



# 2019 INTEGRATED REPORT

# Our 20 years of seminal moments and historical value



**It's the month of August 1999 and South Africa wakes up to the establishment of the National Lotteries Commission, previously known as the NLB, an institution that will not only protect South Africans from excessive lottery gaming activities and market stimulation and fight prohibited lotteries, but prove to Change the Lives of millions of South Africans.**

Three National Lottery Operators down the line, the NLC would prove to be the backbone of civil society and a beacon of excellence in delivering efficient and effective services to our valued stakeholders through the maximisation of revenue, obtained by safeguarding and better regulation of the lotteries and sports pools industry.

In the past 20 years, regulation of the lotteries and sports pools industry has underpinned participant protection by ensuring that stringent participant protection measures are infused into the regulatory requirements.

## Accessibility

Decentralisation of NLC services to provincial offices

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

Walk-in centres throughout the country

Frequent publication of funding priorities

Immediate response to funding needs

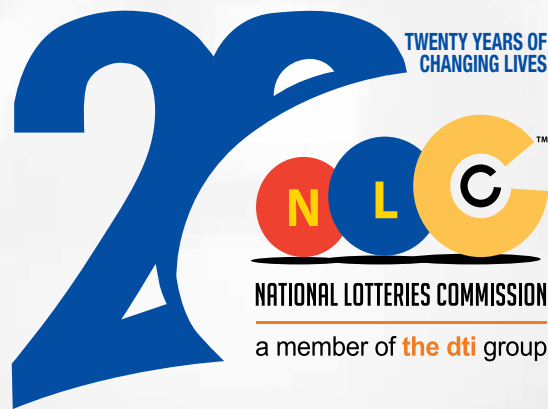
Instant play through online platforms

## Participant protection

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

An estimated 960 participants' protection reviews conducted annually

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



## Operational efficiencies

Elimination of historic applications backlog

Adjudication of applications within 150 days

Payment of grants within 60 days of signing of grant agreement

## Corporate governance excellence

No material non-compliance with legislation

Sound corporate governance culture

Culture of maintenance of strong internal controls

Consistent clean audits in recent years

Reduction of legal challenges in recent years

## Regulation and funding for impact

R23 billion in funding for worthy causes

Facilitate economic empowerment with R4.1 billion

1 576 millionaires created through National Lottery system

More than R431 million procurement spend to B-BBEE companies in recent years

More than R133 million procurement spend on women in recent years

More than R67 million procurement spend to youth in recent years

Over R4.9 million procurement spend on persons with disabilities in recent years

**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.**

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 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 2018/19

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<b>Website address:</b>	www.nlcsa.org.za
<b>External auditors' information:</b>	Auditor General SA
<b>Bankers information:</b>	First National Bank, Nedbank, Rand Merchant Bank
<b>Company secretary:</b>	Adv Nompumelelo Nene (FCIS)

# PART A

## General information



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# About this report

## Integrated reporting purpose

The NLC fulfils its mandate through application of principles of openness and transparency. We are proud to present our Integrated Report, which aims to highlight our successes and challenges throughout the 2018/19 financial period. We are working toward meeting all requirements of the **International <IR> Framework** as we progress on our integrated reporting journey.

## Reporting scope and boundary

The Integrated Report 2018/19 is our primary report to stakeholders covering the financial period 1 April 2018 to 31 March 2019. The report includes the NLC's leadership overviews, organisational overviews, financial performance, strategic performance, outlook and corporate governance overview. We, as regulators of the lotteries industry, does not report the National Lottery Operator, Ithuba Holdings (RF) Pty Ltd.

The content covers our material matters that impact on the sustainability of our industry, organisation and stakeholders as well as 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's Materiality Framework. The materiality framework is reviewed annually and included in the Annual Performance Plan. Material matters are featured in this report and developed after consideration of the ministerial priorities, strategic risk register, our strategy as well as our reporting framework.

## Reporting frameworks

Our Integrated Report 2018/19 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 an external independent analysis on compliance with King IV code was concluded. The results 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 the 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	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	Siyandisa Verification Solutions

## Directors' approval

The Board acknowledges its responsibility to ensure the integrity of information contained in the Integrated Report 2018/19. 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 2018/19 is presented in compliance with PFMA requirements and Integrated Reporting International <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 preparation of the annual financial statements and for 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 Auditor-General South Africa 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 2019.

## 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](http://www.nlcsa.org.za).



**Prof NA Nevhutanda**  
Chairperson of the Board



**Ms TCC Mampane**  
Commissioner

Date



# List of abbreviations/acronyms

<b>AA</b>	Accounting Authority
<b>ACT</b>	The Lotteries Amended Act, No.32 of 2013
<b>AFS</b>	Annual Financial Statements
<b>AGSA</b>	Auditor-General South Africa
<b>Board</b>	Board of Directors of the NLC
<b>CATHSSETA</b>	Culture, Arts, Tourism, Hospitality, Sports, Sector Education and Training Authority
<b>COMMISSIONER</b>	Commissioner of the NLC
<b>DA</b>	Distributing Agency
<b>GRAP</b>	Generally Recognised Accounting Practice
<b>IPSAS</b>	International Public Sector Accounting Standards
<b>MTEF</b>	Medium Term Expenditure Framework
<b>NGO</b>	Non-governmental Organisation
<b>NLC</b>	National Lotteries Commission established in terms of the Lotteries Amendment Act, including its controlled entities, being National Lotteries Distribution Trust Fund and National Lotteries Participants Trust
<b>NLDTF</b>	National Lottery Distribution Trust Fund
<b>NLPT</b>	National Lotteries Participants Trust
<b>NPC</b>	Non-Profit Company
<b>NPO</b>	Non-Profit Organisation
<b>PFMA</b>	Public Finance Management Act (Act No. 1 of 1999) as amended
<b>RFP</b>	Request for Proposal
<b>SCA</b>	Supreme Court of Appeal
<b>SCM</b>	Supply Chain Management
<b>the dti</b>	Department of Trade and Industry

## The six capitals



**Financial**



**Intellectual**



**Manufactured**



**Natural**



**Human**



**Social and  
relationship**

## Strategic objectives



# The NLC approach to materiality

We undergo a meticulous process in determining our material matters. This process, which is premised around the practice of integrated thinking, takes into account every area of the Commission, including our stakeholders, unique operating environment and value-based strategy. We encapsulate this in our materiality framework which forms the basis to our approach, safeguarded by effective and ethical governance in ensuring we generate value for our stakeholders and beneficiaries.

## Approach to materiality

We consider information to be material if its omission or misstatement could influence a reader's valuation of the health, value-creation and outlook of the NLC.

Therefore, materiality provides a threshold or cut-off point, rather than being a primary quantitative characteristic.

Materiality extends to the potential impact of affect that information in this report may have on stakeholders and their ability to gain an accurate account of the NLC's financial and non-financial outcomes over the reporting year.

## Framework scope

Coupled with the principle of integrated thinking, the following primary and governance best practice guidelines are considered when determining materiality.

- The Public Finance Management Act No. 01 of 1999.
- NLC Primary legislation – Lotteries Amendment Act No 32 of 2013
- The Treasury Regulations of 2005.
- The Companies Act No. 71 of 2008.
- The King IV Report on Corporate Governance for South Africa 2016.

## Governance oversight and approval

The NLC Board is responsible for approving the materiality approach along with a review by the Audit and Risk Committee of the NLC.

GROUP  
STRATEGY

STAKEHOLDERS

RISKS

OPERATING  
ENVIRONMENT

CORPORATE  
GOVERNANCE

Our considerations aim to take into account the connectivity and interdependencies between the range of factors that affect the Commission's ability to create value over time for stakeholders and beneficiaries. It is this practice of integrated thinking that ensures our material matters are salient and accurate to the work of the Commission.

## Material matters

Conflicting beneficiaries	Macroeconomic conditions	Interpretation of legislation	Online gaming	Challenges in regulation
<p>A majority of complaints and allegations received by the NLC relate to conflicting beneficiaries once funded. The conflicts emanating from beneficiaries as well as beneficiaries and service providers has led to the NLC's reputation and integrity being compromised.</p> <p>Notwithstanding NLC's best endeavours to mediate between beneficiaries, matters often led to criminal investigations and litigation amongst conflicting beneficiaries and/or service providers.</p> <p>The NLC continues to provide capacity building to beneficiaries in order to ensure beneficiaries understand and adopt sound governance practices.</p>	<p>With the persistent challenges facing the South African economy, poverty, low levels of employment, as well as an urgent need for economic growth, we continued to face challenges in meeting the unrealistic demand on the NLDTE. We continue to look for innovative measures to maximise revenue while encouraging and channel our valued beneficiaries to explore other forms of funding through the introduction of society lotteries and innovative projects to ensure sustainability of their organisations.</p>	<p>Our stakeholders remain challenged in understanding section 2A of the Act relating to proactively funded projects. The report, under the grant funding section, provides a detailed overview and corporate governance framework of our Pro-Active Funding Model.</p>	<p>The Lotteries Act requires an amendment to ensure that NLC has full regulatory powers. These include the issuing of penalties for certain regulatory breaches and inspectorate powers to police and enforce the law on illegal operations. Administrative penalties are tools used by regulators to enforce compliance with legislation. These penalties should be of monetary value and should be imposed without reliance on a court process for enforcement thereof. Powers to appoint inspectors with all required enforcement powers to conduct inspections on illegal lotteries would assist in effective execution of the mandate of policing lotteries. Challenges identified by the Board in regulating the lotteries industry include conflicting legislation and different regulators for gambling and lotteries which create ambiguity in regulation as well as lack of enforcement powers to effectively regulate lotteries.</p>	<p>Traditional lottery operators are finding themselves competing with foreign lotteries due to technological online platforms. Online gaming is providing more options for consumers; however, it is also threatening the revenue generated by traditional lottery operators. The proliferation of online operators poses threats to the restrictive legislated environment. The global lottery industry is coming to grips with rapid changes in the industry as a consequence of online gaming and the use of technology. The NLC is expected to regulate the lotteries industry and curb the scourge of illegal lotteries. The NLC is further expected to advise the Minister on the issuing of the licence to conduct the National Lottery and Sports Pools, whilst ensuring the National Lottery and Sports Pools are conducted with all due propriety, that the interests of every participant in the National Lottery are adequately protected and that net proceeds of the National Lottery are as large as possible. Research undertaken by the NLC in 2016 on the impact of illegal lotteries estimated revenue generated from online illegal lotteries to be R18 million per annum. The impact of this unlawful activity has both an economic and social dimension, such as loss of intermediate production and value-addition in the national economy and loss of employment opportunities.</p>



Risk and opportunity:



Risk and opportunity:



Risk and opportunity:



Strategic risk and opportunity:



Strategic risk and opportunity:



## INTRODUCING THE NLC

### Salient features: Financial and non-financial performance highlights 2018/19

Achieved

**83% of grants  
disbursed**

within 60 days prescribed  
timeframes exceeding  
75% target

**187  
stakeholder**

engagements across  
provinces exceeding target  
of 90 engagements

**2 847 monitoring**

and evaluation site visits  
conducted

**25 943 jobs  
created**

and 888 355 secondary  
beneficiaries

**Overall  
liability  
decreased  
by 51%**

from prior year  
to R285 million

**Acquisition of  
6 properties**

acquired with 2 occupied  
and refurbished in 2019  
which will translate to  
significant savings in  
future

**90% of  
procurement**

localised for  
provincial offices

**Total  
Procurement  
Spend:**

**R169 542 000**

R118 679 400 to B-BBEE  
companies  
R22 888 170 to women  
R25 431 300 to youth  
R2 543 130 to persons  
with disabilities

**On average,  
suppliers paid  
within 13 days**

of receipt of invoice,  
exceeding 30 days target.

**Minimum of  
5% equitable**

distribution to all  
provinces exceeded

**156%  
increase**

in revenue from  
Fund Raising Activities  
to R52.7 million

# What we do and who we serve

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

## Constitutional mandate

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



*Refer to page 71*

## 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.

*Refer to page 71*

- 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.



*Refer to page 80*

- Invite applications for grants from worthy good causes in the prescribed manner.



*Refer to page 82*

- Promote public knowledge and awareness by developing and implementing educational and informational measures to educate the public about the lotteries and provisions of the Lotteries Act, as amended, and educating the public by explaining the process, requirements and qualifications relating to the application for grants in terms of this Act.



*Refer to page 85 to 86*

- Manage staff and its financial, administrative and clerical functions and exercise any other function as delegated or directed by the Minister or the Board. (icon (reference) to the Human Capital section).



*Refer to page 87*

## 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.**



*Refer to page 70*

## Core values

**We are committed to achieving sustainable growth through the practice of good corporate governance, the provision of excellent service and sound regulatory practice. In fulfilling the Mission and Delivery of our Mandate 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 and to work effectively, efficiently and with professionalism, ensuring a positive sustainable impact on the communities we serve.

### Service excellence

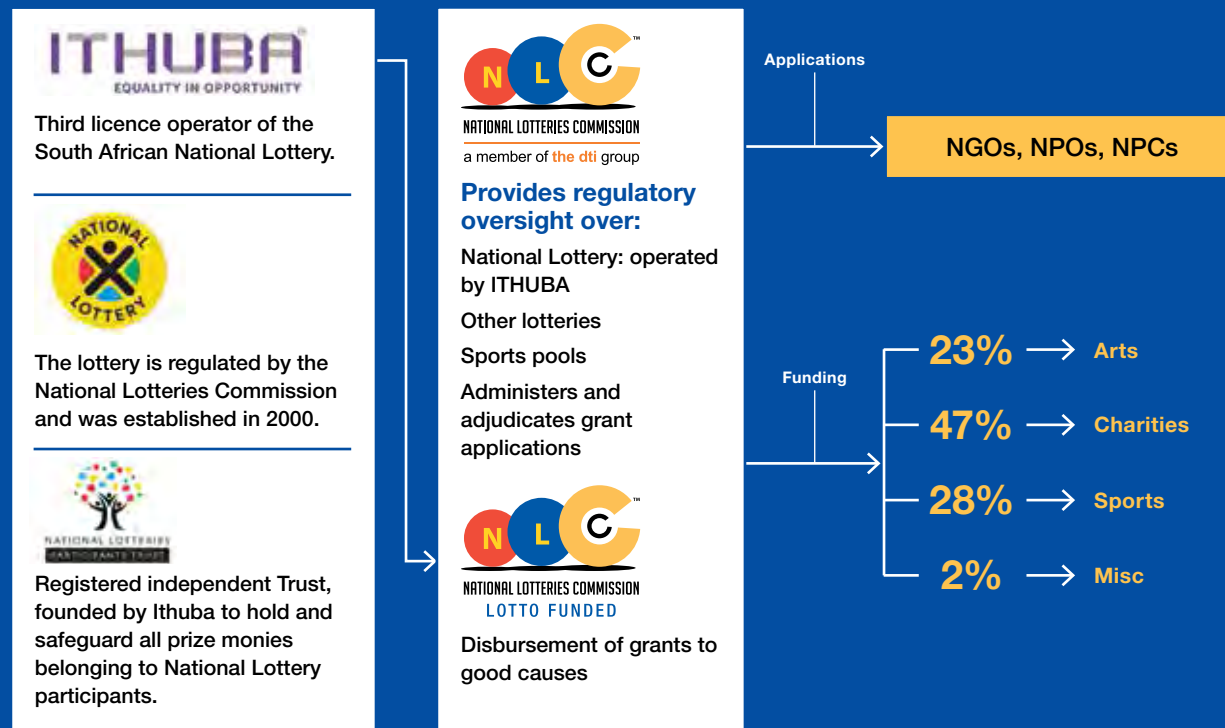
To provide a level of service which is of a high quality, target based and meets the expectations of all stakeholders.

### Social consciousness

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



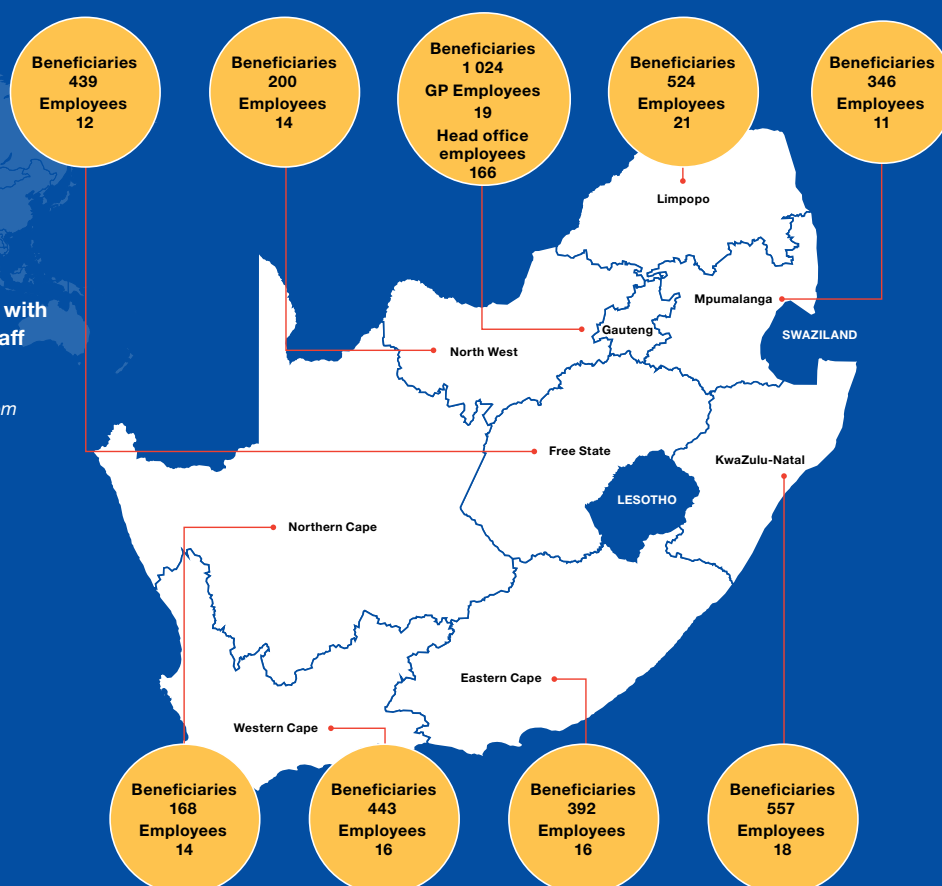
## Operational mandate



## Our geographical footprint

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

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

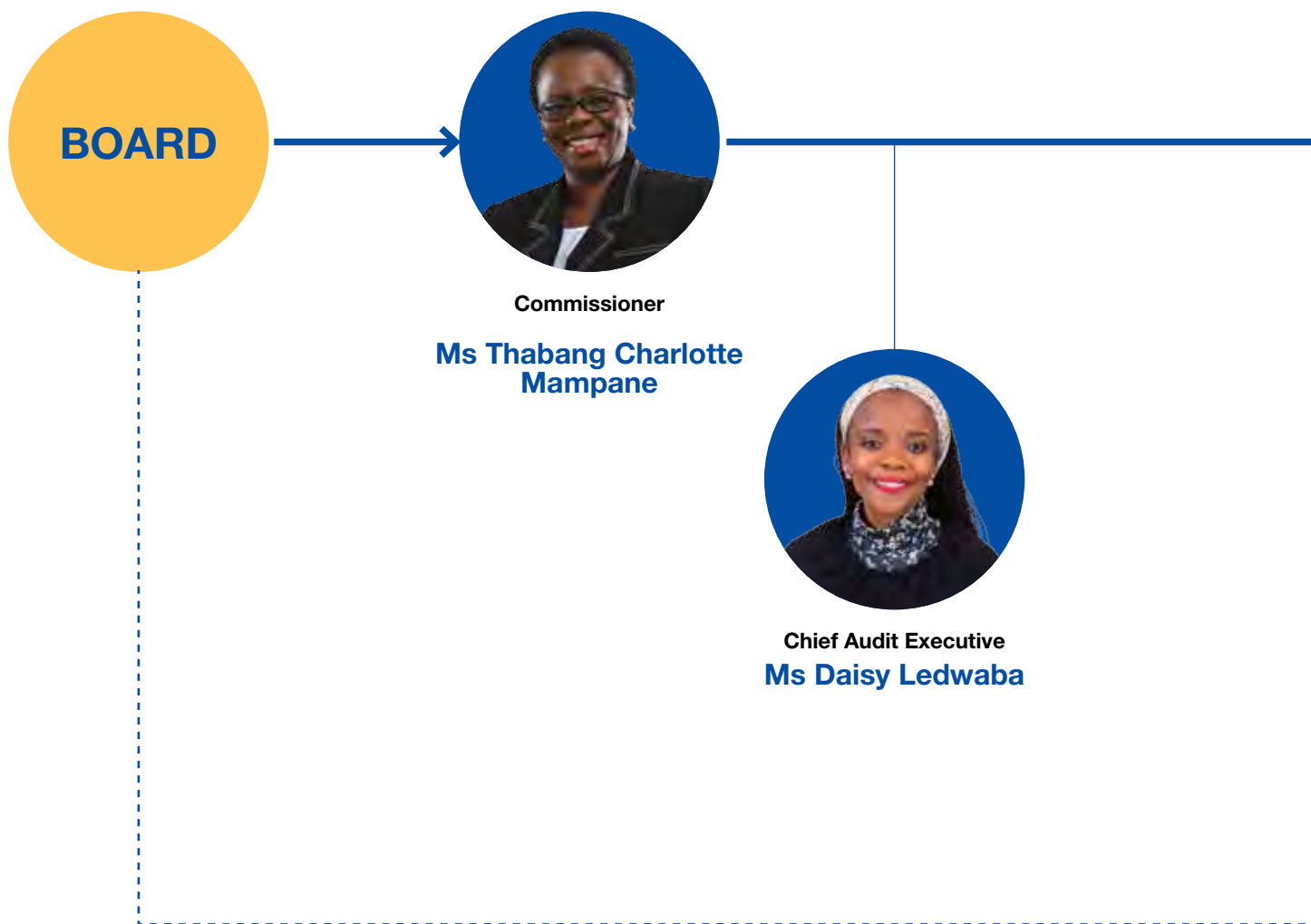


# Our organisational structure and Executive Committee

**The NLC Executive Committee is led by the Commissioner, Thabang Mampane. The NLC Executive Committee is required to apply principles of openness and transparency, and in exercising functions assigned to it in accordance to the Act, the Board and any other law.**

The NLC Executive Committee ensures that the Commission must ensure legislative functions are achieved.

The NLC Executive Committee has a total estimated of 153 years of experience. The Executive Committee's dynamic experiences have assisted the NLC to reach its legislative function and mandate.





**Chief Financial Officer**

**Ms Xolile Ntuli** CA(SA)



**Chief Information Officer**

**Mr Mothibi Ramusi**



**Executive Manager:  
Regulatory Compliance**

**Ms Tintswalo Nkuna**



**Chief Operating Officer**

**Mr Phillemon Letwaba** CA(SA)



**Executive Manager:  
Legal**

**Mr Tsietsi Maselwa**



**Company Secretary**

**Adv N Nene,** FCIS

# Foreword by the Minister



**Using the resources and mandate of the trade, industry and competition portfolio, we will support efforts to unleash private investment and energise the state to boost economic growth and inclusion.**

*Ebrahim Patel – Minister for Trade and Industry*

## **The report for the National Lotteries Commission (NLC) coincides with the beginning of the 6th administration of the democratic South Africa.**

The focus of the new administration is to boost economic growth and enable deeper levels of economic inclusion and transformation.

A new Department of Trade, Industry and Competition has been established, through a merger of the dti and Economic Development Department, which will drive the implementation of a more focused, high-impact industrial strategy.

Over the next five years, the focus will be on practical actions and improved governance, to pull our economy onto the higher growth levels we require to create decent work and entrepreneurial opportunities for many more South Africans, particularly young people. There are no quick fixes if we want to build this high-growth, high-employment, high-inclusion economy.

Using the resources and mandate of the trade, industry and competition portfolio, we will support efforts to unleash private investment and energise the state to boost economic growth and inclusion. This is an essential part of building confidence and the platform for job-creation.

As priorities for the new Administration we have outlined six focus areas in the trade, industry and competition portfolio:

### **First, to support improved industrial performance, dynamism and competitiveness of local companies.**

These include developing Master Plans in priority sectors to help create conducive conditions for industries to grow, improve their industrial capacities and sophistication, focus more on export orientation and reclaim domestic market space lost to imports.

The Master Plans will be action-oriented, developed and carried out in partnership with business and labour and implemented in stages, so that we can move expeditiously.



Government set a target of  
**R1.4 trillion**  
in new investment in the economy

African countries support about  
**250 000**  
South African jobs

an additional 400 Black Industrialists' projects with financial support of  
**R40 billion**

## Second, to improve the levels of fixed investment in the economy

Over the five-year period from 2018/19, Government set a target of R1.4 trillion in new investment in the economy. The vast bulk of this must come from the private sector.

The state's role will be to enable higher levels of fixed investment (both domestic and foreign), through addressing infrastructure and skills gaps; and by partnering with the private sector through a range of incentives and financial packages.

## Third, to expand markets for our products and facilitate entry to those markets.

The single biggest initiative is the African Continental Free Trade Area (AfCFTA) which will connect 1.2 billion people into a single bloc where local products will be traded between countries, with minimal tariffs. These agreements lay the basis for increased intra-African trade and can cement the continent's position as the next growth frontier.

The implementation phase was launched on 7 July 2019, at a Special African Union Summit meeting in Niger, with the intention to come into effect on 1 July 2020.

The Agreement will fundamentally change and reshape the South African economy. Already, exports to other African countries support about 250 000 South African jobs and it is the fastest-growing market for our manufactured exports.

## Fourth, to promote economic inclusion.

This means opening up and changing our market structure, to bring more young people, women and Black Industrialists into the economy.

To enhance the growth of Black Industrialists, we will combine the efforts of the Department and its agencies into a seamless and coordinated programme. Over the next 5 years, we will support an additional 400 Black Industrialists' projects with financial support of R40 billion, through identifying sustainable

businesses and promoting both industrialists, new enterprise formation and worker involvement in the enterprises, using a combination of private and public sector resources.

## Fifth, to promote more equitable spatial and industrial development.

A pillar of our industrial policy is to develop new investment clusters through special economic zones, revitalisation of industrial sites and support for business and digital hubs.

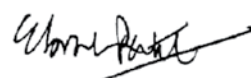
## Sixth, to improve the capability of the state.

This means being more responsive to the needs of South Africa's entrepreneurs, moving faster in making decisions and carrying out functions, coordinating better between departments and agencies and creating a business-encouraging environment in which more investment and more job creation can take place.

Part of a smart state is partnering with domestic businesses to invest more in innovation and R&D, as new techniques, new products and new distribution platforms can move South Africa up the value-chain and enhance job creation.

All public entities will have to work with a greater sense of urgency to support government in achieving its ambitions for the new administration. This is what has been called the spirit of *khawuleza*, and it must define our approach both within Government and public entities to addressing the structures in the economy which impede growth, economic inclusion and job creation.

I wish to acknowledge the work of the NLC Chairperson, the Board of the NLC and staff over the last year and wish them well in their efforts to carry out their public mandate.



**Mr Ebrahim Patel**  
Minister for Trade and Industry

# Foreword by the Chairperson



**Monitoring of the National Lottery remains the focal point of our regulatory work and has produced 78 jackpot millionaires.**

Prof NA Nevhutanda – Chairperson



**With 20 years of better regulation of the lotteries and sports pools industry, the NLC continues to be a catalyst in changing the lives of millions of South Africans and an economic contributor in various sectors of our economy.**

The NLC not only ensured that our stakeholders were protected from unscrupulous operators of prohibited lotteries through the shutting down of these illegal operations, but through various stakeholder engagements, encouraged organisations to register society lotteries which resulted in an unprecedented 156% increase in revenue from fundraising activities by organisations registered as society lotteries, yielding revenue of R52 million. Monitoring of the National Lottery remains the focal point of our regulatory work and has produced 78 jackpot millionaires. During the period under review, the NLC's regulatory dimensions resulted in a record breaking 598 million tickets sold and 1.98 billion draw entries, affirming the public's confidence that the National Lottery is conducted transparently, fairly and with due propriety.

# 598

**million National  
Lottery tickets  
sold**

**positive  
governance  
review  
outcomes**

**numerous board  
stakeholder  
engagements**

The NLC managed, notwithstanding tough economic conditions and excessive demand on the fund, to fund worthy causes to the tune of R1.310 billion. Our Pro-Active Funding model detailed on page 82 – 83 of this report ensured that the NLC fund was accessible to communities who would have otherwise not participated and benefited from NLC funding, and touched on areas of food security and water preservation while restoring human dignity to thousands of our children through the sanitation project.

The NLC Board recognises that it provides oversight to an integral asset of society and has adopted a stakeholder-inclusive approach in the execution of its corporate governance and advisory role on the efficacy of the Lotteries Act, as amended. To this end, the Commission has reviewed the legislation and will, in the ensuing year, commence engagement with the Executive Authority and Policy makers to advice on legislative review of the Lotteries Act in order to promote an enabling, innovative and agile lotteries and sport pools industry.

We were excited by the opening of our provincial office accommodation, which is not only expected to derive savings, but demonstrates our commitment to be a permanent feature in our provinces and remain accessible to all communities.

The Board engaged with a vast number of material stakeholders, ranging from the Parliamentary structures, beneficiaries and participants in the industry in order to understand their interests and expectations and respond appropriately. The Board responded promptly to legitimate concerns emanating from the media.

The period under review has seen the Auditor-General of South Africa express an unqualified opinion on the NLC group, a testament to solid corporate governance practices and strong internal controls.

I wish to thank the executive management and staff of the National Lotteries Commission, led by Commissioner Ms Thabang Mampane, for striving for performance excellence and achieving 100% performance for a consecutive five years, the outgoing Minister and the dti for the consistent support given throughout the period under review and his tenure, and the NLC Board for steering the NLC towards becoming a beacon of corporate governance excellence. The Board, in the interests and expectations of our material stakeholders, congratulates Minister Ebrahim Patel and looks forward to working with him and his team for a sustainable NLC. The NLC Board assures the Minister of its commitment to clean corporate governance and affirms that the Commission will continue to perform its functions efficiently and effectively in compliance with this Act, any other applicable law and corporate governance best practice.



**Prof NA Nevhutanda**  
Chairperson

# Commissioner's overview



**Poverty, unemployment and inequality plagued us as we tried to strike the balance between developing country and first world advancements.**

Mrs TCC Mampane – Commissioner



**For us, this significant point in our history comes as the country celebrates 25 years of democracy – which has enhanced our appreciation of how far we have really come as an organisation in our pursuit of nation building.**

We've often said that when the NLC was established we were entering uncharted territory for South Africa. This was the reality of many government entities in the new dispensation. Ours however, was unique in that we had a dual, symbiotic mandate that created much expectation – and the added incentive for members of the public to become overnight millionaires. The heat was on, and we had a nation to serve.

One could look at the first few years as a practical test. The model of the NLC was not a global first, but the South African context was like no other. Poverty, unemployment and inequality plagued us as we tried to strike the balance between developing country and first world advancements. Despite this, the vibrancy of the country's NPO and civil society sector became part of our value chain in funding good causes, and by the end of the first decade of the 21st century, our teenaged organisation had regulated a successful national lottery with a second operating licence in place, and had become part of the fibre of society as The Catalyst for Social Upliftment.

After the euphoria of the 2010 FIFA World Cup, an air of reflection seemed to settle on South Africa as a whole.

We had proven to the world (and indeed to ourselves) that we could host a world class event with little incident, and by implication, set the bar even higher for ourselves.



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

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

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

As the NLC, this translated into time for review of the legislation that governed us, our relevance to society, and areas where we could improve through an impact study. This led to the amendment of the Act and its proclamation in 2015. The rest, as they say, is proverbial history.

Except that history is what we create every day. The period of transition required us to paint a clear picture of our vision to our stakeholders. There were corners of apprehension about the implications of the amended Act and related regulations. As an organisation, we understood that our stakeholders looked to the NLC for hope, and we implemented intensive engagements countrywide to ease those fears and cement our commitment to regulating lotteries, and protecting the public from scams – while impressing the importance of not only funding for good causes but Funding for Impact.

In the last five years we have streamlined and refined our internal make-up and processes to support the desired state and to increase access to our services. The most significant action here being the establishment of fully capacitated offices in each province.

This has enhanced the quality and reach of education, awareness and capacity building programmes.

The amended Lotteries Act has been fully implemented, and we have consecutively achieved 100% of our pre-determined objectives and maintained clean audits opinions.

It has not been without its challenges, but we continue to overcome and appreciate that our strategic objectives are realised with the support of a team whose personal values are aligned to those of the organisation at large. From those who sweep our floors to those who make tough decisions. For this I would like to send my personal appreciation to all the Catalysts who come to work with the purpose of Changing Lives.

Customer service and efficient service delivery are the hallmark of an organisation that cares. Stakeholder engagement is the yardstick that we use to keep ourselves on track.

We also continue to establish and strengthen partnerships that can help us cast the net of services to a wider audience, or to enhance the quality of output.

The executive team enjoys continuous support and governance from the Board with Prof. Nevhutanda at the helm.

With one completed term as the Commissioner under my belt, I count the various experiences at the NLC as stepping stones, that will help us build toward the attainment of our goals.

Every so often, we have opportunities to see the impact of our work in the lives of the most vulnerable people in our communities. Understanding what would have been in the absence of an organisation like the National Lotteries Commission is what gives us courage to move on to the next 20 years of changing lives with renewed energy.



**Mrs TCC Mampane**  
Commissioner

# OUR STRATEGIC CONTEXT

## Operating environment

**Making inroads into reducing inequalities through provisions in the Act that now allow the NLC to pursue proactive funding based on research will help us to support innovative projects with greater impact and provide emergency support where the need arises.**

The National Development Plan (NDP) aims to eliminate poverty and reduce inequality by 2030. South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society. The NLC is the largest organisation with a lotteries and sport pools regulatory and funding mandate in Africa. In line with its mandate, vision and mission, the NLC's formulation of programme activities and targets is aligned to the political, social and economic realities of South Africa.

In particular, 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.

The NLC is governed by policy which is significantly influenced by the political landscape in the country. The organisation has positively contributed to the outcomes in the NDP through funding initiatives that have created employment, alleviated poverty and empowered women.

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. The revenue received from the National Lottery Operator has been stagnant for the past 5 years. In addition, the number of registered NPO's has doubled to approximately 136 000 from 2010 to 2015 implying the additional demand for funding. 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 sustaining in excess of an estimated 25 000 jobs.

Stats SA's estimate for the 2016 mid-year population puts the total at 54.9 million people. (Growth of 6% in 5 years). The age profiles are as follows: 0-14 years: 28.34%; 15-24 years: 18.07%; 25-54 years: 41.44%; 55-64 years: 6.59%; and 65 years and over: 5.57%. These statistics indicate that the majority of SA's population is eligible to play the lottery (18 years and older). Despite the general decline in poverty between 2006 and 2011, poverty levels in SA rose in 2015. When applying the upper-bound poverty line (R992 per person per month in 2015 prices), we see that more than one out of every two South African's were poor in 2015, with the poverty headcount increasing to 55,5% from a series low of 53,2% in 2011. This translates into over 30,4 million South Africans living in poverty. It was also noted that richer children get a better quality of education; they are more likely to progress to higher levels of education, which in turn bring them much higher rewards in the labour market. Since these two lines have a strong slope in South Africa, inequality is likely to perpetuate itself from generation to generation. In the previous financial year, the NLC invested around R600 million in building Early Childhood Centres nationally in order to address issues on inequality created through education and poverty.

Playing the National Lottery could still be considered taboo in certain religious and cultural groups but the trend is rapidly changing due to the NLC exhibiting all the good causes that have been funded through proceeds from the sale of lottery tickets.

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:

- (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.

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. 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 digitization continues, the issue becomes intimately intertwined with addressing youth unemployment, manufacturing and harnessing human innovation. Furthermore, the increase of mobile and internet use comes with its own threats – namely cyber security, which has become a massive global problem. Prioritizing cyber security capabilities is not only important for protecting organizations and their customers' data, assets and reputations, but also fundamental to successful digital transformation. 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.

The 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. In order 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.

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 requires to combat illegal lotteries as well as provide opportunities through licensing bookmakers for taking bets on the outcome of the National Lottery. However, the lack of alignment between the Provincial Gambling Legislation and the National Gambling Bill implies that illegal lotteries will still remain a threat. Fantasy Gaming is also not addressed by the legislated amendments.

During this period we introduced the “open-call” system for receipt of applications that heralded the end of the previous model of “Call for Applications” for funding good causes. The “Call for Applications” model permitted the NLC to accept applications only if they were submitted during a fixed window period (usually 3 months) on an annual basis. This often resulted in worthy and deserving causes not being able to access funding if the window period was closed. The open-call on the other hand means that applications will be accepted throughout the year at all NLC offices and there is no closing date. The open call system has resulted in operational efficiencies and the elimination of the historic application backlog.

Making inroads into reducing inequalities through provisions in the Act that now allow the NLC to pursue proactive funding based on research will help us to support innovative projects with greater impact and provide emergency support where the need arises.

The NLC through its mandate has also played a role to bring about this growth by ensuring that funds are distributed to qualifying beneficiaries. Sectors funded by the NLC contribute to job creation, rural development, infrastructure development, promoting wellness and social cohesion. This aligns to the objectives of the NDP as well as the Nine Point Plan in order to eliminate poverty and reduce inequality by 2030 and also bring about economic growth. Over R22 billion has been distributed to good causes since its inception. However, the reliance on a single source of funds does not make it possible to address the needs of the entire NGO/NPO sector in South Africa.





























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. The Board discharges this role through its charters based on a Corporate Governance Framework which includes, amongst others, the principles of the Lotteries Act, the PFMA, Treasury regulations and good governance principles. These are further aligned to the organisations top strategic risks and reviewed annually.

# Stakeholder engagement and dialogue

The NLC has a range of stakeholders who have influence over the NLC and its operations and/or over whom the NLC has influence.

## 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. The table below covers the key stakeholders, explains their influence on the NLC or the influence over them, the means of NLC engagement, their main needs, interests and expectations and how the NLC has responded to these:

National Lottery licensed operator and other lotteries		
Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Revenue</li> <li>Sustainability</li> <li>Influence public perception</li> <li>Image and integrity of the Board</li> </ul>	<ul style="list-style-type: none"> <li>Biannual joint board meetings</li> <li>Monthly joint operations meetings</li> <li>Ongoing basis</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory fairness</li> <li>Interaction</li> <li>Predictability</li> <li>Promptness</li> <li>Approvals and continuity</li> </ul>
<p><b>NLC response:</b> The NLC Board provided oversight of the monitoring of the licensee. The Board considered and approved the Operator's business and marketing plans, which include the Game Design. The NLC strengthened relations with enforcement agencies to create an enabling environment for the Licensee</p>		
<p><b>Link:</b>       </p>		
Government, government agencies and regulators		
<p>The NLC is accountable to its Shareholder, being the government, and has established relationships with other key government stakeholders pursuant to its objectives</p>		
Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Approvals and timing of: <ul style="list-style-type: none"> <li>Approvals</li> <li>Assistance</li> </ul> </li> <li>Appointment of Board/Distributing Agencies Legislation</li> <li>Regulatory environment</li> <li>Remuneration</li> <li>Sanction</li> <li>Legislation</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio Committee engagements</li> <li>Ministerial engagements</li> <li><b>the dti</b> CCRD initiatives</li> <li>Agreed methods through MOUs</li> <li>Prescribed reporting to respective portfolio committees, <b>the dti</b>, National Treasury</li> </ul>	<ul style="list-style-type: none"> <li>Conformance</li> <li>Governance continuity reporting</li> <li>Accountability</li> <li>Governance integrity Ethics</li> <li>Contribution to national priorities</li> </ul>
<p><b>NLC response:</b> The Board and Commission engaged with Parliament on a quarterly basis, not only presenting the Commission's quarterly performance but also addressing all matters of concern raised by the Portfolio Committee. There were two engagements with the Minister where policy, licence and reputation matters were discussed</p>		
<p><b>Link:</b>               </p>		
NLC applicants and beneficiaries		
<p>The NLC is a grant maker and its key objective is to ensure equitable distribution of the NLTF</p>		
Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Quality of grants</li> <li>Public perception</li> <li>Turnaround</li> <li>Risk profile of the Board</li> <li>Geographic spread of funding</li> <li>Social impact</li> <li>Risk</li> <li>Public acknowledgement and declaration of grants received</li> <li>Public perception</li> </ul>	<ul style="list-style-type: none"> <li>Indabas and post indaba stakeholder engagements as detailed in the Operations Report</li> <li>Capacity building workshops as detailed in the Operations Report on page 86</li> </ul>	<ul style="list-style-type: none"> <li>Clarity of criteria</li> <li>Transparency</li> <li>Responsiveness</li> <li>Turnaround</li> <li>Mentorship/guidance</li> <li>Interaction accessibility</li> <li>Fairness and consistency</li> <li>Visibility</li> </ul>
<p><b>NLC response:</b> The NLC engaged with NLC applicants through the provincial Post Indaba Stakeholder Engagements, Education and Awareness sessions and various media platforms on NLC funding matters, encouraging Society Lotteries for Sustainability and capacity building of stakeholders</p>		
<p><b>Link:</b>      </p>		





### The public and national lottery participants

The NLC is required to protect the participants and raise public knowledge and awareness by developing and implementing educational and informational measures to educate the public about the lotteries and provisions of the Lotteries Act

Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Ensuring the integrity of the lottery game to sustain interest in the lottery and growth in lottery ticket sales</li> <li>Uplift society through grant funding</li> </ul>	<ul style="list-style-type: none"> <li>NLC website</li> <li>Social media platforms</li> <li>Media coverage</li> <li>National Lottery draw shows</li> </ul>	<ul style="list-style-type: none"> <li>Transparency</li> <li>Integrity</li> <li>Assistance and counselling</li> <li>Visibility</li> <li>Communication</li> <li>Fair chance of realising their aspirations of winning</li> <li>Consistent delivery</li> <li>Information sharing</li> <li>Regulatory fairness</li> <li>Access to the National Lottery</li> </ul>
<p><b>NLC response:</b> The Board provided oversight of Participant Protection related reviews conducted in accordance with the Licence Agreement, particularly the Random Number Generated Draws, Retailer and Winner's reviews. The Board approved Participant Protection Strategy and Model for Society Lotteries.</p> <p><b>Link:</b>    </p>		



### NLC employees and organised labour

NLC employees are key drivers and inputs of the NLC

Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Productivity</li> <li>Morale</li> <li>Public perception</li> <li>Performance effectiveness</li> <li>Policy</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly staff meetings</li> <li>Internal communications</li> <li>Awareness sessions</li> <li>Wellness engagements</li> </ul>	<ul style="list-style-type: none"> <li>Fairness</li> <li>Respect of worker rights</li> <li>Equity</li> <li>Involvement</li> <li>Best practice Human Capital policies/practices. Conducive work environment. Adequate resourcing</li> <li>Transparency</li> <li>Ethical behaviour</li> <li>Framework for engagement</li> <li>Willingness to work</li> <li>Structures</li> <li>Enabling environment for association</li> </ul>
<p><b>NLC response:</b> NLC Employees were provided with the organisation's quarterly performance at the quarterly staff meetings. The NLC hosted its inaugural Staff Indaba themed "Zithande – The Brand of You". Numerous wellness engagements were organised by employees and a two-day industrial action due to inflationary increases was addressed. The NLC continues to value and create channels of communication with employees.</p> <p><b>Link:</b>  </p>		



### Media and interest groups

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



Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Public perception</li> <li>Policy</li> <li>Structure</li> </ul>	<ul style="list-style-type: none"> <li>Media briefings</li> <li>Press statements</li> <li>Information sharing on various media platforms</li> </ul>	<ul style="list-style-type: none"> <li>Transparency and fairness</li> <li>Control of excessive participation</li> <li>Communication involvement enforcement</li> <li>Regular communication</li> <li>Access to information</li> <li>Indaba</li> <li>Post-Indaba stakeholder engagements</li> <li>Social media</li> <li>Responses to enquiries</li> <li>Publishing of media statements</li> </ul>
<p><b>NLC response:</b> The NLC engaged with the South African National Editors Forum. We also reached out to our stakeholders through numerous live broadcasts and print media to keep in touch and take every opportunity to engage our stakeholders through different media platforms. The response to media concerns through media responses and testing allegations levelled through various media platforms.</p> <p><b>Link:</b>  </p>		

# Stakeholder engagement and dialogue (continued)









## Illegal lottery operators

Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Enforcement</li> <li>Regulation of lottery operators</li> </ul>	<ul style="list-style-type: none"> <li>Registration of society lottery operators</li> <li>closing down of illegal and/prohibited lotteries</li> </ul>	<ul style="list-style-type: none"> <li>Interaction</li> <li>Predictability promptness approvals</li> <li>Continuity</li> </ul>
<p><b>NLC response:</b> As part of our drive to position as a regulator, we conducted education and awareness campaigns, educating operators on how to register their operations and society lottery schemes. We shut down 100% of illegal lotteries investigated..</p> <p><b>Link:</b>  </p>		

## Suppliers

Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Risk</li> <li>Effectiveness</li> <li>Turnaround</li> </ul>	<ul style="list-style-type: none"> <li>Supplier development workshops are also conducted at all provinces to capacitate provinces on procurement matters</li> <li>Early payment to alleviate unnecessary cash flow pressures experienced by BEE suppliers</li> <li>Encourage joint ventures between large and small businesses</li> <li>Encourage sub-contracting to emerging Black enterprise and SMMEs</li> </ul>	<ul style="list-style-type: none"> <li>Transparency</li> <li>Fairness</li> <li>Consistent ethical behaviour</li> </ul>
<p><b>NLC response:</b> We invested in localised procurement and empowering disadvantaged groups. We supported our suppliers through payment of invoices within 14 days of presenting invoices. The NLC maintained its internal control environment with no irregular or fruitless and wasteful expenditure.</p> <p><b>Link:</b>  </p>		

## Auditor-General (AGSA)

Influence	Engagement	Needs, interests and expectations
<ul style="list-style-type: none"> <li>Governance</li> <li>Compliance</li> <li>Public perception</li> </ul>	<ul style="list-style-type: none"> <li>Rigorous external audit processes</li> </ul>	<ul style="list-style-type: none"> <li>Conformance to legislation/standards</li> <li>Integrity</li> <li>Comprehensiveness and accuracy of information</li> <li>Reporting</li> </ul>
<p><b>NLC response:</b> The NLC engaged robustly with external auditors during the 2018/19 audit in line with the external audit strategy and engagement letters. For the first time, site visits to sampled projects were undertaken. The NLC engaged with the AGSA at the scheduled Audit Steering Committee meetings.</p> <p><b>Link:</b>        </p>		

## Regulatory response to legitimate needs of stakeholders

Key stakeholders of the NLC's regulatory function include lottery participants, lottery operators and other gaming regulators. The NLC strives to provide an enabling environment for licensed operators to conduct their affairs without a heavy regulatory burden to comply with. To this end, the NLC engages regularly with the National Lottery Operator to ensure that regulatory requirements are streamlined, and that National Lottery operations are conducted efficiently, while regulatory compliance is maintained.

As part of implementing one of the 2017 Indaba Resolutions to increase the uptake of society lotteries as a means of fund-raising for NPOs, a model for conducting society lotteries was created to assist NPOs. Compliance seminars are also held with organisations to create awareness on the requirements of the Lotteries Act.

The Board approved the Participants Protection strategy which aims to ensure achievement of the NLC's legislated mandate to protect interests of lottery participants. The strategy is implemented through workshops conducted across the country. Objectives of the strategy are to:

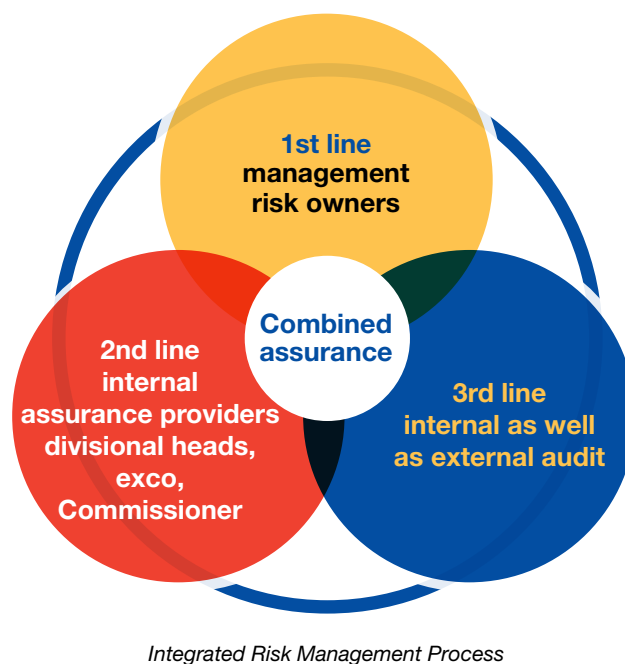
- identify best practice in respect of participants protection in the lotteries sector;
- enable the NLC to make responsible play an integral part of its regulatory mandate and in so doing, minimise harm to society;
- state clear rules for the National Lottery Operator (NLO), society and other lottery operators relating to their operations to:
  - ensure that interests of players and vulnerable groups are protected;
  - ensure that the Act and its regulations, together with requirements of the Licence, are strictly adhered to;
  - provide the public with accurate information to enable informed choices to be made about the National Lottery, society and other lotteries; and
- promote a positive reputation of the National Lottery, society and other lotteries that accurately reflect their integrity as regulated lotteries and scheme operators.

# Risk management

The NLC's Enterprise Risk Management is governed by the Enterprise Risk Management Framework and framework reviewed and adopted by the Board during the year under review. The policy ensures that the NLC identifies risks on the organisational universe, analyses responses to mitigate these risks, monitors and report risks to management and the Board, and incorporates risk analysis on all aspects of the NLC planning process to include strategic planning, development of business initiatives and the implementation of systems and procedures. The purpose of the NLC ERM framework further advances the development and implementation of modern management practices that contribute to building a risk-smart staff complement and an environment that allows for innovation and responsible risk taking whilst ensuring legitimate precautions are undertaken to protect all stakeholders.

## The lines of defence model

At the NLC assurance can come from many sources within the NLC. A concept for assisting to identify and understand the different contributions the various sources can provide is the Three Lines of Defence (Assurance) model, which was adopted by the NLC. By defining the sources of assurance in three broad categories, it helps to understand how each contributes to the overall level of assurance provided and how best they can be integrated and mutually supportive. For example, management assurances could be harnessed to provide coverage of routine operations, with internal audit activity targeted at riskier or more complex areas.



<b>First line of defence</b>	Comes direct from those responsible for delivering specific objectives or operation. It provides assurance that performance is monitored, risks identified and addressed and objectives are being achieved. The reporting lines are Executive Management Committees and Operational Committees providing direction, guidance and oversight on focus areas.
<b>Second line of defence</b>	Is associated with oversight of management activity. It is separate from those responsible for delivery, but not independent of the organisation's management chain. The reporting lines for the second line of defence includes the Board and the Board Audit and Risk Committee as well as other relevant forums that may be established.
<b>Third line of defence</b>	This relates to independent and more objective assurance and focuses on the role of internal audit, which carries out a programme of work specifically designed to provide the organisation with an independent and objective opinion on the framework of governance, risk management and control. Internal audit places reliance upon assurance mechanisms in the first and second lines of defence, where possible, to enable it to direct its resources most effectively, to areas of highest risk or where there are gaps or weaknesses in other assurance arrangements. It may also take assurance from other independent assurance providers operating in the third line, such as those provided by specialists. The reporting lines in this instance comprises internal audit reports to the Audit and Risk Committee and the Board of Directors (objectivity is a key criteria), while the Auditor-General of South Africa reports mainly to the Minister of Trade and Industry and Parliament. As an additional line of assurance, sitting outside of the internal assurance framework, are external auditors, chiefly the Auditor-General of South Africa, who are external to the organisation with a statutory responsibility for certification audit of the financial statements.

# Risk management (continued)

The Enterprise Risk Management Division continuously monitored the implementation of the mitigation strategies on a monthly and quarterly basis. The review of the annual progress revealed that significant efforts were made to mitigate the risks to be within acceptable levels.

The review of strategic risks culminated into updating of the Combined Assurance Plan and Risk Tolerance and Appetite Levels. The Risk Tolerance and Appetite Levels were closely monitored throughout the year, while assurance provided by the three lines of defence was reviewed for the period under review.

Enterprise Risk Management embarked on the exercise for the costing of strategic controls to ascertain whether those controls are prioritised in the Annual Performance Plan and budgeted for.





















Both the Enterprise Risk Management Divisions of the NLC and the National Lottery Operator (Ithuba) are jointly monitoring implementation of proposed/future controls for cross-cutting risks between the two organisations.

The Enterprise Risk Management Division continued to monitor emerging risks, near misses and risks that were successfully

mitigated. The Forensic Unit conducted its investigative activities, reported on findings and made recommendations for appropriate actions including, amongst others, controls improvement.

The Enterprise Risk Management (ERM) Division facilitated the strategic risk assessment in September 2016. The objectives of the strategic risk assessment were to:

- assist the Board and top management in identifying, assessing and prioritising the risks that can impede the NLC from achieving its strategic objectives;
- contribute in ensuring that organisational strategic objectives are achieved efficiently and economically;
- ensure that uncertainties and untapped opportunities that affect an organisation's strategy and strategy execution are explored;
- provide guidance to the internal audit function in the development of a risk-based internal audit plan and strategy; and
- enhance accountability, good governance and informed decision making.

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

# Our strategy

## Effective management of performance information requires a clear understanding of different responsibilities, and the structures and systems involved in managing performance information.

The NLC aims to ensure that the needs of its stakeholders are satisfied effectively, efficiently and economically. The development, implementation and maintenance of a performance management policy for the NLC is critical in meeting the above need.

Performance Management (PM) within the NLC is an integrated management strategy that seeks to:

- create a shared vision of the purpose, aims and values of the NLC;
- to help stakeholders and employees understand their part in contributing to the achievement of organisational aims and goals and maintaining organisational values; and
- in so doing manage and enhance the performance of individual employees and that of the NLC as a whole.

The performance management process comprises planning, budgeting, monitoring and reporting of performance. The diagram below clearly shows the relationship between the processes and also highlights the executive authority's accountability for the process to Parliament.



Summary of reporting legislative requirements are tabled below:

Performance management process	NLC
Strategic planning	Treasury Regulations – chapter 30
Budgeting and implementation planning	Treasury Regulations – chapter 30
Implementation	Treasury Regulations – chapter 30
Reporting (in-year and annual reporting)	PFMA, Section 55(2)(a) and Treasury

The NLC's planning aims to undertake the following:

- A uniform approach to ensure compliance with the PFMA in relation to performance management and reporting.
- Promote an open and transparent management of performance information strategy and measurement process.
- Uphold good corporate governance principles.



# Our strategy (continued)

1

## To identify gaps in the capacity of the NLC and to address them

Performance and capacity are interrelated concepts. Organisational performance arises from the use of capacity. Assessing performance information therefore identifies areas where capacity needs building. The NLC will ensure that where gaps in its institutional or human resources capacity are identified, that those gaps will be filled.

2

## To improve the effectiveness, sustainability and efficiency of service delivery

Effectiveness is the degree to which a service, project or programme (activity) undertaken or delivered by or on behalf of the NLC supply the needs of the stakeholders in quantitative and qualitative terms. In order to improve the effectiveness of service delivery, the NLC will seek to continuously improve:

- the quality and coverage of services (i.e. the proportion of people who benefit from or receive a service to all those who need it);
- the functional and financial accessibility of services;
- its information about the nature and the extent of the need for services;
- gathering correct information about the impact (i.e. the change of status that can be attributed to a particular intervention) of services on the lives of people; and
- the setting of clear, transparent and measurable indicators and targets against which the performance of the entity can be measured. Efficiency is the extent to which the NLC produces an output of the desired quality in the desired quantity with the least possible resources. It relates to the quantum of the human, financial and other resources consumed and, where applicable, time taken to deliver each service, project and programme at the specified quality and in the specified quantity. It has to do with how well resources are used to produce specified outputs.
- In order to improve efficiency the Board will ensure that:
  - i. the Strategic Plan includes SMART (specific, measurable, achievable, relevant and time-bound) objectives, key performance areas (KPA) and key performance indicators (KPI);
  - ii everybody in the NLC knows what those objectives, KPAs and KPIs are;
  - iii. standards to measure the achievement of objectives and the use of resources exist;
  - iv. continuous actions to improve efficiency are undertaken; and
  - v. employees are committed and have the skills and other attributes necessary for continuous improvement of performance.

3

## To ensure effective, economical and efficient use of resources

Effective use of resources requires that resources are used in such a manner to supply the real needs of stakeholders. In order to ensure the effective use of resources, the NLC will improve its information gathering system to provide accurate and complete information to all stakeholders which will address the needs and priorities of all stakeholders and that those needs are quantified.

Efficient use of resources requires that the quantum of the human, financial and other resources consumed and, where applicable, time taken to deliver a service, project and programme at the specified quality and in the specified quantity must be known and continuously reduced. To ensure efficient use of resources the entity will:

- a. set standards to measure the achievement of objectives and the use of resources;
- b. continuously undertake actions to improve efficiency; and
- c. promote the commitment of people within the organisation and that they have the skills and other attributes necessary for continuous improvement.

4

## To promote the loyalty, morale and performance of employees

The performance of the NLC will only improve if all its employees work smarter and better. Therefore, an important component of performance management is an employee performance appraisal system which must be developed in such a way that employees know exactly what would be expected of them and that employees would be involved in setting their own performance objectives.

# Our strategy at a glance



**Catalyst for social upliftment**



**Regulate all lotteries and sports pools with integrity and ensure the protection of all participants**  
**Maximise revenue for good causes in a responsible manner**  
**Distribute funds equitably and expeditiously**

## NLC values



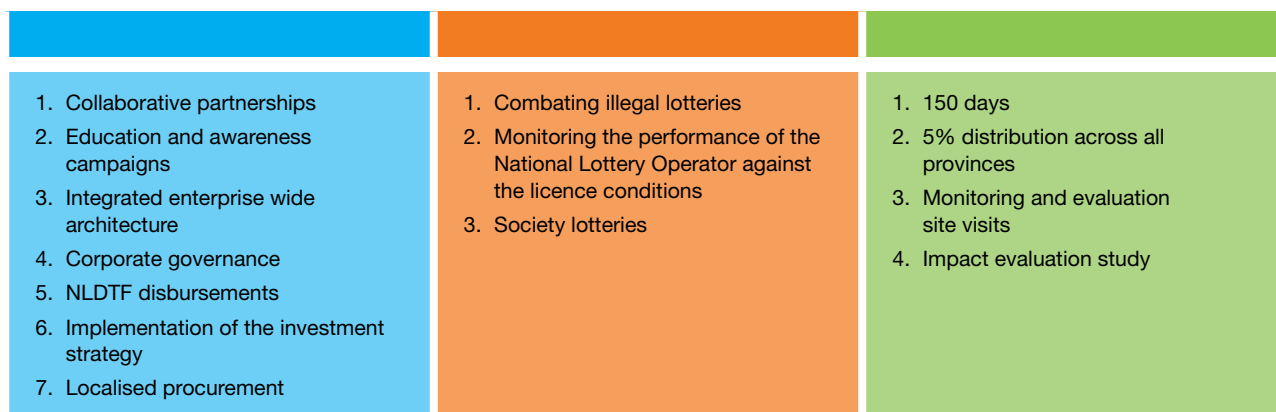
## Ultimate outcomes



## Strategic objectives



## Performance indicators, baseline and targets



# Our strategy (continued)

The strategic goals were achieved through the implementation of the following programmes:

## Programme 1: Administration and support services

The purpose of the programme is to provide leadership and support to the entire organisation, particularly the core business for effective service delivery. It focuses on general administration and provision of support services to ensure compliance and governance.

Office of the Commissioner	
Description	<ul style="list-style-type: none"> <li>• Corporate strategy development and implementation</li> <li>• Corporate performance monitoring and reporting</li> <li>• Governance systems development and implementation</li> <li>• Internal controls implementation and risk management</li> <li>• Legal services functions</li> <li>• Efficiency improvement and systems development</li> <li>• Human resources management functions</li> <li>• Legal services</li> </ul>

The office of the Executive is constituted by Strategic Planning and Reporting; Internal Audit; Risk Management; Company Secretary; Legal Services and Human Capital Management.

Finance	
Description	<ul style="list-style-type: none"> <li>• Financial planning and reporting</li> <li>• Development of financial controls and implementation thereof</li> <li>• Development of procurement strategy and policies in line with PFMA</li> <li>• Ensure compliance with statutory requirements from a finance perspective</li> <li>• Payroll function</li> <li>• Facilities management</li> </ul>

The Finance division is constituted by Financial Accounting (NLC & NLDTF), Supply Chain Management, Facilities and Management Accounting Departments.

Information communication technology	
Description	<ul style="list-style-type: none"> <li>• To provide vision and leadership for the planning, implementation and management of information and communications technologies (ICT) that support the National Lotteries Commission' business</li> <li>• Direct and manage information communications and technology strategic plans, develop IT policies and governance framework</li> <li>• Provide leadership and management of ICT services, network communications, transactional computing processes, information management and security</li> <li>• Developing and maintaining a responsive, reliable, and secure ICT infrastructure</li> <li>• Maximise the value of technology investments</li> <li>• Ensure IT system operation adheres to applicable approved policies and governance framework</li> <li>• Direct development and execution of an enterprise-wide disaster recovery and ICT service continuity plan</li> <li>• Knowledge management</li> </ul>

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

## Programme 2: Compliance and regulation

The purpose of this programme is to ensure compliance and to regulate the entire lottery industry in line with the NLC mandate. It ensures that mechanisms are instituted to ensure compliance with applicable laws and regulations as they relate to the lotteries environment. The programme also plays a role in ensuring adequate monitoring, regulation and policing of lotteries.

### Regulatory compliance

#### Description

- Ensuring that mechanisms are instituted to ensure 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 the Lotteries Compliance and Compliance Enforcement departments.

## Programme 3: Grant funding and service delivery

The purpose of this programme is to provide administrative support to the distributing agencies and to ensure that the grant funding is distributed according to the legislated mandate. It is responsible for the management of grant funding processes and ensures evaluation of the distribution impact of grants.

### Grant funding

#### Description

- 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 national legislation and NLC policies
- Provincial office support
- Communications, education and awareness, marketing and stakeholder management
- Monitoring and evaluation
- Policy and research

### Service delivery and support

#### Description

- Overall management of the grant making processes in support to the distributing agencies and determine the effectiveness of the grant making process
- Provide clearly defined functions of provincial offices aligned to grant funding processes
- Develop functional strategies
- Ensure implementation of streamlined grant funding processes
- Develop and implement service improvement plan

The Grant Funding and Service Delivery programme is constituted by grant funding operational support, the nine provincial offices, business development and organisational monitoring and evaluation departments.

# Business model

## How the NLC creates and projects value

### Capital inputs



#### Financial

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 and investment income.



#### Human

The NLC's skilled workforce who are catalysts for social upliftment and embody the NLC's values.



#### Intellectual

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

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

The NLC's prudent utilisation of natural resources ensured the NLC reaches the length and breath of our communities ensuring that NLC funding is appropriately utilised by funded organisations. The NLC invested in environmental projects and boreholes in drought areas, which has resulted in food security and ensure water availability.



#### Social and relationship

The NLC is a stakeholder focused and directed entity. Engagements with our internal and external stakeholders, have ensured that we maximise revenue for worthy causes and make the NLC fund accessible. To this end the NLC, through its stakeholder-inclusive achieved 100% performance of strategic objectives, created millionaire, improved on operational efficiencies and ensured accessibility on NLC services for all South Africans. The number of declined applications reduced as a result frequent and intensive stakeholder engagements.



### Core regulatory activities

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



#### The ordinary South African

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



#### Lottery operators

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



#### The National Lotteries Participants Trust

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

To ordinary South Africans with winning lottery tickets;

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

### Regulatory enablers

The NLC ensures optimum and balanced regulation to lottery operators through a regulatory model which focuses on the following dimensions:

Financial oversight

Legal oversight

Operational oversight

Social participation

Stakeholder management

Public value oversight





## Core grant funding activities

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

### The National Lotteries Distribution Trust Fund

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

### Deserving projects

Projects (existing or potential) receive funding.

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

### Distribution agencies

Are mechanisms through which the NLDTF adjudicates and awards grants.

## Outputs



### Financial capital

**Operational effectiveness and efficiencies** – improved turnaround times, payment within 60 days, application adjudication within 150 days, payment of suppliers within 14 days.

**Proactively funded projects** – see section on Proactive Funding and Impact Funding. 25 943 jobs created.

**Goods and services** – economic injection to B-BBEE empowered women and youths owned businesses.

Licence fees resulted in economic benefits through commissions to retailer networks, record number of millionaires in the current financial period and in total winnings.



### Human capital

Operational efficiencies resulting in **98%** of grants adjudicated in **150** days and grants paid out expeditiously, ensuring beneficiaries achieve their objectives and resulting in benefits for beneficiaries.



### Intellectual capital

Development of Society Lotteries model, resulting in R57 million revenue.

Lotto logo licensed = R7.07 billion revenue from ticket sales and Lotto Funded = R1.56 billion disbursed.



### Natural capital

The NLC's prudent utilisation of natural resources ensured the NLC reaches the length and breath of our communities ensuring that NLC funding is appropriately utilised by funded organisations. The NLC invested in environmental projects and boreholes in drought areas, which has resulted in food security and ensure water availability.



### Social and relationship

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## Grant funding enablers

### Monitoring

Project progress is consistently monitored so funds are utilised in an effective manner.

### Evaluation

Projects are evaluated against their broader socio-economic impact and the core tenets of the NDP.

### Material trade-offs

- Opportunistic individuals/organisations responsible for Scams
- Conflicting beneficiaries
- Prohibited lotteries
- Economic factors leading to unrealistic demand on fund
- Reputational harm due to misunderstanding of our Grant Funding Model

## PART B

# Performance information



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# Capital outcomes



## Financial capital

- Acquisition of provincial offices
- Localised procurement
- R1.3 billion disbursed for good causes
- Weighted average rate of return on investment increased to 8.42%
- Accelerated disbursements to funded organisations
- Economic growth and development for successful applicants
- Injection of funds into economic circulation
- 88% of procurement to B-BBEE companies

Strategic alignment with



and



## Social and relationship capital

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
  - 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 100% of identified illegal lotteries. Furthermore, the NLC is investigating mechanisms of quantifying revenue loss
- Social upliftment for 3 418 people, reached through various services offered by NLC beneficiaries
- 25 943 temporary and permanent jobs created
- 78 jackpot millionaires created, leading to economic development and injection
- A total of R169.5 million directed to B-BBBEE empowered companies, R22.9 million to women empowerment, R25.4 million to Youth and R2.5 million to persons with disabilities

Strategic alignment with



and



## Human capital

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%
- Better regulation
- Strong internal controls

Strategic alignment with



and





### Natural capital

Improved environmental sustainability of our communities

- Contribution to water sustainability with approximately 200 boreholes funded
- Environmental projects valued at R74 million funded

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 the 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



### Manufactured capital

- Improved access to NLC services
- NLC funded infrastructure projects

Strategic alignment with






































# Performance excellence


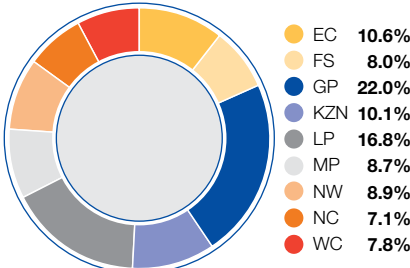

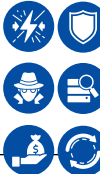

Performance information is important for effective management, including planning, budgeting, implementation, reporting, monitoring and evaluation. The matrix below outlines the performance indicators and targets that the NLC identified to achieve in the 2018/19 financial year. These performance indicators are aligned across the NLC's annual plans, budgets and in-year reporting.

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

Strategic objective	Strategic output	Performance measure or indicator	Annual target	Baseline	Achievement	Risk
 <b>Ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts</b>	<b>Collaborative partnerships</b>	1.1 Number of collaborative partnerships established	Establish collaborative partnerships with 4 national key stakeholders	MOU's established	<b>ACHIEVED</b> Partnerships were established accordingly.  Resolution 6 of the National Consultative Indaba 2017 specified the need for NLC funded infrastructure projects to be strengthened by ensuring that subsequent operational delivery of the project is supported by properly defined standards, established through consultation with the relevant government department/stakeholders.	
	<b>Education and awareness</b>	1.2 Number of stakeholder engagements conducted across the provinces	10 Stakeholder engagements across the provinces	8 stakeholder engagements	<b>ACHIEVED</b> 187 stakeholder engagements were conducted.  The stakeholder engagements relate to the areas of education and awareness, capacity building and stakeholder management. Education and awareness is a key area in the amended Lotteries Act. The engagements will cover several pertinent issues which will span over 10 workshops/engagements across provinces and will further seek to address the following: <ul style="list-style-type: none"> <li>Regulatory compliance (increasing awareness of society and other lotteries, enhancing monitoring and evaluation)</li> <li>Capacity building</li> <li>Governance</li> <li>Post Indaba Stakeholder Engagements (PISE)</li> <li>Applying for funding</li> <li>Monitoring and evaluation/completing progress reports</li> </ul>	   
	<b>E-system (integrated enterprise wide architecture platform)</b>	1.3 Develop online portal on the E-system enterprise wide architecture platform	Development of the online portal	Full internal integration of the enterprise wide architecture platform	<b>ACHIEVED</b> The Grant Funding online platform was developed.  This target is a follow on from Phases 1 (Core Fusion) and 2 (GMS) of Project Dibanisa. It entails the development of an online portal to enable applicants to lodge their funding requests online, thereby facilitating easier access aligned to the NLC's position on beneficiary-centrism and taking services to the people.	 
	<b>Corporate governance</b>	1.4 Number of organisation wide ethical behaviour interventions per quarter	3 organisational interventions per quarter	1 organisational intervention per quarter	<b>ACHIEVED</b> 31 interventions were implemented through the year.  The primary objective of this target on promoting ethics at the NLC is twofold: <ul style="list-style-type: none"> <li>(i) Infuse discipline into the ethics management; and</li> <li>(ii) Satisfy our stakeholders that the NLC actively deals with ethical risks that might have a bearing on the sustainability of the NLC.</li> </ul> The indicator encompasses the roll-out of ethical training and awareness interventions that may take the form of workshops, information sessions and/or electronic communication. The importance translates into creating awareness and a culture of ethical behaviour within the organisation.	 

Strategic objective	Strategic output	Performance measure or indicator	Annual target	Baseline	Achievement	Risk
 <b>Ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts</b>	<b>NLDTF disbursements</b>	2.1 Percentage disbursement of grants as per GNR644, 6(c)(iv)	At least 75% of grants be paid in line with the regulated 60-day timeframe	At least 65% of grants be paid in line with the regulated 60-day timeframe	<b>ACHIEVED</b> 83% of grants were disbursed.  This target aims to ensure timeous payment of grants to beneficiaries once all legal conditions have been fulfilled. It emanates from Regulation (GNR644) which stipulates that payment must be effected within 60 days of receipt of a compliant grant agreement.	   
	<b>NLDTF investments</b>	2.2 Percentage Return on Investments (ROI) of NLDTF funds	An annual minimum of 8% ROI on NLDTF funds	An annual minimum of 8% ROI on NLDTF funds	<b>ACHIEVED</b> 8.42% ROI.  This is the percentage of average return on investments on NLDTF funds in an effort to ensure sustainability of the organisation and to maximise funding available to good causes by generating alternate streams of revenue for NLC operating costs. The NLDTF Investment Strategy is key to understanding the indicator.	
	<b>Localised procurement</b>	2.3 Average percentage of localised procurement	Average percentage of 90% localised procurement to the provinces	90% localisation of procurement for provincial offices	<b>ACHIEVED</b> 99% localised procurement.  This measures the percentage of goods and services procured by the provincial offices in order to stimulate growth of local businesses of the region in which the provincial offices operate. It is also important as it ensures compliance with government priorities e.g. The Broad-based Black Economic Empowerment Act, 2003 (No. 53 of 2003) (B-BBEE), Local Procurement and Skills Transfer.	   
 <b>Implement relevant initiatives geared towards ensuring compliance with the Lotteries Act</b>	<b>Illegal lotteries</b>	3.1 Percentage investigations on reported and identified illegal lotteries	Conduct investigations on 95% of all identified and reported illegal lotteries	Conduct investigations on 85% of all identified and reported illegal lotteries	<b>ACHIEVED</b> 100% of cases 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. They are usually identified through the scanning of print and electronic media and cases that may be reported by members of the public.	   
	<b>3rd lottery licence</b>	3.2 Implement and monitor 3rd National Lottery Licence monitoring matrix/scorecard	Implement and monitor compliance with the licence conditions	Implement and monitor compliance with the licence conditions	<b>ACHIEVED</b> Compliance by the National Lottery Operator with licence conditions implemented.  The National Lottery National is monitored against licence conditions in this target.	   
	<b>Society lotteries</b>	3.3 Develop a model for society lotteries	Society lotteries model developed for Board approval	50 schemes registered	<b>ACHIEVED</b> The model was developed and presented to the Board.  A society lottery is run by organisations that are registered to raise funds from the public. This fund-raising initiative is typically advertised in the media or promoted in public spaces. Societies conducting these lotteries need to register with the NLC and meet certain conditions. The 2017 Stakeholder Indaba alluded to the need for the extension of the current beneficiary capacity initiatives to include society lotteries. This is intended to create awareness of society lotteries and to limit the dependency of NPO's on purely NLC funding. It is also aimed at ensuring sustainability of NPO's by generating alternate revenue streams.  In developing a "fund raising" model, the division will ensure that it is aligned to best practices in order to fully equip beneficiaries in raising alternate funds through society lotteries.	   

## Performance excellence (continued)

Strategic objective	Strategic output	Performance measure or indicator	Annual target	Baseline	Achievement	Risk
SO4  Ensure fair and equitable grant allocations	Regulation 3A(1)(a)	4.1 Percentage of applications adjudicated within 150 days	98% of applications adjudicated within 150 days	75% of applications adjudicated within 150 days	<b>ACHIEVED</b> 98% of applications adjudicated within 150 days.  Regulation 3A(1) stipulates that a Distribution Agency must:  (a) finalise its adjudication within one hundred and fifty (150) calendar days from the date of receipt of the application. The regulation grants the NLC a period of 150 days to finalise adjudication of an application.	
	Lotteries Act – 5% per province (GNR182)	4.2 Percentage allocation of grant funding to provinces	A minimum of 5% grant funding allocated to each province	A minimum of 5% grant funding allocated to each province	<b>ACHIEVED</b>    GNR 182 regulation states:  “Any agency shall for the purposes of section 32(1) (b) of the Act in considering grant applications ensure that not less than five percent of the total amount at the disposal of the agency for grants, shall in any financial year of the board be allocated for distribution in respect of every province of the Republic.”  The importance of this target is that it ensures fair and equitable distribution of funds.	
	Monitoring and evaluation of NLDTF funding	4.3 Number of monitoring & evaluation site visits	Conduct 2500 monitoring & evaluation site visits	Conduct 2000 monitoring & evaluation site visits	<b>ACHIEVED</b> 2847 site visits conducted. This target ensures that there is proper monitoring and evaluation of funded organisations to maximise impact of funding granted for good causes.	
		4.4 Number of provincial impact evaluation studies	Conduct an impact evaluation study in 4 provinces for Board approval	Impact evaluation studies in 5 provinces	<b>ACHIEVED</b> The evaluation study was conducted and the report was approved by the Board.  One of key roles of the NLC is its funding of non-profit organisations that play a role in the development of society through various initiatives. The impact evaluation study focused on funded projects to assess the changes that have been brought about in the lives of the individuals and communities. This target is a follow on from the previous year as it undertook to evaluate the remaining 4 provinces.	

## Linking performance with budgets

### Strategic objective 1: 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
Collaborative partnerships	–	–	–
Education and awareness	R2 476	–	R2 476
E-system (Integrated Enterprise Wide Architecture Platform)	R21 506	R21 506	–
Corporate governance	R2 208	R1 738	R470
<b>Total</b>	<b>R26 190</b>	<b>R23 244</b>	<b>R2 946</b>

### Strategic objective 2: 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
NLDTF disbursements	R1 557 114	R1 557 114	–
NLDTF investments	R126 127	R141 579	R15 452
Provincial procurement	R16 235	R16 169	R66
<b>Total</b>	<b>R1 699 476</b>	<b>R1 856 441</b>	<b>R15 518</b>

### Strategic objective 3: 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
Illegal lotteries	R2 035	R1 500	R535
3rd lottery licence			
Society lotteries	–	–	–
<b>Total</b>	<b>R2 035</b>	<b>R1 500</b>	<b>R535</b>

### Strategic objective 4: To ensure fair and equitable grant allocations

Name of sub-programme	Final appropriation R'000	Actual expenditure R'000	(Over)/Under expenditure R'000
Regulation 3A(1)(a)	–	–	–
Lotteries Act – 5% per province (GNR182)	R1 280 709	R1 261 421	R19 288
<b>Total</b>			

# Outlook

As a regulator, the NLC continues to face challenges in the lotteries industry that include conflicting legislation and different regulators for gambling and lotteries which creates ambiguity in regulation and a lack of enforcement powers to effectively regulate lotteries.

The NLC will pro-actively reach out to Provincial Gambling Boards so as 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 and to support the harmonisation of gambling and lottery legislation.

The NLC will finalise its legislative review process intended to guide policy makers in ensuring that the NLC is 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 be included in the Request for Proposals to appoint an Operator.

The NLC will continue to drive National Lottery participant protection through the implementation of the approved Participant Protection Strategy.

Online gaming remains a widening option for consumers, also threatening the revenue generated by traditional lottery operators. The NLC will look at innovative and agile solutions to creating a safer lotteries and sports pools industry.

In terms of the NLC's grant funding mandate, the NLC will continue to provide education and awareness, but more importantly structured capacity building aimed at enhancing corporate governance understanding in the leadership and management of the organisations we fund. The structure capacity buildings are intended to capacitate beneficiaries to reduce conflicts within organisations that ultimately compromise projects funded and impact on the NLC's reputation and integrity.





## ECD legacy project

**The NLC embarked on the ECD legacy project in 2015/16 in an effort towards national development and quality of early childhood education in line with the 2030 plan. To achieve this, the NLC funded 203 ECDs which included 95 buildings and 108 containers in 9 provinces to date, the total investment amounting to R329 000 000.**

Funding was also made available to cater not only for infrastructure but also towards formal training and development of practitioners in NQF qualifications and operations of these centers.

Each class brick and mortar class accommodates 120 learners translating into approximately 11 280 learners benefiting directly annually. The Educontainers have accommodated 60 learners respectively resulting in 6 480 learners directly benefiting.

The economic spin-offs for the communities that have benefited from this investment include job creation for not only construction but also the administration of the ECD centres. The contractors involved in building the structures have benefitted from enhanced grading allowing them to tap into future economic opportunities. All procurement was localized as it was a pre-requisite for beneficiaries to procure services and labour from local service providers.

The NLC's monitoring and evaluation activities were supported by NLC accredited panel of engineers who ensured the quality of structured delivered to communities were in line with legislated requirements and standards.

The ECD centres themselves have experienced fast-tracked development through provision of Structured Capacity Building training opportunities wherein participants obtained NQF levels 4 – 7 certifications for ECD Practitioners. The ECD centres enrollment increased following occupation of the respective centres and improvement in compliance requirements have afforded the centres further funding opportunities from various stakeholder.

The NLC has changed vast majority of South African children through the ECD centres and improved communities.

### BEFORE



### AFTER



# PART C

## Corporate governance



Board profiles

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NLC corporate governance framework

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# Board profiles



## Prof NA Nevhutanda (66)

**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

Re-appointed: 1 August 2017



### Experience

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



## Ms TS Kekana (51)

**Independent Non-executive**

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

Appointed : 1 September 2013



### Experience

Ms 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.

Ms Kekana's term of office on the NLC Board ended on 31 August 2018.



## Ms DLT Dondur (52) 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

Appointed : 1 April 2017



### 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 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.



## Dr M Madzivhandila (56)

**Independent Non-executive**

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

Appointed : 1 April 2017



### 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.





### Prof YN Gordhan (68) CA(SA)

**Independent  
Non-executive**

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

*Appointed : 1 April 2017*



#### 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 positions including chairing of boards and audit committees.



### Adv WE Huma (58)

**Independent  
Non-executive**

*BProc, Bachelor of Laws, Master of Laws, Graduate Diploma in Company Direction (Corporate Governance), Financial Management (Finance for Non-Financial Managers), Various Certificates of Attendance in Human Capital and Performance Management*

*Appointed : 1 April 2017*



#### Experience

Adv. Huma has held various executive and non-executive director positions since 1984. He has chaired various committees including audit committees 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.



### Ms A Brown (44)

**Independent  
Non-executive**

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

*Appointed : 1 April 2017*



#### Experience

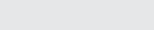
Ms Brown has been a public servant for 15 years, a majority of which she held senior management positions in monitoring and evaluation. She worked for the South African Human Rights Commission and proceeded to the following departments, namely Land Affairs, National Prosecuting Authority, Corporate Governance and Traditional Affairs, KZN Corporate 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).



### Adv N Nene (38) FCIS

**Company Secretary**

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

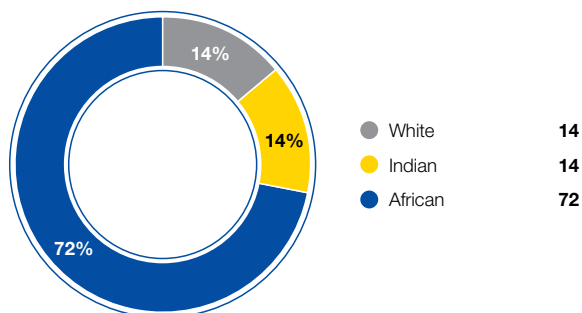


#### Experience

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

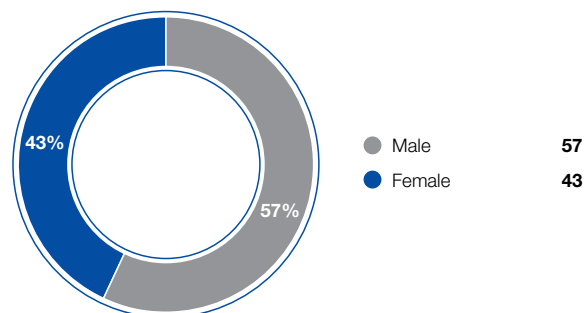
# NLC corporate governance framework

**Race (%)**



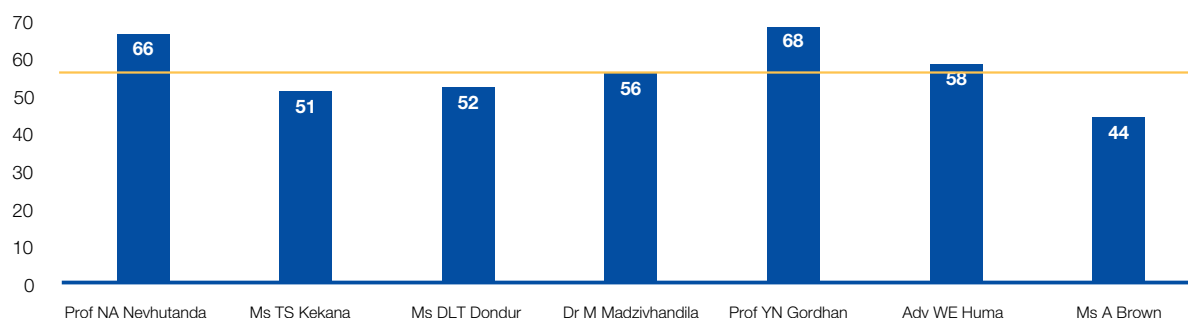
Racial diversity of the NLC Board revealed that the majority of the NLC Board is African (72%, which equates to five members); while one member is Indian and one member is White. This current ratio is a fair representation of the general South African demographic.

**Gender (%)**



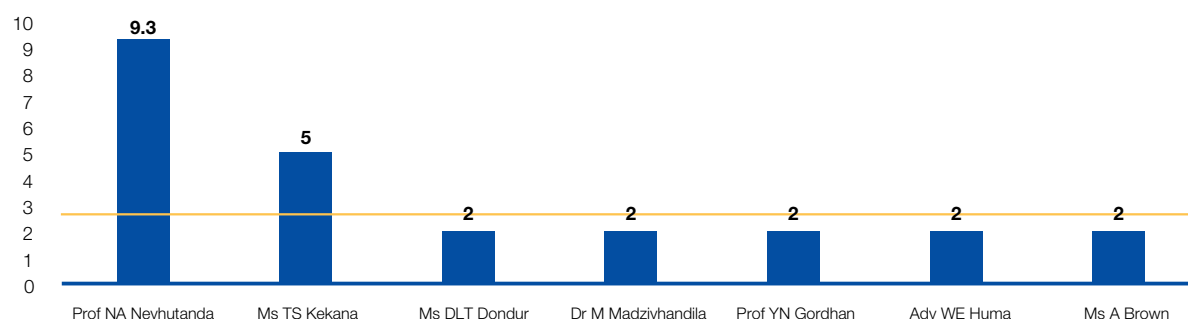
Gender representation on the NLC Board revealed a favourable split when compared to results in various international and local board/governance surveys, with 43% female.

**Individual and average ages of NLC Board members (years)**



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 (years)**



All seven Board members are independent, non-executive members. None of the Board members have exceeded the legislated tenure. The majority (71%) of the Board members were appointed effective 1 April 2017 resulting in a low average tenure of 3.5 years. 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. 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 engages with the Minister and the Portfolio Committee. See Stakeholder Analysis page 22 of the report

The Board Charter was reviewed in March 2019. The Board Charter guides the Board with respect to their functions, powers and responsibilities. Over and above the responsibility for 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 programme 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 term of office for Ms Kekana came to an end on 31 August 2018, leaving a vacancy on the Board. Ms Kekana was subsequently appointed as an independent expert, with no voting rights.

The Commissioner is an ex-officio member of the Board and is a member of the Institute of Directors South Africa and does not have other professional commitments. The organisational succession plan was approved during the year under review.

### Independence

All non-executive Board members are considered to be independent as they have no material interest in the NLC, the National Lottery Operator, beneficiaries or suppliers. Members are required to complete an annual disclosure of interest and required to disclose any 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.

# NLC corporate governance framework (continued)

## Board induction and continuous development

Board workshops 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 developed 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 is satisfied that the arrangements in place for accessing professional corporate governance services are effective as members are subscribed 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.

The NLC Board comprises of six 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 2019, the Board met on twenty-one (21) occasions. The table below shows the attendance of these meeting.

Board member	Role	Quarterly meetings	Special meetings and workshops
Prof NA Nevhutanda	Chairperson	4/4	17/17
Ms A Brown	Member	4/4	15/17
Ms TS Kekana	Member	4/4	15/17
Ms DLT Dondur	Member	4/4	17/17
Prof YN Gordhan	Member	4/4	17/17
Adv WE Huma	Member	2/4	14/17
Dr MA Madzivhandila	Member	4/4	17/17

\* Ms Kekana – term of office ended 31 August 2018.

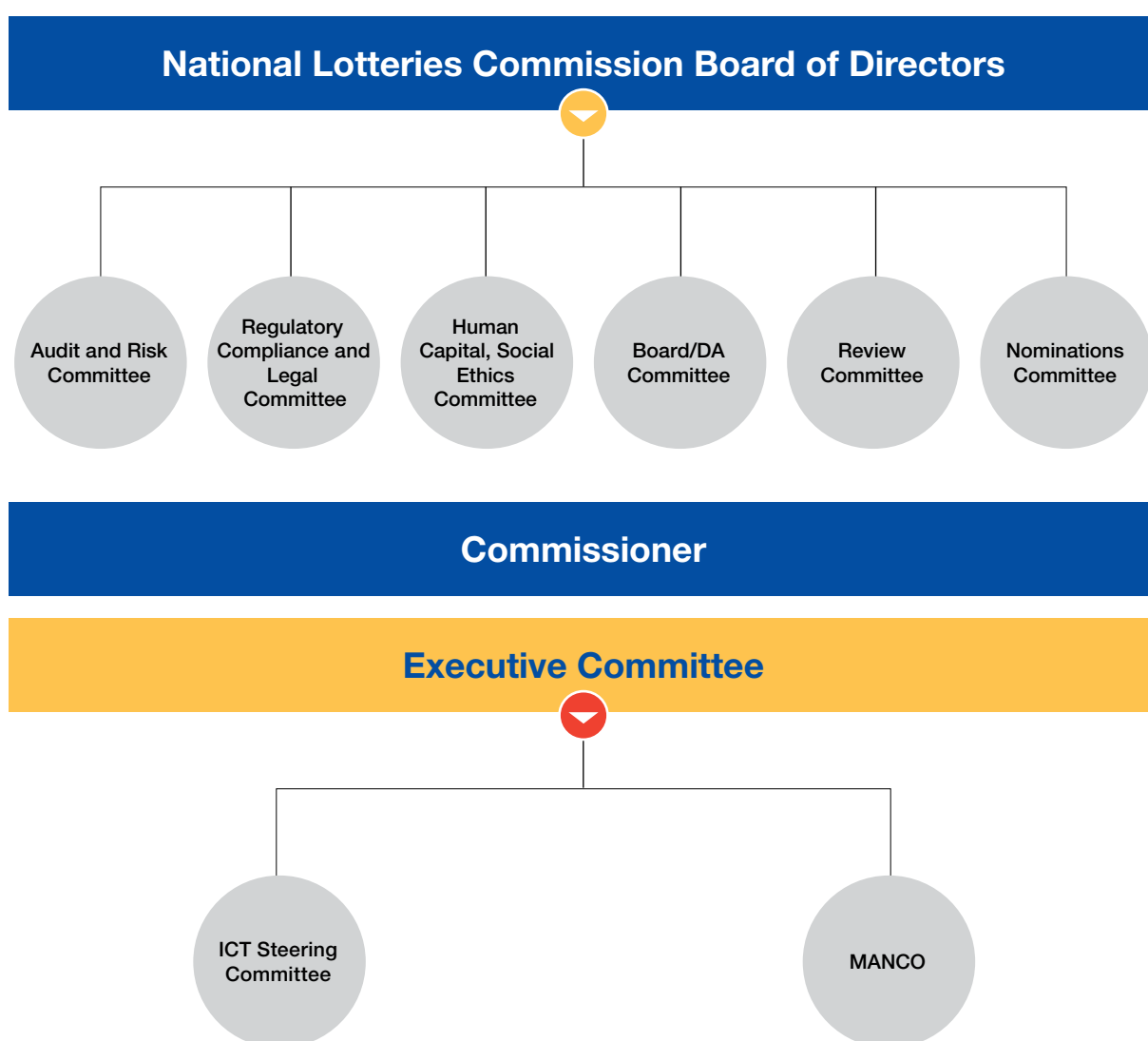
## Special Board meeting and workshops include:

- Special Board meeting (AFS Approval, National Lottery Matters and Urgent Reports)
- NLC and Ithuba RF Proprietary Limited Joint Boards meetings
- Board Strategy Sessions
- Board Risk Workshops

## Governance structure

The Board reviewed and approach to 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 designate 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.

As such, the Board had a total of six Committees which included two statutory Committees and five standing Committees as depicted below:



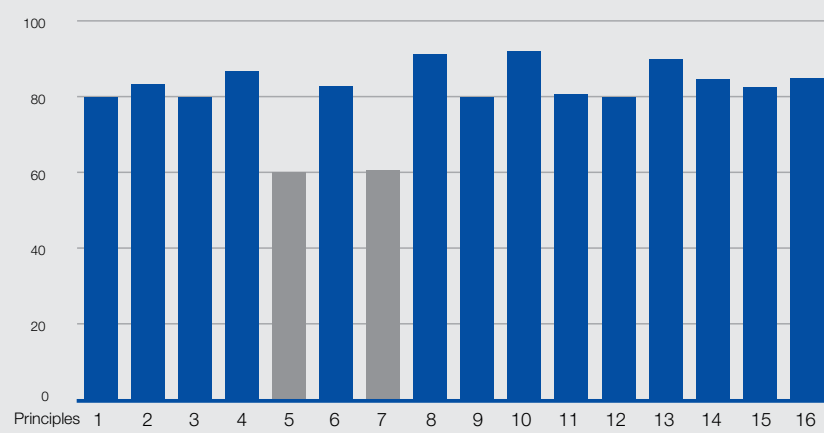
# NLC corporate governance framework (continued)

## King IV evaluation

The Board commissioned a King IV Gap Analysis in order to gauge its compliance to King IV and enhance corporate governance in the organisation through implementation of recommendations from the assessment.

This score is based on what management have already implemented and the gaps that were identified. Indicated below is the summary of the scores allocated to each of the principles. No score was allocated to Principle 17 as the NLC is not considered an institutional investor. It will apply to how the organization decides to spend the members' contributions.

### King IV evaluation score



Cognisance were given to the fact that some of the aspects prescribed by the principles and practices of KING IV may not be applicable to the NLC but rather recommended practice.

The key recommendations identified from the gap analysis include the following:

1. In line with the NLC's commitment to apply King IV, the NLC should prepare an Annual Integrated Report and make appropriate disclosures in line with King IV recommended practices, the current report is the second Integrated Annual Report, therefore recommendation has been met.
2. The NLC should ensure that there is a balance between disclosures made in the Annual Integrated Report and published on the NLCs website and other media. The NLC has complied with some required disclosures and in the process of updating the remainder of disclosures.
3. In the Annual Integrated Report the NLC should disclose a comprehensive Corporate Governance report which outlines its governance arrangements, reports by each Board Committee detailing matters addressed by each Board Committee as well as Board and Committee constitution and attendance. The recommendation has been met with all annual reports of the NLC containing a comprehensive corporate governance report.
4. The Board should set the Risk Appetite and Tolerance levels for the NLC and ensure that risks are managed within the set appetite and tolerance levels. The process was undertaken at the Board's annual Strategic Risk session, see comprehensive risk report.
5. The NLC should establish a remuneration policy and disclose in the Annual Integrated Report the remuneration policy as well as an implementation report on the implementation of the remuneration policy. See the Remuneration report under the Board Human Capital, Social & Ethics Committee report.
6. The Board should assume responsibility for its composition by setting the direction and approving the processes for it to attain the appropriate balance of knowledge, skills, experience, diversity and independence to objectively and effectively discharge its governance roles and responsibilities. The members continuously reviews skills, knowledge and capacity of the Board.
7. 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. Appointment of Non-Executive Directors is made by the Minister of Trade and Industry and limited by legislation to 7 members. The Commissioner is an ex-officio members in terms of the Lotteries Amendment Act, 32 of 2013.

## Company Secretary

The Board reviewed and were 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 arm's length relationship with the Board and its members.

## Review Committee

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 Review Committee comprises of six members, including the chairperson. During the financial year ended 31 March 2019, the Board Review Committee convened on nine (9) occasions. The table below shows the attendance of these meetings.

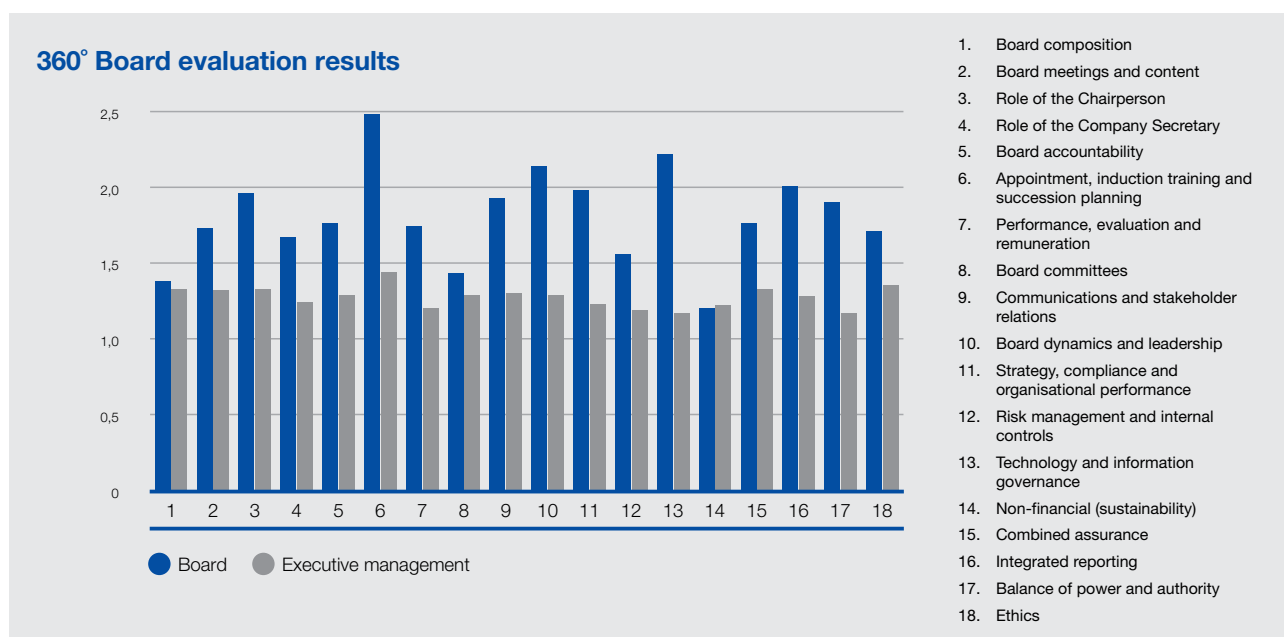
## Board evaluation and effectiveness

The Board and Board committee effectiveness by an independent service provider was expanded, to include Exco evaluation. 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.

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 with its mandate as well as its oversight and support role within the Commission.



Key	Assessment	
1 to 1.5	No, limited or insignificant observations noted. Minor or no adjustments required to processes and practices.	
1.5 to 2.5	Specific observations noted. Some adjustments required to processes and practices.	
2.5 to 4	Significant and/or a large number of observations noted. Significant adjustments required to processes and practices.	

The Board was satisfied that good governance is generally practised and that the Board is effective in its functioning as a collective, both with respect to adherence with its mandates as well as its oversight and support role within the Commission.

The key observation was that members should adopt a Code of Conduct for Board members. The Board approved the Board code of conduct during the period under review.

The Board has subsequently commenced the process of Self Evaluation assessment. Assessment was underway at the time of reporting.

The Board was satisfied that it performed all its functions as required by the Board Charter.

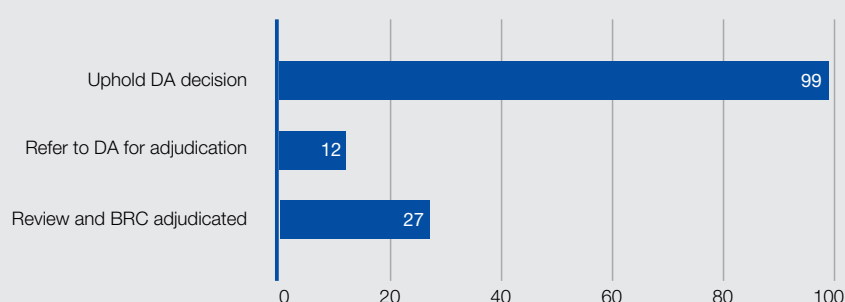
# NLC corporate governance framework (continued)

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

\* Ms Kekana – term of office ended 31 August 2018.

Below are the outcomes of the review applications considered by the Committee

## Overall reviews received for FY2018/19



## Board and Distributing Agency Committee

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 per invitation or if matters relating to the adjudication of applications for grants or distribution of grants are to be discussed.

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

The Board and Distributing Agency Committee comprises of four members and the Chairpersons of the Distributing Agency. In terms of the Board and Distributing Agency Charter, the Committee must meet at least four times a year during the financial year ended 31 March 2019. The Committee convened on six (6) occasions. The table below shows the attendance of those meetings.

Committee members	Role	Meetings	Special meetings and workshops
Adv WE Huma	Chairperson	4/4	2/2
Ms A Brown	Member	4/4	2/2
Ms TS Kekana	Member	4/4	1/2
Prof YN Gordhan	Member	4/4	2/2
Prof NA Nevhutanda	Member	3/4	2/2
Dr MA Madzivhandila	Board Member (By Invitation)	0/4	1/2
Ms M Letoaba	<i>Ex-Officio</i> Member: Chairperson – ACNHDA	5/4	1/2
Mr T Ramagoma	<i>Ex-Officio</i> Member: Deputy Chairperson – ACNHDA	5/4	1/2
Ms NP Loyilane	<i>Ex-Officio</i> Member: Chairperson – CDA	5/4	1/2
Mr E Ncula	<i>Ex-Officio</i> Member: Chairperson – SRDA	5/4	1/2
Dr J Adams	<i>Ex-Officio</i> Member: Deputy Chairperson – SRDA	1/4	1/2
Ms I Smith	<i>Ex-Officio</i> Member: Chairperson – CDA	1/4	0/2
Mr J Du Preez	<i>Ex-Officio</i> Member: CDA	2/4	0/2
Ms C Mofet-Mubu	<i>Ex-Officio</i> Member: CDA	1/4	1/2
Ms A Hill	<i>Ex-Officio</i> Member: SRDA	1/4	1/2

\* Ms Kekana – term of office ended 31 August 2018.

Board and Distributing Agency Committee Meetings include Quarterly Meetings and Committee Policy Review Session.

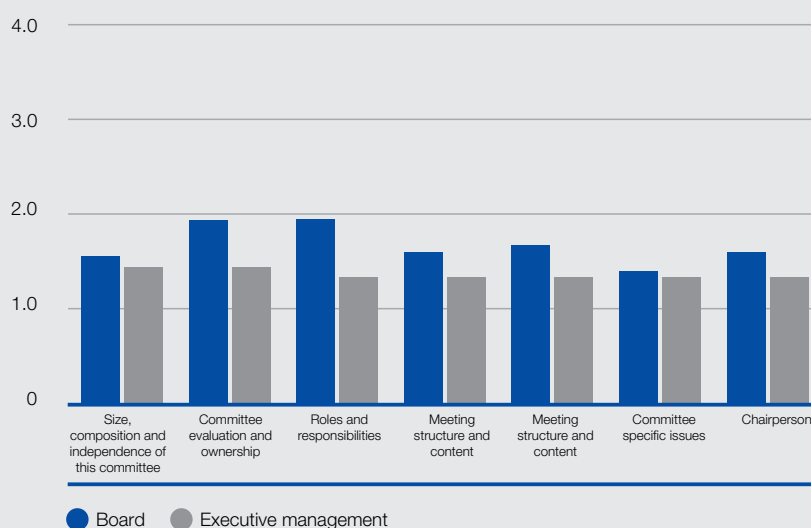


During their engagements the Committee reviewed its Charter and policy framework. The Committee's oversight over the Operations Division and Distributing Agencies ensured the NLC's strategic objectives and related outcomes were achieved (icons refer to Operations Report, Performance Highlights). The Committee continues to ensure the efficient and effective performance of the NLC through the Operations Division as well as to ensure the fair and equitable distribution of funds through independent and objective adjudication.

The Committee noted negative media reports as a result of the identified risk of conflicting beneficiaries as well as misunderstanding of the Pro-Active Funding model. The NLC's funding model ensured that the NLC attains its mandate of equitable distribution and also addresses identified priorities in our communities. (Refer to Operations Report and Performance Highlights).

### Committee evaluation

#### 360° Board and distribution agency committee



Key	Assessment	
1 to 1.5	No, limited or insignificant observations noted. Minor or no adjustments required to processes and practices.	
1.5 to 2.5	Specific observations noted. Some adjustments required to processes and practices.	
2.5 to 4	Significant and/or a large number of observations noted. Significant adjustments required to processes and practices.	

The Committee was satisfied that good governance was practiced and that the Committee was effective in fulfilling its mandate and providing oversight of the NLC's operations and grant funding mandate. Members noted that administrator matter should be dealt by Exco. It was noted that the Full-Time Distributing Agency convenes quarterly and addresses administration related matters.

The Committee has subsequently commenced the process of Self Evaluation assessment. The Committee was satisfied that it had performed all the functions required by its mandate and approved work plan.

# NLC corporate governance framework (continued)

## Regulatory Compliance and Legal Committee

The 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.

### Compliance with laws and regulations

The NLC, as a Schedule 3A Public Entity, is required to comply with various legal and regulatory requirements that are key to the existence and operational requirements of this entity. The Board of the NLC 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 that 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.

Compliance assurance was provided through the NLC's compliance framework and programmes which seeks to ensure that the Regulatory Universe of the NLC is identified, risk-rated, and monitored for compliance in order to mitigate compliance-related issues that may emanate from non-compliance with applicable rules, regulations, standards, non-binding codes and laws. 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.

During the year under review, the Board sought the services of an independent and external assurance provider who reviewed the compliance programme of the NLC and provided the Board with assurance that the compliance framework of the NLC operates optimally. Organisational Compliance monitoring was conducted whereby controls and processes from departments 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.

Organisational Policies were also reviewed by oversight committees and approved by 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, organisational performance as well as information and communication technology.

### NLC policy framework has 55 policies

Significant amendment	Minor amendment	No Amendment/ New policy
2	39	10
4%	76%	20%

There were 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 under review.

The Board Legal and Compliance Committee is satisfied that the NLC has complied with key legislation governing the public entity, which are the Lotteries Act, No. 57 of 1997, as amended, and the Public Finance Management Act, No. 1 of 1999. Other applicable laws, rules, standards, regulations and non-binding rules and codes were complied with during the year under review.

The Board Regulatory Compliance Committee comprises of six members. In terms of Board Regulatory Compliance and Legal Charter, the Committee must meet at least four times a year. During the financial year ended 31 March 2019, the Committee convened on five occasions. During its engagements the Committee reviewed its Charter and policy framework. The Committee's oversight over Regulatory Compliance, Legal and Organisational Compliance ensured the NLC's strategic objectives and related outcomes were achieved as detailed in the Regulatory Compliance divisional report and performance highlights. The Committee continues to ensure the better regulation and compliance to laws and applicable rules, standards, regulations and non-binding rules in fulfilment of its mandate.

The Committee remained concerned about regulatory and legislative matters highlighted under material matters.

The table below shows the attendance of these meeting.

Committee member	Role	Meetings	Special meetings and workshops
Ms TS Kekana	Chairperson	4/4	1/1
Ms A Brown	Member	3/4	1/1
Ms DLT Dondur	Member	4/4	1/1
Prof YN Gordhan	Member	4/4	1/1
Dr MA Madzivhandila	Member	4/4	1/1
**Prof NA Nevhutanda	Member	4/4	1/1
WE Huma	Member	3/4	1/1

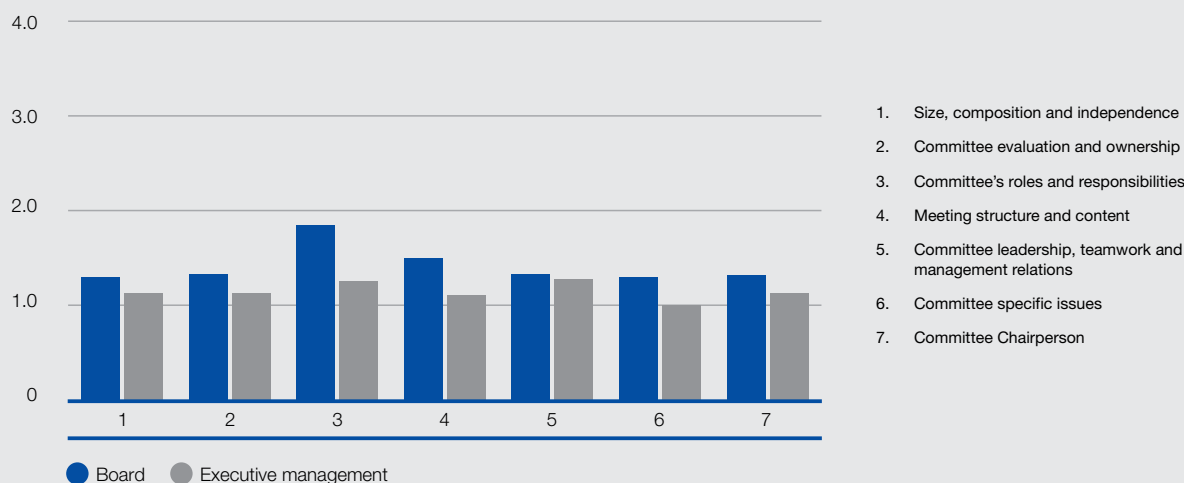
\*Ms Kekana – term of office ended 31 August 2018.

\*\*Chairperson of the Committee effective 1 September 2018.

Board Regulatory Compliance and Legal Committee Meetings include Quarterly Meetings and Committee Policy Review Session.

## Committee evaluation

### 360° Regulatory compliance and legal committee results



Key	Assessment	
1 to 1.5	No limited or insignificant observations noted. Minor or no adjustments required to processes and practices.	Green
1.5 to 2.5	Specific observations noted. Some adjustments required to processes and practices.	Yellow
2.5 to 4	Significant and/or a large number of observations noted. Significant adjustments required to processes and practices.	Red

The Committee was satisfied that good governance was practiced and that the Committee was effective in fulfilling its mandate and providing oversight of the Regulatory, Legal and Compliance activities. The members observed the need to digitise the National Lottery licence matrix and the continued need to position the NLC as a regulator for safe and sustainable lotteries and sports pools industry.

During the period under review the NLC intensified its education and awareness programmes to be more focused on the regulatory role of the NLC. Development of a digital national lottery compliance matrix is expected to be concluded in the 2019/20 financial period.

# NLC corporate governance framework (continued)

The Committee has subsequently commenced the process of Self Evaluation assessment. The Committee was satisfied that it had performed all the functions required by its mandate and approved work plan.

## 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.

### 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 the 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; and
- align performance incentives for both executives and staff with stakeholder interests.

### Overview of the 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 that excel in this environment through a holistic and competitive total reward offering, attractive benefits as well as career development opportunities.

### 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 programmes 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**

The 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 with the market to strategically position itself so as 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.

The NLC believes that its remuneration policy plays an essential and 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 a 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 the NLC. All elements of remuneration are added up, 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
<b>Fixed pay (guaranteed)</b>	<ul style="list-style-type: none"> <li>Fixed</li> <li>Structured on cost-to-company basis</li> <li>Benchmarked biannually against independent market data</li> </ul>	<ul style="list-style-type: none"> <li>Basic salary, retirement and medical aid benefits</li> </ul>	<ul style="list-style-type: none"> <li>Reflects scope and depth of role, experience required and level of responsibility</li> </ul>

### 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 that 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 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 remaining 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:

**Performance bonus** = Employee Performance rating A/B\*C/100  
(A- Employee rating) (B-Maximum score in the rating category) and (C-Bonus percentage)

# NLC corporate governance framework (continued)

## Ethics management

At the NLC, we aim to preserve the trust of our stakeholders by conducting our business ethically and protecting public funds (*received from the National Lottery 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 Board exercised their 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.

The Ethics Office provides quarterly reports to the Board Human Capital, Social and Ethics Committee.

During the current financial year, the Committee focused on and monitored the 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 licence. The same stakeholders are expected to abide by the same level of ethics. The NLC code is available on the NLC intranet for all employees to access.

The support provided by the Board, Board Committee and Commissioner has enabled the NLC Ethics Office to perform its duties impartially, without fear or favour. It has been a year with many highlights and we must mention the NLC two major internal events, the NLC Employee Indaba and the successful automation of administrative processes.

The last quarter of the period under review motivated and uplifted our employees by conducting the fourth quarter intervention different from the normal practice. The intervention had one objective, to communicate the standardised approach to employee conduct in the NLC as articulated in the NLC core values, Ethics and Conduct Policy and various other policies aimed at assisting employees make ethical decision in the performance of their duties. The intervention was titled the NLC Employee Indaba, loosely translated as an organisation-wide employee induction. The objective of the conference was to promote expected employee conduct. This event was attended by at least 95% of NLC employees.

The second highlight for the period under review was the effective and efficient implementation of the NLC Ethics and Conduct Policy that ensured the structure, systems and processes are in place to familiarise the board, employees and supply chain officials with the organisation's ethical standards.

The Ethics Office successfully automated administrative repetitive process in fulfilling its mandate:

Management of Disclosures, conflict of interest declaration and Gift Declaration.

99% of NLC employees disclosed their interest on the portal, whilst 1% disclosed their interest using the manual form.

A total of 73 gifts were declared in the period under review, these were received from a diversity of stakeholders.

## Policy/Document management

The document management electronic portal ensures that employees have access to and receive policies as they are approved, they can attest to having been received, read, understand and commit to adherence to the NLC Policies including the NLC Ethics and Conduct Policy.

We publish our Ethics and Conduct Policy on various portals for access by all employees including the intranet, electronic document management portal and Policy shared folder.

The planned areas of intervention were approved by the BHCS&EC at the end of the preceding financial year. The NLC conducted more than 50 ethics training and awareness sessions in the period under review.

The topics covered were:

Q1 – Occupational Health and Safety

Q2 – Ethics from an Organisational Compliance Perspective

Q3 – Conflict of Interest

Q4 – Zithande (A collaborative effort with the Human Capital Division)

Communication and constant messaging was aligned to the periodic topics covered each quarter. Divisional heads are provided with quarterly statistics and analysis regarding disclosures and declaration of interest lodged on the electronic portal.

Other services provided by the office included support in the form of evidence and interpretation on the three NLC cases where employees contravened NLC policies. The Ethics Office provided guidance to the NLC board, executive management and employees whenever requested.

The Ethics Office is satisfied with level of compliance to the NLC Ethics and Conduct Policy in the period under review.

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 page 143 of the report.

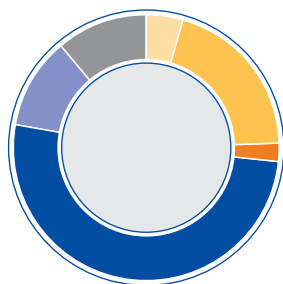
In the period under review, all Board members and employees lodged their disclosures of interest and there were no material conflicts of interest identified.



## Gift declarations

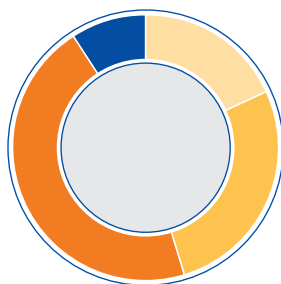
In terms of the Donations Policy, employees are required to electronically disclose all gifts received from suppliers, and from any person who received a grant or intends to apply or has applied, in terms of section 13, for a licence to conduct the National Lottery. The Ethics Office recorded that a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

### Gifts from beneficiaries



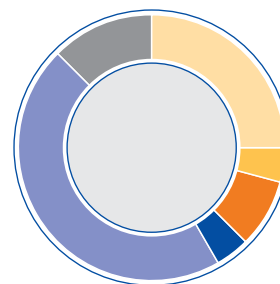
Crockery	2
Food item	9
Furniture accessory	1
Hospitality and food items	23
Stationery, IT accessories and flowers	5
Clothing and clothing accessories	5

### Gifts from service providers



Crockery	2
Hospitality and food items	3
Stationery, IT accessories and flowers	5
Sports accessories	1

### Types of gifts received from the National Lottery Operator



Baggage	6
Camping accessories	1
Car accessories	2
Crockery	1
Hospitality and food items	11
Stationery and flowers	3

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 the level of compliance with the 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. The NLC also subscribes to a Deloitte 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 with the Labour Relations Act of South Africa. Human rights at the 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 on our website. The NLC endeavours to contribute to the country's economic and development indicators through implementation of B-BBEE legislation and codes.

# NLC corporate governance framework (continued)

## Health, safety and environmental issues

The NLC places utmost importance on the health and safety of its employees and the public. The Committee was satisfied with the assurance of the Compliance Division and Internal Audit that 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 the 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 to the Act has been monitored through a compliance register and risk register, which are presented to the Board periodically. Energy saving and 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, and 3 injuries were recorded. The NLC has appointed SHE representatives of which 100% attended SHE representative functions training.

## Social responsibility

The NLC's core objectives are the 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 over 100 blankets were handed over to the Nelson Mandela Foundation.

The Board Human Capital, Social and Ethics Committee comprises of four members, including the chairperson. In terms of the Board Charter, the Committee must meet at least four times a year. During the financial year ended 31 March 2019, the Committee convened on six (6) occasions. The table below shows the attendance of these meetings.

Committee member	Role	Quarterly	Special meetings and workshops
Dr MA Madzivhandila	Chairperson	4/4	2/2
Ms DLT Dondur	Member	4/4	2/2
Prof YN Gordhan	Member	4/4	2/2
Adv WE Huma	Member	4/4	2/2

Board Human Capital, Social and Ethics Committee meetings include Quarterly Meetings and Committee Policy Review Session.

## Committee evaluation



Members were satisfied that good governance is generally practised and that the Committee is effective in its functioning as a collective, both with respect to adherence with its mandates as well as its oversight and support role within the Commission. Key observations relate to enhancement remuneration matters with respect to the absence of a long-term incentive scheme and employee relations capacitation. The Board reviewed the Rewards and Performance Management Policy following extensive benchmarking exercise by an independent remuneration specialist. The Commission continued to engage with representative unions to ensure labour peace within the NLC.

The Committee has subsequently commenced the process of Self Evaluation assessment. The Committee was satisfied that it had performed all the functions required by its mandate and approved work plan.

## Board Nominations Committee

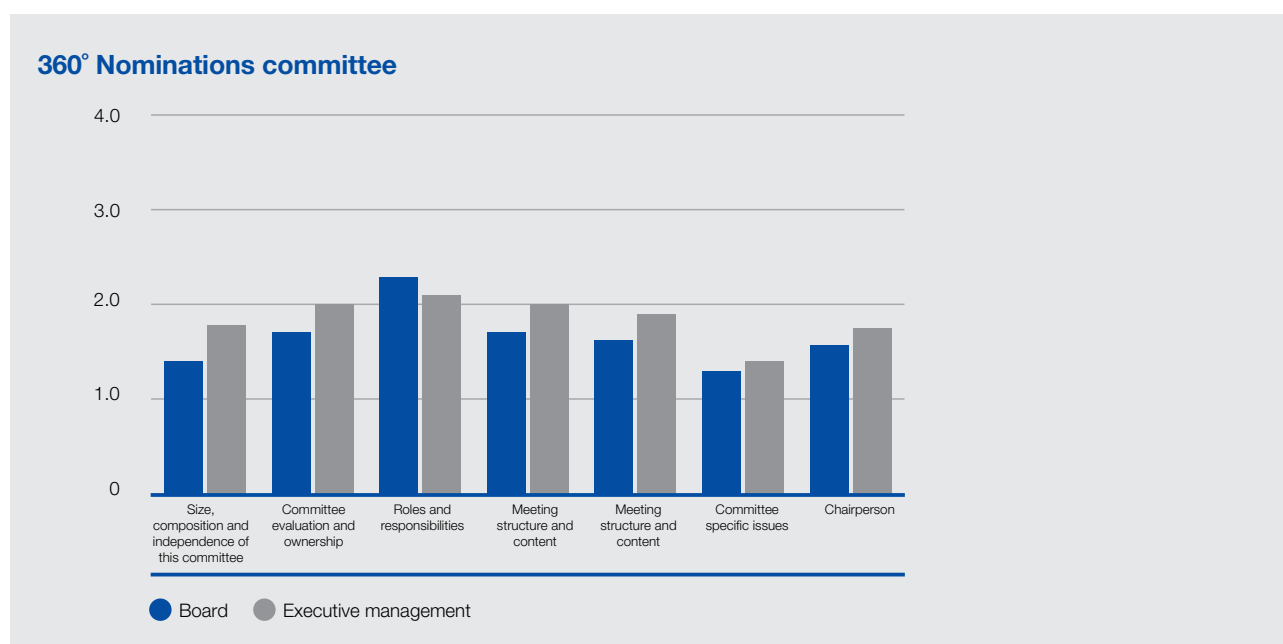
The Board Nominations Committee was established to ensure that the Board comprise of the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibility objectively and independently.

The Board Nominations Committee comprises of six 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 2019, the Committee convened on three (3) occasions. The table below shows the attendance of these meeting.

Committee member	Role	Quarterly meetings	Special meetings and workshops
Prof YN Gordhan	Chairperson	2/2	1/1
Ms A Brown	Member	2/2	1/1
Ms TS Kekana	Member	2/2	1/1
Ms DLT Dondur	Member	2/2	1/1
Prof NA Nevhutanda	Member	2/2	1/1
Adv WE Huma	Member	1/2	1/1
Dr MA Madzivhandila	Member	2/2	1/1

Board Nominations Committee meetings include Quarterly Meetings and Committee Policy Review Session.

### Committee evaluation



Key	Assessment	
1 to 1.5	No limited or insignificant observations noted. Minor or no adjustments required to processes and practices.	Green
1.5 to 2.5	Specific observations noted. Some adjustments required to processes and practices.	Yellow
2.5 to 4	Significant and/or a large number of observations noted. Significant adjustments required to processes and practices.	Red

Key observations were that the Committee was performing its function's well and that greater focus should be placed on development of programmes for Board members. The NLC commenced process for appointment of Corporate Governance Advisory panel to assist members address corporate governance principles. A focal point of this panel is to build capacity to enhance development programmes. It was noted that the Committee should meet frequently to discuss issues related to the role of the Committee. The Committee has a minimum of three scheduled meetings per annum.

The Committee has subsequently commenced the process of Self Evaluation assessment. The Committee was satisfied that it had performed all the functions required by its mandate and approved work plan.

# NLC corporate governance framework (continued)

## Board Audit and Risk Committee report for the year ended 31 March 2019

The Board Audit and Risk Committee (audit committee) herewith presents its report for the financial year ended 31 March 2019, 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 below.

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 2019, the audit committee met on fifteen (15) occasions. The table below shows the attendance of these meetings.

Committee member	Role	Date of appointment Qualifications	Quarterly meetings	Workshops and special meetings
Ms DLT Dondur	Chairperson	See page 46	5/5	10/10
Prof YN Gordhan	Member	See page 47	5/5	10/10
Adv WE Huma	Member	See page 47	5/5	10/10
Dr MA Madzivhandila	Member	See page 46	5/5	10/10
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 Appointment date : 17 December 2019	3/5	1/10
Mr D Kekana	Representative from the dti	Bcom degree Certified Information Systems auditor (CISA) Certified Ethical Hacker (CEH) Computer Hacking Forensics Investigator (CHFI) Appointment date: January 2019	1/5	1/10
Prof NA Nevhutanda	Board Member (By invitation)	See page 46	0/5	5/10
Ms A Brown	Board Member (By invitation)	See page 47	0/5	5/10
Ms TS Kekana	Board Member (By invitation)	See page 46	0/5	5/10
Adv T Nevondwe	NLPT Chairperson (By invitation)	See page 75	2/5	1/10
Nedbank Trust				

- Special meeting (AFS Approval, National Lottery Participant Trust Workshop)
- Board Policy Review Session
- Investigation reports
- Mainly 2017/18 External Audit matters

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.

The audit committee is comfortable matters reported by the external auditors and the internal audit function in prior years have been fully and satisfactorily addressed. Management has provided assurance that effective corrective action has been implemented and that the audit committee will monitor these 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 to the Committee 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 2019.

The audit committee has reviewed the reports issued to National Treasury and is comfortable that the Commission is meeting its obligations and have recognised revenue to the extent that conditions 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 the 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 parts 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.

### 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 within 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.

# NLC corporate governance framework (continued)

## 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.

## External auditor's report

The audit committee concurs with and accepts the conclusion and audit opinion of the external auditors on the annual financial statements. The committee is of the view that the audited financial statements be accepted and read together with the report of the external auditors. The audit committee confirms that it has been actively involved throughout the audit process and has been thoroughly appraised of the issues giving rise to the audit opinion. The audit committee concurs with the findings on the reported performance information and compliance with legislation.

The external audit function, performed by the Auditor-General South Africa, is independent of the entity. The audit committee has met with the external auditors to ensure that there are no unresolved issues, and acknowledges the diligence and cooperation of the external audit team.

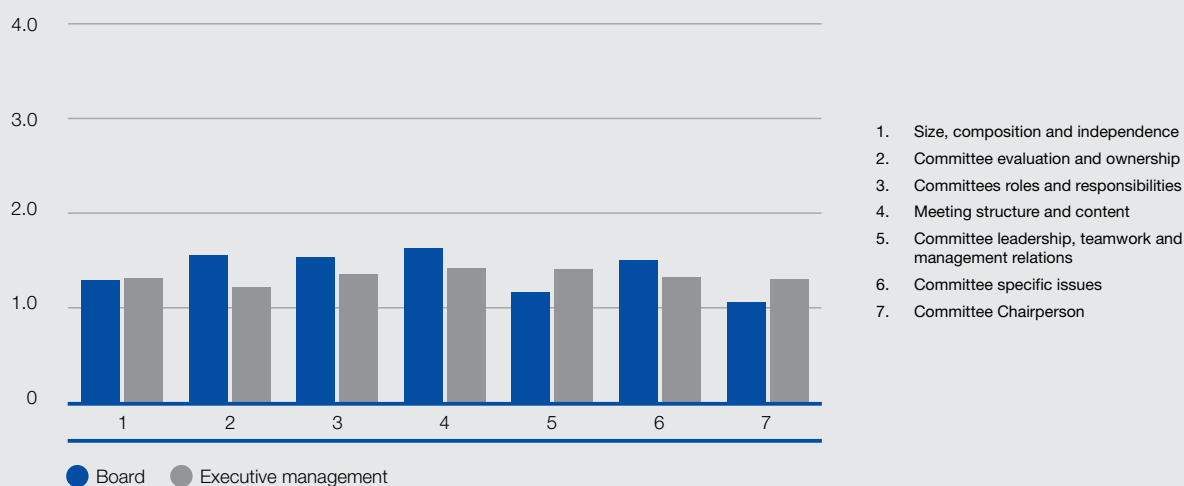
On behalf of the Board Audit and Risk Committee:



**Ms D Dondur**  
Board Audit and Risk Committee Chair  
31 July 2019

## Committee evaluation

### 360° Audit and risk committee evaluation results



Key	Assessment	
1 to 1.5	No limited or insignificant observations noted. Minor or no adjustments required to processes and practices.	Green
1.5 to 2.5	Specific observations noted. Some adjustments required to processes and practices.	Yellow
2.5 to 4	Significant and/or a large number of observations noted. Significant adjustments required to processes and practices.	Red

The Committee was satisfied that good governance was practiced and that the Committee was effective in fulfilling its mandate and providing oversight of the Finance, ICT, Internal Audit and Risk. The members encouraged more ICT related discussions, particularly to Cyber and Information security.

During the period under review the Committee focused on oversight over cyber security matter.

The Committee has subsequently commenced the process of Self Evaluation assessment. The Committee was satisfied that it had performed all the functions required by its mandate and approved work plan.



# Khwa Ttu San Culture and Education Centre

**Khwa ttu was established as a 50/50 joint undertaking between the San, as presented by the organisations WIMSA and UBUNTU, a Swiss charitable organisation dedicated for San development in Southern Africa.**

The organisation was formed in 1999 and registered as NPC in 2004. NLC supported the organisation from its initiation, starting in year 2004 and is continuing to support all their programmes. The San culture and education centre do the following;

- Educate the general public about the world of the San.
- Restitution and display the heritage of the San as contained in their culture, history, folklore visual arts, cosmology and language.
- Provide training to the San in entrepreneurship, tourism, health, community development, craft production/marketing and gender issues.

The organisation has been training, developing and creating employment for San people particularly from the Northern Cape in Upington, Ashkhan, Andriesvale, Welkom, Rietfontein,

Kimberley and Platfontein. The organisation provided a 7-month San Community-based tourism program under the San Sustainable Livelihoods Programme which include nature guiding, environmental training, cultural guiding, computer and rock art. There are also additional workshops provided which includes; table attendant, first aid and life skills. After completing these courses and workshops the participants receive the following certificates;

- Nature Site Guide Skills Programme Level 2 (CATHSSETA aligned)
- CATHSSETA table attendant Skills Programme Level 2
- Cultural Site Guide Skills Programme Level 2 (CATHSSETA aligned)
- Khwa Ttu San Community-based Tourism Training Certificate

## Funding by NLC

In 2004 Khwa ttu applied for funding and received the amount of R996 400.00 from NLDF for mostly operational costs expenditure. In 2011 the organisation was funded again with the total amount of R2 213 200.00. The bulk of these funds were for Research and Development of the organisation. The current funding of the organisation was approved in 2018 with the amount of R3 753 722.00 going towards solar system, water purification system and operational costs. The organisation has been continuously providing compliant reports to NLC for all the funded projects.



## PART D

# Operational excellence



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# Operation at a glance

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

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



The outcomes of the NLC's regulatory value chain are detailed under page 71 (Operations Section: Regulatory Compliance) of the report

**Grant Funding Department** is responsible for ensuring that grants are administered efficiently and economically. The Grant Funding Model is designed to promote and support the NLC's strategic mandate by responding to 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 outcomes of the NLC's Grant funding model are detailed under page 82-83 (Operations Section: Operations) of the report

## Operations division

Monitoring & evaluation	Marketing & communications	Research & development	Provincial offices
Measures the impact of funding	Rooted in the vision 'To be the Catalyst for Social Upliftment', strategies and activities within the area of Stakeholder Relations, Marketing and Communication are geared at catalysing action to fulfil the dual mandate of the NLC.	Overseas and co-ordinates research activities of the NLC. The R&D Unit develops an annual research agenda and conducts relevant research to support evidence-based decision-making with a primary focus on the two core mandates of the NLC Regulation and Grant Funding.	The NLC provincial offices are aimed at improving accessibility to NLC's service offering.  Provincial offices are capacitated to carry NLC's mandates of Regulatory Compliance and Grant Funding.
<i>Outcomes detailed on page 84 (Operations Section: Operations) of the report</i>	<i>Outcomes detailed on page 85-86 (Operations Section: Operations) of the report</i>	<i>Outcomes detailed on page 80-81 (Operations Section: Operations) of the report</i>	<i>Outcomes detailed on page 92-93 (Operations Section: Operations) of the report</i>

## Information, communications and technology division

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

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

## Human capital division

Human Capital division represents the heartbeat of the organisation, in that it ensures the organisation gains knowledge, talents, skills, abilities, experience, intelligence, through NLC's most valued asset, its employees. Organisational growth has the NLC increase in workforce numbers to support regulatory and operational requirements. This growth has also impacted in staff growth where internal staff members were promoted to higher positions in senior management, junior management and skilled levels. *Outcomes detailed on page 87 (Human Capital) of the report*

## Legal services

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

# Regulatory compliance outcomes

**Regulatory compliance is the cornerstone of the NLC organisation, holding in custody the primary mandate of the organisation. During the period under review, the Division increased efforts in protecting the public against illegal lotteries through identifying, investigating and closing down of these activities as well as adoption of the Participant Protection Strategy. The Division continues to ensure that the Regulator is central to shaping policy direction through engagement with stakeholders and policy makers.**

Over and above delivering on the Annual Performance Targets, significant efforts have been made to enhance regulatory education and awareness through provincial workshops targeted at the general public and lottery participants, in order to achieve better participant protection and prevent under-age and excessive play/problem gambling.

Certain regulatory functions were decentralised to provinces (i.e. education and awareness, complaints handling and general regulatory advice, certain monitoring inspections) to ensure the reach of the division is felt countrywide.

– Our regulatory role (i.e. media releases, information dissemination on website, fliers/brochures, and on Operator Point of Sale devices).

The National Lottery has to be South Africa's most valued asset, which not only comes with the promise, but has changed millions of ordinary South Africans' lives. The National Lottery has been entrusted and licenced to Ithuba Holdings (RF) (Pty) Ltd for a period of eight years. With half of the licence period behind us, **the central tenets** of Licensing the National Lottery and Sports Pool are:

Central Tenets of Third National Lottery Licence and Licence to conduct a National Sports Pool	Outcomes
<p><b>Ensure that the National Lottery is conducted with all due proprietary</b></p>	<p>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.</p> <p>Retailer inspections were regularly conducted to ensure that Retailers comply with regulatory requirements, which include, amongst others, the following:</p> <ul style="list-style-type: none"> <li>• That Retailers do not sell National Lottery tickets to persons under the age of 18</li> <li>• That all National Lottery retailers know and enforce controls to prevent excessive play; and</li> <li>• Physical security inspections and system security reviews and tests were performed to ensure reliability, security and availability of all National Lottery systems and products.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Control environment</b> The Licensee must have strong and effective internal control framework and adhere to high standards of corporate governance and conduct.</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory Compliance conducted relevant reviews to ensure corporate governance standards were upheld. The regulator was satisfied with the internal control environment as evidenced by an unqualified audit opinion for the period ended 31 March 2019.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Lottery systems</b> Systems necessary for operation of the National Lottery are robust, reliable and secure, and ensure confidentiality, integrity and availability.</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory Compliance reviewed the systems necessary for the operation of the National Lottery and was satisfied that that controls in place are in line with Licence requirements. Regulatory Compliance personnel are present at every system testing and when draws are conducted.</li> </ul>

# Regulatory compliance outcomes (continued)

Central Tenets of Third National Lottery Licence and Licence to conduct a National Sports Pool	Outcomes
<ul style="list-style-type: none"> <li>• <b>Game operation</b> All games conform with the conditions laid down in the license, provide all players with an equal chance of winning and are in good taste, so as not to adversely impact upon the public perception of the National Lottery.</li> </ul>	<ul style="list-style-type: none"> <li>• The Board reviewed the Game Design and approved the launch or in some instances enhancement of existing games. The Board was satisfied that there was no overstimulation of the market and that National Lottery games were fair and safe.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Prize validation and payment</b> Validation and payment of prizes takes place in a quick, secure and efficient manner without unduly inconveniencing players.</li> </ul>	<ul style="list-style-type: none"> <li>• Winner's reviews were conducted during the period under review. Regulatory Compliance was satisfied that payment of prizes was done in line with Licence procedures after validation of tickets.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Retailing</b> A network of lottery outlets and secure alternate channels exist nationally which are readily recognized by players as outlets in which National Lottery games can be purchased and where players can be served by well trained staff who are knowledgeable about all relevant aspects of operation of the lottery and comply with the associated codes of practice.</li> </ul>	<ul style="list-style-type: none"> <li>• Retailer reviews found that accessibility of retailer terminals, including in-lane tills, on-line platforms and hand-held devices were adequate.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Marketing</b> The National Lottery offers fun and excitement to the South African public, and provides players with an opportunity to win a range of prizes whilst at the same time benefiting Good Causes. The National Lottery and its constituent games are appropriately and adequately publicised in both advertising and public relations activities.</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory compliance were satisfied that the marketing spend was in line with Licence requirements and that the dynamic marketing campaigns were successfully rolled out. Marketing activities were moderate and aimed at all income groups.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Revenue collection and banking</b> There are safeguards for the funds required to meet obligations to prize winners, with an efficient payments system, together with assurance that revenue is accounted for in full and that the correct amounts are paid to the NLDTF.</li> </ul>	<ul style="list-style-type: none"> <li>• Regulatory Compliance was satisfied that adequate banking accounts were maintained and accurate records keeping of financial transactions relating to the sale of National Lottery tickets and payment of prizes won were maintained.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Security</b> All lottery systems, processes, games, materials and premises are secure, and are resilient to all potential threats.  All persons that run or are associated with running the National Lottery are fit and proper.  All directors and staff of the National Lottery Operator, together with Retailers who sell National Lottery tickets are vetted.  Key contractors that conduct business with the National Lottery Operator are also vetted to ensure that the integrity of the National Lottery is maintained and players are protected.</li> </ul>	<ul style="list-style-type: none"> <li>• Security reviews were conducted and security measures taken as well as vetting requirements found to be adequately fulfilled.</li> </ul>



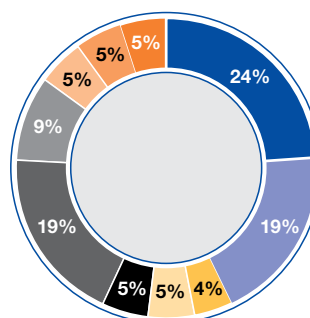
### Central Tenets of Third National Lottery Licence and Licence to conduct a National Sports Pool

- Interests of every participant in the National Lottery are adequately protected.
- Comprehensive and readily available information about all aspects of the National Lottery, particularly playing arrangements and guides for players.

### Outcomes

- General protection of participants in place. Protection of winners, participants' funds, prevention of underage play and implementation of complaints system were found to be adequate during reviews undertaken.
- 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 them. A follow-up is conducted to ensure that all complaints are adequately handled by the Operator in line with Licence requirements.

### National Lottery complaints statistics



- Alleged stolen or defrauded ticket
- Online play queries (clearance of wallets, etc)
- Availability of Point of Sale Material
- SAPS investigations assistance
- Playing foreign lotteries query
- Alleged infringement of intellectual property/idea
- RNG and new draw show related
- Access to information for research purposes
- Damaged ticket
- App play error

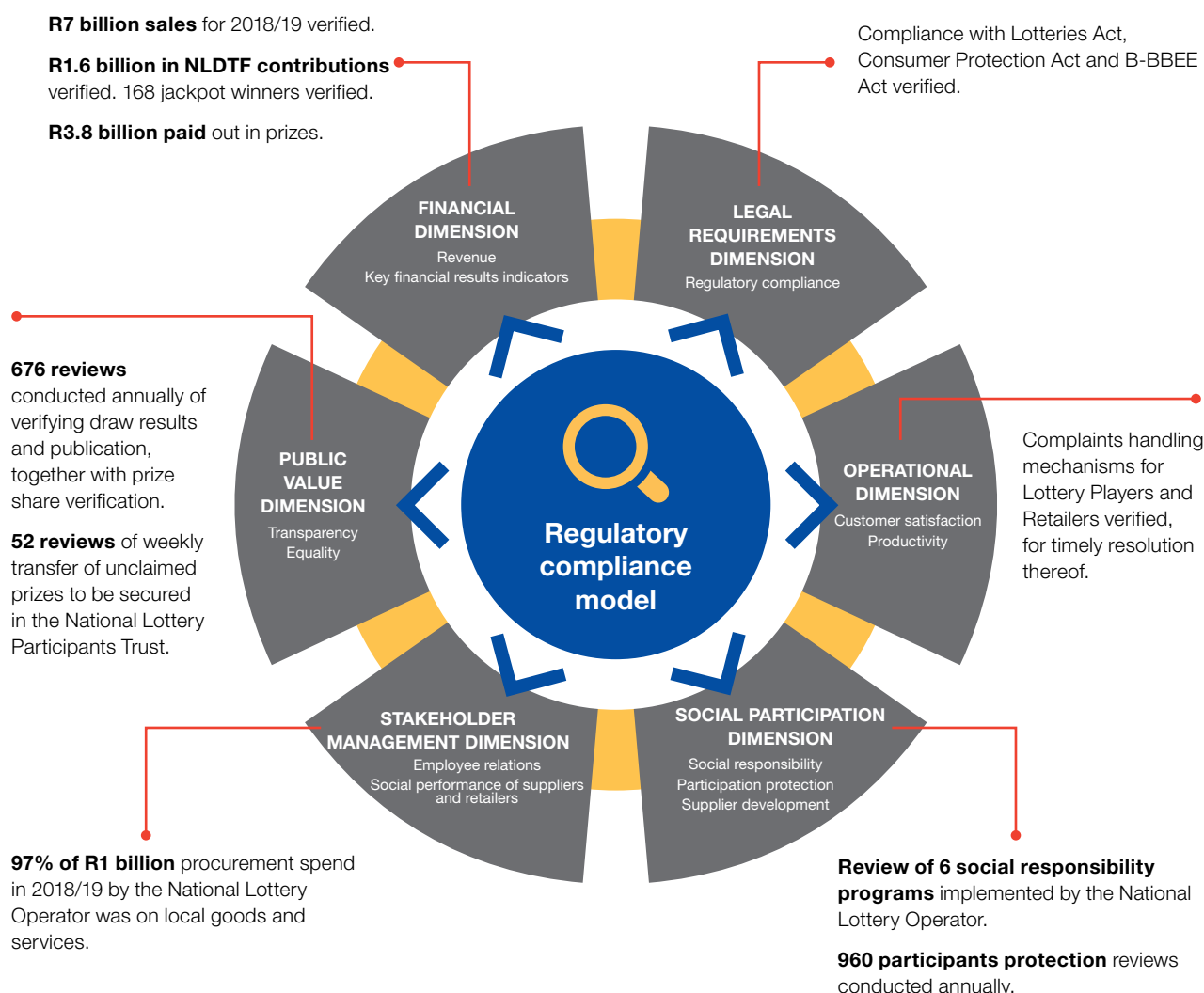
### Protection and payment of prize winners

- The right prize allocation has been made and paid across all games.
- The Operator transfers prize money won, but not yet claimed, into the Participants Trust Fund, to keep it secure for future prize claims.
- Unclaimed and expired prizes are transferred to the NLDTF. These are prizes that have not been claimed within 365 days after the draw date.
- One of the critical regulatory tools for ensuring the protection of participants is the National Lotteries Participants Trust.

- Prize allocations were reviewed and found to be in line with game rules and licence agreement.
- All prize monies were duly transferred and held in Trust by the National Lotteries Participants Trustees. See page 75 of the report.
- All prize monies are fully accounted for and the Trust obtained a clean audit opinion.
- All unclaimed and expired prize monies were duly transferred and held in the NLDTF by the NLC Board.
- The Licencee is required to ensure that the public is aware of any prize monies due to expire to ensure participants claim their winnings.

# Regulatory compliance (continued)

Central Tenets of Third National Lottery Licence and Licence to conduct a National Sports Pool	Outcomes
<ul style="list-style-type: none"> <li>A comprehensive and all-inclusive Social Responsibility, Economic Empowerment, Localisation and Supplier Development programmes, that comply with all relevant legislation are developed, implemented and maintained throughout the license term.</li> </ul>	<ul style="list-style-type: none"> <li>The 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.</li> <li>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.</li> <li>Implementation of Social Responsibility programs which include B-BBEE Procurement, Localisation and Supplier Development remain key areas, which has shown improvement from inception of the licence.</li> </ul>





## National Lotteries Participants Trust

A regulatory instrument pursuant to protection of National Lottery Participants prize monies and advance plays.

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) Proprietary Limited, 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 other, 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 regulatory 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. The majority of the trustees are independent as they have no material interest in the NLC, the 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 whose prize money is 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 any 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 chairperson, Adv Nevondwe. The Deed of Trust makes provision for a minimum of four meetings per year. During the financial year ended 31 March 2019, the Board of Trustees met on 12 occasions.

The table below shows the attendance at 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	5/5	7/7
Mr PR Letwaba, CA(SA)	Member – NLC Representative	BCom Accounting CTA	28 May 2015	5/5	7/7
Adv BE Mabuza	Member – Ithuba Representative	BProc (NWU) LLB (Wits) LLB (Georgetown University)	22 July 2015	3/5	5/7
Ms MT Ramuedzisi CA(SA)	Member	BBusSc (UCT) HDipAcc (Wits) MCom (Computer Auditing) (UJ); RA	1 April 2016	2/5	6/7
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	4/5	3/7

# Regulatory compliance (continued)

Special Board meeting and workshops include Special Meeting (AFS Approval, National Lottery Participant Trust Workshops, Policy Review Sessions).

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.

## 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 lottery, a society lottery 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.

During the period under review the division developed a model for society lotteries. Revenue from Society Lotteries showed steady growth at R95 million, 6% increase from the prior year.

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 lottery related activities conducted during the year is indicated below:

Activities	2018/19
Number of societies registered	23
Number of schemes registered	79
Number of exemptions granted	12
Number of compliance inspections conducted	83
Number of compliance seminars held	49

Total revenue generated from society lottery registration amounted to R95 million for the year under review.

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

Month	Actual proceeds (R) 2018-19	Actual proceeds (R) 2017-18 (schemes)
April	29 287 855.00	1 509 089.85
May	1 266 509.57	611 700.00
June	1 256 230.00	310 170.00
July	163 500.00	1 795 370.00
August	941 425.00	44 000.00
September	1 502 354.00	591 600.00
October	8 007 225.00	804 910.00
November	789 150.00	3 982 545.00
December	–	214 718.00
January	7 206 075.00	3 255 138.07
February	1 475 448.55	1 524 450.00
March	851 600.00	5 952 490.60
<b>Total</b>	<b>52 747 372.12</b>	<b>20 596 181.52</b>

Our extended efforts in creating awareness has resulted in a record 156% increase in revenue from society lottery registrations and value created is the sustainability of the registered society lottery scheme operators generating an aggregate of R52 million.

### 3.2 Illegal lotteries and schemes

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 allowable 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. The NLC successfully closed 100% of illegal lotteries investigated.

### 3.3 Research on the National Lottery participant attitudes

The Division commissioned research on the National Lottery participant attitudes. The study was finalised with the following outcomes. The outcomes of the research will aid the NLC in better regulation as we respond to the outcomes of the research.

## Executive summary

The social and economic circumstances and uncertainty on how these environments are affecting the operations of the National Lottery have contributed to the need to explore the participation and attitudes of the general public of South Africa regarding the National Lottery.

This priority was set by the National Lotteries Commission at the end of 2018 in support of the **need to constantly monitor the changing preferences, attitudes and participation levels of lottery players** among the general public.

Against this background, the Bureau of Market Research Proprietary Limited (BMR) of the University of South Africa (Unisa) was commissioned by the NLC to conduct a national representative survey on the attitude, behaviour and participation levels of South Africans in lottery activities and sport pools.

In addition, **the study aimed to determine the propensity to gamble/play lotteries** as well as the extent of household expenditure displaced to gambling/lotteries.

To achieve the study objectives, a hybrid of research methods was applied to collect information from **3 090 households** across all nine provinces of South Africa.

These included internal and external secondary and primary data collection methods that were co-designed in a complementary style to address the research objectives of the study.

Whereas the external secondary research was essential to design the survey questionnaire and the sampling plan for the national survey, the internal secondary research largely serves to estimate the propensity and redistributive effect of gambling prizes. In turn, the primary research constituted computer-aided telephonic and face-to-face personal interviews proportionally distributed across all nine provinces of South Africa.

This quantitative study was further complemented by qualitative research, inclusive of four group discussion sessions among judgmentally sampled lottery and non-lottery participants in the Gauteng, Limpopo and North West provinces.

# Headline findings

**35.0%**

Percentage of people who participated in lottery activities or sport pools in the 12 months preceding the 2018/19 NLC study.

**NLC response**

The Licencee has been encouraged to review National Lottery Participants and target marketing campaigns that encourage participation to new entrants in the lotteries and sports pools. Trends have shown that higher jackpots have attracted new participants to the games.

**R156**

Average monthly amount spent on lottery and sport pool activities in 12 months preceding the 2018/19 NLC study.

The amount set aside for participating in the lottery given the daily limit of R2000 set for each participant. Setting of participants limits is in line with international standards.

**47.7%**

Percentage of respondents who never participated in lottery or sport pools activities who listed disinterest in lottery/sport pools as major reason for non-participation.

The NLC has embarked on a regulatory compliance campaign to raise awareness on the integrity and propriety of the games in order to improve participation. The Licencee's marketing spend and campaigns are testament of the commitment to re-invigorating the games to encourage participation.

**4.3%**

Percentage of people who participated in Fafi in the 12 months preceding the 2018/19 NLC study.

**NLC response**

Illegal or prohibited lottery activities remain a challenge in participant protection. Education and awareness campaigns have been rolled out to ensure participants are aware and educated about illegal or prohibited lotteries. Introduction of the Daily Lotto game has been seen as a deterrent and a safer and protected gaming option.

**47.4%**

Percentage of lottery activity participants who play LOTTO, LOTTO PLUS 1 and LOTTO PLUS 2 on a weekly basis.

The Lotto games remain the backbone of the National Lottery. The operator has been encouraged to ensure sustainability of Lotto games.

**41.0%**

Percentage of lottery activity participants who play PowerBall and/or PowerBall PLUS on a weekly basis.

PowerBall has presented the highest jackpots and shown to be the preferred game. Mechanisms are in place to ensure participants are protected during peak jackpot periods.

**77.9%**

Percentage of lottery activity participants who rate LOTTO, LOTTO PLUS 1 and LOTTOPLUS 2 among the top-3 most preferred lottery activities.

**NLC response**

The regulator is encouraged by participation in the Lotto games. The operator has been encouraged to ensure sustainability of Lotto games.

**60.8%**

Percentage of lottery activity participants who rate PowerBall and/or PowerBall PLUS among the top-3 most preferred lottery activities.

PowerBall activities remain popular due to higher jackpots. The Licencee has been encouraged to mitigate against over-stimulation and under age play.

**23.2%**

Percentage of lottery activity participants who regard the chances of winning the LOTTO, LOTTO PLUS 1 and LOTTOPLUS 2 as 'very good' and 'good'.

The NLC is encouraged by the confidence shown in the Lotto game.

**6.7%**

Percentage of lottery activity participants who are aware of under-aged (<18 years) participation in LOTTO, LOTTO PLUS 1 and LOTTOPLUS 2.

**NLC response**

The NLC is concerned by this outcome, the NLC approved a participant protection strategy. Central to this strategy and the Licencee is protection against under age play. The NLC and Licencee continue to conduct mystery shopper reviews and Licencee is required to train retailers to ensure under-age play is mitigated.

**27.8%**

Percentage of lottery activity participants using cell phones to participate in local/promotional competitions.

The Licencee has ensured accessibility to the National Lottery through implementation of the APP and interactive online webpage.

**36.3%**

Percentage of National Lottery participants who spent between R51 and R150 per month on National Lottery games.

The amount set aside for participating in the lottery given the daily limit of R2000 set for each participant. Setting of participants limits is in line with international standards.

**74.3%**

Percentage of lottery activity participants citing the 'need for money' as a major reason for participating in lottery schemes/activities/games.

**NLC response**

With the economic downturn due to unemployment and economic conditions, the Lottery remains a hopeful space for many unemployed South Africans. The NLC continues to monitor activities to ensure fair and safe games.



## 30.6%

Percentage of lottery game participants who impulsively purchase lottery tickets on a regular or occasional basis.

NLC response

The regulator is comfortable that participants utilise their disposable income to participate in the national lottery.

## 20.5%

Percentage of lottery activity participants who won lottery prizes in the month preceding the 2018/19 NLC study.

National lottery games have a minimum prize payout of 45%, in line with international lottery standards. Participants also contribute to worthy good causes as a share of ticket sales is contributed to worthy causes.

## R110

Average monthly amount of winnings on lottery schemes/activities/games.

The regulator is encouraged that participants regulate their participation, an indication of no excessive play and over stimulation by the Operator.

## 70.0%

Percentage of lottery activity participants who often dream of winning the lottery.

NLC response

The national lottery provides equal opportunities for participants and is accessible to all who wish to realise their dreams.

## 53.4%

Percentage of lottery game participants who agree that lottery causes health problems, including stress or anxiety.

The NLC has approved a Participant Protection Strategy. Lottery games are designed to minimise adverse effect on participants and are scheduled in such a manner that there is no excessive stimulation.

## 25.2%

Percentage of lottery activities participants who usually spend more money on lotteries than budgeted/planned.

National lottery games pricing is inexpensive and there are set play limits per day.

## 21.0%

Percentage of lottery activity participants who regard themselves as compulsive/excessive/problem lottery players.

NLC response

The NLC has approved a Participant Protection Strategy. Lottery games are designed to minimise adverse effect on participants and are scheduled in such a manner that there is no excessive stimulation.

## 66.9%

Percentage of people agreeing that playing lottery games is addictive.

The NLC has approved a Participant Protection Strategy. Lottery games are designed to minimise adverse effect on participants and are scheduled in such a manner that there is no excessive stimulation.

## 43.7%

Percentage of people agreeing that they are well informed about the NCL and its mandate.

The NLC continues to deliver education and awareness programmes on various media platforms and during stakeholder engagements.

## R34.3 billion

Total 2017/2018 household gambling expenditures on 'games of chance' (licensed and unlicensed modes).

NLC response

The NCL continues to identify and close down illegal lotteries as well as protect participants of the National Lottery.

## 0.09%

The propensity to play lottery games in 2017/18.

The national lottery is available to participants of all income groups. The NLC continues to ensure that marketing activities are aimed at attracting new participants.

## 27.7%

Percentage of unemployed national lottery players.

The national lottery is available to participants of all income groups. The NLC continues to ensure that marketing activities are aimed at attracting new participants.

## 23.9%

Percentage of national lottery players who are recipients of government grants.

NLC response

The national lottery is available to participants of all income groups. The NLC continues to ensure that marketing activities are aimed at attracting new participants in higher income groups.

# Operations divisional outcomes

**During the year under review, the Operations Division served as an enabler organisations' operations with the ultimate goal of ensuring that set organisational objectives are accomplished efficiently and economically.**

## Research and development

During the year under review, the unit co-ordinated activities to leverage the NLC's knowledge management capabilities. The unit developed collaborative partnerships with Statistics South Africa and the Human Science Research Council pursuant to improvement of the units research capacity.

Over the years several studies were conducted as detailed in the table below:

Year	Studies	Key outcomes	Informed decision
2011	The South African National Lottery: Participation and Attitudes	<ul style="list-style-type: none"> <li>Less than half of the sampled population were playing the national lottery.</li> <li>The propensity of the SA population (18 years and older) to participate in lottery games declined from 2003 to 2010.</li> </ul>	<ul style="list-style-type: none"> <li>New ways of playing lotto were introduced e.g. banking app, cell phone banking, mobile app.</li> <li>Lottery playing stations were made more accessible.</li> </ul>
2013	National Lottery Distribution Trust Fund Impact Study	<ul style="list-style-type: none"> <li>Beneficiaries wouldn't have been able to complete their projects without NLDTF.</li> <li>Emerging organisations are failing to meet the stringiest requirements.</li> <li>Insufficient interaction between beneficiaries and the NLC post funding disbursement.</li> </ul>	<ul style="list-style-type: none"> <li>The NLC continues to fund 100% for infrastructure projects.</li> <li>2015 amended regulation introduced different grant categories (Small, medium, large) with less stringent application and reporting requirements for small grant category.</li> <li>Establishment of the Monitoring and Evaluation (MandE) unit to improve monitoring and impact assessment of NLC funded projects.</li> </ul>
2015	Impact of Illegal Lotteries to the National Lottery in South Africa	<ul style="list-style-type: none"> <li>The illegal schemes that pose a risk to National lottery in monetary values (&lt; R1 billion) are:</li> <li>Fafi</li> <li>Bookmaking activities</li> <li>Sport pools</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory Compliance Division strategy and activities enhanced to better 'police' illegal schemes.</li> <li>More lottery games with better chances of winning introduced. This was to attract players that are involved in illegal schemes to participate in national lottery games.</li> </ul>

*The Operations Divisional areas of responsibility are summarised in Our Organisation at a Glance appearing on page 70.*

Year	Studies	Key outcomes	Informed decision
2016	Organisational Study for the National Lotteries Commission (NLC)	<ul style="list-style-type: none"> <li>The funding model does not sufficiently consider the differences in poverty levels, access to services and opportunities, as well as population density amongst the nine provinces. Thus the funding allocation model will always give rise to an inequitable distribution of funds as some provinces may be overfunded while others may be severely underfunded.</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion of subsector allocations to the organisational annual report to allow more accurate reporting and alignment of grant allocations to the NDP.</li> </ul>

## NLC research studies conducted by NLC

Year	Studies	Key outcomes	Informed decision
2017	Impact evaluation studies in five provinces	<ul style="list-style-type: none"> <li>Determine impact of NLC funding.</li> </ul>	<ul style="list-style-type: none"> <li>Findings incorporated in Grant funding model and areas of funding.</li> </ul>
2017	Grant making related research – Funding for worthy causes	<ul style="list-style-type: none"> <li>Identify key areas for impactful funding.</li> </ul>	<ul style="list-style-type: none"> <li>Findings incorporated in the funding priority areas.</li> </ul>
2018	Grant making related research – Funding for worthy causes	<ul style="list-style-type: none"> <li>Identify key areas for impactful funding.</li> </ul>	<ul style="list-style-type: none"> <li>Findings incorporated in the funding priority areas.</li> </ul>
2018	Player participation study	<ul style="list-style-type: none"> <li>Highlighted areas of strength and improvement in making the National Lottery safer and more attractive to participants.</li> </ul>	<ul style="list-style-type: none"> <li>Inform regulatory strategy.</li> </ul>
2018	Research study on defaulting projects	<ul style="list-style-type: none"> <li>Inform organisations of trends and reasons for falling delinquent.</li> </ul>	

# Operations divisional outcomes (continued)

## Grant funding

During the 2018/19 financial year, we continued to enhance the experience of applicants and beneficiaries by improving the operational efficiencies throughout the grant funding with the aim of making it easier and less burdensome to access grants. Beneficiary centricity was not limited only to the operational indicators of the beneficiary experience, but also extended to the respect and humanity with which the NLC engaged applicants, grant holding organisations and communities at large.

### Legal framework

### Process maps

#### Application-based funding

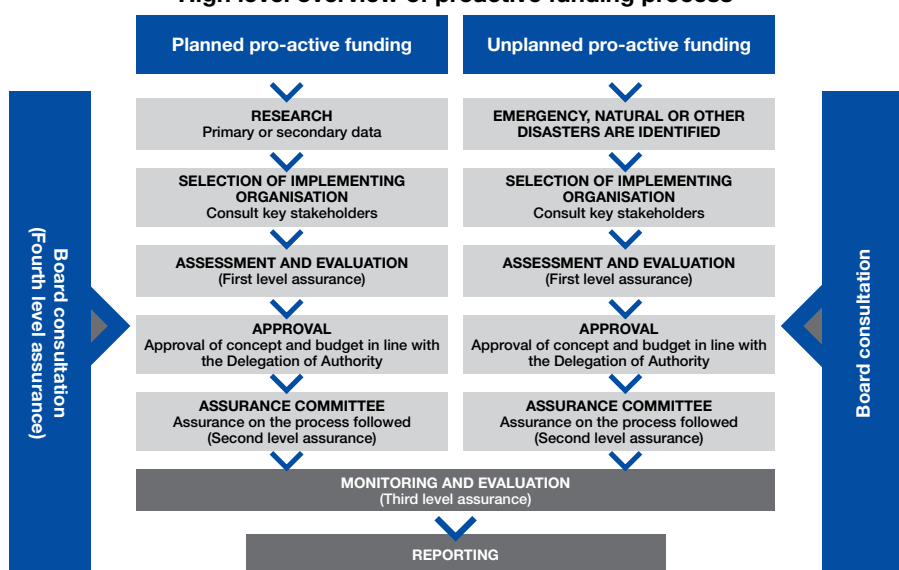
- Section 26G of the Lotteries Amendment Act - Applications for grants
- Shareholder Compact: Ministerial Priority relating to Proactive Funding
- NLC Policy and Operational Strategic Framework: S10
  - Grant Funding Policy
  - Grant Funding Management Policy



#### Proactive funding

- Section 2A
- Shareholder Compact: Ministerial Priority relating to Proactive Funding
- NLC Policy and Operational Strategic Framework: S10
  - Pro-Active Funding Policy
  - Grant Funding Management Policy

#### High level overview of proactive funding process

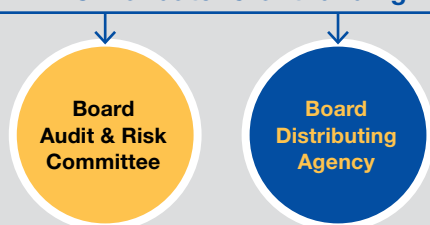


## Corporate governance framework

Whilst Application-based and Proactive Funding Processes maps have evolved since inception of the NLC and implementation of changes brought about by the Lotteries Amendment Act, 32 of 2013, the NLC's Corporate Governance framework has remained consistent.

The NLC Board reviews its arrangements for delegation annually in order to promote judgement and assist with balance of power and the effective discharge of duties without abdicating its accountability. The committees in which in-depth analysis of Proactive Funding activities are dealt with are the Board and Distributing Agency Committee and Board Audit & Risk Committee.

### NLC Mandate: Grant funding



The Oversight responsibility for NLC's grant funding model goes through rigorous quarterly corporate governance processes wherein:

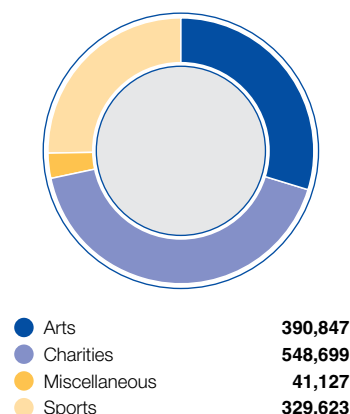
1. EXCO recommends to the respective Board Committee the total budget for the financial year and in terms of the Proactive Funding Model, consultative presentation on research based programmes to be pro-actively funded.
2. Board and Distributing Agency Committee consider and deliberate on all matters relating to grant funding (including Proactive Funding which is 10% of the total NLDTF funds allocation). The presentation includes status and stage of completion and progress for funded projects, monitoring and evaluation conducted.
3. The Board Audit & Risk Committee deals with the budget allocation for Grant Funding including Proactive Funding, and cases of misconduct relating to NLDTF.
4. The Board considers and approves NLDTF budgets, and Quarterly Performance reports from the respective Committees which contains a detailed report on all operational and governance aspects of the organisation including Proactive Funding.
5. The Board approved quarterly performance reports are submitted to the Minister and Portfolio Committee in line with the PFMA compliance calendar and shareholder compact.

Assessments are conducted by the two credible independent assurance providers, Auditor-General of South Africa (see Audit Opinions on pages 103 and 143 ) and PWC (King IV analysis results). The NLC is comfortable that there are quantifiable controls relating to the NLDTF which is the administrative arm of NLC funding (Application and Proactive Funding). The Board, which is mandated in terms of the Lotteries Act, to approve, determine, oversee or revise the Commission's operational strategic framework or policies, corporate governance framework policies, human resources policies and approve the appointment of senior executive employees of the Commission is satisfied, that there are sufficient controls and continues to assess internal processes and governance framework of the organisation.

For the first time in NLC's audit history, the AGSA not only audited project files but visited all sampled projects for verification. There were no findings in relation to this verification process.

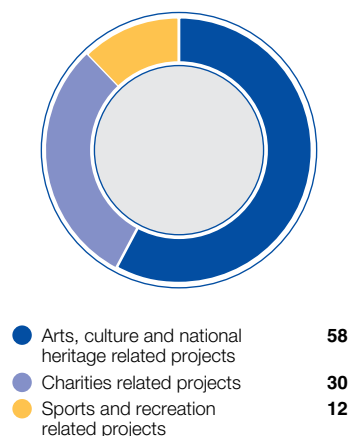
## Outcomes

### Application-based sector allocations (R'million)



Application based funding in accordance with published funding areas for 2018/19.

### Proactive funding 2018/19 (%)



A total of **R223 866 565,65** was allocated through pro-active funding within 2018/19 financial year, the majority of funds were channelled towards agriculture, improvement of access to sporting facilities and programmes and improvement of school infrastructure and sanitation.

# Operations divisional outcomes (continued)

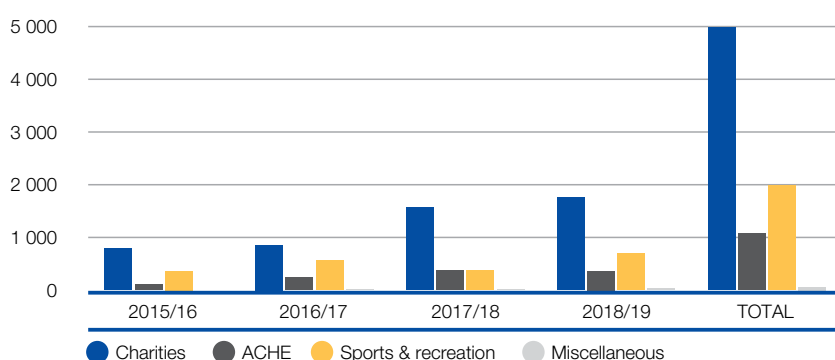
## Monitoring and evaluation outcomes

Continuous improvement in monitoring evaluation tools have resulted in a total of 2 847 monitoring site visits being conducted. A total of 25 943 jobs were created during the financial year of which 19 200 were permanent jobs and 16 743 temporary employments. In terms of social groups, 20 238 were Adults, 5 077 Youth and 429 jobs were created for people with disabilities. The Arts sector had the highest number of jobs created at 13 148. NLC funding has yielded economic benefits to our direct and secondary beneficiaries.

The monitoring and evaluation unit of the NLC not only measures the impact of funding and appropriate utilisation of funds also focuses on capacitation of beneficiaries assisting them to properly implement their projects.

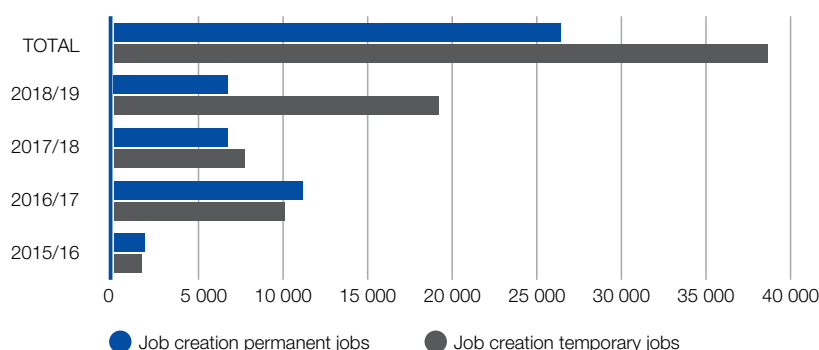
The NLC relies on services of independent engineers to monitor and provide quality assurance on proactively funded projects.

### Number of monitoring site visits conducted/FY/sector



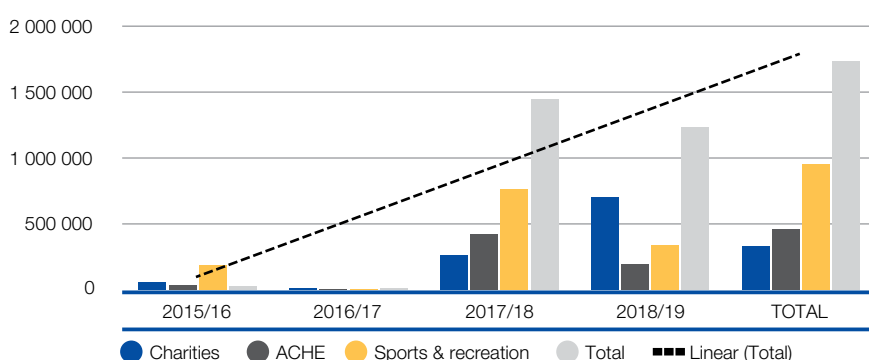
At least 64% of the visited organisations were from the charities sector, followed by the sports and recreation sector, then ACHE and lastly miscellaneous. As can be noted, the number of organisations visited has been increasing over the years.

### Job creation/FY/job type



As per Graph 3, 59% of the jobs that were created from 2015 to date were temporal whilst 41% were permanent. Observing the trend, job creation statistics have been increasing over the years to date, with the NLC's deliberate intention to contribute effectively into decreasing the unemployment rate.

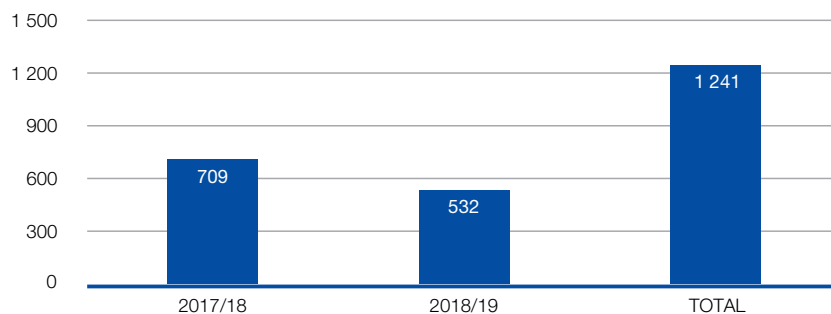
### Secondary beneficiaries reached/FY/sector



Organisations funded by the NLC for various projects and programmes under the three sectors have reached at least 1 736 989 secondary beneficiaries. At least 55% of the reached secondary beneficiaries were from the sports and recreation sector, 26% from ACHE and 19% from the charities sector. Financial year 2017/18 had more secondary beneficiaries reached.



## Skills development/FY



**At least 1 241 beneficiaries who were funded for either accredited or non-accredited training were able to develop their skills in order to improve the quality of services delivered.**

### Secondary impact beneficiary statistics for 2018/19

Sector	Total	Male	Female
Charities	504 016	313 303	190 713
Arts and culture	153 520	64 788	88 732
Sports and recreation	230 819	110 669	120 150
<b>Total</b>	<b>888 355</b>	<b>488 760</b>	<b>399 595</b>

## Stakeholder Relations, Marketing and Communications

By its very nature, the work of the NLC is entrenched in partnerships. Rooted in the vision 'To be the Catalyst for Social Upliftment', strategies and activities within the area of Stakeholder Relations, Marketing and Communication are geared at catalysing action to fulfil the dual mandate of the NLC.

### Positioning the NLC as a regulator

Recent surveys on the NLC's brand awareness have consistently revealed that the funding mandate is more prominent in the eyes of the public, as well as the NGO sector - than the regulatory mandate. This is due to various reasons, not limited to the level of need for funding of good causes in South Africa's NGO sector.

However, regulation forms the foundation of the NLC's operations. Research reports such as the study into the impact of illegal lotteries on the National Lottery reveal the monetary cost of these schemes on the pool of funds intended for good causes.

From April 2018, programmes have been put in place to enhance the brand awareness of the regulatory mandate of the NLC, and to publicise products and services that will not only benefit competition organisers, but also NGOs who seek to raise funds - thus reducing dependency on NLC funding. This was achieved most notably through radio interviews at all Post Indaba Stakeholder Engagements with special emphasis on community media, and television features and interviews on SABC's Morning Live, and current affairs show Yilungelo Lakho (panel discussion to distinguish lotteries from gambling).

### Enhancing awareness of the NLC as a funder

A notable hangover from the amendment of the Lotteries Act is confusion on the application of regulations and their impact on the funding process.

While these issues form part of the Education and Awareness programmes rolled out by provincial offices, they also form an integral part of the Post Indaba Stakeholder Engagement programme, which also serves to monitor trends in prevailing issues among beneficiaries and strategic stakeholders.

As an additional measure, the regulations that featured most prominently in frequently asked questions at various stakeholder engagements were packaged into a document - 'Legislative Interpretation of the Regulations to the Lotteries Act' - to explain their implementation in specific detail (in conjunction with the dti). The information brochure was translated into the 11 official languages and distributed through provincial offices.

Translation of NLC information sources from English is a future consideration to widen the reach of services, while improving access to funding by removing barriers to entry.

### Media relations

The 2018/19 financial year also saw media relations become a focal point for the NLC.

Media is a key stakeholder group in achieving the ends of the organisation's mandate and has been identified as being instrumental to brand positioning through advertising, reputation building through engagement, and education and awareness through structured campaigns.

# Operations divisional outcomes (continued)

In the period under review, proactive measures were put in place to empower this stakeholder group to enhance the impact of Marketing and Communications programmes.

## Education and Awareness & Structured Capacity Building Training Programme

Education and awareness programmes are primarily rolled out at provincial level through the hosting of pre-application workshops.

A future consideration is the standardization of the workshop programme to ensure that information is consistent, and the use of social media and digital platforms as educational tools to widen the reach of the workshops.

The Structured Capacity Building Training Programme for 2018/19 was implemented in five (5) provinces, namely the Eastern Cape, Gauteng, KwaZulu-Natal, Limpopo and the Western Cape.

Training in all five provinces commenced in October 2018, accompanied by mentoring sessions inclusive of site visits to beneficiaries' organisations.

Assessment and verification has continued into the new financial year, and results from a post-training survey are expected in that time as well.

The table below is a summary of the training programme:

Province	Number of organisations	Training and mentoring status
Limpopo	18	Training completed Mentoring completed Portfolio of evidence collected
Gauteng	17	Training completed Mentoring completed
KwaZulu-Natal	12	Training done Mentoring done Portfolio of evidence collected
Western Cape	16	Training done Mentoring done Portfolio of evidence collected
Eastern Cape	16	Training done Mentoring done Portfolio of evidence collection incomplete

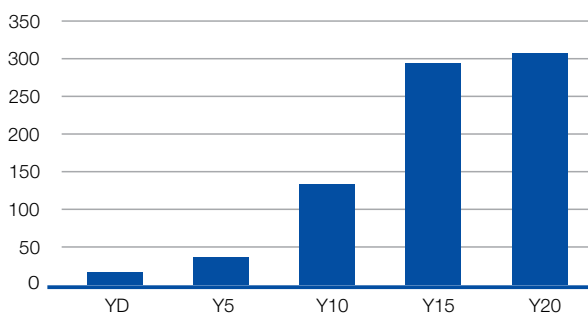
Going forward, the primary objectives of the NLC's integrated strategic communications program will continue to revolve around raising awareness about the mandate and generate interaction with the stakeholders.

# Human capital

**From its inception in 1999, the National Lotteries Commission has been ground-breaking in its activities through the distribution of funds from the national lottery towards good causes.**

Over the years the NLC has seen the expansion of its structure in line with the business progress and the amended National Lotteries Act. During 2015/16 financial year the organisation has seen a transition from National Lotteries Board to National Lotteries Commission. The decentralisation of grant funding to provincial offices was successfully implemented, resulting in the establishment of provincial offices, which are now fully operational.

## 20 years staff complement



The above graph depicts the staff complement from inception, the NLC had only 17 employees. During the period under review, the NLC had 307 employees and has operating offices in all nine provinces.

The NLC introduced a wellness programme has through the years, introduced the NLC wellness programme, which is aimed at promoting the physical and emotional well-being of employees and promoting the personal health of employees as a top priority. In return, the NLC has seen a higher level of productivity.

The wellness programme focused mainly on the following services:

- Health risk assessment;
- Counselling services;
- Legal advice; and
- Financial advice.

The NLC internship programme continued to open job opportunities, and on the job training platforms for interns in the organisation. Since the inception of the internship programme, there have been 23 intakes of interns to permanent appointment as depicted by the graph below.

## Internship programme report (2012 – 2019)



During the period under review the Human Capital department continued to inculcate the values of the NLC through various staff engagements in order to improve the wellness of employees and optimise performance in the workplace.

The NLC held its inaugural employee Indaba where we strengthened the relationship with our employees, as active ambassadors for the NLC. Employees were encouraged to bring an outlook that is in the best interest of the NLC brand to drive constructive interaction.

It also sought to remind staff that in order to be a brand champion of the organisation one needs to first master their personal brand “The Brand of You” and realise that no person is an island. Thus the interest of the NLC is going beyond that of the individual employee but extends to broader aspects of the wellbeing of the employee’s extended family that ensures that the employee is a well-rounded human being before they can be an NLC brand champion.

The approach adopted by the NLC is to collectively unlearn behaviours to relearn the NLC corporate culture. If we are to achieve excellence in the big things, we are to develop the habits in little matters and that excellence is not an exception but a prevailing attitude.

# Human capital (continued)

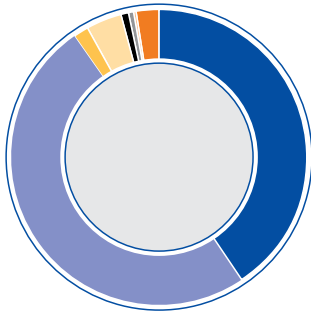
 African (Male/Female)

 Coloured (Male/Female)

 Indian (Male/Female)

 White (Male/Female)

## Employment workforce



 3  4

**Executives**

 16  9  2  3  1  1  1

**Senior managers**

 88  125  3  9  1  1  1  6

**Staff**

 5  2

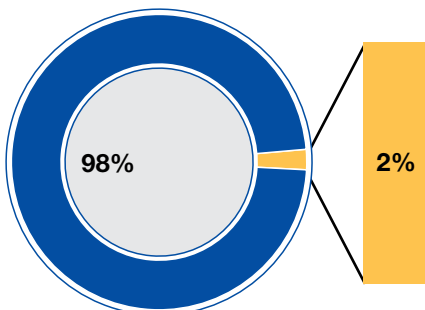
**Fixed temps**

 13  13






**Internships**

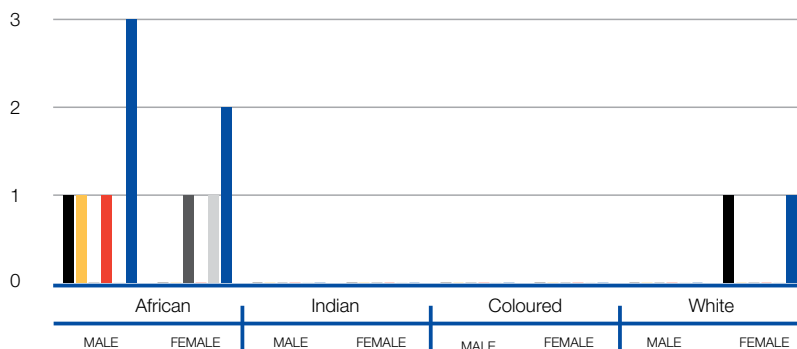
The composition of NLC employees is depicted by the above graph indicating equity on all levels and job families. The total number of staff during the year under review was 307.







## Staff movements



Staff complement 307  
Movements 6

-  **Position:** Provincial Manager – Eastern Cape  
**New position:** Research, Monitoring & Evaluation Manager
-  **Position:** Contact Centre Manager  
**New position:** Operations Manager
-  **Position:** Customer Services Officer  
**New position:** Corporate Performance Officer
-  **Position:** Grant Funding Officer  
**New position:** Monitoring & Evaluation Officer – KwaZulu-Natal
-  **Position:** Executive PA  
**New position:** Administrative Coordinator
-  **Position:** Executive PA  
**New position:** Administrative Coordinator



-  Provincial Manager – Eastern Cape
-  Contact Centre Manager
-  Grant Agreement Officer
-  Customer Services Officer
-  Executive PA
-  Total

The graph depicts the horizontal movement of staff members.

 African (Male/Female)


 Coloured (Male/Female)


 Indian (Male/Female)


 White (Male/Female)

## New appointments – recruitment


**7**  
new appointments  
for the year  
2018/19.


 Grant Funding Officer – Western Cape


 Stakeholder, Marketing and Communication Manager

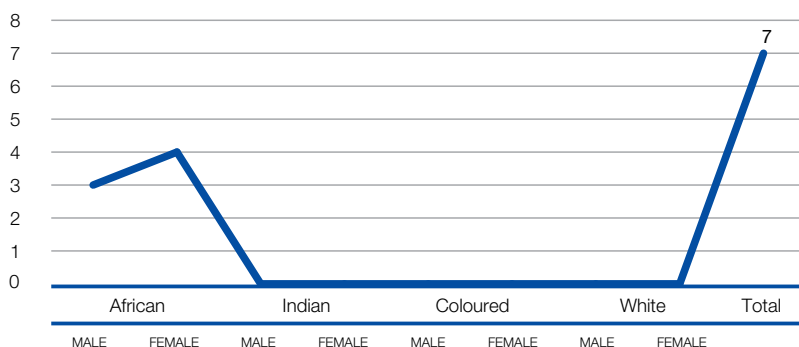
 Administrative Assistant

 Web & System Support

 Legal Officer

 Executive Assistant – Finance

 Enterprise Risk Specialist



The graph depicts the staff members who were employees during the year under review.

## Interns/temps – permanent positions

**5**  
interns absorbed  
as temporary staff  
members for the  
year 2018/19.

 **Intern/temp position:** Temp – Administrative Assistant  
**New position:** Logistics and performance management officer

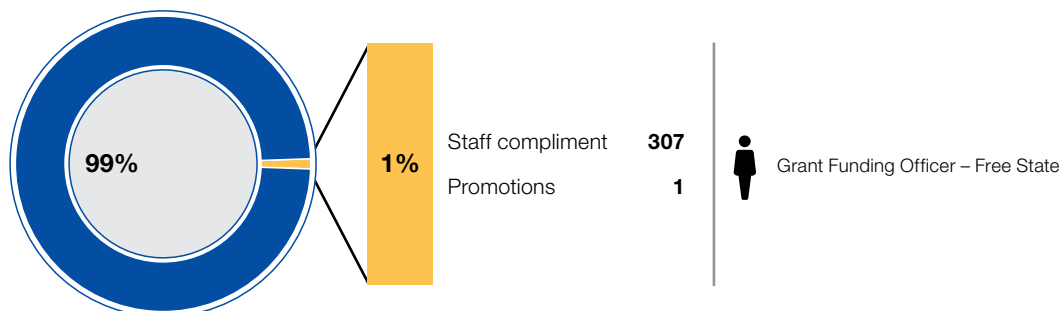
 **Intern/temp position:** Temp – Grant funding officer – Western Cape  
**New position:** Grant funding officer – Western Cape

 **Intern/temp position:** Temp – Internal audit specialist  
**New position:** Internal audit specialist

 **Intern/temp position:** Temp – Monitoring and evaluation Officer – Eastern Cape  
**New position:** Monitoring and evaluation officer – Eastern Cape

 **Intern/temp position:** Intern  
**New position:** Web and systems support

## Staff promotions



In ensuring staff retention, NLC has promoted 1% of the staff complement to different levels including position of management.

# Human capital (continued)

 **African** (Male/Female)
  **Coloured** (Male/Female)
  **Indian** (Male/Female)
  **White** (Male/Female)

## People with disability



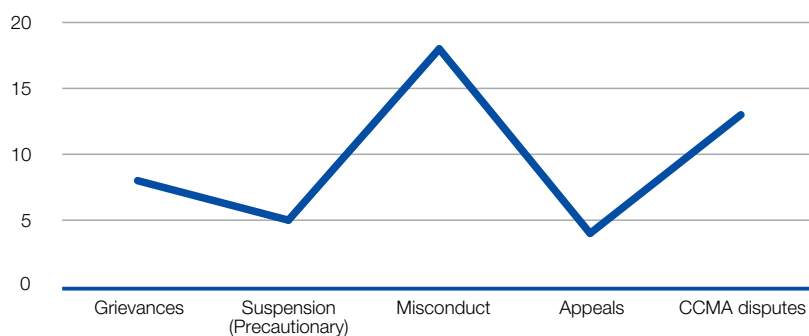
NLC has achieved 4% employment of people with physical impairments.

## Staff resignations



Over the years, NLC has attracted, motivated and retained staff who delivered the business plan and substantially growing the organisation. The staff turnover during the year under review was 1%.

## Labour relations matters: April 2018 to March 2019



**48**

labour relation matters for the year 2018/19.

The above graph depicts the labour relations incidents during the year under review. The total number of 48 labour relations matters were processed.



## Kwambazi Primary School

The school is located in Northern KwaZulu-Natal, in the village of Hlobani, with the nearest town being Vryheid. Kwambazi Primary School is a mud school, with only three classrooms, six educators and 140 learners. See pictures below:



The KZN Provincial Manager visited the school in 2016 after being advised by the M&E Officer that we (NLC) had funded the combination court and yet there was no school.

He then scheduled to meet the Principal and the school governing body. In the meeting it came out clear that the Nkwambazi Primary school was not part of the plans for the KZN Department of Education in terms of infrastructure improvement.

The KZN Provincial Manager wrote a motivation to the COO to consider the school for funding through proactively. The Chief Operations Officer presented the matter to the Executive Committee and the Board. In 2017, the Board and EXCO approved funding for the school to be improved as follows:

- Five Classrooms to be built;
- Ablution facilities (Staff and Children); and
- An Administration block (Principal's Office and Reception).

The Kwambazi Primary School was completed in May 2019 and the children and staff started using the facility from July 2019 after the Winter holidays. Below are the pictures of how the school looks now: The school is located in Northern KwaZulu-Natal, in the village of Hlobani, with the nearest town being Vryheid. Kwambazi Primary School is a mud school, with only three classrooms, six educators and 140 learners. See pictures below:



# Contribution by province

## North West

No. of beneficiaries funded in 2018/19:

**191**

Total allocations for the year:

**R116 334 205**

Min 5%: R64 035 452

Percentage: 9.1%

Total jobs created in 2018/19:

**1 812**

### National Lottery terminal distribution

Total	991
Terminal	574
Third party fixed terminal	417
Ticket sales	R434 077 731
Jackpot winners	8
Highest jackpot	R46 397 148
Secondary beneficiaries	R56 583

## Northern Cape

No. of beneficiaries funded in 2018/19:

**101**

Total allocations for the year:

**R90 321 786**

Min 5%: R64 035 452

Percentage: 7.1%

Total jobs created in 2018/19:

**2 197**

### National Lottery terminal distribution

Total	232
Terminal	176
Third party fixed terminal	408
Ticket sales	R143 818 526
Jackpot winners	0*
Highest jackpot	0*
Secondary beneficiaries	R63 954

\*Northern Cape Winners are processed in Free State office and other nearby provincial offices, as the operator does not have a regional office in Northern Cape

## Western Cape

No. of beneficiaries funded in 2018/19:

**299**

Total allocations for the year:

**R102 540 515**

Min 5%: R64 035 452

Percentage: 8.0%

Total jobs created in 2018/19:

**909**

### National Lottery terminal distribution

Total	1 288
Terminal	1 154
Third party fixed terminal	134
Ticket sales	R871 682 831
Jackpot winners	24
Highest jackpot	R232 132 527
Secondary beneficiaries	R101 424

## Eastern Cape

No. of beneficiaries funded in 2018/19:

**400**

Total allocations for the year:

**R138 729 242**

Min 5%: R64 035 452

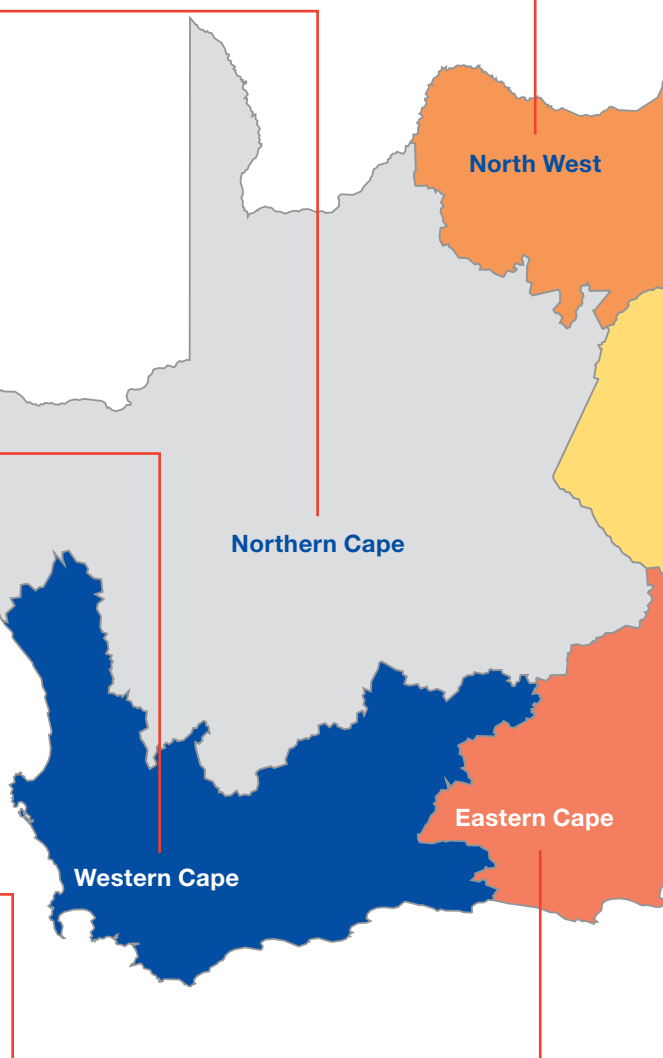
Percentage: 10.8%

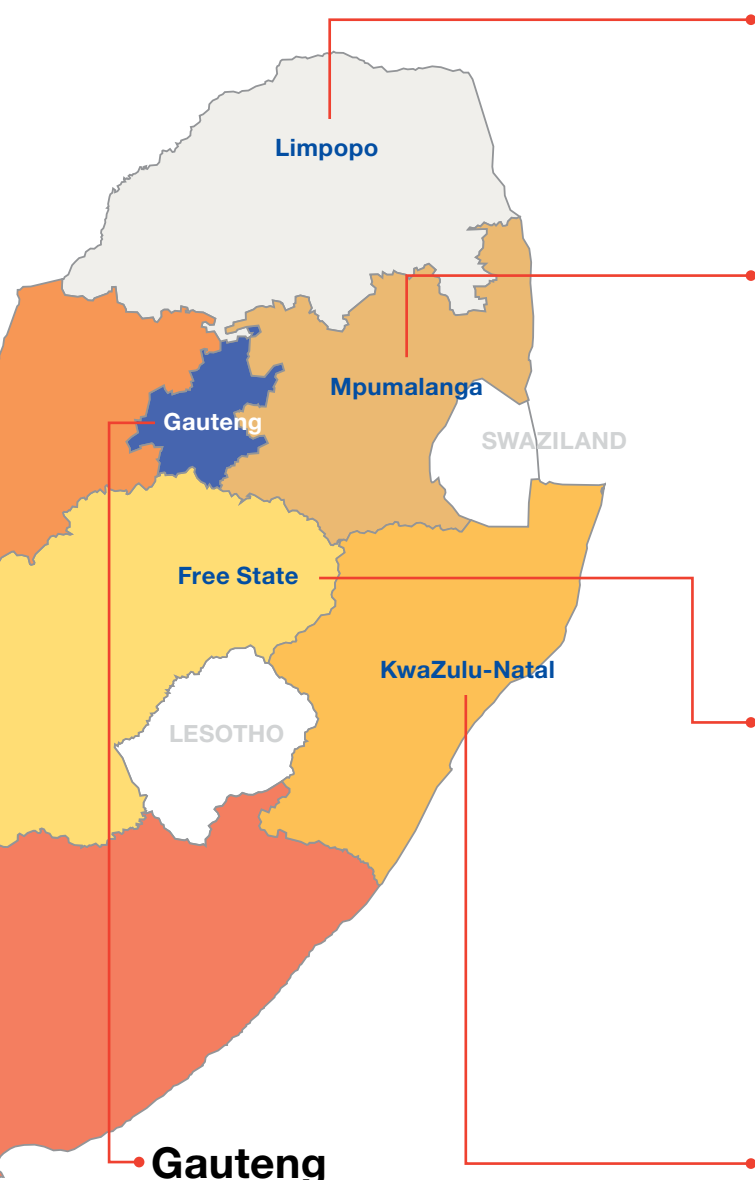
Total jobs created in 2018/19:

**902**

### National Lottery terminal distribution

Total	1 113
Terminal	786
Third party fixed terminal	327
Ticket sales	R396 959 293
Jackpot winners	14
Highest jackpot	R35 764 015
Secondary beneficiaries	R25 339





## Limpopo

No. of beneficiaries  
funded in 2018/19:

**713**

Total allocations for the year:

**R219 949 928**

Min 5%: R64 035 17.27.1%

Total jobs created in 2018/19:

**2 293**

### National Lottery terminal distribution

Total	1 181
Terminal	728
Third party fixed terminal	399
Ticket sales	R425 485 034
Jackpot winners	14
Highest jackpot	R47 393 253
Secondary beneficiaries	R36 665

## Mpumalanga

No. of beneficiaries  
funded in 2018/19:

**364**

Total allocations for the year:

**R113 777 342**

Min 5%: R64 035 452

Percentage: 8.9%

Total jobs created in 2018/19:

**1 548**

### National Lottery terminal distribution

Total	1 658
Terminal	590
Third party fixed terminal	1 068
Ticket sales	R414 453 079
Jackpot winners	12
Highest jackpot	R145 469 799
Secondary beneficiaries	R170 866

## Free State

No. of beneficiaries  
funded in 2018/19:

**283**

Total allocations for the year:

**R104 807 969**

Min 5%: R64 035 452

Percentage: 8.2%

Total jobs created in 2018/19:

**1 513**

### National Lottery terminal distribution

Total	1 093
Terminal	517
Third party fixed terminal	576
Ticket sales	R274 420 092
Jackpot winners	17
Highest jackpot	R7 453 4790*
Secondary beneficiaries	R28 156

\*The winners include Northern Cape Jackpot winners as the Operator does not have a regional office in Northern Cape.

## KwaZulu-Natal

No. of beneficiaries  
funded in 2018/19:

**428**

Total allocations for the year:

**R131 883 171**

Min 5%: R64 035 452

Percentage: 10.3%

Total jobs created in 2018/19:

**11 728**

### National Lottery terminal distribution

Total	2 422
Terminal	1 475
Third party fixed terminal	947
Ticket sales	R923 367 641
Jackpot winners	34
Highest jackpot	R29 142 137*
Secondary beneficiaries	R164 145

\*The winners include Northern Cape Jackpot winners as the Operator does not have a regional office in Northern Cape.

## Gauteng

No. of beneficiaries  
funded in 2018/19:

**639**

Total allocations for the year:

**R291 952 090**

Min 5%: R64 035 452

Percentage: 22.8%

Total jobs created in 2018/19:

**3 041**

### National Lottery terminal distribution

Total	5 542
Terminal	2 156
Third party fixed terminal	3 386
Ticket sales	R3 190 551 736.50
Jackpot winners	69
Highest jackpot	R56 999 176.69
Secondary beneficiaries	R25 339

# PART E

## Financial information





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# Report from the CFO



**The NLC is committed to ensuring that beneficiaries of the NLC grant are self-sustainable and are not reliant on the grants for survival**

*Ms Xolile Ntuli CA(SA) – Chief Financial Officer*

During the year under review the country's economy was recovering from a technical recession it was faced with from the previous year. South Africa saw a positive economic growth of 0.8 per cent which was slightly higher than the National Treasury projection of 0.7 per cent. The NLC experienced the fruits of these positive outcomes as evidenced by the revenue figures. Revenue from share of ticket sales increased by 16.84% to R1.626 billion. The National Lottery Operator grossed R7.07 billion (including VAT) from tickets attributable mainly to high jackpot prizes, the introduction of the new Powerball matrix, the launch of an E-commerce platform and the National Lottery mobile app.



**16.84%**

**Revenue increase  
from share of  
ticket sales**

**R1.63bn**

**Revenue from share  
of ticket sales**

**R1.56bn**

**paid to  
beneficiaries**

Grant allocations for the current year amounted to R1.310 billion and a total of R1.557 billion was paid to beneficiaries across all sectors. The liability reached an all-time low of R285 million, a decrease of 51% from the previous year through the efforts of applying the Grant Finance Management Policy and the fast tracking of payments.

The NLC is committed to ensuring that beneficiaries of the NLC grant are self-sustainable and are not reliant on the grants for survival. The fundraising initiatives by the beneficiaries are proof that beneficiaries are taking part in ensuring self-sustainability. Revenue made from these initiatives increased by 156% to R52.7 million during the year under review.

The NLC continues to monitor and maintain strategic reserves of R1.5 billion as a contingency fund to fund operational expenditure of the NLC and grant allocations for good causes. The reserves for the current financial year amounted to R1.7 billion.

The NLC remains committed to service delivery and the upliftment of communities through the payment of our suppliers within 30 days, supplier development programmes, localising procurement and ensuring that our beneficiaries are paid timeously within the legislated timeframes. During the year under review the NLC managed to pay its suppliers in 13 days on average, 99% of procurement was localised within the provinces and 88% of the NLC procurement was done with BEE companies.

The NLC is mindful of the current economic realities and have intensified its processes to improve efficiency in expenditure. We have observed with serious concern that shuttle service spending, to and from the airport, is extremely high, therefore cost saving measures we recommend are:

- Shuttle – Officials travelling to and from the airport or any destination requiring shuttle services are encouraged to use the Gautrain service, fleet service (NLC cars) and hire a car and drop it at the airport;

- Flights – officials travel on the most reasonable/lowest cost airline;
- Accommodation – Bed and breakfast (B&B) facilities are encouraged where possible.

Supply Chain Management controls and processes continue to be in place and are improved upon. The NLC and NLDTF did not incur irregular, fruitless and wasteful expenditure in the current financial year. This is mainly attributable to the culture which is inculcated in the organisation which seeks to foster full compliance with laws and regulations and therefore zero tolerance approach to incurring irregular, fruitless and wasteful expenditure. This culture is also encouraged during the continuous educations and awareness sessions held with all divisions of the organisation.

The NLC continues to focus on clean administration and once again received clean audit opinions from the Auditor General for the Consolidated financial statements of the NLC and separate financial statements of the NLC, NLDTF and NLPT.

**Ms Xolile Ntuli CA(SA)**  
*Chief Financial Officer*

# Accounting Authority Report for the National Lotteries Commission

## for the year ended 31 March 2019

The National Lotteries Commission Accounting Authority presents its eleventh annual report, which is supplementary to the audited consolidated annual financial statements of the National Lotteries Commission (NLC), the National Lottery Distribution Trust Fund (NLDTF) and the National Lotteries Participants Trust (NLPT) for the year ended 31 March 2019.

### 1. Nature of operations

The NLC is a regulator of the National Lottery as well as other lotteries, including society lotteries to raise funds. Ithuba RF (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 National Lottery 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 eligible and deserving applicants by Distributing Agencies appointed by the Minister of Trade and Industry. Furthermore, the NLC may, upon request by the Minister, Board or on its own initiative in consultation with the Board, conduct research on worthy good causes that may be funded without lodging an application as prescribed in terms of the Lotteries Act.

The NLC Board administers the NLDTF and the 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.

The NLPT was founded by Ithuba Holdings RF (Pty) Ltd in terms of the licence agreement between the dti, the NLC and the Lottery Operator. The main objective of the NLPT is to hold monies in the Trust on behalf of Ithuba for prize winners and monies for advanced plays. Independent Trustees are charged with the responsibility to ensure that monies held in the Trust are safeguarded in terms of the Trust Deed. For the first time since inception of the NLC, the Auditor General of South Africa (AGSA) required the NLPT to be consolidated in the NLC financial statements. The Board took a resolution to implement the recommendations of AGSA and to consolidate the NLPT.

### 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 consolidated annual financial statements audited by the Auditor General. The consolidated 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 consolidated annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice applicable.
- The accounting authority is responsible for the preparation of the consolidated 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 consolidated annual financial statements. The Auditor General is engaged to express an independent opinion on the consolidated annual financial statements. In our opinion, the consolidated and separate annual financial statements fairly reflect the financial affairs of the NLC, the NLDTF and the NLPT for the financial year ended 31 March 2019.

## Imbewu Community Development

**Imbewu Community Development organisation was established in 2017 at Ward 84 Umlazi township. The organisation was formed to provide skills to disadvantaged community members to enable them to provide for their families without seeking employment. Imbewu trains its beneficiaries in permaculture and sustainable agriculture.**

Imbewu Community Development was approved a total amount of: R428 000. This was the first time the organization was funded by the NLC

The project thrives on permaculture which provides seedlings and vegetation for sustainable agriculture.

The crops are sold to local markets and individuals to generate an income, creating 10 (4 males; 6 females) jobs in the process of which 4 are permanent and 6 temporary.

Imbewu Community Development exists in the area of Umlazi and was funded

The organization trains community members in sustainable agriculture. The main focus is permaculture in which beneficiaries are train how to start and maintain their own gardens. To date, it has trained 100 beneficiaries (30 males; 70 females).

Imbewu also provides expertise in the mixing of soil and planting organic crops.

Upon visit, 3 beneficiaries were present to attest to the impact that the organization has imparted.

The following was confirmed during the visit: hired vehicle, land property, salaries paid, and garden expenses.



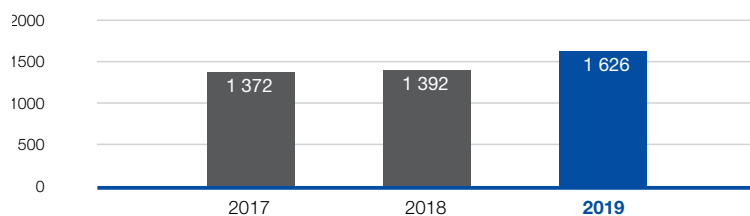
# Accounting Authority Report for the National Lotteries Commission (continued)

## 3. Operating and financial review

### Salient comparative information

#### Share of ticket sales

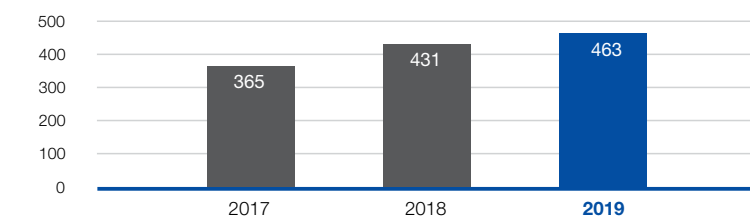
(Million)



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

#### NLC operating costs

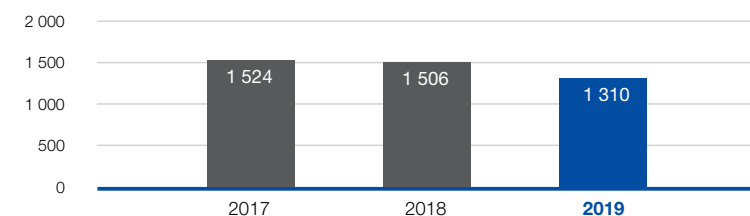
(R'million)



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

#### Allocation of grants

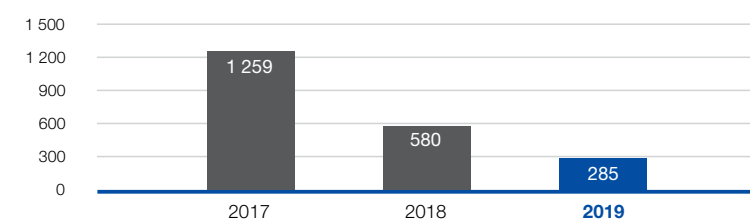
(R'million)



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

#### Provision for allocation by distributing agencies

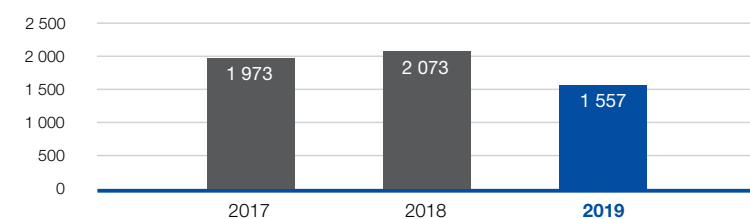
(R'million)



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

#### Cash disbursed

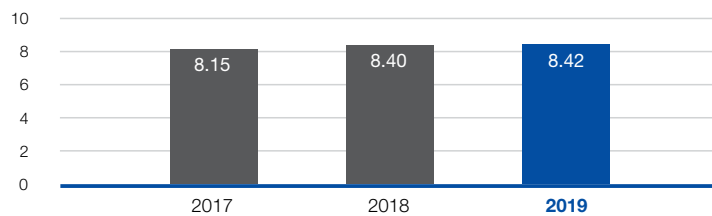
(R'million)



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

## Weighted average return on investments

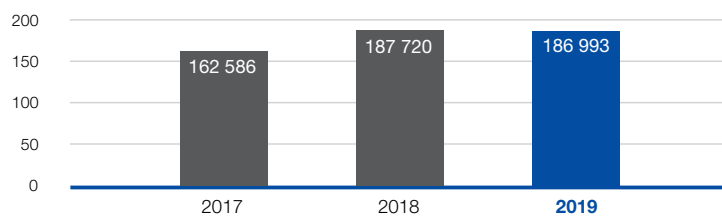
(Percentage)



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

## Expired and unclaimed prizes

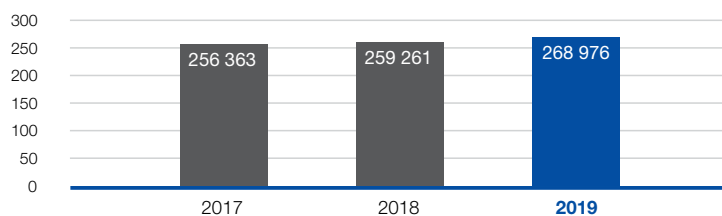
(R'million)



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

## Unclaimed prizes – winners

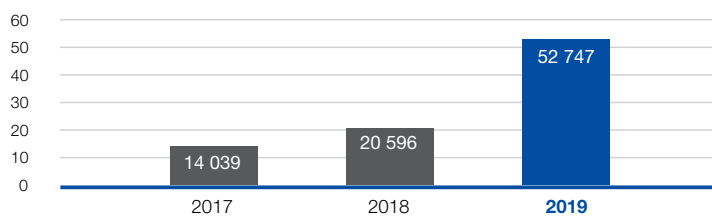
(R'000)



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

## Revenue through fundraising initiatives by organisations

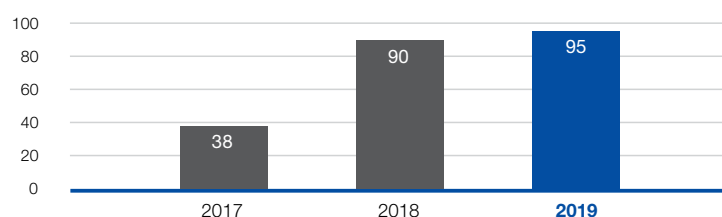
(R'000)



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

## Society lotteries

(R'000)



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

# Accounting Authority Report for the National Lotteries Commission (continued)

## 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 year under review for consolidated annual financial statements is 1% of the budgeted expenditure and for financial statements for the NLC and NLDTF is 1% of budgeted operational expenditure, and 1% of budgeted grants allocations respectively.

## 5. Approval of financial statements

The financial statements set out on pages 107 to 142 for the NLC and pages 146 to 165 for the NLDTF were approved by the Accounting Authority on 31 May 2019 and are signed on their behalf.



**Prof. N A Nevhutanda**  
*Chairperson of the Board*

31 July 2019



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

## Report on the audit of the consolidated and separate financial statements

### Opinion

1. I have audited the consolidated and separate financial statements of the National Lotteries Commission and its subsidiaries set out on pages 107 to 142, which comprise the consolidated and separate statement of financial position as at 31 March 2019, 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, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 March 2019, and their financial performance and 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).

### Basis for opinion

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 consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International independence Standards) 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Restatement of corresponding figures

7. As disclosed in note 27 to the financial statements, the corresponding figures for 31 March 2018 were restated as a result of an error in the financial statements of the group at, and for the year ended, 31 March 2019.

### Responsibilities of the accounting authority for the financial statements

8. 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 group'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 appropriate governance structure 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 of the Auditor-General to Parliament on the National Lotteries Commission (continued)

## 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) (PM) 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 2019:

Objectives	Pages in the annual performance report
Objective 2: To ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts	39
Objective 3: To implement relevant initiatives geared towards ensuring compliance with the Lotteries Act	39
Objective 4: To ensure fair and equitable grant allocations	40

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 these objectives:
- Objective 2: to ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts
  - Objective 3: to implement relevant initiative's 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 38 to 40 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 raise any findings on compliance with the specific matters in key legislation 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 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.
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. I did not receive other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if this is corrected this will not be necessary.

## Internal control deficiencies

25. 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. I did not identify any significant deficiencies in internal control.

## Other reports

26. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the group's financial statements, reported performance information, compliance with applicable legislation and other related matters.

These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

27. An independent consultant was assigned by the entity to investigate allegations of possible involvement in the grant funding process by three employees. The investigations were concluded in May 2019 and resulted in the dismissal of one employee, the suspension of another, and one being cleared of wrongdoing.

*Auditor General*



### AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence

Pretoria

31 July 2019

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

## 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 accounting authority
  - conclude on the appropriateness of 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 and its subsidiaries' 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
  - 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 2019

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

# Statement of financial position

## as at 31 March 2019

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



# Statement of changes in net assets

## for the year ended 31 March 2019

	Note	Accumulated Surplus R'000
<b>Group</b>		
<b>Restated balance as at 31 March 2016</b>		1 351 715
Restated surplus for the year		<b>150 405</b>
Surplus for the year reported in 2016/17		127 992
Prior period error	27	22 413
<b>Restated balance as at 31 March 2017</b>		<b>1 502 119</b>
Restated surplus for the year		<b>(56 357)</b>
Deficit for the year reported in 2017/18		55 697
Prior period error	27	(660)
Balance as at 31 March 2018		<b>1 445 762</b>
Surplus for the year		<b>235 868</b>
<b>Balance as at 31 March 2019</b>		<b>1 681 630</b>
<b>Company</b>		
<b>Balance as at 31 March 2017</b>		–
At the beginning of the year		–
Surplus/(deficit) for the year		–
<b>Balance as at 31 March 2018</b>		–
Surplus/(deficit) for the year		–
<b>Balance as at 31 March 2019</b>		–

# Statement of cash flows

## for the year ended 31 March 2019

	Note	Group		Company	
		Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>Cash flow from operating activities</b>					
<b>Cash receipts</b>					
Transfers and subsidies		–	–	500 959	433 250
Cash received Ithuba (RF) (Pty) Ltd and other parties		1 855 776	1 598 978	–	–
Interest income		85 844	110 494	354	400
Cash received from beneficiaries and other parties		5 171	2 127	1 604	873
		<b>1 946 791</b>	<b>1 711 599</b>	<b>502 917</b>	<b>434 522</b>
<b>Cash payments</b>					
Cash paid to beneficiaries and other parties		(1 625 767)	(2 073 514)	–	–
Employee costs paid		(267 208)	(243 674)	(267 208)	(243 674)
Goods and services		(182 898)	(183 240)	(182 898)	(165 318)
		<b>(2 075 873)</b>	<b>(2 500 429)</b>	<b>(450 106)</b>	<b>(408 993)</b>
<b>Net cash generated (utilised)/from operating activities</b>	24	<b>(129 082)</b>	<b>(788 830)</b>	<b>52 809</b>	<b>25 527</b>
<b>Cash flow from investing activities</b>					
Net purchases of property, plant and equipment		(37 036)	(6 475)	(37 036)	(6 475)
Net purchases of intangible assets		(4 296)	(21 344)	(4 296)	(21 344)
Net investment of financial assets		210 075	436 054	–	–
<b>Net cash flows generated from investing activities</b>		<b>168 742</b>	<b>408 235</b>	<b>(41 332)</b>	<b>(27 819)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>39 660</b>	<b>(380 595)</b>	<b>11 476</b>	<b>(2 292)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	19	<b>535 427</b>	<b>916 022</b>	<b>9 986</b>	<b>12 278</b>
<b>Cash and cash equivalents at the end of the year</b>	19	<b>575 087</b>	<b>535 427</b>	<b>21 462</b>	<b>9 986</b>

# Statement of comparison of budget and actual amounts: Group

## for the year ended 31 March 2019

R'000	Approved budget	Adjustments	Final budget	Actual amounts	Difference: final budget and actual
<b>Revenue and income</b>					
Share of ticket sales	1 487 581	–	1 487 581	1 626 291	<b>138 710</b>
Investment and interest received	126 127	–	126 127	141 579	<b>15 452</b>
Licence fees	2 500	–	2 500	2 500	<b>–</b>
Societies and other lotteries	60	–	60	94	<b>34</b>
Revenue from Participants Trust	170 072	–	170 072	200 278	<b>30 206</b>
Fair value adjustment	–	–	–	7 969	<b>7 969</b>
Sundry income	1 000	–	1 000	11 870	<b>10 870</b>
<b>Total revenue and income</b>	<b>1 787 340</b>	<b>–</b>	<b>1 787 340</b>	<b>1 990 581</b>	<b>203 241</b>
<b>Expenses</b>					
Employee costs	(276 581)	–	(276 581)	(268 671)	<b>7 910</b>
Allocation of grants	(1 250 709)	–	(1 250 709)	(1 261 421)	<b>(10 712)</b>
Current year allocations	(1 280 709)	–	(1 280 709)	(1 310 296)	<b>(29 587)</b>
Revocations	30 000	–	30 000	48 875	<b>18 875</b>
Professional fees	–	–	–	(17 893)	<b>(17 893)</b>
Goods and services	(213 189)	–	(213 189)	(186 243)	<b>26 946</b>
Administrative expenses	(2 974)	–	(2 974)	(10 108)	<b>(7 134)</b>
Depreciation and amortisation	(10 387)	–	(10 387)	(10 192)	<b>195</b>
Deficit on disposal of property, plant and equipment	–	–	–	(185)	<b>(185)</b>
<b>Total expenditure</b>	<b>(1 753 840)</b>	<b>–</b>	<b>(1 753 840)</b>	<b>(1 754 713)</b>	<b>(873)</b>
<b>Surplus/(deficit) for the year</b>	<b>33 500</b>	<b>–</b>	<b>33 500</b>	<b>235 868</b>	<b>202 368</b>
<b>Capital expenditure</b>					
Capital acquisitions	(63 405)	–	(63 405)	(41 392)	<b>22 013</b>

# Statement of comparison of budget and actual amounts: Group (continued)

## for the year ended 31 March 2019

Account	Explanation of difference	Amount R'000
Share of ticket sales	Revenue over-performed by 9% during the current financial year. This was as a result of the introduction of the new Powerball matrix, introduction of the new EaziWin online gaming and higher jackpot prizes which increased participation in the National Lottery. The introduction of the daily Lotto in March boosted sales further. Initiatives such as, amongst others, the launch of an E-commerce platform, the National Lottery mobile app and of business to business channels increased accessibility of the National Lottery to participants.	138 710
Investment and interest received	The targeted 8% return on investment was achieved. Actual return of investment for the year was 8.42%.	15 452
Revenue from participants trust	Revenue from Participants Trust includes expired prize monies and interest due to the NLDTF from the trust. The over performance is due to more expiries than were expected from participants who did not claim prizes.	30 206
Fair value adjustment	The fair value adjustment is as a result of favourable market movements in investments.	7 969
Sundry income	The variance is mainly attributable to the downward movement in the provision for doubtful debts.	10 870
Employee costs	The variance is 3% and is within the acceptable threshold of 10%.	7 910
Revocations	There were more revocations as a result of application of the Grants Finance Management Policy. In terms of the policy, revocations are distributed back to the relevant sector.	18 875
Current year allocations	The variance was sufficiently covered and funded from revocations which amounted to R47.8 million during the year under review as per the Grants Finance Management Policy.	(29 587)
Goods and services	<p>The variance is mainly driven by the items below:</p> <ul style="list-style-type: none"> <li>• Staff Training – The roll out of the Monitoring and Evaluation (M &amp; E) programme has been deferred to 2019/20.</li> <li>• Travel and Accommodation – The deferral of the M &amp; E program to 2019/20 resulted in savings in the travel and accommodation that was budgeted for by Provinces.</li> <li>• Advertising and Publicity – The Provincial Office launches will materialise in 2019/20, upon completion of refurbishment of provincial properties. The NLC turns 20 years campaign which was budgeted for in the current will only commence in 2019/20.</li> </ul>	26 946

Account	Explanation of difference	Amount R'000
Administrative expenses	The variance is mainly to the beneficiaries written off as bad debts as a result of prescription.	(7 134)
Professional fees	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.	(17 893)
Capital acquisitions	The 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. The process of scoping business requirements on the ERP system is currently ongoing and could not be finalised by year end. The facilities management system, which was not concluded by year end, is anticipated to be finalised by the second quarter of the 2019/20 financial year.	22 013

# Statement of comparison of budget and actual amounts: Company

## for the year ended 31 March 2019

R'000	Approved budget	Adjustments	Final budget	Actual amounts	Difference: final budget and actual
<b>Revenue</b>					
Transfers from the NLDTF	494 990	–	494 990	459 016	(35 974)
Licence fees	2 500	–	2 500	2 500	–
Interest income	442	–	442	373	(69)
Other operating income	–	–	–	1 349	1 349
Societies & other lotteries	60	–	60	94	34
<b>Total revenue</b>	<b>497 992</b>	<b>–</b>	<b>497 992</b>	<b>463 332</b>	<b>(34 660)</b>
<b>Expenses</b>					
Employee costs	(276 581)	–	(276 581)	(268 671)	7 910
Goods and services	(211 024)	–	(211 024)	(184 284)	26 740
Depreciation and amortisation	(10 387)	–	(10 387)	(10 192)	195
Deficit on disposal of property, plant and equipment	–	–	–	(185)	(185)
<b>Total expenditure</b>	<b>(497 992)</b>	<b>–</b>	<b>(497 992)</b>	<b>(463 332)</b>	<b>34 660</b>
<b>Surplus/(deficit) for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Capital expenditure</b>					
Capital acquisitions	(63 405)	–	(63 405)	(41 392)	22 013

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 savings in goods and services in the current financial year. See reasons below.	(35 974)
Employee costs	The variance is 3% and is within the acceptable threshold of 10%.	7 910
Goods and services	The variance is mainly driven by the items below: <ul style="list-style-type: none"> <li>Staff Training – The roll out of the Monitoring and Evaluation (M &amp; E) programme has been deferred to 2019/20.</li> <li>Travel and Accommodation – The deferral of the M &amp; E program to 2019/20 resulted in savings in the travel and accommodation that was budgeted for by Provinces.</li> <li>Advertising and Publicity – The Provincial Office launches will materialise in 2019/20 upon completion of the refurbishment of provincial properties. The NLC turns 20 years campaign, which was budgeted for in the current year, will only commence in 2019/20.</li> </ul>	26 740
Capital acquisitions	The 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. The process of scoping business requirements on the ERP system is currently on-going and could not be finalised by year end. The facilities management system which was not concluded by year end is anticipated to be finalised by the second quarter of the 2019/20 financial year.	22 013



# Summary of significant accounting policies

## for the year ended 31 March 2019

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 annual financial statements have been prepared in accordance with the 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 SA GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the 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 11 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	
IGRAP 18: Recognition and Derecognition of Land	None	
IGRAP 19: Liabilities to Pay Levies	None	
Guidelines: Accounting for arrangements undertaken in terms of the National Housing	None	

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 controlled entities. The controlling entity is the NLC.

#### 2.1 Controlled entities

The NLDTF is a Fund which was established in terms of section 21 of the National Lotteries Act, Act No 57 of 1997, as amended. It was established to administer the distribution of funds to the respective sectors, namely Charities, Sports and Recreation, Arts, Culture and National Heritage. The NLPT is founded by the National Lottery Operator in terms of the Trust Deed. The main objective of the trust is to hold all monies in trust received from Ithuba Holding by the Trust (including interest accrued thereon) for the benefit of the winners, and participants who have made an advance payment for future draws. In September 2018, the Auditor General concluded that the NLC should consolidate the financial statements of the NLPT in the financial statements of the NLC.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated. Controlled entities' accounting policies are consistent with the policies adopted by the 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 enterprise and these benefits can be measured reliably.

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

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

# Summary of significant accounting policies (continued)

## for the year ended 31 March 2019

Revenue from non-exchange transactions is defined as revenue in which the 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.

### 3.1 Transfer from the 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 an approved budget 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 in 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 National Lottery Operator as stipulated and agreed in the licence agreement with the National Lottery Operator (herein Ithuba).

### 3.5 Expired and unclaimed prizes

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

### 3.6 Interest from the National Lotteries Participants Trust

Any interest that remains in the National Lotteries Participants Trust after deduction of the National Lotteries Participants Trust costs are due to the NLDTF as stipulated in the Trust Deed of the National Lotteries Participants Trust. These monies are accounted for on an accrual basis. Payment of the funds by Ithuba are through the intermediation of the National Lotteries 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 year. 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 the 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 year 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 year of the lease, 7 years for servers
Leasehold improvements	Shorter of estimated life or year of lease
Land and Buildings	0 to 99 years

The assets' residual values and useful lives are reviewed at each reporting year 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 the 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; and
- 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 year.

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 year 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; and
- 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 year of the lease.

## 7. Financial assets

The NLC 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.

### 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.

# Summary of significant accounting policies (continued)

## for the year ended 31 March 2019

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.

The NLC will derecognise a financial assets when:

- (a) the contractual rights to the cash flows from the financial asset expire, are settled or are waived;
- (b) The NLC transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- (c) The 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;
- receivables from exchange transaction; and
- receivables from non-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 and the equity intrinsic value of investments (refer to note 5).

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.

## 8. Impairment of assets

### 8.1 Financial assets carried at amortised cost

NLC assesses at each reporting year 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 the NLC, including:
  - adverse changes in the payment status of issuers or debtors of the NLC; and
  - national or local economic conditions that correlate with defaults on the assets of the NLC.

The NLC first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the 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 year, 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, and 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

The 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; and
- trade and other payables.

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

The 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.

## 10. Cash and cash equivalents

Cash and cash equivalents comprise:

- cash in hand;
- deposits held at call and short notice; and
- 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

# Summary of significant accounting policies (continued)

## for the year ended 31 March 2019

### 12. Financial risk management

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

#### 12.1 Market risk

The Company and Group'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 Company and Group 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 Provident Fund to which employees belong is a defined contribution fund which provides retirement, death and disability benefits. The Company 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

The Company accrues in full the employees' rights to annual leave entitlement in respect of past service. The undiscounted amount is expensed over the year 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 Company remains liable to pay out an amount equal to the leave balance at current rate of remuneration. Payment of leave is dependent on when employees resign.

#### 13.3 Provision for bonus plan

The Company 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, the Company 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

The Company and Group 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 statements, 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 2019.

## 17. Allocation of grants

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

Revocations will be triggered if there is a breach of Grant Agreement, voluntary cancellation of the Grant Agreement by the funded organisation due to various reasons, cancellation due to identification and/or determination of irregularities from the organisation.

## 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 & Equipment (disclosure of contractual commitments for Property, Plant & Equipment); and
- GRAP 31 on Intangible Assets (disclosure of the contractual commitments for the acquisition of intangible assets).

## 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 light of emerging events 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 Depreciation

Depreciation is recognised through profit or loss on a straight-line basis over the estimated useful life, or the lease term if shorter, of each asset or component of an item of property, plant and equipment. Land is not depreciated and major repairs and overhauls are depreciated over the remaining useful life of the related asset or to the date of the next major repair or overhaul, if shorter.

Depreciation commences when the asset is available for use.

The 80/20 principle is applied to split the initial acquisition cost of the land and buildings, where 80% is buildings and 20% is land of the initial acquisition cost.

### 19.3 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.

### 19.4 Contingent liabilities

Contingent liabilities are not recognised in the financial statements, but are disclosed in the notes to the financial statements unless the probability of occurrence is remote.

### 19.5 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.

# Summary of significant accounting policies (continued)

## for the year ended 31 March 2019

### 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 the 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;
- the Treasury Regulations;
- a National Treasury Instruction, issued in terms of section 76 of 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 impracticability 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 year in which it is incurred.

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

### 22. Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives. The approved budget covers the financial year from 2018/04/01 to 2019/03/31. The budget for the economic entity includes all the entities approved budgets under its control. The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period has been included in the statement of comparison of budget and actual amounts.

### 23. Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

# Notes to the financial statements

## for the year ended 31 March 2019

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>1. Transfers from the NLDTF</b>				
Payments from fund in respect of expenses	–	–	459 016	426 527
	–	–	459 016	426 527
<b>2. Fund revenue</b>				
Share of ticket sales	1 626 291	1 391 939	–	–
Expired and unclaimed prizes	186 993	187 720	–	–
Interest from the National Lotteries Participants Trust	13 285	16 670	–	–
	1 826 569	1 596 329	–	–
<b>3. Licence fees</b>				
Recognition of lottery licence fees	2 500	2 500	2 500	2 500
	2 500	2 500	2 500	2 500
<b>4. Other operating revenue</b>				
Registration fees – Schemes and Societies	94	90	94	90
Sundry income*	4 765	1 378	1 349	988
Movement in the provision for doubtful debt	7 105	1 231	–	–
	11 964	2 699	1 443	1 078
* Sundry income mainly consists of unspent amounts returned by beneficiaries.				
<b>5. Fair value adjustment – Investment</b>				
Fair value adjustment – Investment	7 969	6 362	–	–
	7 969	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.				
<b>6. Surplus on disposal of property, plant and equipment</b>				
	–	34	–	34
	–	34	–	34
<b>7. Investment and interest income</b>				
Call and current accounts	4 982	2 553	373	382
Interest income from investments	131 582	176 086	–	–
Interest income from National Lotteries Participants Trust current accounts	5 015	4 044	–	–
	141 579	182 683	373	382
<b>8. Allocation of grants</b>				
Current year allocations	1 310 296	1 506 013	–	–
Revocations	(48 875)	(111 953)	–	–
	1 261 421	1 394 060	–	–
<b>9. Employee costs</b>				
Salaries, wages and allowances	197 394	179 561	197 394	179 562
Medical aid fund contribution	12 269	10 680	12 269	10 680
Defined provident fund contributions	21 630	19 777	21 630	19 777
Defined benefit pension fund contributions	–	9	–	9
Social security levies (Unemployment Insurance Fund, Skills Development Levy)	2 895	2 624	2 895	2 625
Risk Benefit and Management Fees	5 772	5 408	5 772	5 407
Provision for leave pay	66	1 273	66	1 273
Provision for bonus	28 645	33 559	28 645	33 559
	268 671	252 892	268 671	252 892

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>10. Goods and services</b>				
Advertising and publicity	22 718	21 952	22 718	21 952
Audit fees	4 676	3 890	3 642	3 183
Bank charges	212	188	90	86
Computer expenses	17 240	20 944	17 240	20 944
Conferences and meetings	2 122	1 375	2 122	1 375
Consulting fees	17 264	14 949	17 264	14 949
Courier and delivery costs	764	599	764	599
Distributing Agency emoluments	3 824	3 647	3 824	3 647
Professional fees	17 893	17 675	–	–
Board member fees including Board committees	6 539	4 874	6 539	4 874
Insurance	2 008	1 927	1 918	1 927
Legal fees	20 623	11 382	20 623	11 382
Rental – Motor vehicles	2 092	2 112	2 092	2 112
Rental – Office buildings	21 061	21 101	21 061	21 101
Rental – Office equipment	2 349	1 970	2 349	1 970
Outsourcing	15 754	5 442	15 754	5 442
Printing and stationary	2 984	3 324	2 984	3 324
Refreshments and catering	1 342	1 309	1 342	1 309
Repairs and maintenance	991	2 008	991	2 008
Research	2 734	–	2 734	–
Small assets written off	8	32	8	32
Staff recruitment	608	68	608	68
Staff training	6 444	10 519	6 444	10 519
Staff welfare	1 790	1 546	1 790	1 546
Subscriptions	454	856	454	856
Sundry expenses	5 481	4 983	5 481	4 983
Telephone and internet charges	6 270	5 983	6 270	5 983
Travel and accommodation	13 882	16 390	13 882	16 390
Trustee fees	713	343	–	–
Water and electricity	3 296	4 064	3 296	4 064
	<b>204 136</b>	<b>185 452</b>	<b>184 284</b>	<b>166 625</b>
<b>11. Administration expenses</b>				
Management fees	3 153	3 073	–	–
Loss from financial instruments	–	65	–	–
Beneficiaries written off	6 955	416	–	–
	<b>10 108</b>	<b>3 554</b>	<b>–</b>	<b>–</b>
Beneficiaries written off relates to funds which were initially earmarked for recovery which were not recovered mainly due to prescription.				
<b>12. Depreciation, amortisation</b>				
<b>12.1 Depreciation</b>				
Network infrastructure	1 194	1 839	1 194	1 839
Computer equipment	2 369	2 356	2 369	2 356
Furniture and fittings	1 416	1 355	1 416	1 355
Leasehold improvements	3 326	3 039	3 326	3 039
Office equipment	1 847	1 834	1 847	1 834
Buildings	25	–	25	–
	<b>10 177</b>	<b>10 423</b>	<b>10 177</b>	<b>10 423</b>
<b>12.2 Amortisation</b>				
Software	15	237	15	237
Grants Management System	–	345	–	345
	<b>15</b>	<b>582</b>	<b>15</b>	<b>582</b>
<b>Total</b>	<b>10 192</b>	<b>11 005</b>	<b>10 192</b>	<b>11 005</b>

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>13. Deficit on disposal of property, plant and equipment</b>				
	(185)	–	(185)	–
	(185)	–	(185)	–

#### 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
<b>Year ended 31 March 2019</b>							
Opening carrying amount	3 824	3 077	3 856	8 469	2 745	13 077	35 048
Additions	30 198	2 995	1 526	861	1 023	493	37 096
Disposals	–	–	(14)	(162)	–	(68)	(245)
– Cost	–	–	(146)	(529)	–	(156)	(832)
– Accumulated Depreciation	–	–	133	367	–	88	587
Depreciation Charge	(25)	(1 194)	(2 369)	(1 416)	(3 326)	(1 847)	(10 177)
<b>Closing carrying amount</b>	<b>33 997</b>	<b>4 878</b>	<b>2 999</b>	<b>7 752</b>	<b>442</b>	<b>11 655</b>	<b>61 723</b>
<b>At 31 March 2019</b>							
Cost	34 022	10 718	11 181	14 616	9 812	18 529	98 878
– Accumulated Depreciation	(25)	(5 840)	(8 182)	(6 864)	(9 370)	(6 874)	(37 156)
<b>Carrying Amount</b>	<b>33 997</b>	<b>4 878</b>	<b>2 999</b>	<b>7 752</b>	<b>442</b>	<b>11 655</b>	<b>61 723</b>
<b>Year ended 31 March 2018</b>							
Opening carrying amount	–	4 534	5 137	9 779	5 421	14 712	39 583
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)
<b>Closing carrying amount</b>	<b>3 824</b>	<b>3 077</b>	<b>3 856</b>	<b>8 469</b>	<b>2 745</b>	<b>13 077</b>	<b>35 048</b>
<b>At 31 March 2018</b>							
Cost	3 824	7 723	9 802	14 284	8 789	18 192	62 614
Accumulated Depreciation	–	(4 646)	(5 946)	(5 815)	(6 044)	(5 115)	(27 566)
<b>Carrying Amount</b>	<b>3 824</b>	<b>3 077</b>	<b>3 856</b>	<b>8 469</b>	<b>2 745</b>	<b>13 077</b>	<b>35 048</b>

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 15. Intangible assets: Group and Company

R'000	Geographical Information System	Enterprise System*	Software**	Grant Management System	Website	Total
<b>Year ended 31 March 2019</b>						
Opening carrying amount	1 810	108 602	25	–	198	110 635
Additions	–	–	4 296	–	–	4 296
Disposals	–	–	–	–	–	–
– Cost	–	–	–	–	–	–
– Accumulated depreciation	–	–	–	–	–	–
Impairment charge	–	–	–	–	–	–
Amortisation charge	–	–	(15)	–	–	(15)
<b>Closing carrying amount</b>	<b>1 810</b>	<b>108 602</b>	<b>4 306</b>	<b>–</b>	<b>198</b>	<b>114 916</b>
<b>At 31 March 2019</b>						
Cost	1 810	108 602	6 951	6 963	198	124 524
Accumulated amortisation/ impairment	–	–	(2 645)	(6 963)	–	(9 608)
<b>Carrying amount</b>	<b>1 810</b>	<b>108 602</b>	<b>4 306</b>	<b>–</b>	<b>198</b>	<b>114 916</b>
<b>Year ended 31 March 2018</b>						
Opening carrying amount	1 470	89 852	243	345	198	92 108
Additions	340	18 750	18	–	–	19 108
Disposals	–	–	–	–	–	–
– Cost	–	–	–	–	–	–
– Accumulated depreciation	–	–	–	–	–	–
Amortisation charge	–	–	(237)	(345)	–	(582)
<b>Closing carrying amount</b>	<b>1 810</b>	<b>108 602</b>	<b>24</b>	<b>–</b>	<b>198</b>	<b>110 634</b>
<b>At 31 March 2018</b>						
Cost	1 810	108 602	2 655	6 963	198	120 228
Accumulated amortisation/ impairment	–	–	(2 630)	(6 963)	–	(9 593)
<b>Carrying amount</b>	<b>1 810</b>	<b>108 602</b>	<b>25</b>	<b>–</b>	<b>198</b>	<b>110 635</b>

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

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

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 R'000
<b>16. Financial assets</b>				
The Group's investment in financial assets are summarised by measurement category below:				
Financial assets at amortised cost:				
– Money market securities	–	5 000	–	–
– Capital market securities	1 100 000	1 300 000	–	–
– Accrued interest	398 698	326 362	–	–
Financial assets at fair value				
– Equity intrinsic value	9 256	6 362	–	–
<b>Total investment</b>	<b>1 507 954</b>	<b>1 637 724</b>	<b>–</b>	<b>–</b>
Current	–	5 213	–	–
Non-current	1 507 954	1 632 511	–	–
	<b>1 507 954</b>	<b>1 637 724</b>	<b>–</b>	<b>–</b>

#### Maturity profile:

Money market securities are in the form of fixed deposits with maturity dates greater than three months but no more than twelve 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 8.42% (2018: 8.40%).



	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>17. Trade and other receivables</b>				
<b>17.1 Trade and other receivables from exchange transactions:</b>				
– Study loans and advances	461	804	461	804
– Staff receivables – Payroll	706	483	706	483
– Sundry debtors	1 017	1 178	1 017	1 178
<b>Accrued income</b>	<b>2 998</b>	<b>9 066</b>	<b>47</b>	<b>28</b>
– Interest receivable on current and call accounts	2 998	1 839	47	28
– Interest receivable on short term investments	–	7 227	–	–
<b>Total</b>	<b>5 182</b>	<b>11 531</b>	<b>2 231</b>	<b>2 493</b>
<b>Claims from beneficiaries</b>	–	–	–	–
– Gross amount claimed	1 431	8 536	–	–
– Provision for doubtful claim recovery from beneficiaries	(1 431)	(8 536)	–	–
<b>Current</b>	<b>5 182</b>	<b>11 531</b>	<b>2 231</b>	<b>2 493</b>
<b>17.2 Trade and other receivables from non-exchange transactions:</b>				
<b>Accrued income</b>				
– Share of ticket sales from the National Lottery Operator	36 548	24 745	–	–
– Unclaimed funds – Ithuba Holdings (RF) (Pty) Ltd	4 834	–	–	–
– Advance sales due from Ithuba	281	–	–	–
<b>Total</b>	<b>41 663</b>	<b>24 745</b>	<b>–</b>	<b>–</b>
<b>Current</b>	<b>41 663</b>	<b>24 745</b>	<b>–</b>	<b>–</b>
<b>18. Prepayments and deposits</b>				
Insurance and property rental prepayments	778	678	709	678
Deposits	650	641	650	641
	<b>1 428</b>	<b>1 319</b>	<b>1 359</b>	<b>1 319</b>
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).				
<b>19. Cash and cash equivalents</b>				
Cash at bank – current account	392 232	369 119	18 608	7 221
Cash at bank – call account	182 816	3 186	2 816	2 728
Cash on hand	38	37	38	37
Fixed deposits with maturity dates less than three months	1	163 085	–	–
	<b>575 087</b>	<b>535 427</b>	<b>21 462</b>	<b>9 986</b>

Cash and cash equivalents included for the purposes of the cash flow statement are equal to the list detailed above. Included in the R2.816 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 2019

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>20. Deferred revenue – Licence fees</b>				
<b>Opening balance</b>	<b>12 917</b>	15 417	<b>12 917</b>	15 417
Amount charged to Statement of Financial Performance	<b>(2 500)</b>	(2 500)	<b>(2 500)</b>	(2 500)
<b>Closing balance</b>	<b>10 417</b>	12 917	<b>10 417</b>	12 917
Current	<b>2 500</b>	2 500	<b>2 500</b>	2 500
Non-current	<b>7 917</b>	10 417	<b>7 917</b>	10 417
	<b>10 417</b>	12 917	<b>10 417</b>	12 917
<b>21. Provision for allocation by distributing agencies</b>				
<b>Opening balance</b>	<b>580 368</b>	1 259 822	–	–
Additional provision made during the year	<b>1 310 296</b>	1 506 013	–	–
Payments made during the year	<b>(1 557 114)</b>	(2 073 514)	–	–
Revocations	<b>(48 875)</b>	(111 953)	–	–
<b>Closing balance</b>	<b>284 675</b>	580 368	–	–
Current	<b>284 675</b>	580 368	–	–
	<b>284 675</b>	580 368	–	–
Cash payments 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.				
<b>22. Trade and other payables</b>				
<b>22.1 Trade and other payables from exchange transactions</b>				
Supplier payables	<b>787</b>	133	<b>787</b>	133
Accruals	<b>13 853</b>	10 752	<b>13 584</b>	9 933
Payroll creditors	<b>1</b>	129	<b>1</b>	129
Straight-lining of operating lease payments	<b>435</b>	3 162	<b>435</b>	3 162
	<b>15 076</b>	14 176	<b>14 807</b>	13 357
Current	<b>15 076</b>	14 176	<b>14 807</b>	13 357
Non-current	–	–	–	–
	<b>15 076</b>	14 176	<b>14 807</b>	13 357
<b>22.2 Trade and other payables from non-exchange transactions:</b>				
– National Lottery Distribution Trust Fund	–	–	<b>142 835</b>	100 892
– Unallocated funds	<b>62</b>	62	–	–
– Unclaimed prizes – Ithuba Holdings (RF) (Pty) Ltd	<b>268 976</b>	259 261	–	–
– Unclaimed funds – Ithuba Holdings (RF) (Pty) Ltd	–	1 568	–	–
– Advance sales due to winners – Ithuba Holdings (RF) (Pty) Ltd	<b>13 485</b>	8 260	–	–
– Advance Sales due to Ithuba Holdings (RF) (Pty) Ltd	–	1 740	–	–
	<b>282 523</b>	270 891	<b>142 835</b>	100 892

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>23. Provisions</b>				
<b>Leave pay</b>				
Opening balance	5 183	4 611	5 183	4 611
Additional provisions raised	4 630	5 183	4 630	5 183
Used during the year	(620)	(701)	(620)	(701)
Unused amounts reversed	(4 564)	(3 910)	(4 564)	(3 910)
Closing balance	4 630	5 183	4 630	5 183
<b>Bonus</b>				
Opening balance	27 130	16 428	27 130	16 428
Additional provisions raised	29 002	27 130	29 002	27 130
Used during the year	(26 686)	(16 428)	(26 686)	(16 428)
Unused amounts reversed	(445)	–	(445)	–
Closing balance	29 002	27 130	29 002	27 130
Current	33 632	32 313	33 632	32 313
Non-current	–	–	–	–
	33 632	32 313	33 632	32 313
<b>24. Cash flow information</b>				
<b>24.1 Cash generated by operations</b>				
Surplus/(deficit) per the statement of financial performance	235 868	(56 356)	–	–
<b>Adjusted for:</b>				
<b>Non-cash items:</b>				
Amortisation and impairment	15	582	15	582
Deferred revenue	(2 500)	(2 500)	(2 500)	(2 500)
Depreciation	10 177	10 423	10 177	10 423
Operating lease payments smoothing	(2 727)	(912)	(2 727)	(912)
(Profit) or loss on sale of assets	185	(34)	185	(34)
Provision for bad debts	(7 105)	(1 231)	–	–
Bad debts written off	6 955	416	–	–
Fair value adjustment	(7 969)	(6 362)	–	–
	232 899	(55 974)	5 150	7 560
<b>Working capital changes</b>				
– Increase/(decrease) in trade and other receivables	(139 305)	(27 296)	91	249
– Increase/(decrease) in trade and other payables	71 697	(37 009)	46 249	6 815
– Increase/(decrease) in provisions	1 319	10 903	1 319	10 903
– Decrease in provision for allocation of Distributing Agency	(295 693)	(679 454)	–	–
Net cash generated/(utilised) from operating activities	(129 082)	(788 830)	52 809	25 527

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>25. Commitments</b>				
<b>25.1 Capital commitments</b>				
Purchase order commitments	3 852	–	3 852	–
	3 852	–	3 852	–
Capital commitments relate to capital acquisitions. Contract commitments are ranging from 12 to 36 months.				
<b>25.2 Operating lease commitments</b>				
The NLC leases buildings for its head office and provincial offices under operating leases. The remaining years of the leases range from one year to three years. The future minimum commitments in terms of the leases of buildings, including the NLC's head office are as follows:				
Due within one year	3 009	19 705	3 009	19 705
Due within two to five years	968	1 588	968	1 588
Due after five years	–	–	–	–
Net commitment	3 977	21 293	3 977	21 293
The lease term of the provincial leases is one (1) year with the exception of the Polokwane office which is five (5) years. The lease in Polokwane escalates at 7% per annum. The lease for Free State came to an end on 31 October 2018 and the lease for Head Office and North West ended on 31 March 2019.				
<b>25.3 Operating commitments</b>				
Purchase order commitments	6 850	477	6 850	477
Contract commitments	10 393	21 622	10 393	21 622
	17 243	22 099	17 243	22 099
Operating commitments relate to purchase order and contract commitments. Contract commitments are for a year, ranging from 12 to 36 months.				

## 26. Management of financial 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 the value of a financial instrument arises from:

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

**Credit risk:** 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:** The risk that the Company and Group 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 the Company and Group as follows:

- 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 the Company and Group 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.

	Group			Company		
	Total R'000	Financial assets and liabilities R'000	Non- financial assets and liabilities R'000	Total R'000	Financial assets and liabilities R'000	Non- financial assets and liabilities R'000
<b>As at 31 March 2019</b>						
<b>Financial instruments at amortised cost:</b>						
Unlisted:						
– Capital market securities	1 498 698	1 498 698	–	–	–	–
– Trade and other receivables from exchange transaction	5 182	5 182	–	2 231	2 231	–
– Trade and other receivables from non-exchange transaction	41 663	41 663	–	–	–	–
<b>Financial instruments at fair value:</b>						
– Cash and cash equivalents	575 087	575 087	–	21 462	21 462	–
– Equity intrinsic value	9 256	9 256	–	–	–	–
<b>Non-financial assets</b>						
– Other assets	176 639	–	176 639	176 639	–	176 639
– Deposits and prepayments	1 428	–	1 428	1 359	–	1 359
<b>Total assets</b>	<b>2 307 953</b>	<b>2 129 886</b>	<b>178 067</b>	<b>201 691</b>	<b>23 693</b>	<b>177 998</b>
<b>Financial liabilities at amortised cost:</b>						
– Provision for allocation by Distributing Agencies	284 675	284 675	–	–	–	–
– Trade payables from exchange transactions	15 076	15 076	–	14 807	14 807	–
– Trade payables from non-exchange transactions	282 523	282 523	–	142 835	142 835	–
<b>Non-financial liability</b>						
– Deferred income – license fees	10 417	–	10 417	10 417	–	10 417
– Provisions	33 632	–	33 632	33 632	–	33 632
<b>Total liabilities</b>	<b>626 323</b>	<b>582 274</b>	<b>44 049</b>	<b>201 691</b>	<b>157 642</b>	<b>44 049</b>

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

	Group			Company		
	Total R'000	Financial assets and liabilities R'000	Non- financial assets and liabilities R'000	Total R'000	Financial assets and liabilities R'000	Non- financial assets and liabilities R'000
<b>As at 31 March 2018</b>						
<b>Financial instruments at amortised cost:</b>						
Unlisted:						
– Money market securities	5 213	5 213	–	–	–	–
– Capital market securities	1 626 149	1 626 149	–	–	–	–
– Trade and other receivables from exchange transactions	11 531	11 531	–	2 493	2 493	–
– Trade and other receivables from non-exchange transactions	24 745	24 745	–	–	–	–
<b>Financial instruments at fair value:</b>						
– Cash and cash equivalents	535 427	535 427	–	9 986	9 986	–
– Equity intrinsic value	6 362	6 362	–	–	–	–
<b>Non-financial assets</b>						
– Other assets	145 682	–	145 682	145 682	–	145 682
– Deposits and prepayments	1 319	–	1 319	1 319	–	1 319
<b>Total assets</b>	<b>2 356 427</b>	<b>2 209 426</b>	<b>147 001</b>	<b>159 480</b>	<b>12 479</b>	<b>147 001</b>
<b>Financial liabilities at amortised cost:</b>						
– Provision for allocation by distributing agencies	580 368	580 368	–	–	–	–
– Trade payables from exchange transactions	14 176	14 176	–	13 357	13 357	–
– Trade payables from non-exchange transactions	270 891	270 891	–	100 892	100 892	–
<b>Non-financial liability</b>						
– Deferred income – license fees	12 917	–	12 917	12 917	–	12 917
– Provisions	32 313	–	32 313	32 313	–	32 313
<b>Total liabilities</b>	<b>910 664</b>	<b>865 434</b>	<b>45 230</b>	<b>159 478</b>	<b>114 249</b>	<b>45 230</b>

\* Financial instruments previously included balances for deposits and prepayments. These have been disclosed as other non-financial assets.

\*\* Financial instruments disclosure for the prior years were made only for the Group. The Company information has been reported.

## 26.1 Financial assets and liabilities

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

	Group		Company	
	31 March 2019 R'000	31 March 2018 R'000	31 March 2019 R'000	31 March 2018 R'000
<b>Financial instruments at amortised cost:</b>				
Unlisted:				
– Money market securities	–	5 213	–	–
– Capital market securities	1 498 698	1 626 149	–	–
– Trade and other receivables from exchange transaction	5 182	11 531	2 231	2 493
– Trade and other receivables from non-exchange transaction	41 663	24 745	–	–
<b>Financial instruments at fair value:</b>				
– Cash and cash equivalents	575 087	535 427	21 462	9 986
– Equity intrinsic value	9 256	6 362	–	–
<b>Total financial assets</b>	<b>2 129 886</b>	<b>2 209 426</b>	<b>23 693</b>	<b>12 479</b>
<b>Financial liabilities at amortised cost:</b>				
– Provision for allocation by Distributing Agencies	284 675	580 368	–	–
– Trade payables from exchange transactions	15 076	14 176	14 807	13 357
– Trade payables from non-exchange transactions	282 523	270 891	142 835	100 892
<b>Total financial liabilities</b>	<b>582 274</b>	<b>865 434</b>	<b>157 642</b>	<b>114 249</b>



## 26. Management of financial risk (continued)

### 26.1 Financial assets and liabilities

#### 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. The Company and Group invests its money market instruments at a fixed rate. There will be no impact on 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 Company and Group is exposed to:

	Group			
	Carrying amount R'000	Fixed R'000	Floating R'000	Non-interest bearing R'000
<b>As at 31 March 2019</b>				
<b>Financial instruments at amortised cost:</b>				
Unlisted:				
– Capital market securities	1 498 698	1 498 698	–	–
– Trade and other receivables from exchange transactions	5 182	–	–	5 182
– Trade and other receivables from non-exchange transactions	41 663	–	–	41 663
<b>Financial instruments at fair value:</b>				
– Cash and cash equivalents	575 087	1	575 048	38
– Equity intrinsic value	9 256	–	–	9 256
<b>Total financial assets</b>	<b>2 129 886</b>	<b>1 498 699</b>	<b>575 048</b>	<b>56 139</b>
<b>Financial liabilities at amortised cost:</b>				
– Provision for allocation by Distributing Agencies	284 675	–	–	284 675
– Trade payables from exchange transactions	15 076	–	–	15 076
<b>Total financial liabilities</b>	<b>299 751</b>	<b>–</b>	<b>–</b>	<b>299 751</b>
<b>As at 31 March 2018</b>				
<b>Financial instruments at amortised cost:</b>				
Unlisted:				
– Money market securities	5 213	5 213	–	–
– Capital market securities	1 626 149	1 626 149	–	–
– Trade and other receivables from exchange transactions	11 531	–	–	11 531
– Trade and other receivables from non-exchange transactions	24 745	–	–	24 745
<b>Financial instruments at fair value:</b>				
– Cash and cash equivalents	535 427	163 085	372 305	37
– Equity intrinsic value	6 362	–	–	6 362
<b>Total financial assets</b>	<b>2 209 426</b>	<b>1 794 446</b>	<b>372 305</b>	<b>42 675</b>
<b>Financial liabilities at amortised cost:</b>				
– Provision for allocation by Distributing Agencies	580 368	–	–	580 368
– Trade payables from exchange transactions	14 176	–	–	14 176
<b>Total financial liabilities</b>	<b>594 543</b>	<b>–</b>	<b>–</b>	<b>594 543</b>

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 26. Management of financial risk (continued)

#### 26.1 Financial assets and liabilities

##### 26.1.1 Market risk (continued)

	Company			
	Carrying amount R'000	Fixed R'000	Floating R'000	Non-interest bearing R'000
<b>As at 31 March 2019</b>				
<b>Financial instruments at amortised cost:</b>				
Unlisted:				
– Trade and other receivables from exchange transactions	2 231	–	–	2 231
<b>Financial instruments at fair value:</b>				
– Cash and cash equivalents	21 462	–	21 424	38
<b>Total financial assets</b>	<b>38 769</b>	<b>15 076</b>	<b>21 424</b>	<b>2 269</b>
<b>Financial liabilities at amortised cost:</b>				
– Trade payables from exchange transactions	14 807	–	–	14 807
<b>Total financial liabilities</b>	<b>14 807</b>	<b>–</b>	<b>–</b>	<b>14 807</b>
<b>As at 31 March 2018</b>				
<b>Financial instruments at amortised cost:</b>				
Unlisted:				
– Trade and other receivables from exchange transactions	2 493	–	–	2 493
<b>Financial instruments at fair value:</b>				
– Cash and cash equivalents	9 986	–	9 949	37
<b>Total financial assets</b>	<b>12 479</b>	<b>–</b>	<b>9 949</b>	<b>2 530</b>
<b>Financial liabilities at amortised cost:</b>				
– Trade payables from exchange transactions	13 357	–	–	13 357
<b>Total financial liabilities</b>	<b>13 357</b>	<b>–</b>	<b>–</b>	<b>13 357</b>

<sup>^</sup> Financial instruments previously included balances for deposits and prepayments provisions. These are no longer disclosed as financial instruments as they are not financial instruments.

<sup>^^</sup> Financial instruments disclosure for the prior years were made only for the Group. The Company information has been reported.

##### 26.1.2 Credit risk

Key areas where the Company and Group is exposed to credit risk:

- Financial investments comprising equity market instruments entered to invest surplus funds; and
- Cash and cash equivalents.

The Company and Group is exposed to credit risk in a form of equity market instruments that are invested with the various institutions.

	Group					
	Total R'000	AAA R'000	AA+ AA AA– R'000	A+ A A– R'000	BBB BBB+ R'000	Not rated R'000
<b>As at 31 March 2019</b>						
<b>Financial instruments at amortised cost:</b>						
Unlisted:						
– Money market securities	–	–	–	–	–	–
– Capital market securities	1 498 698	–	–	–	1 498 698	–
<b>Financial instruments at fair value:</b>						
– Cash and cash equivalents	575 087	–	–	–	575 087	–
– Equity intrinsic value	9 256	–	–	–	9 256	–
	<b>2 083 041</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2 083 041</b>	<b>–</b>

## 26. Management of financial risk (continued)

### 26.1 Financial assets and liabilities (continued)

#### 26.1.2. Credit risk (continued)

Group						
Total R'000	AAA R'000	AA+ AA AA– R'000	A+ A A– R'000	BBB BBB+ R'000	Not rated R'000	
<b>As at 31 March 2018</b>						
<b>Financial instruments at amortised cost:</b>						
Unlisted:						
– Money market securities	5 213	–	–	–	5 213	–
– Capital market securities	1 626 149	–	–	–	1 626 149	–
<b>Financial instruments at fair value:</b>						
– Cash and cash equivalents	535 427	–	–	–	535 427	–
– Equity intrinsic value	6 362	–	–	–	6 362	–
<b>2 166 789</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2 166 789</b>	<b>–</b>	
<b>Company</b>						
Total R'000	AAA R'000	AA+ AA AA– R'000	A+ A A– R'000	BBB BBB+ R'000	Not rated R'000	
<b>As at 31 March 2019</b>						
<b>Financial instruments at fair value:</b>						
– Cash and cash equivalents	<b>21 462</b>	–	–	–	<b>21 462</b>	–
<b>21 462</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>21 462</b>	<b>–</b>	
<b>Company</b>						
Total R'000	AAA R'000	AA+ AA AA– R'000	A+ A A– R'000	BBB BBB+ R'000	Not rated R'000	
<b>As at 31 March 2018</b>						
<b>Financial instruments at fair value:</b>						
– Cash and cash equivalents	9 986	–	–	–	9 986	–
<b>9 986</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9 986</b>	<b>–</b>	

Credit risk relating to receivables

R'000	Group		Company	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
Ithuba (Pty) Ltd	36 548	24 745	–	–
Beneficiaries	1 431	8 536	–	–
Staff receivables and other receivables from exchange transactions	5 182	11 531	2 231	2 493
	<b>43 161</b>	<b>44 812</b>	<b>2 231</b>	<b>2 493</b>

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 26.1.2. Credit risk (continued)

The ageing of the components of trade and receivables was:

	Group			
	Gross 31 March 2019 R'000	Impairment 31 March 2019 R'000	Gross 31 March 2018 R'000	Impairment 31 March 2018 R'000
Within a year	41 730	–	36 276	–
Later than one year	1 431	(1 431)	8 536	(8 536)
<b>Total</b>	<b>43 161</b>	<b>(1 431)</b>	<b>44 812</b>	<b>(8 536)</b>

	Company			
	Gross 31 March 2019 R'000	Impairment 31 March 2019 R'000	Gross 31 March 2018 R'000	Impairment 31 March 2018 R'000
Within a year	2 231	–	2 493	–
Later than one year	–	–	–	–
<b>Total</b>	<b>2 231</b>	<b>–</b>	<b>2 493</b>	<b>–</b>

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

	Group		Company	
	31 March 2019 R'000	31 March 2018 R'000	31 March 2019 R'000	31 March 2018 R'000
Balance at the beginning of the year	8 536	9 767	–	–
Movement in provision	(7 105)	(1 231)	–	–
<b>Balance at the end of the year</b>	<b>1 431</b>	<b>8 536</b>	<b>–</b>	<b>–</b>

### 26.1.3. Liquidity risk

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

	Group		Company	
	Total R'000	Within a year R'000	Total R'000	Within a year R'000
<b>As at 31 March 2019</b>				
Provision for allocation by Distributing Agencies	284 675	284 675	–	–
<b>Total</b>	<b>284 675</b>	<b>284 675</b>	<b>–</b>	<b>–</b>
<b>As at 31 March 2018</b>				
Provision for allocation by Distributing Agencies	580 368	580 368	–	–
<b>Total</b>	<b>580 368</b>	<b>580 368</b>	<b>–</b>	<b>–</b>

\* Liquidity risk disclosure for the prior years were made only for the Group. The Company information has been reported.

## 27. Prior year error

### Good and services – Company

- During the current financial year it was discovered a month's insurance expense amounting to R158 949,93 was erroneously accounted twice in the 2017/18 financial year.

### Revenue from non-exchange transactions

- During the current financial year it was discovered that prizes amounting to R22 412 591,86 had expired during the financial year ended 2017 and were therefore due to the NLDTF.
- During the current financial period, the NLC implemented the recommendations of the AGSA from the 2017/18 financial audit to consolidate the NLPT. The NLPT was founded by the National Lottery Operator [herein Ithuba Holdings (RF) (Pty) Ltd in terms of the licence agreement between the dti, the NLC and the National Lottery Operator. The main objective of the NLPT is to hold monies in the Trust on behalf of Ithuba for prize winners and monies for advanced plays. Independent Trustees are charged with the responsibility to ensure that monies held in the Trust are safeguarded in terms of the Trust Deed. The impact of the consolidation is explained below:

### Good and services

- The expenses of the trust, namely audit fees, trustee remuneration and bank charges were consolidated in the financial statements of the NLC.

### Interest income

- Interest received for the trust was consolidated into the financial statements of the NLC.

### Administrative expenses

- Expenses for the administration of the trust were consolidated into the financial statements of the NLC.

### Trade and other payables from exchange transactions

- The liabilities relating to Unclaimed Prizes and Unclaimed Funds due to Ithuba Holdings RF (Pty) Ltd, Advance Sales due to winners and Advance Sales due to Ithuba Holdings RF (Pty) Ltd were included in the consolidated financial statements.

### Cash and cash equivalents

- Cash and cash equivalents of the NLPT related to the Advance and Online Play account, Expired Account, Interest Account and Prize Money Account were consolidated in the financial statements of the NLC.

### Trade and other receivables from non-exchange transactions

- The receivables related to unclaimed prizes and interest from the Participants Trust were eliminated in the NLC consolidated financial statements.

	Group		Company	
	Year ended 31 March 2018 R'000	Year ended 31 March 2017 R'000	Year ended 31 March 2018 R'000	Year ended 31 March 2017 R'000
The impact of the correction of errors is as follows:				
Increase/(decrease) in Fund revenue	(819)	22 413	–	–
Increase/(decrease) in interest income	4 044	4 041	–	–
Increase in goods and services	(204)	(1 209)	159	–
Increase in administrative expenses	(3 681)	(2 832)	–	–
<b>Increase in statement of financial performance</b>	<b>(660)</b>	<b>22 413</b>	<b>159</b>	<b>–</b>
Increase/(decrease) in trade and other payables from non-exchange transactions	(271 488)	(280 474)	(159)	–
Increase in cash and cash equivalents	323 718	366 712	–	–
Decrease in trade and other receivables from non-exchange transactions	(52 888)	(63 825)	–	–
<b>Increase in net assets</b>	<b>(660)</b>	<b>22 413</b>	<b>(159)</b>	<b>–</b>

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 28. Taxation

The National Lotteries Commission is exempt from income tax in terms of Section 10(1)(cA) of the Income Tax Act, 1962.

### 29. Contingent asset

During the 2016/17 financial year an amount was deducted by SARS from the bank account of the NLC. The NLC has disputed the amount as it was incorrectly deducted. The first dispute was in favour of the NLC and SARS reversed penalties that were incorrectly charged, however the interest thereon was not reversed. The NLC has disputed the interest charged and SARS has initiated the process and is awaiting approval of the refund. The amount of interest being disputed is R5 million.

### 30. Events after reporting date

The NLPT engaged National Treasury on 9 April 2019 regarding the applicability of the Public Finance Management Act, No. 1 of 1999 (PFMA) in relation to the NLPT. National Treasury concluded on 26 June 2019 that the NLPT was created by a private company, Ithuba Holdings (RF) (Pty) Ltd, as required by the licence agreement and is not under the control of the NLC. Furthermore, the NLPT is not a subsidiary of the NLC. Based on this National Treasury concluded that the NLPT is not an institution which the PFMA as amended applies. The Auditor General of South Africa (AGSA) was informed of this outcome and on 16 July 2019 confirmed that they agree with the conclusion of National Treasury and further stated that the funding model of the NLPT is such that it's not funded from the National Revenue Fund as no legislation specifies that the NLPT receives money for a public purpose. The AGSA is currently determining the applicability of section 4(3)(b)(ii) of the Public Audit Act.

### 31. Contingent liabilities

The claims against the NLDTF relate to pending cases against beneficiaries to the organisation.

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Legal fees	–	–	–	–
<b>Contingent liability at the end of the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

### 32. 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	1 487 581	1 487 581	–	No adjustments to budget
Revenue from Participants Trust	170 072	170 072	–	No adjustments to budget
Investments and interest received	126 127	126 127	–	No adjustments to budget
Licence fees	2 500	2 500	–	No adjustments to budget
Sundry income	1 000	1 000	–	No adjustments to budget
Society lotteries	60	60	–	No adjustments to budget
Employee costs	(276 581)	(276 581)	–	No adjustments to budget
Allocation of grants	(1 250 709)	(1 250 709)	–	No adjustments to budget
Goods and services	(213 189)	(213 189)	–	No adjustments to budget
Depreciation and amortisation	(10 387)	(10 387)	–	No adjustments to budget
Capital acquisitions	(63 405)	(63 405)	–	No adjustments to budget



### 33. 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	494 990	494 990	–	No adjustments to budget
Licence fees	2 500	2 500	–	No adjustments to budget
Interest income	442	442	–	No adjustments to budget
Society lotteries	60	60	–	No adjustments to budget
Employee costs	(276 581)	(276 581)	–	No adjustments to budget
Goods and services	(211 024)	(211 024)	–	No adjustments to budget
Depreciation and amortisation	(10 387)	(10 387)	–	No adjustments to budget
Capital acquisitions	(63 405)	(63 405)	–	No adjustments to budget

### 34. Distributing agency fees – sports and recreation Group and Company

Members	Members' fees R'000	Travel costs R'000	Professional fees R'000	Total 2019 R'000	Total 2018 R'000
Dr JH Adams	269	22	120	411	241
Mr RR Mali	384	68	241	693	609
Mr ME Ncula	595	21	415	1 032	689
Ms A Hill	312	24	103	439	350
Ms R Ravele	324	18	116	458	396
Mr TA Sikhosana	282	–	100	382	302
Ms A van Wieringen	–	–	–	–	13
Ms J Krubavathi	101	7	89	197	169
<b>Total</b>	<b>2 268</b>	<b>161</b>	<b>1 184</b>	<b>3 613</b>	<b>2 769</b>

### 35. Executive managements emoluments Group and Company

Executives	Basic salary R'000	Provident fund and risk contributions R'000	Travel allowance R'000	Cell phone allowance R'000	Performance bonus R'000	Total 2019 R'000	Total 2018 R'000
Mrs T Mampane Commissioner	2 925	55	144	–	472	3 596	3 382
Mr P Letwaba Chief Operations Officer	2 346	393	120	48	447	3 353	3 003
Ms X Ntuli Chief Financial Officer	1 651	231	–	48	251	2 181	2 518
Mr M Ramusi Chief Information Officer	2 334	343	120	48	405	3 250	2 951
Ms T Nkuna Executive: Regulatory Compliance	1 923	37	156	48	307	2 471	2 252
Mr T Maselwa Executive Manager: Legal	1 533	214	–	48	238	2 033	543
Adv. M Nene Company Secretary	1 533	214	–	55	238	2 040	543
Ms M Makoela Executive: Corporate Services**	–	–	–	–	–	–	818
Mr J du Preez Senior Executive: Grant Funding*	–	–	–	–	–	–	818
<b>Total</b>	<b>14 245</b>	<b>1 488</b>	<b>540</b>	<b>295</b>	<b>2 356</b>	<b>18 925</b>	<b>16 829</b>

\* The contract of Mr J du Preez came to and end on 9 April 2017

\*\* The contract of Ms M Makoela came to and end on 30 June 2017

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 36. Board of Trustee's emoluments Group and Company

Members	Members' fees R'000	Travel costs R'000	<b>Total 2019 R'000</b>	Total 2018 R'000
Ms MT Ramuedzisi	180	–	<b>180</b>	95
Mr A Mahlalutye*	180	–	<b>180</b>	–
Adv LT Nevondwe	280	88	<b>368</b>	208
Adv W Huma	–	–	<b>–</b>	40
Mr P Letwaba**	–	–	<b>–</b>	–
Adv E Mabuza***	–	–	<b>–</b>	–
<b>Total</b>	<b>640</b>	<b>88</b>	<b>728</b>	<b>343</b>

\* The contract for Mr A Mahlalutye commenced on 1 February 2018

\*\* Mr P Letwaba is a representative of NLC (as Regulator) and is not remunerated

\*\*\* Adv. E Mabuza is a representative of Ithuba (as an Operator) and is not remunerated

### 37. Board members emoluments Group and Company

The following fees were paid to or receivable by the Board of Directors and Committee Members during the year under review:

Members	Board meeting fees R'000	Travel costs R'000	Cell phone allowance R'000	<b>Total 2019 R'000</b>	Total 2018 R'000
Prof NA Nevhutanda	1 468	103	21	<b>1 591</b>	1 366
Ms M Mokoka*	–	–	–	<b>–</b>	32
Ms NEP Loyilane	–	–	–	<b>–</b>	6
Prof G Reddy*	–	–	–	<b>–</b>	36
Adv TS Kekana	719	40	12	<b>771</b>	406
Mr A Cowell*	–	–	–	<b>–</b>	14
Adv WE Huma**	823	36	14	<b>873</b>	691
Prof Y Gordhan**	1 030	51	14	<b>1 095</b>	789
Dr M Madzivhandila**	1 087	92	14	<b>1 193</b>	913
Ms D Dondur**	1 141	53	13	<b>1 207</b>	703
Mrs Z Brown^	–	–	–	<b>–</b>	23
<b>Total</b>	<b>6 268</b>	<b>375</b>	<b>86</b>	<b>6 729</b>	<b>4 979</b>

\* 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 (RF) (Pty) Ltd is a private company that currently operates the National Lottery under licence from 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 National Lottery Operator pays a percentage of ticket sales to the NLDTF in terms of the license agreement. These proceeds are destined for good causes as specified in the Lotteries Act. The NLC manages the NLDTF and accounts for all running costs. Furthermore, the NLC may, upon request by the Minister, Board or on its own initiative in consultation with the Board, conduct research on worthy good causes that may be funded without lodging an application prescribed in terms of the Lotteries Act. The NLC withdraws the necessary funds required from the NLDTF, based on an overall annual budget approved by the Minister of Trade and Industry. The National Lotteries Participants Trust (NLPT) was founded by the National Lottery Operator Ithuba Holdings (RF) (Pty) Ltd in terms of the licence agreement. The main objective of the NLPT is to hold monies in the Trust for prize winners and monies for advanced plays. Independent Trustees are charged with the responsibility to ensure that monies held in the Trust are safeguarded in terms of the Trust Deed.

## 38. Related party transactions (continued)

	Group		Company	
	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>38.1 Transactions between the NLDTF and other parties</b>				
Transfers from the NLDTF – (Actual payments to the NLC amounted to R500 million for the current year (2017/18 R433 million))	–	–	<b>459 016</b>	426 687
Receivables from non-exchange transactions – the NLC	–	–	<b>142 835</b>	100 732
<b>Ithuba Holdings (Pty)Ltd</b>				
Proceeds from Ithuba (Pty) Ltd	<b>1 626 291</b>	1 391 939	–	–
Add: Trade and other receivables from non-exchange (opening)	<b>24 745</b>	28 056	–	–
Less: Trade and other receivables from non-exchange (closing)	<b>(36 548)</b>	(24 745)	–	–
Add: Unclaimed prizes and advanced days for Ithuba (opening)	<b>(270 829)</b>	256 363	–	–
Less: Unclaimed prizes and advanced days for Ithuba (closing)	<b>(277 346)</b>	270 829	–	–
Cash proceeds from Ithuba (Pty) Ltd	<b>1 066 313</b>	1 922 442	–	–
<b>Gidani (Pty) Ltd</b>				
Proceeds from Gidani (Pty) Ltd	–	36 665	–	–
	–	36 665	–	–
<b>National Lotteries Participants Trust (NLPT)</b>				
Revenue from the NLPT	<b>200 278</b>	204 390	–	–
Add: Trade and other receivables from non-exchange transactions (opening)*	<b>53 664</b>	40 683	–	–
Less: Trade and other receivables from non-exchange transactions (closing)	<b>(67 971)</b>	(53 664)	–	–
Cash proceeds	<b>185 971</b>	191 409	–	–
<b>38.2 Controlling entity</b>				
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	<b>1 290</b>	170	<b>1 290</b>	170
<b>38.3 Entities under common control</b>				
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	–	–	–	–

\* During the current financial year it was discovered that the opening balance was erroneously disclosed as R4.355 million instead of R40.685 million in the disclosure of note 22.2 of the 2017/18 consolidated annual financial statements

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 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 their ability to adjudicate impartially do not adjudicate on 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 2018/19 R'000	Payments 2018/19 R'000	Revocations 2018/19 R'000	Amount owing 2018/19 R'000	Amount owing 2017/18 R'000
SRDA	Athletics South Africa	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	6 112	-	-	6 112
SRDA	Athletics Free State	Mr Skhosana and Dr Adams*	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	-	-	500	500
SRDA	Athletics Mpumalanga	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	2 000	-	500	2 500
SRDA	Athletics North West	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	382	-	-	382
SRDA	Western Province Athletics	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	1 102	-	-	1 102
SRDA	Athletics Gauteng North	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	210	-	-	210
SRDA	Central Gauteng Athletics	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	500	-	-	500
SRDA	Boland Athletics Western Cape	Dr Adams	President of the organisation	2 111	1 800	-	311	-
SRDA	Eastern Provincial Athletics	Mr Skhosana and Dr Adams	The Eastern Provincial Athletics is affiliated to Athletics South Africa of which Mr Skhosana is the president and Dr Adams is the Deputy President	750	550	-	200	-
SRDA	Athletics Vaal Triangle	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	370	-	-	370

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 2018/19 R'000	Payments 2018/19 R'000	Revocations 2018/19 R'000	Amount owing 2018/19 R'000	Amount owing 2017/18 R'000
SRDA	MAVU	Ms M Ravele and Ms A Hill	Ms M Ravele and Ms A Hill (Chairperson of Assisted Organisation – South African Women and Sports Foundation)	-	2 000	-	2 000	4 000
SRDA	Park Tennis Club	Ms M Ravele	Ms Ravele used to be Chairperson of Wheelchair Tennis SA which is affiliated to Tennis SA where Ms Ravele is also a Board Director	150	150	-	-	-

# Report of the Auditor-General to Parliament on the National Lottery Distribution Trust Fund

## Report on the audit of the separate financial statements

### Opinion

1. I have audited the separate financial statements of the National Lottery Distribution Trust Fund set out on pages 146 to 165, which comprise the statement of financial position as at 31 March 2019, 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 2019, and its 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).

### Basis for opinion

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 [type of auditee/ group] in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* 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 codes.
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 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 Lottery 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 appropriate governance structure either intends to liquidate the fund 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

10. In terms of section 55(2)(a) of the PFMA, the fund is required to prepare an annual performance report. The performance information of the fund was reported in the annual performance report of the National Lotteries Commission. The usefulness and reliability of the reported performance information was tested as part of the audit of the National Lotteries Commission. No audit findings were raised.

## Report on the audit of compliance with legislation

### Introduction and scope

11. 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 fund with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
12. 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.

# Report of the Auditor-General to Parliament on the National Lottery Distribution Trust Fund

(continued)

## Other information

13. 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 objective presented in the annual performance report that have been specifically reported in this auditor's report.
14. My opinion on the financial statements and 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.
15. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
16. If based on the work performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
17. I did not receive the other information prior to the date of the of this auditor's report. When I do receive and read the information, if I could conclude that there is material misstatements therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

18. 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 2019

## 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 objective 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 accounting authority
  - conclude on the appropriateness of 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 Lottery 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 a fund 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.



# Statement of financial performance

## for the year ended 31 March 2019

	Note	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>REVENUE</b>		<b>1 981 249</b>	1 782 569
<b>Revenue from non-exchange transactions</b>		<b>1 826 568</b>	1 596 329
Fund revenue	1	<b>1 826 568</b>	1 596 329
<b>Revenue from exchange transactions</b>		<b>154 681</b>	186 239
Investment and interest income	2	<b>136 190</b>	178 257
Other operating income	3	<b>10 521</b>	1 621
Fair value adjustment – investment	4	<b>7 969</b>	6 362
<b>EXPENDITURE</b>		<b>(1 745 381)</b>	(1 838 925)
Grants allocated	5	<b>(1 261 421)</b>	(1 394 060)
Transfers to the NLC	6	<b>(459 016)</b>	(426 527)
Administrative expenses	7	<b>(7 051)</b>	(663)
Operating expenses	8	<b>(17 893)</b>	(17 675)
<b>Surplus/(deficit) for the year</b>		<b>235 868</b>	(56 356)

# Statement of financial position

## as at 31 March 2019

	Note	31 March 2019 R'000	31 March 2018 Restated R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets – long-term investments	9	1 507 954	1 632 511
<b>Current assets</b>			
Financial assets – short-term investments	9	–	5 213
Trade and other receivables from exchange transactions	10	1 274	7 443
Trade and other receivables from non-exchange transactions	11	247 414	179 302
Cash and cash equivalents	12	209 725	201 723
		458 413	393 681
<b>Total assets</b>		<b>1 966 367</b>	<b>2 026 193</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Provision for allocations by distributing agencies	13	284 675	580 368
Trade and other payables from non-exchange transactions	14	62	62
		284 737	580 430
<b>Total liabilities</b>		<b>284 737</b>	<b>580 430</b>
Net assets			
Accumulated funds		1 681 630	1 445 762
<b>Total net assets and liabilities</b>		<b>1 966 367</b>	<b>2 026 193</b>

# Statement of changes in net assets

## for the year ended 31 March 2019

	Note	Accumulated Surplus R'000
<b>Restated balance as at 31 March 2016</b>		<b>1 351 714</b>
<b>Restated surplus for the year</b>		<b>150 404</b>
Surplus for the year reported in 2016/17		127 992
Prior period error	17	22 413
<b>Restated balance as at 31 March 2017</b>		<b>1 502 118</b>
Restated surplus for the year		(56 356)
Deficit for the year reported in 2017/18		(55 697)
Prior period error		(660)
Balance as at 31 March 2018		<b>1 445 762</b>
Surplus for the year		235 868
<b>Balance as at 31 March 2019</b>		<b>1 681 630</b>

# Statement of cash flows

## for the year ended 31 March 2019

	Note	Year ended 31 March 2019 R'000	Year ended 31 March 2018 R'000
<b>Cash flow from operating activities</b>			
<b>Cash Receipts</b>			
Cash received from Ithuba (RF)(Pty) Ltd and Participants Trust		1 800 398	1 645 308
Interest income		70 023	106 758
Cash received from beneficiaries and other parties		3 566	1 257
		<b>1 873 987</b>	<b>1 753 323</b>
<b>Cash Payments</b>			
Cash paid to beneficiaries and other parties		(2 076 061)	(2 524 686)
		<b>(2 076 061)</b>	<b>(2 524 686)</b>
<b>Net cash utilised in operating activities</b>	15	<b>(202 073)</b>	<b>(771 363)</b>
<b>Cash flow from investing activities</b>			
Net redemption/(investment) of financial assets		210 075	436 054
<b>Net cash flows generated from investing activities</b>		<b>210 075</b>	<b>436 054</b>
Net increase in cash and cash equivalent		8 002	(335 310)
Cash and cash equivalent at the beginning of the year	12	201 723	537 033
<b>Cash and cash equivalent at the end of the year</b>	12	<b>209 725</b>	<b>201 723</b>

# Statement of comparison of budget and actual amounts

for the year ended 31 March 2019

	Approved Budget R'000	Adjustments R'000	Final Budget R'000	Actual Amounts R'000	Difference: Final Budget and Actual R'000
<b>Revenue</b>					
Share of ticket sales	1 487 581	–	1 487 581	1 626 291	138 710
Investment and interest income	120 600	–	120 600	136 190	15 590
Revenue from National Lotteries Participants Trust	170 072	–	170 072	200 278	30 206
Fair value adjustment – investment	–	–	–	7 969	7 969
Other operating income	1 000	–	1 000	10 521	9 521
<b>Total revenue</b>	<b>1 779 253</b>	<b>–</b>	<b>1 779 253</b>	<b>1 981 249</b>	<b>201 996</b>
<b>Expenses</b>					
Allocation of grants	(1 250 709)	–	(1 250 709)	(1 261 421)	(10 712)
Grant allocations – current year	(1 280 709)	–	(1 280 709)	(1 310 296)	(29 587)
Revocations	30 000	–	30 000	48 875	18 875
Operating expenses	–	–	–	(17 893)	(17 893)
Transfers to the NLC	(494 990)	–	(494 990)	(459 016)	35 974
Administrative expenses	(55)	–	(55)	(7 051)	(6 997)
<b>Total expenditure</b>	<b>(1 745 754)</b>	<b>–</b>	<b>(1 745 754)</b>	<b>(1 745 381)</b>	<b>373</b>
<b>Surplus/(deficit) for the year</b>	<b>33 499</b>	<b>–</b>	<b>33 499</b>	<b>235 868</b>	<b>202 368</b>

Line Item	Explanation of material variances	Amount
<b>Share of ticket sales</b>	Revenue over-performed by 9% during the current financial year. This was as a result of the introduction of the new Powerball matrix, introduction of the new EaziWin online gaming and higher jackpot prizes which increased participation in the National Lottery. The introduction of the daily Lotto in March boosted sales further. Initiatives such as, amongst others, the launch of the E-commerce platform, National Lottery mobile app and business to business channels increased accessibility of the National Lottery to participants.	138 710
<b>Investment income</b>	The targeted 8% return on investment was achieved. Actual return on investment for the year was 8.42%.	15 590
<b>Fair value adjustment investment</b>	The fair value adjustment is as a result of the Equity Intrinsic movement from the Equity Linked Note.	7 969
<b>Revenue from the National Participants Trust</b>	Revenue from the National Participants Trust includes expired prize monies and interest due to the NLDTF from the Trust. The over performance is due to more expiries than were expected by participants who did not claim prizes.	30 206
<b>Revocations</b>	There were more revocations as a result of the application of the Grants Finance Management Policy. In terms of the policy, revocations are distributed back to the relevant sector.	18 875
<b>Other operating income</b>	Other operating income consists of unspent amounts returned by beneficiaries and the movement in the provision for doubtful debts.	9 521
<b>Grant allocations</b>	The variance was sufficiently covered and funded from revocations which amounted to R47.8 million during the year under review as per the Grants Finance Management Policy.	(29 587)
<b>Operating expenses (professional fees)</b>	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.	(17 893)
<b>Administrative expenses</b>	The administrative expenses mainly constitute bad debts written off.	(6 997)
<b>Transfers to the NLC</b>	The variance is mainly driven by the items below: <ul style="list-style-type: none"> <li>– Staff Training – The roll out of the Monitoring and Evaluation (M &amp; E) programme has been deferred to 2019/20.</li> <li>– Travel and Accommodation – The deferral of the M &amp; E program to 2019/20 resulted in savings in the travel and accommodation that was budgeted for by Provinces.</li> <li>– Advertising and Publicity – The Provincial Office launches will materialise in 2019/20 upon completion of refurbishment of provincial properties. The NLC turns 20 year's campaign which was budgeted for in the current period will only commence in 2019/20.</li> </ul>	35 974

# Summary of significant accounting policies

## for the year ended 31 March 2019

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 the 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 SA GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the 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 11 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	
IGRAP 18: Recognition and Derecognition of Land	None	
IGRAP 19: Liabilities to Pay Levies	None	
Guideline: Accounting for Arrangements Undertaken in terms of the National Housing Programme	None	

The 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 revenue, namely revenue from exchange transactions and revenue from non-exchange transactions.

Revenue from exchange transactions is defined as revenue in which the 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 the 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 license agreement with the National Lottery Operator.

# Summary of significant accounting policies (continued)

## for the year ended 31 March 2019

### 2.3 Expired and unclaimed prizes

Expired and unclaimed prizes relate to prizes in constituent lotteries (not being an Instant Lottery) which remain unclaimed for a period of 365 days following the draw in which the prize was won as stipulated in the license 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 National Lotteries Participants Trust.

### 2.4 Interest from the National Lotteries Participant's Trust

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

## 3. Financial assets

The 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.

The NLDTF's investments are classified at amortised cost and consist of money market securities.

The NLDTF will derecognise a financial asset when:

- (a) the contractual rights to the cash flows from the financial asset expire, are settled or are waived;
- (b) The NLDTF transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- (c) The NLDTF, 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 consist of:

- investments;
- receivables from exchange transaction; and
- receivables from non-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 consist of cash and cash equivalents and the equity intrinsic value of investments (refer to note 5).

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

The 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 the NLDTF, including:
  - adverse changes in the payment status of issuers or debtors of the NLDTF; and
  - national or local economic conditions that correlate with defaults on the assets of the NLDTF.

The NLDTF first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the 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, and 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.

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.

# Summary of significant accounting policies (continued)

## for the year ended 31 March 2019

### 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 quarterly reporting of risk management.

#### 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, the 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 an interest expense.

### 8. Contingent liabilities

The 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 recognized 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 statements, however it is disclosed unless the probability of an outflow of economic benefits is remote.

### 9. Allocation of grants

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

Revocations will be triggered if there is a breach of Grant Agreement, voluntary cancellation of the Grant Agreement by the funded organisation due to various reasons or, cancellation due to identification and/or determination of irregularities from the organisation.

### 10. Comparison of the approved budget and actual amounts

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives. The approved budget covers the financial year from 2018/04/01 to 2019/03/31. The budget for the economic entity includes all the entities' approved budgets under its control. The annual financial statements and the budget are on the same basis of accounting, therefore a comparison with the budgeted amounts for the reporting period has been included in the statement of comparison of budget and actual amounts.

## 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 events 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 and in which distributing agencies may have a significant interest. Disclosures made include payments, allocations in the current year and amounts outstanding at year end.

### 11.2 Contingent liability

Contingent liabilities are not recognised in the financial statements, but are disclosed in the notes to the financial statements unless the probability of occurrence is remote.

### 11.3 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.

### 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;
- the Treasury regulations;
- a National Treasury instruction, issued in terms of section 76 of 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 impracticability 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.

## 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.

# Summary of significant accounting policies (continued)

## for the year ended 31 March 2019

### 14. Financial liabilities

The NLDTF classifies its financial liabilities in the following category:

- financial liabilities at amortised cost.

#### 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 liability.

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

Financial liabilities at amortised cost consist of:

- provision for allocation by distributing agencies; and
- 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 a 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 is waived.

# Notes to the financial statements

## for the year ended 31 March 2019

	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>1. Fund revenue</b>		
Share of ticket sales	1 626 291	1 391 939
Interest earned on unclaimed and expired prizes – National Lotteries Participant Trust	13 285	16 670
Expired and unclaimed prizes	186 993	187 720
	<b>1 826 568</b>	<b>1 596 329</b>
<b>2. Investment and interest income</b>		
Interest from call and current accounts	4 608	2 171
Investment income	131 582	176 086
	<b>136 190</b>	<b>178 257</b>
<b>3. Other operating revenue</b>		
Sundry income*	3 416	390
Movement in the provision for doubtful debt	7 105	1 231
	<b>10 521</b>	<b>1 621</b>
* Sundry income mainly consists of unspent amounts returned by beneficiaries.		
<b>4. Fair value adjustment – investment</b>		
Fair value adjustment – investment	7 969	6 362
	<b>7 969</b>	<b>6 362</b>
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.		
<b>5. Allocation of grants</b>		
Current year allocations	1 310 296	1 506 013
Revocations	(48 875)	(111 953)
	<b>1 261 421</b>	<b>1 394 060</b>
<b>6. Transfers and subsidies paid to NLC</b>		
Payments from fund in respect of expenses	459 016	426 527
	<b>459 016</b>	<b>426 527</b>
<b>7. Administrative expenses</b>		
Bank charges	89	82
Management fees	7	99
Loss from financial instruments	–	65
Debtors written off	6 955	416
	<b>7 051</b>	<b>663</b>
Debtors written off mainly relates to funds which were written off mainly due to prescription period.		
<b>8. Operating expenditure</b>		
Professional fees	17 893	17 675
	<b>17 893</b>	<b>17 675</b>

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>9. Financial assets</b>		
Investment in financial assets are summarised by measurement category below:		
Financial assets at amortised cost:		
– Money market securities	–	5 000
– Capital market securities	1 100 000	1 300 000
– Accrued interest	398 698	326 362
Financial assets at fair value		
– Equity Intrinsic Value	9 256	6 362
Total investment	1 507 954	1 637 724
Current	–	5 213
Non-current	1 507 954	1 632 511
	1 507 954	1 637 724
<b>Maturity profile:</b>		
Money market securities are in the form of fixed deposits with maturity dates greater than three months but no more than twelve 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 8.42% (2018: 8.40%).		
<b>10. Trade and other receivables</b>		
<b>Trade and other receivables from exchange transactions:</b>		
<b>Accrued income</b>	1 274	7 443
– Interest receivable on current and call accounts	1 274	216
– Interest receivable on short-term investments	–	7 227
<b>Claims from beneficiaries</b>	–	–
– Gross amount claimed	1 431	8 536
– Provision for doubtful claim recovery from beneficiaries	(1 431)	(8 536)
<b>Total</b>	1 274	7 443
Current	1 274	7 443
Non-current	–	–
	1 274	7 443
<b>11. Trade and other receivables from non-exchange transactions:</b>		
<b>Accrued income</b>		
– Interest receivable from the National Lotteries Participants Trust	21 591	8 306
– Expired and unclaimed prizes – the National Lotteries Participant Trust	46 440	45 358
– Accounts receivable: the NLC	142 835	100 892
– Share of ticket sales	36 548	24 745
<b>Total</b>	247 414	179 302
Current	247 414	179 302
	247 414	179 302
<b>12. Cash and cash equivalents</b>		
Cash at bank – current account	29 724	38 180
Cash at bank – call account	180 000	458
Fixed deposits with maturity dates less than three months	–	163 085
<b>Total per statement of financial position</b>	209 725	201 723
None of the cash balances are pledged or secured.		

	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>13. Provision for allocation by distributing agencies</b>		
Opening balance	580 368	1 259 822
Additional provision made during the period (including increases to existing provisions)	1 310 296	1 506 013
Payments made during the period	(1 557 114)	(2 073 514)
Revocations	(48 875)	(111 953)
<b>Closing balance</b>	<b>284 675</b>	<b>580 368</b>
Current	284 675	580 368
	284 675	580 368
Payments 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.		
<b>14. Trade and other payables from non-exchange transactions</b>		
Unallocated funds	62	62
	62	62
<b>15. Cash flow information</b>		
<b>Cash generated by operations</b>		
Surplus/(deficit) per the statement of financial performance	235 868	(56 356)
<b>Adjusted for:</b>		
<b>Non-cash items:</b>		
Provision for bad debts	(7 105)	(1 231)
Debtors written off	6 955	416
Fair value adjustment – investment	(7 969)	(6 362)
	227 749	(63 533)
<b>Working capital changes</b>		
– Increase in trade and other receivables	(134 129)	(27 947)
– Decrease in provision for allocation of distribution agency	(295 693)	(679 454)
– Increase in trade and other payables	–	(429)
	(202 073)	(771 363)

## 16. Management of financial 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 the 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 the NLDTF as follows:

- 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 the 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.



# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 16. Management of financial risk (continued)

	Total R'000	Financial Assets and Liabilities R'000
<b>As at 31 March 2019</b>		
<b>Financial assets at amortised cost:</b>		
Unlisted:		
– Capital market securities	1 498 698	1 498 698
– Trade and other receivables from exchange transactions	1 274	1 274
– Trade and other receivables from non-exchange transactions	247 414	247 414
<b>Financial assets at fair value:</b>		
– Cash and cash equivalents	209 725	209 725
– Equity intrinsic value	9 256	9 256
<b>Total assets</b>	<b>1 966 367</b>	<b>1 966 367</b>
Financial liabilities at amortised costs:		
Provision for allocation by distributing agencies	284 675	284 675
Trade payables from non-exchange transactions	62	62
<b>Total liabilities</b>	<b>284 737</b>	<b>284 737</b>
<b>As at 31 March 2018 (Restated)</b>		
<b>Financial assets at amortised cost:</b>		
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	179 302	179 302
<b>Financial assets at fair value:</b>		
Cash and cash equivalents	201 723	201 723
Equity intrinsic value	6 362	6 362
<b>Total assets</b>	<b>2 026 192</b>	<b>2 026 192</b>
<b>Financial liabilities at amortised costs:</b>		
Provision for allocation by distributing agencies	580 368	580 368
Trade and other payables from non-exchange transactions	62	62
<b>Total liabilities</b>	<b>580 430</b>	<b>580 430</b>

## 16.1 Financial assets and liabilities

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

	31 March 2019 R'000	31 March 2018 Restated R'000
<b>Financial assets at amortised cost:</b>		
Unlisted:		
– Money market securities	–	5 213
– Capital market securities	1 498 698	1 626 149
– Trade and other receivables from exchange transactions	1 274	7 443
– Trade and other receivables from non-exchange transactions	247 414	179 302
<b>Financial assets at fair value:</b>		
– Cash and cash equivalents	209 725	201 723
– Equity intrinsic value	9 256	6 362
<b>Total financial assets</b>	<b>1 966 367</b>	<b>2 026 192</b>
<b>Financial liabilities at amortised cost:</b>		
Provision for allocation by distributing agencies	284 675	580 368
<b>Total financial liabilities</b>	<b>284 675</b>	<b>580 368</b>

### 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. The 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
<b>As at 31 March 2019</b>				
<b>Financial assets at amortised cost:</b>				
Unlisted:				
– Capital market securities	1 498 698	1 498 698	–	–
– Trade and other receivable from exchange transactions	1 274	–	–	1 274
– Trade and other receivable from non-exchange transactions	247 414	–	–	247 414
<b>Financial assets at fair value:</b>				
– Cash and cash equivalents	209 724	–	209 724	–
– Equity intrinsic value	9 256	–	–	9 256
<b>Total financial assets</b>	<b>1 957 111</b>	<b>1 498 698</b>	<b>209 724</b>	<b>248 688</b>
<b>Financial liabilities at amortised cost:</b>				
Provision for allocation by distributing agencies	284 675	–	–	284 675
<b>Total financial liabilities</b>	<b>284 675</b>	<b>–</b>	<b>–</b>	<b>284 675</b>
<b>As at 31 March 2018 (Restated)</b>				
<b>Financial assets at amortised cost:</b>				
Unlisted:				
– Money market securities	5 213	5 213	–	–
– Capital market securities	1 626 149	1 626 149	–	–
– Trade and other receivable from exchange transactions	7 443	–	–	7 443
– Trade and other receivable from non-exchange transactions	179 302	–	–	179 302
<b>Financial assets at fair value:</b>				
– Cash and cash equivalents	201 723	163 085	38 638	–
– Equity intrinsic value	6 362	–	–	6 362
<b>Total financial assets</b>	<b>2 026 192</b>	<b>1 794 447</b>	<b>38 638</b>	<b>193 107</b>
<b>Financial liabilities at amortised cost:</b>				
Provision for allocation by distributing agencies	580 368	–	–	580 368
<b>Total financial liabilities</b>	<b>580 368</b>	<b>–</b>	<b>–</b>	<b>580 368</b>

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 16. Management of financial risk (continued)

#### 16.1 Financial assets and liabilities (continued)

##### 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
<b>As at March 2019</b>						
<b>Financial assets at amortised cost:</b>						
Unlisted:						
– Capital market securities	1 498 698	–	–	–	1 498 698	–
<b>Financial assets at fair value:</b>						
– Cash and cash equivalents	209 725	–	–	–	209 725	–
– Equity intrinsic value	9 256	–	–	–	9 256	–
	<b>1 717 679</b>	–	–	–	<b>1 717 679</b>	–

Credit risk relating to receivables

	31 March 2019 R'000	31 March 2018 Restated R'000
National Lotteries Participants Trust	68 031	53 664
Ithuba Holdings (Pty) Ltd	36 548	24 745
	<b>104 579</b>	78 410

The ageing of the components of trade and other receivables was as follows:

	Gross 31 March 2019 R'000	Impairment 31 March 2019 R'000	Gross 31 March 2018 R'000	Impairment 31 March 2018 R'000
Within a year	104 579	–	78 410	–
Later than one year	1 431	(1 431)	8 536	(8 536)
<b>Total</b>	<b>106 011</b>	<b>(1 431)</b>	<b>86 946</b>	<b>(8 536)</b>

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

	31 March 2019 R'000	31 March 2018 Restated R'000
Balance at the beginning of the year	8 536	9 767
Movement in provision	(7 105)	(1 231)
Balance at the end of the year	<b>1 431</b>	8 536

##### 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
<b>At 31 March 2019</b>		
Provision for allocation by distributing agencies	284 675	284 675
<b>Total</b>	<b>284 675</b>	<b>284 675</b>
<b>At 31 March 2018</b>		
Provision for allocation by distributing agencies	580 368	580 368
<b>Total</b>	<b>580 368</b>	<b>580 368</b>

## 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 it was discovered that prizes amounting to R22 412 591,86 had expired during the financial year ended 31 March 2017 and therefore due to the NLDTF.
- During the current financial year it was discovered a month's insurance expense amounting to R158 949,93 was accounted twice in the 2017/18 financial year.
- Trustee fees were previously not accrued for, however the recommendation by AGSA to consolidate the NLPT required the Trustee fees to be accounted for in 2017/18.

The financial statements have been retrospectively restated.

The impact of the error are as follows:

	2017/18 R'000	2016/17 R'000
• Increase/(decrease) in fund revenue	(819)	22 413
• Increase/(decrease) in transfers to the NLC	159	–
• <b>Increase in statement of financial performance</b>	(660)	22 413
• Increase/(decrease) in trade and other receivables from non-exchange transactions	(660)	22 413
• <b>Increase in net assets</b>	(660)	22 413

## 18. Contingent liabilities

The claims against the NLDTF relate to pending cases against the NLDTF by organisations.

	31 March 2019 R'000	31 March 2018 R'000
Claims against the NLDTF	–	–
<b>Contingent liability at the end of the year</b>	–	–

## 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

No events occurred between the end of the reporting period and the date the financial statements were authorised for issue which would result in an adjustment to the financial statements.

## 21. 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 2018 to 31 March 2019.

	Approved budget R'000	Final budget R'000	Adjustments R'000	Reason for Adjustments
Share of ticket sales	1 487 581	1 487 581	–	No Adjustment to budget
Investment and interest income	120 600	120 600	–	No Adjustment to budget
Revenue from National Lotteries Participant Trust	170 072	170 072	–	No Adjustment to budget
Revocations	30 000	30 000	–	No Adjustment to budget
Other operating income	1 000	1 000	–	No Adjustment to budget
Grant Allocations – Current Year	(1 280 709)	(1 280 709)	–	No Adjustment to budget
Administrative expenses	(55)	(55)	–	No Adjustment to budget
Transfers to the NLC	(494 990)	(494 990)	–	No Adjustment to budget

# Notes to the financial statements (continued)

## for the year ended 31 March 2019

### 22. Related party transactions

The NLC is a regulator of the National Lottery. Ithuba Holdings (RF) (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 National Lottery Operator pays a share of ticket sales to the NLDTF in terms of the licence agreement. These proceeds are destined for good causes as specified in the Lotteries Act. The NLC administers the NLDTF and accounts for all running costs. The NLC withdraws the necessary funds required from the NLDTF, based on an overall annual budget approved by the Minister of Trade and Industry. The National Lotteries Participants Trust (NLPT) was established by the National Lottery Operator [herein Ithuba Holdings RF (Pty) Ltd] in terms of the licence agreement between the dti, NLC and the National Lottery Operator.

	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>22.1 Transactions between the NLDTF and other parties</b>		
<b>22.1.1 Ithuba Holdings (Pty)Ltd</b>		
Revenue from Ithuba Holdings (Pty) Ltd	1 626 291	1 391 939
Add: Trade and other receivables from non-exchange transactions (Opening)	24 745	28 056
Less: Trade and other receivables from non-exchange transactions (Closing)	(36 548)	(24 745)
Cash proceeds	1 614 488	1 395 250
<b>22.1.2 Entity under common control</b>		
<b>National Lottery Participant Trust (NLPT)</b>		
Revenue from NLPT	200 278	204 390
Add: Trade and other receivables from non-exchange transactions (Opening)	53 664	40 683
Less: Trade and other receivables from non-exchange transactions (Closing)	(68 031)	(53 664)
Cash proceeds	185 911	191 409
<b>22.1.3 Controlling entity</b>		
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 the NLC ((Actual payments to the NLC amounted to R501 million for the current year (2017/18 R433 million))	459 016	426 527
Receivables from non-exchange transactions – NLC	142 835	100 892
	601 851	527 419
<b>22.1.4 Gidani (Pty) Ltd</b>		
Proceeds from Gidani (Pty) Ltd	–	36 665
	–	36 665

\* During the current financial year it was discovered that the opening balance was erroneously disclosed as R4.355 million instead of R40.685 million in the disclosure of note 22.2 of the 2017/18 annual financial statements.

## 23. 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 2018/19 R'000	Payments 2018/19 R'000	Revocations 2018/19 R'000	Amount owing 2018/19 R'000	Amount owing 2017/18 R'000
SRDA	Athletics South Africa	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	6 112	-	-	6 112
SRDA	Athletics Free State	Mr Skhosana and Dr Adams*	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	-	-	500	500
SRDA	Athletics Mpumalanga	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	2 000	-	500	2 500
SRDA	Athletics North West	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	382	-	-	382
SRDA	Western Province Athletics	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	1 102	-	-	1 102
SRDA	Athletics North West	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	382	-	-	382
SRDA	Athletics Gauteng North	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	210	-	-	210
SRDA	Central Gauteng Athletics	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	500	-	-	500
SRDA	Boland Athletics Western Cape	Dr Adams	President of the organisation	2 111	1 800	-	311	-
SRDA	Eastern Provincial Athletics	Mr Skhosana and Dr Adams	The Eastern Provincial Athletics is affiliated to Athletics South Africa of which Mr Skhosana is the President and Dr Adams is the Deputy President	750	550	-	200	-
SRDA	Athletics Vaal Triangle	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	-	370	-	-	370

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 2018/19 R'000	Payments 2018/19 R'000	Revocations 2018/19 R'000	Amount owing 2018/19 R'000	Amount owing 2017/18 R'000
SRDA	Park Tennis Club	Ms M Ravele	Ms Ravele used to be Chairperson of Wheelchair Tennis SA which is affiliated to Tennis SA where Ms Ravele is also a Board Director	150	150	-	-	-
SRDA	MAVU	Ms M Ravele and Ms A Hill	Ms M. Ravele and Ms A Hill (Chairperson of Assisted Organisation – South African Women and Sports Foundation)	-	2 000	-	2 000	4 000

### Prior Period Error

Sector	Name of beneficiary	Distributing agency member	Nature of relationship	Amount granted 2018/19 R'000	Payments 2018/19 R'000	Revocations 2018/19 R'000	Amount owing 2018/19 R'000	Amount owing 2017/18 R'000
SRDA**	Athletics North West	Mr Skhosana and Dr Adams	Mr Skhosana: President of ASA Dr Adams: Deputy President	1 908	-	1 526	-	382

\*\* The disclosure was erroneously disclosed twice in the 2017/18 annual report.

\*\*\* The disclosure was erroneously disclosed in the FY 2017/18.

# Accounting Authority Report for the National Lottery Participant Trust

## for the year ended 31 March 2019

The trustees have pleasure in submitting their report on the financial statements of the National Lotteries Participants Trust for the year ended 31 March 2019.

### 1. Nature of the Trust

The trust was founded on 29 May 2015 and is constituted for the benefit of the National Lotteries winners, 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 National Lotteries winners, the licensee Ithuba Holdings (RF) (Pty) Ltd, National Lottery players and the National Lotteries Distribution Trust Fund.

### 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 report are consistent with the financial statements audited by the Auditor General of South Africa (AGSA). The financial statements are complete, accurate and free from any omissions;
- This report has been prepared in accordance with the guidelines on the 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 National Lotteries Participants Trust; and
- The Board of Trustees is responsible for the preparation of the 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 AGSA is engaged to express an independent opinion on the annual financial statements. In our opinion, the financial statements fairly reflect the financial affairs of the National Lotteries Participants Trust for the financial year ended 31 March 2019.

### 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 year under review was agreed as 1% of audited total assets.

### 5. Approval of annual financial statements

The annual financial statements set out on pages 172 to 185 for the National Lotteries Participants Trust were approved by the Board of Trustees on 31 May 2019 and are signed on their behalf.



**Lufuno Tokyo Nevondwe**

*Chairperson of the Trust: NLPT*



# Report of the Auditor-General to Parliament on the National Lottery Participant's Trust

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the National Participant's Trust set out on pages 172 to 185 which comprise of the statement of comparison of budget and actual amounts, the statement of financial position as at 31 March 2019, the statement of financial performance, statement of changes in net assets and statement of cash flows 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 Participant's Trust as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice.

### Basis for opinion

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 sections 290 and 291 of the international Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (Including International Independence Standards)* 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.

### Other matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Previous period audited by a predecessor auditor

7. The financial statements of the previous year were audited by a predecessor auditor.

### Responsibilities of accounting authority for the financial statements

8. The trustees are responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of GRAP 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.
9. In preparing the financial statements, the trustees is responsible for assessing the National Lottery Participant's Trust'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 appropriate governance structure 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

10. 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.
11. 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

12. The trust is not required to prepare a report on its performance against predetermined objectives, as it does not fall within the ambit of the PFMA and such reporting is also not required in terms of the trust deed.

### Other information

13. The trustees are 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 and the auditor's report.
14. My opinion on the financial statements do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
15. 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 or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

# Report of the Auditor-General to Parliament on the National Lottery Participant's Trust (continued)

16. I did not receive other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if this is corrected this will not be necessary.

## Internal control deficiencies

17. I considered internal control relevant to my audit of the financial statements; 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 SOUTH AFRICA

Auditing to build public confidence

Pretoria

31 July 2019

## 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.

### 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 accounting authority
  - conclude on the appropriateness of the trustees 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 Lottery Participant’s Trust 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 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 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 I identify during my audit.

I also confirm to the trustees 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 2019

	Note	31 March 2019 R'000	31 March 2018 Restated R'000
<b>REVENUE</b>			
<b>Revenue from exchange transactions</b>			
Interest received	5	5 015	4 044
<b>EXPENDITURE</b>		(5 015)	(4 044)
Goods and services	6	(1 869)	(1 070)
Administrative expenses	7	(3 146)	(2 974)
<b>Surplus for the year</b>		–	–

# Statement of financial position

## as at 31 March 2019

	Note	31 March 2019 R'000	31 March 2018 Restated R'000
<b>ASSETS</b>			
<b>Current assets</b>			
Trade and other receivables – from exchange transactions	1	1 677	1 595
Trade and other receivables – from non-exchange transactions	1	5 115	–
Prepayments	2	69	–
Cash and cash equivalents	3	343 901	323 718
<b>Total assets</b>		<b>350 762</b>	<b>325 313</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables – from exchange transactions	4	269	819
Trade and other payables – from non-exchange transactions	4	350 492	324 494
<b>Total liabilities</b>		<b>350 761</b>	<b>325 313</b>
<b>Net assets</b>			
Accumulated Funds: Ithuba Holdings (RF) (Pty) Ltd		1	1
<b>Total net assets and liabilities</b>		<b>350 762</b>	<b>325 314</b>

# Statement of changes in net assets

## for the year ended 31 March 2019

	Accumulated Surplus R'000
<b>Balance as at 1 April 2015</b>	
Initial donation: Ithuba Holdings (RF) (Pty) Ltd	1
Balance as at 31 March 2016	1
Surplus for the year	–
<b>Balance as at 31 March 2017</b>	1
Surplus for the year	–
<b>Balance as at 31 March 2018</b>	1
Surplus for the period ended 31 March 2019	–
<b>Balance as at 31 March 2019</b>	1

# Statement of cash flows

## for the year ended 31 March 2019

		Trust	Trust
		Year ended 31 March 2019 R'000	Year ended 31 March 2018 R'000
	Notes		
<b>Cash flow from operating activities</b>			
<b>Cash receipts</b>			
Cash received from Ithuba Holdings (RF) (Pty) Ltd and other parties		311 877	259 138
Interest received		18 218	20 873
		<b>330 095</b>	280 011
<b>Cash payment</b>			
Cash paid to the NLDTF, Ithuba Holdings (RF) (Pty) Ltd and other parties		(309 913)	(323 005)
		<b>(309 913)</b>	(323 005)
<b>Net cash generated/(utilised) from operating activities</b>	8	<b>20 182</b>	(42 994)
<b>Net increase/(decrease) in cash and cash equivalent</b>		<b>20 183</b>	(42 994)
<b>Cash and cash equivalents at the beginning of the year</b>	3	<b>323 718</b>	366 712
<b>Cash and cash equivalents at the end of the year</b>	3	<b>343 901</b>	323 718



# Statement of comparison of budget and actual amounts

for the year ended 31 March 2019

	Approved Budget R'000	Adjustments R'000	Final Budget R'000	Actual Amounts R'000	Difference: Final Budget and Actual R'000
<b>Revenue and income</b>					
Interest received	5 085	–	5 085	5 015	70
<b>Total revenue and income</b>	5 085	–	5 085	5 015	70
<b>Expenses</b>					
Goods and services	(2 111)	–	(2 111)	(1 869)	242
Administrative expenses	(2 974)	–	(2 974)	(3 146)	172
<b>Total expenditure</b>	(5 085)	–	(5 085)	(5 015)	413
<b>Surplus/(deficit) for the year</b>	–	–	–	–	483

Line Item	Explanation of material variances	Amount R'000
Goods and services	The actual amount incurred was less than the budgeted amount.	242
Administrative expenses	There were additional Trustees meetings as a result of requirement by AGSA to consolidate the Trust in the annual financial statements of the NLC.	172

# Summary of significant accounting policies

## for the year ended 31 March 2019

The principal accounting policies applied in the preparation of these separate 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 Standards of Generally Recognised Accounting Practice (GRAP). 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 National Lotteries Participants Trust's 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	
IGRAP 18: Recognition and Derecognition of Land	None	
IGRAP 19: Liabilities to Pay Levies	None	
Guideline: Accounting for Arrangements Undertaken in terms of the National Housing Programme	None	

National Lotteries Participants Trust 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 National Lotteries Participants Trust'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 entity and these benefits can be measured reliably.

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

Revenue from exchange transactions is defined as revenue in which the NLPT 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 the NLPT 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 Interest received

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. Interest received is realised to the extent of expenses incurred.

# Summary of significant accounting policies

## for the year ended 31 March 2019 (continued)

### 3. Financial assets

The NLPT 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 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.

Financial assets at amortised cost consists of:

- Trade and other receivables from exchange transactions.

The NLPT will derecognise a financial asset when:

- (a) the contractual rights to the cash flows from the financial asset expire, are settled or are waived;
- (b) The NLPT transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- (c) The NLPT, 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.

#### 3.2 Financial liabilities

National Lotteries Participants Trust classifies its financial liabilities in the following category:

- financial liabilities at amortised cost.

##### 3.2.1 Financial liabilities at amortised cost

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

Financial liabilities at amortised cost consists of:

- Trade and other payables.

### 4. Cash and cash equivalents

Cash and cash equivalents comprise balances with:

Nedbank Private Wealth (Pty) Ltd – Advance and Online Play account

Nedbank Private Wealth (Pty) Ltd – Expired account

Nedbank Private Wealth (Pty) Ltd – Interest account

Nedbank Private Wealth (Pty) Ltd – Prize Money account

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 on hand and deposits held at call with respective banks. Cash and cash equivalents have a maturity of less than three months and are classified as financial assets at fair value and are carried at cost, which due to their short-term nature approximates fair value.

### 5. Financial risk management

The National Lotteries Participants Trust's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. These risks are managed by the Board and Audit & Risk Committee.

#### 5.1 Market risk

The National Lotteries Participants Trust's activities do not expose it to a significant amount of market risk. Therefore, no formal policies have been developed to guard against market risk.

#### 5.2 Credit risk

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

#### 5.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet the demands of the operations. The Trust monitors quarterly balances of cash and cash equivalents to ensure that enough funds are available to meet the needs of the operation.

## 6. Trade and other payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers as well as obligations due to the beneficiaries – National Lotteries Players and the NLDTF and the licensee – Ithuba Holdings (RF) (Pty) Ltd and National Lottery Winners. Accounts payable are classified as current liabilities as they are due and payable within one year or less from the reporting date. No non-current liabilities exist at reporting date. Trade payables are recognised at amortised cost.

- National Lotteries Participants Trust: Expired Funds and Net Interest Income due to the National Lotteries Participants Trust
- Advance Sales due Winners and due to Ithuba Holdings (RF) (Pty) Ltd: Advanced players
- Unclaimed funds – Ithuba Holdings (RF) (Pty) Ltd: Funds due to players
- Unclaimed funds – Ithuba Holdings (RF) (Pty) Ltd: Funds due to Licensee

## 7. Trade and other receivables

Trade receivables are in respect of interest accrued and/or funds due from the Licensee – Ithuba Holdings (RF) (Pty) Ltd in respect of unclaimed funds and prizes. Accounts receivable are classified as current assets as they are due and receivable within one year or less from reporting date. No non-current assets exist at reporting date. Trade receivables are recorded at amortised cost.

## 8. 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:

- Ithuba Holdings (RF) (Pty) Ltd
- The National Lotteries Distribution Trust Fund (NLDTF)
- The National Lotteries Commission

Related party transactions are transfers of resources or obligations between the National Lotteries Participants Trust and a related party, regardless of whether a price is charged.

## 9. Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives. The approved budget covers the financial year from 2018/04/01 to 2019/03/31. The budget for the economic entity includes all the entities approved budgets under its control. The annual financial statements and the budget are on the same basis of accounting, therefore a comparison with the budgeted amounts for the reporting period has been included in the statement of comparison of budget and actual amounts.

# Notes to the financial statements

## for the year ended 31 March 2019

	Year ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>1. Trade and other receivables</b>		
<b>Trade and other receivables – from exchange transactions</b>		
Interest accrued	1 677	1 595
	<b>1 677</b>	1 595
<b>Trade and other receivables – from non-exchange transactions</b>		
Unclaimed funds – Ithuba Holdings (RF) (Pty) Ltd	4 834	–
Advance sales – Ithuba Holdings (RF)(Pty) Ltd	281	–
	<b>5 115</b>	–
<b>2. Prepayments and deposits</b>		
Insurance	69	–
	<b>69</b>	–
<b>3. Cash and cash equivalents</b>		
Nedbank Private Wealth (Pty) Ltd – Expired account	14 705	14 705
Nedbank Private Wealth (Pty) Ltd – Interest account	20 114	7 531
Nedbank Private Wealth (Pty) Ltd – Prize Money account	295 877	291 482
Nedbank Private Wealth (Pty) Ltd – Advance and Online Play account	13 204	10 000
	<b>343 901</b>	323 718
<b>4. Trade and other payables</b>		
<b>4.1. Trade and other payables – from exchange transactions</b>		
Accruals	269	819
	<b>269</b>	819
<b>4.2. Trade and other payables – from non-exchange transactions</b>		
National Lotteries Distribution Trust Fund	68 031	53 664
Advanced sales due to players	13 485	8 260
Advanced sales due to Ithuba Holdings (RF) (Pty) Ltd	–	1 740
Unclaimed prizes – Winners	268 976	259 261
Unclaimed prizes – Ithuba Holdings (RF) (Pty) Ltd	–	1 568
	<b>350 492</b>	324 494
<b>5. Investment and interest income</b>		
Current accounts	5 015	4 044
	<b>5 015</b>	4 044
<b>6. Goods and services</b>		
Audit fees	1 034	707
Bank charges	33	20
Professional indemnity fees – Public Officers	90	–
Trustee Fees	713	343
	<b>1 869</b>	1 070
<b>7. Administrative expenses</b>		
Administration fees	3 146	2 974
	<b>3 146</b>	2 974
<b>8. Cash flow information</b>		
<b>8.1. Cash generated by operations</b>		
Surplus/(deficit) per the Statement of Financial Performance	–	–
	<b>–</b>	–
Working Capital Changes		
– (Decrease)/Increase in Trade and other receivables	(5 266)	402
– Increase/(Decrease) in Trade and other payables	25 448	(43 395)
Net cash generated/(utilised) from operating activities	<b>20 182</b>	(42 993)

## 9. Management of financial risk

The National Lotteries Participants Trust's trustees monitors and manages the financial risks relating to the Trust through quarterly reports.

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:** 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:** The risk that NLPT 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.

To assist in the analysis of the financial risks that National Lotteries Participant Trust 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
<b>As at 31 March 2019</b>		
<b>Financial assets at amortised cost:</b>		
Unlisted:		
– Trade and other receivables from exchange transactions	1 677	1 677
– Trade and other receivables from non-exchange transactions	5 115	5 115
– Prepayments	69	69
<b>Financial assets at fair value:</b>		
– Cash and cash equivalents	343 901	343 901
<b>Total assets</b>	<b>350 762</b>	<b>350 762</b>
<b>Financial liabilities at amortised cost:</b>		
Trade and other payables – from exchange transactions	269	269
Trade and other payables – from non-exchange transactions	350 492	350 492
<b>Total liabilities</b>	<b>350 761</b>	<b>350 761</b>
<b>As at 31 March 2018 (Restated)</b>		
<b>Financial assets at amortised cost:</b>		
Unlisted:		
– Trade and other receivables from exchange transactions	1 595	1 595
<b>Financial assets at fair value:</b>		
– Cash and cash equivalents	323 718	323 718
<b>Total assets</b>	<b>325 313</b>	<b>325 313</b>
<b>Financial liabilities at amortised cost:</b>		
Trade and other payables – from exchange transactions	819	819
Trade and other payables – from non-exchange transactions	324 494	324 494
<b>Total liabilities</b>	<b>325 313</b>	<b>325 313</b>

# Notes to the financial statements

## for the year ended 31 March 2019 (continued)

### 9. Management of financial risk (continued)

#### 9.1 Financial assets and liabilities

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

	31 March 2019 R'000	31 March 2018 Restated R'000
<b>Financial assets at amortised cost:</b>		
Unlisted:		
– Trade and other receivables from exchange transactions	1 677	–
– Trade and other receivables from non-exchange transactions	5 115	1 595
<b>Financial assets at fair value:</b>		
– Cash and cash equivalents	343 901	323 718
<b>Total financial assets</b>	<b>350 693</b>	<b>325 313</b>
<b>Financial liabilities at amortised cost:</b>		
Trade and other payables – from exchange transactions	269	819
Trade and other payables – from non-exchange transactions	350 492	324 494
<b>Total financial liabilities</b>	<b>350 761</b>	<b>325 313</b>

#### 9.1.1 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. The NLPT 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 NLPT is exposed to:

	Carrying amount R'000	Fixed R'000	Floating R'000	Non-interest bearing R'000
<b>As at 31 March 2019</b>				
<b>Financial assets at amortised cost:</b>				
Unlisted:				
– Trade and other receivable from exchange transactions	1 677	–	–	1 677
– Trade and other receivable from non-exchange transactions	5 115	–	–	5 115
<b>Financial assets at fair value:</b>				
Cash and cash equivalents	343 901	–	343 901	–
<b>Total financial assets</b>	<b>350 693</b>	<b>–</b>	<b>343 901</b>	<b>6 792</b>
<b>Financial liabilities at amortised cost:</b>				
Trade and other payables – from exchange transactions	269	–	–	269
Trade and other payables – from non-exchange transactions	350 492	–	–	350 492
<b>Total financial liabilities</b>	<b>350 761</b>	<b>–</b>	<b>–</b>	<b>350 761</b>
<b>As at 31 March 2018 (Restated)</b>				
<b>Financial assets at amortised cost:</b>				
Unlisted:				
– Trade and other receivable from exchange transactions	1 595	–	–	1 595
<b>Financial assets at fair value:</b>				
Cash and cash equivalents	323 718	–	323 718	–
<b>Total financial assets</b>	<b>325 313</b>	<b>–</b>	<b>323 718</b>	<b>1 595</b>
<b>Financial liabilities at amortised cost:</b>				
Trade and other payables – from exchange transactions	819	–	–	819
Trade and other payables – from non-exchange transactions	324 494	–	–	324 494
<b>Total financial liabilities</b>	<b>325 313</b>	<b>–</b>	<b>–</b>	<b>325 313</b>



### 9.1.2 Credit risk

Key areas where The NLPT 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
<b>As at March 2019</b>						
<b>Financial assets at fair value:</b>						
– Cash and cash equivalents	343 901	–	–	–	343 901	–
	343 901	–	–	–	343 901	–

Credit risk relating to receivables

	31 March 2019 R'000	31 March 2018 Restated R'000
Ithuba Holdings (Pty) Ltd	5 115	–
	5 115	–

The ageing of the components of trade and other receivables was as follows:

	Gross 31 March 2019 R'000	Impairment 31 March 2019 R'000	Gross 31 March 2018 R'000	Impairment 31 March 2018 R'000
Within a year	5 115	–	–	–
<b>Total</b>	5 115	–	–	–

### 9.1.3 Liquidity risk

The table below analyses the NLPT'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
<b>At 31 March 2019</b>		
Trade and other payables – from exchange transactions	269	269
Trade and other payables – from non-exchange transactions	350 492	350 492
<b>Total</b>	350 761	350 761
<b>At 31 March 2018</b>		
Trade and other payables – from exchange transactions	819	819
Trade and other payables – from non-exchange transactions	324 494	324 494
<b>Total</b>	325 313	325 313

## 10. Taxation

The National Lotteries Participants Trust is a registered tax payer in terms of Section 67 of the Income Tax Act no. 58 of 1962 as amended. The trusts tax reference number is 2332466172. There is no tax payable for the trust.

## 11. 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.

# Notes to the financial statements

## for the year ended 31 March 2019 (continued)

### 12. Events after reporting date

The NLPT engaged National Treasury on 9 April 2019 regarding the applicability of the Public Finance Management Act, No. 1 of 1999 (PFMA) in relation to the NLPT. National Treasury concluded on 26 June 2019 that the NLPT was created by a private company, Ithuba Holdings (RF) (Pty) Ltd, as required by the licence agreement and is not under the control of the NLC. Furthermore, the NLPT is not a subsidiary of the NLC. Based on this National Treasury concluded that the NLPT is not an institution which the PFMA as amended applies. The Auditor General of South Africa (AGSA) was informed of this outcome and on 16 July 2019 confirmed that they agree with the conclusion of National Treasury and further stated that the funding model of the NLPT is such that it's not funded from the National Revenue Fund as no legislation specifies that the NLPT receives money for a public purpose. The AGSA is currently determining the applicability of section 4(3)(b)(ii) of the Public Audit Act.

	Approved budget R'000	Final budget R'000	Adjustments R'000	Reason for Adjustments
Interest received	5 085	5 085	–	No adjustments
Administrations fees	2 974	2 974	–	No adjustments
Goods and services	2 111	2 111	–	No adjustments

### 13. Trustee's emoluments

Members	Members' fees R'000	Travel costs R'000	Total 2019 R'000	Total 2018 R'000
Ms MT Ramuedzisi	180	–	180	95
Mr A Mahlalutye*	180	–	180	–
Adv LTF Nevondwe	280	88	368	208
Adv W Huma	–	–	–	40
Mr P Letwaba**	–	–	–	–
Adv E Mabuza***	–	–	–	–
<b>Total</b>	<b>640</b>	<b>88</b>	<b>728</b>	<b>343</b>

\* Mr A Mahlalutye was appointed on 1 February 2018.

\*\* Mr Letwaba is a trustee representing the National Lotteries Commission (the regulator) as per the trust deed. He is not remunerated.

\*\*\* Advocate Mabuza is a trustee representing the Ithuba Holdings (the operator) as per the trust deed. He is not remunerated.

### 14. Related party transactions

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. 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 disclosure requirements. Qualitative and quantitative materiality is considered in the disclosure of these transactions.

	Trust	Trust
	Period ended 31 March 2019 R'000	Year ended 31 March 2018 Restated R'000
<b>Transactions between the NLPT and other parties</b>		
<b>Ithuba Holdings RF (Pty) Ltd</b>		
– Trade and other receivables from exchange transactions	5 115	–
– Trade and other payables from exchange transactions	268 976	262 569
<b>National Lotteries Distribution Trust Fund</b>		
– Trade and other payables from non-exchange transactions	68 031	53 664

#### 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 Lotteries Act Act No 57 of 1997 (as amended). For the first time since inception of the NLPT, the Auditor-General of South Africa (AGSA) required the NLPT to be consolidated in the NLC financial statements.

## 15. Prior period error

### Revenue from exchange transactions

– During the current financial year it was discovered that audit fees were previously provided for based on the budget. Audit fees are accounted for on an accrual basis as and when audit services are provided by the external auditor.

	Year ended 31 March 2018 R'000	Year ended 31 March 2017 R'000	Year ended 31 March 2016 R'000
The impact of the errors are as follows:			
Decrease in interest income	(49)	72	(779)
Decrease in goods and services	49	(72)	779
<b>Increase in statement of financial performance</b>	–	–	–
Decrease in trade and other payables from exchange transactions	(49)	72	(779)
Increase in trade and other receivables from exchange transactions	49	(72)	779
Increase in net assets	–	–	–

## 16. Change of accounting framework

The Trustees have changed the accounting framework in line with the requirements by the AGSA to consolidate the NLPT in the NLC financial statements. The Trust has adopted the Generally Recognised Accounting Practice in preparation of its financial statements. Previously, International Financial Reporting Standards (IFRS) for SMME's was used to prepare financial statements. There were no changes to the results previously reported for the Trust including Accounting Policies. However, there was a change in the presentation of statements as follows:

IFRS	GRAP
Statement of Comprehensive Income	Statement of Financial Performance
Statement of Changes in Equity is now Statement of Changes in Net Assets	Statement of Changes in Net Assets
	A new Statement of Comparison of Budget and Actual Amounts was added

## Notes

[illegible]