

# 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 122 to 161, which comprise the consolidated and separate statement of financial position as at 31 March 2021, the consolidated and separate statement of financial performance, statement of changes in net assets, and 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 effect of the matter described in the basis for qualified opinion section of this auditor's report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the National Lotteries Commission as at 31 March 2021 and the group's 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).

### Basis for qualified opinion

#### Irregular expenditure

3. The National Lotteries Commission did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 55(2)(b)(i) of the PFMA. The entity made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R23 410 550.

### Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
5. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Restatement of corresponding figures

8. As disclosed in note 26 to the financial statements, the corresponding figures for 31 March 2020 were restated as a result of an error in the financial statements of the group at, and for the year ended, 31 March 2021.

### Responsibilities of the accounting authority for the financial statements

9. The board of directors, which constitutes 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.
10. 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.

### Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

11. 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.
12. 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 of the Auditor-General to Parliament on National Lotteries Commission (continued)

## Report on the audit of the annual performance report

### Introduction and scope

13. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected programmes in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
14. My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the public entity's annual performance report for the year ended 31 March 2021:

<b>Programmes</b>	<b>Pages in the annual performance report</b>
Programme 2 – Regulatory Compliance	52-53
Programme 3 – Grant Making	54-55

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify any material findings on the usefulness and reliability of the reported performance information for these programmes:
  - Programme 2 - Regulatory Compliance
  - Programme 3 - Grant Making

### Other matter

18. I draw attention to the matter below.

### Achievement of planned targets

19. Refer to the annual performance report on pages 50 to 55 for information on the achievement of planned targets for the year and management's explanations provided for the over achievement of targets.

## Report on the audit of compliance with legislation

### Introduction and scope

20. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
21. The material findings on compliance with specific matters in key legislation are as follows:

### Annual financial statements, performance and annual report

22. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA.
23. Material misstatements of liabilities identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified opinion.

### Procurement and contract management

24. Some of the goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1 and paragraph 3.3.1 of Practice Note 8 of 2007/08.
25. Some of the goods and services with a transaction value above R500 000 were procured without inviting competitive bids and/or deviations were approved by the accounting authority but it was practical to invite competitive bids, as required by Treasury Regulation 16A6.1 and paragraph 3.4.1 of Practice Note 8 of 2007/2008 and TR 16A6.4.

# Report of the Auditor-General to Parliament on National Lotteries Commission (continued)

## Other information

26. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information 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 in this auditor's report.
27. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
28. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information 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.
29. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, 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

30. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on compliance with legislation included in this report.
31. The accounting authority did not effectively oversee financial reporting and compliance with legislation as well as related internal controls. Also management did not adequately review and monitor financial reporting requirements as well as compliance with applicable legislation.

## Other reports

32. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. 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.
33. 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 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. The investigation is currently on going. The investigation covers the period 1 January 2014 to 6 November 2020.
34. The Board of the National Lotteries Commission appointed an independent audit firm to assess and investigate allegations of maladministration and conflict of interest as alleged in various newspaper articles, further to receive and assess all information and evidence provided by beneficiaries and the public relating to allegations of maladministration and conflict of interest in the awarding of the funding by National Lottery Distribution Trust Fund. The investigation was expected to be concluded by end of May 2020, however there has been delays in finalisation and it is still in progress.
35. There are various allegations levelled against beneficiaries, management and board members which are under investigation by the Directorate for Priority Crime Investigation (Hawks) relating to grant funding. The investigation was not finalised at the reporting date.

Auditor-General

Pretoria

25 February 2022



AUDITOR-GENERAL  
SOUTH AFRICA

# Annexure – Auditor-general’s responsibility for the audit

## Annexure – Auditor-generals responsibility for the audit

1. 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 public entity’s compliance with respect to the selected subject matters.

### Financial statements

2. 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 by the accounting authority
  - conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the 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 National Lotteries Commission 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 financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the 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 public entity to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the 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

3. 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.
4. 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.