



INTEGRATED REPORT 2017/18



NATIONAL LOTTERIES COMMISSION

a member of **the dti** group



The National Lotteries Commission (NLC) was established in terms of the Lotteries Amendment Act (No. 32 of 2013) to regulate the National Lottery as well as other lotteries, including society lotteries to raise funds and promotional competitions.



The National Lotteries Commission (formerly “National Lotteries Board”) opened its doors in 1999 under the Lotteries Act (No. 57 of 1997), as amended.

The Act mandated the Board to:



REGULATE the National Lottery as well as other lotteries, including society lotteries, promotional competitions and sports pools.



ADVISE the Minister of Trade and Industry on policy matters relating to the National Lottery and other lotteries.



DISTRIBUTE a portion of the revenue from the National Lottery to good causes through the National Lottery Distribution Trust Fund (NLDTF).

National Lotteries Commission Integrated Report 2017/18

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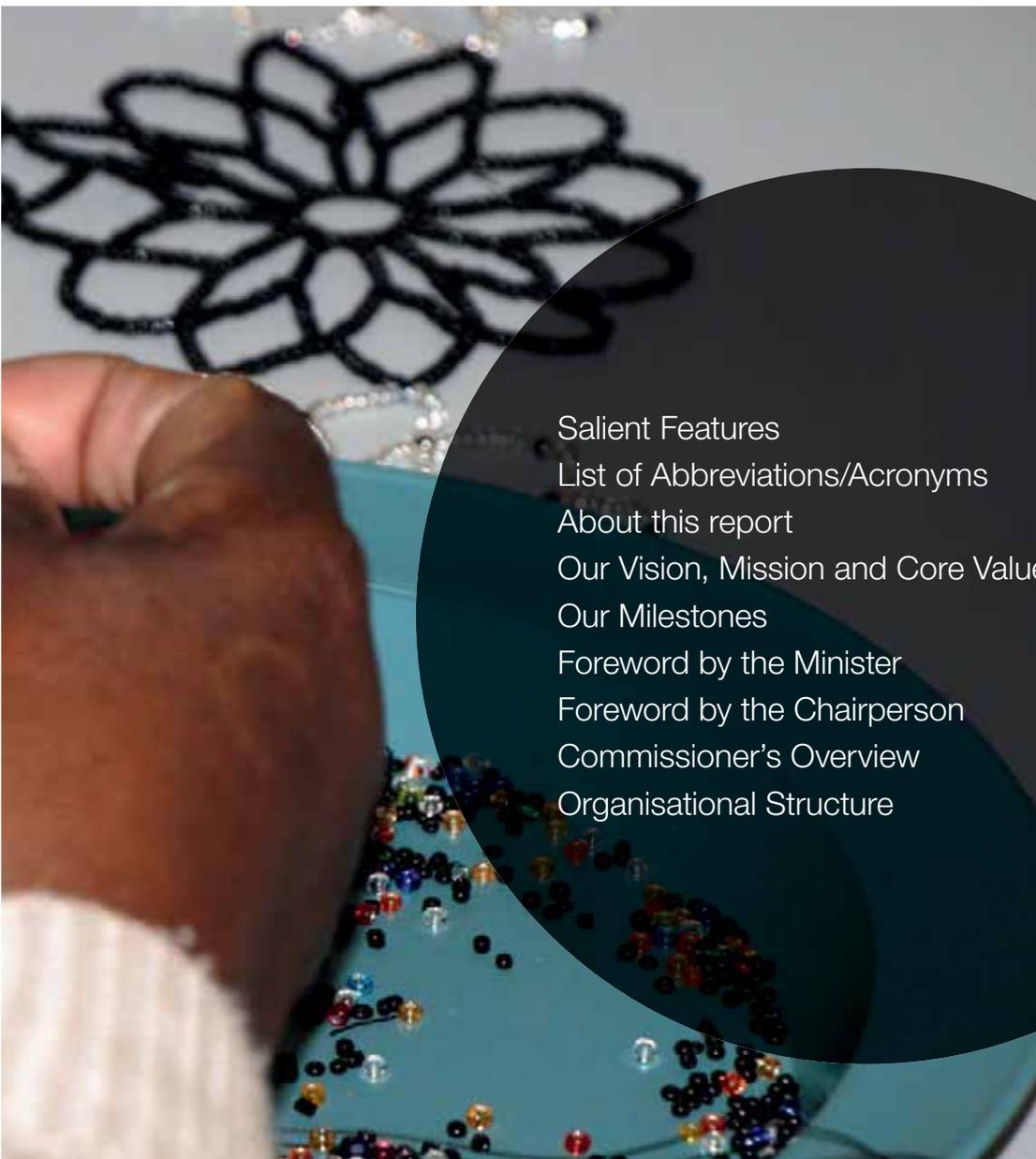


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PART A GENERAL INFORMATION





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Salient Features

The NLC continued implemented cost-saving measures and continued to enforce sound internal control mechanisms to achieve yet again 100% performance.

Achieved

Minimum of
5% grant
funding allocated to
each Province

81% applications
were adjudicated
within the 150 days prescribed
timeframe, exceeding the 75% target

66% of
disbursements
were within the 60 days prescribed
timeframe, exceeding the 65% target

**Knowledge
Hub**
developed and piloted

106 stakeholder
engagements
across provinces

2 333
monitoring
and evaluation
site visits conducted

12 488
applications
adjudicated
at the end of March 2018.
The NLC eliminated the long
standing backlog

A total of 14 414
temporary and
permanent jobs
created by NLC funded projects

Total of
691 146 people
have been reported to have either
been served or reached **with**
various services offered by NLC
beneficiaries

49% of
Operations staff
participated in upskilling programme
in preparation for the Grant Funding
Professionalisation programme

89%
identified
illegal lotteries closed

Overall liability
decreased
by 55%
year-on-year to R568 million

Cash disbursed
R2.073 billion
up 5%
from prior year

The weighted average
return on investments
exceeded the
APP target
of 8% and the actual return is
8.40% up
0.25% from the prior year

100%
localisation of
procurement
for provincial offices.
R55 million preferential
procurement to designated groups

Successful implementation of the
organisation wide integrated ERP system

List of abbreviations/acronyms

AA	Accounting Authority
ACT	The Lotteries Act (Act No. 57 of 1997) as amended
AFS	Annual Financial Statements
AGSA	Auditor-General South Africa
Board	Board of Directors of the NLC
CATHSSETA	Culture, Arts, Tourism, Hospitality, Sports, Sector Education and Training Authority
COMMISSIONER	Commissioner of the NLC
DA	Distributing Agency
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
MTEF	Medium-Term Expenditure Framework
NGO	Non-governmental Organisation
NPO	Non-profit Organisation
NLB	National Lotteries Board
NLC	National Lotteries Commission
NLDTF	National Lottery Distribution Trust Fund
PFMA	Public Finance Management Act (Act No. 1 of 1999) as amended
RFP	Request for Proposal
SCA	Supreme Court of Appeal
SCM	Supply Chain Management
the dti	Department of Trade and Industry

THE SIX CAPITALS



Financial



Intellectual



Manufactured



Natural



Human



Social and Relationship

STRATEGIC OBJECTIVES



About this report

INTEGRATED REPORTING PURPOSE

The NLC fulfils its mandate through the application of the principles of openness and transparency. We are proud to present our first Integrated Report, which aims to highlight our successes and challenges throughout 2017/18 financial period. We are working toward meeting all requirements of the **International Framework <IR>** as we progress on our integrated reporting journey.

REPORTING SCOPE AND BOUNDARY

The Integrated Report 2017/18 is our primary report to stakeholders covering the financial period 1 April 2017 to 31 March 2018. The report includes the NLC and NLTFD's leadership overviews, organisational overviews, financial performance, strategic performance, outlook and corporate governance overview. We, as regulators of the lotteries industry, do not report Ithuba Holdings (RF) Pty Ltd or the National Lotteries Participant Trust.

The content covers our material matters that impact on the sustainability of our industry, organisation industry and our stakeholders and the way the organisation creates value for the broader society over the short-, medium- and long-term. Our material matters are identified, evaluated, prioritised and determined in line with the NLC Materiality Framework. The materiality framework is reviewed annually and included in the Annual Performance Plan. Material matters are featured on page 7 of this report and developed after consideration of the ministerial priorities on page 16, strategic risk register on pages 50 to 52, our strategy as well as our reporting framework.

REPORTING FRAMEWORKS

Our Integrated Report 2017/18 endeavours to be concise. However, we are cognisant of addressing all material stakeholder reporting requirements enshrined in the **Lotteries Act, PFMA and Treasury Regulations** as well as **National Treasury Reporting Standards** guidelines which are published on our website <http://www.nlcsa.org.za/acts/>. Our group annual financial statements (AFS) follow GRAP standards for Annual Financial Statements. During the period under review, we adopted the King IV code. Details on our transition to King IV are detailed in the Corporate Governance Report. The report draws on information from other detailed reports. We relied on our Five-Year Strategy Plan and Annual Performance Plan published on our website and reflecting the NLC's long-term, mid-term and short-term objectives in line with National Treasury Framework for Strategic Plans and Annual Performance Plans.

ASSURANCE

The NLC has adopted the combined assurance model, which has been designed to highlight the relevant high-risk areas and the assurance to be provided for the NLC to be appraised of the risk management efforts undertaken to manage the risks to an acceptable level.

Activity	Standard/Code	Assurance Provider
Financial Information presented on page 108 to 175	GRAP	Auditor-General South Africa
Strategic Performance	PFMA	Auditor-General South Africa
Operational Information	PFMA and Lotteries Act	Auditor-General South Africa
B-BBEE Information	BEE Act 53 of 2003 and Codes of Good Practice	BEE Online
National Lotteries Participants Trust Financial Information on part F of the report	IFRS	Kwinana & Associates Inc

DIRECTOR APPROVAL

The board acknowledges its responsibility to ensure the integrity of information contained in the Integrated Report 2017/18. The Board Audit and Risk Committee was instrumental in providing guidance on this process and keeping the Board abreast of the reporting progress. The Board is of the opinion that this Integrated Report 2017/18 is presented in compliance with the Integrated Reporting <IR> Framework.

To the best of our collective knowledge and belief, the Board confirms that:

- All information and amounts disclosed in the integrated report are consistent with the annual financial statements audited by the Auditor-General.
- The integrated report is complete, accurate and is free from any omissions.
- The integrated report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.
- The annual financial statements (Part E) have been prepared in accordance with the GRAP standards applicable to the NLC.
- The Board was responsible for the preparation of the annual financial statements and for the judgements made in providing this information.
- The Board was responsible for establishing and implementing a system of internal control which has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.
- The external auditors are engaged to express an independent opinion on the annual financial statements. In our opinion, the integrated report fairly reflects the operations, performance information, the human capital information and the financial affairs of the entity for the financial year ended 31 March 2018.

REPORT VERSIONS

For the period under review, the NLC has produced limited print copies of the integrated report. The full integrated report is also available electronically at www.nlcsa.org.za.



Prof NA Nevhutanda
Chairperson of the Board

26 July 2018



Ms TCC Mampane
Commissioner

26 July 2018

Material Matters	Impact	NLC's Response	Strategic link	Strategic Risk & Opportunity
<p>Macro-Economic Conditions</p> <p>The Economic situation in South Africa has resulted in decreased revenue and increased demand on the shrinking funds of the NLDTF. On average, the NLC distributes R1.5bn each year with more than 14000 applications requesting more than R10bn.</p>	Factors such as the change in VAT rate are projected to impact negatively on available funds for good causes.	The NLC is exploring a collaborative effort with key national stakeholders.	 	R5
<p>Interpretation of Legislation</p> <p>Our stakeholders grappled with the amended legislation, notwithstanding the intense capacity building programmes initiated by the NLC. The areas of contention resulting from a lack of understanding of legislation and NLC processes relating to the Regulation 14 – Cooling Off period, Part II, Regulation 10 on Agents and Conduits and section 2A of the Act relating to proactively funded projects. The Legal Division report on page 109-110 seeks to provide a summary of the NLC's legislative interpretation</p>	Non-compliance with legislative requirements and impaired stakeholder relations resulting in less funding for applicants.	Enhanced and structured stakeholder engagements and publication of guidance notes	 	R6, R4
<p>Challenges in Regulation</p> <p>Challenges identified by the Board in regulating the lotteries industry include conflicting legislation and different regulators for gambling and lotteries. This created ambiguity in regulation as well as a lack of enforcement powers to effectively regulate lotteries.</p> <p>Refer to Regulatory Compliance Divisional Report</p>	Lack of enforcement powers results in a low prosecution rate and repeat offenders.	Enhancing relations with security agencies and other regulatory bodies to police and enforce sanctions.		R6
<p>Illegal Lotteries and Online Gaming</p> <p>Illegal Lotteries and Online Gaming pose a threat to participants or public protection and cannibalising of the territory or regulated lotteries and sports pools.</p> <p>Refer to Regulatory Compliance Divisional Report</p>	Harm to the public at large and dilutes funding for good causes.	The NLC is engaging with policy makers to provide direction as trends have preceded legislation. Greater emphasis and resources have been channeled into the manner in which the NLC regulates.		R3
<p>Fraud Risk</p> <p>The NLC has established controls to mitigate against potential fraud risk. Fraud risks can never be eliminated; however, the Risk unit ensures that identified and reported instances of fraud are addressed to discourage occurrence and re-occurrences. The NLC is enhancing its strategy on combatting activities and targeting of educational institutions by individuals purporting to be Agents of the NLC.</p>	Harm to the public at large, leakage of information and funding for good causes and information security risks.	Education and awareness, capacity building, reporting mechanisms in line with industry standards and increase transparency of NLC dealings.		R2, R77

Organisational overview

CONSTITUTIONAL MANDATE

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



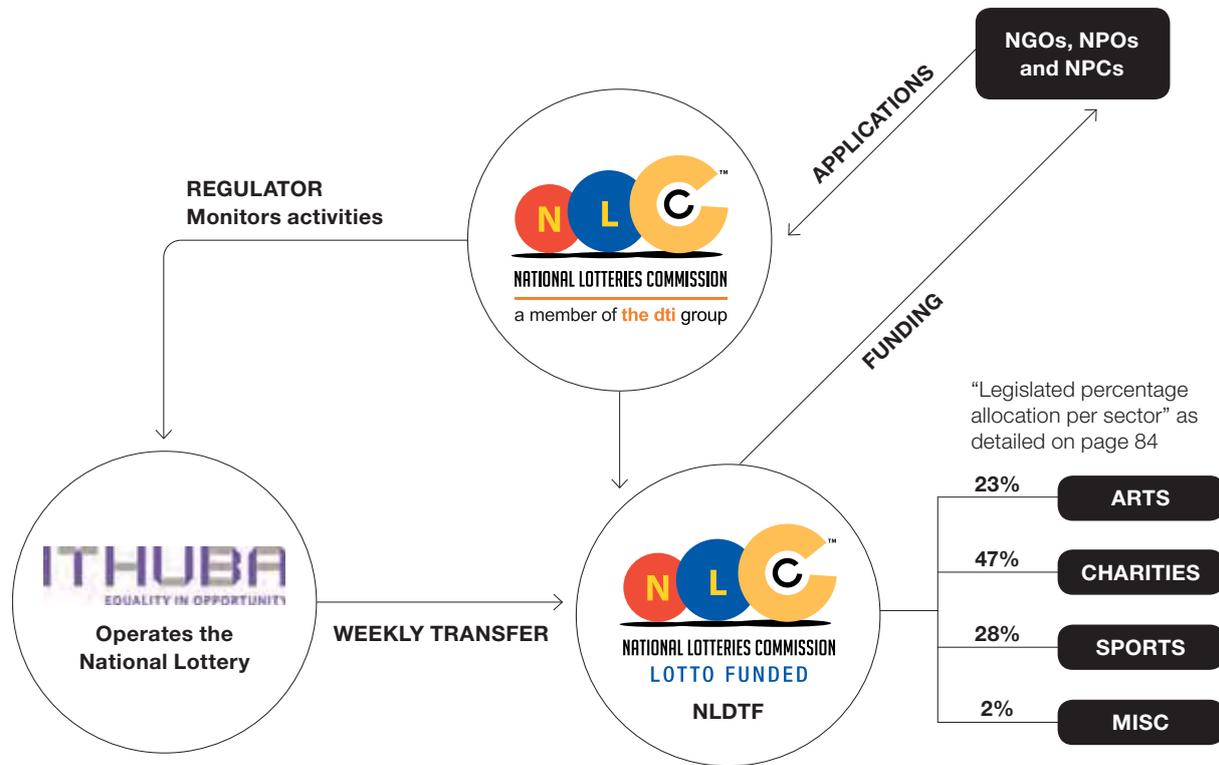
LEGISLATIVE MANDATE

- 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, upon request by the Minister, board or on its own initiative in consultation with the Board.
- Promote public knowledge and awareness 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.



Organisational overview (continued)

OPERATIONAL MANDATE



Regulation

- National Lottery: operated by ITHUBA
- Other lotteries
- Sports pools
- Administers and adjudicates grant applications



Lotto Funded (NLDTF) Distribution

Makes payment to good causes.



National Lottery

The National Lottery is operated by ITHUBA Holdings, to whom the licence was granted in 2015. The lottery is regulated by the National Lotteries Commission, and was established in 2000.



ITHUBA Holdings (RF) Proprietary Limited

ITHUBA Holdings (RF) Proprietary Limited, is the third licence operator of the South African National Lottery.

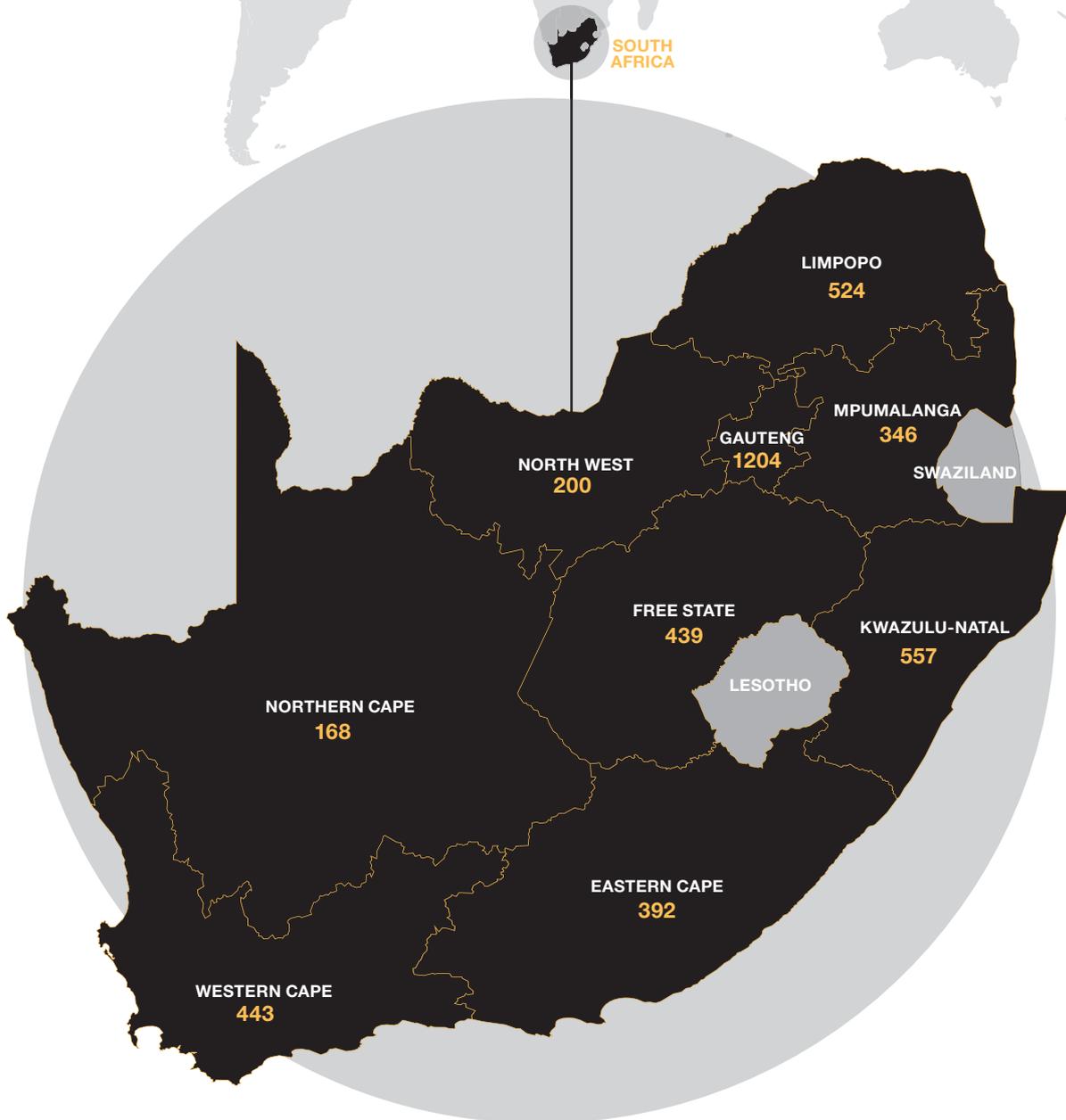


The National Lotteries Participants Trust is registered independent Trust, founded by Ithuba to hold and safeguard all prize monies belonging to National Lottery participants.

GEOGRAPHICAL FOOTPRINT

The NLC has decentralised its operations to ensure that we have a national footprint and are accessible to all South Africans. We are present in all nine provinces with a total staff complement of 300 employees. Provincial activities are featured from pages 87 to 96 of this report.

The NLC is the sole regulator for lotteries and sports polls and the largest grant funder in South Africa, reaching up to 4 273 beneficiary organisations during the 2017/18 financial period. The provincial spread of beneficiary organisations is depicted below.



Our vision, mission and core values



Our Vision

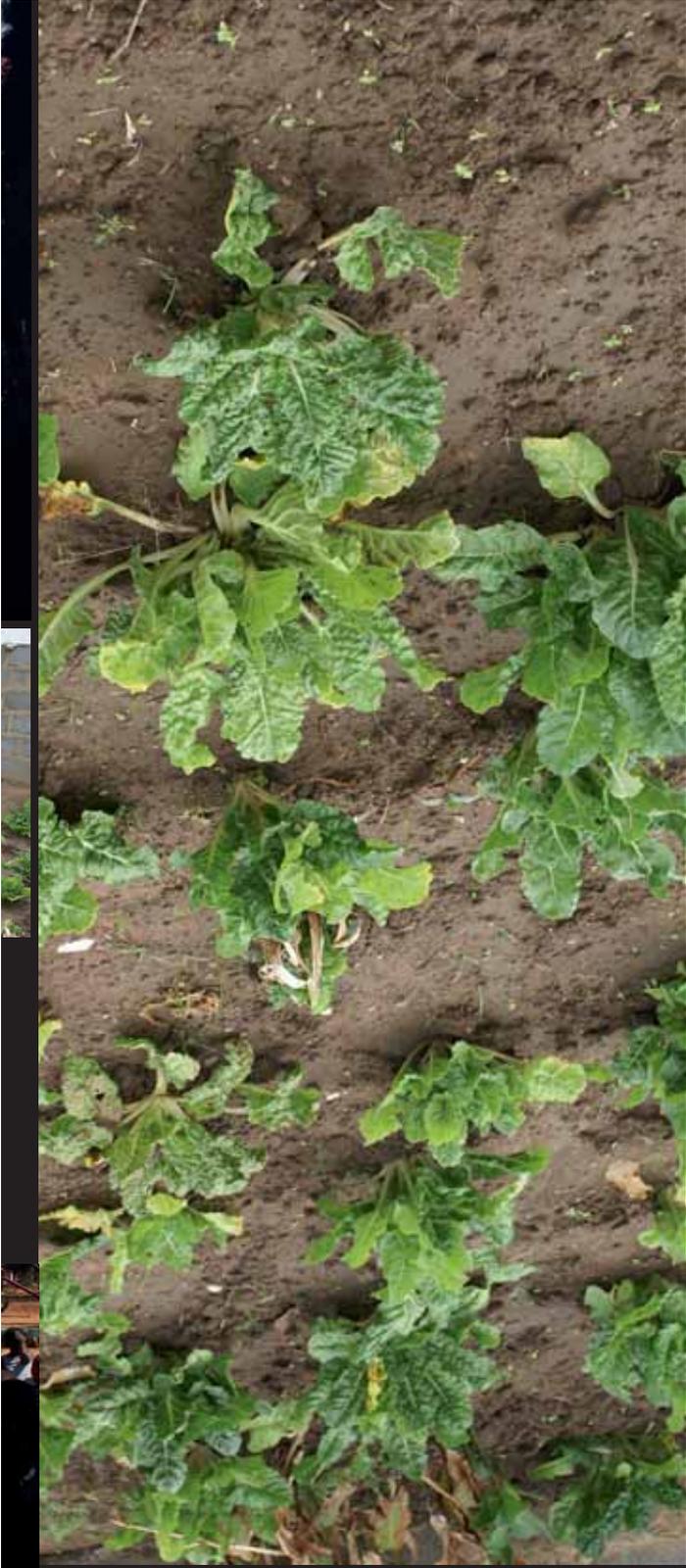
To be the catalyst for social upliftment.



Our Mission

- To regulate all lotteries and sports pools with integrity and ensure the protection of all participants.
- To maximise revenue for good causes in a responsible manner.
- To distribute funds equitably and expeditiously.





Core values

We are committed to achieving sustainable growth through the practice of good corporate governance, provision of excellent service and sound regulatory practice. In fulfilling the Mission, we practice:

- **Integrity**

To be honest, open, accessible and fair in all our dealings, decisions and actions.

- **Performance excellence**

To take ownership of our responsibilities, to work effectively, efficiently, with professionalism, and ensuring a positive sustainable impact on the communities we serve.

- **Service excellence**

To provide a level of service which is of a high quality, target based and meets the expectations of all stakeholders.

- **Social consciousness**

To be sensitive to the needs of the community in order to initiate social upliftment.

Our milestones

1999

In August, after a thorough adjudication process, then Minister of Trade and Industry Alec Irwin formally appointed **Uthingo Management as the first National Lottery operator**. **Professor Vevek Ram, who started off as a board member, was appointed as chief executive officer** of the NLB.

2000

President Thabo Mbeki launched **the National Lottery on 2 March 2000 at a ticket terminal in Langa, Cape Town**. **The first live Lotto draw took place on 11 March 2000**.

In March, **80 organisations became the first beneficiaries** of the National Lottery when “emergency” disbursements worth R4.1 million were made. **The beneficiaries were organisations that had been funded through scratch card competitions prior to the establishment of the Lottery** and who claimed experiencing financial difficulty during the transition to the new Lottery-based funding system.

In April, regulations were promulgated to **regulate the running of “society lotteries”**. These are lotteries organised by non-profit organisations to raise funds from the public.

The Minister of Trade and Industry initiated the process of appointing members to the three distributing agencies – **the Distributing Agency for Charities, the Distributing Agency for Arts, Culture and National Heritage, and the Distributing Agency for Sport and Recreation** – in preparation for the calls for funding applications from these sectors.

The NLB established the **Central Applications Office (CAO)** which was to become the administrative support structure that would assist the distributing agencies in their work.

2001

The three distributing agencies made the first sector-specific calls for funding applications between March and July. This led to the allocation of a total **R222.5 million to 1 240 organisations across the three sectors**, which was a huge boost of much-needed funding NGOs in South Africa.

2002

National Lottery contributions to the NLDTF **exceeded R1 billion for first time** in the 2002/3 financial year. The amount allocated to beneficiaries increased dramatically from the previous year to **a total of R735.6 million**.

2003

The chair and most members of the NLB were appointed for a second term in October 2003. **Mr Negota replaced Adv. Dukada** who was not available for a second term.

The NLB and Uthingo jointly set up the Responsible Gambling Committee and conducted an awareness campaign under the slogan: **“Play responsibly. Remember . . . it is only a game”**.

In May, the regulations on the **conduct of promotional competitions**, which had taken several years to finalise, come into effect.

2004

Lottery revenue reached a plateau and contributions to the NLDTF also levelled off at a little over **R1 billion a year**.

2000



2001



2004



2010



2013



2014



2015

2005

The need to take action to enforce regulations for promotional competitions emerged, as multiple infringements were detected in cell phone-based promotions.

The number of organisations benefiting from the NLDTF in the 2005/6 financial year **exceeded 2 000 for the first time**.

In July, 18 months before the expiry of Uthingo’s licence, the Minister of Trade and Industry called for **proposals for the second operating licence** for the National Lottery.

2006

On 31 March, the term of office of first distributing agencies came to an end. **New agencies for the Charities Sector and Arts, Culture and National Heritage Sector were appointed** by the Minister in June, while the **new Sport and Recreation Distributing Agency came into being** in December.

In September, the Minister awarded **the second operating licence for the Lottery to Gidani (Pty) Ltd**.

In November, Uthingo launched **a court challenge** to the awarding of the licence to Gidani.

The NLB instituted High Court action for contraventions of the Lotteries Act against FirstRand Bank Ltd for its **“Million a Month” promotional competition** and against **the South African Children’s Charity Trust and the SABC for the “Winikhaya” competition**.



2005

2006



2016

2017

2007

In March, the High Court **set aside the Minister's awarding of the Lottery operating licence to Gidani.**

In the same month, **Uthingo's original licence expired.** This meant that there was **no licensed operator and for six months there was no National Lottery.**

In September, having attended to **the deficiencies identified by the High Court** in the licensing process, the Minister again **awarded the licence to Gidani.**

In October, the National Lottery was back in business and the share of revenue earmarked for the NLDTF was **increased to 34%.**

Despite the interruption to the Lottery and a lower allocation to the NLDTF from ticket sales, the distributing agencies still allocated over **R970 million from the NLDTF to applicants who met the funding requirements.**

2008

The Lottery contribution to NLDTF reached an unprecedented **R1.4 billion.**

Two protracted court cases on the unlawful nature of two promotional lotteries – involving FirstRand Bank's "Million a Month" promotion and the SA Children's Charities Trust's "Winikhaya" competition – concluded with judgments favourable to the NLB.

2009

In December there was a significant changing of the guard at the NLB. The founding chair and majority of members had served the maximum of two terms.

Professor Ntshengedzeni Alfred Nevhutanda was appointed to the chair and a new board was appointed.

2010

The Consumer Protection Act replaced part of the Lotteries Act as the legislation governing the running of promotional competitions. The **NLB remained the authority responsible for monitoring and enforcing compliance.**

2011

Restructuring began to expand the executive level of the NLB.

2012

Provincial offices established in Limpopo and Eastern Cape. New bill promulgated on 3 December by President Jacob Zuma.

2013

Re-launch of the anti-fraud campaign, leading to over R200-million saved by fraud fighting initiatives.

2014

NLB marked **15 years of existence and kicked-off the rebranding and repositioning campaign** in line with the amended Act. The roll-out of provincial offices continued.

2015

Amended legislation came to effect.

Seamless appointment of **Third National Lottery Operator.**

The **Rebranding** of NLC.

Decentralisation and establishment of provincial offices, **increasing NLC coverage countrywide.**

2016

Introduction of the **Open Call.**

Implementation of **Integrated Enterprise Wide Architecture Platform.**

Repositioning of the **Ethics Office internally.**

Appointment of full-time **Distributing Agency for Arts, Culture and Natural Heritage.**

2017

Appointment of **Full-Time Distributing Agency members.**

Implementation of the Professionalisation of **Grant Funding programme.**

Adoption of **King IV Code.**

Appointment of full-time **Distributing Agency for Charities.**

Foreword by the Minister

Without the distribution of funds to impact positively on communities, there can be no justification for a lottery system in South Africa. As an intervention by government, the National Lotteries Commission (NLC), has represented our agenda towards social upliftment and development.

As the need for funding continues to exist to eliminate inequalities in society, it brings a responsibility to the NLC to constantly identify methods of innovation and improvement to bring about equitable distribution.

Recent streamlining of processes to reduce bureaucracy in the application process are testament to this.

The NLC however cannot distribute if their regulatory programmes are not kept in sharp focus, as it is from these activities that revenue for funding becomes available.

The value chain of regulating the lottery space and funding good causes impacts other areas of socio-economic concern such as job creation and skills development, rural development, infrastructure development, promoting wellness and social cohesion. This is in line with the National Development Plan.

While there are still many pockets of the South African population that experience a higher risk of poverty and social exclusion than the general population, the NLC which remains the largest funder of South African civil society organisations – has shown its ability to lead social change through lasting impact in communities through partnerships, collaboration, and aligning to government's developmental priorities.

Identified area	Performance measure	Progress on ministerial priorities
Education and awareness	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	More than 115 education and awareness workshops including stakeholder engagement sessions have been conducted to date.
Full-time distributing agencies	Manage the integration of full-time Distributing Agency (DA) members to improve the application process	The full time Distributing Agency's (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 was monitored. The organisation is still awaiting the finalisation of the appointment of full time Sports and Recreation DA.
Illegal lotteries	Monitoring and enforcement against illegal lottery operations	
Proactive funding	Proactive funding based on informed research for worthy causes that may be funded without lodging an application in terms of the Act	In alignment to the pro-active funding model, seven projects were pro-actively funded within the period under review. The projects related to construction of multi-sports facilities, cultural village, drought relieve project, and anti-xenophobia and initiations school's public safety awareness programmes.
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) (B-BBEE), Local Procurement and Skills Transfer	Policing and enforcing on identified and reported illegal lotteries continue. Joint enforcement with other entities is also undertaken.
Memorandum of Understanding (MOU)	MOU with other Regulatory Agencies and provincial counterparts in clamping down on illegal lotteries and gambling	Various reviews and inspections were conducted (both physically and desktop) to assess and ensure Ithaca's compliance with the Lotteries Act and Licence.



Dr Rob Davies, MP
Minister of Trade and Industry



Foreword by the Chairperson

The lottery industry remains competitive, where localised lotteries are finding themselves competing with foreign games due to technological platforms. On-line gaming is providing more options for consumers, also threatening the revenue generated by traditional lottery operators. In view of the threats posed by the proliferation of illegal operators and online retailers the Board undertook to intensify regulatory compliance, which constitutes the largest component of the NLC mandate and underpins the NLC's grant making function. The NLC commissioned and finalised the feasibility study to regulate illegal lotteries to explore innovative ways to combat illegal lotteries. While it is the function of the Board to maximise revenue for good causes, the NLC places greater emphasis on the protection of the public and National Lottery participants.

Since inception, the NLC has been inundated with numerous applications, which was a clear indication of the needs of the NGO/NPO/NPC sector. The amendment of the Lotteries Act and subsequent application afforded the NLC an opportunity to implement key changes and enhanced the manner which the NLC engages and services our stakeholders. The move to an open call system for applications from the previous system of time-bound calls that created high volume of applications during certain period and re-alignment of NLC internal processes resulted in the backlog of applications being eliminated and exceeding the 75% target for adjudication of applications within the prescribed 150 days.

The NLC recognises that it is an integral part of society and has adopted a stakeholder-inclusive approach in the execution of its governance and advisory role on the efficacy of the Lotteries Act, as amended. To this end, after considering the outcry from its beneficiaries and potential applicants on the legislative interpretation of regulations to the Lotteries Act, including the 12-month cooling-off period resulted in the NLC engaging the Minister of Trade and Industry on the implementation of clause 14 and other challenging clauses of the 2015 Regulations and ultimately the issuing of the widely publicised Legislative Interpretation of Various Provisions of the Lotteries Act 57 of 1997, as amended.

The NLC hosted its bi-annual Regulatory Round Table which was aimed at gaining insight into how the NLC regulatory activities can benefit both the man on the street and corporates that we regulate. The NLC also gained insights on regulation and its impact on the performance of regulated entities from an international perspective. The second NLC Indaba held in Ekurhuleni focused on funding requirements, funding for impact and the entrenchment of the new key priority areas for funding. The platform afforded the NLC an opportunity to evaluate the implementation of the 2015 Indaba Resolutions, identify gaps and challenges faced by Non-profit Organisations and develop new resolutions for implementation.

The NLC reduced its liabilities to an all-time low and disbursed R2.073 billion, withstanding a weakening economy and cannibalisation of the National Lottery territory by illegal lotteries.

The National Lottery reached its age of maturity with the celebration of 18 years in operation. The NLC has over the 18 years consistently ensured the National Lottery games are conducted with due propriety and that participants are protected. One of the key regulatory tools employed by the Board to ensuring that the Board fulfils its obligations of the protection participants, prize monies and sums for distribution is the regulation and oversight function exercised over the National Lotteries Participants Trust.

Post year-end reporting events have seen the Board being required to exercise full control over the activities of the National Lotteries Participants Trust by the Executive Authority and the Auditor-General of South Africa's expectation to consolidate the Trust. Consolidation of the Trust cannot happen in the absence harmonisation of provisions in the Lotteries Act, Licence Agreement and the National Lotteries Participant Trust Deed of Trust. The Board of the NLC will commence engagements with the Executive Authority to ensure that the recent expectations of our key stakeholders are addressed in the ensuing financial period and going forward.

I wish to thank the leadership and staff of the National Lotteries Commission and the Commissioner for striving for performance excellence and continued commitment to being Catalysts for Social Upliftment, the Minister and **the dti** for the consistent support given throughout the year and the NLC Board for steering the NLC towards becoming the beacon of corporate governance excellence. The NLC is committed to clean governance and ensures that the Commission performs its functions efficiently and effectively in compliance with this Act, any other applicable law and corporate governance best practice.



Prof NA Nevhutanda
Chairperson of the Board

National Lotteries Commission



Commissioner's overview

It is with great pleasure to present the performance of the NLC as contained in this report. Although South Africa has undergone significant changes during the period under review, the NLC remained consistent in delivering its mandate. The relationship between regulation of lotteries and funding for good causes is symbiotic. It is important to us that all our stakeholders understand our areas of operation reflected in Part D of this report.

REGULATION OF THE NATIONAL LOTTERY AND OTHER LOTTERIES

Technological advancements have altered the way lotteries are regulated worldwide. It has become challenging to regulate the proliferation of online gaming or games provided on technological platforms due to restrictive legislation in terms of online gaming. Our focus remains embedded in exploring innovative ways to combat illegal lotteries while engaging policy makers to address technological disruptions and alignment of legislation.

PLAYER PROTECTION

Great emphasis has been placed on the introduction of programmes that give effect to section 2B of the Act that stipulates that the Commission must ensure the interests of every participant in the National Lottery are adequately protected. Player protection mechanisms are articulated in the Regulatory Compliance report on pages 76 to 79.

CATALYST FOR SOCIAL UPLIFTMENT

In fulfilling our vision, we ensured that South Africa featured prominently on the global stage through the funding of the South African team at the Gold Coast 2018 Commonwealth games, participation at the World Conference on Women and Sport in Gaborone and hosting of the World Choir Games. We have kept to our commitment to engage continuously and meaningfully to assess the impact of our work, the accessibility of our services, and to identify gaps and opportunities that will help us to increase our efficiency. This is evident through the periodic studies we conduct, the focus of proactive funding, and stakeholder engagement from national to local level.

We encourage economic sustainability for stakeholders through our capacity-building programmes, which continue to reach more communities. Organisations that received formal training in business management and governance during FY 2016/17 will soon be transferring the skills that they have gained to their counterparts.

The organisation has come a long way from a time when the backlog of applications stood at thousands, to achieving the target of 150 days turnaround time between application and adjudication.

Total disbursements amounted to R2 billion (2017: R1.9 billion). Notwithstanding the upward trend in unemployment and a declining economy, the NLC continued to create jobs through its funding totalling 14 414 projects. The impact of NLC funding is articulated in the Operations Report on pages 80 to 96.

Our achievement of 100% on set targets encourages us to do better and go even further in delivering our mandate and remaining relevant to the broader society.

The NLC has maintained its clean audit opinion on the National Lotteries Commission (separate annual financial statements) and National Lottery Distribution Trust Fund (separate annual financial statements) as a result of leadership's drive to ensure a culture of sound corporate governance and the maintenance of strong internal controls. The NLC continued to report clean governance in the area of supply chain, where no irregular, fruitless and wasteful expenditure and no internal control weaknesses were identified. A modified audit opinion was issued on the National Lotteries Commission group annual financial statements and immediate interventions sought by the Auditor-General for the NLC to consolidate the audited annual financial statement of the National Lotteries Participants Trust in the National Lotteries Commission group annual financial statements.

Our Regulatory Compliance Division has been central in implementing measures for participant protection while ensuring optimum and balanced regulation. One of our key regulatory mechanisms of ensuring protection of participants and protection of their prize monies is through the NLPT. For the first time since the inception of the National Lottery the NLC was required and heeded the call to consolidate the NLPT. The NLC consolidated the NLPT as an immediate intervention, however, the consolidation of the NLPT could not be audited due to misalignment of the NLC and the NLPT's audits. In the spirit of transparency, the NLC has published the audited Annual Financial Statements of the NLPT on pages 189 to 205 of this report.

I wish to express my gratitude to our Board of Directors for their strategic direction and NLC staff who remain committed to being catalysts for social upliftment.

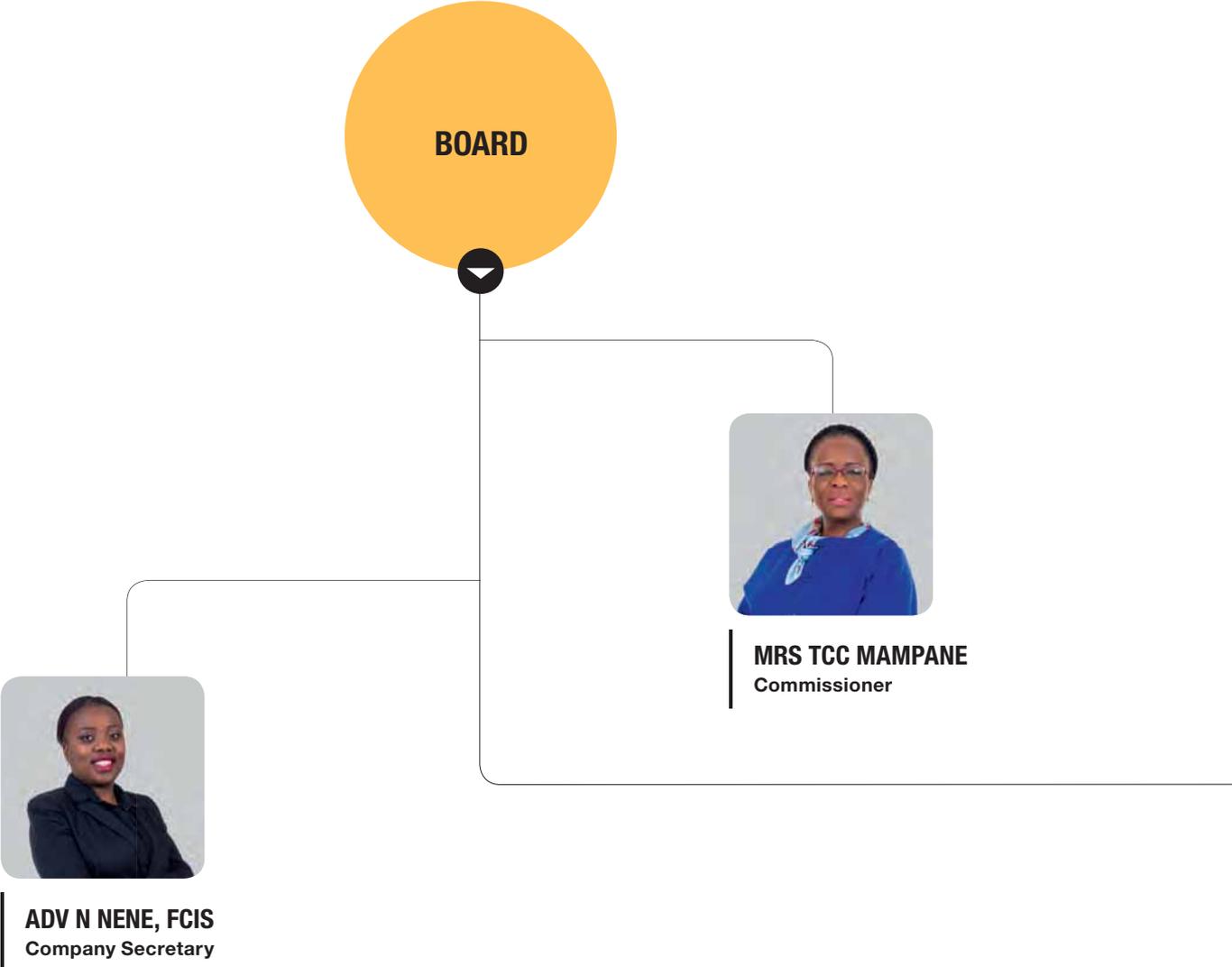


Ms TCC Mampane
Commissioner

National Lotteries Commission



Organisational structure



Executive committee



MR PR LETWABA CA(SA)
Chief Operations Officer



MS TM NKUNA
Executive Manager:
Regulatory Compliance



MS XS NTULI CA(SA)
Chief Financial Officer



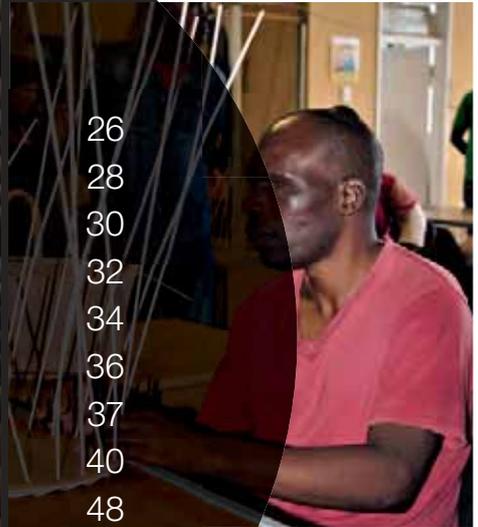
MR MG RAMUSI
Chief Information Officer



MR T MASELWA
Executive Manager: Legal

PART B PERFORMANCE INFORMATION





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Business model

HOW WE CREATE VALUE

As an independent body that serves the public interest with integrity and professionalism, the NLC creates value by carrying out two primary activities. The organisation's primary activities are defined as follows:

REGULATION

The NLC is mandated by legislation to regulate, monitor and, police lottery operations in South Africa to protect lottery operations from illegal lottery schemes, protect winners' prize monies, implement measures to prevent under-age and excessive play and ensure responsible gaming. The NLC ensures optimum and balanced regulation of lottery operators through a regulatory model. Regulatory model, adopted from the paper *The Influence of the Regulatory Environment on the Definition of Organisational Performance – The Example of the Sport Betting and Lottery Sector (2013)* by Dr LR Meyer.



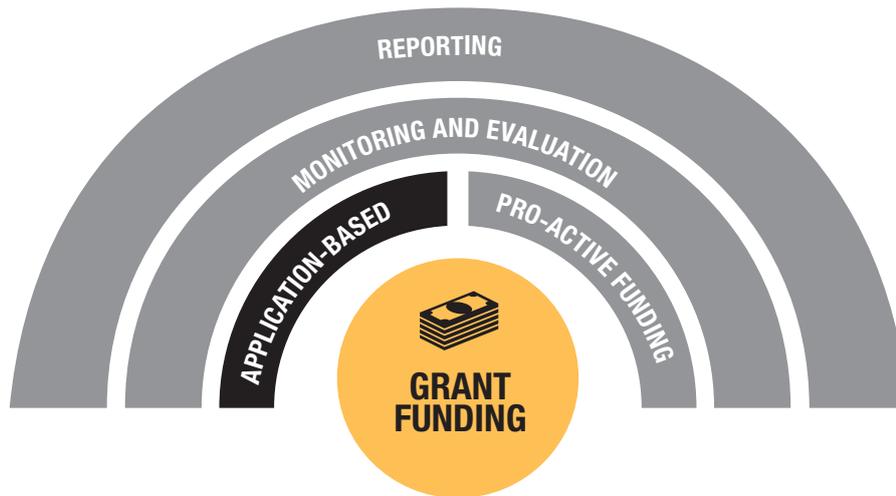
Information on regulatory activities performed in the year under review is detailed on page 82.



GRANT FUNDING

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

The Grant Funding Model is designed to promote and support the NLC's strategic mandate by responding to socio-economic 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. This involves researching, evaluating, monitoring and closing off all projects funded. The diagram below demonstrates the NLC's Funding Model:



OUR CAPITALS DEFINED

The NLC relies on certain resources and relationships to carry out all operations. These have been categorised according to the six capitals of the International <IR> Framework. Within the unique operating context of the NLC, the capitals are defined as follows:

 Financial capital	The revenue derived from maximising revenue through regulation of the National Lottery Operator and Society lotteries. Revenue includes share of tickets sales, expired and unclaimed prizes, recognition of lottery licence fees, registration fees from society lotteries fees derived from imposing penalties, sundry income (unspent amounts returned by beneficiaries and amounts due from beneficiaries as a result of breach of grant agreement) and investment income.
 Human capital	The NLC's skilled workforce who are catalysts for social upliftment and embody NLC values.
 Intellectual capital	The NLC's intangible assets that work to enhance the day-to-day operations of the organisation. These include the NLC's ERP system, the grant funding system and development research and feasibility studies, the NLC and National Lottery related logos and brands and reputation and the NLC Regulatory and Grant Funding Model procedures, processes and governance.
 Manufactured capital	The NLC's tangible assets that work to facilitate the day-to-day operations of the organisation. This includes the NLC's buildings and technological tools.
 Natural capital	The natural resources that the organisation relies on to carry out operations and affects through its activities. This includes water, fuel, electricity and recyclable products.
 Social and Relationship capital	The relationships and partnerships with individuals, communities and organisations that the NLC relies on to carry out operations and to create value.

Turn the page to see how we use the Capitals to deliver value in the form of outputs and outcomes



Business model

INPUTS



FINANCIAL CAPITAL

- Revenue of R1 787 billion
- Interest from Investments
- Reserves
- Licence Fees



HUMAN CAPITAL

- Staff salaries and benefits for 300 employees
- Training of employees



INTELLECTUAL CAPITAL

- Developed Knowledge Hub
- Enterprise -Wide Architecture Platform
- Regulatory Compliance Monitoring Matrix
- Electronic compliance monitoring and ethics tool
- Software licences
- Impact Evaluation Study
- Feasibility Study



MANUFACTURED CAPITAL

- Acquisition of provincial offices
- Disaster Recovery Site



NATURAL CAPITAL

- 9 350 units of 500 ml Bottled Water consumed
- 968 617 kWh Electricity consumed



SOCIAL AND RELATIONSHIP CAPITAL

- 182 stakeholder engagements conducted as reflected on pages 35, 36 and 81 of the report
- 99% localised provincial procurement
- 86% preferential procurement
- SMME payments within 20 days
- Minimum of 5% grant funding allocated to each province

BUSINESS ACTIVITIES



REGULATION



PLAYERS pay the lottery operator to participate in the lottery.



LOTTERY OPERATORS carry out operations for the lotteries. The National Lottery (the biggest lottery in South Africa) is run by a company called Ithuba Holdings. Most other lotteries are run independently.

Reimburse Ithuba for costs relating to NLPT



ITHUBA HOLDINGS

- The National Lottery
- Sports Pools

INDEPENDENT OPERATORS

- Society Lotteries
- Private Lotteries

Licensing fee paid directly to the NLDTF



GRANT FUNDING



PROJECTS
Projects (existing or potential) are granted funds in one of two ways.



APPLICATION FUNDING operates on an open call for applications.



DISTRIBUTING AGENCIES are appointed as the mechanism through which the NLDTF adjudicates and awards grant applications. There are four different Distributing Agencies:

1. Arts, Culture and Heritage Projects
2. Charities
3. Sports and Recreation Projects
4. Miscellaneous Projects



PROACTIVE FUNDING takes place when the broad project idea originates from the Commission, the Minister and the Board based on research.

THE NATIONAL LOTTERIES PARTICIPANT TRUST
("NLPT") is a legal entity constituted in terms of a Trust Deed with a Board of 3 independent members and 2 representatives of the NLC. The NLPT is required to hold all monies received by players of the National Lottery to aid in the protection of prize money distributions.

The interest earned on the NLPT's account covers costs for:

The prize money correctly claimed by the WINNERS is paid from the NLPT via the Ithuba.

- Fees of the Trust Administrator
- Remuneration of the Trustees
- Bank charges & taxes payable by the Trust
- Costs for preparation of financial statements
- Auditor fees and other professional fees

Up to 27% of ticket sales paid to the NLC

Unclaimed and expired prize money

THE NATIONAL LOTTERIES DISTRIBUTION TRUST FUND
("NLDTF") holds funds that are available to be distributed as grants to eligible organisations. Once an application has been approved, payment is made via the NLDTF

PROJECT MONITORING AND EVALUATION

PROJECT CLOSURE

OUTPUTS

- Licenses for lottery operators
 - Regulate flow of funds
 - Regulate activities of lottery operators
 - Protect players rights
 - Training of Society Lottery Operators
-
- Grant funding
 - Project oversight
 - Training of stakeholders

Turn the page to see how we use the Capitals to deliver value in the form of outputs and outcomes



Business model (continued)

OUR CAPITAL OUTCOMES

 <p>Financial capital</p>	<ul style="list-style-type: none"> • R2 073 billion disbursed for good causes • Weighted Average Rate of Return on investment increased to 8.40% • Increased funding for disbursement • Economic growth and development for successful applicants • Injection of funds into economic circulation
Strategic Alignment with  and 	



 <p>Social and Relationship capital</p>	<ul style="list-style-type: none"> • Enhanced stakeholder relations and capacity building • Impact funding • Empowerment of stakeholder with compliance to legislation and best practice resulting in impact funding • Sustainability for funded beneficiaries • Protection of participants through reduced illegal lotteries activity • Economic growth for emerging entrepreneurs and historically disadvantaged individuals <ul style="list-style-type: none"> – Protection of public • Reduced fraud risk • Increase alternative revenue streams • Awareness in alternative lotteries • Integrity of the National Lottery • Injection of funds into economic circulation at higher rate in all communities of South Africa • Closed 96% of identified illegal lotteries. Furthermore the NLC is investigating mechanisms of quantifying revenue loss • Social upliftment for 691 146 people, reached through various services offered by NLC beneficiaries • 14 414 temporary and permanent jobs created
Strategic Alignment with   and 	



 <p>Human capital</p>	<ul style="list-style-type: none"> • Improved and efficient grant disbursement • Elimination of backlog • Injection of funds into economic circulation at higher rate • Improved and efficient administration • Low staff turnover at less than 1%
Strategic Alignment with  and 	



Natural capital

- Improved environmental sustainability of our communities
- 83% of the waste to land filled, 17% recycled in the last financial year
- Emissions from petrol/diesel consumed - an average of 270 776 g/km of Co₂ emissions
- Outcomes from projects funded
- 48% organic gardens
- 33% balanced ecosystem
- 9.5% habitat model
- 3% recycling projects
- 2% greenhouse effect projects
- 2% rain water harvesting
- 1% for soil quality and water purification respectively
- 465 Environmental projects valued at R590 025 280 funded from 2008 to 31 March 2018

Strategic Alignment with 



Intellectual capital

- Agile problem-solving and decision making
- Improved business processes
- Streamlined verification and reduced fraud risk
- Transparent and uniform processes
- Information on NLC's funding reach
- Supported employee growth and development
- Sharing of information and expertise
- Better communication
- Service excellence and improved turn-around times
- Mitigation of fraud risk

Strategic Alignment with  and 



Manufactured capital

- Improved access to NLC services
- NLC funded infrastructure projects

Strategic Alignment with  and 

Stakeholder information

The NLC has a range of stakeholders who have influence over the NLC and its operations and/or over whom the NLC has influence. These table below covers the key stakeholders, explains their influence on the NLC or the influence over them, the manner of NLC engagement, their main needs, interests and expectations and how the NLC has responded to these:

Stakeholder	Influence	Engagement	Needs, Interests and Expectations
National Lottery licensed operator and other lotteries	<ul style="list-style-type: none"> Revenue Sustainability Influence public perception Image and integrity of the board 	<ul style="list-style-type: none"> Bi-annual Joint Boards meetings Monthly Joint Operations Meetings On-going Basis 	<ul style="list-style-type: none"> Regulatory fairness Interaction Predictability Promptness Approvals continuity
Government, government agencies and regulators The NLC is accountable to its shareholder, being the government and has established relationships with other key government stakeholders pursuant to its objectives	<ul style="list-style-type: none"> Approvals and timing of: <ul style="list-style-type: none"> Approvals Assistance Appointment of board/ distributing agencies legislation Regulatory environment Remuneration Sanction Legislation 	<ul style="list-style-type: none"> Portfolio Committee engagements the dti CCRD initiatives Agreed methods through MOUs Prescribed reporting to respective Portfolio Committees, the dti, National Treasury 	<ul style="list-style-type: none"> Conformance Governance continuity Reporting Accountability Governance integrity ethics Contribution to national priorities
NLC applicants and beneficiaries The NLC is a grant maker and a key objective is to ensure equitable distribution of the NLTFD	<ul style="list-style-type: none"> Quality of grants Public perception Turnaround Risk profile of the Board Geographic spread of funding Quality of grants Social impact Risk Public acknowledgement and declaration of grants received 	<ul style="list-style-type: none"> Indabas and Post Indaba Stakeholder Engagements as detailed in the Operations Report Capacity Building Workshops as detailed in the Operation Report on page 87 Walk in Centres 	<ul style="list-style-type: none"> Clarity of criteria Transparency Responsiveness Turnaround Mentorship/guidance Accessibility Interaction accessibility Fairness and consistency Visibility
The public and national lottery participants The NLC is required to protect the participants and raise public knowledge and awareness developing and implementing educational and informational measures to educate the public about the lotteries and provisions of the Lotteries Act	Ensuring the integrity of the Lottery game to sustain interest in the lottery and growth in lottery ticket sales Uplift society through grant funding	<ul style="list-style-type: none"> NLC website Social media platforms Media coverage National Lottery Draw Shows 	<ul style="list-style-type: none"> Transparency Integrity Assistance and counselling Visibility Communication Fair chance of realising their aspirations of winning Consistent delivery Information sharing Regulatory fairness Access to the National Lottery
NLC employees and Organised Labour NLC employees are key drivers and inputs of the NLC	<ul style="list-style-type: none"> Productivity Morale Public perception Performance effectiveness Policy 	<ul style="list-style-type: none"> Quarterly staff meetings Internal communications Awareness sessions Wellness engagements 	<ul style="list-style-type: none"> Fairness Respect of worker rights Equity Involvement Best practice HRM policies/ practices conducive work environment adequate resourcing Transparency Ethical behaviour Framework for engagement Willingness to work Structures Enabling environment for association

Stakeholder	Influence	Engagement	Needs, Interests and Expectations
<p>Media and interest groups</p> <p>The NLC's reputation is a key element in the performance of the NLC as the custodian of public funds, ensuring the credibility of the National Lottery and player protection</p>	<ul style="list-style-type: none"> Public perception Policy Structure 	<ul style="list-style-type: none"> Press briefings Responding to media enquiries Invitation to NLC engagement Access to relevant information 	<ul style="list-style-type: none"> Transparency and fairness Control of excessive participation Communication Involvement enforcement Regular communication Access to information Indaba Post Indaba stakeholder engagements Social media Responses to enquiries Publishing of media statements
<p>Illegal lottery operators suppliers</p>	<ul style="list-style-type: none"> Enforcement 		<ul style="list-style-type: none"> Interaction Predictability promptness approvals Continuity
<p>Suppliers</p>	<ul style="list-style-type: none"> Risk Effectiveness Turnaround 	<ul style="list-style-type: none"> Supplier development workshops are also conducted at all provinces to capacitate provinces on procurement matters Early payment to alleviate unnecessary cash flow pressures experienced by BEE suppliers Encourage joint ventures between large and small businesses Encourage sub-contracting to emerging Black enterprise and SMME's 	<ul style="list-style-type: none"> Transparency Fairness Consistency ethical behaviour
<p>(Auditor-General) (AGSA)</p>	<ul style="list-style-type: none"> Governance Compliance Public perception 		<ul style="list-style-type: none"> Conformance to legislation/ standards Integrity Comprehensiveness and accuracy of information Reporting

Environment the NLC operates in

Environmental factor	Description	Impact	NLC's response
Macroeconomic	<p>South Africa's economy is no longer regarded as stable and has experienced increasing economic pressure which has been a major driver of strikes and protests.</p> <p>Contributions to the NLDTF has been stagnant for the past five years. In addition, the number of registered NPOs have doubled to approximately 136 000 from 2010 to 2015 implying the additional demand for funding.</p> <p>The high levels of unemployment also negatively affect disposable income. These falling levels in disposable income implies that basic needs come first and the purchase of a lottery ticket might not be a priority. This could contribute to people participating in alternative illegal activities that exhibit higher success of winnings. Through these tough economic times, it is envisaged that selling "hope" through a game of chance may prove to be lucrative on the sale of national lottery tickets. In addition, the NLC has positively contributed by creating and sustaining approximately 25 000 jobs in the 2016/17 financial year.</p>	<p>Economic conditions have resulted in an increased number of applications with demand for funding from NLDTF</p> <p>The stagnant contributions to the NLDTF</p>	<p>NLC conducts research and revises funding priorities annually to address societal needs.</p> <p>NLC focuses on high impact projects</p> <p>NLC funding have contributed to creation of jobs as indicated in the Operations Division report</p>
Regulatory and legislative	<ul style="list-style-type: none"> • Mushrooming of illegal lotteries in the country such as Fafi and betting on the outcome of the National Lottery. • Unauthorised in terms of the existing legislation offering sports pools. • Bookmakers accepting bets on the outcome of the National Lottery are the third largest unlawful scheme facing the National Lottery. • Promotional competitions, formerly under the lotteries' legislation, are estimated to be in the region of nearly R20 million per annum. Many of the competitions run for 'promotions' are in fact being run for profit, contravening the spirit of the promotional competition. • Other schemes include lottery scams, international and foreign lotteries, and permitted lotteries organised and operated outside of the legislation. • The lack of alignment between the Provincial Gambling Legislation and the National Gambling Bill implies that illegal lotteries will remain a threat. Fantasy Gaming is also not addressed by the legislated amendments. 	<ul style="list-style-type: none"> • The impact of these unlawful schemes has both an economic and social dimension. To quantify the economic impact of these schemes, the total estimated rand value of these unlawful lotteries was determined and the consequent loss of revenue for the National Lotteries Distribution Trust Fund – revenue that is used to fund good causes throughout the country. In monetary terms, this equals R643.63 million per annum, which represents the true cost of illegal schemes to the National Lottery • Loss of intermediate production in the national economy of R2.5 billion • Loss of value-addition in the national economy of R1 billion • Loss of 5 384 employment opportunities nationally • Loss of R504 million in wages and salaries to workers 	<ul style="list-style-type: none"> • The NLC conducted a feasibility study to determine the regulation of illegal lotteries. Findings and recommendations to be shared with policy and law makers through advising the Minister, in line with the Lotteries Act as amended • The NLC participated and supports the provisions aimed at repositioning and enhancing regulation of the gambling industry as proposed in the Draft National Gambling Amendment Bill. • The proposed amendments to the Gambling Bill could positively impact on the NLC. Amendments to the Gambling Legislation in the country could possibly provide the enforcement powers the NLC to combat illegal lotteries as well as provide opportunities through licensing bookmakers for taking bets on the outcome of the National Lottery. • The NLC remains of the view that many important powers relating to bookmakers and totalisators on lottery related activities currently reflected in the proposed Draft National Gambling Amendment Bill must be incorporated Lotteries Act. The NLC has been engaging the dti to seriously consider incorporating powers or duties of the NLC outlined in the Draft National Gambling Amendment Bill in the Lotteries Act

Environmental factor	Description	Impact	NLC's response
Political	<p>The NLC's role and functions as outlined in the Lotteries Act (as amended) places an obligation on the organisation to support (directly and indirectly) the electoral mandate of Government. From a strategic perspective, the sight of government priorities provides a major opportunity for the NLC within the disciplinary context of social development and social upliftment. These include addressing unemployment and alleviating poverty in alignment with the NDP. The NLC is therefore driven by government policies on economic and social development.</p>		<p>The NLC considers the NDP and Nine Point Plan in developing its strategies, to ensure alignment with the mandate of Government</p>
Technological	<p>In the context of the Fourth Industrial Revolution and its disruptive effect on all economies, there are three things to consider as Africa aims to maintain its "Africa rising" narrative:</p> <ul style="list-style-type: none"> (a) The development of digital skills is paramount. (b) All industries are being digitally disrupted, which presents an opportunity for a growing digital economy. (c) Public-private partnerships are powerful levers for change. <p>The real economy and the digital economy are not mutually exclusive. The two have become one and the same as technologies blur the lines between the physical, digital, and biological spheres. The vast and growing potential of the Fourth Industrial Revolution is yet to be fully grasped. The ICT sector, industry and governments have a responsibility to unlock its potential for citizen service delivery, customer experience and innovative solutions, for a better life for all.</p>	<p>The increase of mobile and internet use comes with its own threats – namely cyber security, which has become a massive global problem. Prioritising cyber security capabilities is not only important for protecting organisations and their customers' data, assets and reputations, but also fundamental to successful digital transformation.</p> <p>For the NLC, online gambling has changed the landscape as people want to participate at their convenience. The scourge of illegal online lotteries and gambling has encroached into the Lottery space. The promotion of Fantasy gaming further exacerbates the situation.</p>	<p>The NLC's Enterprise-wide Architecture aims to do exactly this from both an internal as well as external perspective. Entire systems of production, management and governance are being affected and, as digitisation continues, the issue becomes intimately intertwined with addressing youth unemployment, manufacturing and harnessing human innovation.</p> <p>NLC has set aside necessary investments to enable staff and external stakeholders to participate in and benefit services from a secured infrastructure and enterprise architecture. Innovation remains a tool towards success, especially within an era of increasingly advancing business, social, and economical environments. We plan to introduce innovative methods of interaction, for example through use of mobile devices to allow stakeholders take on new roles as enabled and empowered participants. To capitalise on these opportunities, the NLC shall ensure that the developed technology roadmap encapsulates principles of a flexible, scalable, cost-effective and risk tolerant infrastructure and enterprise environment. It must, however, be noted that introducing new services in a network often presents challenges, among them security. At the NLC, this is addressed through the enacted ICT Governance Framework.</p>
Governance	<p>Corporate Governance is crucial to business sustainability and growth of the organisation. The development and implementation of a proper corporate governance framework is endorsed by the Board. The Board accepts responsibility for the application and compliance with the principles of ensuring that effective corporate governance is practised consistently throughout the organisation.</p>	<p>The impact of Corporate Governance weaknesses harm could harm the reputation of the NLC and threaten the integrity of NLC's regulatory and grant funding activities</p>	<p>The Board discharges this role through its charters based on a Corporate Governance Framework which includes amongst others the principles of the Lotteries Act, PFMA, Treasury Regulations and good governance principles. These are further aligned to the organisations top strategic risks and reviewed annually.</p>

Our outlook

As a regulator, the NLC identified challenges in the lotteries industry that include conflicting legislation and different regulators for gambling and lotteries which create ambiguity in regulation; lack of enforcement powers to effectively regulate lotteries; the minimum percentage contribution to good causes is not determined by the regulator; and the dual mandate of the NLC for regulating lotteries and grant funding has created a situation wherein the NLC is known as a grant maker, thus diluting the impact of the NLC as a regulator.

- Harmonisation of the gambling and lottery legislation should be embarked upon to resolve conflict of interpreting legislation for Provincial Gambling Boards and the NLC. To be effective in the regulation of lotteries and sports pools, priority should be given to reviewing the institutional framework of the NLC where its regulatory mandate is separated from that of grant funding. The NLC should be afforded enforcement powers in the Lotteries Act beyond those of approaching the court for effective regulation and enforcement of the Act. The current National Lottery model requires review in terms of government shareholding in the Operator, as this affects the independence of the NLC to effectively regulate. The minimum percentage contribution to good causes should be determined by the Board and included in the Request for Proposals to appoint an Operator. Player protection should be driven by the regulator funded by the Operator from sales of the National Lottery.
- Online gaming is providing more options for consumers, also threatening the revenue generated by traditional lottery operators. The proliferation of online retailers poses threats to the restrictive legislated environments. The global lottery industry is coming to grips with the rapid changes in the industry as a consequence of online gaming and the use of technology.
- The world is moving towards a gaming industry where lotteries and gambling are under one regulatory authority. Regulation of lotteries and gambling should be centrally regulated such that maximum benefit is derived for players, good causes and the economy.
- There are opportunities to harmonise the South African Gambling and Lotteries legislation in order to resolve the conflict of interpretation and avoid ambiguity in regulating of the Lotteries and Gambling sectors.
- The Lotteries Act and its regulations can be amended to include enforcement powers, which include powers to inspect, together with administrative and criminal sanctions in order for the NLC to regulate the industry effectively.
- The current National Lottery model should be reviewed in terms of government shareholding in the Operator, as this affects the independence of the NLC to effectively regulate the National Lottery.
- The Request for Proposal should be explicitly designed to provide the opportunity for the regulator and Ministry to determine acceptable contribution to maximise revenue for good causes prior to entering into a Licence Agreement with the successful bidder.
- Participant protection must be driven by the regulator and funded from National Lottery sales.
- The best model for the South African market should be researched to determine whether a state-owned can be a mechanism to maximise contributions for good causes.
- Globally lottery regulators are pure regulators, independent of grant making functions and responsibilities. This model has enhanced resources allocated to regulating lotteries and sports pools and delivering effective regulation. The Board has learnt that in order to effectively protect participants and maximise revenue for good causes, better and stringent regulation is required.

Our strategy

Programme	NLC objectives	Ministerial priorities	NDP	Nine-point plan	Related risks
Programme 1 Administration and Finance	 Enhance administration of the NLC and ensure compliance with applicable legislation and policy prescripts		Fighting corruption through the promotion of sound corporate governance and ethical behaviour Creating a culture of service delivery excellence	Reducing inequality in line with employment equity priorities	
	 Ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts	To facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation To facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth	Jobs created and sustained by capacitating projects to remain financial sound	Growth in GDP by strengthening the financial evaluation of projects with maximum economic benefits Jobs created and sustained by capacitating projects to remain financial sound	
Programme 2 Regulatory Compliance	 Implement relevant initiatives geared towards ensuring compliance with the Lotteries Act	To create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner		Lottery operator licence agreement monitoring to ensure local procurement acts as an enabler for GDP Growth as well as jobs created and sustained during the licence period	
Programme 3 Operations	 Ensure fair and equitable grant allocations		Creation of new Jobs by funding for impact Supporting projects that focus on capital infrastructure Funding in support of the provision of quality education	Projects that create sustainable jobs Funding that focuses on agricultural growth Support for youth and women projects Increasing Public and Private Investment by encouraging the matching principle of funding and implementation of Memorandum of Understanding (MOU)	

The NLC has three programmes as follows:

Programme 1: Administration and Finance

Programme 2: Regulatory Compliance

Programme 3: Operations

 and  are located within Programme 1.  relates to Programme 2 whilst  is located within Programme 3 as expressed in the table above. A detailed description of each programme is included hereunder.

Our strategy (continued)

2.1.2 Description of programmes

Programme 1:  and 

Purpose To provide leadership and support to the entire organisation particularly to the core business for effective service delivery.

Key 1.1 Develop a knowledge hub

Performance 1.2 Eight stakeholder engagements conducted per province

Target  1.3 Integration of E-system Integrated Enterprise Wide Architecture Platform

1.4 Organisation wide ethical behaviour interventions per quarter

Key 2.1 At least 80% of grants be paid in line with the regulated 60-day timeframe

Performance 2.2 An annual minimum of 8% ROI on NLDTF funds

Target  2.3 80% localisation of procurement for provincial offices

Description Executive office

- Corporate strategy development and implementation
- Corporate performance monitoring and reporting
- Governance systems development and implementation
- Internal controls implementation and risk management
- Sustainability strategy implementation
- Legal services functions
- Efficiency improvement and systems development
- Human Resources management functions

The office of the Executive is constituted by strategic planning and reporting; Internal Audit; Risk management; Secretariat; Legal services and Human Capital management.

Description Finance

- Financial planning and reporting
- Management accounting and reporting
- Development of financial controls and implementation thereof
- Supply chain management
- Development of procurement strategy and policies in line with PFMA
- Ensure compliance with statutory requirements from a finance perspective
- Facilities management

The Finance division is constituted by Financial Accounting, Management Accounting, Supply Chain Management and Facilities Management.

Description Information Communication Technology

- To provide vision and leadership for the planning, implementation and management of Information and Communications Technologies (ICT) that support the National Lotteries Commission's business
- Direct and manage Information Communications and Technology strategic plans, develop IT policies and governance framework
- Provide leadership and management of ICT services, network communications, transactional computing processes, information management and security
- Developing and maintaining a responsive, reliable, and secure ICT infrastructure
- Maximise the value of technology investments
- Ensure IT system operation adheres to applicable approved policies and governance framework
- Direct development and execution of an enterprise-wide disaster recovery and ICT service continuity plan
- Knowledge Management

The Information Technology division is constituted by Application and Development; Infrastructure and Network, Analysis of Business and the Support/Solutions Delivery.

Programme 2: 

Purpose To ensure compliance and to regulate the entire lottery industry in line with the mandate

Key Performance Target  3.1 Conduct investigations into 85% of all identified and reported illegal
3.2 Conduct a feasibility study to determine the regulation of illegal lotteries
3.3 Implement and Monitor Compliance with the licence conditions

Description **Regulatory compliance**

- Ensuring that mechanisms are instituted to confirm compliance with applicable laws and regulations as they relate to the lotteries environment
- Monitor, regulate and police society and other lotteries
- Develop and implement enforcement strategy
- Develop and implement compliance strategy
- Develop, implement and monitor service standards
- Education and awareness for voluntary compliance
- Monitor and evaluate the implementation of funded projects

The Compliance Division is constituted by Lotteries Compliance and Compliance Enforcement.

Programme 3: 

Purpose To provide administrative support to the Distributing Agencies and to ensure that the grants are distributed according to the legislated mandate

Key Performance Target  4.1 75% of applications adjudicated within 150 days
4.2 A minimum of 5% grant funding allocated to each Province
4.3 Conduct 2 000 impact assessments
4.4 Conduct impact evaluation study in five provinces

Description **Operations**

- Develop and implement an integrated grant funding strategy
- Develop and implement grant funding policies
- To ensure funding is distributed efficiently and effectively to deserving causes in line with the national legislation and NLC policies
- Provincial office support
- Communications, marketing and stakeholder management
- Education and awareness
- Monitoring and evaluation
- Policy and research

The Operations Division is constituted by grant funding, including the nine provincial offices and business development.

Performance excellence

PERFORMANCE AGAINST THE ANNUAL PERFORMANCE PLAN

Performance information is important for effective management, including planning, budgeting, implementation, reporting, monitoring and evaluation. The matrix below outlines the performance indicators and targets that the NLC identified to achieve in the 2017/18 financial year. These performance indicators and targets are aligned across the NLC's annual plans, budgets, in-year and annual report.

The NLC achieved 100% performance against its predetermined objectives and targets therefore no corrective actions were identified.

Strategic objectives, outputs, performance indicators, planned targets and actual achievements

	Strategic output	Performance measure or indicator	Annual target
 <p>To enhance administration, ensure compliance with applicable legislation and policy prescripts</p>	Knowledge management	1.1 Develop a knowledge hub	Development of a knowledge hub
	Education and awareness	1.2 Number of stakeholder engagements conducted per province	Eight stakeholder engagements per province
	E-system (Integrated enterprise wide architecture platform)	1.3 Integration of the E-system (Enterprise wide architecture platform)	Integration of E-system with identified SOE's and national departments
	Corporate Governance	1.4 Number of organisation-wide ethical behaviour interventions per quarter	One organisational intervention per quarter

**Baseline (Actual Target
Achieved 2016/17)**

Achievement

Alignment of knowledge management strategy

ACHIEVED

The knowledge hub was developed.

The target emanates from the 2015 National Consultative Indaba where beneficiaries requested that the NLC “Establish a knowledge hub/website to facilitate connection among beneficiaries, and to enable sharing of services within the network.

Six stakeholder engagements per province

ACHIEVED

182 stakeholder engagements conducted.

The stakeholder engagements relate to the area of education and awareness, capacity building as well as stakeholder management. Education and awareness is a key area in the amended Lotteries Act.

The engagements cover, inter alia, matters relating to:

- *Regulatory compliance (increasing awareness of society and other lotteries, enhancing monitoring and evaluation)*
- *Capacity building*
- *Governance and compliance*
- *Post Indaba Stakeholder Engagements (PISE)*
- *Applying for funding*
- *Monitoring and evaluation/completing progress reports*

Developed Phase 2 of the E-system/integrated enterprise wide architecture platform

ACHIEVED

1. Companies and Intellectual Property Commission (CIPC), to conduct verification on Beneficiaries and Private Companies conducting business with the NLC.
2. Department of Social Development (DSD) to conduct verification on Beneficiaries.

This target is a follow on from Phases 1 (Core Fusion) and 2 (GMS) of Project Dibanisa, NLC’s ERP System. The integration is intended to streamline the verification of information with relevant key government departments and SOE’s thereby improving turnaround times and increasing efficiency within the organisation.

Approved ethics strategy

ACHIEVED

One intervention per quarter was implemented.

NLC views ethical practices in a very serious light. Integrity remains a key value within the organisation. This target aims to reinforce a culture of ethical behaviour within the organisation. Training and awareness is created through workshops with staff.

Performance excellence (continued)

	Strategic output	Performance measure or indicator	Annual target
 <p>To ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts</p>	NLDTF disbursements	2.1 Percentage disbursement of grants as per GNR644, 6(c)(iv)	At least 65% of grants be paid in line with the regulated 60-day timeframe
	NLDTF investments	2.3 Percentage return on investments (ROI) of NLDTF funds	An annual minimum of 8% ROI on NLDTF funds
	Provincial procurement	2.4 Percentage of localised procurement	90% localisation of procurement for provincial offices
 <p>To implement relevant initiatives geared towards ensuring compliance with the Act</p>	Illegal lotteries	3.1 Percentage investigations on reported and identified illegal lotteries	Conduct investigations on 85% of all identified and reported illegal lotteries
		3.2 Feasibility study on regulation of illegal lotteries	Conduct a feasibility study to determine the regulation of illegal lotteries
	Third Lottery Licence	3.3 Implement and monitor third National Lottery Licence Monitoring Matrix/ Scorecard	Implement and monitor compliance with the licence conditions

Baseline (Actual Target Achieved 2016/17)

Achievement

65% disbursement of grants

ACHIEVED

66% of grants were disbursed.

This target aims to ensure timeous payment of grants to beneficiaries once all legal conditions have been fulfilled. It stems from Regulation (GNR644) which stipulates that payment must be effected within 60 days of receipt of a compliant grant agreement.

8% return on investments

ACHIEVED

8.40% 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.

80% localisation of procurement for provincial offices

ACHIEVED

99% localised provincial 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.

75% of investigations conducted

ACHIEVED

96% of identified and reported illegal lotteries investigated.

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.

Illegal lotteries are identified through:

1. Scanning of print and electronic media
2. Reported cases by members of the public

Research on illegal lotteries conducted

ACHIEVED

Feasibility study conducted and the final report tabled and approved by Board.

In 2016, a study was conducted to determine the "Impact and Extent of Illegal Lotteries to the National Lottery in South Africa".

This target is a follow-on from the research that was conducted in order to provide direction to the NLC in terms of regulating illegal lotteries.

Implement and monitor compliance with the licence conditions

ACHIEVED

Compliance by the operator with licence conditions implemented.

The National Lottery operator is monitored against licence conditions in this target.

Performance excellence (continued)

	Strategic output	Performance measure or indicator	Annual target
 <p>To ensure fair and equitable grant allocations</p>	Regulation 3A(1)(a)	4.1 Percentage of applications adjudicated within 150 days	75% of applications adjudicated within 150 days
	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
	Monitoring and evaluation of NLDTF funding	4.3 Number of monitoring and evaluation site visits conducted	Conduct 2 000 monitoring and evaluation site visits
		4.4 Number of provincial impact evaluation studies	Conduct impact evaluation study in five provinces

Baseline (Actual Target Achieved 2016/17)	Achievement
50% of applications adjudicated within 150 days	<p>ACHIEVED</p> <p>81% of applications were adjudicated within the legislated 150 days.</p> <p><i>Regulation 3A. (1) reads as follows:</i></p> <p><i>In assessing an application for a grant in accordance with Regulation (3)(b), a Distribution Agency must:</i></p> <p><i>(a) finalise its adjudication within hundred and fifty (150) calendar days from the date of receipt of the application.</i></p> <p><i>The regulation grants the NLC a period of 150 calendar days to finalise adjudication of an application. The time of measurement commences on the date of submission of the application for funding.</i></p>
A minimum of 5% grant funding allocated to each province	<p>ACHIEVED</p> <p>EC – 11%</p> <p>FS – 8%</p> <p>GP – 30%</p> <p>KZN – 12%</p> <p>LP – 10%</p> <p>MP – 8%</p> <p>NC – 6%</p> <p>NW – 8%</p> <p>WC – 8%</p> <p><i>GNR 182 regulation states:</i></p> <p><i>“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.”</i></p> <p><i>The importance of this target is that it ensures fair and equitable distribution of funds.</i></p>
1 500 monitoring and evaluation site visits	<p>ACHIEVED</p> <p>2 333 site visits conducted (Q1-Q4)</p> <p><i>NLC has strengthened its monitoring and evaluation systems to enabling the organisation to better measure the impact of funding.</i></p> <p><i>The M&E division will in the year implement monitoring and evaluation visits by conducting 2 000 site visits to beneficiaries as per the framework.</i></p>
1 500 monitoring and evaluation site visits	<p>ACHIEVED</p> <p>The evaluation study was conducted.</p> <p><i>One of key roles of the National Lotteries Commission (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 between the period 2012 – 2016 to assess the changes that have been brought about in the lives of the individuals and communities.</i></p>

Performance excellence (continued)

LINKING PERFORMANCE WITH BUDGETS



SO1: To enhance administration, ensure compliance with applicable legislation and policy prescripts

Name of sub-programme	Final appropriation R'000	Actual expenditure R'000	(Over)/Under expenditure R'000	Reason for variance
Knowledge management	2 500	2 500	–	
Education and awareness	1 866	979	887	The provinces were responsible with conducting the education and awareness workshops and as a result the budget that was set aside by Business Development division was not utilised.
E-system (Integrated enterprise-wide architecture platform)	36 109	30 675	5 434	A payment relating to software cost that was procured during the 2017/18 year and paid in the current year was erroneously budgeted for under this item.
Corporate governance	111	111	–	
Total	40 586	34 265	6 321	



SO2: To ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts

Name of sub-programme	Final appropriation R'000	Actual expenditure R'000	(Over)/Under expenditure R'000	Reason for variance
NLDTF disbursements	2 073 514	2 073 514	–	
NLDTF investments	–	–	–	
Provincial procurement	16 475	10 314	6 161	Facilities was responsible for payment of security and hygiene services for provinces during this financial year and that resulted in provinces not spending the budget for security service, this responsibility has, however, been taken to provinces going forward. The provinces did not have their planned functional strategy sessions and they plan to have them at the beginning of quarter one of 2018/19 financial year. Provinces found ways to save costs by using municipal halls and schools for their educational and awareness workshops and also stopped providing catering for workshops.
Total	2 089 989	2 083 828	6 161	



SO3: To implement relevant initiatives geared towards ensuring compliance with the Act

Name of sub-programme	Final appropriation R'000	Actual expenditure R'000	(Over)/Under expenditure R'000	Reason for variance
Illegal lotteries	2 299	1 177	1 122	
3rd lottery licence	493	493	-	Due to the delays when conducting the feasibility study, the development of the society model was placed on hold.
Total	2 792	1 670	1 122	



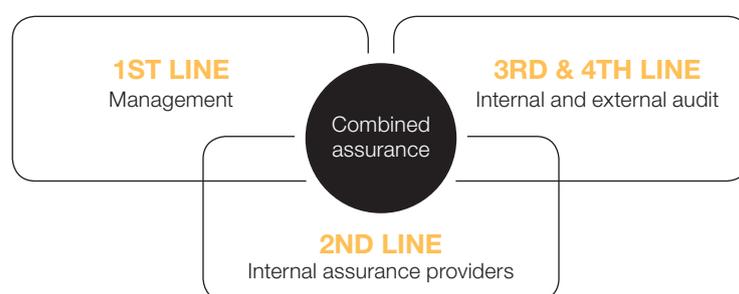
SO4: To ensure fair and equitable grant allocations

Name of sub-programme	Final appropriation R'000	Actual expenditure R'000	(Over)/Under expenditure R'000	Reason for variance
Regulation 3A(1)(a) Lotteries Act – 5% per province (GNR182)	1 441 564	1 494 013	52 449	
Monitoring and evaluation of NLDTF funding	-	-	-	The Charities Sector allocated funds for few proactive projects and was also clearing applications from 2015 call of application.
Total	1 441 564	1 494 013	52 449	

Risk management

The NLC’s Enterprise Risk Management is governed by the Enterprise Risk Management Framework and Policy. The Board reviewed the Enterprise Risk Management Framework and policy and the Board has adopted four lines of defence for managing the risk. This model defines the roles, responsibilities and accountabilities for managing and reporting and escalating the risk. The model incorporates management, oversight and assurance of risk management, essentially providing four independent reviews on risk in the organisation. The implementation of this model ensures that risk management is embedded in the culture of the organisation and provides assurance to the board, by senior management that risk is managed effectively.

The governance structures and processes are aligned with enterprise risk management (ERM) principles. The Board and their Audit and Risk Committee provide oversight of the risk management activities. The Commissioner utilises the executive management committee to manage the components of risk.



First line of defence	Business unit management and process owners	<ul style="list-style-type: none"> • Manage day-to-day risk origination and management in accordance with risk policy and strategy. • Understand the environment and identify the risk, • Risk profile, response and control per prioritised risk event • Analyse and determine improvement focus • Improvement of action plans
Second line of defence	Independent risk management and compliance functions	<ul style="list-style-type: none"> • Provide oversight and challenge to the first line of defence • Propose risk policy and strategy • Champion implementation of risk policy on strategy • Provide assurance to the board
Third line of defence	Independent assurance providers – Internal audit	<ul style="list-style-type: none"> • Provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy and effectiveness of the ERM framework
Fourth line of defence	Independent assurance providers – external audit: AGSA and other external assurance providers	<ul style="list-style-type: none"> • Additional line of assurance, provide assurance over effective functioning of the first and second lines of defence functions including independent assessment of the adequacy and effectiveness of the ERM framework. • Auditor-General of South Africa reports mainly to the Minister of Trade and Industry and Parliament.

In addition, National Lotteries Commission (NLC) and National Lottery Operator (Ithuba) are jointly monitoring implementation of proposed/future controls for cross-cutting risks between the two organisations.

Combined assurance

Regular communication between the internal and external audit as well as the other lines of defence serves to optimise the areas of reliance and enhance value delivery to all parties. Combined assurance will continue to evolve and further enhance alignment between the key role players from an ERM perspective.

Risk tolerance and risk appetite

The organisation understand and proactively manage the risk within set risk and appetite levels, to optimise service delivery and business returns. The Board has defined its risk appetite and tolerance levels as follows:

Risk appetite		
Appetite level	Description	
 UNACCEPTABLE	The organisation is not willing to accept risks in most circumstances that may result in reputation damage, financial loss or exposure, major breakdown in information system or information integrity, significant incidents(s) of regulatory non-compliance, and potential risk of injury to staff.	
 MODERATELY ACCEPTABLE	The organisation is willing to accept some risks in certain circumstances that may result in reputation damage, financial loss or exposure, major breakdown in information system or information integrity, significant incidents(s) of regulatory non-compliance, and potential risk of injury to staff.	
 ACCEPTABLE	The organisation accepts opportunities and risks that have an inherent high risk that may result in reputation damage, financial loss or exposure, major breakdown in information system or information integrity, significant incidents(s) of regulatory non-compliance, and potential risk of injury to staff.	

Risk tolerance		
#	Risk impact	Risk appetite
1	Impaired organisational performance (inefficiency)	
2	Litigation	
3	Reputational harm	
4	Financial and resource wastage/losses	
5	Loss/reduction of funding available to communities	
6	Non-compliance with legislation	
7	Impaired personal security	

Managing top risks

In ERM, cognisance must be taken of the advances in technology that are revolutionising businesses and societies, and transforming products, services and business models, which is the effect of the Fourth Industrial Revolution. During the period under review, the Board reviewed the NLC's strategic risk profile. The following were assessed during the review:

- Impact of strategy changes, business environment and emerging issues on risk profile
- Input from executives on significant changes to risks of the organisation.
- Inputs from Distributing Agency members and Stakeholders (including suppliers and staff).
- Inputs from members of the Board as well as the Audit and Risk Committee through survey and questionnaire.

Risk management (continued)

RESIDUAL RISK ACCEPTABILITY

In order to assist in determining risk acceptability, the following thresholds will be used as guidelines:

Threshold interpretation	Suggested action	Escalation requirements (if any)	Suggested timing
RED – Unacceptable  High risk	Management should take immediate action to reduce risk exposure to unacceptable level.	<ul style="list-style-type: none"> BOARD AUDIT AND RISK COMMITTEE 	Immediate action required
YELLOW – Cautionary  Medium Risk	Management should constantly monitor the risk exposure and related control adequacy.	<ul style="list-style-type: none"> BOARD AUDIT AND RISK COMMITTEE 	Medium term action – within three months
GREEN – Acceptable  Low risk	Management should monitor risks and may consider reducing the cost of control.	<ul style="list-style-type: none"> AUDIT AND RISK COMMITTEE 	Monitor 1 – no immediate action required

The table below depicts the strategic risk profile of the NLC following the review. No emerging risks were identified and one risk relating to Misalignment of Grant processes was retired to operational risk register.

Risk No	Strategic risks	Key responses/mitigation	Risk rating inherent	Risk rating residual	Opportunities	Capitals (icons)
1	Conflict of interest	<ul style="list-style-type: none"> Declaration of interest process and declaration narratives Annual disclosures by board members, employees, DAs, beneficiaries (grant recipients), suppliers and other stakeholders Independent whistleblowing hot-line Adherence to Code of ethics, Corporate values, Human resource ethics and disciplinary processes Proactive communication of organisational impact to stakeholders (spreading good news) Reputation management (perception survey) 	Critical (15) 	Low (6) 	<ul style="list-style-type: none"> Publishing of relevant policies in line with King IV disclosure requirements Intensify training and awareness of all stakeholders 	
2	Fraud risk	<ul style="list-style-type: none"> Fraud prevention plan Segregation of duties Pre- and post-adjudication grand funding site visits Verification grand funding application process Rigorous Supervision and supervisory reviews 	Critical (20) 	High (10) 	<ul style="list-style-type: none"> Ongoing assessment of effectiveness of hotline Ongoing screening of employees prior to employment Periodic screening of employees Ongoing fraud risk assessment Ongoing investigation of all reported cases of alleged fraud and corruption Analysis of Delinquent Beneficiaries Register and risk profiling of beneficiaries Strengthening of verification process Integrated communications strategy to include fraud issues 	

Risk No	Strategic risks	Key responses/mitigation	Risk rating inherent	Risk rating residual	Opportunities	Capitals (icons)
3	Illegal lotteries	<ul style="list-style-type: none"> Civil litigation and recovery from illegal lotteries Ongoing benchmarking with similar jurisdictions to proactively regulate illegal lotteries Criminal prosecution of illegal lottery operators Joint-enforcement with other law enforcement agencies Research to identify different forms of illegal lotteries conducted to ascertain possibility of regulating these illegal lotteries Media monitoring to identify illegal Collaboration with other regulators such as gambling boards. 	Critical (25) 	High (13) 	<ul style="list-style-type: none"> Policy review to enhance Enforcement Analyse the findings of the research and implement appropriate recommendations Policy review to enhance enforcement Analyse the findings of the research and implement appropriate recommendations 	
4	Inadequate stakeholder relationships	<ul style="list-style-type: none"> Identified stakeholder matrix in annual performance plan Communication strategy in place Stakeholder programmes Stakeholder relations and engagement strategy Stakeholders Indaba Stakeholder survey Signed MoU with strategic partners Provincial offices established and fully operational Implementation of marketing and communications strategy Implementation of approved marketing and communications policies and procedures Customer relationship management 	High (12) 	Low (5) 	<ul style="list-style-type: none"> Ongoing stakeholder engagement Implementation of Public Affairs policies, strategy programmes and procedures Customer focused strategy (to respond to public perception) Communications strategy focused on closing the gap between public expectations and actual available funding Optimise the powers granted to the Board in terms of the Lotteries Act (To manage and communicate with beneficiaries on available benefits/products and limits thereof) 	
5	Continuity and sustainability	<ul style="list-style-type: none"> Grant application procedure Protection afforded by the Act (sustainability) Performance management of the license operator Financial sustainability strategy <ul style="list-style-type: none"> Disaster recovery policy Off-site backup system Business continuity plan 	Critical (20) 	Low (8) 	<ul style="list-style-type: none"> Full implementation of the financial sustainability strategy Full implementation of the business continuity plan 	

Risk management (continued)

Risk No	Strategic risks	Key responses/mitigation	Risk rating inherent	Risk rating residual	Opportunities	Capitals (icons)
6	Non-compliance with prescribed timeframes	<ul style="list-style-type: none"> Open call system approved by the Board <ul style="list-style-type: none"> – Strategy and plan for open call system implementation Board resolution on how to deal with applications without mandatory documents War-room established to deal with the back-log 	Critical (16) 	High (8) 	<ul style="list-style-type: none"> Implementation of the strategy and plan for the implementation of open call system Continuous follow-ups with the dti on the appointment of full-time DA's Implement Board resolution on how to deal with non-compliant applications 	
7	Information management and security management of next generation cyber threats	<ul style="list-style-type: none"> Minimum information security standards Information classification policy PAIA *Disciplinary process for known breaches of information confidentiality Information security planning and monitoring of critical Information security controls information security awareness campaigns and training staying abreast of security technology requirement 	Critical (16) 	High (11) 	<ul style="list-style-type: none"> Communicate information classification policy to all staff Enforce information classification policy Employees and key stakeholders to formally acknowledge organisational information security standards Use of technology systems to prevent and detect breach of security 	
8	ICT infrastructure and systems	<ul style="list-style-type: none"> Approved ICT strategy Daily backups of the server IT governance oversight Disaster recovery plan 	Critical (16) 	Low (8) 	<ul style="list-style-type: none"> Upgraded Enterprise Architecture System (Integrated platform – align ICT strategy with new legislation and business process review) Business to identify required services for activation in the case of a disaster Identification of a disaster recovery site 	
9	Non-compliance with regulatory requirements by National Lottery Operator	<ul style="list-style-type: none"> License monitoring matrix developed and monitored Independent systems audit (Independent Verification System). Weekly, monthly and quarterly reviews conducted 	Critical (16) 	Low (8) 	<ul style="list-style-type: none"> Continuous engagement and guidance with the new operator Management review on IVS, security and information reliability and report back to BoD 	

Opportunities

Opportunities emanating from risks are considered incorporated during the strategic planning process. These include any favourable current or prospective situation within the organisation's environment, such as trends, change or factors overlooked which could be facilitated to allow the organisation to enhance its competitive edge.

- Increased social impact
- Enhanced operational efficiency
- Technology advancement
- Increased monitoring of project efficiency
- Technological infrastructure localisation
- Repositioning of the organisation
- Regulatory improvement
- Partnerships with other stakeholders
- Fourth Lottery Licence
- "Africanisation" of the lottery

PART C

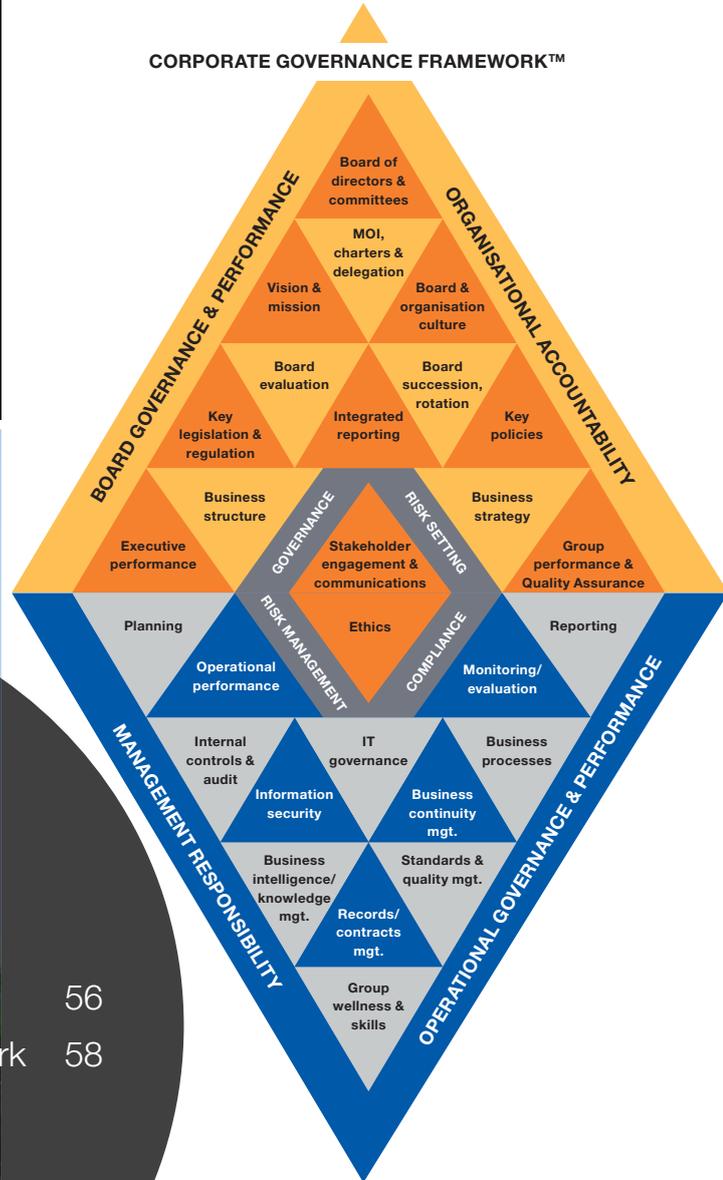
GOVERNANCE





Board profiles 56
NLC Corporate Governance Framework 58

CORPORATE GOVERNANCE FRAMEWORK™



▲▲▲ Board focus
▲▲▲ Executive management focus with board monitoring

Board



01

PROF NA NEVHUTANDA (65)

Chairperson and Independent

Non-executive Member

*BA, HEd, BEd, MEd, DEd, BMus(Hon), MMus, DMus, Dip Management, MBA Course work MANCOSA 2004
Professor of Environmental Sciences*



TERM

Prof Nevhutanda was appointed to the Board on 2 December 2009 and re-appointed Chairperson of Board in August 2017. He was originally a member of the ACNHDA prior to becoming a Board member he has an intimate knowledge of the NLC and the lottery industry.

EXPERIENCE

Prof Nevhutanda is a seasoned director, having lead numerous structures in the public sector. Prof Nevhutanda is endowed with leadership qualities that enabled him to understand strategy formulation and direction. He has served as a leader in various academic fields including colleges of education and universities.



02

MS TS KEKANA (50)

Independent Non-executive

BProc, LLB, Certificate in Management of Petroleum Policy and Economics



TERM

Ms Kekana commenced her association with the National Lotteries Board, now National Lotteries Commission, on September 1, 2013, in the capacity of non-executive director. Ms Kekana has been the Chairperson of the Board Regulatory Compliance and Legal Committee, which is the Committee that is delegated to deal with regulatory compliance matters and instrumental in driving that the NLC's regulatory mandate.

EXPERIENCE

Kekana is the managing director of Kekana Hlatshwayo Radebe Inc. and a curator at the Municipal Councillors Pension Fund. As a seasoned attorney, she has held numerous positions with the Law Society of the Northern Provinces and Board of Trustees of Hosmed Medical Scheme



03

MS DLT DONDUR (51) CA(SA)

Chartered Director

Independent Non-executive

BAccounting, Bcompt (Hons), CTA, BAdmin (Hons), MBA, International Executive Development Programme, Gaming Executive Development Programme, Certificate in Labour Relations, Advanced Programme in Human Resources



TERM

Ms Dondur joined the NLC Board on 1 April 2017. Ms Dondur has been Chairperson of the Board Audit and Risk Committee, which is the Committee that is delegated to deal with financial, risk, internal audit and ICT matters impacting on the NLC.

EXPERIENCE

Ms Dondur has extensive corporate experience, governance and compliance skills as well as comprehensive understanding of accounting standards and financial reporting. As an independent non-executive member of a numerous Boards and as the Audit and Risk Committee Chairperson she continues to give strategic guidance and direction on the practical application of various disciplines applicable to Boards.



04

DR M MADZIVHANDILA (55)

Independent Non-executive

PHD in Development Studies, MA Development Studies, BA Psychology (Hons), University Education Diploma



TERM

Dr Madzivhandila was appointed on 1 April 2017. Dr Madzivhandila has been Chairperson of the Board Human Capital, Social and Ethics Committee which is the Committee delegated to deal with human capital, social and ethics related matters, which ensures that the NLC and its employees remain catalysts for social upliftment.

EXPERIENCE

Dr Madzivhandila has held various board memberships in development agencies. He is a strategist with hands on experience in community development and stakeholder relations. His strength lies in change and diversity management



05 | PROF YN GORDHAN (67) CA(SA)

Independent Non-executive

Bachelor of Commerce, Honours in Accounting, Master of Science (Bus. Admin)



TERM

Prof Gordhan was appointed on 1 April 2017. Prof Gordhan has been Chairperson of the Board Nominations Committee which is the Committee delegated to deal with board member developmental matters and ensuring that our Board is kept abreast of industry developmental matters

EXPERIENCE

Prof Gordhan has been a non-executive director since 2006 at various public entities in the RSA. In his directorship career he has held various position including chairing of boards and audit committees.



07 | MS A BROWN (43)

Independent Non-executive

Bachelor of Primary Education, MSc in Development Planning, Executive Development Programme, Diploma - Practical Project Management



TERM

Ms Brown was appointed on 1 April 2017. Ms Brown was appointed in terms of the Lotteries Act, section 3(b). Ms Brown serves on various board committees including the Board

EXPERIENCE

Ms Brown has been a public servant for 15 years, a majority of which she held senior management positions in monitoring and evaluation. She worked for the South African Human Rights Commission and proceeded to the following Departments, namely Land Affairs, National Prosecuting Authority, Corporative Governance and Traditional Affairs, KZN Corporative Governance and Traditional Affairs, Mineral Resources and currently at **the dti**. She sits on the NLC Board as the Minister's Representative. Ms Brown is a member of the Institute of Directors South Africa (IoDSA).



06 | ADV WE HUMA (57)

Independent Non-executive

BProc, Bachelor of Law, Master of Law



TERM

Adv. Huma was appointed on 1 April 2017. Adv. Huma has been Chairperson of the Board and Distributing Agency Committee, delegated to deal with Board and Distributing agency matters as required in terms of the Act, section 26 and ensures that NLC operations are beneficiary centric and geared for Funding for Impact.

EXPERIENCE

Adv. Huma has held various executive and non-executive director positions since 1984. Has chaired various committees including audit committees since in public entities since 2001. Adv. Huma has extensive experience, knowledge and understanding of Corporate Governance, Compliance, Project, Financial and Risk Management as well as Business Administration and Law



08 | ADV N NENE (37) FCIS

Company Secretary

LLB, BCom (Marketing), FCIS, Certified Ethics Officer, International Executive Development Programme

TERM

Ms Nene was appointed as the Company Secretary since March 2016 for a period of 5 years to provide guidance to the Board and inculcate corporate governance principles in the daily activities of the NLC.

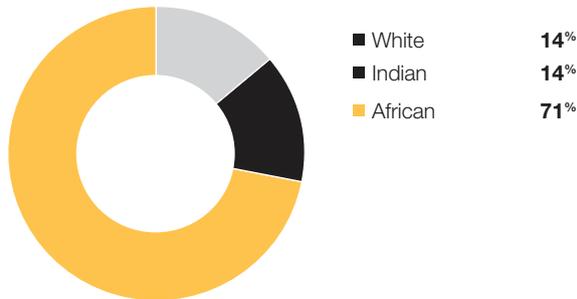
EXPERIENCE

Ms Nene has experience in various entities, private and public entities. She is an admitted advocate in the high court of South Africa and a Fellow Chartered Company Secretary.

● Board Committee Membership ● Board Review Committee ● Board Nominations Committee ● Board Regulatory Compliance and Legal Committee
● Board Human Capital, Social and Ethics Committee ● Board Distributing and DA Committee ● Board Audit and Risk Committee

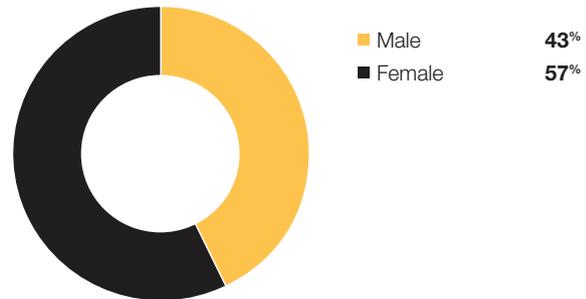
NLC corporate governance framework

RACE



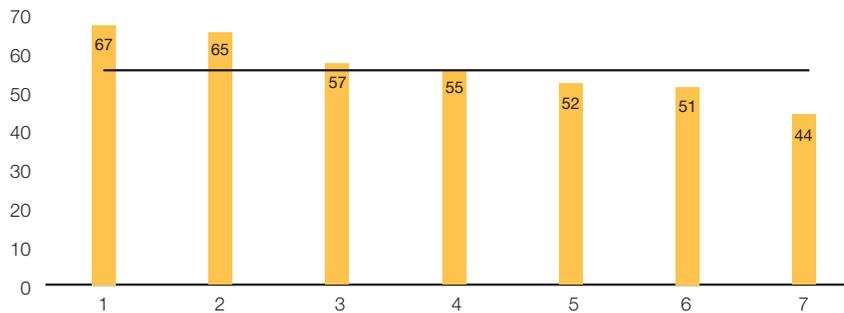
Racial diversity of the NLC Board revealed that the majority of the NLC Board is African (71%, which equates to five members); while one member is Indian and one member is White. This current ratio is a fair representation of the general South African demographic.

GENDER



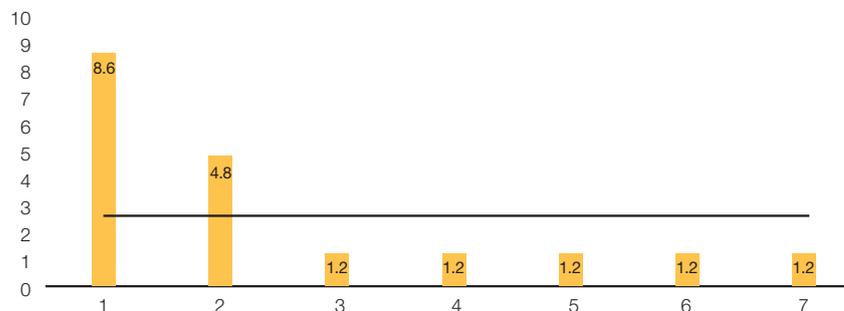
Gender representation on the NLC Board revealed a favourable split when compared to results in various international and local board/ governance surveys, with 43% female

INDIVIDUAL AND AVERAGE AGES OF NLC BOARD MEMBERS



The individual and average ages of the members of the Board revealed that **the oldest member is 67 years old** (whose second term of service will end within five months); **the youngest member is 44 years old** (appointed 1 April 2017) and the **average age of the Board is 56 years**. This age profile is similar to the majority of local and international corporate boards. It does appear that the NLC Board is conscious of enhancing the age diversity of the Board with three of the five members who joined on 1 April 2017 being 55 years or younger. It was also noted that one of the current members who joined in 2013 was 46 years old at the time.

INDIVIDUAL AND AVERAGE TENURE OF NLC BOARD MEMBERS



All seven Board members are independent, non-executive members. Although legislation allows for one executive member, the NLC has opted to not include any executive members on the Board. The NLC could consider the inclusion of an executive member on the Board which would enhance the diversity of the governing body. The amendment of the composition of the Board should be updated in the Charter. None of the Board members have exceeded the legislated tenure. The majority (71%) of the Board members were recently appointed (1 April 2017) after previous members' terms of service ended. This has resulted in a low average tenure of 2.8 years. It is noted that the Chairperson will soon be ending his second term of service.

The National Lotteries Commission's corporate governance framework embodies the Lotteries Act, 57 of 1997 as amended, the Public Finance Management Act (PFMA), principles contained in the Companies Act and KING IV code, processes and systems that enable the Commission to meet corporate governance expectations as well as provide direction, control and accountability by the Commission.

The Minister of Trade and Industry, in his capacity as the Executive Authority of the NLC, exercises oversight in accordance with provisions of the PFMA. The NLC complied with all reporting requirements of the PFMA and Treasury Regulations Compliance Schedule through the submission of quarterly reports, management accounts, income and expenditure statements with projections, annual financial statements, budget of estimated revenue and expenditure, strategic and annual performance plans, a fraud prevention plan and a risk management plan within the stipulated periods as indicated under the PFMA and Treasury Regulations Compliance Schedule.

Parliament, through the Portfolio Committee on Trade and Industry (Portfolio Committee) exercises oversight of the service delivery performance and commitments made in terms of the NLC's strategy and annual performance plan. As part of Stakeholder management, the NLC engage with the Minister and the Portfolio Committee.

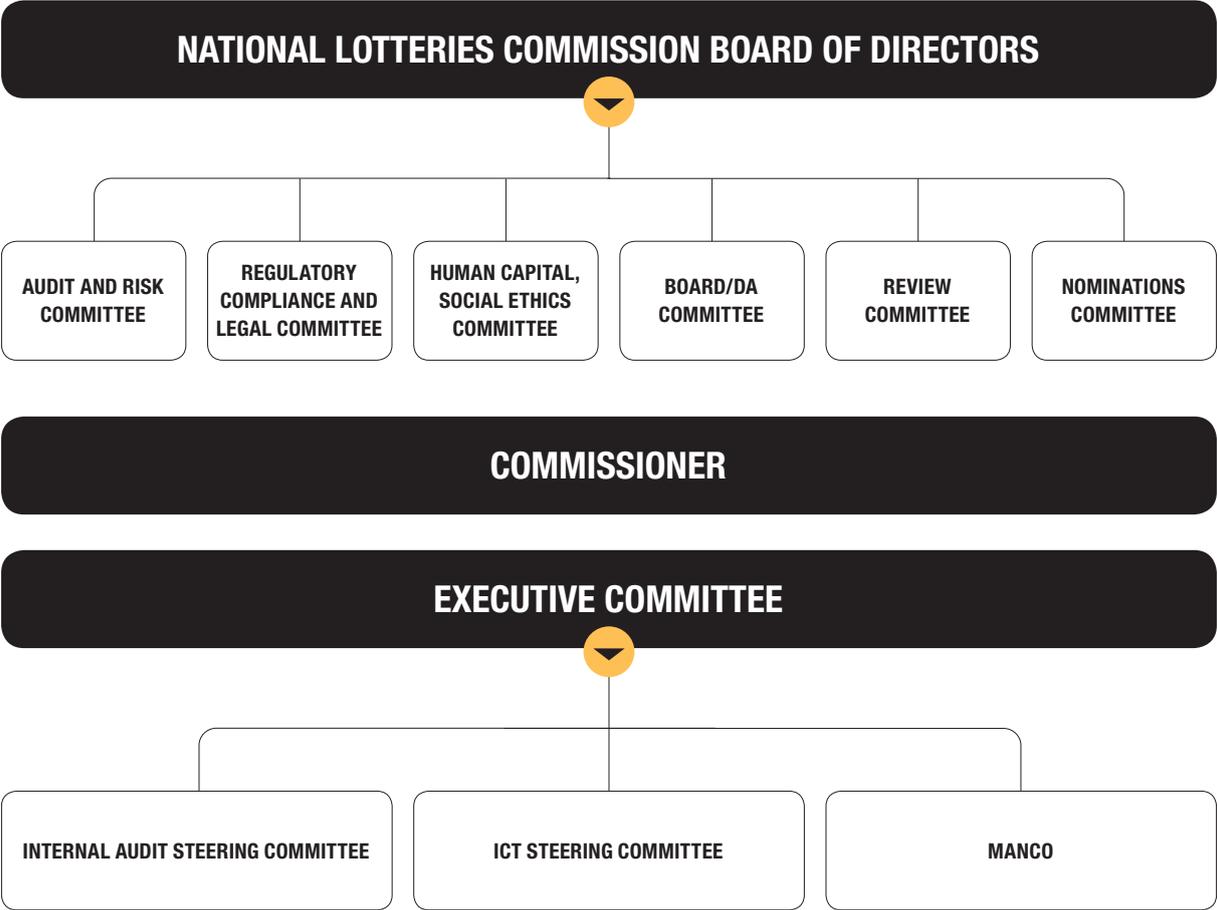
"During the period under review, the NLC adopted the Corporate Governance Framework[®]. This framework provides a holistic view of the governance status of the organisation at any given point in time. Through its Corporate Governance Framework[®], the NLC aims to enhance the Board's oversight role by improving information sharing and cohesion between the Board and key management. The framework will equip the board, senior executives and internal stakeholders to identify areas of governance which need to be prioritised so that the necessary corrective action can be taken to mitigate risk and exploit opportunities to improve governance and drive growth and sustainability. The NLC is in the process of digitising the Corporate Governance Framework[®] which will further enhance transparency and accountability within the organisation.

NLC corporate governance framework (continued)

GOVERNANCE STRUCTURE

The Board reviewed and approached its arrangements for delegation to promote independent judgement and assist with balance of power and the effective discharge of duties without abdicating its accountability. Delegation arrangements were in accordance with the Lotteries Act, as amended, which stipulates that the Board may appoint committees to assist it in efficiently and effectively performing its functions and exercising its powers. Committees shall consist of such members of the board as the board may designate and the board shall appoint the chairperson of every committee. Every committee shall perform its functions in accordance with the provisions of this Act and such directives of the board that are not in conflict with such provisions. Any delegated function so performed shall be deemed to have been performed by the board.

The Board had a total of six committees which included two statutory committees and five standing committees as depicted below:



Role of the NLC Board

The Board Charter was adopted by the Board Charter in March 2017 and was reviewed in March 2018. The Board charter guides the Board with respect to their functions, powers and responsibilities. Over and above the responsibility for the setting the strategic direction of the NLC, finance and performance objectives, the Board has applied the principles of openness and transparency in fulfilling its statutory responsibilities to:

- advise the Minister on the issuing of the licence to conduct the National Lottery;
- advise the Minister on the efficacy of legislation pertaining to lotteries and ancillary matters;
- ensure that the National Lottery and Sports Pools are conducted with all due propriety;
- advise the Minister on establishing and implementing a social responsibility programmes in respect of lotteries;
- ensure that interests of every participant in the National Lottery are adequately protected;
- Administer and invest the money paid to the National Lotteries Distribution Trust Fund in accordance with the Lotteries Act;
- ensure that net proceeds of the National Lottery are as large as possible;
- perform such additional duties in respect of lotteries as the Minister may assign to the Board;
- administer the National Lottery Distribution Trust Fund (NLDTF) and hold it in trust;
- monitor, regulate and police lotteries incidental to exempt entertainment, private lotteries and society lotteries;
- make such arrangements as may be specified in the Licence for the protection of prize monies and sums for distribution;
- advise the Minister on any matter relating to the National Lottery and other lotteries or any other matter on which the Minister requires the advice of the Board; and
- advise the Minister on percentages of money to be allocated.

Board Appointments

All non-executive Board members are appointed by the Minister of Trade and Industry, in accordance with section 3 of the Lotteries Act as amended. The Minister appoints a chairperson, who shall be a person with applicable knowledge or experience with regard to matters connected with the functions of the board, one member designated by the Minister and not more than five members who have proven business acumen or applicable knowledge or experience with regard to matters connected with the functions of the board, and of whom at least one should be a legal practitioner admitted to practise in the Republic and at least one a chartered accountant in the Republic. The Lotteries Act further stipulates that at least four members shall be persons who are not in the service of any sphere of government.

During the year under review, the Minister appointed five non-executive Board members with the requisite skills as stipulated in Lotteries Act.

Commissioner

The Commissioner is an ex-officio member of the Board, whose five-year terms of office was renewed effective 1 October 2017. The Commissioner is a member of the Institute of Directors South Africa. The Commissioner is accountable to the Board for the performance of all financial, administrative and clerical functions, as well as any duties which may be delegated to him or her by the Board under the Act and holds office for an agreed term of five years which may be renewed only once for a further period of five years.

Independence

All non-executive Board members are considered as independent as they have no material interest in the NLC, interest in national lottery operator, beneficiaries or suppliers. Members are required to complete an annual disclosure of interest and required to disclose interest at every meeting to ensure that circumstances that may give rise to conflict of interest are managed and monitored effectively. There were no conflicts of interest identified during the reporting period.

Board evaluation and effectiveness

The Board and Board committee effectiveness was evaluated by an independent service provider, considering developments in the composition of the Board and the strategy to reposition the NLC as a regulator. The Board Evaluation process was based on a quantitative and qualitative approach. Additionally, Members of the Board were provided an opportunity to provide qualitative commentary based on their assessment for each evaluation category.

NLC corporate governance framework (continued)

The Board Evaluation questionnaire consisted of evaluation questions in the following categories:

Board composition	Board meetings and content	Role of the chairperson	Role of the company secretary
Board accountability	Appointment, inclusion and training succession planning	Performance, evaluation and remuneration	Board committees
Communications and stakeholder relations	Board dynamics and leadership	Strategy, compliance and organisational performance	Risk management and internal controls
Technology and information governance	Non-financial (sustainability)	Integrated reporting	Balance of power and authority; and ethics

The questionnaires completed, and interviews conducted revealed that the directors were satisfied that good governance is generally practised and that the Board is effective in its functioning as a collective, both with respect to adherence to its mandate as well as its oversight and support role within the Commission.

The Board evaluation was conducted towards the end of the 2017/18 financial period therefore the Board is reviewing the recommendations on areas of improvement with a view to ensuring that adopted recommendations are implemented and progress made on the implementation of the outcomes are reported in 2018.

Board induction and continuous development

Board induction sessions were convened during the year to ensure that all Board members are appraised on the functions of the Board and operations of the NLC. The Board introduced continuous development programmes that would enhance the skill of the collective Board and assist the Board in its strategic focus and that of the NLC. The Board undertook an exploratory visit to regulators in European jurisdictions to gain understanding on how regulators are regulating the lotteries industry and to improve the regulatory framework of the NLC. The Board is satisfied that the arrangements in place for accessing professional corporate governance services are effective as members subscribe to the Corporate Governance Body of Knowledge® and are full members of the IODSA, SAICA, Law Society of South Africa and The Public-Sector Audit Committee Forum.

Adoption of King IV

The NLC Board adopted King IV in accordance with the commitment made to the Minister of Trade and Industry in the shareholder compact, to comply with principles of the King IV Report on Corporate Governance for South Africa. An independent high-level assessment on the current governance structure and public disclosures made by the NLC was conducted to assess the current level of compliance with King IV principles, whilst considering relevant legislation governing the NLC, the nature of NLCs activities, members and key stakeholders of the NLC. Overall, the NLC governance practices, policies and procedures were found to be aligned with 16 Principles of King IV that relate to the organisation, with some areas of improvement recommended.

PRINCIPLE	APPLICATION OF PRINCIPLE
Leadership, ethics and corporate citizenship	
PRINCIPLE 1	LEADERSHIP
The Board should lead ethically and effectively.	<p>The NLC's Ethics and Conduct Policy was reviewed. The policy articulates NLC's commitment to the highest ethical standards in delivering its mandate in line with the Act. The policy states that the primary responsibility is to ensure all stakeholders of the NLC act in good faith and ethically, beyond compliance. The Ethics and Conduct Policy stipulates the Board's commitment to ensuring a safe and working environment for all and developing policies to address the environmental impact of its business activities. Privacy and Confidentiality, Access to Information and Respectful Working Environment principles are underpinned in the policy.</p> <p>Declarations of Interest are formally made by Board members on an annual basis and at the start of every Board and Board Committee meeting. No conflicts have arisen in the year under review.</p>
PRINCIPLE 2	ORGANISATIONAL VALUES AND ETHICS
The Board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	<p>The Board approved the Ethics and Conduct Policy, which requires NLC employees of the NLC to act in the best interest of the NLC and provides standards of conduct in exercising their respective functions and duties.</p> <p>The Board Human Capital, Social and Ethics Committee provides oversight of compliance with the Ethics and Conduct policy.</p> <p>The Ethics Office reports to the Board Human Capital, Social and Ethics Committee quarterly. The Ethics Office employees an interactive PwC electronic disclosure system to facilitate processes of disclosure of interest and managing conflict of interest.</p> <p>An overview of the arrangements in relation to organisational ethics and focus areas for the reporting period are detailed under the Board Human Capital, Social and Ethics Committee report.</p> <p>In the ensuing year, the Ethics Office will focus on incorporating the Board and external stakeholders in the Ethics and Conduct.</p>
PRINCIPLE 3	RESPONSIBLE CORPORATE CITIZENSHIP
The Board should ensure that the organisation is and is seen to be a responsible corporate citizen.	<p>The Board Human Capital, Social and Ethics Committee is delegated the responsibility for monitoring and reporting of social, ethical, transformational and sustainability practices that are consistent with good corporate citizenship.</p> <p>The Board Human Capital, Social and Ethics Committee is appraised quarterly on transformation objectives, employment equity status, training and work skills report and management development plans and impact on environment monitored. The Corporate Governance and Human Capital Divisional reports in this report detail these activities.</p>
LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP	STRATEGY, IMPLEMENTATION AND PERFORMANCE
PRINCIPLE 4	
The Board should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	<p>The Board has developed the NLC's strategic objectives and concluded a process of identifying strategic risks and opportunities to guide NLC's activities. The NLC's Strategic plan and Annual Performance Plan are endorsed by the Minister and available on the NLC website.</p> <p>The NLC is publishing its first Integrated Report and will be made available to all its stakeholders.</p>
PRINCIPLE 5	REPORTS AND DISCLOSURE
The Board should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects.	<p>The Board is assisted by the Board Audit and Risk Committee report in reviewing and approving the integrated report, as well as approval and monitoring of the execution of the NLC's strategy, Annual Performance Plans and other strategies that require the Board's attention. The report is prepared in line with recognised local and international guidelines including General Accounting Reporting Practices (GRAP), the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework, the reporting principles contained in King IV and relevant legislation.</p> <p>The Board submits monthly and quarterly reports to relevant authorities in accordance with the PFMA and Treasury Regulations.</p> <p>The integrated report, when read with the annual financial statements, provides a comprehensive view of the NLC's performance.</p>

NLC corporate governance framework (continued)

PRINCIPLE	APPLICATION OF PRINCIPLE
GOVERNING STRUCTURES AND DELEGATION PRINCIPLE 6	ROLE OF THE BOARD
The Board should serve as the focal point and custodian of corporate governance in the organisation.	<p>The Board reviewed its Board charter. The Board's role and responsibilities are articulated in the Board charter. The Board is the custodian of corporate governance.</p> <p>The Board approved the NLC's Corporate Governance Framework to foster and inculcate governance practices in the NLC and adopted King IV principles of Corporate Governance.</p>
PRINCIPLE 7	COMPOSITION OF THE BOARD
The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	<p>The Board is appointed by Minister in accordance with the Act.</p> <p>Further details regarding the composition of the Board, assessment of the independence of the non-executive directors, induction and the Board's diversity policy is contained in the governance section of the integrated report.</p>
PRINCIPLE 8	COMMITTEES OF THE BOARD
The Board should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.	<p>The Board has approved arrangements for delegation within its own structure and established six committees that assist it in discharging its duties and responsibilities as follows:</p> <ul style="list-style-type: none"> Board Audit and Risk committee Board Regulatory Compliance and Legal Committee Board and Distributing Agency Committee Board Nominations Committee Board Human Capital, Social and Ethics Committee Board Review Committee <p>The committees operate in accordance with written charters which are reviewed and approved by the Board annually. Committee chairpersons provide feedback to the Board on the deliberations of the committee meetings and copies of the minutes of the committee meetings are included in the Board pack. Additional information on the Board committees can be found in the governance section of the integrated report.</p>
PRINCIPLE 9	EVALUATIONS OF THE PERFORMANCE OF THE BOARD
The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	An independent evaluation of the Board, its Committees and individual Board members has been conducted in February 2018. The NLC extended the Board evaluation process to include an upward evaluation of the Board by executive management as well as evaluation of the executive, currently in progress.
PRINCIPLE 10	APPOINTMENT AND DELEGATION TO MANAGEMENT
The board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	The board shall, in consultation with the Minister, has appointed the Commissioner, who is accountable to the Board for the performance of all financial, administrative and clerical functions, as well as any duties which may be delegated to him or her by the board under the Act. The Board has further reviewed and approved the Delegation of Authority Framework, which sets out the direction and parameters for the powers reserved for itself and those delegated to management.
GOVERNING STRUCTURES AND DELEGATION PRINCIPLE 11	RISK GOVERNANCE
The Board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	<p>The Board, supported by the Board Audit and Risk Committee, is responsible for the governance of risk. The NLC has a risk management policy and framework in place.</p> <p>The risk management function reports to the Board Audit and Risk Committee through the Chief Audit Executive.</p> <p>The Board Audit and Risk Committee monitors progress on a quarterly basis and Strategic Risks reviewed annually</p>

PRINCIPLE	APPLICATION OF PRINCIPLE
PRINCIPLE 12	TECHNOLOGY AND INFORMATION GOVERNANCE
The Board should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	The Board Audit and Risk Committee has been delegated the responsibility for oversight of ICT Governance. The Committee oversees the implementation on ICT governance arrangements, frameworks, policies and systems and procures. The overview of key areas of focus for the year and ICT investments are disclosed in the ICT divisional report.
PRINCIPLE 13	COMPLIANCE GOVERNANCE
The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	The Board is responsible for organisational compliance with applicable laws. The Board is assisted by the Board Regulatory Compliance and Legal Committee in monitoring compliance. The responsibility for implementing compliance is delegated to management. A report on organisational compliance with legislation is included in the Corporate Governance Report.
PRINCIPLE 14	REMUNERATION GOVERNANCE
The Board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	The NLC's remuneration philosophy is to design and implement remuneration structures that are market related, consistent, fair, legally compliant and equitable. The remuneration report and remuneration philosophy are contained in the integrated report.
PRINCIPLE 15	ASSURANCE
The board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.	The NLC has established and effectively implemented the Combined Assurance Model, Enterprise Risk Management, Whistleblowing Hotline. The Board has delegated to the Board Audit and Risk Committee to provide oversight of effectiveness of the NLC internal audit processes, performance management, the finance function as well as the integrity of the integrated report and the annual financial statements. The Board Audit and Risk Committee receives a detailed quarterly report on the progress of the internal audit function against its annual internal audit plan. The Board Audit and Risk Committee report is contained in the Corporate Governance Report.
STAKEHOLDER RELATIONSHIPS PRINCIPLE 16	STAKEHOLDERS
In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	Inter-governmental working relationships, capacity building and stakeholder engagements remains an essential component of NLC's continuous engagement model. Details of stakeholder relationships and stakeholder engagements are included in the integrated report.
PRINCIPLE 17	RESPONSIBILITIES OF INSTITUTIONAL INVESTORS
The governing body of an institutional investor organisation should ensure that responsible investment is practised by the organisation to promote good governance and the creation of value by the companies in which it invests.	This principle is not applicable due to the nature of organisation.

NLC corporate governance framework (continued)

Company Secretary

The Board reviewed and was satisfied that the skills, competence and experience of the Company Secretary adequately support the performance of the required duties in to the Board and that the office of the company secretary is empowered and that the position carries the necessary authority. The Company Secretary is not a member of the Board and has unfettered access to the Board whilst maintaining an arms-length relationship with the Board and its members.

Key value creating activities for 2017/18	Meeting attendance																																			
<ul style="list-style-type: none"> The Board developed the NLC's strategic objectives and concluded a process of identifying the NLC's risks and opportunities to guide the NLC's activities and to ensure the sustainability of the Commission and value creation for all stakeholders. The Board further monitored the performance of the organisation and submitted quarterly reports in this regard to the Minister of Trade and Industry. The NLC's objectives are articulated in the Strategic Plan and Annual Performance Plan detailed on pages 40 to 45 of the report and endorsed by the Minister Trade and Industry. As part of the stakeholder-inclusive approach adopted by the Board and embedded in the Lotteries Act and NLC strategy, the Board participated in numerous stakeholder engagements to gain insights into challenges faced by NLC stakeholders at large and develop practical strategies to address the needs, interests and expectations of NLC stakeholders. During the year, the Board engaged extensively with stakeholders depicted in pages 32 to 35. The outcomes of the stakeholder engagements informed the strategic direction and provided insight on how to capacitate stakeholders, resulting in improved efficiencies. The Board fully exercised their statutory functions resulting in the NLC meeting its performance targets and delivering on Ministerial priorities. The Board is satisfied with the level of engagement with its stakeholders. 	<p>The NLC Board comprises of seven members, including the chairperson. In terms of Board Charter, the Board must meet at least four times a year. During the financial year ended 31 March 2018, Board met on fifteen occasions. The table below shows the attendance of these meeting.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #cccccc;">Board member</th> <th style="background-color: #cccccc;">Role</th> <th style="background-color: #cccccc;">Quarterly meetings</th> <th style="background-color: #cccccc;">Special Board meeting and workshops</th> </tr> </thead> <tbody> <tr> <td>Prof NA Nevhutanda</td> <td>Chairperson</td> <td>3/3</td> <td>12/12</td> </tr> <tr> <td>Ms A Brown</td> <td>Member</td> <td>2/3</td> <td>11/12</td> </tr> <tr> <td>Ms TS Kekana</td> <td>Member</td> <td>2/3</td> <td>10/12</td> </tr> <tr> <td>Ms DLT Dondur</td> <td>Member</td> <td>3/3</td> <td>9/12</td> </tr> <tr> <td>Prof YN Gordhan</td> <td>Member</td> <td>3/3</td> <td>10/12</td> </tr> <tr> <td>Adv WE Huma</td> <td>Member</td> <td>2/3</td> <td>12/12</td> </tr> <tr> <td>Dr MA Madzivhandila</td> <td>Member</td> <td>3/3</td> <td>11/12</td> </tr> </tbody> </table> <p>Special board meeting and workshops include:</p> <ul style="list-style-type: none"> Board Induction Session Special Board Meeting (AFS Approval, National Lottery Matters and Urgent Reports) NLC and Ithuba RF(Pty) Ltd Joint Boards meetings Board Strategy Sessions Board Risk Workshops Board Policy Review Session 				Board member	Role	Quarterly meetings	Special Board meeting and workshops	Prof NA Nevhutanda	Chairperson	3/3	12/12	Ms A Brown	Member	2/3	11/12	Ms TS Kekana	Member	2/3	10/12	Ms DLT Dondur	Member	3/3	9/12	Prof YN Gordhan	Member	3/3	10/12	Adv WE Huma	Member	2/3	12/12	Dr MA Madzivhandila	Member	3/3	11/12
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REVIEW COMMITTEE

KEY FOCUS AREAS FOR 2018/19

Key value creating activities for 2017/18

The Review Committee is established in terms of Section 26H of the Lotteries Act. The Committee is chaired by the Chairperson of the NLC Board and reviews decisions of the Distributing Agency concerning applications for grants, only on application by an aggrieved applicant in the manner prescribed: Provided that such review shall be adjudicated by a Board committee set up for such purpose without delay.

If the Board overrules the decision of the Distributing Agency, the Board may either order the Distributing Agency to re- evaluate the application taking into consideration matters raised by the Board, or set aside the decision of the Distributing Agency and substitute it with an order the Board deems appropriate.

The Board reviewed applications that came before the Committee. The process of review assisted the Commission in mitigating against further judicial review, thorough interrogation of the reviewed applications and provision of recommendations designed to capacitate unsuccessful applicants. The detail of review applications is provided under the Legal Division section on pages 110 to 111. The Board Review Committee's activities are aligned to strategic objective one and three that are aimed at enhancing administration and ensure compliance with applicable legislation and prescripts as well as ensuring that relevant initiatives geared toward ensuring compliance with the Lotteries Act are implemented.

Meeting attendance

The Board Review Committee comprises of seven members, including the chairperson. During the financial year ended 31 March 2018, Board Review Committee met on ten occasions. The table below shows the attendance of these meeting.

Committee Member	Role	Meetings
Prof NA Nevhutanda	Chairperson	8/10
Ms A Brown	Member	7/10
Ms TS Kekana	Member	4/10
Ms DLT Dondur	Member	9/10
Prof YN Gordhan	Member	9/10
Adv WE Huma	Member	10/10
Dr MA Madzivhandila	Member	7/10

NLC corporate governance framework (continued)

BOARD AND DISTRIBUTING AGENCY COMMITTEE

In view of provisions stipulated in section 3(1)(d) of the Lotteries Act and the nature of matters for discussions, the Board and Distributing Agency Committee ('the Committee') was constituted to deal with Distributing Agency matters relating to the adjudication of applications for grants, the operations of the Distributing Agencies as matters relating to the Grant Funding mandate of the NLC.

The Lotteries Act, as amended, stipulates that Chairpersons of the Distributing Agency are ex-officio members of the Board with no voting rights and may only attend meetings of the board by invitation or if matters relating to the adjudication of applications for grants or distribution of grants are to be discussed.

Key value creating activities for 2017/18	Meeting attendance					
<ul style="list-style-type: none"> The Committee ensured that the Board determined the operational policy for the performance of all financial, administrative and clerical functions of the distributing agency and that the distributing agency adheres to any policy, directive or code of ethics approved by the Board and applicable within the public sector. The Committee was satisfied that Distributing Agencies performed their function independently and without fear, favour or prejudice which ensured the integrity of all applications adjudicated by the respective Distributing Agencies. During the year under review, Grant funding strategic, management and administrative processes were streamlined which ensured that the NLC becomes beneficiary centric in achieving its objectives within the prescribed turnaround times. The Committee's achievements were a direct contribution in ensuring the adjudication within the prescribed turnaround times and that the NLC does indeed fund for impact through continuous monitoring and evaluation of funded projects 	The Board and Distributing Agency Committee comprises five members. The Chairpersons of the Distributing Agencies are ex-officio members of the Committee. In terms of Board and Distributing Agency Charter, the Committee must meet at least four times a year. During the financial year ended 31 March 2018, the Committee met on five occasions. The table below shows the attendance of these meeting					
	Committee member	Role	Quarterly meetings	Special meetings	First quarter meeting with former members of the committee	
		Adv WE Huma	Chairperson	3/3	1/1	n/a
		Ms A Brown	Member	2/3	1/1	n/a
		Ms TS Kekana	Member	2/3	0/1	n/a
		Prof YN Gordhan	Member	3/3	1/1	n/a
		Prof NA Nevhutanda	Member	3/3	1/1	1/1
			Ex-Officio Member:			
			Chairperson -			
		Ms M Letoaba	ACNHDA	3/3	1/1	1/1
			Ex-Officio Member:			
			Deputy Chairperson			
		Mr T Ramagoma	-ACNHDA	3/3	1/1	1/1
			Ex-Officio Member:			
		Ms NP Loyilane	Chairperson - CDA	3/3	1/1	0/1
		Ex-Officio Member:				
	Mr E Ncula	Chairperson - SRDA	3/3	1/1	1/1	
		Ex-Officio Member:				
		Deputy Chairperson				
	Dr J Adams	- SRDA	0/3	0/1	0/1	
		Ex-Officio Member:				
	**Ms Kela	Former Chairperson - CDA	n/a	n/a	1/1	
		Former Chairperson of the Committee				
	**Prof G Reddy		n/a	n/a	1/1	

****Term of office ended**

- Special Meeting – Board and Distributing Agency Committee Policy Review Session

BOARD REGULATORY COMPLIANCE AND LEGAL COMMITTEE

The Board Regulatory Compliance and Legal Committee is a Committee charged with the duty to ensure that the Board advises the Minister on issuing the licence to conduct the National Lottery as well as ensure that the National Lottery and sports pools are conducted with all due propriety and strictly in accordance with the Constitution, the Lotteries Act, all other applicable law and the licence for the National Lottery together with any agreement pertaining to that licence. The Committee is also expected to provide assurance to the Board that the NLC is fulfilling its primary regulatory mandate, that is to ensure that the interests of every participant in the National Lottery are adequately protected.

Key value creating activities for 2017/18

Meeting attendance

- The Committee ensured the performance of the National Lottery and sports pools were conducted with all due propriety and strictly in accordance with the Constitution, the Lotteries Act, all other applicable laws and the licence for the National Lottery together with any agreement pertaining to that licence through quarterly monitoring and interrogation of reports and requests for approval by the Operator.
- The quarterly review of reports from the Operator as well as enhancement of the Deed of Trust of the National Lottery Participants Trust ensured that every participant in the National Lottery was adequately protected. The Board advised the Minister on the efficacy of legislation pertaining to lotteries and ancillary matters, particularly those derived from lessons learnt by the Board's exploratory/ benchmarking visit to European gaming regulators.
- The Committee continued to monitor the Legal division's activities and mitigate litigation risks. The Board adopted a consultative and developmental approach to delivery of administrative services to the public which has resulted in a decline in matters under litigation and ensured the NLC delivers administrative services in a fair and just manner.

The Board Regulatory Compliance Committee comprises of seven members. The membership of the Committee was reviewed during the year and increased from five to seven. In terms of Board Regulatory Compliance and Legal Charter, the Committee must meet at four times a year. During the financial year ended 31 March 2018, Committee convened on five occasions. The table below shows the attendance of these meeting.

Committee member	Role	Quarterly meetings	Special meetings	First quarter meeting with former members of the committee
Ms TS Kekana	Chairperson	3/3	1/1	1/1
Ms A Brown	Member	3/3	0/1	n/a
Ms DLT Dondur	Member	2/3	0/1	n/a
Prof YN Gordhan	Member	3/3	1/1	n/a
Dr MA Madzivhandila	Member	3/3	1/1	n/a
*Prof NA Nevhutanda	Member	1/3	1/1	n/a
*Adv WE Huma	Member	1/3	1/1	n/a
**Ms M Mokoka	Member	5/3	n/a	1/1
**Ms NP Loyilane	Member	5/3	n/a	1/1

* New members appointed during the year. The members attended two of the two meetings convened since taking up membership.

** Term of office ended

•Special Meeting - Board Regulatory Compliance and Legal Committee Policy Review Session

NLC corporate governance framework (continued)

Key value creating activities for 2017/18

- The activities of the Committee have resulted in achievement of all strategic objectives and performance targets detailed in the Regulatory Compliance Report on page 82, Legal Division Report on page 109 and Strategic Objectives on pages 40 to 47.

Compliance with laws and regulations

The Board recognises the role that compliance with applicable regulatory requirements plays in the governance and sustainability of the Commission and undertakes to subscribe to fundamental principles to ensure compliance with relevant legislation. In discharging its duties of ensuring that the Commission complies with legislation, the Board has committed the Commission shall conduct its business in accordance with applicable regulatory requirements and ensure that appropriate policies and frameworks are committed to promote a culture of compliance within the NLC. The Board Regulatory Compliance and Legal Committee is charged with a duty to ensure Organisational Compliance is maintained at an acceptable level and ensure that all instances of non-compliance are adequately followed up and resolved with sound and practical recommendations to business.

The Board reviewed and approved Organisational Compliance Policy and approved the regulatory universe of the NLC which comprises of 72 pieces of legislation. Of the 72 pieces of legislation, 13 represents core legislation, 36 secondary legislation and 23 topical legislation. For the 2017/2018 FY, the top ten legislations, which were determined in terms of applicability to the NLC and risk rating (impact on NLC reputation and value of fines imposed upon non-compliance) were identified as follows:

- Lotteries Amendment Act, Act 57 OF 1997
- Public Finance Management Act, No. 1 of 1999
- Preferential Procurement Policy Framework Act, No. 5 of 2000
- Prevention and Combating of Corrupt Activities Act, No. 12 of 2004
- Occupational Health and Safety Act, No. 85 of 1993
- Basic Conditions of Employment Act, No. 75 of 1997
- Employment Equity Act, No. 55 of 1998
- Protection of Personal Information Act, No. 4 of 2013
- Promotion of Access to Information Act, No. 2 of 2000
- Public Service Act No. 103 of 1994

Organisational Compliance monitoring was conducted whereby Act owners (divisional liaisons where Act are applicable) provided controls and processes with which the NLC ensure compliance with the requirements of relevant Acts. These controls and processes were assessed for correctness and validity through corroboration of supporting documents such as reports, policies, matrices, etc; and through enquiry with the relevant Act Owners.

Continuous monitoring of organisational compliance takes place on a quarterly basis and as determined by the Compliance Office to ensure that the NLC maintains acceptable levels of Compliance with these critical pieces of legislation.

Policies developed internally were also subjected to alignment by oversight committees including the Board, to ensure that they do not conflict with laws and regulations relevant to the NLC. Organisational processes and operations were carried out in such a way as to ensure compliance with applicable legislation in the areas of grant funding, lotteries compliance and enforcement, human resources management, financial management as well as information and communication technology.

There was no material or repeat regulatory penalties, sanctions or fines for non-compliance with statutory obligations and there were no environmental regulator inspections conducted during the period.

The Committee was satisfied that the NLC has complied with primary legislation governing the public entity, which are the Lotteries Act, as amended, and the Public Finance Management Act. Other applicable laws and regulations were complied with during the year under review.

The Committee will focus on the monitoring of legislation relating to the protection of personal information and cyber security.

BOARD HUMAN CAPITAL, SOCIAL AND ETHICS COMMITTEE

The Board Human Capital, Social and Ethics Committee is constituted to ensure that the NLC has a clearly articulated recruitment and remuneration philosophy and the design and implementation of remuneration structures that are market related, consistent, fair, legally compliant and equitable and the Board fulfils functions relating to its social and ethical environment, transformation objectives and employment equity as contemplated in relevant legislation and best practice.

Key value creating activities for 2017/18

During the period under review, the NLC reviewed its organisation-wide Remuneration Philosophy to ensure that the NLC remains attractive and becomes an “Employer of Choice”. The Committee reviewed the NLC’s organisational structure to ensure that the NLC achieves its mandate and improves service delivery. The Board approved the “Professionalisation of Grant Funding Division Programme” in a bid to empower employees for their new roles since migration to an Open Call operational and decentralized model. The re-alignment of the organisational structure, resulted in the appointment of the Chief Operations Officer and up-skilling occasioned the elimination of the backlog.

ETHICS MANAGEMENT

At the NLC, we aim to preserve the trust of our stakeholders by conducting our business ethically and protecting the public funds (received from the National Operator and distributed to not for profit/ non-profit organisations for good causes) against fraud and corruption. We believe that leadership based on ethical foundations results in a culture of ethical and moral behaviour and compliance with laws, rules, codes and standards. The Global Competitive Report 2017 – 2018 indicate that the most problematic factors for doing business in South Africa are corruption, fraud and theft. The Board therefore retains the responsibility to establish and maintain a culture of honesty, transparency, fairness, responsibility and accountability to position the NLC as regulator and funder of choice. Our internal stakeholders are guided by policies that facilitate ethical decision making during the ordinary course of business. The offering of favours to gain unfair commercial advantages is strictly prohibited.

During the current financial year, the Committee focused on and monitored NLC’s activities with respect to several matters including Workplace, Employee Wellness, Environment, Preferential Procurement and B-BBEE.

The NLC employees are guided by the NLC Ethics and Conduct Policy and Gift and Donations Policy (code). An abridged version of this is included in all supplier’s contract, grant agreements and the National Lottery Operator license. The same stakeholders are expected to abide by same level of ethics. The NLC code is available on the NLC intranet for all employees to access.

Meeting attendance

The Board Human Capital, Social & Ethics Committee comprises of four members, including the chairperson. In terms of the Board Charter, the committee must meet at least four a year. During the financial year ended 31 March 2018, the Committee convened on four occasions. The table below shows the attendance of these meeting.

Committee member	Role	Quarterly meetings	Special meetings
Ms TS Kekana	Chairperson	3/3	1/1
Ms A Brown	Member	3/3	0/1
Ms DLT Dondur	Member	2/3	0/1
Prof YN Gordhan	Member	3/3	1/1
Dr MA Madzivhandila	Member	3/3	1/1
*Prof NA Nevhutanda	Member	1/3	1/1
*Adv WE Huma	Member	1/3	1/1
**Ms M Mokoka	Member	5/3	n/a
**Ms NP Loyilane	Member	5/3	n/a

• Special Meeting - Board Human Capital, Social & Ethics Policy Review Session

HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

The NLC places utmost importance to the health and safety of its employees and the public. The Committee was satisfied with the assurance of the Compliance Division and Internal Audit The Commission complied with all the applicable health, safety and environmental laws and regulations. A building condition survey, which included fire rationale and detection, electrical networks reticulation, ceiling condition, internal and external air quality testing, air-conditioning / HVAC condition and hydrocarbon testing and water quality sampling was undertaken to evaluate compliance of NLC Head Office.

To comply with the provisions of the OHS Act to provide for the health and safety of personnel, visitors, consultants and contractors, the NLC has an approved OHS Policy and OHS Implementation Plan. An OHS Committee was appointed in line with the Act to monitor and foster compliance on health and safety issues and recommend appropriate steps to be taken to address risks and threats. Compliance with the Act has been monitored through a compliance register and risk register, which are presented to the Board periodically. Energy saving, light switching systems were successfully installed. The Board approved the acquisition of provincial office accommodation and the Committee is looking forward to the green initiatives that will emanate from these acquisitions.

During the period under review, there were no reported fatalities, however two injuries were recorded. The NLC has appointed SHE representatives of which 67% attended SHE representative functions training.

SOCIAL RESPONSIBILITY

The NLC’s core objectives are to promotion of social upliftment, therefore Social Responsibility is inherent in the NLC’s daily activities. In fostering the mission statement of being Catalysts for Social Upliftment, NLC employees participated in the Nelson Mandela Blanket Challenge where hand crocheted blankets were handed over to the Nelson Mandela Foundation.

NLC corporate governance framework (continued)

Key Value Creating Activities for 2017/18

The Ethics Office rolled out quarterly organisational ethics interventions and subsequently considered findings or outcomes of these initiatives. The code was review and approved by the Board during the course of March 2018. In the coming financial year the NLC will continue implementing its ethics strategy which will be aligned with the NLC sustainability business strategy. The NLC did not incur any fines during the year.

The four (4) organisation wide interventions, attended by all divisions and business units of the NLC had the themes indicated below.

Quarter 1: Conflict of interest

Members and employees are prohibited from using their positions or knowledge gained through their employment and or engagement with the NLC for private or personal advantage or in such a manner that a conflict arises between the NLC/NLDTF interest and their personal interest. Members and employees are responsible for identifying and addressing real or apparent conflict of interest in order to maintain the public's confidence and trust and to ensure accountability. Members and employees are further expected to disclose if they are conflicted annually, at Board and Distributing Agencies meetings and on becoming aware of such conflict.

In the case that a Distributing Agency member being an employee or serving on the Board or equivalent governing body of an applicant for NLDTF, the application from that applicant will be referred to another Distributing Agency for adjudication. The table of interests declared by the respective Distributing Agency members is indicated on pages 160 and 161 of the report.

In the period under review, all Board members and employees lodged their disclosures of interest and there were no material conflicts of interest were identified.

Meeting Attendance

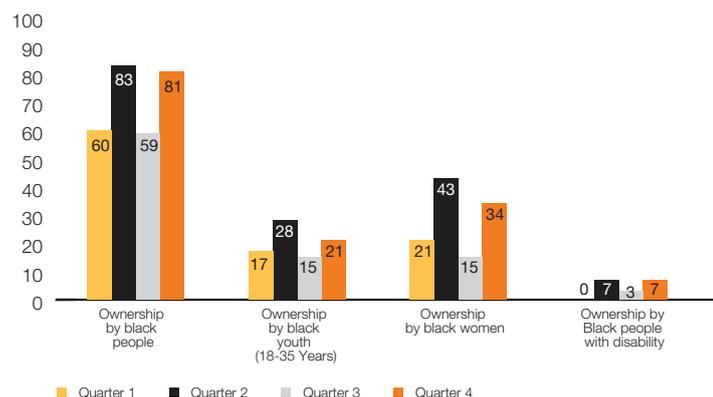
B-BBEE AND TRANSFORMATION

The NLC has a current overall Broad-Based BEE status of LEVEL 8 in terms of the Generic Specialised Generic Scorecard (Revised Codes) scorecard, and a BEE Procurement Recognition Level of 10% and a Broad-Based BEE Weighting points level in respect of:

Management control	16.64 points
Skills development	4.15 points
Enterprise and supplier development	31.32 points
Socio-economic development	5.00 points
Total	57.11 points

PREFERENTIAL PROCUREMENT PER DESIGNATED GROUP (SECTOR)

AS AT 31 MARCH '18



Key value creating activities for 2017/18

Gift Declarations

In terms of the Donations Policy, employees are required to electronically disclose all gifts received from suppliers, from any person who received a grant or intends to apply or has applied in terms of section 13, for a licence to conduct the National Lottery. The Ethics Office recorded a total of 73 gifts have been lodged in the period under review as follows.

Category	Total donated	Percentage
Beneficiaries	R9 400.00	43%
Service provider	R4 525.00	21%
Principled operator	R7 920.30	36%
Total	R 21 845.30	100%

Quarter 2: A Respectful Working Environment

Quarter 3: Compliance from a Legal Perspective

Quarter 4: Privacy, Confidentiality and Restraint of Trade

Other services provided by the ethics office included support in the form of evidence and interpretation on three NLC cases where employees contravened NLC policies. The ethics office was satisfied with level of compliance with Ethics and Conduct Policy and Gift and Donations Policy.

The NLC whistle-blowing Policy outlines the procedure for reporting suspected instances of corruption and ensures that employees are not victimised for coming forward. NLC also subscribes to a KPMG managed hotline for anonymous tip-offs. The CAE report provides further details in this regard.

NLC employees have the freedom to belong to recognised bargaining councils, in accordance to with the Labour Relations Act of South Africa. Human rights at NLC are dealt with in line with its internal policies and relevant legislation.

Information pertaining to the NLC standing on B-BBEE; Transformation, Skills; Health and Safety and Environment is elaborated as follows.

Remuneration report

The Strategy is built on establishing demanding key performance measures including financial and non-financial measures for executives to drive a performance culture through the business. The Strategic plan seeks to position NLC as the "Employer of Choice". To attract and retain high-calibre employees and deliver on its mandate, the NLC will offer employees a diverse, challenging and rewarding professional experience by means of competitive conditions of employment as well as opportunities to achieve career goals and develop the full potential of employees.

The intent of the Strategy is to:

- Provide market competitive levels of remuneration to the NLC staff and executives having regard to the level of work and the impact the NLC employees can potentially have on the performance of the organisation.
- Attract, motivate, reward and retain executives capable of delivering the business plan and substantially growing the organisation.
- Align performance incentives for both executives and staff with stakeholder interests.

Overview of NLC Remuneration policy

The NLC is a home for those employees who find fulfilment in contributing towards the socio-economic development of South Africa's people through poverty alleviation. The NLC will recognise employees who excel in this environment through a holistic and competitive total reward offering, attractive benefits as well as career development opportunities.

NLC corporate governance framework (continued)

Reward Philosophy

A reward philosophy consists of a set of beliefs which underpin the reward strategy of the organisation, govern reward policy and provide the foundation for the guiding principles which determine how the reward processes operate. Whilst the reward strategy and programs can change, the philosophy, like any organisation value system, is much more long-lasting in nature.

Reward Principles

The core reward principles are permanent and play a crucial role in guiding reward decisions, policies, processes and practices.

- **Internal Equity**

NLC endeavours to reward its people according to their role, contribution and worth as required by Labour Relations Amendment Act, 2014 (Act No 6 of 2014) EQUAL PAY FOR WORK OF EQUAL VALUE.

- **External Competitiveness**

The NLC will continuously benchmark the market to strategically position itself to ensure competitive total guaranteed packages for employees within the parameters of affordability.

Where the organisation attracts their skills from and where it can potentially lose its skills to, can be used as an indication of the labour market against which it can benchmark its salaries.

The NLC relative market position will always ensure that it is possible to retain and attract the core competencies required for organisation strategy achievement.

To this extent the organisation's pay scales are aligned to the market median/50th percentile benchmarked against the National All Industries sector for Executive, Management and staff.

- **Annual remuneration adjustments**

CPI, labour market trends, market movements and affordability will be considered to determine the overall salary increase percentage for the organisation. The distribution of the increases will however be based on the proficiency, value and performance of the individual, as determined by their contribution.

- **Reward for Performance**

The NLC endeavours to communicate and translate strategic objectives into earning opportunities for each employee or group of employees (teams) through the implementation of reward schemes, i.e incentives and recognition schemes. This result in linking reward to contracted outputs and results in line with business strategy.

NLC believes that its remuneration policy plays an essential, vital role in realising business strategy and therefore should be competitive in the markets in which it operates.

Elements of remuneration for Executive Management

The National Lotteries Commission operates on total cost-to-company (CTC) philosophy whereby cash remuneration, benefits (including a provident retirement fund, medical aid and other insured benefits) form part of employees' fixed total CTC remuneration. Senior management and executive directors also participate in short-term incentives in the form of a performance bonus plan.

The different components of remuneration, their objectives, the policy which governs it and their link to the business strategy are stated in the Remuneration Strategy.

Total Guaranteed Package Approach

The total value of reward is expressed as the total benefit to the individual as well as a cost to NLC. All elements of remuneration are calculated, and the total constitutes the total package. The individual can see the total benefit received from the organisation, it becomes easier to manage from a cost perspective (total picture) and is the only truly equitable way of managing reward because apples are compared with apples and performance impacts on the total package and not on parts thereof, namely the salary only.

Element	Types	Components	Objectives
Fixed pay (guaranteed)	<ul style="list-style-type: none"> • Fixed • Structured on cost-to-company basis • Benchmarked biannually against independent market data 	<ul style="list-style-type: none"> • Basic salary, retirement and medical aid benefits 	<ul style="list-style-type: none"> • Reflects scope and depth of role, experience required and level of responsibility

Board responsibility

The board carries ultimate responsibility for the remuneration policy. The remuneration committee operates in terms of a board-approved mandate. The board approves all remuneration related matters including new and amended salary structure and short-term incentive schemes and their design.

Role of benchmarking

To ensure that the NLC Reward remains competitive in the markets in which it operates, all elements of remuneration are subject to regular reviews against relevant market and peer data. Reviews are performed when required to benchmark the NLC's remuneration against the national South African market.

The policy aims at positioning the NLC as a preferred employer within the regulatory services. To retain flexibility and ensure fairness when directing human capital to those areas of the Group requiring focused attention, subjective performance assessments are required when evaluating employee contributions.

The Board Human Capital, Social and Ethics Committee is a Committee evaluates and monitors the remuneration philosophy and practices to ensure consistency with governance principles and corporate strategy. The Human Capital division implements the NLC board-approved remuneration policies to ensure:

- Salary structures and policies, cash as well as short-term incentives (STI), motivate superior performance and are linked to realistic performance objectives that support sustainable long-term business sustainability.
 - Stakeholders can make an informed assessment of reward practices and governance processes.
 - Compliance with all applicable laws and regulatory codes.

Performance bonus

The Board has reviewed and approved the Performance Management Policy which details the elements of the NLC's performance bonuses. Bonus payments are based on combined value of the employee's individual performance score and achievements of the NLC as an organisation against its own targets.

A performance bonus of up to 20% of the basic annual salary is payable to employees below management level and 20% of total package to managers and executives.

The qualification criteria is permanent employees of the NLC and employees on fixed-term contract five year contract) in the employ of the NLC for the financial year for at least four months and remained on the same level for the period.

Bonus maybe granted as follows:

Rating A	Rating B	Rating C	Rating D	Rating E	Rating F	Rating G
3.1 – 3.4	3.5 – 3.7	3.8 – 3.9	4.0 – 4.4	4.5 – 4.7	4.8 – 4.9	5
5%	7%	9%	13%	15%	18%	20%

The rating of an employee determines the percentage to be paid from the approved bonus percentage.

Formula for calculation of performance bonus as

$$\text{Performance Bonus} = \frac{\text{Employee Performance rating} \times \text{bonus percentage}}{\text{Maximum score in rating category}}$$

Annual Merit Salary

The Performance Management Policy also provides for the awarding of Annual Merit Salary increases awarded based on performance. The rating achieved on an overall rating for the year is used to determine the merit salary increases for employees.

NLC corporate governance framework (continued)

BOARD NOMINATIONS COMMITTEE

The Board Nominations Committee was established to ensure that the Board comprises the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibility objectively and independently.

Key value creating activities for 2017/18	Meeting attendance																							
<p>In line with the Board's vision to position the NLC for funding for impact. The Committee reviewed the Board's procedure manual, which has developed to establish a clearly defined outline of NLC Board and Committee remuneration levels and Board development. The Committee considered the Board's continuous development plan that enabled the Board to undertake an exploratory visit to other jurisdictions and formulate the outlook of the NLC to become a better regulator.</p>	<p>The Board Nominations Committee comprises seven members, including the chairperson. In terms of the committee Charter the Board must meet at least twice a year. During the financial year ended 31 March 2018, the Committee convened on two occasions. The table below shows the attendance of these meeting</p>																							
	<table border="1"> <thead> <tr> <th data-bbox="731 771 1072 806">Committee member</th> <th data-bbox="1072 771 1345 806">Role</th> <th data-bbox="1345 771 1451 806">Meetings</th> </tr> </thead> <tbody> <tr> <td data-bbox="731 806 1072 842">Prof YN Gordhan</td> <td data-bbox="1072 806 1345 842">Chairperson</td> <td data-bbox="1345 806 1451 842">2/2</td> </tr> <tr> <td data-bbox="731 842 1072 877">Ms A Brown</td> <td data-bbox="1072 842 1345 877">Member</td> <td data-bbox="1345 842 1451 877">2/2</td> </tr> <tr> <td data-bbox="731 877 1072 912">Ms TS Kekana</td> <td data-bbox="1072 877 1345 912">Member</td> <td data-bbox="1345 877 1451 912">1/2</td> </tr> <tr> <td data-bbox="731 912 1072 947">Ms DLT Dondur</td> <td data-bbox="1072 912 1345 947">Member</td> <td data-bbox="1345 912 1451 947">2/2</td> </tr> <tr> <td data-bbox="731 947 1072 983">Prof NA Nevhutanda</td> <td data-bbox="1072 947 1345 983">Member</td> <td data-bbox="1345 947 1451 983">2/2</td> </tr> <tr> <td data-bbox="731 983 1072 1025">Adv WE Huma</td> <td data-bbox="1072 983 1345 1025">Member</td> <td data-bbox="1345 983 1451 1025">2/2</td> </tr> </tbody> </table>	Committee member	Role	Meetings	Prof YN Gordhan	Chairperson	2/2	Ms A Brown	Member	2/2	Ms TS Kekana	Member	1/2	Ms DLT Dondur	Member	2/2	Prof NA Nevhutanda	Member	2/2	Adv WE Huma	Member	2/2		
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Adv WE Huma	Member	2/2																						
	<p>• Special Meeting - Board Nominations Committee Policy Review</p>																							

BOARD AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 31 MARCH 2018

The Board Audit and Risk Committee (audit committee) presents its report for the financial year ended 31 March 2018, as required by section 77 of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended by Act No. 29 of 1999) (PFMA) read with treasury regulation 27.1.10.

Members and attendance

The audit committee was established in accordance with sections 51(1)(a)(ii) and 77 of the PFMA. The audit committee charter requires that the audit committee comprises a minimum of three members, the majority of whom should be from outside the public service or the majority of whom should be non-executive members, although committee members need not all be members of the NLC Board. Members qualifications are detailed on pages 56 and 57.

The audit committee comprises four members, including the chair, Ms Doris Dondur. In terms of section 77(b) of the PFMA, the audit committee must meet at least twice a year. The Committee Charter makes provision for a minimum of four meetings per year. During the financial year ended 31 March 2018, the audit committee met on six occasions. The table below shows the attendance of these meetings.

Committee member	Role	Date of appointment qualifications	Quarterly meetings	Special meetings and workshops	First quarter meeting with former members of the committee
Ms DLT Dondur	Chairperson	See page 56	3/3	1/3	n/a
Prof YN Gordhan	Member	See page 57	3/3	3/3	n/a
Adv WE Huma	Member	See page 57	3/3	3/3	n/a
Dr MA Madzivhandila	Member	See page 56	3/3	3/3	n/a
Ms K Singh	Representative from the dti	B.Comt (Hons), CTA (Certificate of theory in Accounting), CIA (Certified Internal Auditor – through IIA Global), Post-graduate Diploma in Executive Development	2/3	1/3	0/1
Ms TS Kekana**	Former Member	See page 56	n/a	n/a	1/1
Ms M Mokoka**	Former Member	BCom (Hons) Post-graduate Diploma in Management Chartered Accountant (SA)	n/a	n/a	1/1
Ms Loyilane**	Former Member	BCom MPhil in disability studies	n/a	n/a	1/1
Mr Cowell**	Former Member	Bcom (Accounting and Business Administration) Chartered Accountant (SA)	n/a	n/a	1/1

**Term of office ended.

Special Board meeting and workshops include:

- Special meeting (AFS approval, National Lottery Participant Trust Workshop)
- Board policy review session

The members of the audit committee held meetings with the Board, senior management of the Commission, internal audit function and the external auditors, collectively and individually, on matters related to governance, internal control and risk in the Commission, throughout the reporting period. The committee Chairperson also participated in the annual audit committee Chairpersons Forum with the Minister of Trade and Industry to report on governance, internal control, risk, performance and financial information and other relevant matters concerning the Commission.

Audit committee's responsibility

The audit committee has complied with its responsibilities arising from the PFMA and reports that it operated in terms of the audit committee charter read in conjunction with the internal audit charter.

Effectiveness of internal control

The audit committee acknowledges management's efforts to strengthen internal controls in the Commission. The committee is satisfied with the current technical support, monitoring and evaluation by the internal audit function.

NLC corporate governance framework (continued)

The audit committee is satisfied that matters reported by the external auditors and the internal audit function in prior years have been fully and correctly addressed. Management has provided assurance that effective corrective action has been implemented and that the audit committee will monitor these matters going forward.

Vacancies will be filled prudently with properly qualified, skilled and experienced personnel and have not impaired the effective functioning of the system of internal control.

The NLC has adopted anti-corruption measures to curb potential fraud and corruption. The audit committee is satisfied with the prevention of fraud. The fraud risks have been tabled at each quarterly meeting of the audit committee.

Due to the strategic importance of, and investment in, the modernisation of information and communication technology (ICT) in the committee the audit committee has monitored the risk register and progress reports on the respective action plans during the year under review. The audit committee is comfortable that ICT risks are being addressed or mitigated, in implementing the new systems.

The quality of monthly and quarterly reports submitted in terms of the PFMA

The audit committee is satisfied with the content and quality quarterly reports prepared and issued during the year under review in compliance with the statutory framework.

The audit committee has reviewed and commented on the NLC's annual financial statements and report on performance information and their timely submission to the external auditors by 31 May 2018.

The audit committee has reviewed the reports issued to National Treasury and is satisfied that the Commission is meeting its obligations and have recognised revenue to the extent that conditions for that recognition have been met.

The audit committee is comfortable that the Minister of Trade and Industry is exercising its oversight responsibilities in terms of PFMA and ensuring that funds are utilised for the purpose as described in the PFMA, Lotteries Act and Annual Performance Plan.

Internal audit function

The Board is obliged, in terms of the PFMA, to ensure that the entity has a system of internal audit under the control and direction of the audit committee. The audit committee is satisfied that the internal audit function has properly discharged its functions and responsibilities during the year under review.

The capacity of the internal audit function has been enhanced through the investment in an electronic system. The audit committee expects these initiatives to contribute to the internal audit function becoming more efficient, more responsive to challenges and better able to provide audit reports of a high quality to management and the committee on a timely basis. The audit committee supports the direction that the internal audit function is adopting in providing the necessary skills and agility required for the function to respond quickly and effectively to the demands for internal audit across the Commission's different locations. The internal audit capacity was enhanced through co-sourcing sections of the internal audit function. The recent appointment of specialist ICT auditors is a welcome development considering the need for expertise in the auditing of automated systems and the development and maintenance of a system of continuous auditing.

The committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the Commission.

The audit committee is satisfied that the internal audit function maintains an effective internal quality assurance and programme that covers all aspects of the internal audit activity. The internal assessment indicates that all significant areas of non-conformance identified in the previous year's external quality assessment review have been rectified and thus a generally "conforms rating" can be applied to the internal audit work and the term "conforms with the International Standards for the Professional Practice of Internal Auditing" may be used by the function.

Risk management function

The audit committee is responsible for the oversight of the risk management function. The audit committee is satisfied that the risk function is adequately resourced and has delivered on its mandate. The committee has reviewed the risk register and the quarterly reports and is generally satisfied with the maturity of the risk management process.

Evaluation of the finance function

Overall, the audit committee is satisfied with the Commission's finance function during the year under review.

Performance management

Part of the responsibilities of the audit committee includes the review of performance management. The audit committee has in terms of the performance of the Commission performed the following functions:

- Review and comment on compliance with statutory requirements and performance management best practices and standards.
- Review and comment on the alignment of the annual performance plan, budget, strategic plan, corporate plan and performance agreements.
- Review and comment on the relevance of indicators to ensure that they are measurable and relate to services performed by the department public entity.
- Review of reported non-compliance with legislation
- Review of compliance with current year reporting requirements
- Review of the quarterly performance reports submitted by management
- Review and comment on the Commission's performance management system and making recommendations for its improvement.

The audit committee is satisfied that the performance report has been prepared in terms of the PFMA, the Treasury Regulations and any other related regulatory requirements for reporting performance.

Evaluation of the annual financial statements

The audit committee has reviewed the annual financial statements, which focused on the following:

- Significant financial reporting judgements and estimates contained in the annual financial statements.
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context.
- Quality and acceptability of, and any changes in, accounting policies and practices.
- Compliance with accounting standards and legal requirements.
- Significant adjustments and/or unadjusted differences resulting from the audit.
- Reflection of unusual circumstances or events and management's explanation for the accounting treatment adopted.
- Reasons for major year-on-year fluctuations.
- Asset valuations and revaluations.
- Calculation and levels of general and specific provisions.
- Write-offs and reserve transfers.
- The basis for the going concern assumption, including any financial sustainability risks and issues.

The audit committee is comfortable that the annual financial statements have been prepared in terms of GRAP and the PFMA.

The committee provided oversight over the NLPT, who report to the committee on a quarterly basis. The committee noted and was satisfied with the performance and clean audit opinion of the NLPT. The committee had sight of the NLC's consolidated annual financial statement including NLPT, notwithstanding that this set of financial statements could not be audited by AGSA due to misalignment of the NLC and NLPT audit cycles. The consolidated audited financial statements thus only include the NLC and the NLDF.

The audit committee accepts the external audit report on the reported performance information and compliance with legislation. Whilst we accept the external audit report, the committee is of the view that further engagement with the Executive Authority and Auditor-General of South Africa is necessary, pursuant to the consolidation of the NLPT.



Ms D Dondur

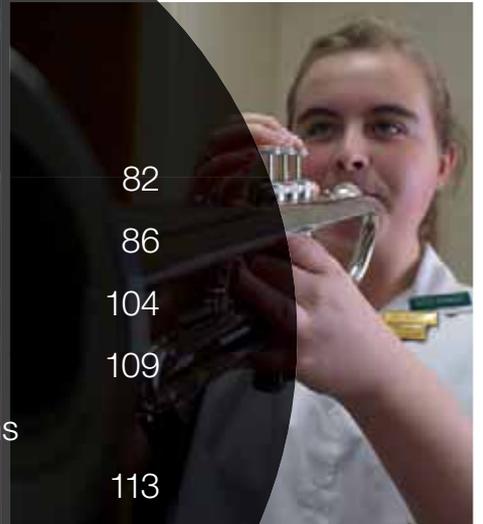
Board Audit and Risk Committee Chair

31 July 2018

PART D

DIVISIONAL REPORTS





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Divisional reports

REGULATORY COMPLIANCE

Strategic objective:  , Programme 2 detailed on page 42

Performance:

- 96% of identified and reported illegal lotteries investigated
- feasibility study to determine the regulation of illegal lotteries
- implement and monitor compliance with the licence conditions

The NLC's responsibilities in regulating the National Lottery, as set out in the Act and applicable regulations, are as follows:

NATIONAL LOTTERY REGULATION

Central to the mandate of the NLC is the regulation of the National Lottery. A Licence to Operate the National Lottery was awarded to Ithuba in 2015, in terms of the Lotteries Act No. 57 of 1997, as amended. The NLC's responsibilities in regulating the National Lottery, as set out in the Act and applicable regulations, are as follows:

- Advise the Minister on the issuing of the Licence to conduct the National Lottery;
- Ensure that the National Lottery and Sports Pools are conducted with all due propriety;
- Ensure that interests of every participant in the National Lottery are adequately protected;
- Ensure that net proceeds of the National Lottery are as large as possible;
- Advise the Minister on the efficacy of legislation pertaining to lotteries and ancillary matters;
- Advise the Minister on establishing and implementing a social responsibility programme in respect of lotteries;
- Make such arrangements as may be specified in the Licence for the protection of prize monies and sums for distribution; and
- Advise the Minister on any matter relating to the National Lottery and other lotteries or any other matter on which the Minister requires the advice of the Board;

As part of the ongoing regulatory work and delivering on the Annual Performance Plan target for the period under review, the following was conducted in regulating and ensuring the Operator's compliance with, and performance against, the Licence Agreement and the Act:

Ensuring that all persons that run or are associated with running the National Lottery are fit and proper

All directors and staff of the Operator, together with Retailers who sell National Lottery tickets are vetted. The NLC also ensures that key contractors that conduct business with the Operator are also vetted to ensure that the integrity of the National Lottery is maintained and players are protected.

Regulatory approvals and ministerial advice

The NLC receives proposals from the Operator for new games or changes to existing games, introduction of alternate channels of play and amendments to game rules and prize pay-out structures. These proposals are assessed and approved by the Board as required in the Act and the Licence Agreement.

Various proposals were submitted by the Operator during the year under review and the necessary approvals were granted once compliance with the Act and Licence Agreement was verified. Before recommending approval on any proposals, the NLC considers the following issues:

- player protection
- projected returns to good causes
- protecting player funds
- legality
- impact on the National Lottery brand and intellectual property
- rationale for the design of the game
- marketing plan and market research analysis in respect of the game
- analysis of competing products, such as promotional competitions, Society Lotteries and other games of chance.

Protecting National Lottery players

Protecting players is central to our regulatory mandate. The following are some of the important activities we perform to protect players:

- ensuring that the Operator pays prizes promptly by conducting regular reviews of payments to prize winners;
- protecting players against possible fraud, by checking that the Operator implements appropriate security measures to verify the identity of winners who claim prizes;
- conducting reviews to ensure that the Operator protects the anonymity of winners, in line with Licence requirements;
- approving and monitoring descriptions and procedures for key processes (e.g. draws and prize payments);
- ensuring that clear information is available to players, including information on games available, how to play and how to claim prizes;
- handling complaints from players should they be unhappy with the service they have received from either a Retailer or the Operator, after having exhausted the Operator's complaints handling procedures;
- ensuring that there are controls in place to protect players against excessive play; and
- ensuring that there are controls in place to protect against underage play.

Ensuring that National Lottery draws are fair

Through inspections, reviews, certification and testing:

- we have ensured that all draws are fair, number selection is random and results are accurately recorded;
- approved procedures that govern the way in which National Lottery draws are carried out are implemented accordingly;
- every draw is overseen by Independent Auditors who also provide assurance that the draw is carried out properly in line with approved procedures;
- the Operator is required to carry out periodic tests and re-accreditation of draw equipment/systems to ensure randomness of draw results; and
- the recently adopted Random Number Generator (RNG) is independently tested and accredited for randomness and independence.

Monitoring of payments to the National Lottery Distribution Trust Fund (NLDTF)

We have ensured that the proportion of National Lottery ticket sales that goes to good causes, as well as any other prescribed payments, are transferred from the Operator to the NLDTF in accordance with timelines specified in the Licence.

For the period under review, we verified that the Operator's payments are complete and accurate.

Monitoring Operator computer gaming systems through Independent Verification Systems (IVS)

The NLC monitors the reliability, security and efficiency of the National Lottery's central gaming system and network of terminals to ensure that every National Lottery ticket bought is properly recorded and included in the relevant draw.

The system allows the NLC to agree sales figures and prize shares and make certain that the number of winners and prize amounts are accurate after each draw. The system also enables the NLC to confirm that monies due to good causes are correctly determined.

Monitoring of protection and payment of prize winners

During period under review following was monitored and verified:

- that the right prize allocation has been made and paid across all games.
- that the Operator transfers prize money won, but not yet claimed, into the Participants Trust Fund, to keep it secure for future prize claims.
- that unclaimed and expired prizes are transferred to the NLDTF. These are prizes that have not been claimed within 365 days after the draw date.

Protection of the National Lottery Brand and integrity of the National Lottery

We have monitored the National Lottery website and other media to ensure integrity of the National Lottery information displayed therein. We also verified that Trade Marks, Copyright and National Lottery logos properly appear on all National Lottery materials displayed or made available to the public. This is to ensure that players are able to tell the difference between the National Lottery and other gambling products available in the market.

Divisional reports (continued)

Retailer inspections were regularly conducted to ensure that Retailers comply with regulatory requirements, which include, amongst others, the following:

- that Retailers do not sell National Lottery tickets to persons under the age of 18;
- that all National Lottery retailers know and enforce controls to prevent excessive play; and
- physical security inspections and system security reviews and tests were performed to ensure reliability, security and availability of all National Lottery systems and products.

Monitoring the implementation of Social Responsibility Programme, B-BBEE, Supplier Development initiatives, Localisation and economic empowerment requirements

The Act and Licence Agreement stipulates that the Operator shall initiate and support opportunities for social and economic empowerment, affirmative action, employment equity and representation, training and skills development, promotion of small businesses and job creation, advancement of women in business, as well as winners counselling and financial advice.

The Operator is also required to show commitment to and comply with all B-BBEE legislation and undertake to localise its procurement of goods and services to the extent that it is reasonably possible, without having a detrimental effect on the running of the National Lottery.

The Operator has submitted the required progress reports on the above initiatives and the NLC has verified the information reported.

Complaints about the National Lottery

The NLC has also handled complaints raised in connection with the National Lottery. Complaints are reported to the NLC as escalation after exhausting the Operator's complaints handling processes. However, the NLC accepts all complaints and forwards to the Operator all those that require to be preliminary handled by it. A follow-up is conducted to ensure that all complaints are adequately handled by the Operator in line with Licence requirements.

LOTTERIES COMPLIANCE AND ENFORCEMENT

Society lotteries

The Act permits Non-profit Organisations (NPOs) to raise funds through lotteries. Interested NPOs are required to register with the NLC. Through our education and awareness initiatives on this opportunity, we have noted an increase in organisations registering as societies. On registration as a society, the society is eligible to submit a lottery scheme to the NLC for registration. The Act allows an NPO to operate up to six schemes in a year raising a maximum of R2 million per scheme.

The Act authorises the NLC to conduct inspections to determine and ensure that society lottery activities are conducted in line with the Act. The summary of society lotteries related activities conducted during the year is indicated below:

Society lotteries	Statistics
Number of societies registered	13
Number of schemes registered	65
Number of exemptions granted	04
Number of compliance inspections conducted	26
Number of compliance seminars held	27

The summary of revenue generated by the 65 schemes licenced by the NLC is reflected below:

Month	Actual proceeds 2017/18 (65 schemes) (R)	Actual proceeds 2016/17 (49 schemes) (R)
April	1 509 089.85	1 984 658.46
May	611 700.00	705 125.00
June	310 170.00	108 230.00
July	1 795 370.00	613 792.00
August	44 000.00	818 117.00
September	591 600.00	1 154 100.00
October	804 910.00	114 800.00
November	3 982 545.00	2 562 280.00
December	214 718.00	3 554 410.10
January	3 255 138.07	651 976.00
February	1 524 450.00	405 270.00
March	5 496 325.00	1 336 113.70
Total	20 140 015.92	14 008 872.26

Our focus for the new financial year will be to continue with creating awareness on society lotteries and assisting NPOs who wish to run such schemes in complying with the Act.

Illegal lotteries and schemes

As part of our enforcement mandate, we identified and were informed of various forms of schemes that were advertised requiring public participation. It is only through detailed legal analysis that we were able to ascertain whether or not such schemes were lotteries, and if so, whether they were permitted in terms of the Act or were conducted without prior approval of the Board, which would render them illegal.

Society lotteries that were non-compliant with the Act were identified. These were mainly run by profit-making companies with the assertion made that some of the proceeds from such schemes would benefit NPOs. We were successful in having such schemes declared illegal as they were contrary to the Act. These schemes were subsequently discontinued.

Competitions that were run as promotional competitions, but not in compliance with requirements of the Consumer Protection Act, were also identified as a form of illegal lotteries. Three major companies operating in South Africa had such competitions declared as illegal lotteries and the companies were instructed to discontinue competitions. These are considered to be key achievements for the NLC for the year under review, in delivering on our mandate of monitoring, regulating and enforcing on lotteries. Below is a table summarising the number of investigations conducted for the year:

Illegal lotteries	Statistics
Number of cases investigated	108
Number of cases closed	90

Feasibility study on the regulation of illegal lotteries

Following the research conducted in 2016 to identify and assess the impact of illegal lotteries in South Africa, we conducted a feasibility study to ascertain whether such identified illegal lotteries can be regulated.

The objectives of the study were to:

- determine the feasibility of legalising illegal lotteries;
- outline the pros and cons of regulating such schemes;
- explore the views of industry stakeholders;
- benchmark/analysis of other international jurisdictions on regulation of similar schemes; and
- outline the key issues that policy and legislation should address.

Findings from the feasibility study are still to be discussed with **the dti** before making them available to the public.

The NLC participated in the National Gambling Amendment Bill discussions. Our comments were submitted regarding the exclusion of the National Lottery from the definition of a contingency on which bets can be taken, which we support.

The NLC is committed to discharging its regulatory mandate through applying compliance and enforcement principles of transparency in our processes, ensuring confidentiality of information relating to the National Lottery and other lotteries, timely investigation of any illegal schemes, consistency and fairness in the application of the Act and other laws.

Divisional reports (continued)

OPERATIONS DIVISION

Strategic Objective:  and , Programme 1 detailed on pages 41 to 43

, Programme 3 detailed on pages 44 and 45

Performance:

- The knowledge hub was developed
- 182 stakeholder engagements conducted
- 81% of applications were adjudicated within the legislated 150 days
- Minimum of 5% grant funding allocated to each province achieved
- 2 333 monitoring and evaluation site visits conducted
- Conduct impact evaluation study in five provinces

Apart from developing a better understanding of local needs, the NLC is committed to the optimisation of beneficiary support. To achieve impact in funding organisational capabilities such as a programmatic approach as well as results based management are being developed. A programme approach recognises that development takes place through interconnected actions within a specified geographical location. It further recognises that there may be multiple needs that are often better addressed by multiple actors. Development is not a linear occurrence but a cross pollination of multivariate factors coalescing to produce desired change. A programme approach is better positioned to impact various socio economic and political factors which produce a “defective” social system in a specific environment. Adopting a programming approach goes some way in unearthing the underlying factors which produce the social conditions that grant funding aims to address. The conceptual relationship between funding for impact and beneficiary-centricity is a causal one. Beneficiary-centricity is one of the key interventions undertaken by the NLC to enable more impactful funding. Beneficiary-centricity is therefore one of the strategic and operational capabilities have been developed by the NLC to achieve impact in funding. The NLC’s vision is to be a catalyst for social upliftment with a brand promise of “changing lives.” The broad societal impact that we aim to Funding for Impact beyond financially sustaining the organisations that we fund but to change lives of our beneficiaries as well as the communities in which they live.

In the NLC’s quest to be beneficiary centric and optimise operational efficiencies, the Board approved the realignment of the executive structure for operational effectiveness. This resulted in the establishment of the Operations Division headed by the Chief Operations Officer. The division comprises of all nine (9) Provincial Offices, Grant Funding, and Business Development Department. The Operations Division serves as a strategic enabler for the smooth running of the organisations’ operations with the goal of ensuring that set organisational objectives are accomplished efficiently and economically.

Having noted the decline in revenues generated from the proceeds of the National Lottery, the NLC sharpened its focus in ensuring the highest return on investments by funding high-quality, high-impact and beneficiary-driven projects. This was achieved through the review and implementation of the Standard Operating Procedures (SOPs), Assessment Tools, and Adjudication Matrix.

During the year under review, the unit ensured compliance with the amended Lotteries Act focussing mostly on compliance to legislated time-frames such as finalisation of adjudication within hundred and fifty (150) days from the date of receipt of application, notification of the applicants about the outcome of adjudication within thirty (30) days from the date of adjudication, payments of grants within sixty (60) days from the date of receipt of compliant Grant Agreement. Following the permanent appointment of Arts, Culture, Environment and National Heritage Distributing Agency in 2016/17 financial year, the Charities Distributing Agency was subsequently appointed within the year under review. The appointment of Sports and Recreation Distributing Agency is yet to be finalised by the dti. All the permanent and part-time Distributing Agency have been adequately integrated into the grant funding value chain. Significant progress was made in the roll-out of Education and Awareness programmes to empower both prospective and current beneficiaries. More than 2 300 Education and Awareness programmes were rolled-out across all provinces. These resulted in the improvement on the quality of applications and progress reports received. The pro-active funding model was adequately rolled-out within the current financial year focussing on funding of infrastructure projects such as Old-Age Homes, Sporting Facilities etc. in historically disadvantaged areas. In responding to the current challenges facing the tertiary education sector, the Board has approved an investment in the tertiary education sector. The investment will be rolled-out in the next financial year.

Monitoring and Evaluation

The NLC in its endeavour to monitor and measure the impact of funding, conducted 2 333 monitoring and evaluations site visits in all provinces. Over and above, impact evaluation studies were conducted in all provinces to determine the impact of NLDTF funding. From the projects visited, 14 414 jobs were created through NLDTF funding. Of the total jobs that were created 1 501 were for the youth. This interface with beneficiaries did not only focus on the appropriate utilisation of funds but also on the capacitation of beneficiaries assisting them to properly implement their projects. During the period under review, the M & E unit also extended its focus on the tracking of progress in the implementation of the Early Childhood Development (ECD) Legacy Project. To holistically intervene, the ECDs were also funded for training and development of which 709 practitioners have since obtained qualifications ranging from NQF 1 to NQF 4. In terms of the secondary beneficiaries, a total of 743 091 people have been reported to have either been served or reached with various services offered by NLC beneficiaries during the year under

review. These are beneficiaries that have directly benefited from NLC funded programs or projects. A clear statistical breakdown is shown on the tables below.

Research and Development

The Research and Development Unit was established during the period under review to support the organisation in evidence based decision making. As a foundation, the unit equipped itself with the appointment of a panel of researchers from various research institutions to assist with implementation of the research agenda and any other research requests as necessary. A knowledge audit was also completed toward the goal of creating a Knowledge Management Hub for the benefit of internal and external stakeholders.

Stakeholder Relations

Capacitating beneficiaries with the skills necessary to run their projects optimally has been a mainstay of NLC Indaba resolutions since 2013. A pilot project has since been launched to equip beneficiaries of funding with skills at an NQF Level 4 that would empower them in the areas of Governance, Financial management, Procurement, and Contract management. Provide by SETA-accredited service providers, the initial roll-out in North West, Free State, Mpumalanga and the Northern Cape saw 159 beneficiaries emerge as graduates. Key stakeholders both at a national and provincial level were engaged throughout the year. The engagement at national level included amongst others the 2017 National Indaba which was held under the theme "Funding for Impact".

The National Indaba is a forum where the leadership and decision-makers of the NLC interacted with beneficiaries and stakeholders from around the country at a central location, in line with the provisions of the Lotteries Act to educate the public about its mandate. The Indaba took place from the 20th to the 22nd September 2017 and it comprised workshops, exhibitions, awards ceremonies, a gala dinner and stakeholder engagement sessions where resolutions were drawn up and agreed upon. The National Indaba was followed by Post Indaba Stakeholder Engagement (PISE) at a provincial level. More than 1 000 stakeholders attended the National Indaba while 800 stakeholders attended the PISE.

Stakeholder engagement and Education and Awareness Conducted

Quarters	Number stakeholder engagement	Number education and awareness	Estimated number of attendees
Q1	6	108	3 034
Q2	6	24	1 274
Q3	2	26	1 257
Q4	5	5	800
Total	19	163	6 365

Type of stakeholder engagement	Key focus areas	Action taken to monitor the effectiveness of stakeholder management	Future areas of focus
NLC beneficiary Capacity Building Programme	Providing training and mentorship to beneficiaries through an accredited service provider	Impact analysis/Post-training survey and interviews to measure efficiency of the programme	Train the trainer programme to be introduced
NLC Stakeholder Indaba	Stakeholder engagement focusing on funding requirements, funding for impact and the entrenchment of the new key priority areas for funding.	Monitoring and evaluation of funded projects through M&E unit and provincial offices	Positioning NLC as regulator
Education and Awareness roadshows	Extensive programme of engagement with beneficiaries on application processes, illegal gambling and society lotteries	Stakeholder evaluation/survey to measure the effectiveness of these engagements	Partnerships with other Funding organisations, the dti and institutions of learning
Post Indaba Stakeholder Engagements (PISE)	Feedback on the PISE Resolutions. Stakeholder engagement focusing on funding requirements, funding for impact and the entrenchment of the new key priority areas for funding.	Stakeholder evaluation/survey to measure the effectiveness of these engagements	Positioning NLC as regulator

Divisional reports (continued)

Marketing and Communications

Tasked with building and protecting the brand of the NLC, positioning it as a regulator and a funder, this unit oversees the branding, marketing, and information needs of the NLC. The amendment of the Lotteries Act and related changes to NLC processes revealed a bouquet of issues to be addressed through the communication strategy and education and awareness programmes. Reports across various media revealed that there was limited understanding of the regulations to the amended Act. This led to collaboration between NLC and the dti to unpack and translate the regulations. In terms of Media monitoring during the year, a total of 1 046 items across print, online and broadcast media were monitored of which 71% carried a positive tone whilst 4.7% carried a negative tone. Over and above 24, 2 % also revealed an increase compared to previous years of news items that carried a neutral tone – an area of opportunity for the organisation to engage the media in particular as a stakeholder group and enhance education and awareness of NLC processes.

Most of news items were carried online, which is not geo-specific. 14% were related to national issues whilst 11% were directly related to the Western Cape Province. The Mpumalanga province had the least coverage at 1%. The majority of the issues covered in the media are summarised below:

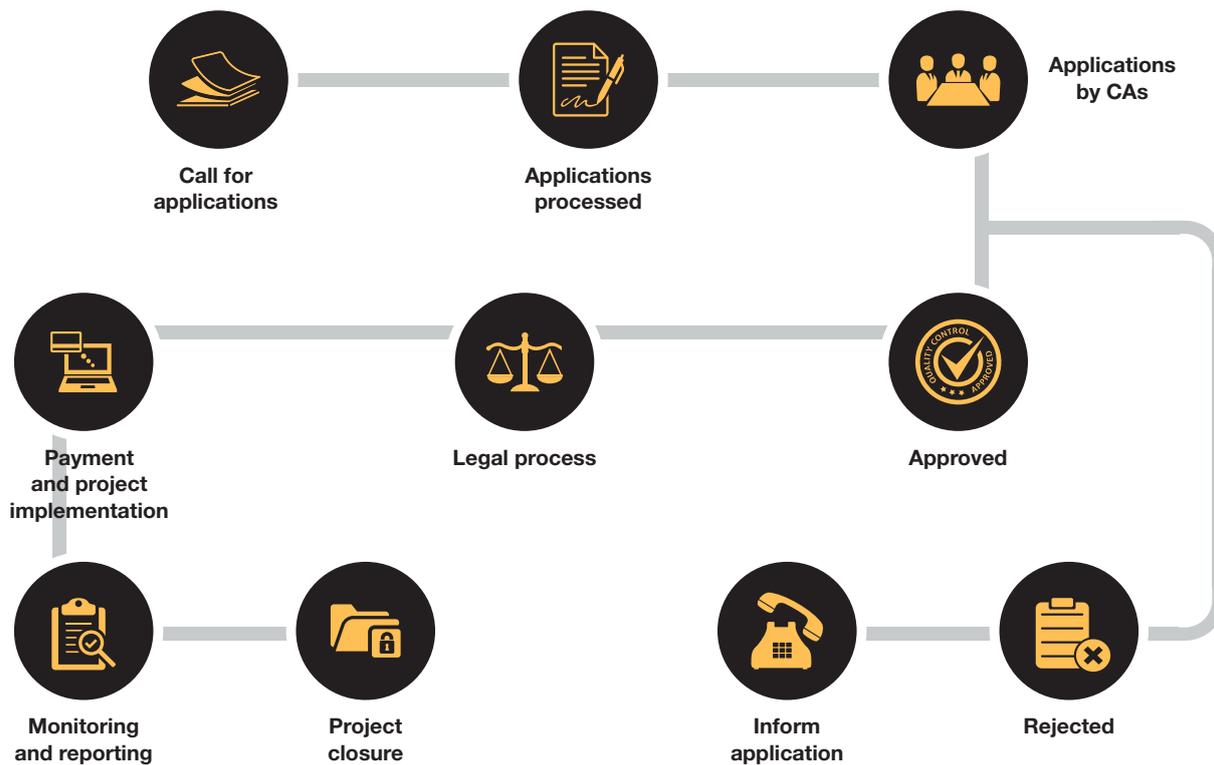
Negative Coverage	Positive Coverage
Relating to Priority Funding Areas.	Funding for Impact Stories
Regulations 14 – Cooling-Off period – Discussed in detail in the Legal Division report on page 109	Stakeholder Engagements including Indaba and Post Indaba Stakeholder Engagements
Part II, Regulation 10 relating to conduit applications – discussed in detail in the Legal Division report on page 109	
Section 2A of the Lotteries Act relating to Pro-Active Funding – discussed in detail in the Operations Division report on pages 89 and 90.	

Grant Funding

The NLC Grant Funding model is designed to promote and support the NLC’s strategic mandate by responding to socio-economic 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. The Funding Model is underpinned by Strategic Planning and Research

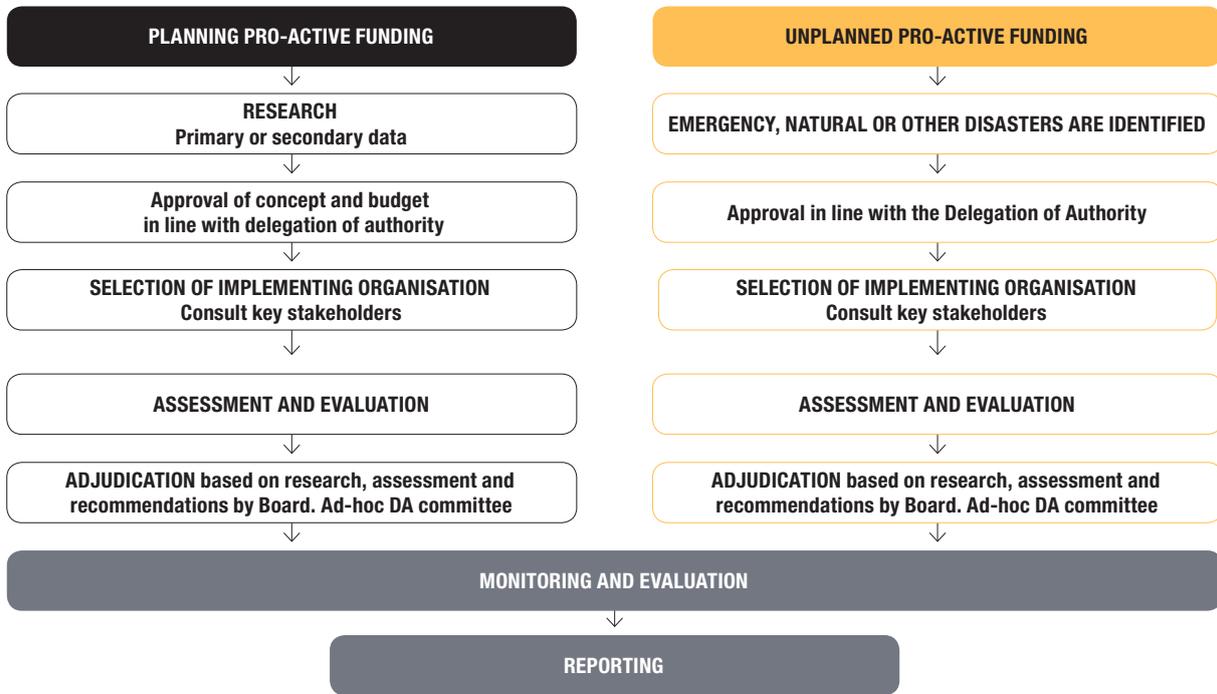
The NLC’s funding model is made up of Application-based funding and Proactive Funding.

- The NLC application based funding operates on an open call for applications. Guidelines and criteria on focus areas for the year are reviewed annually and published in media publications and found on the NLC’s website as well as NLC offices. Compliant applications are assessed against strategically formulated criteria and guidelines, which constitute the key point of reference for success and impact. The application process is illustrated below:



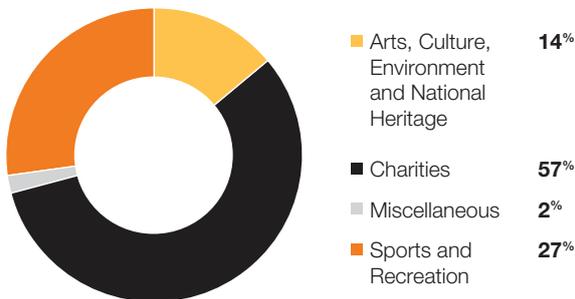
- Proactive funding is a model wherein the broad project idea originates from the Commission, the Minister and the Board based on research
- All NLC funded projects are subject to monitoring and evaluation for to maximise impact of funding granted for good causes

Divisional reports (continued)

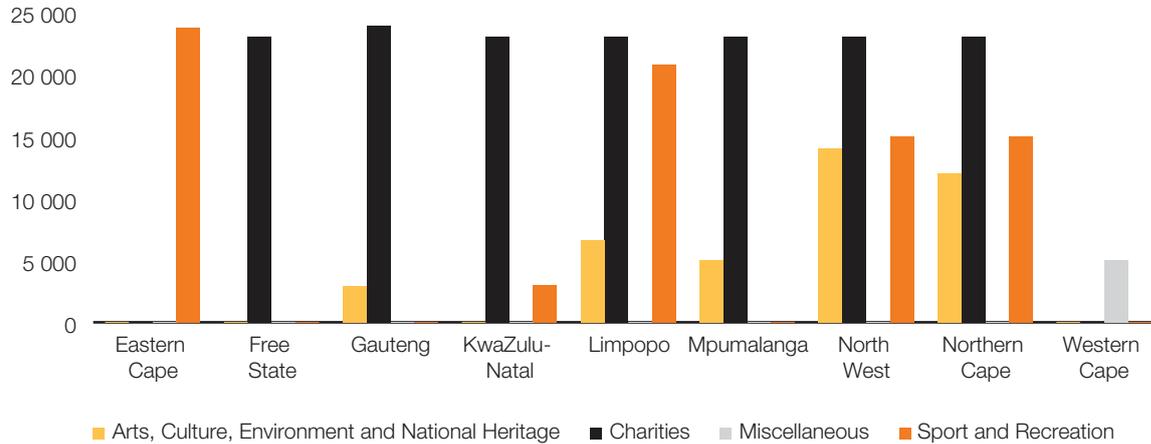


The NLC proactively funded 20 projects amounting to R284 872 798. The majority of projects funded under pro-active funding were in the Charities Sector at 57% followed by Sports at 27%, Arts and Miscellaneous at 14% and 2% respectively. Most of the funding under the Charities Sector was for the construction of Old Age Homes and a Drug Rehabilitation Center while most of the funding for the Sports Sector related to the construction of Multisport Facilities. Majority of funding for Arts Sector was for the construction of Library, Museum and Cultural Village while Miscellaneous funding was for the drilling of boreholes in areas affected by drought. The above charts further indicate that Limpopo, Northern Cape and North West collectively received 54% of the pro-active funding budget followed by Mpumalanga at 10%, Gauteng and KwaZulu-Natal at 9% each. The above charts shows the NLC commitment of funding high-impact projects with the limited funding at hand. From the total allocated budget for pro-active funding, 93% was spent on infrastructure project.

NLC PRO-ACTIVE FUNDING PER SECTOR 2017/18



COMBINATION OF NLC PRO-ACTIVE FUNDING PER SECTOR AND PROVINCE 2017/18



NLC PRO-ACTIVE FUNDING: INFRASTRUCTURE V/S NON-INFRASTRUCTURE 2017/18



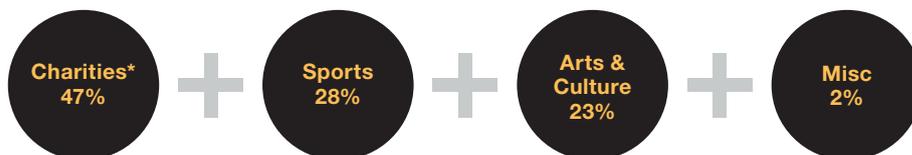
FUNDING FOR IMPACT

The NLC has revised the underpinning philosophy of its funding model based on “Funding for Impact”. This calls for a much more systematic and deliberate approach to grant making that enables the NLC to do more with less. It is the provision of funding to targeted projects and programmes that are catalytic in nature that lead to measurable, positive social change and community upliftment.

The Lotteries Act, as amended, stipulates that funds shall be held in the NLDTF for distribution by the Commission. The distribution of the allocated sum shall be fairly and equitably made amongst all persons who meet the prescribed requirements. A list of all NLDTF funded project is available on the NLC website:



Lotto Funded (NLDTF) Distribution
Make payments to good causes



Divisional reports (continued)

Arts, Culture and Natural Heritage - Uplifting Society Through The Arts	Charities - Protecting The Vulnerable	Sport and Recreation - Funding A Winning Nation	Miscellaneous Purposes
<p>The NLC promotes the preservation and development of arts, culture and heritage to empower communities to help themselves and enable artists to showcase their work internationally.</p> <p>This sector funds the development of the arts and the preservation of South African culture and national heritage. The concept of national heritage is a broad one, which includes our natural environmental heritage as well as historical and architectural heritage.</p> <p>In general, applications are welcomed from organisations that:</p> <ul style="list-style-type: none"> • Enable people across the country to enjoy a range of activities of arts. • Make arts accessible to more people. • Improve facilities so people get more enjoyment from the arts. • Provide arts facilities outside major cultural centres. • Promote art forms that are not adequately supported. • Preserve and promote awareness of culture and our historical, natural and architectural heritage 	<p>The NLC acts a catalyst for eradicating poverty and reducing inequality in South Africa, channeling 47% of its annual budget for distribution of funds to a range of good causes</p> <p>The Charities Sector receives the largest share of funds and covers a wide range of organisations in the social welfare, community health, literacy, and social development fields.</p> <p>Organisations can apply for funds if their activities:</p> <ul style="list-style-type: none"> • Improve the quality of life of the community as a whole. • Assist disadvantaged or excluded groups, such as the elderly, people with disabilities and vulnerable children. • Provide facilities or services for the underprivileged. 	<p>The NLC is committed to sports development from grassroots level, and to building a healthy, winning nation.</p> <p>Equity, access and development are key themes in this sector which accepts applications from national sporting bodies, regional bodies, local sports clubs, recreational clubs and schools.</p> <p>The Sport and Recreation Distributing Agency considers funding for organisations that:</p> <ul style="list-style-type: none"> • Enable more people to become involved in sports and recreation. • Assist disadvantaged communities to participate in sports and recreation activities. • Provide sports and recreation facilities that are accessible to communities. 	<p>Trade and Industry in the Regulations on “Direction for Distribution Agencies in determining the distribution of funds from the National Lottery Distribution Trust Fund”.</p> <ul style="list-style-type: none"> • Projects that aim to address emergency situations, disasters and catastrophic events • Special projects/events that occur outside the various sectors’ normal call for applications. • Projects that fall outside the scope of Arts, Culture, Environment and National Heritage, Charities and Sports and Recreations sectors or straddle across the three sectors. In the case of the latter the project proposal will need to clearly demonstrate an integration of the different sector components into a holistic project outcome/deliverables. • The potential applicant must show that it aims to improve the quality of life of people and communities who are disadvantaged by poverty or social exclusion. • They need to indicate that projects undertaken or to be undertaken will promote social inclusion and encourage community involvement.

Funds allocated to the respective sectors are allocated by the regulated Distributing Agencies. Members of Distributing Agencies are appointed by the Minister for a period of five years to serve on a full-time basis as members of the distributing agency and staff members of the Commission responsible for adjudication of applications for grants or recommendations of funding of worthy good causes received from the Commission.

Distributing Agency members are responsible for considering, evaluating and adjudicating applications for grants or recommendations of funding of worthy good causes received from the Commission and preparing reports on grants already awarded and on the performance of its functions to the board on a quarterly basis or as and when requested by the board.

The Minister determines the number of the distributing agency members in each category in consultation with the board, in line with the size of the funds in such category: The number of Distributing Agency members shall not exceed nine in each category.

Members of the distributing agency are appointed for a period of five years, which may be renewed only once, to serve on a full-time basis as members of the distributing agency and staff members of the Commission responsible for adjudication of applications for grants or recommendations of funding of worthy good causes received from the Commission.

Members of Distributing Agencies are led by Chairpersons of the respective Distributing Agencies and accountable to the Board. The Board was satisfied that:

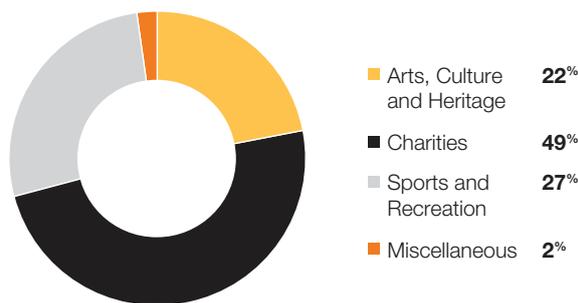
- Members of Distributing Agencies have suitable combination of qualifications, skills and expertise to consider, evaluate and adjudicate applications for grants or recommendations of funding of worthy good causes received from the Commission.

- Distributing agencies performed their functions independently and without fear, favour or prejudice; and
- Adhered to any policy, directive or code of ethics approved by the board and applicable within the public sector.

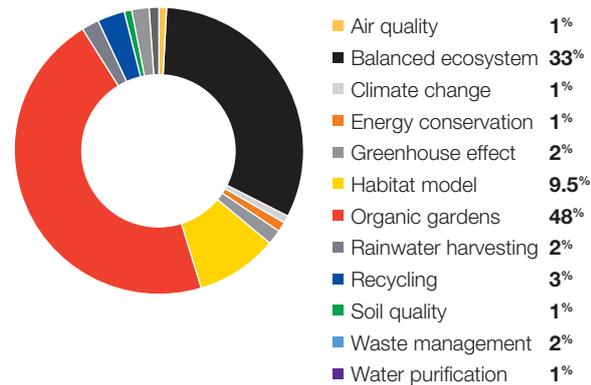
During the period under review Distributing Agencies considered and approved allocation per sector as follows:

Arts, Culture and Natural Heritage	Charities	Sport and Recreation	Miscellaneous Purposes
R 332 468 332.00	R763 135 964.00	R419 863 598.00	R23 244 908.00

NLDTF FUNDING BREAKDOWN PER SECTOR



ENVIRONMENTAL PROJECT PER TYPE



Environmental projects

Total number funded to date: 465 organisations

Total amount distributed to date: R590, 025,280.00 (Managed to source data from 2008 to date)

The above graph illustrates a percentage of each project type under the 465 environment sub sector projects funded to date. the majority of the organisations that were funded for organic gardens were schools of which 80% of them were also either funded for a Jojo Tank (Water harvesting tank) or an irrigation system. The boreholes would fall under the "Water purification" projects.

A total of 14414 jobs were created/retained through NLC funding

Sector	Total number of jobs created	Permanent jobs	Temporary jobs	Gender	
				F	M
Charities	10 412	6 289	4 123	7 027	3 385
Sports	670	153	517	324	346
Arts	3 068	706	2 362	1 721	1 347
Miscellaneous	264	1	263	150	114
Total	14 414	7 149	7 265	9 222	5 192

A total of 743 091 people has been reported to have either been served or reached with various services offered by NLC beneficiaries during the quarter under review

Sector	Total	Male	Female
Charities	138 918	61 416	77 502
Arts and culture	205 414	90 036	108 095
Sports and recreation	398 759	190 100	192 310
Total	743 091	341 552	377 907

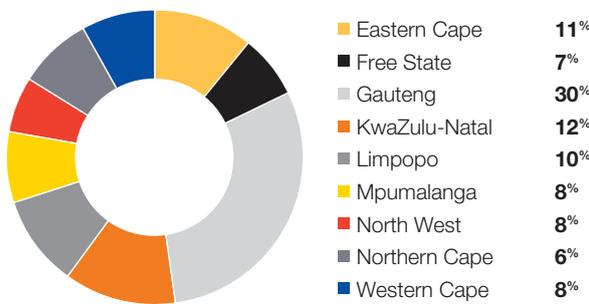
Divisional reports (continued)

The NLC has provincial offices which provide the following services

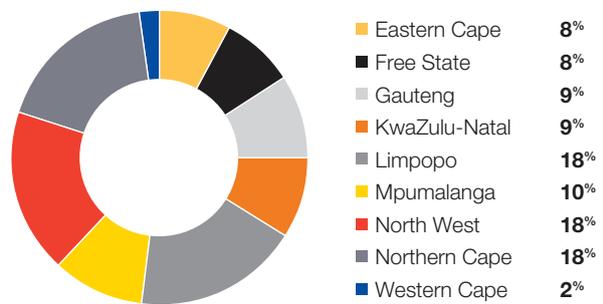
- Face-to-face enquiries
- Assistance with Grant Funding and Society Lotteries applications
- Delivery of completed applications
- Follow-up on the progress of applications
- General Support with Grant Agreements
- Workshops for general awareness and education
- Monitoring and advice on projects that require oversight

Address details: www.nlcsa.org.za/contactus

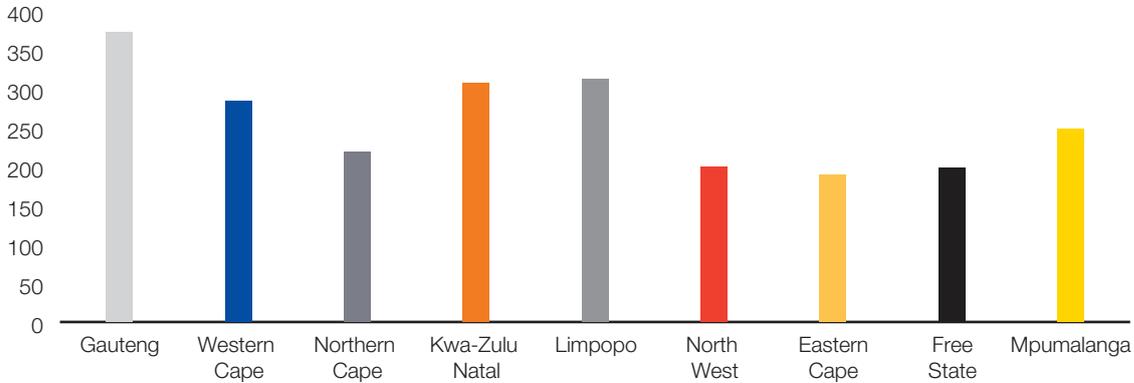
PROVINCIAL BREAKDOWN OF NLDTF ALLOCATION for the period 1st April 2017 to 31 March 2018



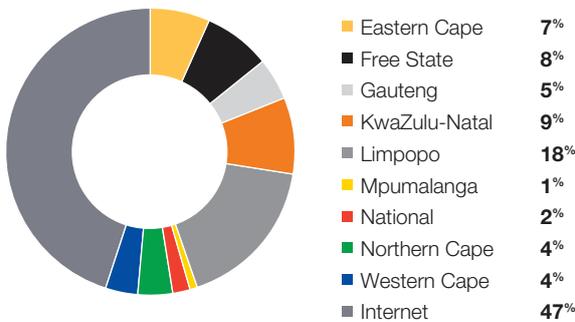
NLC PRO-ACTIVE FUNDING PER PROVINCE 2017/18



SITE VISITS 2017/18 PROVINCIAL PERFORMANCE



NATIONAL LOTTERIES COMMISSION



Provincial distribution of environmental projects 2018 to date – **53**

Provincial Contribution to NLDTF – **R30 312 853**

Total Allocations for the Year – **R162 417 372**

Total of 378 jobs created through NLC Funding:

Permanent jobs – **269**

Temporary jobs – **109**

Female – **63%**

Male – **37%**

Provincial Office

Phase 4A, Waverly Office Park
Phillip Frame Road, Chiselhurst
East London
5200

EASTERN CAPE PROVINCE

The Eastern Cape was allocated 10.7% of the total allocations made in FY2017-18 to the value of R159 million; the largest share went to Sport and Recreation (17%), followed by Arts, Culture and Heritage and Miscellaneous (9% each) and lastly Charities (7%). Over 400 public schools were granted funds to upgrade and improve their sporting infrastructure. The relatively small allocation to Charities can be attributed to the fact that many small grant applicants from the 2015 Charities call were still being processed; we expect to see increased uptake of Charities grants in the 2018-19 FY.

The focus areas for the province are to:

- Ensure equitable allocation of funding to all Districts (historically centred around PE and EL).
- Education and Awareness and capacity building on Grant Funding programme and other NLC programmes.
- Charities (DSD/NPO Directorate/ ECNGOC); Sports (DSRAC/ECSC); Arts (DSRAC/ECPACC).
- Increase on percentage of allocations to address Provincial specific priorities based on research Improved M&E for impact evaluation.



Empilisweni HIV/AIDS and Orphans Care Centre

Amount granted to the organisation just over R3 Million for operational costs and the infrastructure development.

Services rendered: Home Based Care which includes monitoring medications, providing nutrition and clothing as well as basic care and emotional support for HIV/AIDS patients and vulnerable children; psycho-social support; assist people to access public services or legal assistance; and education and awareness campaigns on issues facing the community

Divisional reports (continued)

Provincial distribution of environmental projects 2018 to date – **20**

Provincial Contribution to NLDTF – **R21 586 115**

Total Allocations for the Year – **R112 059 056.00**

Total of 1 418 jobs created through NLC Funding:

- Permanent jobs – **379**
- Temporary jobs – **1 039**
- Female – **55%**
- Male – **45%**

Provincial Office
 321 Corner Ryk & Stateway
 Welkom CBD
 9459

FREE STATE PROVINCE

The province has a population of 2.8 million with an estimated 4 150 NPOs, which include those that not operational or currently fall out of NLC sectors. The rural landscape promotes high poverty levels and remote communities.

The focus areas for the province are to:

- Enhance visibility/ footprints across the province.
- Ensure funding is spread equally to all sectors (unemployment and declining economic opportunities).
- Strengthen relations with sector Departments and Stakeholders in Province (esp. agricultural, Sports and Arts) – Arts organisations are mostly individuals, agricultural organisations are mostly cooperatives/ sports organisations are not formalised.
- Province is stronger with Education – support mainly with sports facilities.
- Ensure funding is distributed efficiently and effectively to deserving causes in line with the national legislation and NLC policies.
- Education and Awareness on Grant Funding and other programmes (intense awareness on society lotteries). Indaba Resolution: Expand current knowledge and information sharing initiatives with beneficiaries/stakeholders – with this including greater access to compliance workshops and monitoring of beneficiary needs.



There are number of outstanding projects that have been funded in the province in 2017/18 FY but only two will be highlighted

Globe Environmental Care
 MAIN PURPOSE: provide information on environmental conversation and environmental health issues in the township of Rammolutsi, Viljoenskroon

Maokeng Disabled Children's Centre was established in 1987

Provincial distribution of environmental projects 2018 to date – **93**

Provincial Contribution to NLDTF – **R226 244 315**

Total Allocations for the Year – **R441 246 588.00**

Total of 2 991 jobs created through NLC Funding:

Permanent jobs – **1 710**

Temporary jobs – **1 281**

Female – **68%**

Male – **32%**

Provincial Office

Block D, Hatfield Gardens
333 Grosvenor Street
Hatfield
Pretoria
0083

Bokone Community Home-Based Care and ECD

Amount granted to the organisation just over R1 779 000.00 for operational costs and the infrastructure development.

The organisation provides the following services to 889 beneficiaries

- Feeding scheme for 613 school kids.
- Home-Based Care and Drop-in Centre which consists of 226 beneficiaries.
- Early childhood development centre which consist of 50 children.

The organisation has employed 177 people in the following service areas; Home-Based Caregivers, Feeding Scheme, ECD, Clinic Volunteers, Gardening and Street Sweeping workers.

GAUTENG PROVINCE

Gauteng’s population constituting 25% of the total South African population.

The province has 60 000 registered NPOs with the Department of Social Development. Allocation to the province for the financial year under review was 29.53% of the total NLC allocations, rand value of R441 million. Distributed as indicated: Arts Culture and National Heritage – 35.26%; Charities – 27.84%; Sports and Recreation – 25.48% and Miscellaneous – 61.48%

The NLC has identified the West Rand as one of the Districts that have to receive focused attention based on the level of development as well as the amount of allocated by the NLC.

STAKEHOLDER ENGAGEMENT:

- The Gauteng Office will continue the engagements in the previous financial year with the following stakeholders.
- Department of Social Development.
- Department of Sports, Arts, Cultural and Recreation.
- Local and District Municipalities.

EDUCATION AND AWARENESS

The provincial office has conducted 10 Education and Awareness workshops around various municipalities in the financial year 2017/2018 and more will be conducted in the current financial year.

THE 5% ALLOCATION TARGET:

The provincial office mainly receives applications for small grants as many organisations can apply by themselves since the introduction of small grants. However, was there dissatisfaction from large organisations that were used to receiving larger grants in the past due to the reduced allocation because of new small entrants in the system. The demand is increasing at a rate higher than the supply. More engagement is required to explain the above.

That being the case, the Gauteng Province has continued to receive the highest share of the total annual Grant Budget. In the previous financial year, Gauteng received 30% of the budget, while the second highest province received a 12% allocation.



Divisional reports (continued)

Provincial distribution of environmental projects 2018 to date – **119**

Provincial Contribution to NLDTF – **R70 135 124**

Total Allocations for the Year – **R180 929 802.00**

Total of 2 121 jobs created through NLC Funding:

Permanent jobs – **1230**

Temporary jobs – **891**

Female – **66%**

Male – **34%**

Provincial Office

Office 22, Smartxchange Building
05 Walnut Road
Durban
4001

KWAZULU-NATAL PROVINCE

Kwa-Zulu Natal has a population of 16.6 million, approximately 21.3% of the South African population. Poverty is a major challenge facing the province with the poverty rate estimated at 45.1%; an indication that a little less than half of the provincial population is living on a monthly income that is unable to sustain them. There are approximately 16 846 NPOs registered by the Department of Social Development in the Province.

The province will focus on increasing the footprint across the province and improve turnaround times. Given the vast size of the province, the focus will be to promote the use of online application platform.



NLC Funded Project: SA Lifesaving

Sector: Sports and Recreation
Amount Allocated: R3 747 000

Project Objective: to capacitate and empower lifeguards and lifesaving clubs from disadvantaged communities (water safety, safeguarding against loss of life and promotion of other lifesaving skills).

The project has carried out 5 international tours by supporting the athletes with clothing, kits etc. and has hosted African Leaders Workshop with 7 nations in attendance. Under Talent identification they have 1 983 (1 162 males; 821 females) beneficiaries, have rescued a total of 114 325 people as at December 2017 and now have a total of 3 797 (2 845 males; 952 females) active members/lifeguards

Provincial distribution of environmental projects 2018 to date – **60**

Provincial Contribution to NLDTF – **R34 630 940**

Total Allocations for the Year – **R153 984 534.00**

Total of 2 284 jobs created through NLC Funding:

Permanent jobs – **878**

Temporary jobs – **1 406**

Female – **70%**

Male – **30%**

Provincial Office

No. 5 Landros Mare Street
Polokwane
0699

LIMPOPO PROVINCE

Limpopo's population was 5 726 800 (2015), constituting 10.51% of the total South African population. The province suffers from high unemployment and illiteracy with an estimated 2 million people living below poverty line. The rural vastness of the province creates a brain drain. The province has estimated 19 700 active NPO's.

Provincial Priority Areas

- School toilets (as per feedback from Arts DA).
- Sports clubs (as per feedback from Sports DA).
- Small scale farming and food security projects (alleviate effects of poverty & unemployment).
- Social enterprise initiatives with economic spin-offs. i.e applications for muringa production and marula processing.
- Mature our relationship with Ithuba.
- Shared our E & A schedule with them. Pledged to avail terminal.
- Optimise E & A workshops. i.e also cover society lotteries, regulation, Progress Reports and fraud awareness.

Highlighted project: **Mantopi Primary School**

Sector: Miscellaneous

Amounted Allocated: R611 096.40

Geographical area: Ga-Malepe in Burgersfort

The school has a total number of 168 learners (88 males and 80 females) The construction of new toilets for the learners are 90% complete

Project 2: **Arts & Painting Youth Development**

Sector: Arts, Culture and National Heritage

Amount Allocated: R230 150.00

Project Objective: nurture artistic talent of young people in rural areas provide employment to three (3) teachers and train 30 volunteers art of painting and carving sculptures i.e. 9 males and 21 females respectively



Divisional reports (continued)

Provincial distribution of environmental projects 2018 to date – **18**

Provincial Contribution to NLDTF – **R32 360 683**

Total Allocations for the Year – **R119 529 741.00**

Total of 1902 jobs created through NLC Funding:

- Permanent jobs – **1 086**
- Temporary jobs – **816**
- Female – **56%**
- Male – **44%**

Provincial Office
 25 Rood Street
 Sonheuwel Dorp
 Nelspruit
 1200

Highlight Project: **Hospice of White River funded R855,340.00 through the Charities sector.**

NLC funding has made it possible for the organisation continue rendering services to a total of 41 (14 males and 27 females) beneficiaries and created 5 permanent jobs. NLC is the sole funder of this organisation which makes it possible for the organisations to access the community it serves, maintain equipment and personnel salaries

MPUMALANGA PROVINCE

Mbombela (previously Nelspruit) is the capital and the administrative and business centre of the province which has the fourth-largest economy in South Africa. The province of Mpumalanga is faced with various social-economic challenges which include inequality, poverty, HIV/AIDS, substance abuse and youth unemployment and food security. The challenges facing province include:

Charities Sector – Sustainability issues faced by organisations result in double dipping and a lack of welfare infrastructure

Sports and Recreation Sector – Lack of Sports infrastructure and development of other sporting codes, often than Netball and Soccer. There is a lack of training and coaching

Arts, Culture, Natural Heritage Sector – Lack of performing arts hubs and growing applications for once-off events.

NLC Provincial Priorities

- Ensure funding is distributed efficiently and effectively to deserving causes in line with the provincial government priorities.
- Conduct Education and Awareness.
- Strengthening of project monitoring and evaluation.
- Effective implementation of SOPs.
- Adherence to turnaround times and targets.
- Strengthening Stakeholder Management.
- Establishing MOUs with other funders (joint funding).
- Improving team collaboration/positive work ethics.
- Personal development of staff.
- Instilling the culture of serving the people.



Provincial distribution of environmental projects 2018 to date – **15**

Contribution to NLDTF – **R11 268 376**

Total Allocations for the Year – **R93 031 794.00**

Total of 794 jobs created through NLC Funding:

Permanent jobs – **385**

Temporary jobs – **409**

Female – **62%**

Male – **38%**

NC provincial office

Suite D, 9 Roper Street
Kimberley
8300

**Pampierstad Youth Forum
R670,800 funded from the
Charities sector**

This is a youth organisation serves the youth through various programmes including computer training, entrepreneurship and driver's license programmes. The Forum has put 18 young people through an accredited computer training course recently. This is obviously an important skill for young people since Pampierstad is a small rural town where access to such skills is very limited. It opens new opportunities for these young people when they apply for possible employment opportunities. The organisation also enrolled 15 young people on the New Venture Creation programme. This programme lends itself to entrepreneurship and business development. In an area where job opportunities are scarce it is important that the youth create their own jobs through becoming self-employed and setting up businesses. The forum is rolling out a driver's license training programme, a critical skill for job seekers.

NORTHERN CAPE PROVINCE

The province has a population of 1,145,861, qualifying as the province with the least population in South Africa. The province has high levels of unemployment as well as a huge geographic land base with isolated communities having poor access to services and information. The historic problem of substance abuse persists and the poor social infrastructure has an adverse impact on delivery of social welfare services. The Northern Cape has limited number of NPOs making it challenging to reach equitable distribution targets.

NLC Provincial Priorities

- Target rural areas to increase first time applicants.
- Focus on Sport – engage Federations, schools and SALGA to improve sector performance.
- Educations and awareness spread throughout the year in all 5 districts – Target Pixley ke Seme which has a low volume of applications.
- Build collaborative partnerships for co-funding and support funding in areas.
- Pro-active funding prioritisation – funding for high impact projects for sustainable development.
- Improve compliance and establish the NLC brand in communities.



Divisional reports (continued)

Provincial distribution of environmental projects 2018 to date – **21**

Provincial Contribution to NLDTF – **R34 103 078**

Total Allocations for the Year – **R120 141 814.00**

Total of 991 jobs created through NLC Funding:

Permanent jobs – **534**

Temporary jobs – **457**

Female – **65%**

Male – **35%**

Provincial Office

16 Aerodrome Crescent
Industrial Side
Mafikeng
2745

NORTH WEST PROVINCE

North West's population is estimated at 5 509 953.00. The province is made up mainly of agricultural land with townships and rural settlements. There is a high level of illiteracy and an estimated 6 000 NGOs, which are largely inactive, resulting in a low number of applications

Provincial Priority Areas

- Ensure and keep to the 150 days promise.
- Improve accessibility to NLC services.
- Education and awareness to forge the collaborative partnerships with key stakeholders.
- Bridge the technological divide through innovative ways of reaching NLC stakeholders.



Provincial distribution of environmental projects 2018 to date – **66**

Provincial Contribution to NLDTF – **R65 613 439**

Total Allocations for the Year – **R113 709 520.00**

Total of 1535 jobs created through NLC Funding:

Permanent jobs – **678**

Temporary jobs – **857**

Female – **63%**

Male – **37%**

Provincial Office

Manhattan Place
130 Bree Street
Cape Town
8000

WESTERN CAPE PROVINCE

The NLC provincial office was permanently established in May 2015 with a staff complement of fifteen. The office is fully capacitated to deal with all pre- and post-administrative duties. Cape Town is a segregated city – low density in and around city centre and high densities in outlying areas.

Challenges plaguing the province include high unemployment (over 50%), poverty, gender-based violence, drug and alcohol addiction and gang violence.

The provincial office will intensify stakeholder engagements, particularly focusing on the NLC's regulatory mandate.



Divisional reports (continued)

HUMAN CAPITAL

Strategic Objective:



Programme 1 detailed on pages 40 and 41

Performance:

49% of Operations staff upskilling programme in preparation for Professionalisation of Grant Funding programme.

The Human Capital department prides itself on its attraction of a skilled and experienced work force. The division shifted from being a support/administrative function and asserted itself as a strategic partner to all divisions in all their human capital needs. In line with the NLC commitment to be a better regulator and beneficiary centric funder, the Human Capital and respective divisions embarked on upskilling programmes which resulted in improved efficiencies. The establishment of the Grant funding professional standards in partnership with the tertiary institutions and other funding organisations was the focal point for this financial year. Consequently, a customised Grant Makers Training programme was developed. Efforts were made to deliver at least 70% target of interventions as per the approved workplace skills plan.

The Human Capital Division conducted policy workshops and raised awareness on Employee Wellness programmes.

New appointments – recruitment

Position	African		Indian		Coloured		White	
	M	F	M	F	M	F	M	F
Admin Assistant – Northern Cape	0	0	0	0	0	1	0	0
Admin Assistant – Western Cape	1	0	0	0	0	0	0	0
Administrator: Board Ethics	0	1	0	0	0	0	0	0
Client Liaison Officer – Western Cape	0	0	0	0	0	1	0	0
Client Liaison Officer – Limpopo	0	1	0	0	0	0	0	0
Client Liaison Officer – Eastern Cape	0	1	0	0	0	0	0	0
Client Liaison Supervisor – Free State	1	0	0	0	0	0	0	0
Client Liaison Supervisor – Eastern Cape	0	1	0	0	0	0	0	0
Client Liaison Supervisor – KwaZulu-Natal	1	0	0	0	0	0	0	0
Forensic Specialist	1	0	0	0	0	0	0	0
Monitoring and Evaluation Officer – Eastern Cape	1	0	0	0	0	0	0	0
Management Accountant	0	1	0	0	0	0	0	0
Office Assistant – KwaZulu-Natal	1	0	0	0	0	0	0	0
Office Assistant – Northern Cape	0	1	0	0	0	0	0	0
Payroll Specialist	0	1	0	0	0	0	0	0
Personal Assistant – DA	0	0	0	0	0	1	0	0
Distributing Agency Member – Arts Sector	0	0	0	0	0	1	0	0
Distributing Agency Member – Charities Sector	0	1	0	0	1	2	0	0
Total	6	8	0	0	1	6	0	0

Staff promotions

Position	New position	African		Indian		Coloured		White	
		M	F	M	F	M	F	M	F
Chief Finance Officer	Chief Operating Officer	1	0	0	0	0	0	0	0
Legal Senior Manager	Legal Executive Manager	1	0	0	0	0	0	0	0
Senior Finance Manager	Chief Finance Officer	0	1	0	0	0	0	0	0
Company Secretary	Executive Company Secretary	0	1	0	0	0	0	0	0
Monitoring and Evaluation Senior Manager	Business Development Senior Manager	0	1	0	0	0	0	0	0
Grant Funding Officer – Eastern Cape	Internal Stakeholder Relations Specialist	1	0	0	0	0	0	0	0
Client Liaison Officer – KwaZulu-Natal	Grant Funding Officer – KwaZulu-Natal	0	2	0	0	0	0	0	0
Client Liaison Officer – KwaZulu-Natal	Grant Funding Officer – Mpumalanga	0	1	0	0	0	0	0	0
Grant Funding Officer – KwaZulu-Natal	Research and Development Senior Specialist	0	1	0	0	0	0	0	0
Client Liaison Officer – Gauteng	Grant Funding Officer – Gauteng	0	1	0	0	0	0	0	0
Enterprise Risk Specialist	Grant Funding Projects Manager	1	0	0	0	0	0	0	0
Stakeholder Relations Officer	Education and Awareness Capacity Building Stakeholder Relations Senior Specialist	0	1	0	0	0	0	0	0
Infrastructure Projects Specialist	Grant Operations Manager	0	1	0	0	0	0	0	0
Administrator	Ethics Officer	0	1	0	0	0	0	0	0
Handyman	Maintenance and Operation Officer	1	0	0	0	0	0	0	0
Registry Clerk	Client Liaison Officer – KwaZulu-Natal	1	0	0	0	0	0	0	0
Monitoring and Evaluation Specialist – KwaZulu-Natal	Monitoring and Evaluation Impact Reporting Senior Specialist	0	1	0	0	0	0	0	0
Monitoring and Evaluation Officer – KwaZulu-Natal	Monitoring and Evaluation Specialist – KwaZulu-Natal	0	1	0	0	0	0	0	0
Legal Officer	Senior Legal Officer	0	1	0	0	0	0	0	0
Total		6	14	0	0	0	0	0	0

Divisional reports (continued)

The below chart depicts news coverage per province. The majority of news items are carried online, which is not geo-specific.

STAFF MOVEMENTS TO OTHER POSITIONS

Staff movements

Position	New position	African		Indian		Coloured		White	
		M	F	M	F	M	F	M	F
Grant Agreement Senior Specialist	Contract Management and Performance Senior Specialist	1	0	0	0	0	0	0	0
Internal Audit Specialist	Organisational Compliance and Governance Specialist	1	0	0	0	0	0	0	0
Grant Funding Officer – Mpumalanga	Monitoring and Evaluation Officer – Mpumalanga	0	1	0	0	0	0	0	0
Grant Funding Officer – Gauteng	Monitoring and Evaluation Officer – Gauteng	0	1	0	0	0	0	0	0
Grant Agreement Officer – Northern Cape	Monitoring and Evaluation Officer – Northern Cape	1	0	0	0	0	0	0	0
Grant Funding Officer – Northern Cape	Monitoring and Evaluation Officer – Northern Cape	0	0	0	0	0	0	1	0
Grant Agreement Officer – Western Cape	Client Liaison Supervisor	0	1	0	0	0	0	0	0
Grant Funding Officer – Western Cape	Monitoring and Evaluation Officer – Western Cape	0	0	0	0	0	0	0	1
Grant Agreement Officer – Free State	Monitoring and Evaluation Officer – Free State	1	0	0	0	0	0	0	0
Grant Funding Officer – Free State	Monitoring and Evaluation Officer – Free State	0	1	0	0	0	0	0	0
Grant Agreement Officer – Eastern Cape	Monitoring and Evaluation Officer – Eastern Cape	1	0	0	0	0	0	0	0
Grant Funding Officer – KwaZulu-Natal	Monitoring and Evaluation Officer – KwaZulu-Natal	0	1	0	0	0	0	0	0
Grant Funding Officer – Limpopo	Monitoring and Evaluation Officer – Limpopo	1	0	0	0	0	0	0	0
Grant Agreement Officer – North West	Monitoring and Evaluation Officer – North West	0	1	0	0	0	0	0	0
Grant Funding Officer – North West	Monitoring and Evaluation Officer – North West	1	0	0	0	0	0	0	0
Grant Agreement Assistant – Northern Cape	Client Liaison Officer – Northern Cape	1	0	0	0	0	0	0	0
Grant Agreement Assistant – Eastern Cape	Client Liaison Officer – Eastern Cape	1	0	0	0	0	0	0	0
Grant Agreement Assistant – Gauteng	Client Liaison Officer – Gauteng	1	0	0	0	0	0	0	0
Grant Agreement Assistant – KwaZulu-Natal	Client Liaison Officer – KwaZulu-Natal	1	0	0	0	0	0	0	0
Grant Agreement Assistant – Limpopo	Client Liaison Officer – Limpopo	1	0	0	0	0	0	0	0
Grant Agreement Assistant – Mpumalanga	Client Liaison Officer – Mpumalanga	1	0	0	0	0	0	0	0
Grant Agreement Assistant – North West	Client Liaison Officer – North West	1	0	0	0	0	0	0	0
Grant Agreement Assistant – Free State	Client Liaison Officer – Free State	0	1	0	0	0	0	0	0
Registry Clerk	Receptionist	0	1	0	0	0	0	0	0
Total		14	8	0	0	0	0	1	1

Interns/temps – permanent positions

Interns/temps position	Permanent position	African		Indian		Coloured		White	
		M	F	M	F	M	F	M	F
Office Assistant – KwaZulu-Natal	Office Assistant – KwaZulu-Natal	1	0	0	0	0	0	0	0
Intern – Western Cape	Admin Assistant – Western Cape	1	0	0	0	0	0	0	0
Intern – Northern Cape	Admin Assistant – Northern Cape	0	0	0	0	0	1	0	0
Intern – Eastern Cape	Monitoring and Evaluation Officer – Eastern Cape	1	0	0	0	0	0	0	0
Total		3	0	0	0	0	1	0	0

RESIGNATIONS

Staff resignations

Position	African		Indian		Coloured		White	
	M	F	M	F	M	F	M	F
Help Desk	0	1	0	0	0	0	0	0
Monitoring and Evaluation Officer – Free State	1	0	0	0	0	0	0	0
Grant Funding Officer – Free State	1	0	0	0	0	0	0	0
Grant Funding Officer – Western Cape	0	0	0	0	0	0	0	1
Total	2	1	0	0	0	0	0	1

Deceased

Position	African		Indian		Coloured		White	
	M	F	M	F	M	F	M	F
Regulatory Compliance Specialist	0	0	0	0	0	0	0	1
Logistics and SCM Performance Officer	1	0	0	0	0	0	0	0
Total	1	0	0	0	0	0	0	1

Equity report

The table below is an equity report for the 2017/18 financial year.

Status in Senior Management is 49% males, and 51% females.

Employment workforce

Levels	Males					Females				Total	%
	A	C	I	W	%	A	C	I	W		
Executives	3	0	0	0	43	4	0	0	0	7	57
Senior managers	15	2	1	0	49	13	4	1	1	37	51
Staff	88	3	1	1	41	118	9	1	7	228	59
Fixed temps	7	0	0	0	58	5	0	0	0	12	43
Internships	5	0	0	0	31	11	0	0	0	16	69
Grand total	118	5	2	1	42	151	13	2	8	300	58

Divisional reports (continued)

PERSONNEL COST BY OCCUPATIONAL LEVEL

Level	Personnel expenditure	% of personnel expenditure to total personnel cost	Number of employees	Average personnel cost per employee
Top management	16 566 541.00	7.88	7	2 366 648.71
Senior management	45 678 756.36	21.72	32	1 427 461.14
Professional	46 403 471.12	22.07	41	1 131 791.98
Semi-skilled	48 357 008.92	23.00	122	396 368.93
Skilled	50 095 387.71	23.82	80	626 192.35
Unskilled	3 190 160.68	1.52	18	177 231.15
Total	210 291 325.79	100.00	300	

PERSONNEL EXPENDITURE



LEGAL DIVISION

Strategic Objective:



Programme 1 detailed on page 2 40 and 41



Programme 2 detailed on pages 42 and 43

The Legal Division renders legal support and advisory services to the National Lotteries Commission in executing its functions as detailed in legislation. The legal division supports Strategic Objective 1 (SO1) of the Annual Performance Plan.

Besides the 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 the regulations. The amended Act brought about new ways of doing business including strict timeframes for the adjudication of applications, payment of grants allocated and the process of review.

The division has focused its energy in ensuring that internal staff and different distributing agencies are familiar with the amendments. There were also issues of interpretation of the regulations that needed to be clarified or simplified, particularly regarding the issue of the “12 months cooling-off period” and exclusion of certain entities from NLDTF funding (e.g. Political Parties and Organs of State generally). The division continues to create awareness around all issues relating to legislative interpretation and application of the new regulations.

The legislative interpretation of the 12 months cooling-off period has been one of the most debated issues and there was a need for the NLC to devise a formal and uniform interpretation for implementation purposes.

Regulation 14 reads as follows:

No applicant to whom a grant was made by the National Lotteries Commission shall be eligible to apply for another grant within a period of 12 (twelve) months from the date of receipt of that grant, irrespective of whether the project is different from the one previously applied for.

The provision ought to be interpreted and implemented as follows:

- Date of receipt of the grant is the date upon which the full grant is paid to the grantee.
- Commencement of the 12 months is to be counted from date of payment of the last tranche to the grantee.

In instances of conduit applications which involve assisting/assisted organisations:

- Applicability of this provision where the application for a grant is received through an agent, representative or conduit, in terms of Part II, Regulation 10 is interpreted as follows:
 - The cooling-off period applies to the actual applicant and not the agent/conduit and/or representative.
 - Should the conduit/agent or representative also apply for a project at the same time that they are assisting the applicant they also become an applicant in that case and the cooling-off period applies to them.
 - Where the applicant has applied through a conduit/agent or representative, they cannot subsequently apply by themselves before the 12 months cooling-off period expires.

The amended regulations also stipulate different categories of Applications that may not be considered by the Commission.

PART III OF THE REGULATIONS:

The National Lotteries Commission shall not consider applications for funding for activities implemented:

1(a) **Outside the borders of the Republic of South Africa**

- A project implemented outside the borders of South Africa would mean an instance where direct beneficiaries are on foreign land (e.g. An NPO applying to fund an orphanage in Swaziland cannot be funded as NLDTF funds are meant to assist only South Africans).
- NLDTF funds South Africans and the mere fact that the actual performance is on foreign soil should not create an impediment to funding. (e.g. If Athletics South Africa needs funding for activities implemented outside the borders of South Africa – funding will still be for South Africans and ordinary South Africans remain direct beneficiaries of this funding).

(b) **By organisations established for profit or in furtherance of objective of a for-profit organisation**

(c) **By organs of state excluding, educational and welfare institutions**

(d) **By political parties**

Divisional reports (continued)

- The NLC has defined a political party in terms of the Electoral Commissions Act 51 of 1996 which states as follows:
 - A political party means “any registered party, and includes any organisation or movement of a political nature which publicly supports or opposes the policy, candidates or cause of any registered party, or which propagates non-participation in any election”.
 - From the definition above, politically affiliated parties or associations supporting the cause of any political party will also not qualify for funding. It remains our view that the legislature could not have intended to exclude political parties yet include politically affiliated parties from funding.

The above changes in the interpretation of legislation are vital in ensuring effective implementation of the Regulations and will continuously be discussed with stakeholders to ensure that they fully understand these updates to the regulations.

Policy on Delinquent Beneficiaries

The Board reviewed the NLC’s policy on Delinquent Beneficiaries with the aim of supporting all beneficiaries who find themselves unable to comply with the terms and conditions of the Grant Agreement. Failure to comply is sometimes because of lack of capacity and/or knowledge on the part of funded organisations even though it has been observed that in various instances some organisations still fail or refuse to comply even after support has been provided.

The policy intends to create an environment of support and intervention to assist those that are in breach but still prefer to fully comply and to further list those that remain non-compliant, even after support and intervention is provided. A special committee has been appointed to deal with all these matters on a case-by-case basis and advice on the way forward regarding all beneficiaries finding themselves non-compliant.

In line with the policy, the Commission established the Delinquency Committee. The purpose of the Committee is to intervene by assisting beneficiaries prior to listing them on the delinquent register as well as to mitigate against fraudulent conduct. The Delinquency Committee acts independently and presides over matters brought to it with integrity, in an objective, fair, transparent manner and with due regards to the principles entrenched in the empowering legislative and/or policy framework.

The statistics of beneficiaries considered for listing are depicted below

PROVINCE	LISTED	LISTING REJECTED	WITHDRAWN/ REFERRED TO THE OFFICE	OUTSTANDING	TOTAL
Eastern Cape	13	0	5	3	21
Free State	3	0	1	1	5
Gauteng	0	0	0	0	0
KwaZulu-Natal	0	1	7	0	8
Limpopo	38	0	2	21	61
Mpumalanga	11	0	1	1	13
Northern Cape	5	1	0	0	6
North West	0	0	0	0	0
Western Cape	6	0	0	0	6
GRAND TOTAL	76	2	16	26	120

Most frequent reasons for final listing include:

- Satisfactory progress report and invoices not submitted.
- Projects withdrawn by the Board or Exco based on the risk investigation findings.

Most frequent reasons for referral to the Administration:

- To conduct a site visit
- To refer to the DA for adjudication
- To process in terms of the delegation of authority

Applications of all organisations who have been assigned delinquency status and placed on delinquency list are unable to access funding until their issues are resolved and others are assisted through various interventions to ensure compliance and therefore continued support by NLDTF. The Committee refers all identified trends to responsible divisions for development of mitigating strategies and structured capacity building opportunities.

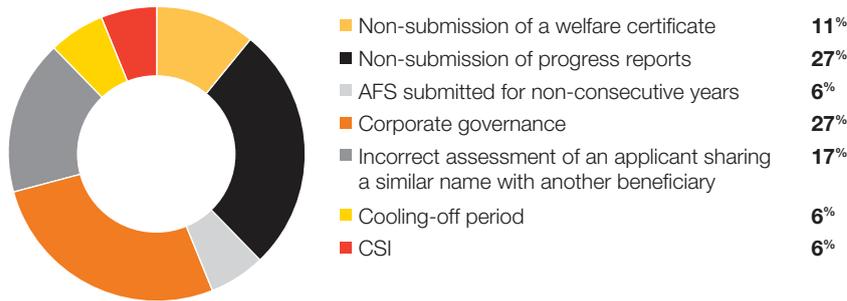
Operations Forum for Review Committee

The division is responsible for the Operations Forum for Review Committee. The primary role of the Operations Review Forum is to independently receive, assess, prepare and present all reviews to the Board Review Committee in accordance with section 26H of the Lotteries Act.

The Operations Forum for Review Committee processed a total of 85 applications, of which 67 appeals were recommended to be upheld and 18 Appeals recommended for review by the Board Review Committee.

The graph below illustrates a disaggregation of basis for review presented to date to the Review Committee recommending to either review or uphold the decision of the Distributing Agency

DISAGGREGATION OF RECOMMENDATION TO REVIEW THE DECISION OF THE DISTRIBUTING AGENCY



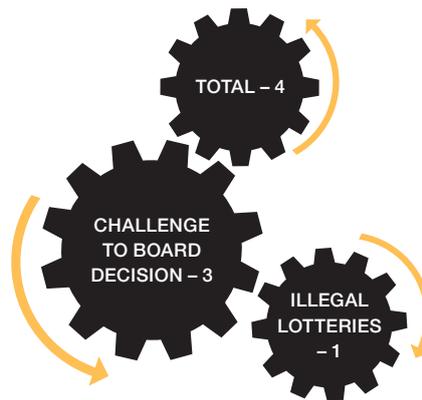
Capacity building

In promoting public knowledge and awareness, the division continued to support and capacitate beneficiaries on matters relating to the understanding and implementation of the Grant Agreement and support with mediation and legal advice where applicable and required. The nature of the services offered by the NLC are such that processes needs to be created to ensure that we can respond directly to the needs of our communities and the division intends to ensure this support not only to provincial offices but to beneficiaries directly.

The division will continue creating an environment of openness, transparency and continuous dialogue with all stakeholders to ensure that support and assistance is given where needed and to minimise and/or avoid situations of possible conflicts that could result in unnecessary litigation. The division is committed to ensuring support and assistance.

The Legal Division continues to assist with mediation between the NLC and beneficiaries and/or between beneficiaries and their stakeholders to ensure that funds allocated for good causes are used for the purposes for which they were approved.

Because of this approach and interaction with beneficiaries the NLC is exposed to less litigation by aggrieved beneficiaries. There is currently only four cases in the litigation process with only three being matters where the NLC’s decisions are being challenged.



The division also manages the drafting of contracts on behalf of the NLC to ensure maximum legal protection and value for money on services rendered to the commission or outsourced by the commission to third-party service providers.

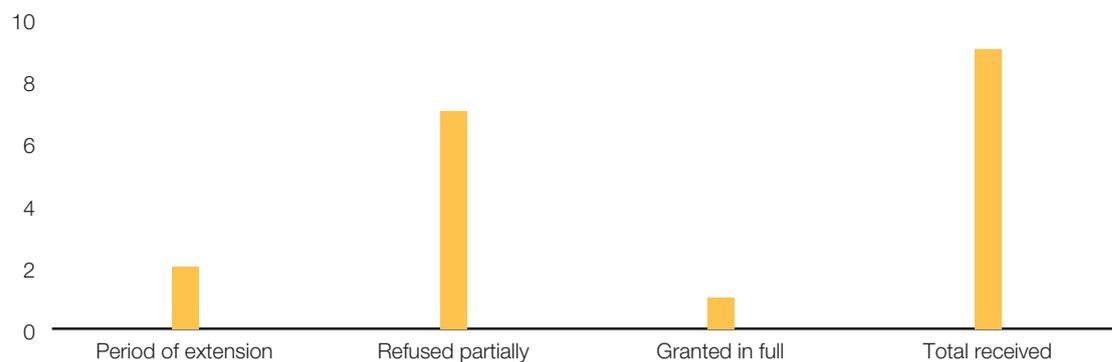
Divisional reports (continued)

Promotion of Access to Information Act 2 of 2002

The division ensures full compliance with the Promotion of Access to Information Act in order to give effect to section 32 of the Constitution.

The NLC remains compliant with its reporting responsibilities and a section 32 compliance report has been submitted to the South African Human Rights Commission before the closing date of 31 May 2018.

PAIA REQUESTS



The division will continue its support and advisory function to ensure that the NLC complies with its legislative mandate.

INFORMATION AND COMMUNICATIONS TECHNOLOGIES

Strategic Objective:



Programme 1 detailed on pages 40 and 41

Performance – Integration of E-system with identified State-Owned Companies and Government Departments.

Information and Communications Technologies (ICT) continues to be employed as a catalytic enabler of conducting business in a more efficient manner by the National Lotteries Commission. The implementation of an integrated Enterprise Resource Planning (ERP) platform in 2015, continues to yield favourable results in enhancing the operational capacity of the entire organisation.

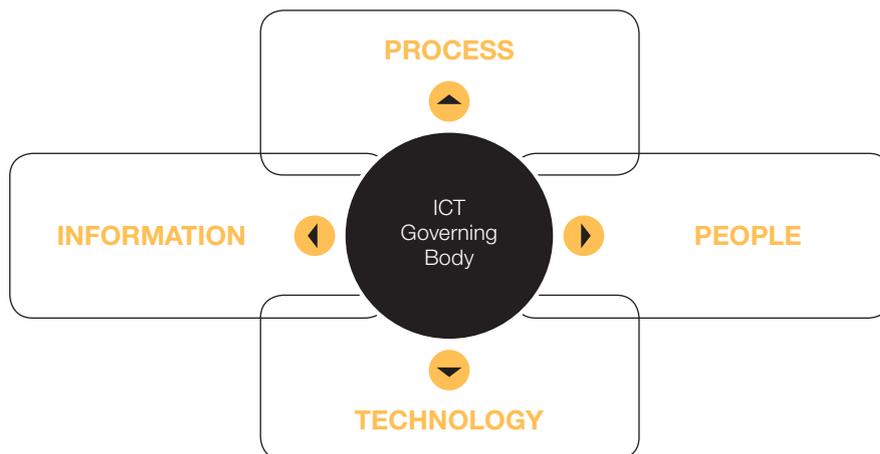
The ERP platform is characterised by five core modules that collectively lay the foundation to enable the organisation to conduct a variety of transactions. The modules are:

- i. Finance Management
- ii. Grant Fund Management
- iii. Human Capital Management
- iv. Payroll Management
- v. Supply Chain Management

All these core modules represent ICT's response vectors to the organisation's business needs. The ERP platform extends to all the nine National Lotteries Commission offices 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.

Attaining operational excellence enabled by ICT technologies remains a long-term objective of the ICT department. During the year of review, gradually progress toward achieving the objective has been made. Central to this process has been the ICT division's adoption of the King IV principles on ICT governance as depicted below:

Integral to the ICT Governing Body is the appreciation that the ICT division must continue to exercise its managerial competencies in the following areas of the organisations:



- Mitigation of risk
- Protection of data
- Safeguarding of information
- Operation of secure networks
- Maintenance of high availability of ICT systems and services

Divisional reports (continued)

Accordingly, the role of ICT in Regulatory Compliance remains inherently a vital necessity considering that globally, virtually all lottery operators are reliant on modern, complex and largely automated ICT platform to secure revenue that still needs to be translated into sustainable profits. Policy formulation and legislated regulations going forward may have to consider the role of ICTs as policy inputs.

In terms of the ICT Governance arrangements, the governing structure of ICT at the NLC is informed by the ICT strategy, ICT policies as well as ICT Standard Operating Procedures. This includes an ICT Steering Committee.

The ICT Chief Information Officer (CIO) is a member of Exco and participates in the Board Audit and Risk subcommittee.

During the year of review, the ICT objectives effectively remained the same as articulated in the ICT strategy. Accordingly, policy changes were minimal. The core objectives of the ICT strategy are as follows:

- Focused leadership and clear direction ensuring that the NLC consistently derives optimum business value from ICT investments
- Streamlined and improved business processes to enhance customer's service experience
- Quality information for better grant funding services, compliance monitoring and operational efficiency

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. Indeed, in line with established best-practice ICT governance frameworks, ICT employs frameworks such COBIT V and King IV.

In the short- to medium-term, ICT plans to increase focus in the following key areas:

- Enhance cybersecurity management
- Explore cloud services and architectures
- Expand interconnectivity with other entities in the government sector

Key Areas of focus during the reporting period included development of the ERP system, training and roll-out thereof, which was underpinned by business process mapping. In view of the cyber environment and associated risks, the division rolled out Cyber security initiatives, which included updated security software licences and delivery of awareness programme. The Division realised savings through setting up of the Disaster Recovery Site at one of the Commission's facilities and roll-out of the Video Conferencing facility. The Division invested in a GIS Mobile application which supports an automated tool used for Monitoring and Evaluation activities, regulation of the National Lottery and information resource for the Grant Funding division and adjudicators. The Division provided ICT technical expertise in the monitoring of the National Lottery Operator's activities.

All ICT policies were reviewed and aligned to best practice and legislative developments.

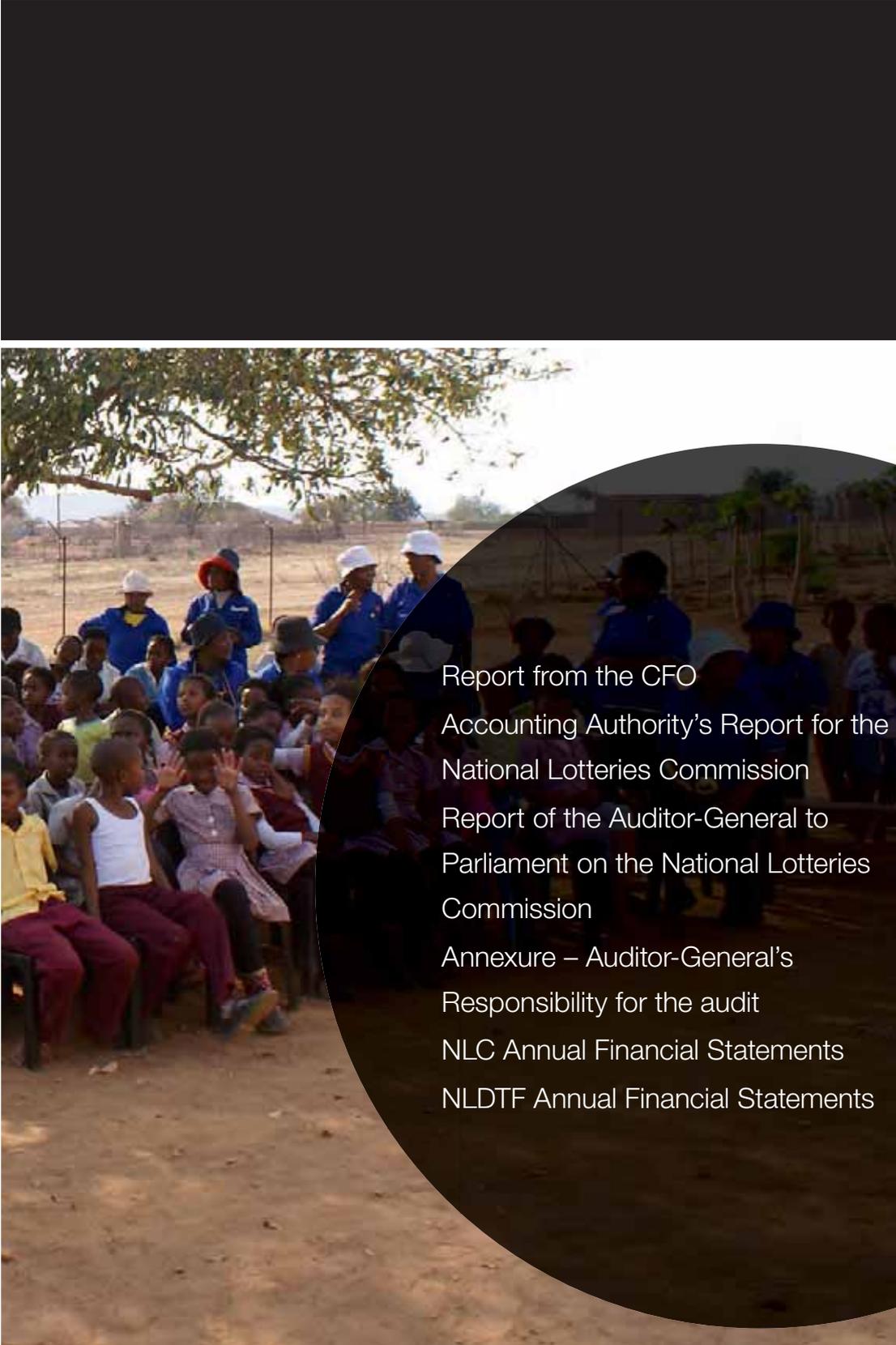
The 4th Industrial Revolution (4IR) is more likely to unlock the National Lotteries Commission's untapped potential in the realm of the local grant funding landscape. The ICT division embraces the opportunity the 4IR will provide in the next 12 months. Blockchain technology will simultaneously present opportunities and challenges in the ICT domain of the organisation. Collaboration with other organisations in the sphere of government entities will be a decisive factor in the NLC ensuring relevance in the next 15 years.



PART E

FINANCIAL INFORMATION





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Report from the CFO



Grant allocations for the current year amounted to R1.506 billion and a total of R2.073 billion was paid to beneficiaries across all sectors.

The NLC continues to monitor its investments in an effort to maximise revenue that is destined for good causes. The investment strategy was reviewed in order to maximise the return on investment and ensure liquidity and capital preservation of amounts invested. The NLC achieved a return on investment of 8.40% surpassing the 8% target as indicated in the APP.

The organisation seeks to always maintain strategic reserves of R1.5 billion as a contingency fund to fund operational expenditure of the NLC and grant allocations for good causes which are distributed through the NLDTF. The reserves for the current financial year amounted to R1.428 billion and the Finance division continues to monitor the reserves closely to determine whether it addresses the risks which are faced by the NLC.

The year under review was characterised by slow economic growth, recession and credit rating downgrades which affected the household spending and disposable income of the lotto participants. South Africa, however, saw improved economic conditions towards the end of the year because of improved growth from primary economic sectors and improved investor and business confidence following the developments in the country's landscape. Revenue from share of ticket sales increased by 1.46% to R1.392 billion. The National Lottery Operator grossed R5.315 billion (excluding VAT) from ticket sales despite facing continuing challenges from a weakening economy, increased competition from bookmakers and illegal lottery operators.

Grant allocations for the current year amounted to R1.506 billion and a total of R2.073 billion was paid to beneficiaries across all sectors. The liability reached an all-time low of R580 million through efforts of applying the Grant Finance Management Policy and fast tracking of payments.

King IV report, (2016) maintains that the primary reason for the existence of a business enterprise is to create value. The NLC is experiencing growing demand by applicants for grants with a revenue that cannot service all the applicants. There is thus a need to create long-term shareholder value by embracing the opportunities and managing the risks that result from the NLC's economic and social responsibilities. The NLC has implemented cost cutting measures in line with Treasury Regulations and continues to explore alternative sources of revenue within the confines of the Lotteries Act in order to maximise revenue for good causes. Furthermore, the Finance division has undertaken to purchase buildings across the provinces which will be converted into office space in order to yield value for the organisation and create a financially viable option to that of leasing.

The National Lotteries Participants Trust (NLPT) was established by the Lottery Operator [herein Ithuba Holdings RF (Pty) Ltd in terms of the licence agreement between the dti, NLC and the Lottery Operator. It was established to achieve the regulatory objective of protection of lottery participants and prize monies. For the first time since inception of the NLC, the Auditor-General of South Africa required the NLC to consolidate the NLPT in the financial statements of the NLC. It goes without saying that there are fundamental differences in the interpretation of the relevant accounting standards on the consolidation of the NLPT. Subsequent to numerous engagements during the final stages of the audit and notwithstanding the divergent views, the NLC implemented the recommendation by the Auditor-General to consolidate. The Auditor-General did not audit the consolidated financial statements due to the different audit cycles of the NLC and NLPT and as a result a modified audit opinion was issued on the consolidated financial statements of the NLC. Clean audit opinions were issued and maintained for the separate annual financial statements of NLC and NLDTF for three (3) years in succession. An unqualified audit opinion was issued for the NLPT which has been included in Part F of this report. The NLPT has achieved unqualified audit opinions since inception.

Supply Chain Management controls and processes continue to be in place and strengthened. The NLC and NLDTF did not incur irregular, fruitless and wasteful expenditure in the current financial year.

I would like to take this opportunity to thank the Board, Board Committees, the Commissioner and Executive Management for their continued leadership and support, together with dedicated staff of the NLC, in particular the finance team for their hard work.

Accounting Authority's Report for the National Lotteries Commission

for the period ended 31 March 2018

The National Lotteries Commission Accounting Authority presents its tenth annual report, which is supplementary to the audited annual financial statements of the National Lotteries Commission (NLC) and the National Lottery Distribution Trust Fund (NLDTF) for the year ended 31 March 2018.

1. NATURE OF OPERATIONS

The NLC is a regulator of the National Lottery. Ithuba (Pty) Ltd is a private company that currently operates the National Lottery under a licence from the government which commenced on 1 June 2015. The Operator pays a percentage of the revenue from ticket sales to the NLDTF in terms of the Licence agreement. These proceeds are destined for good causes as stipulated in the Lotteries Act No 57 of 1997 (Lotteries Act) as amended and allocated to deserving applicants by Distributing Agencies appointed by the Minister of Trade and Industry. The NLC manages the NLDTF and NLDTF transfers the necessary running costs to the NLC. The NLC withdraws the necessary funds required from the NLDTF, based on the overall annual budget approved by the Minister of Trade and Industry.

2. STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

To the best of our knowledge and belief, we confirm the following:

- All information and amounts disclosed in the annual report is consistent with the annual financial statements audited by the Auditor-General. The annual financial statements are complete, accurate and free from any omissions. The annual report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.
- The annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice applicable to the NLC.
- The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in the financial statements. The accounting authority is responsible for establishing and implementing a system of internal control that has been designed to provide reasonable assurance to the integrity and reliability of the performance information, the human capital information and the annual financial statements. The Auditor-General is engaged to express an independent opinion on the annual financial statements. In our opinion, the annual financial statements fairly reflect the financial affairs of the NLC and NLDTF for the financial year ended 31 March 2018.

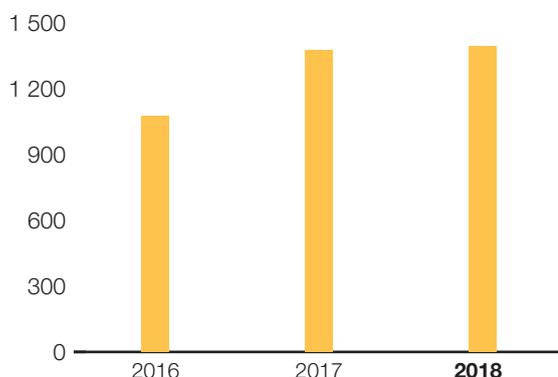
3. OPERATING AND FINANCIAL REVIEW

The NLC's objectives are prescribed in the Lotteries Act. The main objectives of the NLC are to regulate all lotteries and sports pools with integrity; to ensure the protection of all participants; and to distribute funds equitably and expeditiously. It is the NLC's continuous aim to meet or exceed these objectives. The Chairperson's report covers all accomplishments in greater detail. Functions directly related to the Lotteries Act, and the business plans are predominantly on track.

Salient comparative information

SHARE OF TICKET SALES

(R'million)



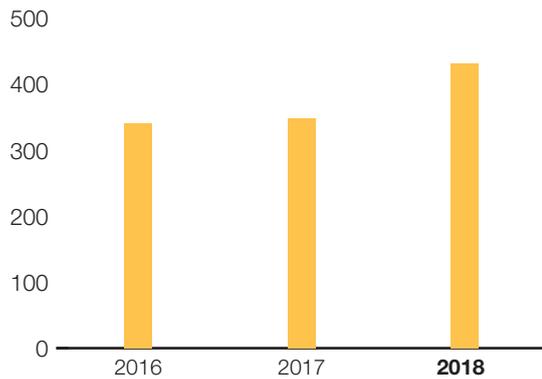
Revenue from share of ticket sales increased by 1.46% to R1.392 billion. The lottery operator grossed R6.059 billion (including VAT) from ticket sales (2017: 6.002 billion). The operator contributed **26.19%** (2017: 26.05%) to the NLDTF.

Accounting Authority Report for the National Lotteries Commission (continued)

for the period ended 31 March 2018

NLC OPERATING COSTS

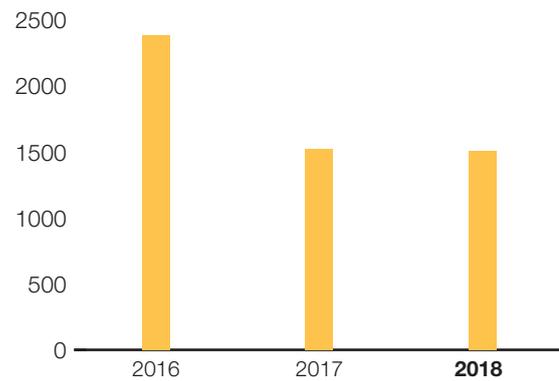
(R'million)



NLC Operating Costs R431 million up 24% as a result of stakeholder engagements that were undertaken during the year and also the investment in disaster recovery.

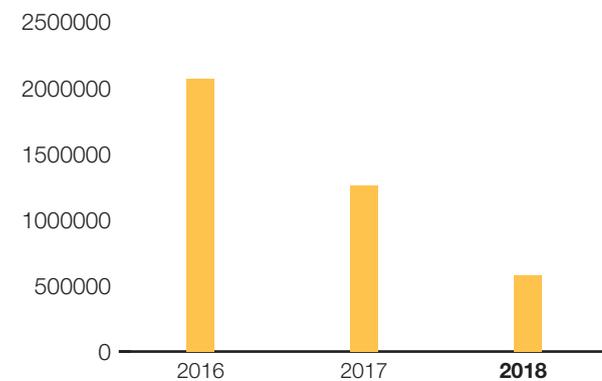
ALLOCATION OF GRANTS

(R'million)



PROVISION FOR ALLOCATION BY DISTRIBUTING AGENCIES

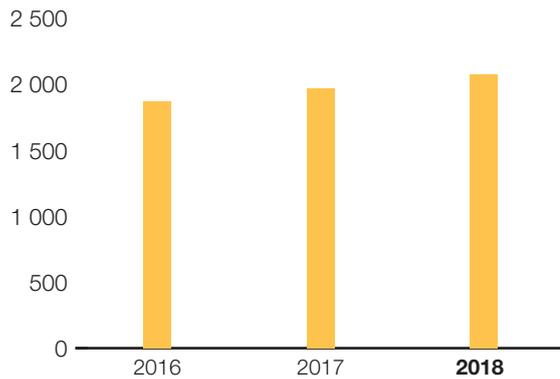
(R'million)



The liability decreased by 55% from the previous financial year to an all time low balance of R580 million

CASH DISBURSED

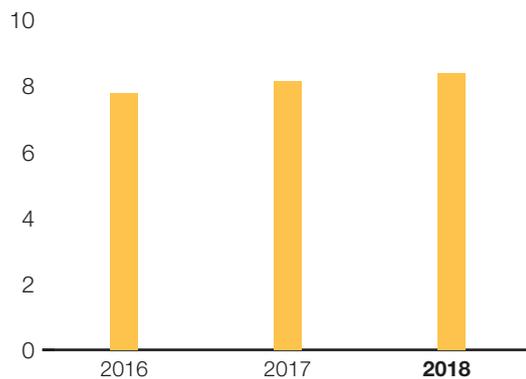
(R'million)



Cash Disbursed
R2.073. billion up 5% as NLC
continues to fast track payments
to beneficiaries

WEIGHTED AVERAGE RETURN ON INVESTMENTS

(%)



The weighted average return
on investments exceeded the
APP targets of 8% and the
actual return is 8.40% up 0.25%
from the prior year

4. MATERIALITY FRAMEWORK IN TERMS OF TREASURY REGULATION 28.1.5

For purposes of 'material' (sections 50(1), 55(2) and 66(1) of the Public Finance Management Act) and 'significant' (section 54(2) of the Public Finance Management Act), the Accounting Authority developed and agreed on a framework of acceptable levels of materiality and significance. Overall materiality for the period under review was agreed as 1% of audited total assets and 0.05% of audited total revenue.

5. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 126 to 161 for the NLC and pages 166 to 187 for the NLDTF were approved by the Accounting Authority on 30 May 2018 and are signed on their behalf.

Prof N A Nevhutanda
Chairperson of the Board

26 July 2018

Report of the Auditor-General to Parliament on the National Lotteries Commission

Report of the auditor-general to Parliament on National Lotteries Commission Report on the audit of the consolidated and separate financial statements

QUALIFIED OPINION

1. I have audited the consolidated and separate financial statements of the National Lotteries Commission and its subsidiaries (the group) set out on pages 126 to 161 which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matter described in the basis for qualified opinion section of my report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Lotteries Commission as at 31 March 2018 and its consolidated financial performance and consolidated cash flows for the year then ended, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).
3. In my opinion, the separate financial statements present fairly, in all material respects, the separate financial position of National Lotteries Commission as at 31 March 2018 and its separate financial performance and separate cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the PFMA.

BASIS FOR QUALIFIED OPINION

Consolidated financial statements

4. The National Lotteries Commission has not consolidated its subsidiary the National Lotteries Participants Trust that had been formulated for the purpose of the protection of the participant's prize monies and sums for distribution. Under the SA Standards of GRAP 6, the National Lotteries Commission should have consolidated this subsidiary. Had the subsidiary National Lotteries Participants Trust been consolidated, many elements in the accompanying consolidated financial statements would have materially changed. The effects on the consolidated financial statements of the failure to consolidate have not been determined for 31 March 2018 and corresponding figures.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
6. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Responsibilities of the accounting authority for the financial statements

8. The board, which constitutes the accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
9. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the National Lotteries Commission's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going-concern basis of accounting unless the accounting authority either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

10. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
11. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the group. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
14. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the group for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Objective 2: To ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts	42 – 43
Objective 3: To implement relevant initiatives geared towards ensuring compliance with the Lotteries Act	41 – 43
Objective 4: To ensure fair and equitable grant allocations	44 – 45

15. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
 - Objective 2: To ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts
 - Objective 3: To implement relevant initiatives geared towards ensuring compliance with the Lotteries Act
 - Objective 4: To ensure fair and equitable grant allocations

OTHER MATTER

17. I draw attention to the matter below.

Achievement of planned targets

18. Refer to the annual performance report on pages 40 to 45 for information on the achievement of planned targets for the year and explanations provided for the over achievement of a number of targets.

Report on the audit of compliance with legislation

INTRODUCTION AND SCOPE

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the group with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
20. I did not identify any instances of material non-compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

OTHER INFORMATION

21. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
22. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

Report of the Auditor-General to Parliament on the National Lotteries Commission (continued)

23. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
24. As a result of the qualified opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.
25. I have no matters to report in this regard.

Internal control deficiencies

26. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matter reported below is limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

LEADERSHIP

27. Leadership did not exercise oversight responsibility regarding financial reporting.

FINANCIAL AND PERFORMANCE MANAGEMENT

28. Management did not ensure that the applicable reporting framework, SA Standards of GRAP, was correctly applied in terms of consolidation of annual financial statements of the group.

Auditor General



AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

20 August 2018

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the group’s compliance with respect to the selected subject matters.

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control;
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board, which constitutes the accounting authority;
 - conclude on the appropriateness of the board, which constitutes the accounting authority’s use of the going-concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Lotteries Commission’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a group to cease continuing as a going concern;
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

Statement of financial performance

for the year ended 31 March 2018

	Note	Group		Company	
		Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
REVENUE		1 787 382	1 704 668	430 681	348 106
Revenue from non-exchange		1 599 648	1 441 100	429 187	347 283
Transfers from NLDTF	1	–	–	426 687	344 783
Fund revenue	2	1 597 148	1 438 600	–	–
Licence fees	3	2 500	2 500	2 500	2 500
Revenue from exchange transactions		187 734	263 567	1 494	823
Other operating income	4	2 699	48 029	1 078	324
Fair value adjustment – investments	5	6 362	–	–	–
Surplus on disposal of property, plant and equipment	6	34	–	34	–
Investment and interest income	7	178 639	215 538	382	499
EXPENDITURE		1 843 079	(1 576 676)	(430 681)	(348 106)
Allocation of grants	8	(1 394 060)	(1 139 768)	–	–
Employee costs	9	(252 892)	(197 822)	(252 892)	(197 822)
Goods and services	10	(184 541)	(165 495)	(166 783)	(141 826)
Administrative expenses	11	(580)	(65 132)	–	–
Depreciation, amortisation and impairment	12	(11 005)	(8 069)	(11 005)	(8 069)
Deficit on disposal of property, plant and equipment	13	–	(389)	–	(389)
Surplus/(deficit) for the year		(55 697)	127 992	–	–

Statement of financial position

as at 31 March 2018

	Note	Group		Company	
		31 March 2018 R'000	Restated 31 March 2017 R'000	31 March 2018 R'000	Restated 31 March 2017 R'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	35 047	39 583	35 047	39 583
Intangible assets	15	110 634	92 108	110 634	92 108
Financial assets – long-term investments	16	1 632 511	1 705 064	–	–
		1 778 192	1 836 754	145 681	131 690
Current assets					
Financial assets – short-term investments	16	5 213	275 631	–	–
Trade and other receivables from exchange transactions	17	9 936	25 268	2 493	2 552
Trade and other receivables from non-exchange transactions	17	56 816	105 405	–	–
Prepayments and deposits	18	1 319	1 409	1 319	1 409
Cash and cash equivalents	19	211 708	549 310	9 986	12 278
		284 992	957 023	13 797	16 238
Total assets		2 063 186	2 793 778	159 479	147 928
LIABILITIES					
Non-current liabilities					
Deferred income – license fees	20	10 417	12 917	10 417	12 917
Provision for allocation by Distributing Agencies – long-term portion	21	–	14 660	–	–
		10 417	27 577	10 417	12 917
Current liabilities					
Current portion of deferred income – license fees	20	2 500	2 500	2 500	2 500
Provision for allocation by Distributing Agencies – short-term portion	21	580 368	1 245 162	–	–
Trade and other payables from exchange transactions	22	13 517	16 932	13 517	16 932
Trade and other payables from non-exchange transactions	22	62	490	100 732	94 169
Provisions	23	32 313	21 410	32 313	21 410
		628 760	1 286 495	149 063	135 011
Total liabilities		639 177	1 314 072	159 480	147 928
Net assets					
Accumulated funds		1 424 009	1 479 706	–	–
Total net assets and liabilities		2 063 186	2 793 778	159 479	147 928

Statement of changes in net assets

for the year ended 31 March 2018

	Note	Accumulated surplus R'000
Group		
Balance as at 1 April 2015		
At the beginning of the year		2 486 603
Restated surplus for the year reported in 2015/16		(1 134 889)
Deficit for the year reported in 2015/16		(1 159 698)
Prior period error	27	24 809
Restated balance as at 31 March 2016		1 351 714
		127 992
Surplus for the year		128 312
Prior period error	27	(320)
Restated balance as at 31 March 2017		1 479 706
Deficit for the year		(55 697)
Balance as at 31 March 2018		1 424 009

	Note	Accumulated surplus R'000
Company		
Balance as at 31 March 2016		
At the beginning of the year		-
Surplus/(Deficit) for the year		-
Balance as at 31 March 2017		-
Surplus/(Deficit) for the period		-
Balance as at 31 March 2018		-

Statement of cash flows

for the year ended 31 March 2018

	Note	Group		Company	
		Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
Cash flow from operating activities					
Cash receipts					
Transfers and subsidies		–	–	433 250	376 000
Cash received from licence holders and other parties		1 645 308	1 414 869	–	342
Interest income		107 157	96 718	400	491
Cash received from beneficiaries and other parties		2 127	6 743	873	–
		1 754 592	1 518 330	434 522	376 833
Cash payments					
Cash paid to beneficiaries and other parties		(2 073 514)	(1 996 901)	–	–
Employee costs paid		(243 674)	(197 320)	(243 674)	(197 320)
Goods and services		(183 240)	(137 612)	(165 318)	(137 612)
		(2 500 429)	(2 331 833)	(408 993)	(334 932)
Net cash generated (utilised)/from operating activities	24	(745 836)	(813 503)	25 527	41 901
Cash flow from investing activities					
Net purchases of property, plant and equipment		(6 475)	(15 173)	(6 475)	(15 173)
Net purchases of intangible assets		(21 344)	(22 399)	(21 344)	(22 399)
Net investment of financial assets		436 054	602 211	–	–
Net cash flows generated from investing activities		408 234	564 639	(27 819)	(37 572)
Net increase/(decrease) in cash and cash equivalent		(337 602)	(248 864)	(2 292)	4 330
Cash and cash equivalent at the beginning of the year	19	549 310	798 174	12 278	7 948
Cash and cash equivalent at the end of the year	19	211 708	549 310	9 986	12 278

Statement of comparison of budget and actual amounts: Group

for the year ended 31 March 2018

R'000	Approved budget	Adjustments	Final budget	Actual amounts	Difference: final budget and actual
Revenue and income					
Share of ticket sales	1 584 469	–	1 584 469	1 391 939	(192 530)
Investment and interest received	170 462	–	170 462	178 639	8 177
Licence fees	2 500	–	2 500	2 500	–
Societies and other lotteries	50	–	50	90	40
Revenue from Participant's Trust	150 000	–	150 000	205 209	55 209
Fair value adjustment	–	–	–	6 362	6 362
Surplus on disposal of property, plant and equipment	–	–	–	34	34
Sundry income	2 800	–	2 800	2 608	(192)
Total revenue and income	1 910 281	–	1 910 281	1 787 382	(122 899)
Expenses					
Employee costs	(244 630)	–	(244 630)	(252 892)	(8 262)
Allocation of grants	(1 441 564)	–	(1 441 564)	(1 394 060)	47 504
Current year allocations	(1 441 564)	–	(1 441 564)	(1 506 013)	(64 449)
Revocations	–	–	–	111 953	111 953
Operating expenses	–	–	–	(17 675)	(17 675)
Goods and services	(212 025)	–	(212 025)	(166 866)	45 159
Administrative expenses	–	–	–	(580)	(580)
Depreciation and amortisation	(9 706)	–	(9 706)	(11 005)	(1 299)
Total expenditure	(1 907 925)	–	(1 907 925)	(1 843 079)	64 846
Surplus/(deficit) for the year	2 356	–	2 356	(55 697)	58 053)
Capital expenditure					
Acquisitions	(45 860)	–	(45 860)	(25 064)	20 796

Account	Explanation of difference	Amount R'000
Share of ticket sales	Revenue underperformed as a result of the projections from the Lottery operator not materialising. Throughout the financial year Ithuba faced continuing challenges from a weakening economy, increased competition from book makers and illegal lottery operators. Ticket sales fell in the first part of the year only to gradually increase in the latter half of the year as a result of changes made to the LOTTO matrix and the addition of the LOTTO PLUS 2 game.	(192 530)
Investment and interest received	Investment income is higher than budgeted as a result of the revision in the mid-term which assumed the NLC would liquidate more investments in order to accelerate payments. There are a few investments which were not liquidated as initially anticipated. The targeted 8% return on investment was achieved. Actual return of investment for the year is 8.40%.	8 177
Revenue from Participant's Trust	Revenue from Participants Trust includes expired prize monies and interest due to the NLDTF from the trust. The overperformance is due to more expiries than were expected from participants who did not claim prizes.	55 209
Sundry income	The variance in other operating income is due to the drop in the debtors book as a result of the implementation of the grants financial management policy.	(192)
Allocation of grants	Revocations were made as a result of the implementation of the grants financial management policy. Some of the revocations were made available for redistribution in order for the Charities Sector to fast track the 2015 call for application which were subsequently cleared.	47 504
Goods and services	There was an under-spending in goods and services as a result of savings and underspending mainly in the following expenditure items. <ul style="list-style-type: none"> • Computer expenses: A payment relating to software costs that were procured during the 2017/18 year and paid in the current year was erroneously budgeted for under this item. • Outsourced services: The functional support on the enterprise wide system started later than expected. • Legal fees: The legal division is doing a lot of work directly and doing direct intervention and mediation to reduce matters going to court. 	45 159
Operating expenses	Professional fees for engineers that are responsible for projects which are capital in nature are funded from the grants allocations budget. There was no overspending.	(17 675)
Property, plant and equipment	NLC buildings were procured towards the end of the financial year and as a result the planned refurbishment did not take place before year end. Mobile vehicles that were budgeted for were deferred to the new financial year. The Disaster Recovery architecture was re-engineered which resulted in savings budget of R23 million	20 796

Statement of comparison of budget and actual amounts: Company

for the year ended 31 March 2018

R'000	Approved budget	Adjustments	Final budget	Actual amounts	Difference: final budget and actual
Revenue					
Transfers from NLDTF	463 349	–	463 349	426 687	(36 662)
Licence fees	2 500	–	2 500	2 500	–
Interest income	462	–	462	382	(80)
Sundry income	–	–	–	988	988
Surplus on disposal of property, plant and equipment	–	–	–	34	34
Societies and other lotteries	50	–	50	90	40
Total revenue	466 361	–	466 361	430 681	(35 680)
Expenses					
Employee costs	(244 630)	–	(244 630)	(252 892)	(8 262)
Goods and services	(212 025)	–	(212 025)	(166 783)	45 242
Depreciation and amortisation	(9 706)	–	(9 706)	(11 005)	(1 299)
Total expenditure	(466 361)	–	(466 361)	(430 681)	35 680
Surplus/(deficit) for the year	–	–	–	–	–
Capital expenditure					
Acquisitions	(45 860)	–	(45 860)	(25 064)	20 796

Account	Explanation of difference	Amount R'000
Transfers and subsidies received	There was an under recovery in transfers and subsidies as a result of the underspending in goods and services in the current financial year. See reasons below.	(36 662)
Goods and services	There was an under-spending in goods and services as a result of savings and underspending mainly in the following expenditure items. <ul style="list-style-type: none"> Computer expenses: A payment relating to software costs that were procured during the 2017/18 year and paid in the current year was erroneously budgeted for under this item. Outsourced services: The functional support on the enterprise wide system started later than expected. Legal fees: The legal division is doing a lot of work directly and doing direct intervention and mediation to reduce matters going to court. 	45 242
Property, plant and equipment	NLC buildings were procured towards the end of the financial year and as a result the planned refurbishment did not take place before year end. Mobile vehicles that were budgeted for were deferred to the new financial year. The Disaster Recovery architecture was re-engineered which resulted in savings budget of R23 million	20 796

Summary of significant accounting policies

for the year ended 31 March 2018

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented.

1. BASIS OF PREPARATION

The consolidated and separate financial statements have been prepared in accordance with South African Generally Recognised Accounting Practice (SA GRAP) as well as the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA). They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying NLC's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in point 19 of the summary of significant accounting policies.

All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

New standards, amendments and interpretations approved and not yet effective

Standard	Scope and potential impact	Effective date
GRAP 20 : Related Party Disclosures	None	
GRAP 32 : Service Concession Arrangements: Grantor	None	No effective date has been determined
GRAP 108 : Statutory Receivables	None	by the Minister of Finance. Standards
GRAP 109: Accounting by Principles and Agents	None	will be applied only upon determination
IGRAP 17 : Interpretation of the Standard of GRAP on Service Concession Arrangements Where the Grantor Controls a Significant Residual Interest in an Asset	None	of effective date by the Minister where applicable.

NLC did not apply any of the standards above. It is not expected that the above standards, amendments and interpretations will have any material impact on the NLC's financial statements on initial application where applicable.

2. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiary. The holding company is NLC.

2.1. Subsidiary

Subsidiaries are all entities (including special purpose entities) over which NLC has the power to govern the financial and operating policies.

The NLDTF is a fund established in terms of section 21 of the Lotteries Act. The NLDTF was created to facilitate the distribution of funds received to the respective sectors, namely Charities, Sports and Recreation, Arts, Culture and National Heritage.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated. Subsidiaries' accounting policies are consistent with the policies adopted by NLC.

3. REVENUE RECOGNITION

Revenue is the gross inflow of economic benefits or service potential during the reporting period when these inflows result in an increase in net assets. Revenue is recognised when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably.

The NLC distinguishes between two forms of revenues namely, revenue from exchange transactions and revenue from non-exchange transactions.

Revenue from exchange transactions is defined as revenue in which NLC receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity or party in exchange.

Revenue from non-exchange transactions is defined as revenue in which NLC receives value from another entity or party without directly giving approximately equal value in exchange or gives value to another entity or party without directly receiving approximately equal value in exchange.

Summary of significant accounting policies

(continued)

for the year ended 31 March 2018

3.1. Transfer from NLDTF

Transfers from the NLDTF are initially measured at fair value on date of transfer. Transfers from the NLDTF are measured at the amount of the increase in net assets recognised by the NLC.

The NLC withdraws the amounts as and when required, based on overall approval by the Minister of Trade and Industry. Income is generally recognised as operating costs are defrayed, the end result being the surrendering of surpluses to (or recovering of any deficit from) the NLDTF, thus not accounting for any accumulated surplus.

3.2. Licence fees

Revenue from licence fees are paid at the inception of the licence by the National Lottery Operator in order to operate the licence. The consideration received is measured at the fair value and amortised over the licence term to the Statement of Financial Performance.

3.3. Investment income

Investment income comprises interest received from assets held at amortised cost and cash and cash equivalents. Interest is accounted for on an accrual basis using the effective interest rate method.

3.4. Share of ticket sales

Revenue from share of ticket sales is accounted for on the accrual basis and is measured as a percentage of ticket sales from by the operator as stipulated and agreed in the licence agreement with National Lottery Operator.

3.5. Expired and unclaimed prizes

Expired and unclaimed prizes relate to prizes in constituent lotteries (not being an Instant Lottery) for which remain unclaimed for a period of 365 days as stipulated in the licence agreement with the National Lottery Operator. Such monies are accounted for on an accrual basis. Payments of the funds are through the intermediation of the Participants Trust.

3.6. Interest from National Lottery Participant Trust

Any interest that remain in the Participant's trust after deduction of the Participant's Trust costs are due to the NLDTF as stipulated in the trust deed of the Participant's Trust. These monies are accounted for on an accrual basis. Payments of the funds are through the intermediation of the National Lottery Participants Trust.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible items that are expected to be used during more than one reporting period. Property and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to NLC and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Furniture and fittings	10 to 17 years
Office equipment	3 to 17 years
Computer equipment	3 to 7 years
Network Infrastructure	Shorter of the estimated life or period of the lease. Seven years for servers
Leasehold improvements	Shorter of estimated life or period of lease
Buildings	99 years

The assets' residual values and useful lives are reviewed at each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount. These are recorded in profit or loss.

5. INTANGIBLE ASSETS

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by NLC are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available;
- the expenditure attributable to the software product during its development can be reliably measured

Directly attributable costs, that are capitalised as part of the software product, include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets are classified as indefinite on initial acquisition when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to the entity.

Software licences and systems with indefinite useful lives are capitalised and not amortised. An annual impairment test will be performed on the licences and systems.

Subsequent to initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the term of the contract.

Intangible assets with indefinite lives consists of:

- websites
- integrated systems

6. LEASES

6.1. Operating lease

NLC classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in profit or loss on a straight-line basis over the period of the lease.

7. FINANCIAL ASSETS

NLC classifies its financial assets in the following categories:

- financial assets at amortised cost
- financial assets at fair value

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

7.1. Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets that have fixed or determinable payments, excluding those assets that:

- the entity designates at fair value at initial recognition; or
- are held for trading

Financial assets carried at amortised cost, are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. These assets are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

Summary of significant accounting policies

(continued)

for the year ended 31 March 2018

7. FINANCIAL ASSETS (continued)

NLC will derecognise a financial assets when:

- (a) the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- (b) NLC transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- (c) NLC despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial assets at amortised cost consists of:

- Investments;
- Deposits and prepayments;
- Receivables from exchange transaction;

7.2. Financial assets at fair value

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- (a) derivatives;
- (b) combined instruments that are designated at fair value in accordance with paragraphs 20 or 21 of GRAP 104
- (c) instruments held for trading. A financial instrument is held for trading if:
 - (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- (d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition in accordance with paragraph 17; and
- (e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets at fair value consists of cash and cash equivalents (refer to note 9).

Financial assets at fair value will be initially recognised is at fair value. A gain or loss arising from a change in the fair value of a financial asset measured at fair value shall be recognised in surplus or deficit.

8. IMPAIRMENT OF ASSETS

8.1. Financial assets carried at amortised cost

NLC assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence includes one or more of the following events:

- significant financial difficulty of the issuer or debtor
- a breach of contract, such as default or delinquency in payments
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in NLC, including:
 - adverse changes in the payment status of issuers or debtors of NLC
 - national or local economic conditions that correlates with defaults on the assets of NLC

8. IMPAIRMENT OF ASSETS (continued)

8.1. Financial assets carried at amortised cost (continued)

NLC first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If NLC determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

8.2. Impairment of other non-financial assets

Assets, including intangible assets, that are subject to amortisation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment charge is recognised as a loss in profit or loss immediately.

9. FINANCIAL LIABILITIES

NLC classifies its financial liabilities in the following category:

- financial liabilities at amortised cost

9.1. Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial assets that have fixed or determinable payments, excluding those liabilities that:

- the entity designates at fair value at initial recognition; or
- are held for trading

Financial liabilities carried at amortised cost, are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability.

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities at amortised cost consists of:

- Provision for allocation by Distributing Agencies;
- Trade and other payables;
- Other provision;

A gain or a loss is recognised in surplus or deficit when the financial liability is derecognised or through the amortisation process.

NLC derecognises financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Summary of significant accounting policies

(continued)

for the year ended 31 March 2018

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

- cash in hand
- deposits held at call and short notice
- balances with banks

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. It comprises cash in hand and deposits held at call with respective banks. Cash and cash equivalents have a maturity of less than three months. Cash and cash equivalents are classified as financial assets at fair value and are carried at cost which due to their short-term nature approximates fair value.

11. CONTINGENT ASSETS

Contingent assets are possible assets that arise from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent asset is not recognised in the financial statement, however it is disclosed where an inflow of economic benefits or service potential is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements.

12. FINANCIAL RISK MANAGEMENT

The NLC's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Board manages these risks through Board Audit and Risk Committee.

12.1 Market risk

The NLC's activities as a regulator do not expose it to a significant amount of market risk. Therefore no formal policies have been developed to guard against market risk.

12.2. Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to outstanding receivables and committed transactions.

The NLC also follows regulations issued by National Treasury to manage its exposure to credit risk. This includes spreading the investments held among reputable financial institutions.

12.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet the daily demands of the operations.

Management monitors daily balances of cash and cash equivalents as well as investment accounts to ensure that enough funds are available to meet the needs of the operation.

13. EMPLOYEE BENEFITS

13.1. Post-employment benefits

The Government Employees Pension Fund is a defined benefit fund, which provides retirement and death benefits for employees. The Senior Executive Grant Funding was the entity's only member of the Fund. The NLC is not liable for any deficits due to the difference between the present value of the benefit obligations, and the fair value of the assets managed by the Government Employees Pension Fund. Any potential liabilities are disclosed in the financial statements of the National Revenue Fund and not in the financial statements of the NLC. The pension plan is funded by contributions from the member and the NLC. Contributions are charged to the Statement of Financial Performance in the year to which they relate.

The Provident Fund to which all other employees belong is a defined contribution fund, which provides retirement, death and disability benefits. The NLC funds the plan. The contributions are charged to the Statement of Financial Performance in the year to which they relate.

13.2. Provision for leave pay

NLC accrues in full the employees' rights to annual leave entitlement in respect of past service. The undiscounted amount is expensed over the period the services are rendered. A provision is made for the estimated liability as a result of services rendered by employees up to balance sheet date. The NLC remains liable to pay out an amount equal to the leave balance at current rate of remuneration. Payment of the leave is dependent on when employees resign.

13. EMPLOYEE BENEFITS (continued)

13.3 Provision for bonus plan

NLC recognises a provision and an expense for bonuses in staff costs, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation. Bonuses are paid based on the outcome of annual performance assessments and only paid once approval of the Board is obtained. The timing of the approval of the bonus varies from year-to-year.

14. TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

15. PROVISIONS

Provisions are recognised when, as a result of past events, NLC has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

16. CONTINGENT LIABILITIES

NLC discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it has a present obligation that arises from past events but not recognised because
 - it is not probable that an outflow of resources will be required to settle an obligation or
 - the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not recognised in the financial statement, however it is disclosed unless the probability of an outflow of economic benefits is remote. Contingent liabilities comprise grants allocated by the Distributing Agencies to beneficiaries on a conditional basis and the stipulated conditions have not been met as at 31 March 2018.

17. ALLOCATION OF GRANTS

Allocations are accounted for when applications for assistance from individual entities are considered and grants are unconditionally awarded by the respective distributing agencies.

18. CONTRACTUAL COMMITMENTS

A commitment is a contractual arrangement that binds the department to incur future expenditure based on items that are still to be received. Disclosure of commitments entered into before year end are relevant for the following standards of GRAP:

- GRAP 1 on Presentation of Financial Statements (disclosure of unrecognised contractual commitments)
- GRAP 13 on Leases (disclosure of the future minimum lease payments)
- GRAP 17 on Property, Plant and Equipment (disclosure of contractual commitments for Property, Plant and Equipment)
- GRAP 31 on Intangible Assets (disclosure of the contractual commitments for the acquisition of intangible assets)

Summary of significant accounting policies

(continued)

for the year ended 31 March 2018

19. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

19.1 Provision for allocation by Distributing Agencies

Allocations are accounted for when applications for assistance from individual organisations are considered and grants are unconditionally awarded by the respective Distributing Agencies. Disclosures are made for those organisations which were funded by the NLDTF in which Distributing Agencies may have significant interest in. Disclosures made relate to the payments, allocations in the current year and outstanding amounts outstanding at year end.

19.2 Provision for doubtful debts

A provision for doubtful debt is raised in instances where there are indications that the debt may not be recoverable from the debtor. The assessment of recoverability is done on a individual debt basis.

19.3 Beneficiaries written off

Beneficiaries written off are those beneficiaries where all avenues for recovery have been completely exhausted and the outstanding debts are considered not recoverable.

20. RELATED PARTIES

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

As a minimum, the following are regarded as related parties of the reporting entity:

- (a) A person or a close member of that person's family related to the reporting entity if that person:
 - (i) has control or joint control over the NLC;
 - (ii) has significant influence over the NLC or
 - (iii) is a member of the management of the NLDTF or NLC.

Related party transactions are transfers of resources, services or obligations between the NLC and a related party, regardless of whether a price is charged.

21. IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with a requirement of any applicable legislation, including:

- The PFMA, or
- Any legislation providing for procurement procedures

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

When confirmed, irregular expenditure must be recorded in the notes to the financial statements. The amount to be recorded in the notes must be equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof. Where such impracticality exists, the reasons therefore must be provided in the notes. Irregular expenditure must be removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable. A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be de-recognised when the receivable is settled or subsequently written off as irrecoverable. Any irregular expenditure is charged against income in the period in which it is incurred.

Any irregular, fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

Notes to the financial statements

for the year ended 31 March 2018

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
1. TRANSFERS FROM NLDTF				
Payments from fund in respect of expenses	–	–	426 687	344 783
	–	–	426 687	344 783
2. FUND REVENUE				
Share of ticket sales	1 391 939	1 371 653	–	–
Expired and unclaimed prizes	187 720	48 776	–	–
Interest from the National Lottery Participant Trust	17 489	18 172	–	–
	1 597 148	1 438 600	–	–
3. LICENCE FEES				
Recognition of lottery licence fees	2 500	2 500	2 500	2 500
	2 500	2 500	2 500	2 500
4. OTHER OPERATING REVENUE				
Registration fees – Schemes and Societies	90	38	90	38
Sundry income ¹	1 378	2 044	988	285
Movement in the provision for doubtful debt	1 231	45 947	–	–
	2 699	48 029	1 078	324
<i>1. Sundry income constitutes a combination of unspent amounts returned by beneficiaries as well as amounts due from beneficiaries as a result of breach of contract.</i>				
5. FAIR VALUE ADJUSTMENT – INVESTMENT				
Fair value adjustment – investment	6 362	–	–	–
	6 362	–	–	–
Fair value is a rational and unbiased estimate of the potential market price of the investment. The fair value adjustment relates to the equity-linked note investments.				
6. SURPLUS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT				
	34	–	34	–
	34	–	34	–
7. INVESTMENT AND INTEREST INCOME				
Call and current accounts	2 553	16 242	382	499
Interest income from investments	176 086	199 297	–	–
	178 639	215 538	382	499
8. ALLOCATION OF GRANTS				
Current year allocations	1 506 013	1 524 187	–	–
Revocations	(111 953)	(384 418)	–	–
	1 394 060	1 139 768	–	–
9. EMPLOYEE COSTS				
Salaries, wages and allowances	179 561	152 795	179 561	152 795
Medical aid fund contribution	10 680	8 867	10 680	8 867
Defined provident fund contributions	19 777	15 938	19 777	15 938
Defined benefit pension fund contributions	9	335	9	335
Social security levies (Unemployment Insurance Fund, Skills Development Levy)	2 624	2 145	2 624	2 145
Risk benefit and management fees	5 408	4 415	5 408	4 415
Provision for leave pay	1 273	(2 480)	1 273	(2 480)
Provision for bonus	33 559	15 808	33 559	15 808
	252 892	197 822	252 892	197 822

Notes to the financial statements (continued)

for the year ended 31 March 2018

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
10. GOODS AND SERVICES				
Advertising and publicity	21 952	16 799	21 952	16 799
Audit fees	3 183	2 263	3 183	2 263
Bank charges	169	204	86	154
Computer expenses	20 942	4 232	20 942	4 232
Conferences and meetings	1 375	801	1 375	801
Consulting fees	14 949	10 022	14 949	10 022
Courier and delivery costs	599	879	599	879
Distributing Agency emoluments	3 647	5 672	3 647	5 672
Professional fees	17 675	23 620	–	–
Board member fees including Board committees	4 874	3 169	4 874	3 169
Insurance	2 087	1 162	2 087	1 162
Legal fees	11 382	13 398	11 382	13 398
Rental – Motor vehicles	2 112	2 258	2 112	2 258
Rental – Office buildings	21 101	20 106	21 101	20 106
Rental – Office equipment	1 970	1 694	1 970	1 694
Outsourcing	5 442	311	5 442	311
Printing and stationary	3 324	4 230	3 324	4 230
Refreshments and catering	1 309	1 359	1 309	1 359
Repairs and maintenance	2 008	2 110	2 008	2 110
Small assets written off	32	611	32	611
Staff recruitment	68	383	68	383
Staff training	10 519	3 307	10 519	3 307
Staff welfare	1 546	1 779	1 546	1 779
Subscriptions	856	16 263	856	16 263
Sundry expenses	4 981	4 788	4 981	4 788
Telephone and internet charges	5 983	2 385	5 983	2 385
Travel and accommodation	16 391	17 318	16 391	17 318
Water and electricity	4 065	4 375	4 065	4 375
	184 541	165 495	166 783	141 826
11. ADMINISTRATIVE EXPENSES				
Management fees	99	160	–	–
Loss from financial instruments	65	42	–	–
Write off of PV equalisation	–	22 727	–	–
Beneficiaries written off	416	42 203	–	–
	580	65 132	–	–
Beneficiaries written off relates to funds which were initially earmarked for recovery which were not recovered mainly due to prescription period.				
12. DEPRECIATION, AMORTISATION				
12.1 Depreciation				
Network infrastructure	1 839	1550	1 839	1550
Computer equipment	2 356	2069	2 356	2069
Furniture and fittings	1 355	1364	1 355	1364
Leasehold improvements	3 039	1492	3 039	1492
Office equipment	1 834	1001	1 834	1001
	10 423	7 475	10 423	7 475
12.2 Amortisation				
Software	237	248	237	248
Grants Management System	345	345	345	345
	582	594	582	594
Total	11 005	8 069	11 005	8 069

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
13. DEFICIT ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT	-	389	-	389
	-	389	-	389

14. PROPERTY, PLANT AND EQUIPMENT: GROUP AND COMPANY

R'000	Buildings	Network Infra- structure	Computer equipment	Furniture and fittings	Leasehold improve- ments	Office equipment	Total
Year ended 31 March 2018							
Opening carrying amount	-	4 534	5 137	9 779	5 421	14 712	39 582
Additions	3 824	382	1 133	45	363	209	5 956
Disposals	-	-	(58)	-	-	(10)	(68)
Cost	-	-	(124)	-	-	(16)	(140)
Accumulated depreciation	-	-	66	-	-	6	72
Depreciation charge	-	(1 839)	(2 356)	(1 355)	(3 039)	(1 834)	(10 423)
Closing carrying amount	3 824	3 078	3 855	8 469	2 745	13 077	35 047
At 31 March 2018							
Cost	3 824	7 723	9 802	14 284	8 789	18 192	62 614
Accumulated depreciation	-	(4 646)	(5 947)	(5 815)	(6 044)	(5 115)	(27 566)
Carrying amount	3 824	3 078	3 855	8 469	2 745	13 077	35 047
Year ended 31 March 2017							
Opening carrying amount	-	5 567	5 802	10 920	2 735	6 721	31 745
Additions	-	517	1 765	305	4 178	8 992	15 756
Disposals	-	-	(361)	(82)	-	-	(443)
Cost	-	-	(1 052)	(292)	-	(5)	(1 349)
Accumulated depreciation	-	-	691	210	-	5	906
Depreciation charge	-	(1 550)	(2 069)	(1 364)	(1 492)	(1 001)	(7 475)
Closing carrying amount	-	4 534	5 137	9 779	5 421	14 712	39 583
At 31 March 2017							
Cost	-	7 341	8 793	14 239	8 426	17 999	56 797
Accumulated depreciation	-	(2 807)	(3 656)	(4 460)	(3 004)	(3 287)	(17 215)
Carrying amount	-	4 534	5 137	9 779	5 421	14 712	39 582

Notes to the financial statements (continued)

for the year ended 31 March 2018

15. INTANGIBLE ASSETS: GROUP AND COMPANY

R'000	Geographical Information System	Enterprise System ¹	Software ²	Grant Management System	Website	Total
Period ended 31 March 2018						
Opening carrying amount	1 470	89 852	243	345	198	92 108
Additions	340	18 750	18	-	-	19 108
Disposals	-	-	-	-	-	-
Cost	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Impairment charge	-	-	-	-	-	-
Amortisation charge	-	-	(237)	(345)	-	(582)
Closing carrying amount	1 810	108 602	24	-	198	110 634
At 31 March 2018						
Cost	1 810	108 602	2 655	6 963	198	120 227
Accumulated amortisation/impairment	-	-	(2 630)	(6 963)	-	(9 593)
Carrying amount	1 810	108 602	24	-	198	110 634
Year ended 31 March 2017						
Opening carrying amount	-	66 687	492	691	198	68 067
Additions	1 470	23 165	-	-	-	24 635
Disposals	-	-	-	-	-	-
Cost	-	-	(84)	-	-	(84)
Accumulated depreciation	-	-	84	-	-	84
Amortisation charge	-	-	(248)	(345)	-	(594)
Closing carrying amount	1 470	89 852	243	345	198	92 108
At 31 March 2017						
Cost	1 470	89 852	2 637	6 963	198	101 119
Accumulated amortisation/impairment	-	-	(2 393)	(6 618)	-	(9 011)
Carrying amount	1 470	89 852	243	345	198	92 108

1. Enterprise system are various applications that are being developed for the NLC that will support business processes, information flows, reporting and data analytics.

2. GMS, Payday and Pastel are carried at zero but still in use.

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
16. FINANCIAL ASSETS				
The Group's investment in financial assets are summarised by measurement category below:				
Financial assets at amortised cost:				
- Money market securities	5 000	267 054	-	-
- Capital market securities	1 300 000	1 474 000	-	-
- Accrued Interest	326 362	239 641	-	-
Financial assets at fair value				
- Equity intrinsic value	6 362	-	-	-
Total investment	1 637 724	1 980 695	-	-
Current	5 213	275 631	-	-
Non-current	1 632 511	1 705 065	-	-
	1 637 724	1 980 695	-	-

Maturity profile:

Money market securities are in the form of fixed deposits with maturity dates greater than three months but no more than 12 months. Funds are invested at fixed interest rates which vary per institution. The capital market securities comprise investments that are more than 12 months and comprise equity linked notes. The weighted average yield to maturity is 8.40% (2017: 8.15%).

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
17. TRADE AND OTHER RECEIVABLES				
17.1 Trade and other receivables from exchange transactions				
– Study loans and advances	804	1 092	804	1 092
– Staff receivables – payroll	483	474	483	474
– Sundry debtors	1 178	939	1 178	939
Accrued income	7 471	22 710	28	45
– Interest receivable on current and call accounts	244	424	28	45
– Interest receivable on short-term investments	7 227	22 286	–	–
Total	9 936	25 216	2 493	2 552
Claims from beneficiaries	–	52	–	–
– Gross amount claimed	8 536	9 819	–	–
– Provision for doubtful claim recovery from beneficiaries	(8 536)	(9 767)	–	–
Current	9 936	25 268	2 493	2 552
	9 936	25 268	2 493	2 552
17.2 Trade and other receivables from non-exchange transactions				
Accrued income	56 816	105 405	–	–
– Interest receivable from the National Lotteries Participant Trust	9 125	4 355	–	–
– Expired and unclaimed prize money due to the NLDTF	22 945	72 994	–	–
– Share of ticket sales from the National Lottery Operator	24 743	28 056	–	–
Total	56 816	105 405	–	–
Current	56 816	105 405	–	–
	56 816	105 405	–	–
18. PREPAYMENTS AND DEPOSITS				
Insurance and property rental prepayments	678	775	678	775
Deposits	641	634	641	634
	1 319	1 409	1 319	1 409
Deposits relate to amounts paid on inception of operating lease contracts entered into by the NLC for the leasing of property (refer to note 25.2 for details of operating lease commitments).				
19. CASH AND CASH EQUIVALENTS				
Cash at bank – current account	45 401	62 617	7 221	9 599
Cash at bank – call account	3 186	8 641	2 728	2 641
Cash on hand	37	37	37	37
Fixed deposits with maturity dates less than three months	163 085	478 016	–	–
	211 708	549 310	9 986	12 278

Cash and cash equivalents included for the purposes of the cash flow statement are equal to the list detailed above. Included in the R2.728 million call account of the NLC is an amount of R2.44 million which is pledged as a guarantee in favour of Growth Point Properties (Pty) Ltd in terms of the NLC lease agreement. The current accounts are not pledged.

Notes to the financial statements (continued)

for the year ended 31 March 2018

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
20. DEFERRED REVENUE – LICENCE FEES				
Opening balance	15 417	17 917	15 417	17 917
Income deferred	–		–	–
Amount charged to statement of financial performance	(2 500)	(2 500)	(2 500)	(2 500)
Closing balance	12 917	15 417	12 917	15 417
Current	2 500	2 500	2 500	2 500
Non-current	10 417	12 917	10 417	12 917
	12 917	15 417	12 917	15 417
21. PROVISION FOR ALLOCATION BY DISTRIBUTING AGENCIES				
Opening balance	1 259 822	2 070 358	–	–
Additional provision made during the period (including increases to existing provisions)	1 506 013	1 524 187	–	–
Payments made during the period	(2 073 514)	(1 973 031)	–	–
Remeasurement of the estimated future outflow of economic benefits	–	22 727	–	–
Revocations	(111 953)	(384 418)	–	–
Closing balance	580 368	1 259 822	–	–
Current	580 368	1 245 162	–	–
Non-current	–	14 660	–	–
	580 368	1 259 822	–	–
Cash disbursed refers not only to payments against current year allocations but also to payments relating to commitments owing from previous financial years. Payments against prior year commitments are in accordance with duly signed grant agreements.				
22. TRADE AND OTHER PAYABLES				
22.1 Trade and other payables from exchange transactions				
Supplier payables	133	4	133	4
Accruals	10 093	10 769	10 093	10 769
Payroll creditors	129	2 085	129	2 085
Straight-lining of operating lease payments	3 162	4 074	3 162	4 074
	13 517	16 932	13 517	16 932
Current	13 517	16 932	13 517	16 932
Non-current	–	–	–	–
	13 517	16 932	13 517	16 932
22.2 Trade and other payables from non-exchange transactions				
– National Lottery Distribution Trust Fund	–	–	100 732	94 169
– Unallocated funds	62	62	–	–
– Amount due to Ithuba	–	429	–	–
	62	490	100 732	94 169

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
23. PROVISIONS				
Leave pay				
Opening balance	4 611	9 196	4 611	9 196
Additional provisions raised	5 183	4 611	5 183	4 611
Used during the year	(701)	(2 114)	(701)	(2 114)
Unused amounts reversed	(3 910)	(7 082)	(3 910)	(7 082)
Closing balance	5 183	4 611	5 183	4 611
Bonus				
Opening balance	16 428	13 019	16 428	13 019
Additional provisions raised	27 130	16 428	27 130	16 428
Used during the year	(16 428)	(12 054)	(16 428)	(12 054)
Unused amounts reversed	-	(965)	-	(965)
Closing balance	27 130	16 428	27 130	16 428
General provision				
Opening balance	372	322	372	322
Additional provisions raised	-	372	-	372
Used during the year	(372)	-	(372)	-
Unused amounts reversed	-	(322)	-	(322)
Closing balance	-	372	-	372
General provision relates to the amount provided for in respect of workmen's compensation.				
Current	32 313	21 410	32 313	21 410
Non-current	-	-	-	-
	32 313	21 410	32 313	21 410
24. CASH FLOW INFORMATION				
24.1 Cash generated by operations				
Surplus/(deficit) per the statement of financial performance	(55 697)	127 992	-	-
Adjusted for:				
Non-cash items:				
Amortisation and impairment	582	594	582	594
Deferred revenue	(2 500)	(2 500)	(2 500)	(2 500)
Depreciation	10 423	7 475	10 423	7 475
Operating lease payments smoothing	(912)	83	(912)	83
(Profit)/loss on sale of assets	(34)	389	(34)	389
Provision for bad debts	(1 231)	(45 947)	-	-
Bad debts written off	416	42 203	-	-
Write off of PV equalisation	-	22 727	-	-
Accrued income	-	(149 348)	-	(45)
Loss from financial instruments	-	42	-	-
Fair value adjustment	(6 362)	-	-	-
	(55 314)	3 711	7 560	5 996
Working capital changes				
Increase/(decrease) in trade and other receivables	(28 531)	(12 931)	249	(1 213)
Increase/(decrease) in trade and other payables	6 561	7 379	6 815	38 244
Increase/(decrease) in provisions	10 903	(1 126)	10 903	(1 126)
Decrease in provision for allocation of Distributing Agency	(679 454)	(810 536)	-	-
Net cash generated/(utilised) from operating activities	(747 836)	(813 503)	25 527	41 901

Notes to the financial statements (continued)

for the year ended 31 March 2018

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
25. COMMITMENTS				
25.1 Capital commitments				
Purchase order commitments	–	3 380	–	3 380
	–	3 380	–	3 380
25.2 Operating lease commitments				
NLC leases buildings for its head office and provincial offices under operating leases. The remaining periods of the leases are from one year to four years. The future minimum commitments in terms of the leases of buildings, including NLC's head office are as follows:				
Due within one year	19 705	19 658	19 705	19 658
Due within two to five years	1 588	16 720	1 588	16 720
Due after five years	–	–	–	–
Net commitment	21 293	36 377	21 293	36 377
The lease term of the provincial leases is four (4) years with the exception of the Polokwane office which is five (5) years. The lease in Polokwane escalates at 7% per annum. The leases in Kimberly, Nelspruit and North West escalate at 8% per annum, whilst the leases in Cape Town, Pretoria and East London escalate at 9% per annum and the leases for Durban and the Free State escalate at 10% per annum.				
25.3 Operating commitments				
Purchase order commitments	477	2 768	477	2 768
Contract commitments	21 622	–	21 622	–
	22 099	2 768	22 099	2 768

Operating commitments relate to purchase order and contract commitments. Contract commitments are for a period ranging from 12 to 36 months.

26. MANAGEMENT OF FINANCIAL RISK

NLC's management monitors and manages the financial risks relating to the operations of the entity through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

Interest rate risk: The impact of changes in market interest rates.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that NLC will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash being available to meet commitments as and when they become due.

Financial risks are managed by NLC as follows:

- Through internal risk reports which analyse exposures by degree and magnitude of risks;
- Review by the internal auditors of compliance with policies and exposure limits on a continual basis and regularly reporting to the Audit Committee; and
- Monitoring forecast and accrual cash flows and matching the maturity profiles of financial assets and liabilities.

To assist in the analysis of the financial risks that NLC is exposed to, the statement of financial position has been divided into the following categories:

- Financial assets and liabilities; and
- Non-financial assets and liabilities.

26. MANAGEMENT OF FINANCIAL RISK

	Total R'000	Financial assets and liabilities R'000	Non-financial assets and liabilities R'000
As at 31 March 2018			
Financial instruments at amortised cost			
Unlisted:			
Money market securities	5 213	5 213	–
Capital market securities	1 626 149	1 626 149	–
Trade and other receivables from exchange transaction	9 936	9 936	–
Trade and other receivables from non-exchange transaction	56 816	56 816	–
Deposits and prepayments	1 319	1 319	–
Financial instruments at fair value:			
Cash and cash equivalents	211 708	211 708	–
Equity intrinsic value	6 362	6 362	–
Non-financial assets			
Other assets	145 681	–	145 681
Total assets	2 063 184	1 917 503	145 681
Financial liabilities at amortised cost:			
Provision for allocation by Distributing Agencies	580 368	580 368	–
Trade payables from exchange transactions	13 517	13 517	–
Trade payables from non-exchange transactions	62	62	–
Provisions	32 313	32 313	–
Total liabilities	626 260	626 260	–
As at 31 March 2017			
Financial instruments at amortised cost			
Unlisted:			
Money market securities	275 631	275 631	–
Capital market securities	1 705 065	1 705 065	–
Trade and other receivables from exchange transaction	25 615	25 615	–
Trade and other receivables from non-exchange transaction	105 405	105 405	–
Deposits and prepayments	1 409	1 409	–
Financial instruments at fair value:			
Cash and cash equivalents	549 310	549 310	–
Non-financial assets			
Other assets	131 690	–	131 690
Total assets	2 794 124	2 662 434	131 690
Financial liabilities at amortised cost			
Provision for allocation by Distributing Agencies	1 259 822	1 259 822	–
Trade payables from exchange transactions	16 932	16 932	–
Trade payables from non-exchange transactions	429	429	–
Provisions	21 410	21 410	–
Total liabilities	1 298 592	1 298 592	–

Notes to the financial statements (continued)

for the year ended 31 March 2018

26.1 Financial assets and liabilities

The NLC is exposed to financial risk through the following financial assets and liabilities:

	31 March 2018 R'000	31 March 2017 R'000
Financial instruments at amortised cost		
Unlisted:		
Money market securities	5 213	275 631
Capital market securities	1 626 149	1 705 065
Trade and other receivables from exchange transaction	9 936	25 268
Trade and other receivables from non-exchange transaction	56 816	105 405
Deposits and prepayments	1 319	1 409
Financial instruments at fair value:		
Cash and cash equivalents	211 708	549 310
Equity intrinsic value	6 362	–
Total financial assets	1 917 503	2 662 087
Financial liabilities at amortised cost		
Provision for allocation by Distributing Agencies	580 368	1 259 822
Trade payables from exchange transactions	13 517	16 932
Trade payables from non-exchange transactions	62	429
Provisions	32 313	21 410
Total financial liabilities	626 260	1 298 592

26. MANAGEMENT OF FINANCIAL RISK (continued)

26.1 Financial assets and liabilities (continued)

26.1.1 Market risk

(a) Interest rate risk

Sensitivity to changes in interest rates is relevant to financial assets or financial liabilities bearing floating interest rates due to the risk that future cash flows will fluctuate. NLC invests its money market instruments at a fixed rate. There will be no impact on the future cash flows of the entity as a result of changes in interest rates.

The table below details the specific interest rate risk that the NLC is exposed to:

	Carrying amount R'000	Fixed R'000	Floating R'000	Non-interest bearing R'000
As at 31 March 2018				
Financial instruments at amortised cost				
Unlisted:				
Money market securities	5 213	5 213	–	–
Capital market securities	1 626 149	1 626 149	–	–
Trade and other receivables from exchange transaction	9 936	–	–	9 936
Trade and other receivables from non-exchange transaction	56 816	–	–	56 816
Deposits and prepayments	1 319	–	–	1 319
Financial instruments at fair value				
Cash and cash equivalents	211 708	163 085	48 587	37
Equity intrinsic value	6 362	–	–	6 362
Total financial assets	1 917 503	1 794 446	48 587	74 470
Financial liabilities at amortised cost				
Provision for allocation by Distributing Agencies	580 368	–	–	580 368
Trade payables from exchange transactions	13 517	–	–	13 517
Total financial liabilities	593 885	–	–	593 885
As at 31 March 2017				
Financial instruments at amortised cost				
Unlisted:				
Money market securities	275 631	275 631	–	–
Capital market securities	1 705 065	1 705 065	–	–
Trade and other receivables from exchange transaction	25 615	–	–	25 615
Trade and other receivables from non-exchange transaction	105 405	–	–	105 405
Deposits and prepayments	1 409	–	–	1 409
Financial instruments at fair value				
Cash and cash equivalents	549 310	478 016	71 257	37
Total financial assets	2 662 434	2 458 711	71 257	132 465
Financial liabilities at amortised cost				
Provision for allocation by Distributing Agencies	1 259 822	–	–	1 259 822
Trade payables from exchange transactions	16 932	–	–	16 932
Total financial liabilities	1 276 754	–	–	1 276 754

Notes to the financial statements (continued)

for the year ended 31 March 2018

26.1.2 Credit risk

Key areas where NLC is exposed to credit risk:

- Financial investments comprising money market instruments entered to invest surplus funds
- Cash and cash equivalents

The NLC is exposed to credit risk in a form of money market instruments that are invested with the various institutions. The NLC is further exposed to credit risk from government and state-owned entities in terms of capital market instruments that are purchased from the various institutions.

	Total R'000	AAA R'000	AA+ AA AA- R'000	A+ A A- R'000	BBB BBB+ R'000	Not rated R'000
As at 31 March 2018						
Financial instruments at amortised cost						
Unlisted:						
Money market securities	5 213	-	-	-	5 213	-
Capital market securities	1 626 149	-	-	-	1 626 149	-
Financial instruments at fair value						
Cash and cash equivalents	211 708	-	-	-	211 708	-
Equity intrinsic value	6 362	-	-	-	6 362	-
	1 849 432	-	-	-	1 849 432	-

	Total R'000	AAA R'000	AA AA- R'000	A A- R'000	BBB BBB+ R'000	Not rated R'000
As at 31 March 2017						
Financial instruments at amortised cost						
Unlisted:						
Money market securities	275 631	-	-	-	275 631	-
Capital market securities	1 705 065	-	-	-	1 705 065	-
Financial instruments at fair value						
Cash and cash equivalents	549 310	-	-	-	549 310	-
	2 530 005	-	-	-	2 530 005	-

Credit risk relating to receivables

R'000	31 March 2018	31 March 2017
National Lottery Participants Trust	32 071	40 683
Gidani (Pty) Ltd	-	36 665
Ithuba (Pty) Ltd	24 745	28 056
Beneficiaries	8 536	9 819
Staff receivables and other receivables from exchange transactions	9 936	25 216
	75 289	140 440

26. MANAGEMENT OF FINANCIAL RISK (continued)**26.1 Financial assets and liabilities (continued)****26.1.2 Credit risk (continued)**

The ageing of the components of trade and receivables was:

	Gross 31 March 2018 R'000	Impairment 31 March 2018 R'000	Gross 31 March 2017 R'000	Impairment 31 March 2017 R'000
Within a year	66 752	–	131 267	(646)
Later than one year	8 536	(8 536)	9 173	(9 121)
Total	75 289	(8 536)	140 440	(9 767)

The movement in the provision for impairment during the year was as follows:

	31 March 2018 R'000	31 March 2017 R'000
Balance at the beginning of the year	9 767	55 713
Movement in provision	(1 231)	(45 947)
Balance at the end of the year	8 536	9 767

26.1.3 Liquidity risk

The table below analyses the NLC's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	Total R'000	Less than a year R'000	Greater than a year R'000
As at 31 March 2018			
Provision for allocation by Distributing Agencies	580 368	580 368	–
Total	580 368	580 368	–
As at 31 March 2017			
Provision for allocation by Distributing Agencies	1 259 822	1 245 162	14 660
Total	1 259 822	1 245 162	14 660

27. PRIOR PERIOD ERROR**27.1 Prior period error – Group**

During the current financial year errors were identified relating to the prior years. The nature of the errors are as follows:

Revenue from non-exchange transactions

- During the current financial year Ithuba recovered an amount of R428 542.99 for share of ticket sales which was as a result of the operator overpaying the NLC in the 2016/17 financial year
- During the current financial year Ithuba paid an amount of R1 892 680.48 relating to week 96 ending 1 April 2017. The NLC accrued R1 681 959.06 in the 2016/17 financial year as per the agreed upon procedures report. An adjustment was made to share of ticket sales.
- During the current financial year Ithuba paid an amount of R10 303 419.31 relating to share of ticket sales for 1 April 2017. Only R10 276 018.76 was adjusted for in the 2016/17 financial year to reflect the accrual for that financial year.
- During the current financial year Gidani (the previous Lottery operator) submitted a reconciliation for Unclaimed Prizes. The reconciliation reflected an amount of R36 665 472.86 which was due to the NLDTF in the 2015/16 financial year. This amount is as a result of scratch card prizes which were unclaimed and expired as at 31 May 2015 which was not accounted for as the information was not available during the compilation of the 2015/16 financial statements. Gidani paid the proceeds on 29 March 2018.

Notes to the financial statements (continued)

for the year ended 31 March 2018

Other licence fees

- During the 2015/16 financial year a receivable amounting to R11 735 799.95 was raised in error, however there was no basis for raising the receivable.

Goods and services

During the current financial year study loans from previous financial year should have been converted to study expenses and treated as such in the relevant financial periods. This amounted to R369 739 from the 2013/14 financial year to the 2016/17 financial year.

Employee costs

During the 2016/17 financial year an amount of R24 634 was erroneously paid to an employee. The amount was fully recovered in the 2017/18 financial year.

The financial statements have been retrospectively restated.

	Year ended 31 March 2017 R'000	Year ended 31 March 2016 R'000	Year ended 31 March 2015 R'000
The impact of the errors are as follows:			
Increase/(decrease) in fund revenue	(245)	24 930	
Increase in goods and services	(100)	(121)	(149)
Decrease in employee costs	25		
Increase in statement of financial performance	(320)	24 809	(149)
Increase in trade and other payables from non-exchange transactions	(427)	–	
Increase/(decrease) in trade and other receivables from non-exchange transactions	106	24 809	(149)
Increase/(decrease) in net assets	(320)	24 809	(149)

27.2 Prior period error – Company

During the current financial year errors were identified relating to the prior years. The nature of the error(s) is as follows:

Goods and services

During the current financial year study loans from previous financial year should have been converted to study expenses and treated as such in the relevant financial periods. This amounted to R369 739 from the 2013/14 financial year to the 2016/17 financial year.

Employee costs

During the 2016/17 financial year an amount of R24 634 was erroneously paid to an employee. The amount was fully recovered in the 2017/18 financial year.

	Year ended 31 March 2017 R'000	Year ended 31 March 2016 R'000	Year ended 31 March 2015 R'000
The impact of the errors are as follows:			
Increase in goods and services	(100)	(121)	(149)
Decrease in employee costs	25	–	–
Increase in statement of financial performance	(75)	(121)	(149)
Increase in trade and other payables from non-exchange transactions	2	–	–
Increase/(decrease) in trade and other receivables from non-exchange transactions	(77)	(121)	(149)
Increase in net assets	(75)	(121)	(149)

28. CHANGE IN ACCOUNTING ESTIMATE

During the current financial period, the lease term of seven (7) leased properties was amended and extended by one (1) year. This resulted in a change in estimate for the period that was used. A revised equalised amount was calculated and the current year increased by R670 353. For the remainder of the period the lease will increase by R432 444.

Leasehold improvements useful life estimate changed by a year as result of the lease extension. The effect on the current and future periods will be a decrease in the depreciation charge of R423 894 in the current period and an increase in the depreciation charge of R434 747 over the next period.

29. TAXATION

The National Lotteries Commission is exempt from income tax in terms of section 10(1)(cA) of the Income Tax Act, 1962.

30. CONTINGENT ASSET

During the 2016/17 financial year an amount was deducted by SARS from the bank account of the NLC. NLC has disputed the amount as it was incorrectly deducted. The first dispute was in favour of the NLC and SARS reversed penalties that it charged however the interest was not reversed. NLC has disputed the interest charged and is waiting for the outcome from SARS. The amount of interest being disputed is R5 million. NLC is in the process of approaching the ombudsman regarding this matter.

31. EVENTS AFTER REPORTING DATE

During the month of May 2018, the property that was purchased in Northern Cape for provincial office accommodation was subsequently registered in NLC's name. During the month of June 2018, the property that was purchased in Free State for provincial office accommodation was subsequently registered in NLC's name. During the month of June, the NLC reached a settlement agreement with an applicant who had taken a matter to court.

32. CONTINGENT LIABILITIES

Contingent liabilities comprise grants allocated by the Distributing Agencies to beneficiaries on a conditional basis and the stipulated conditions have not been met as at 31 March 2018 (herein the soft allocation). The accumulated funds as disclosed in the statement of financial position that would ordinarily be made available for allocation to good causes in the new financial year will be affected by the extent to which these conditional grants convert to firm commitments once the stipulated conditions are met. The claims against NLDTF relate to pending cases against beneficiaries to the organisation.

	Group		Company	
	2018 R'000	2017 R'000	2018 R'000	2017 R'000
Conditional allocations by Distributing Agencies	-	1 553	-	-
Legal fees	-	-	-	-
Claims against the NLDTF	-	-	-	-
Contingent liability at the end of the period	-	1 553	-	-

33. RING-FENCED PROJECTS

In an effort to meet the legislated 150 days turnaround time for adjudicating applications and finalising the 2015 call for application, a portion of the 2018/19 budget was ring-fenced to fund the applications that were received before year end. To this effect an amount of R63 million was allocated from the 2018/19 budget.

34.1. Comparison of approved budget and final budget – Group

The budget and the accounting bases are the same; both are on the accrual basis. The financial statements and the budget are prepared using a classification on the nature of expenses in the statement of financial performance.

	Approved budget R'000	Final budget R'000	Adjustments R'000	Reason for adjustments
Fund revenue	1 584 469	1 584 469	-	No adjustments to budget
Interest received	170 462	170 462	-	No adjustments to budget
Licence fees	2 500	2 500	-	No adjustments to budget
Other operating income	2 800	2 800	-	No adjustments to budget
Employee costs	(244 630)	(244 630)	-	No adjustments to budget
Allocation of grants	(1 441 564)	(1 441 564)	-	No adjustments to budget
Goods and services	(212 025)	(212 025)	-	No adjustments to budget
Society lotteries	50	50	-	No adjustments to budget
Revenue from Participant Trust	150 000	150 000	-	No adjustments to budget
Depreciation and amortisation	(9 706)	(9 706)	-	No adjustments to budget

Notes to the financial statements (continued)

for the year ended 31 March 2018

34.2. Comparison of approved budget and final budget – Company

The budget and the accounting bases are the same; both are on the accrual basis. The financial statements and the budget are prepared using a classification on the nature of expenses in the statement of financial performance.

	Approved budget R'000	Final budget R'000	Adjustments R'000	Reason for adjustments
Transfers and subsidies received	463 349	463 349	–	No adjustments to budget
Licence fees	2 500	2 500	–	No adjustments to budget
Interest income	462	462	–	No adjustments to budget
Society lotteries	50	50	–	No adjustments to budget
Employee costs	(244 630)	(244 630)	–	No adjustments to budget
Goods and services	(212 025)	(212 025)	–	No adjustments to budget
Depreciation and amortisation	(9 706)	(9 706)	–	No adjustments to budget

35. DISTRIBUTING AGENCY FEES – SPORTS AND RECREATION

	Members' fees R'000	Travel costs R'000	Professional fees R'000	Total 2018 R'000	Total 2017 R'000
Members					
Dr JH Adams	147	18	76	241	213
Mr RR Mali	349	81	179	609	592
Mr ME Ncula	422	36	230	689	552
Ms A Hill	235	29	86	350	–
Ms R Ravele	274	22	100	396	100
Mr TA Sikhosana	226	4	72	302	122
Ms A van Wieringen	8	5		13	131
Ms J Krubavathi	89	11	68	169	100
Ms VN Siyothula	–	–	–	–	256
Total	1 751	207	811	2 769	2 067

Distributing Agency fees – Charities

	Members' fees R'000	Travel cost R'000	Professional fees R'000	Total 2018 R'000	Total 2017 R'000
Members					
Mr GA McDonald*	–	–	–	–	349
Mr N Nxesi*	–	–	–	–	160
Ms IV Smith*	–	–	–	–	391
Ms NE Kela*	–	–	–	–	645
Mr A Beesley*	–	–	–	–	60
Total	–	–	–	–	1 604

* The term of the members came to an end on 31 March 2018 whereafter the Charities Distributing Agencies were appointed on a full time basis.

35. DISTRIBUTING AGENCY FEES – SPORTS AND RECREATION (continued)**Distributing Agency fees – Arts, Culture and National Heritage**

Members	Members' fees R'000	Travel costs/ allowance R'000	Professional fees R'000	Total 2018 R'000	Total 2017 R'000
Ms DN Jaftha*	-	-	-	-	227
Mr B Mgcina*	-	-	-	-	236
Mrs HK Makgae*	-	-	-	-	252
Mr WI Reetsang*	-	-	-	-	194
Mrs TN Mkhwanzi- Xaluva*	-	-	-	-	156
Mr PC Ngove*	-	-	-	-	278
Mr N Maake*	-	-	-	-	144
Mr G Ngcobo*	-	-	-	-	167
Ms B Sisane*	-	-	-	-	180
Mr M Zwane*	-	-	-	-	124
Total	-	-	-	-	1 958

* The term of the members came to an end on 30 November 2016 whereafter the Arts Distributing Agencies were appointed on a full time basis.

36. EXECUTIVE MANagements EMOLUMENTS

Executives	Basic salary R'000	Provident Fund contributions R'000	Travel allowance R'000	Cellphone allowance R'000	Performance bonus R'000	Annual bonus R'000	Total 2018 R'000	Total 2017 R'000
Mrs T Mampane Commissioner	2 797	-	144	-	441	-	3 382	3 008
Mr P Letwaba Chief Operations Officer ¹	2 144	274	120	48	418	-	3 003	2 603
Ms X Ntuli Chief Financial Officer ²	2 052	169	-	36	261	-	2 518	-
Mr J du Preez Senior Executive: Grant Funding ³	287	9	13	-	412	96	818	2 788
Mr M Ramusi Chief Information Officer	2 138	274	120	48	372	-	2 951	2 623
Ms T Nkuna Executive: Regulatory Compliance	1 767	-	156	48	281	-	2 252	1 966
Mr T Maselwa Executive Manager: Legal*	469	58	-	16	-	-	543	-
Ms M Nene Company Secretary*	469	58	-	16	-	-	543	-
Ms M Makoela Executive: Corporate Services ⁴	524	-	-	12	281	-	818	1 959
Total	12 647	842	553	224	2 467	96	16 829	14 947

1. Mr P Letwaba was acting Executive: Grant Funding from 10 April 2017 until 30 November 2017 and was appointed as the Chief Operations Officer from 1 December 2017. Mr P Letwaba was the Chief Financial Officer in the 2016/17 financial year.

2. Ms X Ntuli was acting Chief Financial Officer from 11 April 2017 until 30 November 2017 and was appointed as Chief Financial Officer from 1 December 2017

3. The contract of Mr J du Preez came to an end on 9 April 2017

4. The contract of Ms M Makoela came to an end on 30 June 2017

* The executives were appointed on 1 December 2017

Notes to the financial statements (continued)

for the year ended 31 March 2018

37. BOARD MEMBERS EMOLUMENTS

The following fees were paid to or receivable by the Board of Directors and Committee Members during the period under review:

Members	Board meeting fees R'000	Travel costs R'000	Cellphone allowance R'000	Total 2018 R'000	Total 2017 R'000
Prof NA Nevhutanda	1 210	138	18	1 366	1 099
Ms M Mokoka*	28	2	2	32	597
Ms NEP Loyilane*	6	–	–	6	65
Prof G Reddy*	33	2	2	36	630
Adv TS Kekana	372	22	12	406	480
Mr A Cowell*	14	–	–	14	96
Adv WE Huma#	637	44	10	691	–
Prof Y Gordhan#	725	53	11	789	–
Dr M Madzivhandila#	766	135	12	913	–
Ms D Dondur#	634	56	13	703	–
Mrs Z Brown^	–	23	–	23	–
Total	4 424	476	79	4 979	2 967

* The term of the members came to an end on 30 April 2017

The term of the members commenced on 1 May 2017

^ Mrs Brown is the Minister's Nominee. She is not paid any board fees. The amount that was paid relates to travel expenditure.

38. RELATED PARTY TRANSACTIONS

The NLC is a regulator of the National Lottery. Ithuba Holdings (Pty) Ltd is a private company that currently operates the National Lottery under licence from the Government. Ithuba commenced as the licence operator from 1 June 2015 after the licence agreement with the previous operator (Gidani (Pty) Ltd) came to an end on 31 May 2015. The Operator pays monies into the NLDTF in terms of the license agreement. These proceeds are destined for good causes as specified in the Lotteries Act and allocated to deserving applicants by Distributing Agencies appointed by the Minister of Trade and Industry (dti). The NLC manages the NLDTF and accounts for all running costs. The NLC withdraws the necessary funds required from the NLDTF, based on overall annual budget approved by the Minister of Trade and Industry. The dti and all entities under common control of the Department of Trade and Industry are regarded as related parties in terms of IPSAS 20. There were no transactions between NLC and any of the dti entities.

38. RELATED PARTY TRANSACTIONS (continued)

	Group		Company	
	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Restated Year ended 31 March 2017 R'000
38.1 Transactions between the NLDTF and other parties				
Transfers from NLDTF (Actual payments to NLC amounted to R433 million for the current year (2016/17 R376 million))	–	–	426 687	344 783
Receivables from non-exchange transactions – NLC	–	–	100 732	94 169
Ithuba Holdings (Pty) Ltd				
Proceeds from Ithuba (Pty) Ltd	1 391 939	1 371 653	–	–
Add: Trade and other receivables from non-exchange (opening)	28 056	20 876	–	–
Less: Trade and other receivables from non-exchange (closing)	(24 764)	(28 056)	–	–
Cash proceeds from Ithuba (Pty) Ltd	1 395 232	1 364 472	–	–
Trade payable from non-exchange transactions – Ithuba Holdings (Pty) Ltd	–	429	–	–
Gidani (Pty) Ltd				
Receivables from non-exchange transactions	–	36 665	–	–
Proceeds from Gidani (Pty) Ltd	36 665	–	–	–
	36 665	36 665	–	–
National Lottery Participant Trust (NLPT)				
Proceeds from NLPT	205 209	66 948	–	–
Add: Trade and other receivables from non-exchange (opening)	4 355	6 171	–	–
Less: Trade and other receivables from non-exchange (closing)	(32 071)	(4 355)	–	–
Cash proceeds	177 493	68 764	–	–
38.2 Controlling entity				
The NLC reports to the Department of Trade and Industry which is a controlling entity. The following transactions took place between the DTI and the NLC:				
The National Department of Trade and Industry	170	–	170	–
38.3 Entities under common control				
The following entities are entities under the common control of the Department of Trade and Industry. No transactions took place between the NLC and these entities.				
Companies and Intellectual Property Commission	–	–	–	–
Companies Tribunal	–	–	–	–
National Empowerment Fund	–	–	–	–
Export Credit Insurance Corporation of South Africa	–	–	–	–
SOC Limited	–	–	–	–
South African Bureau of Standards	–	–	–	–
National Credit Regulator	–	–	–	–
National Gambling Board	–	–	–	–
South African National Accreditation System	–	–	–	–
National Consumer Tribunal	–	–	–	–
National Consumer Commission	–	–	–	–
National Metrology Institute of South Africa	–	–	–	–
National Regulator for Compulsory Specifications	–	–	–	–
ITAC	–	–	–	–
Competition Commission	–	–	–	–
B-BBEE Commission	–	–	–	–

Notes to the financial statements (continued)

for the year ended 31 March 2018

39. PROVISION FOR ALLOCATION BY DISTRIBUTING AGENCIES

It is the duty of the Distributing Agency Members to adjudicate applications for funding within their respective sectors. Members who have a conflict that may impact the ability to adjudicate impartially do not adjudicate on the projects, as they recuse themselves whilst these projects are being adjudicated. Listed below are balances and transactions with those organisations which were funded by the NLC and in which Distributing Agencies have significant interest.

Sector	Name of beneficiary	Distributing Agency member	Nature of relationship	Amount granted 2017/18 R'000	Payments 2017/18 R'000	Revocations 2017/18 R'000	Amount owing 2017/18 R'000	Amount owing 2016/17 R'000
CDA	National Association of people living with HIV/Aids	N Nxesi	Former National Director and Secretary General of the organisation	-	400	-	-	400
ACENHDA	Merakeng Foundation	W Reetsang	Chairman of the foundation	-	1 664	-	1 674	3 338
ACENHDA	KZN Arts and Culture Trust	G Ngcobo	Served as CEO of the organisation	-	-	-	2 582	2 582
ACENHDA	PANSALB	M Zwane	Chief Executive Officer	-	-	10 000	-	10 000
ACENHDA	Walter Sisulu University African Heritage Archive	DN Jafta	Committee Member	-	-	-	2 960	2 960
ACENHDA	The Jazz Foundation (SA)	B Sisane	The member is part of the management committee	-	800	-	-	800
SRDA	Boland Athletics	HJH Adams	President of Boland Athletics	-	2 519	-	-	2 519
SRDA	Athletics South Africa	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	20 372	14 260	-	6 112	-
SRDA	Boxing South Africa	Ms ME Ravele*	Chairperson of the organisation	-	-	2 999	-	2 999
SRDA	Athletics Gauteng North	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 010	800	-	210	-
SRDA	Athletics Vaal Triangle	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 670	1 300	-	370	-
SRDA	Athletics Free State	Mr Skhosana and Dr Adams*	Mr Skhosana: President of ASA Dr Adams: Deputy President	2 500	2 000	263	500	263
SRDA	Athletics Mpumalanga	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	2 500	-	-	2 500	-
SRDA	KZN Athletics	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	500	500	-	-	-
SRDA	Central Gauteng Athletics	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	2 500	2 000	-	500	-
SRDA	Western Province Athletics	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	2 204	1 102	-	1 102	-
SRDA	Athletics North West	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 908	1 526	-	382	-
CDA	Training and Resources in Early Education	Mr A Beesley*	Member	-	220	-	-	220

* Erroneously omitted in the 2016/17 disclosure.

In the instances below members have relatively significant interest even though the interest did not amount to significant control. These have been disclosed for prudence.

Sector	Name of beneficiary	Distributing Agency member	Nature of Relationship	Amount granted 2017/18 R'000	Payments 2017/18 R'000	Revocations 2017/18 R'000	Amount owing 2017/18 R'000	Amount owing 2016/17 R'000
SRDA	University of the Western Cape	A Travil	Lecturer at UWC	-	190	-	-	190
CDA	Child Welfare Tshwane	Ms I Smith	Worked with the Chairperson from 2011 – 2014	1 327	-	-	1 327	-
ACENHDA	University of Limpopo	N Maake	Former employee	-	-	-	400	400
ACENHDA	University of Witwatersrand	N Maake	Honorary pres-lessons in the school of languages and literature of Wits	-	200	-	-	200
SRDA	MAVU	M.E Ravele and A Hill	Ms ME Ravele and Ms A Hill (Chairperson of Assisted Organisation – South African Women and Sports Foundation)	15 925	15 925	-	4 000	4 000
ACENHDA	Village Tourism Trust	PC Ngove	The organisation is mothering the organisation that he/she is a trustee	-	380	-	-	380
SRDA	Grass Roots Soccer	Ms A Hill	Former CEO of Special Olympics who is working with Grass Roots Soccer SA on the project	-	3 407	-	-	3 407

National Lottery Distribution Trust Fund

Established in terms of the Lotteries Act No. 57 of 1997 as amended



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Report of the Auditor-General to Parliament on the National Lottery Distribution Trust Fund

Report on the audit of the financial statements

OPINION

1. I have audited the financial statements of the National Lottery Distribution Trust Fund set out on pages 166 to 187, which comprise of the statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Lottery Distribution Trust Fund as at 31 March 2018, and financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accepted Practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the trust in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

RESPONSIBILITIES OF ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

6. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the with Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the accounting authority is responsible for assessing the National Lotteries Distribution Trust Fund 's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the trust or to cease operations, or has no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

INTRODUCTION AND SCOPE

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the trust. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the trust for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Objective 4 – To ensure fair and equitable grant allocations	44 – 45

Report of the Auditor-General to Parliament on the National Lottery Distribution Trust Fund

(continued)

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. I did not raise any material findings on the usefulness and reliability of the selected reported performance information.

OTHER MATTER

15. I draw attention to the matter below.

Achievement of planned targets

16. Refer to the annual performance report on pages 40 to 45 for information on the achievement of planned targets for the year over achievement of a number of targets.

Report on the audit of compliance with legislation

INTRODUCTION AND SCOPE

17. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the trust with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

18. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

19. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

20. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

21. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

22. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

23. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Auditor General



AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

31 July 2018

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the trust’s compliance with respect to the selected subject matters.

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trust’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board, which constitutes the accounting authority
 - conclude on the appropriateness of the board, which constitutes the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Lotteries Distribution Trust Fund’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause an trust to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Established in terms of Lotteries Act, No 57 of 1997, as amended

Statement of financial performance

for the year ended 31 March 2018

	Notes	Year ended 31 March 2018 R'000	Year ended 31 March 2017 Restated R'000
REVENUE		1 783 388	1 701 345
Revenue from non-exchange transactions		1 597 148	1 438 600
Fund revenue	1	1 597 148	1 438 600
Revenue from exchange transactions		186 239	262 744
Investment and interest income	2	178 257	215 039
Other operating income	3	1 621	47 705
Fair value adjustment – Investment	4	6 362	–
EXPENDITURE		(1 839 084)	(1 573 353)
Grants allocated	5	(1 394 060)	(1 139 768)
Transfers to the NLC	6	(426 687)	(344 783)
Administrative expenses	7	(663)	(65 182)
Operating expenses	8	(17 675)	(23 620)
Surplus/(deficit) for the year		(55 697)	127 992

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Established in terms of Lotteries Act, No 57 of 1997, as amended

Statement of financial position

as at 31 March 2018

	Notes	31 March 2018 R'000	31 March 2017 Restated R'000
ASSETS			
Non-current assets			
Financial assets – long-term investments	9	1 632 511	1 705 064
Current assets			
Financial assets – short-term investments	9	5 213	275 631
Trade and other receivables from exchange transactions	10	7 443	22 717
Trade and other receivables from non-exchange transactions	11	157 549	199 574
Cash and cash equivalents	12	201 723	537 033
		371 928	1 034 954
Total assets		2 004 438	2 740 018
LIABILITIES			
Non-current liabilities			
Provision for allocations by Distributing Agencies – long-term portion	13	–	14 660
		–	14 660
Current liabilities			
Provision for allocations by Distributing Agencies – short-term portion	13	580 368	1 245 162
Trade and other payables from non-exchange transactions	14	62	490
		580 429	1 245 652
Total liabilities		580 429	1 260 312
Net assets			
Accumulated funds		1 424 008	1 479 706
Total net assets and liabilities		2 004 437	2 740 018

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Established in terms of Lotteries Act, No 57 of 1997, as amended

Statement of changes in net asset

for the year ended 31 March 2018

	Notes	Accumulated surplus R'000
Balance as at 1 April 2015		
At the beginning of the year		2 486 603
Restated surplus for the year reported in 2015/16		(1 134 889)
Deficit for the year reported in 2015/16		(1 159 698)
Prior period error	17	24 809
Restated balance as at 31 March 2016		1 351 714
Restated surplus for the year		127 992
Surplus for the year reported in 2016/17		128 312
Prior period error	17	(320)
Restated balance as at 31 March 2017		1 479 706
Deficit for the year		(55 697)
Balance as at 31 March 2018		1 424 008

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Established in terms of Lotteries Act, No 57 of 1997, as amended

Statement of cash flows

for the year ended 31 March 2018

	Note	Year ended 31 March 2018 R'000	Year ended 31 March 2017 R'000
Cash flow from operating activities			
Cash receipts			
Cash received from licence holder and Participants Trust		1 645 308	1 414 527
Interest income		106 758	96 227
Cash received from beneficiaries and other parties		1 257	6 743
		1 753 323	1 517 497
Cash payments			
Cash paid to beneficiaries and other parties		(2 524 686)	(2 372 901)
		(2 524 686)	(2 372 901)
Net cash utilised in operating activities	15	(771 364)	(855 404)
Cash flow from investing activities			
Net redemption/(investment) of financial assets		436 054	602 212
Net cash flows generated from investing activities		436 054	602 212
Net increase in cash and cash equivalent		(335 310)	(253 193)
Cash and cash equivalent at the beginning of the year	12	537 033	790 226
Cash and cash equivalent at the end of the year	12	201 723	537 033

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Established in terms of Lotteries Act, No 57 of 1997, as amended

Statement of comparison of budget and actual amounts

for the year ended 31 March 2018

	Approved budget R'000	Adjustments R'000	Final budget R'000	Actual amounts R'000	Difference: Final budget and actual R'000
Revenue					
Share of ticket sales	1 584 469	–	1 584 469	1 391 939	(192 530)
Investment and interest income	170 000	–	170 000	178 257	8 257
Revenue from Participant Trust	150 000	–	150 000	205 209	55 209
Fair value adjustment – Investment	–	–	–	6 362	6 362
Other operating income	2 800	–	2 800	1 621	(1 179)
Total revenue	1 907 269	–	1 907 269	1 783 388	(123 881)
Expenses					
Allocation of grants	(1 441 564)	–	(1 441 564)	(1 394 060)	47 504
Current year allocations	(1 441 564)	–	(1 441 564)	(1 506 013)	(64 449)
Revocations	–	–	–	111 953	111 953
Operating expenses	–	–	–	(17 675)	(17 675)
Transfers to NLC	(463 349)	–	(463 349)	(426 687)	36 662
Administrative expenses	–	–	–	(663)	(663)
Total expenditure	(1 904 913)	–	(1 904 913)	(1 839 084)	66 491
Surplus/(deficit) for the year	2 356	–	2 356	(55 697)	(57 390)

Line item	Explanation of material variances	Amount
Share of ticket sales	Revenue underperformed as a result of the projections from the Lottery operator not materialising. Throughout the financial year Ithuba faced continuing challenges from a weakening economy, increased competition from book makers and illegal lottery operators. Ticket sales fell in the first part of the year only to gradually increase in the latter half of the year as a result of changes made to the LOTTO matrix and the addition of the LOTTO PLUS 2 game.	(192 530)
Investment income	Investment income is higher than budgeted as a result of the revision in the mid-term which assumed the NLC would liquidate more investments in order to accelerate payments. There are a few investments which were not liquidated as sufficient funds were available. The targeted 8% return on investment was achieved. Actual return of investment for the year is 8.40%.	8 257
Revenue from Participants Trust	Revenue from Participants Trust includes expired prize monies and interest due to the NLDTF from the trust. The overperformance is due to more expiries than were expected from participants who did not claim prizes.	55 209
Allocation of grants	Revocations were made as a result of the implementation of the Grants Financial Management Policy. Some of the revocations were made available for redistribution in order for the Charities Sector to fast track the 2015 call for application which were subsequently cleared.	47 504
Revocations	Withdrawals were approved as a result of implementation of the Grants Financial Management Policy.	111 953
Operating expenses	Professional fees for engineers that are responsible for projects which are capital in nature are funded from the grants allocations budget. There was no overspending.	(17 675)
Transfers to NLC	Less funds were transferred as a result of the underspending and savings in goods and services by the NLC.	36 662

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Established in terms of Lotteries Act, No 57 of 1997, as amended

Summary of significant accounting policies

for the year ended 31 March 2018

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

1. BASIS OF PREPARATION

The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA GRAP) as well as the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA). They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with SA Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying NLDTF's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in point 12 of the summary of significant accounting policies.

All monetary information and figures presented in these financial statements are stated in thousands of Rand (R'000), unless otherwise indicated.

New standards, amendments and interpretations approved and not yet effective

Standard	Scope and potential impact	Effective date
GRAP 20: Related Party Disclosures	None	No effective date has been determined by the Minister of Finance. Standards will be applied only upon determination of effective date by the Minister where applicable.
GRAP 32: Service Concession Arrangements: Grantor	None	
GRAP 108: Statutory Receivables	None	
GRAP 109: Accounting by Principles and Agents	None	
IGRAP 17: Interpretation of the Standard of GRAP on Service Concession Arrangements Where the Grantor Controls a Significant Residual Interest in an Asset	None	

NLDTF did not apply any of the standards above. It is not expected that the above standards, amendments and interpretations will have any material impact on the NLDTF's financial statements on initial application where applicable.

2. REVENUE RECOGNITION

Revenue is the gross inflow of economic benefits or service potential during the reporting period when these inflows result in an increase in net assets.

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably.

The NLDTF distinguishes between two forms of revenues namely revenue from exchange transactions and revenue from non-exchange transactions.

Revenue from exchange transactions is defined as revenue in which NLDTF receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity or party in exchange.

Revenue from non-exchange transactions is defined as revenue in which NLDTF receives value from another entity or party without directly giving approximately equal value in exchange or gives value to another entity or party without directly receiving approximately equal value in exchange.

2.1 Investment income

Investment income comprises interest accrued from assets held at amortised cost and cash and cash equivalents. Interest is accounted for on an accrual basis using the effective interest rate method.

2.2 Share of ticket sales

Revenue from share of ticket sales is accounted for on the accrual basis and is measured as a percentage of ticket sales as stipulated and agreed in the licence agreement with the National Lottery Operator.

Summary of significant accounting policies (continued)

for the year ended 31 March 2018

2.3 Expired and unclaimed prizes

Expired and unclaimed prizes relate to prizes in constituent lotteries (not being an Instant Lottery) for which remain unclaimed for a period of 365 days as stipulated in the licence agreement with the National Lottery Operator. Such monies are accounted for on an accrual basis. Payments of the funds are through the intermediation of the Participants Trust.

2.4 Interest from the Participants Trust

Any interest that remain in the Participants Trust after deduction of the Participants Trust costs are due to the NLDTF as stipulated in the trust deed of the Participant's Trust. These monies are accounted for on an accrual basis. Payments of the funds are through the intermediation of the Participants Trust.

3. FINANCIAL ASSETS

NLDTF classifies its financial assets in the following categories:

- financial assets at amortised cost; and
- financial assets at fair value.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

3.1 Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial assets carried at amortised cost, are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. These assets are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

NLC's investments are classified at amortised cost and consists of money market securities.

NLC will derecognise a financial asset when:

- (a) the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- (b) NLC transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- (c) NLC despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial assets at amortised cost consists of:

- investments; and
- receivables from exchange transaction.

3.2 Financial assets at fair value

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- (a) derivatives;
- (b) combined instruments that are designated at fair value in accordance with paragraphs 20 or 21 of GRAP 104;
- (c) instruments held for trading. A financial instrument is held for trading if:
 - (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- (d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition in accordance with paragraph 17; and
- (e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets at fair value consists of cash and cash equivalents (refer to note 6).

Financial assets at fair value will be initially recognised at fair value. A gain or loss arising from a change in the fair value of a financial asset measured at fair value shall be recognised in surplus or deficit.

4. IMPAIRMENT OF ASSETS

4.1 Financial assets carried at amortised cost

NLDTF assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence includes one or more of the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in NLDTF, including:
 - adverse changes in the payment status of issuers or debtors of NLDTF; and
 - national or local economic conditions that correlates with defaults on the assets of NLDTF.

NLDTF first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If NLDTF determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

4.2 Impairment of other non-financial assets

Assets, including intangible assets, that are subject to amortisation, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment charge is recognised as a loss in profit or loss immediately.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

- cash in hand;
- deposits held at call and short notice; and
- balances with banks.

Summary of significant accounting policies (continued)

for the year ended 31 March 2018

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. It comprises cash in hand and deposits held at call with respective banks. Cash and cash equivalents have a maturity of less than three months. Cash and cash equivalents are classified as financial assets at fair value and are carried at cost which due to their short-term nature approximates fair value.

6. FINANCIAL RISK MANAGEMENT

The NLDTF's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Board manages these risks through a Board Audit and Risk Committee.

6.1 Market risk

The NLDTF's activities as a regulator do not expose it to a significant amount of market risk. Therefore no formal policies have been developed to guard against market risk.

6.2 Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to outstanding receivables and committed transactions. For banks and financial institutions, only banks approved by the Minister of Finance are used.

The NLDTF also follows regulations issued by National Treasury to manage its exposure to credit risk. This includes spreading the investments held among reputable financial institutions.

6.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet the daily demands of the operations.

Management monitors daily balances of cash and cash equivalents as well as investment accounts to ensure that enough funds are available to meet the needs of the operation.

7. PROVISIONS

Provisions are recognised when, as a result of past events, NLDTF has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

8. CONTINGENT LIABILITIES

NLDTF discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it has a present obligation that arises from past events but not recognised because:
 - it is not probable that an outflow of resources will be required to settle an obligation; or
 - the amount of the obligation cannot be measured with sufficient reliability.

A contingent liability is not recognised in the financial statement, however, it is disclosed unless the probability of an outflow of economic benefits is remote.

Contingent liabilities comprise grants allocated by the Distributing Agencies to beneficiaries on a conditional basis and the stipulated conditions have not been met at year-end.

9. ALLOCATION OF GRANTS

Allocations are accounted for when applications for assistance from individual entities are considered and grants are unconditionally awarded by the respective distributing agencies.

10. RECONCILIATION OF THE APPROVED BUDGET TO THE ACTUAL SURPLUS/DEFICIT AS PER THE STATEMENT OF FINANCIAL PERFORMANCE

A comparison of budget amounts and the actual amounts arising from execution of the budget has been prepared on the accrual basis highlighting the actual variances that have resulted for the period.

11. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

11.1 Provision for allocation by Distributing Agencies

Allocations are accounted for when applications for assistance from individual organisations are considered and grants are unconditionally awarded by the respective Distributing Agencies.

Disclosures are made for those organisations which were funded by the NLDTF in which Distributing Agencies may have significant interest in. Disclosures made include payments, allocations in the current year and outstanding amounts outstanding at year-end.

11.2 Provision for doubtful debts

A provision for doubtful debt is raised in instances where there are indications that the debt may not be recoverable from the debtor. The assessment of recoverability is done on an individual debt basis.

11.3 Beneficiaries written off

Beneficiaries written off are those beneficiaries where all avenues for recovery have been completely exhausted and the outstanding debts are considered not recoverable.

12. IRREGULAR EXPENDITURE

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with a requirement of any applicable legislation, including:

- the PFMA; or
- any legislation providing for procurement procedures.

When confirmed, irregular expenditure must be recorded in the notes to the financial statements. The amount to be recorded in the notes must be equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof. Where such impracticality exists, the reasons therefore must be provided in the notes. Irregular expenditure must be removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable. A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be derecognised when the receivable is settled or subsequently written off as irrecoverable. Any irregular expenditure is charged against income in the period in which it is incurred.

13. RELATED PARTIES

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or *vice versa*, or an entity that is subject to common control, or joint control.

As a minimum, the following are regarded as related parties of the reporting entity:

- (a) A person or a close member of that person's family related to the reporting entity if that person:
 - (i) has control or joint control over the NLDTF; or
 - (ii) has significant influence over the NLDTF.

Related party transactions are transfers of resources, services or obligations between the NLDTF and a related party, regardless of whether a price is charged.

14. FINANCIAL LIABILITIES

NLDTF classifies its financial liabilities in the following category:

- financial liabilities at amortised cost.

Summary of significant accounting policies (continued)

for the year ended 31 March 2018

14.1 Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial assets that have fixed or determinable payments, excluding those liabilities that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial liabilities carried at amortised cost, are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial.

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities at amortised cost consists of:

- provision for allocation by Distributing Agencies; or
- trade and other payables from non-exchange transactions.

A gain or a loss is recognised in surplus or deficit when the financial liability is derecognised or through the amortisation process.

NLDTF derecognises financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

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Notes to the financial statements

for the year ended 31 March 2018

	Year ended 31 March 2018 R'000	Year ended 31 March 2017 Restated R'000
1. Fund revenue		
Share of ticket sales	1 391 939	1 371 653
Interest earned on unclaimed and expired prizes – National Lottery Participant Trust	17 489	18 172
Expired and unclaimed prizes	187 720	48 776
	1 597 148	1 438 600
2. Investment and interest income		
Interest from call and current accounts	2 171	15 743
Investment income	176 086	199 297
	178 257	215 039
3. Other operating revenue		
Sundry income	390	1 758
Movement in the provision for doubtful debt	1 231	45 947
	1 621	47 705
Sundry income constitutes a combination of unspent amounts returned by beneficiaries as well as amounts due from beneficiaries as a result of breach of contract.		
4. Fair value adjustment – Investment		
Fair value adjustment – Investment	6 362	–
	6 362	–
Fair value is a rational and unbiased estimate of the potential market price of the investment. The fair value adjustment relates to the equity-linked note investments.		
5. Allocation of grants		
Current year allocations	1 506 013	1 524 187
Revocations	(111 953)	(384 418)
	1 394 060	1 139 768
6. Transfers and subsidies paid to NLC		
Payments from fund in respect of expenses	426 687	344 783
	426 687	344 783
7. Administrative expenses		
Bank charges	82	50
Management fees	99	160
Loss from financial instruments	65	42
Write off of PV Equalisation	–	22 727
Debtors written off	416	42 203
	663	65 182
Debtors written off mainly relates to funds which were written off mainly due to prescription period.		
8. Operating expenditure		
Professional fees	17 675	23 620
	17 675	23 620

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Notes to the financial statements (continued)

for the year ended 31 March 2018

	Year ended 31 March 2018	Year ended 31 March 2017 Restated
	R'000	R'000
9. Financial assets		
Investment in financial assets are summarised by measurement category below:		
Financial assets at amortised cost:		
– Money market securities	5 000	267 054
– Capital market securities	1 300 000	1 474 000
– Accrued interest	326 362	239 641
Financial assets at fair value		
– Equity intrinsic value	6 362	–
Total investment	1 637 724	1 980 695
Current	5 213	275 631
Non-current	1 632 511	1 705 064
	1 637 724	1 980 695
Maturity profile:		
Money market securities are in the form of fixed deposits with maturity dates greater than three months but no more than 12 months. Funds are invested at fixed interest rates which vary per institution. The capital market securities comprise investments that are more than 12 months. The weighted average yield to maturity is 8.40% (2017: 8.15%).		
10. Trade and other receivables		
Trade and other receivables from exchange transactions		
Accrued income	7 443	22 665
– Interest receivable on current and call accounts	216	379
– Interest receivable on short-term investments	7 227	22 286
Claims from beneficiaries	–	52
– Gross amount claimed	8 536	9 819
– Provision for doubtful claim recovery from beneficiaries	(8 536)	(9 767)
Total	7 443	22 717
Current	7 443	22 717
Non-current	–	–
	7 443	22 717
11. Trade and other receivables from non-exchange transactions:		
Accrued income		
– Interest receivable from Participant's Trust	9 125	4 355
– Expired and unclaimed prizes – Participant's Trust	22 945	72 994
– Accounts receivable: NLC	100 732	94 169
– Share of ticket sales	24 745	28 056
Total	157 549	199 574
Current	157 549	199 574
Non-current	–	–
	157 549	199 574
12. Cash and cash equivalents		
Cash at bank – current account	38 180	53 017
Cash at bank – call account	458	6 000
Fixed deposits with maturity dates less than three months	163 085	478 016
Total per statement of financial position	201 723	537 033

None of the cash balances are pledged or secured.

	Year ended 31 March 2018	Year ended 31 March 2017 Restated
	R'000	R'000
13. Provision for allocation by Distributing Agencies		
Opening balance	1 259 822	2 070 358
Additional provision made during the period (including increases to existing provisions)	1 506 013	1 524 187
Payments made during the period	(2 073 514)	(1 973 031)
Remeasurement of the estimated future outflow of economic benefits	–	22 727
Revocations	(111 953)	(384 418)
Closing balance	580 368	1 259 822
Current	580 368	1 245 162
Non-current	–	14 660
	580 368	1 259 822
Cash disbursed refers not only to payments against current year allocations but also to payments relating to commitments owing from previous financial years. Payments against prior year commitments are in accordance with the duly signed grant agreements.		
14. Trade and other payables from non-exchange transactions		
Unallocated funds	62	62
Amount due to Ithuba	–	429
	62	490
15. Cash flow information		
Cash generated by operations		
Profit/(loss) per the statement of financial performance	(55 697)	127 992
Adjusted for:		
Non-cash items:		
Provision for bad debts	(1 231)	(45 947)
Debtors written off	416	42 203
Write off of PV Equalisation	–	22 727
Fair value adjustment – Investment	(6 362)	–
Loss from financial instruments	–	42
Accrued income	–	(149 302)
	(62 874)	(2 284)
Working capital changes		
– (Increase) in trade and other receivables	(28 607)	(42 646)
– Decrease in provision for allocation of Distribution Agency	(679 454)	(810 536)
– Increase in trade and other payables	(429)	62
	(771 364)	(855 404)

Notes to the financial statements (continued)

for the year ended 31 March 2018

16. Management of financial risk

NLDTF's management monitors and manages the financial risks relating to the operations of the entity through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and investment return.

Market risk that could impact on future cash flows and hence the value of a financial instrument arise from:

- Interest rate risk: The impact of changes in market interest rates.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that NLDTF will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash being available to meet commitments as and when they become due.

Financial risks are managed by NLDTF as follows:

- Through internal risk reports which analyse exposures by degree and magnitude of risks;
- Review by the internal auditors of compliance with policies and exposure limits on a continual basis and regularly reporting to the Audit Committee; and
- Monitoring forecast and accrual cash flows and matching the maturity profiles of financial assets and liabilities.

To assist in the analysis of the financial risks that NLDTF is exposed to, the statement of financial position has been divided into the following categories:

- Financial assets and liabilities; and
- Non-financial assets and liabilities.

	Total R'000	Financial assets and liabilities R'000
As at 31 March 2018		
Financial assets at amortised cost:		
Unlisted:		
– Money market securities	5 213	5 213
– Capital market securities	1 626 149	1 626 149
– Trade and other receivables from exchange transactions	7 443	7 443
– Trade and other receivables from non-exchange transactions	157 549	157 549
Financial assets at fair value:		
– Cash and cash equivalents	201 723	201 723
– Equity intrinsic value	6 362	6 362
Total assets	2 004 438	2 004 438
Financial liabilities at amortised cost:		
Provision for allocation by Distributing Agencies	580 368	580 368
Trade payables from non-exchange transactions	62	62
Total liabilities	580 429	580 429
As at 31 March 2017		
Financial assets at amortised cost:		
Unlisted:		
– Money market securities	275 631	275 631
– Capital market securities	1 705 064	1 705 064
– Trade and other receivables from exchange transactions	22 717	22 717
– Trade and other receivables from non-exchange transactions	199 574	199 574
Financial assets at fair value:		
Cash and cash equivalents	537 033	537 033
Total assets	2 740 018	2 740 018
Financial liabilities at amortised cost:		
Provision for allocation by Distributing Agencies	1 259 822	1 259 822
Trade and other payables from non-exchange transactions	490	490
Total liabilities	1 260 312	1 260 312

16.1 Financial assets and liabilities

The NLDTF is exposed to financial risk through the following financial assets and liabilities:

	31 March 2018	31 March 2017
	R'000	Restated R'000
Financial assets at amortised cost:		
Unlisted:		
– Money market securities	5 213	275 631
– Capital market securities	1 626 149	1 705 064
– Trade and other receivables from exchange transactions	7 443	22 717
– Trade and other receivables from non-exchange transactions	157 549	199 574
Financial assets at fair value:		
– Cash and cash equivalents	201 723	537 033
– Equity intrinsic value	6 362	–
Total financial assets	2 004 438	2 740 018
Financial liabilities at amortised cost:		
Provision for allocation by Distributing Agencies	580 368	1 259 822
Total financial liabilities	580 368	1 259 822

16.1.1 Market risk**(a) Interest rate risk**

Sensitivity to changes in interest rates is relevant to financial assets or financial liabilities bearing floating interest rates due to the risk that future cash flows will fluctuate. NLDTF invests its money market instruments at a fixed rate. There will be no impact on the future cash flows of the entity as a result of changes in interest rates except for cash balances in current and call accounts.

The table below details the specific interest rate risk that the NLDTF is exposed to:

	Carrying amount R'000	Fixed R'000	Floating R'000	Non- interest- bearing R'000
As at 31 March 2018				
Financial assets at amortised cost:				
Unlisted:				
– Money market securities	5 213	5 213	–	–
– Capital market securities	1 626 149	1 626 149	–	–
– Trade and other receivables from exchange transactions	7 443	–	–	7 443
– Trade and other receivables from non-exchange transactions	157 549	–	–	157 549
Financial assets at fair value:				
Cash and cash equivalents	201 723	163 085	38 638	–
Total financial assets	1 998 076	1 794 446	38 638	164 992
Financial liabilities at amortised cost:				
Provision for allocation by Distributing Agencies	580 368	–	–	580 368
Total financial liabilities	580 368	–	–	580 368
As at 31 March 2017				
Financial assets at amortised cost:				
Unlisted:				
– Money market securities	275 631	275 631	–	–
– Capital market securities	1 705 064	1 705 064	–	–
– Trade and other receivables from exchange transactions	22 717	–	–	22 717
– Trade and other receivables from non-exchange transactions	199 574	–	–	199 574
Financial assets at fair value:				
Cash and cash equivalents	537 033	478 016	59 017	–
Total financial assets	2 740 018	2 458 711	59 017	222 290
Financial liabilities at amortised cost:				
Provision for allocation by Distributing Agencies	1 259 822	–	–	1 259 822
Total financial liabilities	1 259 822	–	–	1 259 822

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Notes to the financial statements (continued)

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16.1.2 Credit risk

Key areas where NLDTF is exposed to credit risk:

- Financial investments comprising money market instruments entered into to invest surplus funds; and
- Cash and cash equivalents.

	Total R'000	AAA R'000	AA+ AA AA- R'000	A+ A A- R'000	BBB BBB+ R'000	Not rated R'000
As at March 2018						
Financial assets at amortised cost:						
Unlisted:						
– Money market securities	5 213	–	–	–	5 213	–
– Capital market securities	1 626 149	–	–	–	1 626 149	–
Financial assets at fair value:						
– Cash and cash equivalents	201 723	–	–	–	201 723	–
– Equity intrinsic value	6 362	–	–	–	6 362	–
	1 839 447	–	–	–	1 839 447	–

Credit risk relating to receivables

	31 March 2018 R'000	31 March 2017 Restated R'000
National Lottery Participants Trust	32 071	40 683
Gidani Proprietary Limited	–	36 665
Ithuba Holdings Proprietary Limited	24 745	28 056
Beneficiaries	–	52
	56 816	105 456

The ageing of the components of trade and other receivables was as follows:

	Gross 31 March 2018 R'000	Impairment 31 March 2018 R'000	Gross 31 March 2017 R'000	Impairment 31 March 2017 R'000
Within a year	56 816	–	106 051	(646)
Later than one year	8 536	(8 536)	9 173	(9 121)
Total	65 352	(8 536)	115 224	(9 767)

The movement in the provision for impairment during the year was as follows:

	31 March 2018 R'000	31 March 2017 R'000
Balance at the beginning of the year	9 767	55 713
Movement in provision	(1 231)	(45 947)
Balance at the end of the year	8 536	9 766

16.1.3 Liquidity risk

The table below analyses the NLDTF's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	Total R'000	Within a year R'000	Greater than a year R'000
As at March 2018			
Provision for allocation by Distributing Agencies	580 368	580 368	–
Total	580 368	580 368	–
At 31 March 2017			
Provision for allocation by Distributing Agencies	1 259 822	1 245 162	14 660
Total	1 259 822	1 245 162	14 660

17. Prior period error

During the current financial year errors were identified relating to the prior years. The nature of the errors are as follows:

Revenue from non-exchange transactions

- During the current financial year Ithuba recovered an amount of R428 542.99 for share of ticket sales which was as a result of the operator overpaying the NLC in the 2016/17 financial year.
- During the current financial year Ithuba paid an amount of R1 892 680.48 relating to week 96 ending 1 April 2017. The NLC accrued R1 681 959.06 in the 2016/17 financial year as per the agreed upon procedures report. An adjustment was made to share of ticket sales.
- During the current financial year Ithuba paid an amount of R10 303 419.31 relating to share of ticket sales for 1 April 2017. Only R10 276 018.76 was adjusted for in the 2016/17 financial year. An adjustment was made accordingly.
- During the current financial year Gidani (the previous Lottery operator) submitted a reconciliation for Unclaimed Prizes. The reconciliation reflected an amount of R36 665 472.86 which was due to the NLDTF in the 2015/16 financial year. This amount is as a result of scratch card prizes which were unclaimed and expired as are 31 May 2015 which was not accounted for. Gidani paid the proceeds on 29 March 2018.

Other licence fees

- During the 2015/16 financial year an amount of R11 735 799.95 was raised in error, however, there was no basis of the receivable.

Transfer to NLC

During the current financial year study loans from previous financial year should have been converted to study expenses and treated as such in the relevant financial periods. This amounted to R369 739 from the 2013/14 financial year to the 2016/17 financial year. During the previous financial year an amount of R24 634 was erroneously paid to an employee. The amount was recovered in the current year. This impacted on the transfer to NLC.

The financial statements have been retrospectively restated.

The impact of the errors are as follows:

	2016/17 R'000	2015/16 R'000	2014/15 R'000
– Increase/(decrease) in fund revenue	(245)	24 930	–
– Decrease/(increase) in transfer to NLC	(75)	(121)	(149)
– (Decrease)/increase in statement of financial performance	(320)	24 809	(149)
– Increase in trade and other payables from non-exchange transactions	(429)	–	–
– Increase/(decrease) in trade and other receivables from non-exchange transactions	108	24 809	(149)
– Increase/(decrease) in net assets	(320)	24 809	(149)

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18. Contingent liabilities

Contingent liabilities comprise grants allocated by the Distributing Agencies to beneficiaries on a conditional basis and the stipulated conditions have not been met as at year-end (herein the soft allocation). The accumulated funds as disclosed in the statement of financial position that would ordinarily be made available for allocation to good causes in the new financial year will be affected by the extent to which these conditional grants convert to firm commitments once the stipulated conditions are met. The claims against NLDTF relate to pending cases against beneficiaries to the organisation.

	31 March 2018 R'000	31 March 2017 R'000
Conditional allocations by Distributing Agencies	–	1 553
Claims against the NLDTF	–	–
Contingent liability at the end of the year	–	1 553

19. Taxation

The National Lottery Distribution Trust Fund is exempt from income tax in terms of section 10(1)(cA) of the Income Tax Act, 1962.

20. Events after reporting period

During the month of June, the NLC reached a settlement agreement with an applicant who had taken a matter to court.

21. Ring-fenced projects

In an effort to meet the legislated 150 days turnaround time for adjudicating applications and finalising the 2015 call for application, a portion of the 2018/19 budget was ring-fenced to fund the applications that were received before year-end. To this effect an amount of R63 million was allocated from the 2018/19 budget.

22. Comparison of approved budget and final budget

The budget and the accounting bases are the same; both are on the accrual basis. The financial statements and the budget are prepared using a classification on the nature of expenses in the statement of financial performance. The approved budget covers the period from 1 April 2017 to 31 March 2018.

	Approved budget R'000	Final budget R'000	Adjustments R'000	Reason for adjustments
Fund revenue	1 584 469	1 584 469	–	No adjustment to budget
Investment income	170 000	170 000	–	No adjustment to budget
Revenue from Participant Trust	150 000	150 000	–	No adjustment to budget
Other operating income	2 800	2 800	–	No adjustment to budget
Allocation of grants	1 441 564	1 441 564	–	No adjustment to budget
Transfers to NLC	463 349	463 349	–	No adjustment to budget

23. Related party transactions

The NLC is a regulator of the National Lottery. Ithuba Holdings Proprietary Limited is a private company that currently operates the National Lottery under licence from the Government. Ithuba commenced as the licence operator from 1 June 2015 after the licence agreement with the previous operator (Gidani Proprietary Limited) came to an end on 31 May 2015. The Operator pays monies into the NLDTF in terms of the licence agreement. These proceeds are destined for good causes as specified in the Lotteries Act and allocated to deserving applicants by Distributing Agencies appointed by the Minister of Trade and Industry (the DTI). The NLC manages the NLDTF and accounts for all running costs. The NLC withdraws the necessary funds required from the NLDTF, based on overall annual budget approved by the Minister of Trade and Industry.

	Year ended 31 March 2018 R'000	Year ended 31 March 2017 R'000
23.1 Transactions between the NLDTF and other parties		
23.1.1 Ithuba Holdings Proprietary Limited		
Revenue from Ithuba Holdings Proprietary Limited	1 391 939	1 371 653
<i>Add:</i> Trade and other receivables from non-exchange (Opening)	28 056	20 876
<i>Less:</i> Trade and other receivables from non-exchange (Closing)	(24 745)	(28 056)
Proceeds from Ithuba Holdings Proprietary Limited	1 395 250	1 364 472
Trade payable from non-exchange transactions – Ithuba Holdings Proprietary Limited	–	429
23.1.2 National Lottery Participant Trust (NLPT)		
Proceeds from NLPT	205 209	66 948
<i>Add:</i> Trade and other receivables from non-exchange (Opening)	4 355	6 171
<i>Less:</i> Trade and other receivables from non-exchange (Closing)	(32 071)	(4 355)
Cash proceeds	177 493	68 764
23.1.3 Controlling entity		
The NLC is a controlling entity of the NLDTF. The NLDTF is administered by the NLC as stipulated in section 21 of the National Lotteries Act (as amended).		
Transfers to NLC (Actual payments to NLC amounted to R433 million for the current year (2016/17: R376 million)	426 687	344 783
Receivables from non-exchange transactions – NLC	100 732	94 169
23.1.4 Gidani Proprietary Limited		
Receivables from non-exchange transactions	–	36 665
Proceeds from Gidani Proprietary Limited	36 665	–
	36 665	36 665

NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Established in terms of Lotteries Act, No 57 of 1997, as amended

Notes to the financial statements (continued)

for the year ended 31 March 2018
24. Provision for allocation by Distributing Agencies

It is the duty of the Distributing Agency Members to adjudicate applications for funding within their respective sectors. Members who have a conflict that may impact the ability to adjudicate impartially do not adjudicate on the projects, as they recuse themselves whilst these projects are being adjudicated. Listed below are balances and transactions with those organisations which were funded by the NLDTF and in which Distributing Agencies have significant interest.

Sector	Name of beneficiary	Distributing agency member	Nature of relationship	Amount granted 2017/18 R'000	Payments 2017/18 R'000	Revocations 2017/18 R'000	Amount owing 2017/18 R'000	Amount owing 2016/17 R'000
CDA	National Association of people living with HIV/AIDS	N Nxesi	Former National Director and Secretary General of the organisation	-	400	-	-	400
ACENH DA	Merakeng Foundation	W Reetsang	Chairman of the foundation	-	1 664	-	1 674	3 338
ACENH DA	KZN Arts and Culture Trust	G Ngcobo	Served as CEO of the organisation	-	-	-	2 582	2 582
ACENH DA	PANSALB	M Zwane	Chief Executive Officer	-	-	10 000	-	10 000
ACENH DA	Walter Sisulu University African Heritage Archive	DN Jafta	Committee member	-	-	-	2 960	2 960
ACENH DA	The Jazz Foundation (SA)	B Sisane	The member is part of the Management Committee	-	800	-	-	800
SRDA	Boland Athletics	HJH Adams	President of Boland Athletics	-	2 519	-	-	2 519
SRDA	Athletics South Africa	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	20 372	14 260	-	6 112	-
SRDA	MAVU	ME Ravele and A Hill	Ms ME Ravele and Ms A Hill (Chairperson of Assisted Organisation – South African Women and Sports Foundation)	15 925	18 458	-	4 000	6 533
SRDA	Boxing South Africa	Ms ME Ravele	Chairperson of the organisation	-	-	2 999	-	2 999
SRDA	Athletics North West	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 908	-	1 526	382	-
SRDA	Athletics Gauteng North	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 010	800	-	210	-
SRDA	Athletics Vaal Triangle	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 670	1 300	-	370	-
SRDA	Athletics North West	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 908	-	1 526	382	-

In the instances below members have relatively significant interest even though the interest did not amount to significant control. These have been disclosed for prudence.

Sector	Name of beneficiary	Distributing agency member	Nature of relationship	Amount granted 2017/18 R'000	Payments 2017/18 R'000	Revocations 2017/18 R'000	Amount owing 2017/18 R'000	Amount owing 2016/17 R'000
SRDA	University of the Western Cape	A Travil	Lecturer at UWC	-	190	-	-	190
SRDA	Tshwane University of Technology	M Ravele	Part time lecture at TUT	-	-	633	-	633
CDA	Child Welfare Tshwane	Ms I Smith	Worked with the Chairperson from 2011 – 2014	1 327	-	-	1 327	-
ACENH DA	University of Limpopo	N Maake	Former employee	-	-	-	400	400
ACENH DA	University of Witwatersrand	N Maake	Honorary pres-lessons in the school of languages and literature of Wits	-	-	-	200	200
ACENH DA	Village Tourism Trust	PC Ngove	The organisation is mothering the organisation that he/she is a trustee	-	380	-	-	380
SRDA	Grass Roots Soccer	Ms A Hill	Former CEO of Special Olympics that is working with Grass Roots Soccer SA on the project	-	3 407	-	-	3 407

General Information

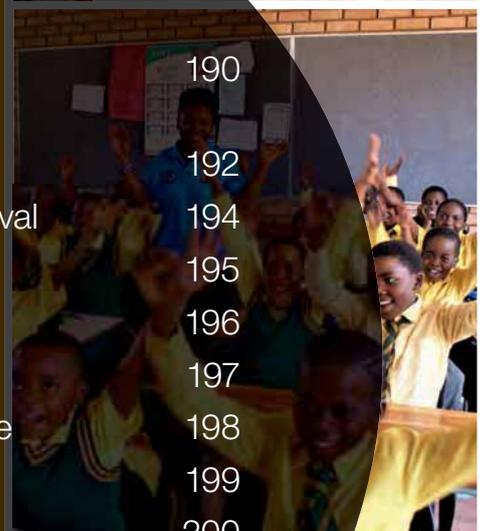
Registered Name	National Lotteries Commission
Registered Address	Block D, Hatfield Gardens 333 Grosvenor Street Hatfield Pretoria, 0083 South Africa
Postal Address	PO Box 1556 Brooklyn Square Pretoria 0075
Contact Telephone Numbers	Switchboard +27 12 432 1300 Fax +27 12 432 1387 Info Centre 0860 065 383
E-mail Address	info@nlcsa.org.za
Website Address	www.nlcsa.org.za
External Auditors	Auditor General SA
Bankers Information	ABSA First National Bank Nedbank Rand Merchant Bank Standard Bank
Company Secretary	Ms Nompumelelo Nene

PART F

NATIONAL LOTTERIES

PARTICIPANTS TRUST

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NATIONAL LOTTERIES PARTICIPANTS TRUST

(Registration number IT001513/2015(T))

Annual Financial Statements for the year ended 31 March 2018

Governance Framework of the National Lottery Participants Trust (NLPT)

The National Lotteries Participants Trust is established in terms of the Trust Property Control Act 57 of 1998. The NLPT was founded by Ithuba Holdings (RF) (Pty) Ltd. in accordance with the third Licence to Operate the National Lottery. The licence is a regulatory instrument provided for, under the Lotteries Act, to enable the NLC to fulfil its regulatory mandate of monitoring Ithuba's operations and Ithuba's obligations to procure a Trust for the purposes of protecting, amongst others, prize monies payable to National Lottery participants who have 365 days to claim their prizes. The duty of procuring the Trust is a key element of the regulatory function of the NLC as set out in section 10(1)(j) of the Lotteries Act.

The NLC Board, in its capacity as Regulator, exercises oversight in accordance with provisions of the Lotteries Act, licence and principles contained in the King IV Code. The NLPT complied with all reporting requirements through the submission of quarterly reports, management accounts, income and expenditure statements, annual financial statements within the stipulated periods as indicated by the Board of the NLC.

APPOINTMENT OF TRUSTEES

The Board of Trustees comprises of two nominee Trustees, who are representatives of the NLC and Ithuba respectively, and three independent Trustees. The NLC, with consent from Ithuba, appoints a maximum of three independent Trustees. Trustees hold office for a period of three years and are eligible for re-appointment at the expiry of the three-year period.

INDEPENDENCE

All independent and nominee trustees are deemed to be independent, having adhered to King IV code principles of independence and criteria for connected persons as defined in the Income Tax Act. Majority of the Trustees are independent as they have no material interest in the NLC, interest in national lottery operator, beneficiaries or suppliers. Trustees of the NLPT have fiduciary duties to the Trust and its beneficiaries. The primary beneficiaries of the NLPT are participants in the lottery who are secured of their prize money as well as the NLDTF as a secondary beneficiary of interest on the funds that are paid to the NLPT as well as unclaimed and expired prize money.

Trustees are required to complete an annual disclosure of interest and are required to disclose interest at every meeting to ensure that circumstances that may give rise to conflict of interest are managed and monitored effectively. There were no conflicts of interest identified during the reporting period.

TRUST ADMINISTRATOR

The Trust administrator is appointed to service the Trust for the duration of the third Licence to Operate the National Lottery. The Trust administrator is accountable to the NLPT Board of Trustees for the performance of all financial, administrative, secretariat and clerical functions, as well as any duties which may be delegated by the Board of Trustees.

MEMBERS AND ATTENDANCE

The Board of Trustees comprises of five members, including the chair, Adv. Nevondwe. The Deed of Trust makes provision for a minimum of four meetings per year. During the financial year ended 31 March 2018, the Board of Trustees met on four occasions.

The table below shows the attendance of these meetings.

Committee Member	Role	Qualifications	Date of Appointment	Quarterly Meetings	Special Meetings and Workshops
Adv. LT Nevondwe	Chairperson	LLB (University of Venda) LLM (University of Venda) LLD (University of Limpopo)	1 April 2016	3/4	1/1
Mr PR Letwaba, CA(SA)	Member – NLC Representative	BCom Accounting CTA	28 May 2015	3/4	1/1
Adv BE Mabuza	Member – Ithuba Representative	BProc (NWU) LLB (Wits) LLB (Georgetown University)	22 July 2015	4/4	1/1
Ms MT Ramuedzisi CA(SA)	Member	BBusSc (UCT) HDipAcc (Wits) MCom (Computer Auditing) (UJ) RA	1 April 2016	4/4	1/1
Mr A Mahlalutye	Member	BSc Quantity Surveying (UCT) Master's in Business Leadership (UNISA) Master's in Financial Management (University of London)	1 February 2018	0/4	0/1
Adv WE Huma**	Former Member		1 April 2016	3/4	0/3

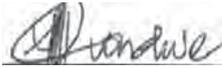
** Resigned in the period under review

Special Board meeting and workshops include

- Special Meeting (AFS Approval, National Lottery Participant Trust Workshop)

The NLPT Chairperson appeared before the NLC Board Audit and Risk Committee to report on the performance and financial information and other relevant matters concerning the Trust.

On behalf of the NLPT Board of Trustees



Adv Nevondwe

NLPT Board of Trustees Chairperson on 20 September 2018

NATIONAL LOTTERIES PARTICIPANTS TRUST

(Registration number IT001513/2015(T))

Annual Financial Statements for the year ended 31 March 2018

Independent auditors' report to the board of trustees

TO THE BOARD OF TRUSTEES OF NATIONAL LOTTERIES PARTICIPANTS TRUST

OPINION

We have audited the Financial Statements of National Lotteries Participants Trust set out on pages 196 to 205, which comprise the Statement of Financial Position as at 31 March 2018, and the Statement of comprehensive income and, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of National Lotteries Participants Trust as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Trust in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The Trustees are responsible for the other information. The other information comprises the Trustees' report as required by the Companies Act of South Africa, which we obtained prior to the date of this report. Other information does not include the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE MEMBERS FOR THE FINANCIAL STATEMENTS

The Trustees are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards, and for such internal control as the members determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the members are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the trustees either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

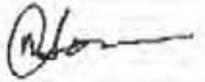
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the close corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the members.
- Conclude on the appropriateness of the members' use of the going-concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the close corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the close corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



KwinanaEquifin Incorporated

Yakhe Kwinana
Practice Number
Director
Chartered Accountants (S.A.)
Registered Auditor

Lynnwood Pretoria

NATIONAL LOTTERIES PARTICIPANTS TRUST

(Registration number IT001513/2015(T))

Annual Financial Statements for the year ended 31 March 2018

Trustees' responsibilities and approval

The trustees are required to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the trust as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with the International Financial Reporting Standard for Small and Medium-sized Entities. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the International Reporting Standards and based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The trustees acknowledge that they are ultimately responsible for the system of internal financial control established by the trust and place considerable importance on maintaining a strong control environment. To enable the trustees to meet these responsibilities, the trustees set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the trust and all trustees and administrators are required to maintain the highest ethical standards in ensuring the trust's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the trust is on identifying, assessing, managing and monitoring all known forms of risk across the trust. While operating risk cannot be fully eliminated, the trustees endeavour to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The trustees are of the opinion, based on the information and explanations given by administrators, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

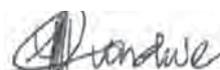
The annual financial statements set out on pages 195 to 205, which have been prepared on the going-concern basis, were approved by the board on 20 September 2018 and were signed on its behalf by:



Phillemon Rasemate Letwaba

Representing: National Lotteries Commission

20 September 2018



Lufuno Tokyo Nevondwe:

Chairperson

20 September 2018

Practitioner's compilation report

To the trustees of National Lotteries Participants Trust

We have compiled the annual financial statements of the National Lotteries Participants Trust, a trust under the administration of Nedgroup Trust Proprietary Limited, as set out on pages 8 to 19, based on the information you have provided. These annual financial statements comprise the Statement of Financial Position of the National Lotteries Participants Trust as at 31 March 2018, the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended.

These annual financial statements and the accuracy and completeness of the information used to compile them are your responsibility.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile these annual financial statements.



Preparer's name
Nedgroup Trust (Pty) Ltd

17 May 2018

NATIONAL LOTTERIES PARTICIPANTS TRUST

(Registration number IT001513/2015(T))

Annual Financial Statements for the year ended 31 March 2018

Trustees' report

The trustees have pleasure in submitting their report on the annual financial statements of the National Lotteries Participants Trust for the year ended 31 March 2018.

1. INCORPORATION OF THE TRUST

The trust was incorporated on 29 May 2015.

2. NATURE OF BUSINESS

The trust is constituted for the benefit of the beneficiaries subject to the terms and conditions of the trust deed. To hold and safeguard all monies received for the benefit of the beneficiaries. The beneficiaries are the winners, the licensee Ithuba Holdings (RF) Proprietary Limited and the National Lotteries Distribution Trust Fund.

3. TRUST CAPITAL

Ithuba Holdings (RF) Proprietary Limited made an initial donation of R1 000.00 on 6 October 2015.

4. TRUSTEES

The trustees in office at the date of this report are as follows:

Trustees

Lufuno Tokyo Nevondwe:

Chairperson

Phillemon Rasemate Letwaba

Representing: National Lotteries

Commission

Boy Erick Mabuza:

Representing Ithuba Holdings (RF)

Proprietary Limited

Mandisa Tumeka Ramuedzisi

Andile Mahlalutye, Appointed 1 February 2018

5. RESULTS OF OPERATIONS

The operating results and state of affairs of the Trust are fully set out in the attached annual financial statements and do not, in our opinion, require any further comment.

6. GOING CONCERN

The trustees believe that the trust has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going-concern basis. The trustees have satisfied themselves that the trust is in a sound financial position. The trustees are not aware of any material changes that may adversely impact the trust. The trustees are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the trust.

Statement of financial position

as at 31 March 2018

Figures in Rand	Notes	2018	2017
ASSETS			
Current assets			
Trade and other receivables	2	1 595 280	1 996 471
Cash and cash equivalents	3	323 718 385	366 712 265
		325 313 665	368 708 736
Total assets		325 313 665	368 708 736
Equity and liabilities			
Equity			
Trust capital	4	1 000	1 000
LIABILITIES			
Current liabilities			
Trade and other payables	5	325 312 665	368 707 736
Total equity and liabilities		325 313 665	368 708 736

Statement of comprehensive income

for the year ended 31 March 2018

Figures in Rand	Notes	2018	2017
Revenue			
Interest received	6	4 180 764	4 040 721
Expenditure			
Administration fees		(2 981 123)	(2 831 760)
Audit fees		(756 045)	(707 048)
Bank charges		(20 256)	(16 261)
Consultancy fees		-	(99 066)
Trustee fees		(423 340)	(386 586)
		(4 180 764)	(4 040 721)
Net profit		-	-

Statement of changes in equity

for the year ended 31 March 2018

Figures in Rand	Trust capital	Total equity
Balance at 1 April 2016	1 000	1 000
Balance at 1 April 2017	1 000	1 000
Balance at 31 March 2018	1 000	1 000

NATIONAL LOTTERIES PARTICIPANTS TRUST
 (Registration number IT001513/2015(T))
 Annual Financial Statements for the year ended 31 March 2018

Statement of cash flows

for the year ended 31 March 2018

Figures in Rand	Notes	2018	2017
Cash flows from operating activities			
Cash (used in) generated from operations	7	(47 174 644)	108 217 424
Interest income		4 180 764	4 040 721
Net cash from operating activities		(42 993 880)	112 258 145
Total cash movement for the year			
Cash at the beginning of the year		366 712 265	254 454 120
Total cash at end of the year	3	323 718 385	366 712 265

Accounting policies

for the year ended 31 March 2018

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

1.1 Financial instruments

Initial measurement

Financial instruments are initially measured at the transaction price. This includes transactions costs, except for financial instruments which are measured at fair value through profit and loss.

Financial instruments at amortised cost

Debt instruments, as defined in the standard, are subsequently measured at amortised cost using the effective interest method. Debt instruments which are classified as current assets or current liabilities are measured at the undiscounted amount of the cash expected to be received or paid, unless the arrangement effectively constitutes a financing transaction.

At the end of each reporting date, the carrying amount of assets held in this category is reviewed to determine whether there is any objective evidence of impairment. If so, an impairment loss is recognised.

Financial instruments at cost

Commitments to receive a loan are measured at cost less impairment.

Equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably are measured at cost less impairment. This includes equity instruments held in unlisted investments.

Financial instruments at fair value

All other financial instruments are measured at fair value through profit and loss.

1.2 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for all deductible temporary differences and for the carry forward of unused tax losses and unused tax credits.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted by the reporting date.

Tax expenses

Tax expense is recognised in the same component of total comprehensive income (i.e. continuing operations, discontinued operations, or other comprehensive income) or equity as the transaction or other event that resulted in the tax expense.

1.3 Revenue

Interest is recognised, in profit or loss, using the effective interest rate method.

1.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Accounting policies (continued)

for the year ended 31 March 2018

1.5 Expired tickets

Expired funds comprise of winning tickets that have exceeded the 365 days limit period for claims to be made. The expired amounts are recognised as revenue in the period that the maximum claim period lapses. Unutilised expired funds are reflected as a liability in the statement of financial position.

1.6 Expenditure

Expenditure comprise of management fees, trustee fees, bank charges, consulting fees, audit fees and others costs incurred in running the trust. All expenditure is charged against statement of comprehensive income in the period it was incurred.

1.7 Related parties

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the National Lotteries Participants Trust. All trustees are regarded as key management per the definition of International Financial Reporting Standard for Small and Medium-sized Entities.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, key management individuals in their dealings with the National Lotteries Participants Trust.

An entity is related to the trust if members of the entity's key management have significant influence in the trust.

Other related party transactions are also disclosed in terms of the requirements of International Financial Reporting Standard for Small and Medium-sized Entities. Qualitative and quantitative materiality is considered in the disclosure of these transactions.

Notes to the annual financial statements

for the year ended 31 March 2018

Figures in Rand	2018	2017
2. Trade and other receivables		
Interest accrued	1 595 280	1 996 471
3. Cash and cash equivalents		
Cash and cash equivalents consisted of the undermentioned bank accounts and should be:		
Nedbank Private Wealth Proprietary Limited – Advanced and online play account	10 000 000	–
Nedbank Private Wealth Proprietary Limited – Expired account	45 358 017	200 551 582
Nedbank Private Wealth Proprietary Limited – Interest account	7 530 751	2 701 088
Nedbank Private Wealth Proprietary Limited – Prize money account	260 829 617	163 459 595
	323 718 385	366 712 265
Actual bank balances are as follows:		
Nedbank Private Wealth Proprietary Limited – Advanced and online play account	10 000 000	–
Nedbank Private Wealth Proprietary Limited – Expired account	14 705 294	106 756 474
Nedbank Private Wealth Proprietary Limited – Interest account	7 530 751	2 700 395
Nedbank Private Wealth Proprietary Limited – Prize money account	291 482 340	257 255 396
	323 718 385	366 712 265
Transfers which should have occurred as at end of period:		
Nedbank Private Wealth Proprietary Limited – Expired account	30 652 723	(93 795 108)
Nedbank Private Wealth Proprietary Limited – Interest account	–	(693)
Nedbank Private Wealth Proprietary Limited – Prize money account	(30 652 723)	93 795 801
	–	–
4. Trust capital		
Initial donation : Ithuba Holdings (RF) Proprietary Limited	1 000	1 000
5. Trade and other payables		
Administration fees	806 003	–
Audit fees	756 045	707 048
Advanced Sales due to Ithuba Holdings (RF) Proprietary Limited	1 739 577	–
Advanced Sales due to Winners	8 260 423	–
National Lotteries Distribution Trust Fund Payments	30 407 741	88 232 700
Unclaimed Funds – Ithuba Holdings (RF) Proprietary Limited	1 568 386	892 409
Unclaimed Prizes – Ithuba Holdings (RF) Proprietary Limited	281 673 822	278 775 579
Trustee fees	100 668	100 000
	325 312 665	368 707 736
6. Interest income		
Interest revenue		
Nedbank Private Wealth Proprietary Limited – Interest account	4 180 764	4 040 721
	4 180 764	4 040 721
Interest income comprises interest earned on favourable balances held with bank. The interest earned is utilised to defray expenditure incurred by the trust to facilitate its operations and the remaining interest then vests in the National Lotteries Distribution Trust Fund.		
7. Cash (used in) generated from operations		
Adjustments for		
Interest received	(4 180 764)	(4 040 721)
Cash generated from operations		
Change in trade and other receivables	401 191	33 409 909
Change in trade and other payables	(43 395 071)	78 848 236
	(47 174 644)	108 217 424

NATIONAL LOTTERIES PARTICIPANTS TRUST

(Registration number IT001513/2015(T))

Annual Financial Statements for the year ended 31 March 2018

Notes to the annual financial statements (continued)

for the year ended 31 March 2018

Figures in Rand		2018	2017
8. Related parties			
Relationships			
Trustees	Ithuba Holdings (RF) Proprietary Limited National Lotteries Commission		
Beneficiaries	National Lotteries Distribution Trust Fund Winners		
Related party balances			
Balances owing to related parties			
Unclaimed Funds – Ithuba Holdings (RF) Proprietary Limited		1 568 386	892 409
National Lotteries Distribution Trust Fund		30 407 741	88 232 700
Winners		281 673 823	278 775 579
Trustees Fees		100 668	100 000

9. Financial risk management

9.1 Interest rate risk

The exposure to changes in interest rates relates primarily to the National Lotteries Participants Trust's prize money account, expired account, interest account and advance and online play account.

Sensitivity analysis

Below are the recalculated financial assets and liabilities showing the effect of a 100 basis point increase or decrease in the prize money account, expired account and interest account. This analysis assumes that all other variables remain constant.

	Current balance	+1% (100 basis points)	-1% (100 basis points)
2018			
Cash and cash equivalents	323 718 385	204 721	(204 721)
2017			
Cash and cash equivalents	366 712 265	4 127 407	(4 127 407)

9.2 Credit risk

Credit risk arises from trade and other receivables and cash and cash equivalents. The trust has no significant concentration of credit risk. A breakdown of the ageing and concentration of credit risk that arises from the National Lotteries Participants Trust is:

	Total	Full performing	Past due-not impaired	Impaired
2018				
Other receivables ¹	1 595 280	1 595 280	-	-
	1 595 280	1 595 280	-	-
2017				
Other receivables ¹	1 996 471	1 996 471	-	-
	1 996 471	1 996 471	-	-

1. Other receivables refers to the accrued interest.

9. Financial risk management (continued)

9.3 Liquidity risk

Liquidity risk is the risk that the National Lotteries Participants Trust will not be able to meet its financial obligations as they fall due. The National Lotteries Participants Trust has adequate cash balances at its disposal and no long-term debt which reduce the liquidity risk. Nevertheless the National Lotteries Participants Trust ensures that the liquidity risk is monitored and controlled.

Maturity profile of financial instruments

	1 year or less	1 to 5 years	Total
2018			
Cash and cash equivalents	323 718 385	–	323 718 385
Trade and other receivables	1 595 280	–	1 595 280
	325 313 665	–	325 313 665
Liabilities			
Trade and other payables	325 313 665	–	323 313 665
	325 313 665	–	323 313 665
2017			
Cash and cash equivalents	366 712 265	–	366 712 265
Trade and other receivables	1 996 471	–	1 996 471
	368 708 736	–	368 708 736
Liabilities			
Trade and other payables	368 708 736	–	368 708 736
	368 708 736	–	368 708 736

9.4 Financial instruments per category

Financial assets per category

The accounting policies for financial instruments have been applied to the line items below:

	Trade and other receivables	Cash and cash equivalents
2018		
Loan and receivables	1 595 280	–
Fair value through profit and loss – designated	–	323 718 385
	1 595 280	323 718 385
2017		
Loan and receivables	1 996 471	–
Fair value through profit and loss – designated	–	366 712 265
	1 996 471	366 712 265
Financial liabilities per category		Trade and other payables
2018		
Financial liabilities at amortised cost		325 312 665
		325 312 665
2017		
Financial liabilities at amortised cost		368 707 736
		368 707 736

Notes to the annual financial statements (continued)

for the year ended 31 March 2018

10. Fair value of financial instruments

	Carrying Value	Fair Value
2018		
Cash and cash equivalents	323 718 385	323 718 385
Trade and other receivables	1 595 280	1 595 280
	325 313 665	325 313 665
2017		
Cash and cash equivalents	366 712 265	366 712 265
Trade and other receivables	1 996 471	1 996 471
	368 708 736	368 708 736

11. Events after reporting period

The trustees are not aware of any significant events that occurred after the reporting date that would require adjustments to or disclosure in the financial statements.

General information

Country of incorporation and domicile	South Africa
Nature of business	To hold and safeguard all monies received by the Trust for the benefit of the beneficiaries.
Type of trust	Inter Vivos
Trustees	Lufuno Tokyo Nevondwe: Chairperson Phillemon Rasemate Letwaba Representing: National Lotteries Commission Boy Erick Mabuza: Representing Ithuba Holdings (RF) (Pty) Ltd Mandisa Tumeke Ramuedzisi Andile Mahlalutye (Appointed 1 February 2018)
Registered office of Administrator	V&A Waterfront Nedbank Clocktower Cape Town 8001
Postal address of Administrator	V&A Waterfront Nedbank Clocktower Cape Town 8001
Bankers	Nedbank Private Wealth (Pty) Ltd
Auditor	Kwinana and Associates Incorporated Chartered Accountants (S.A.) Registered Auditor
Trust registration number	IT001513/2015(T)
Tax reference number	2332466172
Preparer of AFS	Nedgroup Trust (Pty) Ltd

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