



**theta**

TOURISM, HOSPITALITY & SPORT  
EDUCATION & TRAINING AUTHORITY

*annual report 2004*



# **theta**

**TOURISM, HOSPITALITY & SPORT  
EDUCATION & TRAINING AUTHORITY**

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## *vision*

Our people skilled  
for a sustainable future

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## *mission*

To facilitate the achievement of  
excellent standards and growth  
through the development  
and recognition of people

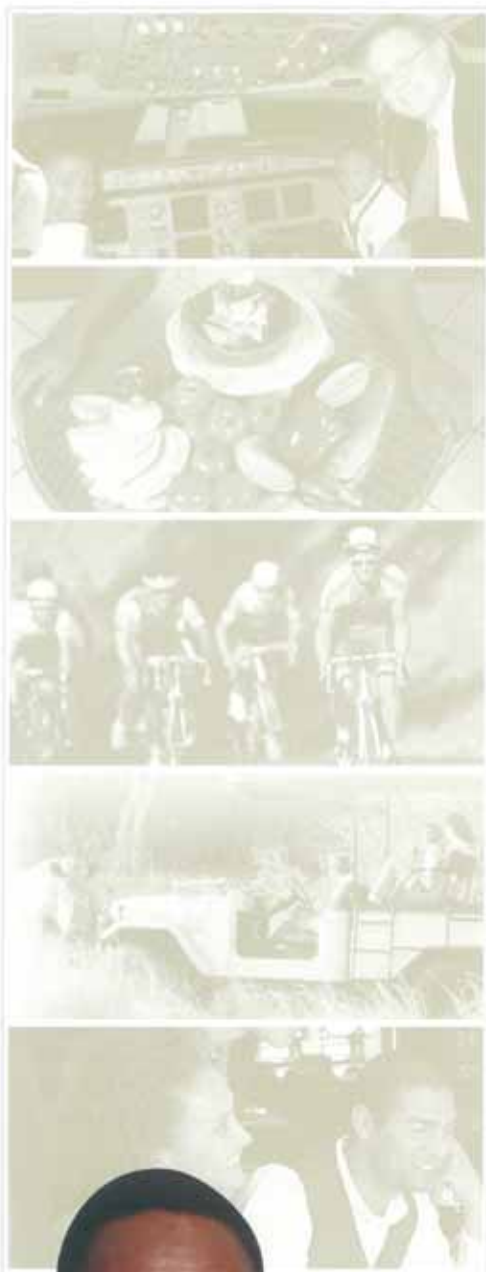
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## chairperson's report



*South Africa can be justly proud of its growing status as a force in global tourism. In spite of the global downturn in the industry as a result of SARS, the Iraq crisis and weak economies primarily in the United States, Germany and Japan, we saw a 4,2% increase in overseas arrivals in 2003 to 1 879 110 and a 1,2% rise in total foreign arrivals to 6 504 890.*

Whilst terrorism and, in our case, crime remain real obstacles to tourism, figures indicate that more travellers are refusing to be intimidated into abandoning their plans to explore new destinations and revisit old ones. Ours is certainly one of the most attractive and compelling destinations the globe has to offer.

The confidence I expressed in last year's annual report that we would win the 2010 World Cup bid has been rewarded. Now the hard work must start as we build an infrastructure befitting such a prestigious event, and people it with competent, skilled individuals who will be true ambassadors for South African tourism in 2010 and beyond.

During this year, the Tourism, Hospitality and Sport Education and Training Authority (THETA) shook off the last vestiges of a difficult past characterised by management changes, staff uncertainty and lack of infrastructural and intellectual capacity in key areas. THETA is now a new organisation, with a strong structure that is functioning efficiently and expending resources where they are most needed. The board has been strengthened with new members and the key board committees, namely the remuneration and audit committees, have been boosted by new skills.

We are confident that THETA will be allowed to continue its work, which, in spite of past problems, has had a marked impact on the lives of many communities and people. THETA is well positioned to play a pivotal role in the runup to 2010 in transforming the tourism workplace through the upliftment of skills and advancement of people.

The direct involvement of the Department of Environmental Affairs and Tourism in the board will enhance the alignment

of THETA's activities with national initiatives. We are ready to explore ways of ensuring the success of the domestic tourism development initiative Sho't Left.

Thousands of new jobs will be created in the years ahead as we prepare the welcome mat for the roughly estimated 89 000 foreign visitors expected to attend the soccer extravaganza. The development of skills has never been as important, particularly when one considers that the World Summit on Sustainable Development and the Cricket World Cup together attracted 49 000 tourists - 43% of those forecast for 2010 - and resulted in what was described by many as a "phenomenal" 11,1% increase in arrivals in 2002. That was just an appetiser - the phenomenon is yet to come and we must be ready for it.

THETA is ready.

#### ACKNOWLEDGEMENTS

Just after year end, we said farewell to Environmental Affairs and Tourism Minister Mohammed Valli Moosa. He has always been a good friend of THETA, consistently taking a keen interest in our work and telling people about the impact of our projects at every opportunity. We thank him and wish him well.

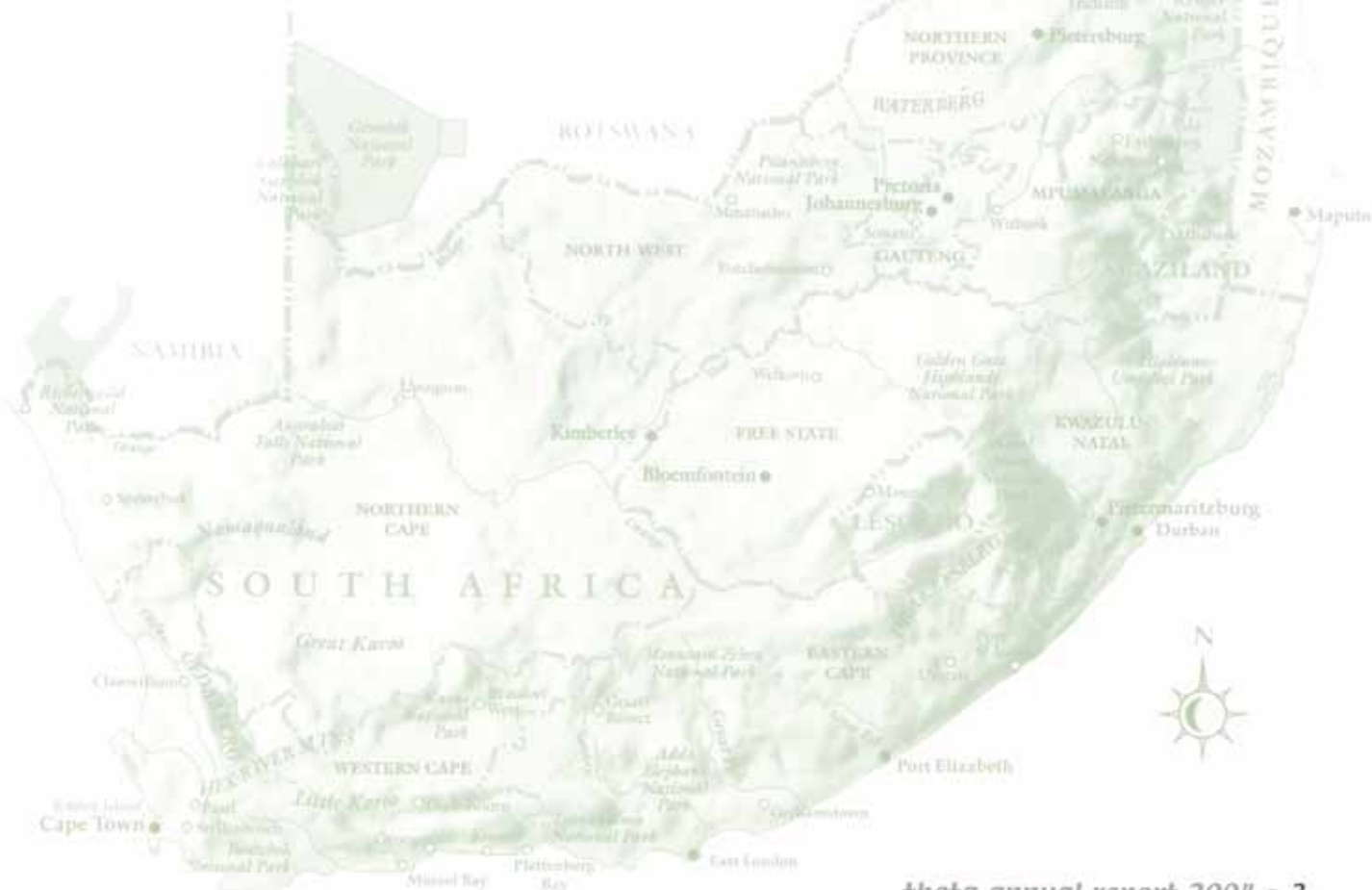
In the years ahead we hope to forge a similarly cooperative relationship with his successor Minister Marthinus van Schalkwyk.

My appreciation goes to our board members for their continued support and to Mike Tsotetsi, who willingly agreed to lead the SETA at a difficult time and who has managed operations admirably.

I thank all THETA stakeholders for their support during my period of chairpersonship. I am stepping down in September 2004 and I wish my successor good luck. Please support him or her as you have supported me.

In conclusion, a thought that applies particularly well to an annual report - the asset value of a company is in the files of its personnel department and the greatest asset managers are those who realise it.

  
**Kananelo Makhetha**  
*Chairperson*



## chief executive officer's report

*The THETA of today is dramatically different from the THETA I knew when my role was confined to serving on the board. As acting CEO for 10 months I have overseen the transformation and expansion of the SETA into a focused, well equipped and -resourced organisation. I have the utmost confidence in its future and this led me to accept without a moment's hesitation the offer of a permanent post as CEO.*

*Our sector is headed for great things and THETA's role is imperative. Who could resist such a challenge?*



### RESTRUCTURE

In the process of completely restructuring the SETA and setting up two core departments - quality assurance and skills development - we have attracted a flood of fresh new talent into the organisation that will enable us to meet the needs of our sector more effectively and sustainably than ever.

The creation of five chamber committees has been a key development and we are privileged to have, serving on these, some of the most prominent personalities in our sector; opinion leaders with considerable influence. They, working with our young, enthusiastic chamber coordinators, are ensuring that skills development activities are relevant and address real sector needs. Their efforts will enable us to be proactive in our response to trends and developments in each sub-sector.

The ETQA department is functioning extremely well under strong leadership and has instituted a system that complies fully with legislative requirements and ensures that only those who offer the highest standards of provision are authorised to train.

### FINANCE

Financially, THETA found itself in a far stronger position than in the previous year, with levy income increasing by 22,6% from R67,6-million to R82,9-million. This can be attributed to an aggressive drive to reduce misallocated levies and the increasing buy-in of employers.

On the other hand, expenditure increased from R12,9-million to R15,0-million as a result of extraordinary expenses beyond our control, such as the need to appoint consultants to complete certain tasks and legal expenses incurred in actions with previous CEOs. The employment of Thami Vallihu, the last-serving CEO, was terminated on 10 December 2003 on the recommendation of the independent chairperson of the disciplinary hearing.

During the year, 2,6% more than the prescribed amount was spent on operational activities. The 10% operational cost threshold remains unrealistic in a sector where most of the stakeholders are exempt from paying the levy because of their size. This continues to put the brakes on activities that we would otherwise develop to the fullest, such as marketing and communication. Nevertheless, we were able to enhance



communication this year by launching a completely new website populated with useful, easily accessible information.

A number of concerns raised in the Auditor General's reports of the past years were addressed in this financial year. The financials were restated to accommodate adjustments made. These steps are detailed in note 21 of the annual financial statements.

#### **FUTURE**

Looking to the future, a number of challenges await. Many of them are not new.

The approximately 70% of our stakeholders who fall into the small business category need support to fulfil their skills responsibilities and take advantage of the incentives available. Projects aimed at encouraging greater small, medium and micro enterprise (SMME) involvement are planned for the coming year, including the contracting of external skills development facilitators (SDFs) to assist with training reports and grant claims.

Another pressing issue is the lack of a learner tracking system that would enable us to ensure that learnerships are conducted in line with the sector's capacity to absorb graduates. We will address this in the year to come.

As mentioned above, our main constraint is the limit placed on administration costs, and we will continue to consult with the Department of Labour (DoL) to find a workable solution.

#### **APPRECIATION**

The THETA board has entrusted the running of the organisation to me and for that I am honoured. But the real stars of the past year are THETA's staff, who have worked long hours and given up weekends without complaint to create a SETA of which we can all be proud.

I am fully aware of the need to improve our performance and rating by DoL from average to good. It is a task that we shall jointly achieve.



## CEO's report: ETQA

Focus on quality assurance activities was, for the first time, concentrated in one dedicated department staffed by professional and highly experienced practitioners.

Education and training quality assurance (ETQA) manager Leone Whateley crafted a 12-person team that, by year end, had brought the accreditation process in line with South African Qualifications Authority (SAQA) requirements and had developed and instituted policies and procedures to guide everyday operations across THETA departments in a manner concomitant with the duties of a quality assurance body.

An infrastructure was implemented to perform accreditation and provider audits and THETA became one of the first ETQAs to launch a full-scale monitoring and auditing process. About 800 potential provider organisations were reviewed, establishing an active provider base of just over 400 companies.

Provider criteria and guidelines were published and posted on THETA's relaunched website, and more than 50 providers involved in the Tourism Learnership Project (TLP) and Integrated Nature-Based Tourism and Conservation Management (INTAC) project were monitored and audited on a one-to-one basis. Information sessions and meetings were held for a further 30 providers and more than 100 providers were assisted through the call centre and electronically.

Verifications were conducted on all providers involved in INTAC and across THETA chambers. More than 60 providers were audited and are monitored according to a conditional compliance plan.

External moderations were carried out on 100 learner records and facilitated for more than 3 000 learners.

A memorandum of understanding (MoU) was reached with the Construction SETA (CETA) and the foundation was laid for similar arrangements with the Policing, Private Security, Justice, Legal and Correctional Services (Poslec) SETA; Services SETA; Education, Training and Development Practitioners (ETDP) SETA, Health and Welfare SETA and Mining Qualifications Authority (MQA). Agreements were signed with the Council on Higher Education and Umalusi.

An active database of some 4 000 assessors was established and assessor registration, criteria and implementation systems were set up and communicated.

A learner certification policy was developed and approved by SAQA and the THETA board. Certificates were designed in readiness for certifying 100% of THETA's completed learners to date.

The activities of the standards generating bodies (SGBs) were reviewed and five new qualifications were registered on the NQF, with 19 registered qualifications being added to THETA's accreditation scope.

A database was created and 80% of existing data was transferred across.

Quarterly ETQA reports were submitted to SAQA and THETA was represented on all quarterly ETQA meetings, as well as the national learner record database (NLRD) forums, national standards bodies (NSB) and inter-SGB meetings and the annual SAQA conference.

A quality management system (QMS) was implemented and the SETA underwent its SAQA audit in December 2003, with only limited corrective action needed.

THETA communicated to DoL its commitment to the implementation of Investors in People internally and as a partner to 20 sector employers.



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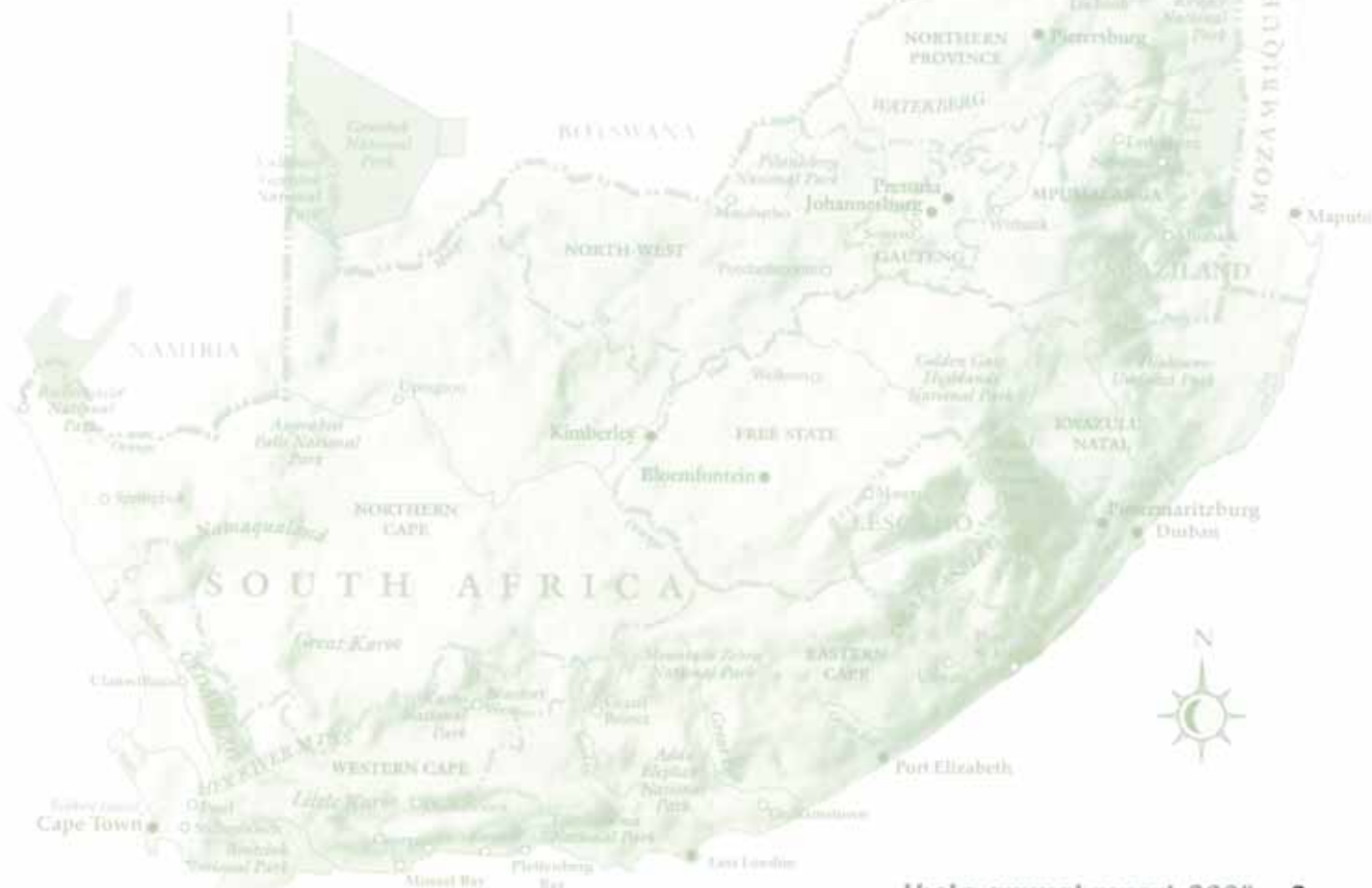
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THETA communicated to DoL its commitment to the implementation of Investors in People internally and as a partner to 20 sector employers.



THETA achievement (year 3) annual report (D)	THETA achievement (year 4) annual report (E)	Total achievement F=B+C+D+E	Gap to be achieved G=A-F	Target for 2005	Assumptions/ constraints
-	WSP = 21 070	21 070	158 930	21 070	THETA has never included the WSP and ATR
SATI 18(1) = 538 SATI structured = 61 WSP = 189 861 THETA = 1 923 TLP 18(2) = 2 116 SA Host = 7 690 <b>Total = 202 289</b>	SATI 18(1) = 525 SATI structured = 45 WSP structured = 117 838 WSP = 21 070 THETA = 978 TLP 18(2) = 2 013 INTAC = 1 761 <b>Total = 144 230</b>	Target overachieved			Information in the annual reports year 1 to 3
	-	20 deficit	20		

## CEO's report: skills development

### NSDS OBJECTIVE 2: FOSTERING SKILLS DEVELOPMENT IN THE FORMAL ECONOMY FOR PRODUCTIVITY AND EMPLOYMENT

NSDS target to March 2005	SETA target to March 2005 (A)	THETA achievement (year 1) annual report (B)	THETA achievement (year 2) annual report (C)
2.1 At least 75% of enterprises with more than 150 workers are receiving grants and contributing towards productivity and both employer and employee benefits are measured.	85% of enterprises with more than 150 workers are receiving grants Total registered: 104 Paying: 78 Target (85% of 78) = 65 companies	-	65
2.2 40% of enterprises employing between 50 and 150 workers are receiving grants and contributions towards productivity and both employee and employer benefits are measured	40% of enterprises employing between 50 and 150 workers are receiving grants and contributions towards productivity and both employee and employer benefits are measured Registered: 233 Paying: 169 Target (40% of 233) = 95	-	-
2.3 Learnerships are available in every (sub)-sector.	Learnerships are available in THETA's five sub-sectors. Seven further learnerships planned in the five sub-sectors	-	23 learnerships registered - some in each sub-sector
2.4 All government departments assess and report on budgeted expenditure for skills development	All government departments assess and report on budgeted expenditure for skills development relevant to public service, sector and departmental priorities. Two government departments are affiliated to THETA	-	-

#### NOTES TO NSDS TARGET 2 – ASSUMPTIONS/CHALLENGES

- To increase grant disbursement THETA has decided to market and increase disbursements by working through sector chambers. Chambers will market THETA activities and encourage employers to submit WSPs
- THETA intends to scope the sector to find and develop two learnerships that address scarce skills across all sub-sectors of the tourism and hospitality environment
- The problem is a lack of qualifications on which to develop learnerships. THETA will work with SGBs to develop the necessary qualifications



**GROWTH**

THETA achievement (year 3) annual report (D)	THETA achievement (year 4) annual report (E)	Total achievement F=B+C+D+E	Gap to be achieved G=A-F	Target for 2005	Assumptions/ constraints
22	43	43	21	65	Ensure that correct employers are targeted for skills development implementation and grant payments. Monthly reports from database given to chambers
72	49	49	44	72	Ensure that correct employers are targeted for skills development implementation and grant payments. Monthly reports from database given to chambers. External auditing
-	-	23	Target over-achieved	2	Status of utilisation and relevance of qualifications. Ascertaining need in sector. Ensuring availability should the need arise
-	-	-	Two government departments	Two government departments	Request WSPs. Encourage departments to contribute. THETA administration budget. Provide support for compiling WSP

- The affiliated government departments have not contributed towards THETA administration. To this end THETA has entered into negotiations with the relevant departments to integrate their skills development plans into THETA activities
- THETA has not had a lot of cooperation from the wider stakeholders. Through capacity building activities, it expects to convince all stakeholders to participate in skills development activities
- For targets 2.1 and 2.2, THETA has taken the highest achievement over the four years as the target for 2004/5. THETA is confident of delivering on these targets, as structural problems have been resolved and the focus from now on is delivery.

## CEO's report: skills development

### NSDS OBJECTIVE 3: STIMULATING AND SUPPORTING SKILLS DEVELOPMENT IN SMALL BUSINESS

NSDS target to March 2005	SETA target to March 2005 (A)	THETA achievement (year 1) annual report (B)	THETA achievement (year 2) annual report (C)
3.1 At least 20% of new and existing registered small businesses to be supported in skills development initiatives and the impact of such support to be measured	At least 20% of new and existing registered small businesses to be supported in skills development initiatives and the impact of such support to be measured. Registered: 14 952 Paying: 6 922 Target (20% of 6 922) = 1 384	-	-

#### NOTES TO NSDS TARGET 3 – ASSUMPTIONS/CHALLENGES

- THETA has reached only 91 SMMEs due to the fact that SMME employers are widely scattered and there is no database to indicate their location or nature of business
- SARS data and information are not reliable and it is difficult to reach SMMEs
- THETA has developed a plan to target 1 000 of the 1 782 SMMEs, representing 20% of levy paying SMMEs.

### NSDS OBJECTIVE 4: PROMOTING SKILLS DEVELOPMENT FOR SUSTAINABLE LIVELIHOODS THROUGH SOCIAL DEVELOPMENT

NSDS target to March 2005	SETA target to March 2005 (A)	THETA achievement (year 1) annual report (B)	THETA achievement (year 2) annual report (C)
4.1 100% of NSF apportioned and spent on viable development projects	Targets as prescribed in TLP and INTAC schedules/business plans  Beneficiaries = 6 500 Amount = R108,64 million	-	-
4.2 The impact of the NSF is measured by project type and duration, including details of placement rates which shall be at least 70%			

#### NOTES TO NSDS TARGET 4 – ASSUMPTIONS/CHALLENGES

- The NSF project INTAC did not enrol any learners for the first two years of its existence
- Once the project was started, it enrolled 1 761 learners, all on structured learning skills programmes
- Tracking the learners who complete the learning programmes is a problem - the implementing agent has been requested to supply this statistic and THETA has contracted a service provider to develop a learner tracking system

THETA achievement (year 3) annual report (D)	THETA achievement (year 4) annual report (E)	Total achievement F=B+C+D+E	Gap to be achieved G=A-F	Target for 2005	Assumptions/ constraints
-	91	91	1 293	1 000	Simplify WSP format for submission by small businesses

#### INITIATIVES

THETA achievement (year 3) annual report (D)	THETA achievement (year 4) annual report (E)	Total achievement F=B+C+D+E	Gap to be achieved G=A-F	Target for 2005	Assumptions/ constraints
-	1 761 R41,42 million	1 761 R41,42 million	4 739 R67,22 million	5 000 R67,22 million	Rollout of projects. Impact studies to be undertaken

## CEO's report: skills development

### NSDS OBJECTIVE 5: ASSISTING NEW ENTRANTS INTO EMPLOYMENT

NSDS target to March 2005	SETA target March 2005 (A)	THETA achievement (year 1) annual report (B)	THETA achievement (year 2) annual report (C)
5.1 A minimum of 80 000 people (unemployed learners) under the age of 30 have entered learnerships	15 000 unemployed learners under the age of 30 are contracted into learnerships by firms in the THETA sector.	–	2 013
5.2 A minimum of 50% of those who have completed learnerships are, within six months of completion, employed, in full time study or further training, or in a social development programme	A minimum of 7 500 (50%) of those who have completed learnerships are, within six months of completion, employed, in full time study or further training, or in a social development programme	–	–

#### NOTES TO NSDS TARGET 5 – ASSUMPTIONS/CHALLENGES

- Currently THETA does not have a system to track graduates from the learnership programmes. To correct this it has commissioned a service provider to install a system
- An impact study was carried out to assess the benefit and placement rates of learnership graduates. Of 169 graduates, 77 (46%) had been placed. It is assumed that of the finishing graduates approximately 46% will be placed.



THETA achievement (year 3) annual report (D)	THETA achievement (year 4) annual report (E)	Total achievement F=B+C+D+E	Gap to be achieved G=A-F	Target for 2005	Assumptions/ constraints
2 116	TLP = 2 013	6 142	8 858	2 320	Reporting mechanism developed
-		Completions = 2 422 Placement = 1 114		Expected completions = 3 720  Expected placement 46% = 1 711	Investigate tracking mechanisms available



## CEO's report: skills development



### CHAMBER COMMITTEE MEMBERSHIP

#### Hospitality chamber committee

Daryl Howes	South African Association for the Conference Industry
Marcel Kobilski	Kobilski Housekeepers Association of South Africa
Liziwe Konyana	National Youth Commission
Churchill Mrazi	South African Leisure and Tourism Association
Zola Nkomo	Food and Allied Workers Union
Philip Nkosi	South African Commercial Catering and Allied Workers Union
Tom Pringle	Pretoria and Districts Caterers Association
Annemarie Stilwell	National Accommodation Association of South Africa
Eugene Swartz	South African Taverners Association
Themba Zulu	Hotellica

#### Travel and tourism chamber committee

Dave Hill	Board of Airline Representatives of South Africa
Vanya Lessing	Association of South African Travel Agents
Ezrom Mabanya	South African Trade and Allied Workers Union
Carol O'Brien	South African Chamber of Business
Jill Schlachter	South African Vehicle Renting and Leasing Association
Felicity Senne	South African Commercial Catering and Allied Workers Union
Siphiwe Zwane	Airports Company Southern Africa

#### Sport, recreation and fitness chamber committee

Leonard Chuene	Athletics South Africa
Denver Hendricks	Sport and Recreation South Africa
Danny Jordaan	South Africa Football Association
Steve Murray	Virgin Active
Ntambi Ravele	Netball South Africa
Doreen Solomons	South African Gymnastics Federation
Sam Ramsamy	National Olympics Committee of South Africa
John Moeti	SA Football Players Union
Paul Treu	SA Rugby Players Association

#### Gaming and lotteries chamber committee

Thibedi Majake	National Gambling Board
Matihora Titus Matloa	South African Commercial Catering and Allied Workers Union
Phumla Mnganga	Gold Circle Racing and Gaming
Stephen Quinn	Sun International
Ronald Ramabulana	Uthingo Management
Rikhotso Roseman	South African Commercial Catering and Allied Workers Union
Natasha Rudy	Tsogo Sun
Ike Shirindi	Phumelela Gaming and Leisure
Phillemon Sito	Entertainment, Catering Commercial and Allied Workers Union
Lynette van Tonder	Global Resorts

#### Conservation and tourism guiding chamber committee

Boyce Dabula	South African National Parks Board
Rene du Toit	National Botanical Institute
Tony Ehrenreich	Cosatu Western Cape
Grant Hine	South African Tourism Services Association
Moeketsi Mosola	South African Tourism
Cheryl Mulder-Verbruggen	Conservation Corporation South Africa
Joe Raputsoe	Department of Environmental Affairs and Tourism
Sonwabo Shibane	South African Commercial Catering and Allied Workers Union

## CEO's report: corporate governance

### COMPLIANCE WITH KING CODE OF CORPORATE CONDUCT

THETA is committed to the objectives and principles of transparency, accountability and integrity explained in the King Code of Corporate Governance.

The board of THETA acknowledges the need to conduct the business with integrity and in accordance with generally acceptable corporate governance practice, and endorses the principles confirmed in the King Code of Corporate Practices and Conduct.

Members of the board as at 31 March 2004 are fully set out on page 20. All board members have been elected for their business acumen and skills and have a wealth of experience and expertise.

The board meets quarterly and monitors the performance of THETA. It addresses a broad range of key issues and ensures that debates on matters of policy and strategic planning are constructive and informed. Over and above this, the board approves major capital expenditure.

The board has access to the advice and services of a secretary, whose responsibilities include ensuring correct procedures are followed.

### EXECUTIVE COMMITTEE

The executive committee reviews strategic issues prior to referral to the CEO and management. The committee meets every two months to discuss issues such as the business plan, budget and financial results, continuing development, the SETA strategic plan, growth opportunities and developments within industries in which THETA operates.

### AUDIT COMMITTEE

The audit committee has written terms of reference and an audit charter. The committee meets regularly and comprises three board members who are non-executive, and one external member.

The internal and external auditors have free access to this committee and the chairperson of the board. The committee meets with management and the internal and external auditors to:

- review the annual financial statements and accounting policies;

- review the effectiveness of management information and other systems of internal control, with specific reference to the findings and recommendations of both the internal and external auditors;
- consider the effectiveness of the internal audit function, and
- consider pending litigation, reports of employee dishonesty and insurance cover.

### INTERNAL CONTROLS AND INTERNAL AUDIT

THETA maintains an internal control system to provide reasonable assurance of the integrity of the financial statements, and to adequately protect the accountability of its assets.

### REMUNERATION COMMITTEE

A remuneration committee was constituted during 2003/4 to ensure:

- consistent application of the code of conduct to which all employees are expected to adhere and which requires high standards of ethical business practice;
- that executive management are appropriately appraised and remunerated for individual contributions to the sector's overall performance, and
- that fair and equitable employment practices are consistently applied.

The committee met four times.

### BOARD COMMITTEES

The board has delegated some specific responsibility to various board committees. In the year under review the quality committee, under the leadership of Thabo Mahlangu, met three times and the audit committee, led by Joseph Maqhekeni, met 10 times.

### MANAGEMENT COMMITTEE

All heads and senior managers within THETA constitute the management committee, which meets fortnightly and implements all decisions taken by the executive committee and the board.

### MANAGEMENT REPORTING

Monthly, the financial performance and risks are reported against approved budget and compared to the previous year's figures, cash flow forecasts are updated and expenditure is monitored on an ongoing basis.

## CEO's report: corporate governance

BOARD MEMBERS							
Name	Organisation	Representing	Race and gender	27 July 03	28 October 03	20 November 03	26 February 04
Kananelo Makhetha	Connex Travel	Business	Black Male				
Leela Reddy	HIAWU	Labour	Indian Female				
Michael Tsotetsi	THETA	Acting CEO	Black Male				
Thabu Mahlangu	SACCAWU	Labour	Black Male				
Brian Magqaza	Bargaining Council for the Restaurant, Catering and Allied trades	Independent	Black Male				
Chris Johnson	HILG	Business	White Male				
Joseph Maqhekeni	NACTU	Labour	Black Male				
Phillip Thompson	Expertise	Independent	White Male				
Willem Fick	DEAT	Government	White Male				
Gail McCann	SATSA	Business	White Female				
Stephen Billingham	SACA	Independent	White Male				
Marlyn Rapakuana	National Department of Sport and Recreation	Government	Black Female				
Anne Lawrance	Tourist Guides	Independent	White Female				
Carol-Anne Cairns	BARSA	Business	White Female				
Tanya Abrahamse	Minister of Environment and Tourism	Government	Black Female				
Jimmy Michaelides	CATRA	Business	White Male				
Saheed Bayat	Expertise	Independent	Black Male	*	*		*
Donna McCartney	Travel Agents Association	Business	White Female				
Lynne Lourens	South African Sports Commission	Government	White Female				
Adrienne Harris	Tourism Business Council of SA	Business	White Female				
Luvuyio Tyikwe	FAWU	Labour	Black Male				
Sipho Mseleku	NAFCOC	Business	Black Male				
Peter Cumberledge	FEDHASA	Business	White Male				
Bryan Ward	CATRA	Business	White Male				

\* Absent with special permission.



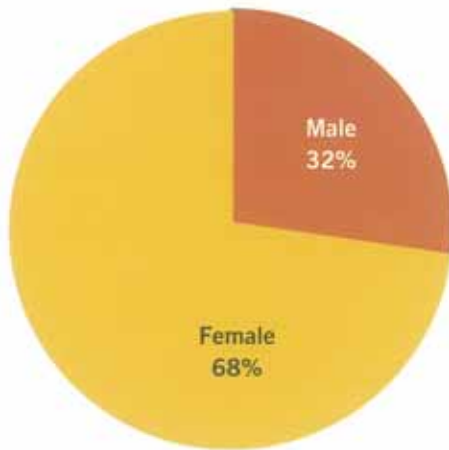
EXECUTIVE COMMITTEE								
Name	22 July 03	29 July 03	1 September 03	1 October 03	21 October 03	10 December 03	18 February 04	Allowances (Rands)
Kananelo Makhetha								2 400
Leela Reddy								2 100
Brian Magqaza								2 400
Tanya Abrahamse								300
Michael Tsotetsi								300
Chris Johnson								2 100
Lynne Lourens								-
Jimmy Michaelides								-
Thabu Mahlangu								3 000
Saheed Bayat								1 200

AUDIT COMMITTEE			
Name	7 October 2003	27 October 2003	17 February 2004
Kananelo Makhetha			
Carol-Anne Cairns			
Michael Tsotetsi			
Joseph Maqhekeni			
Bob Prophet			

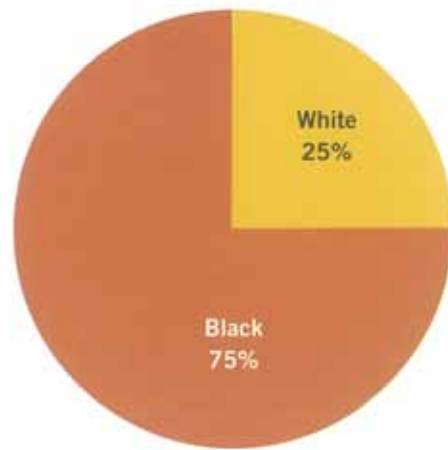
REMUNERATION COMMITTEE				
Name	18 September 2003	17 October 2003	17 November 2003	16 February 2004
Michael Tsotetsi				
Joseph Maqhekeni				
Tony Beart				
Tony Hercules				
Gail McCann			Appointed	

## CEO's report: theta staff

### BREAKDOWN BY GENDER



### BREAKDOWN BY RACE



### DIRECTORS' EMOLUMENTS

	Salary	Travel allowance	Pension fund	Medical aid	UIF	13th cheque	Leave paid out	Total cost to company
Vincent Hays	22 513,71	-	2 251,37	1 227,41	88,36	11 258,30	83 544,61	120 883,76
Mike Tsotetsi	223 290,82	26 400,00	-	-	706,88	-	-	250 397,70
Thami Vallihu	316 382,48	50 215,04	25 506,74	7 172,28	829,78	45 946,19	46 659,68	492 712,19

### REMUNERATION: ANNUAL SALARY BRACKETS

Salary bracket	Number of staff			
	THETA	TLP	SATI	INTAC
Above R600 000	2*			
R401 000 - R600 000	1		1	1
R201 000 - R400 000	7	5		10
R200 000 and below	18	4	3	5

\*Note: previous suspended CEOs were included in remuneration for a portion of the year.



## CEO's report: projects

### TOURISM LEARNERSHIP PROJECT

As it entered its fourth and final year in June 2003, the Tourism Learnership Project (TLP), an initiative funded by DoL and the Business Trust, refocused its energies on supporting learners through the development process and on achieving its targets, whilst making plans for a smooth handover of the learnership function to a dedicated team operating in the THETA skills development department.

The intake of new learners was suspended at end-December 2004 because the TLP had reached its target, incentive funding was exhausted and there was a call for a review of the first implementations. Consequently, much of the emphasis this year was on development of support materials and on continued capacity building for those already in the system.

Learning materials were finalised by industry experts for the national certificates in accommodation services, hospitality reception, food and beverage services and professional cookery and were posted on the website for ease of access. A similar project was started for other registered learnerships and will be completed by the learnership department.

Capacity building of mentors, coaches and facilitators

involved in learnership implementation continued, as did development of assessors.

During the year, consultants were appointed to prepare an evaluation of the project's performance. Areas of improvement were identified that will inform learnership implementation into 2004/5.

Planning for the learnership department was well advanced by year end and the following strategic objectives had been set for the six-member team:

- implement the sector skills plan through learnerships, and
- promote learnerships by:
  - identifying workplaces for practical experience;
  - supporting the development of learning materials;
  - improving the facilitation of learning, and
  - assisting in the completion of learnerships.

The SA Host customer care programme, operating as part of the TLP, trained a total of 13 244 learners since inception to 31 March 2004. With the dissolution of the TLP, THETA is liaising with stakeholders such as the tourism ministry to find a new home for SA Host.

### TLP PERFORMANCE AGAINST TARGETS

Target June 2001 – June 2004	Performance at 31 March 2004
Coordinate the development and registration with SAQA of 28 national qualifications	30 qualifications registered across all sub-sectors.
Facilitate and manage the training of 700 education, training and development practitioners	620 practitioners benefitted - 574 attended training and 46 underwent recognition of prior learning. Some 51 practitioners specialising in programme design and development, and 82 moderators trained.
Facilitate and manage the training of 1 000 assessors	865 assessors trained or had completed an RPL exercise.
Support THETA's skills development initiatives	10 skills development contract brokers (SBDCs) appointed to facilitate the signing of learnership contracts and the marketing of and support for learnerships and skills programmes. Their contract ended on 30 April 2003.
Ensure the following learner achievements: <ul style="list-style-type: none"> <li>• 12 000 employed learners to have hospitality unit standards</li> <li>• 6 000 employed learners to have completed skills programmes</li> <li>• 3 000 employed learners to have earned qualifications through learnerships</li> <li>• 5 000 unemployed learners registered for learnerships</li> </ul>	<ul style="list-style-type: none"> <li>• 13 401 learners had achieved 689 128 hospitality unit standards</li> <li>• 4 136 learners completed 7 383 skills programmes in hospitality, tourism guiding and conservation. Another 1 513 learners completed 2 086 skills programmes in training and development</li> <li>• a total of 2 901 employed learners had enrolled on learnerships, 377 of whom had dropped out and 883 had completed their programmes</li> <li>• 6 124 unemployed learners had been registered on learnerships, 1 150 of whom had withdrawn and 2 422 had completed their programmes.</li> </ul>

## CEO's report: projects

### **SOUTH AFRICAN TOURISM INSTITUTE**

The South African Tourism Institute (SATI), established in 2001 with funding from the Government of Spain, continued to make a profound contribution through strategic projects to the all-important area of tourism education.

#### **Tourism teacher training**

SATI, in partnership with the National Business Initiative (NBI), developed a five-day workshop to equip tourism educators to 'teach tourism concepts'. SATI facilitated the delivery of 14 workshops nationally, which were attended by approximately 378 educators, and offered a subsidy to these teachers to study certain modules of the UNISA Advanced Certificate in Education - Travel and Tourism.

#### **Hospitality teacher training**

The year also saw an extension of SATI's hospitality teacher training project, with 147 teachers across the country attending workshops on introductory or intermediate hospitality skills.

#### **Bursaries**

SATI bursaries to the value of R400 000 were disbursed by the National Student Financial Aid Scheme (NSFAS) to benefit students following management studies in catering, food and beverages, hospitality and tourism.

#### **Resource centre**

In a first for the industry, SATI officially opened its resource centre in 2003/4, offering tourism sector stakeholders a comprehensive range of materials in print, video and virtual library formats. By year end, the resource had grown to 2 500 records, including 1 350 research documents.

A function in March, attended by Mohammed Valli Moosa in one of his last official engagements as tourism minister, marked the launch of a comprehensive careers pack for teachers offering tourism and hospitality. More than 600 packs were distributed countrywide.

#### **The year ahead**

The following projects were planned during 2003/4 for implementation in 2004/5:

- the delivery of responsible tourism planning skills to provincial tourism authorities, in partnership with the Development Bank of Southern Africa;
- an initiative with the Tourism Enterprise Programme to develop tourism SMMEs throughout South Africa;
- retraining of assessors and accreditation support for emerging training providers, in cooperation with THETA's ETQA department.
- the development of internships, international skills exchange programme, foreign language training and tourist guide training, with the Department of Environmental Affairs and Tourism.
- A teacher internship pilot project in Gauteng, in partnership with NBI, which will provide tourism educators with the opportunity to spend time in the industry learning about the sector and networking with industry personnel.

#### **Travel and Tourism Partnership (TTP)**

Through its partnership with NBI, SATI has provided support to schools offering tourism through the following initiatives:

- A learner internship programme.  
Twenty tourism-related companies provided 76 learners from disadvantaged schools in Gauteng with the opportunity to experience a week in the world of work. The highlight of the week was a day trip to Cape Town for all 76 learners and 20 of their teachers courtesy of KLM Royal Dutch Airlines.
- The Tourism Month Schools Competition.  
The competition, whose theme was 'sustainable tourism', was launched in 10 countries. The teacher and two learners from the winning school - Hoërskool Schoonspruit in the North West Province - were flown to Germany courtesy of Lufthansa to attend a global student



conference. Learners showcase internationally what they are learning in their tourism classrooms and share ideas on how to ensure sustainable tourism practices in their local communities.

The TTP is a member of the Global Travel and Tourism Partnership (GTTP) in New York, which has 10 member countries. The GTTP is chaired by the president of the World

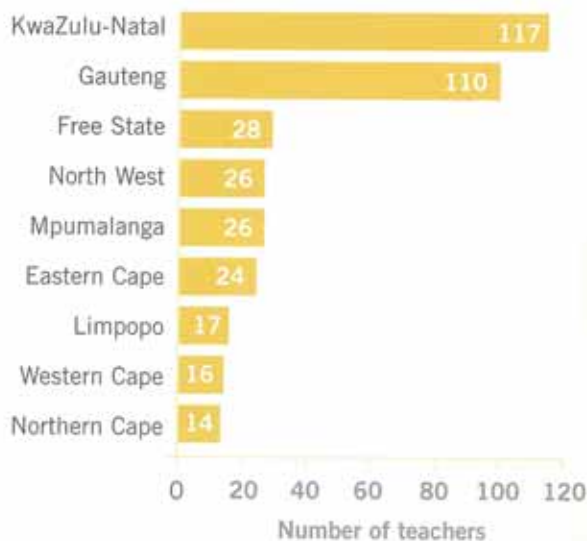
Travel and Tourism Council (WTTC). TTP South Africa has earned the distinction of becoming the biggest global programme with 55 000 learners compared to second placed UK at 32 500 learners.

During the year the SATI team shared its experience and successes with fellow GTTP countries at an annual conference – this year held in Jamaica.

#### LEARNERS INVOLVED IN TOURISM STUDIES AT SCHOOL IN GTTP COUNTRIES: 2003

Country	Current students	Former students	Total students	Schools	Partners	Internship companies
Brazil	6 317	4 877	11 194	44	8	9
Canada	664	347	1 011	19	8	200
Hong Kong	6 300	15 175	21 475	92	7	2
Hungary	1 686	2 828	4 514	52	20	350
Ireland	21 040	50 322	71 362	594	14	575
Jamaica	1 620	1 000	2 620	54	1	2
Russia	938	1 818	2 756	31	86	38
South Africa	55 000	22 175	77 175	541	2	25
UK	32 500	84 950	117 450	1 700	145	450
<b>TOTALS</b>	<b>126 065</b>	<b>183 492</b>	<b>309 557</b>	<b>3 127</b>	<b>291</b>	<b>1 651</b>

#### TEACHERS BENEFITTING FROM TRAINING IN 'TEACHING TOURISM CONCEPTS': 2003/4



#### PROGRESSIVE FIGURES FOR TOURISM STUDIES LEARNERS: 1996 - 2004

Year	Number of schools	Number of learners
1996	14	800
1997	64	4 500
2001	250	20 000
2002	368	40 000
2003	541	55 000
2004	600	94 000

## CEO's report: projects

The five areas of learning for the scale phase are tourism guiding, hospitality, conservation, SMME and community leadership. Adult basic education and training (ABET) will now be incorporated into the first four areas where necessary. Some 4 000 learners will be trained on skills programmes and 1 000 on learnerships. Fifty percent of those on

learnerships will be unemployed.

The INTAC project plans to complete its skills programme training by December 2004, with the majority of the learnerships to be completed by March 2005. The project will also close-out at the end of March 2005.

INTAC learner targets per site for scale phase

Site	Number of beneficiaries	
	Skills programmes	Learnerships
Northern Cape cluster	340	100
Greater Addo Elephant National Park (now Eastern Cape South)	515	140
Thunga-Thunga Tourism Route and River Rangers Eastern Cape (now Eastern Cape North)	470	120
Maluti Drakensberg	450	120
Greater St Lucia Wetland Parks	450	120
Blyderivierspoort Game Reserve	130	10
Great Limpopo Transfrontier Conservation Area	745	160
Waterberg Biosphere	410	140
Madikwe Game Reserve	490	90
<b>TOTAL</b>	<b>4 000</b>	<b>1 000</b>



Summary of training in the sector: 2002 - 2004 and targets: 2005

	2002	2003	2004	Totals	Planned 2005	
TLP	2 013	2 116 Not known	2 013	6 142 2 422	Project closed	18(2) Completions
INTAC			1 761	1 761	4 000 430 570	Structured learning 18(1) 18(2) Completions
SATI	45 Not known	61 538 Not known	45 525 Not known	151 1 063 Not known	50 532 Not known	Structured learning 18(1) Completions
Mandatory grants			21 070	21 070	21 070	18(2) 18(1)
	13 636 13 636	189 861 189 861	117 838 138 908	321 335	118 930	Structured learning Completions
SA Host		7 690 7 690	5 554 5 554	13 244 13 244	5 000	Completions Completions
THETA discretionary		1 923 495	978 388	2 901 883	1 750	18(1) 18(2) Completions
Total sector training	15 694	202 189	149 784	367 667	152 332	

*statement of responsibility  
of the chief executive officer*

The chief executive officer is responsible for the preparation, integrity and fair presentation of the financial statements of THETA.

The financial statements on pages 32 to 57 have been prepared in accordance with Generally Accepted Accounting Practice, and include amounts on judgements and estimates made by management.

The CEO also prepared the other information included in the annual report and is responsible for both its accuracy and its consistency with the financial statements.

The going concern basis has been adopted in preparing the financial statements. The CEO has no reason to believe that THETA will not be a going concern in the foreseeable future based on forecast and available cash reserves. These financial statements support the viability of THETA.

The financial statements have been audited by the office of the Auditor-General, which was given unrestricted access to all financial records and relevant data. The CEO believes that all representations made to the independent auditors during their audit are valid and appropriate.

The audited report of the Auditor-General is presented on pages 30 to 31. The financial statements were approved by the THETA board on 5 August 2004 and signed by the CEO.



Mike Tsotetsi  
Chief executive officer

# report of the auditor-general

Report of the Auditor-General to parliament  
on the financial statements of  
the Tourism, Hospitality and Sport Education and Training Authority (THETA)  
and its related projects for the year ended 31 March 2004.

## 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 32 to 57 for the year ended 31 March 2004 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 3 and 5 of the Auditor-General Act, 1995 (Act No 12 of 1995) and section (14)(6)(a) of the Skills Development Act, 1998 (Act No 97 of 1998). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

## 2. 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.

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

## 3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the

Tourism, Hospitality and Sport Education and Training Authority and its related projects at 31 March 2004 and the results of its operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) as amended.

## 4. EMPHASIS OF MATTER

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

### 4.1 Exceeding the 10% threshold in respect of administrative expenditure

The figures reflected in the annual financial statements indicated that the 10% administrative expenditure threshold as prescribed in the Skills Development Act, 1998 (Act No 97 of 1998) was exceeded by 2,619% (R2 707 978). This was due largely to unbudgeted expenses.

### 4.2 Non-compliance with Treasury Regulations

Materiality and significant framework: the Tourism, Hospitality and Sport Education and Training Authority has not compiled a material and significant framework as required by Treasury Regulation 28.1.5.

### 4.3 Uncertainty regarding the value added tax (VAT) status of the projects

A formal ruling was not obtained regarding the VAT registration requirements of the various projects.

#### 4.3.1 SATI

The project received funding from a foreign donor and was therefore exempted from paying output VAT on donor funding received. The project was not registered for VAT and the accounting records were maintained







## AUDITOR - GENERAL

accordingly. The possibility, however, exists that input VAT could be claimable, but a directive has not been sought from the South African Revenue Service (SARS).

### 4.3.2 INTAC

The project was in the process of being registered for VAT. Accounting records were maintained on the assumption that the project was registered for VAT. No directive was, however, obtained from SARS to confirm VAT treatment. It is also uncertain whether or not penalties and interest will be charged due to the project's late registration.

### 4.3.3 TLP

The project accounting records were maintained on the assumption that the project was not required to be registered for VAT. No

directive was requested from SARS in this regard. The project ended on 30 June 2004 and consequently, no funds will be available to pay any VAT liability, penalties and interest, should they be charged in future.

## 5. APPRECIATION

The assistance rendered by the staff of the Tourism, Hospitality and Sport Education and Training Authority during the audit is sincerely appreciated.

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

Pretoria  
21 July 2004



**income statement**  
for the year ended 31 March 2004

	Note	2003/04 R'000	RESTATED 2002/03 R'000
<b>Revenue</b>			
Skills development levy income:	2	82 883	67 605
Skills development levy: penalties and interest		1 307	834
National Skills Fund income/project funds utilised	3	33 304	19 896
Donations for special projects	12	25 057	32 245
Investment income	4	9 849	9 595
Other income	5	766	834
<b>Total revenue</b>	1	<b>153 166</b>	<b>131 009</b>
<b>Expenses</b>			
Administration expenses	6	(15 032)	(12 909)
Finance costs	7	(9)	(2)
National Skills Fund expenses	3	(32 459)	(18 930)
Employer grants and project expenses	1	(40 686)	(41 379)
<b>Total expenses</b>	1	<b>(88 186)</b>	<b>(73 220)</b>
Net surplus for the year	1	<b>64 980</b>	<b>57 789</b>



**balance sheet**  
as at 31 March 2004

	Note	2003/04 R'000	RESTATED 2002/03 R'000
<b>Funds and liabilities</b>			
<b>Funds and reserves</b>			
Skills development levy: administration reserve		(14 477)	(8 665)
Skills development levy: employer grant reserve		108 550	54 463
Discretionary fund reserve		48 057	31 352
		<b>142 130</b>	<b>77 150</b>
<b>Non current liabilities</b>			
Borrowings or loans		-	42
<b>Current liabilities</b>			
Skills development grants payable	8	3 792	21 931
Accounts payable	9	23 129	8 680
VAT payable	10	736	1 069
Provision for employee entitlements	11	720	449
Donor funding received in advance	12	16 220	11 104
National Skills Fund received in advance	3	8 795	1 169
Current portion of borrowings/loans		42	32
		<b>53 434</b>	<b>44 434</b>
<b>Total net funds and liabilities</b>		<b>195 564</b>	<b>121 626</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	599	1 010
		<b>599</b>	<b>1 010</b>
<b>Current assets</b>			
Skills development levy debtors	14	14 432	12 631
Accounts receivable	15	10 315	881
Cash and cash equivalents	16	170 218	107 104
		<b>194 965</b>	<b>120 616</b>
<b>Total assets</b>		<b>195 564</b>	<b>121 626</b>



**statement of changes in funds**  
for the year ended 31 March 2004

	Administration reserve R'000	Employer grants reserve R'000	Discretionary grants reserve R'000	Total R'000
<b>Balance at 1 April 2002</b>	(4 952)	-	23 718	18 766
Adjustment for error in 2000	-	-	71	71
Restated balance	(4 952)	-	23 789	18 837
Net surplus per income statement allocated	(3 894)	-	4 628	734
<b>Balance at 31 March 2003</b>	(8 846)	-	28 417	19 571
<b>Fundamental errors - 2002</b>				
Under-recovery of grant levies from Department of Labour (DoL)	21.1	59	466	525
<b>Error in 2003</b>		<b>122</b>	<b>53 997</b>	<b>2 935</b>
Overpayment of levy administration by DoL - 2003	21.1	(3)		(3)
Overpayment of levy grant by DoL - 2003	21.1		(21)	(21)
Reversal of excess depreciation of assets -2003	21.2	124		124
Interest received unrecorded - 2003	21.3		2 935	2 935
Restatement of grant accruals - 2003	21.4		54 018	54 018
Reversal of unsupported travel accrual -2003	21.4	1		1
Elimination of interTHETA expenses - 2003	21.5		-	-
<b>Restated balance at 31 March 2003</b>		(8 665)	54 463	31 352
Net surplus per income statement allocated	1	(5 812)	57 305	13 487
Transfer to discretionary reserve - 2001 excess		-	(3 218)	-
<b>Balance at 31 March 2004</b>		<b>(14 477)</b>	<b>108 550</b>	<b>48 057</b>
			<b>142 130</b>	



## cash flow statement

for the year ended 31 March 2004

	Note	2003/04 R'000	RESTATED 2002/03 R'000
<b><i>Cash flows from operating activities</i></b>			
<b>Receipts</b>			
Skills development levy: receipts	2	68 910	55 342
Skills development levies: penalties and interest receipts		1 307	834
National Skills Fund receipts	3	40 930	21 781
Donations received	12	30 173	35 272
Interest received		9 849	9 595
Dividends received			
Other receipts		666	819
<b>Payments</b>			
Administration payments		(19 368)	(21 775)
Compensation of employees	6.1	(5 622)	(4 275)
Other		(13 746)	(17 500)
Employer grant and project payments	1	(36 894)	(21 588)
National Skills Fund payments		(32 459)	(18 930)
Interest paid		(9)	(2)
<b>Net cash inflow from operating activities</b>	17	<b>63 106</b>	<b>61 348</b>
<b><i>Cash flow from investing activities</i></b>			
Purchase of property, plant and equipment	13	(145)	(1 175)
Proceeds from disposal of property, plant and equipment	13	188	
<b>Net cash inflow from investing activities</b>		<b>43</b>	<b>(1 175)</b>
<b><i>Cash flows from financing activities</i></b>			
Payment of capital element of finance lease liabilities		(35)	(177)
Proceeds from loans			
Repayment of borrowings or loans			
<b>Net cash (outflow) from financing activities</b>		<b>(35)</b>	<b>(177)</b>
<b>Net increase in cash and cash equivalents</b>		<b>63 114</b>	<b>59 996</b>
Cash and cash equivalents at beginning of year	16	107 104	47 108
Cash and cash equivalents at end of year	16	170 218	107 104



## *accounting policies* to the annual financial statements

The principal accounting policies adopted in the preparation of these financial statements are set out below and are consistent with those of the previous year:

### 1. Basis of preparation

The financial statements are prepared in accordance with and comply with Statements of GAAP. The financial statements are prepared under the historical cost basis.

### 2. Revenue recognition

#### 2.1 Levy income

In terms of section 3(1) and 3(4) of the Skills Development Levies Act 1999 (Act No 1 of 1999), registered member companies of THETA pay a skills development levy of 1% of the total payroll cost to SARS, which collects the levies on behalf of DoL.

Member employer-company levy payments are set aside in terms of the Skills Development Act 97 of 1998 for the purpose of:

	2003/04	2002/03
	%	%
National Skills Fund contribution	20	20
Administration costs of THETA	10	10
Employer grant fund levy	60	60
Mandatory workplace skills planning grant	15	15
Mandatory workplace skills implementation grant	45	45
Discretionary grants	10	10
	<b>100</b>	<b>100</b>

80% of skills development levies are paid over to THETA (net of the 20% contribution to the National Skills Fund). THETA could not verify that SARS has collected all potential skills levy income.

Revenue recognition of levy income represents amounts received and receivable from DoL. Skills development levy revenue is acknowledged on the accrual basis, except for interest and penalties on the skills development levy, which are recognised when received.

Amounts recognised for skills development levies in respect of administration (10%), the employer grants fund (60%) and discretionary grants (10%) include estimates and accruals for those months' levy income not actually received by year end due to timing delays. These estimates are based on the actual last two levy payments received subsequent to year end and one month's calculated levy. Changes to prior year estimates are accounted for in revenue in the current period of change.

Revenue is adjusted for interSETA transfers due to employers changing SETAs. Such adjustments are separately disclosed as interSETA transfers. The amount of the interSETA adjustment is calculated according to the standard operating procedure issued by DoL in June 2001, taking into account that employers cannot claim employer grants 18-24 months after the levies have been paid, when the levies are swept to the discretionary fund.

When a new employer is transferred to THETA, the levies transferred by the former SETA are recognised as revenue and allocated to the respective category to maintain its original identity, being either to the administration reserve, employer grant reserve or discretionary reserve.

Revenue is disclosed net of value added tax (VAT). Refer to accounting policy 11.1 below on recognition of VAT.

## 2.2 Funds allocated by the National Skills Fund for special projects

The National Skills Fund (NSF) allocates funds in respect of special projects to THETA on an imprest basis (the funds advanced are topped up once THETA incurs eligible expenses, ie eligible special project expenses incurred are then reimbursed). If eligible expenses are not incurred, the amount advanced to THETA has to be refunded to the NSF.

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

### Special projects

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

## 2.3 Donor income

Conditional grants from donor agencies or individuals are recognised as revenue when received, and where it is probable that the conditions will be met.

However:

- if it is probable that a condition will be breached and the asset be returned, or,
- if it is equally probable that the condition will be met or breached and the asset be returned,

then a liability is recognised. In these circumstances, once the conditions have been met, the liability is extinguished and revenue recognised.

## 2.4 Interest income

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

## 3. Grants

A registered member company may recover a maximum of 70% of its total levy payment by complying with the following grant criteria in accordance with the Skills Development Regulations of 22 June 2001:

- **Mandatory workplace skills planning grant:**

The employer has submitted an application for a grant in the prescribed form within the agreed upon cut-off period (mandatory workplace skills planning grant), which grant must be equivalent to 15% (2003: 15%) of the total levies paid by the employer during the financial year; or

- **Mandatory workplace skills implementation grant:**

The employer has submitted an application for a grant in the prescribed form within the agreed upon cut-off period. (mandatory workplace skills implementation grant), which grant must be equivalent to 45% (2003: 45%) of the total levies paid by the employer during the financial year; or

- **Discretionary grants**

THETA may, out of any surplus monies, determine and allocate discretionary grants to employers, education and training providers and workers of the employers who have submitted an application for a discretionary grant in the prescribed form within the agreed upon cut-off period. The total pool for discretionary grants is made up of 10% (2003: 10%) of the total levies paid by the employers, plus levy grants that are not claimed by employers, the surplus of administration levies not utilised to fund administration costs, investment income, other income generated by THETA etc (refer to accounting policy 4.4)



## *accounting policies to the annual financial statements*

THETA uses its discretion as indicated in the regulations to allocate discretionary grants. These discretionary grants are approved by THETA before the relevant training programme, initiative or research commences in accordance with the regulations. This results in a significant lapse of time between the time when grant payments are approved and the time when grant payments become payable.

### *3.1 Provisions for grants*

#### *3.1.1 Mandatory employer grants:*

##### Mandatory workplace skills planning grant:

This grant is recognised once the specific criteria set out in the regulations to the Skills Development Act 97 of 1998 have been complied with by member companies and such compliance has been approved by 30 April 2004.

##### Mandatory workplace skills implementation grant:

Based on criteria set out in the regulations to the Skills Development Act 97 of 1998, the legal obligation to allocate the mandatory workplace skills implementation grant arises only once the employer has submitted an application for a grant in the form prescribed in annexures to the regulations. However, as confirmed with DoL on 10 June 2003, the intention with the skills development legislation pertaining to the mandatory workplace skills implementation grant has been to implement training initiatives, and the applicable regulations were amended with Regulation 344, published in Government Gazette No 24967 of 7 March 2003. Therefore the obligating event to disburse the grant is the actual training and implementation that is taking place at certain employers during the financial year.

In addition to applications received, approved and disbursed before year end, a provision is therefore also made for the disbursement of the mandatory workplace skills implementation grant based on training plans implemented by certain employers during the year under review, where a reliable estimate can be made of the amount of grant applications that would probably be received, approved and disbursed. The measurement of this obligation involves an estimate, based on the established pattern of past practice of payment of this type of grant, supported by the history built up over the past two years. A contingent liability is disclosed for grant applications received after year end, but which have not been through the approval process. This possible obligation is confirmed only with the approval after lodging of the applications. The contingent liability is disclosed at an estimate of the amount of grant applications that would probably be approved.

#### *3.1.2 Discretionary grants:*

No provision is made for discretionary grant payments that have been approved at year end, unless a present contractual obligation existed. Such amounts are disclosed as committed funds in the notes to the financial statements.

#### *3.1.3 Retrospective amendments by SARS:*

SARS collects relevant levies from employers, of which THETA receives 80%. THETA refunds amounts to employers in the form of grants, based on information from SARS. Where SARS retrospectively amends the information on levies collected, it means that grants have been paid to certain employers that are in excess of the amount THETA 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.

THETA has a legal right to set off a receivable for the recovery of an overpayment due by an employer against the provision for grant payments to that employer. The amounts owed by employers for grant overpayments are therefore set off against the provision for grant payments in the presentation of the balance sheet (separate disclosure is made in note 8 to the financial statements).





Employers' receivables that are not offset against the provision for grant payment to a specific employer, due to reasons including:

- THETA does not have a legal right to set off amounts;
  - THETA does not intend to settle net, or
  - The employers involved no longer contribute to THETA
- are separately disclosed in note 8 to the financial statements.

The full amount of the SARS retrospective adjustment does not relate only to grant overpayments to employers, but also to the part that was retained by THETA. A loss is recognised for the difference between the amount of the retrospective adjustment and the amount that relates to overpayments to employers. This loss is separately disclosed in the notes to the financial statements and is allocated to the discretionary grant reserve.

#### 4. Reserves

##### 4.1 Unappropriated surplus

Section 53(3) of the Public Finance Management Act 1999 (Act No 1 of 1999) as amended requires that a SETA may not accumulate surpluses unless the prior written approval of National Treasury has been obtained.

There is a time delay of approximately 18 months to two years before THETA has granted funds back to employers or entered into contractually binding agreements where grants become payable to employers, workers of employers and other education and training providers. It is therefore impracticable to transfer the surplus of a specific year to National Treasury where these funds would be spent in the short to medium term.

The following policies have been adopted in the preparation of the financial statements:

While the balance of the unappropriated reserve will be nil, it is used to demonstrate the allocation of various surplus funds.

##### Skills development employer grants reserve

A provision is raised for the excess of mandatory and discretionary employer grant levies that has not been utilised within two years after the end of the financial year in which such grant levies were accounted for.

##### Discretionary grants reserve

A provision is raised for the excess of discretionary funds that has not been utilised within one year after the end of the financial year in which the funds were transferred into the discretionary reserve. The calculation is made on a first-in first-out basis.

##### Disclosure of contingent liability for all reserves

National Treasury may request all surplus funds to be transferred in terms of section 53(3) of the Public Finance Management Act 1999 (Act No 1 of 1999) as amended. A contingent liability is disclosed in the financial statements equalling the total of all the reserves, after the provision for the distribution of the surplus to National Treasury has been taken into account.

##### 4.2 Skills development administration reserve

THETA can use a maximum of 10% of the skills development levies for administration expenses.

The excess of administration grant levies is transferred to the discretionary reserve to be utilised for special projects and skills priorities.

The amount of the reserve represents administration levies not utilised to finance administrative expenses, which has been approved by National Treasury to be accumulated for the next financial year.



## *accounting policies to the annual financial statements*

### *4.3 Skills development employer grants reserve*

70% of the skills development levies is used for the payment of mandatory and discretionary grants to employers and others.

In principle THETA has two years after the end of the financial year in which the levies were accounted for, to effect the grant payments to employers.

Employer grant levies not utilised during the above period are transferred to the discretionary reserve any time before the end of the two years after the end of the financial year in which such grant levies were accounted for. Unutilised amounts not transferred to the discretionary reserve are included in the amount provided to be transferred to National Treasury.

The amount of the skills development employer grants reserve represents employer grant levies where:

- Less than two years have expired after the end of the financial year in which the levies were accounted for, or
- Approval has been obtained from National Treasury to accumulate funds for payment of employer grants in the next financial year.

### *4.4 Discretionary grants reserve*

In principle THETA has one year after the end of the financial year in which the funds were transferred into the discretionary reserve, to effect the discretionary grant payments. Funds transferred from other reserves gain a new "discretionary" identity when transferred to the discretionary reserve.

The amount of the reserve includes funds where:

- Less than one year has expired after the end of the financial year in which the funds were transferred into the discretionary reserve, or
- Approval has been obtained from National Treasury to accumulate funds to the next financial year.

The following types of discretionary funds are included in the reserve:

- Donor income or funds received by THETA from DoL, the NSF or any contributor for the sole purpose of carrying out the special projects;
- Surplus of administration levies not utilised to fund administration costs;
- Employer grants levies transferred from the employer grant reserve for discretionary projects;
- Losses recognised based on SARS retrospective amendments of skills levies;
- Investment income, and
- Other income generated by THETA.

## **5. Taxation**

No provision has been made for taxation, as THETA is exempt from income tax in terms of Section 10 of the Income Tax Act.

## **6. Financial instruments**

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables, leases and borrowings. Where relevant, the particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Financial assets and financial liabilities are recognised on the statement of financial position when the SETA becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below:

### **Financial assets**

The SETA's principal financial assets are account and other receivables, and cash and cash equivalents. Account and other receivables are stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Cash and cash equivalents are measured at fair value.



### Financial liabilities

The SETA's principal financial liabilities are account and other payables. Account and other payables are stated at nominal value.

### 7. Property, plant and equipment

Land is stated at cost and is not depreciated as it is deemed to have an indefinite life. All other property, plant and equipment are stated at cost less depreciation. Depreciation is calculated on the straight-line basis to write off the cost of each asset to its residual value over its estimated useful life.

The annual depreciation rates used are:

• Computer equipment	33,33%
• Office furniture and fittings	20%
• Office equipment	20%
• Motor vehicles	20%

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

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

### 8. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short term, highly liquid investments that are held with registered banking institutions with maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

### 9. Accounting for leases – where THETA is the lessee

Leases of property, plant and equipment where THETA assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other non-current liabilities. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the assets.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### 10. Accounts receivable

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

Also refer to accounting policy 3.1.3 relating to receivables recognised based on retrospective amendments of skills levies by SARS.



## 11. Provisions

Provisions are recognised when THETA 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.

### 11.1 VAT

The amount reflected as VAT due to SARS is in accordance with the dispensation prescribed by SARS on 8 June 2001 and 24 April 2002. In accordance with this VAT is calculated and paid over only on:

- Skills development levy: administration (10% portion)
- Surplus funds on employer grant levy (70% portion) used for projects.

The employer grant levy (70%) that was previously VAT neutral, becomes VATable when the surplus is used for projects. Therefore the amount of revenue is reduced once the VAT liability is incurred.

The VAT output tax liability is recognised on funds utilised on projects as far as actual project expenditure has been incurred.

A contingent liability is disclosed, calculated on the balance of the surplus of the employer grant levy (70%) that is expected to be paid out on projects.

Refer to notes 1, 2, 10 and 18.2 where this accounting policy was applied.

## 12. Employee entitlements

### 12.1 Short term employee benefits

The cost of short-term employee benefits is recognised during the period in which the employee renders the related service. Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. The provision has been calculated at undiscounted amounts based on current salary rates.

### 12.2 Termination benefits

Termination benefits are recognised and expensed only when the payment is made.

### 12.3 Post employment benefit costs

THETA provides for retirement benefits for all its permanent employees through a defined contribution scheme that is subject to the Pension Funds Act 1956 as amended. In terms of the Pension Funds Act, the fund is not required to be actuarially valued. Contributions are at a rate of 7% of pensionable emoluments, of which members contribute 6%.

THETA's contribution to the defined contribution plans is charged to the income statements in the year to which they relate.

### 12.4 Medical benefits

THETA provides medical benefits for all its employees through defined benefit plans. These benefits are funded by employer and employee contributions. Employer contributions to the fund are expensed when money is paid to the fund. No provision is made for medical benefits in the financial statements of THETA.

## 13. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. This applies particularly to note 2, the cash flow statement and note 16.



**notes to the annual financial statements  
for the year ended 31 March 2004**

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

	Total per income statement R'000	Admini- stration reserve R'000	Employer grants reserve				Discretionary grants reserve		
			Mandatory skills planning grant R'000	Mandatory skills imple- ment- ation grant R'000	Discretionary R'000	Total R'000	Projects R'000	Skills priorities R'000	Total discretionary R'000
<b>Total revenue</b>	<b>153 166</b>	<b>9 229</b>	<b>15 783</b>	<b>47 349</b>	<b>10 522</b>	<b>73 654</b>	<b>58 360</b>	<b>11 923</b>	<b>70 283</b>
Levy income						-			
Administration levy income (10%)	9 229	9 229				-			-
Grant levy income (70%)	73 654		15 783	47 349	10 522	73 654			
Levy: penalties and interest	1 308					-	1 308		1 308
National Skills Fund revenue	33 304					-	33 304		33 304
Donations - special projects	25 056					-	25 056		25 056
Investment income	9 849					-		9 849	9 849
Other income	766					-		766	766
<b>Total expenses</b>	<b>(88 186)</b>	<b>(15 041)</b>	<b>(3 079)</b>	<b>(5 732)</b>	<b>(7 538)</b>	<b>(16 349)</b>	<b>(56 796)</b>	<b>-</b>	<b>(56 796)</b>
Administration expenses	(15 032)	(15 032)				-			
Finance costs	(9)	(9)				-			
National Skills Fund expenses	(32 459)					-	(32 459)		(32 459)
Employer grants and project expenses per I/S	(40 686)		(3 079)	(5 732)	(7 538)	(16 349)	(24 337)		(24 337)
Disbursed	(12 557)		(1 604)	(5 120)	(5 833)	(12 557)			
Provision for grant payments (note 8)	(3 792)		(1 475)	(612)	(1 705)	(3 792)			-
Discretionary grants Disbursed	-					-	(24 337)		(24 337)
<b>Net surplus per income statement allocated</b>	<b>64 980</b>	<b>(5 812)</b>	<b>12 704</b>	<b>41 617</b>	<b>2 984</b>	<b>57 305</b>	<b>1 564</b>	<b>11 923</b>	<b>13 487</b>



**notes to the annual financial statements  
for the year ended 31 March 2004**

**2. SKILLS DEVELOPMENT LEVY INCOME**

	2003/04 R'000	RESTATED 2002/03 R'000
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%
The gross levies contributed by member companies iro the current year is apportioned as follows:		
Administration fund (10%)	10 522	8 584
Levy income: administration	8 903	7 517
InterSETA transfers in	326	-
InterSETA transfers out	-	-
VAT charged on levy income	1 293	1 067
Discretionary grants (10%)	10 522	8 584
Levy income: discretionary grants	10 196	8 584
InterSETA transfers in	326	-
Employer grant fund (60%)	63 132	51 504
Mandatory type A	15 294	12 876
Mandatory type B	45 883	38 628
Discretionary type C	-	-
Levy income: employer grants	-	-
InterSETA transfers in type A	489	-
InterSETA transfers in type B	1 466	-
InterSETA transfers out	-	-
VAT charged on levy income relating to project grants expenditure incurred	-	-
Withheld by DoL and paid to the NSF (20%)	21 044	17 168
<b>Total gross levies contributed by member companies</b>	<b>105 220</b>	<b>85 840</b>
The total levy income per the income statement is as follows:		
Levy income: administration	9 229	7 517
Levies received	7 673	6 151
Levies accrued	1 556	1 366
Levy income: discretionary grants	10 522	8 584
Levies received	8 748	7 027
Levies accrued	1 774	1 557
Levy income: employer grants	63 132	51 504
Levies received	52 488	42 164
Levies accrued	10 644	9 340
Changes in estimates iro previous year		-
<b>Skills development levy income per income statement</b>	<b>82 883</b>	<b>67 605</b>



### 3. NATIONAL SKILLS FUND: SPECIAL PROJECTS

		2003/04	RESTATED 2002/03
	Note	R'000	R'000
Opening balance		1 169	(715)
Received during the year		40 930	21 780
Utilised and recognised as revenue - conditions met		(33 304)	(19 896)
Fundamental error		-	(966)
Conditions met		(32 459)	(18 930)
Intercompany expenses		(845)	-
<b>Closing balance</b>		<b>8 795</b>	<b>1 169</b>
Refer to fundamental error note	21		
<b>4. INVESTMENT INCOME</b>			
Interest received on bank and call accounts		9 849	9 595
<b>5. OTHER INCOME</b>			
Other income comprises:			
Revenue from supporting services rendered by THETA		-	223
Commission		606	556
Sale of materials		59	40
Sundry		-	15
Profit on disposal of property, plant and equipment		101	-
		<b>766</b>	<b>834</b>
<b>6. ADMINISTRATION EXPENSES</b>			
The following items have been included in administration expenses:			
Set-up expenses			
Depreciation		178	111
Operating lease rentals		170	198
Cost of employment	6.1	5 622	4 275
Auditor's remuneration		645	557
Consultancy and service provider fees		45	454
Tomsa costs		-	153
Board approved expenses		4 913	2 028
Other		3 459	5 133
		<b>15 032</b>	<b>12 909</b>
<b>6.1 Cost of employment</b>			
Salaries and wages		4 212	3 241
Termination benefits		943	-
Social contributions			
Medical aid contributions		223	275
Pension contributions: defined contribution plans		219	224
Other post-retirement benefits		-	17
Other salary related costs		25	518
		<b>5 622</b>	<b>4 275</b>
Average number of employees		28	20



**notes to the annual financial statements  
for the year ended 31 March 2004**

	Note	2003/04 R'000	RESTATED 2002/03 R'000
<b>6.2 Board approved expenses</b>			
Audit fees		-	24
Personnel		148	518
Consulting		-	769
Legal fees		562	347
Consultants		1 716	370
Advertising and marketing		763	-
Meeting expenses		818	-
Staff recruitment		449	-
SGB and development costs		457	-
		<b>4 913</b>	<b>2 028</b>
<b>7. FINANCE COSTS</b>			
Finance leases		(9)	(2)
		<b>(9)</b>	<b>(2)</b>
<b>8. SKILLS DEVELOPMENT GRANTS PAYABLE</b>			
Employer grants approved and not yet disbursed:			
Open carrying amount		21 931	35 687
Change in estimate related to the previous year			
Amounts utilised during the year		(21 931)	18 331
Provision released to the income statement			(54 018)
Additional provisions	1	3 792	21 931
		<b>3 792</b>	<b>21 931</b>
Set off part of employers' receivable		-	-
<b>Closing carrying amount</b>		<b>3 792</b>	<b>21 931</b>
At year end grants provided for had not yet been paid out. Grants payable to employers will be paid in the next financial year (2005).			
Analysed as follows:			
Applications received by year end		676	-
Applications received or to be received after year end		8 126	57
		<b>8 802</b>	<b>57</b>
<b>9. ACCOUNTS PAYABLE</b>			
Trade payables		2 918	861
NSF special projects expenses		9 673	673
Other accrued expenses		10 538	7 146
		<b>23 129</b>	<b>8 680</b>





### 18.5 Losses resulting from incorrect allocations by SARS

During the year under review, SARS advised THETA of erroneously designated skills development levies received in prior periods, resulting in unknown retrospective adjustments. Future income that might be affected by these adjustments has been estimated at R9,8 million.

### 18.6 Learnerships

#### Employed learnerships

THETA is contractually bound to pay for employed learnerships. Final payments will be made once the prescribed conditions are met. There is uncertainty about the amount and timing of outflows. Contingent exposure is R14,75 million, which is in addition to the R16,4 million approvals disclosed in Note 19.1.

#### Unemployed learnerships

TLP is contractually bound to pay for unemployed learnerships. Final payments will be made once the prescribed conditions are met. There is uncertainty about the amount and timing of outflows. Contingent exposure is R10,43 million.

### 18.7 Misallocated grant levy income

An inherent risk exists that levy income received may not belong to THETA due to misallocations by SARS and DoL. THETA has provided only for grant payments relating to misallocated funds if an application was received.

THETA may have counter claims against other SETAs for misallocated funds, which have not been provided for.

## 19. COMMITMENTS

### 19.1 Discretionary grant reserve

Discretionary grants are not accrued until a contractual obligation exists, even if applications have been approved at year end.

Of the balance of R48,057 million available in the discretionary grant reserve at the end of March 2004, R16,4 million has been approved and allocated for future projects and skills priorities as set out below. Amounts for expenses that have already been contracted or incurred, and therefore included in grant expenses in the income statement, are also indicated. A request for the accumulation of these funds has been submitted to National Treasury. At the time of compiling the financial statements, no reply had been received.

An application letter to use surplus funds for projects was written to DoL on 17 March 2004. A reply has been received from DoL indicating the exemption from investment of surplus funds until the publication of the revised Treasury Regulations, repealing regulations 31.3.3 to 31.3.5 yet to be published.

Name of project: learnerships	Approved by	Amount utilised
	Accounting Authority	at 31 March 2004
	R'000	R'000
1 500 employed learners	30 312	18 000
Paid to date	(13 912)	(11 600)
<b>Total</b>	<b>16 400</b>	<b>6 400</b>

### 19.2 Operating leases

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

	2003/04	2002/03
	R'000	R'000
Not later than one year	1 423	795
Later than one year and not later than five years	6 732	-
	<b>8 155</b>	<b>795</b>



**notes to the annual financial statements  
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The operating lease relates to building premises used for office accommodation. The lease agreement was entered into effective 1 February 2004 and will be operational for a period of five years, expiring on 31 January 2009. The rental escalates annually on 1 February with 9%.

**20. IRREGULAR AND UNAUTHORISED EXPENDITURE**

The following expenses were not on the original budget approved by DoL, but were subsequently approved by the board.

<b>Expenditure</b>	<b>R'000</b>
a. Administration expenditure for the year exceeded the 10% administration expenditure threshold as prescribed in the Skills Development Act 1998 (Act No 97 of 1998) by 2,61%. These expenses were approved at a board meeting on 21 April 2004. The main reasons for this over-expenditure were:	
<ul style="list-style-type: none"> <li>• Legal fees regarding previous CEOs' suspension and court cases. These court cases will still continue into the next financial year. Refer note 18.4.</li> </ul>	562
<ul style="list-style-type: none"> <li>• Cost of preparation for court cases regarding CEOs. The majority of costs have been incurred in the current financial year.</li> </ul>	818
<ul style="list-style-type: none"> <li>• Scopa investigation. Investigation has been completed and the draft report has been prepared by Ernst and Young.</li> </ul>	200
b. THETA has inherited most of its systems from the previous HITB and together with the high turnover of staff in key positions, this has left THETA with outdated and weak systems. In order to rectify this huge task within a short period of time, THETA has appointed various consultants to assist with these functions:	1 516
<ul style="list-style-type: none"> <li>• Financial policies and procedures manuals, HR policies and manuals, procurement policies, job evaluations, grading, descriptions and performance incentive structures. The requirements from DoL regarding policies and procedures have been met. If new requirements have to be met, the use of consultants will still be necessary, because the THETA budget does not allow for personnel in the structure.</li> <li>• Financial management, audit and year end preparations and requirements. The board decided to appoint an acting CFO on a contract basis from February to August to assist with the year end. In April an advert was placed in the paper and 160 applications were received to fill the position of CFO. The arrangement from the board with the acting CFO is to work with the new CFO for two months to have a hand over period. The structure of the finance department is going to be adjusted properly during this financial year to make sure that there is proper segregation of duties.</li> </ul>	
c. SGB and development cost. THETA has no budget to do this function, but it is a necessary function for the ETQA department to optimise functionality. SGBs form part of the project proposals that were sent to DoL. If they are authorised they will not be part of THETA's expenses for the next year.	457
<b>Total irregular and unauthorised expenditure</b>	<b>3 553</b>



## 21. ERRORS

The incorrect accounting treatment in the prior years of the matters referred to in note 21.1 to 21.7.3, has resulted in fundamental errors and the restatement of the financials for 2002/03.

### 21.1 Levy income

Levy income has been increased against prior year reserves with an amount of R524 393 as a result of a short payment made by DoL in the financial year ending March 2002. For the year ending March 2003 an overpayment of R23 437 was received, also resulting in a prior year adjustment to decrease grant and levy income.

	R'000	R'000	R'000
	Prior year 2003	Adjustment	Restated 2003
<b>DoL short payments 2002</b>			
Administration and employer grant reserves	(19 571)	(525)	(20 096)
VAT output	(194)	(8)	(202)
Sundry debtors	90	533	623
	<b>Prior year 2003</b>	<b>Adjustment</b>	<b>Restated 2003</b>
<b>DoL overpayments 2003</b>			
Levies - administration	(7 624)	3	(7 621)
Levies - grants	(60 838)	21	(60 817)
	<b>(68 462)</b>	<b>24</b>	<b>(68 438)</b>
VAT output	(202)	-	(202)
Sundry debtors	623	(24)	599

### 21.2 Depreciation

The depreciation calculation in prior years was incorrectly performed by a net amount of R124 032, resulting in a reversal of depreciation. The accumulated depreciation has been corrected.

Depreciation	Prior year 2003	Adjustment	Restated 2003
Cost price	2 501	-	2 501
Accumulated depreciation	(2 259)	124	(2 135)
Net book value	242	124	366
Depreciation expense	235	(124)	111

### 21.3 Interest received

The interest received calculation for 2003 was understated by a net amount of R2 934 662. The cash and cash equivalents have been corrected.

Interest received	Prior year 2003	Adjustment	Restated 2003
Investments grants DoL bank	63 919	1 538	65 457
Investment Nedbank	12 756	1 397	14 153
	<b>76 675</b>	<b>2 935</b>	<b>79 610</b>



**notes to the annual financial statements  
for the year ended 31 March 2004**

**21.4 Accruals**

Unsubstantiated accruals, which include expenses and employer grants, with a net amount of R1,556-million and R54,017-million have been reversed.

	R'000	R'000	R'000
	Prior year 2003	Adjustment	Restated 2003
Travel office staff	415	(1)	414
Accrual account	(861)	1	(860)
Grant payables at 2003 year end overstated			
Grant expense per income statement	63 749	(54 018)	9 731
Provision for skills development grants	(75 862)	54 018	(21 844)

**21.5 InterTHETA expenses**

InterTHETA expenses of R1,564-million have not been eliminated on consolidation in 2003. Due to project expenses being eliminated on consolidation, there is surplus and correction from discretionary reserve to project reserve.

	Prior year 2003	Adjustment	Restated 2003
Discretionary reserves		-	

**21.6 Inter group balances**

The following interTHETA debtors and creditors balances have been eliminated for 2003:

Year 2003	Adjustment
THETA - INTAC debtor	193
THETA - Tourism Learnership Project debtor	1 344
<b>Year 2004</b>	
THETA - Tourism Learnership Project debtor	1 516
SATI	22

**21.7 Restatement of donor funding and NSF**

Adjustments	R'000
Tourism Learnership Project	(4 420)
INTAC	360
SATI	736
<b>Total</b>	<b>(3 324)</b>

*21.7.1 Tourism Learnership Project*

It is the first year that individual annual financial statements have been prepared for TLP. All comparatives were previously disclosed in the consolidated annual financial statements of THETA.

In terms of statement AC103: net profit/loss for the period, fundamental errors and changes in accounting policies, the following fundamental errors were identified:

- a. The depreciation calculation in 2002 was incorrectly performed with a net amount of R30 335. The accumulated depreciation and donor's liability via the unappropriated surplus reserve were adjusted.
- b. The expenses for 2003 were understated by R3 199 089 due to invoices processed and paid after 2003 year end. The appropriate accrual and donor's liability via the unappropriated surplus reserve were adjusted.
- c. Business Trust interest received in 2003 was incorrectly allocated to sundry creditors - the correct accounting treatment is to allocate the interest to the donor fund liability.



### 18.5 Losses resulting from incorrect allocations by SARS

During the year under review, SARS advised THETA of erroneously designated skills development levies received in prior periods, resulting in unknown retrospective adjustments. Future income that might be affected by these adjustments has been estimated at R9,8 million.

### 18.6 Learnerships

#### Employed learnerships

THETA is contractually bound to pay for employed learnerships. Final payments will be made once the prescribed conditions are met. There is uncertainty about the amount and timing of outflows. Contingent exposure is R14,75 million, which is in addition to the R16,4 million approvals disclosed in Note 19.1.

#### Unemployed learnerships

TLP is contractually bound to pay for unemployed learnerships. Final payments will be made once the prescribed conditions are met. There is uncertainty about the amount and timing of outflows. Contingent exposure is R10,43 million.

### 18.7 Misallocated grant levy income

An inherent risk exists that levy income received may not belong to THETA due to misallocations by SARS and DoL. THETA has provided only for grant payments relating to misallocated funds if an application was received.

THETA may have counter claims against other SETAs for misallocated funds, which have not been provided for.

## 19. COMMITMENTS

### 19.1 Discretionary grant reserve

Discretionary grants are not accrued until a contractual obligation exists, even if applications have been approved at year end.

Of the balance of R48,057 million available in the discretionary grant reserve at the end of March 2004, R16,4 million has been approved and allocated for future projects and skills priorities as set out below. Amounts for expenses that have already been contracted or incurred, and therefore included in grant expenses in the income statement, are also indicated. A request for the accumulation of these funds has been submitted to National Treasury. At the time of compiling the financial statements, no reply had been received.

An application letter to use surplus funds for projects was written to DoL on 17 March 2004. A reply has been received from DoL indicating the exemption from investment of surplus funds until the publication of the revised Treasury Regulations, repealing regulations 31.3.3 to 31.3.5 yet to be published.

Name of project: learnerships	Approved by	Amount utilised
	Accounting Authority	at 31 March 2004
	R'000	R'000
1 500 employed learners	30 312	18 000
Paid to date	(13 912)	(11 600)
<b>Total</b>	<b>16 400</b>	<b>6 400</b>

### 19.2 Operating leases

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

	2003/04	2002/03
	R'000	R'000
Not later than one year	1 423	795
Later than one year and not later than five years	6 732	-
	<b>8 155</b>	<b>795</b>



**notes to the annual financial statements  
for the year ended 31 March 2004**

The operating lease relates to building premises used for office accommodation. The lease agreement was entered into effective 1 February 2004 and will be operational for a period of five years, expiring on 31 January 2009. The rental escalates annually on 1 February with 9%.

**20. IRREGULAR AND UNAUTHORISED EXPENDITURE**

The following expenses were not on the original budget approved by DoL, but were subsequently approved by the board.

<b>Expenditure</b>	<b>R'000</b>
a. Administration expenditure for the year exceeded the 10% administration expenditure threshold as prescribed in the Skills Development Act 1998 (Act No 97 of 1998) by 2,61%. These expenses were approved at a board meeting on 21 April 2004. The main reasons for this over-expenditure were:	
<ul style="list-style-type: none"> <li>• Legal fees regarding previous CEOs' suspension and court cases. These court cases will still continue into the next financial year. Refer note 18.4. <span style="float: right;">562</span></li> <li>• Cost of preparation for court cases regarding CEOs. The majority of costs have been incurred in the current financial year. <span style="float: right;">818</span></li> <li>• Scopa investigation. Investigation has been completed and the draft report has been prepared by Ernst and Young. <span style="float: right;">200</span></li> </ul>	
b. THETA has inherited most of its systems from the previous HITB and together with the high turnover of staff in key positions, this has left THETA with outdated and weak systems. In order to rectify this huge task within a short period of time, THETA has appointed various consultants to assist with these functions: <span style="float: right;">1 516</span>	
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c. SGB and development cost. THETA has no budget to do this function, but it is a necessary function for the ETQA department to optimise functionality. SGBs form part of the project proposals that were sent to DoL. If they are authorised they will not be part of THETA's expenses for the next year. <span style="float: right;">457</span>	
<b>Total irregular and unauthorised expenditure</b>	<b>3 553</b>



## 21. ERRORS

The incorrect accounting treatment in the prior years of the matters referred to in note 21.1 to 21.7.3, has resulted in fundamental errors and the restatement of the financials for 2002/03.

### 21.1 Levy income

Levy income has been increased against prior year reserves with an amount of R524 393 as a result of a short payment made by DoL in the financial year ending March 2002. For the year ending March 2003 an overpayment of R23 437 was received, also resulting in a prior year adjustment to decrease grant and levy income.

	R'000	R'000	R'000
	Prior year 2003	Adjustment	Restated 2003
<b>DoL short payments 2002</b>			
Administration and employer grant reserves	(19 571)	(525)	(20 096)
VAT output	(194)	(8)	(202)
	<u>90</u>	<u>533</u>	<u>623</u>
<b>DoL overpayments 2003</b>			
Levies - administration	(7 624)	3	(7 621)
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	<u>(68 462)</u>	<u>24</u>	<u>(68 438)</u>
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<b>Depreciation</b>	<b>Prior year 2003</b>	<b>Adjustment</b>	<b>Restated 2003</b>
Cost price	2 501	-	2 501
Accumulated depreciation	(2 259)	124	(2 135)
Net book value	<u>242</u>	<u>124</u>	<u>366</u>
Depreciation expense	<u>235</u>	<u>(124)</u>	<u>111</u>

### 21.3 Interest received

The interest received calculation for 2003 was understated by a net amount of R2 934 662. The cash and cash equivalents have been corrected.

	Prior year 2003	Adjustment	Restated 2003
<b>Interest received</b>	(6 660)	(2 935)	(9 595)
Investments grants DoL bank	63 919	1 538	65 457
Investment Nedbank	12 756	1 397	14 153
	<u>76 675</u>	<u>2 935</u>	<u>79 610</u>



**notes to the annual financial statements  
for the year ended 31 March 2004**

**21.4 Accruals**

Unsubstantiated accruals, which include expenses and employer grants, with a net amount of R1,556-million and R54,017-million have been reversed.

	R'000	R'000	R'000
	Prior year 2003	Adjustment	Restated 2003
Travel office staff	415	(1)	414
Accrual account	(861)	1	(860)
Grant payables at 2003 year end overstated			
Grant expense per income statement	63 749	(54 018)	9 731
Provision for skills development grants	(75 862)	54 018	(21 844)

**21.5 InterTHETA expenses**

InterTHETA expenses of R1,564-million have not been eliminated on consolidation in 2003. Due to project expenses being eliminated on consolidation, there is surplus and correction from discretionary reserve to project reserve.

	Prior year 2003	Adjustment	Restated 2003
Discretionary reserves		-	

**21.6 Inter group balances**

The following interTHETA debtors and creditors balances have been eliminated for 2003

Year 2003	Adjustment
THETA - INTAC debtor	193
THETA - Tourism Learnership Project debtor	1 344
<b>Year 2004</b>	
THETA - Tourism Learnership Project debtor	1 516
SATI	22

**21.7 Restatement of donor funding and NSF**

Adjustments	R'000
Tourism Learnership Project	(4 420)
INTAC	360
SATI	736
<b>Total</b>	<b>(3 324)</b>

**21.7.1 Tourism Learnership Project**

It is the first year that individual annual financial statements have been prepared for TLP. All comparatives were previously disclosed in the consolidated annual financial statements of THETA.

In terms of statement AC103: net profit/loss for the period, fundamental errors and changes in accounting policies, the following fundamental errors were identified:

- a. The depreciation calculation in 2002 was incorrectly performed with a net amount of R30 335. The accumulated depreciation and donor's liability via the unappropriated surplus reserve were adjusted.
- b. The expenses for 2003 were understated by R3 199 089 due to invoices processed and paid after 2003 year end. The appropriate accrual and donor's liability via the unappropriated surplus reserve were adjusted.
- c. Business Trust interest received in 2003 was incorrectly allocated to sundry creditors - the correct accounting treatment is to allocate the interest to the donor fund liability.





d. According to the donor funding contract all surpluses or deficits should be transferred to the donor funding account. This was not done in the prior year. Comparative figures have been restated to correctly transfer the deficit to the donor funding account.

Donor funding received of R38 815 000 has been correctly restated to R44 016 999.

	R'000	R'000	R'000
	<u>Prior year 2003</u>	<u>Adjustment</u>	<u>Restated 2003</u>
<b>Effect on donor's liability</b>			
Depreciation	(337)	30	(307)
Expenses	(38 574)	(3 199)	(41 773)
Business Trust interest	(956)	956	-
Transfer of deficit 2003	2 207	(2 207)	-
<b>Total effect on donor's liability</b>		<u>(4 420)</u>	

There is no tax effect since the company is exempt from tax.

#### 21.7.2 INTAC

It is the first year that individual annual financial statements have been prepared for INTAC. All comparatives were previously disclosed in the consolidated annual financial statements of THETA. In terms of statement AC103 - net profit or loss for the period, fundamental errors and changes in accounting policies, the following fundamental errors were identified.

##### Fixed assets

Fixed assets were incorrectly accounted for as expenses in the 2003 financial year as opposed to being capitalised and depreciated over the life of the asset, as required by AC123 - property, plant and equipment. Assets with a cost of R442 231 were capitalised and the depreciation for the year was R84 970.

##### Telephone expenses

Telephone expenses were overstated by R2 645 in 2003.

	R'000	R'000	R'000
	<u>Prior year 2003</u>	<u>Adjustment</u>	<u>Restated 2003</u>
<b>Effect on donor's liability</b>			
Fixed assets: cost price	-	442	442
Accumulated depreciation	-	(85)	(85)
		<u>357</u>	<u>357</u>
Telephone expenses	148	3	145
<b>Total effect on donor's liability</b>		<u>360</u>	

There is no tax effect since the company is exempt from tax.

#### 21.7.3 SATI

It is the first year that individual annual financial statements have been prepared for SATI. All comparatives were previously disclosed in the consolidated annual financial statements of THETA.

In terms of AC103: net profit for the period, fundamental errors and changes in accounting policies, the following fundamental errors were identified:

##### a. Interest received/paid

The 2003 income statement disclosed interest received of R1 459 005 and interest paid of R629 420. The balance of R829 585 should have been transferred to the donor's liability account according to the contract with the donor.



**notes to the annual financial statements  
for the year ended 31 March 2004**

Interest of R529 030 was received and incorrectly recognised as income in 2003. This interest should have been accrued for in 2002.

**The following errors have been identified:**

Interest received and investments have been incorrectly overstated by R500 000.

An amount of R629 420 was incorrectly disclosed as interest paid and credited to the donor's liability account.

**The correct treatment of the above fundamental errors is:**

Interest of R959 005 (previously disclosed as R1 459 005 less overstatement of R500 000) should have been transferred to the donor's liability account.

The interest paid of R629 420 was reversed.

The transfer to the donor's liability account is a direct result of the contract between THETA, Spanish Agency of International Cooperation (AECI) and DEAT, that stipulates that interest received on surplus funds can be utilised only once specific authorisation from the donor is received. At the end of 2003 no such authorisation had been obtained.

**b. Fixed assets**

Fixed assets have been incorrectly accounted for as expenses in the 2003 financial year as opposed to being capitalised and depreciated over the life of the assets, as required by AC123 - property, plant and equipment. Assets with a cost value of R37 347 were capitalised and the depreciation for the year was R8 122 (net book value - R29 225). Refer to note 2 for additional information.

**c. VAT debtor written off**

A VAT claim of R14 674 was raised in 2003. SATI is a VAT-exempt enterprise, hence the amount is not recoverable and was written off.

	R'000	R'000	R'000
	Prior year 2003	Adjustment	Restated 2003
<b>Effect on donor's liability</b>			
a Interest received	1 459	(500)	959
Interest paid	(629)	629	-
Interest received	(592)	592	-
b Fixed assets	-	29	29
c VAT debtor	15	(15)	-
<b>Total effect on donor's liability</b>		<b>735</b>	

There is no tax effect since the company is exempt from tax.



## 22. PROJECTS ASSETS AND LIABILITIES

The following three projects are currently managed by THETA

- Tourism Learnership Project
- Integrated Nature Based Tourism and Conservation
- South African Tourism Institute

	R'000	R'000	R'000
<b>Assets</b>	<b>TLP</b>	<b>INTAC</b>	<b>SATI</b>
Fixed assets	126	251	20
Accounts receivable	21	8 445	23
Bank and cash	16 597	6 506	8 864
<b>Total assets</b>	<b>16 744</b>	<b>15 202</b>	<b>8 907</b>
<b>Liabilities</b>			
Accounts payable	5 836	9 232	85
Donor's funding	10 643	5 602	8 770
Provisions	265	368	52
<b>Total liabilities</b>	<b>16 744</b>	<b>15 202</b>	<b>8 907</b>

## 23. HITB RESERVE

The final reserve that has been transferred from HITB to THETA has not been disclosed separately due to outstanding confirmation from DoL. This applies to note 18 contingent liabilities.



## report of the audit committee

This report has been prepared in accordance with the Treasury Regulations for Public Entities in terms of the Public Finance Management Act 1999 (Act No 1 of 1999) and promulgated in Government Gazette No 21249 on 31 May 2000.

The representatives on the committee are Kananelo Makhetha, Mike Tsotetsi, Joseph Maqhekeni, Tony Beart, Carol-Anne Cairns and Dr Penelope Richards, an external auditor. Two additional external members will be joining the audit committee in the new year: John Leslie Davids and Nayish Parbhoo.

Persons in attendance at audit committee meetings regularly included the internal auditors and representative of the office of the Auditor-General K Lachman.

The audit committee reviewed THETA's annual financial statements for the year ending 31 March 2004 as audited by the office of the Auditor-General and is satisfied that those statements are reasonable and accurate.

The committee has also reviewed the reports of the office of the Auditor-General. Our external and internal auditors are satisfied that the internal control systems in place were adequate and effective in managing the major financial risks facing THETA.

Adherence to deadlines and requirements stipulated by the Public Finance Management Act (PFMA) remains a priority and continues to receive attention. To streamline processes and monitor compliance, THETA's internal auditors were tasked with the development of a detailed audit plan that addresses internal and external audit needs and timelines. This plan, once adopted, will become a fixed agenda item and progress against the plan will be reviewed at each meeting.

In the preceding year, a major focus area was to provide structure and formalise processes to enable committed members and THETA to comply with the governance ideal expressed in the King Report. To this end, committee members have adopted and adhere to an audit committee charter. Risk and fraud policies were developed.

In closing, I extend my thanks to those who have committed time and expertise to further the efforts of the audit

committee. The contribution made by each and every one is valued and most appreciated.

Whilst no doubt the year ahead will present a number of new challenges and opportunities, I am confident that this committee has the ability to deliver services on behalf of all THETA stakeholders.

THETA's annual financial statements fairly reflect the financial position of the authority at 31 March 2004. Certain provisions of the PFMA were not fully implemented during the year and this is being addressed through the risk assessment programme. The committee is not aware of any material non-disclosure of assets or liabilities.



Joseph Maqhekeni  
*Audit committee chairperson*





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