

# **REPORT OF THE PORTFOLIO COMMITTEE ON EDUCATION; CULTURE, SPORT AND RECREATION ON THE 1<sup>st</sup> QUARTERLY REPORT OF THE MPUMALANGA REGIONAL TRAINING TRUST (MRTT), 2015/16**

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## **1. INTRODUCTION**

Rule 218 sub-rule (1) (2) and (3) of the Rules and Orders of the Mpumalanga Provincial Legislature compels the Member of the Executive Council to table quarterly performance reports of the department to the Speaker of the Legislature, within 30 calendar days after the end of a quarter.

The consideration of the 1<sup>st</sup> quarterly performance report of the Mpumalanga Regional Training Trust (MRTT) for the 2015/16 financial year was to assess progress made by the MRTT in implementing the 1<sup>st</sup> quarter targets as set out in the 2015/16 Annual Performance Plan, in line with the budget transfer from vote 7 of the Department of Education, as per the Mpumalanga Appropriation Bill, 2015.

The MRTT is an entity of the Department of Education, which reports to the Honourable MEC for Education through the MRTT Board of Directors.

## **2. METHOD OF WORK**

The Honourable Speaker referred the 1<sup>st</sup> quarterly report of the MRTT to the Portfolio Committee on Education; Culture, Sport and Recreation (the Committee) on 04 August 2015 for consideration and report back to the House.

On 19 August 2015 the Committee was briefed by the researcher on the 1<sup>st</sup> quarterly report. The meeting with the MRTT to deliberate on the report was held on 27 August 2015. Questions for written response were sent to the MRTT prior to the deliberations. During the meeting, the MRTT presented the written responses to the Committee's questions and the Committee interacted with the entity. The Committee considered and adopted its report on 23 September 2015.

Invitations to the deliberations were issued to the Honourable MEC for Education, the MRTT Board, the CEO of MRTT and the senior management team of the entity. The Head of Department (HOD) represented the Honourable MEC in absentia at the meeting.

### **3. GENERAL OBSERVATIONS**

- 3.1. MRTT is mandated to develop the human resource base of the Province through the provision of experiential, practical, hospitality, tourism, entrepreneurship and life skills training. The main focus is to empower youth from primarily the disadvantaged communities, industry workers and government employees to participate in the broader economic sphere of the Province and beyond.
- 3.2. The 1<sup>st</sup> quarterly report was correctly tabled in the Legislature by the Honourable MEC on 31 July 2015. It was neatly packaged.
- 3.3. Although the entity complied with the National Treasury reporting format for quarterly reports, the Committee raised a concern about the financial reporting format used by the entity as it did not distinguish between the government transfer and the own revenue generated by the entity. This poses a challenge to the Committee in monitoring the voted funds transferred to the entity from vote 7.
- 3.4. The Provincial Treasury was present during the meeting with the MRTT on 27 August 2015. The AG had also been invited but did not send any representative to the meeting.
- 3.5. The entity received a qualified audit opinion for the 2014/15 financial year. This was a regression from the 2013/14 financial year when a clean audit was obtained.
- 3.6. The qualification was based on immovable assets, specifically the property portfolio of the MRTT. The entity re-evaluates its properties every five years, therefore the exercise was carried out in the 2014/15 financial year. According to the MRTT, the Auditor General disputed some of the evaluations by the independent service provider appointed by the MRTT to conduct the re-evaluation.

### **4. REMARKS BY THE MRTT BOARD**

The Board Chairperson, Ms F Mthembu tendered an apology for the meeting as she was attending to other work commitments in Kwa-Zulu Natal. Mr Sibiyi represented the Board in the absence of the Board Chairperson on 27 August 2015.

The following observations were noted by the Committee:

- 4.1. The Board once again appreciated the opportunity to appear before the Portfolio Committee for oversight of the 1<sup>st</sup> quarterly report. The appointment of the new Chairperson of the Committee was acknowledged by the Board.

- 4.2. The entity has renewed all their accreditations with the various SETAs for the 2015/16 financial year.
- 4.3. The entity was also approved as the best host by the Construction SETA. The Committee hopes that this will assist the entity in the placement of trained learners.
- 4.4. The 1<sup>st</sup> quarter dashboard report of the MRTT was submitted to the Committee for the first time, for consideration. The Committee commended the entity's implementation of this 4<sup>th</sup> quarter House Resolution and hopes that the consideration of the dashboard reports will assist the entity in addressing issues raised by the Auditor-General and ultimately ensure a clean audit for the entity.

## **5. CONSIDERATION OF THE 1<sup>ST</sup> QUARTER DASHBOARD REPORT**

The acting CEO presented the dashboard report to the Committee. The following points were noted during the discussions:

- 5.1. The internal audit function of the entity is outsourced to Sithole SS & Partners Inc, which is an audit, tax, consulting and financial advisory company. The Committee raised a question as to what necessitated the outsourcing of the function, to which the entity responded that since the MRTT was small, it was more cost effective to outsource the function instead of inflating the Compensation of employees by hiring a senior manager for this function.
- 5.2. The Committee questioned the value for money effect of outsourcing the internal audit function because the entity received a qualified audit opinion for 2014/15.
- 5.3. The Committee observed that the dashboard was not signed off by the Board; however, upon raising this matter the Committee accepted the response from the acting CEO that the Board had indeed received the dashboard report.

## **6. BUDGET EXPENDITURE**

The Committee noted that there was no indication in the 1<sup>st</sup> quarterly report of what was the annual transfer to the entity from the 2015/16 Vote 7 of the Department of Education. In essence, the department is required to clarify to the Committee the manner in which transfers are made to the entity, be it quarterly or annually and whether the transfer is a once off transfer or quarterly transfers. The department is also required to clarify in which programme of the department is the transfers to MRTT located, so that the Committee can keep track of the funds. It is also crucial that the MRTT's quarterly plans be linked to the

quarterly plans of the department for that specific programme from which the transfers are made. This will ensure that the spending of that programme does not override the 25% quarterly benchmark spending guide of the Provincial Treasury.

In the 2015/16 Annual Performance Plan of the MRTT, as presented to the Committee in May 2015, an annual budget of R 242 895 000.00 was reflected. The quarterly budget of the entity as indicated in the 1<sup>st</sup> quarterly report was R 66 246 894.00 and the actual reported spending at the end of the quarter was R 34 449 709.00, which means that only 52% of the quarterly budget was spent.

As noted in previous quarters, the MRTT augments the transfers it receives from government with its own revenue generated from its various operations. The Committee has continuously been at pains with the entity to reflect income generated from own revenue separately.

House Resolutions in the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2014/15 financial year instructed the entity to consult with the Provincial Treasury and the Department of Education to align the entity's financial reporting system appropriately.

## 7. DELIBERATIONS ON THE PROGRAMME PERFORMANCE

There are three (3) service delivery programmes of the MRTT. The Committee interacted with the entity on the 1<sup>st</sup> quarterly performance report. The performance on targets per programme reflects that 80% of total targets was attained, as indicated below:

<b>ATTAINMENT OF 1<sup>ST</sup> QUARTER PLANNED TARGETS</b>			
<b>Programme</b>	<b>Planned Outputs</b>	<b>Actual Outputs</b>	<b>% Achieved</b>
<b>1. Hotel and Tourism Academy</b>	16	15	94%
<b>2. Technical Training Operations</b>	9	4	44%
<b>3. Corporate Services</b>	29	24	83%
<b>TOTAL</b>	<b>54</b>	<b>43</b>	<b>80%</b>

### PROGRAMME 1: HOTEL AND TOURISM ACADEMY

The programme is responsible to provide theory and practical skills training to the out of school youth in hospitality and tourism academy.

The Committee observed the following on programme 1 performance and spending:

- a. The programme performed well at 94% planned targets achieved. During the previous financial year, the performance of programme 1 had also been consistent over all quarters, which the Committee commended.
- b. **The one (1) unachieved target:** the target to maintain 85% hygiene was reportedly not achieved due to shortage of staff in the kitchen as the positions of Head Chef and Sous Chef could not be filled due to the moratorium on filling of vacant funded posts. To mitigate the situation, the entity informed the Committee that a decision had been taken by management to re-deploy a fixed term employee (Food Safety Assurer) to HTA to assist until compliance positions are filled.
- c. **Expenditure analysis:** The 1<sup>st</sup> quarterly report indicated a budget allocation of R 7 088 825.00 for programme 1 and the reported amount spent was R 5 682 827.00, which is 80% of the quarterly allocation. Hence the programme achieved 94% of its quarterly targets against 80% of its quarterly budget, which is good performance.
- d. A further breakdown of the 1<sup>st</sup> quarterly expenditure against the 25% quarterly benchmark indicates slow expenditure on economic classification items: Compensation of employees (21.3%), Goods and services (18%) and Capital Expenditure (13%).
- e. The reasons provided for the entity indicate that slow spending on the salary budget was due to non-filling of vacant funded posts due to the moratorium. Goods and Services spending was low due to the overflow effect of the industrial action from MRTT employees during the 4<sup>th</sup> quarter of 2014/15 financial year. The entity reported that guests were reluctant to make bookings due to safety concerns. Goods procured by the entity during the 1<sup>st</sup> quarter are not reflected as the entity had not yet taken ownership of them by the end of the 1<sup>st</sup> quarter. Capital expenditure was slow, at 13%, reportedly due to non-alignment of the financial year reporting periods with the hospitality season. The entity indicated that this expenditure will even out during the coming quarters.
- f. During the previous financial year, the Committee time and time again raised a concern that the entity was not complying with the Provincial Treasury 25% benchmark for expenditure per quarter. The problem lay in the fact that the quarterly reports have reflected a budget allocation that is a sum total of the transfer from vote 7 and the own revenue of the entity.
- g. The solution to the problem, as resolved by the Committee in the previous (4<sup>th</sup>) quarter was to have a new reporting format that would separate the two streams of

the entity's income. The Committee therefore urges the entity to finalize the consultations with Provincial Treasury and the Department of Education so that a proposed reporting format (template) can be adopted in time for reporting on the 3<sup>rd</sup> quarterly report.

- h. It must be noted that the Committee's oversight function is to monitor the expenditure of the government subsidy and not the entity's own revenue generated. However, since the performance and functionality of the entity is the domain of the Committee, it stands to reason that the performance of the entity cannot be separated from its financial reporting in totality.

## **PROGRAMME 2: TECHNICAL TRAINING OPERATIONS**

**This core programme aims to develop skills in technical and other areas, provide quality training through mobile units and provide work place experiential training. The programme provides construction, manufacturing and engineering skills development.**

The Committee made the following observations on programme performance and spending:

- a. The programme did not perform very well on targets, achieving only 43% of its planned targets for the 1<sup>st</sup> quarter (04 out of 09 targets). As the core service delivery programme of the MRTT, it is imperative that programme meets its planned targets in the next quarter.
- b. The Committee noted that the Board was also not satisfied with the poor performance of programme 2. The entity reported to the Committee that the challenges causing the poor performance were being addressed systematically. In collaboration with the NYDA, the entity is embarking on a learner recruitment campaign in order to meet the targets. Accreditation with EWSETA (electrical sector) was renewed in order to attract more learners in the training centres. Many learners have already shown interest.
- c. The target to recruit 1000 learners was not achieved as the targeted learners did not meet the criteria (no grade 12 Mathematics, while others were over 35 years of age). The entity reported that it has already started to engage municipalities and youth centres to recruit more learners (who meet the criteria) for the Artisan Development Programme.
- d. The off-job training target was not met due to the non-appointment of the training provider, who was charging the entity too much for the service. This matter has been solved by approaching the NYDA, who will provide the training free of charge.

- e. **Expenditure analysis:** The 1<sup>st</sup> quarterly report indicated a budget allocation of **R 48 536 086.00** for programme 2 and the reported amount spent was **R 18 713 353.00**, which is 39% of the quarterly allocation. Hence the programme achieved 43% of its quarterly targets against 39% of its quarterly budget, which makes sense.
- f. A further breakdown of the 1<sup>st</sup> quarterly expenditure against the 25% Provincial Treasury benchmark indicates very inconsistent spending on economic classification items: Compensation of employees (36%) and Goods and services (6%). The high Capital Expenditure (147%) was reportedly due to an amount of R536 977.00 spent against a quarterly budget of R 91 250.00. The entity indicated the breakdown of the Capital Expenditure as follows: Construction work for welding and electrical workshops (R249 000.00), Maintenance of workshops (R137 560.00) and Maintenance of Emalahleni Training Centre (R150 417.00).
- g. The reasons provided by the entity for the spending trends above indicate that the low spending on goods and services was as a result of not meeting the target to recruit 1000 learners for the Artisan Development Programme, subsequently there were no invoices submitted by the training provider (Hydra Arc).
- h. The Committee asked the entity to explain how it will ensure in the future that economic classifications spend in line with the Provincial Treasury benchmark. The entity informed the Committee that it has acquired and implemented a budget module in pastel evolution in August 2015. It is envisaged that this programme will enhance the budget controls for the 2015/16 budget; it was done manually previously.
- i. The Committee noted the following major outputs of programme 2:
- 165 learners recruited and trained in construction, manufacturing and engineering skills;
  - 106 learners recruited and trained in artisan development, including RPL and Trade Testing in Construction trades;
  - 340 learners trained on learnerships;
  - 720 learners recruited and trained in construction skills through CRDP;
  - 44 learners coached and mentored in manufacturing and engineering related trades through (MerSETA).
- j. The Committee observed that that the entity should use 2014/15 projects as a baseline for the 2015/16 financial year, so as to be better prepared and plan accordingly.

### **PROGRAMME 3: CORPORATE SERVICES**

**This programme provides administrative support, coordination of quality processes, and oversight role over financial function and sound marketing strategies by employees who contribute effectively. The programme has seven (7) sub-programmes.**

The Committee made the following observations on programme performance and spending:

- a. The programme performance was good, achieving 83% of its planned targets for the 1<sup>st</sup> quarter (24 out of 29 targets). This was identical to the 4<sup>th</sup> quarter performance.
- b. **Expenditure analysis:** The quarterly expenditure for the programme was **R10 053 528.00** from a quarterly budget of **R10 621 982.00**, which is **95%** expenditure.
- c. A further breakdown of the 1<sup>st</sup> quarterly expenditure against the 25% Provincial Treasury benchmark indicates spending on Compensation of Employees (22%), Goods and Services (26%) and Capital Expenditure (377%).
- d. The entity reported that learners without grade 12 who could not be placed in the on-job training programmes, would be assisted to get off-job training with various municipalities and SETAs.
- e. Regarding the filling of vacant funded posts, the entity obtained written permission from the Department of Education to fill the vacant funded positions. The moratorium was lifted on 12 June 2015 and the entity has since reinstated critical vacant funded positions. Currently, the entity is awaiting approval of the revised organizational structure by the Board and will thereafter begin with filling of the vacant positions.
- f. The entity informed the Committee that females are being targeted for managerial positions. To date, the General Manager: Technical Training Operations and the Company Secretary/Legal Services Manager are both females. The Committee was also assured that all advertisements clearly indicate that women and people with disabilities will be given preference. The entity has also established a relationship with the disability desk at the Department of Social Development.
- g. Regarding current progress on litigation cases, the entity reported to the Committee that there are two (2) cases. The first one relates to the MRTT employees' strike, whereby the entity lodged an urgent court application against the employees and the entity was granted a permanent court order on 14 May 2015 to prevent the employees from damaging MRTT property.
- h. The second litigation case is still at the Labour Court, regarding a dismissed employee. The case was last set for 16 May 2014 and the employee requested



postponement, which the Labour Court granted at the employee's own expense. Currently, the entity is still awaiting the new court date.

## **8. FINDINGS**

Emanating from the deliberations with MRTT on the 1<sup>st</sup> quarterly report for the 2015/16 financial year, the Committee made the following findings:

- 8.1. The entity achieved 43 out of a total of 54 planned targets for the 1<sup>st</sup> quarter, which is 80% achievement. However, only 52% of the quarterly budget was spent.
- 8.2. The entity received a qualified audit opinion for the 2014/15 financial year. This was a regression from the clean audit in 2013/14 financial year. The qualification was on immovable assets, specifically the re-evaluation of the property portfolio of the entity. Currently the entity is in discussions with the AG to clear up the issues relating to the dispute over the credibility of the report of the independent service provider, who was hired by the entity to conduct the re-evaluation exercise.
- 8.3. The 1<sup>st</sup> quarter dashboard report of the MRTT was submitted to the Committee for the first time, for consideration. The Committee commended the entity's implementation of this 4<sup>th</sup> quarter House Resolution and hopes that the consideration of the dashboard reports will assist the entity in addressing issues raised by the Auditor-General and ultimately ensure that the entity obtains clean audits in the future.
- 8.4. The Committee noted that the 1<sup>st</sup> quarterly report of the MRTT did not indicate the actual annual transfer to the entity from the 2015/16 Vote 7 of the Department of Education.
- 8.5. The quarterly plans of the entity are not linked to the quarterly plans of the department for the specific programme from which the transfers to the entity are made.
- 8.6. During the previous financial year, the Committee time and time again raised a concern that the entity was not complying with the Provincial Treasury 25% benchmark for expenditure per quarter.
- 8.7. The entity indicated that it cannot pre-empt projects that it will secure during a financial year, which is fair enough. However, the entity can endeavour to keep a database of current infrastructure projects to use as a baseline for estimating future income.
- 8.8. Regarding the filling of vacant funded posts, the entity obtained written permission from the Department of Education to fill the vacant funded positions. The moratorium was lifted on 12 June 2015 and the entity has since reinstated critical vacant funded positions. Currently, the entity is awaiting approval of the revised organizational structure by the Board and will thereafter begin with filling of the vacant positions.

## **9. RECOMMENDATIONS**

Based on the above findings, the Committee recommended that MRTT must:

- 9.1. Provide an explanation to the Committee as to how it came to be that the spending of the quarterly budget and the achievement on planned targets do not correlate.
- 9.2. The MRTT must reach a consensus with the Auditor-General as soon as possible, regarding the dispute over the re-valuated MRTT property in Emalahleni Local Municipality.
- 9.3. Continue to submit the quarterly dashboard reports to the Committee and implement the recommendations of the report. The entity should also consider an in-house internal audit unit in future proposed organizational structures.
- 9.4. Clarify to the Committee the method and timeframes by which transfers are made to the entity.
- 9.5. Ensure that the quarterly plans of the entity are linked to the quarterly plans of the specific programme of the Department of Education from which transfers to the entity are made. This will ensure that the spending of that programme does not override the 25% quarterly benchmark spending guide of the Provincial Treasury due to transfers made to the entity.
- 9.6. The Committee urges the entity to finalize the consultations with Provincial Treasury and the Department of Education so that a proposed reporting format (template) can be adopted in time for reporting on the 3<sup>rd</sup> quarterly report.
- 9.7. Use the outputs on the 2014/15 projects as a baseline for the 2015/16 financial year, so as to improve the entity's planning and outputs.
- 9.8. Ensure that the revised organizational structure is approved by the Board and that the critical vacant positions are filled by 30 October 2015.

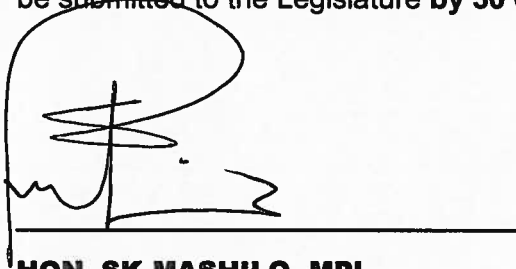
## 10. CONCLUSION

The Chairperson thanked the Honourable Members for their valuable input in consideration of the 1<sup>st</sup> quarterly report of the Mpumalanga Regional Training Trust for the 2015/16 financial year.

The Committee acknowledged Honourable MEC Mhaule in absentia for the strategic leadership given to the MRTT. The HOD of the Department of Education was also acknowledged for the operational support provided to the entity throughout the year.

The Board was appreciated for its commitment to the MRTT as it continues its mission to skill the people of the Mpumalanga Province, especially the youth from historically disadvantaged backgrounds. The acting CEO and senior management were thanked for the presentation on the 1<sup>st</sup> quarter performance report and the 1<sup>st</sup> quarter dashboard report.

Finally, the House is requested to adopt this Committee report with its recommendations. A progress report on the implementation of the House resolutions contained in this report must be submitted to the Legislature **by 30 October 2015**.



**HON. SK MASHILO, MPL**

15.10.2015

**DATE**

**CHAIRPERSON: PORTFOLIO COMMITTEE ON  
EDUCATION; CULTURE, SPORT AND RECREATION**

