

# **ANNUAL REPORT**

## **2000**



## **NATIONAL LOTTERIES BOARD**

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<b>CONTENTS</b>	<b>PAGE NO.</b>
Chairperson's Report	3
National Lotteries Board	
Report of the Auditor-General	15
Balance Sheet	18
Income Statement	19
Statement of Changes in Equity	20
Cash Flow Statement	21
Notes to the Financial Statements	22
Detailed Income Statement	30
National Lottery Distribution Trust Fund	
Approval of NLDTF Financial Statements	33
Report of the Auditor-General	34
Balance Sheet	36
Income Statement	36
Statement of Changes in Equity	37
Cash Flow Statement	37
Notes to the Financial Statements	38
Detailed Income Statement	39

## CHAIRPERSON'S REPORT



It is with pleasure that I present the Annual Report of the National Lotteries Board for the year ended 31st March 2000, in accordance with Section 12 of the Lotteries Act No.57 of 1997 (the Act), as amended.

The year under review has been characterised by events that are highly significant for both the National Lotteries Board and the country as a whole. The evaluation of the Bids to operate the National Lottery was completed smoothly, successfully and without challenge at the beginning of the year.

This was followed by the difficult process of negotiating the Licence and culminated in the highly successful launch of the first on-line Lottery in Africa. Concurrently with the above, the Board recruited new staff, including the Chief Executive Officer, and began the task of setting up its organisational infrastructure.

The main achievements of the Board can be listed as follows:

- Finalisation of the Bid Evaluation Process;
- Negotiating the Licence to Operate the National Lottery;
- Launching the National Lottery Logo;
- Amendment to the Lotteries Act;
- Launching the National Lottery; and
- Setting up the Board's Offices and Administration.

Once again, I am extremely pleased with the performance and commitment of the members of the Board and would like to thank them for the time and effort that they have expended to perform the functions required of them under the Act.

The Board would also like to thank the Minister of Trade and Industry and his department for all the assistance that they have provided. We all look forward to a challenging year and one in which all South Africans can share the enjoyment and benefits of the new National Lottery.

A handwritten signature in black ink, appearing to read 'Joe Foster', written in a cursive style.

Joe Foster  
Chairperson

## MEMBERS OF THE NATIONAL LOTTERIES BOARD

The National Lotteries Board was established in terms of the Lotteries Act (No. 57 of 1997). The Board was appointed by the Minister of Trade and Industry in October 1998 and held its first meeting on the 26th October 1998.



*(standing) Mr. Norman Axten, Adv. Nceba Dukada  
(seated) Mrs. Nora Fakude-Nkuna, Mr. Joe Foster - Chairperson, Ms. Shelley Thomas  
(absent) Dr. Zav Rustomjee*

### **J A Foster - Chairperson**

Mr. Joe Foster was a member of the National Council of Provinces. He was also the Chairperson of the Select Committee: Labour, Public Enterprise and Telecommunications. Mr. Foster has extensive experience in politics and labour organisations.

### **Mr. C N Axten - Member**

Mr. Axten is a banker by profession with 43 years experience in the industry. He is fellow of the Institute of Bankers and a past President of the Institute of Bankers and of the Association of Mortgage Lenders. Mr. Axten is also a past Chief Executive of the Banking Council. He now serves as a director of companies.

### **Advocate N K Dukada - Member**

Advocate Dukada was admitted as an advocate of the Supreme Court of Transkei in 1989. In December 1995, he was Acting Judge for a period of three months and has been acting as such on numerous occasions thereafter. Advocate Dukada presently also serves as a member of the Board of the Road Accident Fund.

### **Ms. P N Z Fakude-Nkuna - Member**

Ms. Fakude-Nkuna is a businesswoman who has served on various regulatory bodies and is based in the Mpumalanga Province where she has been involved in community-based organisations over the years. In 1998, Ms. Fakude-Nkuna was appointed Chairperson of Bohlabela Wheels, the first black-owned company to be accredited by Armscor. She is the recipient of many national business awards amongst others, the Afrikaans Chamber of Commerce, BusinessPerson of the Year 2000.

**Dr. Z Z R Rustomjee - Member**

Dr. Rustomjee was the Director-General of the Department of Trade and Industry until he was appointed as special adviser to the Minister of Trade and Industry. He serves on the Board as the nominee of the Minister of Trade and Industry.

**Ms. S Thomas - Member**

Ms. Thomas is a Chartered Accountant. She is the Group Financial Manager of Ubambo Investment Holdings Limited. Prior to joining Ubambo, Ms. Thomas was a partner at Ian Pierce and Partners Inc., a firm of Chartered Accountants.

**FUNCTIONS OF THE BOARD**

The functions of the Board as specified in the Act are:

- Advise the minister on the issuing of the licence to conduct the National Lottery;
- Ensure that the National Lottery and Sports Pools are conducted with all due propriety;
- Ensure that the interests of every participant in the National Lottery are adequately protected;
- Ensure that the net proceeds of the National Lottery are as large as possible;
- Administer the National Lottery Distribution Trust Fund (NLDTF) and hold it in trust;
- Monitor, regulate and police lotteries incidental to exempt entertainment, private lotteries, society lotteries and any competition contemplated in section 54;
- Advise the Minister on percentages of money to be allocated in terms of section 26(3);
- Advise the Minister on the efficacy of legislation pertaining to lotteries and ancillary matters;
- Advise the Minister on establishing and implementing a social responsibility program in respect of lotteries;
- Administer and invest the money paid to the Board in accordance with the Lotteries Act;
- Perform such additional duties in respect of lotteries as the Minister may assign to the Board;
- Make such arrangements as may be specified in the licence for the protection of prize monies and sums for distribution; and
- Advise the Minister on any matter relating to the National Lottery and other lotteries or any other matter on which the Minister requires the advice of the Board.

## **ACTIVITIES OF THE BOARD**

The primary task of the Board, immediately after its formation, was to establish the National Lottery. In its brief first year of operation, October 1998 to March 1999, the Board issued a Request for Proposal (RFP), undertook study visits and began the onerous task of evaluating the proposals to operate the National Lottery, the first on-line lottery on the African continent.

In the year under review, April 1999 to March 2000, the board accomplished the following:

### **Finalisation of the Bid Evaluation Process**

In March 1999, the Board requested from each of the three bidders a list of international lottery sites which they, the bidders, considered representative of the technology they were proposing for South Africa's first National Lottery. The Board extracted from this list a set of sites that it believed would be both representative and logistically feasible to evaluate, given the time constraints.

During the period 6th April 1999 to 21st April 1999, the Board accompanied by consultants from Deloitte Consulting visited the following reference sites:

- Scientific Games International, Vienna, Austria
- Westdeutsche Lotterie GMBH, Munster, Germany
- Camelot PLC, Watford, UK
- Pennsylvania State Lottery, Pennsylvania, USA
- Maryland State Lottery, Harrisburg, USA
- New Jersey State Lottery, New Jersey, USA
- GTech Corporation, Rhode Island, USA

During May and June 1999, the Board consolidated the information obtained from the reference site visits with the technical analysis, financial analysis and social responsibility analysis already performed, in order to make its decision regarding the relative ranking of the three bids. The Board also requested and obtained the concurrence of all three bidding consortia to engage an independent audit firm, Grant Thornton Kessel Feinstein to review the evaluation process and to establish whether the criteria used for evaluation was applied fairly and impartially to all three bids. The Board's recommendation, together with the independent evaluation review and all supporting documentation including probity reports by the National Intelligence Agency and the South African Secret Service, was submitted to Minister Erwin on 23rd June 1999. The Minister announced Uthingo Management (Pty) Ltd as the preferred bidder on 9th July 1999.

### **Licence Negotiation Process**

The negotiation of the terms and conditions of the Licence to Operate the National Lottery (the Licence) between the Board and Uthingo Management, the preferred bidder commenced on 12th July 1999. Board Members, Advocate Dukada and Professor Ram, visited the United Kingdom's Lottery Commission from 5th July to 9th July 1999, in order to familiarise themselves with the central issues in the Licence.

The Board's negotiation team consisted of Mr. Joe Foster and Prof. Vevek Ram and assisted by Adv. Werner Krull of Deloitte Consulting and Dr. Jeremy Nurse from the Office of the State Law Adviser. Uthingo Management was represented by their CEO, Mr. Humphrey Khoza, Ms. Marese Casey, a lottery consultant, and two senior employees.

Issues that were negotiated included:

- Appointment and Term of the Licence;
- Launch of the National Lottery;
- Number and Distribution of Retail Outlets;
- Payment to the NLDTF;
- Trade Marks and Copyright;
- Participant Relations;
- Advertising;
- Security;
- Development, Testing and Implementation of Systems;
- Testing of Equipment Used in a Draw;
- Banking, Record Keeping, Accounting and Provision of Information to the Board;
- Inspection and Review;
- Payment Security;
- Lottery Ancillary Activities;
- Provision of Information about Directors, Shareholders and Others;
- Limitations on the use of Contractors;
- Social Responsibility Programme and Economic Empowerment;
- Prohibition of Activities not related to the National Lottery;
- Penalties; and
- Termination and Revocation of the Licence.

The negotiation process was successfully completed and Minister Erwin signed the Licence formally at a media function at the Funda Centre in Soweto on 26th August 1999.



*Licence Signing, Soweto*



## National Lottery Logo

In terms of the Licence, the licensee has an obligation to develop and submit several designs for the National Lottery Logo. The Board examined several prototype designs that were developed jointly with an advertising agency and that were also test-marketed. The logo approved by the Board was launched as the National Lottery Logo at a spectacular ceremony on 22nd November 1999.



The logo, as well as the words "NATIONAL LOTTERY", have been proclaimed as prohibited marks by the Minister of Trade and Industry.



*National Lottery Logo Launch, Midrand*

## Approvables

In terms of the Licence, the licensee has to submit for approval by the Board several "Approvable Descriptions" which detail the policy and procedure around several key issues in the operation of the National Lottery. These include the rules of playing the on-line and instant games, system security, the testing of software, cash management, draw and emergency draw procedures, testing of lottery balls, testing of the draw machine, backup and recovery of central computer systems, prize payment security and others. During the period October 1999 to February 2000, the Board scrutinised and approved all such documents that were required before the launch of the National Lottery. The licensee also has an obligation to submit codes of practice for sales, advertising and player relations. These were also submitted and approved before the launch.

## Testing of Systems and Software

Before the licensee is allowed to sell lottery tickets, all computer systems and application and communication software have to be certified to be secure, reliable and accurate by an independent tester approved by the Board. The Board is also required to approve the test procedure and actual testing mechanism before the test is performed. In this regard, Ernst and Young, Canada, were approved as the independent tester and the Board approved the test certificate on 1st March 2000.

As part of the regulation process, the Board operates its own small-scale parallel lottery system known as the Independent Verification System (IVS). This system was also tested as part of the certification process.

## Amendment to the Lotteries Act

Section 14 (2)(i)(3) of the Lotteries Act prohibits the licensee, its employees and agents from knowingly selling a ticket or paying a prize to persons that fall in certain categories. While the Board appreciated that the intention of this clause was to protect the security and the integrity of the National Lottery, the Board was convinced that this prohibition could not realistically be enforced. Furthermore, the Board was confident that the levels of security provided by the lottery systems and procedures precluded any person or persons from influencing the outcome of the National Lottery or compromising the security of the National Lottery in any way. The Board approached the Minister of Trade and Industry to initiate the process to amend the Act to remove or reduce this restriction. Parliament amended the Act on 17th March 2000.

## Launch of the National Lottery



President Thabo Mbeki launched the National Lottery on the morning of 2nd March 1999, with the sale of the first ticket at a retailer terminal in Langa, Cape Town. The first draw was held on the evening of Saturday, March 11th 2000 and the Minister of Trade and Industry, Mr Alec Erwin pressed the button to start the selection of the winning balls.

A total of 174 821 people won prizes ranging from R23.00 to R511,550.00 in the first draw. The Draw is broadcast live every Saturday and has since achieved the second highest viewer ratings for any television show in the Republic.



## Draft Regulations

Part II of the Lotteries Act requires that the Minister issue regulations related to Lotteries Incidental to Exempt Entertainment, Private Lotteries, Society Lotteries and Promotional Competitions. The Board in conjunction with its own legal advisors and the State Law Advisors Office prepared draft regulations which were published for comment by interested parties, by the Department of Trade and Industry on 5th November 1999.

## Appointment of the CEO

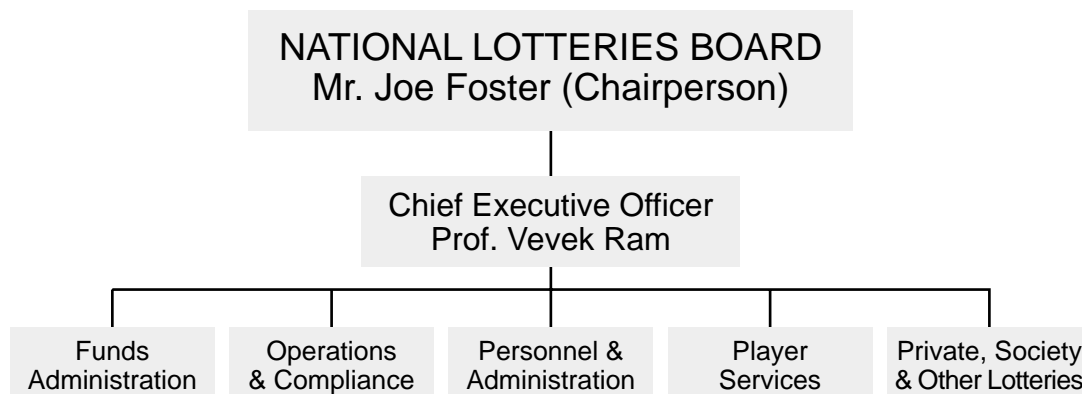
After being unsuccessful in obtaining a suitable candidate for the position of Chief Executive Officer in December 1998, the Board re-advertised the position in March 1999 and interviewed candidates in May 1999. Prof. Vevek Ram, a Board Member, made himself available for the position in the event that the Board did not find the other candidates suitable. The Board finally offered the position to Prof. Ram, who resigned from the Board and took up the position from July 1st, 1999. Prof. Ram is past professor in the Department of Computer Science and Information Systems at the University of Natal. He holds a PhD and an MBA and was also a freelance Industry Consultant to various companies and institutions on software engineering issues. He has designed and developed systems in manufacturing, scheduling, finance and engineering. The Board believed that he had the qualifications, knowledge and experience required of the position. His performance thus far has reinforced this belief.

## Setting up the Board's Offices and Administration

After an extensive search over many months, the Board entered into a lease agreement for a block in an office park known as Equity Park on the corner of Brooklyn and Lynnwood Roads in Pretoria. The services of a space-planner was engaged to design the floor layout and workflow space. The Board procured furniture for its immediate needs and took occupation of the offices in May 1999.

Prospective candidates were interviewed for various core positions during June 1999 and all the successful applicants commenced duties in August 1999.

The Board's intended organisational structure and staffing position is shown below.



## **The Year ahead**

### **Setting up of Society and Other Lotteries Regulation**

The regulations governing Private and Society Lotteries; and Lotteries Incidental to Exempt Entertainment will be published on April 2000. As a result, the Board will be in the process of setting up the business processes and infrastructure to handle the high expected volume of applications in these areas. The intention of the legislation is to achieve effective regulation of Society & Other Lotteries in order to limit fraud and exploitation of players and involves processes for:

- Reviewing applications to the Board for the registration of Society schemes;
- Certification of Societies;
- Certification of Lottery Managers;
- Supervising the conduct of registered lottery schemes and for taking action against those which have not conducted lotteries properly;
- Compliance; and
- Disseminating information to stakeholders.

### **Setting up of Compliance Division and Inspectorate**

Since the launch of the National Lottery in March 2000, the compliance responsibility of the Board has increased significantly. The Board is currently setting up its compliance division both in terms of personnel and necessary procedures for ensuring that the Lottery Operator is compliant with the Licence. The Board has designed the actual mechanisms and compliance programs that covers the complete spectrum of conditions in the Licence that need to be monitored and will be training new staff. The Board will recruit an internal auditor and will be setting up its audit committee in order to comply with the new Public Finance Management Act (PFMA).

### **Impact Study of Promotional Competitions**

In the light of the extensive comment received from commerce and industry on the draft regulations published in 1999, the Board, after careful consideration, has decided not to recommend the publishing of regulations relating to Promotional Competitions until it has satisfied itself that these regulations will not have an adverse effect on marketing and promotional activity in general. The Board has already entered into discussions with the Bureau for Market Research at UNISA to perform an impact study on its behalf. This study will commence in August 2000.

### **Impact study of Social Aspects of Gambling**

The Board will be working with the licensed operator of the National Lottery and the National Gambling Board to investigate the process of establishing the extent and potential of excessive participation in the Lottery and other related forms of gaming.

## **Introduction of the QUICKPICK**

The National Lottery's Lotto product will be enhanced by the introduction of the Quickpick feature by the end of 2000. This feature enables the lottery terminal to select a set of random numbers for as many weeks as the players wishes. The introduction of this feature necessitates the development and independent testing of the software that controls the generation of the numbers. As with all software development, the Board is involved from the functional specification stage through to the implementation of the product.

## **Introduction of Instant Games (scratch cards)**

The National Lottery plans to introduce instant games (scratch cards) toward the end of August 2000. Scratch cards are a very complex product and introduce unique challenges to the Board in terms of its design and integrity. The Board has to approve each game that is introduced in terms of its design, the statistical distribution of its prizes and its storage and distribution. The method of printing scratch cards is also very complicated and the Board intends visiting the printing plant in San Antonio in order to study and review the security and integrity of the process in detail.

## **World Lottery Conference**

The Board intends participating in the 2000 World Lottery Conference in Glasgow in June 2000. It is important for the Board to attend these conferences in order to be informed of the state-of-the-art lottery products, trends and strategy. It is not envisaged that every Board member will attend. In order to save costs, the Board intends that its technical subcommittee visit the Instant Ticket manufacturing plant in San Antonio as part of the same trip.

## **Setting up the Central Applications and Distribution Support Office**

It has been provisionally agreed between the Board and the Minister of Trade and Industry that the Board will set up and manage the Central Applications and Distribution Support Office, for the distribution of Lottery proceeds to good causes, as detailed in a submission to DTI. This involves the employment of specialist staff and setting up the necessary infrastructure including sophisticated computer and cash management systems. The Board has already consulted various bodies and experts in development funding in order to become informed in the nature of disbursement and the control processes required.

## STATEMENT OF RESPONSIBILITY

The Board is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Exchequer Act.

The Board is also responsible for the National Lotteries Board's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and deficit. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the Members have every reason to believe that the Board has adequate resources in place to continue in operation for the foreseeable future.

## FINANCIAL RESULTS

The financial results of the National Lotteries Board are set out in the attached financial statements.

## MEMBERS OF THE BOARD

The Members of the Board are:

Mr. Joe Foster (Chairperson)	(appointed 22/10/98)
Mr. Norman Axten	(appointed 15/10/98)
Adv. Nceba Dukada	(appointed 15/10/98)
Ms. Nora Fakude-Nkuna	(appointed 15/10/98)
Ms. Shelley Thomas	(appointed 15/10/98)
Dr. Zav Rustomjee	(appointed 15/10/98)

Prof. Ram, who was appointed as a Member of the Board on 15/10/1998, resigned from the Board on 30/06/1999 to take up the position of Chief Executive Officer as of 01/07/1999.

## MATERIAL EVENTS AFTER YEAR END

No matter which is material to the financial affairs of the National Lotteries Board has occurred between the balance sheet date and the date of approval of the financial statements.

## AUDITORS

The Office of the Auditor-General will continue to perform the audit in accordance with the National Lotteries Act.

The financial statements set out on pages 18 to 30 were approved by the Board and are signed on their behalf.



JA Foster  
Chairperson



Prof. V Ram  
Chief Executive Officer

1 December 2000

## **AUDITOR-GENERAL'S REPORT for the year ended 31 March 2000**

### **1 AUDIT ASSIGNMENT**

The financial statements as set out on pages 18 to 30 for the year ended 31 March 2000, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995), and section 2 of the National Lotteries Act, 1997 (Act No. 57 of 1997). These financial statements, the maintenance of effective control measures and compliance with the relevant laws and regulations are the responsibility of the chief executive officer. My responsibility is to express an opinion on these financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

### **2 REGULARITY AUDIT**

#### **2.1 NATURE AND SCOPE**

##### **2.1.1 Financial Audit**

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

##### **2.1.2 Compliance Audit**

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.



## **2.2 QUALIFICATION**

### **2.2.1 Compliance Audit**

No formal acquisition procedures for the procurement of fixed assets to the value of R1 041 256, for the appointment of consultants at a cost of R942 161 and for the payment of R345 000 to a private professional firm to perform the evaluation process, were in place during the year under review.

This is in contradiction of section 217 of the Constitution which states that: "When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective".

Subsequent to year-end, the Board formally approved a Procurement Policy.

## **2.3 AUDIT OPINION**

### **2.3.1 Financial Audit: Unqualified Opinion**

In our opinion, the financial statements fairly present, in all material respects, the financial position of the National Lotteries Board at 31 March 2000 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice.

### **2.3.2 Compliance Audit: Qualified Opinion**

Based on the audit work performed, except for the matter included in paragraph 2.2.1, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

## **3 EMPHASIS OF MATTER**

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

### **3.1 Bank Accounts and Investments**

Section 25(1) of the Lotteries Act, 1997, provides that "Any money of the fund or the board which is not required for immediate allocation, may be invested with the Public Investment Commissioners or with a financial institution approved by the Minister of Finance and may be withdrawn when required". Although no approval from the Minister of Finance was obtained for the use of the existing call account, the National Lotteries Board has, subsequent to year-end, sought the required approval.

### **3.2 Submission of Annual Financial Statements**


The Lotteries Act, 1997 requires that the National Lotteries Board submit an annual report and financial statements to Parliament within three months after the end of the financial year, and if Parliament is not then in session, on the first day of the next session.

The Board approved the financial statements of the National Lotteries Board on 1st December 2000. The delay in submitting financial statements for the year ended 31st March 2000 within the set time was due firstly to the lack of staff and also because of the unavailability of board members to approve the statements.

Corrective actions included appointing an accountant, preparing monthly management reports for submission to the National Lotteries Board to assist the board in discharging its responsibilities, and scheduling board meetings well in advance.

## **4 APPRECIATION**

The assistance rendered by the staff of the National Lotteries Board during the audit is sincerely appreciated.



GR Witthöft  
*for Auditor-General*

Pretoria  
30 March 2001

**BALANCE SHEET as at 31 March 2000**

	Notes	2000 R	1999 R
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, Plant and Equipment	5	976 320	159 559
		<u>976 320</u>	<u>159 559</u>
<b>Current Assets</b>			
Receivables and Pre-payments	6	40 224	350 577
Cash and Cash Equivalents	7	3 513 375	6 284 616
Current Investments		1 124 158	-
		<u>4 677 757</u>	<u>6 635 193</u>
<b>Total Assets</b>		<b><u>5 654 077</u></b>	<b><u>6 794 752</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Reserves</b>			
Retained Earnings		3 425 613	4 887 769
		<u>3 425 613</u>	<u>4 887 769</u>
<b>Non-current Liabilities</b>			
Finance Lease	8	31 715	49 282
Deferred Income: Licence Fees	13	1 139 241	-
		<u>1 170 956</u>	<u>49 282</u>
<b>Current Liabilities</b>			
Accounts Payable	9	1 057 508	784 992
Deferred Income : Government Grant	4	-	1 072 709
		<u>1 057 508</u>	<u>1 857 701</u>
<b>Total Equity and Liabilities</b>		<b><u>5 654 077</u></b>	<b><u>6 794 752</u></b>

**INCOME STATEMENT for the year ended 31 March 2000**

	Notes	2000 R	1999 R
<b>Revenue</b>		3 069 471	6 602 730
Operating Costs		(5 218 181)	(1 926 505)
<b>Operating (Deficit)/Surplus before Finance Costs</b>		<u>(2 148 710)</u>	<u>4 676 225</u>
Finance Costs	3	(537)	(786)
<b>Operating (Deficit)/Surplus</b>		<u>(2 149 247)</u>	<u>4 675 439</u>
Investment Income		687 091	212 330
<b>(Deficit)/Surplus before Tax</b>		<u>(1 462 156)</u>	<u>4 887 769</u>
Tax		-	-
<b>Net (Deficit)/Surplus for the year</b>	1	<u><b>(1 462 156)</b></u>	<u><b>4 887 769</b></u>

**STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2000**

	2000	1999
Notes	R	R
<b>Retained earnings as at</b>		
<b>1 April 1999</b>		
At beginning of year	(5 960 478)	-
Change in accounting policy for adoption of AC 134 Government Grants		1 072 709
Retained opening balance as restated	(4 887 769)	-
Surplus/(deficit) for the year as restated for adopting AC 134	1 462 156	(5 960 478)
Adjustment for AC 134	-	1 072 709
Balance as at end 31 March 2000	<b>(3 425 613)</b>	<b>(4 887 769)</b>

**CASH FLOW STATEMENT for the year ended 31 March 2000**

	Notes	2000 R	1999 R
<b>Cash flow from operating activities</b>			
Cash receipts from customers		3 446 356	6 252 153
Cash paid to suppliers and employees		(4 721 169)	(65 128)
Cash flows from operating activities	12	(1 274 813)	6 187 025
Investment Income		687 091	212 330
Finance Charges		(537)	(786)
Net Cash (utilised in)/ from operating activities		(588 259)	6 398 569
<b>Cash Flow from Investing Activities</b>			
Acquisition of Property, Plant and Equipment		(1 041 256)	(163 235)
Increase in Investment		(1 124 159)	-
Net Cash (used in)/ generated by investing activities		(2 165 415)	(163 235)
<b>Cash Flow from Financing Activities</b>			
Proceeds from long term borrowings		(17 567)	49 282
Net Cash (used in)/ generated by financing activities		(17 567)	49 282
<b>Net (Decrease)/ Increase in Cash and Cash Equivalents</b>		(2 771 241)	6 284 616
Cash and Cash Equivalents at beginning of year		6 284 616	-
<b>Cash and Cash Equivalents at end of year</b>	7	<b>3 513 375</b>	<b>6 284 616</b>

## NOTES ON THE FINANCIAL STATEMENTS for the year ended 31 March 2000

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### Basis of preparation

The principal accounting policies of the Board and the disclosures made in the financial statements conform to Statements of Generally Accepted Accounting Practice in South Africa. The financial statements are prepared on the historical cost basis. The principal policies are consistent with those applied in previous years.

### Property, plant and equipment

All property, plant and equipment is initially recorded at cost. Property, plant and equipment is stated at historical cost less accumulated depreciation and are written off over the expected useful life of the asset.

Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

- Furniture and fittings	5 years
- Machinery	5 years
- Office equipment	5 years
- Computer equipment	3 years
- Motor vehicles	4 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Where the cost of an asset is less than R2000 that asset is expensed immediately.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying value and are taken into account in determining operating surplus.

### Leased assets

#### Finance lease

Leases of property, plant and equipment where the National Lotteries Board assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are disclosed as non-current liabilities. The interest element of the finance charges is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful lives of the assets.

## Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

## Investments

Investments are shown at cost. Where there has been a permanent diminution in the value of an investment impairment, it is recognised as an expense in the period in which the diminution is identified.

## Receivables

Receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

## Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalent comprise cash in hand, deposits held at call with banks, and investments in money market instruments, net of bank overdrafts.

## Provisions

Provisions are recognised when the National Lotteries Board:

- has a present legal or constructive obligation as a result of past events,
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and service bonuses are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and service bonuses as a result of services rendered by employees up to the balance sheet date.

## Revenue recognition

Revenue earned by the Board is recognised on the following basis,

- License fees – over the period of the license contract,
- Interest income – as it accrues (taking into account the effective yield on the asset) unless collectability is in doubt, and
- Fees received from the bidders – as it accrues.



## Government Grants

Government grants utilised to purchase property and equipment are included in non-current liabilities as deferred income and are credited to the Income Statement on a straight line basis over the expected lives of the related assets.

## Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, creditors, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

## Retirement Benefit Costs

The Government Employees Pension Fund is a defined contribution fund, which provides retirement and death benefits for the Chairperson. The pension plan is generally funded by payments from the Chairperson and the National Lotteries Board. The contributions are charged to the Income Statement in the year to which they relate.

## Change in accounting policy

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the requirements of the new South African Statements of Generally Accepted Accounting Practice viz. AC134 – Government Grants, in advance of the effective date.

### 1 Surplus

The following items have been charged/credited in arriving at surplus/(deficit):

	<b>2000</b>	<b>1999</b>
	<b>R</b>	<b>R</b>
Depreciation on Property, Plant and Equipment		
Furniture and Fittings	140 739	-
Machinery	998	-
Office Equipment	35 953	1 417
Computer Equipment	30 325	2 259
Motor Vehicles	16 480	-
	<hr/>	<hr/>
	224 495	3 676
Auditors' Remuneration		
Audit Fees - current year	99 265	65 451
Under / (Over) Provision: previous years	(17 244)	-
Other Services	-	-
Expenses	-	-
	<hr/>	<hr/>
	82 021	65 451

## 2 Staff Costs

	<b>2000</b>	<b>1999</b>
	<b>R</b>	<b>R</b>
<b>Board Members' Allowances:</b>		
Board Meetings	296 950	121 650
Professional Fees	929 095	152 200
Travel Allowance	408 502	128 445
Loss of Income	-	92 000
Other	29 549	7506
	<u>1 664 096</u>	<u>501 801</u>
Staff Salaries and Wages	1 509 937	146 770
Total	<u><b>3 174 033</b></u>	<u><b>648 571</b></u>
Average weekly number of persons employed:		
- Full Time	11	-
- Part Time	-	3
	<u><b>11</b></u>	<u><b>3</b></u>

## 3 Finance Costs

	<b>2000</b>	<b>1999</b>
	<b>R</b>	<b>R</b>
Finance Leases	537	786
	<u>537</u>	<u>786</u>

## 4 Government Grants

	<b>2000</b>	<b>1999</b>
	<b>R</b>	<b>R</b>
Opening Balance	1 072 709	-
Amount Government Grants received	1 500 000	3 000 000
Portion of grant utilised	(2 572 709)	(1 927 291)
	<u>-</u>	<u><b>1 072 709</b></u>

## 5 Property, Plant and Equipment

	Furniture and fittings	Machinery	Office equipment	Computer equipment	Motor vehicles	Total
<b>Period ended 31 March 2000</b>						
Opening net:- Book Amount	-	-	91 700	67 859	-	<b>159 559</b>
Additions	860 637	5 985	73 282	22 248	79 104	<b>1 041 256</b>
Depreciation Charge	(140 737)	(997)	(35 955)	(30 326)	(16 480)	<b>(224 495)</b>
<b>Net Book Value End of year</b>	<b>719 900</b>	<b>4 988</b>	<b>129 027</b>	<b>59 781</b>	<b>62 624</b>	<b>976 320</b>

### At 31 March 1999

Opening net:- Book Amount	-	-	-	-	-	<b>0</b>
Additions	-	-	93 117	70 118	-	<b>163 235</b>
Charge for the year	-	-	(1 417)	(2 259)	-	<b>(3 676)</b>
<b>Net Book Value end of year</b>	<b>-</b>	<b>-</b>	<b>91 700</b>	<b>67 859</b>	<b>-</b>	<b>159 559</b>

### Period ended 31 March 2000

Cost	860 637	5 985	166 399	92 366	79 104	<b>1 204 491</b>
Accumulated Depreciation	(140 737)	(997)	(37 372)	(32 585)	(16 480)	<b>(228 171)</b>
<b>Net Book Value end of year</b>	<b>719 900</b>	<b>4 988</b>	<b>129 027</b>	<b>59 781</b>	<b>62 624</b>	<b>976 320</b>

### At 31 March 1999

Cost	-	-	93 117	70 118	-	<b>163 235</b>
Accumulated Depreciation	-	-	(1 417)	(2 259)	-	<b>(3 676)</b>
<b>Net Book Value end of year</b>	<b>-</b>	<b>-</b>	<b>91 700</b>	<b>67 859</b>	<b>-</b>	<b>159 559</b>

Leased assets included above where the National Lotteries Board is a lessee under a finance lease comprise of office equipment

	<b>2000</b>	<b>1999</b>
	<b>R</b>	<b>R</b>
Cost	43 980	43 980
Accumulated Depreciation	(8 796)	-
<b>Total Book Value</b>	<b>35 184</b>	<b>43 980</b>

The leased assets are encumbered as security in respect of the finance lease liability. (Refer note 8)

## 6 Receivables and Pre-payments

	<b>2000 R</b>	<b>1999 R</b>
Other Receivables		
Sundry Receivables – Staff Loans	11 384	-
	11 384	-
Taxation's Receivable	18 840	-
Interest Receivable	-	107 412
Deposits	10 000	10 000
Prepayments	-	233 165
Receivables and Pre-payments	<b>40 224</b>	<b>350 577</b>

## 7 Cash and Cash Equivalents

	<b>2000 R</b>	<b>1999 R</b>
Cash	501 456	381 643
Call Deposits and Negotiable Certificates	3 011 919	5 902 973
	<b>3 513 375</b>	<b>6 284 616</b>

For the purpose of the cash flow statement the year-end cash and cash equivalents comprise the following:

Bank Balance	501 456	381 643
Cash on Hand	3 011 919	5 902 973
	<b>3 513 375</b>	<b>6 284 616</b>

## 8 Finance Lease

The liability arose from a lease agreement repayable over 60 months commencing in March 1999. Interest is calculated on the Nedbank prime- lending rate as at year-end.

Total amount outstanding	38 495	56 599
Less: Current portion transferred to current liabilities	(6 780)	(7 317)
<b>Total interest bearing borrowings</b>	<b>31 715</b>	<b>49 282</b>

The interest rate exposure of borrowings of the National Lotteries Board was as follows:

At fixed rates (%)	-	-
At floating rates (%)	14.5%	16.5%

The present value of finance lease liabilities may be analysed as follows:

Not later than 1 year	6 780	7 317
Later than 1 year and not later than 5 years	31 715	49 282
Later than 5 years	-	-
	<b>38 495</b>	<b>56 599</b>

Finance lease liabilities – minimum lease payments:

Not later than 1 year	11 892	13 346
Later than 1 year and not later than 5 years	40 163	63 222
Later than 5 years	-	-
	52 055	76 568
Less: Future finance charges on finance leases	(13 560)	(19 969)
Present value of finance lease liabilities	<b>38 495</b>	<b>56 599</b>

## 9 Accounts payable

	2000 R	1999 R
Accruals	135 487	344 886
Credit card	1 981	-
Deferred income: License fees current portion	227 848	-
Provisions for pension	126 941	-
Other Provisions	297 630	-
Taxation payable	260 841	432 789
Current portion of long term liability	6 780	7 317
	<b>1 057 508</b>	<b>784 992</b>

The provision for pension fund is for pension fund contributions not paid over and was charged in total to the income statement.

**10 Operating Lease Commitments**

	<b>2000 R</b>	<b>1999 R</b>
Amounts payable within 1 year	477 073	-
Later than 1 year but not later than 5 years	536 992	-
	<b>1 014 065</b>	<b>-</b>

Office premises are leased. Certain items of Office Equipment are also leased. Rentals are charged as an expense as and when incurred.

**11 Contingencies**

	<b>2000 R</b>	<b>1999 R</b>
The amount represents a guarantee provided by Nedbank for the rental-operating lease.	<b>35 325</b>	<b>-</b>

**12 Cash flows from operating activities**

	<b>2000 R</b>	<b>1999 R</b>
(Deficit)/ Surplus	(1 462 156)	4 887 769
Adjusted for:		
Depreciation included in other operating costs	224 495	3 676
Investment income	(687 091)	(212 330)
Borrowing costs capitalised	537	786
Accrued expenses	612 174	-
Provisions	(169 153)	-
Deferred income: Government grants	(1 072 709)	-
Deferred income: Licenses	1 139 241	-
<b>Movements in current assets and liabilities</b>		
(Increase) / decrease in receivables and prepayments	310 353	(350 577)
Increase / (decrease) in trade and other payables	(170 504)	1 857 701
<b>Cash flows from operating activities</b>	<b>(1 274 813)</b>	<b>6 187 025</b>

**13 Deferred income licence fees**

Licence fees relate to the licence awarded to Uthingo Management (Proprietary) Limited for the National Lottery. This licence is valid for 7 years and will be amortised over this period.

	<b>2000 R</b>	<b>1999 R</b>
Balance at beginning of year	-	-
License fee	1 500 000	-
Charged to income statement	(132 911)	-
Balance	1 367 089	-
Current portion of licence fee	(227 848)	-
Balance at end of year	<b>1 139 241</b>	<b>-</b>

**DETAILED INCOME STATEMENT for the year ended 31 March 2000**

	<b>2000</b>	<b>1999</b>
<b>Notes</b>	<b>R</b>	<b>R</b>
Bid Fees	249 083	4 675 439
Interest	687 091	212 330
Licence Signing Fees	132 911	-
State Contribution	2 572 709	1 927 291
Sundry Income	114 768	-
<b>Income</b>	<b>3 756 562</b>	<b>6 815 060</b>
Accounting Fees	54 465	-
Advertising	7 968	45 678
Auditors' Remuneration	82 021	65 451
Bank Charges	10 156	2 022
Board Allowances and Expenses	1 664 096	501 801
Cleaning	1 617	-
Computer Expenses	-	24 226
Consulting Fees	942 161	279 253
Consumable Stores	5 863	1 309
Depreciation	224 495	3 676
Entertainment	2 046	398
Evaluation	6 445	-
Insurance	8 085	8 580
Interest Paid	537	786
Internet	9 983	-
Leasing Charges	(2 828)	1 260
Motor Vehicle Expenses	2 700	4 889
Penalties and Fines	9 429	7 705
Postage and Telephone Services	5 326	9 897
Rent and Accommodation	423 900	614 035
Rental Office Equipment	8 434	-
Repairs and Maintenance	13 517	-
Security Costs	98 695	96 433
Staff Costs	1 509 937	146 770
Stationery	16 886	5 247
Subscriptions	2 650	-
Sundry Expenses	6 690	5 121
Telephone and Fax	73 026	-
Travel and Accommodation	(2 765)	102 754
Water and Electricity	33 183	-
<b>Expenses</b>	<b>5 218 718</b>	<b>1 927 291</b>
<b>(Deficit)/surplus for the year</b>	<b>(1 462 156)</b>	<b>4 887 769</b>

**NATIONAL LOTTERY DISTRIBUTION TRUST FUND  
(NLDTF)**

**ANNUAL FINANCIAL STATEMENTS**

**for the year ended**

**31 March 2000**



## NATIONAL LOTTERY DISTRIBUTION TRUST FUND

Registered address:

Block A, Equity Park  
257 Brooklyn Road  
Brooklyn  
Pretoria  
0181

Postal address:

P O Box 1556  
Brooklyn Square  
Pretoria  
0075

Auditors:

Auditor-General

Bankers:

Rand Merchant Bank  
First National Bank

**APPROVAL OF NLDTF FINANCIAL STATEMENTS for the year ended 31 March 2000**

The financial statements set out on pages 36 to 39 were approved by the National Lotteries Board and are signed on their behalf.



Joe Foster  
Chairperson



Prof. V Ram  
Chief Executive Officer

1 December 2000

**AUDITOR-GENERAL'S REPORT on the NLDTF for the year ended 31 March 2000****1 AUDIT ASSIGNMENT**

The financial statements as set out on pages 36 to 39 for the year ended 31 March 2000, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995), and section 2 of the National Lottery Act, (Act No. 57 of 1997). These financial statements, the maintenance of effective control measures and compliance with the relevant laws and regulations are the responsibility of the National Lottery Board. My responsibility is to express an opinion on these financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

**2. REGULARITY AUDIT****2.1 NATURE AND SCOPE****2.1.1 Financial Audit**

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

**2.1.2 Compliance Audit**

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

## 2.2 QUALIFICATION

### Financial Audit and Compliance Audit

Section 64(2) of the Lotteries Act stipulates that "All unexpended money in (a) the Distribution Account referred to in the State Lotteries Act, 1984 (Ciskei) and the State Lottery Trustee Account referred to in the Lotteries Decree, 1989 (Transkei) immediately before the commencement of this Act, shall be paid into the fund". To date these funds have not been transferred to the National Lottery Distribution Trust Fund and the responsibility to effect these transfers vests with the Department of Trade and Industry. At the date of this report the amounts involved were not known.

## 2.3 AUDIT OPINION

### 2.3.1 Financial Audit: Qualified Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in paragraph 2.2, the financial statements fairly present, in all material respects, the financial position of the National Lottery Distribution Trust Fund at 31 March 2000 and the results of its operations and cash flows for the year then ended, in accordance with the prescribed accounting practice.

### 2.3.2 Compliance Audit: Qualified Opinion

Based on the audit work performed, except for the matter included in paragraph 2.2, nothing has come to my attention that causes me to believe that material non-compliance with laws and regulations, applicable to financial matters, has occurred.

## 3 APPRECIATION

The assistance rendered by the staff of the National Lottery Distribution Trust Fund during the audit is sincerely appreciated.



GR Witthöft  
*for* Auditor-General

Pretoria  
30 March 2001

**NLDTF BALANCE SHEET as at 31 March 2000**

	Notes	2000 R
<b>ASSETS</b>		
<b>Current assets</b>		
Accounts Receivables		1 638 594
Investments	5	5 000 000
Cash and cash equivalents	4	3 657 609
<b>Total assets</b>		<b>10 296 203</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Retained earnings		10 296 203
<b>Total equity and liabilities</b>		<b>10 296 203</b>

**NLDTF INCOME STATEMENT for the year ended 31 March 2000**

	Notes	2000 R
<b>Revenue</b>		
Other income		10 281 278
		14 948
		<u>10 296 226</u>
Other operating expenses		(23)
<b>Net surplus for the year</b>	<b>2</b>	<b>10 296 203</b>

**NLDTF STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2000**

	Notes	2000 R
<b>Balance as at 1 April 1999</b>		-
Net surplus for year		10 296 203
<b>Balance as at 31 March 2000</b>		<u><u>10 296 203</u></u>

**NLDTF CASH FLOW STATEMENT for the year ended 31 March 2000**

	Notes	2000 R
<b>Cash flow from operating activities</b>		
Cash receipts		8 642 661
Cash paid to employees		-
Cash flows from operating activities	3	<u>8 642 661</u>
Investment income		14 948
Net cash from / (utilised in) operating activities		<u><u>8 657 609</u></u>
<b>Cash flow from investing activities</b>		
Increase in investment		(5 000 000)
<b>Net cash used in investing activities</b>		<u>(5 000 000)</u>
<b>Increase / (decrease) in cash and cash equivalents</b>		3 657 609
Cash and cash equivalents at beginning of year		-
<b>Cash and cash equivalents at end of year</b>	4	<u><u>3 657 609</u></u>

**NOTES TO THE NLDTF FINANCIAL STATEMENTS for the year ended 31 March 2000****1 Basis of preparation**

The annual financial statements are prepared on the historical cost basis. The following are the principal accounting policies used by the National Lottery Distribution Trust Fund.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalent comprise cash in hand, deposits held at call with banks, and investments in money market instruments.

**Revenue recognition**

Interest income – as it is accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

**2 Net surplus**

The following items have been charged in arriving at net surplus:

	<b>2000</b>
	<b>R</b>
Interest received	14 947
Bank charges	(23)

**3 Cash flow from operating activities**

	<b>2000</b>
	<b>R</b>
Surplus	10 296 203
Interest received	14 948
<b>Operating surplus before changes in working capital</b>	<b>10 281 255</b>
(Increase)/decrease in accounts receivable	(1 638 594)
Cash generated form operations	<b>8 642 661</b>

#### 4 Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with bank. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts.

	<b>2000</b>
	<b>R</b>
Cash	406
Bankers acceptance	3 657 203
<b>Cash and cash equivalents</b>	<b>3 657 609</b>

#### 5 Investments

Investments consist of negotiable certificate of deposit to the value of R5 000 000 with 28th September 2000 as maturity date.

#### DETAILED NLDTF INCOME STATEMENT for the year ended 31 March 2000

	<b>2000</b>
<b>Notes</b>	<b>R</b>
<b>Revenue</b>	
Ticket sale income	10 281 278
Interest received	14 948
Total income	10 296 226
<b>Operating expenses</b>	
Bank charges	(23)
<b>Surplus for the year</b>	<b>10 296 203</b>



**NOTES:**