

On expiry of the PPP Agreement (10 years after effective date) the information technology environment shall transfer to the Department at no cost.

**e. Renewal and termination options**

The PPP Agreement does not provide for a renewal option. The Department may however at expiry of the PPP Agreement, in its sole discretion, request support services for a twelve-month period in order to facilitate transition to any new arrangement.

The PPP Agreement makes provision for the following termination options:

- Department event of default
- Private partner event of default
- Termination on Force Majeure
- Termination on Corrupt Gifts and Fraud.

**f. Other rights and obligations (e.g. major overhauls)**

None, other than those underlying the improvement services and operational services.

**g. Changes in the arrangement occurring during the period**

None.

**h. Reinvestment fund**

The reinvestment fund is a separate bank account for purposes of administering and separate safekeeping of excess profit, foreign exchange rate savings and service credits. The reinvestment fund may be used during the term of the PPP Agreement to fund:

- The Department's obligations in the event that the Rand devaluates outside certain agreed parameters
- Additional services or variations
- A reduction in unitary fee
- Bank charges related to the reinvestment fund.

Any residual funds at the end of the PPP Agreement will be distributed to the party entitled to it, which is summarised below:

- Funds accumulated due to foreign exchange savings will be distributed to the Department of Labour
- Funds accumulated due to excess profits will be shared equally between the Department of Labour and the private partner



## Department of Labour - Vote 17

### Disclosure Notes to the Annual Financial Statements for the year ended 31 March 2005

- Funds accumulated due to service credits will be shared between the Department of Labour and the private partner, depending on how the service credit originated.

As at 31 March 2005, the balance of the reinvestment fund was R11 452 151.

#### i. Expenditure for the financial year

The expenditure incurred over the past three years paid to the private partner in terms of the PPP Agreement as the unitary fee, amounted to R40 833 333 for the year ended 31 March 2003, R125 463 046 for the year ended 31 March 2004 and R136 962 744 for the year ended 31 March 2005.

The expenditure incurred over the past three years paid to the private partner in terms of the PPP Agreement for additional services over and above the unitary fee amounted to R nil for the year ended 31 March 2003, R36 806 561 for the year ended 31 March 2004 and R22 646 145 for the year ended 31 March 2005.

The Department of Labour makes all payments to the private partner in terms of the PPP Agreement. The unitary fee element of the PPP Agreement is divided equally between the Department of Labour, the Unemployment Insurance Fund and the Compensation Fund, as agreed to in writing between the entities. The cost of additional services is paid by the entity that requested the additional services. The Unemployment Insurance Fund, Compensation Fund and the National Skills Fund pay their applicable portion of the unitary fee and cost of additional services to the Department of Labour.

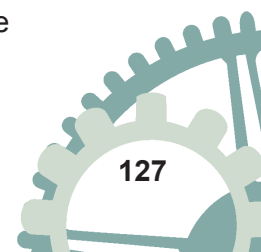
The table below provides a summary of payments made for the year ended 31 March 2005:

Payment type	Total payments to private partner R'000	Department of Labour portion R'000	Unemployment Insurance Fund portion R'000	Compensation Fund portion R'000
Unitary fee	136 963	45 655	45 654	45 654
Additional services	22 646	21 966	340	340
<b>Total</b>	<b>159 609</b>	<b>67 621</b>	<b>45 994</b>	<b>45 994</b>

The Department of Labour's portion of the payments to the private partner is disclosed, accounted and budgeted for as current expenditure (Goods and Services) in the Annual Financial Statements of the Department. This treatment is consistent with the treatment followed in the unqualified audited Annual Financial Statements of the Department of Labour for the years ended 31 March 2003 and 31 March 2004 respectively.

#### j. Additional disclosure

There is currently no accepted international or South African guidance in respect of the accounting for and disclosure of public private partnership agreements/service



**Department of Labour - Vote 17**  
**Disclosure Notes to the Annual Financial Statements for the year ended 31 March 2005**

concession arrangements. Although certain aspects and disclosures relating to some service concession arrangements are already addressed by existing standards, some aspects of service concessions are not addressed. In the absence of guidance, the disclosures required in terms of AC 429 (SIC29) and GRAP 13 is disclosed to provide additional disclosure.

The substance of the agreement as considered by the Office of the Accountant-General of National Treasury may be that of a finance lease. Until such time as guidance on the accounting treatment is available, the following disclosures are made (on guidance from the Office of the Accountant-General) that indicate the potential effect on the Annual Financial Statements of the Department of Labour, should the Public Private Partnership Agreement be treated as a finance lease.

**Annexure 3 of the Annual Financial Statements**

Annexure 3 of the Annual Financial Statements would require the following additions in respect of the PPP Agreement:

Physical Asset Movement Schedule as at 31 March 2005

	Opening balance	Additions	Disposals	Transfers in	Transfers out	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000
<b>Machinery and equipment</b>						
Computer equipment						
- Legacy assets Note 1	-	-	-	-	-	-
- Other assets Note 2	17 549	69 099	-	-	-	86 648

Physical Asset Movement Schedule as at 31 March 2004

	Opening balance	Additions	Disposals	Transfers in	Transfers out	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000
<b>Machinery and equipment</b>						
Computer equipment						
- Legacy assets Note 1	-	-	-	-	-	-
- Other assets Note 2	-	17 549	-	-	-	17 549



## Department of Labour - Vote 17

### Disclosure Notes to the Annual Financial Statements for the year ended 31 March 2005

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Note 1: Legacy assets means computer hardware used by the Department of Labour prior to the effective date of the PPP Agreement, the beneficial use of, control and risks in respect of which was transferred to the private partner. Due to the fact that the Annual Financial Statements have been prepared on a modified cash basis of accounting, all legacy assets were expensed in the Statement of Financial Performance when the final authorisation for payment was effected, thus prior to December 2002. The opening balance is therefore R nil.

Note 2: Other assets means the progressive refurbishment and additions made by the private partner to the legacy assets during the provision of the services, including those additions in respect of additional services. Other assets are stated at cost (being the cost price to the private partner, inclusive of VAT.)

#### **26. Skills Development Levies**

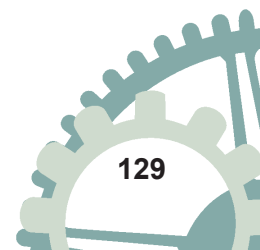
Unappropriated Skills Development Levies at National Revenue Fund consisting of:

- Employer contributions which could not be allocated to a specific SETA, or resulting from
- SARS contributions received without, or with incorrect, reference numbers, which could be Skills Development Levies, Value Added Tax, or Pay as You Earn.

As at 31 March 2005 the account had an accumulated balance of R 45 513 375,00. This money is currently in the National Revenue Fund and has not been accounted for in the financial statements of the Department of Labour or the National Skills Fund. Once the nature of these monies are established to be Skills Development Levies, the funds will be transferred as follows, in accordance with current statutory regulations:

- 20% to the National Skills Fund
- 80% to the SETAs.

The Department of Labour is currently engaged in a process with the South African Revenue Service to establish the nature of the monies in this account.



**Department of Labour - Vote 17**  
**Annexures to the Annual Financial Statements for the year ended 31 March 2005**

**Annexure 1A**  
**Statement of Transfers to Municipalities**

Agency/ account	Transfer allocation				Expenditure			2003/04
	Adjusted Appropriation Act R'000	Rollovers R'000	Adjustments R'000	Virement R'000	Total available R'000	Actual transfer R'000	% of available funds transferred %	Final Appropriation Act R'000
Regional Service Council Levies	-	-	1 301	(10)	1 291	1 095	84,82%	1 014
	-	-	1 301	(10)	1 291	1 095	-	1 014

**Annexure 1B**  
**Statement of Transfers to Departmental Agencies and Accounts**

Agency/ account	Transfer allocation				Expenditure			2003/04
	Adjusted Appropriation Act R'000	Rollovers R'000	Adjustments R'000	Virement R'000	Total available R'000	Actual transfer R'000	% of available funds transferred %	Final Appropriation Act R'000
Compensation Fund	14 540	-	-	-	14 540	8 013	55.1%	12 028
Unemployment Insurance Fund	7 000	-	-	-	7 000	-	0.0%	7 000
Commission for Conciliation, Mediation and Arbitration	172 651	-	-	1 961	174 612	174 612	100.0%	156 410
National Productivity Institute	23 247	-	-	-	23 247	23 247	100.0%	21 834
National Skills Fund	37 973	-	-	-	37 973	37 973	100.0%	36 201
Strength Civil Soc Lab Reb Trans (DITSELA)	8 408	-	-	3 000	11 408	11 408	100.0%	7 932
NEDLAC	9 146	-	-	-	9 146	9 146	100.0%	7 823
Subsidised work centres for people with disabilities	32 892	-	12 500	-	45 392	45 391	100.0%	42 653
<b>Statutory</b> Sector Education and Training Authorities	3 440 000	-	340 317	-	3 780 317	3 780 317	100.0%	3 021 606
National Skills Fund	860 000	-	85 079	-	945 079	945 079	100.0%	755 402
	4 605 857	-	437 896	4 961	5 048 714	5 035 186	-	4 068 889

**Annexure 1C**  
**Statement of Transfers to Foreign Governments and International Organisations**

Foreign government/ international organisation	Transfer allocation				Transfer		2003/04
	Appropriation Act R'000	Rollovers R'000	Adjustments R'000	Total available R'000	Actual transfer R'000	% of available funds transferred %	Appropriation Act R'000
International Labour Organisation (ILO)	8 500	-	-	8 500	5 365	63.1%	8 449
Arlac	2 523	-	-	2 523	372	14.7%	551
<b>Total</b>	<b>11 023</b>	<b>-</b>	<b>-</b>	<b>11 023</b>	<b>5 737</b>		<b>9 000</b>



**Department of Labour - Vote 17**  
**Annexures to the Annual Financial Statements for the year ended 31 March 2005**

**Annexure 1D**  
**Statement of Transfers to Non-profit Organisations**

Non-profit organisations	Transfer allocation				Transfer		2003/04
	Appropriation Act	Rollovers	Adjustments	Total available	Actual transfer	% of available funds transferred	Appropriation Act
	R'000	R'000	R'000	R'000	R'000	%	R'000
SA National Council for the Blind	202	-	-	202	192	95.0%	201
Deaf Federation of South Africa	132	-	-	132	69	52.3%	127
National Council for the Physical Disabled	162	-	-	162	161	99.4%	178
Subsidised workshops for the blind	5 970	-	-	5 970	5 970	100.0%	5 579
<b>Total</b>	<b>6 466</b>	<b>-</b>	<b>-</b>	<b>6 466</b>	<b>6 392</b>		<b>6 085</b>

**Annexure 1E**  
**Statement of Transfers to Households**

Households	Transfer allocation				Expenditure			2003/04
	Appropriation Act	Rollovers	Adjustments	Virement	Total available	Actual transfer	% of available funds transferred	Appropriation Act
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000
Transfers								
Resignation packages	-	-	489	984	1 473	1 425	96.74%	1 740
<b>Total</b>	<b>-</b>	<b>-</b>	<b>489</b>	<b>984</b>	<b>1 473</b>	<b>1 425</b>		<b>1 740</b>

**Department of Labour - Vote 17**  
**Annexures to the Annual Financial Statements for the year ended 31 March 2005**

**Annexure 2**  
**Statement of Financial Guarantees issued as at 31 March 2005 – Local**

Guarantor institution	Guarantee in respect of	Original guaranteed capital amount	Opening balance 1 April 2004	Guarantees issued during the year	Guarantees released during the year	Guaranteed interest for year ended 31 March 2005	Adjustments during the year	Closing balance 31 March 2005	Realised losses iro claims payout
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Stannic	Motor Vehicles Motor Vehicles	206	206	-	206	-	-	-	-
		<b>206</b>	<b>206</b>	<b>-</b>	<b>206</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Standard Bank	Housing Loan Guarantee	1 896	1 896	230	163	-	40	2 003	-
ABSA	Housing Loan Guarantee	4 778	4 778	457	684	-	46	4 597	-
FNB-former Saambou	Housing Loan Guarantee	1 174	1 174	12	240	-	-157	789	-
Nedbank Limited	Housing Loan Guarantee	1 314	1 314	231	98	-	85	1 532	-
Firststrand Bank	Housing Loan Guarantee	1 951	1 951	296	258	-	311	2 300	-
Permanent Bank	Housing Loan Guarantee	-	-	-	-	-	-	-	-
Old Mutual (Nedbank Division)	Housing Loan Guarantee	1 778	1 778	52	104	-	-158	1 568	-
BOE Bank (NBS Division)	Housing Loan Guarantee	-	-	-	-	-	-	-	-
Old Mutual Fin LTD	Housing Loan Guarantee	203	203	17	62	-	-	158	-
BOE Bank Limited	Housing Loan Guarantee	140	140	-	17	-	-76	47	-
Peoples Bank FBC FID	Housing Loan Guarantee	462	462	12	40	-	-56	378	-
Nedbank (Cape of GH)	Housing Loan Guarantee	28	28	-	13	-	-	15	-
Cape of Good Hope	Housing Loan Guarantee	-	-	-	-	-	-	-	-
African Bank	Housing Loan Guarantee	123	123	-	-	-	-123	-	-
Free State Dev. Corp.	Housing Loan Guarantee	55	55	20	-	-	26	101	-
VBS Mutual Bank	Housing Loan Guarantee	91	91	-	1	-	1	91	-
Unibank	Housing Loan Guarantee	-	-	-	-	-	-	-	-
Nedbank (Inc BOE)	Housing Loan Guarantee	61	61	-	17	-	7	51	-
Peoples Bank (NBS)	Housing Loan Guarantee	840	840	-	148	-	-70	622	-
Albaraka Bank	Housing Loan Guarantee	11	11	-	-	-	-	11	-
Future Bank	Housing Loan Guarantee	-	-	-	-	-	14	14	-
Ithala Bank	Housing Loan Guarantee	41	41	-	-	-	-	41	-
Mpumalanga Bank	Housing Loan Guarantee	21	21	22	-	-	-	43	-
SA Home Loans (PTY) Ltd	Housing Loan Guarantee	34	34	-	-	-	-	34	-
Unique Finance	Housing Loan Guarantee	-	-	-	-	-	123	123	-
GBS Mutual Bank	Housing Loan Guarantee	-	-	-	-	-	16	16	-
		<b>15 001</b>	<b>15 001</b>	<b>1 349</b>	<b>1 845</b>	<b>-</b>	<b>29</b>	<b>14 534</b>	<b>-</b>
	<b>Total</b>	<b>15 207</b>	<b>15 207</b>	<b>1 349</b>	<b>2 051</b>	<b>-</b>	<b>29</b>	<b>14 534</b>	<b>-</b>



**Department of Labour - Vote 17**  
**Annexures to the Annual Financial Statements for the year ended 31 March 2005**

**Annexure 3**

**Physical Asset Movement Schedule for the year ended 31 March 2005**

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers in R'000	Transfers out R'000	Closing balance R'000
<b>Buildings and other fixed structures</b>	-	36 847	-	-	-	-
Other structures (Infrastructure assets)	-	36 847	-	-	-	-
<b>Machinery and equipment</b>	-	2 020	-	-	-	-
Computer equipment	-	25	-	-	-	-
Furniture and office equipment	-	1 560	-	-	-	-
Other machinery and equipment	-	331	-	-	-	-
Transport assets	-	104	-	-	-	-
	-	38 867	-	-	-	-

**Physical Asset Movement Schedule for the year ended 31 March 2004**

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers in R'000	Transfers out R'000	Closing balance R'000
<b>Buildings and other fixed structures</b>	-	42 959	-	-	-	-
Other structures (Infrastructure assets)	-	42 959	-	-	-	-
<b>Machinery and equipment</b>	-	7 352	-	-	-	-
Computer equipment	-	845	-	-	-	-
Furniture and office equipment	-	4 197	-	-	-	-
Other machinery and equipment	-	1 777	-	-	-	-
Transport assets	-	533	-	-	-	-
	-	50 311	-	-	-	-

**Annexure 4**

**Software and other Intangible Assets Movement Schedule as at 31 March 2005**

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers in R'000	Transfers out R'000	Closing balance R'000
<b>Computer software</b>	-	78	-	-	-	-
	-	78	-	-	-	-



**Department of Labour - Vote 17**  
**Annexures to the Annual Financial Statements for the year ended 31 March 2005**

**Annexure 5**  
**Inter-Government Receivables**

Government entity	Confirmed balance outstanding		Unconfirmed balance outstanding	
	31/03/2005	31/03/2004	31/03/2005	31/03/2004
	R'000	R'000	R'000	R'000
Compensation Fund	343	1 223	-	-
Firewall CC (Sita Account)	3	3	-	-
National Treasury	20	20	-	-
Department of Agriculture	40	34	-	-
Department of Communications	-	23	-	-
Department of Correctional Services	6	5	-	-
Department of Education	50	31	-	-
Department of Finance	-	1	-	-
Department of Foreign Affairs	577	413	-	-
Department of Health	62	34	-	-
Department of Home Affairs	13	20	-	-
Department of Justice	34	34	-	-
Department of Social Services (Dev)	-	8	-	-
Department of Trade and Industry	-	37	-	-
Department of Traditional and Local Government Affairs	13	13	-	-
Department of Water Affairs and Forestry	18	18	-	-
Government Pension Fund	1	1	-	-
Government Printers	-	50	-	-
KwaZulu-Natal Provincial Government	33	33	-	-
Limpopo Provincial Government	55	11	-	-
Northern Cape Provincial Administration	-	1	-	-
Office of Premier, North West	9	9	-	-
Presidence: Republic of South Africa	24	24	-	-
Provincial Office Eastern Cape	4	4	-	-
South African Police Service	7	35	-	-
Transport	4	-	-	-
Public Works	123	-	-	-
Social Development	38	-	-	-
Provincial and Local Government	14	-	-	-
KwaZulu-Natal Provincial Health	7	-	-	-
Environmental Affairs and Tourism	5	-	-	-
Housing	29	-	-	-
Land Affairs	11	-	-	-
Minerals and Energy	1	-	-	-
Public Service Commission	15	-	-	-
National Prosecuting Authority	7	-	-	-
Defence	39	-	-	-
Thaba-Nchu Technical College	-	7	-	-
Unemployment Insurance Fund	944	35	-	-
	<b>2 549</b>	<b>2 127</b>	<b>-</b>	<b>-</b>
<b>Other entities</b>				
Bargaining councils	31	31	-	-
<b>Total</b>	<b>2 580</b>	<b>2 158</b>	<b>-</b>	<b>-</b>



**Department of Labour - Vote 17**  
**Annexures to the Annual Financial Statements for the year ended 31 March 2005**

**Annexure 6**  
**Inter-Government Payables**

Government entity	Confirmed balance outstanding		Unconfirmed balance outstanding	
	31/03/2005	31/03/2004	31/03/2005	31/03/2004
	R'000	R'000	R'000	R'000
<b>Amounts not included in Statement of Financial Position Current</b>				
Justice	67	-	651	-
Foreign Affairs	1 558	-	-	-
<b>Total</b>	<b>1 625</b>	<b>-</b>	<b>651</b>	<b>-</b>
<b>Amounts included in Statement of Financial Position Current</b>				
South African Revenue Service	-	38 330		
Public Works (Unemployment Insurance Fund)	5 211	6 286		
Public Works (Compensation Fund)	2 400	2 754		
Telkom	53	-		
Bargaining Councils	5	-		
<b>Total</b>	<b>7 669</b>	<b>47 370</b>		

**Sheltered Employment Factories**  
**Annual Financial Statements for the year ended 31 March 2005**

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A U D I T O R - G E N E R A L

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SHELTERED EMPLOYMENT FACTORIES FOR THE YEAR ENDED 31 MARCH 2005**

**1. AUDIT ASSIGNMENT**

The financial statements as set out on pages 136 to 152, for the year ended 31 March 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibilities of the Accounting Officer. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. NATURE AND SCOPE**

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

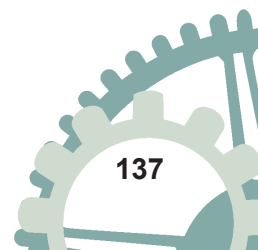
The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

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

**3. QUALIFICATION**

**3.1 Financial statements**

Due to the lack of an appropriate documented and approved policy and procedure framework, as well as the lack of independent checks and reconciliations at the Sheltered Employment Factories (the Factories), the following shortcomings relating to the financial statements were noted;



## Sheltered Employment Factories Report of the Auditor-General for the year ended 31 March 2005

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- Debtors: the validity, accuracy and completeness of debtors could not be verified due to lack of supporting evidence.

Interest is not being charged on amounts owing as required by section 80 of the Public Finance Management Act (Act 1 of 1999) (PFMA) and Treasury Regulation 11.5 (TR11.5).

Due to a lack of an appropriate documented and approved policy and procedure framework, the impairment of debtors disclosed in the financial statements of R 12,96 million includes a write-off of debtors of R 4,61 million which was done without authorisation from the Accounting Officer (Director-General) in contravention of TR 11.4. Included in the R4,61 million is a wages suspense account of R1,58 million which could not be verified.

- Assets; Asset items transferred to the Pretoria Factory during the year were not recorded in the asset register.

With reference to note 2, assets of R2,31 million was disposed during the year, but the disposal is not reflected on the cash flow statement and proceeds not recorded in the income statement.

Assets were disposed without the authorisation of the Department of Labour (Department) as required by the Memorandum of the Administration of the Sheltered Employment Factories (Memorandum) and the assets were also not disposed of by tender or auction as required by section 76 (1) (k) of the Public Finance Management Act and Treasury Regulation 10.2.1.

- Inventory; Assets obtained from government departments and refurbished for resale are neither recorded in the asset register nor in inventory
- Suspense accounts; The annual financial statements were compiled from a ledger that contained suspense accounts. These amounts included in the suspense accounts: R1,6 million (debit) and R851 253 (credit) could not be verified due to a lack of supporting documentation.
- Bank accounts; 11 bank accounts, amounting to R300 963, are not recognised in the financial statements. An investment account was opened in the financial year without the authority of the National Treasury.

### 3.2 Compliance with laws and regulations

The following non-compliance with laws and regulations were identified;

- Advance payments amounting to R1,63 million was made to service providers in contravention of TR15.0.1.2.
- Several payments in excess of R2 000, amounting to R2,97 million, was made by cheque, which is in contravention of TR 15.12.3
- Invoices were not settled within 30 days as required by TR 8.2.3.
- Government property was sublet to a private firm. No evidence could be provided that the Director-General of the Department had approved this arrangement as required by TR 10.2.4. The rent of R500 per month was not recorded in the ledger and not recognised as income in the financial year.
- Payments amounting to R958 564, including VAT of R104 525, were made to non-VAT vendors in contravention of the VAT Act (Act No 89 of 1991).

**Sheltered Employment Factories**  
**Report of the Auditor-General for the year ended 31 March 2005**

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- The Pretoria Factory was carrying out a business of a medical scheme by effecting salary deductions from factory workers and defraying some or all of their medical expenses in contravention of the Medical Schemes Act (Act 131 of 1998).
- A lack of adequate monitoring and adherence to the State Tender Board Regulations and section 217 of the Constitution (Act No. 108 of 1996) resulted in irregular spending. R39,33 million was spent on the procurement of goods and services, mostly without adhering to prescribed procurement requirements.

### **3.3 Limitation of scope**

Due to lack of sufficient supporting documentation, payroll expenses of R411 034, administrative expenses of R3,52 million and purchase transactions of R201 557 could not be verified.

### **3.4 Leave provision**

The Factories have approximately 1 300 employees who are entitled to an average of 15 days leave per annum. No provision for accrued leave was provided for in the annual financial statements.

### **3.5 Disclosure**

The following inadequacies relating to disclosure was noted:

- A related party note is not included in the financial statements to disclose a significant related party identified in respect of transportation services which cost the Factories R8,14 million.
- The accounting policy changed from compliance with South African Statements of Generally Accepted Accounting Practice (GAAP) in the previous year to utilisation of conventions other GAAP. A note indicating this change, the financial impact and whether comparatives have been restated or not has not been included in the financial statements.
- Material loans or advances of R1,63 million were made to service providers. These loans and conditions attached to them have not been disclosed in the financial statements.

## **4. DISCLAIMER OF OPINION**

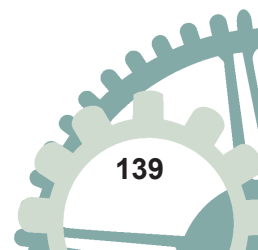
Because of the significance of the matters referred to in paragraph 3 above, I do not express an opinion on the financial statements.

## **5. EMPHASIS OF MATTER**

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

### **5.1 Internal control weaknesses**

- Conflict of interest; due to no framework to facilitate segregation of duties, the majority of invoices from the transport corporations presented for payment, had been prepared and authorised by senior staff members of the Factories.



## Sheltered Employment Factories

### Report of the Auditor-General for the year ended 31 March 2005

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- Monitoring controls; controls to monitor performance, reconcile accounts to supporting documentation, develop budgets and analyse variances, pre-authorise and review journal entries and investigate and clear suspense accounts are lacking. This is due to lack of a control framework to perform independent checks as well as reconciliation.

Preparation of management accounts and their review is not carried out. Reporting frameworks to enable the Department to monitor the activities and financial operations of the Factories are also lacking.

- Procedure and policies; there is no documented and approved policies and procedures framework at the Factories to ensure that operations and transactions are effectively controlled.
- Formal security and disaster recovery plans have not been developed, tested and documented to ensure that information system disasters are prevented, detected or recovered from in time.

#### 5.2 Governance structures

The Memorandum requires the Department to establish a management committee consisting of five members, the majority of whom will be external representatives of non-profit organisations. This oversight body has not been in existence in the year under review. There is no formal, documented and approved organisational structure in place to indicate reporting and responsibility structures at the Factories. Consequently the control environment is compromised.

#### 5.3 Skills base

The skills base in the finance and administration function at the Factories is inadequate and the control environment is impacted negatively.

#### 5.4 Performance Audit

##### Service delivery at Sheltered Employment Factories

The following shortcomings relating to the economic, efficient and effective utilisation of resources were noted:

##### Restructuring

The restructuring process, reported on in previous years, that has been ongoing since 1998, delivered no constructive results despite R484 546 having been spent in 2001 on the relevant feasibility study. This could, in part, be ascribed to the lack of a policy framework. Late acceptance of the tender to contract in the necessary expertise to take this process forward caused further delay.

##### Assets

Non-adherence to the Government disposal policy due to the absence of physical security regarding assets, had the result that obsolete and redundant stock of R2,2 million was kept for an unidentified number of years. This excludes undisclosed stock held at the defunct Crown Mines factory.

**Sheltered Employment Factories**  
**Report of the Auditor-General for the year ended 31 March 2005**

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**Information technology**

Due to the lack of proper authorisation and capacity, a private firm was irregularly appointed and paid in advance for 1 800 hours of work. The segregation of duties was inadequate since the same consultant was responsible for, *inter alia*, maintaining both the system and application software, effecting changes, capturing data, passing journals and processing credit and debit notes.

**5.5 Special investigation**

During the financial year, the Department commissioned a special investigation into the financial and operating activities of the Sheltered Employment Factories. I will report on progress in my next report.

**6. APPRECIATION**

The assistance rendered by the staff of the Sheltered Employment Factories during the audit is sincerely appreciated.

**N Manik**

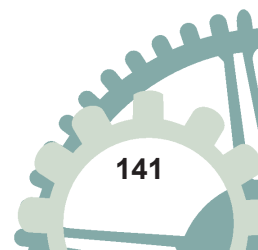
**for Auditor-General**

**Pretoria**

**19 August 2005**



**A U D I T O R - G E N E R A L**





## **Sheltered Employment Factories**

### **Statement of Responsibility by the Accounting Officer for the year ended 31 March 2005**

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The Director-General of Labour is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and the related information. The Office of the Auditor-General is responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared by incorporating accounting conventions other than those in South African Statements of Generally Accepted Accounting Practice. The convention applied is outlined in the notes to the financial statements. The accounting authority is of the opinion that the financial statements thus prepared will not mislead the users of the financial statements.

The Director-General is also responsible for the system of internal financial control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss.

The financial statements have been prepared on the going concern basis, since the accounting officer has every reason to believe that the factories have adequate resources in place to continue in operation for the foreseeable future.

The financial statements will be audited by the Office of the Auditor-General, which will be given unrestricted access to all financial records and related data, including minutes of all management meetings held.

The financial statements were approved by the Accounting Officer on 27 May 2005.

**Dr VM Mkosana**  
**Director-General of Labour**  
**31 March 2005**



**Sheltered Employment Factories**  
**Compilation Report to the Accounting Officer for the year ended 31 March 2005**

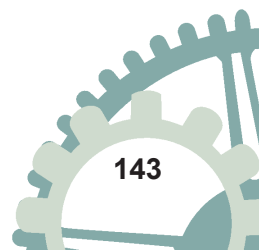
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On the basis of information provided by management we have compiled, in accordance with the International Statement of South African Auditing Standards applicable to compilation engagements, the Balance Sheet of the Department of Labour's Sheltered Employment Factories as at 31 March 2005 and statements of income and cash flows for the year then ended. Management is responsible for these financial statements. We have not audited or reviewed these financial statements and accordingly express no assurance thereon.

**PricewaterhouseCoopers Inc.**  
**Chartered Accountants (SA)**  
**Registered Accountants and Auditors**

**PRETORIA**

**26 May 2005**



## Sheltered Employment Factories

### Report of the the Accounting Officer for the year ended 31 March 2005

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#### **Nature of operations**

Sheltered Employment Factories (SEF) were established in 1956 by a Memorandum of Cabinet. The objective of the Sheltered Employment Factories is to provide economic empowerment to people with mental and physical disabilities employing an average of 1 290 people with disabilities by the end of the 2005 financial year in 13 factories across the country.

Income is generated from sales of manufactured goods in the various factories, ranging from wood and metal furniture, linen and bedding, upholstery and bookbinding. Income from sales as well as government grants is used to fund the expenses of the SEF. It is the vision of the SEF to enable its workers to be co-responsible for the economic success of the factories in order to reduce their dependence on government funding while simultaneously enhance their quality of life.

#### **Results of operations**

The results of the operations is summarised in the income statement and the statement of changes in fund balances.

#### **Accounting Officer**

The Director-General of Labour is the appointed Accounting Officer.

#### **Auditor**

The Office of the Auditor-General will continue to audit.



**Sheltered Employment Factories**  
**Statement of Financial Performance for the year ended 31 March 2005**

	Notes	2004/05 R'000	2003/04 R'000
<b>Revenue</b>	1.1	62 666	45 218
Cost of sales		(42 465)	(32 144)
<b>Gross profit</b>		20 201	13 074
Other income		70	124
Provision for impairment of debtors		(12 963)	-
Other operating costs		(44 762)	(46 141)
Administration expenses		(12 187)	(14 759)
<b>Operating shortfall before grants</b>		(49 641)	(47 702)
Grants: Department of Labour	1.3	45 391	42 653
<b>Net shortfall for the year</b>		<b>(4 250)</b>	<b>(5 049)</b>

**Sheltered Employment Factories**  
**Statement of Financial Position as at 31 March 2005**

	Notes	2004/05 R'000	2003/04 R'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	16 472	16 610
<b>Current assets</b>			
Inventories	3	17 794	20 901
Accounts receivable	4	11 476	17 347
Cash and cash equivalents		2 725	943
<b>Total assets</b>		<b>48 467</b>	<b>55 801</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Accumulated funds		47 654	54 214
Fixed asset fund	5	16 472	16 610
<b>Current liabilities</b>			
Accounts payable	6	813	1 587
<b>Total equity and liabilities</b>		<b>48 467</b>	<b>55 801</b>



**Sheltered Employment Factories**  
**Statement of Changes in Fund Balances for the year ended 31 March 2005**

	Notes	Accumulated funds R'000	Fixed asset fund R'000	Total R'000
<b>Balance beginning of the year</b>		43 117	16 146	59 263
Transfer to fixed asset fund	5	(464)	464	-
Net shortfall for the year		(5 049)	-	(5 049)
<b>Balance beginning of the year - 1 April 2004</b>		37 604	16 610	54 214
Transfer from fixed asset fund (disposals)	5	-	(2 310)	(2 310)
Transfer to fixed asset fund (additions)	5	(2 172)	2 172	-
Net shortfall for the year		(4 250)	-	(4 250)
<b>Balance end of the year</b>		<b>31 182</b>	<b>16 472</b>	<b>47 654</b>

**Sheltered Employment Factories**  
**Cash Flow Statement for the year ended 31 March 2005**

	Notes	2004/05 R'000	2003/04 R'000
<b>Cash flow from operating activities</b>		3 954	(772)
Cash receipts from customers	8	57 884	45 772
Cash paid to suppliers and employees		(99 328)	(89 205)
Cash shortfall from operations		(41 444)	(43 433)
Grant: Department of Labour		45 391	42 653
Interest received		7	8
<b>Cash flow from investing activities</b>		(2 172)	(464)
Purchase of fixed assets		(2 172)	(862)
Proceeds on disposal of fixed assets		-	398
<b>Net increase/(decrease) in cash and cash equivalents</b>		1 782	(1 236)
Cash and cash equivalents at beginning of year		943	2 179
<b>Cash and cash equivalents at end of year</b>		2 725	943



**Sheltered Employment Factories**  
**Notes to the Financial Statements for the year ended 31 March 2005**

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**1. Accounting policies**

*The financial statements have been prepared by incorporating accounting conventions other than those in South African Statements of Generally Accepted Accounting Practice. The conventions applied is outlined in the following notes:*

**1.1 Revenue recognition**

Revenue comprises the invoiced value for sale of goods net of value-added tax, rebates, and discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

**1.2 Fixed asset fund**

Amounts of actual capital expenditure incurred are charged to accumulated funds as a transfer To the fixed asset fund. Similarly the cost value of assets written off is charged as a debit to the fixed asset fund. The proceeds of the sale of fixed assets is credited to the income statement.

**1.3 Grants received**

Grants are recognised as and when received.

**1.4 Property, plant and equipment**

Property, plant and equipment are stated at historical cost. Being State assets, no provision for depreciation is made to write off the carrying value of each asset to its residual value on a systematic basis over its estimated useful life.

**1.5 Inventories**

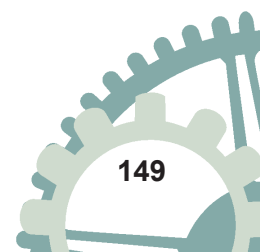
Inventories are valued at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises only the cost of raw materials. Direct, other costs and related production overheads are not apportioned to finished goods and work in progress.

**1.6 Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and cash held in banking recognised institutions.

**1.7 Retirement benefits**

Payments to defined contribution plans (if any) are charged as an expense as they fall due. Payments to the State-managed retirement benefit scheme are dealt with as defined contribution plans where the obligations of the factories under the scheme are equivalent to those arising from a defined contribution retirement benefit plan. The factories are also liable for other post retirement benefits, such as accumulated leave, to which the workers become entitled to at retirement. No provision has been made for this liability (if any).





**Sheltered Employment Factories**  
**Notes to the Financial Statements for the year ended 31 March 2005**

2. Property, plant and equipment	Office furniture and equipment	Plant and machinery	Total
	R'000	R'000	R'000
<b>Year ended 31 March 2005</b>			
Cost price at beginning of the year	2 660	13 950	16 610
Additions	198	1 974	2 172
Disposals	(983)	(1 327)	(2 310)
	<b>1 875</b>	<b>14 597</b>	<b>16 472</b>
<b>Year ended 31 March 2004</b>			
Cost price at beginning of the year	2 667	13 479	16 146
Additions	140	723	863
Disposals	(147)	(252)	(399)
	<b>2 660</b>	<b>13 950</b>	<b>16 610</b>
<b>3. Inventories</b>			
	<b>2004/05</b>	<b>2003/04</b>	
	R'000	R'000	
Raw materials	10 344	11 653	
Work in progress	1 865	1 768	
Finished goods	5 585	7 480	
	<b>17 794</b>	<b>20 901</b>	
<b>4. Accounts receivable</b>			
Trade debtors	21 136	17 164	
Unidentified debtor's deposits	(1 308)	-	
Debtors in dispute	4 098	-	
Unpaid cheques	512	183	
Staff debtors	1	-	
	24 439	17 347	
Provision for impairment	(12 963)	-	
	<b>11 476</b>	<b>17 347</b>	
<b>5. Fixed asset fund</b>			
Balance at the beginning of the year	16 610	16 146	
Fixed assets additions	2 172	862	
Disposals of fixed assets	(2 310)	(398)	
	<b>16 472</b>	<b>16 610</b>	



**Sheltered Employment Factories**  
**Notes to the Financial Statements for the year ended 31 March 2005**

	<b>2004/05</b>	<b>2003/04</b>
	<b>R'000</b>	<b>R'000</b>
<b>6. Accounts payable</b>		
Trade creditors	330	1,100
Accruals	487	830
Value Added Tax	(4)	(343)
	<u>813</u>	<u>1 587</u>
<b>7. Operating lease commitments</b>		
The operating lease agreement for the fixed properties is for an indefinite period. The future aggregate minimum lease payments in respect of the buildings are as follows:		
Not later than 1 year	209	209
Later than 1 year and not later than 5 years	835	835
Later than 5 years (indefinite)		
	<u>1 044</u>	<u>1 044</u>
<b>8. Note to the cash flow statement</b>		
Cash flow from operating activities		
Operating shortfall before grants	(49 641)	(47 702)
Grants: Department of Labour	45 391	42 653
Operating shortfall before working capital changes	(4 250)	(5 049)
Inventories	3 107	6 729
Accounts receivable	5 871	554
Accounts payable	(774)	(3 006)
Cash flow from operating activities	<u>3 954</u>	<u>(772)</u>

**Sheltered Employment Factories**  
**Detailed Statement of Financial Performance for the year ended 31 March 2005**

	<b>2004/05</b> <b>R'000</b>	<b>2003/04</b> <b>R'000</b>
<b>Revenue</b>	62 666	45 218
Cost of sales	(42 465)	(32 144)
<b>Gross profit</b>	20 201	13 074
Interest received	7	8
Discount received	63	116
<b>Total income</b>	20 271	13 198
<b>Total expenses</b>	69 912	60 900
Administrative expenses	629	1 405
Consumables	2 497	2 304
Provision for impairment of debtors	12 963	-
Municipal charges	2 199	2 425
Operating lease expense - buildings	190	189
Printing and stationary	562	548
Professional services	806	886
Personnel expenditure	40 897	42 404
Telecommunication	967	1 036
Transport and delivery cost	8 144	9 598
Travelling cost	58	105
<b>Operating shortfall before grants for the year</b>	<b>(49 641)</b>	<b>(47 702)</b>



**National Skills Fund**  
**Annual Financial Statements for the year ended 31 March 2005**

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A U D I T O R - G E N E R A L

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE  
FINANCIAL STATEMENTS OF THE NATIONAL SKILLS FUND  
FOR THE YEAR ENDED 31 MARCH 2005**

**1. AUDIT ASSIGNMENT**

The financial statements as set out on pages 153 to 174 for the year ended 31 March 2005 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Officer. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. NATURE AND SCOPE**

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

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

**3. QUALIFICATION**

**3.1 Structure and accountability of the National Skills Fund**

The National Skills Fund fulfils the description of a public entity in terms of the Public Finance Management Act No.1 of 1999 (PFMA), as:

**National Skills Fund**  
**Report of the Auditor-General for the year ended 31 March 2005**

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- it is a Fund established in terms of legislation (section 27(1) of the Skills Development Act)
- substantially funded by way of a levy in terms of national legislation.
- accountable to Parliament.

The Department of Labour has met on a regular basis with National Treasury to establish direction for the way forward. Due to delays at National Treasury this process was negatively impacted. The decision taken is that the NSF should prepare a business case, to indicate the impact of listing and to determine what systems of internal control and accountability should be put in place, by December 2005. Thereafter the legal form will be formalised.

Operating expenditure amounting to R998 986 000 (85% of the total operating expenditure) was tested. The completeness of operating expenditure could not be verified due to a significant audit adjustment of R3.4 million made. This was as a result of project expenditure incorrectly allocated to the Department of Labour.

However, the large volume of transactions processed within the Department of Labour does not permit the performance of sufficient alternative auditing procedures to confirm the completeness, validity and accuracy of expenditure reflected in the annual financial statements reflected in the Fund's annual financial statements.

### **3.2 Commitments to be transferred**

In Note 15 to the annual financial statements of the National Skills Fund contracted commitments to be transferred as at year end, is disclosed as R779 034 000. The amount is overstated with R6 934 000 due to the confirmations obtained from the Sector Education and Training Authorities. An amount of R60 577 000 could not be verified through confirmations. This is a result of inadequate file administration and timeous approval of contracts.

### **3.3 Bank and cash**

Bank and cash is disclosed in the annual financial statements of the NSF as an overdraft of R4.597 million (2004: R6.315 million). This is a balancing figure and no additional procedures could be performed to confirm this amount. All transactions (including non-cash transactions) processed by the NSF are processed through the bank account.

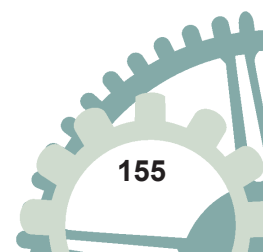
### **3.4 Accounts payable and receivable**

The National Skills Fund uses a policy whereby advances should be paid back in the same year that it is granted. There was no movement in the accounts payable, amounting to R3 091 000 and the accounts receivable, amounting to R1 141 000 between the current and prior year. The NSF could not provide any supporting documentation to support these amounts.

For the items included in 3.2 to 3.4 no alternative audit procedures could be performed.

## **4. DISCLAIMER OF AUDIT OPINION**

Because of the significance of the matters referred to in the above paragraphs, I do not express an opinion on the financial statements.



**National Skills Fund**  
**Report of the Auditor-General for the year ended 31 March 2005**

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**5. EMPHASIS OF MATTER**

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

**5.1. Funds not utilised – Manpower Development Authority of Bophuthatswana [MANDAB] : R41 605 181**

The amount of R41 605 181 is included in Investments. This amount was transferred to the National Skills Fund from the North West Province on 1 November 1999 and was earmarked for training.

The Department established a MANDAB steering committee on 16 October 2002 to approve projects and to determine criteria for the disbursement of funds. It was the intention of the steering committee to allocate the total funds to training projects within 18 months. The MANDAB Steering Committee allocated R 34 211 740.00 on 2 February 2005 for skills development, into projects capially funded by various stakeholders within the North West Province. At year end, only an amount of R1 218 530 had been paid over for training projects.

**5.2 Unappropriated funds**

Attention is drawn to note 16 to the financial statements. As at 31 March 2005, the amount accumulated in Seta Zero was R45 513 375. As at year-end, the allocation of the balance of this account to the NSF and the Sector Education Training Authorities had not been done by the Department of Labour.

**6. APPRECIATION**

The assistance rendered by the staff of the National Skills Fund during the audit is sincerely appreciated.

**N Manik**  
**for Auditor-General**

**Pretoria**

**31 July 2005**



A U D I T O R - G E N E R A L



## National Skills Fund Report of the Accounting Officer for the year ended 31 March 2005

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Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa

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

The primary objective of the National Skills Fund is stipulated in the Skills Development Act, namely that the money in the NSF may be used only for the projects identified in the National Skills Development Strategy (NSDS) as national priorities or for such other projects related to the achievement of the purposes of the Act as the Director-General of the Department of Labour determines. Given the commitment of Government to act in a more concerted fashion, the flexibility given to the Director-General in the latter part of the afore mentioned clause of the Act, allows the Department to take into account other Government policy/priority imperatives in the allocation of these funds. These might include the HRD Strategy; Growth, Employment and Investment strategies and Social Development priorities.

At the first National Skills Conference in February 2001, the Minister announced the new Funding Windows for the NSF, which saw an alignment between the objectives of the National Skills Development Strategy (NSDS) and the Funding Windows. However, when the 2002 – 2003 NSDS Implementation Report revealed that progress towards achievement of the learnership target in the NSDS was slow, a new Learnership Funding Window was added. The agreement on learnerships for unemployed learners at the Growth and Development Summit was also introduced for this purpose – an agreement that further gave impetus for the Learnership Funding Window. During the 2004/05 financial year, the Department implemented these same Funding Windows. Herewith follows a brief description of each of the current funding windows.

#### National Skills Fund's Funding Windows 2001 - 2004

##### **(1) Social Development Funding Window**

In the case of the Social Development window, the Department of Labour's provincial offices are the disbursing agents. They have an established delivery model based on evaluating project-linked training applications against set criteria. The said criteria include considerations around whether the proposed project, which the training is intended, is part of the Provincial Skills Plan, Integrated Rural Development Strategy, Urban Renewal Strategy, Local Economic Development Strategy and whether the beneficiaries will be placed in such projects once training is complete.

##### **(2) Strategic Projects**

SETAs are at present the disbursing agents in the case of the Strategic Projects window. Allocations from the NSF to SETAs has been based on strategic SECTOR choices where training is in support of sectoral growth strategies which reference the following funding areas:

- Development and Piloting of Skills Programmes and Learnerships
- ETD Practitioner Development
- Small Business Development
- Strategic Occupations
- Education Skills (including Adult Basic Education and Training).



**National Skills Fund**  
**Report of the Accounting Officer for the year ended 31 March 2005**

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In formulating proposals for funding from these Funding Windows, SETAs were expected to reference alignment of it to one or more of government's priority growth strategies for the achievement of national goals. At the time when the framework for the Strategic Projects was developed, these were:

- The Economic Cluster's Integrated Action Plan for Economic and Employment Growth (subsequently the Integrated Manufacturing Strategy)
- The Social Cluster's strategy for social development
- The Human Resources Development Strategy
- The National Skills Development Strategy.

**(3) Bursaries**

One of the priority areas identified in Government's Human Resource Development (HRD) Strategy is addressing scarce skills. This window of the NSF aims to contribute towards the achievement of the targets set in the HRD Strategy through the allocation of bursaries (undergraduate and post-graduate) in identified areas of scarce skills. The Department has entered into agreements with the National Student Financial Aid Scheme (NSFAS) and the National Research Foundation (NRF) to administer the funding of undergraduate and post-graduate bursaries respectively.

**(4) Innovation and Research**

The objective of this window of the NSF is to fund projects that will:

- Generate new or improved knowledge about skills development through research
- Enhance innovation in relation to:
  - Implementation of the National Skills Development Strategy, Skills Development Act and Skills Development Levies Act
  - The generation and distribution of career/labour market information to learners, providers and other users
  - Skills development policy and implementation strategies.

**(5) Skills Support Programme**

The Skills Support Programme (SSP) is linked to the Department of Trade and Industry's Small-and Medium Enterprise Development Programme (SMEDP) and Strategic Industrial Programme (SIP), which are designed to encourage new investments and major expansions.

The SSP has three funding elements:

- Training grant
- Development grant
- Capital grant.

**(6) Capacity building of stakeholders**

The Department is dependent on the various stakeholders in the area of skills development, for the successful implementation of the National Skills Development Strategy. The scope of this funding window is directed towards projects, interventions and activities related to the capacity building of key stakeholders and advocacy in so far as these relates to the implementation of the NSDS. The beneficiaries include:

- SETA Boards
- SETA staff
- Trade Union Federations



## National Skills Fund Report of the Accounting Officer for the year ended 31 March 2005

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- Organised Business
- Education and Training Providers
- Designated community groups:
  - Disabled People South Africa (DPSA)
  - South African National Civic Organisation (SANCO)
  - South African Youth Council (SAYCO)
  - Women's National Coalition (WNC).

### **(7) Promotion of the NSDS**

The objective of this window of the NSF is to fund projects that deal with inter alia the communication; marketing and advocacy of the objectives of the NSDS, printing of NSDS related promotional material/publications, marketing of projects funded by the NSF and the hosting of the annual skills conference.

### **(8) Learnerships**

The objective of this window of the NSF is to fund the implementation of learnerships for unemployed learners. Learnerships are established by the Skills Development Act and are programmes that combine institutionalised and workplace learning leading to nationally recognised qualifications.

It should be noted that since the Minister of Labour launched a new NSDS in March 2005, for implementation from 2005 – 2010, the NSF windows would be reviewed to align to the new NSDS.

## **LEGISLATION**

The National Skills Fund (NSF) was established in 1999 in terms of the Skills Development Act, 1998. The revenue sources for the Fund are:

- 20% of the skills development levies as contemplated in the Skills Development Levies Act
- the skills development levies collected and transferred to the Fund, in terms of the Skills Development Levies Act, in respect of those employers or sectors for which there are no SETAs
- money appropriated by Parliament for the Fund
- interest earned on investments
- donations to the Fund
- money received from any other source.

The Minister of Labour decides on the allocation of subsidies from the NSF after receiving advice from the National Skills Authority (NSA) as set out in the Act. The NSA is a statutory advisory body to the Minister of Labour on the National Skills Development Strategy. The NSA is constituted from a cross section of stakeholders from Government, organised business, organised labour, education and training providers and community constituency representatives.

The Director-General of Labour is the Accounting Officer of the Fund in terms of the Public Finance Management Act, 1999 (PFMA) and must:

- control the Fund
- keep a proper record of all financial transactions, assets and liabilities of the Fund; and

**National Skills Fund**  
**Report of the Accounting Officer for the year ended 31 March 2005**

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- as soon as possible after the end of each financial year, ending on the prescribed date, prepare accounts of the income and expenditure of the Fund for the year and a balance sheet of its assets and liabilities as at the end of that year.

The Director-General is thus ultimately responsible and accountable to the Minister and Parliament for money spent from the NSF. Within the framework of the Director-General's delegation of authority, the day to day operations of the NSF are managed by the Senior Executive Manager of the National Skills Fund.

## **2. Financial management improvement**

### **2.1 NSF accounts on BAS**

Separate accounts for the NSF have been created on the Basic Accounting System (BAS) and have been introduced with effect from 1 April 2004.

### **2.2 Corporate governance**

#### **Risk management**

The activities of the NSF are covered within the comprehensive risk assessment done by the Directorate of Internal Audit of the Department of Labour.

#### **Fraud prevention**

The activities of the NSF are covered within the Good Governance Policy, which includes fraud prevention, compiled by the Directorate of Internal Audit of the Department of Labour.

#### **Internal Audit and Audit Committee**

The internal audit function for the NSF has been outsourced under the management of the Directorate of Internal Audit of the Department of Labour.

The established audit committee of the Department of Labour also addresses the activities related to the National Skills Fund.

### **2.3 Other PFMA requirements**

The NSF forms part of the Programme of Employment and Skills Development Services of the Department of Labour and as such report through the structures and processes of the Department of Labour in terms of the compliance with the PFMA, namely:

- **NSF Strategic Plan** – is derived from the Strategic Plan of the Department of Labour, which has been approved by the Executive Authority and tabled in the Legislature in terms of Treasury Regulation 5.2.1
- **Quarterly reporting** – forms part of the quarterly reporting process on performance against the strategic plan of the Department of Labour. Furthermore the NSF submits quarterly reports on its cash-flow to National Treasury in the prescribed format and timeframes



## National Skills Fund Report of the Accounting Officer for the year ended 31 March 2005

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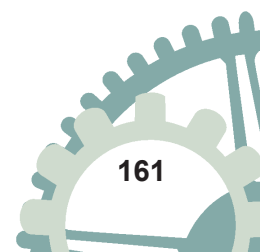
- **Actual revenue and expenditure projections** – the relevant information that forms part of the MTEF and ENE processes are submitted to the Chief Financial Officer of the Department of Labour in the prescribed format and timeframes
- **Annual financial statements** – these statements are compiled by the Chief Financial Officer of the Department of Labour and have been submitted timeously for audit purposes
- **Annual report** – information with regard to the NSF are covered within the Annual Report of the Department of Labour
- **Annual report, financial statements and audit reports** – these reports form part of the Annual Report of the Department of Labour, which were timeously tabled in the Legislature for the 2002/03 financial year.

*The NSF has not been listed as a public entity because there is a need for a thorough investigation of the appropriate institutional arrangement for the NSF, including an assessment of a viable business case regarding the public entity option. In addition Government, through a Joint National Treasury and Department of Public Service and Administration (DPSA) Committee, is currently coordinating a governance review of all Schedule 3A and 3B public entities with a view to inter alia examine specific matters relating to the criteria to be used in classifying public entities, appropriateness of its corporate form and its accountability arrangements. National Treasury has been notified of the status of the NSF, as required by section 47(2) of the PFMA.*

### **Approval**

The annual financial statements have been approved by the Accounting Officer.

**Dr. VM Mkosana**  
**Director-General of Labour**  
**31 March 2005**



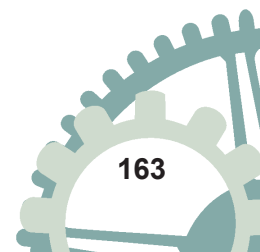
**National Skills Fund**  
**Statement of Financial Performance for the year ended 31 March 2005**

	Notes	2004/05 R'000	2003/04 R'000
<b>Revenue</b>			
Skills development levy income	1	945 079	755 402
State contribution	2	37 973	36 201
Investment income	3	97 845	125 345
Other income	4	4 378	4 455
Reversal of provision	6	-	9 309
<b>Total revenue</b>		<b>1 085 275</b>	930 712
<b>Expenses</b>			
Operating expenses	5	1 177 216	699 574
Realised investment loss written off	7	8	-
Debts written off	7	12 660	7 622
<b>Total expenses</b>		<b>1 189 884</b>	707 196
<b>Net surplus/(deficit) for the year</b>		<b>(104 609)</b>	223 516



**National Skills Fund**  
**Statement of Financial Position for the year ended 31 March 2005**

	Notes	2004/05 R'000	2003/04 R'000
<b>Funds and liabilities</b>			
<b>Funds and reserves</b>			
Accumulated funds	8	1 193 551	1 298 160
<b>Current liabilities</b>			
Accounts payable	9	3 091	3 091
Bank overdraft	14	4 597	-
<b>Total net funds and liabilities</b>		<b>1 201 239</b>	<b>1 301 251</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Long-term loans	10	650	13 825
		<b>650</b>	<b>13 825</b>
<b>Current assets</b>			
Accounts receivable	11	1 841	1 141
Bank and cash	14	-	6 315
Investments	12	1 198 748	1 279 970
		<b>1 200 589</b>	<b>1 287 426</b>
<b>Total assets</b>		<b>1 201 239</b>	<b>1 301 251</b>



**National Skills Fund**  
**Cash Flow Statement for the year ended 31 March 2005**

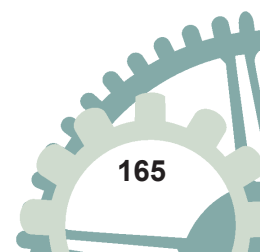
	Notes	2004/05 R'000	2003/04 R'000
<b>Cash flows from operating activities</b>			
Cash received		1 068 459	604 132
Cash paid		1 177 216	699 574
Cash generated from operations	13	(108 757)	(95 442)
Interest received	13	97 845	125 345
<b>Net cash inflow/(outflow) from operating activities</b>		<b>(10 912)</b>	29 903
<b>Cash flow from investing activities</b>			
(Decrease)/increase in long-term loans		-	(389)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>-</b>	<b>(389)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(10 912)</b>	29 514
<b>Cash and cash equivalents at beginning of year</b>		<b>6 315</b>	(23 199)
<b>Cash and cash equivalents at end of year</b>	14	<b>(4 597)</b>	6 315



**National Skills Fund**  
**Statement of Changes in Net Assets for the year ended 31 March 2005**

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	Notes	2004/05 R'000	2003/04 R'000
Balance at 1 April 2004	8	1 298 160	1 074 644
Net income for the year	8	(104 609)	223 516
<b>Balance at 31 March 2005</b>		<b>1 193 551</b>	<b>1 298 160</b>





**National Skills Fund**  
**Accounting Policies for the year ended 31 March 2005**

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The financial statements have been prepared in accordance with the following policies, which have been applied consistently in all material respects, unless otherwise indicated. However, where appropriated and meaningful, additional information has been disclosed to enhance the usefulness of the financial statements and to comply with the statutory requirements of the Public Finance Management Act, Act No. 1 of 1999 (as amended by Act 29 of 1999).

**1. Basis of preparation**

The financial statements have been prepared on a modified cash basis of accounting except where stated otherwise.

**2. Revenue**

*2.1 Levy income*

In terms of section 3(1) and 3(4) of the Skills Development Levies Act, 1999 (Act no. 9 of 1999), registered member employers pay a skills development levy of 1% of the total payroll cost to the South African Revenue Service (SARS), who collects the levies on behalf of the Department of Labour.

20% of skills development levies are paid over to the NSF and 80% to the SETAs. The NSF could not verify that the SARS has collected all potential skills levy income.

Revenue recognition of levy income represents amounts received from the Department of Labour. Skills development levy revenue is acknowledged on the cash basis.

*2.2 Department of Labour income*

Revenue recognition of State contributions represents transfer payments received from the Department of Labour. State contributions are acknowledged on receipt.

*2.3 Interest income*

Interest is recognised on a time proportion basis as it accrues, unless collectability is in doubt.

**3. Expenses recognition**

*3.1 Payments for the training of unemployed people*

The training of unemployed people is undertaken by selected training contractors on the basis of a predetermined course fee per day. Upon completion of training, certified claims are submitted by training contractors upon which payment is made.

*3.2 Funds allocated to the SETAs for special projects*

The NSF allocated funds in respect of Special Projects to the SETAs on an imprest basis (the funds advanced is topped up once the SETAs incurs eligible expenses, i.e. eligible special project expenses incurred are then reimbursed). If eligible expenses are not incurred, the amount advanced to the SETAs has to be refunded to the NSF.



## National Skills Fund Accounting Policies for the year ended 31 March 2005

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### 3.3 *Collection costs paid to SARS*

In terms of section 10 (2) of the Skills Development Levies Act, 1999 (Act no. 9 of 1999), the Director-General must, on a monthly basis as may be agreed between SARS and the Director-General, defray the costs of collection by SARS from the levies paid into the National Skills Fund. The total amount of collection costs, may not exceed 2% of the total amount of the levies collected by SARS.

### 3.4 *Debts written off*

Debts are written off when identified as irrecoverable. No provision is made for irrecoverable amounts in accordance with the accounting policy adopted by the Department of Labour.

## 4. **Taxation**

No provision has been made for taxation, as the NSF is exempted from income tax in terms of section 10 of the Income Tax Act.

## 5. **Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, investments, accounts receivables, advances, accounts payable and long-term loans. Where relevant, the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

## 6. **Long-term loans**

The loans are secured by mortgage bonds over immovable assets of the borrowers, and are repayable over 20 years.

## 7. **Accounts receivable**

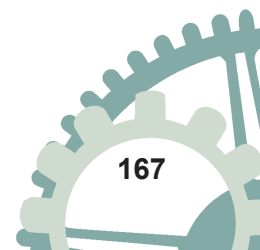
Accounts receivable are carried at anticipated realisable value. Bad debts are written off during the year in which they are identified.

## 8. **Investments**

In terms of section 29 (2) of the Skills Development Act, 1998 (Act no. 97 of 1998) any money in the Fund not required for immediate use is invested with the Public Investment Commissioner.

Non-current investments, excluding marketable securities, are shown at cost and adjustments are made only where in the opinion of the Accounting Officer, the investment is impaired. Where an investment has been impaired, it is recognised as an expense in the period in which the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement. On disposal of the investment classified as a current asset, amounts are transferred to the net surplus/(deficit) for the year.



## **9. Property, plant and equipment**

### *9.1 Property, plant and equipment utilised by the NSF*

The Director-General of the Department of Labour is the Accounting Officer of the Fund in terms of the PFMA and must control the Fund.

No provision has been made for property, plant and equipment, as all property, plant and equipment utilised by the NSF are owned, controlled and disposed of by the Department of Labour.

### *9.2 Property, plant and equipment acquired by the SETAs for NSF special projects*

Property, plant and equipment acquired by the SETAs for NSF special projects are capitalised in the financial statements of the SETAs, as the SETAs controls such assets for the duration of the project. Such assets could however, only be disposed of in terms of an agreement and specific written instructions by the NSF.

## **10. Cash flows**

For the purposes of the cash flow statement, cash included cash on hand, deposits held on call with banks, bank overdrafts and cash in transit.

## **11. Provisions**

The Director-General of the Department of Labour is the Accounting Officer of the Fund in terms of the PFMA and must control the Fund.

Provisions are recognised when the NSF has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

## **12. Employee entitlements**

Provisions for employee entitlements are reflected on the Financial Statements of the Department of Labour.

## **13. Comparative figures**

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



**National Skills Fund**  
**Notes to the Annual Financial Statements for the year ended 31 March 2005**

<b>1. Skills development levy income</b>	<b>2004/05 R'000</b>	<b>2003/04 R'000</b>
In terms of the Skills Development Act and the Skills Development Levies Act, the following applied during the period under review:		
Percentage of payroll payable as a Skills Development Levy	1%	1%
National Skills Fund (20%)	945 079	755 402
Withheld by the Department of Labour and paid to the SETAs (80%)	3 780 317	3 021 606
Total gross levies contributed by employers	<b>4 725 396</b>	<b>3 777 008</b>
<b>2. State contribution</b>		
Transfer payments received from the Department of Labour	<b>37 973</b>	36 201
<b>3. Investment income</b>		
Dividends	-	126 172
Interest	<b>97 845</b>	(827)
Interest received	<b>97 845</b>	1 155
Correction of interest	-	(204)
Reversal of interest	-	(1 778)
	<b>97 845</b>	125 345
<b>4. Other income</b>		
Revenue received for Social Plan	487	-
Revenue received from the Department of Defence	3 732	1 607
Revenue received from SERVICES SETA	-	2 000
Revenue received from Anglo Gold	159	848
	<b>4 378</b>	<b>4 455</b>

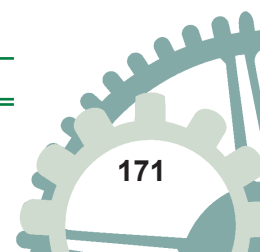
**National Skills Fund**  
**Notes to the Annual Financial Statements for the year ended 31 March 2005**

	2004/05 R'000	2003/04 R'000
<b>5. Operating expenses</b>		
Claims for training and other services provided	117 380	154 286
Projects	1 004 252	491 256
Collection costs paid to SARS	55 424	53 908
Management fees paid to PIC	160	124
	<b>1 177 216</b>	<b>699 574</b>
<b>6. Reversal of provision</b>		
Loans	-	(8 816)
Advances	-	(493)
	-	<b>(9 309)</b>
<b>7. Debts written off</b>		
Natal Training Centre		
Loans	-	2 946
Advances	-	367
Boskop Training Centre		
Loans	-	4 084
Advances	-	125
Dishonoured cheque	-	55
Other		
Advances	-	45
Realised investment loss written off	8	-
Debts written off	<b>12 660</b>	-
	<b>12 668</b>	<b>7 622</b>
<b>8. Accumulated funds</b>		
Opening balance	1 298 160	1 074 644
Net surplus/(deficit) for the year	<b>(104 609)</b>	223 516
	<b>1 193 551</b>	<b>1 298 160</b>
<b>9. Accounts payable</b>		
<b>Creditors</b>		
Opening balance	-	2 552
Corrections	-	(2 552)
	-	-
<b>Advances</b>		
Opening balance	3 091	1 974
Advances	-	1 610
Reversal of provision	-	(493)
	<b>3 091</b>	<b>3 091</b>



**National Skills Fund**  
**Notes to the Annual Financial Statements for the year ended 31 March 2005**

<b>10. Long-term loans</b>	<b>2004/05 R'000</b>	<b>2003/04 R'000</b>
Opening balance	13 825	13 436
Interest received	-	1 155
Repayments received	(515)	(170)
Reversal of provision	-	8 816
Debts written off	-	(7 030)
Corrections	-	(604)
Current portion of loan	-	(400)
Interest	-	(204)
Capital and interest written off	(12 660)	(1 778)
	<b>650</b>	<b>13 825</b>
<b>11. Accounts receivable</b>		
Opening balance	1 141	123
Advances	-	1 610
Fruitless expenditure	700	-
Debts written off	-	(592)
	<b>1 841</b>	<b>1 141</b>
Amount of R 1 841 above may not be recoverable due to liquidation of Training Centre		
<b>12. Investments</b>		
Portfolio 2284	90 110	42 443
Portfolio 2285	36 305	33 390
Portfolio 2286	1 025	957
Portfolio 2287	41 605	39 650
Portfolio 2288	1 029 703	1 163 530
	<b>1 198 748</b>	<b>1 279 970</b>
<b>13. Net cash flow generated by operating activities</b>		
<b>Operating profit before working capital charges and interest</b>		
Net surplus/(deficit) for the year	(104 609)	223 516
Interest received	(97 845)	(125 345)
	<b>(202 454)</b>	<b>98 171</b>
<b>Cash generated (utilised) to (increase)/decrease working capital</b>		
(Increase)/decrease in receivables	12 475	997
Increase/(decrease) in payables	-	(1 435)
(Increase)/decrease in other current assets	81 222	(193 175)
	<b>93 697</b>	<b>(193 613)</b>
	<b>(108 757)</b>	<b>(95 442)</b>



**National Skills Fund**  
**Notes to the Annual Financial Statements for the year ended 31 March 2005**

14. Cash and cash equivalents	2004/05 R'000	2003/04 R'000
Bank and cash	(106 059)	6 315
Cash in transit	101 462	-
	<b>(4 597)</b>	<b>6 315</b>

**Note: The balance in the bank account is a calculated figure, due to the integration of the balance in the Paymaster-General Account of the Department of Labour. The NSF is in the process to investigate the possibility of opening a separate bank account to ensure that operating-, investing- and financing activities are sound.**

**Disclosure notes**

These notes to the annual financial statements are not recognised in the financial statements and are disclosed to enhance the usefulness of the financial statements.

**15. Commitments**

Contracted commitments	Annexure A		
Strategic Projects by SETAs		241 197	845 512
Skills Support Programme			
Projects		73 201	48 110
Innovation and Research		6 647	9 690
Funding of Learnerships		369 174	444 861
Social Development Initiatives		88 815	73 111
<b>Total future expenditure</b>		<b>779 034</b>	<b>1 421 284</b>

**16. Contingent asset**

The unappropriated Skills Development Levies at the National Revenue Fund consist of:

- Employer contributions which could not be allocated to a specific SETA, or resulting from
- SARS contributions received without, or with incorrect, reference numbers, which could be Skills Development Levies, Value Added Tax, or Pay As You Earn.

As at 31 March 2005 the account had an accumulated balance of R 45 513 375.79. This money is currently in the National Revenue Fund and has not been accounted for in the financial statements of the Department of Labour or the National Skills Fund. Once the nature of these monies are established to be skills development levies, the funds will be transferred as follows, in accordance with current statutory regulations:

- 20% to the National Skills Fund
- 80% to the SETAs.



## National Skills Fund

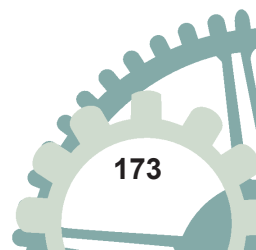
### Notes to the Annual Financial Statements for the year ended 31 March 2005

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The Department of Labour is currently engaged in a process with the South African Revenue Service to establish the nature of the monies in this account.

#### 17. Irregular expenditure

- As part of the R 117 379 850 under note 5, an amount of R 7 489 157. 49 is included being expenditure awarded to a service provider trading as Phambili African Events.
- The National Skills Fund incurred expenditure of R 7 489 157. 49 relating to this tender which was originally awarded for the amount of only R 5 623 245. 42.
- This implies that the original tender amount was exceeded by an amount of R 1 865 912. 07, without obtaining prior written approval from the Standing Tender Committee, thus rendering the expense as irregular.
- An investigation is currently in process in accordance with standard disciplinary procedures and legislation, to determine the appropriate action to be taken.





**National Skills Fund**  
**Annexure to the Annual Financial Statements for the year ended 31 March 2005**

Projects Sector Education and Training Authorities	Contractual commitment	Less amount transferred prior years	Less amount transferred 2004/05	Commitment to be transferred
	R'000	R'000	R'000	R'000
FASSET				
Strategic Project EC-1&2	62 761	27 868	-	34 893
Strategic Project KZN/LP	76 882	-	32 868	44 014
BANKSETA				
Strategic Project Learnership Programme	78 470	32 717	12 811	32 942
	20 000	-	20 000	-
CHIETA				
Strategic Project	38 615	15 144	23 472	-1
CTFL				
Strategic Project Learnership Programme	21 655	8 071	10 949	2 635
	30 000	-	20 479	9 521
CETA				
Strategic Project	58 775	17 307	41 468	-
DIDTETA				
Strategic Project	56 000	143	3 277	52 580
ETDPSETA				
Strategic Project	80 736	15 089	65 644	3
FOODBEV				
Strategic Project	33 525	11 688	21 838	-1
FIETA				
Strategic Project	103 321	27 636	75 684	1
ISETT				
Strategic Project Learnership Programme	69 971	38 636	14 918	16 417
	21 250	-	19 129	2 121
INSETA				
Learnership Programme	37 500	-	27 412	10 088
LGWSETA				
Learnership Programme	70 100	-	24 717	45 383
MAPP				
Strategic Project	117 596	58 121	21 722	37 753
MERSETA				
Strategic Project Learnership Programme	1 255	-	-	1 255
	77 465	-	3 950	73 515
MQA				
Strategic Project	62 651	19 420	38 142	5 089
PAETA				
Strategic Project Learnership Programme	33 267	11 205	22 062	-
	42 483	-	37 277	5 206
PSETA				
Learnership Programme	106 778	-	19 375	87 403
SETASA				
Strategic Project	35 534	23 148	12 385	1
SERVICES				
Strategic Project	115 349	40 632	74 717	-



**National Skills Fund**  
**Annexure to the Annual Financial Statements for the year ended 31 March 2005**

Projects Sector Education and Training Authorities	Contractual commitment	Less amount transferred prior years	Less amount transferred 2004/05	Commitment to be transferred
	R'000	R'000	R'000	R'000
THETA				
Strategic Project	108 643	32 972	68 792	6 879
TETA				
Strategic Project	72 592	11 876	53 979	6 737
Learnership Programme	58 871	-	41 660	17 211
W&RSETA				
Strategic Project	68 412	14 839	53 573	-
Learnership Programme	50 514	-	515	49 999
<b>Employment and Skills Development Lead Employers: Learnership Programmes</b>				
Emosa	12 624	-	1 050	11 574
Goldfields FET College	4 746	-	1 444	3 302
Isivuno	2 631	-	1 270	1 361
KwaZulu-Natal Agency	13 418	-	1 050	12 368
Limpopo Agency	4 269	-	1 050	3 219
LM Skills Development Agency	2 540	-	1 050	1 490
Mpumalanga Agency	12 237	-	1 194	11 043
North West Agency	4 538	-	2 008	2 530
Progression	5 410	-	1 289	4 121
Project Eagle	17 953	-	2 974	14 979
South Cape College	3 790	-	1 050	2 740
<b>Other</b>				
Skills Support Programme Projects	105 319	18 692	13 426	73 201
Innovation and Research	11 852	2 056	3 149	6 647
Social Development Initiatives	198 248	-	109 433	88 815
<b>Total</b>	<b>2 210 546</b>	<b>427 260</b>	<b>1 004 252</b>	<b>779 034</b>