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Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

THE NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NO 305

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

- (1) What have been the material irregularities that the Auditor-General identified in the (a) National Lotteries Commission (NLC) and (b) National Regulator Compulsory Specifications (NRCS) for the 2023/24 financial year;
- (2) whether any measures have been taken to eradicate such material irregularities; if not, why not; if so, (a) what measures, (b) when will the measures be implemented and (c) what are the further relevant details;
- (3) whether he will provide the number of NLC funding beneficiaries that received funding; if not, why not; if so, (a) what amount for each beneficiary, (b) what is the turnaround time for the provision of funding to identified beneficiaries, (c) what turnaround implementation programme is available for the distressed entities and (d) what are the further relevant details in this regard? CW361E

REPLY:

I have been advised by NRCS and NLC as follows:

NRCS

- (1) (b) There were no material irregularities at National Regulator Compulsory Specifications (NRCS) for the 2023/24 financial year; raised by the AGSA.
- (2) Not applicable.
- (3) Not applicable.

NLC

1) (a) *National Lotteries Commission – MI's identified*

The AGSA raised two material irregularities (MI's) in the 2023/24 financial year. These related to the construction of the eDumbe old age home that was never completed. The MI's related to Ubusu NPC and Lerumo Properties Pty Ltd. Both these MI's are being investigated by the SIU and relate to funding granted in 2017 and 2020 respectively.

Ubusu NPC

- Ubusu was funded through pro-active funding in 2017.
- Ubusu received an initial grant allocation of R 23 000 000.00 (27 September 2017), which was increased to R26 828 411.11 through the NLC approvals process of additional grant funding.
- It was further stated that the project would be completed by 30 September 2018 and no extension was requested in the report, yet on 19 February 2019, additional funding was requested.
- An addendum to the grant agreement was signed on this date and Ubusu was granted additional funding of R3 578 441.11 to complete the old age home.
- Ubusu then requested additional funding in March 2020 and another addendum to the grant agreement was signed on 12 March 2020 where Ubusu was awarded a further R250 000.00 to complete construction.
- The project was partially implemented.
- Certain NLC employees were derelict in their duty.
- The NLC is awaiting the referral from the SIU and will act on recommendations made.

Lerumo Properties Pty Ltd

- The construction of the old age home eDumbe local municipality, which commenced in 2018, was stopped in 2019.
- On 20 February 2020, NLDTF appointed Lerumo as the professional service provider to provide professional engineering services in the construction of the eDumbe old age home project in response to the stoppage that occurred in 2019.

- As part of their services, Lerumo performed a conditional assessment of the eDumbe old age home (variation to construction and repair damage due to the storms) where after the Pro-Active Funding Quality Assurance Committee was requested to approve a further R13 042 726 to Ubusu NPC.
- During the presentation to NLC by Lerumo, the NLC decided that Lerumo should implement the project on their behalf as per the recommendations in the report. The decision was that the NLC would deposit funds for completing the project as per the report to Lerumo and that they complete the project.
- An amount of R13 042 000 was approved for the project on 01 July 2021, which was subsequently paid to Lerumo Properties (Pty) Ltd on 2 July 2021.

2) (a) *National Lotteries Commission – what measures have been put in place to address such MI's*

- The previous leadership of the NLC have resigned or have been removed from office by the Executive Authority, following the maladministration at the NLC. The Executive Authority approached the President to issue a proclamation for the SIU to investigate these allegations.
- The SIU is in the process of submitting criminal and civil referrals to the NPA.
- The Executive Authority remains invested in ensuring the turnaround of the NLC and this is demonstrated in the additional Ministerial priorities provided to the NLC.
- All irregular contracts were reviewed for business continuity and those that did not impact business continuity were cancelled. The remaining contracts were either regularized or are in the process of being regularized.
- The policies for grant funding have been revised to incorporate pre-adjudication site inspections to ensure that funded organizations do have the necessary capacity and systems in place to execute projects. A risk-based checklist has been developed to enforce compliance.
- Grant agreements have been revised to ensure any loopholes are closed.
- A decision to place a moratorium on pro-active funding was taken by the Board of the NLC in April 2022. This allowed the NLC time to close any loopholes in the process and develop a new policy relating to research-based funding (previously pro-active funding) which was approved in July/August 2024. The research-based funding policy has been revised to ensure transparency and governance as aligned to the Lotteries Act.

- The Modernisation Team are working on revising business processes for the organisation which will ensure enhanced controls; a new structure; digitization and a more streamlined and efficient grant funding operations function.
- As at the end of January 2024, the NLC completed 320 (out of 361 employees) integrity tests for employees who volunteered to be tested. The process commenced on 18 August 2023.
- The NLC will also be conducting lifestyle audits for all Board, Exco and NLC employees using a phased approach. The Lifestyle Audit policy has been developed and approved by the Board.
- The Board of the National Lotteries Commission, working together with the Commissioner and Executive Team have adopted a zero-tolerance approach to fraud and corruption at the NLC and remains steadfast in its commitment in ensuring all losses incurred by the entity are recovered. A framework on anti-bribery, corruption and fraud is in the process of being developed, and a fraud risk assessment has been conducted to identify fraud risks.
- Additionally, a new whistleblowing hotline was launched internally and the capacity of the Internal Audit, Investigations and Advisory Unit has been significantly enhanced. A fraud awareness program has been introduced and key trends are identified and shared within the organisation.

(b) and (c) – Not applicable as measures have been put in place to address the root causes of the MI's.

3) *National Lotteries Commission - Whether he will provide the number of NLC funding beneficiaries that received funding*

The NLC publishes this information in its annual report as well as on a monthly basis on the NLC website.

(a) *What amount for each beneficiary?*

*The total amount **allocated** to beneficiaries (636) in the 2023/24 financial year amounted to R713 million, **attached as Annexure A.***

(b) *What is the turnaround time for the provision of funding to identified beneficiaries*

The turnaround time is legislated under Regulation 3A. Regulation 3A of 2015 prescribes that the Distributing Agency (DA) must:

- a) Finalise its adjudication within hundred and fifty (150) calendar days from date of receipt of the application, and
- b) Communicate its decision to the applicant thereon.

For the 2023/24 financial year, the NLC achieved 5% of the legislated target. The primary reasons for non-achievement include the limited DA capacity as well as the introduction of new internal control measures in the grant funding cycle early in 2023.

(c) What turnaround implementation programme is available for the distressed entities

As at the end of the financial year, all applications have been assessed and are pending adjudication. The Minister has advertised for the positions of additional Distributing Agency members.

(d) What are the further relevant details in this regard?

For the 2023/24 call, the NLC received 5 303 applications for funding. The call closed on 11 August 2023. As at 23 September 2024, 2 197 applications have already been adjudicated, whilst 3 106 are pending adjudication.

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