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Building resilience in a time of change

Presentation to the Portfolio Committee on Trade, Industry and Competition
26 October 2022

Our presentation to the PPC today

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**NLC's Role &
Mandate**

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**Notable
Outcomes
since 24 March
2022**

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**Performance
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**Operational
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Outcomes**

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**Q1:2022/2023
Performance**



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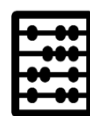
The NLC's mandate and role

The NLC's mandate rests on three areas



REGULATE

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



ADVISE

the Minister of Trade,
Industry and
Competition on policy
matters relating to the
National Lottery,
sports pools and
other lotteries.



DISTRIBUTE

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

The NLC's unique role



Sole regulator

- ✓ Sole regulator for lotteries and sports pools in South Africa



Largest grant funder

- ✓ With over R1,2 billion allocated to beneficiaries across the country, the NLC is the largest grant funder in SA.



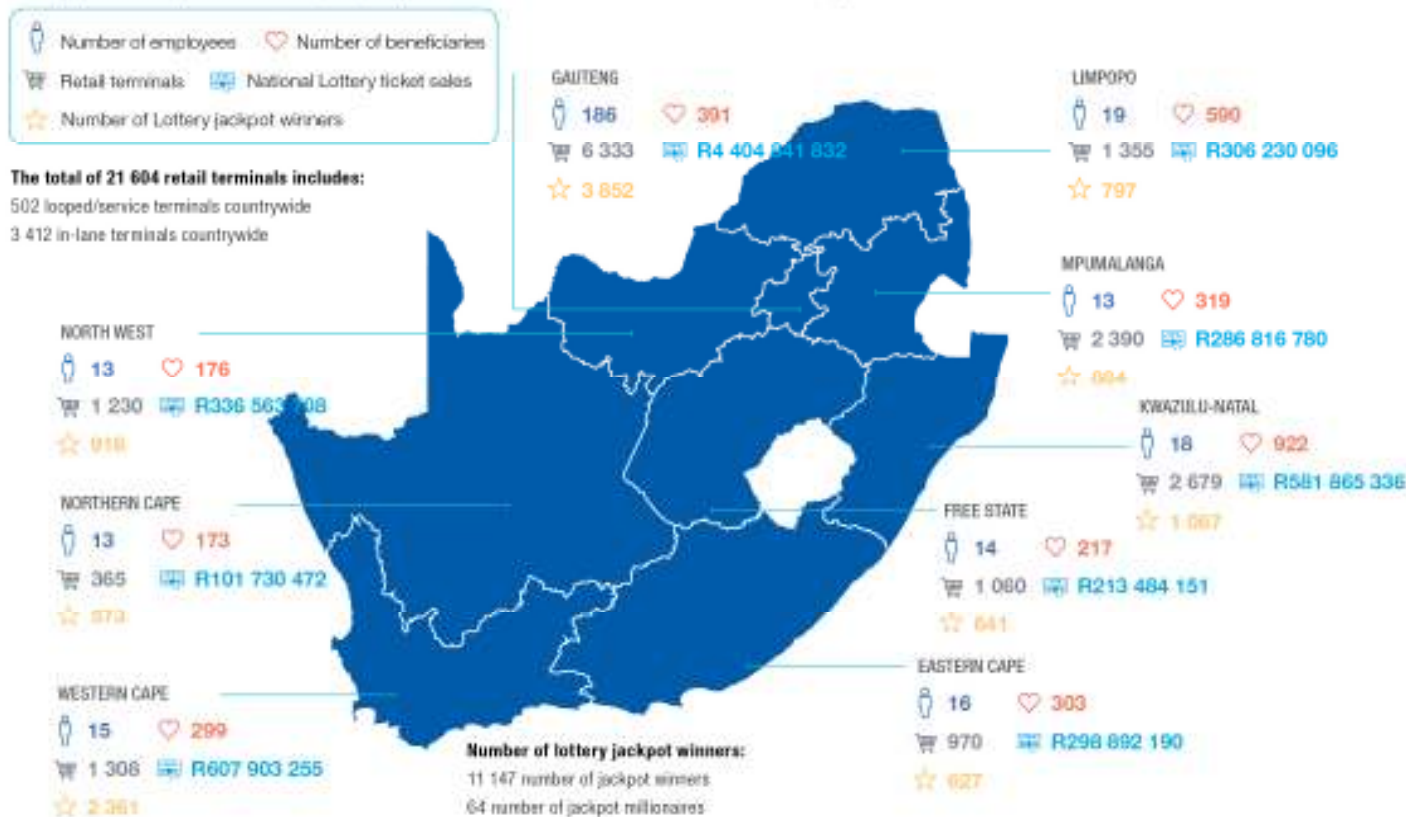
Catalyst for social upliftment

- ✓ Driven by the vision of social upliftment – anchored in the NDP, UN SDGs and AU Vision.

The NLC has a national footprint as at 31 March 2022

OUR GEOGRAPHIC FOOTPRINT

Geographical footprint = 307 employees (inclusive of interns and fixed-term contracts).



The NLC's footprint



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Notable Outcomes since 24 March 2022

Notable Outcomes since 24 March 2022

- Immediate priority was to stabilise the institution and restore integrity by re-establishing status of assurance services.
- Assessed Internal Control Environment to initiated and review the key policies
- Adopted the SKX report and forensic investigation into procurement irregularities is underway. Some persons implicated in these reports has been suspended and disciplinary processes have commenced.
- The Board instituted disciplinary processes against senior management.
- The Board accepted resignations from the former Commissioner (Ms Thabang Mampane), CFO (Ms Xolile Ntuli) and COO (Mr Phillemon Letwaba). Recruitment processes at an advanced stage.

Notable Outcomes since 24 March 2022

- In consultation with the Board, the Minister concluded a two-year extension of the Third National Lottery Licence. This resulted in an additional 4% contributions to NLDTF.
- The Board continues to consider relevant documentation in order to advise the Minister on the licensing of the Fourth National Lottery Operator.
- The Board reviewed and approved the business plan for F2022/23 of National Lottery Operator, Ithuba Holdings.
- Pro-Active Funding was suspended and the Board has undertaken a review of the entire Grant Funding value chain. A new grant funding model will be put in place in the F2023/24 financial year.

Measures to restore Integrity

- All goods and services related contracts which are irregular were discontinued on 16 September 2022 such as legal, ICT, etc. Additional controls in place for all deviations before approval
- An independent Fraud Hotline has been established in collaboration with **the dtic** Shared Services Center
- An *anti – fraud* task team has been established to co-ordinate and cooperate with Special Investigation Unit (SIU), DPCI (Hawks) and Asset Forfeiture Unit (AFU) to bring criminal charges against implicated individuals and recover assets.

The Board remains committed to implement recommendations by various structures including new initiatives like lifestyle audits, integrity tests, and other probity measures that will be implemented for both the Board and Officials to ensure we maintain the highest standards of ethics and integrity.



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Performance Overview – FY2021/2022

Performance Overview

FY2021/22 presented achievements and unprecedented challenges for our business



Highlights (FY2021/2022):

- ✓ A notable 34% increase in jobs created/supported in FY2022
- ✓ Closed down 56 investigated illegal lottery schemes
- ✓ Certified as a Top Employer for the second consecutive year



Performance Overview (continued)

FY2021/22 presented achievements and unprecedented challenges for our business

**94 % of all first
tranche payments
were paid within the
regulated 60 days**
(2020/21: 82%)



**Certified as a
Top Employer for the
second consecutive
year**

**972 retailer
inspections
were conducted**
(2021: 654)

**100% of funding
was allocated
to identified priority
areas**

**292 education and
awareness activities
conducted
against a target of
40 engagements**
(2020/21: 27)





Highlights (FY2021/2022):

- ✓ Collected R1.641 billion from national lottery operator (2021: R1,488 billion)
- ✓ Largest grant funder reaching 3 294 beneficiaries during the year (2021: 3692)
- ✓ R1.2 billion distributed to good causes this period (2021: R1.14 billion)

How NLC measure success

Building a safe and sustainable lottery industry for maximum economic and social impact

Our four strategic objectives and outcome indicators

| | |
|--|---|
|  <p>A professional and sustainable organisation</p> | <ul style="list-style-type: none"> • Action plan on raising service delivery standards • Number of education and awareness engagements conducted nationally • NLC reputation brand management action plan developed and implemented |
|  <p>Innovative and agile frameworks, systems and standards that are globally competitive</p> | <ul style="list-style-type: none"> • Percentage disbursement of grants as per GNR644, 6(c)(iv) • Level 7 B-BBEE score to be obtained • Second phase of the Fourth RFP National Lottery Licence to be implemented |
|  <p>Safe and sustainable lotteries and sports pool</p> | <ul style="list-style-type: none"> • Implement the National Lottery monitoring matrix • Implement the sports pool monitoring matrix • The National Lottery and sports pools enforcement policy to be implemented • An evaluation into actions to reduce the risk of harm to children and those most susceptible to excessive gaming to be conducted • Number of retailer inspections to be conducted nationally • Percentage of investigations on reported and identified lottery schemes |
|  <p>A sustainable and impactful civil society</p> | <ul style="list-style-type: none"> • A minimum of 90% of funding allocated to identified priority areas • Alignment of the approved grant funding model • Completion of 2500 monitoring reports • Number of funding agents registered and accredited |

Summary overall
Targets: 16
Total achieved: 15

Achievement:
94%

Programme 1 | Administration and Business Support

Number of targets: 6
Number achieved: 5

Percentage achievement: 83%

Programme 2 | Regulatory Compliance

Number of targets: 6
Number achieved: 6

Percentage achievement: 100%

Programme 3 | Grant funding

Number of targets: 4
Number achieved: 4

Percentage achievement: 100%



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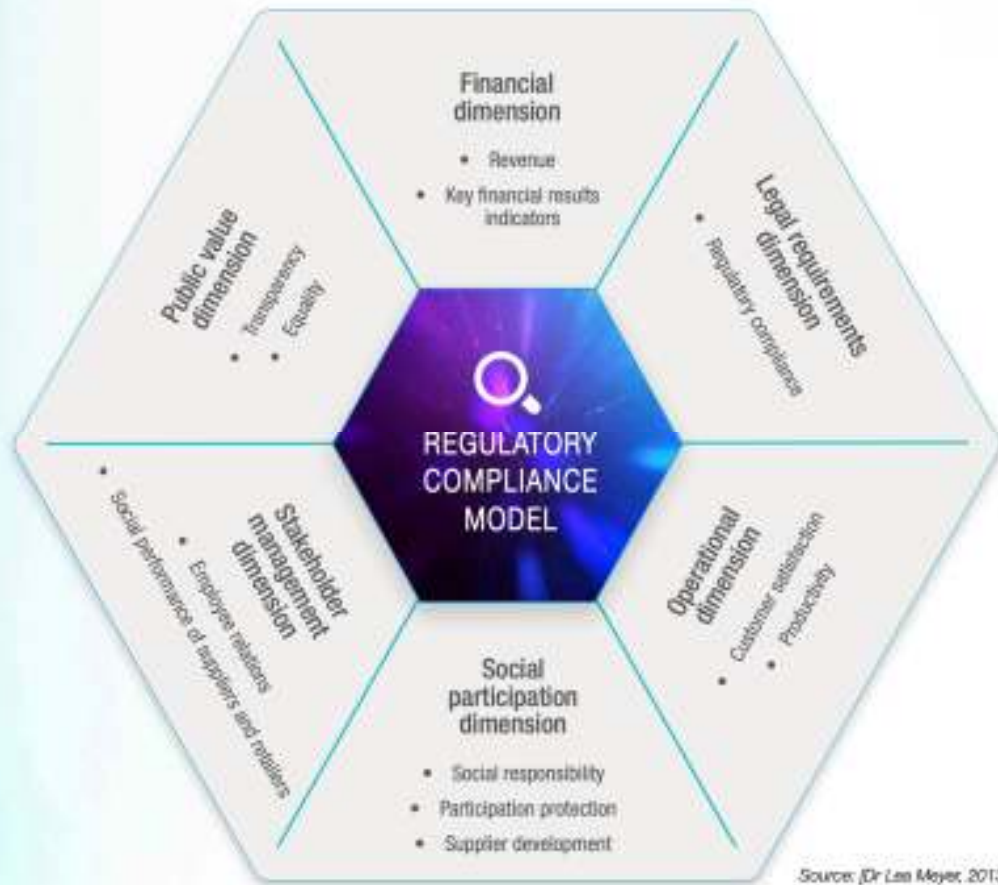
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Regulatory Compliance Outcomes

Regulatory Compliance Highlights

During the period under review, we monitored and verified that:

Achievements in 2021/2022



- ✓ **Monitoring of all lotteries and sports pools** to ensure they are conducted with integrity
 - Contributions to good causes from proceeds of the National Lottery and sports pools tickets sales were R1,641 billion
 - The National Lottery and Sports Pools Operator contributed towards localisation by procuring goods and services from local suppliers valued at R906 million for the 2021-22FY
 - Commission paid to retailers for lottery ticket sales and prize payments was R310 million for the 2021-22FY
- ✓ **Being an enabling regulator for lotteries and sports pools operators to ensure that their requests for regulatory approvals are attended to** timeously. Addressing all enquiries and complaints by providing complete and accurate information.
- ✓ **Protecting lottery and sports pool players' interests**; assisting operators of lotteries and sports pools to adhere to regulatory requirements and enforce compliance, protecting lottery and sports pools players and supporting education and awareness of the Lotteries Act.
- ✓ **Seeking new and improved ways of doing our work to ensure efficient and effective utilisation of resources**. Assessing and approving innovative ways proposed by lottery and sports pools operators to ensure the success of their operations while adhering to regulatory requirements.

Regulatory Compliance Highlights (continued)

Ensuring compliance and enforcement

Funds raised by society lotteries = R54,2 million (2020:21 R29,6 million)

| Society lotteries | Statistics |
|--|------------|
| Number of societies registered | 32 |
| Number of schemes registered | 88 |
| Number of compliance inspections conducted | 13 |
| Number of draw inspections conducted | 24 |
| Number of pre-approval inspections conducted | 33 |
| Number of exemptions granted | 6 |
| Number of compliance seminars held | 100 |
| Number of fundraising guidelines distributed | 9 063 |
| Number of lottery returns assessed | 74 |

Society lotteries

- As a result of our education and awareness initiatives, we have noted an increase in organisations registering as societies.
- During the period under review, the division developed a model for society lotteries.
- The NLC conducted inspections to determine that society lottery activities are undertaken in line with legislative prescripts

Looking ahead

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

Regulatory Compliance Highlights (Illegal lotteries and schemes)

The enforcement of illegal lotteries resulted in 56 illegal lotteries which could have generated R77,5 million from their illegal activities were closed.

| Lottery schemes investigated | Statistics |
|--|----------------|
| Number of illegal lotteries investigated and closed | 56 |
| Number of promotional competitions investigated and closed | 1 010 |
| Number of lottery schemes under investigation | 9 |
| Number of schemes investigated | 1 075 |
| Number of arrest operations for illegal lottery operators | 2 |
| Financial impact on illegal lotteries investigated | 77 538 500 (R) |

Illegal lotteries and schemes

- We identified, reviewed and subsequently discontinued various that were advertised, requiring public participation. If such lotteries are conducted without prior approval of the Board, they are rendered illegal.
- 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 lottery, and the companies were instructed to discontinue competitions.
- These are considered key achievements for the NLC for the year under review in delivering our mandate of monitoring and regulating lotteries. Above is a table summarising the number of investigations conducted for the year.



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Operational Outcomes

| Financial Year | Applications Received | Applications Funded | Percentage of applications funded | Amount Requested | Available budget | % available of funds available against requests |
|----------------|-----------------------|---------------------|-----------------------------------|------------------|------------------|---|
| 2020/21 | 7 459 | 2 781 | 37% | R12 billion | R1.3 billion | 10% |
| 2021/22 | 10 980 | 3 294 | 30% | R14 billion | R1.2 billion | 9% |

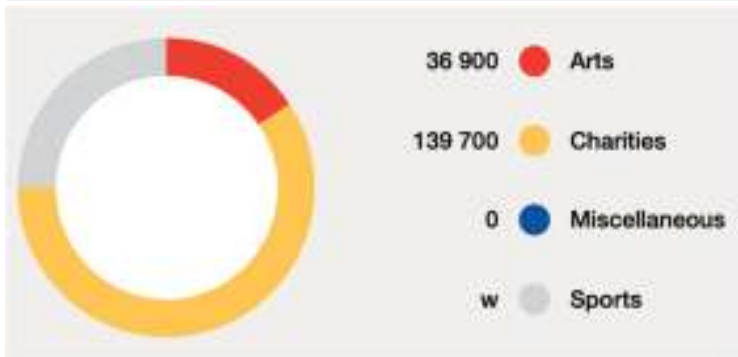
Challenges

- Demand that outstrips available funds
- Demand driven by the economic condition
- High volumes driven by broad funding focus areas
- Unauthorized agents operating

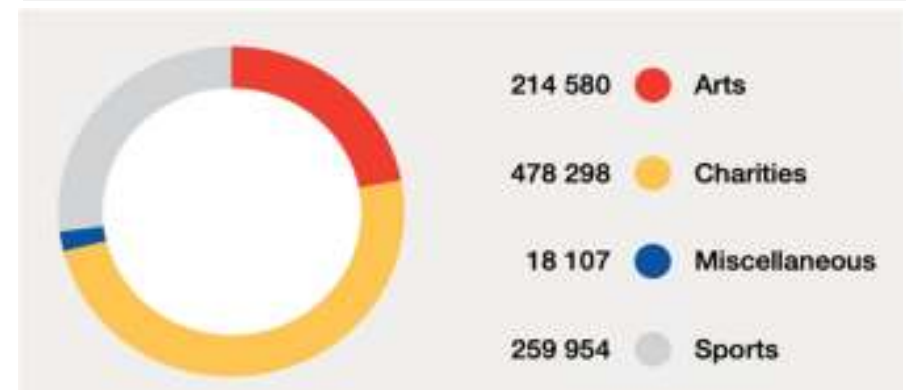
Grant Funding Highlights

During the period under review, we achieved the following:

Proactive Funding 2021/22 (R'000)

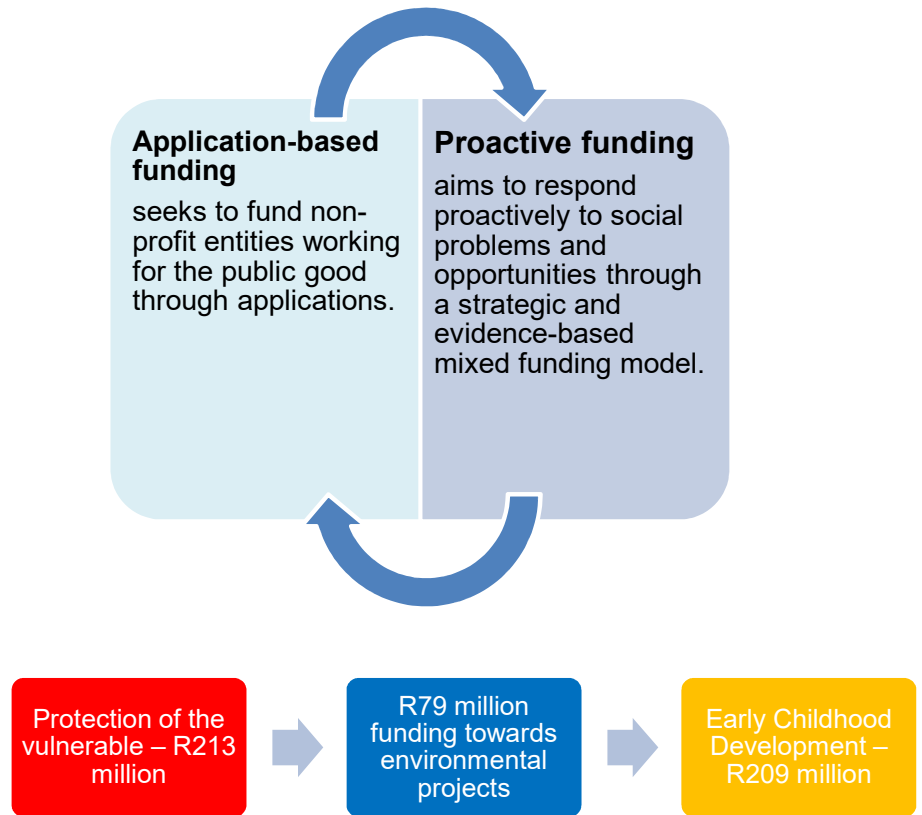


Application-based sector allocations (R'000)



- ✓ 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.

Grant Funding Highlights (continued)



12 002 jobs created and 263 229 secondary beneficiaries

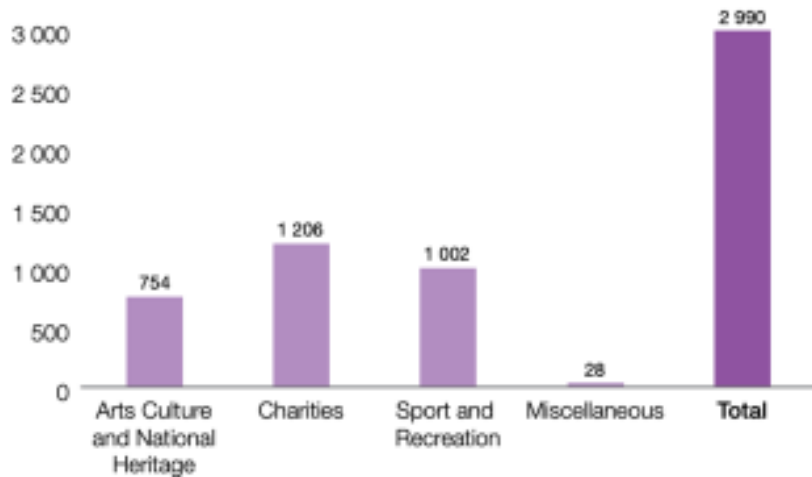
Grant Funding Achievements in 2021/2022

- ✓ The **adjudications of applications were fair**, and all decisions taken were communicated to the applicant, with **98% of these communications within 30 days** from the date of adjudication
- ✓ The **commitment that the division showed to serve the public despite the challenges of COVID-19 demonstrated extraordinary courage**. The division continued their work with competence and care, resulting in positive impacts on thousands of lives
- ✓ The **Operations Division across all provinces heeded the call to support the community's needs** and distributed personal protective equipment (PPE) to remote communities to assist in curbing the spread of COVID-19
- ✓ The **ability of the division to move with speed in the face of the virus ensured that NGOs stayed afloat**, and 12 887 households received food parcels and PPE
- ✓ In **responding to the COVID-19 virus**, the NLC contributed **R50 million towards the Solidarity Fund, R10 million toward supplying PPE and food parcels to households and R150 million towards a COVID-19 Relief Fund**.

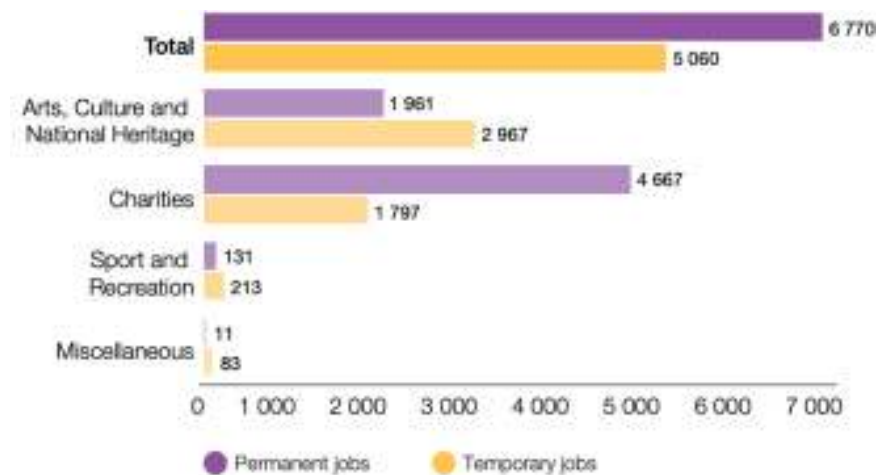
Operations Highlights

M&E Unit

Site visits conducted per financial year per sector



Job creation per financial year per sector



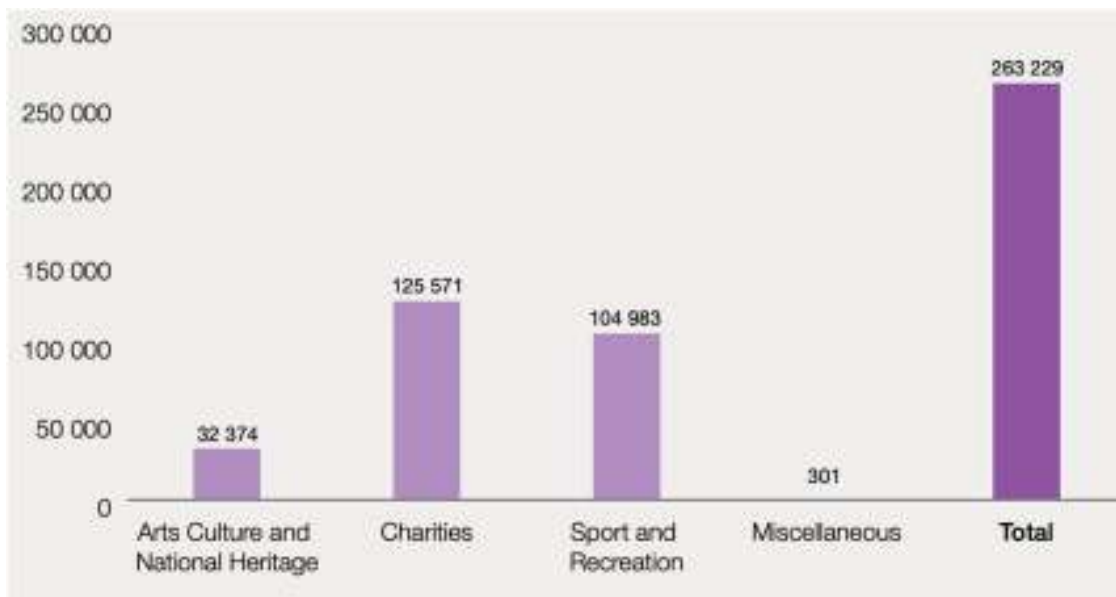
Highlights:

- ✓ The Unit routinely monitors funded projects, collecting and reporting on various outcomes indicators. Since its inception, the Unit has conducted close to 16 000 monitoring sessions, where they also assist grantees.
- ✓ A total of 8,959 jobs were created. In terms of social groups, 4,167 were adults, 4,039 youth and 162 jobs were created for people with disabilities. The Arts, Culture and National Heritage sector had the highest number of jobs created.

Operations Highlights (continued)

M&E Unit

Beneficiaries reached per sector in FY2021/2022



Highlights:

- ✓ The graph on the left shows the distribution of beneficiaries reached with services provided by the grantee organisations, through programmes or projects implemented.



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Financial Outcomes

Chief Financial Officer's review

The NLC's ambition of catalysing social upliftment does not come without its challenges. In an operating environment characterised by deteriorating macroeconomic fundamentals, we faced continued challenges in meeting the growing demand on the NLDTF.

However, we continue to look for innovative measures to maximise revenue to meet the ever-increasing needs of our broader stakeholders within a testing context.

Disbursements

**R1.49
billion**



Cash disbursed
57% increase compared to the
prior year

Proceeds from Ticket Sales

R1.641 billion



10% increase in ticket sales
despite Covid-19 impacts

Procurement

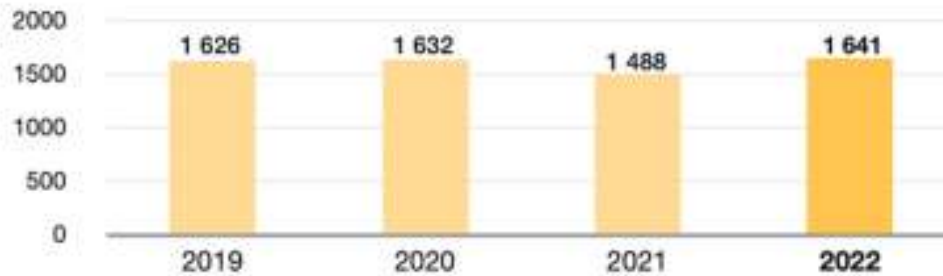
R158.2 million

Spent with designated groups – with
51% or more black-owned
businesses

Financial Outcomes

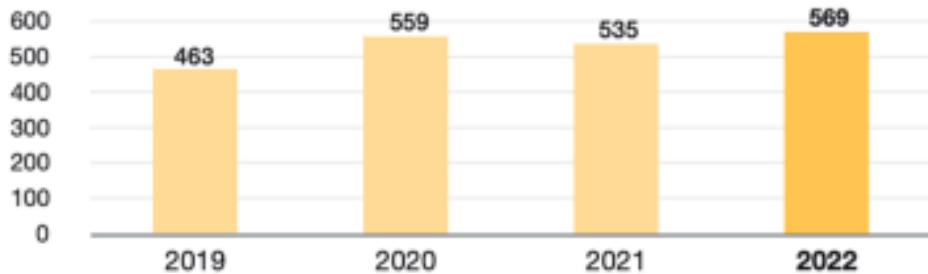
SHARE OF TICKET SALES

(R'million)



NLC OPERATING COSTS

(R'million)



Share of ticket sales

- **Revenue from share of ticket sales increased by 10% to R1.64 billion.** This marginal recovery reflects slight progress in ticket sales, after the slow sale tickets at the height of the Covid-19 pandemic.

NLC operating costs

- **NLC operating costs increased by 6.6% to R570 million.**
- **This is mainly due to an increase in investigations, legal fees, advertising and publicity.**



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AGSA Audit Outcomes – FY2021/2022

The AGSA Audit Outcomes – FY2021/2022



The Board adopted the Auditor General's report for the 2021/22

National Lotteries Commission Group

Qualified on irregular expenditure amounting to 36.8 million

National Lottery Distributing Trust Fund (NLDTF)

Unqualified

National Lotteries Participants Trust (NLPT)

Unqualified

Root cause:

Lack of consequence management

No review & monitoring of compliance legislation to ensure that three written price quotations are obtained

Internal Audit, Risk and monitoring & evaluation not adequately capacitated

Failure to implement adequate monitoring controls over the evaluation of bids

Collusion at high levels

The AGSA Audit Outcomes – FY2021/2022

(continued)

| Finding | Description | Amount | Root Cause | NLC Response |
|---|--|--|--|--|
| Irregular Expenditure analysis | Majority (R36m) is from appointments of service providers for media services without following competitive bidding process. The rest of R32m in Legal and ICT contracts. | R68 088 000.00 as disclosed in AFS R36 853 299 new- 2021/22 qualification | Slow response by management on prior audit findings resulted in significant findings in the portfolio. | <ul style="list-style-type: none"> Independent service provider appointment to undertake determination on irregular expenditure as required by National Treasury Framework Forensic investigation underway |
| Fruitless and wasteful expenditure analysis | The expenditure relate to interest on Government Employees Pension Funds (GEPF) liability | R53 000.00 | This was caused by breakdown in internal controls. | The matter relates to one employee who was under the GEPF from historical employment arrangement. All NLC employees are of NLC approved provident. |

The AGSA Audit Outcomes – FY2021/2022 (continued)

| Finding | Description | Amount | Root Cause | NLC Response |
|---|---|--------|--|--|
| Findings on compliance with legislation | Quality of financial statements Procurement and contract management Prevention of irregular, unauthorised, and fruitless and wasteful expenditure | N/A | Slow to no response by management in addressing audit findings and audit action plan | <ul style="list-style-type: none"> The interim AFS will be audited in full by Internal Audit and AGSA will conduct sampling. Contract Management and Procurement controls updated NT Frameworks on SCM have been aligned to procedures. |

The AGSA Audit Outcomes – FY2021/2022 (continued)

| Findings | Description | Amount | Root Cause | NLC Response |
|------------------------|--|--------|--|---|
| Consequence management | Unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. | N/A | Slow response by management in addressing in effecting consequences. | <ul style="list-style-type: none"> NLC has begun taking disciplinary steps on the head of supply chain Once the determination has been finalised, disciplinary action will taken against identified officials |
| Internal Controls | The accounting authority did not effectively oversee financial reporting and compliance as well as related internal controls. | N/A | Management did not adequately review and monitor financial reporting requirements as well as compliance with applicable legislation. | <ul style="list-style-type: none"> Reviewing internal controls and policies Implementing AGSA recommendations |



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Q1:2022/23 Performance

Q1:2022/2023 | Highlights

Performance: 1 April 2022 and ending on 30 June 2022

**Participation protection
awareness & education**

Conducted in
5 provinces

165
education and awareness
sessions

Socio-economic development

1789 jobs
created or retained in Q1

R27 million
allocated to KZN and EC for flood relief
efforts – via our proactive funding model

Allocations

**R120
million**
Allocated through the
application-based model

Q1:2022/2023 | Performance against the APP

| OUTCOME | OUTPUTS | OUTPUT INDICATORS | QUARTER 1 2022/23 MILESTONES | ACHIEVED / NOT ACHIEVED |
|--|---|---|--|--|
| A professional and sustainable organization | Optimal performance and effective adaptation of employees | 1.1 The Future Fit People Strategy is implemented | Develop the implementation framework and communications plan for the alignment of the structure, systems, processes and policies. | ACHIEVED The implementation framework and communications plan was developed. |
| | Protect and Strengthen the NLC Brand | 1.2 The NLC Brand Management Plan is implemented | Develop the brand management plan for the new year | ACHIEVED The brand management plan for the new year was developed. |
| | Strategic Partnerships at national and provincial level | 1.3 Identify, develop and implement Strategic partnerships with key stakeholders at provincial and national level | Appoint the working committee for the identification of provincial and national strategic key stakeholders and develop the related action plan | ACHIEVED The working committee was appointed, and the action plan was developed. |

Q1:2022/2023 | Performance against the APP

| | | | | |
|--|--|---|---|---|
| Innovative and agile frameworks, systems and standards that are globally competitive | Optimise returns to good causes | 2.1 Percentage disbursement of grants as per GNR644, 6(c)(iv) | 90% of grants disbursed | ACHIEVED 93% of grants were disbursed. |
| | Promoting transformation in the economy to enable greater inclusion and growth | 2.2 Number of Enterprise Supplier Development (ESD) Programs implemented nationally | Identify the provinces and issue the call | ACHIEVED Three (3) provinces (Gauteng, Mpumalanga & Western Cape) have been identified and the invitations for ESD Call for Applications were issued and will close on 25 July 2022. |
| | Driving digital transformation | 2.3 Formulate the organisational digital transformation strategy | Appoint the working committee and develop the framework and ToR | ACHIEVED The working committee was appointed and the framework and ToR were developed. |

Q1:2022/2023 | Performance against the APP

| | | | | |
|---|--|--|--|--|
| Safe and sustainable lotteries and sports pools | Fair and safe national lottery | 3.1 The National Lottery monitoring matrix implemented | Implement the National Lottery Monitoring Matrix | ACHIEVED The National Lottery Monitoring Matrix was implemented |
| | Fair and safe sports pools | 3.2 The Sports Pool monitoring matrix implemented | Implement the Sports Pool Monitoring Matrix | ACHIEVED The Sports Pool Monitoring Matrix was implemented. |
| | Enhanced Regulatory Activities | 3.3 Number of regulatory activities decentralised to provinces | Identify mainstream regulatory functions including the roll-out plan | ACHIEVED Two mainstream regulatory functions were identified, and the roll-out plan defined. |
| | Retailer Inspections to ensure the integrity of the National Lottery | 3.4 Number of retailer inspections conducted nationally | 200 retailer inspections conducted | ACHIEVED 231 retailer inspections were conducted. |
| | Protecting the interests and preventing harm to participants | 3.5 Percentage investigations on reported and identified lottery schemes | Conduct investigations on 80% of all identified and reported lottery schemes | ACHIEVED 80% of all identified and reported lottery schemes were investigated. |

Q1:2022/2023 | Performance against the APP

| | | | | |
|--|---|---|---|--|
| A sustainable and impactful civil society sector | Regulation 3A(1)(a) | 4.1 Percentage of applications adjudicated within 150 days | 90% of applications adjudicated within 150 days | ACHIEVED 90% of applications was adjudicated within 150 days. |
| | Funding aligned to the developmental needs of South Africa | 4.2 A minimum of 10% allocated to projects located in the districts of the District Development Model (DDM) | 10% of funding allocated to projects located in the DDM districts | ACHIEVED 22.4% was allocated to projects in the DDM districts. |
| | Monitoring and Evaluation of the projects we fund | 4.3 2000 Monitoring reports completed | Complete 600 monitoring reports | ACHIEVED 634 monitoring reports were completed. |
| | Investing in the sustainability of NLC funded organisations | 4.4 Number of capacity building programs implemented nationally | Implement 1 capacity building program | ACHIEVED Implemented the Capacity Building Training Program in Free State, Phuthaditjhaba. |

Progress against the DTIC's Joint KPIs

- During 2021, Minister Ebrahim Patel set out a directive for all entities in the dtic group to work on a set of “Joint KPI’s” (J-KPI’s). Initially, there were 7 identified areas that have now been regrouped into 3 overarching integrated outputs. The upcoming slides detail our performance against these Joint KPIs.

KPI 1

Industrialisation

- ✓ Sector Partnerships
- ✓ Localisation
- ✓ Beneficiation Initiatives
- ✓ Covid Industrial Production
- ✓ African & Global Exports
- ✓ Green Economy Initiatives
- ✓ Investment Initiatives



Progress made in Q1:2022/2023

- The Operator spent R151,688,971.68 on goods and services bought from 434 local suppliers for April and May 2022.
- For the same period, the Operator paid over R78 million in commission to retailers.
- Approximately R13 million was awarded to projects in the following fields:
 - Crafts R6,816,092
 - Textile & design R4,537,046
 - Waste Management R2,289,500

Progress against the DTIC's Joint KPIs



KPI 2

Transformation

- ✓ BEE promotion
- ✓ Worker Empowerment
- ✓ Structure of the economy: Economic concentration; SME promotion
- ✓ SEZ's and Industrial Parks
- ✓ Township Economy
- ✓ District Model Reporting
- ✓ Integrated Delivery: within DDM by dtic family



Progress made in Q1:2022/2023

- The Operator's current rating is current rating is a B-BBEE level **1**
- The Ithuba bursary fund was created to support students. R4 million was used to fund students.
- Supplier and Enterprise Development spending by the Operator was R8 million. To date the total procurement with designated for the 2022/23 FY amounted to R18.8 mil as depicted below of which:
 - ✓ Ownership by black people – R13 million
 - ✓ Ownership by youth – R1.5 million
 - ✓ Ownership by black women – R3 million
 - ✓ Ownership by black people with disability – R51 thousand

KPI 3

Delivery or Building a Capable State

- ✓ DTIC Institutional capacity: building strong capacity within staff
- ✓ Building the entity staffing and governance capacity & quick response
- ✓ Shared services from the dtic to smaller entities (cost saving) and across dtic institutions
- ✓ Rationalising functions between the department (policy/monitoring & evaluation/oversight and consequence management) and entities (delivery/administration)
- ✓ Addressing red tape and compliance in internal processes
- ✓ Review of legislation and regulations
- ✓ Ensuring effective support functions from other public entities to achieve dtic outcomes



Progress made in Q1:2022/2023

- Programme 1 of the current APP is dedicated to ensuring that the trajectory of the entity is towards ensuring an enhanced state of service delivery
- The digital transformation journey commenced in Q1 and is aimed at taking the NLC to new heights in terms of value-added services.
- The Red-Tape reduction project spearheaded by the CCRB further heralded the legislative review process with the premise being that of streamlining the grant application processes as well as consideration of enforcement powers



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Discussion



NATIONAL LOTTERIES COMMISSION

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Building resilience in a time of change

Presentation to the Parliamentary Portfolio Committee
26 October 2022