



# ANNUAL REPORT

## 2015/2016

**"PAST, PRESENT AND FUTURE"**



**merSETA**

MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA









# VISION

Leaders in closing the skills gap

# MISSION

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

# VALUES



## **WE CARE:**

It's about caring for people we render services to.



## **WE BELONG:**

It's about working together with colleagues.



## **WE SERVE:**

It's about going beyond the call of duty.





# ANNUAL REPORT 2015/2016

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# **HONOURABLE MINISTER** **B E NZIMANDE**

## **MP HIGHER EDUCATION AND TRAINING**

It is indeed a pleasure and privilege to present to you the annual report of the Manufacturing, Engineering and Related Services SETA for the period 1 April 2015 to 31 March 2016.

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

Yours Faithfully

A handwritten signature in black ink, appearing to read 'Ray Patel', written over a horizontal line.

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



<b>Registered Name</b>	merSETA (Manufacturing, Engineering and Related Services SETA)
<b>Registration Number</b>	17/merSETA/1/04/11
<b>Physical Address</b>	95, 7 <sup>th</sup> Avenue, cnr Rustenburg Road Melville Johannesburg 2092
<b>Postal Address</b>	P O Box 61826 Marshalltown Johannesburg
<b>Telephone Number</b>	010 219 3000
<b>E-Mail Address:</b>	info@merSETA.org.za
<b>Website Address</b>	www.merSETA.org.za
<b>External Auditors</b>	Auditor General (SA)
<b>Bankers</b>	Standard Bank of South Africa Ltd
<b>Company Secretary</b>	Ms Florence M. Nkomo
<b>ISBN Number</b>	978-1-77018-813-6
<b>RP Number</b>	RP171/2016



**higher education  
& training**  
Department:  
Higher Education and Training  
REPUBLIC OF SOUTH AFRICA



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



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GENERAL INFORMATION







### CHAIRPERSON

*Ms Phindile Baleni*

## FOREWORD BY THE CHAIRPERSON

### THE PAST, THE PRESENT, THE FUTURE

As the country navigates choppy economic waters, a ray of light continues to shine out from the murky depths of economic uncertainty. This ray of light is focused on the country's Sector Education and Training Authorities (SETAs), which continue to thrive in the post-school education and training sphere.

It is indeed a good story to tell.

Since their establishment 16 years ago, the SETAs have trained tens of thousands of enthusiastic and talented artisans and learners mostly from disadvantaged backgrounds. The success stories since the establishment of these agencies are countless.

Reviewed through the prism of the merSETA, this success clearly shows that South Africa's artisanal sector is world-class, both functionally and technically.

The merSETA has plugged skills gaps that otherwise would have left gaping technical holes in South Africa's automotive, motor retail and manufacturing, plastics, new tyre, metals and engineering industries.

The merSETA's interventions are no band-aid.

In the past 16 years, the organisation's annual churn of qualified artisans and learners has averaged 20 000 per annum, while its interventions in other spheres, including highly successful partnerships with business, labour, universities, TVETs, cooperatives and community organisations, have raised the bar in industry, both nationally and internationally.

In effect, the merSETA has facilitated training for more than 250 000 artisans, learners and specialists in the last 16 years. Our merSETA-trained corps is able to compete with the best in the world, as evidenced by major international automotive manufacturers, whose South African-based operations were selected as worldwide production sites in the last financial year.

When it was established in 2000, the merSETA's levy income was a little over R130 million. In this past financial year, the organisation's budget stood at more than R1.3 billion – a ten-fold increase in 16 years.

Apart from the myriad training initiatives in its core sectors, the organisation has improved its alignment with the national government's economic imperatives. It has partnered with major training institutions and providers, as part of government's Operation Phakisa, which seeks to unlock the economic potential of our oceans. The value in 2033 is estimated to be about R177 billion, compared to R55 billion this last financial year. The merSETA has signed cooperation agreements with major learning institutions along our coastal border.



***“IN THE WAKE OF THE DHET PROPOSAL, THE MERSETA SOLICITED INPUT FROM ITS STAKEHOLDERS VIA AN INTERNET PORTAL CREATED SPECIFICALLY FOR STAKEHOLDER INPUT ON THE DRAFT PROPOSAL.”***

## STRATEGIC RESULTS AND CORPORATE GOVERNANCE

That the merSETA is a high-performing organisation is a sine qua non. While the manufacturing sector continues to suffer low demand in both the local and international markets, key strategic decisions taken by the Accounting Authority continue to stabilise our training initiatives.

We have long endorsed and abided by the principles of the King III Code, to ensure that the affairs of the merSETA are conducted with integrity. And we are preparing for the next round of King principles.

During the financial period 2015/16, the merSETA achieved 31 out of 36 of its performance targets, as set out in the Annual Performance Plan.

This financial year also saw merSETA's levy income grow by 4.1% over the prior year, to reach R1.307 billion. This exceeded the budgeted levy income by 2.9%.

The number of contributing employers also increased slightly to 13 958, from 13 399 in 2014/15, i.e:

- Metal chamber – increased by 357 companies;
- Motor chamber – increased by 162 companies; and
- Plastics chamber – increased by 40 companies

Mandatory grant payments were made on a monthly basis throughout the year and although the number of companies approved was lower than in previous years, the claims ratio increased from 68% in the previous year to 74% in the year under review.

## THE FUTURE

In the last financial year, critical debate on the future of the SETAs occurred across South Africa's industries, following a new SETA landscape proposed by Minister of Higher Education and Training Dr Blade Nzimande.

Stakeholders are aware that the SETA licences expire on 31 March 2018.

The proposed landscape seeks to ensure alignment between the work of the skills system and the education

and training provider system by means of a single, integrated post-school skills development strategy. The White Paper on Post School Education and Training envisages the integration of the work of skills development bodies and education and training institutions to enhance the development of skills for our economy.

The draft proposal is an effort to enable this vision through the reassignment of functions amongst the various bodies and institutions, including the Department of Higher Education and Training (DHET).

Currently, the merSETA conducts research and maintains sector skills plans, develops learnerships and identifies workplaces for practical work experience, supports the development of learning materials and facilitates learning and apprenticeships. It also collects and disburses skills development levies, and quality assures education and training, as delegated by the QCTO.

In the wake of the DHET proposal, the merSETA solicited input from its stakeholders via an internet portal created specifically for stakeholder input on the draft proposal. Workshops were also conducted in Johannesburg (for stakeholders in Gauteng, Limpopo and Mpumalanga), as well as Cape Town, Durban, Port Elizabeth and Bloemfontein.

Input was made by more than 700 stakeholders. These were sent to the Accounting Authority and committee members, Chamber and Regional Committee members, all Technical Vocational Education and Training (TVET) colleges that have a Memorandum of Agreement (MoA) with merSETA, the merSETA's top levy-paying companies, Skills Development Facilitators (SDFs) and the merSETA staff.

The proposal contains positive elements that will bring about improvements in service delivery for the beneficiaries of the skills system.

It provides a platform for a strengthened social partnership model for planning, implementation, monitoring and evaluation of skills development for the country.

It also provides new opportunities for collaboration and the synchronisation of the skills development implementation role of private sector and public sector stakeholders, including public and private education and training institutions.

Cluster management of the SETAs has the potential to facilitate integrated planning by labour market actors, as well as systemic responses from education and training providers to skills priorities across sectors using standardised approaches.

However, many stakeholders hold the view that the proposal creates a structure without an underlying strategy. There is a strong belief that the strategy should inform the structure, and not the other way round. The absence of a strategy, some stakeholders say, will lead to poor planning, poor implementation, poor management and inefficiencies due to poorly defined goals and guiding mechanisms.

Another view holds that the proposal does have enough of a strategy for the proposed structure changes. This view contends that the White Paper-PSET suffices as a strategy to inform the proposed structure changes.

While views differ, stakeholders agree that the DHET should convene a consultative conference to decide on a national strategy for NSDS IV or a strategy that would respond to the national imperatives.

Until then, it is business as usual.

I thank the Honourable Minister, Dr Blade Nzimande, Deputy Minister Mr Mduduzi Manana, the Parliamentary Portfolio Committee on Higher Education, the merSETA Deputy Chairs, Mr Xolani Tshayana and Ms Jeanne Esterhuizen, other members of the Accounting Authority, the Chief Executive Officer and his management team as well as staff and stakeholders for their invaluable contribution to the organisation's success.




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**Chairperson**

**Ms P. Baleni (née Nzimande)**









### CHIEF EXECUTIVE OFFICER

*Dr Raymond Patel*

## CHIEF EXECUTIVE OFFICER'S OVERVIEW

One thing I respect deeply about Africa is the treasures of wisdom that our fore-bearers have handed down to us. While some of us have forgotten much of this, we at merSETA have not. This year marks the 60th year of the women's struggle against the discriminatory and oppressive pass laws of the past. It also marks the 40th anniversary of the 16 June student uprising. These two significant events are a stark reminder of our past. An old Ashanti proverb aptly states: "When you follow in the path of your father, you learn to walk like him".

The prudent sayings of the women's march and the 16 June uprising on wisdom itself, to the judicious encouragement, warning and quirky advice on learning, patience, unity, poverty, family and the community, inspired us to be the best we possibly can. During the year under review we witnessed the student uprising called #FeesMustfall. The events not only reminded us of our past, but cataclysmically propelled us into the realisation that the students' struggles for a just and fair education necessitate different, unique and innovative ways of addressing the education and training challenges of today.

An old Ethiopian proverb says "The fool speaks; the wise man listens". We have listened to the call of those who are less fortunate, those who are still facing daily oppression and those who have made a plea for their lives to be improved.

An Akan proverb says, "Wisdom is like a baobab tree: no one individual can embrace it". The challenges our country faces are enormous and merSETA cannot and will not resolve them alone. We are reminded of the Hema (DRC) proverb: "Wisdom is like fire: people take it from others". We are cognisant of the baobab tree and the wisdom that others possess. Let us now report to you on what we achieved during the year under review, with assistance and contributions from our different partners. Allow us to thank you for our success.

Our target for unemployed learners was 3500; our achievement was 4202. For the unemployed interns, the target was 297; we achieved 91% of the target. For unemployed skills programmes, the target was 1265; we achieved 4467. We faced a challenge with the number of unemployed learners completing their learning programmes; only 71% of them completed their programme. This is clearly an indication of the tough economic climate that the sector is facing. Last year we reported to you that we experienced difficulty with the target for unemployed bursaries entered; this year we can confidently report to you that we have surpassed this target by 14%, our target was 1550 and we funded 1770 students.

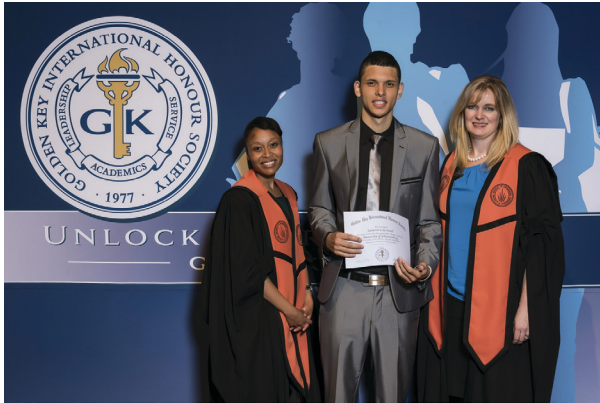
We would now like to share with you what a parent wrote in thanking merSETA for her son's achievement:

*"It is with the greatest pleasure that I am sharing this news and below image with you:*

*Thanks to the support of merSETA, my son, Cole Smail, managed to complete his first year of Mechanical Engineering at UJ (with 6 distinctions)*



*and is currently doing his second year under your sponsorship, still. Furthermore, he is now a member of the Golden Key International Honour Society. And what an honour this is! We are truly grateful to you for the access that your sponsorship is providing him, proving that these initiatives literally help change lives. As Cole stated in his bursary application, this is a privilege that comes with great responsibility, which he honours and still aims to pay forward."*



We have listened to the Guinean proverb that says, "Knowledge without wisdom is like water in the sand". We have not only invested in students, but during the year under review we invested in a Lecture Development Programmes: our target was 120 and we funded 163 lectures. We congratulate the lecturers who humbled themselves and who subscribe to the belief "if you are filled with pride, then you have no room for wisdom".

During the year under review we had 40 performance indicators (PIs). We achieved above 120% in 29 of these and 100% in 4 of the indicators. We achieved less than 100% in 7 of the indicators. We have commenced with remedial action and are confident that we will achieve the targets during the 2016/17 financial year. We realise that the Nigerians are correct in saying, "In moment of crisis, the wise build bridges and the foolish build dams".

An Ivory Coast proverb says, that "The old woman looks after the child to grow its teeth and the young one in turn looks after the old woman when she loses her teeth". We acknowledge the levy contribution paid by our stakeholders in turn our target for large companies was 500, we paid 580 large companies. Our target for medium size companies was 833 and we succeeded in paying grants to 1000. We also paid 97% of small businesses their grants.

We have not only succeeded in expanding education and training; during the year under review but we were also able to expand the minds and experiences of the youth. We contributed to the development and exposure of young people who participated in the WorldSkills competition held in Soa Paulo, Brazil, in August 2015. A Namibian proverb says "learning expands great souls".

Our participation in WorldSkills has also revealed the leadership quality that resides within our students, lecturers, experts and our own staff at merSETA who played a cardinal role to ensure success of the 2015 WorldSkills Competition.

An old Congolese proverb says, "The friends of our friends are our friends". During the period under review, the merSETA entered into a new range of partnership agreements with TVET colleges, comprehensive universities and universities of technology, as well as national and provincial governments. This extends merSETA's national footprint in developing the skills of a new cohort of learners, whilst ensuring the progression of existing learners the system. The agreements supported localisation through networking with relevant businesses, industry and national and provincial departments, resulting in work-integrated learning opportunities being provided for many deserving students, particularly those from the university sector.

"Wealth, if you use it, comes to an end; learning, if you use it, increases" the Swahili proverb proclaims. During the period under review, merSETA supported 7 204 young learners through 38 career guidance events across all provinces in making informed career choices in the manufacturing, engineering and related services sectors. The 38 career events were attended by 840 schools in total, and rural areas in the Eastern Cape, Limpopo and certain areas in the North West Province were visited. Some of the rural schools that attended the events were Umvuzo Secondary School in KwaZulu-Natal, Thohoyandou Technical High School in Limpopo, Maripe Secondary School in Mpumalanga, Nyanga High School in the Eastern Cape, and Batlouw High School in North West. Of the 840 schools that participated, 337 were rural schools.

In Africa we have a saying, "You show me your friends and I will show you your character". We have revealed our true character to you during the year under review: 8004 workers benefited from Retrenchment Assistant Plan (RAP); 707 retrenched workers benefited from the RAP; 8 merSETA levy paying companies benefited from the Training Layoff Scheme (TLS) 4542 workers benefited from signed agreements. merSETA also entered into co-funded agreements with the UIF to the value of R150 million.

A famous African saying notes, "A family is like a forest, when you are outside it, it is dense; when you are inside, you see each tree has its place". During the year under review, we celebrated the success of the Eldorado Park Presidential Project, which witnessed the enrolment of 30 young people who were victims of the well documented drug problem in the area. 30 learners successfully completed learnerships and 22 were contracted by companies through this intervention. We were able to see how each tree had its place in that dense forest.

During the financial year under review, the merSETA entered into an agreement with the Trade Union constituency; the agreement is valued at R2,957,542. It focuses on capacitating labour skills development facilitators to effectively execute their function as worker representatives on training committees.

The merSETA remains committed to supporting skills development initiatives specifically focused on People with Disabilities (PwDs). Despite the challenges in the manufacturing and engineering industries for PwDs, merSETA is particularly proud of the small number of these learners who completed a full artisanal qualification, including the final trade test.

In Africa we believe that if you want to go quickly you go alone, but if you want to go far you go together. For this reason we continued our relationship with the Nelson Mandela Metropolitan University to conduct research and provide development support for renewable energy and new technology for the development of an electrical car, as well as a solar-powered cart that could potentially lend itself to a number of applications. In 2012, merSETA started investigating green skills and subsequently commenced with the development of QCTO related qualifications to support artisanal and technician specialisation skills in this context. The merSETA partnered with the Cape Peninsula University of technology to pilot the first of these qualifications, namely the wind turbine service technician qualification. The pilot made provision for training the first 10 wind turbine service technicians.

We are also proud of our relationship with the Department of Correctional Services in supporting parole awaiting offenders with technical skills.

The Bafeke say, "You learn how to cut down trees by cutting them down". During the year under review we developed 48 new occupational qualifications; registered 23 occupational qualifications; 25 in progress with the QCTO and SAQA; 6 Ekurhuleni East TVET College pilot place; 623 request for the distribution

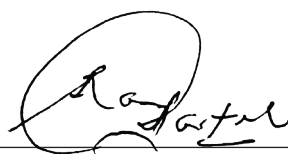
of modularised unit standards; 44 skills programmes were evaluated and registered and 57 rescissions were recorded.

We maintained quality standards during the year under review: Nine hundred and eighty two accreditation visits were conducted, and 1212 moderations and 93 audits were conducted.

There is an old African proverb that tells us how to value our staff at merSETA: "A family tie is like a tree, it can bend, but it cannot break". The Ute believe "If a person is in harmony with her family, that's success". The merSETA has a high performance learning culture, it boasts a well run organisation solid compliance and has a good wellness programme. The organisation also enjoys a healthy relationship with the labour organisations.

The Malawians say, "He who thinks he is leading and has no one following him is only taking a walk". Let me assure you that merSETA's governance is sound and that during the year under review it underwent proper and transparent governance. The Accounting Authority has revealed true and stern leadership. We are personally grateful to the Chairperson, Ms Baleni and an Ethiopian saying is appropriate, "Where a woman rules, streams run uphill". To the entire Accounting Authority, words cannot express the gratitude of the sector and the staff for your leadership. The level of engagement, debate and decision making made the achievements of the past financial year possible.

The Akan proverb articulates the work of the merSETA during the year under review, "Wisdom is not like money to be tied up and hidden". We can confidently state that our income during the year under review has reached R1,3bn in levies from R130m in 2000/2001. The merSETA has R2,1bn in reserves. 97% of these funds are committed into programmes that will skill the nation for tomorrow, addressing the challenges of digitalisation, automation, data matrix, robotics, 3D printing and future technologies.



**Chief Executive Officer**  
**Dr Raymond Patel**



## LIST OF ABBREVIATIONS/ACRONYMS

<b>AATP</b>	Accelerated Artisan Training Programme
<b>ACT</b>	The Skills Development Act No 97. of 1998 (as amended)
<b>AET</b>	Adult Education and Training
<b>AGSA</b>	Auditor General of South Africa
<b>AMEO</b>	Automobile Manufacturers' Employers Organisation
<b>AMIC</b>	Automotive Manufacturing Industry Certificate
<b>APP</b>	Annual Performance Plan
<b>ARC</b>	Audit and Risk Committee
<b>ARPL</b>	Artisan recognition of Prior Learning
<b>ASGISA</b>	Accelerated Shared Growth Initiative of South Africa
<b>ATR</b>	Annual Training Report
<b>ATRAMI</b>	Artisan Training and Recognition Agreement for the Metal Industry
<b>BBBEE</b>	Broad-Based Black Economic Empowerment
<b>BSC</b>	Balanced Scorecard
<b>CAPCBMT</b>	Competency Based Modular Training
<b>CBO</b>	Community Based Organisation
<b>CEO</b>	Chief Executive Officer
<b>CEP</b>	Communities of Expert Practice
<b>CEPPWAWU</b>	Chemical, Energy, Pulp, Paper, Wood and Allied Workers' Union
<b>CFO</b>	Chief Financial Officer
<b>CLO</b>	Client Liaison Officer
<b>CPD</b>	Continuous Professional Development
<b>CPUT</b>	Cape Peninsula University of Technology
<b>DHET</b>	Department of Higher Education and Training
<b>DoE</b>	Department of Basic Education
<b>DoL</b>	Department of Labour
<b>DPRU</b>	Development Policy Research Unit
<b>DSAP</b>	Dual System Apprenticeships
<b>DSBD</b>	Department of Small Business Development
<b>DTI</b>	Department of Trade and Industry
<b>DUT</b>	Durban University of Technology
<b>EE</b>	Employment Equity
<b>ESSA</b>	Department of Labour's Employment Services of South Africa
<b>ETQA</b>	Education and Training Quality Assurance
<b>EXCO</b>	Executive Committee
<b>FET</b>	Further Education and Training
<b>FLC</b>	Foundational Learning Competency
<b>FRIDGE</b>	Fund for Research into Industrial Development Growth and Equity

<b>GAAP</b>	Generally Accepted Accounting Practice
<b>GTAC</b>	Government Technical Advisory Centre
<b>GDS</b>	Growth and Development Summit
<b>GRAP</b>	Generally Recognised Accounting Practice
<b>HEI</b>	Higher Education Institutions
<b>HET</b>	Higher Education and Training
<b>IDZ</b>	Industrial Development Zone
<b>IEB</b>	Independent Examination Board
<b>LMIP</b>	Labour Market Intelligence Partnership
<b>MoA</b>	Memorandum of Agreement
<b>NGO</b>	Non-governmental Organisations
<b>NMMU</b>	Nelson Mandela Metropolitan University
<b>NPO</b>	Non-Profit Organisations
<b>NSA</b>	National Skills Accord
<b>NSFAS</b>	National Student Financial Aid Scheme
<b>NUMSA</b>	National Union of Metalworkers of South Africa
<b>NQF</b>	National Qualifications Framework
<b>OFO</b>	Organising Framework for Occupations
<b>PFMA</b>	Public Finance Management Act No. 1 of 1999 (as amended)
<b>PIVOTAL</b>	Professional, Vocational, Technical and Academic Learning
<b>PwDs</b>	People with Disabilities
<b>QCTO</b>	Quality Council for Trades and Occupations
<b>QDP</b>	Qualification Development Partner
<b>R &amp; D</b>	Research and Development
<b>RAP</b>	Retrenchment Assistance Programme
<b>SAQA</b>	South African Qualifications Authority
<b>SARETEC</b>	South African Renewable Energy Technology Centre
<b>SCM</b>	Supply Chain Management
<b>SETA</b>	Sector Education and Training Authority
<b>SP</b>	Strategic Plan
<b>SSP</b>	Sector Skills Plan
<b>STEM</b>	Science, Technology, Engineering and Mathematics
<b>TLS</b>	Training Layoff Scheme
<b>TVET</b>	Technical and Vocational Education and Training
<b>TR</b>	Treasury Regulations
<b>TUT</b>	Tshwane University of Technology
<b>UIF</b>	Unemployment Insurance Fund
<b>UJ</b>	University of Johannesburg
<b>WELA</b>	Women in Engineering programme
<b>WIL</b>	Work Integrated Learning
<b>WSP</b>	Workplace Skills Plan

## STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY OF THE ANNUAL REPORT

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To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report are consistent with the annual financial statements audited by the Auditor General.

The annual report is complete, accurate and free from any omissions.

The annual report has been prepared in accordance with the guidelines on the annual report issued by National Treasury.

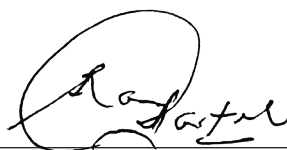
The Annual Financial Statements (Part F) have been prepared in accordance with Generally Recognised Accounting Practice (GRAP).

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

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

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

In our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2016.



**Chief Executive Officer**  
**Dr Raymond Patel**  
**31 July 2016**



**Chairperson of the Accounting Authority**  
**Ms Phindile Baleni**  
**31 July 2016**



## LEGISLATIVE AND OTHER MANDATES

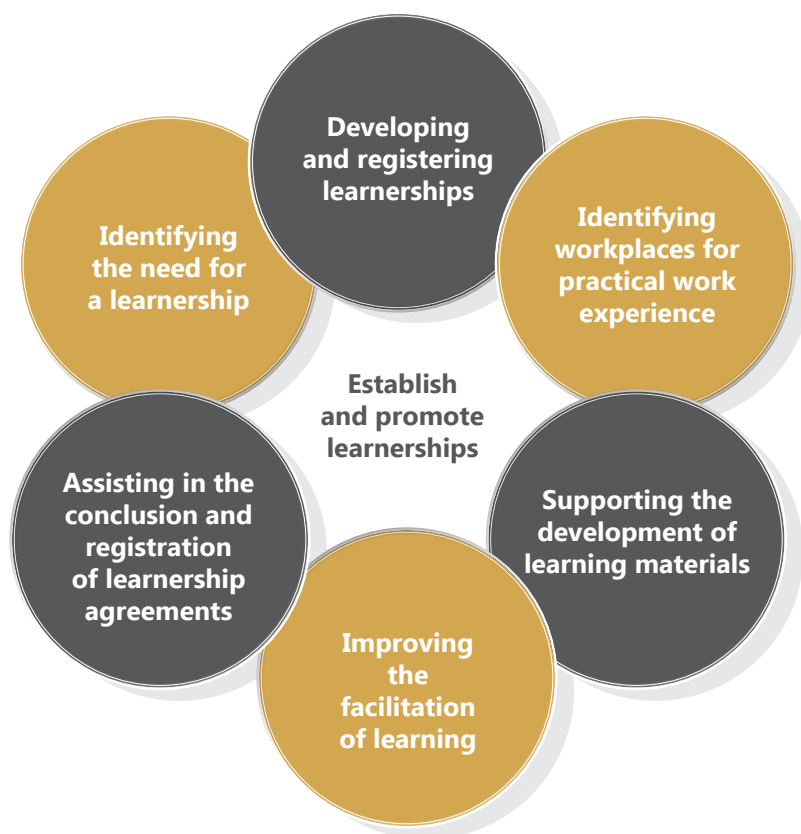
The merSETA is a schedule 3a public entity, governed by the Public Finance Management Act No. 1 of 1999 (as amended). The entity's mandate is derived from the Skills Development Act No. 97 of 1998 and its responsibilities include the following:

i.

Develop a Sector Skills Plan (SSP) within the framework of the National Skills Development Strategy (NSDS III).

ii.

Establish and promote learnerships through:



iii.

Collect and disburse the skills development levies in its sector; approve workplace skills plans and allocate grants in the prescribed manner to employers, education and training providers and workers;

iv.

Fulfil the functions of an ETQA, as delegated by the QCTO;

iv.

Monitor education and training in the sector.

The legislative framework in which the merSETA functions, and policies and legislation that influence programme spending plans, are shown below:

- i.** National Skills Development Strategy (NSDS III);
- ii.** Skills Development Act No. 97 of 1998 (as amended);
- iii.** Sector Education and Training Authorities (SETA) Grant Regulations regarding monies received by a SETA and related matters ("Grant Regulations") under Notice 35940 of 3 December 2012;
- iv.** Skills Development Levies Act 9 of 1999 (as amended);
- v.** Regulations regarding the establishment of Sector Education and Training Authorities under Notice R106 of 4 February 2005, ("SETA Establishment Regulations");
- vi.** Public Finance Management Act No. 1 of 1999 as amended ("PFMA");
- vii.** National Treasury Regulations issued in terms of the Public Finance Management Act ("Treasury Regulations") of 2005;
- viii.** Public Audit Act 25 of 2004 (as amended);
- ix.** Government Gazette 39260 of 6 October 2015: Re-establishment of Sector Education and Training Authorities (SETAs);
- x.** Government Gazette 39394 of 11 November 2015: Extension of tenure for SETA Accounting Authorities;
- xi.** The Standard Constitution of SETA Regulations of 7 May 2012;
- xii.** Promotion of Access to Information Act;
- xiii.** Promotion of Administrative Justice Act;
- xiv.** Employment Equity Act, Labour Relations Act, Basic Conditions of Employment Act and Occupational Health and Safety Act; and
- xv.** Tax Laws.



## ORGANISATIONAL STRUCTURE



**CHAIRPERSON**  
*Ms Phindile Baleni*



**CHIEF EXECUTIVE OFFICER**  
*Dr Raymond Patel*



**STRATEGY &  
RESEARCH EXECUTIVE**  
*Ms Sebolelo Mokhobo-Nomvete*



**CHIEF OPERATIONS  
OFFICER**  
*Mr Wayne Adams*



**CHIEF FINANCIAL  
OFFICER**  
*Ms Lindiwe Ndlela*



**CORPORATE SERVICES  
EXECUTIVE**  
*Ms Ester van der Linde*

## ACCOUNTING AUTHORITY



*Ms Phindile  
Baleni (Chairperson)*



*Ms Jeanne Esterhuizen  
(Deputy Chairperson)*



*Mr Xolani Tshayana  
(Deputy Chairperson)*



*Ms Malebo Lebona*



*Mr Mustak Ally*



*Mr Anton Hanekom*



*Mr Jonathan Swarts*



*Mr Thapelo Molapo*



*Mr Jacobus Olivier*



*Prof Fiona Tregenna*



*Mr Johan van Niekerk*



*Mr Herman Kostens*



*Mr Andrew Chirwa*



*Mr Alex Mashilo*



*Ms Helen von Maltitz*





## OPERATIONS OVERVIEW





## 1. INTRODUCTION

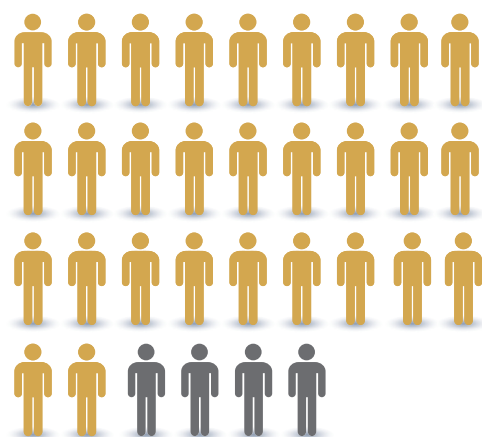
The Operations Division consists of four units, each with its own functions. These are Programme Implementation, Central Administration, Quality Assurance, and Partnerships and Client Services. The functions of the four units synergise in collaborating towards achieving the goals of the National Skills Development Strategy III (NSDS III), and the implementation of merSETA's Annual Performance Plan. In line with merSETA's values, the division aims to continue to provide quality services to internal and external stakeholders, inclusive of maintaining good relationships with government and provincial departments, public institutions, communities and special interest groups through a range of partnerships and other agreements.

The education and training emphasis of the mandatory and discretionary grants programmes and project areas is facilitated through learning programmes primarily based on critical and scarce skills, identified through the Sector Skills Plan (SSP) research. Integral to the implementation of contractual agreements is monitoring, evaluation and quality assurance, which includes provider accreditation and the registration of learners, assessors and moderators. The Administration Unit provides systems-based support for all the administrative processes, in collaboration with merSETA's regional offices.

The merSETA continues to have a national footprint, through its seven regional offices in Gauteng, North-West, Mpumalanga, KwaZulu-Natal, Free State, Eastern Cape and Western Cape, as well as satellite offices - one in Northern Cape (Kimberly) and the other in the Eastern Cape (King Williams Town). These offices ensure that all stakeholders are holistically supported with the products and services the merSETA offers, in line with the White Paper on Post-school Education and Training, and related national guidelines.

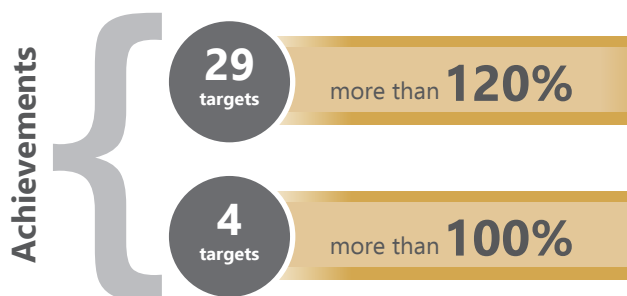
During the period under review, the Quality Council for Trades and Occupations (QCTO), and the National Artisan Moderation Body (NAMB), continued with the implementation of their new policies and regulations. Some of the responsibilities of the QCTO, as delegated to NAMB, include processing and issuing trade related certificates. The transfer of this function from the merSETA to the QCTO initially resulted in a backlog in issuing trade certificates. Due to a number of interventions implemented to deal with the certification backlog the situation has improved, but it still poses some challenges.

The merSETA's achievements during the year under review confirmed our role as a leading implementation agent of skills development in the country. The Operations Division contributed significantly to the merSETA achieving 33 out of the 40 numerical indicators, so impacting positively on the life of many young South Africans. The merSETA achieved 29 targets by more than 120 percent, and four targets by more than 100 percent. For the year under review, the target for TVET learners entered and completed was not met, due to the majority of TVET learners entering structured learning programmes.



**33 out of the 40**

numerical indicators impacting positively  
on the life of many young South Africans

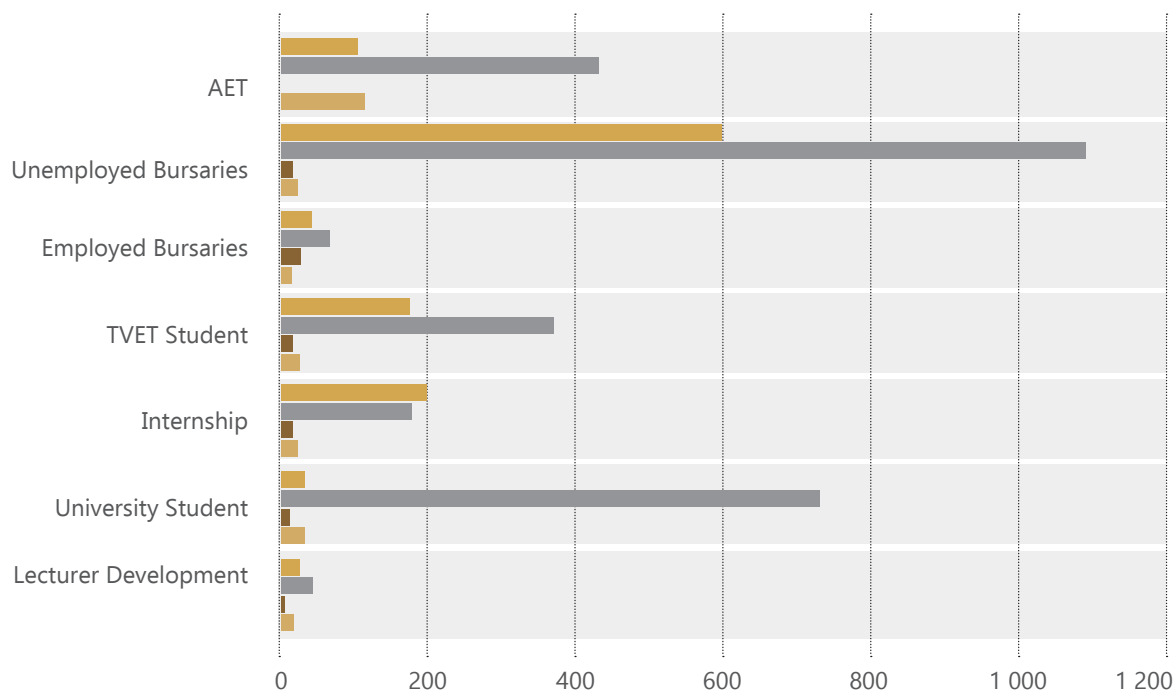






The tables below reflect the demographics of the learners who entered and completed one of the various learning programmes.

**Figure 1: Learners registered on learning programmes**



#### AET

♀ Black: Females	100
♂ Black: Males	476
♀ White: Females	6
♂ White: Males	128

#### Unemployed Bursaries

♀ Black: Females	601
♂ Black: Males	1 109
♀ White: Females	24
♂ White: Males	36

#### Employed Bursaries

♀ Black: Females	74
♂ Black: Males	110
♀ White: Females	35
♂ White: Males	24

#### TVET Student

♀ Black: Females	162
♂ Black: Males	364
♀ White: Females	26
♂ White: Males	64

#### Internship

♀ Black: Females	201
♂ Black: Males	162
♀ White: Females	28
♂ White: Males	49

#### University Student

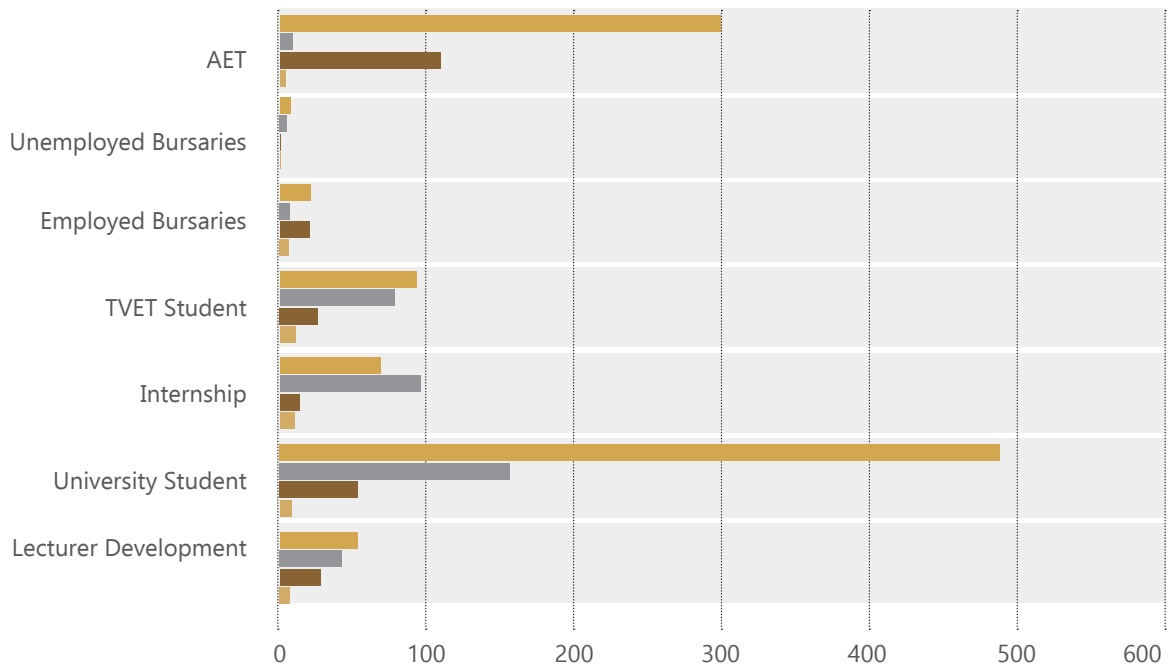
♀ Black: Females	38
♂ Black: Males	726
♀ White: Females	29
♂ White: Males	86

#### Lecturer Development

♀ Black: Females	49
♂ Black: Males	77
♀ White: Females	4
♂ White: Males	33



**Figure 2: Learners who have completed a learning programme**



#### AET

♀ Black: Females	308
♂ Black: Males	20
♀ White: Females	128
♂ White: Males	6

#### Unemployed Bursaries

♀ Black: Females	15
♂ Black: Males	7
♀ White: Females	1
♂ White: Males	2

#### Employed Bursaries

♀ Black: Females	28
♂ Black: Males	14
♀ White: Females	32
♂ White: Males	14

#### TVET Student

♀ Black: Females	94
♂ Black: Males	61
♀ White: Females	24
♂ White: Males	12

#### Internship

♀ Black: Females	62
♂ Black: Males	96
♀ White: Females	24
♂ White: Males	15

#### University Student

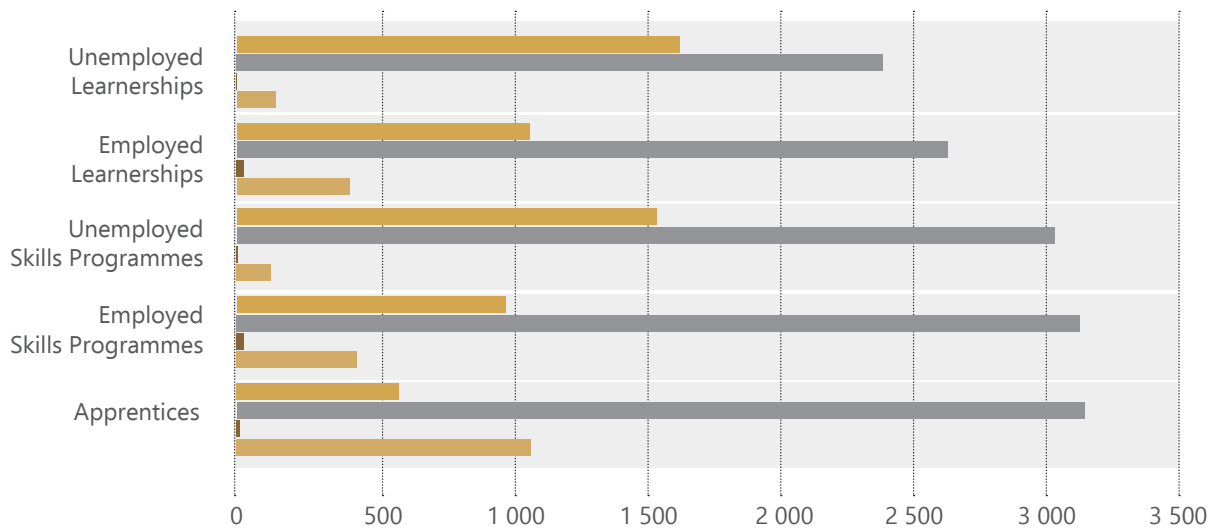
♀ Black: Females	377
♂ Black: Males	148
♀ White: Females	47
♂ White: Males	17

#### Lecturer Development

♀ Black: Females	64
♂ Black: Males	45
♀ White: Females	32
♂ White: Males	10



**Figure 3: Learners who have entered learnerships, apprenticeships or skills programmes**



#### Unemployed Learnerships

♀ Black: Females	1 680
♂ Black: Males	2 387
♀ White: Females	12
♂ White: Males	123

#### Employed Learnerships

♀ Black: Females	1 122
♂ Black: Males	2 738
♀ White: Females	56
♂ White: Males	340

#### Unemployed Skills Programmes

♀ Black: Females	1 553
♂ Black: Males	2 752
♀ White: Females	82
♂ White: Males	80

#### Employed Skills Programmes

♀ Black: Females	951
♂ Black: Males	3 188
♀ White: Females	82
♂ White: Males	401

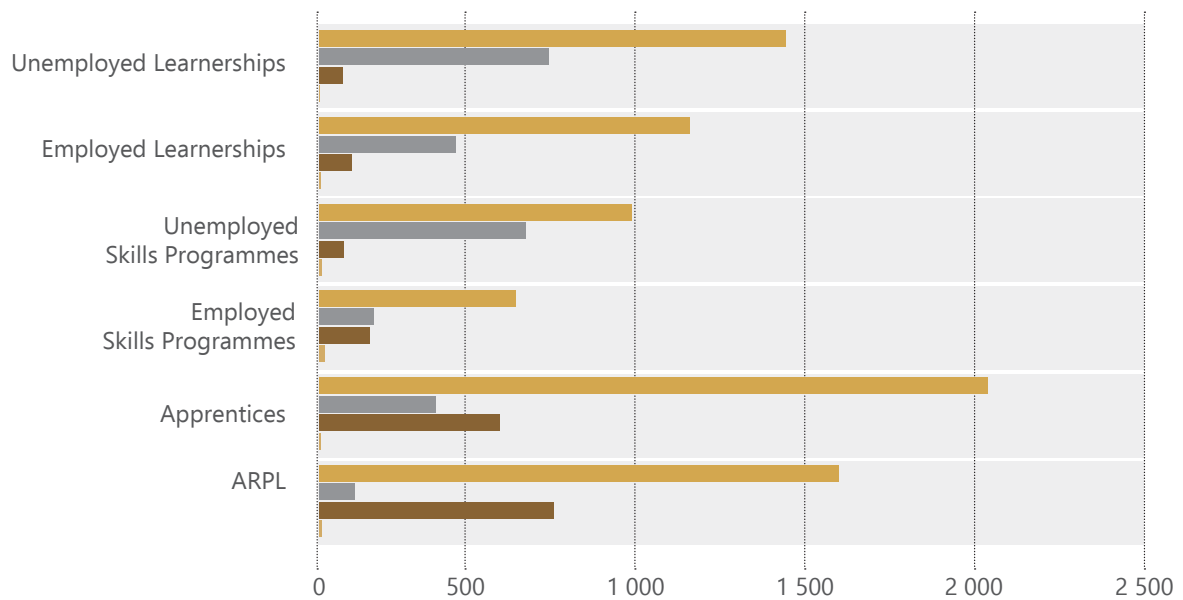
#### Apprentices

♀ Black: Females	636
♂ Black: Males	3 245
♀ White: Females	15
♂ White: Males	1 148





**Figure 4: Learners who have completed a learnership, apprenticeship, skills programme or ARPL**



#### Unemployed Learnerships

♀ Black: Females	1 433
♂ Black: Males	737
♀ White: Females	125
♂ White: Males	7

#### Employed Learnerships

♀ Black: Females	1 256
♂ Black: Males	419
♀ White: Females	161
♂ White: Males	11

#### Unemployed Skills Programmes

♀ Black: Females	1 471
♂ Black: Males	792
♀ White: Females	56
♂ White: Males	10

#### Employed Skills Programmes

♀ Black: Females	1 142
♂ Black: Males	285
♀ White: Females	279
♂ White: Males	33

#### Apprentices

♀ Black: Females	2 061
♂ Black: Males	394
♀ White: Females	764
♂ White: Males	8

#### ARPL

♀ Black: Females	1 716
♂ Black: Males	143
♀ White: Females	715
♂ White: Males	3

## 2. MANAGEMENT OF LEVIES AND GRANTS

### 2.1 MANDATORY GRANTS

Legislation requires that companies submit their mandatory grant applications and PIVOTAL plans annually. This is to ensure credible information from our stakeholders, which contributes to merSETA's research agenda, which assists with the identification of the current and future skills needs of the sector.

The mandatory grant information requirements were designed to go beyond the minimum compliance requirements. The new format supports the emphasis on high quality skills planning and reporting in relation to NSDS III.

As a result of the constructive and well directed advocacy campaign implemented in the various regions, the mandatory grant results were encouraging. The period under review saw a total of 4 185 companies submitting mandatory grant applications, of which 3 969 applications were approved.

**Figure 5: Mandatory grant achievement against targets over a two-year period**



**Shining stars of the Toyota Academy: Ongezi Mdladlamba, Mxolisi Njapha and Stanley Phare**



**Pam Chettiar, Mpilonde Gwala, Ronel Govender, Justin Sundram, Sipho Mkhize, Cheryl Govender, Blessing Ngcobo and Sandile Cele (interpreter).**



**Figure 6: Mandatory grant targets vs achievement over a two-year period**

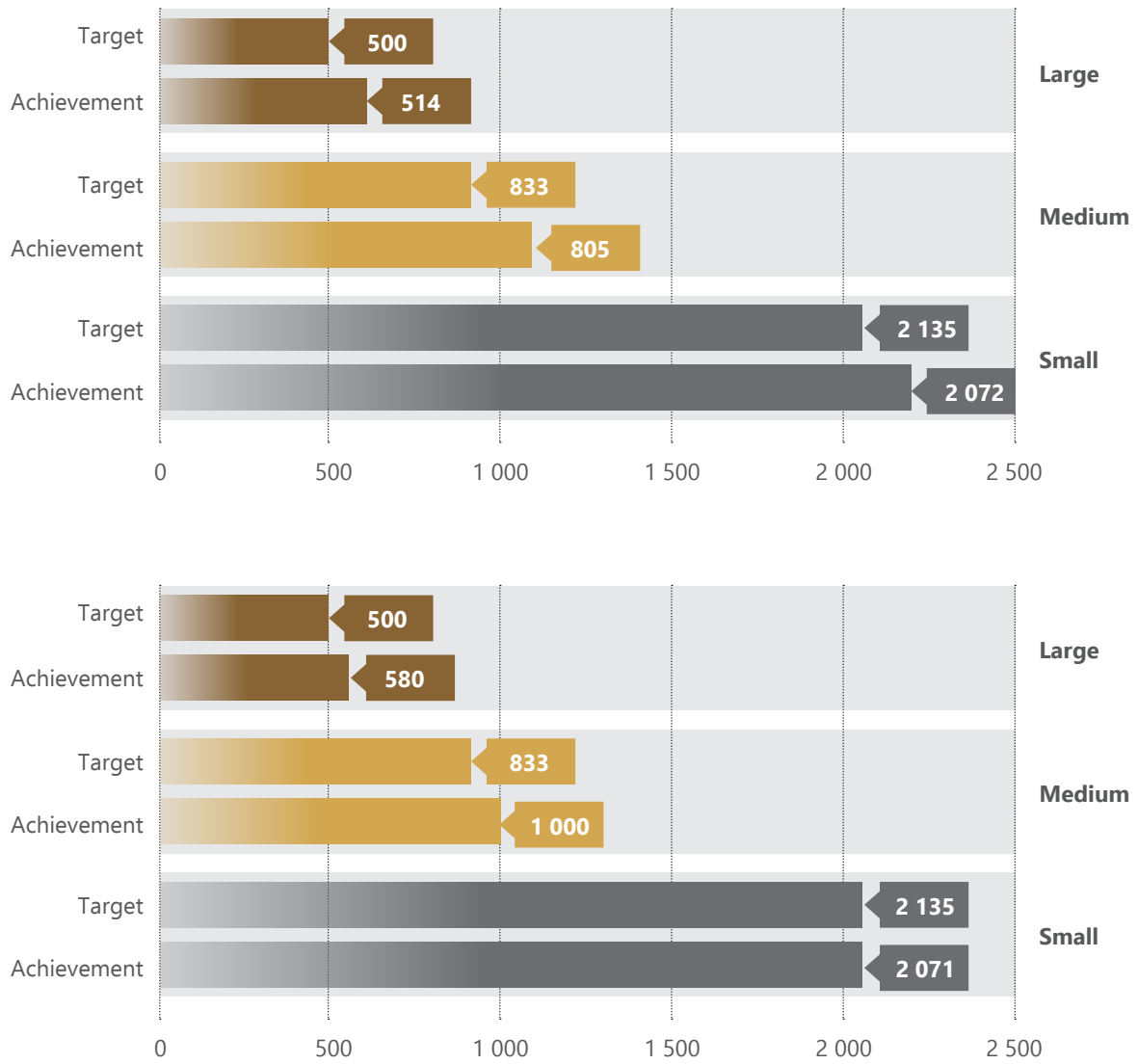
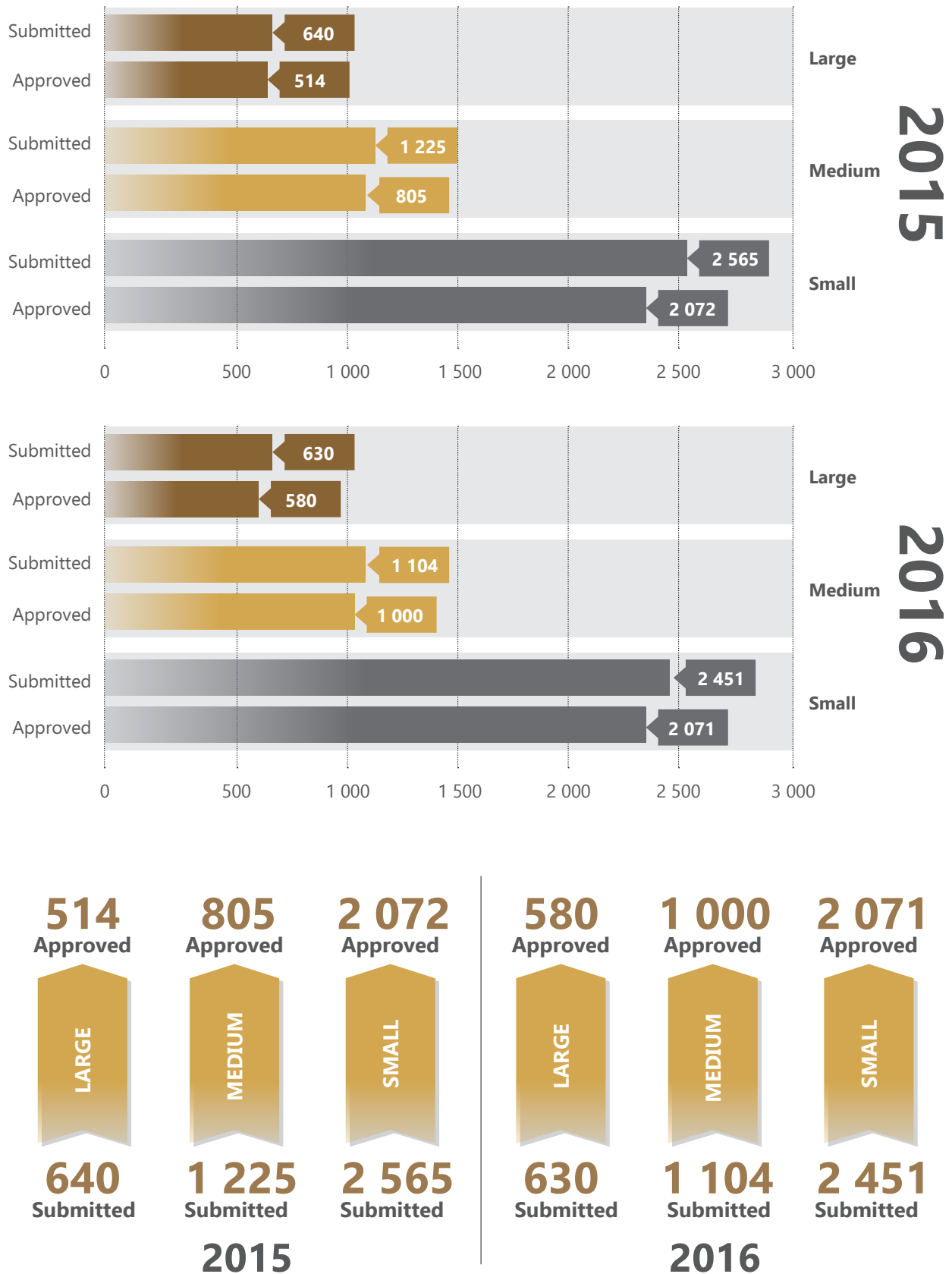






Figure 7: Mandatory grant submissions vs approvals over a two-year period





Despite changes in the funding regulations, which saw a decrease in the mandatory grant award from 50% to 20%, the number of mandatory grant applications remained constant.

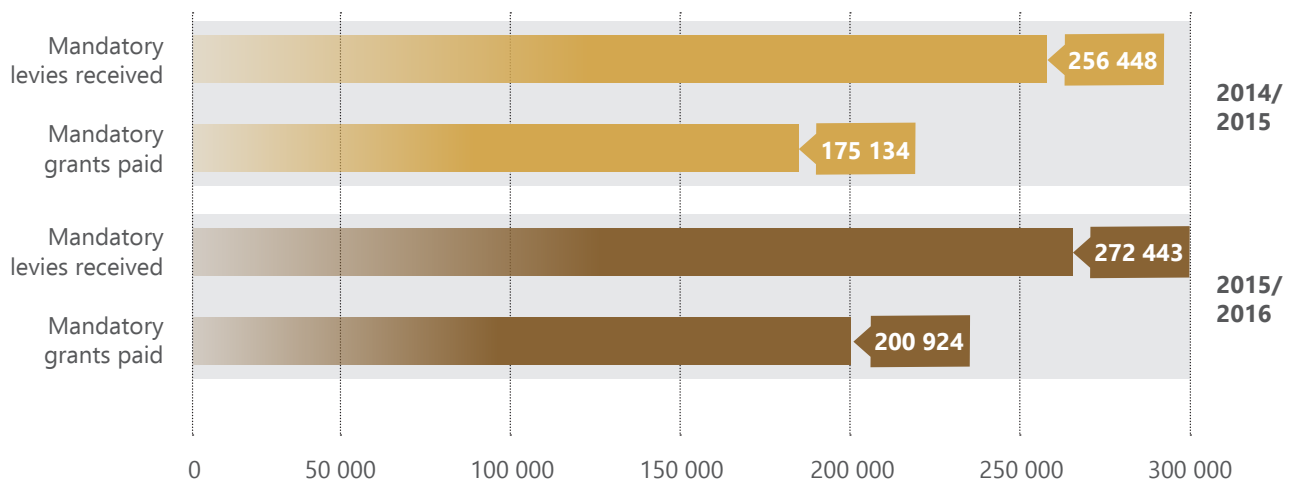
Disbursements of mandatory grants were slightly below budget, resulting in the current year's total figure of R201 million. The drop in mandatory grant disbursement was due to non-compliance with the sign-off requirement by organised labour representatives.

The table and figure below illustrates the mandatory grant claim ratio over a two-year period. Submissions have remained constant, yet approvals declined due to the number of companies not meeting the submission criteria, as per merSETA's Grant Policy.

**Table : Mandatory grant claims ratio over a two-year period**

	2014/ 2015	2015/ 2016
Mandatory grants paid	R175m	R201m
Mandatory levies received	R256m	R272m
<b>Claims ratio</b>	<b>68%</b>	<b>74%</b>

**Figure 9: Mandatory grant claims ratio over a two-year period**



Various capacity building processes were arranged to provide greater support to merSETA's stakeholders, in order to ensure that the mandatory grant process ran smoothly during the period under review. In an attempt to curb challenges, 116 training committees (consisting of both employer SDFs and labour SDFs), were capacitated on skills development matters, to enhance the quality of submissions.

A total of 971 stakeholders attended the workshops held in the different regions. The workshop agenda focused on changes impacting on the mandatory and discretionary grant processes, the introduction of the merSETA Tax Incentive App, as well as changes to the decentralised trade testing process.

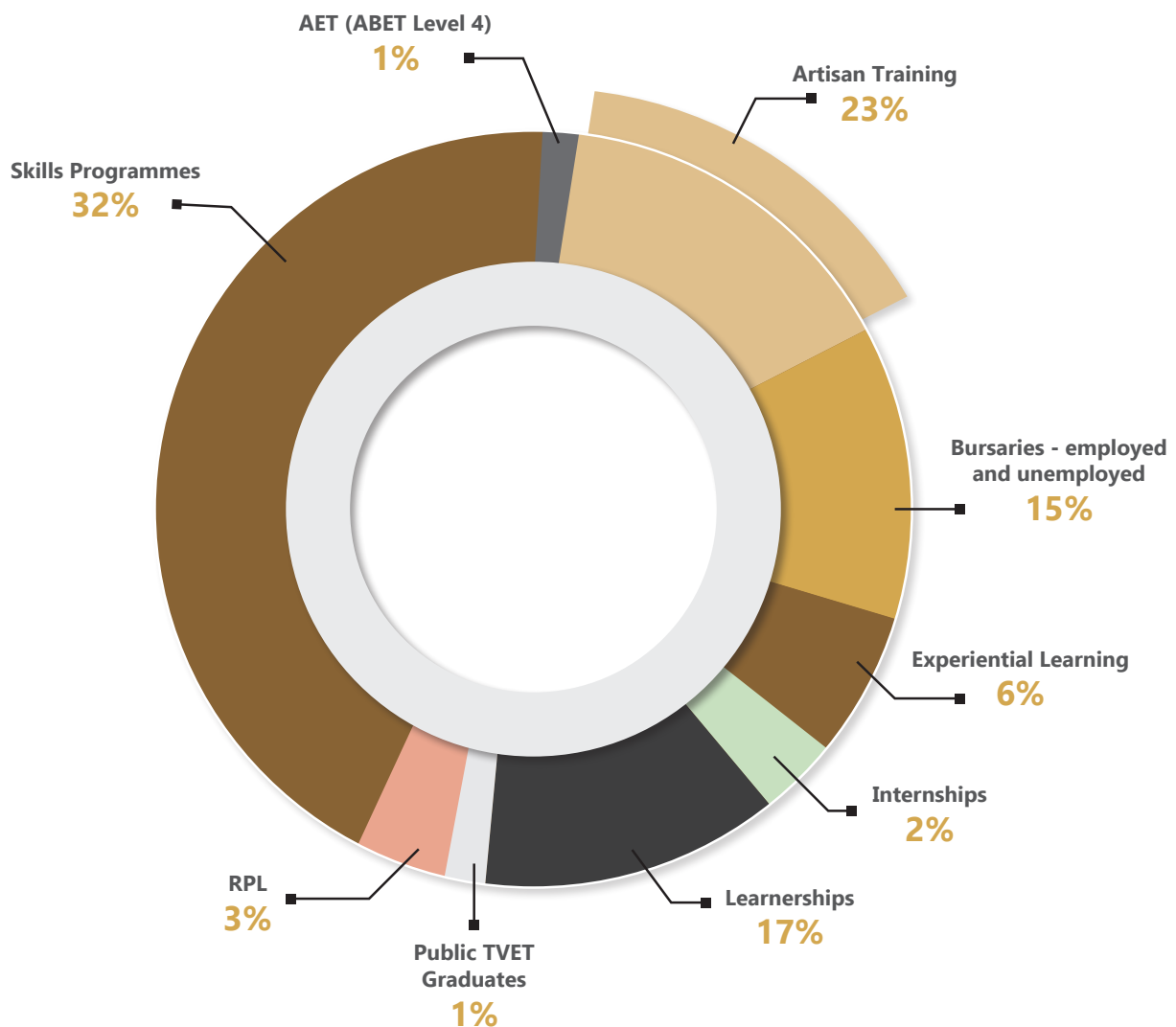


## 2.2 DISCRETIONARY GRANTS

The available funding for discretionary grants for the period under review was R1.174 billion. Discretionary grants were aimed at addressing the critical and scarce skills needs, as indicated in the PIVOTAL programme applications. Our major implementation agents continued to be our most valued stakeholders, consisting of participating companies in the merSETA fold and our public educational entities, being technical, vocational, education and training colleges, comprehensive universities and universities of technology, with whom we have entered into agreements and partnerships.

Of the funding available for discretionary grants, 98.4 percent of funds was committed to contractual agreements entered into with the diverse range of the merSETA stakeholders, as well as prioritised partnerships and related areas of national significance.

**Figure 10: Distribution of 2015/16 discretionary grant awards for various learning interventions**







### 3. PARTNERSHIPS

NSDS III clearly states that programmes contributing towards the revitalisation of vocational education and training, including the competence of lecturers and trainers to provide work-relevant education and training, as well as to promote occupationally directed research and innovation, must be implemented.

During the period under review, the merSETA entered into a new range of partnership agreements with TVET colleges, universities and universities of technology, as well as national and provincial governments. This extends merSETA's national footprint in developing the skills of a new cohort of learners, whilst ensuring the progression of existing learners within the system. Our objective remained focused on supporting the notion of employability of learners, and contributing to the professional development of TVET educators. The agreements supported localisation through networking with relevant businesses, industry and national and provincial departments, resulting in work-integrated learning opportunities being provided for many deserving students, particularly these from the university sector.

The range of categorised partnership agreements is shown in the three tables below, respectively representing:



**Figure 11: National and Provincial Department Partnerships**

PARTNERSHIPS	OBJECTIVE	PARTNER	DURATION
Artisan training	330 artisan training-related learners.	National Department of Public Works	Agreement end date: March 2018
Development of youth to artisans	456 apprenticeships registered (school learner/unemployed target group). 50 Educational Psychologist interns.	Gauteng Education Department	Agreement end date: March 2018
Government partnership to develop youth	100 NQF level 2 learners.	Limpopo Provincial Government	Agreement end date: May 2016



Figure 11: National and Provincial Department Partnerships (continued)

PARTNERSHIPS	OBJECTIVE	PARTNER	DURATION
Government partnership to develop youth	200 unemployed learners on artisan programmes and 1 660 unemployed learners on skills programmes.	KwaZulu-Natal Provincial Government	Agreement end date: March 2019
Government partnership to develop youth	100 learners on artisan programmes.	Mpumalanga Department of Public Works	Agreement end date: April 2018
Government partnership to develop youth	100 learners on artisan programmes.	Western Cape Department of Economic Development and Tourism	Agreement end date: March 2018
A new multi-year agreement for development of people in the Eastern Cape	150 experiential learners (P1 & 2) from Walter Sisulu University to be placed, 120 apprenticeships, and SME Business Development Processes.	Office of the Premier in the Eastern Cape	Agreement end date: March 2021
Extending Skills development and reintegration of offenders into society	<p>Skills development of awaiting parole offenders for reintegration in society - 40 in Kimberley.</p> <p>A partnership with Correctional Services Boksburg and Heidelberg saw the development of the electrical, welding and motor mechanic workshops being equipped to a standard of which the workshops could be accredited.</p> <p>Accredited training of offenders in these workshops, by registered facilitators and assessors from Correctional Services will ensure capacity and the sustainability of these training institutions.</p>	Department of Correctional Services: Northern Cape and Gauteng	Agreement end date: March 2018



Figure 11: National and Provincial Department Partnerships (continued)

PARTNERSHIPS	OBJECTIVE	PARTNER	DURATION
Development of learners with learning difficulties	<p>Work-integrated learning (TVET provider) for 33 disadvantaged learners with learning difficulties was rolled out and completed.</p> <p>The selection of these learners by the department proved to be problematic. Lessons learnt from this intervention will inform further agreements of this nature.</p>	Western Cape Department of Education	Agreement end date: December 2015
Skills development for the Office of the Premier in Mpumalanga	<p>Artisan programmes for 143 learners and training on skill sets for 86 learners were rolled-out successfully. 50% of the learners have been assessed.</p>	Mpumalanga Department of Education	Agreement end date: July 2015
Skills training in the North West province	<p>Learnerships, artisan training and skills programmes training agreements were signed and are ready for implementation.</p> <p>A further agreement with the Agri SETA ensures quality assurance for programs that are cross-sectored in nature, providing the rural focus of this project.</p>	Office of the Premier of North West Province	Agreement end date: March 2019
Development of military veterans	<p>ARPL training for 50 learners was rolled out. Participants were recruited, interviewed in different provinces and will shortly be exposed to an initial screening process, to identify if there are any gaps. Relevant training will be carried out where gaps are identified.</p>	Department of Military Veterans	Agreement end date was extended to: March 2018





Figure 11: National and Provincial Department Partnerships (continued)

PARTNERSHIPS	OBJECTIVE	PARTNER	DURATION
Developing artisans in a state-owned company	30 unemployed learners on apprenticeship training. The duration of this project was extended and will shortly be completed.	State-owned entity, Denel Aviation	Agreement end date: March 2018
Department of Basic Education	Development of 20 matriculants at each of 10 selected technical high schools what offer the new CAP 2 curriculum, to a level where these learners will become fully-fledged artisans after the required on the job training.	Technical high schools	Agreement end date: March 2018
Department of Small Business Development	Support skills development initiatives relating to the engineering and manufacturing industry for SMMEs, cooperatives and non-levy paying companies in the informal sector.  Support entrepreneurs with business tools, equipment and infrastructure, so as to make them more sustainable.	Department of Small Business Development	Agreement end date: March 2018

Challenging economic conditions in South Africa have compelled the Operations Division to find innovative ways to address the national government's priority on ensuring continuous emphasis on transformation towards social justice and inclusion.

The operations division focused extensively on building meaningful strategic relationships with other role players in the skills development arena, inclusive of collaborating with provincial, national and social partners.



Table 12: Research University, Comprehensive University and University of Technology

PARTNERSHIPS	OBJECTIVE	HEI PARTNER	DURATION
Three year agreement with Nelson Mandela Metropolitan University (NMMU) in innovative and TVET supportive skills development	<p>The following programmes were successfully completed:</p> <p>Mathematics and science tutoring for Grades 10, 11 and 12; upgrading of two technical high school technical laboratories; technical school support; and Women in Engineering programme (WELA).</p> <p>A further agreement was entered into with the university to extend the programme, with similar outcomes covering different schools and TVET colleges.</p>	NMMU, Eastern Cape	Agreement end date: March 2018
New three-year agreement signed with NMMU to establish "Marine Engineers" in support of Operation Phakisa	<p>This agreement will see the development of marine engineers with a three-year degree in marine engineering being offered at the university.</p> <p>The agreement further supports capacity building in marine engineering, research and international benchmarking.</p> <p>The agreement forms part of Operation Phakisa.</p>	NMMU, Eastern Cape	Agreement end date: March 2018



Table 12: Research University, Comprehensive University and University of Technology (continued)

PARTNERSHIPS	OBJECTIVE	HEI PARTNER	DURATION
Supporting Human Resource capacity at the university, to support access and throughput in engineering disciplines	<p>The 2nd phase in supporting mentorship of undergraduate students in mathematics and science (engineering-related).</p> <p>In addition to the above, the training of teaching assistants in the Extended Curriculum Programme at the university is also included.</p> <p>This programme was so successful that a new agreement was signed to continue the programme and to extend it.</p> <p>The new programme provides for post-graduate bursary support and video technology for the science faculty.</p>	University of the Western Cape, Western Cape	Agreement end date: March 2018
Capacity building at six TVET colleges with the Central University of Technology Bloemfontein	<p>Capacity building at six TVET colleges, women in engineering and access programmes for the university.</p> <p>This programme was successfully implemented.</p>	Free State Central University of Technology, Free State	Agreement end date: September 2016
Part of the ministerial turn-around strategy of Walter Sisulu University	<p>merSeta funded a Chair in Engineering. The main programmes in this multi year programmes include: STEM Support, WIL, CPD, lecturer, linkages to TVET Colleges, light Manufacturing and rural development through applied research.</p> <p>This agreement is now being implemented and will support the institution to regain its position as a university of choice.</p>	Walter Sisulu University, Eastern Cape	Agreement end date: March 2018





Table 12: Research University, Comprehensive University and University of Technology (continued)

PARTNERSHIPS	OBJECTIVE	HEI PARTNER	DURATION
Academic and skills development support for the University of Venda	<p>Learner support for rural learners in mathematics, science and technology, development of the next generation of academics and capacity building at TVET colleges.</p> <p>This agreement is being implemented successfully and deliverables are met according to set milestones.</p>	University of Venda, Limpopo	Agreement end date: March 2018
Piloting work-integrated learning for P1 & P2 engineering diploma students in collaboration with a design/development incubator	<p>UJ experiential learners to be placed at the incubation hub for small businesses at Resolution Circle (which provides services to industry, as well as product and process development).</p> <p>This programme is being implemented successfully and is on track.</p>	University of Johannesburg, Gauteng (A)	Agreement end date: March 2017
Work-integrated learning for engineering diploma students (P1 & P2)	<p>Placement of UJ experiential learners for work-integrated learning at the merSETA companies.</p> <p>This project was successfully completed.</p>	University of Johannesburg, Gauteng (B)	Agreement end date: March 2016 March 2018
Evaluation pilot of the new QCTO wind turbine service technician qualification	<p>Implementing one of the first renewable energy qualifications in the QCTO's qualifications framework.</p> <p>Significant progress has been made. Industry and a TVET college is on board with the roll-out of this project.</p>	Cape Peninsula University of Technology, Western Cape (specifically SARETEC, based at the CPUT campus),	Agreement end date: September 2016



Table 12: Research University, Comprehensive University and University of Technology (continued)

PARTNERSHIPS	OBJECTIVE	HEI PARTNER	DURATION
Central University of Technology, Maths and Science	A new co-funded agreement to support of maths and science at schools throughout the Free State.	CUT Services and Enterprises Trust	Agreement end date: 31 March 2018
Tshwane University of Technology (TUT)	A multi-year agreement with TUT was signed for qualification development, industry-based research in new technologies, TVET lecturer development, women in engineering support and P1 and P1 WIL.	TUT	Agreement end date: 31 March 2018
Science Park at the VUT	<p>A multi-year agreement with VUT was signed for:</p> <ul style="list-style-type: none"> <li>Cutting edge technology in additive manufacturing, and human capital development of university staff;</li> <li>Support of alternative energy process, focused on biogas and related scientific investigation;</li> <li>Proton exchange membrane, learning incubator and enterprise development.</li> </ul>	Vaal University of Technology	Agreement end date: 31 March 2018



Table 12: Research University, Comprehensive University and University of Technology (continued)

PARTNERSHIPS	OBJECTIVE	HEI PARTNER	DURATION
Durban University of Technology	<p>Funding of 15 Master's degree students and 10 PhD students at DUT for the merSETA research.</p> <p>Work Integrated learning (WIL) for 80 learners, entrepreneurship and the formation of cooperatives for 30 graduates.</p> <p>Co-funded lecturer upgrading of 5 university lecturers.</p>	Durban University of Technology	Agreement end date: 31 March 2018
Mangosutho University of Technology	<p>Enterprise development and incubation of training unemployed graduates.</p> <p>Human capital development of university staff to obtain competence at Master's degree and PhD level.</p> <p>Alternative energy / green skills / innovation and WIL for 70 students.</p>	Mangosutho University of Technology	Agreement end date: 31 March 2018

During the year under review, the merSETA entered into an additional 17 agreements with TVET colleges, placing a further 387 NCV learners into industry to obtain the required work-integrated experience towards becoming qualified artisans. The total value of the agreements was R54 million.

The merSETA and the British Council continued their relationship and have entered into a second co-funded agreement to support TVET leadership development in selected TVET colleges. In total, 15 TVET colleges are now benefitting from this programme. The total value of the partnership signed during the period under review was R2.5 million.

The merSETA and the Saldanha Industrial Development Zone also entered into a co-funded agreement to train 768 learners on fabrication-related skills programmes to support the fabrication hub in the Saldanha area. The total value of the partnership agreement is R10 million.



## 4. CAREER GUIDANCE

During the period under review, the merSETA supported 7 204 learners through 38 career guidance events across all provinces, to assist young learners in making informed career choices in the manufacturing, engineering and related services sectors. The 38 career events were attended by 840 schools in total and rural areas in the Eastern Cape, Limpopo and certain areas in the North West Province were visited. Some of the rural schools that attended the events included Umvuzo Secondary School in KwaZulu-Natal, Thohoyandou Technical High School in Limpopo, Maripe Secondary School in Mpumalanga, Nyanga High School in the Eastern Cape, and Batloun High School in North West. Of the 840 schools that participated, 337 were rural schools.

merSETA's Career Bus is a mobile unit equipped with 12 satellite-linked computer stations, offering visitors to the bus (school learners, out-of-school-youth and unemployed people) the opportunity to independently explore their career interests, and the technical career opportunities available in the sector. Schools were visited and learners participated in career guidance information sessions.

Career guidance opportunities were enhanced through the development of technology-based, youth-friendly approaches that were welcomed by the young target group. An online merSETA Career Portal was also launched, which contains a wide variety of career-related information and YouTube video clips. merSETA's electronic career advice service, which was developed by the Central University of Technology, enables learners to use a cell phone to submit an application.





## 5. NSDS III RELATED PROJECTS AND PROGRAMMES / JOINT PARTNERSHIP INITIATIVES

### 5.1 THE RETRENCHMENT ASSISTANCE PROGRAMME, TRAINING LAYOFF SCHEME AND THE UNEMPLOYMENT INSURANCE FUND PROGRAMME

During the period under review, the merSETA continued to support vulnerable workers in the sector, inclusive of the following support programmes:



The Retrenchment Assistance Programme (RAP) for retrenched workers.



The Training Layoff Scheme (TLS) for workers in companies in distress.



The Unemployed Insurance Fund Programme (UIF), also for retrenched workers.

The RAP addresses the training needs of retrenched workers in the merSETA sector. This is aimed at skills development, to enable workers to re-enter the labour market or to start their own business or co-operative. During the period under review, three companies were assisted and one completed the RAP training programme. A total of 8004 workers have had the benefit of RAP interventions since the inception of the programme, which remains focused on skills for sustainable livelihoods, job creation and income generation. The year under review saw 707 retrenched workers benefiting from the RAP programme.

The TLS, a government initiative that commenced in 2009, provides some degree of economic relief to companies in distress, so as to prevent the retrenchment of workers. During the period under review, eight of the merSETA's levy-paying companies were approved for the scheme, one of which has successfully completed the training and reverted to normal operating conditions. Overall, a total of 4 542 workers stand to benefit from the agreements signed during the period under review.

The merSETA once again partnered with the UIF in a co-funded agreement valued at R150 million. This will benefit 1000 candidates from various sectors in the merSETA related trades over a four-year period. Participants in the merSETA programmes will be retrenched workers and unemployed youth registered on the Department of Labour's Employment Services of South Africa (ESSA) database. The UIF and the merSETA co-fund the programme, each contributing 50% of the total funding.

**8 004**



workers  
benefit  
of RAP

**707**



retrenched  
workers  
benefiting  
from  
RAP

**TLS: Eight**



of the merSETA  
levy-paying  
companies  
approved

**4 542**



workers  
stand to  
benefit  
from the  
agreements  
signed

**R150 million**



co-funded  
agreement  
between the  
merSETA  
and UIF

## 5.2 CO-OPERATIVES AND ENTREPRENEURSHIP

In the 2015/16 financial year, the merSETA entered into a co-funded partnership agreement with the Department of Small Business Development (DSBD). The purpose of the partnership is to support and develop sustainable co-operatives, focusing on TVET entrepreneurs, informal economy trade workers and emerging co-operatives. In parallel with the partnership agreement, the merSETA implemented technical training for existing co-operatives identified by DSBD in the Eastern Cape, KwaZulu-Natal, Limpopo and Mpumalanga. The focus is on providing technical training for 120 members of the identified co-operatives, to enhance the use, care and basic maintenance of the machinery, equipment and tools they use for core manufacturing processes.

## 5.3 NON-GOVERNMENTAL ORGANISATIONS - ELDORADO PARK PRESIDENTIAL PROJECT

Non-governmental Organisations (NGOs) play an important role in skills development in communities, specifically where unemployed post-school learners are the target groups. The Eldorado Park Presidential Project is one of merSETA's NGO projects, which was initiated through the President's call for interventions in communities where substance abuse and other negative socio-economic elements impact adversely on young people. The project in Eldorado Park started with community conversations, led by merSETA's CEO, on Youth Day in 2013. Subsequently, an NGO was contracted to facilitate the enrolment of 30 young people on an entry level welding application and practice learnership in 2014. The target learners were identified through collaboration with a rehabilitation centre in the community and the assistance of faith-based organisations. In parallel with the technical training, the vulnerable learners were supported with extensive life skills education. The learners were also provided with the services of a psychologist. All 30 learners successfully completed the learnership and 22 were contracted by companies, where they were placed for the work-integrated learning component of the learnership. In December 2015, the community participated in a certificate ceremony held at a community hall in Eldorado Park.

**30** young people enrolled for an entry level welding learnership



**30** learners successfully completed the learnership  
-----  
**22** were contracted by companies

**December 2015**   
certificate ceremony held at a community hall in Eldorado Park



*Some of the graduates who received their certificates.*





## 5.4 TRADE UNION TRAINING

During the financial year under review, the merSETA entered into an agreement with the Trade Union constituency; the agreement is valued at R2,957,542. It focuses on capacitating labour skills development facilitators to effectively execute their function as worker representatives on training committees. The training was intended to assist union representatives during the process of mandatory grant submissions and monitoring of the implementation of workplace skills plan and PIVOTAL plans.

## 5.5 PEOPLE WITH DISABILITIES

The merSETA remains committed to supporting skills development specifically focused on People with Disabilities (PwDs). Despite the challenges in the manufacturing and engineering industries for PwDs, the merSETA is particularly proud of the small number of these learners who completed full artisanal qualifications, including the final trade test.

Most of the merSETA companies involved in PwD training focus on skills programmes that articulate into qualifications over time.

Social partners involved in PwD support include the National Institute for the Deaf and DEAFSA. DEAFSA support is offered in rural areas in Limpopo and the North West. The year under review saw 127 people with disabilities trained on different merSETA programmes.



**Justin Sundram (hearing impaired), one of the PwD apprentice boilermakers, passed his trade test.**





## 5.6 SUSTAINABLE GREEN SKILLS DEVELOPMENT

The National Development Plan is based on the notion of sustainability, including a focus on renewable and alternative energy sources and related technical skills. The merSETA started investigating green skills in 2012 and, subsequently, QCTO-related qualification development commenced to support artisanal and technician specialisations in this context. The merSETA has partnered with the Cape Peninsula University of Technology (CPUT) to pilot the first of these qualifications, namely the wind turbine service technician qualification. The pilot makes provision for training the first 10 wind turbine service technicians. A total of 62 applications were received and many of the already applicants have work experience in a wind farm context. The training started in January 2016.



The South African Renewable Energy Technology Centre is based at the Bellville campus of CPUT and is fully equipped to support the pilot training. The state-of-the-art centre is unique, in that it has real-life equipment.

merSETA's partnership with the Nelson Mandela Metropolitan University that includes research and development support for renewable energy and new technology, the development of an electrical car, as well as a solar-powered cart that could potentially lend itself to a number of applications.





## 5.7 CORRECTIONAL SERVICES

The merSETA has signed a medium-term skills development agreement with Kimberley Correctional Services, to support parole-awaiting offenders with technical skills towards their re-integration into society. Forty offenders awaiting parole are being trained in motor mechanic skills; these include both technical skills and business skills development training. Upon release, the ex-offenders should be sufficiently skilled to either find employment or to start their own business. The Kimberley Prison initiative focuses on equipping and capacitating the prison to become an accredited training provider that is mandated to provide the required training to inmates. New agreements were signed with the Boksburg and Heidelberg prison facilities to equip, capacitate and accredit training centres within the prisons, to provide training to offenders. The disciplines offered are welding, motor mechanics and electrical learning programmes. The intention of these projects is to contribute constructively to the re-integration of ex-offenders into society.



*Learners from Kimberly Correctional Services*



## 6. QUALIFICATIONS, CURRICULA AND LEARNING PROGRAMMES, AND QUALITY ASSURANCE

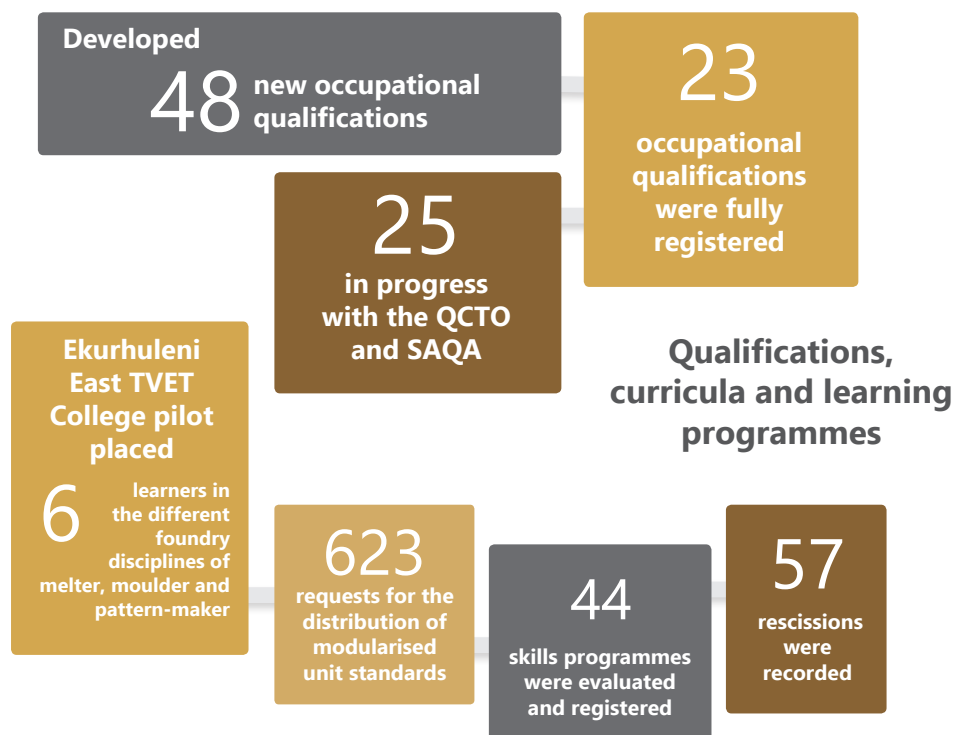
### 6.1 QUALIFICATIONS, CURRICULA AND LEARNING PROGRAMMES

Qualifications, curricula and learning programmes are products and services integral to education, training and skills development. During the year under review, the merSETA continued with its QCTO delegated function and co-ordinated and managed the development of 48 new occupational qualifications. A total of 23 occupational qualifications were registered and 25 are in progress for registration with the QCTO and SAQA.

During the period under review, the merSETA entered into an agreement with Ekurhuleni East TVET College to pilot the newly registered occupational qualifications linked to foundry occupations. This pilot project has placed 6 learners in the different foundry disciplines of melter, moulder and pattern-maker, in order to test the relevance of the newly registered occupational qualification and its fitness for purpose.

A total of 623 requests for the distribution of modularised unit standard-based learning materials were addressed. A total of 44 skills programmes were evaluated and registered. A guideline was also developed for skills set criteria to support employees who operate specialised units in companies, requiring cross-cutting skills and competencies from different qualification areas. Companies subsequently developed five skills sets, which were evaluated and registered.

The management of learner contracts is legislated, requiring accurate records of all types of rescissions, inclusive of terminations and withdrawals. During the financial period under review 57 rescissions were recorded.





## 6.2 QUALITY ASSURANCE

During the period under review, the merSETA continued to perform quality assurance of all unit standard-based sector specific qualifications, as delegated by the QCTO. A total of 892 accreditation visits, 1212 moderations and 93 audits of accredited training providers were carried out, to ensure that merSETA's quality standards are adhered to and maintained. These activities included verification of assessments, accreditation, monitoring and capacity building of providers. Twelve capacity-building provider workshops were conducted, to ensure that all new developments, were communicated to stakeholders particularly in the quality assurance arena and the implementation thereof.

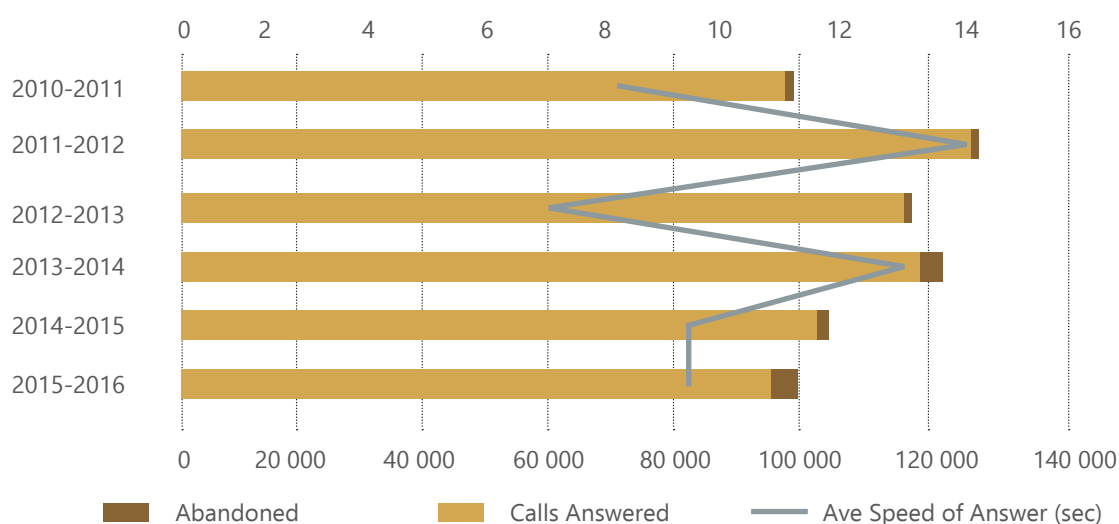
The operations division also participated in policy development activities in the QCTO and the National Artisan Moderation Body contexts. The merSETA has been approved as an Assessment Quality Partner (AQP) for three occupational qualifications, namely vehicle damage quantifier, solar photovoltaic service technician and wind turbine service technician. This process is now being implemented.

The merSETA is collaborating and funding a pilot for the artisan-related recognition of prior learning (ARPL) draft process. All merSETA's organised labour unions were given the opportunity to nominate candidates to participate in the pilot. Close to one hundred applications were received and processed. Companies where the participating artisan aid applicants are employed are currently being visited, to ensure the necessary release of the applicants for the gap-filling training process. This initiative will feed into the national ARPL process.

## 7. CUSTOMER INTERACTION CENTRE

The Customer Interaction Centre received 99 773 calls, of which 91 059 were successfully dealt with. The average answering speed is 10 seconds, with an internal quality score of 94.67%.

**Figure 13: Call Centre Performance for the 2015/16 financial year**



To improve efficiency, the Customer Interaction Centre assisted with quality surveys, with visits to all member companies conducted by the regional offices, as well as all companies that were awarded discretionary grants during the 2013/2014 and 2014/2015 financial years, with 72 percent of companies participating in the survey. The purpose of the surveys was to determine whether or not clients were satisfied with service delivery and to establish if any further assistance was required. The outcome of the survey carried out in the previous financial year resulted in increased interaction with various stakeholders through various forums, as well as stakeholder visits by client liaison officers, which has resulted in a positive survey outcome.





STRATEGY AND RESEARCH







## 1. INTRODUCTION

The Strategy and Research Division is staffed by a multi-disciplinary team and is organised into three inter-related functional units:



SSP Research and Chambers Unit (incorporating related labour market information analysis and Regional Committee support);



Strategy Unit (incorporating knowledge management, performance monitoring reporting and evaluation, and quality systems);



Projects Development and Innovation Unit (incorporating dual system apprenticeships (DSAPs), applied research and research and development partnerships).

These three units are collectively responsible for the development of merSETA's Sector Skills Plan (SSP), Strategic Plan (SP) and Annual Performance Plan (APP). A collaborative approach is used in association with other internal divisions and units, as well as stakeholders, via the Authority, and Chamber and Regional Committees.

To assist the division to implement its mandate, the merSETA determined that it needed to engage in longer-term research related partnerships with Higher Education Institutions (HEIs) to support the merSETA thought leadership strategy. This develops research capacity at universities, but also allows the merSETA to benefit from critical academic insight into skills development and its various nuances.

## 2. RESEARCH AND SECTOR SKILLS PLANNING

The Research Unit aligns to the over-arching objective of "establishing a credible institutional mechanism for skills planning and informed decision making". The development of the SSP is a central feature of the research function. Research activities undertaken feed into sector skills planning processes, which include the skills development planning activities of the chambers. The Research Unit therefore focuses on the merSETA skills development issues and informs national development imperatives.

### 2.1. KEY ACTIVITIES IN THE 2015/16 YEAR INCLUDE THE FOLLOWING:

#### 2.1.1 Development of the Sector Skills Plan (SSP)

The overall approach to skills planning takes cognisance of the need for a credible mechanism to address the skills development needs of the manufacturing, engineering and related services sub-sectors. To this end, the SSP takes into consideration both quantitative and qualitative research methods, supported by a competent research team, as well as a stakeholder-driven verification process through stakeholder consultation to provide regional and sub-sector perspectives.



The 2015 year saw the second round of research conducted directly by the chambers. Key findings from the chamber research projects relate to the following key trends:

**Continued mismatch between skills required by industry and skills supply.**

**01** Key finding

**Recognition of the data challenges with regard to labour market intelligence and skills planning.**

**02** Key finding

**Increasing demand for specialised training**

**03** Key finding

**Increasing trend towards skills innovation with regard to future skills needs.**

**04** Key finding

**New and emerging occupations.**

**05** Key finding

**The need for life skills training.**

**06** Key finding

**Better use of resources-both human and capital.**

**07** Key finding

**Higher demand for technical skills.**

**08** Key finding

**Perceived poor skills development provision by public education and training institutions.**

**09** Key finding

**The need for greater employer involvement in training.**

**10** Key finding



### 2.1.2 Capacity Building

The merSETA has emphasised the need to invest in labour market intelligence and participates in the National Labour Market Intelligence Programme (LMIP) projects, workshops, capacity building sessions and policy round-table discussions. This ensures that merSETA's sub-sectors do not miss out on key developments with regard to the insights garnered through research associated with intelligent systems and harnessing data to support skills initiatives.

The 2015 year saw the seeds of better analytics starting to germinate through the partnership with the Development Policy Research Unit (DPRU) at University of Cape Town (UCT). DPRU has assisted the merSETA research and knowledge management teams to identify key mechanisms for improving communications and research techniques packaged for different consumers in the form of learners, employers, workers, other researchers and policy makers. The 2016 year will see this coming to fruition in a more visible format, in terms of data analysis and key insights.

The merSETA was also active in the skills planning arena with respect to the goods cluster, comprising the Fibre Processing and Manufacturing (FP&M) SETA, the Chemical Industry Education and Training Authority (CHIETA) and the Food and Beverages (FOODBEV) SETA. A process of peer review was undertaken to ensure that the SSP from each of the SETAs is of the best quality and informed by rigorous review of data and literature, as well as qualitative methods.

## 3. KNOWLEDGE MANAGEMENT

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### 3.1 HIGHLIGHTS

The financial year under review saw the increased involvement of the Knowledge Management Unit in supporting the development of the merSETA SSP using the new SSP framework. This was in support of strategic goal 3 of the Strategic Plan (appropriate research for evidenced based decision making). The Research and Chambers unit and the Knowledge Management unit successfully developed the 2014-2015 SSP using the framework. merSETA's SSP has since been recognised by the Department of Higher Education and Training as one of the good SSPs. The Knowledge Management unit also participated extensively in various LMIP activities, DHET research and other forums, as part of merSETA's stakeholder engagement strategy.

The year under review also saw the much anticipated proposed SETA landscape and NSDS IV published for public comment. The merSETA responded to the proposal by developing an inclusive process for soliciting stakeholder input on the draft proposal, with the process being coordinated by the Knowledge Management unit. The Knowledge Management unit assisted in consolidating stakeholder input and comments and developed the draft consolidated report. This was then finalised by the merSETA leadership, and formed part of the merSETA response and input to the SETA landscape proposal.

The Knowledge Management unit continues to play an important role in supporting the establishment of a "Credible Institutional Mechanism for Skills Planning" at merSETA. It continues to be responsible for sourcing and disseminating policy, and strategic and related skills development data and information that is critical in strategic decision making, sector skills planning, research and other activities in the organisation. Mechanisms to empower staff, leadership and external stakeholders with the latest news and information on socio-economic, political and technological developments affecting skills development are continuously improved.





## 4. QUALITY MANAGEMENT SYSTEM

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### 4.1 MAINTENANCE OF ISO 9001:2008

The merSETA has successfully managed to maintain the ISO 9001:2008 status quo for the year under review, as independently assessed by PricewaterhouseCoopers. During the financial year under review, five audit surveillance assessments were conducted by PricewaterhouseCoopers, in addition to the quarterly quality management audits conducted internally by the unit as part of the continuous maintenance process of the system. All recommendations were considered and corrective action implemented in line with the recommendations, as part of continuous improvement.

### 4.2 STAKEHOLDER SURVEY

As part of its commitment to offering quality service to its stakeholders, the merSETA conducted a stakeholder survey during the period under review, to monitor and track stakeholder experience, specifically in terms of key touch points in the organisation. The survey provides feedback on stakeholder satisfaction level trends across key operational features of merSETA.

### 4.3 STAKEHOLDER EXPERIENCE MANAGEMENT (SEM)

The merSETA established an online tool (SEM), linked to the merSETA website, through which customers were able to provide real-time service experience feedback. This provided data that formed part of ongoing and continuous improvement on the stakeholder satisfaction.

During the year under review, the SEM measured the service level of the most recent interaction with merSETA. In pursuit of continuous improvement, the merSETA has added an element that enables stakeholders to assess overall perception of the organisation, rather than limiting the assessment to the most recent visit only.

## 5. PROJECTS DEVELOPMENT AND INNOVATION

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In line with merSETA's strategic intent, the Projects Development and Innovation Unit has continued to further its work in the following areas:

- strengthening of research partnerships with Higher Education Institutions, both locally and internationally;
- building an understanding of effective work-integrated learning models between TVET colleges and their industrial counterparts, through large-scale diagnostic instruments; and
- testing research recommendations through pilot projects.



## 5.1 RESEARCH RELATED HIGHER EDUCATION INSTITUTION PARTNERSHIPS

The Projects Development and Innovation Unit has continued to strengthen our collaboration with Higher Education Institutions. These collaborations are governed by the Higher Education Institutions Research Partnership Strategy. These collaborations include:

R & D PROJECT	OBJECTIVE	HEI PARTNER
Masters degree in Technology-Based Entrepreneurship	Master's qualification development specialising, in the field of entrepreneurship, linked to the industrialisation of intellectual property, developed through HEIs in support of new manufacturing opportunities in SA.	University of Cape Town, Commerce Faculty
Research Chair in Manufacturing Skills Development	Identifying and supporting skills for technology gaps that will improve the competitiveness and sustainability of the South African manufacturing value chain. Masters, Doctoral and Post-doctoral candidates are to be hosted through this new research chair.	TUT, Faculty of Industrial Engineering and the Built Environment
Sector Skills and Economic Evolution in SA	A Masters, Doctoral and Post-doctoral academic programme that seeks to integrate VET, industrial policy and evolutionary economics disciplines contributing to the new skills required by DHET for skills planning purposes.	Wits University, School of Education, Centre for Researching Education and Labour
Engineering Faculty Development	To strengthen the university's delivery of post-graduate engineering related programmes through focused support for lecturing staff development into Masters and PhD programmes; programme development and accreditation through HEQC; and research methods teaching support.	Walter Sisulu University, Eastern Cape



## 5.2 APPLIED RESEARCH

A high-level partnership with the University of Bremen TVET Research Group (i:BB) supports deeper research into vocational competence development. This measurement instrument is designed to identify the strengths and weaknesses of vocational education and training approaches and provides a comparative assessment across institutions in South Africa on levels of competence achieved by international standards. A cost benefit and quality analysis instrument is also used to measure the costs associated with the implementation of apprenticeship models or learning pathways. Lastly, there are three PhD scholarships that support knowledge transfer initiatives from the University of Bremen to South Africa.

## 5.3 DUAL SYSTEM APPRENTICESHIPS PILOT PROJECT

To promote the responsiveness of TVET colleges to the intermediate skills needs of the sector, the Projects Development unit continues to support implementation of dual system apprenticeships. This is a DHET initiative. It focuses on teaching practices and work-integrated learning approaches, to improve the relevance of skills taught at the colleges and to strengthen post qualification employability.

# 6. *MONITORING AND EVALUATION*

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## 6.1 QMR REVIEWS AND SUBMISSIONS

The Monitoring and Evaluation unit continued to work hand-in-hand with other units and divisions so that quantitative performance information could be prepared for presentation to management and submission to DHET for quarters 1, 2, 3 and 4. Each presentation to management assisted the merSETA in understanding where our performance stood in light of the pre-determined objectives, i.e: targets on the service level agreement with DHET. This provided a basis for decision making.

The Auditor General audits and the DHET validations of quantitative performance information were managed and co-ordinated by the unit for four quarters of the year.

## 6.2 TRACER STUDY

The monitoring and evaluation unit concluded the merSETA Post Qualification Tracer Study in partnership with the University of Pretoria. The study interviewed 1 030 of the merSETA learners, 20 companies and 8 training providers. Key findings were that 83% of the learners were employed and that the merSETA learning programmes had a positive effect on the lives of learners.



## 7. PERFORMANCE INFORMATION BY PROGRAMME

### 7.1 MERSETA'S PERFORMANCE AGAINST NSDS III QUANTITATIVE TARGETS 2015/16

The 2015/16 financial year was the fifth year of the NSDS III. MerSETA and the DHET signed an SLA which indicated the NSDS III quantitative indicator targets for the 2015/16 financial year. The targets per indicator were grouped according to the eight programmes that were identified by the Accounting Authority.

Some new indicators were introduced while others were changed as reflected in the table below. Our quarterly performance was reported to the Accounting Authority and DHET. Most of our targets were achieved by more than 100%. That includes apprenticeship programmes which form part of our core activities.

MerSETA's overall annual performance is reflected in the table and charts below:

### EXPLANATION OF TERMINOLOGY UTILISED IN THE PERFORMANCE INFORMATION REPORT BELOW:

#### 1. merSETA Funded:

Refers to all those learning interventions that are subsidised through the discretionary grant awards. merSETA also provides a resources for a range of legally mandated services, e.g. monitoring, quality assurance, provision of moderators, etc.

#### 2. Partnerships

Are all those learning interventions that are co-funded through mandatory grants, discretionary grants and other sources of funding.

The range of partnerships included:

- Partnerships with other legal entities (non-industry partners)
- Partnerships with industry (discretionary grant, co-funding or mandatory grants)

The details of the partnerships can be found under Part B of this report.





### 3. “PARTNERSHIPS” 2015/16 PERFORMANCE AGAINST QUANTITATIVE TARGETS

Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes	Unemployed Learnerships Entered	3 139	merSETA funded: 1 600  Anticipated Partnerships: 1 900  Total: 3 500	These are the achievements:  MerSETA Funded: 641 (40% achievement)  Funded through partnerships: 3 561 (187% achievement)  Total: 4 202 (120% achievement)	<p>The MoA agreements with companies based on the discretionary grant application were signed within the final quarter of the financial year. According to the merSETA grant policy the learners are normally registered throughout the financial year and the majority is tagged after the financial year end.</p> <p>The allocation for workers and unemployed learners through the discretionary grant process and contained within signed MoA's was 3 201.</p> <p>Due to the fact that our available funding was insufficient to cover the targets that were set by the Department, merSETA entered into partnerships utilising a portion of the discretionary grants to leverage additional funding through partnerships in order to attain the total planned targets.</p> <p>E.G.: (<i>mandatory grants</i>)</p>
	Unemployed Learnerships Completed	1 209	Total: 1 300	These are the achievements:  MerSETA funded: 923 (71% achievement)	<p>The targets are set based on the number of learners in the system and some of these learners did not progress to completion as expected.</p> <p>The balance to the achievements are contributions through co-funded partnerships: 1 379</p> <p>Total stands at: 2 302 (177% achievement)</p>



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes (continued)	Unemployed Internships Entered	297	Total: 300	These are the achievements: MerSETA Funded: 275 (91% achievement)	MerSETA funding was sufficient however due to additional requests for partnerships with public HEI a portion of the available funds were utilised to fund the additional requests.  As a result of these partnerships and additional 165 internships were funded.  Total stands at: 440 (147% achievement)
	Unemployed Internships Completed	125	Total: 150	These are the achievements: MerSETA funded: 190 (126% achievement)	The reason for the variance is due to the fact that certain internships did not complete within the previous reporting period and are now being reported during this period.  Funded through partnerships: 7  Totals stands at: 197 (131% achievement)



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes (continued)	Unemployed Skills Programmes Entered	1 265	merSETA funded: 1 650 Anticipated Partnerships: 350 Total: 2 000	These are the achievements: MerSETA Funded: 737 (45% achievement) Funded through partnerships: 3 730 (1065% achievement) Total: 4 467 (223% achievement)	The MoA agreements with companies based on the discretionary grant application were signed within the final quarter of the financial year. According to the merSETA grant policy the learners are normally registered throughout the financial year and the majority is tagged after the financial year end. The allocation for workers and unemployed learners was 5 512.  Due to the fact that our available funding was insufficient to cover the targets that were set by the Department, merSETA entered into partnerships utilising a portion of the discretionary grants to leverage additional funding through partnerships in order to attain the total planned targets.  E.G.: (mandatory grants)
	Unemployed Skills Programmes Completed	1 085	Total: 1 425	These are the achievements: MerSETA funded: 247 (17% achievement)	The targets are set based on the number of learners in the system and some of these learners do not progress to completion as expected.  The balance to the achievements are contributions through co-funded partnerships  Funded through partnerships: 2 082  Totals stands at: 2 329 (163% achievement)



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes (continued)	Employed Bursaries Entered	122	merSETA funded: 150 Anticipated Partnerships: 350 Total: 500	These are the achievements: MerSETA Funded: 82 (55% achievement) Funded through partnerships: 161 (46% achievement) Total: 243 (49% achievement)	The MoA agreements with companies based on the discretionary grant application were signed within the final quarter of the financial year. According to the merSETA grant policy the learners are normally registered throughout the financial year and the majority is tagged after the financial year end. The allocation for workers learners was 908.  Our co-funded partnerships through mandatory grants, contributed to the additional 161 (Funded through partnerships).  The reason for underachievement on the anticipated partnership target was due to there being no baseline and the target was overstated (MerSETA Funded).
	Employed Bursaries Completed	13	Total: 15	These are the achievements: MerSETA Funded: 76 (506% achievement)	The variance for the merSETA funded bursaries is due to a higher than anticipated completion rate based on the number of learners funded to enter into the programme.  Funded through partnerships: 12 (80% achievement)  Totals stands at: 88 (587% achievement)





Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes (continued)	Unemployed Bursaries Entered (NSFAS)	266	Anticipated partnerships: 1 550 Total: 1 550	These are the achievements: Funded through partnerships: 1 770 (114% achievement)	MerSETA has a formal agreement with NSFAS whereby we allocated a fixed amount for bursaries for learners. However NSFAS has sourced more learners based on our scarce and critical skills list than we agreed upon.
	Unemployed Bursaries Completed	49	Total: 15	These are the achievements: MerSETA Funded: 25 (167% achievement)	The variance was due to the fact that the actual pass rate was higher than the anticipated pass rate.



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes (continued)	Total Artisans Entered	5 269	Total: 3 800	These are the achievements: merSETA funded: 1 330 (38% achievement)	<p>The MoA agreements with companies based on the discretionary grant application were signed within the final quarter of the financial year. According to the merSETA grant policy the learners are normally registered throughout the financial year and the majority is tagged after the financial year end. The allocation for learners was 3 654</p> <p>Due to the fact that our available funding was insufficient to cover the targets that were set by the Department, merSETA entered into partnerships utilising a portion of the discretionary grants to leverage additional funding through partnerships in order to attain the total planned targets. e.g. mandatory grants) Funded through partnerships: 3 714 (97% achievement)</p> <p>Total stands at: 5 044 (133% achievement)</p>
	Total Artisans Completed	5 519	Total: 2 800	merSETA funded: 936 (33% achievement)	<p>The targets are set based on the number of learners in the system and some of these learners do not progress to completion as expected.</p> <p>The balance to the achievements are contributions through co-funded partnerships</p> <p>Funded through partnerships: 2 291 (81% achievement)</p> <p>Total stands at: 3227 (115% achievement)</p>



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes (continued)	Recognition of Prior Learning (RPL)	New	Total: 500	MerSETA funded: 27 (5% achievement)	<p>The MoA agreements with companies based on the discretionary grant application were signed within the final quarter of the financial year. According to the merSETA grant policy the learners are normally registered throughout the financial year and the majority is tagged after the financial year end. The allocation for learners was 510.</p> <p>Funded through partnerships: 2 550 (51% achievement)</p> <p>Total stands at: 2 577 (515% achievement)</p> <p>The positive result is due to the advocacy carried out with employers, labour and regional forums.</p>
	TVET Student Placement Entered	Changed	merSETA funded: 750 Anticipated Partnerships: 750 Total: 1 500	These are the achievements: MerSETA Funded: 379 (50% achievement) Funded through partnerships: 237 (32% achievement) Total: 616 (41% achievement)	<p>The poor result is due to the merSETA focusing on TVET student being placed into structured learning i.e.: apprenticeships and learnerships.</p>



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 3: Increased access to occupationally-directed programmes (continued)	TVET Student Placement Completed	Changed	merSETA funded: 600 Anticipated Partnerships: 600 Total: 1 200	These are the achievements: MerSETA Funded: 160 (27% achievement) Funded through partnerships: 31 (5% achievement) Total: 191 (16% achievement)	The poor result is due to the merSETA focusing on TVET student being placed into structured learning i.e.: apprenticeships and learnerships influencing the merSETA funded and partnerships funded because companies also has a focus on structured learning.
	Universities Student Placement Entered	Changed	merSETA funded: 750 Anticipated partnerships: 50 Total: 800	These are the achievements: MerSETA Funded: 520 (69% achievement) Funded through partnerships: 359 (718% achievement) Total: 879 (110% achievement)	The reason for merSETA funded under achievement is that we have internally reduced our targets to unlock some of the funding allocated to our targets to enter into partnerships so as to exceed this target. Re-directing of funds, influenced both the merSETA funded and non-funded variance.  E.G: UJ and TUT
	Universities Student Placement Completed	Changed	merSETA funded: 600 Anticipated partnerships: 40 Total: 640	These are the achievements: MerSETA Funded: 375 (63% achievement) Funded through partnerships: 214 (535% achievement) Total: 589 (92% achievement)	The reason for the variance is due to the fact that certain experiential learners did not complete within the previous reporting period as expected and will now be reported within the next financial year. These non-completions on time influenced both the merSETA funded and partnerships funded variance.





Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 4: Promoting the responsiveness of TVETCs to Sector Skills Needs	TVET college Partnerships	21	Total: merSETA funded 21	These are the achievements: merSETA funded: 34 (162% achievement)	The reason for this variance is due to the fact that we embarked on an advocacy campaign with the TVET colleges as the preferred public provider for our Sector within the FET band.
	SETA / Universities Partnerships	New	Total: merSETA funded 10	These are the achievements: merSETA funded: 13 (130% achievement)	The reason for this variance is due to the fact that we embarked on an advocacy campaign with the higher education institutions as the preferred public provider for our Sector within the HET band.
	SETA / Employer Partnerships	New	Total: merSETA funded 1400	These are the achievements: MerSETA Funded: 2 320 (166% achievement)	The variance is a result of the number of applications exceeding the expectations due to an increased number of DG applications as well as unforeseen applications for the retrenchment assistance programme and the training lay off scheme.
	Lecturer Development Programmes Entered	New	Total: merSETA funded 120	These are the achievements: MerSETA Funded: 163 (136% achievement)	This was a new target and the response exceeded the expectation and thus we managed to recruit more within the allocated budget.
	Lecturer Development Programmes Completed	New	Total: merSETA funded 120	These are the achievements: 151 (126% achievement)	This was a new target and the response exceeded the expectation and the majority of learners entered managed to complete.



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 5: Address the low level of youth and adult literacy and numeracy skills to enable additional training	Employed Skills Programmes Entered	3 111	Total: merSETA funded 1 650	These are the achievement: merSETA funded 924 (56% achievement)	<p>The MoA agreements with companies based on the discretionary grant application were signed within the final quarter of the financial year. According to the merSETA grant policy the learners are normally registered throughout the financial year and the majority is tagged after the financial year end. The allocation for workers and unemployed learners was 5 512.</p> <p>Partnership funded 3698 (224% achievement)</p> <p>Total stands at: 4622 (280% achievement)</p>
	Employed Skills Programmes Completed	1 124	Total: merSETA funded 1 425	These are the achievement: 567 SETA funded (40% achievement)	<p>The targets are set based on the number of learners entered on skills programmes and did not complete within the financial year and would probably be reported in the next financial year.</p> <p>The balance to the achievements are contributions through co-funded partnerships.</p> <p>Partnership funded: 1 172 (82% achievement)</p> <p>Total stands at: 1 739 (122% achievement)</p>



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 5: Address the low level of youth and adult literacy and numeracy skills to enable additional training (continued)	AET Programmes Entered	550	Total: merSETA funded 500	These are the achievements: 277 (55% achievement)	The uptake via discretionary grant funding was below what we anticipated. However we were able to exceed our targets through mandatory grant funded initiatives.  Partnership funded: 433 (87% achievement)  Total stands at: 710 (142% achievement)
	AET Programmes Completed	281	Total: merSETA funded 300	These are the achievements: 1 merSETA SETA funded (0% achievement)	The uptake via discretionary grant funding was below what we anticipated. However we were able to exceed our targets through mandatory grant funded initiatives.  Partnership funded: 461 (154% achievement)  Total stands at: 462 (154% achievement)
Programme 6: To promote workplace skills development within the sector	Employed Learners Entered	3 910	merSETA funded: 1 800 Anticipated partnership: 1 200 Total: 3 000	These are the achievement: merSETA funded 1 681 (93% achievement)  Funded through partnerships: 2 575 (215% achievement)  Total: 4 256 (142% achievement)	The MoA agreements with companies based on the discretionary grant application were signed within the final quarter of the financial year. According to the merSETA grant policy the learners are normally registered throughout the financial year and the majority is tagged after the financial year end. The allocation for workers and unemployed learners through the discretionary grant process and contained within signed MoA's was 3 201 hence merSETA funded variance. Partnerships were co-funded through mandatory grants, hence the partnerships variance.



Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 6: To promote workplace skills development within the sector (continued)	Employed Learnerships Completed	1 568	Total: merSETA funded 2 500	These are the achievements: merSETA 801 (32% achievement)	The targets are set based on the number of learners in the system and some of these learners did not progress to completion as expected.  Funded through partnerships: 1 046 (42% achievement)  Total stands at: 1 847 (74% achievement)
	Large Companies Paid Mandatory Grants	514	500	580 (116% achievement)	The increase is due to the fact that there has been an increase in compliance and that some companies have moved from the medium category into the large category.
	Medium Companies Paid Mandatory Grants	805	833	1 000 (120% achievement)	The increase is due to the fact that there has been an increase in compliance and that some companies have moved from the small category into the medium category.
	Small Companies Paid Mandatory Grants	2 072	2 135	2 071 (97% achievement)	We have received 2 488 submissions. 2 311 were approved but the submissions without levy contribution could not be paid.





Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 7 – Encouraging and supporting cooperatives, Small enterprises, NGOs and Community initiated training	Co-operatives Support	20	Total: merSETA funded 18	These are the achievements: merSETA funded 35 (194% achievement)	We have exceeded this target due to dedicated funding. And a high level of advocacy undertaken by regional staff.
	Small Business Support	2 919	Total: merSETA funded 1 500	These are the achievements: merSETA funded 1 851 (123% achievement)	The reason for exceeding the planned targets was due to a number of dormant employers being visited to advocate the merSETA and the benefits of skills development which resulted in employers applying for grants.
	NGOs Support	13	Total: merSETA funded 20	These are the achievements: merSETA funded 24 (120% achievement)	Discretionary grants and regional office advocacy have resulted in a exceeding the planned target.
	CBOs Support	10	Total: merSETA funded 7	These are the achievements: merSETA funded 6 (86% achievement)	The reason for variance is due to the difficulty to report only on registered CBOs.
	NILPEs Support	185	Total: merSETA funded 200	These are the achievements: merSETA funded 271 (136% achievement)	The reason for exceeding the target was due to a number of dormant employers being visited to advocate the merSETA and the benefits of skills development which resulted in employers applying for grants.

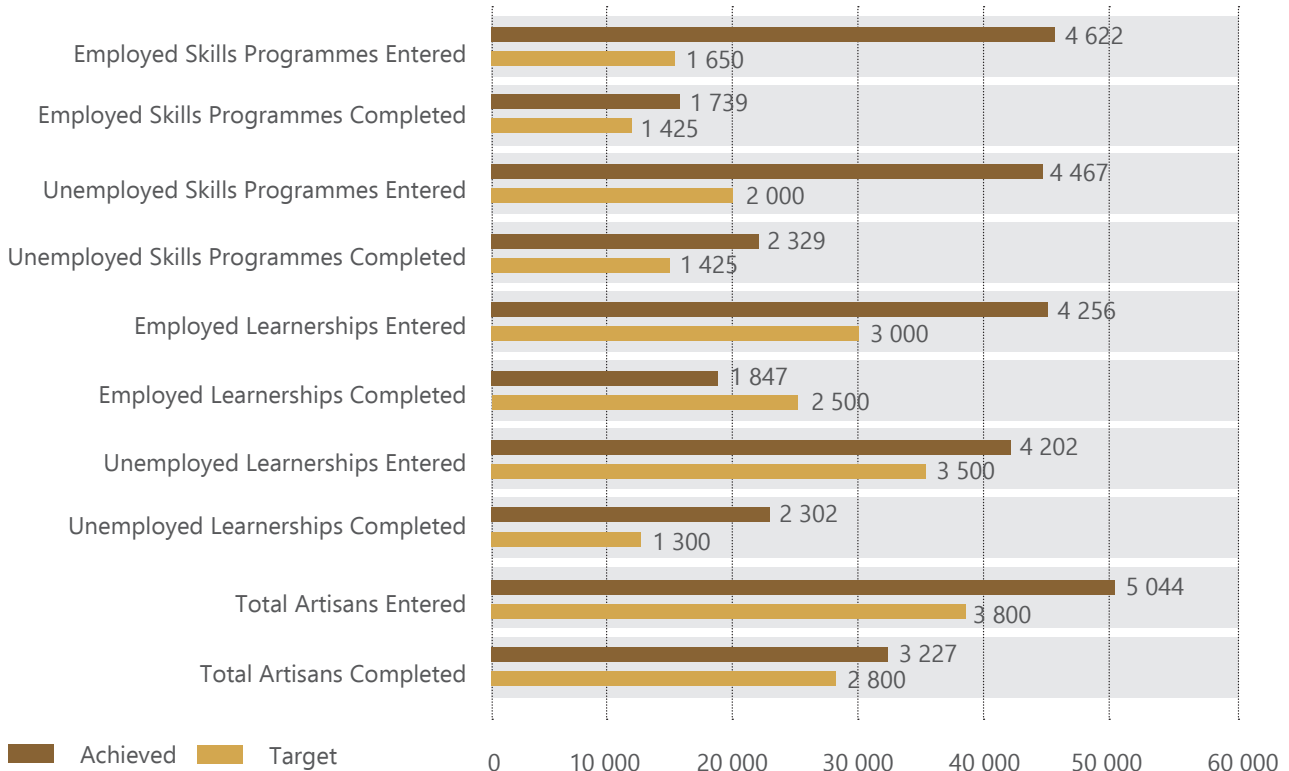


Programme Goal	Performance Indicators	2014/15 Achievements	2015/16 Targets	2015/16 Achievements	Variance Notes
Programme 7 – Encouraging and supporting cooperatives, Small enterprises, NGOs and Community initiated training (continued)	Trade Unions Support	New	Total: merSETA funded 4	These are the achievements: merSETA funded 5 (125% achievement)	A MoA with all 5 unions representing workers in our merSETA sector has resulted in this performance.
	Small Business Support	2 919	Total: merSETA funded 1500	These are the achievements: merSETA funded 1 851 (123% achievement)	The reason for exceeding the planned targets was due to a number of dormant employers being visited to advocate the merSETA and the benefits of skills development which resulted in employers applying for grants.
	Rural development projects	New	Total: merSETA funded 9	These are the achievements: merSETA funded 15 (167% achievement)	Collaboration with Universities, TVET colleges and government departments resulted in merSETA exceeding this target
	Career guidance events	Changed	Total: merSETA funded 27	These are the achievements: merSETA funded 37 (137% achievement)	MerSETA had a planned schedule but due to additional requests made from various institutions outside of our planned schedule, such as DHET and basic education, we exceeded our targets.
Programme 8 – Career Guidance	Candidacy programme entered	New	0	This indicator was still under discussion during the 2015/16 period.	
	Candidacy programme completed	New	0	This indicator was still under discussion during the 2015/16 period.	



The graph below is inclusive of merSETA funded and partnerships funded learning interventions. The detailed breakdown is reflected in the table above.

**Figure 14: Performance Against Quantitative Targets (Part1)**



**Figure 15: Performance Against Quantitative Targets (Part2)**

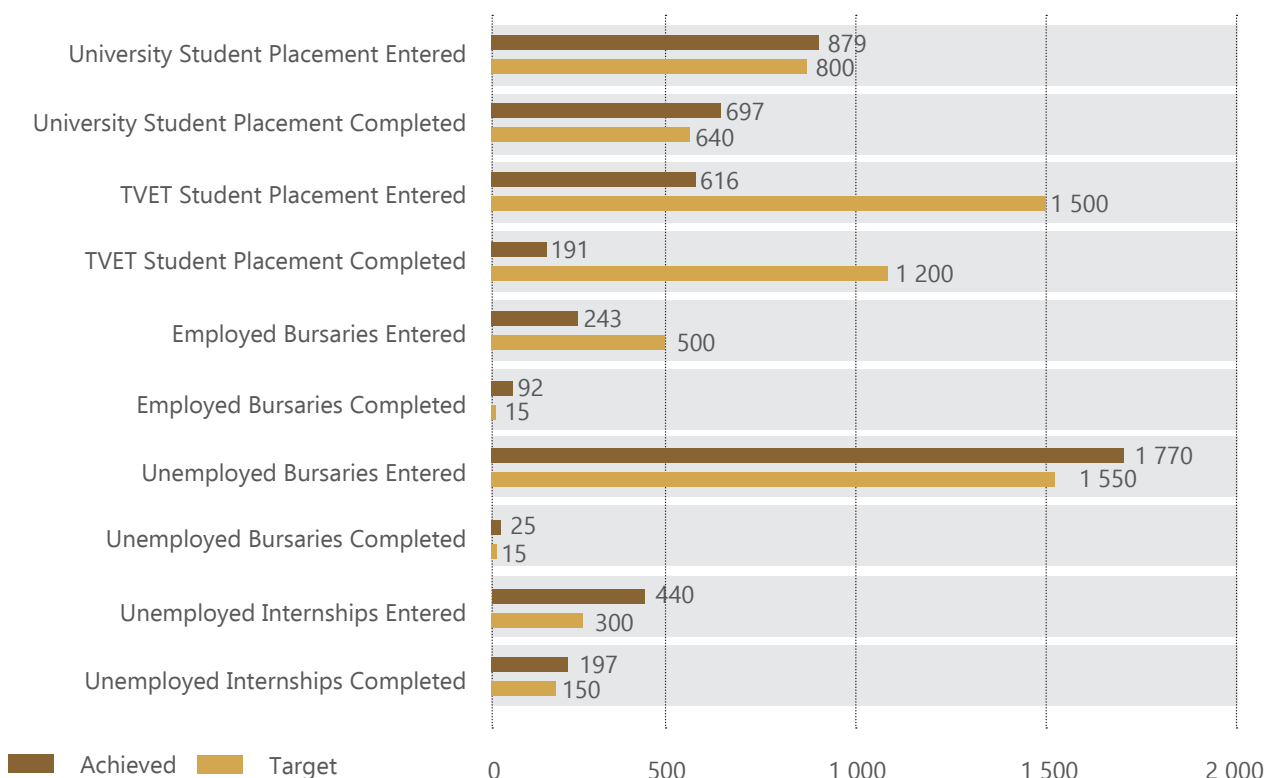




Figure 16: Performance Against Quantitative Targets (Part3)

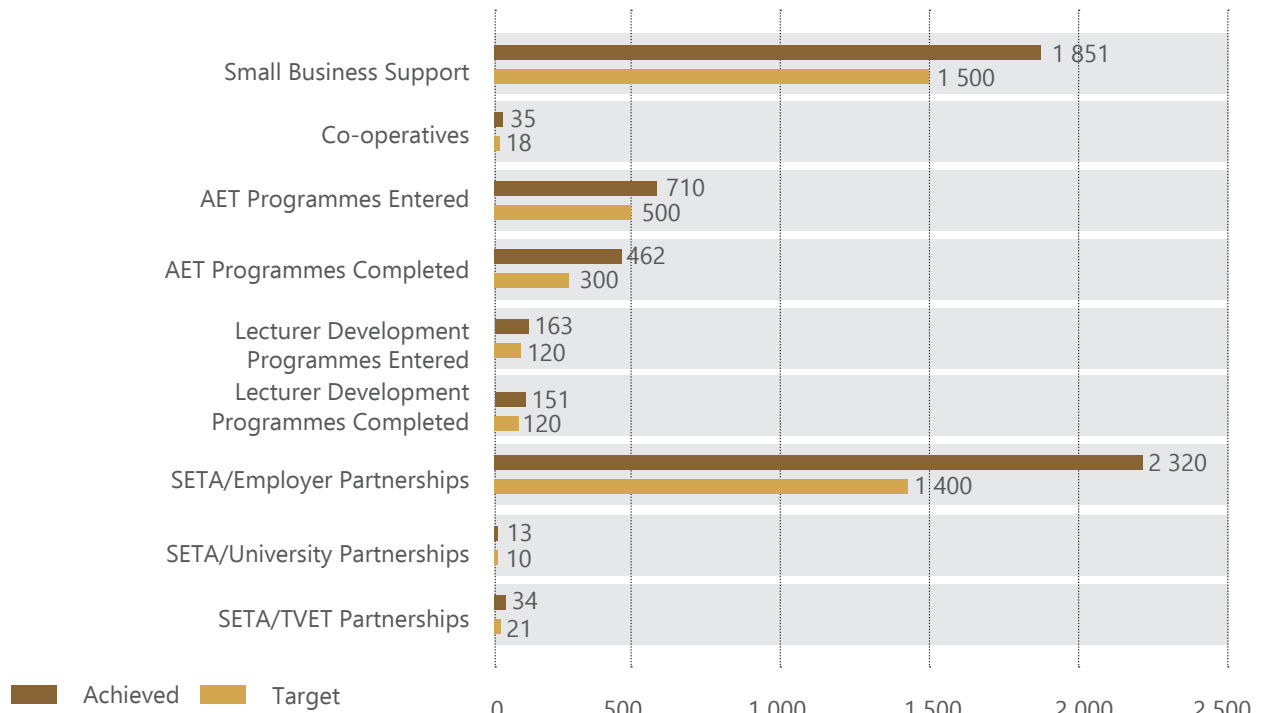
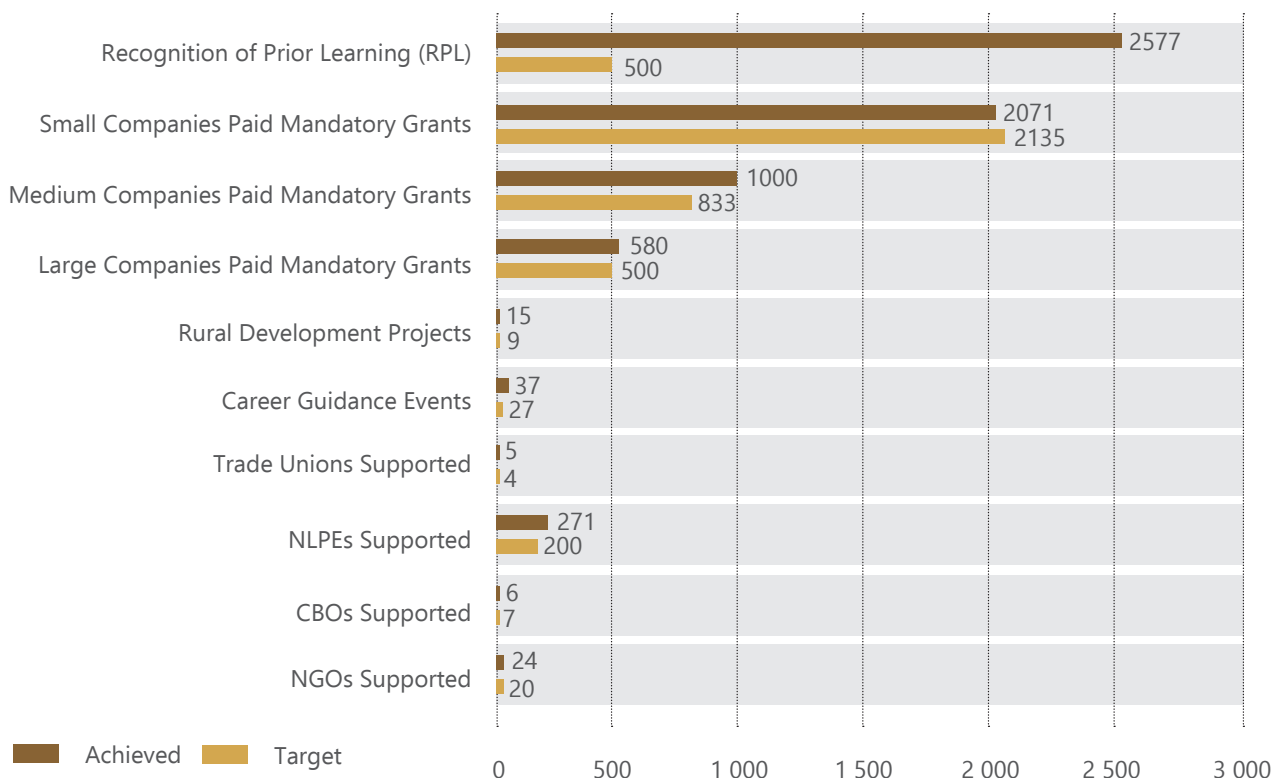


Figure 17: Performance Against Quantitative Targets (Part4)







CORPORATE SERVICES





## 1. INTRODUCTION

The Corporate Services Division continues to anchor organisational performance through the provision of a governance, human resource, marketing and communications, and travel and facilities and asset management support structure.

Corporate governance is driven through judicious monitoring of legislative compliance and prudent upholding of the King III principles on good governance. The integrated risk management approach continues to be treated as a strategic priority; this lead to the development and implementation of a risk appetite and tolerance policy, as well as a business continuity plan.

A stakeholder-centric philosophy was demonstrated through engaging internal and external stakeholders to participate in the future SETA landscape consultation process. Marketing and communication accelerated awareness of the merSETA service offering through a host of events and media platforms. Information was regularly disseminated to all stakeholder group. Stakeholder experience was continually monitored and no major deficiencies were identified. The annual Stakeholder Satisfaction Survey was independently conducted amongst 1 378 stakeholders. The satisfaction rate has reached a three-year high, with an increase from 7.21 in 2015/2014 to 7.39 in 2015/2016.

Pro-active organisational development, such as change management initiatives, mitigated the potential impact of uncertainty regarding extension of the SETA mandate. This augmented organisational efficiency and effectiveness. The implementation of the Human Resource Strategy is guided and monitored by the Human Resource and Remuneration Committee. An online performance management system continues to focus efforts on the achievement of operational targets, so as to align Human Resources for the effective execution of the overall strategy. The Staff Innovation Platform and the merSETA Value Awards continued to have a positive motivational impact on the organisational culture.

Facilities, Travel and Asset Management is continuously advancing with the alignment of policy and its application to the regulatory framework provided by National Treasury. Implementing internal controls linked to the international ISO 9001:2000 quality management system further ensured that potential risks in this area were managed-hence no findings were reported in this area.





### **COMPANY SECRETARY**

*Ms Florence Nkomo*

## **2. GOVERNANCE**

### **2.1 INTRODUCTION**

The merSETA is a schedule 3a public entity and reports to the DHET. The Minister of Higher Education and Training is the main stakeholder on behalf of Government. The Accounting Authority (AA) is responsible for providing strategic direction to the merSETA and ensuring that the merSETA achieves its objectives and implements the goals of the NSDS III.

The merSETA is stakeholder-driven and, in terms of the Skills Development Act 55 of 1998 (as amended), structures within the merSETA must be equally represented by organised labour and organised employers.

### **2.2 EXECUTIVE AUTHORITY**

The Ministry of Higher Education and Training is the merSETA Executive Authority. In that regard, the merSETA reports to the DHET, which, in turn, reports to Parliament.

The merSETA made all the required submissions to the Executive Authority during the period under review, including quarterly reports (financial and performance), the Annual Performance Plan (APP) and the Service Level Agreement.

### **2.3 THE ACCOUNTING AUTHORITY**

#### **2.3.1 Introduction**

In line with the Standard Constitution, the AA comprises 15 independent non-executive members, appointed by the Minister of Higher Education and Training. In terms of the Standard Constitution, membership composition is six representatives from organised labour, six from organised employers and three ministerial appointees.

The Minister of Higher Education and Training extended the tenure of merSETA's AA to run concurrently with the SETA licensing period until 31 March 2018.

#### **2.3.2 The role of the Accounting Authority**

The AA is responsible for setting the tone for good governance, whilst ensuring that the merSETA achieves its mandate through review of corporate strategy, monitoring compliance with applicable legislation and monitoring performance against set targets and policy development, among others.

The AA also endorses the principles and guidelines espoused by the King III Report on corporate governance. In so doing, the members recognise the need to conduct the affairs of the entity with integrity and in accordance with the accepted norms that apply to corporate practices. The requirement for openness and accountability is recognised as an inclusive process that gives due recognition to the importance of all stakeholders in ensuring the viability and sustainability of the SETA's operations.

#### **2.3.3 Accounting Authority Charter**

The Accounting Authority functions are guided by a charter that is aligned with the Standard SETA Constitution, King III Code of Governance and other relevant legislation and statutes.

The Accounting Authority Charter provides an overview of the role, powers, functions, duties and responsibilities of the members, both collectively and individually.



### 2.3.4 Composition of the Accounting Authority

Ms Phindile Baleni is the Chairperson of the Accounting Authority, while Mr Xolani Tshayana and Ms Jeanne Esterhuizen serve as Deputy Chairperson. The following members serve as independent non-executive members: Mr Alex Mashilo, Mr Anton Hanekom, Professor Fiona Tregenna, Mr Jacobus Olivier, Mr Jonathan Swarts, Mr Johan van Niekerk, Ms Malebo Lebona, Mr Herman Kostens, Mr Andries Chirwa, Mr Thapelo Molapo, Ms Helen von Maltitz and Mr Mustak Ally.

### 2.3.5 Attendance at the Accounting Authority and Committee's meeting

Name	Accounting Authority	Audit and Risk Committee	Executive Committee	Human Resources and Remuneration Committee	Finance and Grants Committee	Governance and Strategy Committee
Phindile Baleni	3/6		2/2	2/5		
Jeanne Esterhuizen	6/6		1/2		0/4	1/4
Xolani Tshayana	6/6		2/2	5/5		3/4
Alex Mashilo	5/6			5/5		4/4
Andries Chirwa	4/6					
Anton Hanekom	6/6				4/4	3/4
Fiona Tregenna	6/6				2/4	
Jacobus Olivier	6/6	3/5				
Jonathan Swarts	5/6	5/5			4/4	
Johan van Niekerk	6/6					
Mustak Ally	6/6		2/2			4/4
Malebo Lebona	5/6		2/2		3/4	3/4
Thapelo Molapo	6/6			5/5		
Helen von Maltitz	5/6					
Herman Kostens	6/6					2/4
Martin Kuscus					2/4	
Romano Daniels				4/5		
Sizeka Rensburg					2/4	
Mantunka Maisela				4/5		
Andrew Mashifane		3/5				
Fariyal Mukaddam*	1/6	5/5				
Thulisile Mashanda*	4/6	5/5				
Masaccha Mbonambi						4/4

\* Fariyal Mukaddam and Thulisile Mashanda attended the AA meeting representing the ARC.





### 2.3.6 Remuneration of the Accounting Authority and Committee Members

The AA and Independent Committee members are remunerated based on the remuneration policy for AA and Committee members which was approved on 26 May 2016 and subsequently submitted to the Executive Authority. The policy was prepared based on the guidelines stipulated by National Treasury. Remuneration for some of the AA members includes attendance at Chamber Committees, Education and Training Quality Assurance Committee, annual general meetings as well as other adhoc meetings.

#### 2.3.6.1 Accounting Authority members

Name	Remuneration R'000	Other Allowances R'000	Other Re-Imbursements R'000	Total R'000
Alex Mashilo	97			97
Andries Chirwa	30			30
Anton Hanekom**	176			176
Jonathan Swarts	195		13	208
Fiona Tregenna	68			68
Herman Kostens**	106			106
Helen Von Maltitz	102			102
Jacobus Olivier**	83			83
Jeanne Esterhuizen	104			104
Johan Van Niekerk	76			76
Malebo Lebona	252			252
Mustak Ally	114			114
Phindile Baleni***				
Thapelo Molapo	79			79
Xolani Tshayana	226		8	234

\*\* The following Accounting Authority members' remuneration is paid to the organisations they represent:

- Mr Anton Hanekom (Plastics SA)
- Mr Herman Kostens (Motor Industry South Africa)
- Mr Jacobus Olivier (Retail Motor Industry)

\*\*\* Ms Phindile Baleni is a non paid member



### 2.3.6.2 Independent Committee Members

Name	Remuneration R'000	Other Allowances R'000	Other Re-Imbursements R'000	Total R'000
Andrew Mashifane****	50			50
Fariyal Mukaddam*****	118			118
Thulisile Mashanda*****	183			183
Masaccha Mbonambi	38			38
Mantuka Maisela	38			38
Martin Kuscus	23			23
Romano Daniels	38			38
Sizeka Rensburg	15			15

\*\*\*\* Mr Mashifane resigned with effect from 1 August 2015

\*\*\*\*\* Remuneration for Ms Thulisile Mashanda and Ms Fariyal Mukaddam includes attendance at AA meetings as representatives of the ARC.

## 3. COMMITTEES OF THE ACCOUNTING AUTHORITY

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





### 3.1.1 Executive Committee

#### Purpose

The Executive Committee (EXCO) is responsible for overseeing the management of the financial affairs of merSETA, including determination of budgets and business plans. The committee is also responsible for monitoring national issues and developments, as well as ensuring that the policies of the AA are implemented.

#### Composition

The EXCO comprises five members, all of whom are members of the AA.

#### Meetings

The committee met on two occasions during the period under review.

### 3.1.2 The Audit and Risk Committee

#### Purpose

The Audit and Risk Committee (ARC) fulfils a supervisory and monitoring role on behalf of the AA, overseeing the organisation's financial affairs and its relationship with the internal and external auditors, as well as risk management.

The committee monitored the quality, integrity and reliability of legislative compliance, ensuring that an appropriate system of internal control is maintained to protect the assets of the organisation. The ARC also evaluated the independence, objectivity and effectiveness of the external and internal auditors within the context of the accounting and auditing policies, so as to address any concerns identified by the auditors.

The ARC promoted the accuracy, reliability and credibility of financial reporting and reviewing of the annual financial statements, as well as the annual report, prior to approval by the Accounting Authority. In addition, the ARC took responsibility for the implementation and monitoring of risk management systems on behalf of the Accounting Authority.

#### Composition

The ARC comprises five members. Three are independent members, namely: Mr Andrew Mashifane, who served as chairperson until his resignation on 1 August 2015; Ms Thulisile Mashanda, who assumed the role of Chairperson from 1 August 2015; and Advocate Fariyal Mukaddam. Two are Accounting Authority members: Mr Jacobus Olivier and Mr Jonathan Swarts. The committee Chairperson attended Accounting Authority meetings by invitation.

#### Meetings

The committee met on five occasions during the period under review.



### 3.1.3 Human Resources and Remuneration Committee

#### Purpose

The objective of the Human Resources and Remuneration Committee (HRRC) is to play an oversight role in the management of all matters relating to human resources at merSETA. The committee provides guidance to the Chief Executive Officer (CEO) pertaining to the management and effective and efficient utilisation of the human resources of merSETA, in compliance with the approved policies and long-term business plan requirements of the organisation.

The committee has access to independent consultants as well as current developments in the field of human resources and remuneration, which places it in a good position to advise on human resources management and remuneration practices within the merSETA. The committee takes responsibility for the evaluation of the CEO's performance against agreed objectives.

#### Composition

The HRRC comprises five members: two are independent members, namely Mr Romano Daniels and Ms Mantunka; three are Accounting Authority members namely; i.e. Mr Thapelo Molapo (Chairperson), Mr Alex Mashilo and Mr Xolani Tshayana.

#### Meetings

The committee met on five occasions during the period under review.

### 3.1.4 Finance and Grants Committee

#### Purpose

The Finance and Grants Committee (FGC) plays an oversight role in terms of the management of grant disbursements as well as monitoring the financial implications of policies, decisions and changes to the budget and the business plan of merSETA.

#### Composition

The FGC comprises seven members: two are independent members, namely Mr Martin Kuscus and Ms Sizeka Rensburg; four are Accounting Authority members, namely Mr Anton Hanekom (Chairperson), Ms Fiona Tregenna, Mr Malebo Mogopodi and Ms Helen von Maltitz.

#### Meetings

The committee met on four occasions during the period under review.

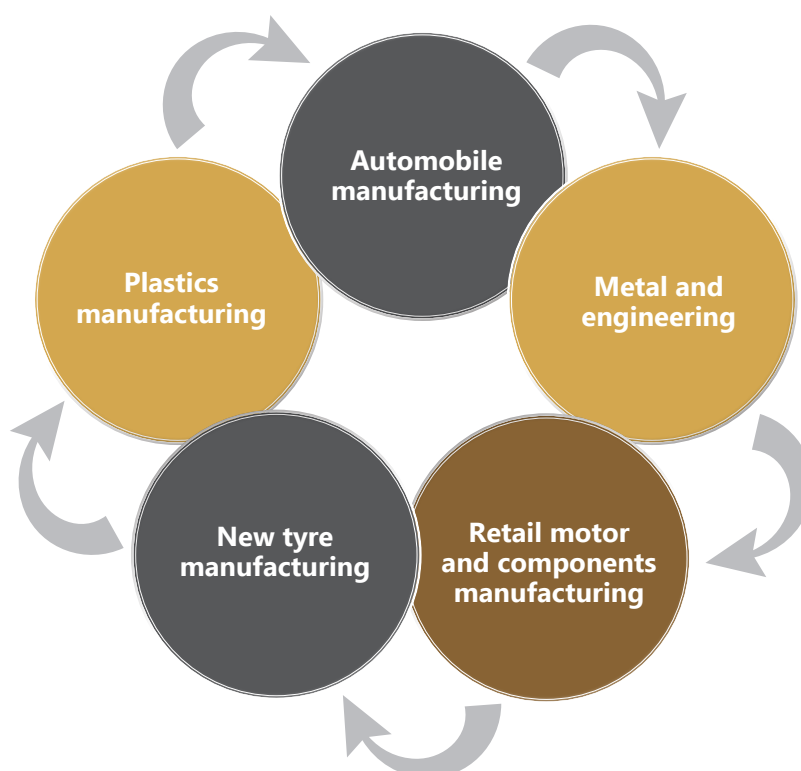


## 4. CHAMBER COMMITTEES

The merSETA chamber committees are governance sub-committees of the AA that were established to provide input and give feedback in support of the merSETA addressing national skills development strategic objectives, as prescribed in the Skills Development Act, 1998 (Act 97/1998) and related grant regulations, as amended.

### Composition

The merSETA comprises five chamber committees with a membership composition of a maximum of ten members each per business and labour constituency. The following are the five chamber committees representative and demarcated in accordance with the sub-sectors within merSETA's scope:



### Achievements and highlights

The 2015 - 2016 financial year was another year of successful delivery by merSETA's chamber committees. Chamber committees made input and provided stakeholder feedback regarding the Accounting Authority strategic planning processes.

### Annual work plans

As a strategic planning and implementation tool, annual work plans were aligned and reviewed so as to represent economic sub-sectors and guide in the implementation of skills development matters in a collaborative manner. The work plans enabled chambers to identify national strategic objectives, projects that further find expression and support at the merSETA executive committee and ultimately underpin deliberations and the annual Accounting Authority strategic planning session.

The annual work plans developed for the period 2015 – 2016 financial year were successfully aligned to support the merSETA approved national skills development strategic goals and were subsequently approved by the Accounting Authority.



## Supporting a wide range of national strategic goals

During the year under review, chamber committees continued to fulfil a critical strategic organisational supporting role, by ensuring the merSETA remains relevant within the skills development space by undertaking interventions on a wide range of national strategic goals, including the following:

1

### Building effective and efficient chamber committees

In line with the new terms of reference of the chamber committees, a substantial amount of time was spent in ensuring that the composition of chamber committees is representative of constituencies in merSETA's five sub-sectors.

The emerging view going forward is that chamber committee composition should be aligned to the government transformation agenda by considering the inclusion of organisations in the informal sector as part of the think tank organisations participating in chamber committees. The view is supported by the objective to keep the organisation relevant and in touch with key stakeholders that will help the merSETA to collectively address the national strategic goals outlined in the NSDS III.

2

### Identifying industry skills needs

Chamber committees continued to actively participate in national skills planning processes, which included phase III of the chamber led sector skills planning – (SSP) research projects and annual updating of national SSP report were aimed at identifying industry skills needs.

3

### Increasing access to occupation directed programmes

Chamber committee members continued to show enthusiasm in participating in QCTO's community of experts (CEP) forums, established for the development of curriculum frameworks and qualifications to address identified training needs in various sub-sectors.

4

### Promoting the responsiveness of TVET colleges to the intermediate skills needs of the sector

A keen interest has been demonstrated by chamber committees in working with TVET colleges to promote the responsiveness of TVET colleges in addressing intermediate skills needs in the sector.

To date, more than 30 TVET partnerships across the country have been established. Companies in chamber committees play a critical role in hosting TVET lecturers and learners seeking on-the-job training exposure. This intervention will go a long way in addressing existing gaps between TVET colleges and industry, with regard to the promotion of the responsiveness of TVET colleges to the intermediate skills needs of industry.

### Chamber committee meetings

In line with new chamber terms of reference, chamber committees successfully convened all twenty quarterly meetings scheduled. Through these committee meetings, stakeholders continued to enter into conversation with the merSETA to address a host of matters on organisational products and services as defined in the NSDS III. During the 2015 – 2016 financial year, the merSETA was honoured to host the Department of Trade and Industry (DTI) and the Department of Environmental Affairs (DEA) through chamber and regional committee meetings to share with the merSETA stakeholders strategic developments relating to the policy implementation implications of amended B-BBEE, climate change and the green economic revolution.

Through conversations with the DTI and DEA, chamber and regional committees have undertaken to direct attention to the skills training interventions needed to adequately address national imperatives which are recommended to underpin industry transformation.

## 5. REGIONAL COMMITTEES

The regional committees are an important structure of the merSETA. Composition is largely made up of industry stakeholders consisting of business and labour constituencies. The merSETA regional committees' terms of reference have made a provision to co-opt other stakeholders and any other interested parties to participate at the merSETA regional committee meetings. They are strategically positioned to liaise directly with member companies, government and level NGO at provincial and local level. Engagement through regional committees further include TVET colleges and SMMEs from formal and informal sub-sectors, as well as community members and the general public. The merSETA has seven regional committees:



Eastern Cape Regional Committee;



Gauteng South Regional Committee;



Free State and Northern Cape Regional Committee;



KwaZulu Natal Regional Committee;



Gauteng North and North West Regional Committee;



Mpumalanga and Limpopo Regional Committee; and



Western Cape Regional Committee.



### Achievements and highlights

During the financial year 2015 – 2016, merSETA's regional committees successfully convened 21 meetings, as per the regional committee terms of reference. Participation at provincial and local government forums increased, as most of the merSETA regions continued to partner with government and private sector structures nationally, provincially and locally on various projects and programmes. Projects already being addressed, with feedback being provided regularly during regional committee meetings, include the following:

- Unemployment Insurance Fund (UIF) and Training Lay off Scheme (TLS) learnership programme for re-skilling retrenched workers and workers working short time;
- Accreditation of TVET colleges to improve capacity on delivery of required trade qualifications;
- TVET learner placements at the merSETA member companies involving NC(V) level 4 and N6 graduates;
- Advocacy programmes for industry, communities and trade unions to partner with TVET colleges;
- Provincial Skills Development Forum (PSDF) engagement involving SETA collaborative work with Premiers' Offices and the Chamber of Commerce on a range of programmes on human resource development (HRD) strategies;
- The joint Government, Nelson Mandela Metropolitan University (NMMU) and the merSETA Operation Phakisa marine project;
- Shared the merSETA and National Department of Public Works' learnership project; and
- The merSETA and Gauteng Provincial Government's Gauteng Tshepo 500 000 Programme, a shared government and private sector initiative aimed at developing young entrepreneurs and helping to create jobs.



## 6. OTHER STRATEGIC COMMITTEES

The following committees also play a crucial role in ensuring that the mandate of the organisation is achieved:

### 6.1 Innovation, Research and Development Advisory Committee

#### Purpose

The merSETA Innovation, Research and Development (IRD) Committee oversees the development and review of the sector innovation, research and development strategy. The committee is responsible for oversight in respect of ensuring programme alignment with the merSETA strategy, industry needs and relevant national development priorities. The IRD Committee feeds into the Governance and Strategy Committee. Members of the committee are not remunerated.

#### Composition

The Innovation, Research and Development Committee comprises nine members. Two members are from the Accounting Authority, seven are experts from industry and one member is co-opted from the Department of Trade and Industry.

#### Meetings

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

### 6.2 Education, Training, Quality Assurance Committee (ETQA)

#### Purpose

The ETQA Committee is responsible for oversight of the quality assurance functions and obligations of the merSETA on behalf of the Accounting Authority. The Accounting Authority approved the reviewed terms of reference for the committee on 23 February 2016. The new terms of reference provide the flexibility for the committee to consist of chamber committee members, where Accounting Authority members are unavailable to serve.

#### Composition

Members of the committee can be either representatives of the Accounting Authority or chamber committees. The ETQA Committee comprised of 8 members of the Accounting Authority and 1 member of the chamber committees.

#### Meetings

The committee convened three meetings during the year under review.





## 7. COMPANY SECRETARIAL

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All AA members have access to the advice and services of the Company Secretary, Ms Florence Nkomo, who is responsible for ensuring compliance with procedures and applicable regulations and statutes. For the Accounting Authority to function effectively, all directors have full and timely access to information which also helps them help them to fulfil their fiduciary duties. The AA also has full access to management as required.

## 8. RISK MANAGEMENT

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The Accounting Authority is responsible for the merSETA risk management process. The ARC assists the Accounting Authority in carrying out its risk management responsibilities. The Accounting Authority has delegated the responsibility to monitor risk management processes within the merSETA to the Audit and Risk Committee.

The merSETA continuously strives to improve its risk management processes and risk assessments are carried out on a regular basis to determine the effectiveness of its risk management strategy and to identify new and emerging risks. The entity has an approved risk tolerance and appetite policy in place.

## 9. INTERNAL AUDIT

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The merSETA's internal audit function is outsourced to an independent audit firm that carries out its function according to an approved three-year internal audit plan. The independent internal auditors perform and report in terms of an approved internal audit plan. The Risk and Audit Committee reviews the internal audit charter and the performance of the internal auditors on an annual basis.

During the year under review, Sizwe Ntsaluba Gobodo (SNG) were merSETA's Internal Auditors. SNG independently appraised the adequacy and effectiveness of the entity's systems, financial internal controls and accounting records and reported their findings to the Audit and Risk Committee.

The internal control environment of the merSETA was found to be in good standing.

## 10. COMPLIANCE WITH LAWS AND REGULATIONS

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To ensure compliance with relevant legislation, the merSETA Legislative Compliance Register is reviewed on a quarterly basis to monitor compliance. Systems are in place to detect changes in legislation as and when they arise.

## 11. FRAUD AND CORRUPTION

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The merSETA has a fully implemented Fraud Prevention Plan in place, which is reviewed regularly to ensure effectiveness.

The Fraud and Corruption Hotline is fully operational and a register of reported cases was managed and reported through the governance structures. All cases were investigated to determine validity and that appropriate action was taken in cases where allegations were found to be true.

## 12. MINIMISING CONFLICT OF INTEREST

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Members of the Accounting Authority as well as Senior Management are required to avoid situations where they have or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interests. Procedures were put into place for disclosure by the directors of any such conflict of interest, and these procedures were operating effectively. Members of staff are obliged to declare their interests.

## 13. CODE OF CONDUCT

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The merSETA Code of Conduct acts as a guideline to employees with regard to what is expected of them from an ethical point of view, both in their individual conduct and in their relationships with the merSETA stakeholders. It also assists employees to conduct themselves in accordance with the highest standards of integrity and ethics and in compliance with the Skills Development Act and other legislation related to objectivity, independence and conflict of interest. The primary purpose of the code is to promote exemplary conduct, thereby mitigating reputational risk for the organisation.

## 14. SOCIAL RESPONSIBILITY

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The merSETA contributed to social upliftment through the implementation, management, monitoring and evaluation of various initiatives designed to address key social imperatives. These initiatives focused on rural outreach, in and out of school career guidance, bursaries, people with disabilities, skills development initiatives in partnership with the Department of Correctional Services, capacity building for trade unions and sustainable green skills development.

## 15. HEALTH AND SAFETY

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Health and safety policies remain in compliance with the Occupational Health and Safety Act No. 85 of 1993 and the National Environmental Management Act No. 107 of 1998, and adhere to the requirements of the ISO 9001:2008 Quality Management Standards.

Health and safety is a the merSETA priority and enhancements to daily practice are continuously evolving. Potential risks were identified and eliminated on an ongoing basis. General safety awareness is rising as precautions and better practice are put into place. Upgraded fire extinguishers were installed in the head office building and are now compliant with current legislation. Security at the head office building was in place and no incidents were reported.

## 16. ENVIRONMENTAL RESPONSIBILITY

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The recycling of paper, plastic and cardboard continues in collaboration with the City of Johannesburg and Mintirho Buyback Centre Primary Co-operative Ltd. Weekly collections from the head office building result in a large amount of paper and plastic waste being recycled and not entering the landfill. Through various initiatives, the merSETA staff are becoming more aware of their impact on the environment and how they can reduce both their own as well as merSETA's, carbon footprint.

Another comprehensive "green assessment" was conducted at Head Office and it was found that the air conditioner installed during the 2015 financial year complies with stringent international "green" standards for emissions and power usage. Small greening improvements are continuously made when procuring light bulb and tube replacements and with any electrical, plumbing and generator repairs and replacements that are required.



## 17. INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) GOVERNANCE

Information Communication and Technology (ICT) is a vital and integral part of merSETA's business model. It is the vehicle through which the merSETA achieves its strategic objectives.

In the 2015-2016 financial year ICT maintained its alignment to the CGICTPF (Corporate Governance of Information, Communication and Technology Policy Framework). The merSETA ICT remained in compliance as it entered the third phase of continuous improvement of CGICT, with ongoing monitoring, evaluation and directing. ICT attained a 98% uptime on all its systems with an average internal customer satisfaction rating of 88%.

To improve efficiencies within the organisation, a document management system (online filing system) was implemented. This allows the organisation to store, manage and share client related documentation. It also allows multiple staff to access client files simultaneously, thereby improving response times. The upgrade of the merSETA internal and external network connectivity improves the flow of information. The merSETA did not suffer any security breaches or data loss during this financial year.

## 18. MARKETING AND COMMUNICATION

The vision of the Marketing and Communications unit at the merSETA is to keep the organisation speaking with one voice across a vast number of regions and stakeholder interactions. The unit is guided by these strategic objectives:

- Improving and enhancing marketing and communication efforts between the merSETA and its target audiences;
- Strengthening and maintaining stakeholder relationships;
- Assisting in the facilitation of a positive work culture and climate;
- Enhancing the positive the merSETA brand among stakeholders; and
- Profiling the merSETA as valuable, rare, difficult to imitate and hard to substitute.

The following are the Marketing and Communications achievements of the year:

- Four editions of *Achieve* magazine produced and distributed to the top 3 000 levy-paying companies;
- R1.5 million worth of advertising placed in major local, regional and national media;
- 32 events handled by the Marketing and Communications Unit in the financial year, including career awareness workshops, exhibitions, colloquia, workshops and special events;
- Opinion pieces in major national papers; and
- A radio campaign the focussed on learner opportunities.





# HUMAN RESOURCES MANAGEMENT







## 1. INTRODUCTION AND OVERVIEW

The 2015/2016 Human Resource Strategy is aligned to the National Skills Development III programme goals and is central to the administration programme (programme 1), which aims to instil a culture of effectiveness and efficiency.

All human resources policies and practices are fully compliant with the legislative framework and promote a challenging, rewarding and fulfilling working experience that leads to a learning culture and successful implementation of the merSETA strategy.

## 2. HUMAN RESOURCES STRATEGIC ACHIEVEMENTS

All activities and initiatives were mapped to the human resources strategic objectives highlighted below.

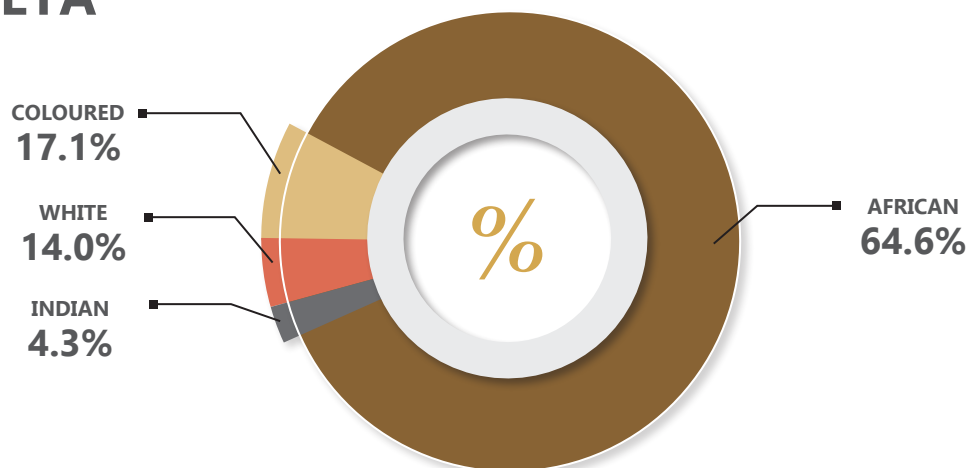
### 2.1 ATTRACTION AND RETENTION OF TALENTED INDIVIDUALS

Best practice in attracting, recruiting and selection ensured the appointment of high calibre candidates, so as to sustain the achievement of organisational goals, whilst working towards achieving employment equity. Salary benchmarking ensured internal equity and external parity in remuneration practices, so as to reward high performance and encourage retention. Talent management and succession planning further enhanced the nurturing, development and up-skilling of human capital. The resignation of two executive managers did not disrupt operations, which is evidence of a successful attraction and succession plan.

The merSETA staff complement at year end was 256, of which 227 were permanent staff members and 29 interns. The gender ratio reflects the national statistics (52% females and 48% males), as reported by Statistics South Africa.

The internal equity ratio of the merSETA is reflected below. The overall equity ratio is considered acceptable, while targets have been set to meet the national benchmark.

### merSETA



The staff turnover rate was recorded at an accepted level of 4.85%.





## 2.2 HIGH PERFORMANCE LEARNING CULTURE

A culture of lifelong learning and knowledge sharing lead to an inter-dependent, innovative and engaged workforce. Staff were generous with their time and talents and continually collaborated to better position the merSETA for dealing with complexity in the external environment. Staff members were exposed to continuous learning, development, collaboration and innovation opportunities.

A biannual performance management and moderation process translated broad organisational performance drivers into divisional, unit and individual performance targets, whilst also recognising and rewarding behaviour that was in line with merSETA's values.

## 2.3 ORGANISATIONAL WELLNESS

Employee and organisational wellness programmes focused on holistic wellbeing, to support employees in achieving success in the workplace and in their personal lives.

## 2.4 COMPLIANCE

A harmonious and productive working environment was established by ensuring that HR policies, procedures, standards and practices are aligned, legally compliant and integrated within the organisation. Critical risks were identified and controls implemented to mitigate their potential impact.

## 2.5 LABOUR RELATIONS

The management/NEHAWU relationship was healthy and the consultative approach adopted by the union promoted collaboration and inclusivity. A diversity committee was established and regular bilateral meetings took place.



### 3. HUMAN RESOURCES OVERSIGHT STATISTICS

#### 3.1 PERSONNEL COSTS

Total expenditure for the entity '000	Personnel expenditure '000	Personnel exp. as a % of total exp.	No. of employees	Average personnel cost per employee '000
103 3100	120 581	11.67	**227	531

\* Includes staff who are designated to specific projects and remunerated from the project

\*\* Excludes interns

#### 3.2 PERSONNEL COST BY SALARY BAND

Levels	Males ♂				Females ♀				Total R'000
	African R'000	Coloured R'000	White R'000	Indian R'000	African R'000	Coloured R'000	White R'000	Indian R'000	
Top Management	-	1 897	-	-	-	-	-	-	1 897
Senior Management	-	1 467	947	-	2 271	-	298	-	4 983
Professional/qualified	11 113	1 333	1 593	875	5 790	2 644	1 453	-	24 801
Skilled	13 457	5 291	3 548	3 083	8 945	2 538	2 746	833	40 441
Semi-skilled	5 489	805	263	-	8 760	1 845	1 514	239	18 915
Unskilled	758	180	-	-	2 188	146	-	60	3 332
<b>Total</b>	<b>30 817</b>	<b>10 973</b>	<b>6 351</b>	<b>3 958</b>	<b>27 954</b>	<b>7 173</b>	<b>6 011</b>	<b>1 132</b>	<b>94 369</b>

#### 3.3 PERFORMANCE REWARDS

Levels	Males ♂				Females ♀				Total R'000
	African R'000	Coloured R'000	White R'000	Indian R'000	African R'000	Coloured R'000	White R'000	Indian R'000	
Top Management	-	265	-	-	-	-	-	-	265
Senior Management	-	205	-	-	194	-	102	-	501
Professional/qualified	667	153	121	298	296	134	416	-	2 085
Skilled	975	368	117	222	476	121	96	61	2 436
Semi-skilled	413	50	-	-	406	111	74	6	1 060
Unskilled	16	-	-	-	50	13	-	-	79
<b>Total</b>	<b>2 071</b>	<b>1 041</b>	<b>238</b>	<b>520</b>	<b>1 422</b>	<b>379</b>	<b>688</b>	<b>67</b>	<b>6 426</b>



### 3.4 TRAINING COSTS

Programme/ activity/ objective	Personnel expenditure  R'000	Training expenditure  R'000	Training expenditure as % of personnel cost	No. of employees	Average training cost per employee  R'000
Staff training	120 581	1 938	1.61	104	18.63

### 3.5 EMPLOYMENT AND VACANCIES

Programme/ activity/ objective	2014/2015 No. of employees	2014/2015 Approved posts	2015/2016 No. of employees	2015/2016 Vacancies	Percentage of vacancies
Recruitment	*226	5	**227	15	6.6

\* Permanent staff members

\*\* Average number of employees

### 3.6 EMPLOYMENT CHANGES

Salary Band	Employment at beginning of period	Appointments	Terminations	Employment at end of the period
Top Management	1	-	-	1
Senior Management	5	1	2	4
Professional/ qualified	39	4	2	41
Skilled	93	3	4	92
Semi-skilled	77	15	14	78
Unskilled	11	2	2	11
<b>Total</b>	<b>226</b>	<b>25</b>	<b>24</b>	<b>227</b>

\* Appointments include internal promotions.

\* Terminations include those who were promoted from lower bands.

### 3.7 REASONS FOR STAFF LEAVING

Reason	Number	% of total no of staff leaving
Death	1	2.94
Resignation	24	70.59
Dismissal	-	-
Retirement	-	-
Ill-health	1	2.94
Expiry of contract / Temporary	8	23.53
Other	-	-
<b>Total</b>	<b>34</b>	<b>100</b>



### 3.8 LABOUR RELATIONS: MISCONDUCT AND DISCIPLINARY ACTION

Nature of disciplinary action	Number
Counselling	3
Verbal warning	19
Written warning	19
Final written warning	3
CCMA	1

### 3.9 EQUITY TARGET AND EMPLOYMENT EQUITY STATUS

Levels	Males ♂							
	African Current	Target	Coloured Current	Target	Indian Current	Target	White Current	Target
Top Management	-	-	1	-	-	-	-	-
Senior Management	-	-	1	-	-	-	2	-
Professional/qualified	15	1	4	-	1	1	4	-
Skilled	30	-	11	-	6	-	8	-
Semi-skilled	23	-	3	-	-	-	1	-
Unskilled	2	-	-	-	-	-	-	-
<b>Total</b>	<b>70</b>	<b>1</b>	<b>20</b>	<b>-</b>	<b>7</b>	<b>1</b>	<b>15</b>	<b>-</b>

Levels	Females ♀							
	African Current	Target	Coloured Current	Target	Indian Current	Target	White Current	Target
Top Management	-	-	-	-	-	-	-	-
Senior Management	2	1	-	-	-	-	1	-
Professional/qualified	8	2	4	1	-	1	5	-
Skilled	23	-	6	-	2	1	6	-
Semi-skilled	34	-	8	-	1	-	5	-
Unskilled	9	-	1	-	-	-	-	-
<b>Total</b>	<b>76</b>	<b>3</b>	<b>19</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>17</b>	<b>-</b>

### 3.10 DISABLED STAFF

Levels	Disabled staff			
	Males Current	Target	Females Current	Target
Top Management	-	-	-	-
Senior anagement	-	-	-	-
Professional/qualified	-	-	-	-
Skilled	2	-	-	-
Semi-skilled	-	-	-	-
Unskilled	-	-	1	-
<b>Total</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>-</b>





FINANCIAL INFORMATION





## **Report of the auditor-general to Parliament on the Manufacturing, Engineering and Related Services Education and Training Authority**

### **Report on the financial statements**

#### **Introduction**

1. I have audited the financial statements of the Manufacturing, Engineering and Related Services Education and Training Authority (merSETA) set out on pages 103 to 164, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

#### **Accounting authority's responsibility for the financial statements**

2. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999)(PFMA) and the Skills Development Act, 1998 (Act No.97 of 1998)(SDA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.





4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the merSETA as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the PFMA and SDA.

## Report on other legal and regulatory requirements

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2016.
  - Programme 3: Increased access to occupationally-directed programmes on pages 53 to 60
  - Programme 5: Address the low level of youth and adult literacy and numeracy skills to enable additional training on pages 62 to 63
  - Programme 6: Promote workplace skills development within the sector on pages 63 to 64.



9. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for Managing Programme Performance Information* (FMPPi).
10. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
11. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following programmes:
  - Programme 3: increased access to occupationally-directed programmes
  - Programme 5: address the low level of youth and adult literacy and numeracy skills to enable additional training
  - Programme 6: to promote workplace skills development within the sector.

### **Additional matters**

12. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matters:

#### **Achievement of planned targets**

13. Refer to the annual performance report on pages 51 to 68 for information on the achievement of the planned targets for the year.

#### **Adjustment of material misstatements**

14. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 3: Increased access to occupationally-directed programmes, Programme 5: Address the low level of youth and adult literacy and numeracy skills to enable additional training, Programme 6: Promote workplace skills development within the sector. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.



## **Compliance with legislation**

15. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Expenditure management**

16. Effective steps were not taken to prevent irregular expenditure, amounting to R999 000 as disclosed in note 27 of the annual financial statements, as required by section 51(1)(b)(ii) of the Public Finance Management Act.

## **Procurement and contract management**

17. Goods and services with a transaction value above R500 000 were procured without inviting open competitive bids, as required by Treasury Regulations 16A6.1. The reasons for deviating were also not recorded and approved by the accounting authority, in contravention of Treasury regulation 16A6.4.

## **Internal control**

18. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matter reported below is limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## **Financial and performance management**

19. Management did not adequately oversee compliance, performance reporting and related internal controls due to inconsistencies between the planned targets in the annual performance plan and the annual performance report, the misstatement of reported achieved targets and irregular expenditure identified.





## Other reports

20. I draw attention to the following engagements that could have an impact on the public entity's financial, performance and compliance-related matters. My opinion is not modified in respect of this engagement that is in progress.

## **Investigations**

21. A forensic investigation was commissioned by the Department of Higher Education and Training into merSETA's procurement of certain goods and services. At the date of this report, the investigation was not formally concluded.

Auditor-General

Pretoria  
31 July 2016



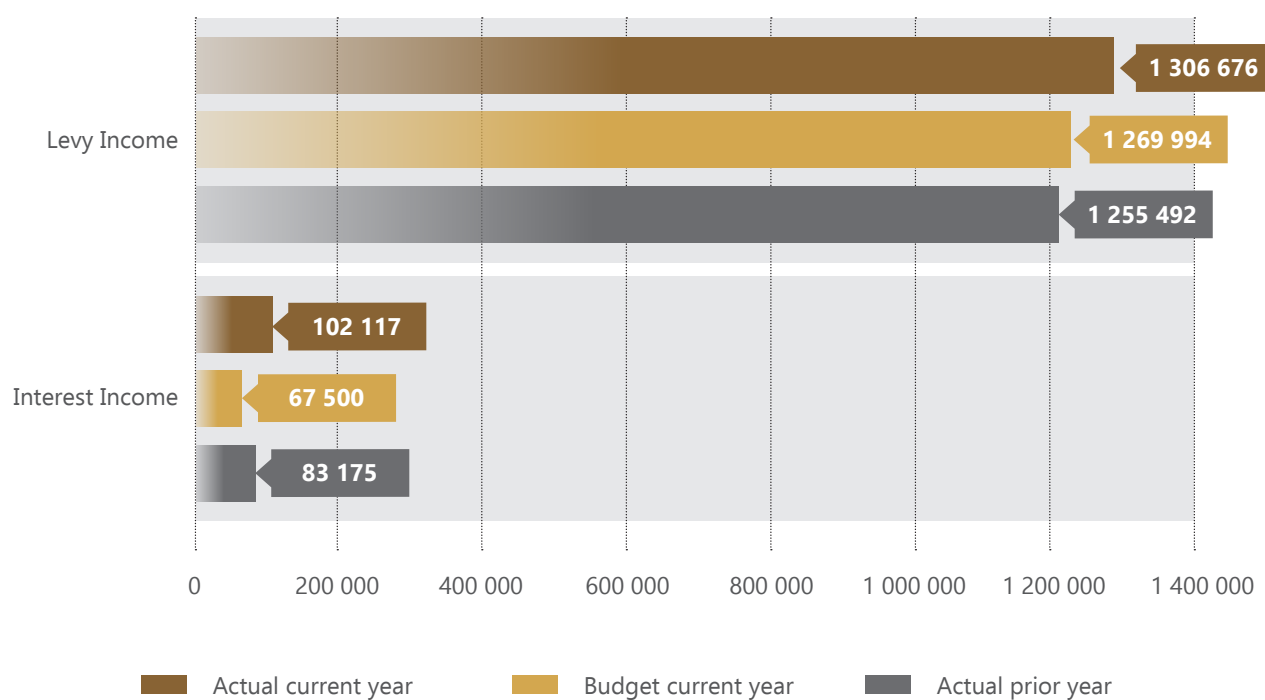
*Auditing to build public confidence*



## 1. SUMMARY OF FINANCIAL INFORMATION

### Revenue Collection

Levels	2015/2016			2014/2016		
	Budget	Actual Amount Collected	(Over)/ Under Collection on Budget	Budget	Actual Amount Collected	(Over)/ Under Collection on Budget
	R'000	R'000	R'000	R'000	R'000	R'000
Skills development levy income	1 269 994	1 306 676	(36 682)	1 198 108	1 255 492	(57 384)
Skills development penalties and interest	11 236	36 071	(24 835)	10 600	23 361	(12 761)
Government grant income	10 000	18 711	(8 711)	-	23 591	(23 591)
Net gains from financial instruments	67 500	102 117	(34 617)	66 550	83 175	(16 625)
Other income	-	224	(224)	53	229	(176)
<b>Total</b>	<b>1 358 730</b>	<b>1 463 799</b>	<b>(105 069)</b>	<b>1 275 311</b>	<b>1 385 848</b>	<b>110 537</b>





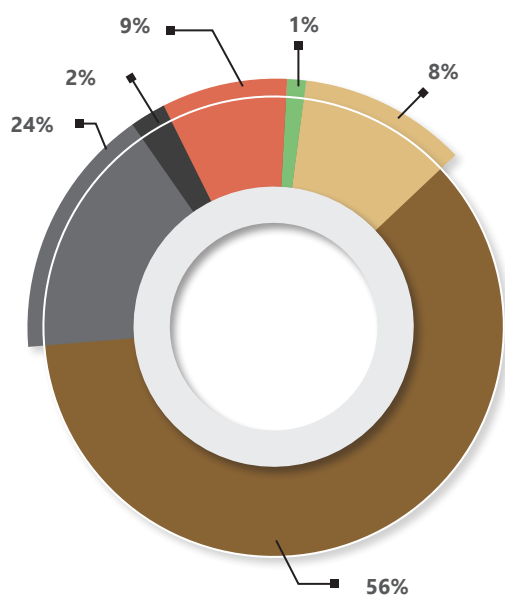
## Levies

The merSETA levy income grew by 4.1% in the 2015/16 financial year over the prior year, to reach R1.307 billion. This exceeded the budgeted levy income by 2.9%. The number of contributing employers increased slightly to 13,958 from 13,399.

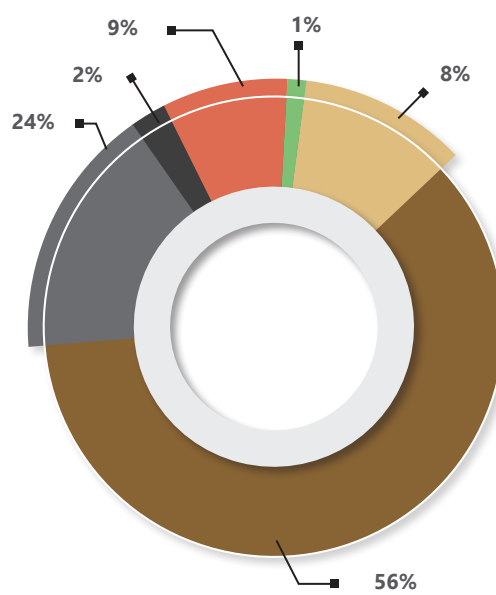
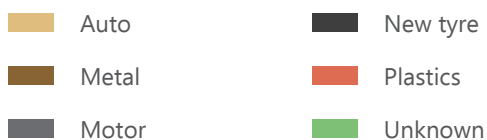
The increase in levy income is mainly attributable to payroll increases at the contributing companies, as well as an increase in the number of qualifying companies as their payroll values reached the minimum threshold of R500,000 per annum. The year-on-year growth in the current year has declined from the prior year's growth of 8.7%, being affected mainly by the economic decline faced by the industry.

The breakdown of levies received per chamber are shown in Graph 1 below and reflect a similar pattern to the prior year, with the metal chamber contributing the largest share of levies at 56%. Most companies that were registered, active and contributing were based in Gauteng and the North West, as per Graph 2.

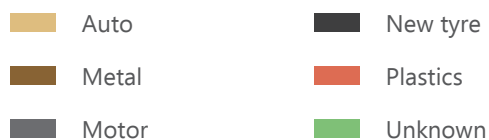
**Graph 1**

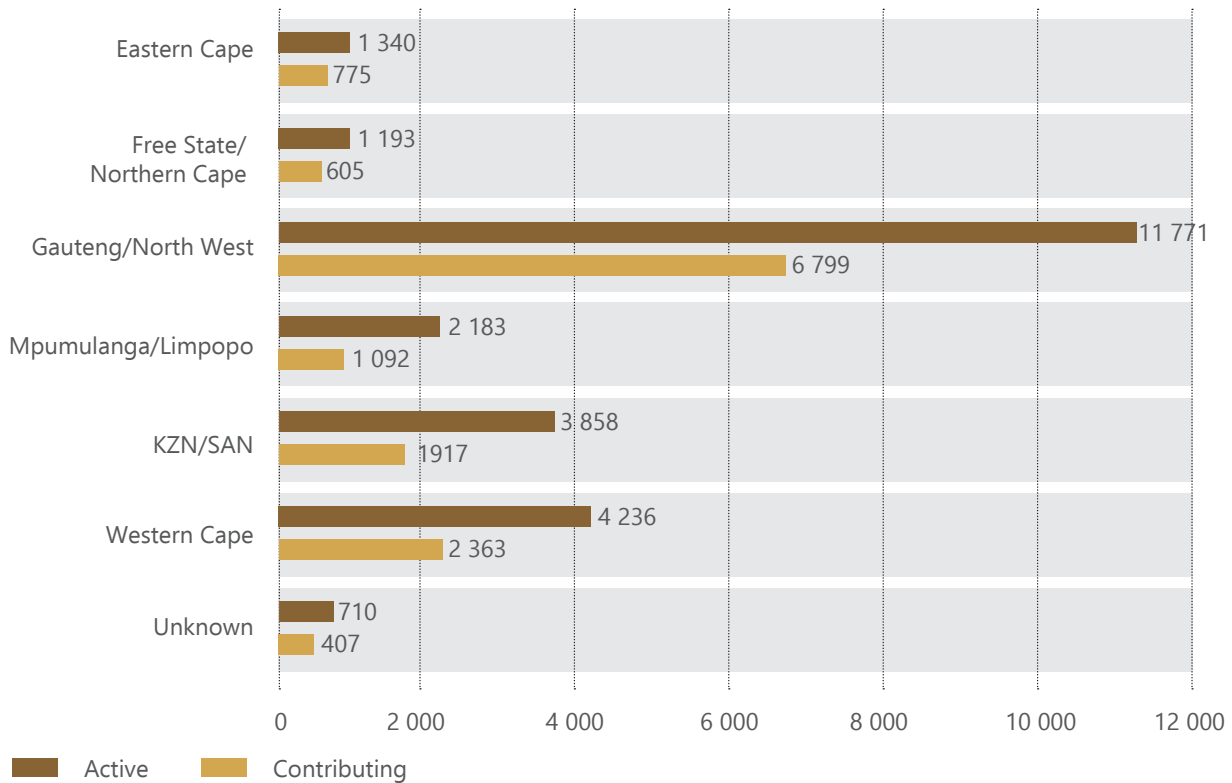
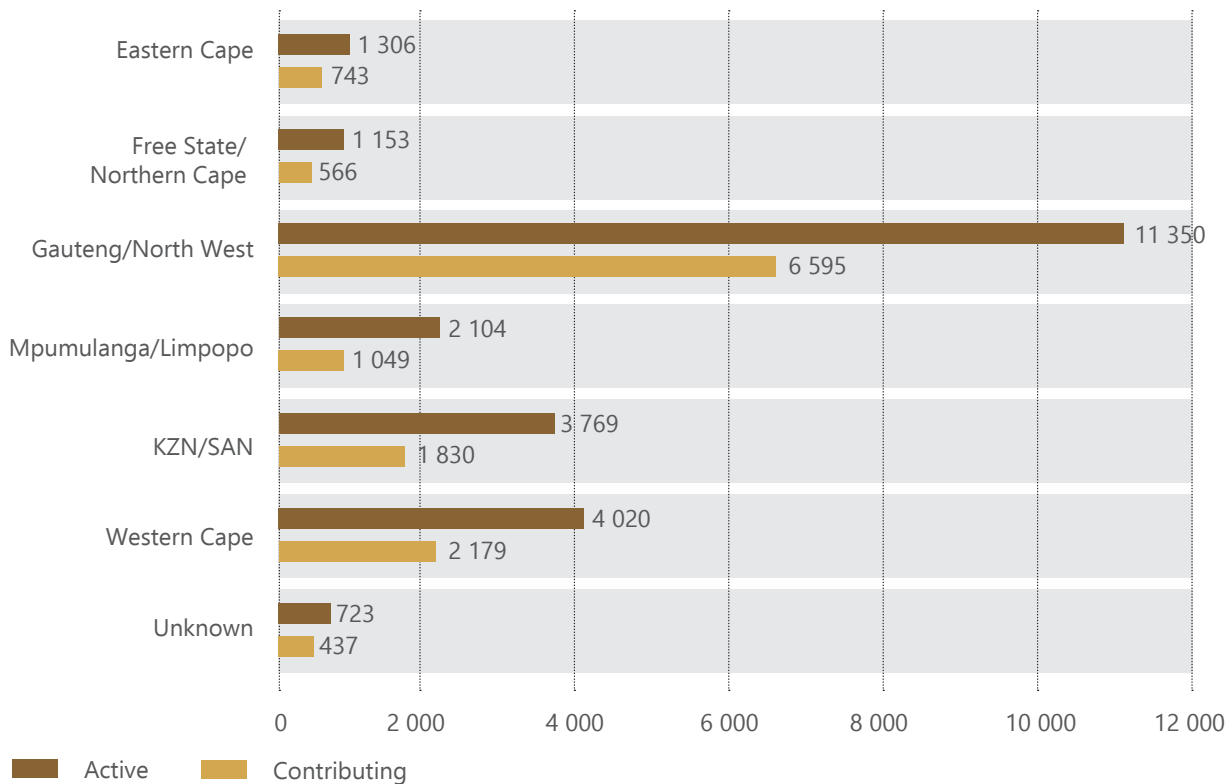


**Percentage of Total Levies Paid by Chamber Year to Date - March 31, 2016 (Year 2016)**



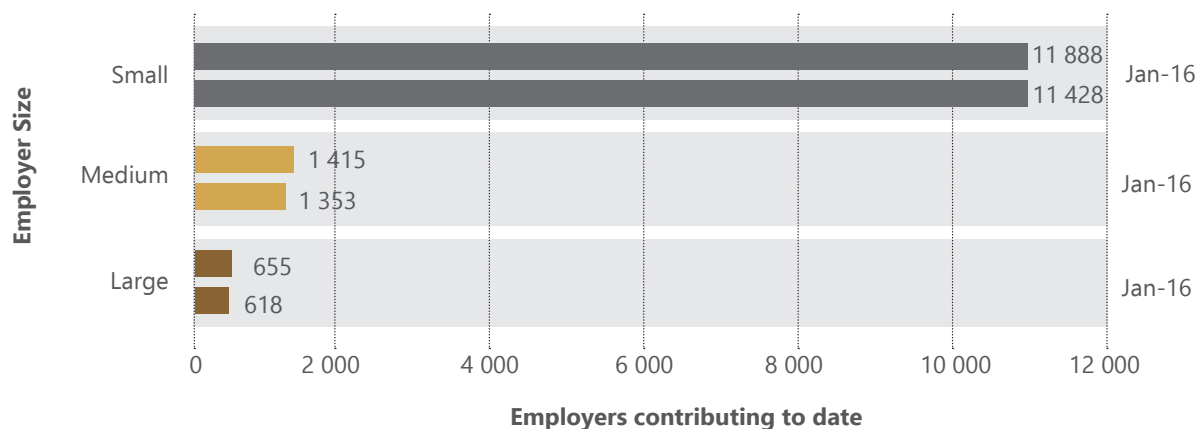
**Percentage of Total Levies Paid by Chamber Year to Date - March 31, 2015 (Year 2015)**



**Graph 2****Total Levy Analysis by Province Year to Date March 2016****Total Levy Analysis by Province Year to Date March 2015**



### Size of Employer Contribution Analysis - 2014/15 vs 2015/16



### Programme Expenditure

Programme Expenditure vs Budget 2016

Programme Name	2016			2015		
	Budget R'000s	Actual Expenditure R'000s	(Over)/ Under Expenditure R'000s	Budget R'000s	Actual Expenditure R'000s	(Over)/ Under Expenditure R'000s
Administration	193 735	165 678	28 057	166 861	150 276	16 585
Skills Planning	21 119	8 209	12 910	11 837	6 740	5 097
Increase access to occupationally directed programmes	683 073	536 082	146 991	418 627	403 961	14 666
Promoting the responsive of FETCs to the intermediate skills needs of the sector	76 744	19 189	57 555	34 270	9 993	24 277
Addressing the low level of youth and adult language and numeracy skills to enable additional training	5 263	819	4 444	14 720	5 060	9 660
Promoting workplace skills development within the sector	344 891	306 018	38 873	326 567	267 593	58 974
Encouraging and supporting co-operative, small enterprises, work-initiated and community training initiatives	19 522	5 740	13 782	29 972	11 730	18 242
Career development	14 383	9 695	4 688	10 284	7 816	2 468
<b>Total</b>	<b>1 358 730</b>	<b>1 051 430</b>	<b>307 300</b>	<b>1 013 138</b>	<b>863 169</b>	<b>149 969</b>

### Mandatory Grants

The merSETA has experienced an increase in mandatory grant participation, as the claims ratio increased from 68% in the prior year to 74% in the current year. The challenges faced in prior years regarding companies not obtaining labour sign-off on their WSP submissions, as per the grants regulations, have been addressed.

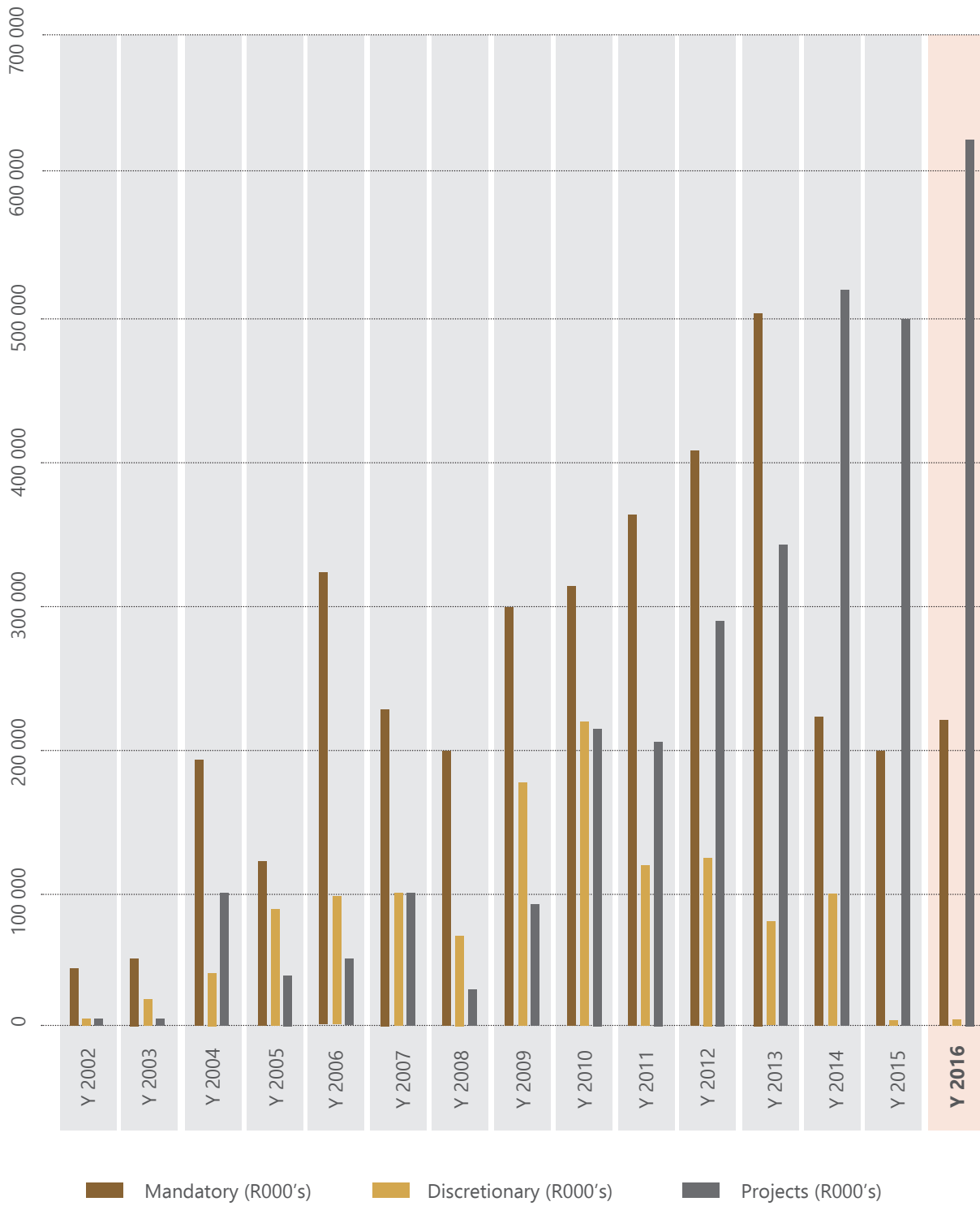
The mandatory grant expense in the current year increased by 17% to R241 million, from R206 million in the prior year

Disbursement of mandatory grants was 3.7% lower than budgeted, as the budget had anticipated a much higher claims ratio.





### Grants and Project Expenses





**CHAIRPERSON OF  
THE AUDIT AND RISK  
COMMITTEE**

*Ms Thulisile Mashanda*

## 2. **AUDIT AND RISK COMMITTEE REPORT**

We are pleased to present our report for the financial year ended 31 March 2016.

### **Audit and Risk Committee Responsibility**

The Audit and Risk Committee reports that it has complied with its responsibilities arising from Section 38 (1) (a) of the Public Finance Management Act and Treasury Regulation 3.1. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its charter was reviewed during the year under review. The committee has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### **The Effectiveness of Internal Control and Risk Management**

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

The merSETA has a risk management framework and policy in place and these were reviewed during the year under review. A risk register is maintained in order to continuously assess the organisation's risks throughout the year.

The Audit and Risk Committee considered all significant control matters and associated action plans and it has been established that the organisation's internal control system and risk management processes are effective and form a sound basis for the preparation of reliable annual financial statements.

### **Management and Quarterly Reports**

The merSETA submitted management and quarterly reports to the Executive Authority during the year under review.

### **Evaluation of Financial Statements**

We have reviewed the draft annual financial statements prepared by the public entity.

### **Auditor's Report**

We have reviewed the public entity's implementation plan for audit issues raised in the prior year and we are satisfied that the matters have been adequately addressed.

The Audit and Risk Committee concurs and accepts the conclusions of the external auditor on the annual financial statements and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the auditor.

**Chairperson of the Audit Committee**  
**Ms Thulisile Mashanda**  
**31 July 2016**



***MANUFACTURING, ENGINEERING  
AND RELATED SERVICES EDUCATION  
AND TRAINING AUTHORITY AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2016***

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The audited Annual Financial Statements for the year ended 31 March 2016, set out on pages 104 to 164 , have been approved by the Accounting Authority in terms of section 51(1) (f) of the Public Finance Management Act (PFMA), No 1 of 1999 (as amended) on 26 July 2016, and are signed on their behalf by:

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P. Baleni (née Nzimande)  
(Chairperson)

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R. Patel  
(Chief Executive Officer)



# FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

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

***FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016***

## ***1. GENERAL REVIEW OF THE STATE OF AFFAIRS OF THE MERSETA***

During the financial period 2015/16, the merSETA has maintained its record of sound governance, stable management, and an efficiently managed organisation that plays a crucial role in tackling skills shortages in our society. The merSETA has achieved 31 out of the 36 of its performance targets as set out in the Annual Performance Plan. The five targets that were under achieved are:

- Small levy paying firms, which was due to a number of small companies no longer paying levies as they are no longer required to pay the skills levy due to their payroll being below the threshold but have submitted their mandatory grant applications.
- Learnerships workers completed, which was due to the fact that there are a number of employed learners that were registered during the financial year but have not completed their learning programme.
- Bursary workers entered, which was due to the challenging economic conditions in South Africa where a number of companies had gone through financial stress and thus were no longer investing in newly registered studies by its employees.
- TVET student placement entered, which was mainly due to majority of the merSETA TVET student placements having being entered into structured learning programmes such as apprenticeships and learnerships, which does not meet the technical definition of this target.
- TVET student placement completed, non-performance was due to the same reason as that of the TVET student placement entered target.

The levy base showed a marginal growth from the prior year, whilst penalties and interest on skills development levy income have increased significantly. Mandatory grant payments were made on a monthly basis throughout the year and although the number of companies approved is lower than previous years, the claims ratio has increased from 68% in the previous year to 74% in the year under review.





Financial instruments performed well during the year with an average return of 7.6% compared to 5.6% realised in the previous year. The resulting interest income is R102 million compared to R83 million in the previous year. The outstanding returns on the financial instruments are due to the interest rate increase cycle seen during the year and the added benefit of investing in structures that earn compound interest.

The mandatory grant disbursements amounted to R241 million in the year under review compared to the R206 million in the previous year. This represented a 3.8% variance on a budget of R250 million.

Disbursements of discretionary grants and projects have shown a marked increase of 29% over the previous year, growing from R516 million in 2014/15 to R666 million in 2015/16.

The merSETA maintains substantial discretionary grant reserves of which 97% are committed to multiyear learnerships, apprenticeships and projects stretching over an average period of four years to the value of R2.073 billion.

#### **a. Member companies and levies**

The merSETA's levy income grew by 4.1% in the 2015/16 financial year over the prior year to reach R1.307 billion, exceeding the budgeted levy income by 2.9%.

The number of employers contributing during the year increased slightly to 13,958 from 13,399 in 2014/15. This movement is shown in the table below:

Chamber	Contributing employers 2014/15	Movement	Contributing employers 2015/16
Auto	9	-	9
Metal	6 968	357	7 325
Motor	4 806	162	4 968
New Tyre	5	-	5
Plastic	1 611	40	1 651
<b>Total</b>	<b>13 399</b>	<b>559</b>	<b>13 958</b>

#### **Grants and Projects**

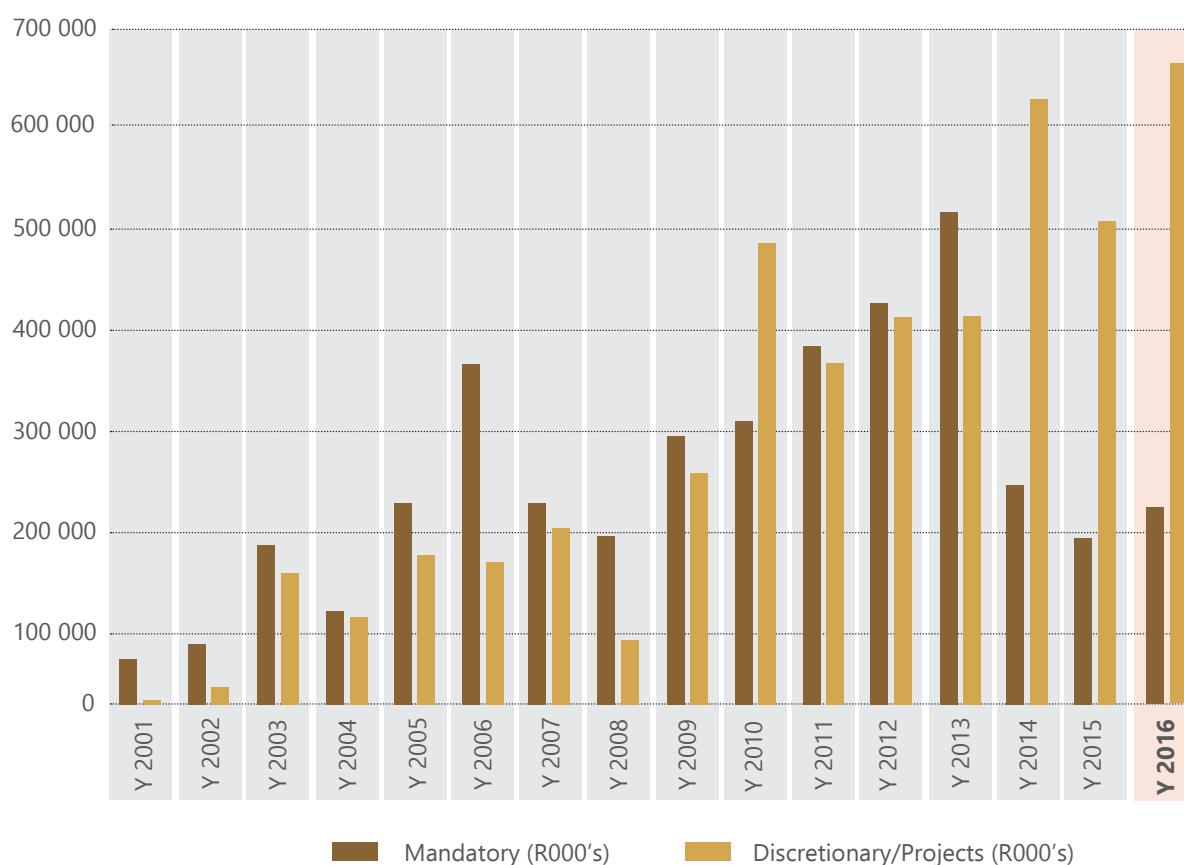
The participation by employers, measured by the number of WSPs submitted during the year under review has increased from 68% to 74%.

While the merSETA continues to drive the milestones and deliverables of its projects, the significant increase in project expenditure over the previous year can also be attributed to the ongoing impact of the legislated increase in discretionary levies from 20% to 50%.

The merSETA continues to monitor all the companies that have been awarded discretionary grants to ensure quality training is provided and that MOA deliverables are effectively implemented. The companies that are not implementing training as per the signed MOA are requested either to effect remedial action or to refund the portion of discretionary grant funds paid to them.


**Grants paid to date per grant type since inception:**

Year	Mandatory R000's	Discretionary/Projects R000's	Total R000's
Y2001	49 714	350	50 064
Y2002	66 640	27 128	93 768
Y2003	188 778	156 333	345 111
Y2004	143 170	136 937	280 107
Y2005	256 227	178 891	435 118
Y2006	362 128	165 982	528 110
Y2007	250 228	216 612	466 840
Y2008	204 274	97 394	301 668
Y2009	303 908	268 985	572 893
Y2010	334 254	483 104	817 358
Y2011	368 759	352 044	720 803
Y2012	445 459	420 709	866 168
Y2013	514 279	428 046	942 325
Y2014	261 222	650 009	911 231
Y2015	206 405	515 613	722 018
Y2016	240 847	665 973	906 820
<b>Total</b>	<b>4 196 292</b>	<b>4 764 110</b>	<b>8 960 402</b>





The growth in grants paid over the period is largely influenced by the growth in the levies received. Discretionary grant expenditure increased significantly over the period, which reflects the drive to meet targets as well as to making a significant contribution to other national skills development initiatives.

The drop in mandatory grants in the year 2014 and thereafter is due to the changes in the Grant Regulations, whereby the percentage allocation to mandatory grants from levies received was reduced from 50% to 20%. This change has also influenced a decline in the participation ratio in the previous two years, however through the ongoing support by merSETA, a marked increase was seen in the year ended 2016.

A number of co-funded partnerships, managed by the merSETA, have been entered into during the period under review, and they are as follows:

- UIF for the training of retrenched workers and to indenture unemployed young people into apprenticeships and trade related learnerships. The total number of trained learners was 1000.
- Gauteng Education Department to train 300 apprentices and 50 Educational Psychologist Internships.
- National Department of Public Works to train 221 apprentices.
- Department of Small Business Development (DSBD) to support and develop sustainable co-operatives, focusing on TVET entrepreneurs, the informal economy trade workers and emerging co-operatives. In parallel with the partnership agreement, the merSETA implemented technical training for existing co-operatives, identified by DSBD. A total of 120 members of these co-operatives are targeted for technical training to enhance the use, care and basic maintenance of the machinery, equipment and tools they use for their core manufacturing processes.

## **b. Planned utilisation of surpluses**

The merSETA has discretionary reserves of R2.135 billion, of which R2.073 billion is committed to signed contracts approved by the Accounting Authority. These apply to learnerships, apprenticeships, skills programmes and projects that continue to be implemented in ensuing years. Cash and other financial instruments at year end amount to R 2.289 billion. The merSETA received approval from National Treasury and the Department of Higher Education and Training to carry forward surpluses for the 2014/15 financial year, and also applied for similar carry forward surpluses for the 2015/16 financial year in May 2016. Approval to carry forward the 2015/16 surpluses was subsequently granted by National Treasury.

The merSETA carries a R6.6 million administration reserve in its Statement of Financial Position as at 31 March 2016. The administration reserves are equal to the net book value of the non-current assets.



## 2. SERVICES RENDERED BY THE MERSETA

The merSETA renders three broad areas of services to its sector:

### a. Grant disbursements:

- Disbursement of mandatory grants accounts for 20% of levies paid. This is subject to the companies submitting a valid workplace skills plan received by 30 April 2015. The purpose of the mandatory grant is to provide an incentive for employers to plan and implement training for their workforce and to provide credible data about their employees training needs in order for the merSETA to establish the skills needs of the sector for inclusion in the merSETA Sector Skills Plan.
- Disbursements of discretionary grant funds account for a minimum of 49.5%. The discretionary grant is intended to support the training of learners and apprentices and also to undertake special projects that address critical sector needs.

### b. Quality Assurance functions, inclusive of but not limited to:

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

### c. Skills implementation functions are as follows:

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



### 3. *HUMAN RESOURCES*

The 2015/2016 financial year has been one of great success for the organisations Human Resources unit. The benefits of the implementation of the Human Resources Strategy have been evidenced by the increased collaboration across the organisation, which have contributed significantly towards the attainment of organisational objectives. Our employees are key to our success. The five strategic objectives of the Human Resources unit are as follows:

- To attract and retain talented individuals;
- To establish and foster a high performance learning culture by providing continuous learning, development, collaboration & innovation opportunities;
- To provide wellness programmes that actively support employee's efforts towards achieving success in the workplace and in their personal lives;
- To develop and implement current, legislatively-aligned HR policies, processes and practices that promote inclusion, values diversity and prevent discrimination, and
- To build and maintain effective stakeholder relationships.

The number of employees as at March 2016 was 259 compared to 249 in March 2015. The merSETA remained focused on customer service ensuring that the head office and regional offices are sufficiently resourced by competent staff to support stakeholders and deliver on performance targets. A detailed report showing the demographics of the entire organisation is included in the Human Resources section of the Annual Report.




**Employment data for key personnel for the merSETA for the 2015/16 financial year:**

Key Personnel	Basic salary R000's	Travel Allowance R000's	Medical Aid R000's	Pension Fund R000's	Leave Pay R000's	Performance Bonus R000's	Total 2015/16 R000's	Total 2014/15 R000's	Notes
Chief Executive Officer	1 555	132	50	160	-	265	2 162	2 049	
Chief Financial Officer	1 234	-	19	134	-	194	1 581	1 493	
Chief Operating Officer	1 247	96	-	124	-	205	1 672	1 577	
Executive: Corporate Services	524	-	-	-	43	-	567	1 351	Resigned Aug 2015. Vacant Sep - Dec 2015
Executive: Corporate Services	251	15	6	26	-	102*	400	-	Jan to Mar 2016
Executive: Strategy and Research	793	-	12	84	58	-	947	1 361	Resigned Nov 2015. Vacant Dec 2015
Executive: Strategy and Research	275	-	11	31	-	-	317	-	Jan to Mar 2016
<b>Total</b>	<b>5 879</b>	<b>243</b>	<b>98</b>	<b>559</b>	<b>101</b>	<b>766*</b>	<b>7 646</b>	<b>7 831</b>	

\* Performance Bonus is pro-rated for the period that position was held, inclusive of acting period.

## 4. UTILISATION OF DONOR FUNDS

The merSETA continued supporting companies in distress via the Training Layoff Scheme. The merSETA funds the training component while UIF funds the wages. The merSETA has been assigned the responsibility to disburse the wage component on behalf of the UIF.

## 5. BUSINESS ADDRESS

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

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

merSETA  
P O Box 61826  
Marshalltown  
2107



## 6. *DISCONTINUED ACTIVITIES/ACTIVITIES TO BE DISCONTINUED*

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

## 7. *NEW/PROPOSED ACTIVITIES*

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The merSETA continues to align itself with the government directive to focus on the notion of employability, to contribute to the professional development of TVET Educators and the unemployed youth.

In 2015/16 the merSETA entered into a co-funded partnership agreement with the Department of Small Business Development (DSBD). The purpose of the partnership is to support and develop sustainable co-operatives, focusing on TVET entrepreneurs, the informal economy trade workers and emerging cooperatives.

In parallel with the partnership agreement, the merSETA implemented technical training for existing co-operatives, identified by DSBD in the Eastern Cape, Kwazulu Natal, Limpopo and Mpumalanga. A total of 120 members of these cooperatives are targeted for technical training to enhance the use, care and basic maintenance of the machinery, equipment and tools they use for their core manufacturing processes.

## 8. *EVENTS AFTER THE REPORTING DATE*

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National Treasury granted approval for merSETA to retain the accumulated surpluses as at 31 March 2016. This approval was obtained after the reporting date but prior to the date for submission of the audited Annual Financial Statements to National Treasury.

## 9. *PERFORMANCE INFORMATION*

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

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

The details of merSETA's performance achievements are provided in the Annual Report under the section on Performance Information.



## 10. RESEARCH AND DEVELOPMENT

In line with the merSETA's strategic intent, the Projects Development Unit has continued to progress its work in the following areas:

- Strengthening of research partnerships with Higher Education Institutions both locally and internationally;
- Large scale diagnostic instruments, building an understanding of effective work-integrated learning models between TVET Colleges and their industrial counterparts; and
- Pilot projects for testing research recommendations.

## 11. MARKETING AND COMMUNICATIONS

The vision of the Marketing and Communications unit at the merSETA is to keep the organisation speaking with one voice across a vast number of regions and customer interactions. The unit is guided by these strategic objectives:

- Improving and enhancing marketing and communication efforts between the merSETA and its target audiences;
- Strengthening and maintaining stakeholder relationships;
- Assisting in the facilitation of a positive work culture and climate;
- Enhancing the positive merSETA brand among stakeholders; and
- Profiling the merSETA as valuable, rare, difficult to imitate and hard to substitute.

The following are the Marketing and Communications achievements of the year:

- Four editions of Achieve magazine produced and distributed to 3 000 top levy-paying companies;
- R1.5 million worth of advertising placed in major local, regional and national media;
- 32 events handled by the Marketing and Communications Unit in the financial year, including career awareness workshops, exhibitions, colloquia, workshops and special events;
- Opinion pieces in major national papers; and
- Radio campaign focussing on learner opportunities.



## 12. CORPORATE GOVERNANCE

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

### a. Accounting Authority

The Accounting Authority which comprises of 15 members, including the three independent members appointed by the Minister of Higher Education and Training (of whom one is the Chairperson), was approved by the Minister of Higher Education and Training on 1 April 2011 for a five year term. Six members represent organised labour and six members represent organised employers. The appointment of the existing Accounting Authority has been extended by a further two years, until 31 March 2018.

### b. Internal Audit

The merSETA internal audit function is outsourced to an independent audit firm that carries out its functions based on an approved three year internal audit plan. The independent internal auditors perform and report in terms of the approved Internal Audit Charter.

### c. Financial Management

#### *Fraud*

There were no instances of fraud that were uncovered during the year 2015/16.

The Accounting Authority approved a fraud prevention plan that was successfully implemented during the year resulting in increased fraud awareness and activity on the anonymous fraud hotline.

#### *Internal Controls*

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

The merSETA's financial management remains sound and committed to comply with the PFMA and National Treasury regulations. During the year 2015/16 there was one instance of non compliance relating to supply chain processes to the value of R999 000. Corrective measures have been put in place.

The merSETA Executive Committee is presented with a full financial management report from the Chief Financial Officer. On a quarterly basis an all-inclusive budgeting process formed part of the Annual Performance Plan (APP) development process and is used as a bench-mark for levy income, grant administration and capital expenditure. A quarterly report showing financial performance results against budget is presented to the merSETA Accounting Authority and the Department of Higher Education and Training.

In terms of the Skills Development Act, total administration expenditure may not exceed 10.5% (this being inclusive of monies payable to the QCTO) of total levy income. The merSETA has kept within the limit.



#### d. Audit and Risk Committee

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

The Audit and Risk Committee chairperson resigned on the 1 August 2015. An independent member of the Audit and Risk Committee has been acting in the position whilst the recruitment processes are being finalised.

#### e. Other Committees

The other Committees of the Accounting Authority are:

- i. Executive Committee;
- ii. Finance and Grants Committee;
- iii. Human Resource and Remuneration Committee;
- iv. Governance and Strategy Committee;
- v. Chamber Committees; and
- vi. Regional Committees.

The merSETA has the following two advisory committees:

- Education, Training and Quality Assurance Committee
- Innovation, Research and Development Committee

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



**f. Policies**

The financial statements are prepared in accordance with Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. The merSETA's policies and procedures are aligned with GRAP and the Public Finance Management Act, 1999 (Act 1 of 1999, as amended) (PFMA).

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

**g. Supply Chain Management Unit**

Irregular expenditure was incurred during the financial period 2015/16 due to non compliance with treasury regulations on one tender process. Corrective measures have been put in place by way of improving the processes around the management of the procurement plan.

The electronic supply chain management system was in use throughout the financial period.

**h. IT Systems**

In the 2015/16 financial year ICT (Information Communication and Technology) maintained its alignment to the CGICTPF (Corporate Governance of Information, Communication and Technology Policy Framework). The merSETA ICT remained in compliance as it entered the third phase of continuous improvement of CGICT, with ongoing monitoring, evaluation and directing.

To improve efficiencies within the organisation a Document Management System (Online Filing System) was implemented, to allow the organisation to store, manage and share client related documentation. This allows multiple staff to access client files for process which improves response times. An upgrade of the merSETA internal and external network connectivity was put in place in order to improve the flow of information.

The merSETA continued to use the Datanet system only for processing levies received and mandatory grant payments.

The following modules were in operation on the SMS system during the financial year 2015/16: Skills Module, Projects Module, Discretionary Grants Module and ETQA Module.

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

The system used for capturing, maintenance and processing of employee remuneration and benefits is VIP.

**i. Conflict of interest**

The merSETA's Accounting Authority maintains a declaration of interest register. This is over and above the requirements that members declare whether they have an interest in any item on the agenda of Accounting Authority and subcommittee meetings, to comply with the Public Finance Management Act, 1999 (Act 1 of 1999, as amended) as well as good corporate governance practice.

**j. Special matters**

In 2010 the merSETA suffered a loss of R 6.3 million through diversion of mandatory grants earmarked for levy-paying employers. The investigation was completed, the perpetrators were charged with fraud, found guilty and sentenced.



The funds have not yet been recovered, but the merSETA has instituted legal proceedings to pursue recovery. The merSETA has since reviewed the controls and processes within this area.

The Department of Higher Education and Training has commissioned a forensic investigation on the merSETA based on allegations of irregularities in the appointment of service providers and other alleged misconducts. The investigation was still underway during the close of the financial reporting period. The allegations have been raised by a former employee who was facing a disciplinary process for fraud and misconduct at the time. The employee was subsequently dismissed on grounds of misconduct and all other subsequent labour appeal and mediation processes have ruled for the dismissal to be upheld.

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P. Baleni (née Nzimande)  
(Chairperson)

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R. Patel  
(Chief Executive Officer)



## STATEMENT OF FINANCIAL PERFORMANCE

### FOR THE YEAR ENDED 31 MARCH 2016

		2016			2015		
	Note	Actual R000's	Budget R000's	Variance R000's	Actual R000's	Budget R000's	Variance R000's
REVENUE							
Skills development levy income	2	1 306 676	1 269 994	36 682	1 255 492	1 198 108	57 384
Skills development penalties and interest	3	36 071	11 236	24 835	23 361	10 600	12 761
Government grant income	4	18 711	10 000	8 711	23 591	-	23 591
Total non-exchange revenue		1 361 458	1 291 230	70 228	1 302 444	1 208 708	93 736
Net gains from financial instruments	5	102 117	67 500	34 617	83 175	66 550	16 625
Other income	6	224	-	224	229	53	176
Total exchange revenue		102 341	67 500	34 841	83 404	66 603	16 801
Total revenue		1 463 799	1 358 730	105 069	1 385 848	1 275 311	110 537
EXPENSES							
Employer grant and project expenses	7	(906 820)	(1 199 949)	293 129	(722 018)	(880 235)	158 217
Administration expenses	8	(125 899)	(148 781)	22 882	(117 560)	(132 903)	15 343
Government grant expenses	4	(18 711)	(10 000)	(8 711)	(23 591)	-	(23 591)
Total expenses		(1 051 430)	(1 358 730)	307 300	(863 169)	(1 013 138)	149 969
Net surplus/(deficit) for the year	1	412 369	-	412 369	522 679	262 173	260 506



## STATEMENT OF FINANCIAL POSITION

### FOR THE YEAR ENDED 31 MARCH 2016

	Note	31 March 2016 R000's	31 March 2015 R000's
<b>ASSETS</b>			
<b>Current assets</b>			
Prepayments	9	-	185
Receivables from non-exchange transfers	10	8 455	15 783
Consumables	11	320	221
Financial instruments at fair value	12	2 014 321	1 695 813
Financial instruments at amortised cost	13	5 551	4 262
Cash and cash equivalents	14	269 146	157 507
		2 297 793	1 873 771
<b>Non-current assets</b>			
Property and equipment	15	6 066	9 134
Intangible assets	16	540	629
		6 606	9 763
<b>Total Assets</b>		2 304 399	1 883 534
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Grants and transfers payable	17	138 880	129 204
Financial liabilities at amortised cost	18	10 770	12 036
Other payables	19	1 002	953
Provisions	20	12 223	12 186
		162 875	154 379
<b>Net Assets</b>		2 141 524	1 729 155
<b>Net assets represented by:</b>			
Administration reserve		6 606	9 763
Employer grant reserve		183	1 934
Discretionary reserve		2 134 735	1 717 458
<b>Total Net Assets</b>		2 141 524	1 729 155



## STATEMENT OF CHANGES IN NET ASSETS

### FOR THE YEAR ENDED 31 MARCH 2016

	Note	Administration reserve R000's	Employer grant reserve R000's	Discretionary grant reserve R000's	Unappropriated surplus R000's	Total R000's
<b>Balance at 1 April 2014</b>		12 757	2 386	1 191 333	-	1 206 476
Net surplus for the year per statement of financial performance		-	-	-	522 679	522 679
Allocation of unappropriated surplus for the year	1	47 435	111 051	364 193	(522 679)	-
Excess reserves transferred to discretionary reserve		(50 429)	(111 503)	161 932	-	-
<b>Balance at 31 March 2015</b>		9 763	1 934	1 717 458	-	1 729 155
Net surplus for the year per statement of financial performance		-	-	-	412 369	412 369
Allocation of unappropriated surplus for the year	1	45 709	91 594	275 066	(412 369)	-
Excess reserves transferred to discretionary reserve		(48 866)	(93 345)	142 211	-	-
<b>Balance at 31 March 2016</b>		<b>6 606</b>	<b>183</b>	<b>2 134 735</b>	<b>-</b>	<b>2 141 524</b>
		*	**			

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

\*\* The amount retained in the employer grant reserve is a mandatory grant provision for newly registered companies participating after the legislative cut-off date. This is noted under contingencies in note 22.2.





## CASH FLOW STATEMENT

### FOR THE YEAR ENDED 31 MARCH 2016

		2016			2015		
	Note	Actual R000's	Budget R000's	Variance R000's	Actual R000's	Budget R000's	Variance R000's
CASH FLOWS FROM OPERATING ACTIVITIES							
Operating activities							
Cash receipts from stakeholders and others		1 349 480	1 288 068	61 412	1 293 883	1 189 484	104 399
Levies, interest and penalties received		1 342 692	1 278 345	64 347	1 276 871	1 208 516	68 355
Income/ (outflow) relating to government grants		6 610	9 723	(3 113)	16 783	(19 085)	35 868
Other income	6	178	-	178	229	53	176
Cash paid to stakeholders, suppliers and employees		(1 018 216)	(1 329 682)	311 466	(962 265)	(1 042 934)	80 669
Direct grants and project payments		(860 504)	(1 146 476)	285 972	(819 827)	(883 536)	63 709
Employment costs		(105 687)	(115 153)	9 466	(95 330)	(97 666)	2 336
Payments to suppliers		(52 025)	(68 053)	16 028	(47 108)	(61 732)	14 624
Cash generated from (utilised in)/operations	21	331 264	(41 614)	372 878	331 618	146 550	185 068
Interest received		100 836	39 331	61 505	80 953	65 040	15 913
Net cash inflow from operating activities		432 100	(2 283)	434 383	412 571	211 590	200 981
CASH FLOW FROM INVESTING ACTIVITIES							
Purchase of property and equipment	15	(933)	(2 295)	1 362	(1 834)	(2 076)	242
Purchase of intangible assets	16	(1 105)	(939)	(166)	(894)	(2 399)	1 505
Proceeds from disposal of property and equipment		85	-	85	205	-	205
Net purchase of financial instruments at fair value		(318 508)	(50 690)	(267 818)	(318 025)	(198 000)	(120 025)
Net cash outflow from investing activities		(320 461)	(53 924)	(266 537)	(320 548)	(202 475)	(118 073)
CASH FLOW FROM FINANCING ACTIVITIES							
Proceeds from borrowings		-	(1 300)	1 300	(1 300)	(1 233)	(67)
Net increase/(decrease) in cash and cash equivalents		111 639	(57 507)	169 146	90 723	7 882	82 841
Cash and cash equivalents at beginning of year		157 507	157 507	-	66 784	66 784	-
Cash and cash equivalents at end of year	14	269 146	100 000	169 146	157 507	74 666	82 841



## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2016

	Original approved budget R000's	Revisions R000's	Final approved budget R000's	Actual R000's	Variance R000's
<b>REVENUE</b>					
Skills development levy income	1 269 994	-	1 269 994	1 306 676	36 682
Skills development penalties and interest	11 236	-	11 236	36 071	24 835
Government grant income	10 000	-	10 000	18 711	8 711
<b>Total non-exchange revenue</b>	<b>1 291 230</b>	<b>-</b>	<b>1 291 230</b>	<b>1 361 458</b>	<b>70 228</b>
Net gains from financial instruments	67 500	-	67 500	102 117	34 617
Other income	-	-	-	224	224
<b>Total exchange revenue</b>	<b>67 500</b>	<b>-</b>	<b>67 500</b>	<b>102 341</b>	<b>34 841</b>
<b>Total revenue</b>	<b>1 358 730</b>	<b>-</b>	<b>1 358 730</b>	<b>1 463 799</b>	<b>105 069</b>
<b>EXPENSES</b>					
Employer grant and project expenses	(1 184 625)	(15 324)	(1 199 949)	(906 820)	293 129
Administration expenses	(142 781)	(6 000)	(148 781)	(125 899)	22 882
Government grant expenses	(10 000)	-	(10 000)	(18 711)	(8 711)
<b>Total expenses</b>	<b>(1 337 406)</b>	<b>(21 324)</b>	<b>(1 358 730)</b>	<b>(1 051 430)</b>	<b>307 300</b>
<b>Net surplus for the year</b>	<b>21 324</b>	<b>(21 324)</b>	<b>-</b>	<b>412 369</b>	<b>412 369</b>



### Revisions to the original budget

During the year, an additional R6 million administration expenditure was approved for symposiums. The mandatory grant budget was also increased due to increase in mandatory grant participation, but limited to an amount that would not result in an overall net deficit in the budget.

### Comparison budget vs. actual

Actual levy income received was in line with the budget amount, showing only a 3% deviation above the budget amount and 4% against the previous year's levy income.

Skills development penalties and interest received was 221% above budget. The last two financial years have seen a sharp increase in penalties and interest income. The amount for 2014/15 was R23,3 million up from R13,1 million in the 2013/14 financial year. Current year penalties and interest income is up 54% on the previous financial year. In the previous year the manufacturing industry endured a long and protracted industrial action and the slow down in production during that period resulted in late payments of the skills development levy upon which interest and penalties were levied. The increase in interest and penalties is further influenced by the current economic crisis in the sector, marked by reduced production and organisations shutting down.

Government grant income and expenditure was 87% above budget. There was an exponential increase in Training Layoff Scheme applications due to the shrinking sector.

The financial instruments performance was 52% above the budgeted amount. The investments have continued to perform above expectations, due to the interest rate hikes during the period.

Disbursements of discretionary grants and projects have shown a marked increase of 29% over the previous year, growing from R516 million in 2014/15 to R666 million in 2015/16. While the merSETA continues to drive the milestones and deliverables of its projects, the significant increase over the previous year can also be attributed to the ongoing impact of the legislated increase in discretionary levies from 20% to 50 %.

Administration expenses are 15% below budget. The contributors to this were mainly:

- Employments costs: 9.8 % below budget due to vacant posts and key resignations during the year.
- Repairs and Maintenance buildings: 31% below budget due to certain planned work that was not carried out due to the uncertainty of the SETA landscape.
- Media symposiums budget of R6 million: Due to timing issues these engagements only started in the 2016/17 financial year.
- Conference and meeting expenses: There was a 32% saving in this area due to cost containment measures.



## ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS

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### ACCOUNTING POLICIES

#### 1. BASIS OF PREPARATION

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

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

#### 2. CURRENCY

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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. The level of rounding used in presenting amounts in the financial statements is to the nearest thousand, unless otherwise stated.

#### 3. REVENUE RECOGNITION

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

##### 3.1 LEVY INCOME

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

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

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

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

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



## 3.2 INTEREST AND PENALTIES

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

## 3.3 FUNDS ALLOCATED BY THE NATIONAL SKILLS FUND AND UNEMPLOYMENT INSURANCE FUND FOR SPECIAL PROJECTS

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

## 3.4 GOVERNMENT GRANTS AND OTHER DONOR INCOME

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

Unconditional government grants and other unconditional donor income is recognised as income at the time the amounts are received.

## 3.5 NET GAINS FROM FINANCIAL INSTRUMENTS

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

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

# 4. GRANT AND PROJECT EXPENDITURE

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## 4.1 MANDATORY GRANTS

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

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

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





## 4.2 GRANT AND PROJECT EXPENDITURE (CONTINUED)

Project expenditure comprises:

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

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

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

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

## 4.3 GOVERNMENT GRANT EXPENDITURE

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

Unconditional government grants costs are recognised as expenses in the period in which they are incurred.

## 5. *IRREGULAR, FRUITLESS AND WASTEFUL* *EXPENDITURE*

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

- The Public Finance Management Act (PFMA), No. 1 of 1999 (as amended)
- The Skills Development Act, No. 97 of 1998 (as amended).

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



## 6. *PROPERTY AND EQUIPMENT*

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

<b>Asset class</b>	<b>Depreciation period</b>
Computer equipment	3 - 6 years
Office furniture and fittings	5 - 10 years
Office equipment	5 - 10 years
Motor vehicles	4 - 8 years
Other assets	2 - 5 years

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

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

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

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

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

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

## 7. *INTANGIBLE ASSETS*

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

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

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

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



## 7. INTANGIBLE ASSETS (CONTINUED)

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

The gain or loss arising on the disposal of the intangible asset is determined as the difference between the proceeds on disposal and the carrying amount and is included in operating surplus or deficit when the asset is derecognised.

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

## 8. CONSUMABLES

Consumables are charged to surplus or deficit on acquisition at cost price. At financial year end consumables are recognised at the lower of cost or net realisable value, being the latest available prices.

## 9. LEASING

### Finance Lease

A lease is an agreement between two parties whereby the one party (the lessor) allows the other party (the lessee) to use its assets for an agreed period of time in return for a payment, or series of payments.

A finance lease is a lease arrangement that transfers substantially all the risks and rewards incidental to ownership to the lessee.

At recognition, an asset and liability is recognised at the lower of: fair value of asset; or present value of minimum lease payment at rate implicit in lease (or incremental borrowing rate if the preceding cannot be determined).

The leased asset is subsequently measured as per GRAP 17: Property, Plant and Equipment.

Lease payments are discounted at the rate that causes the present value of the minimum lease payments and unguaranteed residual value to be equal to the sum of the fair value of the leased asset plus any direct costs of the lessee.

### Operating lease

An operating lease is a lease other than a finance lease.

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.

## 10. RETIREMENT BENEFIT COSTS

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



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

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

Contribution by employee	7.50%
Contribution by employer	12.08%
Total contribution	19.58%

## 11. PROVISIONS

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

### Provision for employee related entitlements

The cost of other employee benefits (not recognised as retirement benefits - see note 10 above) are recognised during the period in which the employee renders the related service. Employee entitlements are recognised when they accrue to employees. A provision is made for the estimated liability as a result of services rendered by employees up to the reporting date. Provisions included in the statement of financial position are provisions for Workman's Compensation, leave pay and performance bonuses.

## 12. FINANCIAL INSTRUMENTS

### Recognition

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

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

Financial instruments carried on the statement of financial position include financial assets at fair value, financial assets at amortised cost, and financial liabilities at amortised cost. Where relevant, the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

### Financial assets

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

The merSETA's principal financial assets are financial assets at fair value, financial assets at amortised cost and cash and cash equivalents.

### Financial assets at amortised cost

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



## 12. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

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

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

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

### **Cash and cash equivalents**

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

### **Financial Liabilities**

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

The merSETA's principal financial liabilities are trade payables.

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

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

### **Derecognition**

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

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





### Fair value measurement considerations

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

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

### Offsetting

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

## 13. RESERVES

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

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

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

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

	2016	2015
	%	%
Administration costs of the merSETA	10	10
QCTO Administration costs	0.5	0.5
Mandatory Workplace Skills Planning Grant	20	20
Discretionary grants and projects	49.5	49.5
Received by the merSETA	80	80
Contribution to NSF	20	20
	100	100



## 13. RESERVES (CONTINUED)

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

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

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

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

## 14. CONTINGENCIES

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

National Treasury has granted approval for merSETA to retain the accumulated surpluses as at 31 March 2016. This approval was obtained after the reporting date but prior to the date for submission of the audited Annual Financial Statements to National Treasury.

Newly registered member companies have up to six months after registration to submit work place skills plans. The amount retained in the Employer Grant Reserve makes provision for such a contingency.

## 15. RELATED PARTY TRANSACTIONS

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

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

An individual or entity may be given oversight responsibility over the merSETA, which gives them significant influence, but not control, over the financial and operating decisions of the entity.

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

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

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

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

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



## 16. COMPARATIVE FIGURES

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

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

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

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

### **Key sources of estimation uncertainty**

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

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

All classes of property and equipment are depreciated on a straight-line basis over the asset's useful life. The merSETA reviews the estimated useful lives and residual values of property and equipment at the end of each annual reporting period. Refer to note 15 for the carrying values of property and equipment.

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

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

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

	Total per Statement of Financial Performance R000's	Administration reserve R000's	Employer grants reserve R000's	Discretionary grants R000's	Discretionary reserve Government grants R000's	Total discretionary R000's
<b>Year ended 31 March 2016</b>						
<b>Total revenue</b>	<b>1 463 799</b>	<b>171 608</b>	<b>332 441</b>	<b>941 039</b>	<b>18 711</b>	<b>959 750</b>
Skills development levy income						
Admin levy income (10.5%)	171 445	171 445	-	-	-	-
Grant levy income (69.5%)	1 135 231	-	332 441	802 790	-	802 790
Skills development levy: penalties and interest	36 071	-	-	36 071	-	36 071
Government grant Income	18 711	-	-	-	18 711	18 711
Investment income	102 117	-	-	102 117	-	102 117
Other income	224	163	-	61	-	61
<b>Total expenses</b>	<b>1 051 430</b>	<b>125 899</b>	<b>240 847</b>	<b>665 973</b>	<b>18 711</b>	<b>684 684</b>
Employer grants and project expenses	906 820	-	240 847	665 973	-	665 973
Administration expenses	125 899	125 899	-	-	-	-
Government grant expenses	18 711	-	-	-	18 711	18 711
Net surplus per the statement of financial performance allocated	<b>412 369</b>	<b>45 709</b>	<b>91 594</b>	<b>275 066</b>	<b>-</b>	<b>275 066</b>
<b>Year ended 31 March 2015</b>						
<b>Total revenue</b>	<b>1 385 848</b>	<b>164 995</b>	<b>317 456</b>	<b>879 806</b>	<b>23 591</b>	<b>903 397</b>
Skills development levy income						
Admin levy income (10.5%)	164 814	164 814	-	-	-	-
Grant levy income (69.5%)	1 090 678	-	317 456	773 222	-	773 222
Skills development levy: penalties and interest	23 361	-	-	23 361	-	23 361
Government grant Income	23 591	-	-	-	23 591	23 591
Investment income	83 175	-	-	83 175	-	83 175
Other income	229	181	-	48	-	48
<b>Total expenses</b>	<b>863 169</b>	<b>117 560</b>	<b>206 405</b>	<b>515 613</b>	<b>23 591</b>	<b>539 204</b>
Employer grants and project expenses	722 018	-	206 405	515 613	-	515 613
Administration expenses	117 560	117 560	-	-	-	-
Government grant expenses	23 591	-	-	-	23 591	23 591
Net surplus per the statement of financial performance allocated	<b>522 679</b>	<b>47 435</b>	<b>111 051</b>	<b>364 193</b>	<b>-</b>	<b>364 193</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 2. SKILLS DEVELOPMENT LEVY INCOME

	Note	2016 R000's	2015 R000's
<b>THE TOTAL LEVY INCOME PER THE STATEMENT OF FINANCIAL PERFORMANCE IS AS FOLLOWS:</b>			
<b>Levy income: Administration</b>		<b>171 445</b>	<b>164 814</b>
Levies received from SARS		171 613	164 097
InterSETA transfers		(246)	499
Provision for refund SARS		78	218
<b>Levy income: Employer Grants</b>		<b>332 441</b>	<b>317 456</b>
Levies received from SARS		330 869	315 377
InterSETA transfers		17	354
Provision for refund SARS		1 555	1 725
<b>Levy income: Discretionary Grants</b>		<b>802 790</b>	<b>773 222</b>
Levies received from SARS		805 544	771 156
InterSETA transfers		(1 742)	2 265
Provision for refund SARS		(1 012)	(199)
		<b>1 306 676</b>	<b>1 255 492</b>

### 3. SKILLS DEVELOPMENT LEVY PENALTIES AND INTEREST

Penalties	19 847	13 934
Interest	16 242	9 427
InterSETA transfers	(18)	-
	<b>36 071</b>	<b>23 361</b>





## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 4. GOVERNMENT GRANTS

#### 4.1 NATIONAL SKILLS FUND

	Note	2016 R000's	2015 R000's
<b>AATP Programme</b>			
Opening balance		-	1 378
Investment income		-	27
Refund to National Skills Fund		-	(1 405)
<b>Closing balance</b>		-	-
<b>TLS Programme</b>			
Opening balance		10 690	16 458
Funds received during the year		7 023	-
Investment income		193	617
Utilised and recognised as revenue - conditions met		(7 963)	(6 385)
Refund to National Skills Fund		(9 767)	-
<b>Closing balance</b>		<b>176</b>	<b>10 690</b>
<b>TOTAL</b>			
Opening balance		10 690	17 836
Funds received during the year		7 023	-
Investment income		193	644
Utilised and recognised as revenue - conditions met		(7 963)	(6 385)
Refund to National Skills Fund		(9 767)	(1 405)
<b>Balance of National Skills Fund</b>	17	<b>176</b>	<b>10 690</b>

Funds were received from the National Skills Fund (NSF) for the purposes of funding the wage portion of the Training Layoff Scheme. Unutilised monies were re-imbursed to the NSF. The balance in the account at 31 March 2016 represented interest which was also reimbursed on 1 April 2016.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

#### 4.2 UNEMPLOYMENT INSURANCE FUND

	Note	2016 R000's	2015 R000's
<b>TLS Programme</b>			
Opening balance		1 587	1 249
Funds received during the year		10 447	17 440
Investment income		63	104
Utilised and recognised as revenue - conditions met		(10 748)	(17 206)
Refund to Unemployment Insurance Fund Skills Fund		(1 349)	
<b>Closing balance</b>	17	-	<b>1 587</b>

These funds were received from the Unemployment Insurance Fund (UIF) for the purposes of funding the wage portion of the Training Layoff Scheme. By 31 March 2016 all unutilised monies, including interest was re-imbursed to the UIF.

#### 5. NET GAINS FROM FINANCIAL INSTRUMENTS

Net gains from financial assets at fair value	90 281	76 170
Interest income from cash and cash equivalents	11 836	7 005
	<b>102 117</b>	<b>83 175</b>

#### 6. OTHER INCOME

Surplus on disposal of property and equipment	46	-
Income from re-certification	61	48
Management fee income	117	181
	<b>224</b>	<b>229</b>

Management fee income constitutes income from the National Department of Public Works for the training and development of artisans. One of the conditions of the contract is that a 5% management fee is to be paid to the merSETA for the administration of the contract.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 7. EMPLOYER GRANT AND PROJECT EXPENSES

	Note	2016 R000's	2015 R000's
Mandatory grants		240 847	206 405
Discretionary grants and projects	23.1	665 973	515 613
Discretionary grants		1 189	7 369
Project expenditure	7.1	664 784	508 244
		<b>906 820</b>	<b>722 018</b>

#### 7.1 PROJECT EXPENDITURE CONSISTS OF:

Direct project costs		627 651	476 368
Indirect project administration costs	8	37 133	31 876
	7	<b>664 784</b>	<b>508 244</b>



## 8. ADMINISTRATION EXPENSES

		2016	2015
	Note	R000's	R000's
Advertising, marketing and promotions, communication		3 981	4 001
Amortisation - intangible assets	16	1 194	1 096
Audit costs - internal audit		1 221	1 278
Audit costs - external audit		2 675	2 737
Bank charges		326	318
Accounting Authority and sub-committee costs		2 374	1 854
Remuneration to members of the audit committee		325	254
Accounting Authority and sub-committee members' fees		1 886	1 372
Accounting Authority and sub-committee assessment cost		-	144
Stakeholder training		48	84
Secretarial services		115	-
Cleaning and groceries		298	327
Depreciation		2 445	2 493
Employment costs		105 773	96 917
Recruitment costs		302	74
Salaries, wages and benefits	8.1	103 090	94 906
Staff training, development and welfare		2 381	1 937
Entertainment expenses		10	9
Gifts, donations and sponsorships		568	64
Impairment of property and equipment		45	-
Insurance and licence fees		1 203	1 268
Investigations and forensic costs		228	7
Legal fees		1 050	1 280
Loss on disposal of property and equipment		-	462
Operating lease rentals		10 760	10 898
Buildings		10 513	10 456
Equipment		-	176
Parking		247	266
Printing, stationery and postages		2 211	1 946
QCTO administration cost		4 762	3 236
Rates, water and electricity		3 151	3 098
Repairs, maintenance and running costs		2 488	2 412
Buildings		1 180	1 166
Property and equipment		1 308	1 246
Service provider administration fees		3 458	3 771
Special functions		476	254
Storage		242	270
Telecommunication expenses		4 376	3 148
Travel, subsistence and meeting expenses		7 717	6 292
		163 032	149 436
Less: amounts allocated to project expenditure	7.1	(37 133)	(31 876)
<b>Net administration cost</b>		<b>125 899</b>	<b>117 560</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 8. ADMINISTRATION EXPENSES (CONTINUED)

Note	2016 R000's	2015 R000's
<b>8.1 SALARIES AND WAGES</b>	<b>89 995</b>	<b>83 233</b>
Basic salaries	78 040	71 989
Performance awards	6 681	6 458
Arbitration awards	-	135
Other non-pensionable allowance	3 275	3 412
Temporary staff	767	585
Leave payments	1 232	654
Social contributions	13 095	11 673
Medical aid contributions	3 664	3 256
Pension contributions: defined contribution fund	8 060	7 341
UIF	378	367
Insurance	75	(115)
Other salary related costs	918	824
	<b>103 090</b>	<b>94 906</b>
Average number of employees during the year	262	252
Number of employees at the end of the year	259	249

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

The defined contribution fund is administered by Momentum. It is a subfund 33 fund under the Funds at Work umbrella fund. The expense recognised in the statement of financial performance equates to the contributions due for the year.

### 9. PREPAYMENTS

Note	R000's	R000's
Prepayments - Insurance	-	185





## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 10. RECEIVABLES FROM NON-EXCHANGE TRANSFERS

	Note	31 March 2016 R000's	31 March 2015 R000's
Employer receivable	10.1	-	-
Receivable - investigations	10.2	-	-
Receivable - UIF		7 279	15 193
National Department of Public Works		1 176	587
InterSETA receivable	25.1	-	3
		<b>8 455</b>	<b>15 783</b>

#### Ageing of receivables:

	2016			2015		
	UIF	NDPW	InterSETA	UIF	NDPW	InterSETA
Current	101	35	-	760	191	-
30 days	360	139	-	28	-	-
60 days	135	-	-	624	51	-
90 days	84	70	-	495	345	-
91 days - 6 months	4 146	549	-	7 864	-	-
6 months - 1 year	968	383	-	2 514	-	-
1 year plus	1 485	-	-	2 908	-	3
<b>Total</b>	<b>7 279</b>	<b>1 176</b>	<b>-</b>	<b>15 193</b>	<b>587</b>	<b>3</b>

#### 10.1 EMPLOYER RECEIVABLE

	Note	31 March 2016 R000's	31 March 2015 R000's
Overpayment to employers		7 725	8 379
Allowance for doubtful debts		(7 725)	(8 379)
Net receivable from employers		-	-
<b>Allowance for doubtful debts:</b>			
Opening carrying amount		(8 379)	(7 370)
Amount recovered		2 683	1 680
Additional provision during period		(2 029)	(2 689)
Closing carrying amount		<b>(7 725)</b>	<b>(8 379)</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 10.1 EMPLOYER RECEIVABLE (CONTINUED)

Ageing of receivables:

	2016		2015	
	Gross	Impairment	Gross	Impairment
Current	443	(443)	1 231	(1 231)
30 days	809	(809)	207	(207)
60 days	346	(346)	251	(251)
90 days	36	(36)	549	(549)
91 days - 6 months	536	(536)	942	(942)
6 months - 1 year	132	(132)	175	(175)
1 year plus	5 423	(5 423)	5 024	(5 024)
<b>Total</b>	<b>7 725</b>	<b>(7 725)</b>	<b>8 379</b>	<b>(8 379)</b>

The employer receivable of R 7,7 million (March 2015: R 8,4 million) is recognised due to SARS effecting retrospective adjustments on levies on which mandatory grants have already been paid. An amount of R 7,7 million (March 2015: R 8,4 million) was provided against such employer receivables.

### 10.2 RECEIVABLE - INVESTIGATIONS

Note	31 March 2016	31 March 2015
	R000's	R000's
Receivable arising from investigations	6 329	6 329
Allowance for doubtful debt	(6 329)	(6 329)
Net receivable from investigations	-	-
<b>Allowance for doubtful debts:</b>		
Opening carrying amount	(6 329)	(6 329)
Amount recovered	-	-
Additional provision during period	-	-
Closing carrying amount	<b>(6 329)</b>	<b>(6 329)</b>

The opening balance of R6 329 million has been carried unchanged since 2011. However the debt has not prescribed as the court case was concluded in 2014 but a legal process is still underway to try and recover the funds.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

#### 11. CONSUMABLES

	Note	31 March 2016 R000's	31 March 2015 R000's
Opening carrying value		221	225
Consumables purchased		1 087	742
Consumables issued		(988)	(746)
Closing carrying value		<b>320</b>	<b>221</b>

#### 12. FINANCIAL INSTRUMENTS AT FAIR VALUE

	Note	R000's	R000's
Fixed notice deposits		300 000	300 000
Money market instruments		1 612 964	1 395 813
Equity-linked deposit		101 357	-
		<b>2 014 321</b>	<b>1 695 813</b>

All the financial assets at fair value are measured at quoted prices as per the market determinable fair value from an active market at reporting date. This amount consists of the capital investment and the returns earned.

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

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

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in terms of Treasury Regulation 31.2. The weighted average interest rate on financial instruments at fair value was 7.46% (2015: 5.57%).



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 13. FINANCIAL INSTRUMENTS AT AMORTISED COST

	Note	R000's	R000's
Deposits		1 446	1 442
Receivables due by employees and stakeholders		9	5
Interest receivable		4 096	2 815
		<b>5 551</b>	<b>4 262</b>

### 14. CASH AND CASH EQUIVALENTS

	Note	31 March 2016 R000's	31 March 2015 R000's
Cash at bank		1 413	5 638
Cash on hand		30	31
Call accounts		267 703	151 838
		<b>269 146</b>	<b>157 507</b>

The merSETA obtained National Treasury approval of the banking institutions where these funds are held as required in terms of Treasury Regulation 31.2. The weighted average interest rate for cash and cash equivalents was 5.85% (2015: 5.57%).

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

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 15. PROPERTY AND EQUIPMENT

	Cost R000's	Accumulated depreciation/ impairments R000's	Closing carrying amount R000's
<b>Year ended 31 March 2016</b>			
<b>Owned assets</b>			
Computer equipment	8 517	(6 147)	2 370
Office furniture and fittings	6 629	(4 275)	2 354
Office equipment	3 419	(2 538)	881
Motor vehicles	576	(185)	391
Other assets	1 024	(954)	70
<b>Total owned assets</b>	<b>20 165</b>	<b>(14 099)</b>	<b>6 066</b>
<b>Leased assets</b>			
Motor vehicles	4 162	(4 162)	-
<b>Total asset balance at end of year</b>	<b>24 327</b>	<b>(18 261)</b>	<b>6 066</b>
<b>Year ended 31 March 2015</b>			
<b>Owned assets</b>			
Computer equipment	7 906	(4 938)	2 968
Office furniture and fittings	6 510	(3 856)	2 654
Office equipment	3 391	(2 234)	1 157
Motor vehicles	576	(124)	452
Other assets	1 231	(800)	431
<b>Total owned assets</b>	<b>19 614</b>	<b>(11 952)</b>	<b>7 662</b>
<b>Leased assets</b>			
Motor vehicles	4 162	(2 690)	1 472
<b>Total asset balance at end of year</b>	<b>23 776</b>	<b>(14 642)</b>	<b>9 134</b>





# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

## 15. PROPERTY AND EQUIPMENT (CONTINUED)

	Opening carrying amount	Impairment cost	Additions	Disposals cost	Depreciation charge	Accumulated depreciation on disposals	Closing carrying amount
	R000's	R000's	R000's	R000's	R000's	R000's	R000's
<b>Movement summary 2016</b>							
<b>Owned assets</b>							
Computer equipment	2 968	(8)	766	(156)	(1 325)	125	2 370
Office furniture and fittings	2 654	(6)	137	(17)	(425)	1	2 354
Office equipment	1 157	(31)	30	(2)	(274)	1	881
Motor vehicles	452	-	-	-	(61)	-	391
Other assets	431	-	-	(206)	(360)	205	70
<b>Total owned assets</b>	<b>7 662</b>	<b>(45)</b>	<b>933</b>	<b>(381)</b>	<b>(2 445)</b>	<b>342</b>	<b>6 066</b>
<b>Leased assets</b>							
Motor vehicles	1 472	-	-	-	(1 472)	-	-
<b>Total asset balance at end of year</b>	<b>9 134</b>	<b>(45)</b>	<b>933</b>	<b>(381)</b>	<b>(3 917)</b>	<b>342</b>	<b>6 066</b>
<b>Movement summary 2015</b>							
<b>Owned assets</b>							
Computer equipment	2 987	-	1 584	(3 129)	(1 213)	2 739	2 968
Office furniture and fittings	3 290	-	55	(1 129)	(454)	892	2 654
Office equipment	1 375	-	195	(913)	(373)	873	1 157
Motor vehicles	512	-	-	-	(60)	-	452
Other assets	822	-	-	-	(391)	-	431
<b>Balance at end of year</b>	<b>8 986</b>	<b>-</b>	<b>1 834</b>	<b>(5 171)</b>	<b>(2 491)</b>	<b>4 504</b>	<b>7 662</b>
<b>Leased assets</b>							
Motor vehicles	2 940	-	-	-	(1 468)	-	1 472
<b>Balance at end of year</b>	<b>11 926</b>	<b>-</b>	<b>1 834</b>	<b>(5 171)</b>	<b>(3 959)</b>	<b>4 504</b>	<b>9 134</b>

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

In the current year the merSETA reviewed the useful lives, residual values, depreciation methods and tested the assets for impairment.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

## 16. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	Cost R000's	Accumulated amortisation R000's	Closing carrying amount R000's
<b>Year ended 31 March 2016</b>			
Intangible assets	1 654	(1 114)	540

### Year ended 31 March 2015

Intangible assets	899	(270)	629
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	Opening carrying amount R000's	Additions R000's	Disposals cost R000's	Amortisation charge R000's	Accumulated depreciation on disposals R000's	Closing carrying amount R000's
<b>Movement summary 2016</b>						
Intangible assets	629	1 105	(348)	(1 194)	348	540

### Movement summary 2015

Intangible assets	831	894	(1 872)	(1 096)	1 872	629
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## 17. GRANTS AND TRANSFERS PAYABLE

	Note	31 March 2016 R000's	31 March 2015 R000's
Grants payable		121 899	100 064
Provision for SARS refund	17.1	15 094	15 741
InterSETA payables	25.1	1 711	1 122
National Skills Fund income received in advance	4.1	176	10 690
Unemployment Insurance Fund income received in advance	4.2	-	1 587
		<b>138 880</b>	<b>129 204</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 17. GRANTS AND TRANSFERS PAYABLE (CONTINUED)

#### 17.1 PROVISION FOR SARS REFUND

	Note	31 March 2016 R000's	31 March 2015 R000's
Opening carrying amount		15 741	17 381
Amount utilised		(4 455)	(5 027)
Additional provision during the period		3 808	3 387
Closing carrying amount	16	<b>15 094</b>	<b>15 741</b>

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

### 18. FINANCIAL LIABILITIES AT AMORTISED COST

	Note	R000's	R000's
Trade payables from exchange transactions		10 770	10 736
Short-term portion of finance lease		-	1 300
		<b>10 770</b>	<b>12 036</b>

### 19. OTHER PAYABLES

	Note	R000's	R000's
Accruals salaries and wages		<b>1 002</b>	<b>953</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

## 20. PROVISIONS

	Note	31 March 2016 R000's	31 March 2015 R000's
Provision for leave pay		4 857	4 068
Provision for Workman's Compensation		186	250
Provision for performance bonuses		7 180	7 868
		<b>12 223</b>	<b>12 186</b>

	Leave pay R000's	Workman's compensation R000's	Performance bonuses R000's
Opening carrying amount 1 April 2015	3 659	488	6 536
Amounts utilised 2015	(305)	(121)	(5 571)
Additional provision/ (reversal) during the period	714	(117)	6 903
Closing carrying amount 2015	4 068	250	7 868
Amounts utilised 2016	(484)	(153)	(7 868)
Additional provision during the period	1 273	89	7 180
<b>Closing carrying amount 2016</b>	<b>4 857</b>	<b>186</b>	<b>7 180</b>

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

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

	Note	2016		2015	
		Actual R000's	Budget R000's	Actual R000's	Budget R000's
<b>Net surplus per the statement of financial performance</b>		412 369	-	522 679	262 173
<b>Adjusted for non-cash items:</b>					
Depreciation property and equipment	15	3 917	4 478	3 959	4 111
Amortisation of intangible assets	16	1 194	663	1 096	600
Impairment of property and equipment	8, 15	45	-	-	-
Loss on disposal of property and equipment	8	-	-	462	-
Surplus on disposal of property and equipment	8	(46)	-	-	-
Movements in provisions		37	755	1 503	(4 156)
<b>Adjusted for items separately disclosed</b>					
Net gains from financial instruments		(100 836)	(39 331)	(80 953)	(65 040)
<b>Adjusted for working capital changes:</b>					
Decrease/ (increase) in prepayments		185	93	(96)	(11)
Decrease/ (increase) in receivables from non-exchange transfers		7 328	7 804	(6 193)	490
(Increase)/ decrease in financial instruments at amortised cost		(1 289)	(27 947)	(2 236)	(1 586)
(Increase)/ decrease in consumables		(99)	1	4	(25)
Increase/ (decrease) in grants and transfers payable		9 676	10 559	(92 884)	(53 338)
Decrease/ (increase) in financial liabilities at amortised cost		(1 266)	1 311	(15 723)	3 332
Increase in other payables		49	-	-	-
<b>Cash utilised in operations</b>		<b>331 264</b>	<b>(41 614)</b>	<b>331 618</b>	<b>146 550</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 22. CONTINGENCIES

#### 22.1 REFUNDS TO NATIONAL TREASURY

In terms of the PFMA, all surplus funds as at year-end may be forfeited to National Treasury should an application for retention of surplus funds be denied. National Treasury has granted approval for merSETA to retain the accumulated surpluses as at 31 March 2016. This approval was obtained after the reporting date but prior to the date for submission of the audited Annual Financial Statements to National Treasury.

#### 22.2 MANDATORY GRANTS FOR NEWLY REGISTERED COMPANIES

Contingent liabilities comprise an Employer Grant Reserve of R183 000 (2015: R1.9 million) for newly registered member companies participating after the legislative cut-off date.

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

### 23. COMMITMENTS

#### 23.1 DISCRETIONARY RESERVE COMMITMENTS

Of the balance of R2,135 billion available in the discretionary reserve on 31 March 2016 an amount of R2,073 billion has been approved for future project expenses and discretionary grants as set out below. Amounts for expenses that have already been incurred, and therefore included in project and discretionary grant expense in the statement of financial performance, are also indicated.

Project/ discretionary grant programmes	Opening balance 2015 R000's	Administration expenditure/ other adjustments 2015 R000's	Approved contractual expenditure 2015 R000's	Charged to statement of financial performance 2015 R000's	Opening balance 2016 R000's	Administration expenditure/ other adjustments 2016 R000's	Approved contractual expenditure 2016 R000's	Charged to statement of financial performance 2016 R000's	Closing balance R000's
<b>PROG 1: ADMINISTRATION</b>									
Discretionary Grant Administration Expenditure	-	23 551	-	(23 551)	-	29 322	-	(29 322)	-
Project Administration Expenditure	-	8 326	-	(8 326)	-	7 808	-	(7 808)	-
Monitoring & Evaluation	192	-	-	(192)	-	-	-	-	-
	<b>192</b>	<b>31 877</b>	<b>-</b>	<b>(32 069)</b>	<b>-</b>	<b>37 130</b>	<b>-</b>	<b>(37 130)</b>	<b>-</b>





## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 23.1 DISCRETIONARY RESERVE COMMITMENTS (CONTINUED)

Project/ discretionary grant programmes	Opening balance 2015 R000's	Administration expenditure/ other adjustments 2015 R000's	Approved contractual expenditure 2015 R000's	Charged to statement of financial performance 2015 R000's	Opening balance 2016 R000's	Administration expenditure/ other adjustments 2016 R000's	Approved contractual expenditure 2016 R000's	Charged to statement of financial performance 2016 R000's	Closing balance R000's
<b>PROG 2: SKILLS PLANNING</b>									
SSP Review	285	4 005	4 284	(6 530)	2 044	4 512	1 864	(6 669)	1 751
Strategic planning project	-	-	1 835	(540)	1 295	633	842	(2 630)	140
University of Jhb-WIL	-	-	5 494	-	5 494	-	(5 494)	-	-
Labour & Stakeholder Capacity Building	-	200	-	(200)	-	173	-	(173)	-
S A TYRE Manufacturers (SATMC)	-	-	-	-	-	-	135	-	135
Partnership WITS University	-	-	-	-	-	-	34 000	-	34 000
Central University of Tech Services	-	-	-	-	-	-	330	-	330
Institute Of Motor Industry	-	-	-	-	-	-	3 500	-	3 500
University Of Western Cape	-	-	-	-	-	-	9 036	-	9 036
Durban University Of Technology	-	-	-	-	-	-	8 002	-	8 002
Vaal University Of Technology	-	-	-	-	-	-	24 960	-	24 960
Dept. Of Basic Education-Tech	-	-	-	-	-	-	29 264	-	29 264
Mangosutho University Of Tech	-	-	-	-	-	-	16 158	-	16 158
	<b>285</b>	<b>4 205</b>	<b>11 613</b>	<b>(7 270)</b>	<b>8 833</b>	<b>5 318</b>	<b>122 597</b>	<b>(9 472)</b>	<b>127 276</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

Project/ discretionary grant programmes	Opening balance 2015 R000's	Administration expenditure/ other adjustments 2015 R000's	Approved contractual expenditure 2015 R000's	Charged to statement of financial performance 2015 R000's	Opening balance 2016 R000's	Administration expenditure/ other adjustments 2016 R000's	Approved contractual expenditure 2016 R000's	Charged to statement of financial performance 2016 R000's	Closing balance R000's
<b>PROG 3: INCREASE ACCESS TO OCCUPATIONALLY DIRECTED PROGRAMMES</b>									
Bursaries	2 935	3	6 999	(2 900)	7 037	-	(370)	(3 352)	3 315
UIF/merSETA Artisan Development	42 585	50	3 661	(19 481)	26 815	(341)	69 013	(3 038)	92 449
Western Cape DOE FET Artisan Training	3 341	-	-	(658)	2 683	-	(2 683)	-	-
Denel Artisan Training Programme	2 818	-	(1 520)	(519)	779	-	-	-	779
Courseware & Curriculum Development	-	30	-	(30)	-	24	-	(24)	-
Accelerated Artisan Training Programme	91 110	386	257	(46 849)	44 904	-	(13 725)	(19 474)	11 705
RPL Pilot Project	-	136	30	(166)	-	60	-	(60)	-
KZN - Office of Premier Project	19 433	-	24 991	(6 478)	37 946	-	-	(7 893)	30 053
Skills Programme - Unemployed Youth	1 225	-	(1 225)	-	-	-	-	-	-
Eastern Cape - Office of Premier	12 976	-	221	(2 590)	10 607	-	22 086	(4 061)	28 632
Jaguar Land Rover Enrichment Project	1 215	-	-	-	1 215	-	-	-	1 215
Goldfields Public FET	-	-	1 500	(975)	525	-	-	(525)	-
QCTO CEP Pilot Project	116	764	1 070	(1 398)	552	740	1 663	(1 951)	1 004
MOA Project DG 1 & 2	16 498	(679)	(5 378)	(7 368)	3 073	813	(2 697)	(1 189)	-
MOA Project DG3 (Year 2011)	78 955	(838)	(31 209)	(24 154)	22 754	(659)	(17 773)	(4 173)	149
MOA Project DG4 (Year 2012)	237 065	(126)	(20 872)	(57 318)	158 749	(378)	(70 059)	(64 319)	23 933
MOA Project DG5 (Year 2013)	48 571	(50)	(1 639)	(15 157)	31 725	32	(3 449)	(6 369)	21 939
MOA Project DG6 (Year 2014)	373 435	787	(2 531)	(45 460)	326 231	(33)	(20 070)	(82 154)	223 974
MOA Project DG7 (Year 2015)	-	1 370	655 239	(111 244)	565 365	(986)	(76 540)	(76 603)	411 236
MOA Project DG8 (Year 2016)	-	-	-	-	-	1 426	708 814	(185 590)	524 650
Management Accelerated Project	1 655	160	-	(1 815)	-	-	-	-	-
Accelerated Artisan	8 278	3 505	5 327	(9 060)	8 050	3 046	4 729	(9 387)	6 438
School Support	2 700	-	5 574	(900)	7 374	-	-	(2 543)	4 831
DPWRT-Mpumalanga Provincial	2 532	-	-	(270)	2 262	-	326	(1 238)	1 350
Limpopo Department of Public Works	1 300	-	-	(130)	1 170	-	-	(374)	796
Western Cape-DEDAT	11 600	-	-	(2 604)	8 996	-	-	(4 176)	4 820
SA Tyre Manufacturing (SATMC)	-	-	-	-	-	-	3 684	(605)	3 079
ETQA Committee	-	12	-	(12)	-	18	-	(18)	-
EW Seta	10 000	-	-	(5 000)	5 000	-	2 800	-	7 800
National Dept of Public Works	-	-	30 768	(425)	30 343	(3 226)	1 609	(1 770)	26 956
Dept of Military Veterans	-	-	1 703	-	1 703	-	-	-	1 703
Nelson Mandela Metro University	-	-	30 000	-	30 000	-	(39)	(3 138)	26 823
Cape Peninsula University of Technology	-	-	1 401	-	1 401	-	32 106	-	33 507
Walter Sisulu University	-	-	26 000	-	26 000	-	-	(1 367)	24 633
Gauteng Dept of Ed-(GDE)	16 875	-	2 079	(3 645)	15 309	61	21 140	(5 555)	30 955
Matriculation-2015	27 885	(36)	29 847	(11 759)	45 937	(600)	(5 688)	(2 410)	37 239
Office Premier North West Prov	-	-	-	-	-	-	12 256	-	12 256
E Cape Training Centre	-	-	-	-	-	-	-	-	-
Artisans	-	-	-	-	-	-	4 181	-	4 181
	<b>1 015 103</b>	<b>5 474</b>	<b>782 293</b>	<b>(378 365)</b>	<b>1 424 505</b>	<b>(3)</b>	<b>671 314</b>	<b>(493 356)</b>	<b>1 602 460</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

Project/ discretionary grant programmes	Opening balance 2015 R000's	Administration expenditure/ other adjustments 2015 R000's	Approved contractual expenditure 2015 R000's	Charged to statement of financial performance 2015 R000's	Opening balance 2016 R000's	Administration expenditure/ other adjustments 2016 R000's	Approved contractual expenditure 2016 R000's	Charged to statement of financial performance 2016 R000's	Closing balance R000's
<b>PROG 4: PROMOTING THE RESPONSE OF FETCs TO SKILLS SECTOR NEEDS</b>									
False Bay Public FET College	21 287	-	13 166	(3 667)	30 786	-	(123)	(8 045)	22 618
ISOEs	8 515	(311)	6 370	(5 203)	9 371	19	2 203	(5 731)	5 862
TVET Learner Support	-	-	5 574	-	5 574	-	-	(766)	4 808
TVET Lecturer Support	-	-	92 318	-	92 318	-	66 204	(19 265)	139 257
Goldfields Public TVET College	-	-	2 455	-	2 455	-	-	-	2 455
The British Council	-	-	-	-	-	-	2 500	(500)	2 000
Central University of Technology	1 422	-	3 285	(1 122)	3 585	-	5 146	(4 913)	3 818
Cape Peninsula Univ Technology	-	-	-	-	-	-	2 880	-	2 880
	<b>31 224</b>	<b>(311)</b>	<b>123 168</b>	<b>(9 992)</b>	<b>144 089</b>	<b>19</b>	<b>78 810</b>	<b>(39 220)</b>	<b>183 698</b>
<b>PROG 5: ADDRESS LOW LEVELS OF LITERACY</b>									
Maths and Science Student Project	3 235	-	(2 605)	(630)	-	-	1 351	-	1 351
ABET Project Phase 3 & 4	1 572	5	407	(684)	1 300	(24)	67	(418)	925
NEET Access Programme	7 293	76	(3 511)	(3 221)	637	-	(112)	(101)	424
FLC Rural Outreach Project	859	15	221	(525)	570	-	(269)	(301)	-
TUT- Institute for Advanced Tooling	1 248	-	-	(669)	579	-	21 372	(535)	21 416
UJ Project	100	-	2 970	-	3 070	-	5 495	(5 361)	3 204
	<b>14 307</b>	<b>96</b>	<b>(2 518)</b>	<b>(5 729)</b>	<b>6 156</b>	<b>(24)</b>	<b>27 904</b>	<b>(6 716)</b>	<b>27 320</b>
<b>PROG 6: PROMOTE WORK PLACE SKILLS DEVELOPMENT</b>									
Internships	-	2 179	-	(2 179)	-	2 287	-	(2 287)	-
New Venture Creation	800	-	(644)	(156)	-	-	-	-	-
Retrenchment Assistance Programme	54 400	424	(3 299)	(13 858)	37 667	493	47 516	(34 526)	51 150
People with Disabilities	6 476	126	1 080	(3 206)	4 476	(26)	2 172	(2 067)	4 555
Saldhana Bay IDZ	-	-	4 995	-	4 995	-	-	(808)	4 187
Annual Conference	-	225	-	(225)	-	479	-	(479)	-
Univ Johannes multi year Project	-	-	-	-	-	-	4 100	-	4 100
	<b>61 676</b>	<b>2 954</b>	<b>2 132</b>	<b>(19 624)</b>	<b>47 138</b>	<b>3 233</b>	<b>53 788</b>	<b>(40 167)</b>	<b>63 992</b>
<b>PROG 7: SUPPORT CO-OPERATIVES, SMMEs AND NGOS</b>									
HIV AIDS Project	3 274	-	(612)	(2 662)	-	-	-	-	-
Non Levy Paying NGOs and CBOs	3 476	71	525	(2 664)	1 408	8	2 825	(1 975)	2 266
Co-Operatives	-	-	-	-	-	-	1 007	(101)	906
Department of Trade & Industry	-	-	1 500	-	1 500	-	19 788	(1 547)	19 741
SME Voucher Project	10 374	2 456	280	(5 421)	7 689	(65)	(913)	(1 313)	5 398
Green Skills	-	-	-	-	-	-	1 401	(280)	1 121
Dept. Small Business Develop	-	-	-	-	-	-	10 000	-	10 000
Worker Initiated Project	-	-	-	-	-	-	2 958	-	2 958
	<b>17 124</b>	<b>2 527</b>	<b>1 693</b>	<b>(10 747)</b>	<b>10 597</b>	<b>(57)</b>	<b>37 066</b>	<b>(5 216)</b>	<b>42 390</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

Project/ discretionary grant programmes	Opening balance 2015 R000's	Administration expenditure/ other adjustments 2015 R000's	Approved contractual expenditure 2015 R000's	Charged to statement of financial performance 2015 R000's	Opening balance 2016 R000's	Administration expenditure/ other adjustments 2016 R000's	Approved contractual expenditure 2016 R000's	Charged to statement of financial performance 2016 R000's	Closing balance R000's
<b>PROG 8: CAREER DEVELOPMENT</b>									
World Skills	-	1 256	2 396	(3 084)	568	5 244	999	(6 243)	568
Career Path & Development	-	2 168	-	(2 168)	-	722	-	(722)	-
International Conferences	-	-	-	-	-	-	-	-	-
Mobile Skills Development	4 388	371	-	(2 565)	2 194	292	-	(2 486)	-
NSFAS	-	-	69 000	(44 000)	25 000	-	25 000	(25 000)	25 000
Corporate Social Investment	-	-	-	-	-	245	-	(245)	-
	<b>4 388</b>	<b>3 795</b>	<b>71 396</b>	<b>(51 817)</b>	<b>27 762</b>	<b>6 503</b>	<b>25 999</b>	<b>(34 696)</b>	<b>25 568</b>
<b>TOTAL COMMITMENTS</b>	<b>1 144 299</b>	<b>50 617</b>	<b>989 777</b>	<b>(515 613)</b>	<b>1 669 080</b>	<b>52 119</b>	<b>1 017 478</b>	<b>(665 973)</b>	<b>2 072 704</b>

\*

\* The opening balance of the current year has been restated. The balance in the previous year was reported as R1.673 billion. An adjustment of R4.5 million was made to the prior year figures. This adjustment was due to the fact that reductions on some contracts that should have been affected in the previous year were not accounted for. These applied to MOA contracts relating to year 2011, 2012 and 2014 (DG3, DG4 and DG6).

## 23. COMMITMENTS (CONTINUED)

### 23.2 OPERATING LEASES

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

The operating leases relate to premises utilised for office accommodation. The existing leases came to an end on 31 March 2016. The only new lease agreement that was signed by 31 March 2016 was for the premises in Cape Town. This lease expires on 31 March 2018 and has an escalation of 8%.

	2016 R000's	2015 R000's
Not later than one year	1 029	12 420
Later than one year and not later than five years	1 111	-
	<b>2 140</b>	<b>12 420</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 23.3 FINANCE LEASES

During the 2012/13 financial year the merSETA acquired a mobile bus for career guidance purposes under a finance lease agreement. The total of future minimum lease payments can be broken down as follows:

Not later than one year

-

1 336

The present value of minimum lease payments can be broken down as follows:

Not later than one year

-

1 300

## 24. FINANCIAL INSTRUMENTS

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

### MARKET

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

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

### Interest rate risk

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

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

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

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

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

	Floating rate		Fixed Rate			Non-interest bearing		Total
	Amount	Effective	Amount	Weighted	Weighted	Amount	Weighted	
	R000's	interest	R000's	average	average	R000's	average	
		rate		effective	period for		period	
				interest	which the		until	
				rate %	rate is fixed		maturity in	
							years	R000's
<b>Year ended 31 March 2016</b>								
<b>Assets</b>								
Cash and cash equivalents	1 443	5.85%	267 703	5.85%	6 months	-	-	269 146
Financial instruments at fair value	2 014 607	7.46%	-	-	-	-	-	2 014 607
Other receivables from exchange transactions	-	-	-	-	-	5 551	3 months	5 551
<b>Total</b>	<b>2 015 764</b>		<b>267 703</b>			<b>5 551</b>		<b>2 289 018</b>
<b>Liabilities</b>								
Trade Payables	-	-	-	-	-	10 770	30 days	10 770
<b>Net financial assets</b>	<b>2 105 764</b>		<b>267 703</b>			<b>(5 219)</b>		<b>2 278 248</b>
<b>Year ended 31 March 2015</b>								
<b>Assets</b>								
Cash and cash equivalents	5 669	5.20%	151 838	5.20%	6 months	-	-	157 507
Financial instruments at fair value	1 695 813	5.57%	-	-	-	-	-	1 695 813
Other receivables from exchange transactions	-	-	-	-	-	4 262	3 months	4 262
<b>Total financial assets</b>	<b>1 701 482</b>	<b>151 838</b>				<b>4 262</b>		<b>1 857 582</b>
<b>Liabilities</b>								
Trade payables	-	-	-	-	-	10 736	30 days	10 736
<b>Net financial assets</b>	<b>1 701 482</b>	<b>151 838</b>				<b>(6 474)</b>		<b>1 846 846</b>





## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

#### *Equity market risk*

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

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

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

#### SENSITIVITY ANALYSIS

The financial period under-review has been marked with a series of interest rates hikes, total 125 basis point since the prior year. In the backdrop of high inflation rate, a weakened currency and low growth prospect, the interest rate hike cycle is expected to continue by at least another 50 basis points in the coming year. Therefore, management determine that a fluctuation interest rate of 50 basis points is reasonably possible.

At 31 March 2016, if the weighted average interest rate was 50 basis point higher with all other variables held constant, then the surplus would have been R57.7 million higher to R471 million, arising from the increase in net gains on financial instruments. If the weighted average interest rate was 50 basis point lower with all other variables held constant, then the surplus would have been R37.5 million lower to R375 million, arising from the decreased net gains in financial instruments.

The Metal and Engineering sector is facing an economic crisis marked by reduced production due to decline in global demand and increasing job cuts. Economic challenges facing the sector are expected to continue into the rest of 2016, which will result in a further decline in our levy income growth. Levy income growth in 2016 decline to a 4% when compared 9% growth in 2015. Therefore, management determines that a further 5% - 10% growth decline is possible in the next year.

At 31 March 2016, if skills development levy income grew only by 2% from the previous financial year, instead of the 4% growth and all other variables held constant, then a surplus of R386.5 million would have been incurred. If the skills development levy income declined by 2% and all other variables held constant, then a surplus of R336.3 million would have been earned.

#### CREDIT RISK

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

The financial assets which potentially subject the merSETA to the risk of non-performance to counter-parties and thereby subject to credit risk are the receivables from exchange transactions. The ageing of receivables is disclosed in note 10.1.

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

The merSETA has entered into agreements with the qualifying employers, whereby other tranche payments are recoverable only once training has been implemented.

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2016 (CONTINUED)

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

	2016 R000's	2015 R000's
Receivables due by employees and stakeholders	9	5
InterSETA receivable	-	3
	<b>9</b>	<b>8</b>

In the current year receivables due by employees and stakeholders relates to an overpayment of board fees, due to a change in the principles applied in calculating board fees. This will be recovered from future payments. In the prior year it related to an overpayment of leave pay to employees.

#### LIQUIDITY RISK

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

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

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

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

	Carrying Amount	Contractual Cash Flows	6 months or less	6 - 12 months	1 - 2 years	More than 2 years
<b>2016</b>						
Trade payables from exchange transactions	10 770	10 770	10 770	-	-	-
<b>2015</b>						
Trade payables from exchange transactions	10 736	10 736	10 736	-	-	-
Short term portion of finance lease	1 300	1 300	-	1 300	-	-

#### Fair values

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



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 24. FINANCIAL INSTRUMENTS (CONTINUED)

#### Cash and cash equivalents

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

#### Other receivables from exchange transactions

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

### 25. RELATED PARTY TRANSACTIONS

#### 25.1 TRANSACTIONS WITH OTHER SETAS

Interest transactions and balances arise due to the movement of employers from one SETA to another. No other transactions occurred during the year with other SETAs. The balances at year-end included in receivables and payables are:

		2016 R000's		2015 R000's	
	Note	Net transfers in/ (out) during the year	Amount receivable/ (payable)	Transfers in/(out) during the year	Amount receivable/ (payable)
<b>Receivables</b>	10	(6)	-	2 256	3
AGRISETA		-	-	55	-
HW SETA		2	-	-	-
EWSETA (Previously ESETA)		(8)	-	-	3
MICT SETA (Previously ISETT)		-	-	2 201	-
<b>Payables</b>	17	(1 965)	(1 711)	862	(1 122)
CETA		(109)	(109)	-	-
ESETA		(35)	(35)	-	-
FOODBEV		(4)	(4)	-	-
FP&M SETA		(60)	(60)	-	-
MICT SETA (Previously ISETT)		(47)	(59)	-	-
TETA		(672)	(677)	-	-
W&R SETA		(1 038)	(767)	862	(1 122)
<b>Total</b>		<b>(1 971)</b>	<b>(1 711)</b>	<b>3 118</b>	<b>(1 119)</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 25.2 ACCOUNTING AUTHORITY AND INDEPENDENT COMMITTEE MEMBERS FEES

Accounting Authority and independent committee members	2016 R000's		2015 R000's	
	Net transfers in/(out) during the year	Amount receivable/(payable)	Net transfers in/(out) during the year	Amount receivable/(payable)
X Tshayana	(226)	-	(113)	-
J Esterhuizen	(104)	-	(106)	7
J Swarts	(195)	(18)	(97)	-
M Lebona	(252)	(15)	(106)	-
A Hanekom *	(176)	(10)	(97)	(3)
T Molapo	(79)	-	(87)	-
F Tregenna	(68)	-	(83)	-
J Olivier *	(83)	-	(84)	-
J Van Niekerk	(76)	-	(85)	-
H Korstens *	(106)	(8)	(85)	-
A Chirwa	(30)	-	(51)	-
R Daniels (Independent)	(38)	-	(52)	-
M Maisela (Independent)	(38)	-	(94)	-
M Kuscus (Independent)	(23)	-	(47)	1
S Rensburg (Independent)	(15)	-	(36)	-
M Ally	(114)	-	(22)	-
H Von Maltitz	(102)	(10)	(24)	-
A Mashifane (Independent) **	(50)	-	(132)	-
T Mashanda (Independent)	(183)	-	(77)	-
F Mukaddam (Independent)	(118)	-	(55)	-
A Mashilo	(97)	-	(86)	-
K Mbonambi (Independent)	(38)	-	-	-
N Suleman **	-	-	(7)	-
	(2 211)	(61)	(1 626)	5

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

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

\*\* These members have resigned

## 26. GOING CONCERN

The merSETA was set up in terms of the Skills Development Act No 97 of 1998. The Minister of Higher Education and Training has extended the MerSETA's licence for a further period of two years up to 31 March 2018. Accordingly, the merSETA has drawn up and presented these financial statements on a going concern basis.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

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

#### CRIMINAL CONDUCT

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

#### IRREGULAR EXPENDITURE

	2016 R000's	2016 R000's
Opening Balance	934	934
less: Expenditure where condonation obtained	(934)	-
Add: Irregular Expenditure - Current year	999	-
	<b>999</b>	<b>934</b>
Irregular Expenditure awaiting condonation	<b>999</b>	<b>934</b>
Analysis of expenditure awaiting condonation per age classification		
Current year	999	-
Prior year	-	934
<b>Total</b>	<b>999</b>	<b>934</b>

Condonation was granted for the prior year balance of irregular expenditure (R934 000). This condonation was obtained after the financial year end date but before the issuing of the financial statements.

Details of Irregular Expenditure - Current year

Incident	Nature of transaction	Disciplinary steps taken/criminal proceedings	Remedial actions taken	Amount R000's
The merSETA failed to obtain an approval for deviation for an urgent procurement of services	Marketing - development of an integrated media and public relations strategy for the World Skills South Africa	Not applicable	<ol style="list-style-type: none"> <li>1. The procurement procedure manual has been updated and approved.</li> <li>2. Processes have been put in place for better management of the annual procurement plan</li> <li>3. Development of a compliance checklist for all awards</li> </ol>	999



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

A competitive bidding process was followed where providers listed on the database were invited to submit proposals to be evaluated by the Bid Evaluation Committee. This process was followed with the anticipation that costs will be within the R500,000 threshold. Upon receipt of the proposals, the amounts were above the threshold. This meant that an open tender process should have been followed, a process that takes an average 4 weeks to finalise. Due to the urgency of the service required, going on open tender would have compromised the delivery of the service within the required timeframe. The urgency was not due to a lack of poor planning, but rather due to a lack of prior knowledge as to the costs of such services.

Condonation for the irregular expenditure of R998 526 was obtained after the financial year end date but prior to the issuing of the financial statements.

### FRUITLESS AND WASTEFUL EXPENDITURE

No fruitless and wasteful expenditure was incurred during the current year or the prior year.

## 28. 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

## 29. EVENTS AFTER THE REPORTING DATE

National Treasury has granted approval for merSETA to retain the accumulated surpluses as at 31 March 2016. This approval was obtained after the reporting date but prior to the date for submission of the audited Annual Financial Statements to National Treasury.

## 30. NEW ACCOUNTING PRONOUNCEMENTS

### Standards of GRAP

The following standards of GRAP are effective for financial periods beginning on or after 1 April 2015:

	Statement
Segment Reporting	GRAP 18
Transfer of Function between Entities Under Common Control	GRAP 105
Transfer of Function between Entities Not Under Common Control	GRAP 106
Mergers	GRAP 107
Changes in measurement bases following the initial adoption of standards of GRAP	Directive 11





## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

(CONTINUED)

### 30. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

#### GRAP 18: Segment Reporting

This Standard provides guidance on accounting for determination of reporting segments. It will not impact the current accounting policies or disclosures.

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

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

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

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

#### GRAP 107: Mergers

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

#### Improvements and amendments to standards of GRAP

The following changes to standards of GRAP are effective for reporting periods commencing on or after 1 April 2015:

Amendments to GRAP 23, making the recognition of services in-kind mandatory where the services in-kind are significant to the entity's operations and/or service delivery objectives and if the recognition criteria have been met.

**The ASB has issued the following additional standards of GRAP for which effective dates have not yet been gazetted by the Minister of Finance:**

	Statement	Effective Date
Related Parties Disclosures	GRAP 20	No date determined
Service Concession Arrangements: Grantor	GRAP 32	No date determined
Statutory Receivables	GRAP 108	No date determined

An entity shall apply Standards of GRAP for Annual Financial Statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the PFMA.

#### GRAP 20: Related Parties Disclosures

This Standard provides guidance on related-party disclosures to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

#### GRAP 32: Service Concession Arrangements: Grantor

This Standard prescribes the accounting for service concession arrangements by the grantor, a public sector entity.

#### GRAP 108: Statutory Receivables

This Standard prescribes accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

## NOTES

[illegible]

## NOTES





**merSETA**

MANUFACTURING, ENGINEERING  
AND RELATED SERVICES SETA

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