

**COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIER'S OFFICE;
FINANCE; ECONOMIC DEVELOPMENT AND TOURISM**

**ANNUAL REPORT FOR THE 2016/17 FINANCIAL YEAR – MPUMALANGA
GAMBLING BOARD (MGB)**

1. INTRODUCTION

The **Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism** (the Committee) has a Constitutional mandate, in terms of Section 114(2) (b) of the Constitution of the Republic of South Africa read with Rule 131 (1)(b) of the Mpumalanga Provincial Legislature to oversee the performance of the Mpumalanga Gambling Board (the entity) and hold it accountable through various measures.

Section 133(3)(b) of the Constitution requires the Member of the Executive Council (MEC) to provide the Legislature with full and regular reports concerning matters under their control. Thus the tabling of the 2016/17 Annual Report of the Mpumalanga Gambling Board (MGB) was in compliance with section 65(a) of the Public Finance Management Act (Act 1 of 1999) (PFMA).

The consideration and scrutiny of the 2016/17 Annual Report of the entity was for the Committee to satisfy itself that the entity's performance was in line with its approved 2016/17 Annual Performance Plan (APP); and the budget that was appropriated for the financial year under review. The Annual Report oversight exercise is a mechanism of the Committee to ensure that public funds allocated to the entity in the year under review, are used economically, efficiently, equitably and effectively. There should ultimately be value for money in any activity undertaken by the entity. Thus, the Executive Authority was held to account for the entity's performance in the 2016/17 financial year.

2. METHOD OF WORK

The MEC tabled the 2016/17 Annual Report in accordance with Section 65(a) of the PFMA and Rule 219(1)(2) of the Rules and Orders of the Mpumalanga Provincial Legislature; subsequently the Speaker referred the tabled report to the Committee for consideration and report back to the House.

On 17 October 2017, the Committee considered a detailed Research and Legal analysis of the 2016/17 Annual Report and raised key observations and questions that were sent to the entity for written responses.

Subsequently on 31 October 2017, the Committee interacted with the HOD, the Senior Management team of the department, the CEO, as well as Senior Management of the entity on the 2016/17 Annual Report; an apology was formally submitted by the MEC of the department, Mr SE Kholwane. The Committee then met on 08 November 2017 to consider and adopt the draft Committee report.

3. GENERAL OBSERVATIONS

The entity has appointed an interim Board that will look into the affairs of the newly merged entity (Mpumalanga Economic Regulator). The entity received a clean Audit Opinion in the 2016/17 financial year and has been consistent with the clean Audit Opinion since its inception. During the year under review, the entity received a budget allocation of R62 382 000.00 and spent R54 548 119.00. The entity remains with a surplus budget of R9 359 094.00 whereby a roll-over of the budget was requested for special projects. Overall the entity spent 87.4% of the allocated budget.

The entity over-spent on five (5) of the programmes and reported that the over-expenditure is due to the operational needs of each programme. The entity over-spent on capital expenses by R374 005.00 due to procurement of two (2) vehicles which were not budgeted for initially in order to intensify the fight against illegal operations. The entity achieved 96% or 65 out of the 68 targets planned and could not achieve 4% or 3 targets planned for the year under review. The non-achieved targets have been carried over to the 2017/18 financial year. Noting the merger processes, it is important that the Mpumalanga Economic Regulator improves the performance of MLA to ensure that the new entity maintains a clean Audit Opinion in the 2017/18 financial year.

4. ANALYSIS OF THE ENTITY'S 2016/17 ANNUAL REPORT

4.1. COMPLIANCE TO ANNUAL REPORT GUIDE

The Annual Report of the entity complied with the National Treasury Guide on preparation of annual reports for public entities.

There are, however, certain instances where the guide requires explanations, but those explanations are not provided. The identified issue is indicated below:

- The entity did not include the narrative after the table discussing how expenditure contributed to the achievement of outputs during the period under review.
- The entity used wrong headings on the expenditure tables.

i. The Committee requested the entity to explain how the incurred expenditure per programme contributed to the achievement of outputs during the year under review. The entity indicated that the expenditures were only incurred in accordance with the approved Annual Performance Plans (APPs); and accordingly, the budget served as a necessary resource in implementing the APPs.

ii. The entity reported that the use of wrong headings was due to an oversight and will ensure that such does not happen in the future.

4.2. SERVICE DELIVERY ENVIRONMENT

4.2.1. Strategic Outcome-Oriented Goals

Department's Strategic Outcome Goals	Targets for 2016/17	Achievements/challenges
<p>Goal 1: Industry Expansion – Grow the gambling industry in the Province responsibly.</p>	<ul style="list-style-type: none"> - Fourth casino - Bingo Operations 	<ul style="list-style-type: none"> - The target on application for granting of 4th casino was not achieved due to litigation and has been deferred to the 2017/18 financial year. - Five (5) Bingo centres were inspected, and two (2) were still being considered as at the end of the financial year. - Facilitated one (1)

		feasibility study for the horse racing track in the Province and the findings are still being considered.
Goal 2: Effective Regulation – Effective and efficient regulation of the gambling industry in the Province.	<ul style="list-style-type: none"> - Compliance with corporate governance practices. - Sustained brand promotion, responsible gambling campaigns and corporate responsibility initiatives. - Combat all forms of prohibited gambling in the province with MGB's control. 	<ul style="list-style-type: none"> - The Board approved amendments to its Gambling Rules, which had been published in the Provincial Gazette during the year under review. - Conducted 27 exhibitions and also implemented 1 social responsibility initiative. - Conducted 293 LPM operations. - Inspected 96 Totalizer and Bookmarker inspections. - Conducted 2 Bingo centres inspections.

During the year under review, the entity reported that the Board intensified interventions to clamp down on all forms of illegal gambling activities in the province. The Board also responded to all allegations of illegal gambling with the assistance of SAPS. This was also made possible through the multifaceted mix of marketing and communication campaigns that were conducted to promote responsible gambling throughout the Province that were employed.

The entity's overall performance relating to the strategic outcome oriented goals during the year under review indicates that almost all targets for the year under review were

achieved, except for the granting of the fourth (4th) Casino license due to litigation process and the granting of the applications for two (2) Bingo licenses.

Noting that MGB will merge with MLA and operate as a single entity, it is important that the entity continues to maintain its good performance and the clean audit status (noting the poor performance by MLA).

i. The Committee requested the entity to indicate what plans are put in place to ensure that the oncoming merger between MGB and MLA (Mpumalanga Economic Regulator) maintains the clean audit status and continues to perform well. In response, the entity indicated that the policies and practices of MGB, which have proven to be effective over the years, will be adopted by the new entity.

5. OVERVIEW OF ENTITY'S PERFORMANCE

5.1. Audit Opinion

2015/16	2016/17
Clean Audit	Clean Audit

The entity received a clean Audit Opinion in the 2016/17 financial year and has been consistent with the clean Audit Opinion since its inception.

5.2. Expenditure per programme

Program	Budget	Actual	Under/(Over)- spending	Variance %
CEO	3 071 951	2 944 762	127 189	95,9
Board	800 000	845 121	(45 121)	105,6
Legal Services	2 531 250	2 526 225	5 025	99,8
Investigations & Licensing	5 752 387	5 727 928	24 459	99,6
Gambling Control	7 264 497	7 402 236	(137 739)	101,9
Gambling Audit	6 917 261	6 920 181	(2 920)	100,0
Corporate Services	22 605 851	22 772 166	(166 315)	100,7
Special projects	8 000 000,00	-	8 000 000	0,0
Communications	5 438 802	5 409 500	29 302	99,5
TOTAL	62 382 000	54 548 119	7 833 881	87,4

During the year under review the entity received a budget allocation of R62 382 000.00 and spent R54 548 119.00. The entity remains with a surplus budget of R9 359 094.00,

whereby a roll-over of the budget was requested for special projects. Overall the entity spent 87.4% of the allocated budget. Page 6 of the report indicates a surplus budget of R9 359 094.00 that remained as at the end of the financial year, which includes R1 184 181.00 as part of the finance income; R166 803 as Net Capital expenditure not included in the financial performance; and R8 110 as Confiscated monies.

The entity over-spent on five (5) of the programmes and reported that the over-expenditure is due to the operational needs of each programme. The entity over-spent on Capital Expenses by R374 005.00 due to procurement of two (2) vehicles which were not budgeted for initially in order to intensify the fight against illegal operations.

i. According to the entity, it started experiencing some challenges with the old vehicles during the course of the financial year. The entity therefore, had to priorities the procurement of the vehicles.

ii. The entity indicated that in future, it will ensure that it spends the budget in accordance with the approved APP, in order to ensure that this does not re-occur.

iii. The Committee further requested the entity to provide a breakdown of the surplus income reported on page 6 of the Annual report against the total budget allocated during the year under review. The breakdown for the surplus income reported, is as follows:

Net Capital expenditure not included in the financial performance	166 803
Confiscated monies	8 110
Interest received from the bank	1 184 181
CSI project committed	<u>8 000 000</u>
Surplus for the year	<u><u>9 359 094</u></u>

5.3. Revenue collection

Revenue	Estimate	Actual	Over/Under
R'000	2016/17	2016/17	2016/17
Total	91 104 861	93 261 717	2 156 856

The entity performed well in terms of revenue collection. The entity collected an overall revenue of R93 261 717.00 which is more than the estimated revenue of R91 104 861.00. This means that the revenue collection increased by R2 156 856.00 when compared to the estimated revenue collection.

6. PROGRAMME ANALYSIS

Programme 1: Executive Office

The purpose of the programme is to ensure that MGB operates in accordance with National and International gambling policies and standards, as well as ensuring effective and efficient administration and management of the organisation.

The Committee noted that the programme has achieved all three (3) of its planned targets for the 2016/17 financial year indicating 100% achievement of targets. The achieved targets in the programme are as follows: development of two (2) industry reports; approval of 2017/18 organisational strategy; and approval of four (4) quarterly performance reports and 1 Annual Report (page 18 of Annual Report).

Expenditure Analysis

Executive Office	Final	Actual expenditure	Over/Under	% Expenditure
Compensation of Employees	2 813 908	2 813 908	-	100,0
Goods and Services	258 043	130 854	127 189	50,7
Total	3 071 951	2 944 762	127 189	95,9

The Committee noted that the programme has spent 95.9% of the budget allocated during the year under review. The expenditure indicates a variance of R127 189.00, with all planned targets achieved. The programme spent 100% on Compensation of Employees and 51% on Goods and Services line items.

Programme 2: Investigations and Licensing

The purpose of the programme is to investigate the suitability of applicants that wish to participate in the gambling industry through licences, as well as monitoring the continued suitability of holders of such licences and certificates.

The Committee noted that the programme has achieved 7 out of 8 targets planned for 2016/17 financial year. This translates to 88% achievement of the planned targets. The achieved targets in the programme are as follows: conducting 70 investigations on applications; conducting 54 key employee investigations; conducting 12 reinvestigations; conducting 257 license renewal reviews; conducting 2 industry analysis reports; conducting 389 other employee reviews; and conducting 80 risk reviews (page 19-20 of Annual Report).

The programme failed to achieve the target on granting of the fourth (4th) Casino Licence application due to litigation and the target has been deferred to the 2017/18 financial year. In terms of Bingo licenses the entity approved licenses for five (5) bingo centres, but failed to finalize two (2) applications before the end of the financial year. The granting for the Bingo licenses has been finalized in the first quarter of 2017/18 financial year.

i. With regard to the litigation process on the fourth (4th) Casino Licence, the entity indicated that the Court directed it to continue with the evaluation process for the received Casino proposals. However, subsequent to the Court's Order, Sofiline (Pty) Ltd, who is the Applicant in the matter, approached the Board to discuss ways in which the Order can be executed in a manner beneficial to both parties; both parties are reported to be currently in discussions on how to resolve the matter.

Expenditure Analysis

Investigations and Licensing	Final	Actual	Over/under	%
Compensation of Employees	5 714 914	5 714 914	-	100,0
Goods and Services	37 473	13 014	24 459	34,7
Total	5 752 387	5 727 928	24 459	99,6

The Committee noted that the programme spent 99.6% of the budget allocated for the 2016/17 financial year, indicating a variance of R24 459.00. The programme spent 100% on Compensation of Employees and 35% on Goods and Services.

Programme 3: Gambling Control

The purpose of the programme is to ensure regulatory compliance of all gambling operations and equipment as well as to combat all forms of prohibited gambling.

The Committee noted that the programme achieved 6 out of 8 targets planned for the year under review. This translates to 75% achievement of the planned targets. The non-achieved targets are as follows: 48 distribution requests not evaluated; 82 machine moves and conversions not evaluated (page 23 of Annual Report). This is reportedly due to fewer applications received than planned.

Expenditure Analysis

Gambling Control	Final	Actual	Over/Under	%
Compensation of Employees	6 592 081	6 701 923	-109842	101,7

Goods and Services	672 416	700 313	-27 897	104,1
Total	7 264 497	7 402 236	-137 739	101,9

The Committee noted that the programme spent 101.9% of the budget allocated during the year under review, which indicates an over-expenditure of 1.9% or R-137 739. The reasons for the over-expenditure of the allocated budget is due to the need to perform more inspections because of more new sites opened than anticipated.

Programme 4: Gambling Audit

The purpose of the programme is to provide assurance that gambling levies are accurately calculated and paid timeously.

The Committee noted that the programme achieved all 7 targets that were planned for the 2016/17 financial year (page 24 of Annual Report). This translates to 100% achievement of all planned targets. The achieved targets are as follows: performed 240 verifications; performed 3 Casino audits; performed 2 route operator audits; performed 1 Independent site operator audit; performed 1 Totalisator audit; performed 11 Bookmarker audits; and performed 2 Bingo centre audits.

Expenditure Analysis

Gambling Audit	Final	Actual	Over/under	%
Compensation of employees	6 538 950	6 538 950	0	100,00
Goods and Services	378 311	381 231	-2 920	100,77
Total	6 917 261	6 920 181	-2 920	100,04

The Committee noted that the programme has spent 100.04% of the budget allocated for the 2016/17 financial year, which indicates an over-expenditure of R-2 920.00.

i. According to the entity, the over-expenditure was caused by some necessary additional work conducted in auditing the licensed operations.

Programme 5: Legal Services

The purpose of the programme is to ensure effective and efficient gambling legislation as well as to ensure that the Board and MGB comply with corporate governance practices.

The Committee noted that the programme achieved all 7 targets planned for 2016/17 financial year. This translates to 100% achievement of planned targets (page 27-28 of Annual Report).

The achieved targets are as follows: Performed one (1) review of the Mpumalanga Gambling Rules; performed one (1) review of the Mpumalanga Gambling Acts and Regulations; performed four (4) status reviews of compliance to laws; conducted four (4) status reviews on litigation matters by or against the MGB; facilitated and minuted six (6) scheduled Board meetings, twelve (12) Committee meetings, two (2) special board meetings, and five (5) Special Committee meetings; and performed four (4) status reviews of Board Corporate governance practices.

Expenditure Analysis

Legal Services	Final	Actual	Over/Under	%
Compensation of employees	2 480 596	2 480 596	-	100
Goods and Services	50 654	45 629	5 025	90,08
Total	2 531 250	2 526 225	5 025	99,80

The Committee noted that this programme spent 99.8% during the year under review indicating a variance of R5 025.00. The programme spent 100% on Compensation of Employees and 90.1% on Goods and Services.

Board	Final	Actual	Over/under	%
Board (Compensation of Employees)	550 000	646 500	-96 500	117,55
Board (Goods & Services)	250 000	198 621	51 379	79,45
Total	800 000	845 121	-45 121	105,64

The Committee noted that the programme also houses the budget for the Board. The Board over-spent its allocated budget by 5.64% or R-45 121.00. The reason for the over-expenditure is due to the fact that there were more meetings held than scheduled during the year due to operational needs.

i. The entity indicated that the Board activities will be in line with scheduled meetings, especially once the Fourth (4th) Casino matter is concluded.

Programme 6: Corporate Services

The purpose of the programme is to ensure efficient and effective human resources and financial management.

The Committee noted that the programme achieved all 23 targets that were planned for the 2016/17 financial year, which translate to 100% achievement of targets (page 30-32 of Annual Report).

Expenditure Analysis

Corporate Services	Final	Actual	Over/under	%
Compensation of employees	6 549 404	6 801 588	-252 184	103,85
Goods and Services	15 556 448	15 096 573	459 875	97,04
Total	22 105 852	21 898 161	207 691	99,06

The programme spent 99.06% during the year under review, which indicates a variance of R207 691.00. The reason for the under-expenditure is reportedly due to the operational requirements of the Corporate Services. The programme over-spent on Compensation of Employees by R-252 184.00 or 3.85%. The reason for the over-expenditure of the budget on Compensation of Employees is not indicated in the report.

i. According to the entity, the reason for over-expenditure on Compensation of Employees was due to the provision for long service awards that was brought in to account for the first time this year, which was not budgeted for, and was brought about as a GRAP requirement.

Programme 7: Communications

The purpose of the programme is to ensure public awareness of the gambling industry as well as to ensure efficient and effective information management.

The Committee noted that the programme achieved 12 out of 12 targets that were planned for the 2016/17 financial year. This translates to 100% achievement of targets (page 33-36 of Annual Report).

Expenditure Analysis

Communications	Final	Actual	Over/Under	%
Compensation of employees	5 204 241	5 204 241	-	100,00
Goods and Services	234 561	205 259	29 302	87,51
Total	5 438 802	5 409 500	29 302	99,46

The Committee noted that the programme spent 99.46% of the total budget allocated for the year under review, indicating a variance of R29 302.00. It is reported that the under-spending on the budget is due to the operational requirements of the programme.

7. GOVERNANCE

The entity has reported in the Annual Report that it has affirmed its principles of good governance as prescribed in the King IV Report. The governance part of the Annual report discusses the various committees that are in existence in MGB and their roles in improving the governance issues of the entity. Some of the Committees include the Corporate Services Committee; Audit and Risk Committee; and Compliance Committee. The Audit Committee reported that the MGB's system of internal controls over financial and risk management is effective, efficient and transparent.

8. HUMAN RESOURCE MANAGEMENT

8.1. Organisational Structure

The approved staff structure of the MGB is comprised of 51 employees. However, as at 31 March 2017, the total staff complement comprised of 49 employees with 2 vacancies which were not filled due to a moratorium.

8.2. Human Resource Oversight Statistics

The entity spent R36 061 312.00 on Compensation of Employees during the year under review which is 68% of the total expenditure for the entity. This relates to the fifty (50) employees that exist in the entity. The vacancy rate in the entity was 4% or two (2) as of the end of the financial year.

8.3. Employment equity targets

In terms of employment equity targets, it is reported that there are twenty-two (22) males or 44% and twenty-seven (27) females employed by the entity. There are five (5) male employees at senior management level and three (3) female employees at senior management level. In terms of people with disabilities, it is indicated that there is one (1) disabled person employed in the entity, which translate to the 2% employment equity targets.

8.4. Labour Relations

The entity reported that it conducted one (1) disciplinary action and the official was issued with a written warning.

9. LEGAL ANALYSIS OF THE ENTITY'S 2016/17 ANNUAL REPORT

9.1. COMPLIANCE WITH KEY LEGISLATION

Skills Development Act No. 97 of 1998

Section 30A of the Act provides that if 80% or more of the expenditure of a national or provincial public entity is annually defrayed directly or indirectly from funds voted by Parliament, that entity:

- Must annually budget at least 1% of its payroll for the training and education of its employees; and
- May contribute funds to a SETA.

i. The Committee requested the entity to explain how much of its budget allocated for Compensation of Employees was spent during the year under review for training and

education of its employees as required by the Act. The entity reported that it has spent 6.55% of the Compensation of Employees which is slightly above the 5% requirement.

ii. The entity reported that it has succeeded in training at least every staff member and offered educational assistance to twenty (20) staff members, during the 2016/17 financial year in line with the Skills Development Act. The training schedule was subsequently submitted to the Portfolio Committee.

10. FINDINGS

After the interaction with the entity, the Committee made the following findings:

- 10.1. The entity received a clean Audit Opinion in the 2016/17 financial year and has been consistent with the clean Audit Opinion since its inception.

- 10.2. The entity's overall performance relating to the strategic outcome oriented goals during the year under review indicates that almost all targets for the year under review were achieved, except for the granting of the fourth (4th) Casino license due to the litigation process.

11. RECOMMENDATIONS

The Committee made the following recommendations:

- 11.1. Noting that MGB will merge with MLA and operate as a single entity, it is important that the entity continues to maintain its good performance and the clean audit status.

- 11.2. The entity must ensure that the granting of the fourth (4th) Casino license is finalised before the finalization of the merger process as it should not affect the new entity (Mpumalanga Economic Regulator). Furthermore, the entity must submit a progress report regarding the out of court settlement.

The Committee moves that the House adopts the report with the above recommendations.

13. CONCLUSION

The Chairperson wishes to express his gratitude to the HOD Mr MW Mkhize, the CEO, the CFO and the senior officials of the Mpumalanga Gambling Board (MGB) for their availability, dedication and commitment during the deliberations with the entity.

The Chairperson further wishes to thank the Hon. Members of the Committee for their sterling participation and input during the deliberations on MGB's 2016/17 Annual Report and also thanked the Legislature staff for their support and contribution towards the production of this report.

Unless otherwise stated a report detailing progress in the implementation of all recommendations in this report should be forwarded to the Committee by 28 February 2018 and thereafter on a quarterly basis.

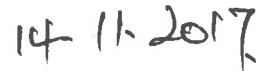


HON FV MLOMBO (MPL),

CHAIRPERSON:

PORTFOLIO COMMITTEE ON PREMIER'S OFFICE;

FINANCE; ECONOMIC DEVELOPMENT AND TOURISM



DATE

