



ACCOUNTABILITY AT THE HEART OF TRUST

During the 2019/20 financial period, the NLC successfully distributed funding to 4 000 beneficiaries, 53% of the funding was distributed to rural areas, while 43% of funded beneficiaries were in urban townships and 4% in urban-suburban.

Accountability is the cornerstone of trust, not knowing how public funds are utilised leads to mistrust. The NLC aims to grow and preserve the trust relationship with its stakeholders by conducting business ethically and protecting public funds, received from the National Lottery operator and distributed to NPO for good causes, against fraud and corruption.

Sound/Good Corporate governance is the golden thread that runs through the NLC's operations. Our leadership's drive to preserve a culture of sound corporate governance and the maintenance of healthy internal controls ensure transparent and effective corporate governance in pursuit to become a beacon of corporate governance excellence.

We provide controls to mitigate against potential and perceived corruption through various groundbreaking initiatives to not only drive the ethical message home but to ensure our valued employees and external stakeholders engage in ethical practices.

The NLC takes cognisance of all corporate governance issues emanating from our stakeholders, objectively and critically analysing the matters and proactively managing and implementing required controls to ensure our mandate is delivered effectively and efficiently. Reputational risk has been a critical focus for the NLC in the year under review. Driven by our stakeholder inclusive approach, we pro-actively embarked on a process to investigate claims concerning corruption within the NLC from a media outlet, as well as a political organisation, and whether remedial action was required. We used this opportunity to look inward and apply thorough measurement techniques to ascertain the validity of these aspersions.

To respond proactively to these claims, the NLC applied the following globally accepted techniques of measuring corruption:

Measure 1: Perceptions of corruption

The Board undertook to measure perceptions by commissioning an independent ethics risk assessment, which included a media exposure analysis. The media exposure analysis offers a comprehensive review and examination of the NLC's media coverage with the aim of establishing the quantity and quality of media coverage afforded to the organisation in the recent past, where these reports could have either enhanced or undermined the organisation's reputation.

The analysis covered print, broadcast and online media. At an overall level, media stories that portrayed the NLC as ethical accounted for 52% of the total media share while media coverage that described the NLC as unethical accounted for 48%.

Key findings revealed that, in general, online media dominates the media coverage, led by GroundUp, followed by Daily Maverick. Print Media is led equally by the Citizen, Johannesburg Edition, the Citizen KZN and the Citizen Country Edition. eNCA, followed by SAfm lead broadcast media reports.

From the media analysis, it became clear that media reports relating to unethical conduct concerned proactively funded projects, which have been investigated. Furthermore, in a bid to ensure the NLC's integrity is not undermined, these projects were reinvestigated at the Board's direction by calling for members of the public to submit any alleged fraud, corruption and misappropriation of funds under a special investigation by an independent audit firm. The outcomes of the special investigations are imminent.

Measure 2: Experience of corruption

We believe that leadership based on ethical foundations results in a culture of ethical and moral behaviour and compliance with laws, rules, codes and standards. During the year, we carried out an independent assessment to monitor adherence to the company's ethical standards. Such audits establish the depth and clarity of leaders' understanding of ethics and, specifically, the extent of ethical practices within the company.

The response rate for the ethics monitor survey was 69.7%, relative to the benchmark average of 65%. This is especially noteworthy given that the survey took place during the lockdown, reflecting a sound level of ethical engagement among employees. The NLC scored an overall AA ethics rating on a scale from D to AAA, where AAA is the best result and D is the worst.

Overall AA rating	This score was obtained based on questions such as the below:	Overall score/10
This is based on a score of 6.78 on the ethical boundary axis and 4.76 on the behaviour axis, indicating that employees (including executives and managers) consider the organisation to be largely ethical, especially in its treatment of stakeholder groups	Employees' commitment to values	9.58
	The extent to which leaders live core ethical values	8.12
	The effectiveness of factors that promote ethical behaviour	8.07
	How the organisation is perceived in terms of fulfilling its social and environmental responsibilities	8.04

The NLC also conducted an analysis of its stakeholder's real level of interaction with corruption. The assessment was conducted through our whistleblowing hotlines, where NLC was able to gauge the public's experience as it relates to corrupt activities over the past three years.

	Consolidated 3 Years	2017/18	2018/19	2019/20
No. of complaints against total applications processed	0,80%	0,72%	0,79%	0,88%
No. of complaints against total beneficiaries funded	1,10%	0,90%	1,03%	1,38%
Amount related to complaints against total grants paid	2,87%	4,48%	2,67%	0,50%

Consolidated Report for 3 Years

Nature of complaints – percentage split

Fraud Scam	52,00%
Misuse of Funds (on investigation it was found that complaints emanate from beneficiaries who are not well-versed with NLC's funding requirements have redirected funding for other items not allocated for funding by NLC and have failed to apply for deviation as per the grant agreement or those who failed to submit progress reports due to lack of resources. On inspection it was found that beneficiaries implemented projects as agreed. The intervention was education and awareness on Corporate Governance)	37,00%
Breach of Confidentiality	1,00%
Collusion/Combo Courts	2,00%
Corruption	2,00%
Extortion	1,00%
Fraud	3,00%
Unknown	3,00%

Outcomes – percentage split

Referred to SAPS	52,00%
Referred for Advocacy & Assessment for Recovery	37,00%
No Findings	11,00%
Disciplinary Action	3,00%

Persons Implicated in Complaints

NPO/Beneficiary	97,00%
NLC Employees	3,00%

Measure 3: Proxy indicators and risks of corruption

The NLC has a zero-tolerance risk appetite for fraud and corruption. All possible cases have been thoroughly assessed and, where required, internally and independently investigated.

In line with this, we continue to focus on clean administration and transparency to enable accountability. The audit of the NLC Group carried out by the Auditor-General of South Africa is one such avenue of accountability. The Auditor-General audits each state entity, providing insight into the way public funds are managed. Unfortunately, the 2020 annual report released by the Auditor-General of South Africa highlighted that irregular expenditure remained high across public entities, non-compliance with supply chain management legislation continued to increase, and auditees' financial health deteriorated.

Comparison against 2018/19 Auditor-General audit outcomes/Risk Indicators

Risk indicator	Overview of 2018/19 Auditor-General audit outcomes	NLC outcomes
Financially unqualified with no findings – Financial statements prepared in line with relevant standards – No material misstatements – Performance objectives reported accordingly Service delivered to the public	100 auditees	Sustained overall audit outcome of the National Lotteries Commission (separate annual financial statements) and National Lottery Distribution Trust Fund (separate annual financial statements) financially unqualified opinion with no findings on compliance focus areas and predetermined objectives (clean) over the past financial years. All assurance service providers (Senior Management, Internal Audit, Board, BARG, Minister) were assessed as "providing assurance – Good". This can be attributed to the entity having the right skills set in key management positions and a leadership that maintained sound internal controls throughout the financial period. The NLC's leadership and senior management, under the direction of the Commissioner, have demonstrated sound knowledge of the entity and their individual roles in contributing to the daily machinery of the entity. This is confirmed by submitted annual financial statements and report on performance information, which did not contain material misstatements. Whilst controls to detect, prevent or correct internal control deficiencies and non-compliance with applicable legislation are currently in place, care should be taken to maintain the current internal control climate to prevent a change in these outcomes.
Financially unqualified with findings – Financial statements prepared in line with applicable standards – No material misstatements Problems with performance reporting and compliance with laws	182 auditees	
Financially qualified opinion with findings – No management and accounting of funds in its custody Material misstatements with no evidence to conclude misstatements	86 auditees	The NLC's leadership and senior management, under the direction of the Commissioner, have demonstrated sound knowledge of the entity and their individual roles in contributing to the daily machinery of the entity. This is confirmed by submitted annual financial statements and report on performance information, which did not contain material misstatements. Whilst controls to detect, prevent or correct internal control deficiencies and non-compliance with applicable legislation are currently in place, care should be taken to maintain the current internal control climate to prevent a change in these outcomes.
Adverse opinion with findings – No rules followed and procedures not adhered to for accounting of spending Material misstatements	4 auditees	
Disclaimed opinion with findings Finance poorly managed and no evidence provided to support financial statements	11 auditees	SAICA recognition for Excellence in Public Finance Management. Internal Audit found the control environment as effective.
Outstanding audits – Submitted late for audit or not submitted at all As bad as disclaimed opinion	49 auditees	

Risk indicator	Overview of 2018/19 Auditor-General audit outcomes	NLC outcomes
Unauthorised expenditure • Unplanned spending going over budget and administrative errors	R1.37 billion	Zero unauthorised expenditure
Irregular expenditure • Incurred without following legislative prescriptions	R62.6 billion	Zero irregular expenditure
Fruitless and wasteful expenditure • Spending that could have been avoided	R849 million	Zero fruitless and wasteful expenditure
Material irregularities	<ul style="list-style-type: none"> 39% of auditees were found to have unfair or uncompetitive procurement processes resulting in overpricing of goods and services procured 4% of auditees found to have unfair procurement processes resulting in supplier appointed that did not deliver 39% of auditees found to have payments or services not received 7% of auditees paid for poor-quality work 11% of invoices and claims not paid on time 	<ul style="list-style-type: none"> NLC's procurement processes were found to be fair and competitive mitigating against overpricing of goods and services procured NLC appointed service providers who delivered services as per contractual obligations No payments made for services not rendered No payments made for poor quality work NLC made payments within an average of 13 days for services received and quality work
• Financial Health and Going Concern Status	36% of auditees found to be in a deficit	Overall the financial viability is assessed as good over time

It is against this backdrop that we recognise our heightened responsibility to demonstrate effective, ethical governance practices. Pleasingly, the NLC has over the past four years (up to 2018/19) sustained financially unqualified opinions with no findings on compliance focus areas and 100% performance against predetermined objectives (clean) for the National Lotteries Commission (separate annual financial statements) and National Lottery Distribution Trust Fund (separate annual financial statements) and National Lotteries Participants Trust (separate annual financial statements). Furthermore, the NLC has been recognised by the Auditor-General of South Africa at the Clean Audit Awards for these achievements. The NLC will share audit outcomes for the 2019/20 financial year in due course.

The NLC takes cognisance of measures that could result in corrupt activities in regard to service delivery standards, as a result, the following measures are in place to mitigate risks:

Service recipients have power to hold those charged with the duty of monitoring service providers accountable	<ul style="list-style-type: none"> Whistleblowing hotlines Approach to Public Protector Annual audits by AGSA Internal complaints handling process
Ease with which the performance of service providers can be monitored	<ul style="list-style-type: none"> Decentralised provincial offices sufficiently capacitated Zero backlogs Immediate service of queries, advice and acceptance of compliant applications, as well as lottery-related enquiries
Payment towards Services offered by Organisation	All NLC services rendered free of charge, therefore accessible to general public.
Apparent salience to the experimental context of professional norms	<ul style="list-style-type: none"> Grant funding and regulatory professional norms and standards adopted. Throughout the NLC, members form part of respective professional bodies and applicable standards are practiced. NLC employees are remunerated responsibly and competitively, thereby reducing occurrence of employee-led fraud and corruption
Generate the expected levels of technical and financial performance	<ul style="list-style-type: none"> Consistently delivered 100% performance with Annual Performance Plan. Consistent clean audits Monitoring and evaluation National Lottery and Sports Pools monitoring matrices
Strengthened institutional capacity at local, district and national levels	Institutional capacity strengthened through decentralisation to provincial offices and robust employee development programme
Efficient and effective model of public service delivery	<ul style="list-style-type: none"> NLC responsive to community needs, ensuring application turnaround times within 150 days Payment turnaround times have improved to within 60 days of signing of grant agreement Payment of service providers within an average of 13 days from invoice

Measure no 4: Informality and the limits of corruption

Informal practices like the acceptance of gifts tend to blur the lines between bribery and genuine gifts provided in the ordinary course of business. The NLC ethics office has evolved over the years through its review of the NLC Code of Conduct, which incorporates and provides clear guidelines on the handling of gifts, as well as instituting a technological platform to manage these.

According to these records, employees received minimal gifts, with the practice of accepting gifts not encouraged. Quarterly analysis is conducted, with a trend analysis showing no indication of gifts received that contradict policy.

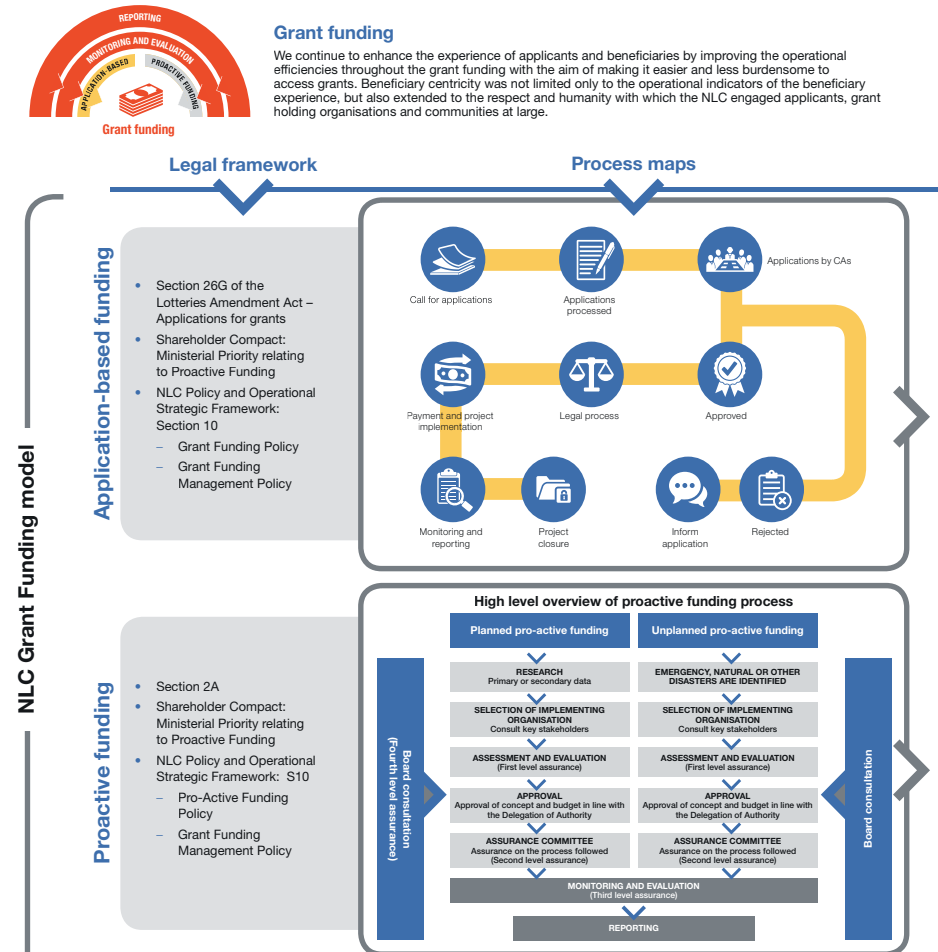
Measure 5: Integrity – Shifting policy agendas

The NLC has a progressive policy framework that draws from legislation and global corporate governance best practice, as well as directives issued by relevant bodies to ensure proactive adherence. Our policies are intended to empower, educate and foster a values-based implementation of our mandate.

The advances we have made through the use of technological platforms and innovative means of engagement with our stakeholders has inculcated a culture of governance and control, ensuring credibility and integrity in our processes.

Looking ahead

We welcome the continued feedback from our stakeholders, understanding that accountability truly does reside at the heart of trust. We will continue to proactively respond to all concerns raised and to rigorously investigate all allegations. While this cycle of measures gives us a good gauge that ethical and effective leadership have been embedded and that the correct measures are in place to ensure that this sense of ethical responsibility is cascaded throughout the organisation, we also understand that to guard against the corruption we have seen take root in other institutions, we must remain constantly vigilant in observing the principles of corporate governance within our legal framework to ensure we build trust. Ethical and effective leadership will therefore remain a key area of focus in the year ahead.



Corporate governance framework

1. The Board Audit & Risk Committee deals with the budget allocation for Grant Funding including Proactive Funding, and cases of misconduct relating to NLDTF.
2. The Board considers and approves NLDTF budgets, and Quarterly Performance reports from the respective Committees which contains a detailed report on all operational and governance aspects of the organisation including Proactive Funding.
3. The Board approved quarterly performance reports are submitted to the Minister and Portfolio Committee in line with the PFMA compliance calendar and shareholder compact.

Assessments conducted by Auditor-General of South Africa (see Audit Opinions on pages 103 and 143) are quantifiable controls relating to the NLDTF which is the administrative arm of NLC funding (Application and Proactive Funding). The Board, which is mandated in terms of the Lotteries Act, to approve, determine, oversee or revise the Commission's operational strategic framework or policies, corporate governance framework policies, human resources policies and approve the appointment of senior executive employees of the Commission is satisfied, that there are sufficient controls and continues to assess internal processes and governance framework of the organisation.

For the first time in NLC's audit history, the AGSA not only audited project files but visited all sampled projects for verification. There were no findings in relation to this verification process.

