**3. REPORT OF THE PORTFOLIO COMMITTEE ON HIGHER EDUCATION, SCIENCE AND TECHOLOGY ON THE CONSIDERATION OF THE 2018/19 ANNUAL REPORTS OF THE NATIONAL SKILLS FUND (NSF) AND THE SECTOR EDUCATION AND TRAINING AUTHORITIES (SETAs), DATED 3 DECEMBER 2019**

The Portfolio Committee on Higher Education, Science and Technology (hereinafter referred to as the Committee), having considered the 2018/19 financial and non-financial performance of the of the National Skills Fund (NSF) and the Sector Education and Training Authorities (SETAs), reports as follows:

**1. INTRODUCTION AND MANDATE OF THE COMMITTEE AND THE ENTITIES**

**1.1. Introduction and mandate of the Committee**

Section 55(2) of the Constitution of the Republic of South Africa, 1996 stipulates that *“the National Assembly (NA) must provide for mechanisms (a) to ensure that all executive organs of state in the national sphere of government are accountable to it; and (b) to maintain oversight of (i) national executive authority, including the implementation of the legislation; and (ii) any organ of state”.*

The Committee oversees the implementation of the following Acts as amended:

Higher Education Act, 1997 (Act No.101 of 1997), National Student Financial Aid Scheme Act, 1999 (Act No. 56 of 1999), Continuing Education and Training Act, 2006 (Act No. 16 of 2006), National Qualifications Framework Act, 2008 (Act No. 67 of 2008), Skills Development Act, 1998 (Act No. 97 of 1998), Skills Development Levies Act, 1999 (Act No. 9 of 1999) and General and Further Education and Training Quality Assurance Act, 2001 (Act No. 58 of 2001).

**1.2. Purpose of and method to develop the report**

The purpose of this report is to account, in accordance with Rule 339 of the Rules of the National Assembly for the work done by the Committee in considering the 2018/19 Annual Reports of the NSF, the Wholesale and Retail Sector Education and Training Authority (W&RSETA), the Agriculture Education Sector Education and Authority (AgriSETA), the Mining Qualifications Authority (MQA), the Transport Education and Training Authority (TETA), the Construction Education and Training Authority (CETA) and the Services Sector Education and Training Authority (SSETA) which were tabled in accordance with Section 40 (1) of the Public Finance Management Act, 1999 (Act No. 1 of 1999 as amended); and as referred in terms of National Assembly Rule 338 by the Speaker to the Committee for consideration and reporting in terms of Rules 339 and 340 respectively.

The Committee had a briefing session with the Auditor-General of South Africa (AGSA) on the 2018/19 audit outcomes of the NSF and the SETAs on 15 October 2019. The Committee also convened briefing meetings with the NSF on 22 October 2019, the W&R SETA, the MQA and the TETA on 23 October 2019 and the AgriSETA, the CETA and the SSETA on 30 October 2019 to consider their 2018/19 Annual Reports. The Committee, further had a follow up meeting with the SSETA and the CETA to a follow-up meeting on 26 November 2019 to address some of the issues that were inadequately responded to during the briefing session on 23 October 2019.

**2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS**

**2.1. Relevant Government policy documents**

The National Development Plan (NDP)identifies skills development and education as a critical enabler for economic development. The NDP states that SETAs should play a more effective role in the production of skills that are required to meet the immediate needs of the employers. The 2014 – 2019 Medium Term Strategic Framework (MTSF) states that there should be an improved interface between SETAs, workplaces and education and training institutions (Technical and Vocational Education and Training Colleges, universities and adult education and training institutions). The interface is to support greater opportunities for work-based training and experience, with 140 000 work-based learning opportunities planned for 2019. The Framework further targets increased partnerships between SETAs and employers for placement.

The White Paper for Post-School Education and Training (WPSET) sets out a vision of a single, coherent, differentiated and the articulated PSET system. This will result in the review of all PSET legislation and a drive towards a higher degree of integration with the PSET system. The WPSET stipulates that the NSF is an important source of funding to enable linkages between the skills system and other post-schooling sub-systems. A number of the strategic goals and objectives related to the PSET system cannot be achieved without the enabling funding from the NSF.

The National Skills Development Strategy (NSDS) III is an overarching strategic guide for skills development and provides direction to sector skills planning and implementation in the SETAs, and the framework for the skills development levy resource utilisation by the SETAs and the National Skills Fund. The strategy also sets out linkages with, and responsibilities of, other education and training stakeholders.

During the 2018 State of the Nation Address, Hon C Ramaphosa announced that government would work in partnership with business, organised labour and community representatives to create opportunities for young people to be exposed to the world of work through creating a million internships in the next three years, apprenticeships, mentorship and entrepreneurship. The President announced that measures will be put in place to set the country on a new path of growth, employment and transformation. Social partners in the country would collaborate to build a social compact on which drivers of economic growth would be created.

**3. OVERVIEW AND ASSESSMENT OF THE NATIONAL SKILLS FUND AND THE SETAs’ 2018/19 FINANCIAL AND SERVICE DELIVERY PERFORMANCE**

**3.1. National Skills Fund**

The National Skills Fund (NSF) was established in 1999 in terms of section 27 of the Skills Development Act, 1998 (Act No. 97 of 1998) (SDA). The main revenue sources for the National Skills Fund consist of 20 percent of the skills development levies contemplated in the Skills Development Levies Act, 1999 as collected by the South African Revenue Service (SARS); interest earned on investments held at the Public Investment Corporation (PIC); and uncommitted surpluses from the SETAs that have been transferred to the NSF in terms of the SETA grant regulations. Regulations to prescribe the limit for the administration of the Fund at 10 percent of revenue was published in Government Gazette No. 33740 dated 8 November 2010.

In 2018/19, the NSF had two budget programmes, Funding Skills Programmes and NSF Business Excellence, with a combined total of 16 predetermined targets. The NSF had achieved 63 per cent (13) of the targets (73 per cent in 2017/18). Targets that were not achieved related to not attaining 100 percent of NSF-funded projects aimed at expanding, integrating and improving the effectiveness of the PSET system due to inadequate business plans that exists, NSF-funded projects aimed at expanding, integrating and improving the effectiveness of the PSET system, NSF - funded skills infrastructure development projects with a clear business plan and budget breakdown, NSF-funded research, innovation and advocacy projects where the actual project expenditure to date is in line with the actual project performance to date.

Through the approved R798 million, the NSF funded 10 223 students’ bursaries and scholarships, through the following programmes: Rural Student Programme, the University of Limpopo and University of Fort Hare South African Chartered Accountants (SAICA) Programme, international scholarships. The NSF also funded learners for priority occupations: R7 million to support unemployed TVET College engineering students towards becoming seafarers, R87.4 million towards infrastructure refurbishments, development of learning materials, sourcing of training equipment and capacity building as well as towards supporting 68 mini cadets at Umfolozi TVET college. An amount of R150 million was approved to support the Centres of Specialisation, R7.4 million over three years towards professional development of the TVET campus managers project. The NSF allocated R180 million towards supporting the construction of rigging workshop at False Bay TVET college to be used as an artisanal centre of specialisation for rigging.

**3.1.1. Overview and assessment of the NSF’s 2018/19 budget and expenditure**

For the 2018/19 financial year, the NSF had a total revenue amounting to R4.0 billion. The revenue comprised of R3.5 billion from non-exchange transactions (R3.5 billion is from skills levies and R8.1 million from SETAs for INDLELA recapitalisation) and R503.5 million from exchange transactions (R445.3 million finance income and R58.2 million from finance income from advance payments to skills development programmes and projects). The NSF total revenue increased by 6.28 per cent from 2017/18. The increase was attributed to the increase in revenue from the skills development levies and income from SETAs.

At the end of the financial year, expenditure amounted to R2.5 billion. The NSF recorded a surplus amounting to R1.5 billion, which decreased significantly compared to R3.4 billion incurred in 2017/18. The bulk of the expenditure, R2.3 billion was apportioned to skills development grant disbursement and administrative expenses amounted to R154.9 million. Expenditure on skills development grants experience significant decline compared to R7.0 billion in 2017/18, which was attributed to the implementation of the fee free education policy and the NSF was no longer required to fund no fee increase in the higher education sector, which was the case for 2017 and 2018 academic years.

For the 2018/19 financial year, the NSF incurred irregular expenditure amounting to R4.6 million. The overall irregular expenditure, including R404.4 million from the prior year (2017/18) amounted to R409.0 million. Current year irregular expenditure amounting to R4.6 million was as a result of expenditure incurred relating to bids that were awarded in contravention of the Construction Industry Development Board (CIDB) regulations. The prior year irregular expenditure amounting to R404.4 million was incurred due to non-compliance to requirements of supply chain management.

**3.1.2. 2018/19 audit outcomes**

**3.1.2.1. Audit opinion**

For the 2018/19, the NSF received a qualified audit opinion award with findings by the Auditor General of South Africa (AGSA). This was a regression for an unqualified audit opinion with findings awarded in 2017/18. The NSF annual financial statements were qualified on accruals and receivables. There were material misstatements in the financial statements which were identified during the audit of the financial statements, which resulted in a qualified audit opinion.

**3.1.2.2. Material findings**

The AGSA raised material findings with respect to financial performance where the AGSA was unable to obtain sufficient appropriate audit evidence that accruals from non-exchange transactions and the related skills development expenses had been properly accounted for, as evidence that the services had been received could not be provided. The AG was unable to confirm the accruals from non-exchange transactions and the related skills development expenses by alternative means as it was impractical to do so; usefulness and reliability of the reported performance information. The reported achievement in the annual performance report did not agree to the supporting evidence provided for some indicators; the financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1) (a) and (b) of the PFMA; the AGSA was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was because proper and complete records were not maintained as evidence to support the investigations into irregular expenditure. The AGSA found thatManagement did not implement adequate internal controls relating to project monitoring and reporting. This resulted in underlying records not being readily available, and in material misstatements on the values reported in the financial statements. Management also did not put processes in place to ensure adequate monitoring of the internal controls that support reliable financial and performance reporting, and compliance with legislation. The AG also found that record management processes were also inadequate as the supporting documentation was inadequate to support investigations into irregular expenditure incurred in the previous year.

**4. OVERVIEW AND ASSESSMENT OF THE SECTOR EDUCATION AND TRAINING AUTHORITIES (SETAs) 2018/19 FINANCIAL AND SERVICE DELIVERY PERFORMANCE**

The Sector Education and Training Authorities are established in terms of the Skills Development Act, 1998 (Act no 97 as amended) and listed in terms of the PFMA, as Schedule 4A public entity. The Skills Development Act mandates the SETAs to promote skills development for the education and training sector. The SETAs are funded through the 1 per cent levy income paid by employers to the South African Revenue Service (SARS).

**4.1. Wholesale and Retail SETA**

For the 2018/19 financial year, the W&RSETA’s service delivery performance was informed by five strategic goals, a skilled, capable and professional workforce in the W&R Sector; an effective and efficient organisation which supports the implementation of the Strategic Plan; effective stakeholder engagement and strategic partnerships that are beneficial to both parties; a skilled, vibrant Small, Medium and Micro Enterprises (SMMEs) and co-operative sector, and responsive and empowered training providers who can effectively meet the training needs of the W&R Sector. During the year under review, the W&RSETA had four budget programmes, Administration, Research and Skills Planning, Learning Programmes and Projects and Quality Assurance. These programmes had a combined total of 48 performance indicators and 81 predetermined targets. The W&RSETA achieved 31 per cent (25 out of 81 targets) of the predetermined targets.

Targets that were not achieved related to, amongst others, not attaining an unqualified audit opinion, zero findings on two out of four quarterly performance reports, establishment of three Retail Chairs, registration of 5 500 employed and 800 unemployed learners on skills programmes addressing W&R scarce and critical skills identified in the sector Skills Plan, registration of 2 000 and 1 000 new beneficiaries at TVET colleges and higher education institutions respectively, learners completing learnerships or apprenticeship addressing artisan occupations, and 25 employed bursary beneficiaries registered for 12 and completing W&R sector related studies in MBA/Masters or Doctoral degrees, 900 W&R employers capacitated through disability sensitisation programmes implemented during the period 1 April 2018 to 31 March 2019, registration of 500 and 250 unemployed learners from rural areas completing learnerships that address scarce skills or occupational qualifications, two new or updated qualifications submitted to the Quality Council for Trades and Occupations, and 300 learners assisted to access W&RSETA opportunities through career guidance and development.

**4.1.1.1. Overview and assessment of the W&R SETA’s 2018/19 budget and expenditure**

For the 2018/19 financial year, W&RSETA’ s total revenue amounted to R1.307 billion, which is comprised of R157.6 million from exchange transactions and R1.149 billion from non-exchange transactions (R1.147 billion skills development levy transfer and R2.9 million other transfer revenue).

Expenditure at the end of the financial year amounted to R867.7 million. The W&RSETA recorded a surplus amounting to R439.7 million. Comparatively, expenditure and recorded surplus increased compared to 2017/18 expenditure and surplus amounting to R827.4 million and R386.9 million respectively. For mandatory grants, the W&RSETA underspent by 26 per cent due to some levy paying stakeholders, not participating in the annexure II process which is the Guidelines on how to register as a Skills Development Facilitator (SDF) and complete. Also there was a 23 per cent under expenditure on discretionary grants due to delays in implementing discretionary grant projects.

The W&RSETA incurred irregular expenditure of R12.0 million in 2018/19 due to supply chain management requirements not being adhered to and a failure to comply with the Sector Education and Training Authority’s (SETAs) grant regulations. The disclosed cumulated irregular expenditure, including the prior year (2017/18) amounted to R409.8 million

There was 1 case of fruitless and wasteful expenditure amounting to R287 million. Disciplinary steps have not yet been taken as matters are still under investigation.

**4.1.1.2. Auditor-General’s Report**

For the 2018/19, the W&RSETA received a qualified audit opinion award with findings by the Auditor General of South Africa (AGSA). This was a regression for an unqualified audit opinion with findings awarded in 2017/18.

**Material findings**

The AGSA raised material findings on financial statements where corresponding figures for 31 March 2018 were restated as a result of errors in the financial statements of the W&RSETA for the year ended 31 March 2019; expenditure management where effective steps were not taken to prevent irregular expenditure of R12 043 000 (2018: R87 580 000), due to some supply chain management requirements not being adhered to and a failure to comply with the Sector Education and Training Authority’s (Seta) grant regulations; usefulness and reliability of reported information for Programme 2: Research and Skills Planning; ccompliance with legislation where annual financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the PFMA, procurement and contract management: Some of the goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by treasury regulation 16A6.1; and internal control deficiencies due to inadequate oversight exercised over the annual performance report as the reporting of achievements was not always aligned with the actual activities/projects implemented by the W&RSETA, amongst others.

**4.2. Mining Qualification Authority**

During the year under review, the MQA had four budget programmes, Administration, Sector Skills Planning and Research, Learning Programmes and Quality Assurance. All the four programmes had a combined total of 43 predetermined targets. Of this, the MQA achieved 81 per cent (35 targets).

During the 2018/19 financial year, the MQA achieved full compliance in terms of reporting, policies, legislation and sustainability, conducted one stakeholder satisfaction survey, convened 82 career guidance events against the target of 70, convened 21 Skills Development Facilitator capacity building completed six sector research outputs, collaborated with three public and private sector organisations regarding skills development research in the mining and minerals sector. During the same period under review, 102 learners entered learnerships programmes, 901 employees successfully completed Occupational Health Safety Representatives’ Skills programme, 320 learners entered the artisan programme, 1 306 learners completed artisan programmes, 1 152 unemployed learners completed a learnership programme, 229 training providers were quality assured and 53 learning programmes for the mining and minerals sector were reviewed and developed.

Targets that were not achieved related to, amongst others, not attaining a clean audit opinion, 900 employees entering a learnership per annum, 50 HDSA mining and mineral sector learners that complete candidacy programme per annual, 350 undergraduates that enter a workplace experience programme and accreditation of 10 historically disadvantaged South African training providers,

**4.2.1. Overview and assessment of the MQA’s 2018/19 budget and expenditure**

For the 2018/19 financial year, the MQA’s total revenue amounted to R1.2 billion, of which R1.2 billion was revenue from non-exchange transactions and R44.7 million from exchange transactions. Expenditure at the end of the financial year amounted to R884.2 million, with an underspending amounting to R324.6 million. Comparatively, expenditure decreased significantly by R441.8 million compared to R1.3 billion in 2017/18. The MQA only issued grant allocation letters and contracted late than what was anticipated. The variance of total revenue of 23 percent was due to the lesser reversal of prior levies by the South African Revenue Services (SARS). Expenditure on administration amounted to R134.1 million, which included R85.0 million for personnel costs.

The MQA incurred irregular expenditure amounting to R23 000 as a result of non-compliance with section 15,16 and 17 of the PPPFA which stipulates how tenders should be evaluated and awarded and practice note 8 of 2007/2008 which requires the entities to obtain at least three quotations. Furthermore, the supply chain management policy was not complied with in relation to the approval of all deviation from the normal SCM processes. For the year under review, two cases were identified as irregular and both were under investigation.

Fruitless and wasteful expenditure of R47 000 was incurred in respect of SARS interests and penalties, TV licences penalties and no show for booked flights and accommodation. The eight cases that constitute fruitless expenditure are still under investigation.

**4.2.2. Auditor-General’s Report**

The MQA obtained an unqualified audit outcome with findings during the period under review

**Material findings**

The AGSA raised material findings with respect to financial statements where corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the public entity at, and for the year ended, 31 March 2019; annual financial statements, the financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and/or supported by full and proper records, as required by section 55(1) (b) of the PFMA; internal control deficiencies where Management did not implement controls over daily and monthly processing and reconciling of transactions, creditors reconciliations, payments and follow-ups on long outstanding creditors were not performed timeously, and that the review of the financial statements was not adequate to identify and correct non-compliance with the GRAP statements.

**4.3. Transport Education and Training Authority (TETA)**

For the 2018/19 financial year, the TETA service delivery performance was informed by four strategic goals: to provide administration support services and enable TETA to deliver on its mandate and ensure compliance with all governance imperatives, to establish mechanisms for skills planning and research capacity, to increase access to occupationally directed programmes within the transport sector and to strengthen the quality assurance system. These goals were operationalised under the four budget programmes, Administration, Skills Planning and Research, Learning Programmes and Projects and Quality Assurance. The four programmes had a combined total of 76 predetermined targets for 2018/19 financial year, of which 83 per cent (63).

During the year under review, the TETA obtained an unqualified audit opinion from the AGSA, achieved 10.5 per cent as a percentage of levy income towards administration expenditure, and submitted TETA Workplace Skills Plan and Annual Training Report. In establishing mechanisms for skills planning and research, the TETA conducted two research studies, produced TETA SSP, supported one Research Chair, received 569 mandatory grant applications from small firms and approved 1 048 mandatory grant applications.

In increasing access to occupationally directed programmes within the transport sector, 7 619 were supported to access occupationally directed programmes through TVET, HEIs and other providers through bursaries, skills and learnership programmes, Adult Education and Training, apprenticeship, cadetship and candidacy programmes. 50 transport industry candidates were placed on leadership development programme, executive development programme, women in leadership programme and Masters programme in Maritime Affairs. TETA successfully established eight partnerships with TVET colleges, assisted 126 stakeholders in the TETA’s Limpopo-based offices, placed 338 graduates on internship programmes and procured 36 000 career guidance items. In strengthening the quality assurance system, 10 curricula for occupational qualifications were developed, 305 training providers were capacitated, 148 external moderations were conducted and 296 learning programmes were developed amongst others.

Targets that were not achieved related to, amongst others, not attaining 140 learnership workplace approvals, 50 bursaries completed (workers), 100 bursaries completed (unemployed), 150 artisans completed (workers), 260 mandatory grant applications received from large firms, and 300 employed learners on apprenticeship.

**4.3.1. Overview and assessment of the TETA’s 2018/19 budget and expenditure**

For the 2018/19 financial year, the TETA’s total revenue amounted to R838.7 million, which includes, among others, R82.5 million from exchange transactions and R756.2 million from non-exchange transactions. Revenue decreased by R31.2 million compared to R869.9 million in 2017/18, due to decrease in other income and skills development levy penalties and interest by R63.9 million and R446 million respectively. Expenditure at the end of the financial year amounted to R757.7 million, with a surplus amounting to R80.9 million. The bulk of the expenditure, R662.9 million was apportioned to grants and projects expenses and R56.3 million for employee related costs and R38.5 million for administration.

For the current year, the SETA incurred irregular expenditure amounting R1.6 million as a result of extending five contracts (which had an extension clause) above the allowed 15% variation threshold set by National Treasury. The prior year irregular expenditure amounted to R503 000.

**4.3.2. Auditor-General’s Report**

The TETA obtained an unqualified audit outcome with findings during the period under review

**Material findings**

The AGSA raised material findings with respect to material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 3: learning programmes and projects. As management subsequently corrected the misstatements; annual financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA; procurement and contract managementwhere some of the contracts were extended or modified without the approval of a properly delegated official as required by section 44 of the PFMA and treasury regulations 8.1 and 8.2; expenditure management, where effective and appropriate steps were not taken to prevent irregular expenditure of R1 553 000.

**4.4. Agriculture SETA**

During the period under review, the AgriSETA had four budget programmes: Administration, Skills Planning, Learning Programmes and Projects, and Quality Assurance. The programmes had a combined total of 78 predetermined targets for the 2018/19 financial year. The SETA achieved 63 per cent (49) of the targets.

For the 2018/19 financial year, the SETA reduced internal control deficiencies reported in the previous AG’s report by 89 per cent, held nine board meetings against the target of four, updated the Sector Skills Plan, maintained a 10 per cent improvement in the validity of reported information, revised the mandatory grant system to improve effectiveness, experienced increased participation of large and medium firms in mandatory grants, increased the skills levels of beneficiaries of public sector capacity by 30 per cent, 400 learners completed 400 internship and graduate placement programmes, distributed 1 018 HIV and Aids DVDs to create awareness, established three strategic partnerships for enhancing capacity of youth in agriculture and career development, and held career exhibitions attended by 269 schools.

Targets that were not achieved related to, amongst others, not attaining 100 per cent of invoices processed within PFMA (1999) guidelines, All (100 per cent) service providers procured and managed within National Treasury guidelines, 10 per cent increase in the quality of the information that the board receive from board sub-committees, 90 per cent of all ICT (hard and software) related incidents resolved within 24 hours of first report, 90 per cent of employees participate in further career development, An increase in the participation of employers in mandatory grants from 1790 to 1810 (1011 small firms),Number (40) of learners participating in agricultural leadership development programmes, Number (8) of co-funded projects supported through public entities, Number (AET-830) of learnerships, skills and AET programmes to employed learners and support to commodity organisations, Number of internship and graduate placement programmes, Number (B(18.1) 45)of employed and unemployed learners completing bursary and Artisan Development programmes, Number (6)of occupationally directed qualifications developed and Number (5) of Assessment Quality Partners (AQP’s) supported through alignment to the QCTO.

**4.4.1. Overview and assessment of the AgriSETA’ s 2018/19 budget and expenditure**

For the 2018/19 financial year, the AgriSETA’ s total revenue amounted to R465 million, made of R432.8 million non-exchange transactions (R425 million from Skills Development Levy Income and R7.7 million Skills Development Levy: penalties and interest) and R32.3 million from exchange transactions. Total expenditure at the end of the financial year amounted to R440.7 million or 95 percent of the total revenue, with lower than projected spending amounting to R24.4 million. The bulk of expenditure, R386.5 million was apportioned to employer grants and projects expenditure. Expenditure on employee costs amounted R19.2 million and R33.9 million was for general expenses.

For the 2018/19, the SETA incurred irregular amounting to R5.3 million. This relates to approval of a bidder other than the one recommended by the Bid Evaluation Committee (BEC) not approved at the appropriate level for internal Audit services. The contract has been subsequently condoned by the Accounting Authority on the 29 May 2019 because there was no financial loss to AgriSETA, and the Internal Audit function provided value added service: R418 000; Contract for Konica Minolta has expired: R18 000; amount paid exceed approved contract value: R147 000; amounts (discretionary grant contracts) paid without Board approval: R4.7 million; and in 2018, deviations approved not in accordance with Treasury Regulations. Written pre-approval was not obtained from National Treasury before approval of appointment letter. Contravention of paragraph 8.5 of National Treasury SCM Instruction Note 3 of 2016/17: R431 000.

**4.4.2. Auditor-General’s Report**

The AgriSETA obtained an unqualified audit outcome with findings during the period under review

**Material findings**

The AGSA raised material findings with respect to: Financial Statements, where corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the public entity at, and for the year ended, 31 March 2019; programme performance in respect of the usefulness and reliability of the selected programmes, noting that the reported achievement in the annual performance report did not agree with the supporting evidence provided for certain indicators; expenditure managementwhere effective steps were not taken to prevent irregular expenditure of R5. 3 million for the current year; annual financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the PFMA; internal control deficiencies, noting ineffective oversight over operation of implemented controls, staff not held accountable for not addressing the previous year’s reported internal control deficiencies within the committed dates, amongst others.

**4.5. Construction Education and Training Authority**

For the 2018/19 financial year, the CETA had four budget programmes: Administration, Skills Planning, Research and Reporting, Learning Programmes and Projects and Quality Assurance. The programmes had a combined total of 78 predetermined targets for 2018/19 financial year. The number of targets achieved for 2018/19 was 70 at a success rate of 90 per cent.

During the year under review, the CETA established partnerships with public HEIs for the delivery of its programmes, achieved a clean audit, submitted four Governance Charter reports, conducted four staff development interventions (1 each quarter), partnered with 1 institution of higher education to develop a programme at the National Qualifications Framework Level 9 specifically for SETA Executive Management, and approved ICT Charter and ICT Strategic and Implementation Plan. The CETA also enrolled 6 463 unemployed learners, 725 employed learners on CSETA funded learnerships, assessed 2 051 leaners through RPL and accredited 511 training providers, amongst others.

Targets that were not achieved related to, amongst others, not attaining 5 per cent reduction in the vacancy rate, acquiring tablets (1) for learners on CETA funded projects, acquiring a biometric system (1)for registration of learners on CETA funded projects, the number of internships (262) completed: unemployed learners per year and number (43)of accredited TVET Colleges with the CETA.

**4.5.1. Overview and assessment of the CETA’s 2018/19 budget and expenditure**

For the 2018/19 financial year, the CETA’ s total revenue amounted to R799.8 million, made of R649.3.8 million from non-exchange transactions (R627.6 million from Skills Development Levy Income and R22 million Skills Development Levy: penalties, interest and facilities) and R150.5 million from exchange transactions. The total expenditure at the end of the financial year amounted to R867 million or 108 percent of the total revenue,

The audited financial statements reflect R11.7 million in irregular expenditure due to unauthorised adjustment to employment costs. This is currently a legal matter between the CETA and its employees. The CETA board resolution indicated action to be taken in a form of consequence management and to recover the irregular expenditure.

**4.5.2. Auditor-General’s Report**

The CETA has consistently obtained a clean audit outcome during the period under review

* The corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the public entity at, and for the year ended, 31 March 2019. However, this did not have an impact on the audit outcome.
* There were no material findings on the usefulness and reliability of the reported performance information for programme 3.
* There were no material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the Public Audit Act (PAA) of South Africa, 2004 (Act No. 25 of 2004).

**4.6. Services SETA**

During the period under review, the SSETA had four budget programmes: Administration, Skills Planning, Learning Interventions, and Quality Assurance. The programmes had a combined total of 35 predetermined targets for the 2018/19 financial year. The SETA achieved 97 per cent (34) of the targets. Target that was not achieved related to not attaining number (2104) of Skills Programmes completed due to challenges and delays that were experienced in the external moderation processes, which resulted in not all learner completions, undergoing moderation and certification on time.

The SSETA had 15 active infrastructure development projects, these were skills centres that were constructed across the country. In supporting a transformation agenda, the SETA implemented seven rural development projects. For the period under review, five research studies were conducted, complied fully with action plans actioned, maintained 84 per cent of sufficiently skilled people, established eight partnerships with HEIs. The SSETA supported 862 small businesses, 100 government and community-based organisations. In strengthening alignment to scarce and critical skills demand and priority skills, 31 226 learners were enrolled in different learning interventions (AET, artisan development, bursaries, candidacy programmes, internships, learnerships, Recognition of Prior Learning, Skills Programmes and TVET Placements). In capacitating and supporting skills development providers to strengthen relevant skills supply, the SETA accredited 83 per cent of SDP applications and conducted 92 per cent of external moderations.

**4.6.1. Overview and assessment of the SSETA’s 2018/19 budget and expenditure**

For the 2018/19 financial year, the Services SETA received a departmental transfer amounting to R1.6 billion. The total revenue amounted to R1.7 billion, which includes, among others skills development levies and transfers. Total expenditure amounted to R2.5 billion or 141 percent of its total revenue with an overspending of R711 million due to an expenditure incurred in excess of the budget, in contravention of section 53(4) of the PFMA. Overspending was mainly due to employer grants and project expenses amounting to R2.2 billion. The bulk of the expenditure, R2.2 billion was apportioned to employer grants and projects expenses. R215.1 million was for administration expenses, of which R54.6 million was for personnel costs and R155.4 million was for general expenses.

The SETA incurred irregular expenditure amounting to R17.1 million for the current year. There was a total R943 million irregular expenditure from 2017/18. This was due to payments made in contravention of Supply Chain Management regulations and costs that were incurred in excess of the approved budget in terms of section 53(4) of the PFMA. An amount of R919.3 million of irregular expenditure still awaiting condonation.

Fruitless and wasteful expenditure amounted to R19 000, due to the South African Revenue Services (SARS) interest and penalties related to people system configuration, which resulted in the usage of a wrong payroll report for the calculation of the pay as you earn. An application to SARS has been submitted to waive the penalty.

**4.6.2. Auditor-General’s Report**

Services SETA obtained a qualified audit outcome with findings during the period under review. This was a regression from a clean audit obtained in the prior year.

**Material findings**

The AGSA raised material findings with respect to annual financial statements which were not prepared in accordance with the prescribed financial reporting framework and supported by the full and proper records, as required by section 55(1) (a) (b) of the PFMA; expenditure management where expenditure was incurred in excess of the approved budget, in contravention of section 53(4) of the PFMA; internal control deficiencies where senior management did not adequately review the financial statements against supporting schedules for financial reporting relating to commitments, Services SETA did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting relating to commitments; and there was inadequate review and monitoring of compliance with applicable laws and regulations as a result of the material misstatements and instances of non-compliance identified and reported on. The Minister for the Department of Higher Education directed the accounting authority of the Services SETA to institute an investigation into allegations of supply chain irregularities. At the date of this report, the investigators had not yet finalised the report.

**4. OBSERVATIONS**

The Portfolio Committee on Higher Education, Science and Technology having considered the 2018/19 Annual Reports of the Entities made the following observations and key findings:

**4.1. National Skills Fund**

4.1.1. The entity received a qualified audit opinion with findings for 2018/19, which is a regression from the unqualified audit opinion awarded in 2017/18. The qualified audit opinion was attributed to internal control deficiencies, especially the inadequate project monitoring processes.

4.1.2. The entity invested R2.2 billion towards skills development interventions for 2018/19. However, it does not have a monitoring system to track the absorption of its beneficiaries into the labour market.

4.1.3. The Committee expressed a serious concern that the entity had two acting Chief Financial Officers (CFOs) during the year under review whilst the substantive CFO was seconded to oversee Project Siyaphambili.

4.1.4. The entity incurred irregular expenditure amounting to R4 million for the year under review due to non-compliance with supply chain management processes. The AG found that there were no investigations instituted on this matter and this is in contravention with the PFMA.

4.1.5. The overall performance of the entity for the year under review stood at 62 percent and this was not satisfactory given the amount of resources and mandate of the entity to close the skills gap.

**4.2. Wholesale and Retail SETA**

4.2.1. The Committee expressed serious concerns with respect to the state of affairs of the entity. The performance of the entity for the 2018/19 financial year stood at 31 percent, while it spent R867 million (76 per cent of its budget).

4.2.2. The entity regressed from an unqualified audit opinion with findings in 2017/18 to a qualified audit with the findings. Moreover, irregular expenditure amounting to R6.5 million was incurred during the year under review, mainly due to weaknesses in the supply chain management (SCM) processes.

4.2.3. The Committee was shocked to learn that the entity had six Chief Executive Officers (CEOs) excluding an Administrator within a period of two financial years. During this period, four forensic investigations were conducted by the board and the Administrator and there was little evidence of consequence management or arrests against individuals involved in wrongdoing.

4.2.4. The Committee expressed concerns about the failure of the previous board to execute its fiduciary duties with diligence. Compounding the situation was the alleged involvement of board members in the operations of the entity. This created instability within the entity and led to reputational damage. Some of the employers within the wholesale and retail sector lost confidence in the entity and migrated to other SETAs. During this period, employer participation dropped from 7 700 to 6 800.

4.2.5. The Committee expressed a concern that 70 out of the 200 employees of the entity were implicated in the forensic investigation report. It was shocking to the Committee that certain employees and board members utilized public funds for their own benefit.

4.2.6. The entity was unable to account for the absorption of its skills development beneficiaries into the labour market due to the absence of a tracer study report.

**4.3. Mining Qualifications Authority**

4.3.1. The entity received an unqualified audit opinion with findings for 2018/19 and its service delivery performance for 2018/19 stood at 80 percent.

4.3.2. The Committee noted the progress made by the entity in implementing consequence management against employees implicated in the forensic report which resulted in six employees being charged with misconduct and other cases referred to the National Directorate of Public Prosecutions (Hawks).

4.3.3. The decline in donor funding from multinational corporations that have mining operations in South Africa was noted with concern.

4.3.4. The inadequate skills development interventions dedicated to upskill small scale miners in the mining communities was concerning.

**4.4. Transport Education and Training Authority**

4.4.1. The entity received an unqualified audit opinion with the findings and the performance stood at 83 percent.

4.4.2. The Committee expressed a concern regarding irregular expenditure due to contracts extension.

4.4.3. The lack of women empowerment and emancipation in the transport sector was highlighted as a serious concern. In this regard, the Committee called upon the entity to prioritise the development of women in the transport sector.

4.4.4. The Committee expressed a concern regarding the lack of formalisation of the taxi industry. It was noted that the taxi industry is a backbone of the economy given that 15 million passengers utilise taxis as a form of transport and the sector is worth R50 billion per annum and employs 600 000 people. The TETA indicated that the taxi industry does not contribute levies unlike other transport sub-sectors, it only contributes R180 000 per annum. However, it receives R43 million funding for skills development levies.

4.4.5. The slow pace of transformation in the maritime sector was highlighted as a serious concern. Compounding the situation is that South Africa does not own ships and loses R90 billion annually. Nevertheless, the Committee noted the R23 million contribution by TETA towards the launch of a maritime training facility at the Umfolozi TVET college.

4.4.6. The Committee noted the assurance given by the board chairperson that there is a good working relationship between the CEO and the board Chairperson following a report that there was a breakdown of relations between the two.

4.4.7. The Committee noted with concern the high number of over-achievement of the targets during 2018/19, and questioned the criteria that is utilised to set targets.

4.4.8. The Committee noted with concern the low uptake of TETA skills programmes by students from universities.

**4.5. Agriculture SETA**

4.5.1. The entity received an unqualified audit opinion with findings for 2018/19. The Committee expressed a concern with regard to the irregular expenditure of R5.3 million incurred during the year under review.

4.5.2. The performance of the entity during the year under review stood at 63 percent and this was noted as unsatisfactory.

4.5.3. The recurring irregular expenditure at the entity and lack of consequence management was concerning. The AG indicated that the entity did not take steps to investigate irregular expenditure and this was in contravention of the PFMA.

4.5.4. The Committee expressed a concern that there were two members of the board who had Matric as their listed highest qualification in the Annual Report of the entity. The Committee noted that the boards require people with experience and requisite qualifications. AgriSETA indicated that it had no control over the appointment of board members as the names were forwarded by the constituencies and the Minister makes the appointments.

**4.6. Construction Education and Training Authority**

4.6.1. The Committee expressed a grave concern about the absence of the Board Chairperson who submitted an apology on the day of the meeting and re-invited the SETA board Chairperson and the former CEO to appear before it to respond to the allegations levelled against them in relation to the 15 per cent pension contribution and 15 per cent salary increase.

4.6.2. The Committee was shocked that the entity received a clean audit opinion for 2018/19 while there were numerous findings and irregular expenditure of R79 million.

4.6.3. The Committee expressed serious concerns about the allegations levelled against the former CEO who is accused of increasing the employee pension benefit by 15 percent and also increased the employees’ salaries by 15 percent without the board’s approval. The CEO was no longer in the employ of the entity and the board was in the process of seeking relief from the Labour Court to direct and authorize the entity to stop and recover the money paid to employees. The Committee was shocked to hear that one employee of the entity had committed suicide due to stress and other employees were traumatized by the latest developments at the entity. Moreover, the Committee was informed that some employees of the entity upgraded their lifestyle as a result of the 15 percent salary increment and were against the board’s plan to recover the funds paid to them.

4.6.4. The Committee was concerned about the manner in which the board handled the current impasse between the CETA Accounting Authority and the Executive Management and employees, with respect to the 15 percent pension benefits and 15 percent salary increase paid to workers. The Committee noted with concern that there was no clarity with respect to who should be held accountable for the impasse based on the presentations made by the former CEO and the Board Chairperson.

4.6.5. The multi-year agreement signed between employees and management was disregarded by the management and board, and the decision by the board to stop the 100 percent pension contribution by CETA and recover it and salary benefits paid to workers over a period of seven months. The Committee was also concerned about the role of the Board Chairperson in handling this dispute and his authoritarian style of governance towards employees who had been requesting for an amicable solution to this issue. The Committee was informed that a forensic investigation report concerning the allegations of maladministration at the entity had been completed and submitted to the DHET. However, the board did not receive the report and sought help to the Committee to get this report.

**4.7. Services SETA**

4.7.1. The Committee expressed a concern that the entity regressed from a clean audit opinion in 2017/18 to a qualified audit opinion with the findings.

4.7.2. The Committee noted with concern irregular expenditure of R17 million for 2018/19 and the status of the R943 million irregular expenditure for the prior years, of which the bulk of it (R832.5 million) was incurred due to costs incurred in excess of the approved budget and the other amount due to contravention of supply chain management (SCM) regulations. The amount of R919 million was still awaiting condonation.

4.7.3. The Committee expressed a concern about the lack of consequence management against officials contravening the SCM regulations.

4.7.4. The entity is among the four SETAs that contributed an amount of R1.1 billion out of the R1.2 billion irregular expenditure incurred within the higher education and training portfolio due to overspending on the budget. Compounding the situation was that the presentation by the CEO of the entity painted a picture of an organisation that is well managed.

4.7.5. The Committee expressed concerns about the allegations of overpayment of learner bursaries by the entity. It was further noted that there were alleged reports that some officials from the entity colluded with University officials to inflate the costs of study programme in order to benefit irregularly.

4.7.6. The R50 million spent on consultants and R20 million spent on advertisements were noted with concern.

4.7.7. The Committee noted with concern the allegations of irregularities in the awarding of tenders for the construction of the skills development centres.

4.7.8. The Committee was seriously concerned about the denial by the CEO that the SETA was not in crisis, whereas it incurred irregular expenditure amounting to R934 million during 2017/18.

4.7.9. The Committee also expressed concerns with respect to the allegations of appointment of senior executives without requisite qualifications and lack of consequence management against officials responsible for irregular expenditure.

**5. RECOMMENDATIONS**

The Committee recommends that the Minister of Higher Education, Science and Technology consider the following:

**5.1 National Skills Fund**

5.1.1. NSF develops a plan on the utilisation of the R6 billion invested in the **Public Investment Corporation (PIC)** for the developmental purpose in line with the NSF mandate.

5.1.2. NSF expedites the process of returning the CFO in his substantive position to improve the financial management of the entity and address the audit action plan.

5.1.3. NSF improves its project monitoring and evaluation systems to account on the performance of funded skills intervention programmes.

5.1.4. The Director-General (DG) ensures that the NSF as a listed Schedule 3A Public Entity finalises its organisational structure and fill the outstanding vacant posts, and also acquire its premises outside the Department.

5.4.5. NSF develops a database and tracer studies report on the impact of its skills development programmes and absorption of skills development beneficiaries into the labour market.

5.4.6. The DG ensures that action is taken to investigate irregular expenditure and those responsible are held accountable.

**5.2. Wholesale and Retail SETA**

5.2.1. The board and management fast-tracks the finalisation of misconduct hearings against employees implicated in the forensic investigation report and steps be taken to recover the fiscus that was lost. The law enforcement agencies should be requested to arrest those that are found guilty of misconduct.

5.2.2. Steps be taken to ensure that an action plan is developed, implemented to address all the findings raised by the AG against the entity and be monitored regularly.

5.2.3. The board to closely monitor the implementation of the turnaround strategy to restore stability at the entity and improve the overall performance with respect to predetermined objectives.

**5.3. Mining Qualifications Authority**

5.3.1. More support be given to small scale miners to improve their productivity and safety and security in the mining communities.

5.3.2. The board to expedite the finalisation of disciplinary cases against employees implicated in the forensic investigation report and updates be given to the Committee.

5.3.3. Steps be taken to improve the safety of women in the mining sector and curb the incidence of gender-based violence.

**5.4. Transport Education and Training Authority**

5.4.1. The entity should prioritise the development and empowerment of women in the transport sector through its skills intervention programmes.

5.4.2. The entity should improve its oversight and monitoring of its apprenticeship programmes offered by employers in collaboration with skills development providers.

**5.5. Services SETA**

5.5.1. Consequence management should be implemented to ensure that all the officials responsible for contravening the supply chain management regulations are held accountable.

5.5.2. The entity should strengthen its internal control systems and develop and implement an action plan that will be responsive to the Auditor-General’s findings within the committed dates.

5.5.3. The entity should provide a detailed response to allegations of supply chain irregularities as contained in the National Skills Authority (NSA) report.

5.5.4. The Accounting Authority should ensure that effective steps are taken to prevent recurrence of irregular expenditure.

5.5.5. The entity should investigate the allegations of overpayments on learner bursaries and ensure that those implicated are held accountable.

5.5.6. The existing security contract for the protection of the Services SETA CEO be terminated with immediate effect.

**5.5. Construction Education and Training Authority**

5.5.1. An independent forensic investigation be undertaken urgently to establish the facts with regard to the 15 percent pension benefits and 15 percent salary increase paid to workers and the meeting that is alleged to have taken place in Durban in March 2018 and feedback be provided by March 2020.

5.5.2. The Minister takes into consideration the need for a central collective bargaining unit and standardization of conditions of service for all the SETAs.

5.5.3. The entity should ensure that steps are taken to restore stability within the.

5.5.4. The Minister considers the possibility of dissolving the CETA board due to its failure in exercising its fiduciary responsibilities with diligence.

**5.6. AgriSETA**

5.6.1. The Accounting Authority should ensure that reasonable steps are taken to investigate the staff responsible for irregular expenditure incurred in line with the PFMA. Moreover, effective steps should be taken to prevent recurrence of irregular expenditure.

5.6.2. The entity should put in place mechanism to improve the achievement of its predetermined objectives.

**6. CONCLUSION**

The Committee considered the Annual Reports 2018/19 of the NSF, WRSETA, TETA, MQA, AGRISETA, Services SETA and CETA as referred by the Speaker of the National Assembly in terms of Rule 338 for consideration and reporting. In preparation for the consideration of the reports, the Committee met with the Auditor-General of South Africa (AGSA) where it was briefed on the audit outcomes of the DHET and its entities for 2018/19. In addition, the Committee also met with the National Skills Authority (NSA) where the entity presented its oversight role over the SETAs and also submitted investigation reports on selected SETAs that it had investigated.

This was for the first time that the Committee got an opportunity to assess the annual performance information about the NSF and the SETAs. The NSF and the SETAs have a critical role to play in closing the skills gap in the country, through the promotion of work-based skills development and the facilitation of access to occupationally directed learning programme for the employed and unemployed. This is made possible through the utilisation of the 1 percent skills levy contributed by employers in the different sectors of the economy for mandatory and discretionary grants.

The Committee was extremely concerned about some of the findings of the AG towards the NSF and certain SETAs for the year under review. The Committee heard that financial statements preparation remains a concern for some of these entities as material adjustments were effected on the financial statements submitted for audit. It appears that there was insufficient oversight and scrutiny by internal audit units of these entities since the errors and misstatement could have been prevented if effective reviews were performed at all levels.

The Committee was shocked to hear that four SETAs contributed R1.1 billion out of the total of R1.2 billion irregular expenditure incurred within the higher education and training portfolio due to overspending of the budget without the approval of the Accounting Authority. The Committee was extremely concerned about the lack of consequence management against the officials responsible for contravening the supply chain management regulations, and the slow pace in the finalisation of misconduct hearings. It appears that the majority of officials implicated in forensic investigation reports resort to quitting their jobs, and thereafter there is no action that is taken to recoup the public funds misappropriated by these officials.

The majority of the SETAs and the NSF were unable to achieve all their set targets. Of serious concern to note is that these entities do not have the project management capacity to monitor the funding that is allocated to their projects and its utilisation. As a result, some of the skills development providers take advantage of this loophole at the expense of beneficiaries and continue to benefit without making an impact on upskilling young and unemployed learners. Some of the SETAs were unable to account for the absorption of their beneficiaries into workplaces upon completion of their skills programme owing to absence of tracer studies. Thus, it is difficult to measure the impact of their skills development programme in closing the skills gap and reducing unemployment.

The Committee’s view is that the SETAs need to improve on their governance and management, and that those found implicated in wrongdoing should be dismissed and arrest be made. Public funds may not continue to be misappropriated by people who have been entrusted to assist the country in reaching its developmental goals. Thus, the Committee would closely monitor the performance of the SETAs and even consider amending legislation that would make these institutions more accountable.

Report to be considered.