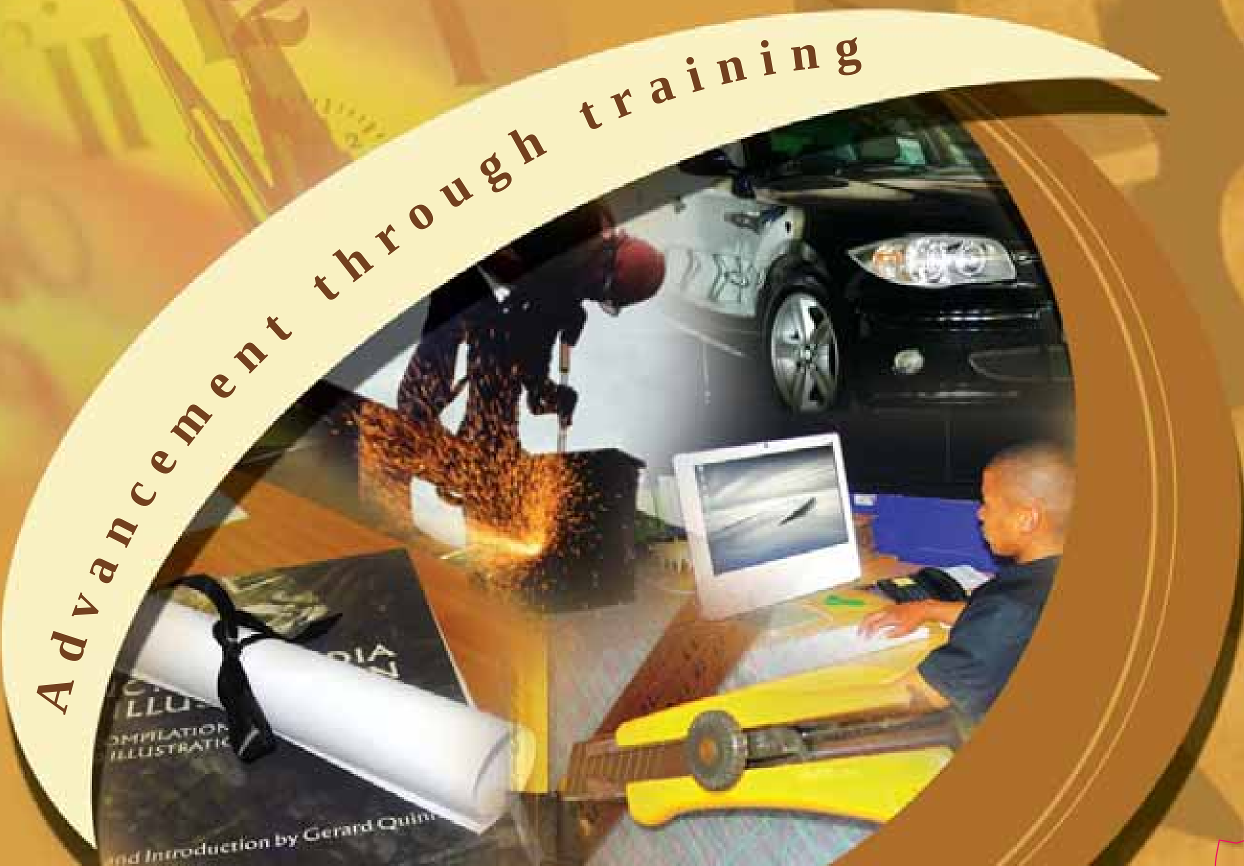
merSETA

MANUFACTURING, ENGINEERING AND RELATED SERVICES SETA

Annual Report
2005 – 2006



labour

Department
Labour
REPUBLIC OF SOUTH AFRICA

Contents

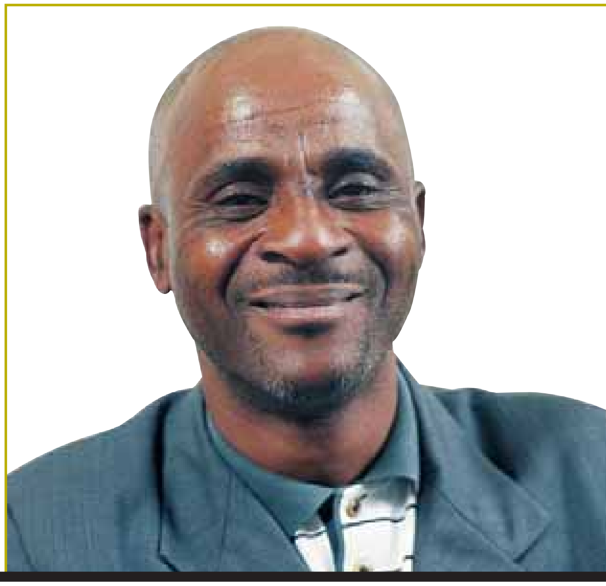
Vision

To promote economic and employment growth and social and economic development, redress inequalities in education and training, and facilitate and advance employment equity in the sector

Mission

To promote provision of quality education and training by accredited providers to all learners in the MERSETA sector enhancing the skill of individuals and the capacity of the entire sector, in a manner that is consistent with the objectives of MERSETA

Chairperson's
OVERVIEW



Mr Daluxolo Jekwa

Introduction
As reflected in the last annual report it was the end of the first phase of the work of the SETA cycle. The first five years saw the establishment of the MERSETA and undertaking of mandates contained in the National Skills Development Strategy in regard to:

- Apprenticeships and learnerships;
- Accreditation of service training providers;
- Managing and expanding claiming of grants for training;
- SMME support;
- Bursary scheme; and
- ABET.

The issue of a further five-year certificate by the Minister of Labour came with a further set of mandates detailed in the National Skills Development Strategy (NSDS II) for the next four years ending 31 March 2010. It also has to happen within the ambit of the Joint Initiative for Priority Skills Acquisition (JIPSA) under the auspices of the Accelerated Shared Growth Initiative of South Africa (ASGISA), a government initiative. The MERSETA needs to ensure alignment of the scarce and critical skills identified within our sector skills plan and the infrastructural development programme.

As the MERSETA we understand the importance of alignment of our programmes and projects with the thrust of the initiatives of government in terms of ASGISA which has the following key aims:

- To continue and accelerate the economic performance of the country;
- To ensure that economic growth does not exacerbate the growing inequalities between the rich and the poor;
- To rapidly expand infrastructure investment for both economic and social purposes; and
- To expand initiatives that address the skills shortages that may impact negatively on economic performance and service provision.

These issues have a particular impact on the work of the MERSETA. The manufacturing sector has played a particularly important role not only in assisting good economic performance over the past five years but also assisted in ensuring that there is greater diversity of production in the South African economy. The manufacturing sector has also played a key role in South Africa's export performance particularly in the automotive industry. There are a number of factors that contribute to the performance of the manufacturing sector but of crucial concern is having the available skills. The programmes of MERSETA have to address these skills gaps to ensure that the manufacturing sector continues to make a vital contribution to the economy. Historically the manufacturing sector has had strong employer and union organisations and this strength has been converted into cooperation within the MERSETA. This cooperation has to grow and deepen to enable the organisation to carry out its mandate within the broader South African economy.

Infrastructure backlogs for both economic and social purposes continue, particularly engineering infrastructure. There has been impressive delivery over the past decade. South Africa has a world class reputation in this field. However, the backlogs still exist and are exacerbated by the massive increase in the medium-term expenditure budgets by government for infrastructure and the demands of hosting the 2010 Football World Cup. There is huge effort required by the country as a whole to ensure the success of infrastructure provision and the World Cup. The MERSETA's programmes have to rise to these challenges and address them vigorously. There is no doubt that the organisational foundations developed and the re-establishment of the MERSETA will enable the organisation to tackle these challenges. As the Joint CEOs Report states:

"The second phase of the SETA cycle has seen the re-establishment of the Manufacturing, Engineering and Related Services SETA acknowledging the contribution the MERSETA has made and continues to make to the current skills development revolution in our country."

The organisation

This does not mean that we gloss over some organisational weaknesses of the past. In terms of the re-establishment of the MERSETA it is precisely these issues that were addressed to ensure that there is a functioning and efficient organisation to carry out the mandates given to us by the Minister of Labour which is central to our operations. The major organisational challenges that the MERSETA faced during the period under review was the management vacuum at both executive management and middle management level. We are pleased to announce that we have been able to recruit and employ an ETQA manager, an SDI manager, a Learnerships Programme manager, a Skills Planning manager, and a Communications officer. We believe that these appointments will greatly enhance our ability to discharge our mandate in the most effective and cost efficient manner, as well as to ensure compliance with various forms of legislation. Also the members of the EXCO held a corporate governance workshop which assisted the members to deepen their understanding of their fiduciary responsibilities with regard to the PFMA.

The constitution has been reviewed and streamlined. Terms of reference for the authority and substructures have been developed. In addition, we are conscious that the organisation reflects the demographic composition of our society. We have made major strides in this regard as is reflected in the composition of our staff.

But vigilance is still necessary for us to improve our performance.

Programmes and projects

In reflecting on the success of our programmes and the meeting of our targets, the Joint CEOs Report provides the detail. As it demonstrates, significant progress has been made in the various programmes undertaken by the MERSETA. There are also important objectives we have in our programmes and their purpose must be clear.

It is therefore important to reflect on the Joint CEOs Report which reminds us:"The provisioning of technical skills is crucial for the economy and is dependent on both the apprenticeship and learnership system to ensure the demands are met." Two important issues arise from this programme:

- That sustained effort is required not only to meet our targets but go beyond them to ensure that the economy has a sufficient cadre of trained and skilled personnel to ensure the efficiency and productivity of businesses in the manufacturing and engineering sectors. The sustainability of businesses and the support for workers are cornerstones of a successful economy.
- That, given our history, our programmes should address disadvantages of certain sectors of our society.

The following projects have been undertaken in support of the above objectives:

- The development and success of the small, medium, and micro businesses project in association with employer organisations over the past four years supports the objective of sustainable business development.
- Training and education is important but so is access to workplace experience and training and therefore the Employment Skills Development Lead Employer project with participation of smaller employers is crucial to expanding the skills pool.
- The provision of skills has to have as one of its key objectives the pursuit of excellence.
- The expansion of areas of expertise and support of programmes of international cooperation is embodied in the project dealing with the tooling initiative which has involved an international partnership with an institution from India and with a local university.

The programmes of the MERSETA which arose from the major restructuring of training and education continues to be embedded in our organisation. Significant budgetary allocations have been made to ABET training and bursaries to cater for the skills needs of both the present and future generation of workers. These programmes have been successful and our targets have been widened and expanded over the next four years to make a greater impact.

The maintaining of standards within training and education remains the foundation for providing a quality service to both employers and employees.

Conclusion

I wish to take this opportunity to express my heartfelt appreciation towards my fellow members on the authority, as well as the management and staff of the MERSETA for the commitment and dedication shown during this period, without which progress would not have been possible.

I believe that the experience gained over the last period stands us in good stead to take the MERSETA forward. The dedication and commitment of the MERSETA Authority and staff will ensure that the MERSETA stays at the forefront of cutting edge and innovative ideas in our quest to realise the skills development revolution.

Exco
MEMBERS

BACK ROW
From left to right: Anton Hanekom; Wayne Adams; Eliah Kodisang; Pierre Bezuidenhout; Jonathan Chipako

MIDDLE ROW
From left to right: Johnny Burger; Brian Holmes; Romano Daniels; Elias Kubeka; Leon de Klerk; Corli Janse van Rensburg

FRONT ROW
From left to right: Janet Lopes; Malebo Mogopodi; Daluxolo Jekwa; Lizel Heunis

EXCO MEMBER NOT IN PHOTOGRAPH
Brian Angus

EXCO MEMBERS – ATTENDANCE REGISTER

Member	Constituency	Representing	Race and gender	Meetings 12 Apr 2005	26 Apr 2005	22 Jun 2005	5 July 2005	2 Aug 2005	19 Sep 2005	4 Oct 2005	11 Oct 2005	1 Nov 2005	6 Dec 2005	13 Dec 2005	6 Feb 2006	7 Mar 2006
Mr Brian Angus	SEIFSA	Employer	W/M	√	√		√		√		√	√	√	√	√	√
Ms Janet Lopes	SEIFSA	Employer rep	W/F	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr Doc Seiler	AMEO	Employer rep	W/M	√	√	√	√	√			√	√				√
Ms Lizel Heunis	RMI	Employer rep	W/F	√	√	√	√	√	√	√	√	√	√	√	√	√
Mr Johnny Burger	SOLIDARITY	Labour rep	W/M	√		√	√	√	√	√	√	√	√	√	√	√
Mr Willie Naude	PFSA	Employer rep	W/M			√	√	√		√	√	√		√	√	
Mr Eliah Kodisang	CEPPAWU	Labour rep	B/M	√		√	√	√	√	√	√	√			√	
Mr Daluxolo Jekwa	NUMSA	Labour rep	B/M	√	√	√	√	√		√		√	√	√	√	√
Ms Malebo Mogopodi	NUMSA	Labour rep	B/F	√		√	√	√		√		√	√	√	√	
Mr Mbulelo Bara	NUMSA	Labour rep	B/M	√	√	√	√	√	√							
Mr Pierre Bezuidenhout	UASA	Labour rep	W/M			√		√	√	√	√	√		√	√	
ALTERNATES IN ATTENDANCE																
Mr Anton Hanekom	PLASFED	Employer rep	W/M			√										
Mr Elias Kubeka	NUMSA	Labour rep	B/M	√	√	√	√	√		√	√	√	√	√		√
Mr Mark Roberts	RMI	Employer rep	W/M		√				√	√						
Mr Alexander Dennis	RMI	Employer rep	C/M					√								
OBSERVERS IN ATTENDANCE																
Mr Sean Beyers	MISA/SAMU	Labour rep	W/M			√	√	√		√	√	√	√			
Mr Romano Daniels	New Tyre	Employer rep	C/M				√			√		√		√	√	√
Mr Silumko Nondwangu (by invitation)	NUMSA	Labour rep	B/M							√						
Mr Ishmael Shinga	UASA	Labour co-ordinator	B/M			√	√									
Mr Brian Hawksworth (by invitation)		Independent Auditor	W/M				√									
Mr Brian Holmes	MISA/SAMU	Labour rep	W/M									√			√	
Mr Phumzile Nodongwe	NUMSA	Labour rep	B/M					√								
Mr Piet Verryne	NUMSA	Labour rep	C/M					√								

B/F *Black female*
B/M *Black male*
C/M *Coloured male*
W/F *White female*
W/M *White male*

Joint CEOs report

Mr Wayne Adams

Ms Corli J van Rensburg

The second phase of the SETA cycle has seen the re-establishment of the Manufacturing, Engineering, and Related Services SETA acknowledging the contribution that MERSETA has made and continues to make regarding the current skills development revolution in our country. The next SETA cycle phase also bring with it new challenges as contained in the National Skills Development Strategy for the next four years. Our report will reflect our contribution to date towards the achievement of the NSDS II objectives.

Mandatory grant participation

The MERSETA has received a total number of 3 342 workplace skills plans for the period under review and 3 348 annual training reports for the previous financial year. Mandatory grants to the value of R319 million have been disbursed to levy paying companies.

Learnership implementation

The MERSETA spent a large portion of its discretionary funding on learnership grants for employed and unemployed learners in the sector. A total number of 7 830 learnership and apprenticeship grants were allocated resulting in a payout of over R84,5 million.

In the period under review, the MERSETA registered in total 4 614 employed learners and 3 216 unemployed learners.

A total number of 781 employed and 432 unemployed learners successfully completed their learnerships. Learners received their certificates at various graduation ceremonies organised either at company level or regionally through the SETA office.

Learning programme development

The MERSETA currently funds six standard generating bodies focusing on the manufacturing, engineering and related services sector. These SGBs have developed and submitted for registration by SAQA 39 qualifications and reviewed seven existing qualifications.

Courseware for 214 unit standards has been developed covering qualifications in autotronics, mechatronics, tooling manufacturing, power and telecommunication cable manufacturing, airconditioning and refrigeration, metal and engineering manufacturing, iron and steel manufacturing and machining. The courseware developed and currently under development is aligned to the scarce and critical skills identified within the sector.

ABET

Improving the levels of literacy within the sector is one of the challenges the MERSETA is confronted with. Projects have been implemented and continue to be implemented to address this challenge. The MERSETA is also continuously looking for innovative ways to fast track the development of the literacy levels of the workforce. Our experience to date also indicates the commitment from stakeholders to assist in ensuring the achievement of this objective, being the eradication of illiteracy within the sector.

One thousand four hundred and twenty-seven learners were trained at the different ABET levels and the amount of funds disbursed to support this initiative was R8,8 million.

Bursaries

The MERSETA Bursary Scheme started in June 2003. In the financial year under review, the MERSETA awarded 91 bursaries across South African universities and universities of technology within identified scarce skills areas. Bursaries are awarded to students across the country based on their socio-economic backgrounds and excellent academic progress.

The MERSETA currently funds 151 students to enable them to continue with their studies.

Eleven students from different institutions have completed their studies and 53 students are in the process of doing their experiential training required to achieve their national diplomas in various fields of engineering.

Funding has also been made available for experiential training for students from universities of technology to ensure the completion of programmes to enable learners to be awarded national diplomas from these institutions.

ETQA

The MERSETA accreditation as an ETQA has been extended for another three-year period for 81 qualifications and related unit standards excluding the legacy trade qualifications inherited from the industry training boards. The extension of MERSETA's accreditation was based on the development and implementation of the revised ETQA policies, procedures, criteria and guidelines.

The total number of accredited providers is 468, of which eight are aligned to the revised ETQA criteria. The MERSETA is currently in the process of assisting all previously accredited providers to align themselves with the revised accreditation criteria to achieve full accreditation.

A total number of 331 workplaces were approved as facilities with the required infrastructure to implement learnerships and skills programmes.

The MERSETA has registered a total number 484 assessors and 44 moderators.

A total number of 8 877 learners have been issued with national certificates in recognition of their achievements of NQF registered and trade qualifications.

PROJECTS

SMME project

Projects managed by three employer associations focusing on skills development needs within the SMME sector of the metal, motor and plastics chambers have been successfully implemented. A total number of 10 444 learners were trained with 86% of learners successfully completing the learning programmes. The MERSETA allocated funding to the value of R26 million to this project.

ESDLE

The MERSETA continued to utilise the services of the ESDLE originally allocated to the organisation during the pilot phase as anticipated by the Department of Labour. During the period under review, a total number of 301 unemployed learners embarked on the MERSETA funded learnerships with exposure to workplace training at MERSETA SMME levy paying companies. The first phase of the project was successfully completed with 87% of learners successfully completing the learnership at NQF level 1. Some of the learners who successfully completed the learnership have been employed at these SMME companies; the rest are continuing on to the next NQF level.

Centres of excellence (ISOEs)

Two agreements to support the development of welding centres of excellence have been signed with West Coast College in Vredenburg and with Eastcape Midlands College in Uitenhage. Both colleges are located in regions where emerging large capital expenditure projects have highlighted the need for highly trained welders and other artisans. The programme is aimed at reducing unemployment and the uplifting of communities in the regions.

This programme aims to reduce the reliance on the importation of welding artisans. The first two ISOEs will be positioned to accommodate three intakes of 20 learners each per annum, which creates a pipeline of 60 qualified welders per annum per ISOE from the end of 2008.

Tooling initiative

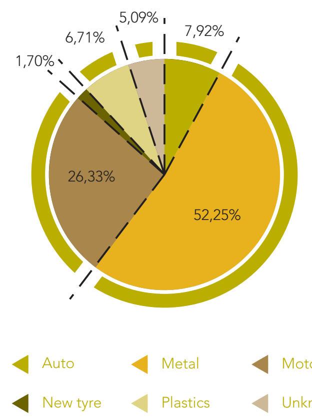
The MERSETA's commitment to supporting the national tooling initiative is now in its third year, having to date delivered the registered qualification design solution, supporting new curriculum and courseware and the funding for skills transfer from the Institute of Advanced Tooling in Aurangabad (India) to South Africa. This platform now becomes the basis from which to support and motivate the implementation process for learnerships in tooling manufacturing.

During the year, the MERSETA also supported the development and intake of national mechanical engineering students at the Tshwane University of Technology into a specialised experiential programme for tool making.

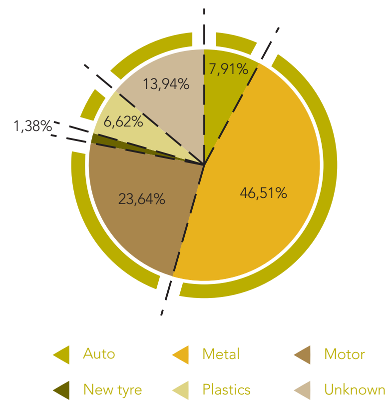
Finance

OVERVIEW

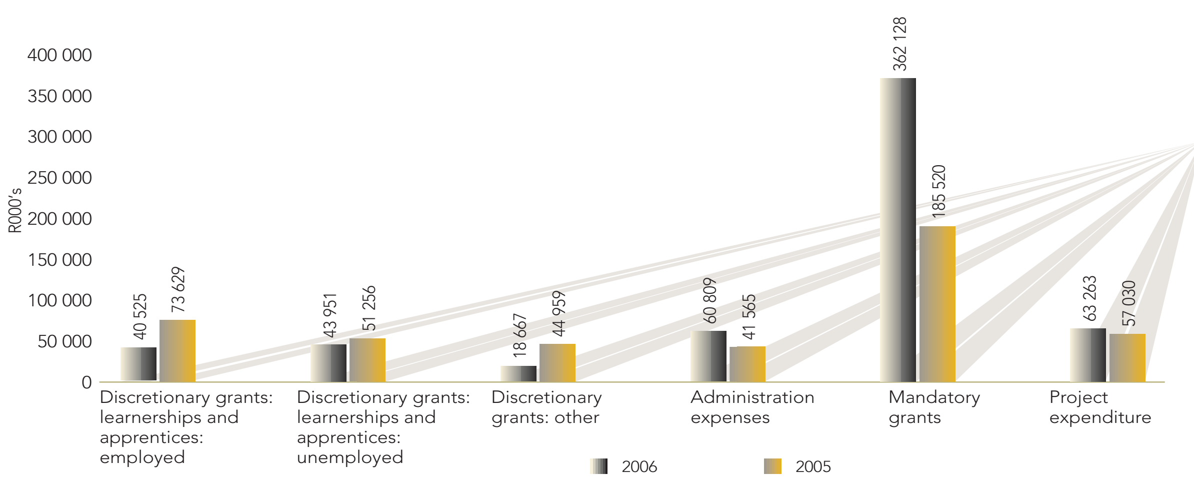
Percentage of total levies paid by Chamber 2006



Percentage of total levies paid by Chamber 2005

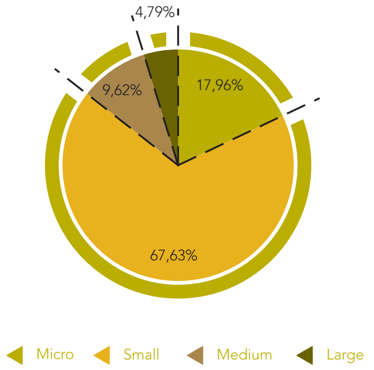


MERSETA disbursements by type of expense 2006 vs 2005

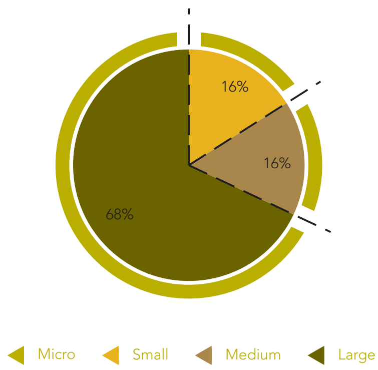


This represents cash disbursements for the year under review, excluding commitments provided for.

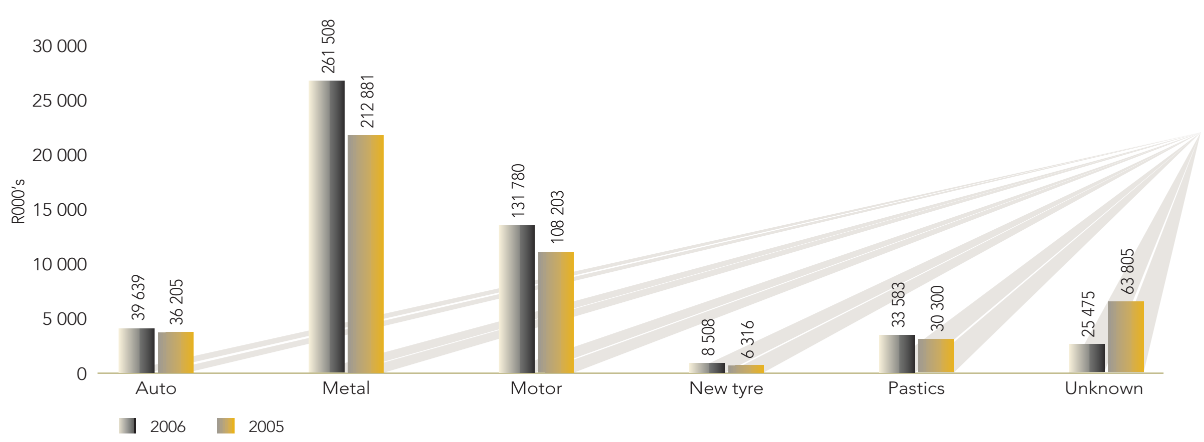
Composition of MERSETA contributing companies per size category



Composition of MERSETA contributors as a percentage of levies



Levy contribution by Chamber 2006 vs 2005



NSDS II

TARGETS AND ACHIEVEMENTS (2005 – 2006)

No	NSDS 2005 – 2010 Objectives	NSDS 2005 – 2010 Success indicators, national targets and outcomes	SETA plan for 2005 – 2006 Annual targets and outcomes	Achievements
1	1. 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 off 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 on 31 October 2005.
2	1. 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 subsector (1 x 5 subsectors) 21 SDFs or 690 sector specialists trained in sector for the year.	530 skills development facilitators and sector specialists were trained.
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 764 firms. The target for medium firms is 1 212 firms. Two scores will be calculated, one for each subsector. Score 3a for large companies and score 3b for medium companies.	360 large firms received WSP/ATR grants for the 2005/2006 financial year. 521 medium firms received WSP/ATR grants for the 2005/2006 financial year.
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 3 700 firms (with reference to a number of small firms after 1 August 2005). **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.**	5 065 small levy paying firms were provided with skills development support interventions during the 2005/2006 financial year.
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 2005 – 2006.	Not applicable to the MERSETA and its subsectors.

No	NSDS 2005 – 2010 Objectives	NSDS 2005 – 2010 Success indicators, national targets and outcomes	SETA plan for 2005 – 2006 Annual targets and outcomes	Achievements
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.	Conduct survey.	Not applicable to the MERSETA for the year under review.
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 2005 to 2006 is 5 500 learners. Discretionary grant claims = 1 000 ABET initiatives = 4 500	276 workers registered for ABET training on various levels during the 2005/2006 financial year, of whom 273 are black, and 12 are female.
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 2005 to 2006 is 3 000 learners. Learnerships = 1 250 Apprenticeships = 1 000 Skills programmes = 750	4 614 workers entered learning programmes during the 2005/2006 financial year of whom 3 437 are black workers, 671 are female, and 43 are disabled. 781 workers completed their learning programmes, of whom 727 are black, 186 are female and eight are disabled. A total number of 3 594 are young people, of whom 525 completed their training.
9	3. Promoting employability and sustainable livelihoods through skills development.	Indicator 3.2 By March 2010 at least 2 000 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 2005 to 2006 is 40 enterprises.	122 non-levy paying firms were provided with skills development interventions.
10	4. 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 for the period 2005 to 2006 is 3 000 learners. Learnerships = 1 250 Apprenticeships = 1 000 Skills programmes = 750 Bursaries = 100 Maths and science = 120 Indo German tool room = 10 Provincial ESDLEs = 350 AIDC ESDLE = 292 Projects for critical skills COGSI = 300 PBMR = 300 Coega = 300 Other = 300	3 216 unemployed workers embarked upon learning programmes of whom 2 911 are black, 790 are female, and 48 are disabled. 432 unemployed workers completed their learning programmes, of whom 413 are black, 134 are female and 15 are disabled. A total number of 2 960 of these unemployed workers are young people, with a completion rate of 424.

NSDS II

TARGETS AND ACHIEVEMENTS (2005 – 2006) (CONTINUED)

No	NSDS 2005 – 2010 Objectives	NSDS 2005 – 2010 Success indicators, national targets and outcomes	SETA plan for 2005 – 2006 Annual targets and outcomes	Achievements
11	4. 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 2005 to 2006 is 1 000 learners.	64 learners were assisted in workplace experience grants, all of whom are young people, 56 black, 21 are female, with 0 disabilities
12	4. 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 2005 to 2006 is 139 young persons.	A conceptual framework was developed which will determine the scope of this project to be implemented in the next financial year.
13	5. 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 (ISOEs) within public and 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 2005 to 2006 is five institutes.	Capacity building for 16 FET colleges was provided during the 2005/2006 financial year.
14	5. 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 institution's success.	Target for the sector for the period 2005 to 2006 is one institute.	Service level agreements were signed with two institutes of sectoral or occupational excellence.

No	NSDS 2005 – 2010 Objectives	NSDS 2005 – 2010 Success indicators, national targets and outcomes	SETA plan for 2005 – 2006 Annual targets and outcomes	Achievements
15	5. 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. ETQA compliance. Review of qualifications.
16	5. 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 all committees once per year.	A two-day corporate governance workshop was convened for members of the EXCO during the 2005/2006 financial year. In addition, an assessment of members of the authority was conducted by Unisa during the 2005/2006 financial year.

Divisional
reports (ETQA)

ETQA accreditation
The MERSETA accreditation as an ETQA has been extended for another three-year period for 81 qualifications and related unit standards excluding the legacy trades inherited from the industry training boards. The extension of the MERSETA's accreditation was based on the development and implementation of the revised ETQA policies, procedures, criteria and guidelines.

Provider accreditation
The total number of accredited providers is 468 of which eight are aligned to the revised ETQA criteria. The MERSETA is currently in the process of assisting all previously accredited providers to align themselves to the revised accreditation criteria towards achieving full accreditation.

A total number of 331 workplaces were approved as facilities with the required infrastructure to implement learnerships and skills programmes. Fifty-three new learning programmes were submitted for programme evaluation and approved to extend the scope of coverage of accredited providers.

Assessor registration
The MERSETA has registered a total number of 484 assessors and 44 moderators in accordance with its assessor/moderator registration criteria. These assessors and moderators cover the primary focus of the MERSETA ETQA.

Monitoring and auditing activities
Thirty-four accredited providers were monitored and audited during the period under review. Providers were assisted with the implementation of their systems towards meeting the criteria for full accreditation as part of the MERSETA's strategy to support provisionally accredited providers.

Memorandum of understanding agreements
Memorandum of understanding agreements have been signed with the following ETQAs:
- Foodbev
- Construction SETA
- Wholesale and retail SETA
- Chieta
- Health and welfare SETA
- Services SETA
- Fasset
- Theta
- Energy SETA
- Clothing, Textiles, Footwear and Leather SETA
- Transport SETA
- Public Services SETA
- Mining Qualifications Authority
- Media, Advertising, Printing, Publishing and Packaging SETA
- ETDP SETA

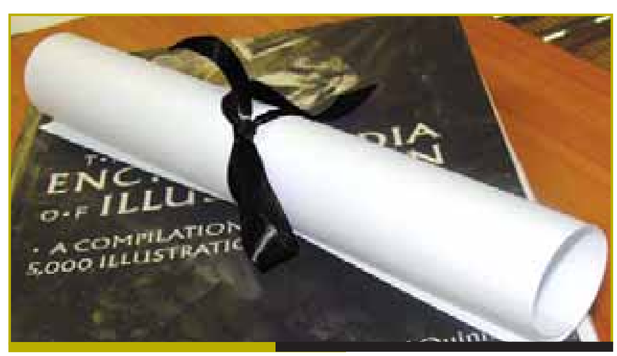
The letter of cooperation signed with UMALUSI to facilitate a process towards the establishment of a formal relationship with the FET fraternity has been extended and the MERSETA will continue to facilitate a working relationship with the FET sector. Memorandum of understanding agreements will be signed with provincial education departments during the next financial year.

Certification of learners
A total number of 8 877 learners have been issued with national certificates in recognition of their achievement of NQF registered and trade qualifications. These certificates were issued after moderations were conducted by MERSETA appointed moderators.

Provider accreditation workshops
Workshops on the revised accreditation criteria and guidelines were held nationally with the MERSETA staff and accredited providers to create awareness of the revised criteria and guideline documents. Workshops were held in the Western Cape, KwaZulu-Natal, Free State and Northern Cape, Mpumalanga, Limpopo and Eastern Cape. The only region outstanding is Gauteng, and workshops will be conducted in the next financial year.

Recognition of prior learning (RPL)
The MERSETA RPL policy has been developed and posted on the MERSETA website which is available to all accredited providers and stakeholders.

Assessor, moderator and mentor training project
The MERSETA continues to train assessors, moderators and mentors based on the need expressed by stakeholders. A total number of 530 candidates were trained during the past financial year.



Divisional reports (SDI)

The Skills Development Implementation (SDI) division is the operational backbone of the MERSETA. The strategies and plans of the MERSETA are set by EXCO, and it is the strength and dedication of this division that contributes to the MERSETA targets in the field.

This division is also the face of the organisation, in that its staff come into contact with stakeholders on different levels on a daily basis.

The division is divided into three major business units, each specialising in different areas of operations.

The first of these are the five chambers. The MERSETA represents the auto; metal and engineering; motor retail and components; new tyre and plastics chambers. The chambers are managed in the MERSETA by chamber coordinators who coordinate meetings of chamber and operational teams. The members of these chambers are stakeholders as per the MERSETA constitution.

These stakeholders represent both employers and labour in the MERSETA sector and are the most important source of information from industry.

During the 2005/2006 year, the chambers researched and identified the scarce and critical skills within the different chambers. The shortages were quantified by the chamber members, and the organisation's operations are aligned to these numbers and occupations. These lists are updated annually and form the starting point of the MERSETA's planning for implementation of the NSDSII.

Research has been done on different career path and career development programmes linked to the scarce skills lists.

The chambers are also responsible for the identification of qualifications needed and prioritising these qualifications for development by the Standard generating bodies and the learning programmes unit.

The next important unit in the SDI division is the learning programmes unit. This unit was revived in 2005/2006 with the appointment of a learning programmes manager. The unit works closely with several Standard generating bodies (SGBs) and workgroups, and develops qualifications as identified by the chambers.

Currently the MERSETA has 79 qualifications registered and 90 learnerships. For the year under review, 39 qualifications were developed, and registered and submitted to the South African Qualifications Authority (SAQA).

The learning programmes unit is also responsible for the development of curriculum and courseware for qualifications registered at the MERSETA. The chambers were responsible for the function in the 2005/2006 year and a project to develop courseware and curricula for 27 qualifications in the auto, metal and motor chambers has been the focus.

Another focus area for this unit was developing of new policies and procedures with regard to implementation of learnerships. This was an area where the MERSETA was lacking and with these in place, implementation of programmes will be fast tracked.

The final unit in the SDI division is the regional offices. The MERSETA has six regional offices: Gauteng, Witbank, Bloemfontein, Durban, Port Elizabeth and Cape Town. The regional offices staff are the teams responsible for customer services in the SETA. They are the first line of contact with companies, training providers and other stakeholders in the field.

MERSETA appointed a new regional offices manager during the year, and the main focus of the office was the improvement of overall service delivery.

The first step in achieving this was capacitating and training regional staff members. Although this important matter is done on an ongoing basis, the MERSETA was at a stage where this had become a problem and more work than usual was needed. This problem was attributed to the appointment of a number of new employees without SETA experience. Members from the management team at head office, together with regional staff, also visited companies on a regular basis in order to improve delivery.

The regional offices are responsible for the administration and implementation of learnership agreements and apprenticeship contracts as well as all the functions pertaining to this. This includes advising training providers on the requirements of accreditation and companies on workplace approval.

They also monitor the progress of learning programmes and learners registered with the MERSETA.

During the 2005/2006 year, the regional offices visited more than 7 500 companies and administered the agreements and contracts of 4 798 learners and 3 117 apprentices.

The MERSETA appointed a new SDI manager at the beginning of 2006. This position had been vacant for over two years. The starting point for the division has been to streamline procedures and operations as well as update and improve systems.

Looking back over the year, it is important to note that the challenges the MERSETA faced were caused by several key vacant positions in the division.

These appointments were made and the second part of the year was used to develop and improve systems.

The next phase will be improved implementation and service delivery. When it comes to a service delivery environment, there will always be space for improvement and the division takes the challenge and will take service delivery to a new level in the year ahead.

Institutes of sectoral or occupational excellence (ISOEs)

MILESTONES REACHED
TOWARDS ACHIEVING ISOE STATUS

The MERSETA launch of Welding Centres of Excellence in cooperation with the Department of Education and the Department of Trade and Industry

The MERSETA represents a sector in the South African economy that is currently experiencing a critical shortage of key skills in various areas including welding, fabrication and general fitting and machining. This demand is underpinned by government's Accelerated Shared Growth Initiative for South Africa (ASGISA) which aims to boost the rate of growth in economic output to 6% by 2010.

The critical need for welding artisans has been identified and the ISOE model has been chosen to place 300 new, fully qualified welding artisans per annum into the industry from the end of 2008. The most important factor that underpins this project is the intention to speed up the delivery of qualified welders to international welding standards, so that South Africa can showcase this excellence to potential foreign direct investors. This programme aims to reduce the reliance on the importation of welding artisans. The first two ISOEs will be positioned to accommodate three intakes of 20 learners each per annum, which creates a pipeline of 60 qualified welders per annum per ISOE from the end of 2008. The project plan will accommodate five such appointed ISOEs with the capacity to deliver 300 qualified welders per annum into the market. Appointment of the remaining centres will be through a consultative forum dedicated to achieving full ISOE accreditation by the MERSETA.

The first two opportunities that presented themselves were the Saldanha Bay Fabrication Hub to support the repair and manufacture of off-shore oil rigs, and the well publicised Coega IDZ in the Eastern Cape. Agreements to support the development of Welding Centres of Excellence were signed with West Coast College in Vredenburg and with Eastcape Midlands College in Uitenhage. Both colleges are located in regions where emerging large capital expenditure projects have highlighted the need for highly trained welders and other artisans. The programme is aimed at assisting in the reduction of unemployment and the upliftment of communities in the regions.

The MERSETA developed its position paper for the implementation of ISOEs according to requirements of the National Skills Development Strategy in September 2005. Various options were considered for the appointment and placement of these centres. This led to the alignment of these two flagships with firstly, the Coega IDZ due to attract an estimated R28 billion of investments over the next few years, and secondly, the Western Cape Oil and Gas Hub commencing with a R1,72 billion infrastructural investment anchored by MAN Ferrostaal in partnership with Grinaker LTA and DCD Dorbyl Heavy Engineering.

The success of these investment initiatives depends on an exceptionally high standard skills training and development programme. To ensure training to the required international standards, the MERSETA has teamed up with the Southern African Institute of Welding (SAIW), an approved training body of the International Institute of Welding (IIW). The SAIW is assisting these ISOEs in achieving IIW accreditation through training of instructors, overseeing the acquisition and installation of equipment and installing quality management systems. Learners completing the NQF qualification will also achieve certificates endorsed by the IIW.

In crafting the solution, the MERSETA wanted to create an institute where industry could recruit from the ranks of learners close to completing the full qualification. The MERSETA also wanted to be able to nurture the concept that smaller companies that do not have their own training centre could have their learners managed through achieving the formal qualification through the centres of excellence. It was furthermore imperative to consider some of government's perspectives on spatial development that target the poverty areas as well as their strategic development initiatives.

The importance of FET colleges is highlighted in the MERSETA's approach to appointing and supporting ISOEs. Whilst FET colleges remain the domain of the Department of Education, some added assistance is required to link the FET initiatives to industry to improve the relevance of provision. This is where the SETAs can make a very positive contribution through their levy paying base – their links directly to industry needs should be harnessed. The MERSETA has expressed its willingness to do this through assisting FET colleges to achieve ISOE status. The MERSETA also believes that FET colleges have a unique ability to sustain excellence in provision through their status as public entities. In other words, whilst a private provider is reliant on profit and cost-cutting objectives, and will exist as long as this capacity is protected, the public entity is protected from the risk of having to downsize or close. This link to a sustainable venture will be nurtured.

National tooling initiative

The MERSETA's commitment to supporting the National Tooling Initiative is now in its third year, having to date delivered the registered qualification design solution, the supporting new curriculum and courseware and the funding for skills transfer from the Institute of Advanced Tooling in Aurangabad (India) to South Africa. This platform now becomes the basis from which to support and motivate the implementation process for learnerships in Tooling Manufacture.

Solid progress of the MERSETA sponsored students in India over the last year will culminate in their graduation on 21 July 2006. The deployment of these graduates is aimed at supporting the instructor base at FET colleges and further research and development at the universities of technology, as well as support for SMMEs in the sector. A significant proportion of these students will be directly involved in support for the start-up of a 100 learner intake at four FET colleges in the centres of Tshwane, Durban, East London and Cape Town. The FET colleges are seen as a crucial partner in training and supporting the development of toolmakers in partnership with industry. They are receiving extensive support from the member companies of TASA (Toolmakers Association of South Africa) in supplying workplace experience, mentorship and coaching to assist the learners in achieving the required practical outcomes of the qualification. Furthermore, the FET recapitalisation programme 2005 – 2008 is supporting capital equipment and infrastructure requirements, and in some cases, the provincial government budgets are being leveraged to support institutes of advanced tool making status.

During the last year, the MERSETA has also supported the development and intake of Mechanical Engineering students at the Tshwane University of Technology into a specialised experiential programme for tool making. After completing their P1 and P2 obligations for the national diploma qualification in July 2006, all ten of these students will be moving into B.Tech level studies before moving into industry full time. This work at the TUT is the precursor to developing an NQF 5 and 6 level qualification that will afford articulation of the FET band qualification to higher education. In this way a career path is created for workers in the industry from high level practical engineering skills into small business management, corporate promotions or specialist engineering services.

The industry FRIDGE study completed in July 2005 has become a guiding document in the further development of this National Strategic Initiative. One of the most significant conclusions was that: "One qualified toolmaker creates 28 downstream jobs and one rand invested in tooling creates R250 in product value." This core finding represents one of the fundamental objectives of the SETAs – to support economic growth for employment creation and poverty eradication.

Courseware

Courseware development project creates best practice basis for mass skills development

The MERSETA's vision is to address the lack of up-to-date courseware in vocational training across its industry sectors and empower those who want to learn.

The MERSETA embarked on a process in 2004 to identify best practice in developing courseware that addressed three broad stakeholder requirements, namely academic rigour, workplace competence and learner centredness. As a result, the courseware development process has been improved in partnership with the Learnership Institute's methodologies.

The methodologies to develop courseware are created with stakeholders' input, as well as workplace and labour sign off. A production line enables monthly delivery of courseware made immediately available in the public domain on the Project Zephuros website, at *www.zephuros.co.za*. A direct link is in place from the MERSETA website. Discussion and feedback from facilitators and workplaces on the courseware ensures continuous improvement.

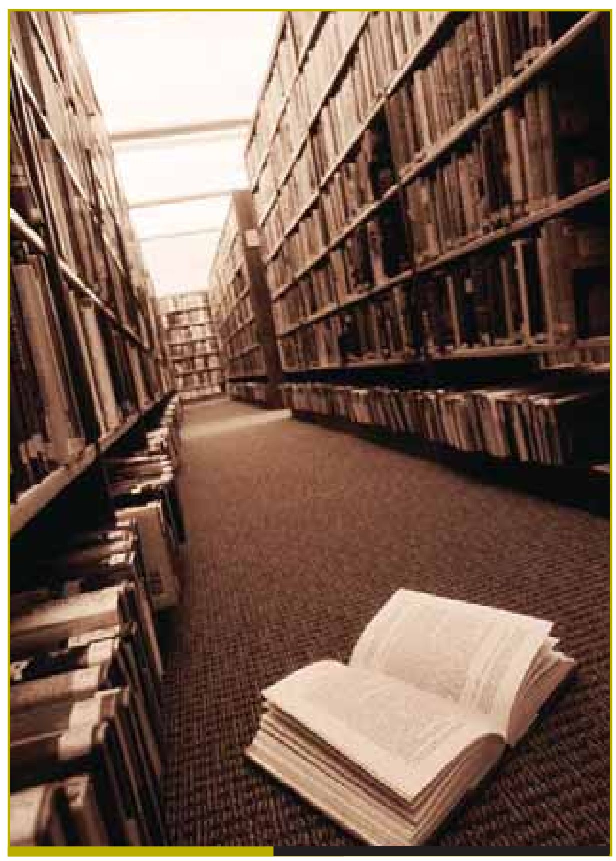
The concept has been enabled by the MERSETA courseware development projects over the past three years. Fourteen companies have been capacitated in the process through sharing best practice to make relevant courseware available. Courseware for 214 unit standards, developed in phase 1, covered qualifications in autotronics, mechatronics, tooling manufacturing, power and telecommunication cable manufacturing, airconditioning and refrigeration, metal and engineering manufacturing, iron and steel manufacturing and machining and is available in the zephorus public domain.

Courseware includes a curriculum framework (based on the German Technical Cooperation – GTZ model), a facilitator's guide, a learner workbook, assessment tools and tool and resources lists, all of which enable the achievement of the outcomes of unit standards.

The facilitator's guide is a manual that includes solutions as well as guidelines on ways to manage the learning process. It includes exercises, assessments and assignments. It also stretches the traditional academic presentation of courseware and workplace delivery. The facilitating of learning moves away from a telling or lecturing style towards a journey of learning. The facilitator's guide is available to accredited SETA providers.

The learner workbook is a resource that guides the learners through the learning process. It assists them to build a portfolio of evidence and integrates the theoretical learning with everyday workplace practice. Learner workbooks are available and there are no restrictions on accessing these resources.

By making courseware freely available, the concept, adopted by the MERSETA, provides materials for accredited training and workplace providers. Thus, the focus is taken away from developing courseware materials and put to equipping learners with the necessary workplace skills.



Employment skills development lead employer (ESDLE)

The MERSETA has contracted the Automotive Industry Development Centre's (AIDC) ESDLE to act as lead employer in an unemployment training programme. It is one of 21 ESDLEs launched by the Department of Labour (DoL), Minister Membathisi Mdladlana, in May 2004. The DoL, through its ESDLE programmes, aims to increase the number of employers participating in the regulated training system, train more people, create additional learnership opportunities, and encourage the completion of learnerships, thus improving the quality of life by creating jobs and fighting poverty in South Africa.

The primary focus of the ESDLEs are to service SMMEs, who employ between one and 49 employees (small) and 50 – 149 (medium) employees, and to encourage them to participate in skills development and training. There is an additional focus on black economic empowerment (BEE) in regulated training.

The AIDC ESDLE pilot project was conducted on NQF level 1 in 2004/2005 to train 300 unemployed young people which yielded a 87% success rate. In addition to which some learners have found permanent employment. Due to the high success rate, the MERSETA extended the project beyond the pilot phase to continue with training of learners on NQF level 2.

A total of 300 learners have subsequently been registered on NQF level 2, in the following programmes:

72 learners on the National Certificate in Automotive Component Manufacturing
132 learners on the National Certificate in Vehicle Repair and Maintenance
47 learners on the National Certificate in Fabrication
13 learners on the National Certificate in Mechatronics
13 learners on the National Certificate in Fitting
23 learners on the National Certificate in Autotronics

The MERSETA supported the AIDC by funding host companies and unemployed learners in:

- providing a well developed strategy and incentive scheme which encouraged both learners and employers to participate in skills development
- funding the development of courseware material for the learnership programme
- accrediting service providers and the registration of assessors
- encouraging SMMEs to participate in structured learning and providing access to workplace training, through the SMME sponsored training support programmes
- approving workplace standards for effective quality training
- providing capacity building workshops and accreditation to FET colleges to enable them to offer quality training for learners

The AIDC ESDLE, one of 10 industry-based ESDLEs linked to SETAs, managed and funded by a specific SETA, has proved to be an effective vehicle to provide an industry/sector expression of agencies dedicated to facilitate increased participation in the learnership programme. The pilot has provided the MERSETA/ESDLE team with an opportunity to address the issue of capacity and competence in the FETs participating in the programme. It has also worked hard to engage the industry in the programme, assisting over 40 companies in the sector to participate the programme. The efforts of the FETs and the commitment of the private sector have been essential to the success of the project, and are gratefully acknowledged.

The skills shortage affects every sector in the economy, but in the automotive industry, as the leading industry in the manufacturing sector, this challenge is particularly acute. The industry is today integrated into the global sector and therefore fully exposed to intense competitive pressures. This, coupled with the fact that the industry is perhaps one of the most high-tech and rapidly technologically advancing sectors, placed major demands on skills development. In South Africa, the challenge becomes not only one of catching up, but keeping up.

Source: AIDC

Learnerships and apprenticeships

SUCCESS STORIES

Learnerships and apprenticeships is the core activity of the National Skills Development Programme. 'The provisioning of technical skills is crucial for the economy and is dependent on both the apprenticeship and learnership system to ensure the demands are met. All stakeholders will have to join hands in our endeavours to work towards meeting the challenges confronting us. MERSETA as a partner in this process is committed to the ideals of ASGISA and in particular JIPSA,' as outlined in the Joint CEOs Report. It is also at the coalface of implementation through the MERSETA's Skills Development Implementation division.

The scope of the MERSETA programme is reflected in that MERSETA has spent a large portion of its discretionary funding on learnership grants for employed and unemployed learners in the sector. Just over 7 800 learnership and apprenticeship grants were allocated resulting in a payout of over R106 million. In the period under review, the MERSETA registered in total 4 614 employed learners and 3 216 unemployed learners. 781 employed and 432 unemployed learners successfully completed their learnerships and learners received their certificates at various graduation ceremonies organised either at company level or regionally through the SETA office. Of the 781 workers who completed their learning programmes 60% are black, 15% are female and 43% are young people.

However, to provide the texture for the impact of the learnerships on companies it is prudent to reflect on some of the following success stories:

ELCO PLASTICS: BEING SMALLER IS NO BARRIER TO SKILLS DEVELOPMENT!

Elco Plastics (Pty) Limited is a medium-sized, (± 70 employees), MERSETA levy paying company with PVC manufacturing facilities in Cape Town and Durban and a warehouse in Johannesburg.

Elco Plastics received full accreditation from MERSETA to operate a pilot learnership project for NQF levels 2 and 3. The first learners in South Africa to complete Plastics Manufacturing learnerships graduated from Elco Plastics.

The pilot project provided a wonderful platform from which to formalise the skills development efforts of the company which has subsequently aligned most internal courses to unit standards.

The plastics manufacturing industry has historically experienced major skills shortages placing a demand on industry to upskill employees. The success of this initial pilot project has encouraged the company to continue to offer learnerships to employees and to extend the project to 70 unemployed people living in neighbouring communities. The vast majority of these unemployed learners have now qualified. Almost 30% of them are now employed at the company, many others have since found alternative employment (with their increased skills base), and others have entered other learning programmes, whilst two learners have started their own businesses.

BARLOWORLD EQUIPMENT: EXCELLENT STANDARDS AND RESULTS

NQF3 Exit Assessment Qualifications in 2006

Barloworld Equipment is actively training learners mainly on the Earth Moving Equipment NQF level 2 qualification, with 85 learners having successfully completed a learnership in the past year.

The Barloworld learning programme has seen learners commencing with learnerships on NQF level 2 and proceeding to NQF level 3. Some learners have achieved an overall average of 97% with all of their tasks rated Best Practices. With reference to the group's results, it is notable that one had six Best Practices, one had five and of the rest, three had four out of the six tasks.

Other employers who currently have qualified over 50 learners each in the past year include FEMCO, with 65 learners, BMW SA with 62 learners and McCarthy Group with 52 learners.

NISSAN SA SUCCESSFULLY TRAINED LEARNERS AND PLACED THEM IN PERMANENT EMPLOYMENT

Nissan SA has a proud record of effective training. Notably, in the past year, 158 unemployed learners have successfully completed NQF level 1. Nissan has gone even further and has offered permanent employment at their manufacturing plant in Rosslyn to over 60% of these learners.

PASDEC AUTOMOTIVE SYSTEMS

Pasdec Automotive Systems in Brits (North West), whose core business is building harnesses for vehicle manufacturers like Daimler Chrysler, Toyota SA and Nissan SA, saw 181 employees (95% black females) successfully complete an automotive component manufacturing learnership at NQF level 2.

AN ADDITIONAL ROUTE TO ARTISAN STATUS

Section 28 of the Manpower Training Act of 1981 provides for the recognition of prior learning of individuals who meet set minimum criteria. This is done through a trade test, identical to that undertaken by registered apprentices. A total of 631 learners qualified in this manner, of whom 395 were unemployed at the time of assessment.

DISABLED LEARNERS IN TRAIN THE TRAINER INITIATIVE

HJ Bosch & Sons in Hercules, Pretoria has paved the way for the training of deaf apprentices. Learners have been trained in spray-painting and panel-beating. Two learners have now qualified with another six currently registered in the latter stage of their contracts. One of the apprentices is being mentored with a view to him becoming a trainer. This is a major breakthrough, as, it proves once again that deaf people can be taught the trade in their own language.

A SALDANHA SUCCESS STORY

Hansing Engineering and Manufacturing specialises in engineering and manufacturing in high tensile and heat treated steel. Hansing is situated in the Saldanha Bay area, a once small fishing village on the West Coast of the Western Cape. The unemployment rate in this small little West Coast town is extremely high. The majority of the learners have come from poor backgrounds and further studies or any opportunity to find decent employment was but a dream. These learners were given an opportunity of a lifetime and progressed from NQF level 1, due to the poor education received, to NQF level 2. The learners are motivated and enthusiastic now that they have full-time employment and they will be advancing to the next level in the company.

BRIDGING THE GAP BETWEEN LEARNERSHIPS AND HIGHER EDUCATION

The MERSETA, Continental Tyres and the Nelson Mandela Metro University entered into a ground breaking partnership to address critical skills identified within the New Tyre industry. The rationale for the project was threefold: addressing the shortage of skilled technicians within the industry; access to further learning and employment opportunities for employed operators within the industry; and encouraging unemployed youth to enter the industry.

The pilot project commenced in 2003, with an initial intake of 19 learners, on the NQF level 5 Rubber Technology. Six of the learners were unemployed (three black males and three black females). Thirteen learners were employed, seven black, five white and one coloured (one female and 12 males).

It was originally envisaged that the duration of the pilot project would be one year. However, due to a number of challenges, the learnership lasted for three years. This was due to the fact that this project was the first of its kind within the sector. The learnership model was found to be lacking, particularly in the area of quality assurance. Learners ended up studying at the university, with a university quality assurance requirement to write exams as opposed to the learnership model of assessments based on the SAQA / MERSETA unit standards based methodology. Experiential training was carried out at Continental Tyre. Other challenges included the recognition of prior learning (RPL) process as well as the fact that MERSETA had no learning material. The university questioned the rationale for accreditation with the MERSETA when in fact they were accredited by the Council for Higher Education.

One of the challenges faced by the company was the trade off between production time and learning time. There was also the problem of seconding learners for practical learning in different sections within the plant, and the lack of qualified mentors for on the job training.

Despite these challenges, of the initial nineteen learners, eight learners successfully completed the programme (three black males, two black females, one coloured female and two white males). Four learners have subsequently enrolled for a further three-year Polymer Technology diploma on a bursary scheme (two black females, one black male and one coloured female). In addition, one female graduate was offered employment at Continental Tyre.

This pilot project has provided all the partners with important lessons. A key lesson was the importance of having clearly defined roles and responsibilities stipulated within the service level agreement, and strong project management expertise. There was also the challenge of balancing different priorities, as well as the need for robust human resource strategies which should include career pathing and succession planning.

DTV CREATES JOBS THROUGH POSITIONING THE COMPANY TO ENTER THE INTERNATIONAL EXPORT MARKET, GROWING THE LOCAL ECONOMY AND CONTRIBUTING TOWARDS ALLEVIATING POVERTY

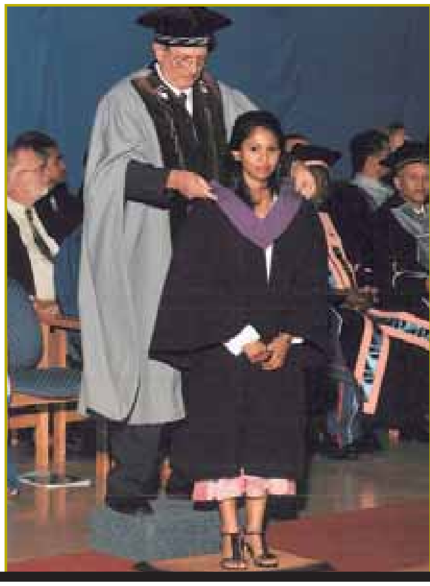
Dithlare Trading 53 (Pty) Limited, trading as DTV, based in Bloemfontein manufactures high performance off-road vehicles, and employs 48 employees. The vision of the company is to attract foreign direct investment to the Free State province.

Through their commitment to skilling and reskilling workers, DTV embarks upon regular training sessions on HIV prevention and supporting workers who are HIV positive. To date the company has registered six apprentices, on motor mechanics, spray painting and automotive body repair, as well as embarked upon a programme for fifteen ABET learners.

Through training interventions such as the above, the MERSETA intends to facilitate further successes over the next half decade.

Notwithstanding the emphasis which has been placed on addressing the skilling and upskilling of the workforce though programmes such as learnerships, it has become clear that the apprenticeship system remains a cornerstone of a holistic approach to technical skills development. Industry has been encouraged to continue utilising the apprenticeship system, to ensure that the pipeline of skilled artisans is supported in terms of the NSDS II and JIPSA goals.

Bursaries
OVERVIEW



Abigail Muller graduated in National Diploma Chemical Engineering

Muriel Nxumalo graduated in BTech Engineering Metallurgy

BURSARY REPORT
The bursary programme was undertaken to address scarce skills and correct historical imbalances in access to engineering skills. The MERSETA bursary scheme started in June 2003. From July 2003 to 31 March 2006, MERSETA awarded 215 bursaries across South African universities and technikons within identified scarce skills areas. In the financial year under review, MERSETA awarded 91 bursaries.

The bursary scheme is open to all but preference is normally given to employees of MERSETA levy paying companies or their spouses and children.

Bursaries are awarded to students across the country based on their socio-economic backgrounds and excellent academic progress.

The target for the next financial year is a further 100 bursaries.

The bursary unit monitors the academic progress of each student. This is a major joint venture that the bursary unit has embarked on with the help of faculty officers at higher education institutions.

Eleven students from different institutions have completed their studies. There are currently 53 students doing their experiential training. The experiential training is a pre-requisite for students to qualify for national diplomas in various fields of engineering. Out of 215 students, 151 are continuing with their studies.

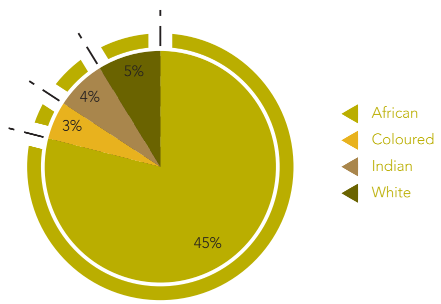
The majority of students are studying towards engineering or technological qualifications with only 11 studying marketing or management.

The table below outlines the number of bursary holders per focus area, per institution type in areas of scarce skills:

Focus area	IMM	Technikon	University	Grand total
BSc Engineering (Chemical)			7	7
BSc Engineering (Industrial)			7	7
BSc Engineering Electrical (heavy current)			6	6
BSc Engineering Electrical (light current) and Electronic			8	8
BSc Mechanical Engineering (including Mechatronics)			11	11
BTech Chemical Engineering		5		5
BTech Electrical Engineering (heavy current)		4		4
BTech Electrical Engineering (light current)		2		2
BTech Electrical/Mechanical Engineering		1		1
BTech Engineering Metallurgy		2		2
BTech Mechanical Engineering		2		2
BTech Production Management		1		1
Diploma in Marketing	2			2
IMM degree	1			1
ND Chemical Engineering		13		13
ND Electrical Engineering (heavy current)		25		25
ND Electrical Engineering (light current)		25		25
ND Electrical/Mechanical Engineering		3		3
ND Electronic Engineering		1		1
ND Engineering Metallurgy		15		15
ND Industrial Engineering		12		12
ND Mechanical Engineering (including Mechatronics)		40		40
ND Polymer Technology		10		10
ND Production Management		8		8
Grand total	3	169	39	211

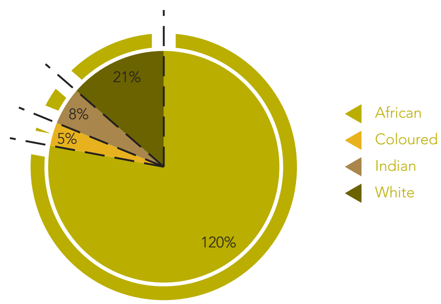
Twenty-seven percent were female – predominantly African female students. This is above the average for female students studying engineering in the country.

Total number of female bursary holders by race



Total number of females = 57

Total number of male bursary holders by race



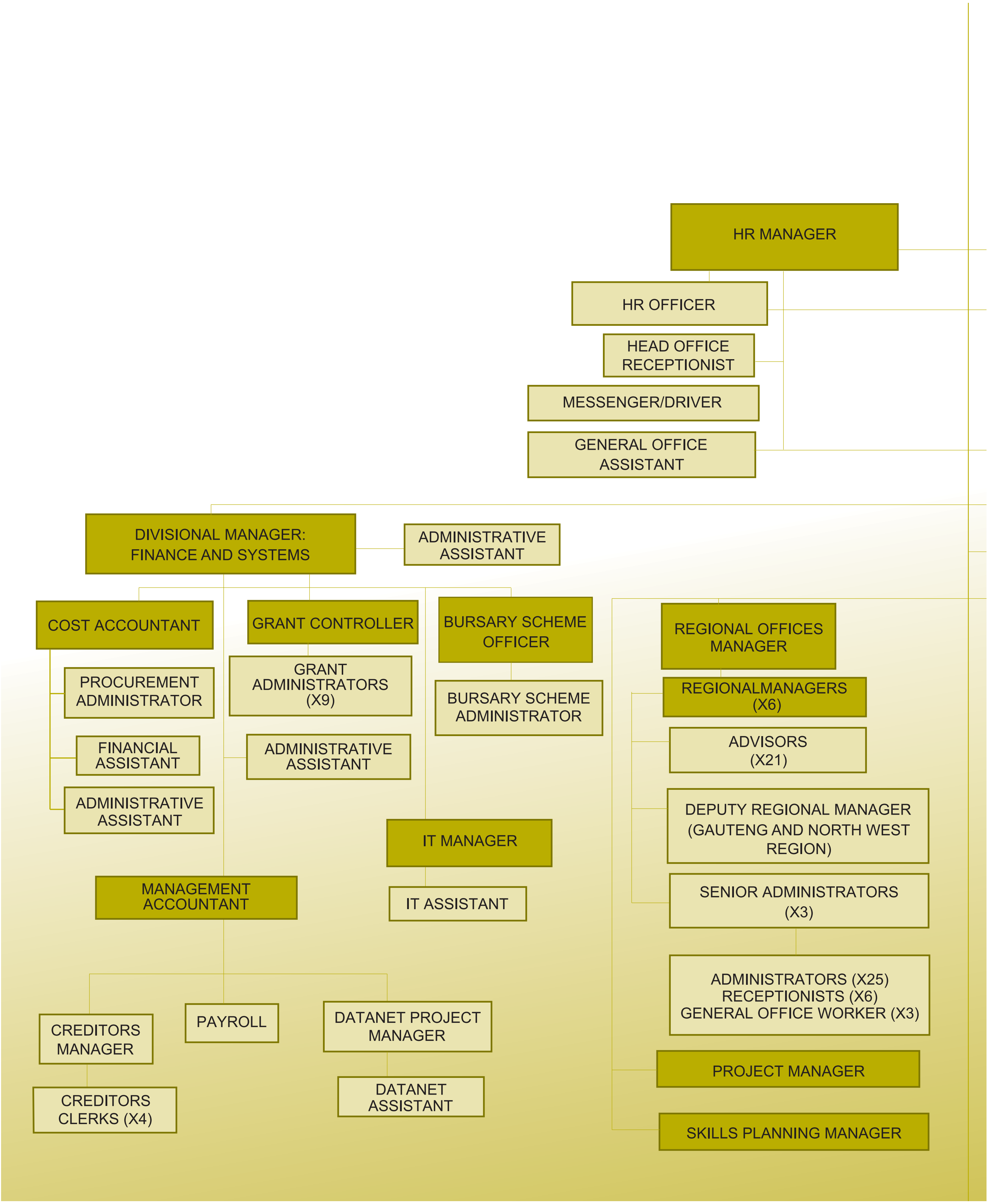
Total number of males = 154

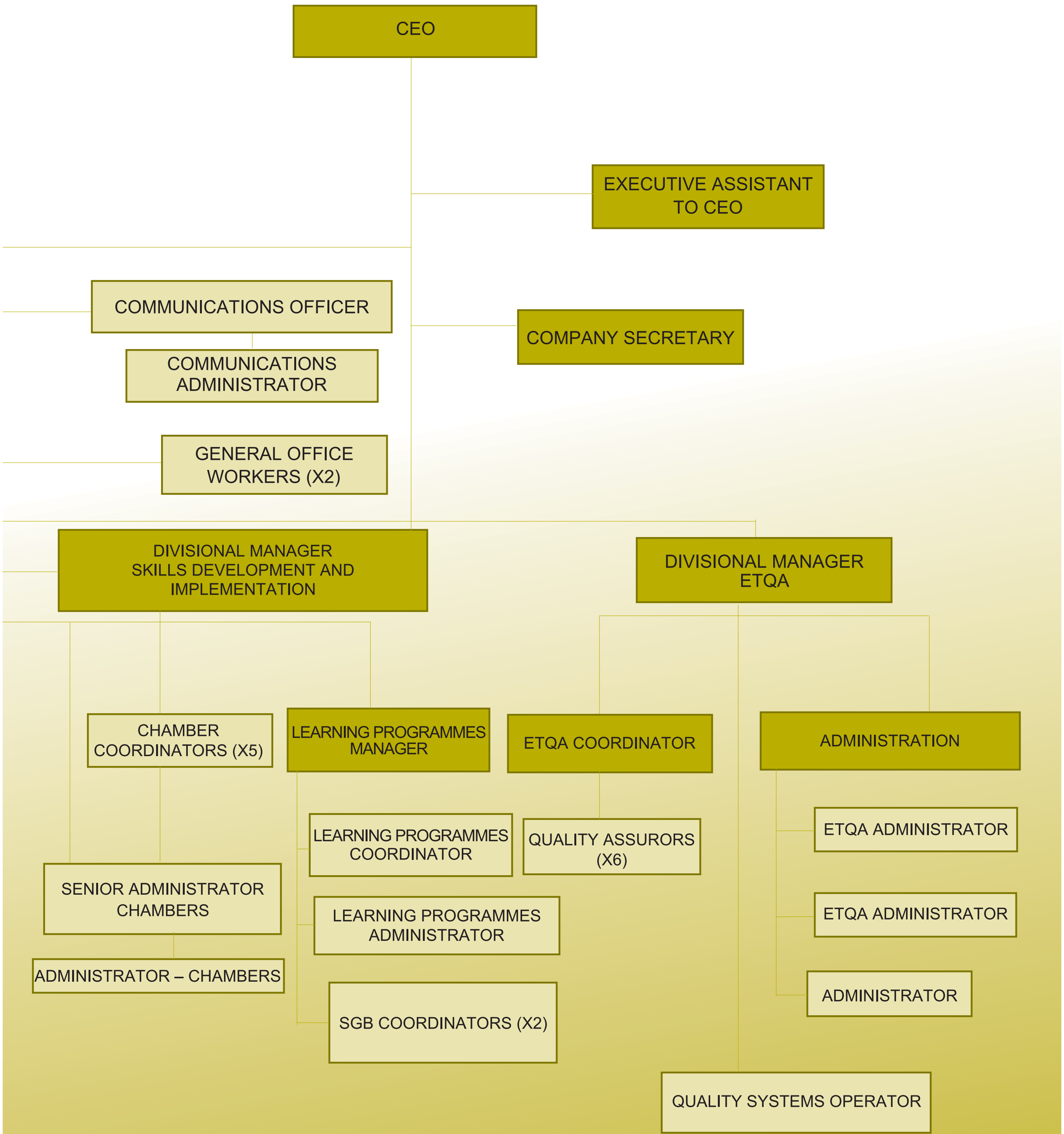
A similar pattern emerges in regard to race since 78% of students are African.

Again this is above the national average.

Of that number, 45 students completed their studies as at the 31 March 2006 and 46 students dropped out during the period representing a 22% drop out rate.

Organogram


HR MANAGER
HR OFFICER
HEAD OFFICE RECEPTIONIST
MESSENGER/DRIVER
GENERAL OFFICE ASSISTANT
DIVISIONAL MANAGER: FINANCE AND SYSTEMS
ADMINISTRATIVE ASSISTANT
COST ACCOUNTANT
PROCUREMENT ADMINISTRATOR
FINANCIAL ASSISTANT
ADMINISTRATIVE ASSISTANT
GRANT CONTROLLER
GRANT ADMINISTRATORS (X9)
ADMINISTRATIVE ASSISTANT
BURSARY SCHEME OFFICER
BURSARY SCHEME ADMINISTRATOR
IT MANAGER
IT ASSISTANT
MANAGEMENT ACCOUNTANT
CREDITORS MANAGER
CREDITORS CLERKS (X4)
PAYROLL
DATANET PROJECT MANAGER
DATANET ASSISTANT
REGIONAL OFFICES MANAGER
REGIONALMANAGERS (X6)
ADVISORS (X21)
DEPUTY REGIONAL MANAGER (GAUTENG AND NORTH WEST REGION)
SENIOR ADMINISTRATORS (X3)
ADMINISTRATORS (X25)
RECEPTIONISTS (X6)
GENERAL OFFICE WORKER (X3)
PROJECT MANAGER
SKILLS PLANNING MANAGER


CEO
EXECUTIVE ASSISTANT TO CEO
COMMUNICATIONS OFFICER
COMPANY SECRETARY
COMMUNICATIONS ADMINISTRATOR
GENERAL OFFICE WORKERS (X2)
DIVISIONAL MANAGER SKILLS DEVELOPMENT AND IMPLEMENTATION
DIVISIONAL MANAGER ETQA
CHAMBER COORDINATORS (X5)
LEARNING PROGRAMMES MANAGER
ETQA COORDINATOR
ADMINISTRATION
LEARNING PROGRAMMES COORDINATOR
QUALITY ASSURORS (X6)
ETQA ADMINISTRATOR
SENIOR ADMINISTRATOR CHAMBERS
LEARNING PROGRAMMES ADMINISTRATOR
ETQA ADMINISTRATOR
ADMINISTRATOR – CHAMBERS
ADMINISTRATOR
SGB COORDINATORS (X2)
QUALITY SYSTEMS OPERATOR

Human resources

In the financial year 2005/2006 the main focus of the human resources division was to ensure that all vacant positions were filled, especially at management level. This was successfully achieved; all divisional manager positions were filled.

Highlights

- Induction of all new staff members
- Signing of a recognition agreement with Nehawu
- Review and approval of the performance management system
- Finalising the job grading project
- Bringing the payroll in-house

Focus areas for the new financial year

- Development of WSP and equity plan
- Coordination of training for all the regions
- Reviewing all HR policies
- Implementing an employee assistance programme (EAP)
- Incentive programmes

Staff complement

Permanent staff	112
Fixed-term contract	12

Staff turnover

Reason	Male	Female
Resignation		6
Dismissal	1	1
Operational reasons		1
Medical boarding		1
Total	1	9

Job evaluation

Total positions evaluated	49
Positions upgraded	10
Positions downgraded	5

Consultants utilised by the HR department

1. PE Corporate – for salary surveys and job evaluations
2. 21st Century – ad hoc benchmarking when required

MERSETA SALARY SCALES – MARCH 2006

Categories	African		White		Asian		Coloured		Salary range (R000) Guaranteed component
	M	F	M	F	M	F	M	F	
Senior management CEO & EL	1	0	0	1	0	0	1	0	500 000 – 800 000
Management (C5 – D4)	8	5	0	2	1	0	1	1	196 918 – 450 000
Specialists (C1 – C4)	13	7	4	3	3	0	4	4	134 967 – 239 535
Administration (A1 – B5)	4	39	0	7	0	0	1	2	36 821 – 147 780
	26	51	4	13	4	0	7	7	

MERSETA DEMOGRAPHICS – MARCH 2006

Categories	African M	African F	White M	White F	Asian M	Asian F	Coloured M	Coloured F	Current vacancies: 2	Analysis 2005	Annual targets 2006
Senior management: CEO & EL	1	0	0	1	0	0	1	0		• Equal representation of men and women – 50%/50% • 80% Black/ 20% White	• Equal representation of men and women – 50%/50% • 80% Black/ 20% White
Management (C5 – D4)	8	5	0	2	1	0	1	1	Current vacancies: 1 • Black men over-represented • Women under-represented Current vacancies: 2	• Equal representation of men and women – 50%/50% • 80% Black/ 20% White	• Equal representation of men and women – 50%/50% • 80% Black/ 20% White
Specialists C1 – C4	13	7	4	3	3	0	4	4	• Women under-represented	• Equal representation of men and women – 50%/50% • 80% Black/ 20% White	• Equal representation of men and women – 50%/50% • 80% Black/ 20% White
Administration (A1 – B5)	4	39	0	7	0	0	1	2	Current vacancies: 1 Men under-represented	• 65% female/ 35% Male • 80 Black/ 20% White	• 55% female/ 45% Male • 80 Black/ 20% White
Total	26	51	4	13	4	0	7	7	Vacancies: 6 Total staff: 112 Total vacancies: 6 Total complement: 118		
Percentage	**23,2**	**45,5**	**3,6**	**11,6**	**3,6**	**0**	**6,2**	**6,2**			

Report of the MERSETA
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

We are pleased to present our report for the financial year ended 31 March 2006.

Audit Committee members and attendance

The Audit Committee consists of a maximum of seven members. This consists of no more than five independent members. The Chief Executive Officer and the Chairperson of the MERSETA attend by invitation. The members are listed hereunder and met six times per its approved terms of reference.

Name of member		Number of meetings attended
BM Hawksworth	(chairperson)	6
JL Davis	(independent)	6
S Govender	(independent)	3
A Mashifane	(independent)	6
GR Rosenthal	(independent)	6

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 requirements of the PFMA and the King II Report on Corporate Governance, 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 Audit Report on the Annual Financial Statements, and the management letter of the Auditor-General, it was noted that the system of internal control was not entirely effective for the year under review as compliance with certain prescribed policies and procedures was lacking in certain instances. There has been improvement in some of these areas and others are receiving attention. The Auditor-General has drawn attention to certain matter of emphasis in their report. A Compliance Officer has recently been appointed that will ensure that these matters receive attention.

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 Officer;
- Reviewed the Auditor-General's management letter and management's response thereto;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the audit.

The Audit 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 report of the Auditor-General.

BM Hawksworth (chairperson)
28 July 2006

REPORT OF THE
AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE MANUFACTURING, ENGINEERING AND RELATED SERVICES SECTOR EDUCATION AND TRAINING AUTHORITY FOR THE YEAR ENDED 31 MARCH 2006.

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 32 to 62, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act no. 25 of 2004) (PAA) and add section 14(6)(a) of the Skills Development Act, 1998 (Act no. 97 of 1998) (SDA). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006 and *General Notice 808 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. Those standards require that the audit is planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:
- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Manufacturing, Engineering and Related Services Sector Education and Training Authority at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1 to the financial statements, and in the manner required by Public Finance Management Act 1999 (Act no. 1 of 1999).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion, attention is drawn to the following matters:

5.1 Inadequate monitoring

Due to inadequate monitoring by management and the lack of a dedicated compliance officer for the period under review, the following laws and regulations were not complied with:

- Section 54(2) of the PFMA – did not obtain approval from the Executive Authority and did not inform National Treasury of the acquisition of their outsourced accounting function as a going concern.
- The Promotion of Access to Information Act, 2000 (Act no. 2 of 2000) – the provisions of this act were not implemented during the period under review.

Supply chain management
- Treasury Regulation 16A6.4 – tenders were not obtained for significant contracts without documenting the reasons.
- Treasury Regulation 16A9.1 – documentation for verification of company details has not been obtained.

Performance information
- Section 20(2)(c) of the PAA – the information relating to performance against predetermined objectives is subject to auditing by the Auditor-General. Supporting evidence could not be presented for certain success indicators and differences were identified between reported information and supporting documentation for certain success indicators.

6. APPRECIATION

The assistance rendered by the staff of the Manufacturing, Engineering and Related Services Sector Education and Training Authority during the audit is sincerely appreciated.

N Manik

N Manik for Auditor-General

Pretoria

28 July 2006

AUDITOR-GENERAL


Advancement through training

Annual financial statements

Contents

Annual financial statements MERSETA
Report of the Accounting Authority
to the executive authority/provincial legislature and parliament of the republic of south africa

1. GENERAL REVIEW OF THE STATE OF AFFAIRS

The financial affairs of the MERSETA are sound as is evident from its substantial levy income base and effective mandatory and discretionary grant disbursement and expenditure on skills development initiatives in the form of projects.

(a) Levies

The MERSETA experienced growth in its levy income base of 9,3% in the 2005/2006 financial year. The total number of companies contributing skills levies for the current year is 24 729. At the end of the year there were 13 061 contributing companies. The decrease in companies contributing is mainly resulting from the increase of the threshold announced during the financial year. The threshold for contributions increased from an annual payroll of R250 000 to R500 000. The receipt of levies via the Department of Labour stabilised satisfactorily in the last two years, making forecasting and subsequently planning easier.

(b) Grants and projects

The MERSETA improved its processes in the Grants division which resulted in an average payment of R35,2 million (mandatory and discretionary) per month. The total mandatory grants to be paid for the financial year 2005 – 2006 is expected to be less than the previous year. This was the direct result of the change in grant regulations from a 60% refund to companies to a 50% refund. The stricter deadlines in the regulations also had an impact on the applications received for mandatory grants.

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

Chamber	SDF R	WSP R	ATR R	Discr grant R	Total R	% total
Auto	9 095 451	37 363 361	74 931 546	22 481 687	143 872 045	12
Metal	9 948 166	170 466 231	271 244 943	196 529 777	648 189 117	54
Motor	3 060 355	84 989 662	131 016 067	97 694 558	316 760 642	26
New Tyre	1 561 437	6 142 006	12 717 756	3 481 251	23 902 450	2
Plastics	725 143	18 373 384	28 215 797	17 932 308	65 246 632	6
Total	**24 390 552**	**317 334 644**	**518 126 109**	**338 119 581**	**1 197 970 886**	**100**
% of total	2	26	43	28	100	

2. SERVICES RENDERED BY THE MERSETA

MERSETA renders the following services to its sector:

- Grants disbursements:
  - Disbursement of mandatory grants, which accounts for 50% of levies paid for applications received by 30 September 2005.
  - Disbursement of discretionary grants, which at minimum is 20%.
- Quality assurance functions which include but are not limited to:
  - Accreditation of workplaces and training providers for the purpose of quality training provision;
  - Moderation and assessment of learners against set criteria;
  - Auditing and monitoring of training providers and training.
- Skills development functions as follows:
  - Development of unit standards and registration of these with the South African Qualifications Authority;

- Development of curriculum and courseware for unit standards registered in the MERSETA's scope of coverage;
- Conceptualisation and implementation of skills initiatives which promote the NSDS objectives and address training needs in the MERSETA's five subsectors. Refer to special projects in the annual report;
- 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 implementation functions as follows:
- Skills development advice and assistance to companies and training providers;
- Administration and maintenance of the apprenticeship system;
- Administration and maintenance of the learnership system.

3. CAPACITY CONSTRAINTS

Capacity constraints facing the MERSETA and the action taken to reduce or remove the impact of these constraints are detailed below.

The management vacuum experienced at the end of 2004/2005 financial year continued until the end of the 2005/2006 financial year, at which stage the MERSETA lost another key member of its personnel, namely the CEO.

The project implementation was below budget. Service delivery in all areas has been addressed and different systems are being put in place to ensure better delivery on all objectives in the future.

Delays in certain processes due to the above were inevitable but the MERSETA is, as all SETAs, going through a rigorous planning process to align itself to the National Skills Development Strategy objectives. The organisation has also structured itself to maximise skills development delivery.

Employment data for key personnel for MERSETA for the 2004/2005 financial year:

Key personnel	Total	Basic salary	Travel allowance	Bonus	Medical aid	Pension	Leave pay	Period	Period
CEO	R364 444	R260 535	R56 000	R13 634		R27 065	R7 210	Apr 04 – Oct 04	Vacant Nov 04 – Mar 05
CFO	R283 954	R154 328	R29 289	R24 739	R3 565	R18 141	R53 892	Apr 04 – Sept 04	Vacant Oct 04 – Mar 05
ETQA div manager	R138 870	R71 939	R30 000	R10 878	R3 503	R9 112	R13 438	Apr 04 – July 04	Vacant Aug 04 – Mar 05
SDI div manager	–							Vacant	Vacant
HR manager	R99 426	R59 767	R13 915	R4 783	R4 286	R7 010	R9 665	Apr 04 – July 04	Vacant Aug 04 – Jan 05
HR manager	R51 494	R33 602	R10 000	R3 222		R4 670		Feb 05 – March 05	
Total	**R938 188**	**R580 171**	**R139 204**	**R57 256**	**R11 354**	**R65 998**	**R84 205**		

Annual financial statements MERSETA
Report of the Accounting Authority
to the executive authority/provincial legislature and parliament of the republic of south africa (continued)

Employment data for key personnel for MERSETA for the current financial year:

Key personnel	Total	Basic salary	Travel allowance	Bonus	Medical aid	Pension	Leave pay	Period	Period
CEO	R698 210	R410 236	R85 000	R118 750	R7 618	R40 393	R36 212	Apr 05 – Dec 05	Vacant Jan 06 – Mar 06
CFO	R548 359	R362 263	R55 000	R74 269	R16 578	R40 250		Vacant Apr 05	May 05 – Mar 06
ETQA div manager	R479 400	R298 802	R80 000	R66 250		R34 348		Vacant Apr 05 – May 05	June 05 – Mar 06
SDI div manager	R66 906	R51 799	R10 000		R1 330	R3 777		Vacant Apr 05 – Jan 06	Feb 06 – Mar 05
HR manager	R397 369	R254 887	R60 000	R54 060		R28 422		Apr 05 – Mar 06	
Total	**R2 190 244**	**R1 377 987**	**R290 000**	**R313 329**	**R25 526**	**R147 190**	**R36 212**		

4. UTILISATION OF DONOR FUNDS

MERSETA received no donor funds for the 2005/2006 financial year.

5. BUSINESS ADDRESS

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

MERSETA
Metropolitan Park
8 Hillside Road
3rd Floor
Parktown
2193

MERSETA
PO Box 61826
Marshalltown
2107

6. DISCONTINUED ACTIVITIES/ACTIVITIES TO BE DISCONTINUED

The MERSETA did not discontinue activities during the year under review.

7. NEW/PROPOSED ACTIVITIES

MERSETA, as the other 22 SETAs, will embark on aligning their operations with the national strategies of JIPSA and ASGISA (Accelerated and Shared Growth Initiative). This will result in a reprioritisation of projects and funds allocated to different projects.

8. EVENTS AFTER THE REPORTING DATE

The MERSETA is not aware of any events after reporting date which will affect the financial state of affairs of the organisation for the 2005/2006 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 2006 and for which a Service Level Agreement was signed between MERSETA and DoL. The MERSETA has an extensive information database which it uses for recordkeeping and updating purposes, quality assurance requirements as well as reporting to the Department of Labour.

10. CORPORATE GOVERNANCE

The elements which are basic to governance, risk management and compliance effectiveness have either been addressed by MERSETA or are being addressed as follows:

Internal audit

The MERSETA internal audit function is outsourced to an independent audit body which operates on an approved three-year internal audit plan. The independent internal auditors report to the Audit Committee.

Annual financial statements MERSETA
Report of the Accounting Authority
to the executive authority/provincial legislature and parliament of the republic of south africa (continued)

Audit Committee

The Audit Committee comprises five independent members. The Audit Committee is advisory in nature and reports to the Authority. The committee's charter is aligned to the duties as prescribed by the PFMA and Treasury Regulations. The committee has the authority to seek any information it requires from any officer or employee of the Authority, has unrestricted access to all personnel, books of account, records and to any other sources of relevant information that may be required from the Authority for the purpose of its duties and responsibilities. It is also authorised to seek such independent professional advice as it considers necessary.

Other audits

As part of the internal audit, the MERSETA went through a full audit on corporate governance and the internal control environment during the year under review. The recommendations on this audit will be implemented in the new financial year and a drive for capacity building among all stakeholders on corporate governance has already started.

Financial management

MERSETA's financial management remains sound and is compliant with PFMA and National Treasury regulations. Comprehensive financial reporting is presented by the Chief Financial Officer to the organisation's Finance Functional Standing Committee quarterly meetings. This report is also submitted to the Executive Committee as well as the Audit Committee. An all-inclusive budgeting process formed part of the business plan process and is used as a benchmark for levy income and grant administration and capital expenditure. A quarterly report of these is presented to the MERSETA Governing Board and the Department of Labour.

Policies

Most existing policies and procedures are reviewed annually. A new IT policy had been developed during the financial year to ensure better safety with regard to IT issues. The financial policies and procedures are aligned to Generally Accepted Accounting Practice and Generally Recognised Accounting Practice.

Supply chain management unit

The MERSETA is compliant with the supply chain management unit as prescribed by National Treasury which consists of a cost accountant and procurement administrator. The cost accountant also acts as the compliance officer. A reviewed procurement policy as well as a supply chain management framework had been adopted by the MERSETA.

Systems

MERSETA's information technology systems are fully operational, cost effective and well supported. The organisation is committed to continuous and systematic development of its database, Datanet. The organisation's IT network is fully functional and stable and reaches its six regional offices effectively and efficiently. A disaster recovery plan is in place and a new IT policy was also developed.

Approval

The annual financial statements for the year ended 31 March 2006, set out on pages 36 to 62, have been approved by the Accounting Authority in terms of section 51(1)(f) of the Public Finance Management Act, 1999 (Act No 1 of 1999) on 28 July 2006, and are signed on their behalf by:

C Janse van Rensburg *(acting CEO)*

L Heunis *(Chairperson)*

Annual financial statements MERSETA
Statement of financial performance
for the year ended 31 March 2006

	Note	2005/06 R'000	2004/05 R'000 Restated
REVENUE			
Skills development levy: income	2	**500 493**	457 711
Skills development levy: penalties and interest	3	**4 246**	4 192
Government grant income	4	**–**	4 044
Total non-exchange revenue		**504 739**	465 947
Investment income	5	**35 531**	37 790
Other income	6	**633**	385
Total exchange revenue		**36 164**	38 175
Total revenue		**540 903**	504 122
EXPENSES			
Employer grant and project expenses	7	**(528 534)**	(408 350)
Administration expenses	8	**(60 809)**	(41 565)
Government grant expense	4	**–**	(4 044)
Total expenses		**(589 343)**	(453 959)
Net (deficit)/surplus for the year	1A	**(48 440)**	50 163

Annual financial statements MERSETA
Statement of financial position
at 31 March 2006

	Note	2005/06 R'000	2004/05 R'000 Restated
ASSETS			
Current assets			
Current portion of loan	9	361	393
Prepayments and advances	10	978	19 231
Receivables from non-exchange transfers	11	80 181	84 415
Trade and other receivables from exchange transactions	12	5 734	5 451
Assets held for sale	13	325	–
Cash and cash equivalents	14	514 583	501 712
		602 162	611 202
Non-current assets			
Property, plant and equipment	15	6 491	3 433
Intangible assets	16	189	52
Loan	9	238	599
		6 918	4 084
Total assets		609 080	615 286
LIABILITIES			
Current liabilities			
Grants and transfers payable	17	69 163	27 022
Trade and other payables from exchange transactions	18	9 121	7 296
VAT payable	19	–	2 352
Provisions	20	1 327	707
		79 611	37 377
Net assets		529 469	577 909
Net assets presented by:			
Administration reserve		11 727	9 194
Employer grant reserve		–	285 556
Discretionary grant reserve		517 742	274 573
Capitalisation reserve		–	8 586
Total net assets		529 469	577 909

Annual financial statements MERSETA
Statement of changes in net assets
for the year ended 31 March 2006

	Note	Administration reserve R'000	Employer grant reserve R'000	Discretionary grant reserve R'000	Capitalisation reserve R'000	Unappropriated surplus/deficit R'000	Total R'000
Balance at 1 April 2004		2 893	262 504	252 675	9 082	–	527 154
Prior year adjustment	29	592	–	–	–	–	592
Restated balance		3 485	262 504	252 675	9 082	–	527 746
Net surplus for the year per statement of financial performance		–	–	–	–	50 163	50 163
As previously stated		–	–	–	–	49 952	49 952
Prior year adjustments		–	–	–	–	211	211
Transfer from capitalisation reserve		496	–	–	(496)	–	–
Excess reserves transferred to discretionary reserve		(4 463)	(140 341)	144 804	–	–	–
Allocation of accumulated surplus for the year	1A	9 676	163 393	(122 906)	–	(50 163)	–
Balance at 1 April 2005		9 194	285 556	274 573	8 586	–	577 909
Net deficit for the year per statement of financial performance		–	–	–	–	(48 440)	(48 440)
Transfer from capitalisation reserve		229	–	–	(229)	–	–
Realisation of capitalisation reserve		–	–	8 357	(8 357)	–	–
Excess reserves transferred to discretionary reserve		(148)	(236 477)	236 625	–	–	–
Allocation of unappropriated deficit for the year	1A	2 452	(49 079)	(1 813)	–	48 440	–
Balance at 31 March 2006		**11 727**	**–**	**517 742**	**–**	**–**	**529 469**

Annual financial statements MERSETA
Cash flow statement
for the year ended 31 March 2006

	Note	2005/06 R'000	2004/05 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating activities			
Cash receipts from stakeholders and others		509 971	477 055
Levies, interest and penalties received		509 901	476 961
Other income		70	94
Cash paid to stakeholders, suppliers and employees		(527 499)	(482 263)
Grants and project payments		(471 212)	(440 058)
Donor funded projects		–	(4 044)
Compensation of employees		(21 521)	(17 543)
Payments to suppliers and other		(34 766)	(20 618)
Cash utilised in operations	21	(17 528)	(5 208)
Interest received		35 270	45 033
Net cash inflow from operating activities		17 742	39 825
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15	(5 639)	(428)
Purchase of intangible assets	16	(261)	(53)
Proceeds from disposal of property, plant and equipment		596	20
Net cash outflow from investing activities		(5 304)	(461)
CASH FLOW FROM FINANCING ACTIVITIES			
Grants, transfers and funds received	4	–	4 044
Proceeds from loan		433	367
Net cash inflow from financing activities		433	4 411
Net increase in cash and cash equivalents		12 871	43 775
Cash and cash equivalents at beginning of year	14	501 712	457 937
Cash and cash equivalents at end of year	14	514 583	501 712

Annual financial statements MERSETA
Notes to the annual financial statements
for the year ended 31 March 2006

1. ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board (replacing equivalent GAAP statement) and the Public Finance Management Act, 1999 (Act no. 1 of 1999), as amended, 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	AC102: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

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 and 3 has resulted in the following significant 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 for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contribution from owners	Share capital
Distribution from owners	Dividends
Reporting date	Balance sheet date

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

iii. Specific information 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 must be presented separately on the statement of financial position.

iv. The amount and nature of any restrictions on cash balances is required to be disclosed.

Paragraphs 11 to 15 of GRAP 1 have not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements , non-disclosure will not affect fair presentation.

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 retrospective accounting standards.

1.2 Currency

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

Annual financial statements MERSETA
Notes to the annual financial statements (continued)
for the year ended 31 March 2006

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 2% collection cost to SARS and 18% contribution to the National Skills Fund).

Levy income is recognised on the accrual basis.

The estimate of outstanding levies due at year-end is based on average levies received during the year and actual receipts after year-end. Provision is made for SARS adjustments based on data obtained from SARS. This data is then compared to historical trends to establish the reasonableness of the information.

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 SETAs. Such adjustments are separately disclosed as interSETA transfers. The amount of the interSETA adjustment is calculated according to the Standard Operating Procedure of the Department of Labour issued in 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 when they accrue based on the amount received.

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

A registered company may recover a maximum of 70% of its total levy payment by complying with the grant criteria in accordance with the Skills Development Regulations issued in terms of the Skills Development Act, 1999 (Act No 9 of 1999).

1.4 Grants and project expenditure (continued)

1.4.1 Mandatory grants

The grant payable and the related expenditure 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% (2005: 60%) of the total levies paid by the employer. This 50% comprises a workplace skills planning grant. In the prior year, a skills planning grant of 15% and a skills implementation grant of 45% were paid.

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

1.4.2 Discretionary grants and project expenditure

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

The MERSETA's small, medium, micro enterprise (SMME) projects are run by three associations: SEIFSA, RMI and PLASFED. These associations are directly related to the industry and they manage these projects on behalf of the MERSETA.

Discretionary grants and project costs, whether paid directly or through associations, 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 projects approved at year-end, unless the service in terms of the contract has been delivered or the contract is of an onerous nature. Where a contract for a project, duly approved by the Board, has been entered into, but has not been accrued or provided for, it is disclosed as a commitment in the notes to the financial statements.

1.5 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 Public Finance Management Act; and
- 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. An 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2006

1.6 Property, plant and equipment

Property, plant and equipment are stated at cost less any subsequent accumulated depreciation and adjusted for any impairments. Depreciation is calculated on the straight-line method to write off the cost of each asset to estimated residual value over its estimated useful life as follows:

– Computer equipment	33,33%
– Office furniture and fittings	10%
– Office equipment	20%
– Motor vehicles	25%

The estimated 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 four years (2004/05: five years).

The useful lives of property, plant 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 (ie impairment losses are recognised).

Profits and losses on disposal of property, plant 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 met the recognition criteria are stated in the statement of financial position at amortised cost, being the initial cost price less any amortisation and impairment.

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

– Computer software	50%

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

1.8 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.

1.9 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.

1.10 Provisions

Provisions are recognised when the MERSETA has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated. Long-term provisions are discounted to net present value.

Provision for employee related entitlements

The cost of other employee benefits (not recognised as retirement benefits – see note 8) is 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 leave (based on the current salary rates), bonuses and workmen’s compensation.

1.11 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 a loan, prepayments and advances, non-exchange transfers receivable, trade and other receivables from exchange transactions, cash and cash equivalents, non-exchange transfers payable, trade and other payables from exchange transactions and VAT payable. 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 non-exchange transfers receivable, loans and the cash and cash equivalents.

Trade and other receivables

Trade and 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.

Loan

The interest free 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. MERSETA uses its internal rate of return as the effective interest 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 MERSETA uses its internal rate of return as the effective interest rate.

Financial liabilities

The MERSETA's principal financial liabilities are non-exchange transfers payable and trade and other payables from exchange transactions. These liabilities are stated at their nominal value.

Derecognition

A financial asset or a portion thereof is derecognised when the MERSETA realises that the contractual rights to the benefits specified in the contract 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. The carrying amounts of financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair value due to the short-term trading cycle of these items.

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

1.12 Net assets

Net assets are subclassified in the statement of financial position between the following funds and reserves:
– Administration reserve
– Employer grant reserve
– Discretionary grant reserve
– Capitalisation reserve
– Accumulated surplus/deficit

This subclassification 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:

	2005/06 %	2004/05 %
Administration costs of the MERSETA	10	10
Employer grant fund levy	50	60
Mandatory workplace skills planning grant	50	15
Mandatory workplace skills implementation grant	–	45
Discretionary grants and projects	20	10
	80	80

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

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

Due to the limited life of the MERSETA, management considers it prudent to retain funds in the administration reserve equal to the net book value of property, plant and equipment after reducing it by the deferred capital reserve relating to such property, plant and equipment. Funds are also retained to cover administration commitments. The remainder of the funds in the administration reserve are transferred to the discretionary reserve on an annual basis.

Surplus funds in the employer grant reserve are transferred to the discretionary grant reserve at the end of the financial year.

Capitalisation reserve
The capitalisation reserve includes a capital reserve relating to the carrying value of net assets acquired from the former Industry Training Boards as well as deferred capital expenditure. The reserve relating to the deferred capital expenditure will be reduced by an amount equal to the annual depreciation charge of the assets, until such time as the assets are fully depreciated. On disposal, repayment or recovery, an amount equal to the net book value of disposed assets will be transferred to the administration fund.

1.13 Comparative figures

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

ANNUAL FINANCIAL STATEMENTS MERSETA
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2006

1A. ALLOCATION OF NET (DEFICIT)/SURPLUS FOR THE YEAR TO RESERVES

	Total per income statement R'000	Administration reserve R'000	Employer grants reserve: Mandatory skills planning grant R'000	Employer grants reserve: Mandatory skills implementation grant R'000
Year ended 31 March 2006				
Total revenue	540 903	63 261	311 068	1 981
Skills development levy: income				
Administration levy income (10%)	62 698	62 698	–	–
Grant levy income (70%)	437 795	–	311 068	1 981
Skills development levy: penalties and interest	4 246	–	–	–
Investment income	35 531	–	–	–
Other income	633	563	–	–
Total expenses	589 343	60 809	190 203	171 925
Employer grants and project expenses	528 534	–	190 203	171 925
Administration expenses	60 809	60 809	–	–
Net (deficit) per the statement of financial performance allocated	(48 440)	2 452	120 865	(169 944)
Year ended 31 March 2005				
Total revenue	504 122	51 241	85 251	263 662
Skills development levy: income				
Administration levy income (10%)	50 931	50 931	–	–
Grant levy income (70%)	406 780	–	85 251	263 662
Skills development levy: penalties and interest	4 192	–	–	–
Government grant income	4 044	–		
Investment income	37 790	(5)	–	–
Other income	385	315	–	–
Total expenses	453 959	41 565	61 419	124 101
Employer grants and project expenses	408 350	–	61 419	124 101
Administration expenses	41 565	41 565	–	–
Government grant expense	4 044	–	–	–
Net surplus per the statement of financial performance allocated	50 163	9 676	23 832	139 561

The items of revenue and expenditure are recognised on the accrual basis of accounting in the annual financial statements. Consequently, the reserves disclosed in this note do not represent the cash reserves/fund monies, as implied in the grant regulations issued in terms of the Skills Development Act (Act No 97 of 1998).

			Discretionary reserve			
	Total R'000	Discretionary grants R'000	Learnership projects R'000	Other projects R'000	Total discretionary R'000	Government grants R'000
	313 049	101 330	13 498	49 765	164 593	–
	–	–	–	–	–	–
	313 049	61 483	13 498	49 765	124 746	–
	–	4 246	–	–	4 246	–
	–	35 531	–	–	35 531	–
	–	70	–	–	70	–
	362 128	103 143	13 498	49 765	166 406	–
	362 128	103 143	13 498	49 765	166 406	–
	–	–	–	–	–	–
	(49 079)	(1 813)	–	–	(1 813)	–
	348 913	43 464	5 725	50 735	99 924	4 044
	–	–	–	–	–	–
	348 913	1 407	5 725	50 735	57 867	–
	–	4 192	–	–	4 192	–
					–	4 044
	–	37 795	–	–	37 795	–
	–	70	–	–	70	–
	185 520	165 800	5 725	51 305	222 830	4 044
	185 520	165 800	5 725	51 305	222 830	–
	–	–	–	–	–	–
	–	–	–	–	–	4 044
	163 393	(122 336)	–	(570)	(122 906)	–

Annual financial statements MERSETA
Notes to the annual financial statements (continued)
for the year ended 31 March 2006

		2005/06 R'000	2004/05 R'000
2.	**SKILLS DEVELOPMENT LEVY INCOME**		
	The total levy income per the statement of financial performance is as follows:		
	Levy income: Administration	62 698	50 931
	Levies received	63 441	52 710
	Levies received from SARS	62 076	52 026
	InterSETA transfers in	1 375	773
	InterSETA transfers out	(10)	(89)
	Movement in levies accrued	(743)	(1 779)
	Levy income: Employer grants	313 049	348 913
	Levies received	327 177	359 591
	Levies received from SARS	319 386	354 708
	InterSETA transfers in	7 853	5 418
	InterSETA transfers out	(62)	(535)
	Movement in levies accrued	(14 128)	(10 678)
	Levy income: Discretionary grants	124 746	57 867
	Levies received	115 813	59 646
	Levies received from SARS	113 928	59 000
	InterSETA transfers in	1 896	744
	InterSETA transfers out	(11)	(98)
	Movement in levies accrued	8 933	(1 779)
		500 493	457 711
	R13 997 000 (2004/05: R14 436 000) of levy income is due to an increase in actual receipts over prior year estimates.		
3.	**SKILLS DEVELOPMENT LEVY: PENALTIES AND INTEREST**		
	Penalties	2 538	2 594
	Interest	1 708	1 598
		4 246	4 192
4.	**GOVERNMENT GRANTS**		
4.1	National Skills Fund grant		
	Opening balance	–	–
	Received during the year	–	3 950
	Courseware and curriculum development	–	3 950
	Utilised and recognised as revenue – conditions met	–	(3 950)
	Courseware and curriculum development	–	(3 950)
	Closing balance	–	–

These funds were received from the National Skills Fund for the purposes of training unemployed learners and developing curriculum and courseware material.

Annual financial statements MERSETA
Notes to the annual financial statements (continued)
for the year ended 31 March 2006

	Note	2005/06 R'000	2004/05 R'000
4. GOVERNMENT GRANTS (continued)			
4.2 Department of Labour grant			
Opening balance		–	–
Received during the year		–	94
Assessor training		–	94
Utilised and recognised as income – conditions met		–	(94)
Assessor training		–	(94)
Closing balance		–	–
These funds were received from the Department of Labour for purposes of assessor training.			
Movement summary			
Total funds received		–	4 044
Total funds utilised		–	(4 044)
		–	–
5. INVESTMENT INCOME			
Interest income from short-term deposits, bank and call accounts		35 490	37 781
Fair value adjustments to loan		41	9
		35 531	37 790
6. OTHER INCOME			
Profit on disposal of property, plant and equipment		340	13
Surplus arising from fair value adjustments to property, plant and equipment		223	278
Trade test fees received		70	94
		633	385
7. EMPLOYER GRANT AND PROJECT EXPENSES			
Mandatory grants		362 128	185 520
Disbursed		319 575	190 099
Movement in provisions and accruals		42 553	(4 579)
Discretionary grants		103 143	165 800
Disbursed		103 143	165 800
Movement in provisions and accruals		–	–
Project expenditure	7.1	63 263	57 030
Disbursed		65 539	72 867
Movement in provisions and accruals		(2 276)	(15 837)
		528 534	408 350
7.1 Project expenditure consists of:			
Direct project costs		62 712	56 499
Direct salaries and wages	8.1	551	531
	7	63 263	57 030

	Note	2005/06 R'000	2004/05 R'000
8. ADMINISTRATION EXPENSES			
Depreciation	15	2 116	1 550
Prior to reassessment of useful lives/previously reported		2 033	1 596
Depreciation due to the reassessment of useful lives		83	(46)
Amortisation – intangible assets	16	62	6
Impairment of property, plant and equipment	15	107	202
Impairment of intangible assets	16	62	–
Losses arising from fair value adjustments to leases		26	–
Operating lease rentals		2 918	2 023
Buildings		2 232	1 360
Equipment		686	663
Maintenance, repairs and running costs		1 409	973
Buildings		303	117
Property, plant and equipment		1 106	856
Advertising, marketing and promotions, communication		988	1 659
Entertainment expenses		5	15
Gifts, donations and sponsorships paid		36	56
Service provider administration fees		9 478	8 223
EOH acquisition		2 000	–
Legal fees		327	640
Insurance		306	291
Cost of employment	8.1	22 149	17 504
Travel and subsistence		2 753	1 893
Staff training and development		602	184
Recruitment costs		452	674
Remuneration to members of the Audit Committee		109	59
External auditor's remuneration		456	250
Internal auditor's remuneration		538	94
Allowance for losses resulting from levy reversals		1 788	2 790
SMME skills development facilitators		7 107	(1 130)
Other		5 566	4 140
Printing, stationery and postages		1 030	990
Telecommunication expenses		2 219	1 736
Rates, water and electricity		1 145	543
Other administration expenses		1 172	871
Less: Amounts allocated to project expenditure	8.1	(551)	(531)
		60 809	41 565

	Note	2005/06 R'000	2004/05 R'000
8. ADMINISTRATION EXPENSES (continued)			
8.1 Cost of employment			
Salaries and wages		19 254	15 335
Basic salaries		16 359	12 371
Performance awards		682	465
Other non-pensionable allowance		1 019	892
Temporary staff		726	1 113
Leave payments		415	413
Overtime payments		53	81
Social contributions		2 895	2 169
Medical aid contributions		886	703
Pension contributions: defined benefit plans		1 759	1 254
UIF		113	82
Insurance		67	74
Other salary related costs		70	56
		22 149	17 504
Allocation of cost of employment			
Administration expenses		21 598	16 973
Project expenses		551	531
	8	22 149	17 504
Average number of employees		105	83

Refer to the report by the Accounting Authority for disclosure concerning the emoluments of members of the Accounting Authority, the Chief Executive Officer, the Chief Financial Officer and senior managers.

8.2 Retirement benefit costs

The MERSETA discloses information about the fund in accordance with the reporting requirements of IAS19 (AC116) and furnishes the following information:

– The fund was last actuarially valued in 2003 in terms of the fund rules.
– At that date the fund was financially sound and had a surplus of R47,7 million.
– The actuarial valuation shows that there were no unfunded past service liabilities.
– Contribution rates have remained consistent since the MERSETA joined the fund six years ago.
– The expense recognised in the income statement, equal to the contributions due for the year amounts to R1 759 000 (2005: R1 254 000) as disclosed in note 8.1 to the financial statements.

Annual financial statements MERSETA
Notes to the annual financial statements (continued)
for the year ended 31 March 2006

	Note	2005/06 R'000	2004/05 R'000
9. LOAN			
Loan granted		599	992
Less: current portion		(361)	(393)
		238	599

The loan is secured, by a second mortgage bond over stands 4 and 5 of Erf 207 Randjespark Extension 69, Midrand, and bears interest at rates determined from time to time by the lender upon written notice to the borrower from January 2003. It is repayable in equal monthly instalments over five years commencing January 2003 and ending December 2007. The loan bears no interest. The loan has been discounted at 6,86%, the internal rate of return.

	Note	2005/06 R'000	2004/05 R'000
10. PREPAYMENTS AND ADVANCES			
Staff advances		54	62
Prepayments – Insurance		74	77
Prepayments – Associations		850	19 092
Closing balance		978	19 231
11. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS			
Skills development levy debtors		77 404	83 342
Administration levy debtors		9 675	10 418
Employer grant levy debtors		48 378	62 506
Discretionary grant levy debtors		19 351	10 418
InterSETA debtors	25.1	34	33
Debtors for interest and penalties		363	–
Employer receivables	11.2	2 380	1 040
		80 181	84 415

The accrual for skills development levy income is based on actual receipts after year-end as well as estimates based on historical trends.

	Note	2005/06 R'000	2004/05 R'000
11.1 Retrospective amendments by SARS			
Included in skills development levy debtors is:			
SARS net (payable)/receivable			
Opening carrying amount		10 000	–
SARS adjustments for the current year		(9 476)	(14 436)
Change in estimate		(1 391)	24 436
Closing carrying amount		(867)	10 000

During the year under review, SARS advised the MERSETA of erroneously designated skills development levies received in prior periods, resulting in a retrospective adjustment of R9 476 000 (2004/05: R14 436 000). Included in the carrying amount is an allowance of R9 805 000 made for possible refunds to companies falling within the SDL threshold but still contributing levies. The effective date of this exemption was 1 August 2005.

Annual financial statements MERSETA
Notes to the annual financial statements (continued)
for the year ended 31 March 2006

	2005/06 R'000	2004/05 R'000
11. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)		
11.2 Employer receivable		
Employer receivable		
Overpayment to employers	7 198	4 070
Allowance for doubtful debts	(4 818)	(3 030)
Net effect of SARS retrospective adjustments on affected employers	2 380	1 040
An amount of R7 198 000 is recognised as an employer receivable due to the overpayment of grants in earlier periods and is based on the amount of such overpayment. An amount of R4 818 000 was provided against such employer receivables. Refer also to note 1.3.1.		
12. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Deposits	124	49
Interest receivable	5 593	5 373
Sundry debtors	17	29
	5 734	5 451
13. ASSETS HELD FOR SALE		
Vehicles – cost	974	–
Accumulated depreciation	(649)	–
Carrying value at end of year	325	–
14. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	687	180
Cash at bank	671	164
Cash on hand	16	16
Short-term investments/instruments	513 896	501 532
Cash and cash equivalents at end of year	514 583	501 712

As required in Treasury Regulation 31.2, National Treasury approved the banks where the bank accounts are held. The weighted average interest rate on short-term bank deposits was 6,86% (2004/05: 7,15%).

15. PROPERTY, PLANT AND EQUIPMENT

	Cost R'000	Accumulated depreciation/ impairment R'000	Closing carrying amount R'000
Year ended 31 March 2006			
Computer equipment	3 607	(2 031)	1 576
Office furniture and fittings	2 138	(1 002)	1 136
Office equipment	563	(334)	229
Motor vehicles	5 668	(1 793)	3 875
Balance at end of year	11 976	(5 160)	6 816
Less: vehicles held for sale	(974)	649	(325)
Balance at end of year	11 002	(4 511)	6 491
Year ended 31 March 2005			
Computer equipment	4 211	(3 208)	1 003
Office furniture and fittings	1 620	(598)	1 022
Office equipment	892	(558)	334
Motor vehicles	2 314	(1 240)	1 074
Balance at end of year	9 037	(5 604)	3 433

All assets are owned by the MERSETA.

	Opening carrying amount R'000	Fair value adjustments/ reclassifi-cations of assets cost R'000	Fair value adjustments/ reclassifi-cations of assets accumulated depre-ciation R'000	Additions R'000	Impairment cost R'000	Disposals cost R'000	Depre-ciation charge R'000	Accumulated depre-ciation on disposals R'000	Carrying amount R'000
15. PROPERTY, PLANT AND EQUIPMENT (continued)									
Movement summary 2006									
Computer equipment	1 003	(1 599)	1 782	1 101	(4)	(106)	(684)	83	1 576
Office furniture and fittings	1 022	162	(149)	356	(76)	–	(179)	–	1 136
Office equipment	334	(361)	370	32	(27)	–	(119)	–	229
Motor vehicles	1 074	18	–	4 150	–	(814)	(1 134)	581	3 875
Balance at end of year	3 433	(1 780)	2 003	5 639	(107)	(920)	(2 116)	664	6 816
Movement summary 2005									
Computer equipment	1 076	464	(176)	263	(32)	(14)	(585)	7	1 003
Office furniture and fittings	1 064	(10)	–	119	(97)	–	(54)	–	1 022
Office equipment	395	–	–	46	(60)	–	(47)	–	334
Motor vehicles	1 801	–	–	–	(13)	–	(714)	–	1 074
Training equipment and syllabi	150	–	–	–	–	–	(150)	–	–
Balance at end of year	4 486	454	(176)	428	(202)	(14)	(1 550)	7	3 433

	2005/06 R'000	2004/05 R'000
16. INTANGIBLE ASSETS – COMPUTER SOFTWARE		
Opening carrying value	52	5
Cost	58	139
Accumulated amortisation	(6)	(134)
Movements during the year	137	47
Additions	261	53
Disposals – cost	–	(134)
Disposals – accumulated depreciation	–	134
Impairment	(62)	–
Amortisation	(62)	(6)
Closing carrying value	189	52
Cost	257	58
Accumulated amortisation	(68)	(6)

	Note	2005/06 R'000	2004/05 R'000
17. GRANTS AND TRANSFERS PAYABLE			
Grants payable	17.1	68 756	26 203
InterSETA payables	25.1	163	405
InterSETA clearing account		244	414
		69 163	27 022
17.1 Grants payable			
Opening carrying amount		26 203	27 717
Amounts utilised		(29 536)	(32 922)
Unutilised provision reversed		(403)	(356)
Change in estimate		3 976	5 562
Additional provision/accrual made during the period		68 516	26 202
Closing carrying amount		68 756	26 203

The grant provision is based on grant applications currently in process that have been submitted by the due date, ie 30 September 2005. Provision was only made where the status of these applications indicated that there was a good likelihood that these grants will still be paid. No provision was made in 2004/05 as applications had not yet been processed.

	Note	2005/06 R'000	2004/05 R'000
18. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS			
Project creditors		4 369	6 645
Association payables		3 732	–
Sundry payables		1 020	651
Accruals operating expenditure		925	571
Other payables		95	80
		9 121	7 296

The R3 732 000 (2004/05: R19 092 000 prepayment – see note 10) for "association payables" less the association prepayment of R850 000 per note 10 comprises cash and cash equivalents of R2 759 000 (2004/05: R19 749 000) and accounts payable of R5 641 000 (R2004/05: R657 000).

	Note	2005/06 R'000	2004/05 R'000
19. VALUE ADDED TAX PAYABLE			
VAT creditor		–	296
VAT on levy income accrued		–	1 126
Output VAT on project accruals		–	930
		–	2 352

From 1 April 2006, MERSETA was deregistered as a VAT vendor.

Annual financial statements MERSETA
Notes to the annual financial statements (continued)
for the year ended 31 March 2006

20. PROVISIONS

	Employee leave provision R'000	Employee bonus provision R'000	Workmen's compensation R'000	2005/06 R'000	2004/05 R'000
Opening carrying amount	500	160	47	**707**	1 156
Amounts utilised	(294)	(789)	(30)	**(1 113)**	(2 286)
Change in estimate	426	1 246	61	**1 733**	1 837
Closing carrying amount	632	617	78	**1 327**	707
Non-current	–	–	–	**–**	–
Current	632	617	78	**1 327**	707
Total	632	617	78	**1 327**	707

Employee leave provision is based on the value of leave days due to each employee. The bonus provision is a pro rata amount based on one month's salary. The workmen's compensation is calculated in accordance with the Workmen's Compensation Act No 130 of 1993.

	Note	2005/06 R'000	2004/05 R'000
21. RECONCILIATION OF NET (DEFICIT)/SURPLUS TO CASH UTILISED IN OPERATIONS			
Net (deficit)/surplus as per the statement of financial performance		**(48 440)**	50 163
Adjusted for non-cash items:			
Depreciation – plant and equipment	8, 15	**2 116**	1 550
Amortisation of intangible assets	8, 16	**62**	6
Impairment of intangible assets	8, 16	**62**	–
Impairment of property plant and equipment	8, 15	**107**	202
Profit on disposal of property, plant and equipment	6	**(340)**	(13)
Fair value adjustments to loan	5	**(41)**	(9)
Fair value adjustment to property, plant and equipment		**(223)**	(278)
Prior year adjustment – leases	29	**–**	(133)
Movements in provisions		**620**	(449)
Government grant income		**–**	(4 044)
Adjusted for items separately disclosed			
Investment income		**(35 270)**	(45 033)
Adjusted for working capital changes:			
Decrease/(increase) in prepayments and advances		**18 253**	(12 639)
Decrease in receivables from non-exchange transfers		**4 234**	18 171
(Increase)/decrease in trade and other receivables from exchange transactions		**(282)**	7 248
Increase/(decrease) in grants and transfers payable		**42 141**	(695)
Increase/(decrease) in trade and other payables from exchange transactions		**1 825**	(15 905)
Decrease in VAT payable		**(2 352)**	(3 350)
Cash utilised in operations		**(17 528)**	(5 208)

22. CONTINGENCIES

22.1 Surplus funds

In terms of the PFMA, all surplus funds as at year-end may be forfeited to National Treasury. No formal approval has been obtained from National Treasury to retain surplus funds for the current financial year. Request for approval for the 2004/05 financial year has been obtained from National Treasury.

22.2 Grants payable

There is currently litigation under way with regard to payment of workplace skills planning grants, the outcome of which is uncertain. These grants amount to R166 000.

23. COMMITMENTS

23.1 Discretionary reserve

Of the balance of R517 742 000 available in the discretionary reserve on 31 March 2006, an amount of R282 865 000 has been approved for future project expenses as set out below. Amounts for expenses that have already been incurred and therefore included in project expenses in the statement of financial performance, are also indicated.

	Opening balance 2004/05 R'000	Approved by Accounting Authority R'000	Utilised 2004/05 R'000	Opening balance 2005/06 R'000	Adjustments 2005/06 R'000	Approved by Accounting Authority and contracted R'000	Utilised 2005/06 R'000	Total R'000
MAP SGB	–	263	(263)	–	–	–	–	–
Capacity building project	–	6	(6)	–	–	–	–	–
SSP review	–	119	(119)	–	–	100	(100)	–
Annual report project	–	213	(213)	–	–	219	(219)	–
Unit standard project	–	294	(184)	110	(110)	–	–	–
Resource room project	–	8	(8)	–	–	–	–	–
Training of company SDFs	–	25	(25)	–	–	–	–	–
Policies and procedures	–	60	(44)	16	(16)	–	–	–
Accreditation project	–	125	(125)	–	–	–	–	–
SMME implementation SDFs	–	25	(25)	–	–	–	–	–
SMME implementation	18 045	8 129	(16 226)	9 948	–	49 789	(24 008)	35 729
Learnership pilot phase	–	2 218	(2 218)	–	–	1 777	(1 777)	–
Learnership airconditioning project	–	46	(46)	–	–	111	–	111
Plastics project	–	51	(51)	–	–	–	–	–
ABET project phase 1	920	11 368	(6 122)	6 166	–	1 070	(2 475)	4 761
Provider indabas and workshops	–	333	(333)	–	–	–	–	–
Accreditation – external providers	–	3	(3)	–	(16)	–	16	–
Pilot NQF level 1	–	300	(300)	–	–	–	–	–
Tyre project	–	2	(2)	–	–	–	–	–
Vehicle maintenance project	–	405	(405)	–	–	484	(484)	–
Advanced diesel (AIDC)	–	(77)	77	–	88	–	(88)	–
Advanced tooling (AIDC)	–	(7)	7	–	–	–	–	–
Develop and assess trade test fees	–	2 521	(2 513)	8	(8)	–	–	–
Labour capacity building project	–	3 546	(765)	2 781	–	616	(875)	2 522
Audit – accredited providers	–	4	(4)	–	–	–	–	–
KZN FET project	–	268	(268)	–	–	–	–	–
ABET phase 2	–	17 998	(4 015)	13 983	–	11 906	(6 366)	19 523
Investors in People	–	99	(99)	–	–	–	–	–
Assessor and moderator training	–	1 734	(1 693)	41	–	5 062	(3 194)	1 909
Bursaries	–	3 118	(3 118)	–	–	5 528	(3 897)	1 631
Skills requirements project	–	2 546	(1 990)	556	–	160	(408)	308
Courseware development	–	7 147	(5 880)	1 267	–	21 489	(11 238)	11 518
AIDC – ESDLE project	–	9 229	(6 963)	2 266	–	9 569	(4 311)	7 524
Indo German tool room	–	–	–	–	100	1 000	(1 100)	–
Damelin	–	–	–	–	–	3 178	(1 063)	2 115
PRO STEP – Sigima	–	–	–	–	–	179 874	(687)	179 187
Unemployed youth learners	–	–	–	–	–	5 130	–	5 130
Welding Centre for Occupational Excellence	–	–	–	–	–	5 700	–	5 700
Standards and qualifications in engineering	–	–	–	–	–	787	–	787
General Motors – unemployed learners	–	–	–	–	–	4 410	–	4 410
VAT on projects	–	–	–	–	–	989	(989)	–
	18 965	72 119	(53 942)	37 142	38	308 948	(63 263)	282 865

23. COMMITMENTS (continued)

23.2 Administration reserve

Of the balance of R11 727 000 in the administration reserve at 31 March 2006, R4 047 000 has been approved and set aside for the payment of SMME skills development facilitators, R1 000 000 has been set aside for an employee dispute and the balance of R6 680 000 constitutes amounts retained in the administration reserve to cover the carrying amount of property, plant and equipment and intangible assets.

23.3 Operating leases

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

	2005/06 R'000	2004/05 R'000
Not later than one year	2 640	2 343
Later than one year and not later than five years	7 826	7 316
	10 466	9 659

The operating leases relate to building premises used for office accommodation and office equipment. The lease agreements were entered into on various dates and will be operational for varying periods, the last expiring on 31/12/2009. 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 8%.

24. 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 terms of TR 28.1 in order to monitor and control these risks. The risk management process relating to each of these risks is discussed under the headings below.

Interest rate risk
The MERSETA manages its interest rate risk by fixing rates on surplus cash funds using short-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		
	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	Total R'000
Year ended 31 March 2006								
Assets								
Loan						599	1,75	599
Cash and cash equivalents	687	5,75	513 896	6,86	0,25			514 583
Receivables from non-exchange transactions						80 181	0,2	80 181
Trade and other receivables from exchange transactions						5 734	0,3	5 734
Total financial assets	687	5,75	513 896	6,86	0,25	86 514	2,25	601 097
Liabilities								
Grants and transfers payable						69 163	0,5	69 163
Trade and other payables from exchange transactions						9 121	0,2	9 121
Total financial liabilities	–	–	–	–	–	78 284	0,7	78 284
Year ended 31 March 2005								
Total financial assets	180		501 532			90 858		592 570
Total financial liabilities	–		–			(34 318)		(34 318)
Net financial assets	180		501 532			56 540		558 252

24. FINANCIAL INSTRUMENTS (continued)

Credit risk

Financial assets, which potentially subject the MERSETA to the risk of non-performance by counterparties and thereby subject to credit concentrations of credit risk, consist mainly of cash and cash equivalents and non-exchange transfers receivable.

The MERSETA manages/limits its treasury counterparty 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 paying employers is limited due to the nature of the income received. The MERSETA does not have any material exposure to any individual or counterparty. The MERSETA's concentration of credit risk is limited to the motor, engineering and related services industry in which the MERSETA operates. No events occurred in the motor, engineering and related services industry during the financial year that may have an impact on the accounts receivable that have 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 versus forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

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, non-exchange transfers receivable and non-exchange transfers payable. No financial instruments were carried at amounts in excess of their fair values. The following methods and assumptions are used to determine the fair value of each class of financial instrument.

No financial asset was carried at an amount in excess of its fair value and fair values could be reliably measured for all financial instruments.

The following methods and assumptions are used to determine the fair value of each class of financial instruments.

Cash and cash equivalents

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

Receivables from non-exchange transactions

The carrying amount of non-exchange transfers receivable, net of allowance for losses resulting from levy reversals, approximates fair value due to the relatively short-term maturity of these financial assets.

Trade and other receivables from exchange transactions

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

Non-exchange transfers payable

The carrying amount of non-exchange transfers payable approximates fair value due to the relatively short-term maturity of these financial liabilities.

Annual financial statements MERSETA
Notes to the annual financial statements
(continued)

for the year ended 31 March 2006

25. RELATED PARTY TRANSACTIONS

25.1 Transactions with other SETAs

InterSETA 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	2005/06 R'000 Net transfers in/(out) during the year	2005/06 R'000 Amount receivable/ payable	2004/05 R'000 Transfers in/(out) during the year	2004/05 R'000 Amount receivable/ payable
Receivables	11	5 486	34	6 509	33
CETA		35	–	4 509	–
CHIETA		–	20	(52)	19
FASSET		8	12	393	12
CTFL		31	–	(45)	–
ESETA		35	–	1	–
ETDP		5	–	–	–
FOODBEV		9	–	16	–
HW SETA		87	–	19	–
INSETA		238	–	–	–
MAPPP		132	–	(30)	–
MQA		1 247	–	1 698	–
POSLEC		36	–	–	–
TETA		407	–	–	–
THETA		3 161	–	–	–
FIETA		55	2	–	2
Payables	17	5 555	(163)	(296)	(405)
ISETT		20	(30)	(56)	(30)
SERVICES		4 897	(133)	(371)	(375)
W&RSETA		638	–	156	–
PAETA		–	–	(25)	–
Total		11 041	(129)	6 213	(372)

25.2 Board members: representative company transactions

	2005/06 R'000 Net transfers in/(out) during the year	2005/06 R'000 Amount receivable/ payable
RMI	(17 125)	–
SEIFSA	(8 093)	–
Plasfed	(1 097)	–
Numsa	(278)	–
Haggie	493	–
BMW SA	3 124	–
Bridgestone Firestone SA	1 555	–
Plasticolors (Pty)	57	–
Goodyear SA	1 056	–
Ford Motor Company of SA	3 170	–
Volkswagen of SA	4 087	–
DaimlerChrysler SA	3 114	–
Dunlop Tyres International	1 646	–
Cape Gate (Pty) Limited	2 476	–
Continental Tyre SA	2 405	–
	(3 410)	–

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

Criminal conduct

Management is not aware of any losses incurred through criminal conduct.

Irregular expenditure

Payments to the amount of R1 150 000 were made to companies which submitted their WSPs after 30 September 2005. This was in contradiction to the Skills Development Act funding regulations and therefore constitutes irregular expenditure. Grant personnel indicate that the applications were received on time but no substantive documentation could be provided to support this.

Fruitless and wasteful expenditure

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

27. 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.

28. EVENTS AFTER THE REPORTING DATE

Management is not aware of any material events impacting the annual financial statements after the reporting date.

29. PRIOR PERIOD ERRORS

Prior period errors resulted from:	Note	**2006/05**	2004/05
Reassessments of useful lives of property, plant and equipment	29.2	–	875
Straight-lining of operating leases	29.3	–	(133)
Discounting of the interest free loan	29.4	–	(150)
Effect on opening balance of reserves		–	592

An analysis of the effect of these adjustments on the related items in the statement of financial position and statement of financial performance is given below:

29.1 Reclassification of intangible assets

The correction of the prior period error relates to the reclassification of intangible assets (computer software) previously treated as property plant and equipment. The aforementioned software is application programs and should therefore be treated as intangible assets.

	2006/05 R'000	2004/05 R'000	2003/04 R'000
(Decrease) in cost of property, plant and equipment	–	(58)	(134)
(Decrease) in accumulated depreciation of property, plant and equipment	–	1	(134)
Decrease in depreciation	–	1	–
(Increase) in amortisation	–	(5)	–
Increase in cost of intangible assets	–	58	134
Increase in accumulated depreciation of intangible assets	–	(5)	134
	–	(8)	–

	2006/05 R'000	2004/05 R'000	2003/04 R'000
29. PRIOR PERIOD ERRORS (continued)			
29.2 Reassessments of useful lives of property, plant and equipment			
The correction of the prior period error relates to the reassessment of the useful lives of property, plant and equipment whose useful lives were not reassessed as per the requirements of AC123/IAS16. The useful lives of assets should be assessed at least at the end of each financial year-end. The useful lives of the aforementioned assets were not reassessed resulting in the assets being carried at R1 whilst still in use. The useful lives of the assets were reassessed and the carrying amounts of these assets were corrected.			
Increase in the carrying value of property, plant and equipment	183	425	1 364
(Increase)/decrease in depreciation charge	(83)	46	(489)
	100	471	875
29.3 Straight-lining of operating leases			
The correction of the prior period error relates to the straight-lining of operating leases that were not straight-lined in accordance with the requirements of AC105/IAS17.			
Increase/(decrease) in lease expense payable	(127)	(87)	133
Increase/(decrease) in lease expense charged to the income statement	127	(87)	133
29.4 Discounting of interest free loan			
The correction of the prior period error relates to the discounting of an interest free loan that was not discounted to its fair value.The balance of the interest free loan decreased as follows:			
(Decrease)/increase in the book value of the interest free loan	36	39	(150)
Increase in the interest received charged to the income statement	36	39	61

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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 affairs 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.
Committee	Any permanent committee, ad hoc or sub-committee of the MERSETA, established in terms 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 12 of the constitution.
Director-General	Means the Director-General of Labour.
Education and training standards	Registered statements of desired education and training outcomes and their associated assessment criteria as defined in the SAQA Act.
Discretionary grants	Means grants contemplated in grant regulation 7, in terms of the 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.
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.
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.
Sector	Means the Manufacturing, Engineering and Related Services Sector.
SMME	Small, Medium and Micro Enterprise.
Levies Act	The Skills Development Levies Act 1999 (Act No 9 of 1999).
Treasury Regulations	Means the regulations issued in terms of Public Finance Management Act, 1999, as amended.
LRA	The Labour Relations Act 1995 (Act No 66 of 1995).
SAQA Act	The South African Qualifications Authority Act, 1995 (Act No 58 of 1995).

ABET	Adult Basic Education and Training.
AMEO	Automobile Manufacturers' Employers Organisation.
AMIC	Automotive Industrial Council.
ATR	Annual Training Report.
ATRAMI	Artisan Training and Recognition Agreement for the Metal Industry.
BEE	Black Economic Empowerment.
BSC	Balanced Scorecard.
CBO	Community Based Organisation.
CEPPAWU	Chemical, Energy, Pulp, Paper, Wood and Allied Workers Union.
CBMT	Competency Based Modular Training.
CHE	Council for Higher Education.
CFO	Chief Financial Officer.
COGSI	Cape Oil and Gas Strategic Initiative.
DoE	Department of Education.
DoL	Department of Labour.
Dti	Department of Trade and Industry.
ESDLE	Employment Skills Development Lead Employer.
FET	Further Education and Training.
FRA	Fuel Retailers Association.
FRIDGE	Fund for Research into Industrial Development Growth and Equity.
IDZ	Industrial Development Zone.
GAAP	Generally Accepted Accounting Practice.
GARP	Generally Recognised Accounting Practice.
GDS	Growth and Development Summit.
HET	Higher Education Training.
ISOE	Institute of Sectoral, Occupational Excellence.
MISA/SAMU	Motor Industry Staff Association – MISA/South African Motor Union.
MOU	Memorandum of Understanding.
NSDS	National Skills Development Strategy.
NSDS II	National Skills Development Strategy, 2005 – 2010.
NGO	Non-governmental Organisation.
ASGISA	Accelerated shared growth initiative of South Africa.
JIPSA	Joint Initiative for Priority Skills Acquisition.
ETQA manager	Education and Training Quality Assurance manager.
NQF	National Qualifications Framework.
NUMSA	National Union of Metalworkers of South Africa.
NTI	National Tooling Initiative.
P1	First practical six months' experiential work requirement to quality for a national diploma at a recognised university of technology.
P2	Second practical six months' experiential work requirement to quality for a national diploma at a recognised university of technology.

Glossary (continued)

PLASFED	Plastics Federation of South Africa.
PBMR	Pebble Bed Molecular Reactor.
PPP	Public Private Partnerships.
SDI manager	Skills Development Implementation manager.
SCM	Supply Chain Management.
SEIFSA	Steel and Engineering Industries Federation of South Africa.
RPL	Recognition of prior learning.
RMI	Retail Motor Industry Organisation.
SAIW	Southern African Institute of Welding.
SETA	Sector Education and Training Authority.
SGB	Standards generating body.
SLA	Service Level Agreement.
SMME	Small, Medium and Micro Enterprise.
SSP	Sector Skills Plan.
UMALUSI	The Department of Education Quality Assurance Body.
NSDS	National Skills Development Strategy.
TASA	Toolmakers Association of South Africa.
WSP	Workplace Skills Plan.

Notes

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