.
- The actuarial valuation shows that there were no unfunded past service liabilities.
- Contribution rates have remained consistent since the merSETA joined the fund nine years ago.
- The expense recognised in the income statement, equal to the contributions due for the year amounts to R 3 518 000 (2007/8: R 2 885 000) as disclosed in note 9.1 to the financial statements

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

	Note	2008/09 R'000	2007/08 R'000
<b>10. FINANCE COST</b>			
Interest paid		-	26

Interest paid on a temporary bank overdraft.

Note	31 March 2009	31 March 2008
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## 11. PREPAYMENTS AND ADVANCES

Staff advances		73	50
Prepayments - insurance		1 385	87
Discretionary grant prepayments	11.1	122 470	1 400
<b>Closing balance</b>		<b>123 928</b>	<b>1 537</b>

### 11.1 Discretionary grants prepayment arising from non-exchange transactions

Discretionary grants prepayments to the value of R122 470 000 have been accounted for as prepayments/advance due to the specific terms detailed in the Memorandum of Agreements entered into with qualifying employers as outlined in section 1 b) of the Accounting Authority report.

Discretionary grants disbursed		290 694	67 198
Expensed and in accruals		(167 746)	(65 798)
Discretionary grants recoverable		122 948	1 400
Provision for impairment		( 478)	-
<b>Net discretionary grants prepayments</b>	<b>11</b>	<b>122 470</b>	<b>1 400</b>

## 12. RECEIVABLES FROM NON-EXCHANGE TRANSFERS

Employer receivable		1 755	-
InterSETA receivable	28.1	695	1 006
		<b>2 450</b>	<b>1 006</b>

### 12.1 Employer receivable

Employer receivable			
Overpayment to employers		4 523	7 061
Allowance for doubtful debts		(2 768)	(7 061)
<b>Net effect of SARS retrospective adjustments on affected employers</b>		<b>1 755</b>	<b>-</b>

The employer receivable of R 4 523 000 (March 2008: R7 061 000) recognised is due to SARS effecting retrospective adjustments to levies on which mandatory grants have already been paid. An amount of R2 768 000 was provided against such employer receivables. Refer also to policy note 1.3.1.

## 13. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Deposits		318	222
Interest receivable		19 527	8 067
Sundry receivables		165	91
		<b>20 010</b>	<b>8 380</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

	31 March 2009 R'000	31 March 2008 R'000
<b>14. INVENTORIES</b>		
Consumables stock	205	75

### 15. HELD-TO-MATURITY FINANCIAL ASSETS

Short term investments/instruments	-	240 000
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During the year, the merSETA withdrew some assets comprising of fixed deposits, classified as held-to-maturity financial assets before their maturity dates. The merSETA therefore reclassified the whole category of assets as available-for-sale and remeasured them at fair value in terms of IAS 39. There was no adjustment due to this change.

As the reclassification took place during the year, and did not on assets held at the previous financial position date, the comparative figures were not restated:

The net effect of the change is:

Held-to-maturity financial assets as at 31 March 2008	240 000
Held-to-maturity financial assets held till maturity dates	(240 000)
	-
Balance of available-for-sale financial assets at 31 March 2008	-
New financial assets acquired during the year classified as available for sale.	925 020
<b>Balance of available-for-sale financial assets at 31 March 2009</b>	<b>925 020</b>

### 16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Short term investments/instruments	925 020	-
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The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in Treasury Regulation 31.2. The weighted average interest rate on short term bank deposits was 11.57% (2007/8: 9.49%).

### 17. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	157	1 985
Cash at bank	130	1 959
Cash on hand	27	26
Short term investments/instruments	5 996	630 915
<b>Cash and cash equivalents at end of year</b>	<b>6 153</b>	<b>632 900</b>

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in Treasury Regulation 31.2. The weighted average interest rate on short term bank deposits was 11.74% (2007/8: 9.84%).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

	31 March 2009 R'000	31 March 2008 R'000
<b>18. ASSETS HELD FOR SALE</b>		
Vehicles - cost	379	4 310
less: fair value adjustments	( 7)	-
Accumulated depreciation	( 230)	(1 792)
<b>Carrying value at end of year</b>	<b>142</b>	<b>2 518</b>

In 2007 the Board resolved to cease the company car scheme and replace all recipients with car allowances. These company vehicles were first offered to the existing drivers, then all staff members and then sold by means of an competitive bids. The was negotiated and accepted by the union. The sale of the last vehicle was concluded on 3 April 2009.

## 19. PROPERTY AND EQUIPMENT

	Cost R'000	Accumulated depreciation R'000	Closing carrying amount R'000
<b>Year ended 31 March 2009</b>			
Computer equipment	6 352	(3 521)	2 831
Office furniture and fittings	5 061	(1 996)	3 065
Office equipment	2 964	(1 483)	1 481
Motor vehicles	2 902	(1 645)	1 257
Other assets	486	( 39)	447
	17 765	(8 684)	9 081
Less vehicles held for sale	( 372)	230	( 142)
<b>Balance at end of year</b>	<b>17 393</b>	<b>(8 454)</b>	<b>8 939</b>
<b>Year ended 31 March 2008</b>			
Computer equipment	4 386	(2 581)	1 805
Office furniture and fittings	4 171	(1 607)	2 564
Office equipment	2 815	(1 032)	1 783
Motor vehicles	5 419	(2 214)	3 205
	16 791	(7 434)	9 357
Less vehicles held for sale	(4 310)	1 792	(2 518)
<b>Balance at end of year</b>	<b>12 481</b>	<b>(5 642)</b>	<b>6 839</b>

Improvements on leased buildings amounting to R486 000 have been capitalised and are depreciated over the remaining lease period. No assets have been pledged as security or collateral for any liability.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 March 2009

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

#### Movement summary 2008/09

Computer equipment	1 805	-	2 188	-	(223)	(1 137)	198	2 831
Office furniture and fittings	2 564	-	944	(18)	(54)	(407)	36	3 065
Office equipment	1 783	-	214	-	(64)	(491)	39	1 481
Motor vehicles	3 205	(7)	-	-	(2 511)	(715)	1 285	1 257
Other assets	-	-	486	-	-	(39)	-	447
<b>Balance at end of year</b>	<b>9 357</b>	<b>(7)</b>	<b>3 832</b>	<b>(18)</b>	<b>(2 852)</b>	<b>(2 789)</b>	<b>1 558</b>	<b>9 081</b>

#### Movement summary 2007/08

Computer equipment	1 864	39	932	-	(279)	(935)	184	1 805
Office furniture and fittings	2 182	179	721	-	(176)	(437)	95	2 564
Office equipment	1 451	11	782	-	(57)	(440)	36	1 783
Motor vehicles	3 348	-	-	-	(255)	(57)	169	3 205
<b>Balance at end of year</b>	<b>8 845</b>	<b>229</b>	<b>2 435</b>	<b>-</b>	<b>(767)</b>	<b>(1 869)</b>	<b>484</b>	<b>9 357</b>

## 20. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	Cost R'000	Accumulated depreciation/ amortisation R'000	Closing carrying amount R'000
<b>Year ended 31 March 2009</b>			
Intangible assets	2 860	(1 606)	1 254
<b>Year ended 31 March 2008</b>			
Intangible assets	1 008	(669)	339

	Opening carrying amount R'000	Additions R'000	Impairment cost R'000	Depreciation/ Amortisation charge R'000	Carrying amount R'000
<b>Movement summary 2008/09</b>					
Intangible assets	339	1 852	-	(937)	1 254
<b>Movement summary 2007/08</b>					
Intangible assets	257	484	-	(402)	339

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

	Note	31 March 2009 R'000	31 March 2008 R'000
<b>21. GRANTS AND TRANSFERS PAYABLE</b>			
Grants payable	21.1	60 581	42 082
InterSETA payables	28.1	235	1 654
Levies received in advance		-	-
Donor income received in advance	5	-	218
Provision for SARS refund	21.2	21 896	9 929
		<b>82 712</b>	<b>53 883</b>

<b>21.1 Grants payable</b>			
Opening carrying amount		42 082	29 209
Amounts utilised		(294 179)	(306 852)
Additional provision/accrual made during the period		312 678	319 725
<b>Closing carrying amount</b>		<b>60 581</b>	<b>42 082</b>

The grant provision is based on grant applications currently in process that have been submitted by the due date, being 30 June 2008. Provision is only made where the status of grant applications indicated that there was a good likelihood that these grants would still be paid.

<b>21.2 SARS payable</b>			
Opening carrying amount		9 929	11 233
Net effect of SARS adjustments for the current year		(2 257)	(2 226)
Estimated adjustments included in levies received		14 224	922
<b>Closing carrying amount</b>		<b>21 896</b>	<b>9 929</b>

Companies with annual payrolls below R500 000 are exempted from paying skills development levies.

An amount of R21 896 000 (2007/08: R9 929 000) has been provided in the current year for possible refunds to companies falling below the SDL threshold but still contributing levies. The effective date of the exemption was 1 August 2005.

## 22. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Project payables		9 815	2 617
Sundry payables		7 036	9 089
Accruals operating expenditure		921	3 878
Accruals salaries and wages	22.1	5 981	4 786
Other payables		134	425
		<b>16 851</b>	<b>11 706</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 221 Restatement of prior year provisions

During the year the merSETA reclassified certain amounts previously shown as provisions to be accruals in line with IAS 37.

The effect on prior year figures is as shown below:

	31 March 2008 R'000
Accruals salaries and wages	
As previously disclosed	2 855
Adjusted for leave pay accruals	1 474
Adjusted for bonus accruals	457
Restated	<u>4 786</u>

### 23. PROVISIONS

	Workman's Compensation provision R'000	31 March 2009 R'000	Restated 31 March 2008 R'000
Opening carrying amount	139	139	85
Amounts utilised	( 60)	( 60)	( 53)
Additional provision during the period	1	1	107
<b>Closing carrying amount</b>	<b>80</b>	<b>80</b>	<b>139</b>

#### Restatement of prior year provisions

During the year the merSETA reclassified certain amounts previously shown as provisions to be accruals in line with IAS 37.

The error had no effect on the profits or reserves of the merSETA and therefore the effect on prior year comparatives is shown.

The effect on prior year figures

Provisions

	As previously disclosed 31 March 2008	Reclassification Leave accrual	Reclassification Bonus accrual	Restated 31 March 2008
Opening carrying amount	1 180	( 805)	( 290)	85
Amounts utilised	(1 944)	602	1 289	( 53)
Additional provision during the period	2 834	(1 271)	(1 456)	107
<b>Closing carrying amount</b>	<b>2 070</b>	<b>(1 474)</b>	<b>( 457)</b>	<b>139</b>

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

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

	Note	2008/09 R'000	2007/08 R'000
<b>Net surplus as per the statement of financial performance</b>		<b>160 592</b>	<b>288 156</b>
Adjusted for non-cash items:			
Depreciation property and equipment	9, 18	2 789	1 869
Amortisation of intangible assets	9, 19	937	402
Fair value adjustments to plant and equipment	9	7	
Impairment of property plant and equipment	9, 19	18	90
Loss on disposal of property and equipment	9	147	
Fair value adjustments - loan		-	(8)
Transfers out/ fair value adjustments to property and equipment	18	-	(229)
Movements in provisions		(59)	(1 041)
Adjusted for items separately disclosed			
Investment income		(103 274)	(70 653)
Interest paid		-	26
Adjusted for working capital changes:			
(Increase)/ decrease in prepayments and advances		(122 391)	4 952
(Increase)/decrease in receivables from non-exchange transfers		(1 444)	2561
(Increase) in other receivables from exchange transactions		(11 630)	(3 175)
(Increase) in inventories		(130)	(75)
Decrease in grants and transfers payable		28 829	1 924
Increase/(decrease) in trade and other payables from exchange transactions		5 145	(12 801)
<b>Cash generated by operations</b>		<b>(40 464)</b>	<b>211 998</b>

### 25. CONTINGENCIES

#### 25.1 Surplus funds

In terms of the PFMA, all surplus funds as at year-end may be forfeited to National Treasury. After year end application is made to National Treasury to retain surplus funds for the current financial year. Approval has been obtained from National Treasury for the merSETA to retain surplus funds for the 2007/8 financial year.

### 26. COMMITMENTS

#### 26.1 Discretionary reserve

Of the balance of R974 373 000 available in the discretionary reserve on 31 March 2009 an amount of R684 463 000 has been approved for future project expenses and discretionary grants as set out below. Amounts for expenses that have already been incurred, and therefore included in project and discretionary grant expense in the statement of financial performance, are also indicated.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 March 2009

### 26.1 Projects

Project name	NSDS indicator	2007/08			2007/08			2008/09			2008/09		
		Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Utilised 2007/08 R'000	Opening balance 2008/09 R'000	Adjustments/ non contractual payments 2008/09 R'000	Approved by Accounting Authority and contracted 2008/09 R'000	Utilised 2008/09 R'000	Closing balance R'000			
SSP Review	1.1	-	-	950	(359)	591	1 988	(1 719)	860				
SME Voucher Project	2.2	-	-	24 100	(1 762)	22 338	7 673	(16 008)	14 003				
ABET Project Phase 3	2.7	-	-	515	(99)	416	47 549	(10 650)	37 315				
Courseware & Curriculum Development	2.8	2 520	(2 242)	-	(278)	-	5 450	(2 686)	2 764				
MAP SGB	2.8	-	-	1 179	(757)	422	546	(854)	114				
RPL Pilot Project	2.8	-	-	1 125	(48)	1 077	254	(821)	510				
Vehicle Maintenance SGB	2.8	-	-	802	(522)	280	939	(874)	345				
Accelerated Artisan Training Programme Phase 2	4.1	-	-	9 752	-	9 752	60 752	(32 569)	37 935				
Maths and Science Student Project	4.1	-	-	2 500	-	2 500	4 094	(644)	5 950				
New Venture Creation	5.2	-	-	6 000	-	6 000	5 151	(864)	10 287				
NSF SME Project		-	-	-	-	-	46	(264)	-				
Air-conditioning and Refrigeration SGB	2.8	92	(46)	240	(46)	240	-	(148)	-				
Aircon Learnerships		-	-	-	-	-	4 593	(1 531)	3 062				
Engineering SGB		-	-	-	-	-	388	(388)	-				
PRO STEP - Sigma	4.1	151 363	(151 363)	-	-	-	-	-	-				
Assessor and Moderator Training	1.2	481	-	1 243	(383)	1 341	-	-	-				
Skills Requirements Projects	1.2	-	-	9	(9)	-	-	-	-				
SMME Implementation SDFs	1.2	1 520	(1 520)	-	-	-	-	-	-				
SMME Implementation	2.2	6 362	(6 618)	-	256	-	-	-	-				
ABET Project Phase 1	2.7	4 132	(4 132)	-	-	-	-	-	-				
ABET Project Phase 2	2.7	14 428	(11 561)	-	(2 867)	-	-	-	-				
Annual Report Project	2.8	-	379	-	(379)	-	-	-	-				
Plastic manufacturing SGB	2.8	-	-	36	(36)	-	7	(7)	-				
Welding SGB	2.8	-	-	205	(5)	200	-	(179)	(21)				

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 March 2009**

Accelerated Artisan Training Programme Phase I	4.1	-	-	15 895	(7 154)	8 741	(8 741)	-	-	-
Bursaries	4.1	-	-	11 000	(7 254)	3 746	-	10 867	(14 613)	-
Damelin	4.1	420	(420)	-	-	-	-	-	-	-
ESDLE Project	4.1	1 828	(484)	-	(1 344)	-	-	-	-	-
General motors - unemployed learners	4.1	3 182	(3 182)	-	-	-	-	-	-	-
National Setters	4.1	1 945	(1 282)	-	(663)	-	-	-	-	-
Unemployed youth learners	4.1	-	-	-	-	-	-	-	-	-
VWSA	4.1	1 710	(1 710)	-	-	-	-	-	-	-
Labour & Stakeholder Capacity Building Project	5.4	-	-	260	(260)	-	-	1 326	(1 326)	-
Interchamber Capacity Building	N/A	-	-	-	-	-	-	286	(286)	-
Investors in People	NSDSI	49	-	-	(49)	-	-	-	-	-
Capacity Building FETs	5.2	-	-	-	-	-	-	6	(6)	-
Member Satisfaction	N/A	-	-	-	-	-	-	180	(180)	-
Annual Conference	N/A	-	-	-	-	-	-	3 267	(3 077)	190
SETA Re-establishment	N/A	-	-	-	-	-	-	375	(276)	99
Non levy payers	3.2	-	-	-	-	-	-	-	-	-
ISOEs	5.1	-	-	-	-	-	-	1 377	-	1 377
BEE Support	2.5	-	-	-	-	-	-	-	-	-
GMET SGB	2.8	-	-	21	(21)	-	-	75	(75)	-
Project administration expenditure	N/A	-	-	4 195	(4 195)	-	-	6 987	(6 987)	-
		<b>190 032</b>	<b>(184 181)</b>	<b>80 027</b>	<b>(28 234)</b>	<b>57 644</b>	<b>(10 307)</b>	<b>164 348</b>	<b>(96 874)</b>	<b>114 811</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

## 2612 Discretionary Grants

Discretionary grant name	NSDS indicator	2007/08		2007/08		2007/08		2008/09		2008/09		Closing balance R'000
		Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Utilised 2007/08 R'000	Opening balance R'000	Adjustments/ non contractual payments R'000	Approved by Accounting Authority and contracted R'000	Utilised 2008/09 R'000			
Employed learners	2.8	11 837	-	104 350	(8 086)	108 101	-	40 373	(32 781)	115 693		
Unemployed learners	2.8	49 340	-	87 778	(26 252)	110 866	-	41 040	(51 637)	100 269		
Apprenticeships	4.1	25 852	-	90 578	(27 348)	89 082	-	175 393	(47 655)	216 820		
Non primary focus learners	2.8	14 486	-	-	(456)	14 030	-	7 545	(21)	21 554		
Skills programmes	2.8	10 224	-	3 888	(1 112)	13 000	-	96 268	(48 643)	60 625		
Skills priorities	2.7	971	-	874	(1 845)	-	-	-	-	-		
Exponential training	4.2	19 687	-	4 461	(3 315)	20 833	-	47 664	(30 242)	38 255		
ABET	2.7	-	-	-	-	-	-	38 620	(27 834)	10 786		
Sector Specialists	1.2	-	-	-	-	-	-	30 917	(25 267)	5 650		
Internships	2.8	-	-	-	-	-	-	25 267	(25 267)	-		
Trade test fees and other	2.8	-	-	700	(700)	-	-	1 652	(1 652)	-		
		132 397	-	292 629	(69 114)	355 912	-	504 739	(290 999)	569 652		
<b>Total Projects and discretionary grants</b>		<b>322 429</b>	<b>(184 181)</b>	<b>372 656</b>	<b>(97 348)</b>	<b>413 556</b>	<b>(10 307)</b>	<b>669 087</b>	<b>(387 873)</b>	<b>684 463</b>		

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 262 Operating Leases

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

	31 March 2009 R'000	31 March 2008 R'000
Not later than one year	632	5 105
Later than one year and not later than five years	-	4 586
	<b>632</b>	<b>9 691</b>

The operating leases relate to premises utilised for office accommodation. The lease agreements were entered into on various dates and will be operational for varying periods, the last expiring on 31/03/2010. For the purposes of calculating the lease commitments, options to renew the leases on expiry have been ignored. The rental escalation percentage varies from lease to lease, the average being about 9%.

## 27. FINANCIAL INSTRUMENTS

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### Interest rate risk

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

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

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

#### Year ended 31 March 2009

Cash and cash equivalents	157	6	5 996	11.7	.25			6 153
Available-to-sale financial assets			925 020	11.6	0.33			925 020
Other receivables from exchange transactions						20 010	0.3	20 010
<b>Total financial assets</b>	<b>157</b>		<b>931 016</b>			<b>20 010</b>	<b>0.3</b>	<b>951 183</b>
<u>Liabilities</u>								
Trade and other payables from exchange transactions						16 851	0.3	16 851
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16 851</b>	<b>0.3</b>	<b>16 851</b>
<b>Net financial assets</b>	<b>157</b>		<b>931 016</b>			<b>3 159</b>		<b>934 332</b>

#### Year ended 31 March 2008

<u>Assets</u>								
Cash and cash equivalents	1 985	6.0	630 915	9.8	.25			632 900
Held-to-maturity financial assets			240 000	11.2	0.33			240 000
Other receivables from exchange transactions	-	-	-			8 380	.3	8 380
<b>Total financial assets</b>	<b>1 985</b>	<b>6.0</b>	<b>870 915</b>			<b>8 380</b>	<b>.3</b>	<b>881 280</b>
<u>Liabilities</u>								
Trade and other payables from exchange transactions						9 775	.2	9 775
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 775</b>	<b>.2</b>	<b>9 775</b>
<b>Net financial assets</b>	<b>1 985</b>		<b>870 915</b>			<b>(1 395)</b>		<b>871 505</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 27. FINANCIAL INSTRUMENTS (continued)

#### Credit risk

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

The ageing of receivables from non exchange transfers: -

	31 March 2009		31 March 2008	
	Gross	Impairment	Gross	Impairment
Not past due	2 232	( 477)	47	( 47)
Past due 0 - 30 days	95	( 95)	47	( 47)
Past due 31 - 120 days	200	( 200)	1 684	(1 684)
Past due 121 - less than 1 year	1 996	(1 996)	5 283	(5 283)
<b>Total</b>	<b>4 523</b>	<b>(2 768)</b>	<b>7 061</b>	<b>(7 061)</b>

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

Credit risk with respect to levy payments by employers is limited due to the nature of the income received. The merSETA is exposed to credit risk in regard to payments made in advance on discretionary grants whereby not all the conditions have been met. The merSETA has entered into agreements with qualifying employers in regard to these grants whereby some payments are recoverable until training has been implemented. The merSETA does not have any material exposure to any individual or counter-party. The merSETAs concentration of credit risk is limited to the manufacturing, engineering and related services industry in which the merSETA operates. No events occurred in the manufacturing, engineering and related services industry during the financial year that may have an impact on the accounts receivable that has not been adequately provided for. Accounts receivable are presented net of an allowance for doubtful debts.

#### Liquidity risk

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

#### 31 March 2009

	Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade and other payables from exchange transactions	16 851	16 851	16 851	-	-	-

#### 31 March 2008

	Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
Trade and other payables from exchange transactions	9 775	9 775	9 775	-	-	-

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### Market risk

The merSETA is exposed to fluctuations in the employment market. For example sudden increases in unemployment and changes in the wage rates. No significant events occurred during the year that the merSETA is aware of.

### Fair values

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

### Cash and cash equivalents and held-to-maturity financial assets

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

### Other receivables from exchange transactions

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 28. RELATED PARTY TRANSACTIONS

#### 28.1 Transactions with other SETAs

Interest transactions and balances arise due to the movement of employers from one SETA to another. No other transactions occurred during the year with other SETAs.

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

Note	2008/09 R'000		2007/08 R'000	
	Net transfers in/(out) during the year	Amount receivable/ (payable)	Transfers in/ (out) during the year	Amount receivable/ (payable)
	<b>3 163</b>	<b>695</b>	<b>788</b>	<b>1 006</b>
<b>Receivables</b>				
12				
AGRISETA	42	-	-	-
CETA	-	74	-	-
CTFL	-	-	14	-
EDTP SETA	-	-	-	-
ESETA	-	21	-	-
FASSET	-	-	(84)	110
CHIETA	991	102	-	-
FIETA	449	29	(247)	145
FOODBEV	-	-	-	-
HW SETA	-	2	31	2
INSETA	-	14	-	-
MAPPP	37	11	-	-
MQA	79	-	25	86
SASSETA	-	-	9	-
SERVICES	1 565	-	1 040	659
TETA	-	-	-	-
THETA	-	-	-	4
W&R SETA	-	441	-	-
<b>Payables</b>				
21				
AGRISETA	(1 316)	(235)	(457)	(1 654)
AGRISETA	-	-	(30)	(36)
CETA	(13)	(131)	465	(7)
CHIETA	-	-	(262)	(1 313)
ESETA	(569)	-	(25)	(11)
INSETA	-	-	(507)	-
ISETT	(125)	-	54	-
MAPPP	-	-	(31)	(26)
TETA	-	-	(306)	(34)
THETA	-	(14)	-	-
W&R SETA	(558)	(57)	185	(227)
HW SETA	-	-	-	-
CTFL	(35)	(17)	-	-
FOODBEV	(16)	(16)	-	-
<b>Total</b>	<b>1 847</b>	<b>460</b>	<b>331</b>	<b>(648)</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 28. RELATED PARTY TRANSACTIONS (continued)

Company	Board members	2008/09		2007/08	
		R'000		R'000	
		Net transfers in/(out) during the year	Amount receivable/ (payable)	Net transfers in/(out) during the year	Amount receivable/ (payable)
RMI	J Olivier, J Esterhuizen, B Farquhar, L Whiteley	( 28)	-	-	-
SEIFSA	J Lopes, G Harris Carson, W Nsele	( 19)	-	-	-
Plasfed	A Hanekom, M Bullock, D Rule, Z Xaba, D Hughes	( 64)	-	( 26)	-
NUMSA	X Tshayana, E Kubeka, B Khoza, G Lephallo, E Tshikwavhavha, P Verryne, V Mthethwa, M Mogopodi, T Tsiboli	( 54)	-	( 77)	-
MISA/SAMU	D De Villiers	( 4)	-	-	-
SOLIDARITY	J Pieterse, P Veldtman, B Swarts	( 13)	-	( 14)	-
CEPPWAWU	E Kodisang, N Nxumalo	( 17)	-	( 7)	-
UASA	P Bezuidenhout, W Greyling, T Kruger	( 7)	-	-	-
MEWUSA	R Kgagudi	( 2)	-	-	-
BMW SA	C Christian	(2 056)	-	1 578	-
Bridgestone Firestone SA	P Welgemoed	(2 647)	-	807	-
Cape Gate Pty Ltd	B Swarts	(1 550)	-	705	-
Continental Tyre SA	M Toyer	402	-	634	-
Daimler Chrysler SA	D Jekwa	(2 142)	-	1 506	-
Dunlop Tyres	J Wilson	-	-	383	-
International Goodyear SA	D Rayners	( 563)	-	460	-
Plasticolors PTY	D Rule	45	-	22	-
Precision Valve	M Netshandama	23	-	39	-
Toyota SA	U Badenhorst	(6 161)	-	4 270	-
Volkswagen of SA	L De Klerk	(16 599)	-	2 319	-
		<b>(31 456)</b>	<b>-</b>	<b>12 599</b>	<b>-</b>

The Chief Executive Officer was given free use of an exhibition vehicle for a period of 3 days by a merSETA member company, VW South Africa.

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

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 28.3 NATIONAL PUBLIC ENTITIES

Organisation name	Nature of transaction	2008/09 R'000		2007/08 R'000	
		Net transfers		Net transfers	
		in/(out) during the year	Amount receivable/ (payable)	in/(out) during the year	Amount receivable/ (payable)
Auditor General	Auditing work	( 663)	-	( 658)	( 106)
Assessment College of South Africa	Bursary payments	( 321)	-	-	-
Business Enterprises - University of Pretoria	Bursary payments	( 533)	-	( 35)	-
Cape Peninsula University of Technology	Bursary payments	-	-	( 320)	( 104)
Cape Technikon	Bursary payments	( 112)	-	-	-
Central University of Technology - Free State	Bursary payments	( 127)	-	( 73)	( 52)
Department of Labour (Transfers)	Trade test fees	( 111)	-	( 164)	( 11)
Durban Institute of Technology	Bursary payments	( 319)	-	( 193)	( 25)
East Cape Midland College	Bursary payments	( 4)	-	-	-
Eastern Cape Training Centre	Bursary payments	( 23)	-	( 29)	( 18)
EDSLE Mpumalanga	Discretionary grant	-	-	( 261)	-
Mangosuthu Technikon	Bursary payments	( 204)	-	( 10)	-
Nelson Mandela Metropolitan University	Bursary payments	( 547)	( 17)	(1 154)	-
NMMU - South ( Nelson Mandela)	Bursary payments	( 299)	-	-	-
NMMU - GAUTENG (NELSON MANDELA)	Bursary payments	( 5)	-	-	-
Northlink College	Bursary payments	( 63)	-	( 47)	-
Northwest University	Bursary payments	( 23)	-	( 54)	( 23)
Peninsula Technikon	Bursary payments	( 29)	-	-	-
Telkom	Telephone	(1 840)	-	-	-
Tshwane University of Technology	Bursary payments	( 678)	-	( 232)	-
Umsobomvu Youth Fund	Bursary payments	-	-	( 32)	-
University of Cape Town	Bursary payments	( 106)	-	( 61)	-
University of Jhb - Doornfontein	Bursary payments	-	-	( 183)	-
University of Jhb - Auckland Park Campus	Bursary payments	( 854)	( 687)	( 110)	-
University of Jhb - Conference centre	Bursary payments	( 49)	-	-	-
University of Kwazulu Natal - Westville	Bursary payments	-	-	( 20)	-
University of KZN	Bursary payments	( 563)	-	( 177)	( 46)
University of Pretoria	Bursary payments	(1 572)	-	(2 042)	( 366)
University of Stellenbosch	Bursary payments	( 245)	-	( 150)	( 89)
University Of Witwatersrand	Bursary payments	( 55)	-	( 50)	-
University Of Witwatersrand - Public & Development management	Bursary payments	-	-	( 36)	-
UNISA - University of South Africa	Bursary payments	(1 117)	-	(1 043)	-

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 28. RELATED PARTY TRANSACTIONS (continued)

Vaal University of Technology	Bursary payments	(1 057)	-	(326)	(141)
Varsity College - Sandton	Bursary payments	(12)	-	-	-
Varsity College - Eastern Cape	Bursary payments	(16)	-	(7)	-
Varsity College Gardens	Bursary payments	-	-	(50)	-
Walter Sisulu University (Border Campus)	Bursary payments	(13)	-	(159)	-
Weskus College Malmesbury #2	Bursary payments	-	-	-	-
West Coast College	Bursary payments	-	-	(257)	-
WITS Business School	Bursary payments	(29)	-	-	-
WITS PLUS Language School	Bursary payments	(75)	-	-	-
College Of Cape Town	Bursary payments	(7)	-	(3)	(3)
		<b>(11 671)</b>	<b>(704)</b>	<b>(7 936)</b>	<b>(984)</b>

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

### 29. GOING CONCERN

The merSETA was set up in terms of Skill Development Act No 97 of 1998 and its certificate expires on 31 March 2010. The process of re-establishment is governed by the Skills Development Act Regulations number 20442 dated September 1999. The merSETA as applied for a new certificate on 31 March 2009 in accordance with the regulations. The government has publicly voiced its support for continued skills development. The merSETA has consistently performed well in terms of skills development in accordance with its service level agreement. The sectors covered are critical to the economy. Learnerships and apprenticeships funded by the merSETA are central in developing skills in these sectors. The Accounting Authority believes that the merSETA will be granted a new certificate. Accordingly, the merSETA has drawn up and presented these financial statements on a going concern basis.

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

#### CRIMINAL CONDUCT

During the year, a merSETA employee was suspended due to alleged fraudulent activities and resigned before the hearing. No losses were incurred by merSETA as a result thereof.

In the prior year, one of the merSETA employees was dismissed during the year as a result of an investigation by the South African Police. No losses were incurred by merSETA as a result thereof.

A former employee misappropriated new computer equipment worth R17,000 in 2007/8. The matter was reported to the South African Police Services.

#### IRREGULAR EXPENDITURE

Management is not aware of any irregular expenditure during this year.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

During the 2007/08 financial year procurement of goods and services to the value of R222 741, as indicated below, were not motivated in writing justifying the reasons for deviation from the supply chain management at the point of making the decision as required by Treasury Regulation 16A.

In addition, procurement of goods from Dell Computers to the value of R354 545 was deemed to be irregular as a motivation to use a preferred supplier was not completed in writing at time of procuring these services. The Board had resolved to buy the goods from a preferred supplier:

<u>Supplier</u>	<u>Nature of transaction</u>	<u>2008/09</u> R'000	<u>2007/08</u> R'000
Internet Solutions	Information Technology	-	20
Webber Wentzel	Legal work	-	24
Birchwood Executive Hotel	Accommodation	-	30
Phaahlana Mahlako	Communications	-	38
Communications			
Heifa Safari Ranch	Accommodation	-	47
Spescom Datafusion	Information Technology	-	64
		-	223
Dell Computers	Information Technology	-	355
		-	<b>578</b>

### FRUITLESS AND WASTEFUL EXPENDITURE

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

### 31. TAXATION

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

### 32. EVENTS AFTER THE REPORTING DATE

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

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

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

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

#### Key sources of estimation uncertainty

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

#### Useful lives of property and equipment

The merSETA reviews the estimated useful lives of property and equipment at the end of each annual reporting period, refer to note 19 for the carrying values of property and equipment. The merSETA is currently established until 31 March 2010 and in terms of the Act read with Government Notice No. R.1082 of 7 September 1999 a SETA is required to apply to the Minister for a renewal of its certificate of establishment by 1 April 2009.

In the light of the requirement to apply for a renewal of a SETA's certificate of establishment, management was required to consider how it impacts the period over which assets are expected to be available for use by the SETA. Management determined, consistent with the prior year, that the useful life of assets should not be limited by the merSETA's establishment until 31 March 2010. Management's determination of useful life also impacts the determination of the residual value of assets.

The following useful lives are used in the calculation of depreciation

Computer equipment	3 to 6 years
Computer software	1 to 2 years
Office furniture and fittings	5 to 10 years
Office equipment	5 to 6 years
Motor vehicles	4 to 6 years

The merSETA has reviewed the residual values used for the purposes of depreciation calculations in light of the amended definition of residual value. Residual values of certain IT equipment and motor vehicles were adjusted. Residual values will be reviewed annually in the future.

#### Provision for under threshold levies received

Companies with annual payrolls below R500 000 are exempted from paying skills development levies. Each year, the merSETA estimates the value and makes provision for levies paid when the company should not have paid the levies as its annual payroll falls below the threshold.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### 34. NEW ACCOUNTING PRONOUNCEMENTS

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

		Effective date, commencing on or after
GRAP 5	Borrowing Costs	1-Apr-09
GRAP 6	Consolidated and Separate Financial Statements	1-Apr-09
GRAP 7	Investments in associates	1-Apr-09
GRAP 8	Interest in Joint Ventures	1-Apr-09
GRAP 9	Revenue from Exchange Transactions	1-Apr-09
GRAP 10	Financial Reporting in Hyperinflationary Economies	1-Apr-09
GRAP 11	Construction Contracts	1-Apr-09
GRAP 12	Inventories	1-Apr-09
GRAP 13	Leases	1-Apr-09
GRAP 14	Events after the reporting date	1-Apr-09
GRAP 16	Investments Properties	1-Apr-09
GRAP 17	Property Plant and Equipment	1-Apr-09
GRAP 18	Segmental Reporting	1-Apr-09
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets	1-Apr-09
GRAP 23	Revenue from Exchange Transactions (Taxes and transfers)	1-Apr-09
GRAP 24	Presentation of Budget Information in Financial Statements	1-Apr-09
GRAP 100	Non-current Assets held for Sale and Discontinued Operations	1-Apr-09
GRAP 101	Agriculture	1-Apr-09
GRAP 102	Intangible Assets	1-Apr-09

An entity shall apply Standards of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the PFMA. This date has not yet been published as at the date of this set of financial statements.

#### **GRAP 9**

GRAP 9 - Revenue from Exchange Transactions. The Standard provides additional South African public sector specific examples of revenue transactions however it does not significantly differ from IAS 29 (AC 111) - Revenue. It is not expected that this Standard will significantly impact future disclosure due to the limited nature and volume of exchange transactions for which a SETA is expected to account.

#### **GRAP 12**

GRAP 12 - Inventories. The Standard provides additional guidance on the recognition and the initial measurement of inventories including recognising inventories acquired at no cost, or for nominal consideration, at fair value as at the date of acquisition. It is not expected that this Standard will significantly impact future disclosure due to the limited nature and volume of inventory for which a SETA is expected to account.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### GRAP 13

GRAP 13 - Leases. The Standard clarifies that the leases standard should still be applied even where legislation may prohibit an entity from entering into certain types of lease agreements. It further adds an additional requirement to disclose the depreciation and finance charge relating to the leased asset under accounted for as a finance lease by the lessee.

### GRAP 14

GRAP 14 - Events after the reporting date. The standard provides guidance on events after the reporting date that impact on the financial statements and should be disclosed. It is similar to IFRS and is not expected to significantly impact disclosures on the financial statements

### GRAP 17

GRAP 17 - Property Plant and Equipment. On initial application the Standard requires that assets which were acquired at no cost, or for a nominal cost, is accounted for at its fair value as at the date of acquisition. This treatment is different to the current treatment which accounts for such assets at cost. We do not expect this to significantly impact the carrying value of assets.

### GRAP 19

GRAP 100 - Provisions, Contingent Liabilities and Contingent Assets. The Standard provides explains the recognition and measurement criteria for provisions. It is not expected that this Standard will significantly impact the financial statements.

### GRAP 23

GRAP 23 - Revenue from Non- exchange Transactions (Taxes and transfers). The Standard provides guidance on accounting and disclosure for non-exchange revenue and also provides South African public sector specific examples. It is not expected that this Standard will significantly impact the financial statements.

### GRAP 24

GRAP 24 - Presentation of Budget Information in Financial Statements. The Standard guidance on disclosure and presentation of budget information. the SETAs are currently exempted by National Treasury from presenting budget information in the financial statements, therefore this standard will not impact on the financial statements.

### GRAP 100

GRAP 100 - Non-current Assets held for Sale and Discontinued Operations. The Standard provides public sector specific examples and refer to non-cash-generating assets that are relevant to the public sector however it does not significantly differ from IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations. It is not expected that this Standard will significantly impact future disclosure due to the limited nature and volume of such transactions for which a SETA is expected to account.

### GRAP 102

GRAP 102 - Intangible Assets. This standard is drawn primarily from the International Accounting Standard on Intangible Assets (IAS 38). The Standard does provide additional public sector specific examples it also expands the identifiability criterion in the definition of an intangible asset to include contractual rights arising from binding arrangements, and to exclude rights granted by statute. The Standard will also require where an intangible asset is acquired at no cost or for a nominal consideration, that its cost is recorded as its fair value as at the date it is acquired.

Guidance on web site costs, together with an appendix to illustrate the relevant accounting principles, has been included in this Standard from SIC Interpretation 32 Intangible Assets – Web Site Costs.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 March 2009

### Other Standards

The following standards and interpretations have been issued but are not yet effective at the reporting date. They would not apply to the merSETA as the merSETA has no transactions covered by them.

GRAP 5 - Borrowing Costs

GRAP 6 - Consolidated and Separate Financial Statements

GRAP 7 - Investments in Associate

GRAP 8 - Interest in Joint Ventures

GRAP 10 - Financial Reporting in Hyperinflationary Economies

GRAP 11 - Construction Contracts

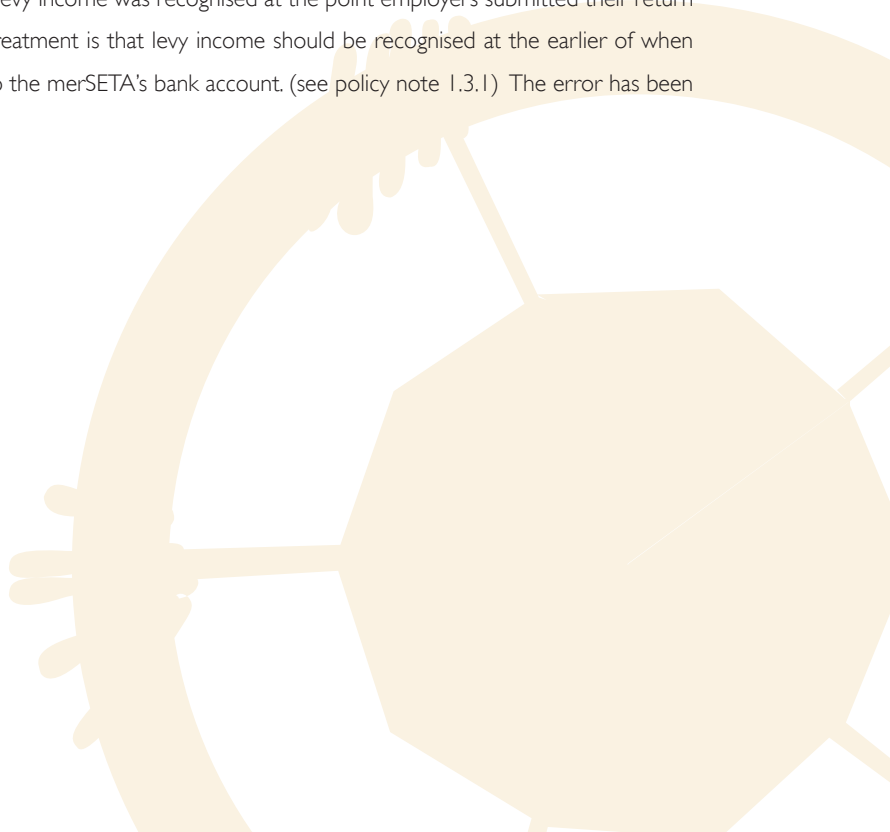
GRAP 16 - Investment Properties

GRAP 18 - Segment Reporting

GRAP 101 - Agriculture

### 35. PRIOR PERIOD ERRORS

In 2007/8 the merSETA recognised a prior period error. Collectively all the SETAs, The Department of Labour (DoL) and various stakeholders misinterpreted various legislation and accounting principles governing the recognition of Skills Development Levy in prior years. Prior to 2007/8 levy income was recognised at the point employers submitted their return of tax/levy liability forms (EMP201). The correct treatment is that levy income should be recognised at the earlier of when DoL makes the allocation or payment is made into the merSETA's bank account. (see policy note 1.3.1) The error has been corrected retrospectively in terms of GRAP 3.

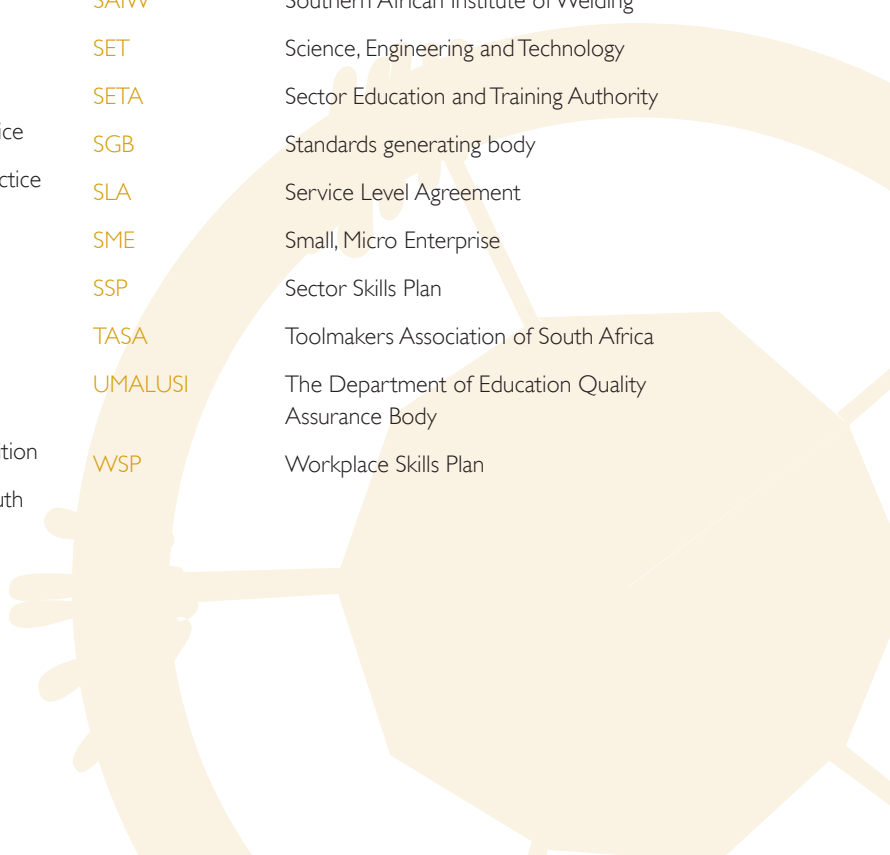
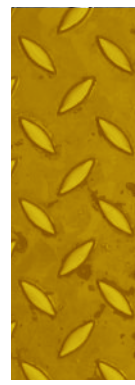


## GLOSSARY DEFINITIONS

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

## GLOSSARY DEFINITIONS

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













**labour**

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Labour  
REPUBLIC OF SOUTH AFRICA