

Annual Report

2006



National Gambling Board



Vision

“To be a world-class organisation, providing a national regulatory framework in the gambling industry.”

Mission

Ensuring uniformity, harmonisation and integrity of the gambling industry in South Africa, by enforcing compliance with the National Gambling Act and ensuring compliance with other relevant legislation, viz, Financial Intelligence Centre Act, Public Finance Management Act and provincial gambling Acts.

We do this through:

- a) the creation and establishment of uniform norms and standards;
- b) the creation and establishment of uniform (harmonised) rules and regulations;
- c) conducting oversight evaluations of the performance of provincial licensing authorities;
- d) evaluating the issuing of national licenses by provincial licensing authorities;
- e) evaluating the compliance monitoring of licensees by provincial licensing authorities;
- f) assisting provincial licensing authorities to ensure that unlicensed gambling activities are detected;
- g) monitoring socio-economic patterns of gambling activity in the Republic; and
- h) conducting research on addictive / compulsive gambling and the socio-economic impact of gambling.

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Chairperson's Report



A regulated gambling industry in an environment of economic growth has been established in South Africa. Proper probity on all who wish to operate within the industry keeps the gambling industry practically crime free and ensures that measures with regard to money laundering are in place. Regulators and operators have a statutory obligation and task to see to the fairness of games and to put proper measures in place for the protection of the public who participate in gambling. To this end, programmes are in place to protect the vulnerable, meaning that gambling is not available to the under-aged and for those who fall victim to gambling addiction.

South Africa has its own unique requirements according to which policies entail macro-economic modelling, where ceilings are set on the number of casinos allowed. Zoning has taken place in terms of the allocation of casino licenses to the different provinces, and within provinces further sub-zoning was done. The requirements of Broad Based Black Economic Empowerment (BBBEE) are also peculiarly South African.

In 2004 the National Gambling law was updated, bringing about clearer division of functions between the national and provincial gambling boards. On the national level, there is the National Policy Council and the National Gambling Board where policy is formulated and determined, frameworks are set and

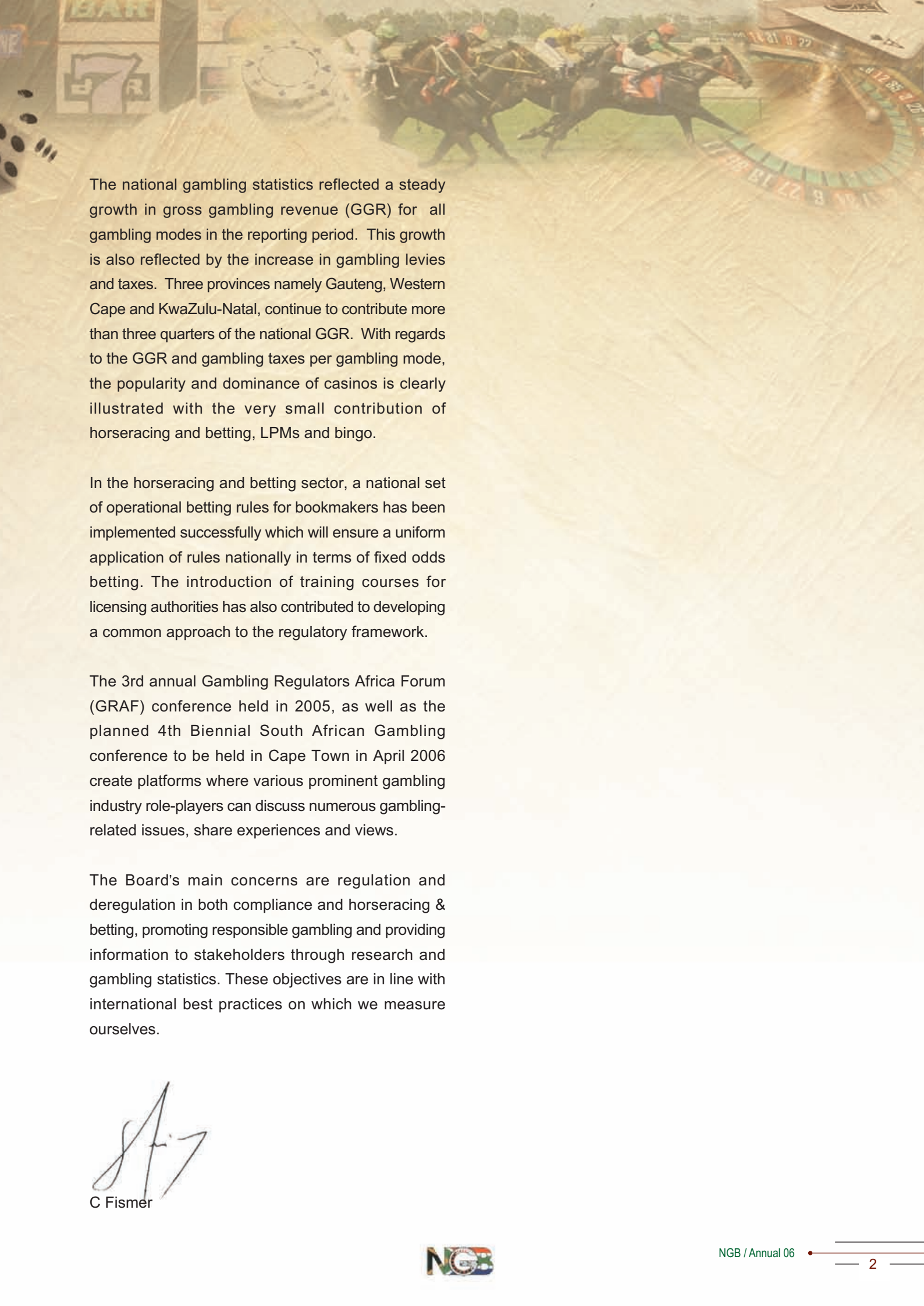
monitoring and oversight functions are performed. On the provincial level, the allocation of licenses, compliance management and provincial taxes were set. The new Act also brought in the principle of national licenses.

Now in 2006 a stable market has started to emerge where all the outstanding casino licenses are in the process of being awarded. Internal growth, with the addition of more facilities to venues is in progress. A mature regulatory regime has been established. With regards to specific modes of gambling in the casino sector, 34 casino licenses have been awarded within the statutory ceiling of 40 casinos.

As far as policy is concerned, a positive balance between the social costs and the social benefits of gambling, as well as BBBEE still needs to be established. Casino gambling is also the most popular mode of gambling (excluding the lottery). When one turns to limited payout machines (LPMs) (gambling machines outside casinos with a maximum payout of R500), a national central electronic monitoring system is in place – which is of high standard and is an international trend-setter in the electronic monitoring of gambling. It is thus far operational in three of the nine provinces with five others in the planning phase of implementation.

With regard to online gambling, there is still no finality after a report was submitted in October 2005. It does, however, remain important to create a regulated environment and to establish control of advertisements on the internet. Online gambling still remains an illegal form of gambling in South Africa.

The international trend-setting programme, the National Responsible Gambling Programme (NRGP), continued its endeavour to address problem gambling through research, education and treatment.



The national gambling statistics reflected a steady growth in gross gambling revenue (GGR) for all gambling modes in the reporting period. This growth is also reflected by the increase in gambling levies and taxes. Three provinces namely Gauteng, Western Cape and KwaZulu-Natal, continue to contribute more than three quarters of the national GGR. With regards to the GGR and gambling taxes per gambling mode, the popularity and dominance of casinos is clearly illustrated with the very small contribution of horseracing and betting, LPMs and bingo.

In the horseracing and betting sector, a national set of operational betting rules for bookmakers has been implemented successfully which will ensure a uniform application of rules nationally in terms of fixed odds betting. The introduction of training courses for licensing authorities has also contributed to developing a common approach to the regulatory framework.

The 3rd annual Gambling Regulators Africa Forum (GRAF) conference held in 2005, as well as the planned 4th Biennial South African Gambling conference to be held in Cape Town in April 2006 create platforms where various prominent gambling industry role-players can discuss numerous gambling-related issues, share experiences and views.

The Board's main concerns are regulation and deregulation in both compliance and horseracing & betting, promoting responsible gambling and providing information to stakeholders through research and gambling statistics. These objectives are in line with international best practices on which we measure ourselves.



C Fisser

Chief Executive Officer's Report



The vision of the National Gambling Board is to be a world-class organisation, providing a national regulatory framework for the gambling industry in South Africa. The introduction of the National Gambling Act, 2004 (Act No 7 of 2004) ("the Act") paved the way to fulfilling the mandate given to the National Gambling Board ("the Board") in ensuring uniformity, harmonisation and integrity of the gambling industry. Based on the solid framework set in the past, the Board progressed and expanded its activities to meet new challenges in the way it executed all its functions. Organisational resource frameworks were strengthened to achieve the set vision, as will be reported hereunder.

Establishment of the Human Resources Committee (HRCO)

In accordance with good corporate governance and in line with the changes which came along after the promulgation of the new Act, the Board established for the first time a committee dedicated to dealing with matters affecting human resources.

The primary objective of the Human Resources Committee (HRCO), chaired by Ms Thebi Moja, the Deputy Chairperson of the Board, is to develop and implement a competitive human resources strategy to ensure that the Board is able to attract, retain and

develop the best possible human resources to support superior business performance. During the year under review, the Committee met five times and made significant strides, approving inter alia the new organisational structure, the new grading system, market related remuneration and various key human resources policies and procedures.

New Structure

One of the key implications of the Act was how it impacted on the Board's operation and the services to be provided to the government and some of the Board's key stakeholders. To meet the service delivery challenges, the Board implemented a new organisational structure on 1 July 2005. The Board also approved the payment of market-related salaries and the grading system to complement employees' increased responsibilities arising from the above-mentioned Act.

Implementation of the Performance Management System

During the past year, the Board continued its effort of instilling and improving a performance driven culture within the organisation through the implementation of the performance management system. One of the key achievements this year was the joint formulation and implementation of key performance areas in the organisation.

This process was followed by the development of performance standards as well as checklists, templates and forms for all National Gambling Board's Departments. The implementation of the performance management system is yielding positive results to the extent that, for the first time in the history of the Board, the staff's performance has been rated and rewarded accordingly.

Human Resources Policies and Procedures

Another success factor which is attributed to the establishment of the HRCO is the introduction of human resources policies and procedures. Some of the key policies which were approved by the HRCO were the Disciplinary and Grievance policy and procedure, Conflict of Interest policy, Recruitment and Selection policy and a Manual on Staff Rules and Regulations, whilst the leave policy was revised.

Black Economic Empowerment (BEE) Developments in the Gambling Industry

The draft BEE gambling industry charter and the score card were tabled at the National Gambling Policy Council (Council) as constituted in terms of the National Gambling Act in Parliament for consideration.

The Council resolved that the industry needs to be consulted in order to establish whether there is a need for a gambling industry specific charter as opposed to the proposed draft codes of practice published by the dti.

The matter is currently in the hands of the regulators who will consult all the relevant stakeholders and will report accordingly to the Council once consensus has been reached.

A Profile of Youth Gambling in South Africa

A research project on youth gambling was initiated in June 2004 by a team working under the auspices of the Board and Wits Enterprise, the official knowledge management arm of the University of the Witwatersrand.

The project is aimed at enhancing the management of responsible youth gambling by examining the sociology and dynamics of youth gambling in South Africa; aligning the South African experience of

adolescent gambling with international trends; and developing strategic recommendations to promote further research and capacity-building programmes in the youth gambling sector.

Twenty-eight representative South African schools participated in this initiative, which involved the administration of a sample survey of over 4 000 learners in Grades 10, 11 and 12. In line with international research trends in the diagnosis of adolescent gambling, this quantitative work was supplemented with extensive interviews and focus groups with learners, principals, teaching staff involved in the provision of socio-psychological services as well as key stakeholders within the target schools and the wider community.

The study was completed and released to the media and general public on 20 July 2005. The main findings from the research were that approximately half of all the learners in Grades 10, 11 and 12 that took part in the study have engaged in some form of gambling activity. The most common forms of gambling among the sample group were the national lottery (9.1%), sports betting (5%), scratch cards (4.5%), flipping coins (3.5%), and informally organised games (2.7%). Cellphone gambling (2%), dice (1.9%), internet (1.4%) and casinos (1.4%) also featured. There also appeared to be a strong correlation between adolescent gambling behaviour and social environment.

The findings have been used as a management tool to promote a culture of responsible gambling in South Africa and are of practical use to a variety of stakeholders in both the public and private sectors - including regulating bodies, the gambling industry and the educational sector.

In an effort to educate the public about youth gambling in South Africa, copies of this report were donated to the schools that took part in the study, provincial licensing authorities, national and provincial

departments of education, health and social development, cabinet ministers and policy council members.

Socio-economic Impact of Legalised Gambling in South Africa

The Board commissioned a follow-up study in 2005 within a more matured gambling marketplace to gauge the socio-economic impact of gambling on the South African society, to identify trends and to inform the Board on its regulatory responsibilities.

A national survey among 3 100 respondents was conducted during October and November 2005. A research questionnaire similar to the one used in the 2002 study was used to allow longitudinal comparisons with regard to various aspects including participation levels, impact of gambling on household welfare, propensity to gamble, household expenditure displacement, household budgetary behaviour with regard to gambling and the extent of problem gambling. However, the 2005 study was extended with a series of focus group discussions with regular gamblers to determine the social impact of gambling. The project was managed and conducted jointly by the Board and the Bureau of Market Research (BMR) of the University of South Africa (Unisa).

Although gambling was confirmed as an important leisure activity, the findings from the study revealed that participation in gambling has declined substantially compared to the frequency during the establishment phase of South Africa's new gambling industry. Not only has the novelty effect to some extent worn off, but South Africans are better educated today about gambling and have come to understand that it is a form of recreation and entertainment. Their expectations are much more realistic now in respect of winning prizes.

The findings of the study on the socio-economic impact of legalised gambling in South Africa will be launched to the public on 20 April 2006.

National Responsible Gambling Programme

The National Responsible Gambling Programme (NRGP) is a resource that integrates research and monitoring, public education and awareness, training, treatment and counselling. It was specifically devised to address the challenges posed by South Africa's developing nation environment after the legalisation of the gambling industry in the mid 1990s. It was the first of its type internationally to integrate these components and it still is the only programme of its sort to be jointly controlled by a public/private sector partnership, involving government regulators and the industry.

The NRGP is supervised by the South African Responsible Gambling Trust (SARGT). The trust comprises four regulators, four industry representatives and an independent chairperson, Dr Vincent Maphai, with the Board's chairperson Mr Chris Fisser as his deputy. SARGT was created by the South African Advisory Council on Responsible Gambling (SAACREG), an initiative of the Board. There is a high degree of accountability and transparency in terms of financial management, and reports on the activities of the programme are published regularly.

The SARGT enjoys a cordial and constructive relationship with the country's legislators and gambling regulators - relationships which evidence the value of the public-private partnership model which characterises the efforts to address the question of problem gambling in South Africa. The level of collaboration in this country between industry and government to address the issue of problem gambling is an innovation in the gambling industry worldwide.

During the year under review the NRGP Research division completed data collection relating to two projects researching the possible vulnerability of particular communities, with specific reference to the role of poverty, and how problem gamblers differ from normal gamblers. Fieldwork and data analysis was completed pending publication of the 2005/6 additional biennial National Prevalence Survey, the NRGP's biggest single research project later in 2006.

The NRGP also commissioned a report by Professor Don Ross, Professor of Philosophy at the University of Alabama, USA and Professor of Economics at the University of Cape Town on *The Behavioural Economics and Neuroeconomics of Disordered Gambling: A Policy-Focused Survey of Research*. This was with a view to future collaboration on a research project into gambling and the brain - an inquiry which approaches problem gambling behaviour from the perspective of cognitive science.

Mindful of the policy developments in respect of Internet gambling, a research report was developed on online-based problem gambling, counselling and treatment assistance. Preliminary work has also started on the possible application of computer-based distance-learning technology to problem gambling prevention programmes in schools.

The NRGP's Public Education division continued to implement a range of communications activities aimed at the prevention of problem gambling and the promotion of responsible gambling through ongoing liaison at top level, as well as targeted seasonal advertising, including the programme's award-winning "Dominoes" TV advertisement, and publicity campaign.

The NRGP's international reputation was enhanced with the visit to South Africa by the British gambling Minister, the Rt. Hon. Richard Caborn, to better understand how South Africa has addressed the issue of problem gambling.

Locally the NRGP co-operated with regulatory authorities in a number of responsible gambling promotions, such as the *Women and Gambling* awareness week in Mpumalanga, and with the development of collateral and public service advertising for the Free State Gambling and Racing Board.

The NRGP augments public awareness of its multi-faceted role through participation in various community outreach projects, such as consumer shows and exhibitions at industry venues and shopping centres, handing out leaflets at Allpay paypoints, and delivering video or live theatrical presentations to high schools, community clubs and adult groups.

The project involving schools financed by the Department of Social Services and Poverty Alleviation in the Western Cape was continued, reaching some 11 751 learners at 45 schools with 11 presentations during the year under review. This brings the tally since inception in 2002 to 582 sessions at 133 schools, reaching 34 443 learners.

A similar project for schools in Gauteng, jointly financed by the Gauteng Gambling Board and the Department of Finance and Economic Affairs of the Gauteng Provincial Government, reached some 24 010 learners during 288 sessions at 34 schools in the year under review. This brings the tally since inception in 2004 to 544 sessions at 84 schools, reaching 46 694 learners.

Apart from printing a range of leaflets and posters and producing promotional items such as bookmarks and coasters, the NRGP produces other publications such as the monthly electronic newsletter called *Responsible Gambling Digest*, which provides a broad overview of international developments in the study and treatment of problem gambling, and the *NRGP News*, a quarterly newsletter distributed to a wide spectrum of stakeholders.

The NRG Training division has expanded the scope of its service to include the LPM, horseracing, bingo and casino industry sectors, regulators, healthcare workers, human resources managers and employees, as well as facilitators and actors involved in the schools and community outreach programmes in both provinces.

The courses, including the NRG's "Gambling in the workplace" initiative aimed at workers in the private sector, ranging from basic to more customised courses for the various sectors and train-the-trainer workshops, were very well attended.

The NRG Treatment and Counselling network has grown substantially in the number of medical professionals trained and employed to provide convenient face-to-face counselling, as well as the number of geographical areas in response to a growing demand in the South Western and Eastern Cape. The family treatment service remains popular.

The NRG's helpline service (now being called the problem gambling counselling line) has been greatly enhanced by the appointment of additional telephone counsellors as well as significant upgrades to the telephone and data recording system. This has served to reduce the number of hoax calls, which regrettably remains high, despite the introduction of a 'caller identity' system. Many irrelevant calls are the result of the mandatory inclusion of the helpline number on much of the gambling industry's advertising material, because people think it is a general industry information service.

The 4th Biennial Gambling Conference

The Board's 4th Biennial Gambling Conference will take place at the Cape Sun in Cape Town from 19 - 21 April 2006 and it is expected to attract the country's prominent gambling industry role-players.

Approximately 300 delegates, of whom more than 50 will be from other countries, are expected to attend.

The keynote speakers will be Mr. Chris Fisser, the Chairperson of the National Gambling Board of South Africa who will give an overview of regulated gambling in South Africa from 1996 to 2006; Mr. Leta Mosienyane, Chairperson of the Gambling Regulators African Forum (GRAF) and of the Botswana Gaming Board, who will speak on the growth and development of the gambling industry on the African continent; Prof. Bo Bernhard the Director of Gambling Research at the University of Nevada, Las Vegas who will speak on problem gambling research, including exciting new work in the field of problem gambling technologies and finally Mr. George Mangion from PKF, Malta who will be speaking on Interactive Gambling in Malta.

A host of other topics will be addressed during the conference and these include several items on research that has been conducted since the last conference including: a Profile on Youth Gambling in South Africa; a follow-up on the socio-economic impact of legalised gambling study; and the interactive gambling policy report. Several breakaway sessions are planned for the final two days of the conference and include such issues as women in the gambling industry, horseracing and betting, responsible gambling, BBBEE: The Way Forward and finally the LPM and Bingo industry.

National Gambling Statistics Database

In an effort to provide comprehensive and user-friendly information about the gambling industry, the Board developed a National Gambling Statistics Database that focuses mainly on primary statistics such as turnover, gross gambling revenue (GGR) and gambling tax. Provincial Licensing Authorities (PLAs) are, on a quarterly basis, required to submit the primary statistics to the Board for analysis.

The database comprises comparative statistics for the period 1 April 1999 to 31 March 2006. This information is vital to keeping the public and stakeholders informed on financial and operational gambling data in the country.

The results for this financial year have continued to show an increase in gambling activities around the country. The GGR this year has increased by 16% from R 9 918 million (FY 2004/2005) to R 11 510 million (FY 2005/2006). Statistics in this regard can be found later in this report.

Horseracing and Betting

During the period under review the operational betting rules for bookmakers were extensively work-shopped with the respective stakeholders. In February 2006, these rules were approved and adopted as the uniform set of rules that will be utilised by all bookmakers throughout the country. The rules will continuously be monitored in the interests of customer protection.

A sub-committee of the Horseracing and Betting Forum is currently working with the two totalisator operators, namely Phumelela Gaming and Leisure Limited and Goldcircle Gaming and Racing Group, in an effort to develop a uniform set of operational rules for totalisator operators. It is anticipated that this process will be finalised in the coming financial year.

South African National Standards (SANS) 1718/ 4 was approved as a standard for wagering software. Subsequently a decision was taken by all PLAs that all licensees would operate, by 15 December 2005, on software that was approved in terms of this standard and the respective provincial requirements. Unfortunately the implementation of this decision throughout the country was not forthcoming as the legislative requirements in this regard are not uniform. This poses the challenge to establish a mechanism (possibly amendments to National Gambling

Legislation) that would ensure uniform application of the software requirements and the implementation thereof.

An informal training session was conducted with members of the Financial Intelligence Centre, South African Revenue Services (SARS) Business Intelligence Unit, Asset Forfeiture Unit and South African Police Services (SAPS) at the Newmarket Racecourse. These organisations are also considered stakeholders in the broad regulatory framework of the horseracing and betting environment. It is considered a key objective to interact with law enforcement agencies and government institutions for effective regulation of the industry.

The review on the tax structure on bookmaker betting transactions with specific reference to betting on sports and other contingencies has been completed. The report has been finalised and forwarded to the CEO's Forum for consideration.

During the reporting period the Board was approached by Betfair, a betting exchange company, with a proposal to operate a person to person betting exchange in South Africa. In terms of current legislation this sort of operation is illegal. Betfair made a presentation on their proposal to the Board. A report on the Nature and Desirability of Person to Person Betting Exchanges which was compiled by the Horseracing and Betting Forum in 2004 was also presented at the same meeting. The Board directed that further investigations be conducted in order for the Board to take a position on the matter.

In the year under review, two proposals, one on Greyhound Racing and the other on Harness Racing, were received from the respective lobbyists of the sports. These proposals will be investigated in the coming year.

Central Electronic Monitoring System (CEMS) and Limited Payout Machines (LPMs)

The CEMS was, as has previously been reported, established in terms of the Act to perform amongst other, the following functions:

- (a) Detecting and monitoring significant events associated with any LPM that is made available for play in the Republic; and the
- (b) Analysing and reporting of data in accordance with the prescribed requirements as outlined in the Service Level Contract (SLC) which the Board had signed with the service provider Zonke Monitoring Systems (ZMS).

In doing this the Board ensured the continuous suitability and compliance of the CEMS operator. The continuous suitability was assured through continuous suitability checks on the entity and its employees. During the reporting period the Board and an appointed company by the name of Security Audit and Control Solutions (SACS) performed an audit of ZMS and the CEMS, which included an operational and a two phase Information Technology Audit. The findings of the audit report are currently with ZMS for comment.

During the reporting period, the CEMS continued to report a less than 1% down time. The helpdesk reports and attendance thereto reported continuous technical functionality and good performance by the system itself. The Board continues to ensure the technical and operational compliance of the CEMS on a continuous basis.

At present only three provinces, namely Mpumalanga since June 2003, Western Cape since November 2004 and finally Eastern Cape since April 2005 have rolled out 1 877 machines in 442 operational sites. This sector of the gambling industry seems set to take off, with several other provinces such as Limpopo,

KwaZulu-Natal and the North West expecting to follow during the latter part of 2006.

Eradication of Illegal Gambling

The ongoing campaign against illegal gambling spearheaded by the Board continues nationally with the collaboration and assistance of provinces. Statistics in this regard can be found later in this report.

Financial Intelligence Centre Act

The Board, as a supervisory body, conducted seventeen (17) compliance inspections at licensed Casinos during the reporting period throughout the Republic to ensure compliance with the Financial Intelligence Centre Act (FICA). The inspections revealed that the accountable institutions visited met the minimum requirements prescribed by the legislation; however it was felt that more could be done to prevent money laundering. Recommendations in this regard are continually made to these institutions to implement. The Compliance Department, as well as other operational departments of the Board are continually meeting to advance ideas with regard to the issue of preventing money laundering.

The Board continues to participate in the Money Laundering Advisory Council appointed by the Minister of Finance (in terms of FICA) to advise on gambling related matters in line with money laundering, review of the legislation and on other matters as deemed necessary by the Minister.

Gambling Regulators Africa Forum (GRAF)

The 3rd annual GRAF conference was held from 29 November to 1 December 2005 in Gaborone, Botswana.

The conference was under the chairmanship of Tanzania and the secretariat was Botswana.

The conference was attended by eight countries. South Africa was represented by the Board as well as seven Provincial Licensing Authorities. The conference was also attended by South African Bureau of Standards (SABS), Gaming Laboratories International, BMM Testlabs South Africa, Zonke Monitoring System, Wits Enterprise and Institute for Social and Institutional Sustainability.

The countries that have signed the Memorandum of Understanding are Kenya, Malawi, Tanzania, Zambia, Mozambique, Zimbabwe, South Africa and Botswana.

The National Gambling Board was appointed as the permanent secretariat of GRAF and the Board will perform technical and administrative functions. This was done to have a central place where information relating to GRAF can be kept and made available to GRAF members on request.

The forum's primary objective is to provide African gambling regulators with a forum to meet, exchange views and information and discuss policy on gambling matters. The conference and the conference organisers received positive feedback from delegates as participants engaged actively in discussions. The launch of GRAF proved to be a fruitful exercise and participating member countries had several interactions after the conference. This contributed to the exchange of views and information.

South African National Accreditation Standards (SANAS) Gambling Laboratory Evaluation

The quality testing of gambling equipment by gambling laboratories remains a critical component to technical compliance and as such SANAS ensures that all gambling laboratories in the country are accredited to comply with ISO/IEC 17025 and ISO 9000 and technical competency in line with South African

National Standards (SANS). The Board continues to be a member of such an accreditation team and together with SANAS ensure that all gambling laboratories meet the required standards and requirements.

Accreditation is performed at two gambling laboratories to ensure that test results produced were in line with the aforementioned criteria, using internationally acceptable methods. This accreditation is a continuous process and is highly monitored to ensure optimum compliance. During the reporting period an assessment of one of the said gambling laboratories was performed to ensure that the standards are maintained.

Participation on Technical Standards

Technical compliance of all gambling equipment has and remains a critical point to ensure consumer protection and integrity of such equipment hence the Board continues to ensure the industry's technical compliance with the SANS. The Board played a major role in the formation of technical standard 1718 and a technical committee to ensure such practice. The Board in conjunction with SABS continues to drive the technical committee who ensures that the standards are continuously amended in line with the technological advancement and international practices.

Assistance to Provinces

The Board has assisted provinces on a number of issues such as legal, technical and other assistance during the reporting period. A greater role has also been played by the Board in ensuring the smooth roll out of Site "B" LPMs sites (sites with five machines or more, but to a maximum of forty machines) throughout the country.

National Gambling Board's Network Infrastructure

The Board's network infrastructure runs on **the dti** backbone. The Board's servers are located at **the dti's** well established and secured facilities. Virtual Private Network (VPN) enables network users who have internet access to access the network from wherever they are using their laptops. A dedicated workstation running CEMS was made available and accessible to staff members who use CEMS.

National Database System

In terms of the provisions of the Act the Board is mandated to establish and maintain a number of national databases.

Section 65 (1) of the Act sets out the functions of the Board:

- (1) *"The board has the following powers and duties to be exercised and performed in accordance with this Act:*
- (a) *establishing and maintaining-*
 - (i) *the national register of excluded persons, in accordance with section 14;*
 - (ii) *the national central electronic monitoring system, in accordance with section 27;*
 - (iii) *the national register of gambling machines and devices, in accordance with section 21;*
 - (iv) *a central registry of information contemplated in section 35; and*
 - (v) *the national probity of information contemplated in section 57."*

In pursuance of the above objective the Board entered into a contract with Waymark to develop a national exclusions and probity database. After an inordinate delay by Waymark to produce the said database, the Board suspended the contract and engaged the University of Pretoria Business Enterprise on 23 June 2005 to advise the Board on the work of Waymark thus far and make recommendations to the Board on how it should implement and execute its functions as contemplated in the National Gambling Act, 2004.

A final consolidated report setting recommendations by the consultant on the way forward on the national databases was submitted to the Board on 15 March 2006.

The consultants recommended that:

- (a) *The PLAs should be responsible for inputting data.*
- (b) *The cost of connecting to the databases should be shared between the Board and all the PLAs.*
- (c) *The Board is to carry the cost of the development or adoption and running of the system (in line with the Act for the Board to "establish and maintain").*
- (d) *Such a system be made accessible to PLAs to replace any systems that may have in this regard and that this system is also accessible to other stakeholders such as Casinos.*
- (e) *PLAs and the Board share the cost of the network.*
- (f) *PLAs be responsible for the human resources and equipment cost of capturing the current and historic information. The cost of the data communications network between the Board, PLAs, Casinos and Operators is to be shared equally between the Board and the PLAs.*

(g) *Each entity (Board, PLA, Casino, Operator) is responsible for the cost associated with the computer equipment (inclusive of all software) at its premises up to and including the point of contact (router) with the data communications network.*

(h) *Capturing, entering and maintaining the data for the national databases is for the cost of the entity entering the data (mostly PLAs).*

(i) *Cost associated with the safeguarding of the data contained in the national databases, is for the cost of the Board."*

In conjunction with the above recommendations, the consultants recommend further that, "regulations be developed and passed as a priority to avoid any confusion between the role of the Board and the role of PLAs."

The Board has approved the recommendations of the consultants from the University of Pretoria and is currently in discussions with the PLAs on the way forward in the spirit of co-operative government.

Interactive Gambling

The Interactive Gambling Policy Committee (IGPC) was established as contemplated in Item 5 of the transitional provisions of the Act. A consultant was appointed to assist the Committee in compiling the report. The draft report was submitted to the Council at its meeting held on 28 October 2005 where it was resolved that **the dti**, the Board and PLAs meet immediately to commence work on a policy document, and to report back to the Council. The Council then discussed the policy at a meeting convened in March 2006 and thereafter legislative drafting commenced.

The report was also formally adopted by the Board at its meeting of 4 November 2005.

The study on the regulation of interactive gambling identified its primary objectives in the South African context as follows:

(a) The protection of its citizens and other role players: it is noted that with increased accessibility of technology, mainstream marketing activities by enterprises and the easing of exchange control regulations, interactive gambling will become more prevalent. The goal is then to afford local players with the opportunity to engage in interactive gaming legally and safely, on licensed sites.

(b) The regulation should be reflective of international norms of good governance, crime prevention and responsible gambling. This would go a long way to enhancing South Africa's stature in the international community. To this end, the highest levels of competence and integrity should be promoted.

(c) The promotion of a successful interactive gaming industry in South Africa. Our regulatory environment should attract reputable South African companies to locate their interactive gaming operations in the country. With the emergence of the industry, leading interactive gaming operators will choose to locate some of their operations in South Africa.

The report has come up with notable recommendations, which can serve as a sound foundation for the operation and regulation of the industry as a whole in South Africa. The study constitutes a comparative study covering online gambling in the regulatory regimes of ten different jurisdictions as well

as outcomes derived from each regulatory approach. It also considered commentary from both local and international stakeholders as well as PLAs. The report recommends and highlights the following:

- (a) Simple and clearly defined broad laws that are not only technology neutral but that will not develop loopholes as technology advances, that are consistent and that fit in with existing gambling statutes should be developed. It does not take cognisance of the National Lottery, as it is governed by its own Act, and also excludes sports betting in its entirety, which is already regulated at provincial level.
- (b) It further recognises the need for licensing as the cornerstone of this industry, and that licensees would all be required to be specialists in remote gaming. Licensing fees would be payable on an annual basis, with licensed operators paying for probity, testing, reporting and licensing application fees.
- (c) It highlights stringent comprehensive probity exercises that have to be strictly adhered to and grants licensees no limitation at inception, in as far as the number of licences issued and held are concerned. It would be a requirement that all licensees renew their licences annually for operators and software providers. Ongoing monitoring and control processes play a pivotal role in ensuring that probity and licensing conditions are adhered to. It further takes note of employment equity requirements and BEE compliance in accordance with prevailing South African legislation.
- (d) It recognises and identifies the key tenets of player protection, which falls within the purview of the regulatory framework in South Africa and would contribute towards the NRGP.

- (e) Of greater significance is the fact that servers must be located in South Africa and will trade in rands even though foreign currency gaming will also be possible; all such transactions will be routed through licensed financial institutions.
- (f) The challenges facing the industry remain enormous, amongst which is ensuring that it attracts the right operators. To attract the right calibre of operators, South Africa would have to look towards offering operators the ability to repatriate funds, sufficient bandwidth and hosting facilities plus low gambling and corporate taxes.

Litigation

(a) Ebrahim Rajah & Others vs. The Chairperson: North West Gambling Board & Others

In January 2005, the Board was served with court papers as the sixth Respondent on the matter. The application had two parts. The Board opposed the application.

Part A of the application dealt with the interim relief to stop seizure of the gambling machines in North West. This part of the application was heard in court on 21 April 2005 and was dismissed.

Part B of the application dealt with the constitutionality of Section 9 of the National Gambling Act, Act No. 7 of 2004. The Casino Association of South Africa (CASA) brought an application to be joined as seventh Respondents on the matter. That application was heard in court on 10 May 2005 and was postponed to 13 and 14 September 2005 for hearing. The Board is awaiting judgment on this matter.

(b) Phumelela Gaming and Leisure Limited vs. Grundlingh Andre & Others

On 7 July 2005, the Board was served with Court papers as the fourth Respondent on the matter. The Board opposed the application.

The Applicant sought and obtained an order in the Transvaal Provincial Division (TPD) interdicting the first and second Respondents bookmakers from unlawfully offering and receiving bets which were not fixed odds bets, or from using the applicant's results and or dividends derived from the applicant's totalisator pool, as a basis for determining the payouts in respect of bets offered or taken by them.

The first and second Respondents appealed against the decision of the TPD to the Supreme Court of Appeal (SCA). The SCA upheld the first and second Respondents' appeal. It found that although the first and second Respondents had, in the course of their business of taking bets as bookmakers, appropriated the results of the Applicant's totalisator system for the purposes of determining their own odds, this was not unlawful.

(c) KwaZulu-Natal CMS Monitoring Systems vs. KZNGB & Other

The Chairperson of the Board was served with a subpoena on a dispute involving the KwaZulu-Natal Gambling Board (KZNGB) and KwaZulu-Natal CMS Monitoring Systems Pty Ltd (KZN CMS). The Board was also joined as a party in a law suit between KZNGB and KZN CMS in a claim for breach of contract and damages.

The Board opposed the subpoena and it was set aside.

In as far as the main application (joinder application) relating to the breach of contract and damages is concerned, on 05 December 2005, the matter was postponed and set down for a 15-day trial from 22 May to 09 June 2006.

Board Members

Mr Chris Fismer
Chairperson



Ms Thebi Moja
Deputy Chairperson



Adv Thibedi Majake
CEO



Ms Astrid Ludin



Mr Victor Masola



Asst. Comm. **Godfrey Lebeya**



Adv Tayob Aboobaker



Ms Laura Kganyago



Mr E Ramaite



Ms N Magomola



Staff Members



Front row from left to right:

- | | |
|--|---|
| 1. Kedibone Gama (Inspector: Compliance) | 2. Beatrice Leola (General Office Assistant) |
| 3. Denzil J Pillay (Manager: Horseracing and Betting) | 4. Themba Marasha (Chief Operations Officer) |
| 5. Kobie van den Berg (Senior Accountant) | 6. Thibedi Majake (Adv) (Chief Executive Officer) |
| 7. Edwin Machabaphala (Inspector: Horseracing & Betting) | 8. Veronica Khoza (Gaming Systems Administrator) |

Back row from left to right:

- | | |
|---|---|
| 1. Sarah Moganetsi (Account Assistant) | 2. Magora Lekala (Driver / Messenger) |
| 3. Nokwazi Thwala (Legal Administrative Officer) | 4. Sakhi Mhlongo (Gaming Systems Officer) |
| 5. Thabiso Mango (Senior Researcher: IMD) | 6. Marti Grobler (Personal Assistant to CEO) |
| 7. Veronica Northmore (Personal Assistant to COO) | 8. Estelle Jonkheid (Manager: Information Management) |
| 9. Mike Burns (Manager: Compliance) | 10. Tshepe Mokoena (Manager: Human Resources) |
| 11. Mthunzi Ngwane (Inspector: Compliance) | 12. Morongoa Maponya (Senior Inspector: Compliance) |
| 13. Keletso Makopo (Receptionist) | 14. Karen van Dyk (Bookkeeper) |

Absent



Nthabiseng Bogoshi
(HR Officer)



Mauricia Benn
(Personal Assistant to Chief Financial Officer)

Staff who left the service of the Board

Left to right:

1. Vuyokazi Memani-Sedile (Chief Financial Officer)
2. Vuyokazi Nkosi (Board Secretary)
3. Johan Keet (Manager: Finance)



(Photographs not available for the following people)

4. Phelokazi Sawula (Office Administrator)
5. Trishantha Naidoo (Gaming Systems Officer)
6. Thabo Johnson (IT Manager)
7. Phuti Tsongayinwe (Gaming Systems Administrator)

Statement of Responsibility

The Board members are responsible for the preparation, integrity and fair presentation of the financial statements and the related information included in this annual report.

In order for the Board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The Board has ultimate responsibility for the system of internal control and reviews its operation, primarily through the Audit Committee.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Board's policies and procedures. These controls are implemented by suitably trained, skilled personnel with an appropriate segregation of duties and are monitored by management. These controls include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework.

As part of the system of internal control, the Board's internal audit function, outsourced to SizweNtsaluba VSP, an accounting firm conducts the internal audit in accordance with the standards set by the Institute of Internal Auditors and co-ordinates audit coverage with the Auditor-General. The Auditor-General is responsible for auditing the financial statements.

The financial statements are prepared in accordance with the basis of preparation set out in the notes to the financial statements and the reporting requirements of the Public Finance Management Act no 1 of 1999, based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

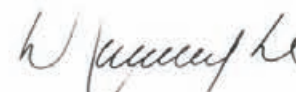
The Board has adopted the going concern basis in the preparation of the financial statements. An amount of R28 m for expenditure has been budgeted for the 2006/2007 financial year. However in terms of the 2005/2006 medium term expenditure framework adopted by **the dti**, an amount of R13 m has been allocated for funding of the Board's activities for the 2006/2007 financial year. The Board is in discussion with **the dti** to receive additional funding.

There were no events known by the Board after the reporting date that would affect the figures in the annual financial statements.

The financial statements for the year ended 31 March 2006 set out on pages 31 to 52 were approved by the Board on 23 June 2006 and are signed on its behalf by:



Chris Fisser
Chairperson



Thibedi Majake
Chief Executive Officer

Corporate Governance Report

The members of the Board and management recognise the need to conduct the business of the Board with integrity and in accordance with sound corporate governance practices and are therefore committed to the principles of openness, fairness, integrity and accountability.

The Board meets regularly and is responsible for the proper management, control, compliance and ethical behaviour of the business under its direction. The Board determines and monitors matters relating to the implementation and/or modification of policies, strategic plans, organisation's disposals, major capital expenditure, and operating and financial budgets. The Board subscribes fully to the principles embodied in appropriate international corporate governance codes.

Board

National Gambling Board is retained by the National Gambling Act, Act No. 7 of 2004. The Board is constituted by non executive members appointed by the Minister of Trade and Industry and it is the highest decision making body in the organisation. The composition of the Board is as follows: a non-executive Chairperson, non-executive members with the Chief Executive Officer (ex officio) being the only executive non - voting member.

The Board consists of men and women of integrity who bring a wealth of experience from different industries and backgrounds, which serves as a reservoir of knowledge to the Board.

The full Board sits every alternate month to deal with strategic issues pertinent to the business of the Board in pursuit of its mandate.

During the period under review, seven Board meetings were held at different dates. The names of the Board members are listed below.

Board members	Number of Meetings Attended
Mr CL Fismer (Chairperson)	7
Ms T Moja (Deputy Chairperson)	7
Ms A Ludin	7
Adv TN Aboobaker	4
Ms LJJ Kganyago	7
Asst. Comm. G Lebeya	5
Mr E Ramaite	1
Ms N Magomola	5
Mr V Masola	3
Adv TW Majake (ex officio)	7

In order to deliver on its mandate the Board established committees of the Board, comprising of both members of the Board and management, to monitor progress and ensure implementation of decisions. However all power and authority vests in the Board unless delegated in writing to any committee or executive manager.

Chairperson's Committee

The Chairperson's Committee comprises of four non-executive Board members and the Chief Executive Officer (no voting rights).

This committee is responsible for the implementation of strategies and policies of the Board. It assists the Chief Executive Officer, within his delegation of authority, to manage the business affairs of the Board. The committee also monitors the performance of senior management and serves as the remuneration committee of the Board. The Chairperson of the Board chairs this committee. During the year under review (2005/2006), it met six times on 20 May 2005, 20 July 2005, 22 August 2005, 30 September 2005, 25 November 2005 and 27 January 2006.

The names of the members are listed hereunder:

Names of the members	Number of Meetings Attended
Mr CL Fismer (Chairperson)	6
Ms T Moja	6
Ms N Magomola	4
Adv TN Aboobaker	4
Adv TW Majake	6

Human Resources Committee (HRCO)

The primary object of the HRCO is to develop and implement a competitive human resources strategy to ensure that the Board is able to attract, retain and develop the best possible talent to support superior business performance.

The Deputy Chairperson of the Board chairs this committee and she has two other members of the Board serving in the committee. During the year under review (2005/2006), the committee met five times, 24 May 2005, 4 July 2005, 26 October 2005, 23 November 2005, and 10 March 2006, respectively. The names of the members are listed hereunder:

Names of the Members	Number of Meetings Attended
Ms T Moja (Chairperson)	5
Ms LJN Kganyago	5
Asst. Comm. G Lebeya	2
Adv TW Majake	5
Mr DT Marasha	3
Ms VF Memani-Sedile	5
MS Burns (Acting COO)	1
Mr RT Mokoena	5

Audit Committee

The Audit Committee is constituted in terms of the requirements of sound corporate governance practices and operates within that framework. The names of the Committee members appear on the report of the Audit Committee.

The Committee comprises two independent members and two non-executive Board members and meets at least twice a year. Both external and internal auditors have unrestricted access to the Committee and attend meetings. The Chairperson of the Audit Committee is an independent member.

The role and responsibilities of the Committee are documented in the terms of reference for the Audit Committee. An important role of the Committee is to review the effective functioning of the internal audit and to ensure that the roles and functions of the external audit and the internal audit are sufficiently clarified and co-ordinated to provide an objective overview of the operational effectiveness of the Board's systems of internal control and reporting, avoiding duplication of work.

In terms of Treasury Regulation 27 the Audit Committee is also required to -

- Report and make recommendations to the Board on matters falling within its mandate;
- Report on the effectiveness of internal controls in the annual report; and
- Comment on its evaluation of the financial statements in the annual report.

The Committee's report on these matters is on page 28.

Tender Committee

There is an internal Tender Committee chaired by the Chief Financial Officer which assists the Board with evaluating and approving tenders above R200 000, for services and products required. The tender process is governed by the provisions of Public Finance Management Act, 1999 (Act No. 1 of 1999) and the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and Regulations issued thereunder.

Systems of Procurement, Financial and Risk Management

The Board also maintains effective, efficient and transparent systems of financial and risk management as well as an appropriate procurement system, which are fair, equitable, transparent, competitive and cost-effective.

Materiality Framework

The Board, for the period 1 April 2005 to 31 March 2006, determined a materiality figure of R225 400. 1% of the budgeted expenditure was used to determine this figure.

Material facts of a quantitative nature need to be disclosed if any fact discovered exceeds the materiality figure of R225 400. All losses of a quantitative nature need to be disclosed in the Annual Report and financial statements if they arose through irregular/fruitless/wasteful expenditure.

Material facts of a qualitative nature need to be disclosed if:

- Disclosure of the event/item is required by law; and
- The fact discovered could influence the decision or actions of the executive authority or legislature.

Any material losses arising through criminal conduct need to be disclosed.

Performance Report

The Board has made good progress in achieving its set objectives for the year despite considerable challenges encountered.

Factors beyond the control of the Board that hampered processes required to reach planned milestones were, among others, the following:

- Introduction of the new Gambling Act on which certain activities were dependent. Some of these activities are:
 - Introduction of uniform norms and standards.
- Introduction of internet gambling has been delayed once more in this financial year as the required amendments to the National Gambling Act, 1996 (Act No.33 of 1996) (the Act) to provide enabling provisions for the introduction of an internet gambling industry was only promulgated in November 2004. Although the new Act does not have a clause providing for the regulation of internet gambling, it does however clearly make it unlawful for any operator to provide Internet gambling to South Africans or for South Africans to participate in Internet gambling until the national legislation providing for Internet gambling has been passed.
- The assumptions relied upon by the central electronic monitoring systems (CEMS) operator in its tender, both with regard to the number of limited payout machines (LPMs) and the rollout timeframes, have proved to be overly optimistic. The number of LPMs and the rollout timeframes are the prerogatives of the Provincial Licensing Authorities (PLAs) and the Board has no control thereof. This has led to the slow rollout of LPMs.

These factors introduced uncertainties and constraints impacting not only on the staffing, but also on related operational activities. As a result, the degree to which strategic planning assumptions realised, introduced a number of variables, which made meaningful quantitative performance measurement impractical.

Objective	Key Performance Area	Achievement	Constraints
<p><i>Ensure the integrity of the gambling industry and public protection</i></p>	<ul style="list-style-type: none"> • Development and implementation of norms and standards. • Provide advice to the National Gambling Policy Council. • Constant interaction with stakeholders. • Provide a solution for treating and rehabilitating persons addicted to gambling. • Conduct economic impact studies in the provinces for the additional limited payout machines rolled out. 	<ul style="list-style-type: none"> • Norms and standards have been developed subject to approval by the Board. • Meetings of the National Gambling Policy Council took place and relevant advice was given. • Different fora were convened to interact with stakeholders. • The NRGF integrated research and monitoring, public education and awareness, training, treatment and counselling under the supervision of the SARGT and SAACREG. • No LPM quota was reached that requires a study before future implementation. 	<ul style="list-style-type: none"> • Database development has been put on hold by the Board subject to further direction by the consultants engaged to give expert guidance on the matter.
<p><i>Provide reliable information through the establishment and maintenance of national system</i></p>	<ul style="list-style-type: none"> • Establish and maintain a national probity and exclusion database. • Establish and maintain a machine registry database. 	<ul style="list-style-type: none"> • Ongoing consultation with consultants. 	<ul style="list-style-type: none"> • Database development has been put on hold by the Board subject to further direction by the consultants engaged to give expert guidance on the matter.

Objective	Key Performance Area	Achievement	Constraints
<p>Contribute towards providing accessible, transparent and sufficient access to redress for economic citizen</p>	<ul style="list-style-type: none"> Setting national licensing criteria for limited payout machine operators. Simplifying the processes of acquiring a national licence. 	<ul style="list-style-type: none"> The criteria was developed and approved by the Board. Amendments to the regulatory to simplify the process of renewing national licences have been submitted to the dti. 	
<p>Implementing and maintaining a central electronic monitoring system (CEMS) linking all the Limited Payout Machines (LPMs) in the Republic, to enable the introduction of an LPM industry and service the requirements of provincial licensing authorities (PLAs) and the Board on a national basis</p>	<ul style="list-style-type: none"> Rollout of the LPMs to: <ol style="list-style-type: none"> Limpopo - Sept 2005 North West - Jan 2007 Free State - March 2007 Northern Cape - March 2006 Gauteng - Feb 2005 KwaZulu - Natal Ensure compliance with the service level contract by service provider Zonke Monitoring Services (ZMS) on an ongoing basis. 	<ol style="list-style-type: none"> On track - issued Route Operator licences. On track - approved Route Operators and awaiting to issue licences. Policy still to be approved by MEC. PLA has not started with process yet. Socio-economic study completed and awaiting the go-ahead from provincial government. In the process of evaluating request for proposal for Route Operators. An audit of the CEMS has been completed and will be finalised in the next financial year. 	<ol style="list-style-type: none"> Decision by the provincial government and the Gauteng Gambling Board to take a decision when to implement the decision to rollout LPMs. Pending High Court case against KwaZulu-Natal Gambling Board.



Objective	Key Performance Area	Achievement	Constraints
<p>Providing reliable statistical and research material on an ongoing basis</p> <p>(a) National gambling statistics database</p>	<ul style="list-style-type: none"> Maintaining a database of primary information relating to all modes of gambling in South Africa. Updating the Gambling Information Resource Centre with relevant information. Redesigning the website Establishment and maintenance of a register of information on national licenses. 	<ul style="list-style-type: none"> Data received from PLAs for the 2005/06 year has been captured in database after collecting and correcting missing and incorrect information. Reports are published on a regular basis. An audit of the resource centre has been conducted. The redesigning of the website is in its final stage and the final product will be launched at the 4th Biennial Gambling Conference in April 2006. Register in existence 	<p>Data in some cases is:</p> <ul style="list-style-type: none"> not readily available in quarterly format; incomplete and incorrect; and not received timeously.
<p>(b) Research report on the socio-economic impact of legalised gambling</p>	<ul style="list-style-type: none"> Conducting research study and publishing the results on the socio- economic impact on legalised gambling. 	<ul style="list-style-type: none"> The field work has been completed and a draft report has been received. The final report will be launched at the 4th Biennial Gambling Conference in April 2006. 	
<p>(c) Monitoring the socio-economic patterns of the gambling activity in South Africa</p>	<ul style="list-style-type: none"> Monitor market share in the gambling industry. 	<ul style="list-style-type: none"> Tracking of local gambling trends in the printed and broadcast media and presentations to the Board. 	

Objective	Key Performance Area	Achievement	Constraints
<p>(d) Report on Black Economic Empowerment (BEE) in the gambling industry and decision whether to have a generic or an industry gambling charter</p>	<ul style="list-style-type: none"> • Compile a report on the status on BEE and to make recommendation on whether a generic charter or industry specific charter must be developed. 	<ul style="list-style-type: none"> • A report has been published, discussed with the stakeholders and has been submitted for consideration by the National Gambling Policy Council. • Regulators forwarded a position on the charter to the National Gambling Policy Council for further consideration and direction. 	
<p><i>Streamlining national probity investigations, licensing and other processes</i></p> <p>(a) Promoting a national uniform approach to self exclusions by persons with gambling problem from gambling establishments</p> <p>(b) Promoting a national uniform approach to probing and investigating gambling operator applicants</p>	<ul style="list-style-type: none"> • Development of the probity investigations and exclusion database. 	<ul style="list-style-type: none"> • The development of the system has been put on hold subject to advise from the consultant on the developments thus far. 	



Objective	Key Performance Area	Achievement	Constraints
<p><i>Establishing and maintaining a regulatory function to oversee internet gambling nationally</i></p>	<ul style="list-style-type: none"> Developing an Internet Gambling policy 	<ul style="list-style-type: none"> The committee has drafted the interactive gambling policy and it has been submitted to the dti, through the National Gambling Policy Council. Research on drafting Internet regulations has been done. Draft license conditions and technical guidelines aligned to SABS standards have been drawn up. 	<ul style="list-style-type: none"> <i>Promulgation of regulations and licensing of operators dependent upon the amendment of the National Gambling Act to provide for regulation of internet gambling.</i> <i>The document needs to be updated as it is outdated.</i>
<p><i>Holding a biennial national gambling conference to create public awareness, inform and educate local stakeholders of topical issues relating to the gambling industry</i></p>	<ul style="list-style-type: none"> Holding a biennial national gambling conference in April 2006 	<ul style="list-style-type: none"> A 4th biennial conference has been arranged and finalised to take place in April 2006 in Cape Town 	
<p><i>Increasing the effectiveness of National Inspectorate</i></p> <p>(a) Providing co-ordination, support, capacity and expertise in the eradication of crime and illegal gambling activities</p>	<ul style="list-style-type: none"> Assist PLAs in the eradication of illegal gambling 	<ul style="list-style-type: none"> Formulated a national working group with SAPS and National Prosecuting Authority (NPA) to monitor and oversee the eradication of illegal gambling in South Africa. 	

Objective	Key Performance Area	Achievement	Constraints
<p>Ensure that effective regulatory systems are implemented by provinces</p> <p>(b) Contribute towards economic growth and development of the African continent within NEPAD framework</p>	<ul style="list-style-type: none"> Collection of statistics on operations to shut down illegal gambling operations throughout the country Assistance to PLAs Provide gambling training seminars Monitoring compliance with Financial Intelligence Centre Act (FICA) Conduct compliance inspections over PLAs Participation in the Gambling Regulators African Forum (GRAF) for all gambling regulators on the African continent 	<p>The following successes were achieved (April 2005 - March 2006):</p> <ul style="list-style-type: none"> 990 illegal gambling operations were shut down. 1 803 illegal gambling machines and devices were confiscated. 46 illegal gambling tables were confiscated. 40 cases were successfully prosecuted. 365 illegal gambling machines and devices were destroyed after convictions. 3 illegal gambling tables were destroyed after convictions. Provided capacity and expertise on horseracing and betting. Seminars on best practices are arranged for all PLAs on a needs basis. Regular FICA inspections are conducted. Regular compliance inspections are conducted on PLAs on horseracing, betting and casino compliance. GRAF annual conference was successfully held in November 2005. SA appointed a permanent secretary of GRAF during conference held in November 2005. 	<ul style="list-style-type: none"> Disparities in gambling legislation in the provinces Lack of e-gaming laws Lack of deterrent sentences by our courts. The dissolution of the SAPS units dealing with gambling Lack of prioritisation of illegal gambling as a criminal offence by law enforcement agencies



Report of the Audit Committee

for the year ended 31 March 2006

We are pleased to present our report for the financial year ended 31 March 2006.

Audit Committee Members and Attendance

The audit committee consists of the members listed hereunder and meets at least twice per annum as per its approved terms of reference. The audit committee was also dissolved when the new Act was promulgated. A new audit committee was appointed on 26 April 2005. During the year under review (2005/2006), the Audit Committee met on 23 May 2005, 25 July 2005 and 15 March 2006 respectively.

Names of the Members	Number of Meetings Attended
Mr JFJ Scheepers (Chairperson)	3
Ms T Mahlali	3
Mr E Ramaite	2
Mr V Masola	2

Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51 (1) (a) of the PFMA and Treasury Regulation 27.1.10. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal control is effective as the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and management letter of the Auditor-General have not

reported any significant or material non compliance with prescribed policies and procedures.

The quality of management and monthly / quarterly reports submitted in terms of the PFMA

The Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Board during the year under review.

Evaluation of Financial Statements

The Audit Committee has:

- Reviewed and discussed with the Auditor-General and the Accounting Authority the audited annual financial statements to be included in the annual report;
- Reviewed the Auditor-General's management letter and management response;
- Reviewed changes in accounting policies and practices;
- Reviewed significant adjustments resulting from the audit.

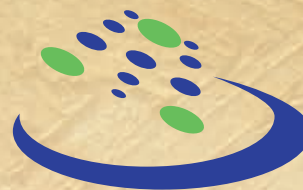
The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



Kobus Scheepers
Chairperson of the Audit Committee
Date: 19 July 2006

Report of the Auditor-General

for the year ended 31 March 2006



AUDITOR - GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL GAMBLING BOARD FOR THE YEAR ENDED 31 MARCH 2006

1. Audit Assignment

The financial statements as set out on pages 31 to 52, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 75 (2) of the National Gambling Act, 2004 (Act No. 7 of 2004). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Scope

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006 and *General Notice 808 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

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

3. Basis of Accounting

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1.1 to the financial statements.

4. Audit Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Gambling Board (Board) at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1.1 to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

5. Emphasis of Matter

Without qualifying the audit opinion, attention is drawn to the following matter:

5.1 Going concern

The Board has incurred a deficit of R6,706,147 during the financial year under review due to receiving lesser revenue than budgeted from the department of trade and industry (**the dti**) as well as utilising the accumulated cash reserves to fund current year's expenditure. It is uncertain at this stage if sufficient funding would be made available from **the dti** for the next financial year.

Further details in this regard are set out in the report of the accounting authority on page 34 of the annual report.

6. Appreciation

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



F Joubert for Auditor-General

Pretoria

31 July 2006



AUDITOR - GENERAL

Board Members' Report

for the year ended 31 March 2006

1. Introduction

The members of the National Gambling Board ("the Board") have pleasure in presenting their report for the year ended 31 March 2006. This report complements the financial statements and provides additional information and explanations relating to the operations and performance of the Board as well as relevant statutory information required in terms of the National Gambling Act, 2004 (Act No. 7 of 2004) ("the Act") and the Public Finance Management Act, 1999 (Act No. 1 of 1999) and Treasury Regulations there under.

2. Nature of Business

The Board has been established in terms of the Act for the regulation and co ordination of certain matters relating to casinos, horseracing, gambling and wagering and in particular for the promotion of uniform norms and standards applying generally throughout the Republic.

3. Objects and functions

1. The Board has the following powers and duties to be exercised and performed in accordance with the Act:

(a) Monitoring and investigating, when necessary, the issuing of national licences by provincial licensing authorities for compliance with the Act.

(b) Investigating, monitoring and evaluating compliance with the Act by provincial licensing authorities, entering into agreements with those authorities in respect of steps to be taken to correct any deficiencies, and making recommendations to the National Gambling Policy Council (the Council) in relation to such matters.

(c) Establishing and maintaining-

- (i) the national register of excluded persons;
- (ii) the national central electronic monitoring system;
- (iii) the national register of gambling machines and devices;
- (iv) a central registry of information; and
- (v) the national probity register.

(d) Monitoring socio-economic patterns of gambling activity within the Republic and in particular must research and identify factors relating to, and patterns, causes, and consequences of-

- (i) the socio-economic impact of gambling; and
- (ii) addictive or compulsive gambling.

(e) Evaluating-

- (i) the issuing of national licences by provincial licensing authorities; and
- (ii) the compliance monitoring of licensees by provincial licensing authorities.

(f) Conducting oversight evaluations of the performance of provincial licensing authorities, so as to ensure that the national norms and standards established by this Act are applied uniformly and consistently throughout the Republic.

(g) Assisting provincial licensing authorities to ensure that unlicensed gambling activities are detected.

(h) Exercising any other powers and performing any other duties assigned to it in terms of the Act.

2. The Board may-

(a) Advise the Gambling Policy Council (the Council) on the maximum number of any kind

of licences relating to casinos, horseracing, gambling and wagering that should be awarded in the Republic or in any particular province.

- (b) Advise the Council on matters of national policy relating to casinos, racing gambling and wagering and on the determination of national norms and standards regarding any matter in terms of the Act that should apply generally throughout the Republic.
 - (c) Recommend to the Council changes to bring about uniformity in the laws of the various provinces in relation to casinos, horseracing, gambling and wagering.
 - (d) Advise the Council, through the Minister of Trade and Industry, in respect of any matter referred to it by the Council.
 - (e) Monitor market share and market conduct in the gambling industry and refer any concerns regarding market share or possible prohibited practices to the Competition Commission in terms of the Competition Act, 1998 (Act No. 89 of 1998).
 - (f) Provide a broad-based public education programme about the risks and socio-economic impact of gambling.
3. The Board may liaise with any foreign or international authorities having any objects similar to the objects of the Board.

4. Key objectives for the year

In addition to various projects supporting the core functions of the Board, the following key objectives have been identified for the year under review -

- (a) Research and information gathering function
 - Providing reliable statistical and research material pertaining to the gambling industry on an ongoing basis.
- (b) Inspection function
 - Providing co-ordination, support, capacity and expertise in the eradication of crime and illegal gambling activities
 - Compliance oversight of CEMS operator
 - Establishment and maintenance of
 - national register of gambling machines/devices
 - national register of excluded persons
 - national probity register
 - national licences register
 - Investigating, monitoring and evaluating compliance with National Gambling Act.
- (c) Oversight function of the responsible gambling programme
 - Providing a solution for treating and rehabilitating persons who have become addicted to gambling, and to promote responsible gambling.
- (d) Central electronic monitoring and control (CEMS) service provider
 - Providing an electronic monitoring and control system and service for the Limited Payout Machine (LPM) industry on a national basis.
- (e) Internet/interactive gambling regulation function
 - Licensing and regulating Internet/interactive gambling on a national basis.
- (f) Function for monitoring socio-economic development.

- Promoting socio-economic development in the gambling industry through research and monitoring of the promotion of BEE and SMMEs.
- (g) Oversight function of national licences
- Monitoring and investigating issuance of national licences by PLAs.

5. Financial Performance

The financial results for the year as reflected in the attached income statement can be summarised as follows:

- (a) Transfers on budget allocation amounting to R12,3 million, (2005: R15,8 million) were received from **the dti**. Interest revenue of R371 530 (2005: R467 101) and other revenue totalling R56 758 (2005: R62 345) was also received.
- (b) Expenses as set out in the income statement amounted to R19,4 million (2005: R12,3 million) resulting in a deficit of R6,7 million (2005: R4,0 million surplus) for the year.
- (c) The results for the year were positively influenced by the delayed effect of filling staff vacancies, which resulted from a delay in certain

planned operations which depended on the new Act being promulgated, which made a material contribution to savings on the related budgeted expenses.

The accumulated surplus is reflected in the attached statement of changes in net assets. After adding/deducting the surplus/deficit for the year, the accumulated surplus of R10,3 million (2005: R6,3 million) brought forward from the previous year decreased to R3,6 million (2005: increased to R10,3 million) at the end of the year.

The financial position at the end of the year is reflected in the attached statement of financial position. Total assets with a book value of R6,1 million (2005: R11,6 million) is made up of furniture and equipment, computer hardware and a motor vehicle, amounting to R612 400 (2005: R604 940) , computer software amounting to R1,7 million (2005: R1,7 million) and current assets of R3,8 million (2005: R9,4 million). Total liabilities (all current) amounted to R2,5 million (2005: R1,4 million).

6. Capital Expenditure

Net capital expenditure on office furniture, office equipment, computer equipment and software amounted to R 342 340 (2005: R1,8 million).

7. Emoluments of Board and Executive members

The emoluments of Board and executive members for the year are as follows:

Emoluments : Board Members

Name	Board Allowance R'000	Travel Allowance R'000	Total Remuneration 2006 R'000	Board Allowance 2005 R'000
CL Fismer	414	1	415	380
T Moja	224	2	226	11
L Kganyago	47	3	50	11
TN Aboobaker	42	1	43	15
N Magomola	46	2	48	-
HM Tsengiwe	-	-	-	13
VRS Ngobe	-	-	-	5
Total			782	435

Emoluments : Senior Managers

Name	Basic Salary R'000	Pension R'000	Med. Aid R'000	Bonus R'000	Travel allow. R'000	Total Rem. 2005/6 R'000	Remun. 2004/5 R'000
TW Majake- CEO	513	90	22	57	162	844	784
VF Memani- CFO	457	71	17	42	72	659	568
DT Marasha- COO	359	62	42	34	74	571	-
Total						2 074	1 352

8. Going concern

The Board has adopted the going concern basis in the preparation of the financial statements. An amount of R28 m for expenditure has been budgeted for the 2006/2007 financial year. However in terms of the 2005/2006 medium term expenditure framework

adopted by **the dti**, an amount of R13 m has been allocated for funding of the Board's activities for the 2006/2007 financial year. The board is in discussion with **the dti** to receive additional funding.

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2006

Revenue	Notes	2005/06 R'000	2004/05 R'000
Transfers from government department	2.1	12 262	15 800
Other income	2.2	57	62
Total Revenue		12 319	15 862
Expenses			
Amortisation – software	3.1	13	25
Depreciation	3.2	294	243
Auditor's remuneration	3.3	195	76
Board and executive Members' remuneration	3.4	2 856	1 787
Professional and consulting fees	3.5	3 867	943
Personnel costs	3.6	7 331	5 802
Travelling and subsistence	3.7	1 658	1 131
Other Operating Expenses	3.8	1 018	1 237
Operating leases	3.9	2 145	1 089
Finance charges	3.10	19	6
Total Expenses		19 396	12 339
(Deficit)/Surplus from Operations		(7 077)	3 523
Interest income	4	371	467
(Deficit)/Surplus for the year		(6 706)	3 990

STATEMENT OF FINANCIAL POSITION

as at 31 March 2006

	Notes	2005/06 R'000	2004/05 R'000
ASSETS			
Current assets			
Accounts receivable and prepayments	5	721	443
Cash and cash equivalents	8	3 099	8 948
		<u>3 820</u>	<u>9 391</u>
Non-current assets			
Property, plant and equipment	6	612	605
Intangible Assets	7	1 654	1 652
		<u>2 266</u>	<u>2 257</u>
Total assets		<u>6 086</u>	<u>11 648</u>
LIABILITIES			
Current liabilities			
Trade and other payables	9	1 613	989
Provisions	11	798	252
Finance lease	9	26	26
		<u>2 437</u>	<u>1 267</u>
Non - current liabilities			
Finance lease	9	68	94
Total liabilities		<u>2 505</u>	<u>1 361</u>
NET ASSETS			
Accumulated surpluses		<u>3 581</u>	<u>10 287</u>

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2006

	Accumulated surpluses
	R'000
Balance at 1 April 2004	6 297
Net surplus for the year	<u>3 990</u>
Balance at 31 March 2005	10 287
Net deficit for the year	<u>(6 706)</u>
Balance at 31 March 2006	<u>3 581</u>

CASH FLOW STATEMENT

for the year ended 31 March 2006

	Notes	2005/06 R'000	2004/05 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Grants		12 262	15 800
Interest received	4	371	467
Other receipts		22	61
Payments			
Employee costs		(10 187)	(7 589)
Suppliers		(7 991)	(4 437)
Interest paid	3.10	(19)	(6)
Net cash flows from operating activities	12	(5 542)	4 236
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(327)	(456)
Proceeds from sale of property, plant and equipment		61	202
Purchase of intangible assets		(15)	(1 379)
Net cash flows from investing activities		(281)	(1 633)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment)/raising of lease liability		(26)	120
Net cash flows from financing activities		(26)	120
Net (decrease)/increase in cash and cash equivalents		(5 849)	2 723
Cash and cash equivalents at beginning of year		8 948	6 225
Cash and cash equivalents at end of year	8	3 099	8 948

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

1 ACCOUNTING POLICIES

The annual financial statements have been prepared on the historical cost basis and include the following principal accounting policies of the National Gambling Board which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated:

1.1 Basis of preparation

The financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements.

The implementation of GRAP 1,2 & 3 has resulted in the following changes of terminology in the presentation of the financial statements:

1.1.1. Terminology differences:

Standard of GRAP	Replaced Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Reporting date	Balance sheet date

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

1.1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.1.3. Specific information such as:

- (a) receivables from non-exchange transactions, including taxes and transfers;
- (b) taxes and transfers payable; and
- (c) trade and other payables from non-exchange transactions; must be presented separately on the statement of financial position.

1.1.4. The amount and nature of any restrictions on cash balances is required to be disclosed.

Paragraph 11 - 15 of GRAP1 has not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

1.2 Presentation currency

These financial statements are presented in South African Rands since that is the currency in which the majority of the National Gambling Board transactions are denominated.

1.3 Revenue recognition

Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the National Gambling Board (Board).

Revenue comprises budget allocations for the activities of the Board provided for in the budget of the Department of Trade and Industry (**the dti**) as transfer payments, fees in terms of central electronic monitoring

system (CEMS) operator contract, interest income and other non-operating income.

Budget allocations are recognised as revenue when it is probable that such funds will accrue to the Board. CEMS contract fees and other non-operating income are recognised on an accrual basis.

Interest is recognized on a time proportion basis, taking account of the principal amount outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Board.

1.4 Irregular and fruitless and wasteful expenditure

In terms of section 55(2)(b)(i) of the Public Finance Management Act, 1999 the financial statements must include particulars of any irregular and fruitless and wasteful expenditure.

All irregular and fruitless and wasteful expenditure is charged against income in the period in which they are incurred.

1.5 Property, plant and equipment

All property, plant and equipment are initially recorded at cost. Assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses and are written off over the estimated useful life of the asset.

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

Furniture and office equipment	5 years
Computer equipment	3 years
Motor vehicle	5 years
Leased assets	15 years

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Where the cost of an asset is less than R1 000 that asset is expensed immediately.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in or charged against income.

1.6 Intangible assets

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with identifiable software products controlled by the Board and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Intangible assets are stated at historical cost less accumulated amortisation and are written off over a period of three years on the straight-line method. Expenditure that enhances or extends the performance of computer software programs beyond their original specifications is recognised as a new acquisition. Purchased software is capitalised on purchase and in house developed software is capitalised as costs are incurred and only amortised once it is fully developed.

1.7 Impairment

At each reporting date, the Board reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in

order to determine the extent of the impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognised as an expense.

1.8 Leased assets

Leases of assets are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as assets at their fair value at the inception of the lease or if lower at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the statement of financial performance.

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straightline basis over the term of the relevant lease.

1.9 Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, receivables and trade payables. These financial instruments are generally carried at their estimated fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

Recognition

Financial instruments are initially recognised using the trade date accounting method.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Accounts payable

Accounts payable are stated at amortised cost, comprising original debt less principal payments.

Cash and cash equivalents

Cash and cash equivalents are measured at realisable value.

Gains and losses

Gains and losses arising from a change in the fair value of financial instruments are included in net surplus or deficit in the period in which they arise.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Board has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Credit Risk Management

Potential concentrations of credit risk consist mainly of accounts receivable and cash and cash equivalents.

The Board places its cash and short term deposits with well established financial institutions of high quality credit standing.

Credit risk with respect to accounts receivable is limited due to the nature of the Board's business and

its reliance on government grant as the main source of funding.

Interest Rate Risk Management

The Board manages its interest rate risk by investing in current and short term deposits accounts. These accounts are held with well established financial institutions of high quality credit standing and the accounts bear interest at prevailing market rates.

Fair Value

The carrying amounts of financial assets and liabilities approximate their fair values at 31 March 2006 due to the short term maturities of these assets and liabilities.

1.10 Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. Gains and losses arising on translation are credited to or charged against income.

1.11 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.12 Employee benefits

Short term employee benefits

The cost of all short term employee benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to wages, salaries, and annual leave represent the amount which the Board has a present obligation to pay as a result of employees' services provided at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

1.13 Retirement benefits

The Board contributes to a defined contribution fund of which the contributions are charged against income as incurred.

1.14 Comparative figures

Where necessary comparative figures have been adjusted to conform to changes in presentation in the current year.

1.15 Taxation

The Board's income is exempt from taxation in terms of Section 10 (1) (cA) (i) of the Income Tax Act.

	2005/06 R'000	2004/05 R'000
2 REVENUE		
2.1 Grants, receipts and transfers		
National Departments - Department of Trade and Industry	12 262	15 800
Total	<u>12 262</u>	<u>15 800</u>
2.2 Other income		
Profit on disposal of equipment	35	61
Other	22	1
Total	<u>57</u>	<u>62</u>
3 EXPENSES		
3.1 Amortisation of intangibles		
Computer software Licensed	13	25
Total	<u>13</u>	<u>25</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

	2005/06 R'000	2004/05 R'000
3.2 Depreciation		
- Furniture and office equipment - owned	33	79
- Computer equipment - owned	203	143
- Motor vehicle - owned	32	12
- Leased office equipment	26	9
Total	294	243
3.3 Auditors' remuneration		
- Audit fees	195	76
3.4 Board and executive members' remuneration		
Board members' remuneration		
Mr CL Fisser	415	380
Ms T Moja	226	11
Ms LJN Kganyago	50	11
Adv TN Aboobaker	43	15
Ms N Magomola	48	-
Mr VRS Ngobe	-	5
Mr HM Tsengiwe	-	13
	782	435
Chief Executive Officer - Adv TW Majake	844	784
Chief Financial Officer - Ms VF Memani-Sedile	659	568
Chief Operations Officer - Mr T Marasha	571	-
Total	2 856	1 787
3.5 Professional and consulting fees		
Legal fees	1 080	(204)
Research	1 165	713
CEMS	47	44
Internet gambling	541	-
Other consulting fees	653	-
Internal auditors' fees	271	94
Probity investigations for new appointments	3	15
Audit committee fees	13	11
Organisational structure review	28	27
Human resources and disciplinary processes	63	128
Miscellaneous	3	115
Total	3 867	943

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

	2005/06 R'000	2004/05 R'000
3.6 Personnel costs		
Wages and salaries		
Salaries, bonuses and overtime - excluding CEO& CFO	5 904	4 828
Contract and temporary staff	115	103
Leave encashment	243	165
Other non-pensionable allowance - cellphone	142	112
UIF	44	35
Insurance & administration of the provident fund	220	198
Other salary related costs	663	361
Total	7 331	5 802
3.7 Travel and subsistence		
Travel and subsistence - local	634	687
Travel and subsistence - overseas	1 024	444
Total	1 658	1 131
3.8 Other operating expenses		
Communication costs	165	355
Conference, forum and workshop expenses	253	489
Administrative expenses	444	288
Maintenance, repairs and running costs	29	85
Other 127	19	
Total	1 018	1 236
3.9 Operating leases		
Current year		
- Premises	2 145	1 089
Total	2 145	1 089
The future minimum lease payments under non-cancellable operating leases for the Board's offices are as follows:		
Within 1 year	1 035	883
1 to 5 years	4 795	5 592
Thereafter	19 276	-
	25 106	6 475

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

There was no signed agreement between the Board and **the dti**, therefore the lease payments were based on the budgeted amounts.

The National Gambling Board has subsequent to year end entered into a lease agreement with the lessors of its new premises for a period of 15 years

	2005/06 R'000	2004/05 R'000
3.10 Finance charges		
Interest paid - finance lease	19	6
	<hr/>	<hr/>
4 INTEREST INCOME		
Bank deposits - ABSA and Corporation for Public Deposits	371	467
Total	<hr/> 371 <hr/>	<hr/> 467 <hr/>
5 ACCOUNTS RECEIVABLE AND PREPAYMENTS		
VAT receivable	-	310
Accrued interest	-	1
Deposits and payments in advance	659	88
Other receivables	62	44
Total	<hr/> 721 <hr/>	<hr/> 443 <hr/>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

6 PROPERTY, PLANT AND EQUIPMENT

	Office equipment (leased) R'000	Furniture and office equipment R'000	Computer equipment R'000	Motor vehicle R'000	Total R'000
Year ended 31/3/2005					
Net book value 1 April 2004	-	304	217	12	533
Cost or valuation	-	942	973	68	1 983
Accumulated depreciation	-	(638)	(756)	(56)	(1 450)
Additions	129	-	327	-	456
Disposals	-	(139)	(2)	-	(141)
Cost or valuation	-	(631)	(302)	-	(933)
Accumulated depreciation	-	492	300	-	792
Depreciation charge	(9)	(79)	(143)	(12)	(243)
Cost or valuation	129	311	998	68	1 506
Accumulated depreciation	(9)	(225)	(599)	(68)	(901)
Net carrying amount 31 March 2005	120	86	399	-	605
Year ended 31/3/2006					
Net book value 1 April 2005	120	86	399	-	605
Cost or valuation	129	311	998	68	1 506
Accumulated depreciation	(9)	(225)	(599)	(68)	(901)
Additions	-	22	132	173	327
Disposals	-	(11)	(15)	-	(26)
Cost or valuation	-	(47)	(165)	(68)	(280)
Accumulated depreciation	-	36	150	68	254
Depreciation charge	(26)	(33)	(203)	(32)	(294)
Cost or valuation	129	286	965	173	1 553
Accumulated depreciation	(35)	(222)	(652)	(32)	(941)
Net carrying amount 31 March 2006	94	64	313	141	612

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

7 INTANGIBLE ASSETS

	Internally generated	Computer software licensed	Total
	R'000	R'000	R'000
Year ended 31/3/2005			
Net book value 1 April 2004	260	38	298
Cost or valuation	260	243	503
Accumulated amortisation	-	(205)	(205)
Additions	1 376	3	1 379
Disposals	-	-	-
Cost or valuation	-	-	-
Accumulated amortisation	-	-	-
Amortisation	-	(25)	(25)
Cost or valuation	1 636	246	1 882
Accumulated amortisation	-	(230)	(230)
Net carrying amount 31 March 2005	1 636	16	1 652
Year ended 31/3/2006			
Net book value 1 April 2005	1 636	16	1 652
Cost or valuation	1 636	246	1 882
Accumulated amortisation	-	(230)	(230)
Additions	-	15	15
Disposals	-	-	-
Cost or valuation	-	(104)	(104)
Accumulated amortisation	-	104	104
Amortisation	-	(13)	(13)
Cost or valuation	1 636	157	1 793
Accumulated amortisation	-	(139)	(139)
Net carrying amount 31 March 2006	1 636	18	1 654

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

8 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash and short-term, highly liquid investments that are held with registered banking institutions with maturities of three months or less which are subject to insignificant interest rate risk.

	2005/06 R'000	2004/05 R'000
Cash and cash equivalents		
Cash at bank	37	63
Cash on hand	2	2
Short term investments	3 060	8 883
Total	3 099	8 948

The effective interest rate on short term bank deposits was 6.3% (2005: 4%) and these deposits have an average maturity of 32 days.

9 TRADE AND OTHER PAYABLES

Trade creditors and accruals	1 613	989
Total	1 613	989

FINANCE LEASE COMMITMENTS

The Board is leasing a photocopier on a finance lease and there is no restrictions imposed on the Board in terms of this lease.

The obligation under the finance lease is secured by the lessor's title to the leased asset.

Total future lease payments	163	208
Future finance charges	(69)	(88)
	94	120
Up to 1 year	26	26
2 to 5 years	68	94
Present value	94	120

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

10 RETROSPECTIVE RESTATEMENT OF ERROR

During 2006 the entity discovered that a finance lease liability in terms of a finance lease agreement was incorrectly treated as an operating lease in 2005.

The comparative figures have been restated to correct this error. The effect of the restatement on the financials is summarised below:

	(2004/05) R'000
Decrease in operating lease payments	(15)
Increase in depreciation	9
Increase in interest paid	6
Decrease in 2004/05 surplus	-
	<hr/>
Increase in office furniture and equipment - carrying amount	120
Increase in finance lease liability	(120)
Decrease in 2004/05 net assets	-
	<hr/> <hr/>

11 PROVISIONS

	Performance bonuses R'000	Leave pay R'000	Legal costs R'000	Total R'000
Opening balance - 01 April 2004	-	199	400	599
Additional provisions and adjustments	-	8	(355)	(347)
Utilisation of provision	-	-	-	-
Closing balance - 31 March 2005	<hr/> -	<hr/> 207	<hr/> 45	<hr/> 252
Opening balance - 01 April 2005	-	207	45	252
Additional provisions and adjustments	537	55	(45)	547
Utilisation of provision	-	-	-	-
Closing balance - 31 March 2006	<hr/> 537	<hr/> 262	<hr/> -	<hr/> 799

The leave pay provision relates to an estimation of the liability that arises from services rendered by employees and is calculated at current salary rates.

National Gambling Board

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

	2005/06 R'000	2004/05 R'000
12 NET CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficit)/surplus	(6 706)	3 990
Non cash movements		
Depreciation	294	243
Amortisation	13	25
Increase/(decrease) in payables	578	(301)
Increase in provisions relating to employee cost	592	8
Gains on sale of property, plant and equipment	(35)	(61)
(Increase)/decrease in receivables	(278)	332
	(5 542)	4 236

13 RELATED PARTIES

The Board entered into the following transactions with related parties:

Department of Trade and Industry (**the dti**)

Grant received from the dti	12 262	15 800
Payments to the dti for the financial year		
- Office rental	1 770	341
- Diginet line	23	-
- Telephone	90	-
- Parking	19	-

14 LOSSES

Other losses written off	21	21
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Total	21	21
2006	21	21

Normal operational losses totalling R21 thousand were written off during the year under review.

15 IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

Irregular expenditure arose as a result of leases being entered into where substantially all the risks and rewards incidental to ownership were transferred to the Board. This is synonymous with the definition of a finance lease as defined in South African Statements of Generally Accepted Accounting

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2006

Practice IAS17 - Leases and Treasury Regulation
32.2.2.

In accordance with Treasury Regulation 32.2.5(b) finance leases can only be entered into with prior approval of the Minister of Finance. The intention of management was to acquire the use of an asset for an agreed period of time through the payment of a series of rentals, and not to contravene Treasury Regulations or the Public Finance Management Act. As a result no individual can be held liable for the incurrence of the irregular expenditure.

	2005/06 R'000	2004/05 R'000
16 NON-CAPITAL COMMITMENTS		
Other		
The Board had the following contractual commitments at year-end:		
Obligation to host a national conference during April 2006 in Cape Town	236	-
17 CAPITAL COMMITMENTS		
Contracted commitment existed in respect of the National Database	400	1 277

Retirement benefits

Retirement benefits are provided for through the Board's Provident fund, which functions as a defined contribution fund and is subject to the provisions of the Pension Funds Act, 1956. Membership is compulsory for all permanent staff.

The Fund is registered as an umbrella fund, managed by Alexander Forbes and offers individual investment choice to all members.

18 CONTINGENT LIABILITIES

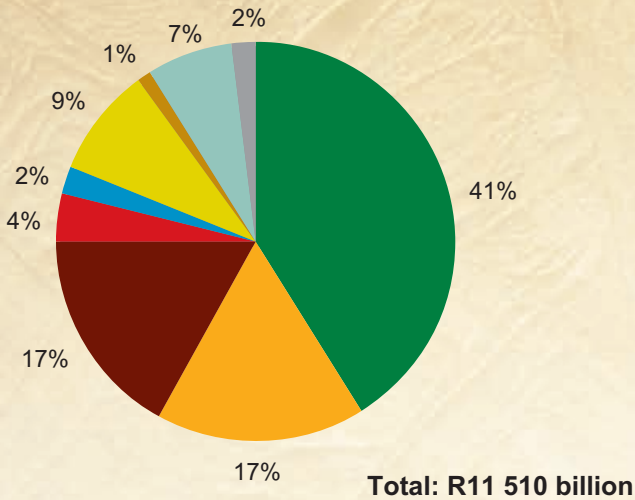
A possible loss might arise should the Board lose in pending cases at year end to the amount of R450 000.

19 ACCUMULATED SURPLUS

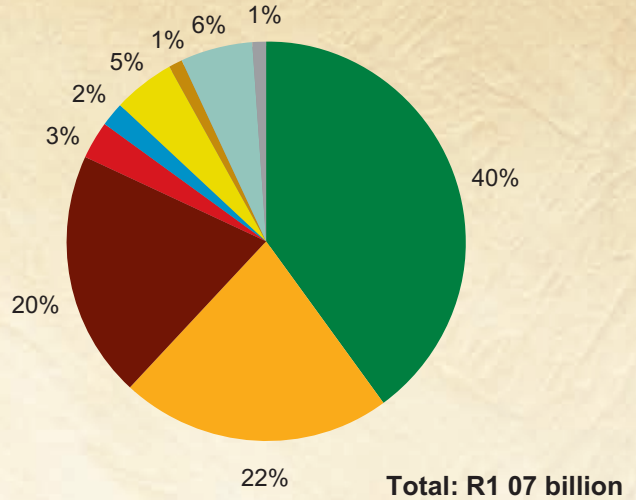
The accumulated surplus is made up of funds for which approval has been granted by National Treasury to retain for purposes of funding commitments at year end and to supplement funding of the budget for 2006/2007.

Statistics

Gross Gambling Revenue per Province - All Modes

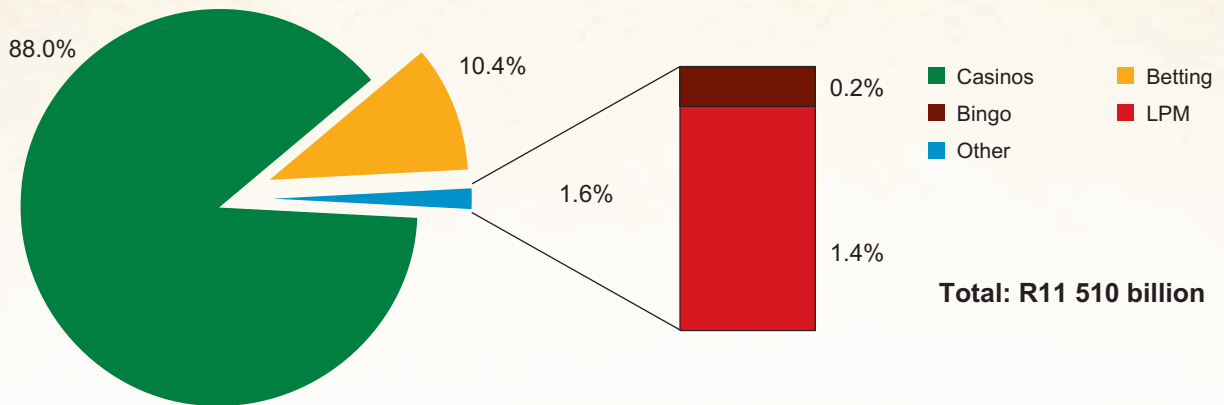


Gambling Tax/Levy Contribution per Province - All Modes

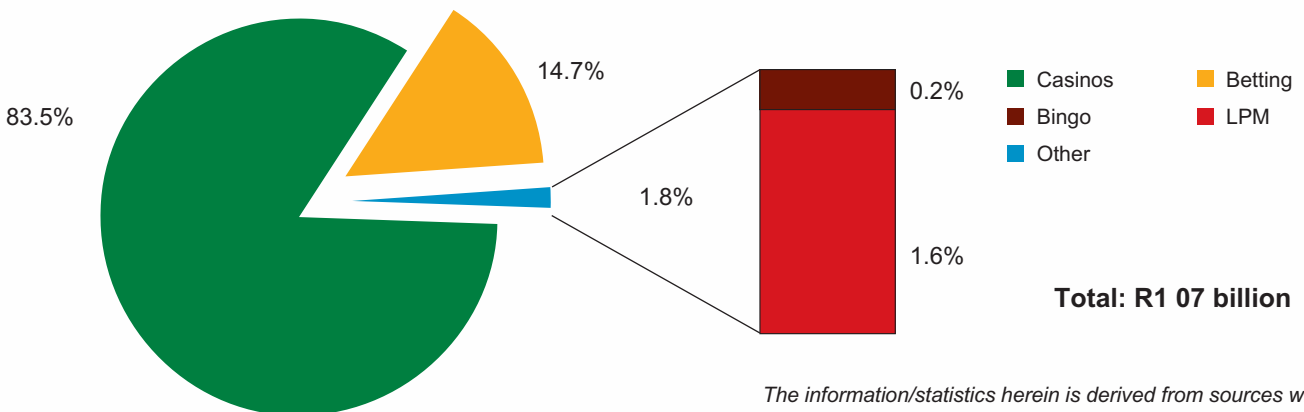


- Gauteng
- W Cape
- KZN
- Mpumalanga
- Limpopo
- N West
- N Cape
- E Cape
- F State

Gross Gambling Revenue per Gambling mode - All Modes



Gross Tax/Levy Contribution per Gambling mode - All Modes



The information/statistics herein is derived from sources which are regarded as accurate and reliable and the National Gambling Board does not guarantee the accuracy and/or completeness of the said information/statistics



Casinos in the Republic of South Africa

PROVINCE	AREA	LOCATION	NAME OF RESORT	DATE OPENED	CASINO OPERATOR	MANAGEMENT CO.	TOTAL CAPITAL INVESTMENT (R000)	TEMPORARY or PENDING Slots	Tables	PERMANENT CASINOS Slots	Tables	CURRENT STATUS MARCH 2006	
1	Eastern Cape	Port Elizabeth	The Boardwalk	Oct-00	Emfuleni Resort	Sun Inter. Management	560,000			745	22	Permanent casino - Feb 01	
2	Eastern Cape	East London	Hemingways Casino	Sep-01	Tsogo Sun Emontli	Tsogo Sun Management Co.	222,000			400	12	Permanent casino - Mar 02	
3	Eastern Cape	Queenstown										No licence issued	
4	Eastern Cape	Umtata										No licence issued	
5	Eastern Cape	Bizana	Wild Coast Sun	Dec-81	Transkei Sun Int.	Sun Inter. Management	312,836			438	16	Existing operation - opened Dec 81. New licence issued Oct 99	
6	Free State	Southern Region (Bloemfontein)	Naledi Sun	May-99	Sun International	Sun Inter. Management	3,360			160	0	Casino has to be closed	
7	Free State	Southern Region (Bloemfontein)	Windmill Casino	Oct-05	Mangungu Sun (Pty)Ltd	Sun Inter. Management	187,954			258	11	Permanent casino - Oct 05	
8	Free State	Welkom	Goldfields Casino & Entertainment Centre	Dec-05	Goldfields Casino & Entertainment Centre	GoldReef Management	91,000	226	6	250	9	Temporary Casino - May 03 - Expansion to be completed in Sept. 06	
9	Free State	Eastern Region (Bethlehem)	Frontier Inn & Casino		Incticorp (Pty)Ltd	Peermont Global Limited		120	8	250	17	License issued - May 03 - Scheduled to open in Nov. 06	
10	Gauteng	Fourways	Montecasino	Sep-98	Tsogo Sun Casinos	Tsogo Sun Management Co.	1,917,000			1700	70	Permanent casino - Nov 00	
11	Gauteng	Golf Reef City	Gold Reef City	Nov-98	Akani Egoli	Akani Egoli Management	1,000,000			1600	50	Permanent casino - Mar 00	
12	Gauteng	Vanderbijlpark	Emerald Safari Resort	Nov-98	Emerald Casino	London Clubs Int	600,000			660	23	Permanent casino - May 01	
13	Gauteng	Kempton Park	Emperors Palace	Dec-98	Peermont Global	Peermont Global	1,240,000	1500	50	1640	67	Permanent casino - Sept 99	
14	Gauteng	Brakpan	Carnival City	Dec-98	Afison Gauteng	East Rand Management	860,000			1750	60	Permanent casino - Oct 99	
15	Gauteng	Mabopane	Monula Sun	Jun-87	Sun International	Sun Inter. Management	123,000			510	13	Existing operation	
16	Gauteng	West Rand			Silver Star Development Ltd	Sun Inter. Management						License awarded pending issuance by the Gauteng Gambling Board	
17	KwaZulu-Natal	Greater Durban (Village Green)	Suncoast Casino & Entertainment	Nov-02	Tsogo Sun KZN	Tsogo Sun Management Co.	1,400,000	1250	50			Temporary casino - Nov 02	
18	KwaZulu-Natal	North Durban (Mt Edgecombe)	Sibaya Resorts	Feb-01	Afison KZN	Sun Inter. Management	798,969			979	37	Temporary casino - Feb 01 (SugarMill) Temp Licence (Sibaya) Await Lodge	
19	KwaZulu-Natal	North Coast (Empangeni)	Tusk Umfolozi Casino	May-02	Emanzini Leisure Resorts	Tusk Casino & Hotel Management (Pty) Ltd.	81,300	300	10			Temporary casino - May 02	
20	KwaZulu-Natal	Northern Natal (Newcastle)	Monte Vista Casino & Resort	Sep-99	Balele Leisure	Winlen Casino Operators	624,000	200	7	450	22	Temporary casino - Sept 99	
21	KwaZulu-Natal	Natal Midlands (Pietermaritzburg)	Golden Horse Casino	Sep-01	Akani Msunduzi	Akani Msunduzi	240,000					Permanent casino - Sept 01	
22	Mpumalanga	Witbank	Champions Casino	Mar-98	Tsogo Sun Casinos	Tsogo Sun Management Co.	205,000			360	12	Permanent casino - Sept 02	
23	Mpumalanga	Secunda	Graceland Hotel, Casino & Co.	Oct-97	Peermont Global (SH)	Peermont Global Limited	249,000	378	16	378	16	Permanent casino - July 98	
24	Mpumalanga	Nelspruit	Emnotweni Casino	Oct-97	Tsogo Sun Casinos	Tsogo Sun Management Co.	170,000			323	11	Permanent casino - Nov 99	
25	Mpumalanga	Pilgrims Rest/Lydenburg /Bushbuck										No licence issued	
26	Limpopo	Pietermaritzburg	Meropa Casino & Entertainment World	Mar-05	Meropa Leisure and Entertainment (Pty) Ltd	Sun Inter. Management	208,000			324	12	Permanent casino - Mar 02	
27	Limpopo											No licence issued	
28	Limpopo	Thohoyandou	Tusk Venda Casino Hotel	Jul-85	Tusk Resorts	Tusk Casino & Hotel Management (Pty) Ltd.	81,900			123	6	Existing operation - Sun Int sold to Tusk Jan 01	
29	Northern Cape	Kimberley	Fleming	Mar-02	Teemane	Sun Inter. Management	17,404	145	7	225	9	Permanent casino - Mar 02	
30	Northern Cape	Upington	Desert Palace Hotel Resort	Jun-00	Desert Palace	Kairo Management Co.	38,000			145	7	Temporary casino - June 00	
31	Northern Cape											No licence issued	
32	North West	Mmabatho	Tusk Mmabatho Casino Resort	Dec-78	Tusk Resorts	Tusk Casino & Hotel Management (Pty) Ltd.	217,100			8	155	Sun International sold to Tusk Resorts - Jan 99	
33	North West	Planesberg	Sun City	Dec-79	Sun International	Sun Inter. Management	1,800,000			602	38	Existing operation	
34	North West	Klerksdorp	Tusk Rio Casino Resort	Sep-04	Tusk Resorts	Tusk Casino & Hotel Management (Pty) Ltd	82,000	241	11			Sun Int sold to Tusk Resorts - Jan 99 Transferred the licence to Klerksdorp Sept 05	
35	North West	Hammenkraal	Carousel	Nov-91	Sun International	Sun Inter. Management	305,000			700	20	Existing operation	
36	Western Cape	Cape Metropole (Goodwood)	GrandWest	Dec-00	Sun West Int.	Sun Inter. Management	1,520,000			1774	62	Permanent Casino - Dec '00	
37	Western Cape	Southern Cape (Mossel Bay)	Garden Route Casino	Dec-02	Garden Route Casino	Gold Reef Management	130,000			312	13	Permanent casino - Dec 02	
38	Western Cape	Breedee River	Worcester									No licence issued	
39	Western Cape	Overberg	The Caledon Hotel, Spa & Casino	Oct-00	Century Casinos	Century Casino Inc	122,910			300	10	Permanent casino - Oct 00	
40	Western Cape	West Coast	Club Mykonos	Nov-00	Caledon (Pty)Ltd	Gold Reef Management	66,000			262	9	Permanent casino - Oct 00	
Total							15,475,733	4,360	165	17,626	809		
SUMMARY							13,945,733	4,360	165	17,314	796		
Casinos operating							1,530,000	0	0	312	13		
Casinos not operating													
Total							15,475,733	4,360	165	17,626	809		

Casino currently operating
Effective date 30 March 2006

Illegal Gambling Statistics

PROVINCIAL LICENCING AUTHORITY	KZN	GAUTENG	FREE STATE	NORTH WEST	NORTHERN CAPE	LIMPOPO CAPE	EASTERN CAPE	WESTERN	MPUMALANGA	TOTAL
Number of raids/closure	125	65	24	20	18	206	8	15	7	488
Number of raids (fahfee)	0	0	0	0	0	151	7	0	0	158
Confiscated gambling machines	283	207	48	886	48	4	22	65	9	1572
Confiscated gambling tables	0	7	0	6	0	0	0	3	0	16
Confiscated computer devices	0	0	0	0	0	0	33	0	1	34
Case convictions	0	1	0	6	3	39	1	0	1	51
Acquittals	0	0	0	0	0	1	0	0	0	1
Admission of guilt	96	50	24	0	1	14	2	8	5	200
Withdrawals	0	0	0	0	1	0	21	2	0	24
Forfeited gambling machines	231	76	48	598	12	4	32	34	9	1044
Forfeited gambling tables	0	7	0	4	0	0	0	3	0	14
Forfeited computer devices	0	0	0	0	0	0	0	0	1	1
Returned gambling machines	0	0	0	0	0	0	0	2	0	2
Returned gambling tables	0	0	0	0	0	0	0	0	0	0
Returned computer devices	0	0	0	0	0	0	0	0	0	0
Destroyed gambling machine	257	0	75	0	40	4	0	2	30	408
Destroyed gambling tables	0	0	0	0	0	0	0	3	0	3

Administration

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Adv TW Majake

Chief Financial Officer:

Ms VF Memani-Sedile

Chief Operations Officer:

Mr DT Marasha

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