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Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

THE NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NO. 280

Ms H S Boshoff (Mpumalanga: DA) to ask the Minister of Trade, Industry and Competition:

- (1) With reference to the audit reports by the Auditor General, (a) why the (i) National Lotteries Commission (NLC) and (ii) National Regulator Compulsory Specifications (NRCS) received qualified audit reports with findings for the (i) 2020/21, (ii) 2021/22, (iii) 2022/23 and (iv) 2023/24 financial years, (b) what were the root causes for them to receive such audit outcomes, (c) what steps have been taken to rectify such outcomes and (d) what time frames have been attached in this regard;
- (2) what measures have been taken by the Chief Financial Officers (CFOs) of the (a) NLC and (b) NRCS to (i) ensure that proper review processes of financial statements are in place and (ii) eradicate audit outcomes of qualified audits with findings;
- (3) whether the CFOs of the said entities are appropriately qualified for the positions they occupy; if not, what steps will be taken to ensure that they are capacitated; if so, what are the relevant details? CW335E

REPLY:

I have been advised by the National Lotteries Commission (NLC) and by the National Regulator Compulsory Specifications (NRCS) as follows.

National Lotteries Commission (NLC)

(1) (a)(i) 2020/21 - The National Lotteries Commission received a qualified audit opinion on the basis that the NLC did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 55(2)(b)(i) of the PFMA. The entity made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R23 410 550.

(ii) 2021/22 - The National Lotteries Commission received a qualified audit opinion on the basis that the NLC did not identify and record some of the irregular expenditure in the notes to the financial statements, as required by section 55(2)(b)(i) of the PFMA. The public entity made payments of R36 853 299 in contravention of the supply chain management requirements, which were not included in irregular expenditure disclosed in note 39 of the annual financial statements.

(iii) 2022/23 - The National Lotteries Commission received a qualified audit opinion on the basis that the AGSA was not able to obtain sufficient appropriate audit evidence whether all the approved allocations of grants were recorded in the consolidated financial statements.

(iv) 2023/24 – The audit of the NLC has not been concluded to date.

(b) Whilst the current leadership was not there at the time, **the root cause for the qualification on irregular expenditure in 2020/21 and 2021/22** was identified as emanating from the following:

- Inadequate review of the financial statements and supporting schedules to ensure compliance with all legislative prescripts.
- The lack of technical capabilities/competencies which resulted in non-compliance with the Public Procurement Regulations of 2017 wherein the functionality matrix did not consider the weighting of the sub-criteria and thus resulting in non-compliance with laws and regulations.
- Lack of understanding of the Preferential Procurement Regulations.
- Decentralised procurement functions outside of Supply Chain Management.

The root causes for the qualifications on grants in 2022/23 emanated from the following:

- Maladministration practices within the NLC.
- Manual processes and lack of record keeping within the NLC with particular emphasis on pro-active funding.
- Lack of controls related to pro-active funding.
- Deliberate deletion of documents on the system.
- Withholding of information from individuals who were subsequently suspended.

(c) Steps that have been taken to rectify the outcomes:

Irregular Expenditure in 2020/21 and 2021/22 -

- Senior Manager: SCM placed on precautionary suspension and subsequently resigned in January 2024, after the charges were issued.
- A new, technically competent, Senior Manager: SCM was appointed in May 2024. This has created stability within the team.
- The NLC Supply Chain Management Policy has been updated to comply with the latest legislation and is continuously being updated in relation to new legislative requirements.
- Training of SCM Officials and NLC officials on the application of the NLC Supply Chain policy and legislative requirements in the procurement functions has been undertaken.
- The implementation of loss control function in the review of the irregular expenditure and the necessary consequence management has been undertaken with those officials who have caused the NLC to incur the irregular expenditure.
- Improved Bid Committee and SCM Functions with regular training and reviews to ensure compliance with the legislation.
- Checklists and templates developed to assist in ensuring compliance.
- Improved contract management within the NLC.
- Improved performance management processes.

- All expenditure incurred by the NLC from 2020/21 was reviewed and all irregular expenditure was identified and disclosed to clear the qualification in the 2022/23 financial year.

Irregular expenditure in 2022/23 -

- The policies for grant funding have been revised to incorporate pre-adjudication site inspection to ensure that funded organisations do exist, have the necessary capacity and systems in place to execute projects.
- Standard Operating Procedures introduced for infrastructure spend.
- Revision of the grant agreement to enhance controls.
- Automation of grant funding processes underway.
- A team of consultants together with the NLC modernisation colleagues are working on revised business processes for operations which will ensure enhanced controls; a new structure; digitisation and a more streamlined and efficient operations function.
- 100% visit of all projects introduced instead of on a sample basis.
- A new grant policy on research-based funding (the old pro-active funding) was approved at the August 2024 Board Meeting. The research-based funding policy (proactive funding) has been revised to ensure that all allocated organisations undergo vetting and capacity testing before they are considered to implement projects.
- Disciplinary action currently being implemented based on referrals from the SIU and/or the NLC Forensic Team.

(d) Timeframes for implementation

Irregular expenditure in 2020/21 and 2021/22 -

The remedial actions have been undertaken in the 2023/24 financial year and the NLC is fully compliant with the legislative prescripts for procurement regulation; and

Irregular expenditure in 2022/23 -

Manual controls implemented by the operations division from December 2023, however the final automation of the system and all modules are expected to be completed in the 2025/26 financial year as the modules are being implemented in a phased approach.

(2) (a) (i) National Lotteries Commission (NLC), the steps taken to ensure that proper review processes of financial statements are in place:

- Sourcing of technical guidance and application in the development of the NLC accounting policies.
- Independent review of the financial statements by the internal audit unit as well as technical experts.
- Training and capacity building of the finance team to close gaps identified.
- All Executives within the NLC take accountability for their various input into the financial statements.

(ii) The eradication of audit findings is driven through:

- Ongoing engagement with the AGSA to discuss material matters.
- Development of the Audit Tracker with analysis of the root causes and ensuring that properly designed control measures are included to ensure that the deficiency identified is mitigated.
- Implementation of the controls and monitoring their efficacy monthly and reporting on any improvement identified and further weaknesses identified.
- Once confident on the efficacy of the designed controls and sustained ability to prevent the occurrence of deficiencies, the controls are submitted to Internal Audit for verification.
- Ongoing monitoring of policies and procedures for gaps and implementation of controls to close any gaps identified.

(3) The CFO of the National Lotteries Commission was appointed on the 23rd of April 2023. The CFO is adequately qualified for the position. The CFO is a Chartered Accountant, who also holds an MBA and a Masters' in Tax. The CFO has over 19 years of experience. The CFO completed articles at one of the big four audit firms and post that, has held significant roles in the public sector. The CFO has

advanced technical and strategic financial skills, a comprehensive understanding of public sector legislation, commercial acumen, technical and compliance focus, combined with solid influencing, people management, leadership skills and stakeholder relationships.

The CFO's focus is on cleaning up the myriad of historical issues by improving compliance and processes to return the NLC to a clean audit status.

National Regulator Compulsory Specifications (NRCS)

- (1) (a) (ii) National Regulator Compulsory Specifications (NRCS) received qualified audit reports with findings:
 - (i) 2020/21: Qualified Audit Opinion
 - (ii) 2021/22: Unqualified Audit Opinion
 - (iii) 2022/23: Unqualified Clean Audit Opinion
 - (iv) 2023/24: Unqualified Clean Audit opinion
- (b) The root cause of the qualified audit outcome in the 2021/21 financial year was attributed to the completeness of revenue and misalignment between the NRCS levy periods and the financial year period. A levy is a Gazetted fee charged per unit to recoup regulatory costs for the NRCS. The NRCS revenue periods are aligned to the calendar year. The calendar year is divided in to two levy periods. Period A covering 1 January to 30 June and Period B covering 1 July to 31 December. The financial year is 1 April to 31 March and the levy Period A cuts across two levy period.
- (c) The NRCS adopted a revenue estimation methodology that is being used for estimation and accounting of levies and also a Government Gazette was issued which required customers to submit a non-paying declaration for period January to March (Period A). The non-paying declaration period is due at the end of April each year to assist with accounting of levies for the period January to March.

- (d) The NRCS resolved the qualification in 2021/22 Financial year and has subsequently received three unqualified audit opinions for the 2021/22, 2022/23 and 2023/24 financial years.
- (2) (b)(i) The NRCS has addressed the capacity challenges at the Senior Management level in Finance through the recruitment of a Financial Manager and the Chief Financial Officer.
(ii) The NRCS has implemented control measures and has received three unqualified audit opinions for 2021/22, 2022/23 and 2023/24 financial years, and in particular the NRCS received clean audit opinions for 2022/23 and 2023/24 financial year.
- (3) The NRCS recruited a new CFO starting from 1 September 2023 and she is suitably qualified for the position.

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