# National Lotteries Commission

## ANNUAL PERFORMANCE PLAN

2017-2018

(mid-term review)

NATIONAL LOTTERIES COMMISSION

a member of the dti group

| Acronym/Term | Description/Definition |
|---|---|
| Act | Means the Lotteries Act No.57 of 1997 as amended. |
| Applicant | Means the juristic person making an application for funding. |
| Board | Means the Board of Directors of the National Lotteries Commission, established in terms of Section 2 of the Act. |
| Chairperson | Means the Chairperson of the Board appointed in terms of Section 3(1) (a) of the Act. |
| Grant Funding (GF) | Means the division of the National Lotteries Commission responsible for performing all administrative and associated functions in respect of the distribution of funds. |
| CM | Means the Commissioner appointed in terms of Section 7(1) (a) of the Act. |
| Distributing Agency (DA) | Means the agency appointed in terms of Section 27, 28, 29 or 30 of the Act. |
| DTI | Means the Department of Trade and Industry. |
| GMS | Means the Grant Management System used by the Board to record and track all applications received. |
| King Report | Means the current version of Report on Corporate Governance published by the King Committee on Corporate Governance. |
| Key Performance Indicators (KPIs) | Means qualitative/quantitative statements, measures/observed or parameters that can be used to describe performance and measure change or trends over a time period. |
| Minister | Means the Minister of Trade and Industry. |
| M&E | Means the Monitoring and Evaluation. |
| NLDTF | Means the National Lottery Distribution Trust Fund. |
| NDP | Means the National Development Plan. |
| PISE | Means the Post Indaba Stakeholder Engagement. |
| PFMA | Means the Public Finance Management Act. |

| Acronym/Term | Description/Definition |
|---|---|
| Procedure Manual | Means the document that describes the work processes to be followed in the Grant Funding Office. |
| Programmes | Means a collection of initiatives that together achieve a beneficial change for an organisation. |
| Projects | Means temporary initiatives designed to achieve specific objectives within allocated budget and pre-determined timeframes. |
| Policy Directive | Means the directions issued by the Minister to the Distributing Agencies in terms of Section 32 (3) of the Act. |
| Strategic Initiatives | Means broad actions that an organisation undertakes to achieve its objectives. |
| Strategic Objectives | Means organisational intentions geared towards responding to the organisational mandate, aspirations and challenges. |
| Strategic Outcomes | Means organisational results generated through the implementation of programmes, and should correspond to strategic objectives. |

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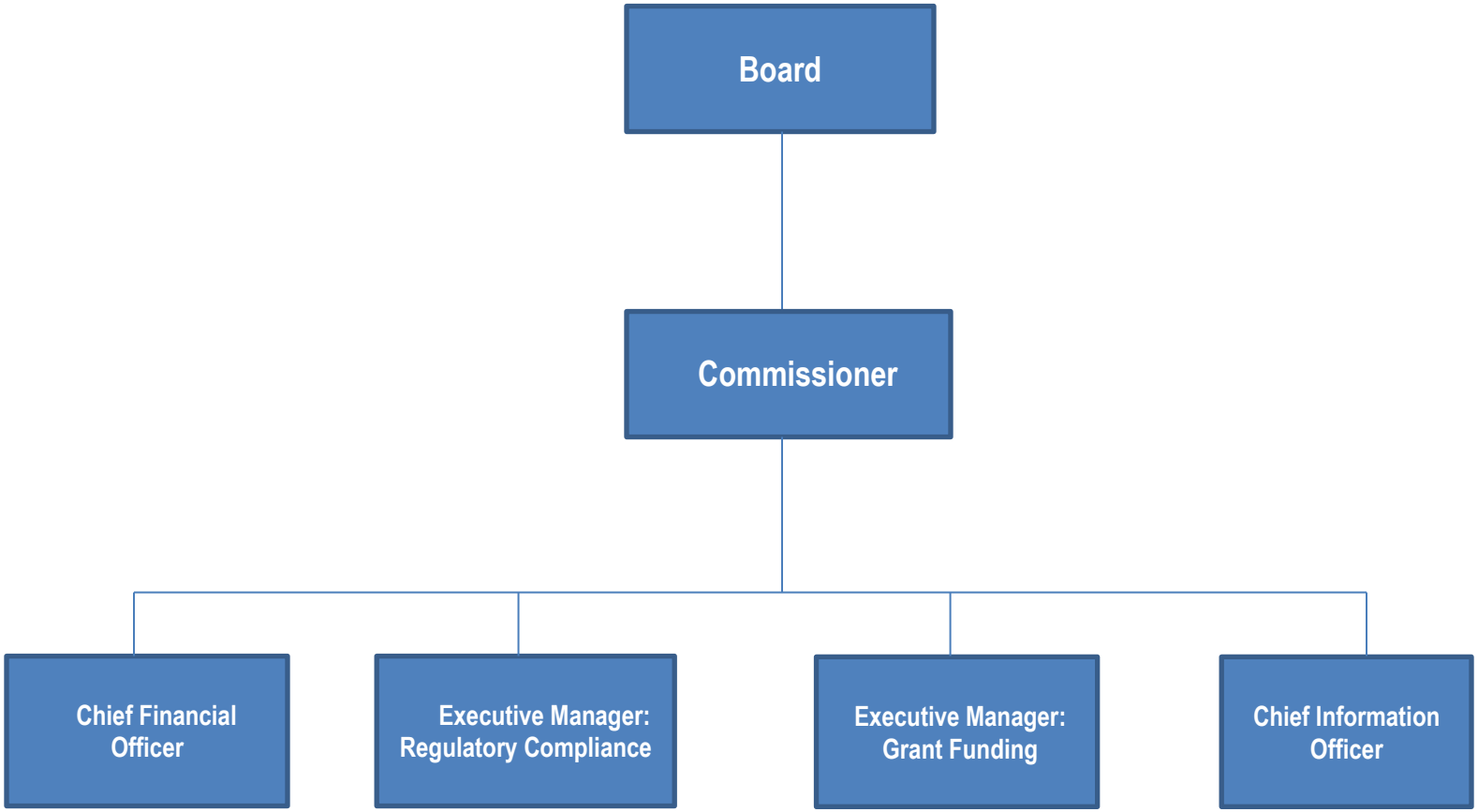
## 1. Organisational Structure

**Figure 1: NLC High Level Organisational Structure**



## 2. Official Sign-off

It is hereby certified that this Annual Performance Plan was developed by the Management of the National Lotteries Commission (NLC) under the guidance of the Board of Directors and was prepared in line with the current Strategic Plan of the NLC. It accurately reflects the performance targets which the National Lotteries Commission will endeavour to achieve given the resources indicated in the budget for 2017/18.

**P. Letwaba** **Signed:**
**Chief Financial Officer**

**A. Maharaj-Domun** **Signed:**
**Official Responsible for Planning**

**TCC Mampane** **Signed:**
**Commissioner**

**Approved by:**

**Prof NA Nevhutanda** **Signed:**
**Chairman**
**31 October 2017**

## 3. Foreword by the Minister

The National Lotteries Commission has successfully gone through various phases of transition. With the amended Act now in full effect, the NLC is once again navigating unchartered territories with an open call system and proactive funding, while strengthening their regulatory activities.

All these improvements work toward the delivery of the brand promise of ***Changing Lives*** – be it through the provision of grants to good causes or protection of the public through compliance enforcement for competition organisers.

This Annual Performance Plan is a roadmap for the future plans of the NLC, plans that will catalyse the promise of Social Uplfitment into a reality for South Africans.

***Dr Rob Davies, MP***
***Minister of Trade and Industry***

## 4. Overview by the Accounting Authority

The National Lotteries Commission (NLC) has undergone a period of transformation.

The strategy to enhance service delivery through decentralisation resulted in the organisational expansion that began in 2012. This was followed by the re-launch of the brand and amendment of the Lotteries Act, all the changes to date have been implemented with stakeholders and beneficiaries, current and potential, in mind.

The NLC is revitalised to make increased impact through regulations that will empower its operations. We have not changed what was working, but we have implemented improvements that ensure the relevance of our work, and the sustainability of our outcomes.

Even with the legislated changes, we have retained the strong elements in the previous model, and have realistic expectations of what will come out of the changes. Where we were found lacking, we have listened to our stakeholders in order to better our systems.

The NLC may still not be able to satisfy all the expectations of applicants, and the demand for funding will continue to outstrip availability for the foreseeable future.

For this reason, we will continue to capacitate our beneficiaries in various ways and in line with the resolutions of the previous Indabas to ensure the sustainability of their projects, and to a position where they are empowered enough to access alternative sources of funding. The National Lottery is now a South African staple, and the public, winners, and beneficiaries of grants, continue to derive benefit from the games.

Protection of the public remains one of our pillars, and we will continue to perform this important task through regulation of lotteries, enforcement of laws against fraud and illegal lotteries, and the NLC will continue to the protect the basic human rights of vulnerable South Africans through the equitable and expeditious distribution of funds to good causes.

***Prof NA Nevhutanda***
***NLC Chairperson***

# PART A:

# STRATEGIC OVERVIEW

## 5. Vision

A vision statement is sometimes referred to as the picture or aspirational description of what an organisation would like be or to achieve/accomplish in the medium to long term. The vision statement is the inspiration of the organisation. It provides the framework for which the development of all strategies and plans that the organisation intends to achieve are moulded. Most importantly, it should be the point of departure in developing the strategic intent for the NLC.

The Vision of the NLC is crafted as follows: *"The catalyst for social upliftment".*

The NLC is mandated by an Act of Parliament to regulate the National Lottery and other lotteries through proceeds derived from the sales of lottery tickets. The NLC further endeavours to:

- Ensure that funds are distributed equitably and expeditiously across South Africa and
- Advance the socio-economic well-being of communities in need.

## 6. Mission

The mission statement is a brief description of the organisation's fundamental purpose and it advocates and articulates the reason for the existence of the organisation.

The Mission of the NLC is:

- *To regulate all lotteries and sport pools with integrity and to ensure the protection of all participants.*
- *To maximise revenue for good causes in a responsible manner.*
- *To distribute funds equitably and expeditiously.*

## 7. Core Values

The NLC is committed to achieving sustainable growth through the practice of good corporate governance, the provision of excellent service and sound regulatory practice. In fulfilling the mission we maintain high levels of:

**Table 1: NLC Core Values**

| Value | Description |
|---|---|
| Integrity | To be honest, open, accessible and fair in all our dealings, decisions and actions. |
| Performance Excellence | To take ownership of our responsibilities, to work effectively, efficiently, with professionalism and to ensure a positive sustainable impact on the communities we serve. |
| Service Excellence | To provide a level of service of a high quality, target- based and one that meets the expectations of all stakeholders. |
| Social Consciousness | To be sensitive to the needs of the community in order to initiate social upliftment. |

## 8. Strategic Goals/Objectives

| NLC Strategic Objectives | |
|---|---|
| **SO:1** | To enhance administration of the NLC and ensure compliance with applicable legislation and policy prescripts |
| **SO:2** | To ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts |
| **SO:3** | To implement relevant initiatives geared towards ensuring compliance with the Lotteries Act |
| **SO:4** | To ensure fair and equitable grant allocations |

## 9. Updated Situational Analysis

In retrospect, the previous year marked the rebirth of the NLC. Not only in the form of a rebranding and transitioning exercise, that arose from the amended legislation - but an evolution that took us all back to the start block on the board. Starting over meant that we had to let go of our conventions and look at our work through a new lens, from the perspective of our stakeholders. Beyond our public changes, from name, to logo, to a wider provincial footprint, we changed our format internally so that we could deliver on our promises.

During this period, we introduced the “open-call” system for receipt of applications that heralded the end of the previous model of “Call for Applications” for funding good causes. The “Call for Applications” model permitted the NLC to accept applications only if they were submitted during a fixed window period (usually 3 months) on an annual basis. This had often resulted in worthy and deserving causes not being able to access funding if the window period was closed. The open-call on the other hand means that applications will be accepted throughout the year at all NLC Offices and there is no closing date.

Making inroads into reducing inequalities through provisions in the Act that now allow the NLC to pursue proactive funding based on research will help us to support innovative projects with greater impact and provide emergency support where the need arises.

In essence, the amended legislation has provided a platform for a better structured organisation that is responding to the funding needs of society in a credible and expeditious manner.

The salient provisions of the Act (which is a strategic guide in the implementation of the mandate of regulation and distribution) as envisaged in the amendments included the following provisions:

- The Amended Lotteries Act stipulates that the National Lottery Commission shall be established;
- The Commission shall be a juristic person;
- The Commission is governed by a Board appointed in accordance with the Lotteries Act;
- The Commission shall, applying the principles of openness and transparency, exercise the functions assigned to it in terms of the Act by the Minister;
- The Commission may, upon request by the Minister, board or on its own initiative in consultation with

the Board, conduct research on worthy good causes that nay be funded without lodging an application in terms of the Act;

- The Commission may upon request by the Minister, board or on its own initiative in consultation with the Board, solicit applications for grants from good causes.

To date, the NLC has made significant strides in considering and implementing internal strategic and operational changes in line with the emerging thinking and provisions of the Legislation.

The National Development Plan aims to eliminate poverty and reduce inequality by 2030. South Africa can realise these goals by drawing on the energies of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society. NLC is the largest organisation with a gaming regulatory and funding mandate in Africa. In line with its mandate, vision and mission, NLC's formulation of programme activities and targets is aligned to the political, social and economic realities of South Africa.

In particular, the NLC's role and functions as outlined in the Lotteries Act (as amended) place an obligation on the organisation to support (directly and indirectly) the electoral mandate of Government. From a strategic perspective, the sight of government priorities provides a major opportunity for the NLC within the disciplinary context of social development and social upliftment. These include addressing unemployment and alleviating poverty in alignment with the NDP. The NLC is therefore driven by government policies on economic and social development.

South Africa's gross domestic product (GDP) growth rate was 0,2% in the third quarter of 2016. The main contributors to the GDP growth rate were the mining and quarrying industry; finance, real estate and business services; and general government services. Mining and quarrying increased by 5,1%, largely as a result of higher production in the mining of 'other' metal ores, in particular iron ore. Year-on-year, the economy grew by 0.7 percent, slightly faster than a 0.6 percent expansion in the previous three months and in line with consensus.

The NLC through its mandate has also played a role to bring about this growth by ensuring that funds are distributed to qualifying beneficiaries. Sectors funded by the NLC contribute to job creation, rural development, infrastructure development, promoting wellness and social cohesion. This aligns to the objectives of the NDP as well as the Nine Point Plan in order to eliminate poverty and reduce inequality by 2030 and also bring about economic growth. Over R21 billion has been distributed to good causes since its inception. However, the reliance on a single source of funds does not make it possible to address the needs of the entire NGO/NPO sector in South Africa.

Aligned to the legislative amendments, NLC technology has also been refreshed in order to adapt to the necessary changes and improvements. The upgrades have taken the form of 2 phases in order to modernise the NLC Enterprise Architecture Platform. "Project Dibanisa" refers to the creation of an integrated platform that seeks to incorporate all ICT requirements into one dashboard. It is an opportune position to use technology to enhance service delivery. A modern and secure IT infrastructure will provide the organisation with the ability to provide

efficient access to funding as well as to expedite funding processes. Investments in technology and more especially in broadband services have a vital role to play in moving the NLC business objectives forward. However, such investments are not only focused only on infrastructure development. We envisage provision of advanced online services to address inequity and delivery of information to all citizens of this country – especially for those in under-serviced areas. To this end, it will be vital for the organisation to work towards establishing networked information and communication technologies (ICTs) in partnership with establishment and licensed electronic communication network which will play an ever-increasing role to its stakeholders. NLC has set aside necessary investments to enable staff and external stakeholders to participate in and benefit services from a secured infrastructure and enterprise architecture. Innovation remains a tool towards success, especially within an era of increasingly advancing business, social, and economical environments. We plan to introduce innovative methods of interaction, for example through use of mobile devices to allow stakeholders take on new roles as enabled and empowered participants. In order to capitalise on these opportunities, the NLC shall ensure that the developed technology roadmap encapsulates principles of a flexible, scalable, cost-effective and risk tolerant infrastructure and enterprise environment. It must however be noted that introducing new services in a network often presents challenges, among them security. At the NLC, this is addressed through the enacted ICT Governance Framework.

Corporate Governance is crucial to business sustainability and growth of the organization. The development and implementation of a proper corporate governance framework is endorsed by the Board. The Board accepts responsibility for the application and compliance with the principles of ensuring that effective corporate governance is practised consistently throughout the organisation. The Board discharges this role through its charters based on a Corporate Governance Framework which is includes amongst others the principles of the Lotteries Act, PFMA, Treasury Regulations and good governance principles. These are further aligned to the organisations top strategic risks and reviewed annually.

## 9.1 Performance Delivery Environment

In order to achieve its dual mandate of regulator as well as distribution of funds to good causes, the NLC provides the following key services:

### Regulation

The NLC's mandate to regulate all lotteries and sports pools with integrity and ensure protection of all participants is realised through the activities of the Regulatory Compliance Division. The Division's has successfully facilitated the efficient transition from the second to the third National Lottery Operator without creating an adverse impact on lottery participants, while also allowing the Operator to continue generating revenue for good causes.

We have also noted the impact that public awareness created on the scourge of scams and illegal lotteries to prevent lottery participants from falling victim to illegal activities. During the 2015 National a roundtable discussion was held on how to effectively regulate the National Lottery. Local and international speakers from the lottery and gambling sector shared their experiences on how they dealt

with illegal gambling activities, regulating and promoting national lotteries without encouraging reckless gambling, and how to tackle the influx of international gambling activities targeted towards Africa.

Mandate for regulating the National Lottery Operator:

Compliance monitoring of the National Lottery Operator is also conducted in accordance with the Licence Agreement and Lotteries Act, as amended. Our approach is aimed at ensuring that there is common understanding of compliance requirements between the NLC and the Operator. The Licence Agreement contains clauses that the Operator must comply with - in addition to the Act, schedules with details on compliance requirements, responsibilities of the Minister and Board for monitoring compliance, as well as approving specific deliverables from the Operator.

Key reviews conducted on a regular basis focused on:

- Participant protection, prevention of under-age and excessive play;
- Safeguarding the integrity of the National Lottery;
- Adherence to codes of practice for sales, participants, advertising and vetting;
- Implementation of localisation and supplier development initiatives;
- Availability of terminals at specified geographical locations; and
- Certification and testing of draw equipment.

**National Lottery**

The National Lottery in South Africa does not exist for the sole purpose of creating millionaires. The driving force behind it is to raise funds for good causes. Protection of lottery participants, prevention of under-age play and curbing overstimulation of the National Lottery that may lead to gambling addiction has always been the core mandate of the NLC. Under the third operator, Ithuba Holdings, the National Lottery was invigorated with fresh branding and the introduction of new games such as EaziWin and PowerBall Plus.

**Competition for the National Lottery**

Betting on the outcome of the National Lottery was allowed as a form of bookmaking for betting operators registered with respective provincial gambling boards. This remains a great concern both for the Operator and the regulator as it is seen to be in direct competition with the National Lottery. At face value, prize pay-outs from these games offered by bookmakers are far greater than those won when playing the National Lottery. This undoubtedly requires policy review.

**REGULATORY ENFORCEMENT**

Society Lotteries

With the introduction of the Lotteries Act in 1997, the Fund-raising Act was repealed and introduced a new method for Non-Profit Organisations (NPOs) to raise funds through conducting society lotteries (which must be authorised by the NLC), private lotteries and lotteries incidental to exempt entertainment. The Regulatory Enforcement Department assesses applications for societies and lottery schemes.

**Illegal Lotteries**

During discussions at the 2015 National Indaba Roundtable focusing on enforcement challenges with other regulators, there was general consensus that business innovation is always advancing at lightning speed and regulation is often-times playing catch-up. It emerged that regulation was not seen as the complete solution to deal with illegal lotteries, and alternative approaches to restrict illegal lotteries had to be identified through conducting research.

The NLC conducted research on the impact of illegal lotteries and other forms of gambling that may influence lottery participants. The main challenges pertaining to the effective prohibition and combatting of unlawful lotteries in the country include:

- The lotteries' legislation is not clear on exactly what constitutes an illegal lottery, where many current forms of illegal lotteries, such as Fafi, being open to interpretation. Currently, there are some instances where different authorities regard and perceive illegal lotteries in different ways.
- Current lotteries legislation is not clear on sports pools and their authorisation (GRC, 2011).
- In many instances, provincial licensing authorities, particularly in the provinces in which illegal lotteries are prominent, are actively enforcing the law in terms of combatting these unlawful activities. However, the cases that result cannot be successfully prosecuted due to issues around the mandate of provincial authorities to combat illegal lotteries, which are a national competence and not a provincial competence.
- Collaboration and coordination between the lottery and gambling authorities is infrequent, particularly at the national level. Further, engagement within the trinity of lottery and gambling authorities, law enforcement and prosecutors is disorganised.
- While the current operator has rebranded the National Lottery and even tried to implement new lottery games, the feedback from punters indicates that there are some issues. Most importantly, many people do not understand what 'Phanda Pusha Play' is and how it relates to the previous 'Tata ma Chance' – many think it is a different lottery and are thus, sceptical. Also, the willingness to participate in the new lottery games implemented by the national operator, such as their own version of Fafi, is low for very similar reasons. The fact that illegal lotteries offer better chances, are cheaper to play, and are more accessible contributes to this feeling.

**Investigations**

Illegal lotteries and Promotional competitions, which are regulated under the Consumer Protection Act, taking the form of lotteries, have been the subject of investigations. Operators of these activities who are found to be in contravention of the Lotteries Act are issued warning letters, letters of demand, and mostly signed undertakings to cease with their operations and properly register their lotteries where applicable.

## NLDTF Distribution

The funding of grants to good causes is the second mandate of the NLC.

The implementation of amendments to legislation took the following form within the Division:

- The introduction of differentiated grants (small, medium and large) as well as pro-active funding.

- In line with our commitment to enhance service delivery and to distribute funding equitably, we also continued to consolidate the operationalisation of provincial offices, which inter alia, saw the commencement of redeployment of head office staff to provincial offices.
- Provincial offices are now equipped to manage the full pre-adjudication business processes whereby project applications are received, captured, assessed and prepared for adjudication by the various distributing agencies. In addition, other services include Monitoring & Evaluation of funded projects and assistance with enquiries, applications and grant agreements.

Full implementation of the amended legislation, with specific reference to service delivery turnaround times, is largely dependent on having the full time DA structure operational. In terms of the amended legislation, the DA's are appointed by the Minister of **the dti** but are accountable to the Board.

(a) Education and Awareness

There has been a significant departure from education and awareness workshops that materialised in line with a call for applications. As part of the changes to the recently approved amendments to the legislation the organisation must conduct education and awareness initiatives to ensure organisations and communities are well informed about the requirements for accessing funding from the NLDTF. This concept is primarily focussed on conducting capacity building workshops to improve efficiency and accessibility not only during the calls for applications but on a continuous basis. The focus has shifted to ensuring that there are on-going stakeholder engagements to address a full spectrum of topics, including but not limited to that of capacity building, governance and illegal lotteries. They further cover a vast range of aspects which include how to apply for funding, compiling financial records, completion of reports and project implementation, to name just a few.

(b) Full time DA's included in NLC Structure

A comprehensive organisational re-design was also completed in order to align to the amended legislation. The recruitment process for all 3 Distributing Agencies has been concluded. It is envisaged that a full-time DA complement combined with the execution of daily adjudication, will undoubtedly lead to improved turnaround times in line with the regulated 150 days.

(c) Proactive Funding

One of the strategies introduced to address the shortcomings in priority areas in general is the introduction of the funding model, which aims to respond to social problems and opportunities through a strategic and evidence-based mixed funding model.

The amended legislation makes provision for proactive funding (research based funding) which can emanate from three sources, viz. the Minister, the Board or the Commission. NLC has already successfully implemented Proactive Funding Projects. At the end of the second quarter 2016/17, both the Charities and Sports sectors made pro-active funding allocations. Three (3) projects were funded under the pro-active funding process:

Project Rehydrate: R50 million awarded for the drilling and installation of 200 boreholes in across Limpopo, the Free State, Eastern Cape and Mpumalanga. We worked closely with the Department of Water and

Sanitation and municipalities to identify the sites for the boreholes, and groundwater was tested before drilling began. This is permanent infrastructure that will continue to serve these communities beyond the drought.

Sol Plaatjie University, Northern Cape: R25 million awarded for construction and upgrading of new and existing sporting facilities to promote performance and participation at both Local, National and International levels.

**Vhafamadi Secondary School, Limpopo:** R25 million awarded for the re-building of a school in Vuwani. The funding was directed toward rebuilding 20 classrooms; a library; a computer lab; a science laboratory; an NSNP kitchen; and a school hall. A palisade fence has also been installed in order to minimize vandalism.

The National Stakeholder Engagement Indaba is a flagship project of the organization. The inaugural Indaba took place in 2011 followed by events in 2013, 2014 and 2015. The overall objectives of the national Indaba has always been to reiterate the NLC's commitment to work closely with the beneficiaries and various other key stakeholders including the following:

- Understand stakeholder realities, challenges in order to enable NLC to improve its service delivery of its mandate.
- Educate the NLC stakeholders about its regulatory mandate and for funding good causes aligned to government's priorities of poverty alleviation and job creation.
- Encourage and ensure beneficiaries' sustainability on corporate governance and development and implementation of norms and standards for funding for NLC beneficiaries
- Beneficiaries' risk management and fraud prevention
- Continue to recognise beneficiaries complying with corporate governance through beneficiaries awards.

**2011 Resolutions:**

- Development of a National Funding Policy that is aligned with National Priorities and delivers maximum impact.
- Redefinition of the function of the Distributing Agencies, NLDTF and the NLC – roles, focus areas and accountability.
- Re-examination and broadening of categories in terms of numbers and distribution.
- Differentiation: match complexity of the process and the task to the complexity and the process inter alia: smaller tasks – a simpler process.
- Capacity building and mentoring of smaller organizations, or form partnerships to access NLDTF funding.
- Reinforce integrity through internal controls. Minister of Trade and Industry: development and formulation of Code of Conduct (to handle these types of conflict – may include Ombudsman).
- Further investigation on the matter of natural persons.

**2013 Resolutions:**

- Accelerates decentralisation of operations to all Provinces to ensure better access to services.

- Strengthens partnerships with organisations that enhance capacity building of beneficiaries.
- Audits all infrastructure and beneficiaries' assets acquired through the NLDTF-funded projects.
- Develops and implement norms and standards for grant funding.
- Endorses and align NLDTF-funding with the National Development Plan with focus on poverty alleviation and job creation.
- Facilitates a process of mentoring and coaching of new organisations by established ones.
- Absorbs about 1000 graduates through projects funded by NLDTF.

**2014 Resolutions:**

- The NLC will align its programmes with the youth employment accord by ensuring continuation and facilitation of a skills development programme through placement of unemployed graduates with its beneficiaries.
- Using its provincial offices, the NLC, will together with its strategic partners support the coordination of efforts towards the utilisation of a multi-purpose centre. Multi-Purpose Centres to focus on:
  - Skills development
  - Entrepreneurship
  - NGO Capacity Building
- The NLC will continue to strengthen partnerships with law enforcement and other agencies that may be key stakeholders in the prevention of fraud, M&E and compliance
- Emphasise roles and responsibilities for NGOs/NPOs, Board of Directors and Management to be accountable for implementing projects.
- The NLC will continue to strengthen partnerships with organisations that enhance capacity building of beneficiaries.
- The NLC will incorporate and implement recommendations from stakeholders on the Norms & Standards Document
- The NLC will develop research capacity to be able to facilitate proactive funding.

Some of the above resolutions required legislative amendments for implementation purposes, many of which have been addressed in the Lotteries Act, as amended.

**2015 Resolutions:**

- Improve marketing and communication of the National Lotteries Commission, and the link between revenue and the funding of good causes
- Improve monitoring of funded organisations – and measurement of NLC's impact
- Strengthen partnerships with other stakeholders to improve regulation
- Improving service delivery and turn around times through enhancing technology (by allowing for online submission and tracking of applications)
- Extend capacity building efforts for beneficiaries to improve resource use and the impact of programmes (e.g. management, financial and governance skills)
- Ensure processes and procedures are fair, ethical, transparent and professional, and deliver on the NLC's espoused values

- Establish a knowledge hub/website to facilitate connection among beneficiaries, and to enable sharing of services within the 'network'.

Several of the resolutions have been incorporated into the performance plan of the organisation to ensure that the deliverables are met.

## 9.2 Organisational Delivery Environment

**Sustaining Organizational Capacity:**

Due to the decentralisation model wherein the provincial footprint has enabled the organisation to extend its services to be more accessible to the communities which it intends to serve, employees, predominantly from Grant Funding, have been deployed to the respective provinces.

## 9.3 Ministerial Priorities

| Identified Area | Performance Measure |
|---|---|
| **Education and Awareness** | Develop informational measures to educate the public about lotteries and provisions of the Lotteries Amendment Act No 32 of 2013 and by explaining the process, requirements and qualifications for grants |
| **Full-time Distributing Agencies** | Manage the integration of full-time Distributing Agency (DA) members to improve the application process |
| **Illegal Lotteries** | Monitoring and enforcement against illegal lottery operations |
| **Proactive Funding** | Proactive funding based on informed research for worthy causes that may be funded without lodging an application in terms of the Act |
| **Monitoring of the Operator** | Monitoring of the Lotteries Operator to ensure that it complies with government priorities e.g. The Broad Based Black Economic Empowerment Act, 2003 (No. 53 of 2003) (BBBEE), Local Procurement & Skills Transfer |
| **Memorandum of Understanding (MOU's)** | MOU's with other Regulatory Agencies and provincial counterparts in clamping down on illegal lotteries and gambling |

## 9.4 Alignment to the dti, NDP & 9PP

| NLC Objectives | | the dti Priorities | NDP | 9 Point Plan |
|---|---|---|---|---|
| **SO3** | To enhance administration of the NLC and ensure compliance with applicable legislation and policy prescripts | | Fighting corruption through the promotion of sound corporate governance & ethical behaviour<br><br>Creating a culture of service delivery | Reducing inequality in line with employment equity priorities |

| | | | | |
|---|---|---|---|---|
| | | | excellence | |
| **SO2** | To ensure financial sustainability, control and discipline in line with applicable legislation and policy prescripts | To facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation<br><br>To facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth | Jobs created and sustained by capacitating projects to remain financial sound | Growth in GDP by strengthening the financial evaluation of projects with maximum economic benefits<br><br>Jobs created and sustained by capacitating projects to remain financial sound |
| **SO3** | To Implement Relevant Initiatives Geared towards Ensuring Compliance with the Lotteries Act | To create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner | | Lottery operator license agreement monitoring to ensure local procurement acts as an enabler for GDP Growth as well as jobs created and sustained during the license period |
| **SO4** | To ensure fair and equitable grant allocations | | Creation of new Jobs by funding for impact<br><br>Supporting projects that focus on capital infrastructure<br><br>Funding in support of the provision of quality education | Projects that create sustainable jobs<br><br>Funding that focuses on agricultural growth<br><br>Support for youth & women projects<br><br>Increasing Public & Private Investment by encouraging the matching principle of funding & implementation of Memorandum of Understanding (MOU's) |

## 10. Description of the Planning Process

The NLC has categorised its work into three areas within which programmes that contribute to achievement of Government priorities and outcomes are implemented. The three clusters identified are:

- Administration and Support Services

- Regulatory Compliance and Enforcement
- Grant Funding and Service Delivery

This approach seeks to demonstrate the interrelation and interdependencies of various programmes and sub-programmes in fulfilling the legislative mandate of the NLC.
The Performance Matrix, including selected indicators and targets, are tested on the validity of the decisions taken. Key questions directed to stakeholders included:

- Does the Performance Data represent the organisation effectively?
- Can meaningful targets be set for the indicators?
- Can quality data be collected cost effectively?
- Can evidence be kept cost-effectively?
- Are selected indicators the best possible indicators against objectives, values or management levels?

Furthermore, engagement also includes sessions to align budgets to the process. Once this internal process is completed, the matrix is incorporated into the Plan.

## 11. Financial Plan

The NLC follows the processes listed below for the purposes of budgeting:

12.1 Projections of revenue, expenditure and borrowings
Revenue projections include interest on investments, interest on cash in bank and receipts from lottery game sales. The interest on investments in the short term is projected at market related rates as negotiated with the relevant banking institutions.

Major expenditure relates to the distribution of funds to good causes. Expenditure for the NLC primarily consists of operational costs.

Operational expenditure (Opex) includes general & administration and employee costs are all budgeted for from a zero base. The overall principle applied when budgeting for Opex is largely linked to the organizational targets and activities.

**12.2 Asset and liability management**
The NLC as a Schedule 3A Public Entity under the PFMA, is required to operate fully on the basis of neither budgeting for a surplus nor for a loss. Investment activity is funded out of cash balances and thus all liabilities will at all times be off-set by cash balances. Excess cash is managed through a cash management

process where short term cash is invested in fixed deposits of varying maturities at four approved banks to meet short to medium term cash requirements (in line with an approved investment policy).

The NLC's strategic objectives are detailed in table 8 and detailed financial projections are provided in Table 14.

**12.3 Cash flow projections**

# NATIONAL LOTTERIES COMMISSION
# REVENUE AND EXPENDITURE
# MID-TERM BUDGET 2017/18
# R 000

| | MID-TERM BUDGET 2017/18 | DRAFT BUDGET 2018/19 | BUDGET 2019/20 |
|---|---|---|---|
| | R'000 | R'000 | R'000 |
| **REVENUE** | **1 910 281** | **1 905 190** | **2 072 762** |
| NLDTF | 1 584 469 | 1 776 943 | 1 937 553 |
| Interest Received | 170 462 | 122 897 | 129 656 |
| License Signing Fees | 2 500 | 2 500 | 2 500 |
| Societies & Other Lotteries | 50 | 50 | 53 |
| Revenue from Participant's Trust | 150 000 | - | - |
| Sundry Income | 2 800 | 2 800 | 3 000 |
| **EXPENDITURE** | **1 907 925** | **1 902 690** | **2 070 262** |
| Allocations | 1 441 564 | 1 459 002 | 1 610 664 |
| Advertising & Publicity | 27 313 | 13 531 | 27 275 |
| Advertising & Publicity - Roadshow | 1 866 | 1 971 | 2 079 |
| Agency Emoluments | 2 001 | - | - |
| Audit Committee Emoluments | 411 | 434 | 458 |
| HR Committee Emoluments | 226 | 239 | 252 |
| Regulatory Compliance and Legal Committee | 226 | 239 | 252 |
| Board Review Committee | 226 | 239 | 252 |
| Nominations Committee | 226 | 239 | 252 |
| Board and Distributing Agency Committee | 226 | 239 | 252 |
| Audit Fees | 3 996 | 4 220 | 4 452 |
| Bank Charges | 273 | 136 | 144 |
| Board Members Emoluments | 1 085 | 1 146 | 1 209 |
| Computer Expenses | 37 841 | 15 672 | 16 534 |
| Conferences / Meetings | 2 493 | 2 633 | 2 777 |
| Consulting Fees | 29 891 | 28 332 | 29 890 |
| Courier & Postages | 800 | 845 | 891 |
| Depreciation | 9 706 | 10 250 | 10 813 |
| Electricity, water, rates & taxes | 4 307 | 4 548 | 4 798 |
| Refreshments & Catering | 1 493 | 1 576 | 1 663 |
| General Expenses | 1 762 | 1 861 | 1 963 |
| Insurance | 1 940 | 2 049 | 2 161 |
| Legal Fees | 15 000 | 13 728 | 14 483 |
| Motor Vehicle Expenses | 1 879 | 1 984 | 2 093 |
| Outsourced services | 7 700 | 6 131 | 6 468 |

| | | | | |
|---|---|---|---|---|
| | Print & Stationery | **5 042** | **5 325** | **5 617** |
| | Lease costs - Office Equipment | **1 760** | **1 859** | **1 961** |
| | Lease costs - Property | **22 087** | **21 050** | **715** |
| | Lease costs - Motor Vehicle | **2 580** | **2 724** | **2 874** |
| | Repairs & Maintenance | **2 656** | **2 805** | **2 959** |
| | Risk Benefit & Mngmnt Fees | **4 569** | **4 790** | **5 053** |
| | Staff Relocations | **438** | **463** | **488** |
| | Salaries & Wages | **240 061** | **259 147** | **273 400** |
| | Staff Recruitment | **200** | **211** | **223** |
| | Staff Training | **9 837** | **10 388** | **10 959** |
| | Staff Welfare | **3 131** | **3 306** | **3 488** |
| | Subscriptions | **727** | **768** | **810** |
| | Security | **2 668** | **2 817** | **2 972** |
| | Telephone & Fax | **1 739** | **1 836** | **1 937** |
| | Temporary Staff | **-** | **-** | **-** |
| | Travel & Accommodation | **15 515** | **13 469** | **14 210** |
| | Workmens Compensation | **463** | **489** | **516** |
| **NET SURPLUS** | | **2 356** | **2 500** | **2 500** |
| **ADJ:** | Depreciation | 9 706 | **9 706** | **10 240** |
| | Rent : non-cash flow content | - | **-** | **-** |
| | Profit on disposal of fixed assets | - | **-** | **-** |
| | Acquisition of fixed assets | (45 860) | **(31 760)** | **(10 297)** |
| | License Signing Fees | (2 500) | **(2 500)** | **(2 500)** |
| | Sundry Income | (22 311) | **(2 800)** | **(9 200)** |
| **NET CASH FLOW** | | **(58 609)** | **(25 308)** | **(9 590)** |

**12.4 Capital expenditure projects (Capex)**

The most prominent capex item is the redesign of the grant management system (e-system) together with the full integration of all other systems. Included here is not only the system design but also the acquisition of the necessary hardware.

**12.5 Infrastructure plans**

NLC plans to embark on acquiring long term accommodation. It is projected that the project will take approximately 3 years for completion (2017-2020).

**12.6 Dividend policies**

NLC is a Schedule 3A Public Entity and is exempted from Tax and VAT. Dividend policies are not applicable.

# PART B:

# PROGRAMME PERFORMANCE

## Programme 1

### 13.1 Purpose of the Programme

### 13.2 Description of the Programme

| | |
|---|---|
| Purpose | To provide leadership and support to the entire organisation particularly the core business for effective service delivery. |
| Description | Office of the Commissioner |
| | • Corporate strategy development and implementation<br>• Corporate performance monitoring and reporting<br>• Governance systems development and implementation<br>• Internal controls implementation and risk management<br>• Sustainability strategy implementation<br>• Legal Services functions<br>• Efficiency improvement and systems development<br>• Research & Development<br>• Monitoring & Evaluation<br>• Marketing & Communications<br>• Stakeholder Management encompassing capacity building & education and awareness |
| The office of the Executive is constituted by Strategic planning & reporting; Internal Audit; Risk management; Company Secretary; Legal Services; Business Development and Human Capital | |
| | |
| | • |
| | |
| Description | Finance |
| | • Financial planning and reporting<br>• Development of financial controls and implementation thereof<br>• Development of procurement strategy and policies in line with PFMA<br>• Facilities Management<br>• Ensure compliance with statutory requirements from a finance perspective |
| The Finance division is constituted by Financial Accounting (NLC & NLDTF), Supply Chain Management and Management Accounting Departments. | |
| Description | Information Communication Technology |
| | • To provide vision and leadership for the planning, implementation and management of Information and Communications Technologies (ICT) that support the National Lotteries Commission' business;<br>• Direct and manage Information Communications and Technology strategic plans, develop IT policies and governance framework.<br>• Provide leadership and management of ICT services, network communications, transactional computing processes, information |

| | |
|---|---|
| | management and security.<br>• Developing and maintaining a responsive, reliable, and secure ICT infrastructure.<br>• Maximise the value of technology investments.<br>• Ensure IT system operation adheres to applicable approved policies and governance framework.<br>• Direct development and execution of an enterprise-wide disaster recovery and ICT service continuity plan.<br>• Knowledge Management |
| The Information Technology division is constituted by Enterprise Architecture; Infrastructure and Networks, Business Analyst Departments. | |

## 13.3 Programme Performance Indicators and Targets (Programme 1)

| Strategic Objective [1]: To Enhance Administration, Ensure Compliance with Applicable Legislation and Policy Prescripts | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Strategic Outcome** | **Strategic Output** | **Performance Indicator** | **Audited Actual Performance** | | | **Baseline 2016/17** | **2017/18 Annual Target** | **2018/19 Annual Target** | **2019/20 Annual Target** |
| | | | **2013/14** | **2014/15** | **2015/16** | | | | |
| **Effective and efficient management of the NLC operations** | Knowledge Management | 1.1 Develop a knowledge hub | Developed Knowledge Manageme nt Strategy | Nil | Indaba Resolution for Knowledge Hub | Alignment of strategy | Development of a Knowledge Hub | Implementation of Knowledge Hub | Monitoring of Knowledge Hub |
| | Education and Awareness | 1.2 Number of stakeholder engagements conducted per province | National Consult-ative Indaba & PISE | 3 workshops per province | 4 workshops per province | 6 stakeholder engagements per province | 8 stakeholder engagements per province | 10 stakeholder engagements per province | 12 stakeholder engagements per province |
| | E-system (Integrated Enterprise Wide Architecture Platform) | 1.3 Integration of the E-system Enterprise Wide Architecture Platform | System Scoping | Conduct work-study for business processes and workflows | Develop the E-system / Integrated Enterprise Wide Architecture Platform (Phase 1) | Develop the E-system / Integrated Enterprise Wide Architecture Platform (Phase 2) | Integration of E-System with identified SOE's and national departments | Monitoring of E-system / Integrated Enterprise Wide Architecture Platform | Review of E-system / Integrated Enterprise Wide Architecture Platform |
| | Corporate Governance | 1.4 Number of organisation-wide ethical behaviour interventions per quarter | Nil | Nil | Nil | Implementation of the approved ethics strategy | 1 organisational intervention per quarter | 3 organisational interventions per quarter | 5 organisational interventions per quarter |

| Strategic Objective [2]:To Ensure Financial Sustainability, Control and Discipline in line with Applicable Legislation and Policy Prescripts | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Strategic Outcome** | **Strategic Output** | **Performance Indicator** | **Audited Actual Performance** | | | **Baseline 2016/17** | **2017/18 Annual Target** | **2018/19 Annual Target** | **2019/20 Annual Target** |
| | | | **2013/14** | **2014/15** | **2015/16** | | | | |
| **Creating a Sustainable and financially efficient NLC** | NLDTF Disbursements | 2.1 Percentage disbursement of grants as per GNR644, 6(c)(iv) | Nil | 38% | 97.8% | 65% of grants paid in line with the regulated 60 day timeframe | At least 65% of grants be paid in line with the regulated 60 day timeframe | At least 95% of grants be paid in line with the regulated 60 day timeframe | 100% of grants be paid within the regulated 60 day timeframe |
| | NLDTF Investments | 2.3 Percentage Return on Investments (ROI) of NLDTF funds | 5.63% | 6.00% | 7.77% | 8% ROI on NLDTF funds | An annual minimum of 8% ROI on NLDTF funds | An annual minimum of 8% ROI on NLDTF funds | An annual minimum of 8% ROI on NLDTF funds |
| | Provincial Procurement | 2.4 Percentage of localised procurement | Nil | Nil | Nil | 80% localised procurement | 90% localisation of procurement for provincial offices | 95% localisation of procurement for provincial offices | 100% localisation of procurement for provincial offices |

### 13.4 Quarterly Milestones (Programme 1)

| Strategic Outcome | Strategic Output | Performance Indicator | Baseline 2016/17 | 2017/18 Annual Target | Quarterly Milestones | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| **Strategic Objective [1]: To enhance administration and ensure compliance with applicable legislation and policy prescripts** | | | | | | | | |
| **Effective and efficient management of the NLC operations** | Knowledge Management | 1.1 Develop a knowledge hub | Alignment of strategy | Development of a Knowledge Hub | Creation of Team and preparation for change | Perform Audit and Analysis | Definition of key features of the hub | Development and Piloting of the hub |
| | Education and Awareness | 1.2 Number of stakeholder engagements conducted per province | 6 stakeholder engagements per province | 8 stakeholder engagements per province | Planning of stakeholder engagements | Number of stakeholder engagements across the provinces | Number of stakeholder engagements across the provinces | Number of stakeholder engagements across the provinces |
| | E-system (Integrated Enterprise Wide Architecture Platform) | 1.3 Integration of the E-system Enterprise Wide Architecture Platform | Develop the E-system / Integrated Enterprise Wide Architecture Platform (Phase 2) | Integration of E-System with identified SOE's and national departments | Post implementation and validation of the deployed Enterprise Wide Platform (of Phase 2) | Information collation | User Acceptance Testing (UAT) | User Acceptance Testing & Piloting |
| | Corporate Governance | 1.4 Number of organisation-wide ethical behaviour interventions | Implementation of the approved ethics strategy | 1 organisational intervention per quarter | Roll-out of intervention | Roll-out of intervention | Roll-out of intervention | Roll-out of intervention |

**Strategic Objective [1]: To enhance administration and ensure compliance with applicable legislation and policy prescripts**
**Strategic Objective [2]:To Ensure Financial Sustainability, Control and Discipline in line with Applicable Legislation and Policy Prescripts**

| Strategic Outcome | Strategic Output | Performance Indicator | Baseline 2016/17 | 2017/18 Annual Target | Quarterly Milestones | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| **Strategic Objective [2]: To Ensure Financial Sustainability, Control and Discipline in line with Applicable Legislation and Policy Prescripts** | | | | | | | | |
| **Creating a Sustainable and financially efficient NLC** | NLDTF Disbursements | 2.1 Percentage disbursement of grants as per GNR644, 6(c)(iv) | At least 65% of grants be paid in line with the regulated 60 day timeframe | At least 65% of grants be paid in line with the regulated 60 day timeframe | 20% disbursement of grants | 40% disbursement of grants | 50% disbursement of grants | 65% disbursement of grants |
| | NLDTF Investments | 2.3 Percentage Return on Investments (ROI) of NLDTF funds | 7.77% | An annual average minimum of 8% ROI on NLDTF funds | 8% Return on Investments | 8% Return on Investments | 8% Return on Investments | 8% Return on Investments |
| | Provincial Procurement | 2.4 Percentage of localised procurement | 80% localised procurement | 90% localisation of procurement for provincial offices | 90% localisation of procurement for provincial offices | 90% localisation of procurement for provincial offices | 90% localisation of procurement for provincial offices | 90% localisation of procurement for provincial offices |

| Economic Classification | Expenditure Outcome | | | Adjusted Appropriation | Medium Term Expenditure Estimate | | |
|---|---|---|---|---|---|---|---|
| | 2012/13 R'000 | 2013/14 R'000 | 2014/15 R'000 | 2015/16 R'000 | 2016/17 R'000 | 2017/18 R'000 | 2018/19 R'000 |
| **Current payment**<br>Compensation of employees, goods and services | 123 451 | 139 092 | 177 633 | 359 870 | 464 525 | 388 780 | 514 578 |
| **Payment of capital assets**<br>Building & other fixed structure<br>Machinery & equipment | 9 156 | 11 296 | 81 087 | 70 253 | 180 527 | 45 860 | 199 979 |
| **Other classifications** | - | - | - | - | - | - | - |

## Programme 2

### 14.1 Purpose of the Programme

### 14.2 Description of the Programme

| | |
|---|---|
| Purpose | To ensure compliance and to regulate the entire Lottery industry in line with the mandate |
| Description | Compliance |
| | • Ensuring that mechanisms are instituted to ensure compliance with applicable laws and regulations as they relate to the lotteries environment<br>• Monitor, Regulate and Police society & other lotteries<br>• Develop and Implement of Enforcement strategy<br>• Develop and implement Compliance strategy<br>• Develop, implement and monitor Service Standards<br>• Education and awareness for voluntary compliance<br>• Monitor and Evaluate the implementation of funded projects |
| The Compliance Division is constituted by Lotteries Compliance and the Compliance Enforcement Departments. | |

## 14.3 Performance indicators and performance targets per programme (Programme 2)

| Strategic Objective [3]: To Implement Relevant Initiatives Geared towards Ensuring Compliance with the Lotteries Act | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Strategic Outcome** | **Strategic Output** | **Performance Indicator** | **Audited Actual Performance** | | | **Baseline 2016/17** | **2017/18 Annual Target** | **2018/19 Annual Target** | **2019/20 Annual Target** |
| | | | **2013/14** | **2014/15** | **2015/16** | | | | |
| **Compliant and Regulated Lottery Industry receptive to the NLC mandate** | Illegal Lotteries | 3.1 Percentage investigations on reported and identified illegal lotteries | Nil | Nil | 70% of investigations conducted | 75% of investigations conducted | Conduct investigations on 85% of all identified and reported illegal lotteries | Conduct investigations on 95% of all identified and reported illegal lotteries | Conduct investigations on 100% of all identified and reported illegal lotteries |
| | | 3.2 Feasibility study on regulation of illegal lotteries | Nil | Nil | Nil | Research on illegal lotteries conducted | Conduct a feasibility study to determine the regulation of illegal lotteries and deliver a first draft report to the Board. | Implement initiative as recommended | Monitor implementation of the initiative |
| | 3rd Lottery Licence | 3.3 Implement and monitor 3rd National Lottery Licence Monitoring Matrix/ Scorecard | Nil | Licence transition plan & resources in place | Develop & Implement the 3rd National Lottery Licence Monitoring matrix/ scorecard | Implement and Monitor Compliance with the licence conditions | Implement and Monitor Compliance with the licence conditions | Review the 3rd National Lottery Licence Monitoring Matrix/Scorecard | Implement and Monitor Compliance with the licence conditions |

## 14.4 Quarterly milestones (Programme 2)

| Strategic Outcome | Strategic Output | Performance Indicator | Baseline 2016/17 | 2017/18 Annual Target | Quarterly Milestones | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| **Strategic Objective [3]:To implement relevant initiatives geared towards ensuring compliance with the Lotteries Act** | | | | | | | | |
| ***Compliant and Regulated Lottery Industry receptive to the NLC mandate*** | Illegal Lotteries | 3.1 Percentage investigations on reported and identified illegal lotteries | 75% of investigations conducted | Conduct investigations on 85% of all identified and reported illegal lotteries | Conduct investigations on 55% of identified and reported illegal lotteries | Conduct investigations on 65% of identified and reported illegal lotteries | Conduct investigations on 75% of identified and reported illegal lotteries | Conduct investigations on 85% of identified and reported illegal lotteries |
| | | 3.2 Feasibility study on regulation of illegal lotteries | Research on illegal lotteries conducted | Conduct a feasibility study to determine the regulation of illegal lotteries and deliver a first draft report to the Board | Develop TOR and appoint Service provider | Conduct Study | Conduct Study | Table report to the Board |
| | 3rd Lottery Licence | 3.3 Implement and monitor 3rd National Lottery Licence Monitoring Matrix/ Scorecard | Implement and Monitor Compliance with the licence conditions | Implement and Monitor Compliance with the licence conditions | Implement and Monitor Compliance with the licence conditions | Implement and Monitor Compliance with the licence conditions | Implement and Monitor Compliance with the licence conditions | Implement and Monitor Compliance with the licence conditions |

### 14.5 Financial Plan (Expenditure Estimates for programme 2)

| Strategic Objective [3]:To implement relevant initiatives geared towards ensuring compliance with the Lotteries Act | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Economic Classification** | **Expenditure Outcome** | | | **Adjusted Appropriation** | **Medium Term Expenditure Estimate** | | |
| | **2012/13 R'000** | **2013/14 R'000** | **2014/15 R'000** | **2015/16 R'000** | **2016/17 R'000** | **2017/18 R'000** | **2018/19 R'000** |
| **Current payment**<br>Compensation of employees, goods and services | 10 717 | 11 001 | 25 195 | 21 815 | 25 632 | 27 042 | 28 394 |
| **Payment of capital assets**<br>Building & other fixed structure<br>Machinery & equipment | - | - | - | - | - | - | - |
| **Other classifications** | - | - | - | - | - | - | - |

## Programme 3

### 15.1 Purpose of the Programme

### 15.2 Description of the Programme

| | |
|---|---|
| Purpose | To provide support to the Distributing Agencies and to ensure that the grants are distributed according to the legislated mandate. |
| Description | Grant Funding |
| | • Develop and implement an integrated Grant Funding strategy<br>• Develop and implement Grant Funding policies<br>• To ensure funding is distributed efficiently and effectively to deserving causes in line with the national legislation and NLC policies.<br>• Provincial office support |
| Description | Service Delivery & Support |
| | • Overall management of the grant making processes in support to the Distributing Agencies and determine the effectiveness of the grant making process<br>• Provide clearly defined functions of Provincial Offices aligned to grant funding processes<br>• Develop functional strategies<br>• Ensure implementation of streamlined grant funding processes<br>• Develop and implement service improvement plan |
| The Grant Funding and Service Delivery programme is constituted by GF operational support, the 9 Provincial Offices and the Monitoring and Evaluation Departments. | |

## 15.3 Performance indicators and performance targets per programme (Programme 3)

| Strategic Objective [4]: To Ensure Fair and Equitable Grant Allocations | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Strategic Outcome** | **Strategic Output** | **Performance Indicator** | **Audited Actual Performance** | | | **Baseline 2016/17** | **2017/18 Annual Target** | **2018/19 Annual Target** | **2019/20 Annual Target** |
| | | | **2013/14** | **2014/15** | **2015/16** | | | | |
| **Fair and Equitable allocation of Grant Funding** | Regulation 3A(1)(a) | 4.1 Percentage of applications adjudicated within 150 days | Nil | Nil | Nil | 50% of applications adjudicated within 150 days | 75% of applications adjudicated within 150 days | 95% of applications adjudicated within 150 days | 100% of applications adjudicated within 150 days |
| | Lotteries Act- 5% per province (GNR182) | 4.2 Percentage allocation of grant funding to provinces | EC-9%<br>FS-8%<br>GP-24%<br>KZN-10%<br>LP-9%<br>MP-5%<br>NW-9%<br>NC-5%<br>WC-12% | EC- 7.57%<br>FS – 2.63%<br>GP- 38.51%<br>KZN- 11.9%<br>LIMP-15.41%<br>MP- 1.45%<br>NW- 3.74%<br>NC- 3.33%<br>WC- 15.43% | EC-10%<br>FS-7%<br>GP-30%<br>KZN-14%<br>LP-10%<br>MP-6%<br>NC-6%<br>NW-7%<br>WC-10% | A minimum of 5% grant funding allocated to each Province | A minimum of 5% grant funding allocated to each Province | A minimum of 5% grant funding allocated to each Province | A minimum of 5% grant funding allocated to each Province |
| | Monitoring and Evaluation of NLDTF Funding | 4.3 Number of monitoring & evaluation site visits conducted | Nil | Developed monitoring and evaluation framework and piloted the framework | 1000 visits conducted | Conduct 1500 monitoring and evaluation site visits | Conduct 2000 monitoring and evaluation site visits | Conduct 2500 monitoring and evaluation site visits | Conduct 3000 monitoring and evaluation site visits |
| | | 4.4 Number of provincial impact evaluation studies | Nil | Developed monitoring and evaluation framework and piloted | 1000 visits conducted | Conduct 1500 monitoring and evaluation site visits | Conduct impact evaluation study in 5 provinces | Conduct impact evaluation study in 4 provinces | Re-design of the Grant Funding Model |

| Strategic Objective [4]: To Ensure Fair and Equitable Grant Allocations | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Strategic Outcome | Strategic Output | Performance Indicator | Audited Actual Performance | | | Baseline 2016/17 | 2017/18 Annual Target | 2018/19 Annual Target | 2019/20 Annual Target |
| | | | 2013/14 | 2014/15 | 2015/16 | | | | |
| | | | | the framework | | | | | |

## 15.4 Quarterly milestones (Programme 3)

| Strategic Outcome | Strategic Output | Performance Indicator | Baseline 2016/17 | 2017/18 Annual Target | Quarterly Milestones | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| **Strategic Objective [4]: To ensure fair and equitable grant allocations** | | | | | | | | |
| ***Fair and Equitable distribution of Grant Funding*** | Regulation 3A(1)(a) | 4.1 Percentage of applications adjudicated within 150 days | 50% of applications adjudicated within 150 days | 75% of applications adjudicated within 150 days | 30% of applications adjudicated within 150 days | 40% of applications adjudicated within 150 days | 50% of applications adjudicated within 150 days | 75% of applications adjudicated within 150 days |
| | Lotteries Act-5% per province (GNR182) | 4.2 Percentage allocation of grant funding to provinces | A minimum of 5% grant funding allocated to each Province | A minimum of 5% grant funding allocated to each Province | A minimum of 1% grant funding allocated to each province | A minimum of 2% grant funding allocated to each province | A minimum of 3% grant funding allocated to each province | A minimum of 5% grant funding allocated to each province |
| | Monitoring and Evaluation of NLDTF Funding | 4.3 Number of monitoring & evaluation site visits conducted | Conduct 1500 monitoring and evaluation site visits | Conduct 2000 monitoring and evaluation site visits | Conduct 500 monitoring and evaluation site visits | Conduct 1000 monitoring and evaluation site visits | Conduct 1500 monitoring and evaluation site visits | Conduct 2000 monitoring and evaluation site visits |
| | | 4.4 Number of provincial impact | Conduct 1500 monitoring and | Conduct impact evaluation study | Develop TOR for approval | Advertise and appoint a | Field work in | Draft reports, presentation |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | evaluation studies | evaluation site visits | in 5 provinces | | service provider | five provinces | and final compilation of the Evaluation report to the Board |

## 15.5 Financial Plan (Expenditure Estimates for programme 3)

| Strategic Objective [4]: To ensure fair and equitable grant allocations | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Economic Classification** | **Expenditure Outcome** | | | **Adjusted Appropriation** | **Medium Term Expenditure Estimate** | | |
| | **2012/13 R'000** | **2013/14 R'000** | **2014/15 R'000** | **2015/16 R'000** | **2016/17 R'000** | **2017/18 R'000** | **2018/19 R'000** |
| **Current payment** Compensation of employees, goods and services | 2 344 459 | 1 889 926 | 1 633 371 | 1 559 298 | 1 500 000 | 1 486 099 | 1 459 002 |
| **Payment of capital assets** Building & other fixed structure Machinery & equipment | - | - | - | - | - | - | - |
| **Other classifications** | - | - | - | - | - | - | - |

# PART C:

# LINK TO OTHER PLANS

**NATIONAL LOTTERIES COMMISSION**
**MATERIALITY FRAMEWORK IN TERMS OF TREASURY REGULATION 28.1.5.**

For purposes of material (sections 50(1), 55(2) and 66(1) of the Public Finance Management Act) and significant (section 54 (2) of the Public Finance Management Act), the Accounting Authority has developed and agreed on a framework of acceptable levels of materiality and significance with the relevant Executive Authority.

| PFMA Section | Quantitative (Amount) | Qualitative (Nature) |
|---|---|---|
| **Section 50**<br>**Fiduciary duties of accounting authorities** | | |
| (1) The Accounting Authority for a public entity must :<br>(c) on request , disclose to the Executive Authority responsible for that public entity or the legislature to which the public entity or the legislature to which the public entity is accountable , **all material facts** , including those reasonably discoverable , which in any way may influence the decisions or actions of the Executive Authority or that legislature ; and | Any fact discovered of which the amount exceeds the planning materiality figure used by the external auditors after consultation with the Audit Committee for the year under review. | 1. Any item or event of which specific disclosure is required by legislation/law or GRAP.<br>2. Any fact discovered of which its omission or misstatement, in the Board's opinion, could influence the decisions or actions of the Executive Authority or legislature. |
| | | |
| **Section 55**<br>**Annual Report and financial statements** | | |
| (2)The annual report and financial statements referred to in subsection (1)(d) must-<br>(a) fairly present the state of affairs of the public entity , its business ,its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned;<br>(b) include particulars of-<br>(i) **any material losses** through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year: | Total assets: 1% of audited annual financial statements.<br>Total revenue: 0.05% of audited annual financial statements.<br><br>1. Losses through criminal conduct -any loss identified.<br>2. Losses through any expenditure - if the combined total exceeds the planning materiality figure used by the external auditors after consultation with the Audit Committee for the year under review.<br>3.Any irregular , fruitless and wasteful expenditure as defined by the PFMA will be reported | Any identified loss through criminal, reckless or negligent conduct. |
| (ii) any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure; | | |
| (iii)any losses recovered or written off ; | | |
| (iv) any financial assistance received from the state and | | |

| | | |
|---|---|---|
| commitments made by the state on its behalf; and | | |
| (v) any other matters that may be prescribed. | | |
| | | |
| **Section 66 (1)** | | |
| **Restrictions on borrowing , guarantees and other commitments** | R 0 (NIL) | This Public entity may not borrow money, nor issue a guarantee, indemnity or security, nor enter into any other transaction that binds or may bind the institution to any future financial commitment unless acting through the relevant Executive Authority.(PFMA section 66(3)(c)) |
| | | |
| **Section 54**<br>**Information to be submitted by Accounting Authorities** | | |
| (2) Before a public entity concludes any of the following transactions ,the Accounting Authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its Executive Authority for approval of the transaction: | | |
| (b) participation in a **significant** partnership , trust, unincorporated joint venture or similar arrangement; | Not applicable | Any participation, outside of the approved strategic plan and budget. |
| (c) acquisition or disposal of a **significant** shareholding in a company; | Not applicable | Any acquisition or disposal , outside of the approved strategic plan and budget |
| (d) acquisition or disposal of a **significant** asset; | Acquisition: More than R1 000 000<br>Disposal: More than R100 000 | 1.Any asset that would increase or decrease the overall operational functions of the Board , outside of the approved strategic plan and budget<br>2.Disposal of the major part of the assets of the Board |
| (e)commencement or cessation of a **significant** business activity | Not applicable | Any business activity that would increase or decrease the overall operational functions of the Board, outside of the approved strategic plan and budget. |

## 1. Asset management Plan

The National Lotteries Commission manages the asset base through an asset policy, which incorporates concepts of asset management as prescribed in the National Treasury Asset Management Framework. The asset policy prescribes the formulation of an asset register which meets the composition requirement as set out in the framework.

The register facilitates the ability to keep track of the assets of the organisation, regular review of their existence and condition to determine the need to maintain or replace.

The purpose of the asset policy is to ensure there is accountability for resources meant to assist with service delivery.

## 2. Information and Communications Technology (ICT) Plan

The ICT Strategic Plan is a visionary approach that helps make measurable advances to progress the NLC towards our key initiatives and strategic goals over a five-year time frame.

Our vision is to be a proactive ICT leader that continues to develop and support a strong ICT workforce, establish management-approved ICT governance, and deliver innovative ICT solutions that support the National Lotteries Commission's core mission.

As we embark on the future, the ICT division is task with the annual refresh of the divisional five-year IT Strategic Plan. This evaluation and refresh process began by reviewing NLC business needs, technology progress, architecture advancement, and the progress of strategic projects. The review also included a comprehensive view of the NLC as a whole and division's funding, resources, and capabilities in addition to leveraging a business problem analysis for each system of work (e.g, grant funding, human resources, document management, audit, risks, finance and supply chain). This analysis assisted with identifying realistic challenges and opportunities that lie ahead for IT. Key focus was on internal organizational improvement, and enhanced services for the NLC. Our IT is continuing to: establish consistent and repeatable processes; provide improved IT governance framework; and better manage the IT resources from an enterprise and infrastructure perspective.

Additionally, it has become very important and relevant to have a continuous performance evaluation metrics, based on the IT Operational Model (targeting both regulatory functions, licensee' activities and grant management systems). NLC is geared towards becoming a fact-based organisation; allowing management to make informed decisions regarding IT spending, organisational structure, resource allocation, asset management, business reengineering, and IT services.

In refreshing this IT Strategic Plan, our intent is to ensure continual alignment with the National Lotteries Commission mission, vision, and strategic goals. Therefore, the IT goals specified in this plan focus on furthering our operational effectiveness by maximizing cost savings, optimizing resource utilization, increasing transparency, and significantly addressing our core mandate : regulatory and grant funding.

**STRATEGIC GOALS:**

Return on Investment

- Adopt and implement IT Governance Framework
- Standardise processes;
- Reduce technology variance – align operations within the business;
- Improve business operations and standardization to reduce operating costs

IT Systems: Modernise

- Improve data quality and availability
- Increase self service offerings and functions
- Increase number of automated business processes
- Implement green technology
- Automate IT policies

IT Delivery: Secured

- Implement security architecture at all levels of IT
- Adopt and implement identity access management standard
- Develop and implement a test proven disaster recovery solution for all mission critical systems

IT Workshop: Right, Resources and skills

- Right people, right skills strive to improve IT workforce satisfaction and innovation potential to improve/modernise the skills of NLC IT workforce.

# ENTERPRISE RISK MANAGEMENT FRAMEWORK

*This framework is in response to NLC's risk policy and provides a detailed description of the Enterprise Risk Management processes within NLC.*

The Enterprise Risk Management Framework specifically addresses the structures, processes and standards implemented to manage risks on an enterprise-wide basis in a consistent manner. The standards further address the specific responsibilities and accountabilities for the Enterprise Risk Management process and the reporting of risks and incidences at various levels within the NLC. As the field of Enterprise Risk Management is dynamic, this policy and framework document is expected to change from time to time.

Current trends in good corporate governance have given special prominence to the process of Enterprise Risk Management and reputable businesses are required to demonstrate that they comply with expected Enterprise Risk Management standards. This means that NLC must ensure that the process of Enterprise Risk Management receives special attention throughout the organisation and that all levels of management know, understand and comply with the framework document.

The purpose of the Enterprise Risk Management Framework is to:

- Advance the development and implementation of modern management practices and to support innovation throughout NLC;
- Contribute to building a risk-smart workforce and environment that allows for innovation and responsible risk-taking while ensuring legitimate precautions are taken to protect stakeholders, the public interest, maintain public trust, and ensure due diligence;
- Provide a comprehensive approach to better integrated Enterprise Risk Management into strategic decision-making; and
- Provide guidance for the board, management and staff when overseeing or implementing the development of processes, systems and techniques for managing risk, which are appropriate to the context of the organisation.

## Definitions

### Risk

The Institute of Internal Auditors defines risk as "…*the uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood."*

### Enterprise Risk Management

In reference to the COSO framework (The Committee of Sponsoring Organisations of the Treadway

Commission), "*Enterprise Risk Management is a continuous, proactive and systematic process, effected by the Board of Directors, Executive Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and* manage *risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity's objectives."*

Other definitions

| TERM | DESCRIPTION |
|---|---|
| **Audit and Risk Committee** | An independent committee constituted to review the control, governance and Enterprise Risk Management within the organisation. |
| **Board** | Means the Board of Directors of the NLC. |
| **Consequence** | An outcome of an event/ risk, whether positive or negative. |
| **Contributory (risk) factor** | Any threat or event which contributes to the risk materialising, or has the potential to contribute to the risk materialising. |
| **Control effectiveness** | A measure of how well management perceives the design and functionality of controls for managing risk. |
| **Employee/s** | Permanent employees of the NLC, contract employees of the NLC, and/or programme employees of the NLC. |
| **Enterprise Risk Management** | Integrated process of Enterprise Risk Management that allows the organisation to identify, prioritise, and effectively manage its material risks. |
| **Inherent risk** | The combined level of risk likelihood and risk impact before the consideration of any effect of controls. *Alternatively,* the exposure arising from risk factors in the absence of deliberate management intervention(s) to exercise control over such risk factors. |
| **Internal Audit** | An independent, objective assurance and consulting activity designed to add value and improve NLC's operations. It helps NLC to accomplish its objectives by bringing a systematic, disciplined approach to evaluating |

| TERM | DESCRIPTION |
|---|---|
| | and improving the effectiveness of Enterprise Risk Management, control, and governance processes. |
| **Key risk indicators** | Metrics used by management to provide an early signal of increasing risk exposure or emerging risk. |
| **Residual risk** | The level of risk that remains after risk mitigation measures have been implemented. |
| **Risk acceptance** | An informed decision by management to accept the likelihood and impact of a particular risk thus not implementing any further risk mitigation measures. |
| **Risk analysis** | Systematic use of information to identify sources of risk and to estimate the level of risk. |
| **Risk appetite** | The level of risk that the organisation is prepared to accept in pursuit of value. |
| **Risk exposure** | Extent to which the organisation is subject to a risk event. |
| **Risk assessment** | Overall process of risk identification, risk quantification and risk evaluation in order to identify potential opportunities or minimise loss. |
| **Risk avoidance** | Decision not to become involved in, or action to withdraw from a risk situation. |
| **Risk Champion** | A person who by virtue of his/her expertise or authority champions a particular aspect of the Enterprise Risk Management process, but who is not necessarily the risk owner. |
| **Risk identification** | Process of recognising and describing the risks. |
| **Risk owner** | The person with the accountability and authority to manage a particular risk. |

| TERM | DESCRIPTION |
|---|---|
| **Enterprise Risk Management** | Enterprise Risk Management is the identification and evaluation of actual and potential risk areas as they pertain to the organisation, followed by a process of, avoiding, sharing/ transferring, accepting and mitigating of each risk, or a response that is a combination. |
| **Enterprise Risk Management policy** | Statement of overall intentions and direction of the organisation related to Enterprise Risk Management. |
| **Enterprise Risk Management strategy and plan** | A document setting out the planned Enterprise Risk Management activities to be conducted during the year as well as the initiatives aimed at improving the maturity of the Enterprise Risk Management process. |
| **Risk maturity assessment** | An assessment of the level of sophistication of the organisation's Enterprise Risk Management process and structures. |
| **Risk mitigation** | Management action to reduce the likelihood of a particular risk from materialising, and/or the limitation of the negative consequences of any risk event. |
| **Risk profile** | The relevant risks and the applicable priority thereto. This will normally be presented as a listing of risks with relevant prioritisation/ rating. |
| **Risk register** | A formal listing of risks identified, together with the results of the risk analysis and evaluation together with details of risk treatment strategies, risk controls in place and risk action plans. |
| **Risk response/ treatment** | Process of selection and implementation of measures to manage risk.<br><br>Risk response measures can include avoidance, sharing/transfer, acceptance and mitigation. |
| **Risk tolerance** | The acceptable level of variances arising out of risk relative to the achievement of objectives. |

| TERM | DESCRIPTION |
|---|---|
| **Risk transfer** | Sharing with another party the burden of loss or benefit of gain, for a risk. Risk transfer can be carried out through insurance or other agreements. |

## Legal mandate for ERM

**Section 51(a) (i) of PFMA**

Section 51(a) (i) states that "The accounting authority must ensure that the public entity has and maintains effective, efficient and transparent systems of financial, Enterprise Risk Management and internal control..."

**Treasury Regulations**

Section 27.2.1 of the Treasury regulations states the following:

"The accounting authority must facilitate a risk assessment to determine material risks to which the entity may be exposed and to evaluate the strategy to manage these risks. The strategy must be used to direct the internal audit effort and priority …"

The following recommendations are made in Section 3 of the King III Report on Governance Principles for South Africa and are adjusted for NLC as follows:

1. The Board is responsible for the total process of Enterprise Risk Management, as well as forming its own opinion on the effectiveness of the process.

2. The Audit and Risk Committee should consider the risk strategy and policy, and should monitor the process at operational level and the reporting thereon.

3. Management is accountable to the Board for designing, implementing and monitoring the process of Enterprise Risk Management and integrating it into the day-to-day activities of the department.

4. Enterprise Risk Management constitutes an inherent operational function and responsibility.

5. Risks should be assessed on an on-going basis and control activities should be designed to respond to risks throughout the company. Pertinent information arising from the risk assessment, and relating to control activities should be identified, captured and communicated in a form and timeframe that enables employees to carry out their responsibilities properly. These controls should be monitored by both line management and assurance providers.

6. A systematic, documented assessment of the processes and outcomes surrounding key risks should be undertaken at least annually.

7. The institution should develop a system of Enterprise Risk Management and internal control that builds robust business operations. The systems should demonstrate that the key risks are being managed in a way that enhances shareowners' and relevant stakeholders' interests.

**Enterprise Risk Management Standards**

The standards constitute the main tasks of the ERM process. These standards are non-negotiable.

The Enterprise Risk Management Standards should be read in conjunction with section 3 - ERM roles and responsibilities.

| Ref. | Standard | Responsibility | Frequency |
|---|---|---|---|
| **Oversight Responsibilities:** | | | |
| 01 | The Board of Directors (Board) will review Enterprise Risk Management progress at least quarterly. | Chairperson: Board | Quarterly |
| 02 | The Audit and Risk Committee will review Enterprise Risk Management progress at least quarterly. | Chairperson: ARC | Quarterly |
| **Reporting Responsibilities:** | | | |
| 03 | The Audit and Risk Committee will submit high-level Enterprise Risk Management reports to the Board on a quarterly basis. | Chairperson: ARC | Quarterly |
| 04 | Exco will submit Enterprise Risk Management reports to the Audit and Risk Committee on a quarterly basis. These reports will focus on the following:<br>• The strategic risks;<br>• Progress with implementing corrective actions per risk;<br>• Any new and emerging risks, risk developments, including incidents. | Chief Audit Executive | Quarterly |
| 05 | The AC will submit its independent assessment on the management of risks and the Enterprise Risk Management process to the Board on a quarterly basis. | Chairperson: ARC | Quarterly |
| **Risk Assessment Responsibilities:** | | | |
| 06 | The Board of Directors will ensure that a | Chairperson: Board | Annually |

| Ref. | Standard | Responsibility | Frequency |
|---|---|---|---|
| | complete review of the risks of the NLC is done at least once a year. | | |
| 07 | All projects shall have a formal Enterprise Risk Management plan which should be informed by a project risk assessment. | All Divisional Heads | On-going |
| 08 | Detailed risk assessments will be conducted for all Distribution Agencies ("DAs") at least annually. | DA Chairpersons | Annually |
| 09 | Operational risk assessments will be conducted at business unit level (operational) at least annually. | All Divisional Heads | Annually |
| 10 | Fraud risk assessments will be conducted at least annually. | Chief Audit Executive | Annually |
| 11 | Detailed technology risk assessments will be conducted at least annually. | Chief Information Officer | Annually |
| 12 | Business unit heads will review the operational risk registers and update the registers' contents to reflect any changes without the need for formal reassessment of the risks. | All Divisional Heads | Monthly |
| **Risk Mitigation Responsibilities:** | | | |
| 13 | The Audit and Risk Committee will receive and consider management's report concerning the effectiveness of internal controls on a quarterly basis. | Chairperson: ARC | Quarterly |
| 14 | The Audit and Risk Committee will consider management reports regarding the performance of internal controls for those risks in the risk register which they are responsible for. | Chairperson: RC | Monthly |
| 15 | The risk register will contain action plans for improving risk controls and risk interventions. Progress in implementing these actions should be monitored. | Chief Audit Executive | Monthly |

| Ref. | Standard | Responsibility | Frequency |
|---|---|---|---|
| | | | |
| **Governance Responsibilities:** | | | |
| 16 | Each risk will have a nominated owner, who will be responsible for the following:<br>• Updating the risk information;<br>• Providing assurance regarding the risk controls;<br>• Coordinate the implementation of action plans for managing the risk; and<br>• Reporting on any developments regarding the risk. | Chief Audit Executive | Monthly |
| 17 | Internal Audit will use the outputs of risk assessments to compile the internal audit plan, and will investigate the effectiveness of risk mitigating controls. | Internal Audit | Annually |
| 18 | The Audit and Risk Committee will facilitate a review of the effectiveness of the entity's Enterprise Risk Management processes. | Chairperson: ARC | Annually |
| 19 | A Business Continuity Plan will be developed, implemented and tested annually. | Chief Information Officer | Annually |
| 20 | A fraud policy and prevention plan should be implemented and monitored. | Chief Audit Executive | Quarterly |

## ERM roles and responsibilities

### Roles, responsibilities and governance

- All employees have some level of responsibility for ERM;
- The Board is ultimately responsible for ERM and should assume overall ownership;
- Exco is responsible for ensuring that ERM is effectively implemented and practiced;
- The Audit and Risk Committee provides important ERM oversight; and
- A number of external stakeholders often provide information useful in effecting ERM, but they are not responsible for the effectiveness of the ERM process.

### Board of Directors

The Board is ultimately accountable for the total process and success of Enterprise Risk Management. It may elect to fulfil some of its functions through delegation to committees including the COMMISSIONER and Management.

### Responsibilities for Enterprise Risk Management

The Board is responsible for:

- the ***total process of Enterprise Risk Management,*** which includes a ***related system of internal control;***
- for forming its ***own opinion on the effectiveness of the process***;
- providing ***monitoring, guidance and direction*** in respect of Enterprise Risk Management;
- ascertaining the status of Enterprise Risk Management within the organisation by discussion with senior management and providing ***oversight*** with regard to Enterprise Risk Management;
- identifying and ***fully appreciating the risk issues*** affecting the ability of the organisation to achieve its strategic purpose and objectives;
- ensuring that ***appropriate systems are implemented to manage the identified risks***, by measuring the risks in terms of impact and probability, together with proactively managing the mitigating actions to ensure that the organisation's assets and reputation are suitably protected;
- ensuring that the organisation's Enterprise Risk Management mechanisms provide it with an ***assessment of the most significant risks*** relative to strategy and objectives;
- considering input form the Audit and Risk Committee , Exco, Internal Auditors, External Auditors and subject matter advisors regarding Enterprise Risk Management;

- utilising resources as needed to conduct special investigations and having open and unrestricted communications with internal auditors, external auditors and legal counsel; and
- for ***disclosures in the annual report*** regarding Enterprise Risk Management (ERM).

Each member of the Board must understand his/her accountability for Enterprise Risk Management within the NLC. Although the Board may choose to delegate or nominate one member of the Board as the coordinator of Enterprise Risk Management reporting requirements, it is clear that all members have accountability for Enterprise Risk Management.

*Providing stakeholder assurance*

In providing stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored the Board must:

- receive credible and accurate information regarding the Enterprise Risk Management processes of NLC in order to give the necessary assurance to stakeholders. The reports must provide an evaluation of the performance of Enterprise Risk Management and internal control;
- ensure that the various processes of Enterprise Risk Management cover the entire spectrum of risks faced by NLC; and
- provide stakeholders with the assurance that management has formal, effective and pro-active Enterprise Risk Management processes.

*Maintenance of the ERM policy*

It is appreciated that stakeholders need to understand the Board' standpoint on risk. The Board will therefore maintain the formal Enterprise Risk Management policy, which decrees NLC's approach to risk. The policy can be used as a reference point in matters of dispute and uncertainty.

*Defining risk appetite and tolerance levels (as applicable)*

The Board will define the formal risk appetite and risk tolerance levels. Risk appetite and tolerance limits are vital, because they determine and influence the decision making processes. Risk appetite and tolerance levels are defined by the Board and are set in relation to stakeholder expectations. Limits may be expressed in a number of ways according to category of risk concerned. The establishment of risk appetite and tolerance limits shapes the exception reporting processes. Risk tolerance limits will be determined in accordance with the risk-taking propensity of the organisation and the organisational culture of risk acceptability. The outcomes of risk assessment processes often assist the Board in determining the risk appetite and tolerance limits.

*Evaluation of the effectiveness of the Enterprise Risk Management process*

The Board will assess the effectiveness of the NLC's Enterprise Risk Management processes on an annual basis. The Board' evaluations will be ***formally recorded in the minutes of meetings***. The Board' evaluation of Enterprise Risk Management can be supplemented by an ***independent review*** to be performed by the Internal Auditors or other such nominated assurance provider.

Management must ensure that sufficient independence is maintained in conducting the annual review and that clear criteria for the evaluation have been established. Assurance of the processes surrounding key risks must be given.

*Confirmation that the Enterprise Risk Management process is accurately aligned to the strategy and performance objectives*

The Board will ensure that the Enterprise Risk Management processes address risk in a balanced way, giving due attention to all types of risk. The Board will evaluate whether appropriate resources are being applied to the management of the various categories of risk. The Board will evaluate whether Enterprise Risk Management processes are aligned to the strategic and performance objectives of NLC. A balanced perspective of risk and Enterprise Risk Management is required in proportion to the weighting of potential risk impact across NLC. The Board must ensure that a future-looking orientation is included in the consideration of risk.

Audit and Risk Committee

*Responsibilities for Enterprise Risk Management*

The Committee is an integral component of the Enterprise Risk Management process and specifically the Committee must **review**:

- the nature, role, responsibility and authority of the Enterprise Risk Management function within the organisation and outline the scope of Enterprise Risk Management work;
- the development and annual review of a policy and plan for Enterprise Risk Management;
- the implementation of the policy and framework for Enterprise Risk Management;
- recommendations to the Board concerning the levels of tolerance and appetite and monitor that risks are managed within the levels of tolerance and appetite as approved by the Board;
- that the Enterprise Risk Management framework is widely disseminated throughout the organisation and integrated in the day-to-day activities of the organisation;
- that risk assessments are performed on a continuous basis;
- that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks;
- that management considers and implements appropriate risk responses;
- that continuous risk monitoring by management takes place;

- the monitoring of external developments relating to the practice of corporate accountability and the reporting of specifically associated risk, including emerging risks and prospective impacts thereof;
- that the Exco together with the organisation's Legal Advisor review any legal matters that could have a significant risk and impact on the organisation's business; and
- the insurance coverage arrangements to ensure these are adequate.

Each member of the Audit and Risk Committee must understand his/her accountability for Enterprise Risk Management within the organisation. Although the Audit and Risk Committee may choose to nominate one member of the committee as the coordinator of Enterprise Risk Management reporting requirements, it is clear that all members have accountability for Enterprise Risk Management in the organisation.

## The Commissioner

The Commissioner's responsibilities include ensuring that all components of Enterprise Risk Management are in place. The Commissioner fulfils this duty by:

- Providing leadership and direction to management and staff. The Commissioner shapes the values, principles and major operating policies that form the foundation of NLC's Enterprise Risk Management processes; and
- Meeting periodically with HODs and Managers responsible for major business units and functional areas to review their responsibilities, including how they manage risk. The Commissioner must gain knowledge of risks inherent to the operations, risk responses and control improvements required and the status of efforts underway. To discharge this responsibility, the COMMISSIONER must clearly define the information he/she needs.

The Commissioner is required to assess the organisation's Enterprise Risk Management capabilities and practices. One of the most important aspects of this responsibility is ensuring the presence of a positive internal environment for Enterprise Risk Management. The COMMISSIONER sets the tone at the top that influences internal environmental factors of ERM.

## Business Unit Heads (HODs)

Business unit heads are accountable to Exco through the Commissioner for designing, implementing and monitoring the process of Enterprise Risk Management and integrating it into the day-to-day activities of NLC. More specifically HODs are responsible for:

- Deciding on the manner in which risk mitigation will be embedded into management processes;
- Creating a culture of Enterprise Risk Management within NLC;

- Updating risk registers and providing Enterprise Risk Management reports to the Chief Audit Executive pertaining to risk and control;
- Identifying positive aspects of risk that could evolve into potential opportunities for NLC by viewing risk as an opportunity, by applying the risk/ reward principle in all decisions impacting on NLC;
- Taking responsibility for appropriate mitigation action and determining action dates;
- Utilising available resources to compile, develop and implement plans, procedures and controls within the framework of the Risk Policy of NLC to effectively manage the risks within the organisation;
- Ensuring that adequate and cost effective Enterprise Risk Management structures are in place;
- Identifying, evaluating and measuring risks and where possible quantifying and linking each identified risk to key risk indicators;
- Developing and implementing Enterprise Risk Management plans including:
  - actions to optimise risk/ reward profile, maximise reward with risk contained within the approved risk appetite and tolerance limits;
  - implementation of cost effective preventative and contingent control measures; and
  - implementation of procedures to ensure adherence to legal and regulatory requirements.
- Monitoring of the Enterprise Risk Management processes on both a detailed and macro basis by evaluating changes, or potential changes to risk profiles;
- Implementing and maintaining adequate internal controls and monitoring the continued effectiveness thereof;
- Implementing those measures as recommended by the internal and external auditors, which, in their opinion, will enhance control at a reasonable cost; and
- Providing policies, frameworks, methodologies and tools to the business units and key functional areas for identification, assessment and management of risks.

Risk Champions

The Risk Champions are responsible for:

- Updating risk registers on behalf of the risk owner and liaising with Enterprise Risk Management Unit on risk related matters;
- Escalating instances where the Enterprise Risk Management efforts are stifled, such as when individuals try to block ERM initiatives;
- Providing guidance and support to manage “problematic” risks and risks of a transversal nature;
- Acts as a change agent in the ERM process by acting as trouble shooters that facilitate resolution of risk related problems; and
- In order to be an effective and efficient risk champion, should:

- Have a good understanding of risk concepts, principles and processes;
- Have good analytical skills to assist with the analysis of root causes to risk problems;
- Have leadership and motivational qualities; and
- Have good communication skills.

Chief Audit Executive

The Chief Audit Executive is responsible for:

- Deciding on a methodology and framework for Enterprise Risk Management;
- Performing reviews of the Enterprise Risk Management process to improve the existing process;
- Facilitating risk assessments;
- Developing systems to facilitate risk monitoring and risk improvement;
- Aligning the risk identification process with NLC's business objectives;
- Identifying relevant legal and regulatory compliance requirements;
- Compiling a consolidated risk register on an annual basis;
- Costing and quantifying actual non-compliance incidences and losses incurred and formally reporting thereon;
- Formally reviewing the occupational health, safety and environmental policies and practices;
- Consolidating all information pertaining to all risk related functions, processes and activities;
- Transferring the knowledge in respect of an effective and sustainable process of risk identification, quantification and monitoring to management;
- Recording the decisions regarding mitigation for every key risk facing NLC in the risk register;
- Deciding upon central solutions for common risks and for risks where central facilities are available;
- Implementing a formalised risk information system (as applicable);
- Ensuring that Enterprise Risk Management training is conducted at appropriate levels within the entity to inculcate an Enterprise Risk Management culture;
- Communicating the risk framework and methodology to all management levels and to employees;
- Ensuring that the necessary Enterprise Risk Management documentation is developed in respect of the Enterprise Risk Management process;
- Enabling Exco and the Audit and Risk Committee to fulfil their responsibilities with regards to Enterprise Risk Management; and
- Working with management to ensure business plans and budgets include risk identification and management.

## Internal Audit

The role of Internal Audit in corporate governance is defined by the South African Institute of Chartered Accountants as follows: “To support the Board and Management in identifying and managing risks and thereby enabling them to manage the organisation effectively”. This is achieved by:

- Enhancing their understanding of Enterprise Risk Management and the underlying concepts;
- Assisting them to implement an effective Enterprise Risk Management process, and
- Providing objective feedback on the quality of organisational controls and performance.”

Internal Audit is responsible for:

- Providing assurance that management processes are adequate to identify and monitor significant risks;
- Using the outputs of risk assessments to direct internal audit plans;
- Providing on-going evaluation of the Enterprise Risk Management processes;
- Providing objective confirmations that the Board and Committees receive the right quality of assurance and reliable information from management regarding risk;
- Providing assurance regarding ERM processes from both a design and functional perspective**;**
- providing assurance regarding the effectiveness and efficiency of risk responses and related control activities; and
- Further providing assurance as to the completeness and accuracy of ERM reporting.

Components of the Enterprise Risk Management Process

A holistic approach to Enterprise Risk Management is required. This entails a coordinated enterprise-wide approach in which all risks are considered for the entire organisation and its departments. This approach includes all role players, policies, protocols, methodologies, reporting requirements and deliverables interacting within the Enterprise Risk Management processes.

The implementation of Enterprise Risk Management is guided by the methodology outlined in this document. The methodology is aligned to the ***COSO*** best practice as well as the King III report on corporate governance. The methodology allows for a consistent approach to be applied throughout NLC and facilitates the interaction, on Enterprise Risk Management matters.

| | |
|---|---|
| **Control Environment:** Values, ethics, integrity and culture. (These are normally captured and re-affirmed in the Enterprise Risk Management policy). | |
| **Objective Setting** | Specific, Measurable, Attainable, Relevant and Time-bound. |
| **Risk Identification** | Identification of events that could affect achievement of objectives. |
| **Risk Assessment** | Rating identified risks to determine order of significance on likelihood and impact. |
| **Control Strategy** | Manage or avoid? How will risks be managed? By whom? What structures? |
| **Risk Reporting** | Build awareness and regular risk reporting upwards and downwards. |
| **Control Activities** | Assurance on risks to be given by management and the Board. Consider combined assurance. |
| **Monitoring** | Set and monitor key risk indicators to embed proactive risk response. |
| **Enterprise Risk Management Strategy:** To drive Enterprise Risk Management, a formal Enterprise Risk Management strategy should be formulated. Set objectives and consider risk improvement strategies. | |

NLC's control environment is the foundation of Enterprise Risk Management, providing discipline and structure. The control environment influences how strategy and objectives are established, NLC activities are structured, and risks are identified, assessed and acted upon. It influences the design and functioning of control activities, information and communication systems, and monitoring activities.

The control environment comprises many elements, including NLC's ethical values, competence and development of personnel, management's operating style and how it assigns authority and responsibility.

The Board is a critical part of the control environment and significantly influences other control environment elements. As part of the control environment, management establishes an Enterprise Risk Management philosophy, establishes NLC's risk tolerance levels, inculcates a risk culture and integrates Enterprise Risk Management with related initiatives.

The control environment consists of ten different layers that should all be present and functioning. The ten layers are as follows:

- Enterprise Risk Management Philosophy;
- Risk tolerance;
- Risk culture;
- Board oversight;
- Integrity and values;
- Commitment to competence;
- Management's philosophy and operating Style;
- Organisational structure;
- Authority and responsibility; and
- HR policies and procedures.

The existing controls in place for identified risks must be documented. The term "control" should not be construed only as a financial term. It is now the commonly accepted term to describe any mitigating measure for any particular type of risk. Controls may take the form of financial mitigations such as hedges, insurance or securities. They may be managerial in nature such as compliance procedures, policies and levels of authority. Controls may be strategic in nature such as diversification and investment related. Controls may be legal such as contracts and indemnities.

## Component 2 – Objective Setting

Objectives must exist before management can identify events potentially affecting their achievement. Enterprise Risk Management ensures that management has a process in place to both set objectives and align the objectives with NLC's mission and vision and is consistent with NLC's risk tolerance. The setting of these objectives is usually completed during the, "Strategic planning and Budgetary process."

Having confirmed and clearly documented NLC objectives, it is necessary to identify all the potential risks and threats relating to processes, assets and strategy. These are the possible problems and situations that may hinder the achievement of the objectives of the operation.

## Component 3 – Risk Identification

During the phase of risk identification, management considers external and internal, as well as financial and non-financial factors that influence the entity's policy and management agenda. Identifying major trends and their variation over time is particularly relevant in providing early warnings.

Some external factors to be considered for potential risks include:

- Political: the influence of international governments and other governing bodies;
- Economic: international, national markets and globalizations;
- Social: major demographic and social trends; and
- Technological.

Events potentially either have a negative impact, a positive impact or both. Events that have a potentially negative impact represent risks, which require management's assessment and response. Accordingly, risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives.

Events with a potentially positive impact represent opportunities or offset the negative impact of risks. Those representing opportunities are channeled back to management's strategy or objective-setting processes, so that actions can be formulated to seize the opportunities, whereas events potentially offsetting the negative impact of risks are considered in management's risk assessment and response.

### *NLC's Methodology*

NLC's simple 5-step methodology for risk assessments is depicted as follows:

**Objectives**

Step 1:

Identify Objectives / Level of Objective

**Risks**

Step 2:

Identify Risks preventing achievement of Objectives including root causes.

Step 3:

Rate Risk.

**Action Plans / Controls**

Step 4:

- Identify and Capture Controls;
- Link Control to root causes; and
- Determine control adequacy and re-rate residual risk.

Step 5:

- Capture Action Plans; and
- Assign Owner / Identify Implementation or due date.

*Identifying the potential root causes of risk events*

Root causes are components of operational risk. Root causes are factors that contribute or increase the likelihood that risks could occur. In other words risks are the potential negative consequence of a contributory factor. Root causes can be divided into the following major categories:

1. People;
2. Internal Environment;
3. Processes;
4. External Environment; and
5. Systems.

Root causes have a many-to-one relationship with risk. Often more than one contributory factor could contribute to the same risk. Root causes also have a one-to-many relationship to risk meaning that one contributory factor could contribute to or increase the likelihood of more than one risk.

To identify root causes once the risk is identified, one has to ask the question "The risk is due to..? Or why would the risk occur?

Risk assessment allows an entity to consider how potential events might affect the achievement of objectives. Management assesses risk events by analysing their impact and likelihood using the scales below.

**Impact Parameters:**

| Impact | Descriptive statements |
|---|---|
| **5** | Significant impact on organisational sustainability<br>Audit qualification<br>Extensive and prolonged negative press coverage<br>Extensive and wide-spread stakeholder fallout<br>Criminal conviction probable<br>Financial impact of >20% of gross revenue |
| **4** | Moderate impact on organisational performance<br>Significant negative press coverage<br>Moderate and localised stakeholder fallout<br>Civil fines and/or penalties in excess of R100 000 probable.<br>• Financial impact of 10%-20% of gross revenue |
| **3** | No significant impact on performance but an operational disruption requiring (spending) resources to manage<br>Little negative coverage at national scale.<br>Civil fines and/or penalties up to R100 000 probable.<br>• Financial impact of between 5%-10% of gross revenue |
| **2** | No impact on performance<br>Localised negative coverage at community level<br>No significant stakeholder fall-out<br>No civil fines and/or penalties<br>• Financial impact of less than 5% of gross revenue |
| **1** | • Little financial impact<br>• No impact on performance |

**Likelihood Parameters**

| Probability Factor | Qualification Criteria | Rating |
|---|---|---|

| | | |
|---|---|---|
| **Almost Certain** | ▪ The organisation has been impacted by this risk within the preceding 12 months.<br><br>▪ The risk is almost certain to occur more than once within the next 12 months. | **5** |
| **Likely** | ▪ The risk has not been experienced by the organisation in the preceding 12 months.<br><br>▪ The risk is almost certain to occur once within the next 12 months. | **4** |
| **Possible** | ▪ The risk has not been experienced before by the organisation<br><br>▪ The risk could occur at least once in the next 1 –5 years. | **3** |
| **Unlikely** | ▪ The risk is very unlikely to occur and if it does, is only expected to do so at least once in the next 5 -10 years. | **2** |
| **Rare** | ▪ The risk is very unlikely to occur and if it does, is only expected to do so at least once in the next 10 -15 years. | **1** |

*Inherent risk rating = impact X likelihood*

**Residual Risk**

Residual risk, is determined by re-rating both impact and likelihood after taking into account the effect of controls in place.

Based on the relative score of the residual risk exposure, **management will need to decide whether or not they are willing to accept the identified level of residual risk exposure.** If the residual risk is considered to be too high, then an action plan will then need to be developed outlining the identified action/s to reduce the risk to a level that is more acceptable to management and other stakeholders.

Management actions may include the re-examination of the control design and / or the business / quality objective identified earlier in the Enterprise Risk Management process. The action plans must clearly identify:

- The required action;
- The person responsible for implementing the action; and
- The expected date of implementation.

**Residual Risk Acceptability**

In order to assist in determining risk acceptability, the following thresholds will be used as guidelines;

| **Thresholds** Where the result is: | **Threshold Interpretation** | | **Suggested Action** | **Escalation requirements (if any)** | **Suggested Timing** |
|---|---|---|---|---|---|
| between 15 and 25 | | **RED – Unacceptable** High Risk | Management should take immediate action to reduce risk exposure to an acceptable level. | • Board<br>• AC<br>• RC | Immediate action required |
| between 9 and 14 | | **YELLOW – Cautionary** Medium Risk | Management should constantly monitor the risk exposure and related control adequacy. | • Board<br>• AC<br>• RC | Medium term action - within three months |

| | | | | | |
|---|---|---|---|---|---|
| between 1 and 8 | | **GREEN – Acceptable** Low Risk | Management should monitor risks and may consider reducing the cost of control. | • AC<br>• RC | Monitor[1] – no immediate action required |

[1] Please note that some risks may score low numerically but may plot on the quadrant chart as needing action.

Before making the determination on the basis of the above, the following risk quadrant must be considered and risks should be plotted on a heat-map in order to determine what final rating code they are allocated.

The usage of both methods together ensures that the business directs its efforts at not only its highest risk exposures but also at those risks which are highly pervasive or which have the ability to cripple the organisation, should they occur.

The following is an illustration of the risk heat map used by the organisation.

| | | | | | | |
|---|---|---|---|---|---|---|
| Risk Impact Score | 5 | - | - | - | - | - |
| | 4 | - | - | - | - | - |
| | 3 | - | - | - | - | - |
| | 2 | - | - | - | - | - |
| | 1 | - | - | - | - | - |
| | | 1 | 2 | 3 | 4 | 5 |
| | | Risk Likelihood Score | | | | |

Component 5 – Risk Response Strategy

Management identifies risk response strategy options hereafter referred to more specifically as risk responses, and consider their effect on event likelihood and impact, in relation to risk tolerances, costs versus benefits, and thereafter design and implement response options.

The consideration of risk responses is integral to Enterprise Risk Management and requires that management select a response that is expected to bring risk likelihood and impact within NLC's risk tolerance level.

After the risks have been identified and the contributing factors or root causes have been established, the control strategy should be identified for the various risk exposures. Risk responses fall within the categories of risk avoidance, active management and acceptance. The following should be used to identify the control strategies considered by management:

- **T**ransfer e.g. through insurance cover;
- **T**olerate;
- **T**reat/ mitigate through rigorous management practices; or

- **T**erminate the risk by eliminating a process, a product, or a geographical zone.

After the control strategy decision, the current controls to manage the risk in question are identified. It is necessary to assess the adequacy of these controls. This is a measure of how well management perceives the identified controls to be designed to manage the risks. Management does this by determining the respective impact of the controls on either the inherent impact or likelihood of the specific risk.
The scales used to rate control effectiveness are as follows:

| Rating | General Impact Description |
|---|---|
| Good 90% + | Controls are effective and reliable at all times. There may be a degree of over-controlling the risk. |
| Fair 70% | Controls are in place and being practiced in normal business processes. Some more work to be done to improve operating effectiveness |
| Room for Improvement 50% | Controls are fairly effective but there is large room for improvement in the implementation and enforcement of existing controls. |
| Weak 30% | Controls do not operate at all effectively. Controls, if they exist are mostly not practiced in the organisation. |
| Unacceptable 10% | Management lacks confidence that any degree of control is being achieved due to very limited operational effectiveness |

Management should recognize that some level of residual risk will always exist, not only because resources are limited, but also because of inherent future uncertainty and limitations inherent in all activities.

## Component 6 – Information and Communication

Pertinent information – both from internal and external sources, financial or non-financial – must be identified, captured and communicated in a form and timeframe that enable personnel to carry out their responsibilities. Effective communication also occurs in a broader sense, flowing down, across and up the organisation, as well as the exchange of relevant information with external parties, such as customers, suppliers, regulators and shareholders.

Information is needed at all levels of an entity to identify, assess and respond to risks, and to otherwise run the entity and achieve its objectives. An array of information is used, relevant to one or more objectives categories. Information comes from many sources – internal and external, and in quantitative and qualitative forms – and allows Enterprise Risk Management responses to changing conditions in real time.

## Component 7 – Control Activities

Control activities are the policies and procedures that help ensure Enterprise Risk Management strategies are properly executed. They occur throughout the entity, at all levels and in all functions. Internal control is an integral part of Enterprise Risk Management.

Control procedures relate to the actual policies and procedures in addition to the control environment that management has established to achieve NLC's objectives. Policies and procedures help create boundaries and parameters to authority and responsibility, and also provide some scope of organisational precedent for action.

## Component 8 – Monitoring

Enterprise Risk Management should be regularly monitored – a process that assesses both the presence and functioning of its components and the quality of their performance over time. Monitoring can be done in two ways: through on-going activities or separate evaluations. This will ensure that Enterprise Risk Management continues to be applied at all levels and across the entity.

### *Key risk indicators*

Key risk indicators are intended to assist management to monitor risks. Key risk indicators have two focal points i.e. the inherent risk itself as well as losses, incidents and variances. Each key risk should have a key risk indicator to serve as a risk warning mechanism.

Each business unit is responsible for defining, monitoring and reporting on key risk indicators for all key risks identified.

### *Risk tolerance limits*

Risk tolerances are the acceptable levels of variation relative to the achievement of objectives. Risk tolerances can be measured, and often are best measured in the same units as the related objectives. Performance measures are aligned to help ensure that actual results will be within the acceptable risk tolerances. In setting risk tolerances, management considers the relative importance of the related objectives and aligns risk tolerances with risk appetite. Operating within risk tolerances provides management greater assurance that the entity remains within its risk appetite and, in turn, provides a higher degree of comfort that the entity will achieve its objectives.

The risk appetite and tolerance thresholds are defined in a separate risk appetite statement.

### *Incident reporting*

This is an internal management function and will form part of the Enterprise Risk Management process. Incident reports should incorporate:

- Incidents of non-compliance to approved standards (whether losses were incurred or not); and

- Losses arising from particular incidents.

The destination of incident reports will be determined by the nature of the potential or actual loss. Incidents and losses that originate from risks contained in the key risk registers must always be elevated to higher levels of management with risk-related variance reports being incorporated into routine management reporting processes.

*Performance measurement*

Management's performance with regards to Enterprise Risk Management will be measured and monitored through the following performance management activities:

- Monitoring of progress made by management with the implementation of the Enterprise Risk Management methodology;
- Monitoring of key risk indicators;
- Monitoring of loss and incident data;
- Management's progress made with risk mitigation action plans; and
- An annual quality assurance review of Enterprise Risk Management performance.

## Additional Emphasis: Project Risk Management

It must be noted that this ERM framework applies across a broad range of risk categories that would include project risks. However, the purpose of this section is to provide additional guidance on the manner in which the ERM framework is to be applied in project efforts. The absolute requirement is that all project efforts include a formal Enterprise Risk Management plan.

### Introduction

Risk refers to any factor (or threat) that may adversely affect the successful completion of the project in terms of achievement of its outcomes, delivery of its outputs, or adverse effects upon resourcing, time, cost and quality.

Successful projects try to resolve risks before they impact the project, and alternatively have sufficient plans to address the impact of risk when it occurs.

It should be noted that sometimes risks may also be associated with opportunities, such as the use of a new technology, and acceptance of the risk needs to be based upon the costs of rectifying the potential consequences versus the opportunities afforded by taking the risk.

Project risk management describes the processes concerned with identifying, analysing and responding to project risk. It consists of risk identification, risk analysis, risk evaluation and risk treatment including issues management. The processes are on-going throughout the life of the project and should be built into the project management activities.

Project risk management is conducted initially as part of the assessment of the project's viability and is conducted throughout the project to ensure that changing circumstances are tracked and managed.

All projects require a degree of Risk Management, but the effort expended will depend on the size and scope, including outcomes, customers, outputs, work and resources. Larger projects involving significant investment and/or major outcomes will receive formal and detailed Enterprise Risk Management activities on an on-going basis.

Issues management and project risk management are closely linked, as some issues may become risks. This is why it is recommended that major issues are also identified and managed as part of the same holistic risk framework.

A proposed framework for effective Enterprise Risk Management requires that issues management be combined with normal Enterprise Risk Management initiatives.

## Project Risk Management interventions

In order to simplify the application of the risk framework and to maintain focus on the project risk management and issues management processes through-out the life of the project, the following 3-pillar process to Enterprise Risk Management shows practically how the Enterprise Risk Management process will be executed during the various phases of any project.

*Suggested 3-pillar Enterprise Risk Management process in project phases*

## Initial stages (Concept and Initiation) – Risk checklist

At the initial stages of a confirmed (or yet to be confirmed) project and as part of input into the business decision to adopt a project, a high level risk checklist is completed. This checklist is a list of pre-listed questions, each answered with a simple “yes” or “no” answer. These answers typically then drive a risk rating for the project under specific pre-listed categories.

In the first stage, this checklist will assess relative project risk levels by looking at broad areas that include the following:

- Socio-economic impact/ significance (business case)
- External dependencies
- Organisational alignment
- High-level planning assessment
- Technical considerations

## Project commencement and implementation stages – Risk assessment and management

Before risks can be managed, they need to be identified. At the onset of a project, a facilitated risk assessment will be conducted. This risk assessment will focus on the specific objectives of the project and the relative risks linked to each of these objectives. Risk identification will involve key project stakeholders.

The specific additional requirements with regard to project risk assessments are as follows:

- Project risks must be formally recorded;
- Risk mitigations must be considered and assessed;
- Required risk mitigations and enhancements thereto must be included as milestones in the relevant project plans;
- Responsibilities for risks and mitigation thereof must be formally recorded in the project plan and project risk management plan;
- On-going monitoring and re-assessment of risks on projects is essential and is the responsibility of project implementation managers;
- Project risk assessments and management must be integrated with the process of issues management; and
- Project risk rating criteria are defined in the broad ERM framework of the organisation.

Before conducting the project risk assessment, it is important to have clearly defined the scope of the project so that the identification of risks can remain focused on what potentially threatens the achievement of outcomes, delivery of outputs, level of resourcing, time, cost and quality. Risks can also be categorised, for example in terms of type (i.e. Corporate Risks, Business Risks, Project Risks, and System Risks).

## Implementation and final stages – Issues management

An issue can be defined as a concern that may impede the progress of the project if not resolved. If issues are not addressed they may become a risk to the project. Issues must be resolved quickly and effectively.

Issues management involves monitoring, reviewing and addressing issues or concerns as they arise through the life of a project. Issues can be raised by anyone involved with the project including Customers/ Clients, Business Owners, Steering Committee members, Reference or Working Group members, the Project Manager, Project Team members and other key stakeholders.

An Issues Register should be established as part of the on-going project management activities. The Project Manager and team need to have a process for capturing issues as they arise, updating and reviewing them so that they can be managed and resolved as the project moves forward. Once a resolution is agreed on, the appropriate activities are added to the project plan to ensure the issue is resolved and to the project budget, if appropriate.

An Issues Register is basically a systematic record of issues. It will include the following for each issue:

- a unique number;
- a description;
- who raised the issue;
- date reported;
- severity/ priority rating;
- the person or group who is responsible for resolving the issue;
- how resolved;
- status, usually open or closed; and
- date resolved.

Commonly adopted principles in issues management are as follows:

- Solve the root cause of the issue;
- Resolve issues quickly to proceed as quickly as possible;
- It is good practice to encourage people to help identify solutions along with the Issues;
- Engage the Project Sponsor/Steering Committee in the resolution of issues from very early in the project;
- If a large issue looks too difficult to be resolved in a timely manner, break it down into logical sub-issues;
- Inter-related issues should be resolved simultaneously; and
- Resolve major issues before the **point of no return.**

**ERM enhancement & entrenchment plan**

Establish an organisational framework of assurance for key risks and controls

A framework of assurance must be developed for NLC's risks. Key players in the organisation will combine to provide assurance that risks are being appropriately managed. This combined approach to assurance normally involves management, Enterprise Risk Management, compliance and internal and external auditors working together through an integration process coordinated by the Audit and Risk Committee. Other experts must be chosen to provide assurance regarding specialised categories of risk, such as environmental management and capital market risks. The assurance framework must be formalised and must incorporate appropriate reporting processes.

Internal audit provides assurance on Enterprise Risk Management processes

Internal audit must examine the techniques used to identify risk. The categories and the scope of risk assessments should be considered. The methodologies used to extract risk information must be reviewed. Monitoring processes should be wholly aligned with the results of risk assessments. The internal audit function should particularly seek evidence that the processes of risk identification are dynamic and continuous, rather than attempt to comply with governance expectations. The effectiveness of Enterprise Risk Management processes should be subjected to an audit on an annual basis.

The outputs of risk assessments are used to direct internal audit plans

Internal audit plans depend greatly on the outputs of risk assessments. Risks identified during risk assessments must be incorporated into internal audit plans, in addition to management and Audit and Risk Committee priorities. The risk assessment process is useful for internal audit staff because it provides the necessary priorities regarding risk as opposed to using standardised audit sheets. The audit activities will focus on adherence to controls for the key risks that have been identified. In addition, internal audit staff may direct management towards the need for better controls around key risks.

Internal audit provides assurance on quality and reliability of risk information

The internal audit function plays a key role in coordinating the key players in the Enterprise Risk Management process to provide assurance to stakeholders. Internal audit is not normally the only provider of assurance. The function does, however, have an important role in evaluating the effectiveness of control systems. The process of assurance must also involve management, the external auditors, regulators and subject specialists.

Safety, health and environment

A formal safety management programme is essential for NLC's business. The risks will vary according to the entity, but the principles of Enterprise Risk Management will always apply, i.e. risk identification, risk

assessment, formal action plans for mitigation, monitoring, reporting and assurance. The scope of NLC's safety management programme should include administrative aspects, safety awareness and training, health, hygiene, electrical safety, physical safety, micro-environmental exposures and legislative requirements.

## Business Continuity Management

It is expected that NLC will have a Business Continuity Management Plan in place, which will be revised and tested annually. The results of such testing and simulations should be reported to the Audit and Risk Committee.

## Fraud Prevention Plan

NLC is responsible for developing and implementing its own fraud policy and prevention plan.

## Project Risk Management

NLC will ensure that each project engagement has and maintains a formal Enterprise Risk Management plan, a risk register as well as an incident register which should be reported on in line with project reporting frequencies. The assessment of project risk is performed in line with the same principles of this framework. At a minimum, a quarterly report on project risks and management thereof will be formulated and presented to the Board.

## Governance committees

The terms of reference of the various Committees will be formally reviewed on a regular basis to ensure that they remain relevant and clearly define functions, roles and governance processes for the various committees.

For operational integration, Enterprise Risk Management champions will be nominated to focus on the holistic management of risk and these risk champions will provide support to their business units on a day to day basis on risk matters.

## Integration of ERM with Planning Processes

The NLC will identify, record, evaluate and establish links between objectives and risks and will regularly monitor these.

A periodic risk report will be provided and presented to the Audit and Risk Committee. This report will detail significant risks facing the NLC, the controls in place to minimise the risks and an assessment of the residual risk. Major changes in risk will be discussed and reported therein also.

## 3.2 Risk Strategy (risk register)

| Seq Num. | Unique Ref # | Category | Risk | Contributory Factor (s) | | Consequence(s) | Inherent Risk Rating | | | Existing Controls | | | | Control Improvements | Due dates | Risk Owner |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | High level definition | Ref | Source(s) of Risk | Effect(s) or impact | Impact | Likelihood | Inherent Risk | Ref | Control description | Control Adequacy | Residual Risk | Initiatives or planned strategies to enhance control adequacy | All items tracked quarterly | Person responsible for assurance on the holistic risk |
| 1 | SR2 | Governance, Risk and Compliance | Conflict of interest | 1 | Inadequate implementation of policies. | - Harm to reputation<br>- Litigation<br>- Financial losses | 3 | 5 | 15 | 1 | - Ethics and gift policies<br>- Declaration of interest process<br>- Declaration narrative<br>- Alternative approval of cases that are under potential conflict'<br>- Annual disclosures by board members, employees, DAs, beneficiaries (grant recipients), suppliers and other stakeholders. | 60% | 6 | - Enforcement of relevant polices such as ethics and gift policies<br>- Automated process for disclosure of interest. | 31-Mar-18 | Company Secretary & Executive Manager - Corporate Services |
| | | | | 2 | Greed, poor ethics and morals | | | | | 2 | - Whistleblow ing policy<br>- Independent w histleblow ing hot-line<br>- Code of ethics<br>- Corporate values<br>- Human resource ethics and social responsibility committee<br>- Disciplinary processes<br>'- Proactive communication of organisational impact to stakeholders (spreading good new s).<br>- Reputation management (perception survey). | | | - Training and aw areness of all stakeholders | 31-Mar-18 | |
| 2 | SR3 | Governance, Risk and Compliance | Fraud Risk | 1 | Poor ethics and morals | - Financial losses<br>- Poor service delivery<br>- Harm to reputation<br>- Litigation<br>- Impaired personal security of officials | 5 | 4 | 20 | 1 | - Whistleblow ing policy<br>- Independent w histleblow ing hot-line<br>- Code of ethics<br>- Corporate values<br>- Human resource ethics and social responsibility committee<br>- Disciplinary processes | 50% | 10 | -Assessment of effectiveness of hotline<br>- Screening of employees prior to employment<br>- Periodic screening of employees w ho w ork in critical divisions | 31-Mar-18 | Governors |
| | | | | 2 | Ineffective monitoring and controls | | | | | 2 | - Fraud prevention plan<br>- Segregation of duties<br>- Account reconciliation | | | - Ongoing fraud risk assessment<br>- Ongoing investigation of all reported cases of alleged fraud and corruption | 31-Mar-18 | |
| | | | | 3 | Misrepresentation by applicants | | | | | 3 | --Pre and post-adjudication site visits<br>- Verification process | | | '- Risk profiling of beneficiaries<br>- Strengthening of verification process | 31-Mar-18 | |
| | | | | 4 | Non-compliance w ith legislation and policies | | | | | 4 | Supervision and supervisory review s | | | *None proposed* | 31-Mar-18 | |
| | | | | 5 | Lack of training at all levels | | | | | 5 | Anti-fraud and corruption policy | | | Integrated communications strategy to include fraud issues | 31-Mar-18 | |
| 3 | SR4 | Sustainability | Illegal lotteries | 1 | Lack of enforcement pow ers | - Loss or reduction in funding for good causes<br>- Harm to reputation<br>- Failure to protect National Lottery (market-share)<br>- Failure to protect lottery participants | 5 | 5 | 25 | 1 | - Civil litigation and recovery from illegal lotteries<br>- Ongoing benchmarking w ith similar jurisdictions in order to proactively regulate illegal lotteries.<br>- Criminal prosecution of illegal lottery operators | 50% | 13 | Policy review to enhance enforcement | 31-Mar-18 | Executive Manager - Regulatory Compliance |
| | | | | 2 | Lack of mechanism to prevent and/ or detect illegal lotteries | | | | | 2 | '- Research to identify different forms of illegal lotteries conducted to ascertain possibility of regulating these illegal lotteries<br>- Media monitoring to identify illegal lottery activities<br>- Collaboration w ith other regulators such as gambling boards | | | Analyse the findings of the research and implement appropriate recommendations. | 31-Mar-18 | |
| | | | | 3 | Poverty and unemployment | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4 | SR5 | Reputation | Inadequate stakeholder relationships | 1 | Active and diversified stakeholder base | - Harm to reputation<br>- Impaired service delivery<br>- Negative impact on the integrity of the lottery<br>- Litigation | 4 | 3 | 12 | 1 | - Identified stakeholder matrix in annual performance plan<br>- Communication strategy in place<br>- Stakeholder programmes<br>- Stakeholder relations and engagement strategy<br>- Stakeholders Indaba<br>- Stakeholder survey<br>- Signed MoU with strategic partners<br>- Provincial offices established<br>- Implementation of marketing and communications strategy<br>- Implementation of approved marketing and communications policies and procedures<br>- Customer relationship management | 70% | 4 | - Ongoing stakeholder engagement<br>- Implementation of Public Affairs policies, strategy, programmes and procedures. | 31-Mar-18 | Executive Manager - Corporate Services |
| | | | | 2 | Dual mandate positioning | | | | | | | | | | | |
| | | | | 3 | Limited understanding of the mandate by the public | | | | | | | | | | | |
| | | | | 4 | Dissatisfied beneficiaries | | | | | | | | | | - Customer focussed strategy (to respond to public perception)<br>- Communications strategy focussed on closing the gap between public expectations and actual available funding<br>- Optimize the powers granted to the Board in terms of the Lotteries Act (To manage and communicate with beneficiaries on available benefits/ products and limits thereof) | |
| 5 | SR6 | Products & Services | Misaligned grant allocation processes | 1 | Lack of alignment with key national priorities<br>High volume of applications received in comparison with available resources | - Harm to reputation<br>- Failure to meet mandate | 5 | 4 | 20 | 1 | - Directives contained in the Act and Regulations e.g. mandatory requirements, priority areas for funding etc.<br>- Monitoring and evaluation<br>- Grant application procedure<br>- Revised checklist that includes regulatory requirements<br>-Grant funding policy | 50% | 10 | - Develop adjudication matrix that will factor in weighing of projects/applications against key policy imperatives such as NDP, 9 Points Plan etc.<br>- Development of budget management framework that will ensure that the current limited resources are efficiently utilised.<br>- Establishment of research function<br>- Standards and norms for applications and application types<br>- Full implementation of proactive funding in terms of the amended Act<br>'- Enhancement of monitoring and evaluation process | 31-Mar-18 | Senior Executive - Grant Funding |
| 6 | SR8 | Sustainability | Continuity & sustainability | 1 | Increasing number of applications vs. limited financial resources | - Adverse impact on communities<br>- Impaired organisational sustainability<br>- Harm to reputation | 5 | 4 | 20 | 1 | Grant application procedure | 60% | 8 | *None proposed* | 31-Mar-18 | Office of the Commissioner and CFO |
| | | | | 2 | State of the economy | | | | | 2 | Protection afforded by the Act (sustainability) | | | - Organisational sustainability study<br>- Table recommendations of the organisational sustainability study to the Board | 31-Mar-18 | |
| | | | | 3 | Dependence on single revenue source | | | | | 3 | Protection afforded by the Act (sustainability | | | | | |
| | | | | 4 | Poor financial performance of national lottery operator (revenue generation) | | | | | 4 | Performance management of the license operator | | | *None proposed* | 31-Mar-18 | |
| | | | | 5 | Ineffective monitoring of national lottery operator | | | | | 5 | Performance management of the license operator | | | *None proposed* | 31-Mar-18 | |
| | | | | 6 | Increased operational expenditure | | | | | 6 | Financial sustainability strategy | | | Full implementation of the financial sustainability strategy | 31-Mar-18 | |
| | | | | 7 | Material business interruptions/ disruptions | | | | | 7 | - Disaster recovery policy<br>- Off-site backup system<br>- Business continuity plan | | | Full implementation of the business continuity plan | 31-Mar-18 | |
| 7 | SR11 | Products & Services | Non-compliance with prescribed timeframes | 1 | Call based applications (high-volume of applications received towards the closing date of the call). | - Harm to reputation<br>- Non-compliance with the Act | 4 | 5 | 20 | 1 | - Open call system approved by the Board<br>- Strategy and plan for open call system implementation | 10% | 18 | Implementation of the strategy and plan for the implementation of open call system | 31-Mar-18 | Senior Executive - Grant Funding |
| | | | | 2 | Delays in appointment of fulltime DAs. | | | | | 2 | *No formal controls identified* | | | Continuous follow-ups with **the dti** on the appointment of full-time DA's | 31-Mar-18 | |
| | | | | 3 | Delays in responding to non-compliant applications (all non-compliant applications including those without mandatory documents still have to go through the entire grant funding value-chain up to the DA's) | | | | | 3 | Board resolution on how to deal with applications without mandatory documents | | | Implement Board resolution on how to deal with non compliant applications. | 31-Mar-18 | |
| | | | | 4 | High volume of back-log from previous calls | | | | | 4 | War-room established to deal with the back-log | | | Performance monitoring of the war-room | 31-Mar-18 | |
| 8 | SR12 | Governance, Risk and Compliance | Information management and security | 1 | Inadequate implementation of information security policies | - Impaired Organisational reputation<br>- Public misconception of information | 4 | 4 | 16 | 1 | Minimum information security standards<br>Information classification policy<br>PAIA | 30% | 11 | Communicate information classification policy to all staff<br>Enforce information classification policy the policy | 31-Mar-18 | Legal Manager, Executive Manager - Corporate Services and CIO |
| | | | | 2 | Unauthorised disclosure of sensitive information | | | | | 2 | Disciplinary process for known breaches of information confidentiality | | | - Employees and key stakeholders to formally acknowledge organisational information security standards<br>- Use of technology systems to prevent and detect breach of security standards | 31-Mar-18 | |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9 | SR1 | Governance, Risk and Compliance | **ICT infrastructure and systems** | 1 | - Project Dibanisa implementation is in phases (work in progress)<br>- Fluctuations in FOREX when procuring ICT equipment<br>- Change of business model impacting significantly on ICT systems | - Impaired organisational performance (inefficiencies)<br>- Fraud and corruption<br>- Compromised service delivery | 4 | 4 | 16 | 1 | - Approved ICT Strategy<br>- Daily backups of the server<br>- IT governance oversight<br>- Access-controlled server room<br>- Physical controls (raised floor, alarms, fire protection etc.)<br>- Uninterruptible power supply ("UPS")<br>- Approved disaster recovery policy<br>- Approved ICT governance framework<br>- Approved ICT policies and technology strategies<br>- Approved budget for the ICT projects<br>- Adequate SLA with key stakeholders<br>- Implemented Provincial Wide Area Network (WPLS) | 50% | 8 | - Upgraded Enterprise Architecture System (Integrated platform - align ICT strategy with new legislation and business process review) | 31-Mar-18 | CIO |
| | | | | | - Disaster recovery plan not yet implemented | | | | | | - Disaster recovery plan | | | '- Business to identify required services for activation in the case of a disaster<br>- Identification of a disaster recovery site | 31-Mar-18 | |
| 10 | SR13 | Governance, Risk and Compliance | **Non-compliance with regulatory requirements by National Lottery Operator** | 13 | - Inadequate monitoring of the operator | - Breach of Licence and - Legislative requirements<br>- Non-achievement of set goals, including revenue generation<br>- Tarnished integrity of the National Lottery | 4 | 4 | 16 | 13 | - License monitoring matrix developed and monitored | 50% | 8 | - Continuous engagement and guidance with the new operator. | 31-Mar-18 | Executive Manager - Regulatory Compliance |
| | | | | | - Hiding of non-compliance | | | | | | - Independent systems audit (Independent Verification System). Weekly, monthly and quarterly reviews conducted. | | | - IVS system continuously inspected for independent verification of ticket sales. | 31-Mar-18 | |

## 3. Any subsidiary or statutory body reporting to the entity

Not applicable

## 4. Service Delivery Improvement Plan

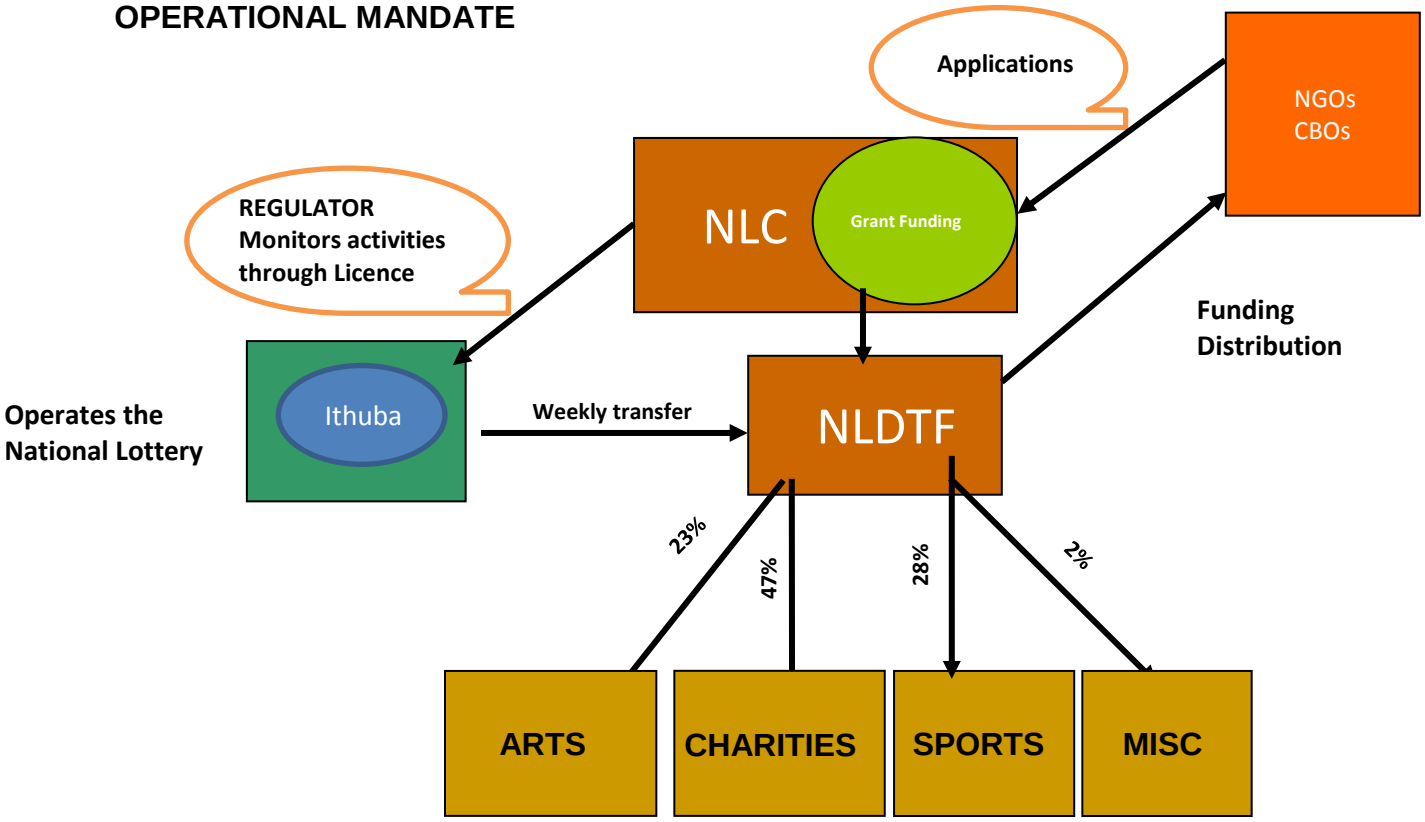
The National Lotteries Commission has been established through the Lotteries Act (No. 57, 1997, as amended). The Board consists of a Chairperson, one member designated by the Minister and five other members.

The Functions of the Board are set out in the Lotteries Act as follows:

- 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 programme in respect of lotteries.
- Administer and invest the money paid to the board in accordance with the 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.
- 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.

In addition to the above, the National Lotteries Commission has also been tasked with the responsibility of providing administrative, managerial and technical support to the Distributing Agencies.

## OPERATIONAL MANDATE




The NLC has a dual mandate, to regulate the lottery industry and to distribute funding for good causes. The NLC has appointed Ithuba to operate the 3rd National Lottery and the Minister appointed the Distributing Agencies to adjudicate the applications from various NGO's and CBO's for effective distribution of the funds for good causes across the sectors depicted in the figure above. The Board provides the oversight of the dual mandate and the members re the trustees of the NLDTF.

## ORGANISATIONAL ENVIRONMENT

### Governance Structure

The Minister of the Department of Trade and Industry (dti) is the Executive authority for the NLC and has appointed a Board of six members with diverse credentials as the accounting authority of the NLC. The Minister has further appointed the Distributing Agencies in the specific sectors (Sports, Arts and Charities) to support the NLC achieve its mandate by performing the adjudication functions for all applications received for good causes. The Board further appointed the Executive Committee led by the Commissioner to manage the operations of the organisation.

### 5.2 Management Structure

Management is under the leadership of the Commissioner supported by five Executive Managers as well as the Chief Audit Executive and the Company Secretary. Executive Managers are accountable at Divisional Levels. The Executive Management has cascaded the delegation of authority down to Senior Management level which is responsible for Departmental activities.

## KEY SERVICES & STANDARDS

### Regulatory Services

| Key Services | Description of Service | Area where Service is performed | Intended Beneficiary | Current Standard 2014/15 | Desired Standard | | |
|---|---|---|---|---|---|---|---|
| | | | | | 2015/16 | 2016/17 | 2017/18 |
| 1. Impact Assessments | Monitoring and Evaluation site visits conducted by M&E Unit in Compliance Division to ensure that beneficiaries comply with the grant agreement stipulations for NLC to be able to process follow up tranche payments. The visits will also ensure that development objective targets of beneficiaries are met and documented. | Beneficiary operational sites | Speeds up the follow up tranche payments and provides beneficiaries with the necessary support for compliance<br><br>Benefits NLC improves accountability | Sampling methodology implemented as such not all beneficiary sites visited.<br><br>Not set as yet<br><br>Visits are more in the form of policing than developmental. | 70% of planned visits (Provincial Offices play integral role) | 85% of planned visits achieved | 100% site visits conducted |
| 2. Regulatory enforcement | Involves Lottery environment scanning for illegal lotteries and society lotteries that are not registered with the NLC as the only lottery regulator in the country<br>Also supports the Lottery operator eliminate illegal competition | South African Lottery industry | Lottery Operator | Regulatory Compliance Strategy and Policy only approved in 2014/15. Implementation due to occur in 2015/16 | Implementation of controls to create awareness around illegal lotteries | Improve NLC SOL revenue by 10% on previous year's standard | 100% compliance in the lottery industry |
| 3. Compliance enforcement | Monitoring the activities of the Operator in accordance with the licence conditions | Lottery Players and Operator | Lottery players | 3rd Operator announced | Scorecard developed for measurability against licence agreement | 75% compliance against Licence conditions | 100% compliance with the lottery licence conditions |

| Key Services | Description of Service | Area where Service is performed | Intended Beneficiary | Current Standard 2014/15 | Desired Standard | | |
|---|---|---|---|---|---|---|---|
| | | | | | 2015/16 | 2016/17 | 2017/18 |
| 1. Open Call for Application | Ensure clarity of guideline in line with regulations.<br>Determination of development focuses areas.<br>Ensure proper planning for the entire grant funding process | Grant funding | NLDTF beneficiaries and South African people | No standard set as yet<br><br>Calls for applications are not focussed on and open to all.<br>Guidelines not covering all important aspects of the funding.<br>Call for applications not well coordinated across sectors | Implementation of the Grant Funding Model | 80% compliance with Amended Bill and supporting regulations | 100% compliance with Amended Bill and supporting regulations |
| 2. Capacity Building | Enable beneficiary organisations to manage the grant and their organisations.<br><br>Create ongoing awareness for beneficiaries about operations the NLC and NLDTF. | Grant Funding – Provincial Offices<br><br>Communication and Marketing | NLC funded beneficiaries.<br><br>General Public | No structured Capacity Building strategy.<br><br>Education and Awareness is only done when there is a call for application and for a short period of time and covers only a small portion of what should be covered. | Focus on overall education and awareness campaigns, inclusive of Regulatory Compliance and transition of the organisation | Increased awareness and accessibility | Increased awareness and accessibility |
| 3. Application Process | Ensure that applications are processed in the shortest possible time | Grant Funding | Applicants | Process takes too long and full of inconsistencies. The | Commencement of the 150 day recommended | 80% adherence | 100% adherence |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | with strict adherence to the guidelines and regulations in a more consistent manner.<br>The process must also be improved to detect fraud without compromising turnaround times. | | | process does not have efficient systems to deal with fraud detection. | regulation | | |
| 4. Application Adjudication | Consistent adjudication that observes regulations and guidelines.<br>Adjudication that is cautious of financial risk when taking funding decisions.<br>Adjudication that is quick and efficient. | Grant Funding | Beneficiaries and NLC reputation | Adjudication sometimes does not adhere to regulations, including PFMA. Adjudication takes longer than it should.<br>Some allocated funding is not in line with what beneficiaries can manage, this exposes the organisation to misuse of funding and wasteful expenditure. | Implement verification framework.<br><br>Ensure efficient workflow to full time DA's | 3 day turnaround time for verification of applications | 1 day turnaround time for verification of applications |
| 5. Appeals Process | Process that relates to address declined grants for beneficiaries to be given a platform to clarify why decision should be revoked | Grant Funding & Board | Beneficiaries and NLC reputation | No standard set yet | Creation of acceptable standards | Implement timeframes for appeal | 100% adherence to meeting timeframes |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 6. Deviations | Process to adjust expenditure items on the Grant Agreement | Grant Funding | Beneficiaries and NLC | No standard set yet | Creation of fully automated electronic GA's | Create deviation framework | Implement systems |
| 7. Progress Report Process | Progress Report processing to be streamlined and supported by independent audit and Monitoring of project implementation. This will ensure quicker turnaround time in processing of reports. | Grant Funding and Compliance | Beneficiaries and NLC | Progress report process takes long and requires a lot of information that is not even verified by NLC officials. To improve on this item, NLC must appoint a panel of Auditors to audit all project funded, monitoring of project implementation must be a norm. The Focussed approach to funding will reduce volumes of applications and thereby create space for manageable workload. | BPR process recommendations to be taken into consideration | Implement strict timeframes for review of progress report – turnaround of 30 days | Review report within 14 working days |
| 8. Signing of Grant Agreement | Grant Agreement Process duration must be shortened. The process must be automated. | Grant Funding | Beneficiaries and NLC | The process is long and done manually. | Decentralisation of services. Provincial offices to assist in facilitating the signing of GA's within 30 working | GA's signed within 15 working days | GA's signed within 5 working days |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | days | | |

## Support Function Services

| Key Services | Description of Service | Area where Service is performed | Intended Beneficiary | Current Standard 2014/15 | Desired Standard | | |
|---|---|---|---|---|---|---|---|
| | | | | | 2015/16 | 2016/17 | 2017/18 |
| 1. Enquiry response time | Telephone enquiries | Contact Centre | External Stakeholders | 74% achievement against industry standards | 80% | 85% | 90% |
| | Letter enquiries | Contact Centre | External Stakeholders | Letters written within 3 working days | - | - | - |
| | Walk in enquiries | Contact Centre | External Stakeholders | Immediate attendance | - | - | - |
| 2. Recruitment & Selection | Advertisement | Talent Management | Public | No standard Yet | Develop and Implementation | Review and Monitor | Review and Monitor |
| | Interviews | Talent Management | Public | No standard Yet | Develop and Implement implementation | Review and Monitor | Review and Monitor |
| | Selection | Talent Management | Public | No standards | Develop and Implement | Review and Monitor | Review and Monitor |

# Annexure E

## Technical Indicator Descriptions

| INDICATOR PROFILE | Objective 1 : Indicator 1.1 |
|---|---|
| **Indicator title** | Develop a knowledge hub. |
| **Short definition** | The target emanates from the 2015 National Consultative Indaba wherein beneficiaries have requested that the NLC *"Establish a knowledge hub/website to facilitate connection among beneficiaries, and to enable sharing of services within the 'network'."* |
| **Purpose/importance** | Creation of a platform / repository where beneficiaries can actively engage |
| **Source/collection of data** | Team appointment letters<br>Documentation supporting the Knowledge Hub audit and analysis<br>Knowledge Hub Concept Document |
| **Method of calculation** | Evidence of the Platform |
| **Data limitations** | Nil |
| **Type of indicator** | Outcomes |
| **Calculation type** | Cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Annual |
| **Desired performance** | Increased education and awareness |
| **Indicator responsibility** | SNR MANAGER: BUSINESS DEVELOPMENT |

| INDICATOR PROFILE | Objective 1 : Indicator 1.2 |
|---|---|
| **Indicator title** | Number of stakeholder engagements conducted per province |
| **Short definition** | The stakeholder engagements relate to the area of education and awareness, capacity building as well as stakeholder management. Education and Awareness is a key area in the amended Lotteries Act. The engagements will cover several pertinent issues and will span over 8 workshops/engagements per province. Issues can include either/or the matters.<br>• Regulatory Compliance (increasing awareness of society and other lotteries, enhancing monitoring & evaluation)<br>• Capacity Building<br>• Governance & Compliance<br>• Post Indaba Stakeholder Engagements (PISE)<br>• Applying for Funding<br>• Monitoring & Evaluation/Completing Progress Reports |
| **Purpose/importance** | interaction with stakeholders on<br>educating and creating awareness on NLC's dual mandate |
| **Source/collection of data** | Marketing and Communications and workshop reports<br>Attendance registers at workshops |
| **Method of calculation** | Count of number of workshops conducted per province. 8 workshops per province implies a total of 72 that must be conducted at the end of the financial year |
| **Data limitations** | Nil |
| **Type of indicator** | Outcomes |
| **Calculation type** | Cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Annual |
| **Desired performance** | Enhanced compliance with the Lotteries Act and promoting<br>better access to funding |
| **Indicator responsibility** | SNR MANAGER: BUSINESS DEVELOPMENT |

| INDICATOR PROFILE | Objective 1 : Indicator 1.3 |
|---|---|
| **Indicator title** | Integration of the E-system (Integrated Enterprise Wide Architecture Platform) |
| **Short definition** | This target is a follow on from Phases 1 (Core Fusion) and 2 (GMS) of Project Dibanisa. It encompasses being able to verify information online on the NLC Enterprise Wide Architecture Platform. Online Integration is intended to be with relevant key government departments and SOE's. It is envisaged that this will enable real-time verification of details as contained in the applications for funding.<br>Some of the already identified Departments include:<br>Home Affairs, SARS, Social Development and Companies and Intellectual Properties Commission (CIPC). |
| **Purpose/importance** | The purpose is to assist in verifying information as contained in applications for funding. |
| **Source/collection of data** | Signed SLA's between NLC and relevant Departments<br>Online verification system |
| **Method of calculation** | Simple count of SLA's<br>Evidence of functionality as witnessed through the system |
| **Data limitations** | Legislative barriers |
| **Type of indicator** | Outcomes |
| **Calculation type** | Non-cumulative |
| **New indicator** | No |
| **Reporting cycle** | Annually |
| **Desired performance** | Efficient and effective ICT System |
| **Indicator responsibility** | CIO |

| INDICATOR PROFILE | Objective 1 : Indicator 1.4 |
|---|---|
| **Indicator title** | Number of organisation-wide ethical behaviour interventions |
| **Short definition** | This relates to the roll-out of ethical training and awareness interventions that may take the form of workshops/information sessions. The content of the sessions is aimed at creating awareness and a culture of ethical behaviour at the NLC. One (1) workshop/information session will be conducted per quarter. |
| **Purpose/importance** | Establishment and sustainability of an ethical culture |
| **Source/collection of data** | Attendance registers, Workshop content |
| **Method of calculation** | Simple Count of the number of interventions that took place |
| **Data limitations** | Nil |
| **Type of indicator** | Activities |
| **Calculation type** | Non-cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Quarterly |
| **Desired performance** | High ethical culture established |
| **Indicator responsibility** | CS |

| INDICATOR PROFILE | Objective 2 : Indicator 2.1 |
|---|---|
| **Indicator title** | Percentage disbursement of grants as per GNR644, 6(c)(iv) |
| **Short definition** | This is the percentage of allocations that must be disbursed (paid) as per the regulation (GNR644)<br><br>Payment must be effected within 60 days of receipt of compliant grant agreements.<br><br>A grant agreement is deemed compliant if all stipulated conditions have been fulfilled, including the submission of banking details. |
| **Purpose/importance** | Improve efficiency in the disbursement of grants |
| **Source/collection of data** | Finance Payment Records |
| **Method of calculation** | 65% of compliant grant agreements paid within 60 days of receipt.<br>Days are calculated from the date of receipt of the grant agreement which is the date as stamped on the day it is received.<br>Date of payment is reflected on finance records (usually EFT summary or online banking summary) |
| **Data limitations** | Number of complete and compliant Grant Agreements received |
| **Type of indicator** | Outputs & Efficiency |
| **Calculation type** | Cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Annually |
| **Desired performance** | Efficient disbursements |
| **Indicator responsibility** | CFO |

| INDICATOR PROFILE | Objective 2 : Indicator 2.2 |
|---|---|
| **Indicator title** | Percentage Return on Investments (ROI) of NLDTF Funds |
| **Short definition** | This is the percentage of average return on investments on NLDTF funds in an effort to ensure sustainability of the organisation and to maximise funding available to good causes by generating alternate streams of revenue for NLC operating costs.<br><br>The NLDTF Investment Strategy is key to understanding the indicator. |
| **Purpose/importance** | Enhanced sustainability of the organisation |
| **Source/collection of data** | Financial records and statements |
| **Method of calculation** | ROI = Average Return / Average Capital Invested x 100 |
| **Data limitations** | Dependent on performance of fund |
| **Type of indicator** | Economy |
| **Calculation type** | Cumulative (Average over period) |
| **New indicator** | No |
| **Reporting cycle** | Annually |
| **Desired performance** | Maximise returns on investments |
| **Indicator responsibility** | CFO |

| INDICATOR PROFILE | Objective 2 : Indicator 2.3 |
|---|---|
| **Indicator title** | Percentage of Localised Procurement |
| **Short definition** | This measures the percentage of goods and services procured by the provincial offices in order to stimulate growth of local businesses of the region in which the provincial offices operate |
| **Purpose/importance** | Compliance with government priorities e.g The Broad Based Black Economic Empowerment Act, 2003 (No. 53 of 2003) (BBBEE), Local Procurement & Skills Transfer |
| **Source/collection of data** | SCM reports for provincial offices |
| **Method of calculation** | Measuring goods and services procured by provincial offices collectively from a localised supplier (i.e. supplier from the same region) |
| **Data limitations** | Lack of established suppliers in regions |
| **Type of indicator** | Economy |
| **Calculation type** | Cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Quarterly |
| **Desired performance** | Compliance with government priorities |
| **Indicator responsibility** | CFO |

| INDICATOR PROFILE | Objective 3 : Indicator 3.1 |
|---|---|
| **Indicator title** | Percentage investigations on reported and identified illegal lotteries |
| **Short definition** | Illegal lotteries contravene the provisions of the Act and its applicable regulations and related statutes. The matter of illegal lotteries has a direct bearing on an enabling environment for the National Lottery in that it affects the revenue generated from ticket sales. Illegal schemes continue to create significant competition for the National Lottery and further create confusion to lottery players.<br><br>Illegal lotteries are identified through:<br>1. Scanning of print and electronic media<br>2. Reported cases by members of the public |
| **Purpose/importance** | To implement relevant initiatives in order to ensure compliance to the Lotteries Act |
| **Source/collection of data** | The identified illegal lottery schemes will be documented by the Compliance Division and reports presented at monthly Exco meetings. The division will also compile records of the investigated illegal lotteries. |
| **Method of calculation** | 85% of the total number of reported schemes (reported and identified cases) to be investigated |
| **Data limitations** | Limitations in Legislation in that NLC does not have enforcement powers |
| **Type of indicator** | Impact & Outcomes |
| **Calculation type** | Cumulative |
| **New indicator** | No |
| **Reporting cycle** | Annually |
| **Desired performance** | Compliance with Lotteries Act |
| **Indicator responsibility** | EMC |

| INDICATOR PROFILE | Objective 3 : Indicator 3.2 |
|---|---|
| **Indicator title** | Feasibility study on the regulation of illegal lotteries |
| **Short definition** | Illegal lotteries contravene the provisions of the Act and its applicable regulations and related statutes. The matter of illegal lotteries has a direct bearing on an enabling environment for the National Lottery in that it affects the revenue generated from ticket sales. Illegal schemes continue to create significant competition for the National Lottery and further create confusion to lottery players.<br><br>In 2016, a study was conducted in order to determine the *"Impact and Extent of Illegal Lotteries to the National Lottery in South Africa*"<br><br>This target is a follow-on from the research that was conducted in order to provide direction to the NLC in terms of regulating illegal lotteries. |
| **Purpose/importance** | To implement relevant initiatives in order to ensure compliance to the Lotteries Act |
| **Source/collection of data** | Feasibility Study Report |
| **Method of calculation** | 1st Draft Report presented to the Board |
| **Data limitations** | Nil |
| **Type of indicator** | Activities |
| **Calculation type** | Non-cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Annually |
| **Desired performance** | Compliance with Lotteries Act |
| **Indicator responsibility** | EMC |

| INDICATOR PROFILE | Objective 3: Indicator 3.3 |
|---|---|
| **Indicator title** | Implement the 3rd National Lottery licence monitoring matrix/scorecard |
| **Short definition** | 3rd Lottery Licence<br><br>In the financial year NLC will implement a performance matrix/scorecard in order to monitor the performance as well as compliance aspects pertaining to the appointed National Lottery operator. |
| **Purpose/importance** | Continuity of the National Lottery in order to raise funds for distribution to good causes |
| **Source/collection of data** | Compliance division – reports on the performance of the operator |
| **Method of calculation** | Performance matrix/scorecard |
| **Data limitations** | Nil |
| **Type of indicator** | Activities and Effectiveness |
| **Calculation type** | Non-cumulative |
| **New indicator** | No |
| **Reporting cycle** | Annually |
| **Desired performance** | Optimum compliance of the National Lottery operator |
| **Indicator responsibility** | EMC |

| INDICATOR PROFILE | Objective 4 : Indicator 4.1 |
|---|---|
| **Indicator title** | Percentage of applications adjudicated within 150 days [Regulation 3A(1)(a)] |
| **Short definition** | Regulation 3A. (1) reads as follows:<br><br>*In assessing an application for a grant in accordance with Regulation*<br>*(3)(b), a Distribution Agency must: -*<br>*(a) finalise its adjudication within hundred and fifty (150) calendar days from the date of receipt of the application;*<br><br>In essence, the regulation grants the NLC a period of 150 calendar days to finalise adjudication of an application. The time of measurement commences on the date of submission of the application for funding. |
| **Purpose/importance** | Improved turnaround times and service delivery |
| **Source/collection of data** | Application statistics derived from the GMS |
| **Method of calculation** | 75% of applications adjudicated within the 150 days turnaround time |
| **Data limitations** | Dependency on full time DA's |
| **Type of indicator** | Efficiency |
| **Calculation type** | Cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Annual |
| **Desired performance** | Effective and timeous distribution of funds to good causes |
| **Indicator responsibility** | EMGF |

| INDICATOR PROFILE | Objective 4 : Indicator 4.2 |
|---|---|
| **Indicator title** | Percentage allocation of grant funding to provinces |
| **Short definition** | GNR 182-Minimum of 5% grant funding allocated to each province<br><br>The regulation states:<br><br>*"Any agency shall for the purposes of Section 32(1)(b) of the Act in considering grant applications ensure that not less than five percent of the total amount at the disposal of the agency for grants, shall in any financial year of the board be allocated for distribution in respect of every province o the Republic."* |
| **Purpose/importance** | Fair and equitable distribution of funds in line with GNR182 |
| **Source/collection of data** | GMS/grant statistics report |
| **Method of calculation** | In line with prescribed minimum 5% per province based on hard and soft allocations (where relevant).<br><br>Calculation is as follows:<br>5% of the overall NLDTF budget for the financial period is the minimum that must be allocated to the province.<br><br>E.g. Total NLDTF budget for the year = R1.6billion<br>5% of R1.6b = R80million<br><br>A minimum of 5% per province is therefore R80m in allocations to each province. |
| **Data limitations** | Dependency on the number of applications that fall within the funding scope |
| **Type of indicator** | Impact |
| **Calculation type** | Cumulative |
| **New indicator** | No |
| **Reporting cycle** | Annually |
| **Desired performance** | Compliance with GNR182 |
| **Indicator responsibility** | EMGF |

| INDICATOR PROFILE | Objective 4 : Indicator 4.3 |
|---|---|
| **Indicator title** | Number of monitoring & evaluation site visits conducted |
| **Short definition** | NLC has strengthened its monitoring and evaluation systems to enable the organization to better measure the impact of funding.<br><br>The M&E division will in the year implement Monitoring and Evaluation visits by conducting 2000 site visits to beneficiaries as per the framework.<br><br>The assessments will be conducted on a sample from all 4 sectors (Charities, Arts, Sports & Misc). |
| **Purpose/importance** | It ensures that there is proper monitoring and evaluation for funded organisations to maximise impact of funding granted for good causes |
| **Source/collection of data** | M & E impact assessment reports |
| **Method of calculation** | Count of the number of assessments |
| **Data limitations** | Number of beneficiaries that comply with M&E requirements |
| **Type of indicator** | Impact and Outcomes |
| **Calculation type** | Cumulative |
| **New indicator** | No |
| **Reporting cycle** | Annual |
| **Desired performance** | Measurability of impact of NLDTF funding |
| **Indicator responsibility** | SNR MANAGER BUSINESS DEVELOPMENT |

| INDICATOR PROFILE | Objective 4 : Indicator 4.4 |
|---|---|
| **Indicator title** | Number of provincial impact evaluation studies |
| **Short definition** | The M&E Division will undertake impact evaluation studies of NLC funding in 5 provinces in this financial year in order to assess the changes the NLC funding has made in these areas |
| **Purpose/importance** | To assess the effectiveness of NLC's funding interventions |
| **Source/collection of data** | M & E evaluation reports |
| **Method of calculation** | Count of the number of evaluations as aligned to 5 provinces |
| **Data limitations** | nil |
| **Type of indicator** | Impact |
| **Calculation type** | Cumulative |
| **New indicator** | Yes |
| **Reporting cycle** | Annual |
| **Desired performance** | Effective funding interventions |
| **Indicator responsibility** | SNR MANAGER BUSINESS DEVELOPMENT |