

**SUBMISSION TO THE 3RD
QUARTER REPORT**

30 JANUARY 2014







NATIONAL LOTTERIES BOARD

PERFORMANCE REPORT

3rd QUARTER 2013/2014

October – December 2013

Approval of the Report

Recommended by the Chief Executive Officer for endorsement	Endorsement by the Accounting Authority
<p>I hereby recommend the report for endorsement and confirm that it was prepared in accordance with the DTI requirements.</p> <p></p> <p>Signature:</p> <p>Name: Mrs TCC Mampane Rank: Chief Executive Officer</p> <p>Date: 31 January 2014</p>	<p>I hereby endorse the report and confirm that it was prepared in accordance with the DTI requirements.</p> <p></p> <p>Signature:</p> <p>Name: Prof N A Nevhutanda Rank: Chairperson</p> <p>Date: 31 January 2014</p>

Acronyms & Abbreviations

ACRONYMS	DEFINITIONS
NLB	National Lotteries Board
NLDTF	National Lottery Distribution Trust Fund
GFO	Grant Funding Office
DA	Distributing Agency
PFMA	Public Finance Management Act
TR	Treasury Regulations
A-G	Auditor-General
YTD	Year to Date

Table of contents

1. Executive Summary	5
1.1 Finance.....	5
1.2 Grant Funding.....	6
1.3 Corporate Services.....	6
2. Performance against the Annual Performance Plan	14
3. Progress on Actions in the Risk Register	17
4. Progress against Post Audit Implementation Plan	17
5. Financial Report - NLB	19
6. Financial Report – NLDTF	30
7. Consolidated Cash Flow	35
8. Capital Expenditure Summary	36
9. Annexure A – Compliance Calendar	37
10. Annexure B – Strategic Risk Register	38

1. Executive Summary

The National Lotteries Board hereby submits the quarterly report as required by the PFMA, Treasury Regulations and the Department of Trade and Industry for the third quarter beginning on 1 October 2013 and ending on 31 December 2013.

The major components of this report are:

- Quarterly Financial Management Report
- Quarterly Performance Management Progress Report;
- Progress against Post-Audit Implementation Plan
- Quarterly Compliance Calendar
- Strategic Risk Register

In this reporting period the organisation has made progress in ascertaining the implementation of the five-year strategy and the Annual Performance Plan as approved by the Minister. The Executive Committee continued to implement Divisional Functional Strategies which were developed and presented to the Board at the beginning of the 2013/2014 financial year.

1.1 FINANCE

Lottery ticket sales and contribution to the NLDTF

	Current Quarter (R)	Corresponding Quarter – last year (R)	Quarterly Variance (R)	Year to date (R)	Corresponding Period – last year (R)	Annual Variance (R)
Sales	1, 147 billion	1, 212 billion	65 million	3, 424 billion	3, 512 billion	88 million
34% Contribution to NLDTF	390 million	412 million	22 million	1,164 billion	1,194 billion	30 million

GRANT FUNDING

SECTOR	ALLOCATIONS 9 MONTHS ENDED 31 December 2013		PAYMENTS 9 MONTHS ENDED 31 December 2013		CUMULATIVE AMOUNT COMMITTED (OWING) R'000
	No.	R'000	No.	R'000	
Charities	1 733	843 755	1 805	829 429	572 326
Arts	97	633 107	306	546 303	1 405 804
Sports	1 170	300 725	730	293 180	890 545
Miscellaneous	33	75 735	40	98 354	118 381
Total	3 033	1 853 322	2 881	1 767 266	2 987 056

Adjustment for time value of money (68 876)

Contingent liabilities (428 334)

Total per Statement of Financial Position 2 489 846

The Board continues to implement internal corrective measures, which include resolutions adopted at both provincial and national consultative workshops.

1.3 CORPORATE SERVICES

1.3.1 Equity Status of NLB Staff

The table below illustrates the current situation at all levels and how they compare. Contract employees are included - there are 12 employees on contracts.

Workforce Profile											
Levels	Males					Females					Total
	A	C	I	W	%	A	C	I	W	%	
Executive	0	1	1	0	20%	3	0	0	0	60%	5
Senior Management	9	0	1	0	62%	7	1	0	1	47%	19
Staff	51	4	1	0	42%	64	4	1	8	58%	133
Contract employees	1	0	1	0	16%	10	0	0	0	84%	12
Interns/learners	14	0	0	0	54%	12	0	0	0	46%	26
Grand Total	75	5	4	0		96	5	1	9		195

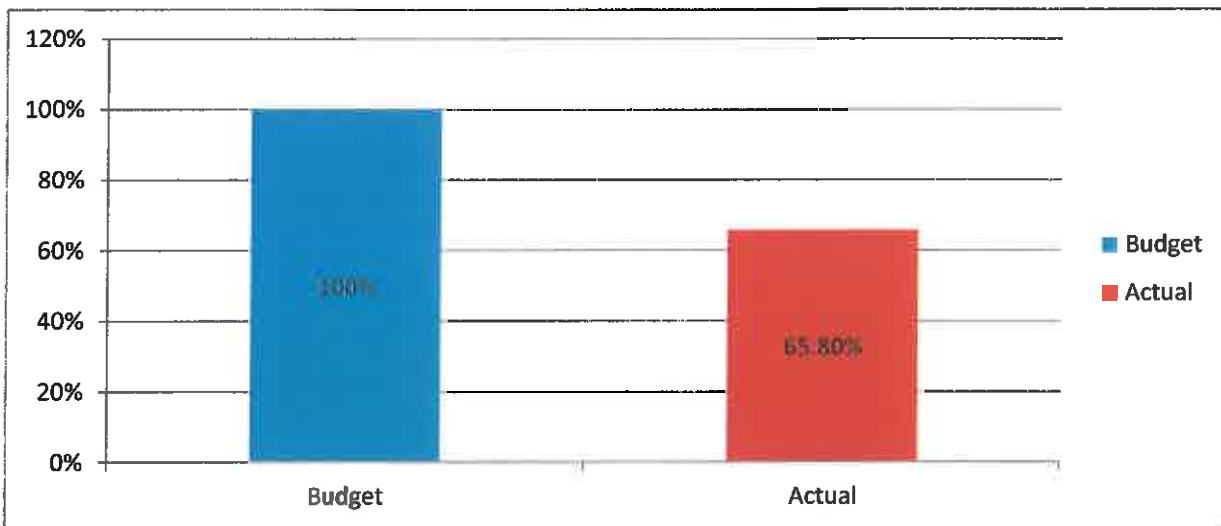
1.3.2 Disabilities

The number of people who have disclosed their disabilities is 3 (all females) out of 195 staff members, including contract employees. The percentage of employees who have declared their disability status is 1.54%.

1.3.3 Training and Development

TRAINING PROGRAMMES CONDUCTED IN OCTOBER AND NOVEMBER 2013									
TRAINING PROGRAMMES	MALES				FEMALES				TOTAL
	A	C	I	W	A	C	I	W	
Management	1				1				1
HR Standards Workshop – Corporate Services	1								2
ACFE Fraud Conference - Compliance Inaugural Public Sector Compliance Conference	1								1
Professionally qualified and experienced specialists and middle management	2								2
ACFE Fraud Conference - Risks Corporate Governance Conference – Comp Sec	1				1				2
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents, HR Standards Workshop – Corporate Services	3				2				5
Certified Wellness coordinator Training					1				1
Semi-skilled					2				2
Supply Chain Management - Finance	1				1				2
Records Management – Corporate Services					1				1
Advanced Excel for Office Professionals - ECP									
Unskilled Electrical, plumbing and Carpentry – Corp Services	1								1
Office Administration	1				6				7
Total	12				15				27

The total YTD budget at the end of October 2013 was R2.09 million and R1.32 million was spent so far. The table below indicate the budget and spending in percentages.



1.3.4 Information Technology

In the third quarter, Management identified critical risk areas that required attention. As a result the NLB stabilised the infrastructure and critical applications, and developed policies from which to proceed. The policies are currently being considered for final approval.

1.3.5 Marketing and Communications

1.3.5.1 Perception Survey

Phase 2 of the email perception survey (the last phase of the baseline survey) was conducted during November 2013. The analysis and results will be done in December 2013 and made available in January 2014 to all relevant stakeholders.

1.3.5.2 Stakeholder Engagement

In quarter three, the Board and Management attended NLDTF-funded beneficiaries' launches of projects, which included the launch of the Health Systems Trust's R85m NLDTF-project. A collaborative interdepartmental drive with the NLB Risk Management Division's Red Card Anti-Fraud Campaign was implemented in the Free State (Welkom) and the Northern Cape (Kimberley).

1.3.5.3 Media Coverage Statistics

Month	Number of items	% Positive	% Neutral	% Negative	AVE Value
October	228	51%	33%	15%	R1 650 676
November	159	76%	14%	10%	R 833 874
December	54	67%	30%	4%	R 608 103
TOTAL	441	64%	26%	10%	R 3 092 653

The majority of the positive media coverage was as a result of various NLDTF beneficiaries publicising their grants. In October and November 2013 analysis there was 51% and 76% positive rating, 33% and 14% neutral and 15% and 10% negative respectively. Amongst the positive articles was the NLDTF's contribution of R11.8 million towards the Nelson Mandela Centre of Memory.

The NLB received 16 Negative items for the period under review. One of the pieces that generated negative sentiment was the funding of Basadi Empowerment Trust by the NLDTF. Basadi Empowerment Trust was alleged to have submitted fraudulent documents when applying for a grant on behalf of the Lefatshe La Rona for the production of the ANC centenary book. A grant of R2.2 million was subsequently allocated to Basadi. It was reported that the HAWKS were now probing the matter. The other negative piece was the criticism of funding for the Sports Awards, which was thought to be a waste of money. Critics felt that the funds could have been better used to either build sport facilities or help athletes prepare for the 2014 Brazil Olympics.

1.3.6 Legal Services

During this quarter (October 2013 to December 2013) two civil matters were dealt with.

The first was the Jazz Foundation matter, which was postponed in accordance with the agreement between the parties. The postponement was meant to allow the parties to agree on documents to discover.

The second was the matter with Batebang Community Services, which was in court and was postponed *sine die* due to the respondent's late filing of the heads of argument. Costs will be paid by the defendant on a scale to be determined by the court hearing the matter.

One criminal litigation matter awaits the Investigating Officer to provide progress report.

1.3.6.1 Contracts

The Legal division was assigned nine (9) contracts, of which seven (7) have been completed and signed and two (2) are yet to be completed. The value of the signed contracts is estimated to be at R1.3 million.

1.3.6.2 Legal Opinion

Two internal legal opinions for the quarter were received, processed and finalised

1.3.7 CONTACT CENTRE

The purpose of this part of the report is to provide an overview of what transpired during the third quarter of the 2013/2014 financial year and includes deviations, challenges and remedial action to be taken in order to achieve NLB strategic goals. The Contact Centre is the information hub for external stakeholder/beneficiaries. It is the point of entry for incoming telephone calls, electronic mail and walk-in stakeholders. Its main duty is to provide correct information on request form stakeholders.

1.3.7.1 Third Quarter Performance

Total Calls	Total Calls Answered	Total Abandoned Calls	Total Transferred Calls Out of Scope	Average Talk Time	Average Wait Time: Answer
23306	21097	2183	3042	00:02:05	00:00:28

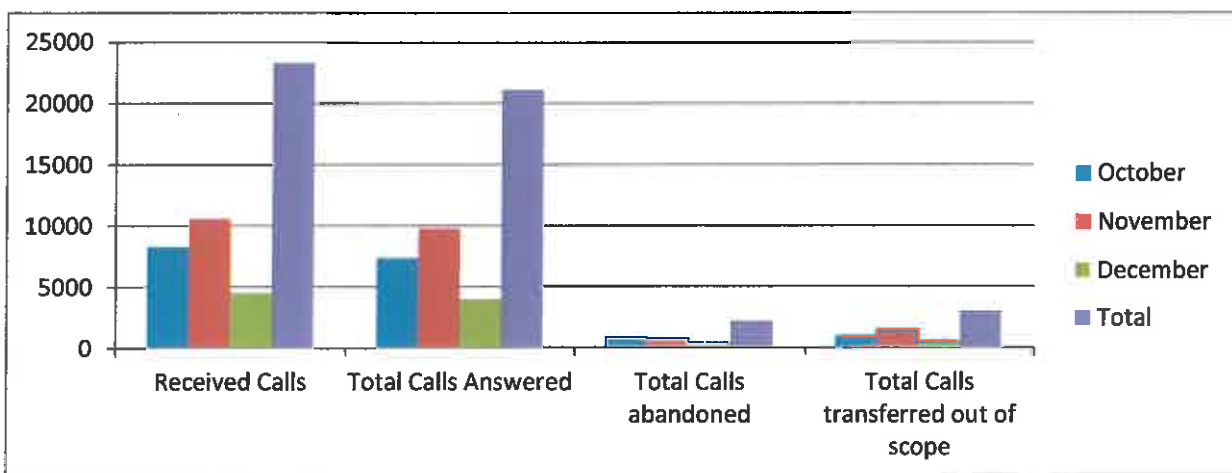
- Total calls answered = 19327.
- Total abandoned = 2010.

- Total calls transferred out of scope = 2744.
- Average talk time or average handling time is 2 minutes and 7 seconds.
- The average wait time is before calls are abandoned is 2 minute 02 seconds.
- Contact Centre Peak Time is 10:30 and 14:00. The Contact Centre doesn't have infrastructure and human resources capacity to handle the volume.

1.3.7.2 Third Quarter Performance: Monthly Breakdown

	October	November	December	Total
Calls Offered	8244	10543	4519	23306
Call answered	7347	9745	4005	21097
Abandoned Rate	886 (10.8%)	783 (7.4%)	514 (11.4%)	2183 (9.7%)
Service Level	72.8%	80.3%	80.6%	77.9%
Transfer	966	1469	607	3042
Average Handling Time	00:02:04	00:01:42	00:01:48	00:02:05
Average wait time to Answer	00:00:23	00:00:25	00:00:36	00:00:28

- The graph below provides demonstrates the performance per month



1.3.7.3 Quarter 3 Walk-In Performance

- Total number of Walk-in = 64
- All completed Client Evaluation form
- 7 Beneficiaries Defrauded by Contractors

Number of walk-ins	Nature of the query	Stakeholder 's service rating
27	Funding requirements information	Excellent
8	Follow up on application Made	Good
3	Report Submission	Excellent
8	Grant agreement	Excellent
9	Progress report assistance	Excellent
4	Appeal	Good
5	Submission of outstanding document	Excellent

1.3.7.4 October 2013 To December 2013 Service Levels

Month	Service Level	Abandoned Rate	Average wait time to answer
October	72.8%	10.8%	00:00:23
November	80.3%	7.4%	00:00:25
December	80.6%	11.4%	00:00:36

- Acceptable Service level = 80%
- Contact centre target = 90%
- Target abandoned rate = 3%

1.3.7.5 Key Highlights

- Installation of Manager Openscape Agile system For Contact Centre Manager.
- Contact Centre Strategy developed.

2. Performance against the Annual Performance Plan

Output	Performance Measure or Indicator	Annual Target	3rd Quarter milestones	Actual Achievement	Reason for Variance	Corrective Action
Quantitative gaps as required by the Lotteries Act attained (5% per province and 50% for rural projects).	Completion status of Quantitative gaps as required by the Lotteries Act (5% per province and 50% for rural projects) addressed.	At least 5% grant funding allocated to each province and establish a baseline for funding projects in rural areas.	5% grant funding allocated to provinces. Enhance the existing system to start capturing rural projects allocations	Not Achieved EC - 8% FS - 9% GP - 31% KZN - 10% LP - 9% MP - 5% NC - 4% NW - 9% WC - 15%	The Province where the target has not been met is the Northern Cape, the province with the smallest population size. As a result, the least number of applications is received from this province and includes a high number of non-compliant applications.	During the next calls targeted calls to be implemented.
Comprehensive Funding Policy to ensure compliance with the Lotteries Act	Legislative Compliance and approval status of Policy.	Environmental scan complete and results incorporated into procedures on an interim basis	Interim Audit progress Report Draft Funding Policy	Achieved	Data has not been specifically analysed for this particular target due to the incapability of the current management system.	The management system is in the process of being upgraded, which will include more detailed statistical information analysis.
Three operational Offices	Establishment of status of offices	Capability Audit complete	Needs Assessment Completed	Achieved		
Fully implemented e-system that incorporates all related processes.	Status of e-system incorporation with relating processes.	System scoping	ICT Strategy and Policy Developed	Achieved		

Output	Performance Measure or Indicator	Annual Target	3rd Quarter milestones	Actual Achievement	Reason for Variance	Corrective Action
Customer satisfaction	Customer satisfaction measured by relevant rating scales and/or reports.	Establish a customer satisfaction baseline.	Customer Services Charter implementation on targets for quarter achieved	Achieved		
Conduct reviews to ensure compliance with the Lotteries Act.	Number of compliance reviews conducted	57 compliance reviews	Conduct 15 compliance reviews	Achieved 29 reviews conducted during this quarter	The intense marketing campaign by the National Lottery Operator on alternate play channels has required an increase in the number of audits of the additional channels.	
Lotteries regulated according to the Lotteries Act	Legislative compliance and approval status of regulatory policy and enforcement data	Regulatory policy and procedures partially developed and implemented	Policy fully implemented and monitored	Not achieved Draft regulatory policy developed. To be tabled to EXCO for recommendation.	There were challenges encountered in the interpretation of the Lotteries Act with regards to competitions run on behalf of NPOs.	The policy will be tabled for approval by the Board
Human and Organisational capacity aligned with current and future needs of the NLB.	Organisational alignment	New Organisational structure populated	Filling of positions in alignment with the organisational structure	Not achieved Draft report on structured analysis developed. To be tabled to EXCO for recommendation. Achieved	The report has been compiled has not yet been presented for recommendation and approval.	The report will be tabled for approval by EXCO and Legal and Compliance Committee.
Develop policies for Knowledge Management, Organisational Learning	Completion status of Policy for knowledge management and organisation learning	Knowledge Management concept document finalized.	Approval of scope	Achieved		

Output	Performance Measure or Indicator	Annual Target	3rd Quarter milestones	Actual Achievement	Reason for Variance	Corrective Action
Integrated Communication & Stakeholder Strategy	Completion status of environmental scan, policy and Strategy.	Implementation of Phase 1 of strategy	Audit and Review Implementation of the Strategy	Achieved		
Business sustainability Strategy In Place.	Completion status.	Business sustainability model developed	Environmental analysis completed	Achieved		
Lottery Licence transition managed. (Licence transition plan and resources on place)	Resource allocation status for Transition Plan.	License transition plan and resources in place.	Continue implementation and review of resource plan	Achieved		

3. Progress on Actions in the Risk Register

Top Ten Strategic Risks following the revision of the strategic risk register of the NLB

Legend: Critical risk = ■ High risk ■

No	Rating	Risk Description	No	Rating	Risk Description
1		License transition	6		Inappropriate Grant allocation
2		IT Infrastructure	7		Continuity and sustainability of National Lottery
3		Fraud and Corruption	8		Poor Stakeholder Relations
4		Illegal Lotteries	9		Possible change in Legislation
5		Conflict of Interest	10		Ineffective Governance with other Stakeholders

The risk register is monitored regularly and is on up to date. The strategic risks were reviewed in the third quarter. Emerging risks are recorded and monitored.

4. Progress against Post-Audit Implementation Plan

A register of all audit findings was compiled and updated to reflect action plans and progress. The register has been linked to the AGSA's key control report (dashboard report). The following is the current status, as agreed with the internal audit division:

FINANCIAL YEAR:	2012/2013
ITEM	NUMBER
Number of issues raised (findings)	28
Number of issues resolved	3
Number of issues partially resolved	25
Number of issues not yet addressed	0

The above status on the audit findings should be read in conjunction with the audit matrix. The Audit Committee had not had full sight of the audit matrix report to be able to endorse the

progress status but according to Management the table above is a true reflection of the progress made in the third quarter.

The number of repeat findings are included with "issues raised" in the table above is 14.

EXCO has endorsed a three-year rolling plan (2014 – 2016) for Internal Audit that was submitted to the Audit Committee for approval.

In this quarter, the status of the plan against actual audit work performed is 80%, of this figure 20% is still work in progress. This percentage excludes *ad hoc* as well as consulting and advisory services work performed and reported on by the unit throughout the year. In order to achieve the plan by 28 February 2014, internal audit resources will be utilised as the organisation has internal audit skills within different divisions, which will contribute to continuous development.

5. Financial Reports – NLB

NATIONAL LOTTERIES BOARD
PROVISIONAL STATEMENT OF FINANCIAL PERFORMANCE

NINE MONTHS ENDED 31 DECEMBER 2013

R'000

	CURRENT YEAR	LAST YEAR	VARIANCE
Revenue	133 215	86 778	46 437
Operating costs	(133 428)	(86 954)	(46 474)
Operating surplus	-213	-176	-37
Finance income	213	176	37
Net Recovery	-	-	-

**NATIONAL LOTTERIES BOARD
DETAILED STATEMENT OF FINANCIAL PERFORMANCE
YEAR TO DATE 31 DECEMBER 2013
R'000**

	YEAR TO DATE				FORECASTS MAR 14	
	ACTUAL	BUDGET	LYA	VARIANCE		
				BUD		LYA
	133 428	212 939	86 954	(79 511)	46 474	258 495
Interest Received	213	252	176	(39)	37	336
License Signing Fees	981	981	981	-	-	1 308
Societies & Other Lotteries	24	36	29	(12)	(5)	48
Sundry Income	11 000	-	-	11 000	11 000	1 000
NLDTF Financial Assistance	121 210	211 670	85 768	(90 460)	35 442	255 803

REVENUE

Interest Received
License Signing Fees
Societies & Other Lotteries
Sundry Income
NLDTF Financial Assistance

EXPENDITURE

Advertising & Publicity
Advertising & Publicity - Roadshow
Audit Committee Emoluments
HR Committee Emoluments
Audit Fees
Bank Charges
Board Member Emoluments
Computer Expenses
Conferences / Meetings
Consulting Fees
Courier & Postages
Depreciation/amortisation
Distributing Agency Emoluments
Electricity & Water
Facilities & Lunches
Gen Expenses
Insurance
Legal Fees

	133 428	212 939	86 954	79 511	(46 474)	258 495
Advertising & Publicity	2 553	6 508	1 483	3 955	(1 070)	8 255
Advertising & Publicity - Roadshow	252	2 753	1 891	2 501	1 639	4 164
Audit Committee Emoluments	269	261	30	(8)	(239)	500
HR Committee Emoluments	158	-	-	(158)	(158)	360
Audit Fees	2 003	2 446	1 942	443	(61)	2 996
Bank Charges	53	72	54	19	1	96
Board Member Emoluments	2 744	3 900	4 724	1 156	1 980	4 300
Computer Expenses	1 037	377	284	(660)	(753)	1 300
Conferences / Meetings	4 679	9 392	62	4 713	(4 617)	15 000
Consulting Fees	5 684	11 025	4 634	5 341	(1 050)	12 000
Courier & Postages	525	1 003	340	478	(185)	1 200
Depreciation/amortisation	1 764	2 997	1 688	1 233	(76)	4 181
Distributing Agency Emoluments	4 240	5 625	3 397	1 385	(843)	6 000
Electricity & Water	839	792	537	(47)	(302)	1 056
Facilities & Lunches	993	1 577	578	584	(415)	2 000
Gen Expenses	139	457	176	318	37	620
Insurance	157	252	178	95	21	336
Legal Fees	4 034	4 420	1 667	386	(2 367)	6 076

Motor Vehicle Expenses	62	126	39	64	(23)	200
Outsourcing	1 207	2 399	200	1 192	(1 007)	2 492
Print & Stationery	2 236	1 354	995	(882)	(1 241)	3 000
Rental Office Equipment	151	315	63	164	(88)	420
Rent Property	6 040	6 255	6 006	215	(34)	8 340
Repairs & Maintenance	1 468	640	476	(828)	(992)	1 750
Risk Benefit & Mngmnt Fees	1 049	2 062	766	1 013	(283)	2 500
Removals	4	138	3	134	(1)	144
Salaries & Wages	64 400	103 107	46 135	38 707	(18 265)	115 000
Small Assets W/Off	-	-	-	-	-	-
Staff Recruitment	503	600	25	97	(478)	800
Staff Training	1 548	2 588	541	1 040	(1 007)	3 449
Staff Welfare	360	1 645	189	1 285	(171)	1 832
Subscriptions	197	348	165	151	(32)	394
Security	185	353	45	168	(140)	421
Systems Costs	-	3 000	-	3 000	-	3 000
Telephone & Fax	1 144	1 419	961	275	(183)	1 875
Temporary Staff	3 725	7 380	2 323	3 655	(1 402)	9 664
Third Lottery Licence	10 187	12 000	-	1 813	(10 187)	16 000
Travel & Accommodation	6 677	12 993	4 168	6 316	(2 509)	16 294
Workmens Compensation	162	360	189	198	27	480
Other	-	-	-	-	-	-

NET RECOVERY

ADD	1 764	2 997	1 688	(1 233)	76	4 181
Depreciation	(90)	-	378	(90)	(468)	-
Rent : non-cash flow content	-	-	-	-	-	-
Loss on disposal of fixed assets	(6 301)	(20 700)	(5 095)	14 399	(1 206)	(27 360)
Acquisition of fixed assets	(981)	(981)	(981)	-	-	(1 308)
License Signing Fees	-	-	-	-	-	-
NET CASH FLOW	(5 608)	(18 684)	(4 010)	13 076	(1 598)	(24 487)

() in variance = unfavourable

NATIONAL LOTTERIES BOARD
STATEMENT OF FINANCIAL POSITION
 AT 31 DECEMBER 2013

R'000

	DECEMBER 2013	DECEMBER 2012	MARCH 2013
ASSETS			
Non-current assets	16 203	11 745	11 666
Property, plant and equipment	12 440	8 658	9 156
Intangible assets	3 763	3 087	2 510
Current assets	9 841	10 575	19 226
Receivables and pre-payments	864	571	790
Cash and cash equivalents	8 870	9 944	12 689
Deposits	107	60	107
NLDTF	-	-	5 640
Total assets	26 044	22 320	30 892
SURPLUS AND RESERVES			
Retained income	-	-	-

LIABILITIES

Non-current liabilities

Deferred income licence fees **517** **1 825** **1 498**

Current liabilities

Current portion of deferred licence fees	25 527	20 495	29 394
Deferred Operating Lease Liability	1 308	1 308	1 308
Trade and other payables	8 309	8 255	8 399
NLDTF	10 760	10 059	19 687
	5 150	873	-

Total equity and liabilities

26 044 **22 320** **30 892**

**NATIONAL LOTTERIES BOARD
COMMENTS ON FINANCIALS
NINE MONTHS ENDED 31 DECEMBER 2013**

1 STATEMENT OF FINANCIAL PERFORMANCE

1.1 Revenue

Revenue includes R121,2m assistance from NLDTF.

1.2 Major overheads (> 2% of total)	R'000	%
Salaries & wages	64 400	48.3
Third Lottery Licence	10 187	7.6
Travel & accommodation	6 677	5.0
Rent paid	6 040	4.5
Consulting fees	5 684	4.3
DA emoluments	4 240	3.2
Legal fees	4 034	3.0
Temporary staff	3 725	2.8
Board member emoluments	2 744	2.1
Other	25 697	19.2
	<u>133 428</u>	<u>100</u>

R'000
[f / (u)]

1.3 Variance analysis

1.3.1 NLDTF Financial Assistance

(90 460)

Zerorising of 9 months net activity (presently y-t-d underspend).

1.3.2 Advertising & Publicity

3 955

Variance due to under spending on new branding material, awareness on illegal lotteries, society lotteries and anticipated call for applications iro Arts & Charities.

1.3.3 Advertising & Publicity-Road show

2 501

Budget earmarked for capacity building workshops and there has been a slow start in this regard. It is anticipated that some expenditure will be incurred in the last quarter.

1.3.4 Audit Committee Emoluments

(8)

Variance minimal.

1.3.5 Audit Fees

443

Variance due to timing of work undertaken by the Auditor-General.

1.3.6 Board Member Emoluments 1 156

Variance mainly due to less than anticipated meetings. Also see year on year drop.

1.3.7 Computer Expenses (660)

Unanticipated extension of network infrastructure plus maintenance on database server/s.

1.3.8 Conferences / Meetings 4 713

Annual national Consultative Indaba only to be undertaken in March 2014.

1.3.9 Consulting Fees 5 341

Breakdown of functional area:			
Cost Center	Budget R'000	Actual R'000	Variance R'000
CEO's Office	450	756	-306
Board & Co. Sec	1800	596	1204
Risk	3100	179	2921
Finance	90	5	85

Human Capital	831	735	96
IT	225	652	-427
GF Admin	4189	2429	1760
M&E	200		200
Communication	0	11	-11
Contact Center	140		140
Compliance Enforcement		300	-300
Regional - East London		21	-21
	11 025	5 684	5 341

1.3.10 Depreciation/amortisation **1 233**

Variance due to less than anticipated asset purchases.

1.3.11 Distributing Agency Emoluments **1 385**

Variance due to less than anticipated adjudication meetings plus anticipated change in rates not implemented.

1.3.12 Legal Fees **386**

Budget set for sourcing of legal opinions (beneficiary cases) plus debt recovery assistance.

1.3.13 Outsourcing **1 192**

Grant Funding Workflow studies still to be undertaken and less than anticipated off-site storage coupled with greater in-house scanning.

1.3.14 Rent Property **215**

Variance due to re-categorisation of rates & taxes

1.3.15 Salaries & Wages **38 707**

New appointments (budgeted) still in progress. Benchmarking still in progress. Single biggest area for need to revisit budget composition.

1.3.16 Staff Training **1 040**

Training is under way. Variance will decrease with the conversion of study loans to training at the end of the year.

1.3.17 Temporary Staff **3 655**

Sourcing of staff assistance mainly around the Grant Funding budget has not materialised as anticipated.

1.3.18 Travel & Accommodation **6 316**

Variance due to less than anticipated travel, should pick up especially with Capacity w/shops linked with calls.

Year on year increase in operating costs

Operating costs have increased year on year mainly due to:

	TOTAL ACTIVITIES	AMOUNT (K 000)
Planned growth	Payroll costs	18 265
	Temporary staff	1 402
	Printing & stationery	1 241
Increased activity	Legal fees	2 367
	Indaba/conferences/PISE	4 617
	Staff training	1 007
	Travel	2 509
	Third lottery licence costs	6 247

Increased costs have been accordingly recovered from the NLDTF.

6. Financial Report – NLDTF

**NATIONAL LOTTERY DISTRIBUTION TRUST FUND
PROVISIONAL STATEMENT OF FINANCIAL PERFORMANCE
NINE MONTHS ENDED 31 DECEMBER 2013**

R'000

	DECEMBER 2013	DECEMBER 2012	VARIANCE
Revenue	1 164 703	1 194 852	(30 149)
Weekly game sales	1 164 703	1 194 852	(30 149)
Other	-	-	-
Operating expenses	(1 974 566)	(1 167 518)	(807 048)
Allocation of grants	(1 853 322)	(1 081 725)	(771 597)
Grant to NLB	(121 210)	(85 768)	(35 442)
Other operating expenses	(34)	(25)	(9)
Finance income	193 494	212 950	(19 456)
Net (deficit)/surplus	(616 369)	240 284	(856 653)

**NATIONAL LOTTERY DISTRIBUTION TRUST FUND
STATEMENT OF FINANCIAL POSITION**

AT 31 DECEMBER 2013

R'000

	DECEMBER 2013	DECEMBER 2012	MARCH 2013
ASSETS			
Current assets			
Investments	4 069 567	4 516 816	4 579 963
Trade and other receivables	4 108	3 425	52 984
Cash and cash equivalents	231 293	311 059	213 122
NLB	5 150	873	-
Total assets	4 310 118	4 832 173	4 846 069
SURPLUS AND RESERVES			
Retained earnings	1 820 272	2 770 252	2 436 641
At beginning of year	2 436 641	2 529 968	2 529 968
Current period	(616 369)	240 284	(93 327)

LIABILITIES

Current Liabilities	2 489 846	2 061 921	2 409 428
Provision for allocations by DA's	2 489 846	2 061 921	2 403 788
NLB	-	-	5 640
Total equity and liabilities	4 310 118	4 832 173	4 846 069

NATIONAL LOTTERY DISTRIBUTION TRUST FUND
PROVISIONAL COMMENTS ON FINANCIALS
 31 DECEMBER 2013

1 STATEMENT OF FINANCIAL PERFORMANCE

		R'000
1.1	Interest received	
	Call account	3 956
	Current account	265
	Investments	159 975
***	Investments - accrued	18 575
	Other	178 550
	Unclaimed prizes	1 551
		9 172
		193 494
1.2	Allocation of grants	R'000
	Accrual basis	1 853 322

2 STATEMENT OF FINANCIAL POSITION

- 2.1 Investments are shown in full, ie. less than three months maturity content has not been allocated to cash and cash equivalents as is ordinarily required by GRAP.

2.2	Investments include interest receivable as follows:	
	As at 31 March 2013	R'000
***	Increase / (reduction) in accrual Y-T-D	119 897
		18 575
		<u>138 472</u>
2.3	Cash and cash equivalents comprises:	
	Current account	R'000
	Call account	140 212
		91 081
		<u>231 293</u>
2.4	Provision for allocations by DA's	
	Grant accruals - Historic value	R'000
	Impact of present valuing commitments	2 558 722
		(68 876)
		<u>2 489 846</u>
2.5	Amounts due to or by the NLB merely as a result of zeroing NLB statement of financial performance bottom line.	

7. Consolidated Cash Flow Statement

NLB/NLDTF for the nine months ended 31 December 2013

	<u>R'000</u>
Net cash generated from/(utilised in) operating activities	<u>(489 743)</u>
Cash flow from investing activities	
Cash flow from investing activities	
Purchase of property, plant, Equipment and Intangibles	(6 301)
(Increase)/decrease in investments	<u>510 396</u>
Net cash (utilised in)/generated from investing activities	<u>504 095</u>
Net (decrease)/increase in cash and cash equivalents	14 352
Cash and cash equivalents at the beginning of the year	225 811
Cash and cash equivalents at the end of the period	<u>240 163</u>

8. Capital Expenditure Summary

Expenditure for the year ended 31 December 2013:

Computer equipment	895
Furniture, fixtures & fittings	2 458
Office equipment	711
Leasehold improvements	471
Intangible assets	1 766
Total	6 301
Budget for the year	27 360

ANNEXURE A

Compliance Calendar October - December 2013

OCTOBER		Status
25 October 2013	the dti requirement	Submit monthly expenditure and income statements with projections for the remaining months, explanations for material variances as well as possible remedies to be applied to ensure that expenditure and income are in line with the approved budget Yes
31 October 2013	TR 26.1.1, 26.1.2, 29.1.3, 29.3.1, 30.2.1 & 30.4.2	Submission of the second quarterly report signed by the Chairperson or Commissioner to the Minister via Public Entity Oversight (PEO). The report should be aligned to the Annual Performance Plan (APP) and Business Plan. Yes
31 October 2013	TR 29.1.3	Schedule 3B entities to submit quarterly reports on borrowing programme to National Treasury on actual borrowing for quarter and update on borrowing plan N/A
31 October 2013	the dti requirement	Submit second quarter audit committee report Yes
31 October 2013	Framework for Strategic Plans and Annual Performance Plans the dti requirement	3A public entities should submit their second draft of the Annual Performance Plans to the Minister via the PEO Yes
31 October 2013	the dti requirement	3B public entities should submit their second draft of the Corporate Plans to the Minister via the PEO N/A
NOVEMBER		
29 November 2013	the dti requirement	Submit monthly expenditure and income statements with projections for the remaining months, explanations for material variances as well as possible remedies to be applied to ensure that expenditure and income are in line with the approved budget Yes
DECEMBER		
20 December 2013	the dti requirement	Submit monthly expenditure and income statements with projections for the remaining months, explanations for material variances as well as possible remedies to be applied to ensure that expenditure and income are in line with the approved budget Yes
20 December 2013	the dti requirement	The ECIC should submit an interest make-up (IMU) budget for the 2014/15 financial year for approval (Extension of the South African Export Credit Support Agreement:2009) N/A

ANNEXURE B: Strategic Risk Register

NLB STRATEGIC RISK REGISTER 2013/14

No	Strategic objective(s)	RISK	Root cause(s)	Consequence(s)	Likelihood of impact	Severity of impact	Overall Risk Rating	Control	Future Controls	Public Controls Implementation / Delay / Disruption	Relevant Rating	Progress Reporting as at end of December 2013	Risk Owner
1	4	Inability to manage license transition.	Sensitive nature of the RFP processes. Partial control of the process.	Disrupted operations. Reduced available funding for distribution. Damage to the NBL's reputation.	5	5	25	Established RFP committee. Project management Office established.	Transition plan	KRP Committee meets on a regular basis to discuss issues relating to the RFP process	Extreme	KRP Committee meets on a regular basis to discuss issues relating to the RFP process	CEO
2	1,3	Poor IT infrastructure	Lack of IT strategy. Lack of integration of systems around the system. Insufficient IT support.	Operational inefficiencies. Increase in fraud and corruption related activities. Loss / Duplication of information. Harm to reputation. Increase d pressure from stakeholders. Inability to achieve the mandate and objectives of the NLB. Inability to make informed management decisions. Service delivery blockage. Inadequate data integrity and reliability.	4	5	20	Daily backups of the server. Draft disaster recovery plan. Tested recovery plan. IT governance oversight. Dedicated IT resources (limited). Access controlled server room. Physical control over server (raised floor, alarms, fire protection etc.).	ICT Governance Framework (developed and implemented). ICT policies and strategy (development and implementation). ICT recovery plan(developed and implemented). Appointment of CTO.	ICT Governance Framework developed and awaiting Board approval. ICT policies developed and awaiting Board approval. Disaster Recovery Policy Developed and awaiting Board approval. CTO appointed on contract, pending the outcome of the dispute with the previous CTO which is currently at CCMA.	Extreme	ICT Governance Framework developed and awaiting Board approval. ICT policies developed and awaiting Board approval. Disaster Recovery Policy Developed and awaiting Board approval. CTO appointed on contract, pending the outcome of the dispute with the previous CTO which is currently at CCMA.	Executive: Corporate Services
3		Conflict of interest	Current structure of DA's. Lack of proper mechanisms to prevent conflict of interest. Lack of proper monitoring of the effectiveness of the current controls (declaration of interest forms). Greed.	Inequitable distribution of funds. Fraud and corruption. Harm to reputation.	4	4	10	Declaration of interest forms. Current regulations.	Annual disclosures by employees, DA's, beneficiaries (grant recipients), suppliers and other stakeholders.	Annual disclosure form circulated to all employees. Disclosure form signed by DA's and Board of Directors.	Extreme	Annual disclosure form circulated to all employees. Disclosure form signed by DA's and Board of Directors.	Company Secretary

4	Fraud and Corruption	<p>Greed. Ineffective controls (Opportunity). Economic downturn. Conflict of interest. Organisational culture. Low staff morale. High volume of applications puts pressure on adjudication process. Lack of verification and reconciliation of supporting documents / information. Lack of internal capacity. Inadequate monitoring and evaluation (adjudication and distribution). Inadequate resources within risk unit.</p>	<p>Financial loss. Ineffective service delivery. Harm to reputation. Potential litigation. Undue influence from stakeholders. Depriving deserving causes of funding.</p>	4	5	20	<p>Approved fraud prevention plan and policy. Signed Code of Ethics. Corporate values, HR Ethics and social responsibility committee. Disciplinary processes for transgressors. -Utilisation of law enforcement agencies for transgressors. Segregation of duties. Supervision and reconciliatory processes. Independent whistle blowing line Pre and post site visit.</p>	<p>Fraud risk assessment. Approved integrated communication strategy (including fraud issues). Appoint fraud specialist who will work with service providers. Declaration of interest. Risk profiling of beneficiaries. Assess the effectiveness of the hotline.</p>	31-Mar-13	<p>Approved fraud prevention policy Code of ethics currently under review to ensure alignment with organisation strategy. Monthly reports on whistle blowing. Appointed forensic service providers to assist with investigations Ongoing site visits.</p>	<p>Chief Risk Officer</p>
5	Illegal lotteries	<p>Greed. Lack of clarification in the legislation (Act silent on enforcement). Lack of enforcement. Poverty. Unemployment. Lack of mechanism to prevent/detect illegal lotteries.</p>	<p>Loss of revenue. Harm to reputation. No protection of participants in illegal lotteries. Increasing secondary crime.</p>	5	4	16	<p>Civil litigation and recovery from illegal lotteries. Media monitoring to identify illegal lottery activities.</p>	<p>Proposals for amendments to the National Lotteries Act to include enforcement clauses. Benchmarking with similar jurisdictions in order to proactively regulate illegal lotteries. Stakeholder's interaction between NGB and NLB. Combined plans between NGB, NLB and other stakeholders.</p>	31-Mar-13	<p>Comments made to the DTI legislation amendment process. Policy and working procedures developed on enforcement. Ongoing in house monitoring of illegal lotteries. Ongoing Desktop research conducted on operations and regulation of lotteries in other jurisdictions.</p>	<p>Executive: Compliance</p>

11	1.,2,3,4	Possible Change in legislation	Change in other departmental legislation. Political decisions. External pressures from other stakeholders (possible conflict of interest). Need of government to consolidate regulators (International trend).	Change in service delivery model. Increase in the complexity of existing processes. Operational inefficiencies. (network of policies etc.) Focus of the NLB could change. Possible disruption in service delivery. Negative impact on ground level. Re-establishment of the Entities.	4	4	4	4	4	4	4	4	31-Mar-13	Develop and Implement a policy to enforce illegal practices. Proposed amendment to the Regulations.	Attendance of various stakeholder forums. Investigating international practices and communication to all stakeholders. Lobbying and positioning of the NLB. Provide input on the amendment of legislation to the DTL.	10	High	Executive: Compliance/ CS	Awaiting the outcome of the amendment of legislation process.
6	1.2.3.4	Poor stakeholder relationships	Lack of capacity (HR) within NLB. Lack of Stakeholder management framework. Incorrect prioritisation of stakeholders. Adversarial tone of communication.	Harm to reputation (bad media coverage) Ineffective service delivery Undue influence from stakeholders. Loss of revenue. Loss of credibility. Legal action.	4	4	4	4	4	4	4	4	31-Mar-13	Stakeholder Relations and engagement strategy to be developed within the next six months. Development of processes. Implementation of Stakeholder Strategy. Appointment of Manager Communications and Marketing and Senior Officer: Stakeholders Indaba.	Identified stakeholder matrix in annual performance plan. Approved communication strategy. Implementation of stakeholder programme. Executive corporate service appointed.	10	High	Executive: Corporate Services	Manager Communications and Marketing appointed. Senior Officers: Marketing, Stakeholder Relations and Communications Senior Officer appointed. Communications, Marketing, Media and Stakeholders Relations strategies developed and are currently being implemented. Communications protocol and Media Policy developed and are awaiting Board approval. Media monitoring and assessment done on monthly basis. Stakeholders Indaba and Inaugural awards held in April 2013. Two provincial stakeholder Indaba held in July and September 2013. more engagements still to happen in other provinces.
7	1	Inappropriate grant allocation	Lack of a clear methodology for assessing applications. Volumes of applications received. Lack of grant funding policy. Lack of differentiation between established and emerging applicants. Inappropriate advertising strategy to call for	Harm to reputation. Defaulting beneficiaries. Financial loss of impact on the communities.	4	5	4	5	4	5	4	5	31-Mar-13	Targeted calls. Full implementation of assessment matrix by DAS. Revising checklist to include regulatory requirements.	Controls in the grant application process (e.g. mandatory documents) Site visits. Submission of progress reports from beneficiaries. Whistle blowing.	10	High	Senior Executive: Grant Funding	Miscellaneous DA's has approved framework for Targeted calls. Targeted calls for schools are scheduled for January 2014. Currently engaging other DA's for targeted calls within the sectors. The checklist will be incorporated into the upgraded GMS and a manual process is currently used.

8	1.2.3.4	Continuity and sustainability of National Lottery	<p>applications. Restrictive legislation Overly complex application procedure making it difficult for certain beneficiaries to submit applications. Inability to reach rural areas.</p> <p>Dependency on national lottery operator. Economic downturn.</p>	3	5	14	<p>Harm to reputation. Increased pressure from stakeholders. Community unhappiness. Loss of revenue. Future viability of the National Lottery under pressure. Reduction in revenue. Increase in social evils. Possible increase in illegal lotteries. Unsustainability of the National Lottery. Increasing demand for funding. Reduced social impact.</p>	<p>Contract in place with the operator (onerous conditions). Implemented compliance programme. Periodic reporting from the operator. Independent hotline within National Lottery. Concessions agreed to by the NLB.</p>	<p>Alternative revenues streams???? RFP provision on sustainability.</p>	31-Mar-13	High	<p>Draft policy was tabled to DA's and Board during the strategic planning session.</p> <p>Banks were invited to present on proposed revenue generation strategies. Sustainability strategy framework developed but still pursuing other avenues. Acting revenue manager was recently appointed.</p>	Chief Financial Officer
9	3	Ineffective knowledge management (KM)	<p>Lack of KM systems (policy strategy). Loss of key staff with institutional memory. Unavailability of reliable data(input).</p>	4	3	12	<p>Possible delays in projects. Potential service delivery disruptions. Operational inefficiencies (rework etc.). Community dissatisfaction. Increased pressure from stakeholders. Inconsistent application of policies etc.</p>	<p>Partial repository of policies and procedures. Individual databases of information. Daily backups of information.</p>	<p>Develop Knowledge Management policy and strategy. Implemented retention strategy.</p>	31-Mar-13	High	<p>Knowledge Management Concept document developed. Retention strategy developed, approved and currently being implemented.</p>	Executive: Corporate Services
10	1,2,3,4,	Political Interference by other external stakeholders/f orces	<p>Differing expectations. Lack of understanding of the NLB.</p>	4	4	16	<p>Distorts fairness and equitability of available funds. Compromises independence. Distorts the public perception of the NLB.</p>	<p>Protocols for communication within the NLB.</p>	<p>Education of stakeholders. Education of all relevant external stakeholders who might have interest and influence in the running of NLB</p>	Mar-13	High		Company Secretary

12	1	Ineffective governance with various stakeholders	Lack of frameworks to govern the activities of the National Lottery and distributing agencies. Lack of coordination with the National Lottery and distributing agencies. Inadequate legislation.	Harm to reputation. Increase in complaints. Conflict and tension between parties. Reduced accountability and continuous shifting of blame.	4	4	4	4	Approved governance framework. Draft delegation of authority document in line with the governance framework. Induction and formalised structure on governance. Implemented procedure manual. Board DA meeting. Chairman's forum.	Full implementation of delegation of authority matrix. Proposed amendment to the Regulations.	Mar-13	High	The delegation of authority matrix was tabled at the Audit Committee Meeting. Suggested changes effected. To be tabled at the next audit Committee meeting for recommendation to the Board.	Company Secretary
13		Inability of management to bring about the organisational change. Incongruent expectations between management and staff.	Silo management. Unclear/lack of delegation of authority. Inadequate communication or ineffective channels between management and staff on the vision and strategic direction of the organisation.	Low staff moral. Inadequate service delivery(delayed distribution to beneficiaries, etc.). Inefficient decision making(wrong decision affecting distribution). Harm to reputation. Ineffective communication due to disjointedness. Lack of action /implementation/responsiveness of NLB and DAs. Failure to accomplish set objectives efficiently and economically.	4	4	4	4	DA board structure.	Delegation of authority. Organizational design(OD). Review and strengthening of the current communication channels and mediums between staff and management. Workshopping of strategic plan and annual plan to staff.	Mar-13	High	Delegation of authority currently under review. Suggested changes effected. To be tabled at the next audit Committee meeting for recommendation to the Board.	CEO

14	1.3.4	Inadequate / Insufficient skills	Lack of recruitment and retention strategy. Lack of human capital, talent management strategy.	4	4	4	Inability to deliver on the mandate of the NLB Reduced levels of service delivery (increase in backlogs etc.). Increased operational inefficiencies (possible rework etc.). Increased pressure from stakeholders. Community unhappiness and dissatisfaction. Low staff morale Harm to reputation Possible increase in fraud related activities. Inappropriate awarding of grants etc.	15	1	Inaccessibility to the communities	Centralised operating mode. Current positioning of the NLB infrastructure. Inadequate communication channels. Lack of a comprehensive system.	4	4	Poor service delivery. Poor enforcement of laws and regulations.	15	4	15	Functional remuneration committees. Benchmarking of salaries. Recruitment process in place. Approved policy on internships. Implemented skills plan. Recent completion of a skills audit. Minimal attendance of international conferences etc. Approved organisational structure aligned with the mandate.	Implementation of the decentralised model project plan (provincial foot print).	31-Mar-13	31-Mar-13	Tolerable	A help desk to furnish information and assist beneficiaries on the application process has been set up. Two provincial offices established and another two locations has been identified for establishment of additional two offices.	Senior Executive: Grant Funding	Executive: Corporate Services
15	1	Inadequate / Insufficient skills	Lack of recruitment and retention strategy. Lack of human capital, talent management strategy.	4	4	4	Inability to deliver on the mandate of the NLB Reduced levels of service delivery (increase in backlogs etc.). Increased operational inefficiencies (possible rework etc.). Increased pressure from stakeholders. Community unhappiness and dissatisfaction. Low staff morale Harm to reputation Possible increase in fraud related activities. Inappropriate awarding of grants etc.	16	1	Inaccessibility to the communities	Centralised operating mode. Current positioning of the NLB infrastructure. Inadequate communication channels. Lack of a comprehensive system.	4	4	Poor service delivery. Poor enforcement of laws and regulations.	16	4	16	Functional remuneration committees. Benchmarking of salaries. Recruitment process in place. Approved policy on internships. Implemented skills plan. Recent completion of a skills audit. Minimal attendance of international conferences etc. Approved organisational structure aligned with the mandate.	Implementation of the decentralised model project plan (provincial foot print).	31-Mar-13	31-Mar-13	Tolerable	A help desk to furnish information and assist beneficiaries on the application process has been set up. Two provincial offices established and another two locations has been identified for establishment of additional two offices.	Senior Executive: Grant Funding	Executive: Corporate Services
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