

Report of the Auditor-General

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON NATIONAL LOTTERIES COMMISSION

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

QUALIFIED OPINION

1. I have audited the consolidated and separate financial statements of the National Lotteries Commission and its subsidiaries (the group) set out on pages 82 to 128, which comprise the consolidated and separate statement of financial position as at 31 March 2023, the consolidated and separate statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matter described in the basis for qualified opinion section of this auditor's report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the National Lotteries Commission as at 31 March 2023, and its financial performance and cash flows for the year then ended, in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).
3. In my opinion, the separate financial statements present fairly, in all material respects, the financial position of the National Lotteries Commission as at 31 March 2023 and its separate financial performance and separate cash flows for the year then ended, in accordance with the Standards of GRAP and the requirements of the PFMA.

BASIS FOR QUALIFIED OPINION

ALLOCATION OF GRANTS

4. I was unable to obtain sufficient appropriate audit evidence of whether all approved allocation of grants were recorded in the consolidated financial statements, due to the status of the accounting records. I was unable to confirm whether all the allocation of grants

were recorded by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to allocation of grants stated at R972 353 000 in the consolidated financial statements.

CONTEXT FOR OPINION

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the consolidated and separate financial statements section of my report.
6. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

OTHER MATTER

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

NATIONAL TREASURY INSTRUCTION NO. 4 OF 2022-23: PFMA COMPLIANCE AND REPORTING FRAMEWORK

9. On 23 December 2022 National Treasury issued Instruction Note No. 4: PFMA Compliance and Reporting Framework of 2022-23 in terms of section 76(1)(b), (e) and (f), 2(e) and (4)(a) and (c) of the PFMA, which came into effect on 3 January 2023. The PFMA Compliance and Reporting Framework also addresses the disclosure of unauthorised, irregular expenditure and fruitless and wasteful expenditure. Among the effects of this framework is that irregular, fruitless, and wasteful expenditure incurred in previous financial years and not addressed is no longer disclosed in the disclosure notes of the annual financial statement, only

the current year and prior year figures are disclosed in note 41 to the financial statements. The movements in respect of irregular expenditure and fruitless and wasteful expenditure are no longer disclosed in the notes to the annual financial statements of National Lotteries Commission. The disclosure of these movements (e.g. condoned, recoverable, removed, written off, under assessment, under determination and under investigation) are now included as part of other information in the annual report of the auditees. We do not express an opinion on the disclosure of irregular expenditure and fruitless and wasteful expenditure in the annual report.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

10. The accounting authority is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the Standards of GRAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
11. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

RESPONSIBILITIES OF THE AUDITOR-GENERAL FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

12. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

13. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

14. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for selected programmes presented in the annual performance report. The accounting authority is responsible for the preparation of the annual performance report.
15. I selected the following programmes presented in the annual performance report for the year ended 31 March 2023 for auditing. I selected programmes that measures the public entity's performance on its primary mandated functions and that are of significant national, community or public interest.

| Programme | Page numbers | Purpose |
|-----------------------|--------------|---|
| Regulatory Compliance | [31] | To ensure that the trust and integrity of the lottery landscape is maintained through exercising our regulatory oversight in enforcing safe and sustainable lotteries and sports pools. |
| Grant Making | [32] | Supporting a sustainable and impactful civil society sector to boost economic growth, inclusion and to enable meaningful transformation |

16. I evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the public entity's planning and delivery on its mandate and objectives.
17. I performed procedures to test whether:
 - the indicators used for planning and reporting on performance can be linked directly to the group's mandate and the achievement of its planned objectives

- the indicators are well defined and verifiable to ensure that they are easy to understand and apply consistently and that I can confirm the methods and processes to be used for measuring achievements
 - the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
 - the indicators and targets reported on in the annual performance report are the same as what was committed to in the approved initial or revised planning documents
 - the reported performance information is presented in the annual performance report in the prescribed manner
 - there are adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.
18. I performed the procedures for reporting material findings only; and not to express an assurance opinion.
19. The material findings on the performance information of the selected programmes are as follows:

Programme 3: Grant making

Indicator 4.2- A minimum of 10% allocated to projects located in the districts of the District Development Model (DDM)

20. The indicator was included in the approved annual performance plan and strategic plan but not clearly defined during planning processes. It was also not determined how related target would be measured and what evidence would be needed to support the achievement. Consequently, the information might be less useful for measuring performance.

Adequate processes had not been established to consistently measure and reliably report on this indicator. Consequently, I could not confirm the reliability of the reported achievement of 100% against the target of 10%.

OTHER MATTER

21. I draw attention to the matters below.

ACHIEVEMENT OF PLANNED TARGETS

22. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- and underachievements. This information should be considered in the context of the material findings on the reported performance information.

MATERIAL MISSTATEMENTS

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of programme 3; Grant Making. Management did not correct all of the misstatements and I reported material findings in this regard.

REPORT ON COMPLIANCE WITH LEGISLATION

24. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting authority is responsible for the group's compliance with legislation.
25. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
26. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the group, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
27. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

ANNUAL FINANCIAL STATEMENTS, PERFORMANCE AND ANNUAL REPORT

28. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper

records, as required by section 55(1) (a) and (b) of the PFMA. Material misstatements of receivables, revenue and expenditure identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified an opinion.

EXPENDITURE MANAGEMENT

29. Resources of the National Lottery Distribution Trust Fund were not utilised economically, as required by section 57(b) of the PFMA. The non-compliance resulted in a material irregularity as reported in the section on the material irregularities.
30. Effective and appropriate steps were not taken to prevent irregular expenditure as disclosed in note 41 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by no clear guidance on the scoring of the sub criteria in evaluations.

PROCUREMENT AND CONTRACT MANAGEMENT

31. Some of the goods and services of a transaction value of R2 000 but not exceeding R1 000 000 were procured without following quotation process and deviations were not approved by the accounting officer and it was practical to follow quotation process, as required by Treasury Regulation 16A6.1, paragraph 3.2.1 and 3.2.4(a) of NTI 02 of 2021/22, paragraph 4.1 of NTI 03 of 2021/22 and TR 16A6.4. Similar non-compliance was also reported in the prior year.
32. Some of the goods and services were procured without obtaining at least three written price quotations in accordance with Treasury Regulation 16A6.1 and paragraph 3.2.1 of SCM instruction note 2 of 2021/22. Similar non-compliance was also reported in the prior year.
33. Some of the goods and services of a transaction value above R1 000 000 were procured without inviting competitive bids , as required by Treasury Regulation 16A6.1, paragraph 3.3.1 of NTI 02 of 2021/22 , paragraph 4.1 of NTI 03 of 2021/22 and TR 16A6.4. Similar non-compliance was also reported in the prior year.
34. Some of the deviation process followed in respect of identifying prospective suppliers are not in line with the process prescribed in the institution's the SCM policy as required PFMA instruction note no.3 of 2021/22 par. 4.4.(d).

35. Some of the bid invitation to tender for procurement of commodities designated for local content and production did not stipulated the minimum threshold for local production and content as required by the 2017 Procurement Regulation 8(2). Similar non-compliance was also reported in the prior year.
36. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content in accordance with paragraph 3.4 of National Treasury Instruction Note 4 of 2015/2016.
37. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).

CONSEQUENCE MANAGEMENT

38. I was 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. This was because investigations into irregular expenditure were not performed
39. Disciplinary steps were not taken against some of the officials who had incurred and permitted irregular expenditure, as required by section 51(1)(e)(iii) of the PFMA.

OTHER INFORMATION IN THE ANNUAL REPORT

40. The accounting authority is responsible for the other information included in the annual report. The other information referred to does not include the consolidated and separate financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported on in this auditor's report.
41. My opinion on the consolidated and separate financial statements, the report on the audit of the annual performance report and the report on compliance with legislation, do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
42. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the consolidated and separate financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

43. The other information I obtained prior to the date of this auditor's report is the accounting authority's report, registers of historical balances of registers of irregular, fruitless and wasteful expenditure and the Foreword by Minister and Chairperson of the Board, Commissioner's Overview, Corporate Governance report and Human Resource Management Report are expected to be made available to us after 31 July 2023.
44. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
45. Particulars of irregular, fruitless and wasteful expenditure included in the annual report is materially inconsistent with audit evidence obtained during the audit. Irregular and Fruitless and wasteful expenditure was not recorded in the registers of the entity.
46. When I do receive and read the Foreword by Minister and Chairperson of the Board, Commissioner's Overview, Corporate Governance report and Human Resource Management Report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROL DEFICIENCIES

47. I considered internal control relevant to my audit of the consolidated and separate financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
48. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
49. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as material misstatements were identified.
50. Management did not implement controls over daily and monthly processing and reconciling of transactions as misstatements were identified.
51. Management did not review and monitor compliance with applicable legislation as instances of non-compliance with legislation were identified.

MATERIAL IRREGULARITIES

52. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

MATERIAL IRREGULARITIES IN PROGRESS

53. I identified a material irregularity during the audit and notified the accounting authority, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response of the accounting authority was not yet due. This material irregularity will be included in next year's auditor's report.

OTHER REPORTS

54. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
55. On 6 November 2020 Proclamation No. R.32 of 2020 (Proclamation) was signed by the president. Pursuant to the proclamation the Special Investigating Unit (SIU) conducted a search and seizure at National Lotteries Commission premises on 8 December 2020 during which many of the auditee's copies of items and information, including various files concerning funding, were seized. This was in light of an investigation being conducted on the National Lottery Distribution Trust Fund, which covers the period 1 January 2014 to 6 November 2020. The investigation was in progress at the date of this auditor's report.
56. Two investigations are currently in progress which are being performed by the SIU and Hawks, relating to grant funding allegations levelled against beneficiaries, management and former board members.

Auditor General

Pretoria
31 July 2023



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- the auditor-general's responsibility for the audit
- the selected legislative requirements for compliance testing.

AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

PROFESSIONAL JUDGEMENT AND PROFESSIONAL SCEPTICISM

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected programmes and on the group's compliance with selected requirements in key legislation.

FINANCIAL STATEMENTS

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made

- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the public entity and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a group to cease operating as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

| Legislation | Sections or regulations |
|--|--|
| Public Finance Management Act 1 of 1999 (PFMA) | Sections 51(1)(a)(iv); 51(1)(b)(ii); 51(1)(e)(iii); 53(4); 54(2)(c); 54(2)(d); 55(1)(a); 55(1)(b); 55(1)(c)(i); 56(1); 56(2); 57(b) |
| Treasury Regulations for departments, trading entities, constitutional institutions and public entities (TR) | Treasury Regulations 8.2.1; 8.2.2; 16A3.1; 16A3.2; 16A3.2(a); 16A6.1; 16A6.2(a) & (b); 16A6.2(e); 16A6.3(a); 16A3.3(a)(i); 16A6.3(b); 16A6.3(c); 16A6.3(d); 16A6.3(e); 16A6.4; 16A6.5; 16A6.6; 16A7.1; 16A7.3; 16A7.6; 16A7.7; 16A8.2(1); 16A8.2(2); 16A8.3; 16A8.3(d); 16A8.4; 16A9.1; 16A9; 16A9.1(b)(ii); 16A9.1(c); 16A9.1(d); 16A9.1(e); 16A9.1(f); 16A9.2; 16A9.2(a)(ii); 16A9.2(a)(iii); 30.1.1; 30.1.3(a); 30.1.3(b); 30.1.3(d); 30.2.1; 31.1.2(c); 31.2.1; 31.3.3; 33.1.1; 33.1.3 |
| Prevention and Combating of Corrupt Activities Act No.12 of 2004 (PRECCA) | Section 29; 34(1) |
| Construction Industry Development Board Act No.38 of 2000 (CIDB) | Section 18(1) |
| Construction Industry Development Board Regulations | Regulations 17; 25(1); 25(5) & 25(7A) |
| Preferential Procurement Policy Framework Act 5 of 2005 (PPPFA) | Sections 1(i); 2.1(a); 2.1(b); 2.1(f) |
| Preferential Procurement Regulations 2017 (PPR) | Regulations 4.1; 4.2; 5.1; 5.3; 5.6; 5.7; 6.1; 6.2; 6.3; 6.5; 6.6; 7.1; 7.2; 7.3; 7.5; 7.6; 7.8; 8.2; 8.5; 9.1; 9.2; 10.1; 10.2; 11.1; 11.2; 12.1 and 12.2 |
| Preferential Procurement Regulations (PPR) 2022 | Regulations 3.1; 4.1; 4.2; 4.3; 4.4; 5.1; 5.2; 5.3; 5.4 |
| PFMA SCM Instruction no. 09 of 2022/2023 | Paragraphs 3.1; 3.3 (b); 3.3 (c); 3.3 (e); 3.6 |
| National Treasury Instruction (NTI) No.1 of 2015/16 | Paragraphs 3.1; 4.1; 4.2 |
| NT SCM Instruction Note 03 2021/22 | Paragraphs 4.1; 4.2(b); 4.3; 4.4; 4.4(a); 4.4 (c)-(d); 4.6; 5.4; 7.2; 7.6 |
| NT SCM Instruction 4A of 2016/17 | Paragraph 6 |
| NT SCM Instruction Note 03 2019/20 | Paragraphs 5.5.1(vi); 5.5.1(x); |
| NT SCM Instruction Note 11 2020/21 | Paragraphs 3.1; 3.4(a) and (b); 3.9; 6.1; 6.2; 6.7 |
| NT SCM Instruction note 2 of 2021/22 | Paragraphs 3.2.1; 3.2.2; 3.2.4(a)&(b); 3.3.1; 3.2.2; 4.1 |
| PFMA SCM Instruction 04 of 2022/23 | Paragraphs 4(1); 4(2); 4(4) |
| Practice Note 5 of 2009/10 | Paragraph 3.3 |
| PFMA SCM instruction 08 of 2022/23 | Paragraphs 3.2; 4.3.2; 4.3.3 |
| NT instruction note 4 of 2015/16 | Paragraph 3.4 |
| Second amendment of NTI 05 of 2020/21 | Paragraphs 4.8; 4.9 ; 5.1 ; 5.3 |
| Erratum NTI 5 of 202/21 | Paragraphs 1; Paragraphs 2 |
| Practice note 7 of 2009/10 | Paragraph 4.1.2 |
| Practice note 11 of 2008/09 | Paragraphs 3.1; 3.1 (b) |
| NT instruction note 1 of 2021/22 | Paragraph 4.1 |