



Portfolio Committee on Trade and Industry

Presentation on the
NLC's Integrated
Report for
2018/19 and Second
Quarter
Performance Report



NATIONAL LOTTERIES COMMISSION
a member of **the dti** group



OUTLINE OF PRESENTATION

- 1. Key Highlights of the NLC**
- 2. Mandate of the NLC**
- 3. Strategic Overview of the NLC**
- 4. Business Model**
- 5. Operations Overview of the NLC**
- 6. Impact on Communities**
- 7. Performance 2018/19**
 - **Performance of the Licence**
 - **Financial Performance**
- 8. Challenges and How Managed**
- 9. AGSA Findings and Plan of Action**

KEY HIGHLIGHTS & IMPACT ON COMMUNITIES

Accessibility

Decentralisation of NLC services to provincial offices

More than 12 000 National Lottery terminals, both retail and hand-held devices countrywide

Walk-in centres throughout the country

Frequent publication of funding priorities

Immediate response to funding needs

Instant play through online platforms

Participant protection

R39 billion prizes paid to winners since the start of the National Lottery were verified through winners' reviews

An estimated 960 participants' protection reviews conducted annually

100% of National Lottery participant prize monies kept in Trust pending claim by winners or expiry



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KEY HIGHLIGHTS & IMPACT ON COMMUNITIES

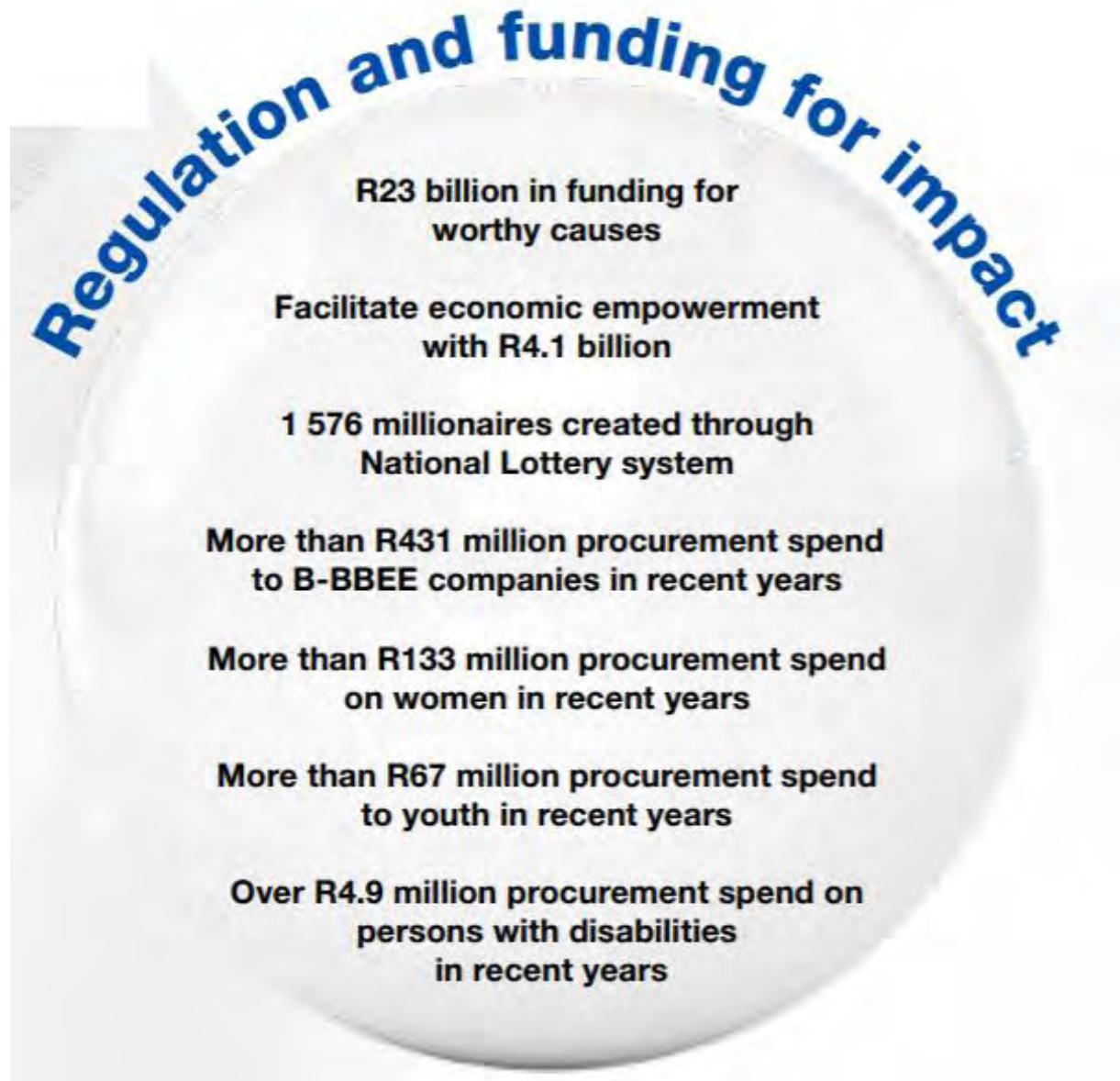
Corporate governance excellence

- No material non-compliance with legislation
- Sound corporate governance culture
- Culture of maintenance of strong internal controls
- Consistent clean audits in recent years
- Reduction of legal challenges in recent years

Operational efficiencies

- Elimination of historic applications backlog
- Adjudication of applications within 150 days
- Payment of grants within 60 days of signing of grant agreement

KEY HIGHLIGHTS & IMPACT ON COMMUNITIES



WHAT WE DO AND WHO WE SERVE

The NLC is the sole regulator for Lotteries and Sports Pools in South Africa. The NLC is also the largest grant funder reaching up to 3 418 beneficiaries countrywide during the period under review.

Constitutional Mandate

- The NLC has the sole mandate to regulate and prohibit lotteries and sports pools and to provide for matters connected therewith.

Legislative mandate

- To ensure that the National Lottery and Sports Pools are conducted with all due propriety and strictly in accordance with the Constitution, this Act, all other applicable law and the licence for the National Lottery, together with any agreement pertaining to that licence and that the interests of every participant in the National Lottery are adequately protected.
- Conduct research on worthy good causes that may be funded without lodging an application prescribed in terms of the Lotteries Act, upon request by the Minister, Board or on its own initiative in consultation with the Board.
- Invite applications for grants from worthy good causes in the prescribed manner.
- Promote public knowledge and awareness by developing and implementing educational and informational measures to educate the public about the lotteries and provisions of the Lotteries Act, as amended, and educating the public by explaining the process, requirements and qualifications relating to the application for grants in terms of this Act.
- Manage staff and its financial, administrative and clerical functions and exercise any other function as delegated or directed by the Minister or the Board.



STRATEGIC OVERVIEW

Our strategy at a glance



▶ NLC values



STRATEGIC OVERVIEW

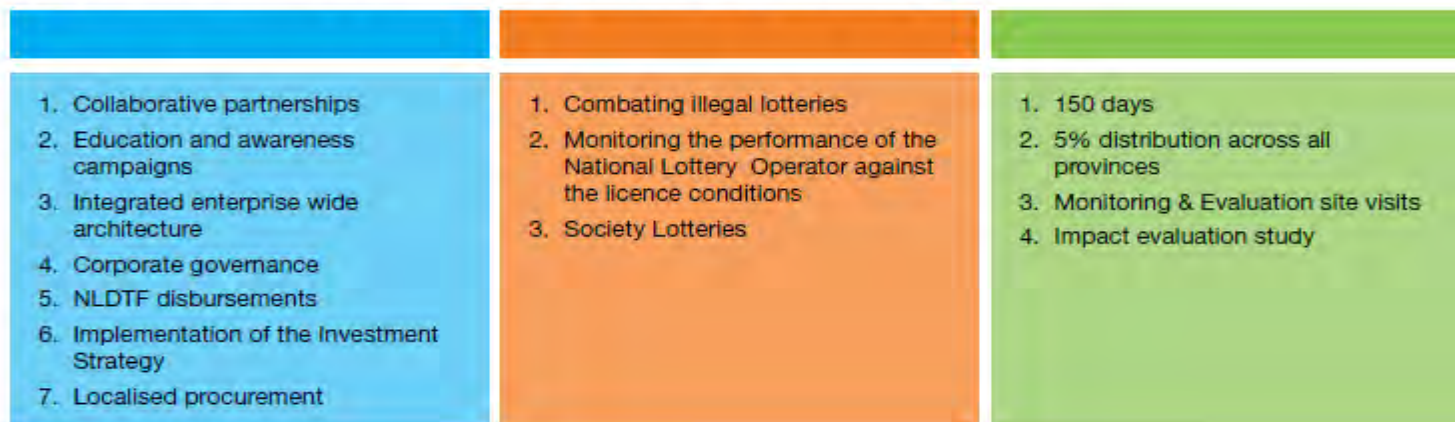
▶ Ultimate outcomes



▶ Strategic objectives



▶ Performance indicators, baseline and targets



OPERATIONAL MANDATE

Operational mandate

ITHUBA
EQUALITY IN OPPORTUNITY

Third licence operator of the South African National Lottery.



The lottery is regulated by the National Lotteries Commission and was established in 2000.

National Lotteries Participants Trust

Registered independent Trust, founded by Ithuba to hold and safeguard all prize monies belonging to National Lottery participants.



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Provides regulatory oversight over:

National Lottery: operated by ITHUBA

Other lotteries

Sports pools

Administers and adjudicates grant applications



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LOTTO FUNDED

Makes payment to good causes.

Applications

NGOs, NPOs, NPCs

Funding

23% → Arts

47% → Charities


28% → Sports

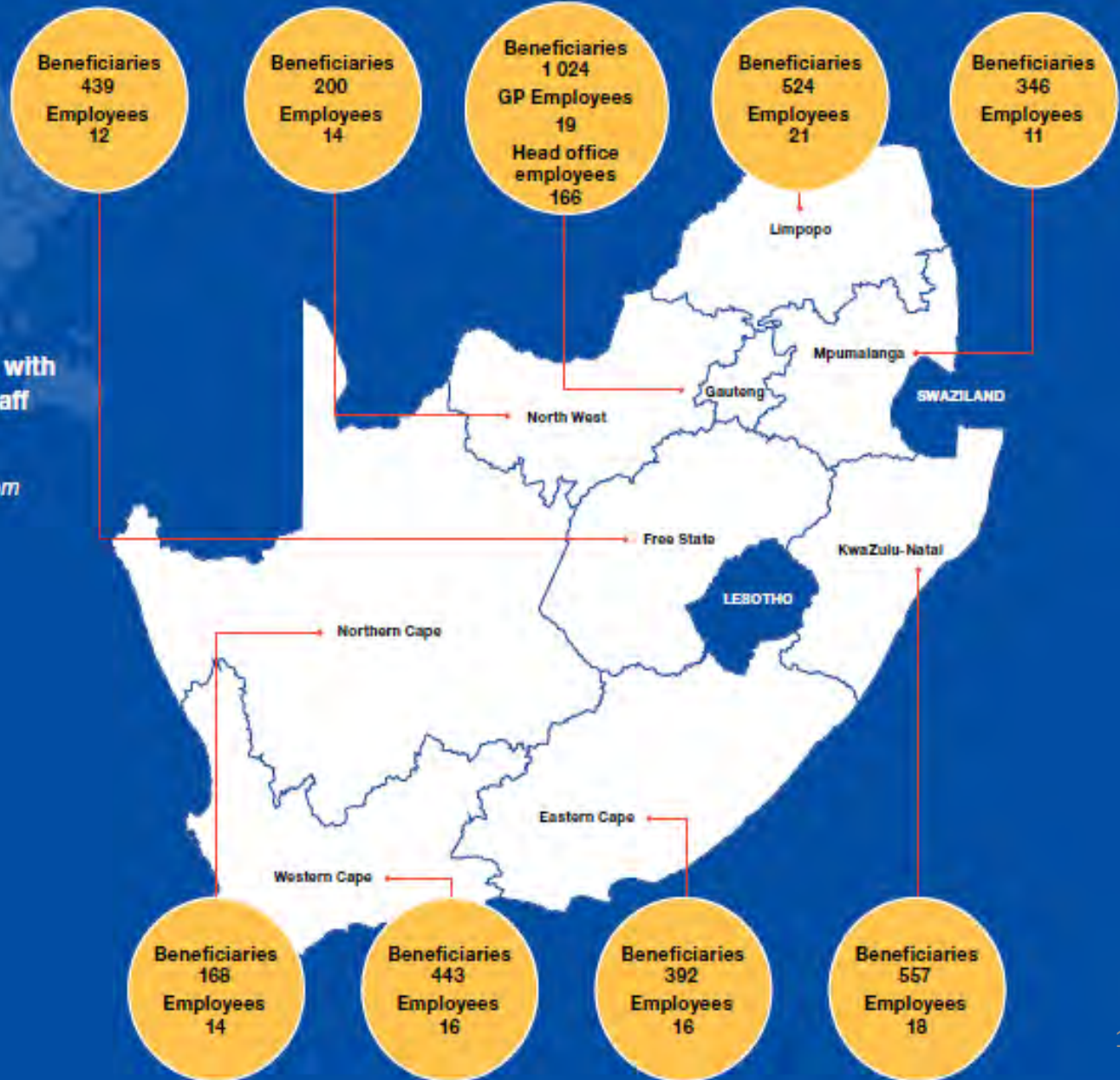
2% → Misc

GEOGRAPHICAL FOOTPRINT

Our Geographical footprint

The NLC has a national footprint with 9 provincial offices and a total staff complement of 307 employees.

 Provincial activities are featured from pages 92 to 93 of this report.



NLC BUSINESS MODEL

Core regulatory activities

The NLC is mandated by legislation to regulate, monitor and police lottery operations in South Africa and to protect lottery operations from illegal schemes, protect winners' prize monies, implement measures to prevent under-age and excessive play and ensure responsibility.



The ordinary South African

Our value-creation starts with the ordinary South African, who enter lotteries through the provision of lottery entry fees.



Lottery operators

Lottery operators, Ithuba and independent operators run lotteries and collect financial capital and transfer it to the NLPT.



The National Lotteries Participants Trust

The NLPT, a legal entity constituted in terms of a Trust Deed, holds all monies raised by lottery operators and distribute it in two ways:

To ordinary South Africans with winning lottery tickets;

With 27% of ticket sales and unclaimed and expired prize money transferred to the NLDTF to fund deserving projects.

Core grant funding activities

The NLC is also mandated to distribute funds in a way that strategically supports the objectives of the National Development Plan ("NDP"). The NLC carries activities to ensure that funds are put to use successfully.



The National Lotteries Distribution Trust Fund

Our value-creation starts with the ordinary South African, who enters lotteries through the provision of lottery entry fees.

Deserving projects

Projects (existing or potential) receive funding.



Prospective projects apply through an open call. Funding is also granted proactively to projects initiated by the Commissioner, Minister or broad-based research.



Distribution agencies

Are mechanisms through which the NLDTF adjudicates and awards grants.

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OPERATIONS OVERVIEW

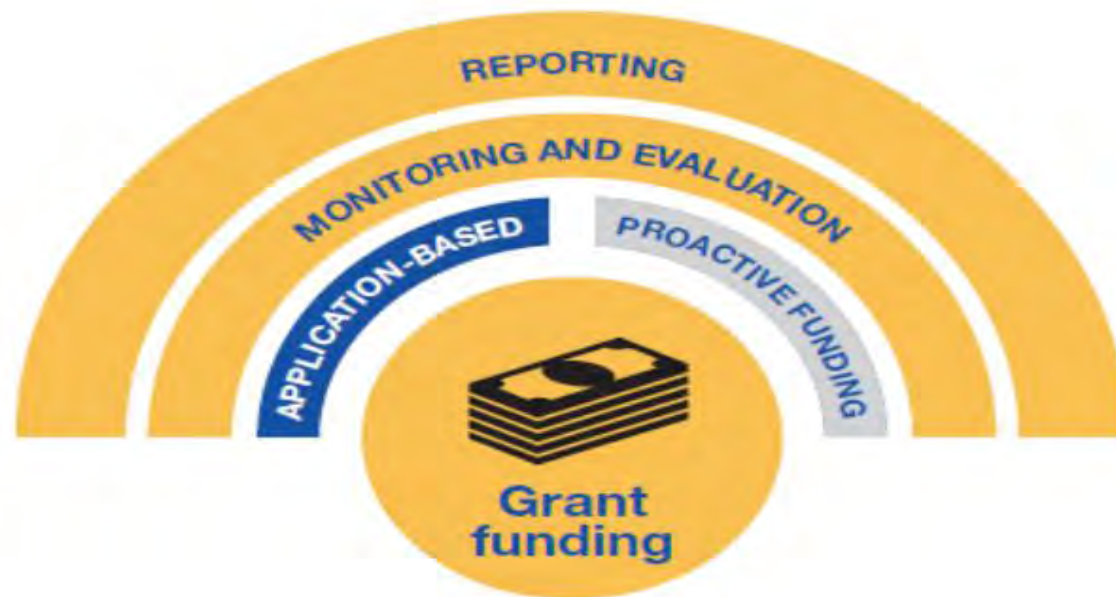
Regulatory Compliance is the cornerstone of the NLC, holding in custody, the primary mandate of the organisation being that of a Regulator. The Division is charged with the responsibility of protecting the public against prohibited lotteries through identifying, investigating and closing down activities as well as implementing the Participant Protection Strategy. The Division continues to ensure that the regulator is central to shaping policy direction through engagement with stakeholders and policy makers and ensuring that Lotteries and Sport Pools are conducted with due propriety, lottery participants are protected and provide contributions to good causes.

The NLC's regulatory compliance value chain is based on core regulatory activities of a well-functioning Lotteries and Sport Pools regulator.



OPERATIONS OVERVIEW

Grant Funding Department is responsible for ensuring that grants are administered efficiently and economically. The Grant Funding Model is designed to promote and support the NLC's strategic mandate by responding to socioeconomic problems and leverage on opportunities through strategic funding. The key principle of the NLC's funding model is to utilise NLC capitals to create opportunities for communities to realise their potential. The funding model is driven by an overall objective to Fund for Impact to maximise return on limited resources.



OPERATIONS OVERVIEW

Operations division

Monitoring & evaluation	Marketing & communications	Research & development	Provincial offices
Measures the impact of funding	Rooted in the vision 'To be the Catalyst for Social Upliftment', strategies and activities within the area of Stakeholder Relations, Marketing and Communication are geared at catalysing action to fulfil the dual mandate of the NLC.	Overseas and co-ordinates research activities of the NLC. The R&D Unit develops an annual research agenda and conducts relevant research to support evidence-based decision-making with a primary focus on the two core mandates of the NLC Regulation and Grant Funding.	The NLC provincial offices are aimed at improving accessibility to NLC's service offering. Provincial offices are capacitated to carry NLC's mandates of Regulatory Compliance and Grant Funding.

Information, communications and technology division

ICT continues to be an enabler of conducting business in a more efficient manner. The implementation of an integrated Enterprise Resource Planning (ERP) yielded favourable results in enhancing the operational capacity of the entire organisation. The ERP platform is characterised by five core modules that collectively lay the foundation to enable the organisation to conduct a variety of transactions.

The ERP platform is available to all NLC employees across the country by means of a modern MPLS data network. This network enables seamless transmission of multiple data technology-based services such as email, internet, telephony and video conferencing applications. The ICT governance framework serves as a guideline in realising the upkeep and optimal operation of the ICT environment in terms of the solutions implemented. ICT continues to put in place the relevant SLAs, MOUs and SOPs. ICT continues to enhance cybersecurity management, explore cloud services and architectures and expand interconnectivity with other entities in the government sector.



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Human capital division

Human Capital division represents the heartbeat of the organisation, in that it ensures the organisation gains knowledge, talents, skills, abilities, experience, intelligence, through NLC's most valued asset, its employees. Organisational growth has the NLC increase in workforce numbers to support regulatory and operational requirements. This growth has also impacted in staff growth where internal staff members were promoted to higher positions in senior management, junior management and skilled levels. Outcomes detailed [here](#) (Human Capital) of the report

Legal services

The Strategic Objective of the Legal Services Division is to render legal support and advisory services to the National Lotteries Commission in executing its functions as detailed in legislation. The Legal Division supports strategic objection 1 (so1) of the Annual Performance Plan. The role of the Legal Services Division has been integrated with that of the Forensic Unit and as such it has transformed into the Legal Services and Forensic Division. Such a role encapsulates the appreciation of pressure points, strategy, objectives of the Commission and the need to effectively communicate these risks and legal issues. Besides rendering of general legal services, the division continues to ensure legislative awareness on the implementation of the amended Lotteries Act (Act 32 of 2013); otherwise referred to as the Lotteries Act 57 of 1997 (as amended), including its Regulations.

PERFORMANCE INFORMATION

- The NLC achieved 100% performance against its predetermined objectives and targets for the past 5 years. No corrective actions were identified.

187
education and awareness campaigns rolled-out

100%
of illegal lotteries investigated and closed

successful implementation of Section 2A of the Lotteries Amendment Act, 32 of 2013

Achieved **100%** of our pre-determined objectives

Maintained clean audits opinions for consolidated and separate NLC, NLDTF and NLPT





Efficient operations, 98.3% of applications adjudicated within 150 days of receipt

598
million National Lottery tickets sold




positive governance review outcomes

numerous board stakeholder engagements

PERFORMANCE INFORMATION

E-system (integrated enterprise wide architecture platform)	1.3 Develop online portal on the E-system enterprise wide architecture platform	Development of the online portal	Full internal integration of the enterprise wide architecture platform	<p>ACHIEVED</p> <p>The Grant Funding online platform was developed.</p> <p>This target is a follow on from Phases 1 (Core Fusion) and 2 (GMS) of Project Dibanisa. It entails the development of an online portal to enable applicants to lodge their funding requests online, thereby facilitating easier access aligned to the NLC's position on beneficiary-centrism and taking services to the people.</p>	 
Corporate governance	1.4 Number of organisation wide ethical behaviour interventions per quarter	3 organisational interventions per quarter	1 organisational intervention per quarter	<p>ACHIEVED</p> <p>31 interventions were implemented through the year.</p> <p>The primary objective of this target on promoting ethics at the NLC is twofold:</p> <ul style="list-style-type: none"> (i) Infuse discipline into the ethics management; and (ii) Satisfy our stakeholders that the NLC actively deals with ethical risks that might have a bearing on the sustainability of the NLC. <p>The indicator encompasses the roll-out of ethical training and awareness interventions that may take the form of workshops, information sessions and/or electronic communication. The importance translates into creating awareness and a culture of ethical behaviour within the organisation.</p>	 

PERFORMANCE INFORMATION

Strategic Objective	Strategic Output	Performance Measure or Indicator	Annual Target	Baseline	Achievement	Risk
SO2 Ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts	NLDTF disbursements	2.1 Percentage disbursement of grants as per GNR644, 6(c)(iv)	At least 75% of grants be paid in line with the regulated 60-day timeframe	At least 65% of grants be paid in line with the regulated 60-day timeframe	ACHIEVED 83% of grants were disbursed. This target aims to ensure timeous payment of grants to beneficiaries once all legal conditions have been fulfilled. It emanates from Regulation (GNR644) which stipulates that payment must be effected within 60 days of receipt of a compliant grant agreement.	
	NLDTF investments	2.2 Percentage Return on Investments (ROI) of NLDTF funds	An annual minimum of 8% ROI on NLDTF funds	An annual minimum of 8% ROI on NLDTF funds	ACHIEVED 8.42% ROI. This is the percentage of average return on investments on NLDTF funds in an effort to ensure sustainability of the organisation and to maximise funding available to good causes by generating alternate streams of revenue for NLC operating costs. The NLDTF Investment Strategy is key to understanding the indicator.	
	Localised procurement	2.3 Average percentage of localised procurement	Average percentage of 90% localised procurement to the provinces	90% localisation of procurement for provincial offices	ACHIEVED 99% localised procurement. This measures the percentage of goods and services procured by the provincial offices in order to stimulate growth of local businesses of the region in which the provincial offices operate. It is also important as it ensures compliance with government priorities e.g. The Broad-based Black Economic Empowerment Act, 2003 (No. 53 of 2003) (B-BBEE), Local Procurement and Skills Transfer.	

PERFORMANCE INFORMATION



Implement relevant initiatives geared towards ensuring compliance with the Lotteries Act

Illegal lotteries	3.1 Percentage investigations on reported and identified illegal lotteries	Conduct investigations on 95% of all identified and reported illegal lotteries	Conduct investigations on 85% of all identified and reported illegal lotteries	<p>ACHIEVED 100% of cases investigated.</p> <p>Illegal lotteries contravene the provisions of the Act and its applicable regulations and related statutes. The matter of illegal lotteries has a direct bearing on an enabling environment for the National Lottery in that it affects the revenue generated from ticket sales. Illegal schemes continue to create significant competition for the National Lottery and further create confusion to lottery players. They are usually identified through the scanning of print and electronic media and cases that may be reported by members of the public.</p>	
3rd lottery licence	3.2 Implement and monitor 3rd National Lottery Licence monitoring matrix/ scorecard	Implement and monitor compliance with the licence conditions	Implement and monitor compliance with the licence conditions	<p>ACHIEVED Compliance by the operator with licence conditions implemented.</p> <p>The National Lottery operator is monitored against licence conditions in this target.</p>	
Society lotteries	3.3 Develop a model for society lotteries	Society lotteries model developed for Board approval	50 schemes registered	<p>ACHIEVED The model was developed and presented to the Board.</p> <p>A society lottery is run by organisations that are registered to raise funds from the public. This fund-raising initiative is typically advertised in the media or promoted in public spaces. Societies conducting these lotteries need to register with the NLC and meet certain conditions. The 2017 Stakeholder Indaba alluded to the need for the extension of the current beneficiary capacity initiatives to include society lotteries. This is intended to create awareness of society lotteries and to limit the dependency of NPO's on purely NLC funding. It is also aimed at ensuring sustainability of NPO's by generating alternate revenue streams.</p> <p>In developing a "fund raising" model, the division will ensure that it is aligned to best practices in order to fully equip beneficiaries in raising alternate funds through society lotteries.</p>	

PERFORMANCE INFORMATION

Strategic Objective	Strategic Output	Performance Measure or Indicator			Achievement	Risk																			
		Annual Target	Baseline																						
SO4	Regulation 3A(1)(a)	4.1 Percentage of applications adjudicated within 150 days	98% of applications adjudicated within 150 days	75% of applications adjudicated within 150 days	<p>ACHIEVED 98.3% of applications adjudicated within 150 days.</p> <p>Regulation 3A(1) stipulates that a Distribution Agency must:</p> <p>(a) finalise its adjudication within one hundred and fifty (150) calendar days from the date of receipt of the application. The regulation grants the NLC a period of 150 days to finalise adjudication of an application. The time of measurement commences on the date of submission of the application for funding.</p>																				
	Lotteries Act-5% per province (GNR182)	4.2 Percentage allocation of grant funding to provinces	A minimum of 5% grant funding allocated to each province	A minimum of 5% grant funding allocated to each province	<p>ACHIEVED</p> <table border="1"> <thead> <tr> <th>Province</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>EC</td><td>10.6</td></tr> <tr><td>FS</td><td>8.0</td></tr> <tr><td>GP</td><td>22.3</td></tr> <tr><td>KZN</td><td>10.1</td></tr> <tr><td>LP</td><td>16.8</td></tr> <tr><td>MP</td><td>8.7</td></tr> <tr><td>NW</td><td>8.9</td></tr> <tr><td>NC</td><td>7.1</td></tr> <tr><td>WC</td><td>7.8</td></tr> </tbody> </table>	Province	Percentage	EC	10.6	FS	8.0	GP	22.3	KZN	10.1	LP	16.8	MP	8.7	NW	8.9	NC	7.1	WC	7.8
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NW	8.9																								
NC	7.1																								
WC	7.8																								

Ensure fair and equitable grant allocations

GNR 182 regulation states:

"Any agency shall for the purposes of section 32(1) (b) of the Act in considering grant applications ensure that not less than five percent of the total amount at the disposal of the agency for grants, shall in any financial year of the board be allocated for distribution in respect of every province of the Republic."

The importance of this target is that it ensures fair and equitable distribution of funds.

PERFORMANCE INFORMATION

Monitoring and evaluation of NLDTF funding

4.3 Number of monitoring & evaluation site visits

Conduct 2500 monitoring & evaluation site visits

Conduct 2000 monitoring & evaluation site visits

ACHIEVED

2847 site visits conducted. This target ensures that there is proper monitoring and evaluation of funded organisations to maximise impact of funding granted for good causes.



4.4 Number of provincial impact evaluation studies

Conduct an impact evaluation study in 4 provinces for Board approval

Impact evaluation studies in 5 provinces

ACHIEVED

The evaluation study was conducted and the report was approved by the Board.

One of key roles of the NLC is its funding of non-profit organisations that play a role in the development of society through various initiatives. The impact evaluation study focused on funded projects to assess the changes that have been brought about in the lives of the individuals and communities. This target is a follow on from the previous year as it undertook to evaluate the remaining 4 provinces.



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FINANCIAL INFORMATION

- The NLC once again received clean audit opinions from the Auditor General for the Consolidated financial statements of the NLC and separate financial statements of the NLC, NLDTF and NLPT.



FINANCIAL INFORMATION

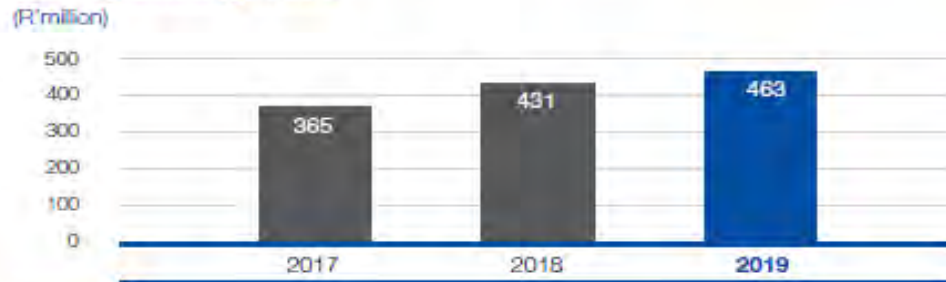
Salient Comparative Information

Share of ticket sales



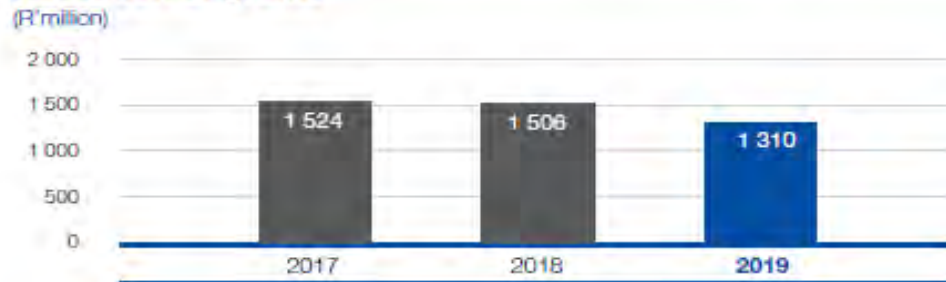
Revenue from share of ticket sales increased by 16.84% to R1.626 billion, attributable mainly to high jackpot prizes., introduction of the new Powerball matrix, launch of an E-commerce platform and National Lottery mobile app. The lottery operator grossed R7.070 billion (including VAT) from ticket sales. The operator contributed 26.22% (2018: 26.19%) to the NLDTF.

NLC operating costs



The NLC Operating Costs amounted to R463 million. The organisation has implemented cost saving measures in order to contain costs.

Allocation of grants



The grants allocation decreased by 13% to R1.310 billion as at 31 March 2019, due to lower projected sales by the Operator. However, improved sales occurred in the last quarter of the financial year.

FINANCIAL INFORMATION

Provision for allocation by distributing agencies



The liability is currently R285 million as at 31 March 2019, a decrease of 51% from the previous financial year, due to implementation of the Grants Financial Management Policy and fast tracking of payments.

Cash disbursed



Cash Disbursed amounts to R1.557 billion. The NLC continues to fast track payments to beneficiaries. As at 31 March 2019 83% of all first tranche payments were paid within the regulated 60 days. The actual average turnaround time for first tranche payments was 34 days.



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FINANCIAL INFORMATION

Weighted average return on investments

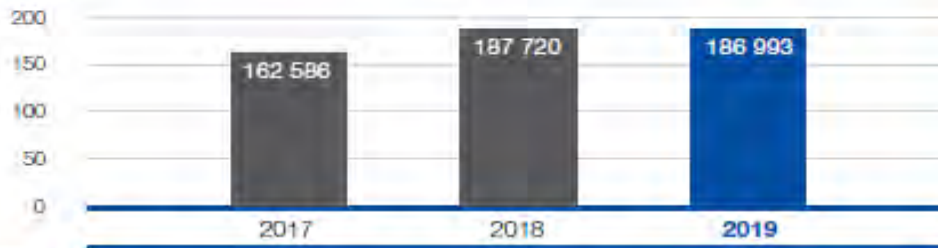
(Percentage)



The weighted average return on investments exceeded the APP target of 8% and the actual return was 8.42%.

Expired and unclaimed prizes

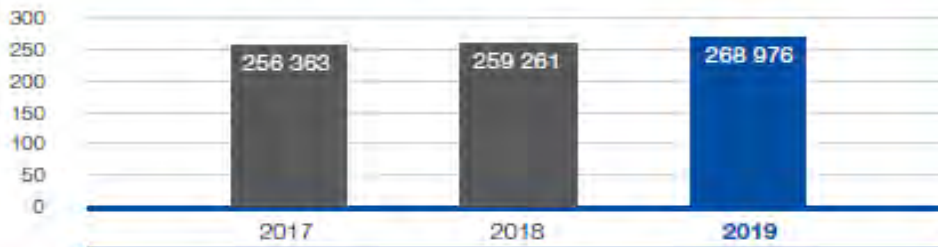
(R'million)



The expired and unclaimed prizes have increased by 15% over the past three years, however a marginal decrease of 0.4% was noted when compared to the prior year.

Unclaimed prizes – winners

(R'000)



The unclaimed prizes have increased by 5% over the past three years, however compared to prior year there was an increase of 4%.

FINANCIAL INFORMATION

Revenue through fundraising initiatives by organisations

(R'000)



The revenue from fundraising activities by organisations has increased by 276% over the past three years and a 156% increase was noted compared to the prior year. This is a positive direction towards self-sustaining organisations.

Society lotteries

(R'000)



The revenue from society lotteries has increased by 150% over the past three years, however a marginal increase of 6% was noted when compared to the prior year.

FINANCIAL INFORMATION

Statement of financial performance for the year ended 31 March 2019

		Group		Company	
	Note	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
REVENUE		1 990 581	1 790 607	463 332	430 521
Revenue from non-exchange transactions		1 829 069	1 598 829	461 516	429 027
Transfers from the NLDTF	1	–	–	459 016	426 527
Fund revenue	2	1 826 569	1 596 329	–	–
Licence fees	3	2 500	2 500	2 500	2 500
Revenue from exchange transactions		161 512	191 778	1 816	1 494
Other operating income	4	11 964	2 699	1 443	1 078
Fair value adjustment – investments	5	7 969	6 362	–	–
Surplus on disposal of property, plant and equipment	6	–	34	–	34
Investment and interest income	7	141 579	182 683	373	382
EXPENDITURE		(1 754 713)	(1 846 963)	(463 332)	(430 522)
Allocation of grants	8	(1 261 421)	(1 394 060)	–	–
Employee costs	9	(268 671)	(252 892)	(268 671)	(252 892)
Goods and services	10	(204 136)	(185 452)	(184 284)	(166 625)
Administration expenses	11	(10 108)	(3 554)	–	–
Depreciation, amortisation and impairment	12	(10 192)	(11 005)	(10 192)	(11 005)
Deficit on disposal of property, plant and equipment	13	(185)	–	(185)	–
Surplus/(deficit) for the year		235 868	(56 356)	–	–

FINANCIAL INFORMATION

Statement of financial position as at 31 March 2019

	Note	Group		Company	
		Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	61 723	35 048	61 723	35 048
Intangible assets	15	114 916	110 634	114 916	110 634
Financial assets – long term investments	16	1 507 954	1 632 511	–	–
		1 684 593	1 778 193	176 639	145 682
Current assets					
Financial assets – short term investments	16	–	5 213	–	–
Trade and other receivables from exchange transactions	17	5 182	11 531	2 231	2 493
Trade and other receivables from non-exchange transactions	17	41 663	24 745	–	–
Prepayments and deposits	18	1 428	1 319	1 359	1 319
Cash and cash equivalents	19	575 087	535 427	21 462	9 986
		623 360	578 235	25 052	13 798
Total assets		2 307 954	2 356 428	201 691	159 480
LIABILITIES					
Non-current liabilities					
Deferred income – license fees	20	7 917	10 417	7 917	10 417
		7 917	10 417	7 917	10 417
Current liabilities					
Current portion of deferred income – license fees	20	2 500	2 500	2 500	2 500
Provision for allocation by distributing agencies	21	284 675	580 368	–	–
Trade and other payables from exchange transactions	22	15 076	14 176	14 807	13 357
Trade and other payables from non-exchange transactions	22	282 523	270 891	142 835	100 892
Provisions	23	33 632	32 313	33 632	32 313
		618 406	900 248	193 774	149 062
Total liabilities		626 323	910 665	201 691	159 478
Net assets					
Accumulated funds		1 681 630	1 445 762	–	–
Total net assets and liabilities		2 307 954	2 356 428	201 691	159 480

PERFORMANCE OF NATIONAL LOTTERY LICENCE

R7 billion sales for 2018/19 verified.

R1.6 billion in NLDTF contributions verified. 168 jackpot winners verified.

R3.8 billion paid out in prizes.

Compliance with Lotteries Act, Consumer Protection Act and B-BBEE Act verified.

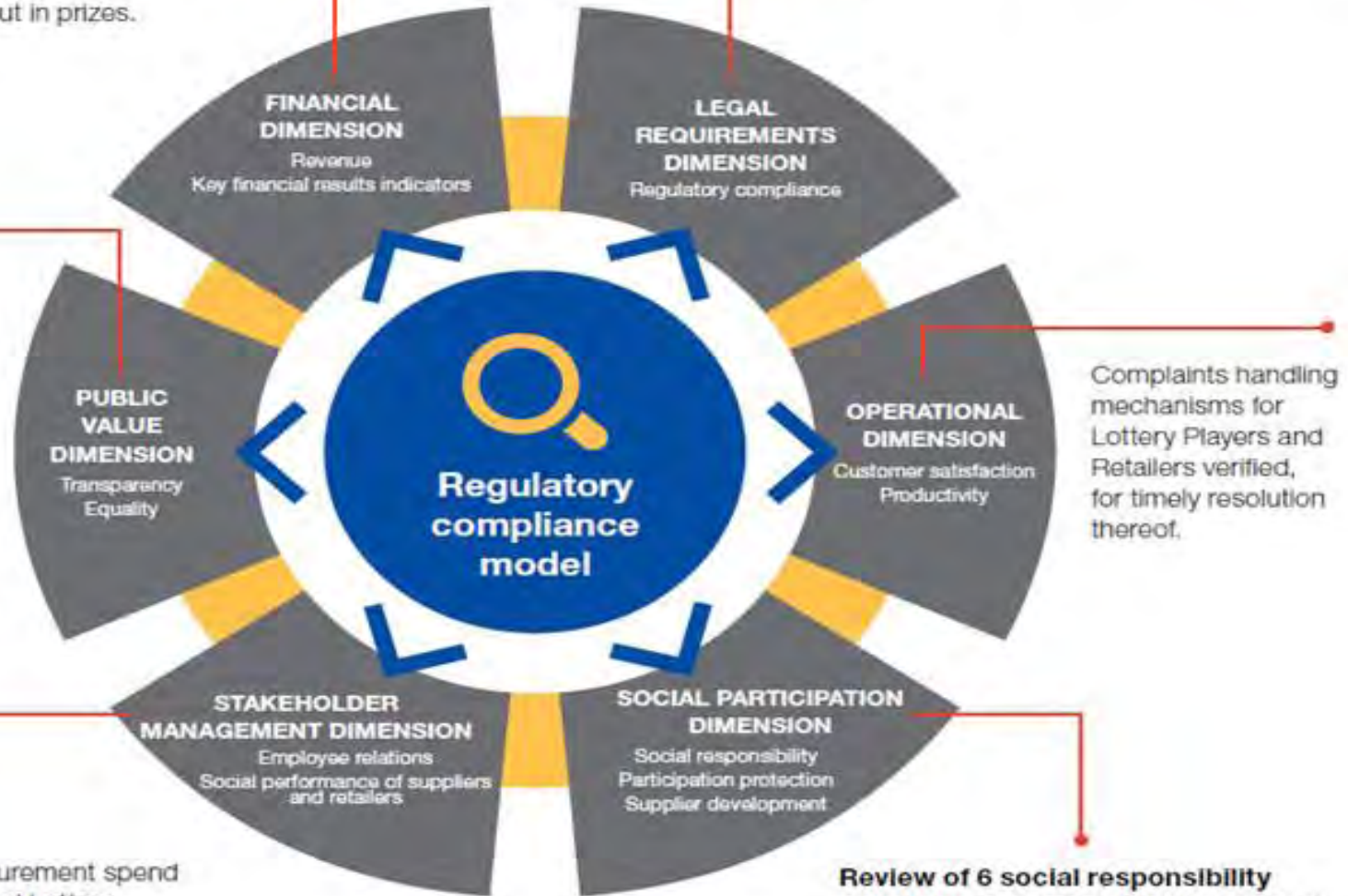
676 reviews conducted annually of verifying draw results and publication, together with prize share verification.

52 reviews of weekly transfer of unclaimed prizes to be secured in the National Lottery Participants Trust.





















97% of R1 billion procurement spend in 2018/19 by the National Lottery Operator was on local goods and services.

Review of 6 social responsibility programs implemented by the National Lottery Operator.

960 participants protection reviews conducted annually.



RISK MANAGEMENT

Risk		Risk rating	Status on	
High level definition		Residual risk	Implementation of controls	Strategic outcome
	Conflict of interest	6	Adequate	
	Fraud risk	10	Adequate	
	Illegal lotteries	13	Adequate	
	Inadequate stakeholder relationships	4	Adequate	
	Misaligned grant allocation processes	4	Adequate	
	Continuity & sustainability	8	Adequate	
	ICT infrastructure and systems	8	Adequate	
	Non-compliance with prescribed timeframes	11	Adequate	
	Information management and security	11	On-Track	
	Non-compliance with regulatory requirements by the National Lottery Operator	8	Adequate	



CHALLENGES

Conflicting beneficiaries

A majority of complaints and allegations received by the NLC relate to conflicting beneficiaries once funded. The conflicts emanating from beneficiaries as well as beneficiaries and service providers has led to the NLC's reputation and integrity being compromised.

Notwithstanding NLC's best endeavours to mediate between beneficiaries, matters often led to criminal investigations and litigation amongst conflicting beneficiaries and/or service providers.

The NLC continues to provide capacity building to beneficiaries in order to ensure beneficiaries understand and adopt sound governance practices.

Macroeconomic conditions

With the persistent challenges facing the South African economy, poverty, low levels of employment, as well as an urgent need for economic growth, we continued to face challenges in meeting the unrealistic demand on the NLDTF. We continue to look for innovative measures to maximise revenue while encouraging and channel our valued beneficiaries to explore other forms of funding through the introduction of society lotteries and innovative projects to ensure sustainability of their organisations.

Interpretation of legislation

Our stakeholders remain challenged in understanding section 2A of the Act relating to proactively funded projects. The report, under the grant funding section, provides a detailed overview and corporate governance framework of our Pro-Active Funding Model.



NATIONAL LOTTERIES COMMISSION

a member of the dti group

CHALLENGES

Online gaming

The Lotteries Act requires an amendment to ensure that NLC has full regulatory powers. These include the issuing of penalties for certain regulatory breaches and inspectorate powers to police and enforce the law on illegal operations. Administrative penalties are tools used by regulators to enforce compliance with legislation. These penalties should be of monetary value and should be imposed without reliance on a court process for enforcement thereof. Powers to appoint inspectors with all required enforcement powers to conduct inspections on illegal lotteries would assist in effective execution of the mandate of policing lotteries. Challenges identified by the Board in regulating the lotteries industry include conflicting legislation and different regulators for gambling and lotteries which create ambiguity in regulation as well as lack of enforcement powers to effectively regulate lotteries.

Challenges in regulation

Traditional lottery operators are finding themselves competing with foreign lotteries due to technological online platforms. Online gaming is providing more options for consumers; however, it is also threatening the revenue generated by traditional lottery operators. The proliferation of online operators poses threats to the restrictive legislated environment. The global lottery industry is coming to grips with rapid changes in the industry as a consequence of online gaming and the use of technology. The NLC is expected to regulate the lotteries industry and curb the scourge of illegal lotteries. The NLC is further expected to advise the Minister on the issuing of the licence to conduct the National Lottery and Sports Pools, whilst ensuring the National Lottery and Sports Pools are conducted with all due propriety, that the interests of every participant in the National Lottery are adequately protected and that net proceeds of the National Lottery are as large as possible. Research undertaken by the NLC in 2016 on the impact of illegal lotteries estimated revenue generated from online illegal lotteries to be R18 million per annum. The impact of this unlawful activity has both an economic and social dimension, such as loss of intermediate production and value-addition in the national economy and loss of employment opportunities.

2018-19 AUDIT OUTCOMES

ENTITY	OUTCOME
National Lotteries Commission(NLC)- separate	Unqualified with no findings (Clean Audit)
National Lotteries Commission (NLC) - Consolidated	Unqualified with no findings (Clean Audit)
National Lottery Distribution Trust Fund (NLDTF)	Unqualified with no findings (Clean Audit)
National Lotteries Participant's Trust	Unqualified with no findings (Clean Audit)

- AGSA has noted that the overall audit outcome has remained clean as a result of having the right skills set in key management positions, a leadership that drives a culture of sound corporate governance and the maintenance of strong internal controls throughout the financial period.
- No findings on the main compliance focus areas as well as audit of pre-determined objectives.
- Quality of financial statements and performance was commended [**there were no audit adjustments to the financial statements and the report on performance information**].

2018-19 AUDIT OUTCOMES AND HIGHLIGHT

- Concluded that the overall financial viability is of the NLC good.
- All assurance service providers [**Senior Management, Internal Audit, Audit Committee, Board, Minister**] were assessed as having providing reasonable assurance (i.e. green).

HIGHLIGHTS FOR 2nd QUARTER 2019/20

- NLC signed a Memorandum of Understanding (MOU) with the Department of Planning, Monitoring and Evaluation (DPME) to collaborate on inter alia, guiding funding to align with the priorities of government at planning sessions by providing updated information; coverage of NLC funded projects in government publications about service delivery and provision of information by the NLC to the DPME on funded projects to demonstrate NLC's contribution to good causes in the country.
- The NLC further identified the provincial gambling boards as a key stakeholder in addressing the growing scourge of illegal lotteries and gambling. To this end, meetings with nine (9) gambling boards (national and 8 provincial) were held to discuss amicable solutions on the matter.
- In line with our responsibility to protect lottery participants and educate members of the public on lotteries, the NLC collaborated with the Gauteng, Eastern Cape, North West and Northern Cape provincial offices. A total of 7 workshops were conducted in the provinces.

PROGRESS ON MINISTERIAL PRIORITIES

IDENTIFIED AREA	PERFORMANCE MEASURE	PROGRESS TO DATE
<p>Education and Awareness</p>	<p>Develop informational measures to educate the public about lotteries and provisions of the Lotteries Amendment Act No 32 of 2013 and by explaining the process, requirements and qualifications for grants</p>	<p><i>Education and awareness is been included in NLC Annual Performance Plan as a target and performance against that target is measured. Seventy-six education and awareness were held within the period under review.</i></p>
<p>Full-time Agencies Distributing</p>	<p>Manage the integration of full-time Distributing Agency (DA) members to improve the application process</p>	<p><i>The full time Distributing Agency (DA) function have been fully integrated into the Grant Funding value chain, furthermore the implementation of Standard Operating Procedure for the adjudication process clearly outlining the role and responsibilities of both administration and DA is monitored. The organisation is still awaiting the finalisation of the appointment of full time Sports and Recreation DA.</i></p>

PROGRESS ON MINISTERIAL PRIORITIES

IDENTIFIED AREA	PERFORMANCE MEASURE	PROGRESS TO DATE
Illegal Lotteries	Monitoring and enforcement against illegal lottery operations	<i>Regulating and policing of illegal lottery operations was conducted through investigating identified and reported illegal lotteries. 100% of identified illegal lotteries were investigated.</i>
Proactive Funding	Proactive funding based on informed research for worthy causes that may be funded without lodging an application in terms of the Act	<i>The revised pro-active funding policy and standard operating procedure are approved. Sixteen pro-active funding projects were approved in line with the revised policy. All pro-actively funded projects are closely monitored to ensure that the organization yields the envisaged return on investment.</i>
Monitoring of the Operator	Monitoring of the Lotteries Operator to ensure that it complies with government priorities e.g The Broad Based Black Economic Empowerment Act, 2003 (No. 53 of 2003) (BBBEE), Local Procurement & Skills Transfer	<i>Operator compliance against Licence requirements continued to be monitored in this Quarter through the six performance dimensions. Areas of non-compliance are communicated on a monthly basis to the Operator to ensure timeous corrective action.</i>
Memorandum of Understanding (MOU's)	MOU's with other Regulatory Agencies and provincial counterparts in clamping down on illegal lotteries and gambling	<i>MoU's drafted for input for Free State, Western Cape, Eastern Cape, Kwa-Zulu Natal and Gauteng Gambling Boards.</i>

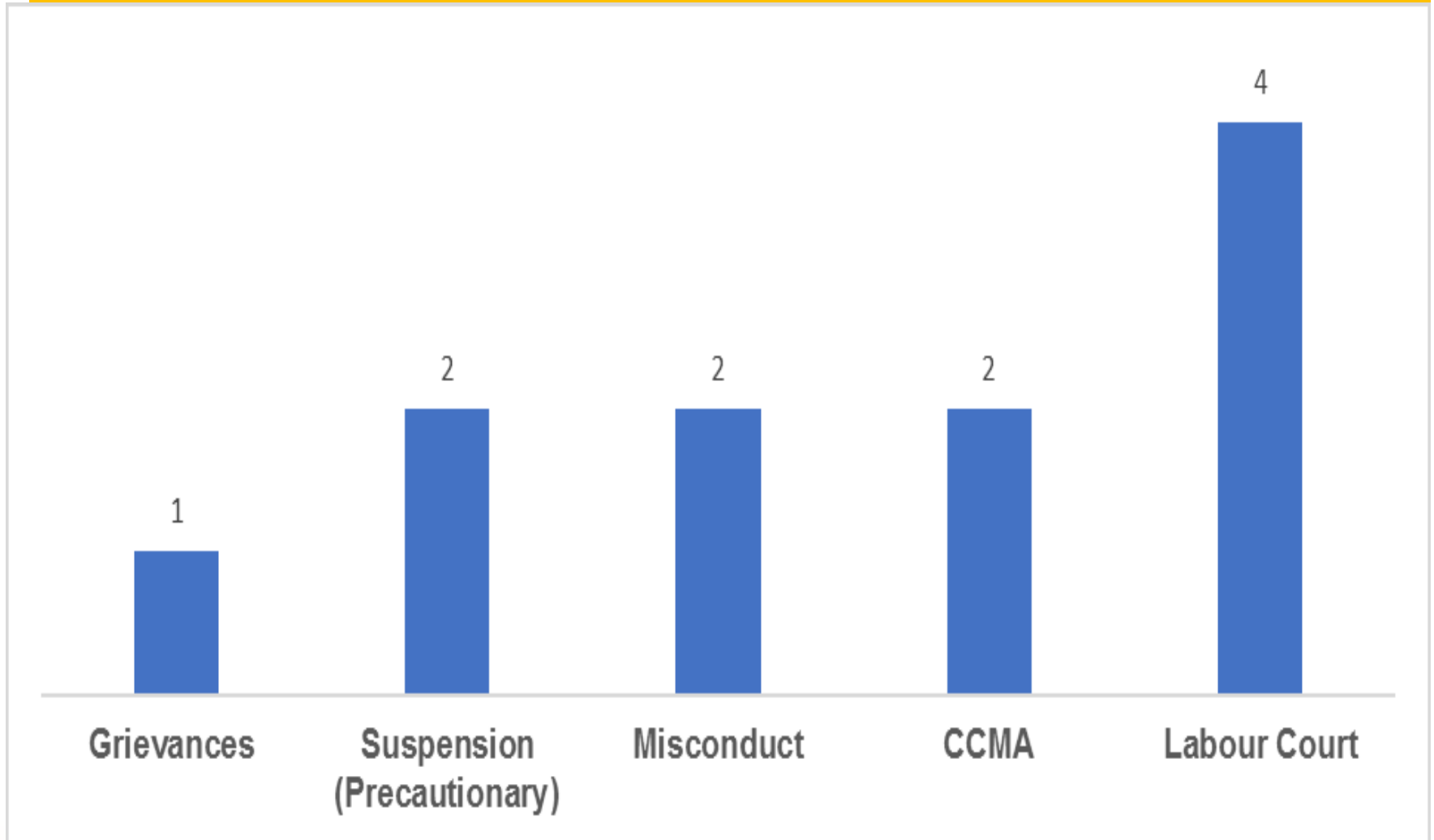
LITIGATION MATTERS

CASES	STATUS
LottoStar	<p><i>This is a matter initiated by the Commission enforcing provisions of the Lotteries Act No 57 of 1997 (as amended). The Company is a bookmaker and part of its business operations includes taking bets on the outcome of lottery results which is an offence in terms of the Act and the provisions of the Constitution (Schedule 4 – Act 108 of 1996). Their activities have a negative implication on the business interest of the operator as well. Case was heard on 13 December 2018. Judgement was delivered on 15 May 2019. The court decided that the Intergovernmental Relations Framework Act be fully exhausted before the matter is referred to court. Ithuba has filed an appeal. The NLC also filed an appeal on 06 June 2019. Still awaiting confirmation of court date.</i></p>

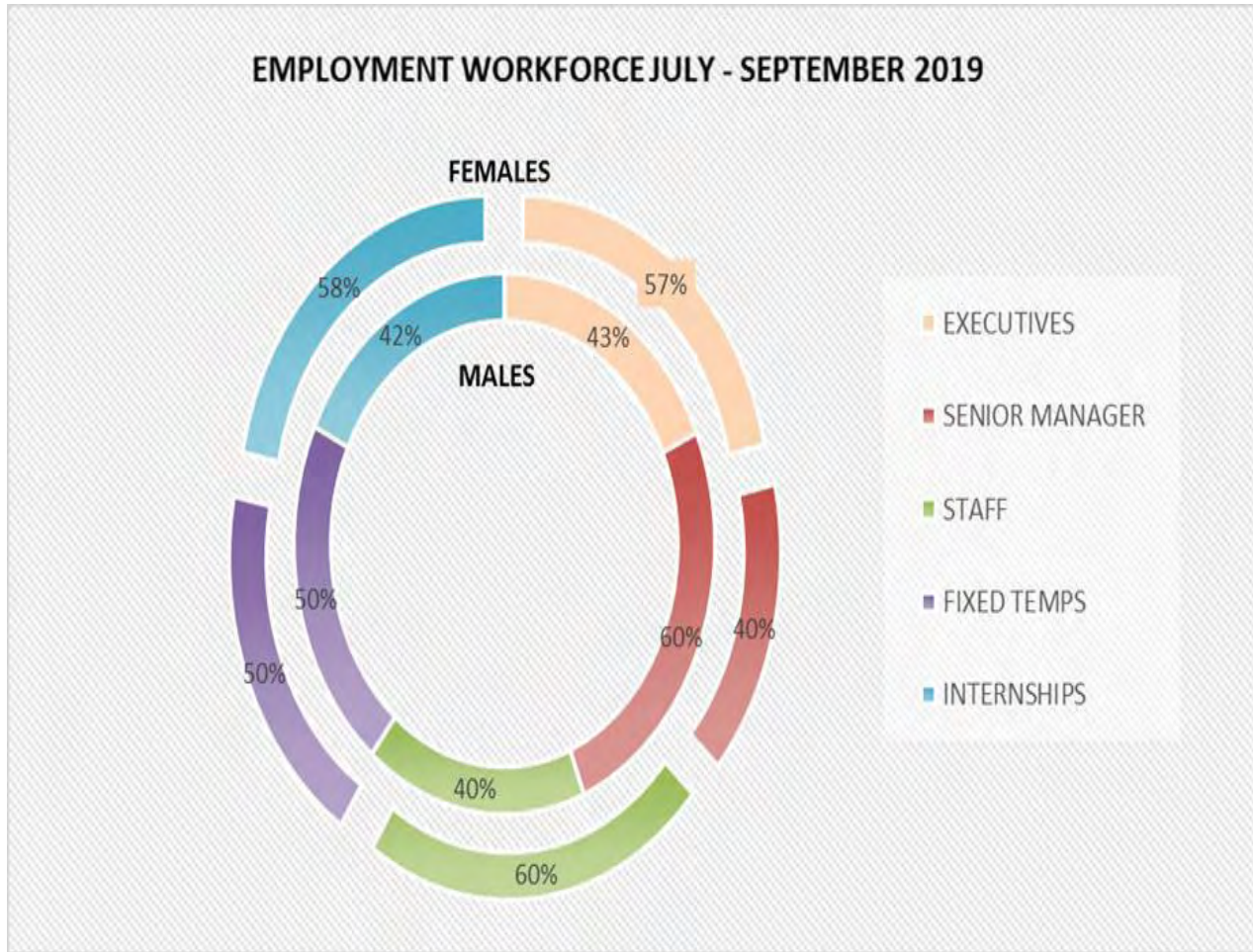
SUMMARY OF INVESTIGATIONS

Cases Investigated	Total cases	Percentage
Closed Cases	17	55%
Pending	14	45%
Total Cases Investigated	31	100%

LABOUR RELATIONS MATTERS

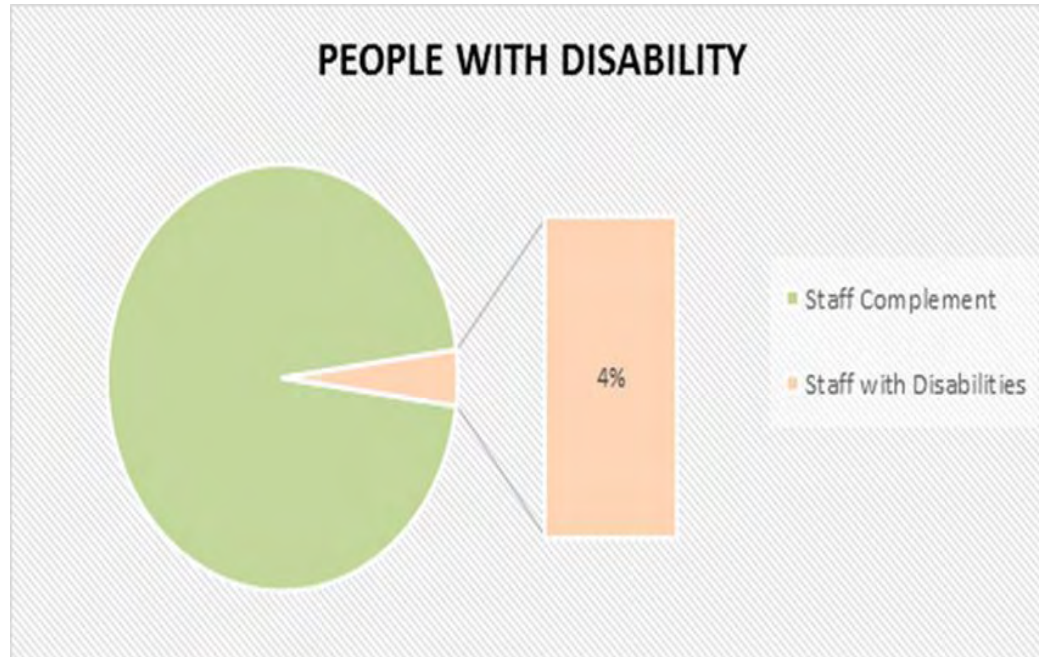


EMPLOYMENT WORKFORCE



NLC has a total staff complement of 277 permanent employees, with 33 fixed term employees (temporary contracts and internships). The entity has ensured equity throughout the workforce and has exceeded targets in most levels. Focus will be on ensuring equity in the senior management category which currently demonstrates a complement of 60% males and 40% females.

PEOPLE WITH DISABILITIES

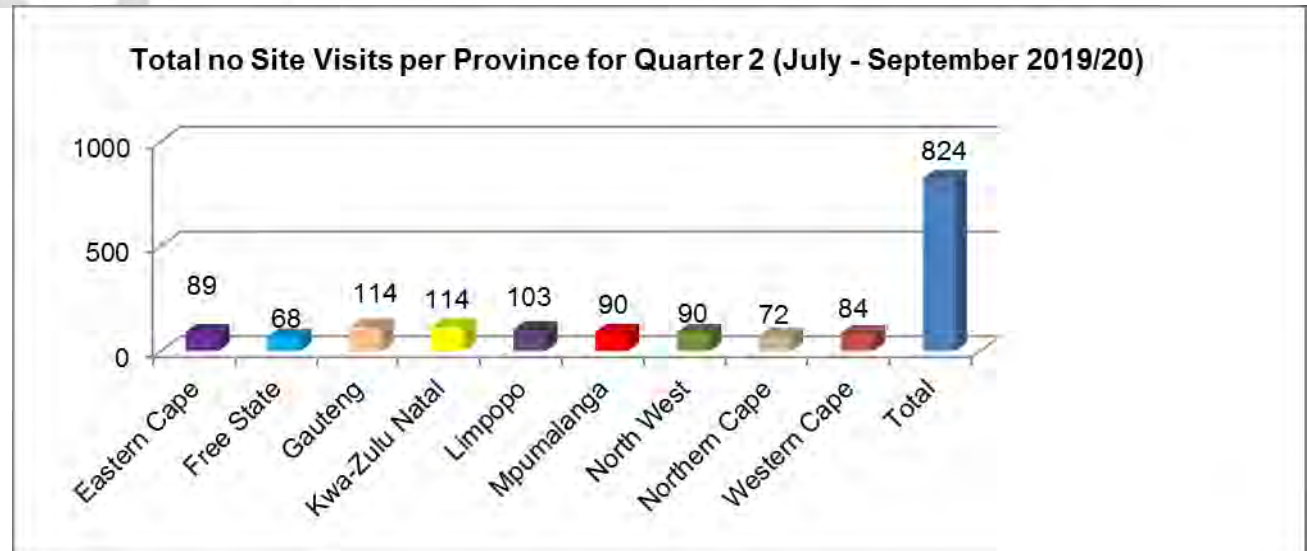


The status illustrates a 4% staff complement comprising of people with disabilities.

TOTAL NUMBER OF M&E VISITS

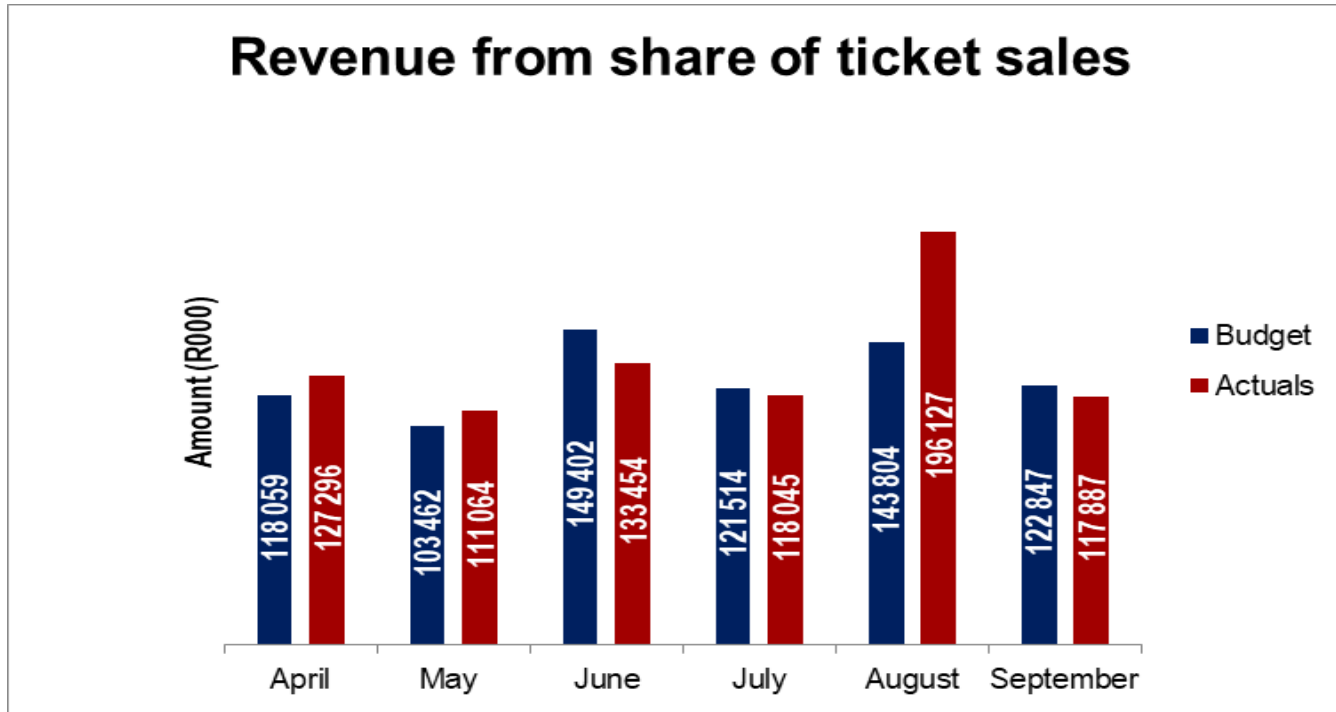
Total no of site visits conducted in the 2nd Quarter:

Province	Charities	Sports	Arts	Miscellaneous	Total
Eastern Cape	48	26	11	4	89
Free State	41	17	10	0	68
Gauteng	57	39	18	0	114
Kwa-Zulu Natal	66	22	26	0	114
Limpopo	14	65	1	3	103
Mpumalanga	37	34	19	0	90
North West	57	26	6	1	90
Northern Cape	31	21	20	0	72
Western Cape	41	23	19	1	84
Total	392	293	130	9	824



A total of **824** site visits were conducted during the quarter under review. The total number of site visits conducted includes both pre- adjudication and post- adjudication site-visits.

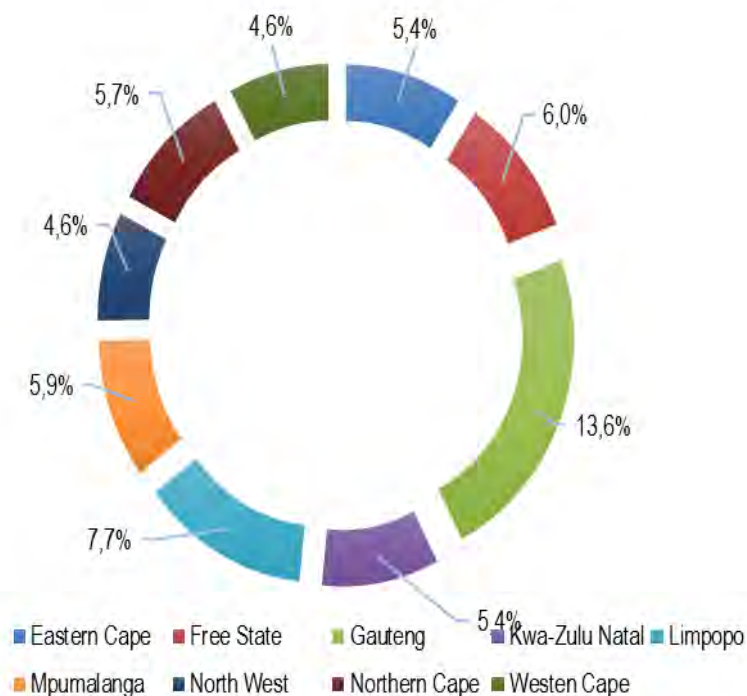
REVENUE



Revenue from share of ticket sales as at the end of quarter 2 2019 is R803.9 million (September 2018: R738.3 million) against a budget of R759.1 million. Revenue over-performed the budget by 5.86 as at 30 September 2019 as result of the rollover of the Powerball jackpot and the higher than expected daily lotto performance which boosted sales.

ALLOCATIONS PER PROVINCE

YTD Allocations per Province



In terms of the Lotteries Act GNR 182, a minimum of 5% must be allocated to each province during the year. As at 30 September 2019, all provinces have achieved the second quarter target of 2%.

ORGANISATION PERFORMANCE

Target relates to:	Milestone for Quarter 2	Achieved / Not Achieved
Strategic Objective 1: To Enhance Administration, Ensure Compliance with Applicable Legislation and Policy Prescripts		
Position NLC as a Regulator	Implementation of the strategy	ACHIEVED The implementation was through radio campaign such as: SAFM, Kurara FM, Kaya FM; Power FM, Capricorn FM where NLC leadership was interviewed. NLC exhibited at the Gaming Regulators Africa Forum; placed adverts in Back to Basics Magazine and there were internal campaigns on 20 Years of NLC regulatory mandate.
Number of stakeholder engagements conducted per province	Conduct 12 education and awareness engagements across the provinces	ACHIEVED 76 education and awareness workshops conducted during the second quarter of 2019/20.
Integration of the E-system Enterprise Wide Architecture Platform – Online System	Development of regulatory functions on the ERP	ACHIEVED The Regulatory and Compliance handheld tool application was launched.
Governance, Organisational Compliance and Ethics	Roll out of 5 interventions	ACHIEVED The interventions were rolled out.

ORGANISATION PERFORMANCE

Target relates to:	Milestone for Quarter 2	Achieved / Not Achieved
<i>Strategic Objective 2: To ensure financial sustainability Control and Discipline in line with Applicable Legislation and Policy Prescripts</i>		
Percentage disbursement of grants as per GNR644, 6(c)(iv)	60% disbursement of grants	ACHIEVED 95% disbursement of grants.
Percentage Return on Investments (ROI) of NLDTF funds	8% Return on Investments	ACHIEVED 8.42% ROI.
Percentage of localised procurement for the provinces	75% average procurement to the provinces	ACHIEVED 99% procurement to the provinces.

ORGANISATION PERFORMANCE

Target relates to:	Milestone for Quarter 2	Achieved / Not Achieved
Strategic Objective 3: To Implement Relevant Initiatives Geared towards Ensuring Compliance with the Act		
Percentage of investigations on reported and identified illegal lotteries	Conduct investigations on 75% of all identified and reported illegal lotteries	ACHIEVED 100% of identified and reported cases were investigated.
Implement and monitor 3rd National Lottery Licence Monitoring Matrix	Implement and Monitor Compliance with the licence conditions	ACHIEVED Implemented and monitored 3rd National Lottery Licence in line with the Monitoring Matrix/Scorecard.
Participant Protection Section 2(A)(b)	Implement program in 3 provinces	ACHIEVED 7 Participants Protection Programs were implemented in 4 provinces (Gauteng, Eastern Cape, North West and Northern Cape)

ORGANISATION PERFORMANCE

Target relates to:	Milestone for Quarter 2	Achieved / Not Achieved
Strategic Objective 4: To Ensure Fair and Equitable Grant Allocations		
Percentage of applications adjudicated within 150 days	65% of applications adjudicated within 150 days	ACHIEVED All applications adjudicated.
Lotteries Act-5% per province (GNR182) (5% per province)	A minimum of 2% grant funding allocated to each Province	ACHIEVED EC 5,4% FS 6,0% GP 13,6% KZN 5,4% LP 7,7% MP 5,9% NW 4,6% NC 5,7% WC 4,6%
Number of impact assessments (site visits) conducted	Conduct 625 monitoring and evaluation site visits	ACHIEVED 824 visits conducted.
Provincial Infrastructure Impact Evaluation Study	Conduct Study	ACHIEVED Study Commenced.
Grant Funding Model	Submit 1 st draft to Exco	ACHIEVED Report tabled at Exco

PROGRESS ON RISK REGISTER

Strategic Risk Register

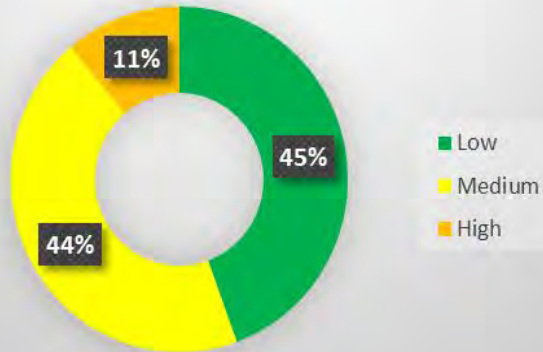
The overall risk profile remains unchanged as compared to the prior quarter.

- a) **Residual Risk assessment:** the degree of risk exposure remaining after consideration of mitigating efforts.
- b) **Mitigating effectiveness:** Represents our current capability/effort to manage the risk's likelihood and/or impact to within organisation's risk appetite.
- c) **Risk (threat):** Outlook indicates risk owner's view about potential risk threats in the internal and/or external environment.

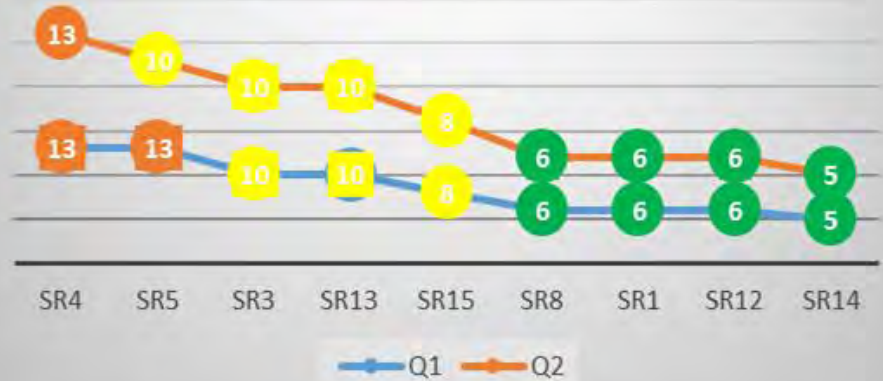
We have continued to monitor the strategic risks together with management and below is the NLC's strategic risk profile. The current strategic risk profile for the NLC is at a managed level. Control improvements are being implemented to ensure that these risks are mitigated to an acceptable level.

STRATEGIC RISK CONTINUES....

Strategic Residual Risk Profile



Quarterly Trend



- The NLC has committed to reposition as a regulator. We are in the process of reviewing the current strategic register to ensure the identification of risks and opportunities that may impact on the delivery of the repositioning mandate. We have continued to monitor the strategic risk register and the following are the top 4 strategic risks in the organisation. Control improvements that were identified by management are being implemented to ensure that these risks are mitigated to an acceptable level.

STRATEGIC RISK CONTINUES....

Top 4 Strategic Risks:

- We have continued to monitor the strategic risk register and the following are the top 4 strategic risks in the organisation. Control improvements that were identified by management are being implemented to ensure that these risks are mitigated to an acceptable level.

Ref No	Risk Description	Residual Rating	Improvements
SR4	Illegal Lotteries	13	Continuous monitoring by Regulatory compliance division.
SR5	Inadequate stakeholder management	10	Continuous stakeholder engagement sessions were held during the quarter.
SR3	Fraud risk	10	Fraud risks were monitored
SR13	Non-compliance with regulatory requirements by National Lottery Operator.	8	Incidents of non-compliance by the operator were identified and reported through Regulatory Compliance Division.

2nd QUARTER ACHIEVEMENTS

Total No of Targets	Achieved	Not Achieved
15	15	0
	100%	%

100% Achievement of targets for the 2nd quarter of 2019/20.

Thank you

