



FREE STATE GAMBLING AND RACING BOARD

Incorporated in terms of the Free State Gambling and Racing Act, 1996 (No. 6 of 1996)

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FREE STATE GAMBLING AND RACING BOARD



CHAIRPERSON'S STATEMENT

The achievements of the Board for the year ended under review are dealt within the Report of the Board on pages 3 to 8.

The Board operates in a dynamic environment where regulation has to keep pace with developments on different fronts such as:

- Public perception and expectation.
- Economic factors.
- Technological advances.
- Globalisation of the gambling industry.

The fast changing environment poses the following challenges:

- Ensuring a regulator environment that satisfies legitimate public expectation and takes cognisance of the public's perceptions of gambling.
- Maximisation of the benefits to be derived from gambling in adverse economic circumstances.
- Staying abreast with technological developments and international regulator best practices.

The Board will continue to engage its stakeholders in dealing with these challenges.

I would like to express my gratitude to the Acting Chief Executive Officer, staff and to fellow board members for their loyalty, commitment and support.

JS MOKOKA
CHAIRPERSON

FREE STATE GAMBLING AND RACING BOARD



REPORT OF THE BOARD

Incorporated in terms of the Free State Gambling and Racing Act 6 of 1996.

Incorporation, Functions and Powers

The Free State Gambling and Racing Board is a statutory body established in terms of act 6 of 1996. The term of the previous Board expired on 18 March 2001. Appointment of the Board in terms of section 4 of the Free State Gambling and Racing Act, 1996 (Act no 6 of 1996) was finalised and members took office from 25 July 2002 for a period of two years.

Board members are the following:

- JS Mokoka Chairperson
- ME Ratsomo Acting CEO
- DF Strauss
- MR Hlangu
- MH Scholtz
- MM Leeuw (Me)
- NNN Ngombane

The main functions of the Board are to:

Oversee and control gambling activities in Free State region, including:

- Licensing of individual and entities to conduct gambling and related activities.
- Registering of persons engaged in such activities.
- Registering of gambling devices.
- Collecting prescribed taxes and levies for Free State Province and other specified beneficiaries.
- Ensuring compliance with all legislation in connection with gambling activities.

In order to fulfil its mandate, the Board established Board committees to ensure continuity through a spread of workload as well as to reduce a need for too many board meetings. Through the work of these committees, the Board approved staff policies and control measurers to enhance the quality and reliability of the work performed.

Casino Applications

When the Board was appointed, there were three casino applications for zones 2,3 and 4. The Board continues with the assessment of the applications. However, adjudication of the said applications which was due, to take place on 14 March 2003 was postponed to be finalised in May 2003.

During the process, a court case which was instituted against the Board to declare the licensing process null and void, was dismissed with costs.

FREE STATE GAMBLING AND RACING BOARD



REPORT OF THE BOARD

General overview

The following is a brief overview of activities and achievements of the Board during the year under review:

Casinos

Levies from Casinos collected during the period under review amounted to R 3,303,411 in comparison with R 3,490,127 for previous year. The collection of levies was from two existing casinos, Naledi Sun and Thaba Nchu Sun. The operating profile of these casinos can be summarised as follows:

Casino name	No of gambling machines	No of tables
Naledi Sun	112	0
Thabu Nchu Sun	187	10
Total	299	10

Horseracing and Betting

Since the Board took over the function of regulating horseracing and betting from the Gauteng Gambling Board this division has grown and made significant progress in the regulating and auditing of Bookmakers.

Horseracing and betting levies for the financial year decreased with R 186 993 in comparison with the previous year. Horseracing levies contributed a total of 51.8% of the total revenue totalling R4,989,147 for the financial year under review. The decrease can mainly be attributed to a global decreasing trend in the horseracing industry.

Limited Payout Machine Licences LPMs (Section 32 licences)

The Free State Province has been awarded 4000 Limited Payout Machines (LPMs) to be distributed all over the Province. After consultation with the public and other stakeholders, the Board approved the policy Limited Payout Machines. This policy has been presented before the Responsible Member for approval before implementation.

Bingo Operator Licences (Section 33 licences)

Bingo operators are in many ways related to the issue of LPMs as many of these licence holders would also like to operate the LPMs in their premises. After consultation with the public and other stakeholders, the Board approved the Bingo policy to be implemented in the Province. This policy has been presented before the Responsible Member for approval before implementation.

Board's Infrastructure

The Board has implemented a management systems during the period under review. Enormous effort and financial resource were used to ensure that a complete, transparent and accountable systems were in place. The management system includes an all inclusive financial system, asset register, payroll and human resource policies. These systems have contributed to address the previous audit report's qualifications.

FREE STATE GAMBLING AND RACING BOARD



REPORT OF THE BOARD

Board Premises

The Board premises remains unresolved. Other possible premises have been investigated by the Board, as the current premises are not suitable due to the expansion of operations. The Board has made provision for relocation and related expenditure, as well as the implementation of an integrated security system and upgraded network in the new premises.

Human Resources

The Board remains committed to the development and empowerment of its human resources and to this end various training courses were undertaken to ensure the staff is properly trained and skilled in their tasks. The Board also operates a study assistance scheme aimed at assisting staff to improve their educational qualifications.

During the period under review, two senior managers resigned as Board employees. Two other senior manager were suspended. Two additional staff members, a revenue officer and a compliance auditor were appointed.

Employees according to race and gender:

Race	Female	Male	Total	%
Black	5	8	13	62%
Coloured	1	0	1	5%
Indian	0	1	1	5%
White	4	2	6	28%
Total	10	11	21	100%

Financial Results

Financial Overview

The financial results of the Board and levies collected on behalf of the relevant beneficiaries are reflected in the attached financial statements.

The Board retained R 6,9 million for revenue to be surrendered at the beginning of the year and for the current year R 2,7 million which will be paid into the Provincial Revenue fund, as required in terms of the provision of the Free State Gambling Act and the Public Finance Management Act.

The problematic inconsistency of transfers of voted fund to the Free State Gambling and Racing Board have been addressed by implementation of the management systems. These systems will allow timeously monthly reporting and budget forecasting for the Board to satisfy the requirements of the Public Finance Management Act and the Free State Gambling and Racing Act.

FREE STATE GAMBLING AND RACING BOARD



REPORT OF THE BOARD

Financial Highlights

	2003/ 2002 R'000	%	2001/ 2002 R'000	%
Revenue				
Budget allocation				
Free State Provincial Government	16 200	62.3%	4 000	22.5%
Interest received	199	0.8%	222	1.2%
Investigation expense recovery	755	2.9%	2 647	14.9%
Gambling levies				
Casino	3 303	12.7%	3 490	19.6%
Betting	4 989	19.2%	5 176	29.1%
Other income	573	2.2%	2 264	12.7%
Total income	26 020	100.0%	17 799	100.0%
Expenditure				
Staff costs	6 095	49.3%	5 035	50.1%
Board members' fees	1 235	10.0%	0	0.0%
Depreciation	354	2.9%	459	4.6%
Professional and consulting fees	1 400	11.3%	1 956	19.5%
Other operating expenditure	3 267	26.4%	2 600	25.9%
Total expenditure	12 351	100.0%	10 050	100.0%
Surplus for the year	13 669		7 749	
Total collections on behalf of beneficiaries	9 621		13 551	
Surplus after payment to beneficiaries	4 048		(5 802)	
Expenditure as a percentage of total collections	77.9%		134.8%	

FREE STATE GAMBLING AND RACING BOARD



REPORT OF THE BOARD

Corporate Governance

The Free State Gambling Board is committed to the principles of openness, fairness, integrity and accountability as advocated in the King II Report of Corporate Governance. As part of the Board's fraud prevention plan, an in-depth assessment will be made on the corporate governance and weaknesses will be addressed during the next financial year.

Management Committee

The Management Committee comprises of five managers and the Chief Executive Officer. The Chief Executive Officer chairs the Management Committee.

Audit Committee

An Audit Committee was established during the period under review. Members of the committee comprise of:

- Adv M Hoekstra (Chairperson)
- V Ramela
- S Fouchee

The Audit Committee is yet to adopt a formal terms of reference and this is envisaged to take place early in 2003/2004 financial year.

Fraud Prevention Plan

The Board is in the process of adopting a fraud prevention plan that has been developed in conjunction with our internal auditors. The fraud prevention plan will assist the Board to strengthen internal control procedures as well as create a hotline to report irregularities. One of the challenges is to establish a fraud prevention committee which will be responsible for the implementation of the fraud prevention plan.

Internal Control

The Board approved the appointment of Sithole Incorporated as internal auditors. The appointment of Sithole Incorporated is for an initial period of one year from November 2002, with an option to extend for a further two year period.

The Board has made significant progress to address poor internal control within the board's operation. One of the major improvements was the withdrawal of credit cards from all managers of the Board. Strict control over telephone and cellphones have led to a 42% reduction since implementation of a Siemens telephone control system.

The revision of the staff policy and implementation of a procurement policy and procedures have reduced and narrowed weakness in internal control. The appointment of internal auditors has made a significant impact during the last three months of the year under review.

FREE STATE GAMBLING AND RACING BOARD



REPORT OF THE BOARD

Administration

Members of the Board

Chairperson of the Board
Chief Executive Officer (Acting)
Members of the Board

JS Mokoka
ME Ratsomo
DF Strauss MLJ Molotsi
MR Hlangu MM Leeuw (Me)
MH Scholtz NNN Ngombane

Company Secretary

E Rauntenbach (Me)

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Principal Bankers

Nedbank Bloemfontein

Internal Auditors

Sithole Incorporated

Appreciation

The Board wishes to express its appreciation to all parties who participated or assisted it in its activities during the year under review, and specifically the following:

- The Free State Provincial Government, and in particular the Executive Council, MEC of Tourism, Environmental and Economical Affairs.
- Staff of the Board for their dedication and commitment and
- Professional bodies who rendered services to the Board.

FREE STATE GAMBLING AND RACING BOARD



STATEMENT OF RESPONSIBILITY BY THE CHIEF EXECUTIVE OFFICER

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice. In terms of section 49(2)(b) of the Public Finance Management Act (PFMA), the Chief Executive Officer is responsible for the preparation of all information included in this report, its accuracy and its consistency with the financial statements. It is the opinion of the Chief Executive Officer that the responsibility assumed by the Chief Executive Officer in terms of section 49(2)(b) of the PFMA, does not conflict with provisions of section 93(4) of the Act, in terms of which the responsible Member may exercise and perform the powers and functions of the Board.

The financial statements have been prepared on the going concern basis, as the Chief Executive Officer has every reason to believe that the Board has adequate resources in place to continue operations for the foreseeable future.

The board wishes to draw the readers' attention to the note regarding fruitless, wasteful and irregular expenditure, page 24. The expenditure incurred was as a result of misuse, inappropriate and irregular expenditure by certain employees of the Board. Monies outstanding at the end of the year was transferred to accounts receivables and will be recovered in full from these individuals.

The financial statements have been audited by the Auditor-General, who has unrestricted access to all financial records and related data, including minutes of all meetings of the Board and its committees. The Chief Executive Officer believes that all representations made to the Auditor-General during this audit were valid and appropriate.

The financial statements as set out on pages 17 to 27 was approved by the Board on 28 May 2003 and amended on 25 July 2003, are hereby signed on the Board's behalf by:

**JS MOKOKA
CHAIRPERSON**

**MERATSOMO
ACTING: CHIEF EXECUTIVE OFFICER**



AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL

REPORT

OF THE
AUDITOR-GENERAL

TO
THE FREE STATE PROVINCIAL LEGISLATURE

ON THE
FINANCIAL STATEMENTS OF THE FREE STATE GAMBLING AND RACING BOARD

FOR THE
YEAR ENDED 31 MARCH 2003



AUDITOR-GENERAL

PUBLISHED BY AUTHORITY



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AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS OF THE FREE STATE GAMBLING AND RACING BOARD FOR THE YEAR ENDED 31 MARCH 2003

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 17 to 27, for the year ended 31 March 2003, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 14(2) of the Free State Gambling and Racing Act, 1996 (Act No. 6 of 1996). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. 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, and
- evaluating the overall financial statement presentation.

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

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

3. QUALIFICATION

3.1 Advances

The outstanding advances of R1 56 643 owing to the board by employees as disclosed in note 13 to the financial statements could not be verified as the list/record of outstanding advances at 31 March 2003 was not correct and did not agree with the general ledger.

3.2 Expenditure

Documents supporting expenditure of R45 303 could not be submitted. The non-submission resulted in various uncertainties regarding the recording of this expenditure.

**REPORT OF THE AUDITOR-GENERAL****4. QUALIFIED AUDIT OPINION**

In my opinion, except for the effect on the financial statements of the matters referred to in subparagraph 3.1, the financial statements fairly present, in all material respects, the financial position of the Free State Gambling and Racing Board at 31 March 2003 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice.

5. EMPHASIS OF MATTER

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

5.1 Matters affecting the financial statements**5.1.1 Grants**

As indicated in paragraph 5.1 of the previous reports the board is dependant on grants to meet its commitments and perform its functions in terms of the Free State Gambling and Racing Act, 1996. Without receiving any grants the board will not be able to pay the amount of R9 644 994 owed to the Free State Provincial Government at 31 March 2003 in terms of the Free State Gambling and Racing Act, 1996

5.2 Matters not affecting the financial statements**5.2.1 Irregularities and losses****(a) Gambling and casino licenses**

The issuing of various gambling and casino licenses were, as indicated in paragraph 5.2.1 of the audit report for the 2001-02 financial year, still delayed during the 2002-03 financial year, resulting in further losses of gambling revenue.

(b) Employee benefits

- As indicated in paragraph 5.2.1(d) of the previous report the contract of employment for various employees stipulates that the employee should provide his own pension, medical aid and other benefits. In most of these instances it was found that the board contributed to medical aid and pension fund payments of employees. Salary increases equal to the increased contribution for medical aid were, furthermore, granted to employees when the medical aid contributions were increased. Evidence that the board approved these additional employee benefits could still not be submitted. Medical aid and pension fund benefits for the 2001-02 financial year amounted to R249 123 and R504 427 respectively.
- During April 2002 a further R166 111 was paid to employees in respect of pension fund contributions not previously paid by the board to the pension fund. Evidence that the board approved these payments could not be submitted.

REPORT OF THE AUDITOR-GENERAL

5.2.2 Weaknesses in internal control

- (a) Various serious internal control shortcomings and weaknesses were identified during the audit. The following serve as examples:
- In various instances evidence could not be submitted that quotations were obtained for expenditure amounting to R146 544.
 - Evidence that orders were issued prior to the delivery of goods and services amounting to R146 889 could not be submitted.
 - In various instances goods received notes were not prepared prior to the payment of the goods or services.
 - In various instances receipts were not allocated to the correct income account. In certain instances it was also identified that receipts were not issued for money directly deposited in the bank account or were not issued timely.
 - Controls to ensure VAT was correctly recorded in the financial records were lacking.
 - Controls to ensure that money is correctly and accurately recorded when illegal gambling machines are seized are not adequate.
 - A register for face value documents is not maintained for control purposes.
 - The internal controls regarding the payment and recording of advances were still not adequate for the year under review.
 - Although the overall budget for the 2002-03 financial year was not exceeded the budget of several individual expense items were exceeded without board approval. This indicates that the control over the budget is not adequate.
- (b) The nature of the shortcomings compared with the previous financial year indicates that the internal controls have improved, but that board still needs to take further steps to improve the system of internal control. In terms of section 51(1) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) the accounting authority for a public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

5.2.3 Matters in the public interest

(a) Suspension of employees

The Chief Executive Officer and Financial and Administration Manager were suspended from service with full salary during January 2003 and November 2002 respectively. At the finalisation of the audit at the end of July 2003 disciplinary steps had still not been instituted against the Chief Executive Officer that was suspended with full pay. The salaries and allowances paid to him during this period amounted to R318 117. The salary paid to the Financial and Administration Manager to the date his services were terminated with effect from 12 May 2003 amounted to R313 019. Although the records indicate that the Financial and Administration Manager owed the board R295 186 no steps to recover the amount was taken during this period.

**REPORT OF THE AUDITOR-GENERAL****(b) Forensic Audit**

Various irregularities were identified during a forensic audit that was conducted during the financial year. According to the recommendations of the forensic audit report dated February 2003 disciplinary action should be instituted where the Free State Gambling and Racing Board policies have been contravened and criminal charges laid where criminal offences have been committed. Evidence that such steps were taken against certain employees implicated in the alleged misconduct in terms of the requirements of section 84 of the PFMA could not be submitted.

(c) Contracts for private purposes

The board entered into a cell phone contract with a service provider for a cell phone that was to be utilised by an employee for private purposes. Although all costs paid to date have been recovered, this type of contract may result in financial losses to the board.

5.2.4 Non-compliance with laws and regulations**(a) Audit committee**

In terms of section 51(1)(a)(ii) of the PFMA the accounting authority for a public entity must ensure that the public entity has and maintains a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with section 77 and the Treasury Regulations. Although an internal audit function was established during the 2002-03 financial year the audit committee was only appointed during the 2003-04 financial year.

(b) Performance measurement

Contrary to section 55(2)(a) of the PFMA the annual report and financial statements do not include a comparison of the performance of the board against the predetermined objectives.

(c) Budget

Evidence that a budget of estimated revenue and expenditure for the 2002-03 and 2003-04 financial years were submitted for approval by the executive authority as required in terms of section 53(1) of the PFMA could not be furnished.

(d) Gambling levies

According to section 96(1) of the Free State Gambling and Racing Act, 1996 all gambling levies, application fees, license fees, penalties and other moneys payable in terms of the provisions of this act shall be paid to the board for the benefit of the Provincial Revenue Fund. During the financial year under review the amount due to the Provincial Revenue fund was not paid monthly as required in terms of section 96(2) of the aforementioned act. At 31 March 2003 the board's debt to the Provincial Revenue fund amounted to R9 644 994.

(e) Investments

An investment policy as required in terms of paragraph 31.3 of the Treasury Regulations could not be submitted.



AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL

(f) Strategic plan

Evidence that the strategic plan of the board was submitted for approval by the executive authority as required in terms of paragraph 30.1 of the Treasury Regulations could not be submitted.

(g) Framework of materiality and significance

Contrary to paragraph 28.1.5 of the Treasury Regulations a framework of acceptable levels of materiality and significance was not developed by the board and agreed by the board.

(h) Banking and cash management

Processes, systems, procedures and awareness programmes to ensure efficient and effective banking and cash management as required in terms of paragraph 31.1.1 of the Treasury Regulations could not be submitted.

(i) VAT

In various instances input VAT was claimed without a valid tax invoice which is contrary to the Value-added Tax Act, 1991 (Act No. 89 of 1991).

6 APPRECIATION

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

N.G. McCarthy

for Auditor-General

Bloemfontein

31 July 2003

FREE STATE GAMBLING AND RACING BOARD



INCOME STATEMENT

For the year ended 31 March 2003

	Note	2002/03	2001/02
REVENUE			
Voted funds			
Government grants	3	16,200,000	4,000,000
Non voted funds			
Revenue collected in terms of the Free State Gambling and Racing Act, Act 6 of 1996	4	9,620,871	13,551,127
Revenue surrendered		(9,620,871)	(13,551,127)
Other revenue	5	199,204	248,945
Gross income		16,399,204	4,248,945
EXPENDITURE			
Personnel	6	7,329,924	5,034,914
Administrative	7	3,010,897	3,503,885
Land and buildings	8	609,950	534,596
Professional and special services	9	1,400,364	976,224
NET SURPLUS/(DEFICIT) FOR THE YEAR	10	4,048,069	(5,800,674)

FREE STATE GAMBLING AND RACING BOARD



BALANCE SHEET

at 31 March 2003

	Note	2002/03	2001/02
ASSETS			
Non-current assets			
Property, plant and equipment	11	1,281,767	1,538,390
		1,281,767	1,538,390
Current assets			
Fruitless wasteful and irregular expenditure	16	11,717,759	3,967,209
Cash and cash equivalents	12	338,058	-
Trade and other receivables	13	9,693,281	2,831,464
		1,686,420	1,135,745
TOTAL ASSETS		12,999,526	5,505,599
EQUITY AND LIABILITIES			
Equity and reserves			
Retained income		1,504,328	(2,598,260)
		1,504,328	(2,598,260)
Current liabilities			
Revenue funds to be surrendered	14	11,495,198	8,103,859
Trade and other payables	15	9,661,711	6,980,098
		1,833,487	1,123,761
TOTAL EQUITY AND LIABILITIES		12,999,526	5,505,599

FREE STATE GAMBLING AND RACING BOARD



STATEMENT OF CHANGES IN NET ASSETS/ EQUITY

for the year ended 31 March 2003

	Note	2002/03	2001/02
RETAINED INCOME			
Balance at 1 April			
As previously reported		(2,598,260)	3,202,414
Adjustments to previous years	17	54,519	-
As restated		(2,543,741)	3,202,414
Surplus/(deficit) for the year	10	4,048,069	(5,800,674)
Closing balance at 31 March		1,504,328	(2,598,260)

FREE STATE GAMBLING AND RACING BOARD



CASH FLOW STATEMENT

for the year ended 31 March 2003

	Note	2002/03	2001/02
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash flow generated from operations	18	13,699,777	7,508,275
Interest received		198,845	222,183
Revenue funds surrendered		(6,939,258)	(6,571,029)
Net cash flow from operating activities		6,959,364	1,159,429
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure	11	(97,547)	(159,006)
Proceeds from sale of property, plant and equipment		-	-
Net cash flow from investing activities		(97,547)	(159,006)
CASH FLOWS FROM FINANCING ACTIVITIES			
		-	-
Net increase/ (decrease) in cash and cash equivalents		6,861,817	1,000,423
Cash and cash equivalents at beginning of period		2,831,464	1,831,041
Cash and cash equivalents at end of period	12	9,693,281	2,831,464

FREE STATE GAMBLING AND RACING BOARD



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003

1. Accounting Policies

1.1 Basis of preparation

The financial statements have been prepared on the historical cost basis in accordance with the requirements of statements of Generally Accepted Accounting Practice. The annual financial statements incorporate the following policies, which have been applied consistently in all material respects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the financial statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999) and the Treasury Regulations for Public Entities issued in terms of the Act.

1.2 Revenue

Income are recognised on the accrual basis.

1.3 Fixed assets and depreciation

Fixed assets are shown at cost less accumulated depreciation. Depreciation is calculated on a declining/ reducing basis.

The expected useful lives of the assets are as follows:

	<u>Depreciable %</u>	<u>Years</u>
Audio visual and office equipment	15.0%	6.6
Computer equipment	33.3%	3
Furniture and fittings	10.0%	10
Motor vehicles	20.0%	5
Computer network infrastructure	33.3%	3

1.4 Employee benefits

1.4.1 Short-term employee benefits

The cost of short term employee benefits is expensed in the income statement in the reporting period that the payment is made.

1.4.2 Termination benefits

Termination benefits are recognised and expensed only when the payment is made.

1.4.3 Retirement benefits

All permanent employees of the Board are members of the Free State Gambling and Racing Board Pension fund, which is governed by the Pension funds Act of 1956.

The fund is operated as a fixed contribution plan and is managed by Sanlam. Employer contributions are expensed when money is paid to the fund. No provision is made for retirement benefits in the financial statements of the Board.

1.5 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts.

1.6 Provisions

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

1.7 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The comparative figures shown in these financial statements are limited to the figures shown in the previous

FREE STATE GAMBLING AND RACING BOARD



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003

year's audited financial statements and such other comparative figures that the Board may reasonably have available for reporting.

	Note	2002/03	2001/02
2. Taxation			
The Board is exempt from taxation in terms of Section 10(1)(cA) of the Income Tax Act.			
3. Government Grant			
Received from Provincial Treasury		16,200,000	4,000,000
Grants are recognised as revenue when the actual amount are received.			
4. Revenue to be surrendered			
Employees registration fees		72,458	165,474
Gambling levies:		8,292,558	8,666,267
Casino levies		3,303,411	3,490,127
Betting levies		4,989,147	5,176,140
Casino licence application fees		-	684,000
Penalties issued		3,735	333,658
Annual license fees		473,847	993,820
Certificate of suitability fees		-	60,000
Probity fees		755,490	2,647,908
Forfeited cash		22,783	-
		9,620,871	13,551,127
5. Other revenue			
Interest received		198,845	222,183
Profit on disposal of assets		-	26,300
Sundry		359	462
		199,204	248,945

FREE STATE GAMBLING AND RACING BOARD



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003

	2002/03	2001/02
6. Personnel	7,329,924	5,034,914
Basic salary costs	4,713,026	4,578,465
Pension contribution	724,319	456,449
Medical aid contributions	252,365	-
Members emoluments	1,235,149	-
Leave accumulated	405,065	-
Average number of employees	21	19
7. Administrative expenses	3,010,897	3,503,885
Advertising	74,757	19,995
Affiliation fees	35,108	-
Bank fees	27,525	21,734
Cellular phones	205,855	108,833
Cleaning materials & office refreshments	35,861	65,740
Computers software	45,261	-
Debugging expense	-	32,875
Depreciation	354,170	458,660
Electricity and water	65,440	41,651
Entertainment	20,446	32,281
Insurance	48,629	42,336
Internet facility	80,260	26,766
Investigation fees written-off	302,197	-
Motor vehicle	46,581	44,906
Office telephone and facsimile	164,651	165,061
Other	-	446
Postage	3,410	15,113
Printing and stationery	108,181	36,600
Probity fees	-	1,041,375
Recruitment	90,496	39,029
Reference books	25,685	7,984
Security	20,404	46,397
Staff training and skills development	244,421	371,326
Subsistence and travel	975,680	790,557
Sundry	35,879	94,220
8. Land and buildings	609,950	534,596
Rental of office premises and storage premises	554,480	501,670
Repairs and maintenance to building and equipment	55,470	32,926
9. Professional and special services	1,400,364	976,224
Legal fees	50,873	881,316
Audit fees	691,896	61,550
Consultation costs	657,595	33,358
10. Analysis of surplus		
Voted funds to be surrendered to the Revenue Fund	(5,572,802)	-
Non Voted funds to be surrendered to the Revenue Fund	9,620,871	(5,800,674)
	4,048,069	(5,800,674)

FREE STATE GAMBLING AND RACING BOARD



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003

	Note	2002/03	2001/02				
11. Property, plant and equipment							
		Audio visual and office equipment	Computer equipment	Furniture and fittings	Motor vehicles	Computer network infrastructure	Total
Year ended 31 March 2003							
Opening net carrying amount		247,986	120,724	450,154	220,964	498,562	1,538,390
Additions		2,907	94,640	-	-	-	97,547
Depreciation charge		(37,525)	(61,266)	(45,015)	(44,193)	(166,171)	(354,170)
Book value		<u>213,368</u>	<u>154,098</u>	<u>405,139</u>	<u>176,771</u>	<u>332,391</u>	<u>1,281,767</u>
Year ended 31 March 2002							
Opening net carrying amount		317,069	173,225	481,361	276,204	590,186	1,838,045
Additions		-	-	-	-	159,006	159,006
Depreciation charge		(69,083)	(52,501)	(31,207)	(55,240)	(250,630)	(458,661)
Book value		<u>247,986</u>	<u>120,724</u>	<u>450,154</u>	<u>220,964</u>	<u>498,562</u>	<u>1,538,390</u>
12. Cash and cash equivalents							
Cash with commercial banks						(5,226,575)	1,359,937
Cash on hand						336	742
Short term investments						14,919,520	1,470,785
						<u>9,693,281</u>	<u>2,831,464</u>
13. Trade and other receivables							
Garnishing						607	-
Trade debtors						918,209	-
Staff advance						156,643	127,593
Study loans						62,694	-
VAT						362,209	653,096
Amounts due in respect of probity/ investigation operations						186,058	355,056
						<u>1,686,420</u>	<u>1,135,745</u>
14. Revenue to be surrendered							
Provincial Paymaster General Account	14.1					9,644,994	6,980,098
Other Institutions	14.2					16,717	-
						<u>9,661,711</u>	<u>6,980,098</u>
14.1 Provincial Paymaster General Account							
Opening balance						6,980,098	-
Transfer from income statement for revenue to be surrendered						9,476,600	13,403,912
Paid during the year						(6,811,704)	(6,423,814)
Closing balance						<u>9,644,994</u>	<u>6,980,098</u>
14.2 Other Institutions							
Opening balance						-	-
Transfer from income statement for revenue to be surrendered						144,271	147,215
Paid during the year						(127,554)	(147,215)
Closing balance						<u>16,717</u>	-

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for the year ended 31 March 2003

	Note	2002/03	2001/02
15. Trade and other payables			
Forfeit cash control account		1,564	-
Trade creditors		246,519	-
Legal costs		735,202	804,366
Special licence deposit		240,727	266,227
Subsistence and travel		-	33,008
Audit fees		-	19,805
Provision of accumulated leave		405,065	-
PAYE		204,410	-
Other		-	355
		<u>1,833,487</u>	<u>1,123,761</u>
16. Unauthorised, fruitless wasteful and irregular expenditure			
Irregular expenditure	16.1	327,712	-
Fruitless wasteful expenditure	16.3	10,346	-
		<u>338,058</u>	-
16.1 Reconciliation of irregular expenditure			
Opening balance		-	-
Irregular expenditure current year	16.2	372,479	-
Transfer to income statement - authorised losses		-	-
Transfer to receivables and recovered		(44,767)	-
Closing balance		<u>327,712</u>	-
16.2 Irregular expenditure current year			
Incident	Disciplinary steps taken/ Criminal proceedings		
Private expenditure on credit cards	Disciplinary steps taken	219,774	-
Excessive use of phones claiming for business purposes	Disciplinary steps taken	38	-
Oversea private expenditure	Disciplinary steps taken	152,667	-
		<u>372,479</u>	-
16.3 Reconciliation of fruitless wasteful expenditure			
Opening balance		-	-
Irregular expenditure current year	16.4	10,346	-
Closing balance		<u>10,346</u>	-
16.4 Fruitless wasteful expenditure current year			
Incident	Disciplinary steps taken/ Criminal proceedings		
Penalties paid on PAYE	No action taken	1,935	-
Interest paid on PAYE	No action taken	3,620	-
Casino licences process stopped	No action taken	4,791	-
		<u>10,346</u>	-

FREE STATE GAMBLING AND RACING BOARD



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003

	Note	2002/03	2001/02
17. Adjustments made to Retained Income			
Correction of interest on call account		(9,250)	-
Correction of PAYE for 1999/2000/2001		(48,545)	-
Correction of staff loans of previous year		(30,783)	-
Correction to opening balances bank accounts		(2)	-
Garnishing		(5,700)	-
Long outstanding cheque written back		597,512	-
Over provision for legal cost		111,800	-
Over provision for PAYE		85,869	-
Over provision for probity fees		(108,347)	-
Petty cash		(475)	-
Probity fees payments		(60,651)	-
VAT correction		(476,909)	-
		<u>54,519</u>	-
18. Net cash flow generated by operating activities			
Net surplus as per Income statement		4,048,069	(5,800,674)
Revenue collected in terms of the Free State Gambling and Racing Act, Act 6 of 1996		9,620,871	13,551,127
Adjusted for items separately disclosed:			
Interest received		(198,845)	(222,183)
Adjusted for non-cash items:			
Adjustment against retained earnings		54,519	-
Depreciation		354,170	458,660
Net cash flow generated by operating activities		<u>13,878,784</u>	<u>7,986,930</u>
Changes in working capital:			
(Increase)/decrease in current - receivables		(888,733)	(264,929)
Increase/(decrease) in current - payables		709,726	(213,726)
		<u>13,699,777</u>	<u>7,508,275</u>

19. Contingent liability

19.1 London Clubs versus The Free State Gambling and Racing Board and others

The above application was filed against the Board during May 2002 and was aimed at seeking an order in terms whereof the extension granted by the CEO, with the permission of the MEC, extending the closing date for the submission of detailed proposals and notices of application for casino licences, be declared ultra vires and accordingly null and void.

The application was heard on the 28th of February 2003, and it was dismissed with costs by the High Court. However, London Clubs filed a Notice of Application for Leave to Appeal on the 14th March 2003. The matter is set down to be heard on the 1st of August 2003.

It is the opinion of the Board, as advised orally by its legal representative in this matter, that it is doubtful that the Application to Leave to Appeal will be successful.

FREE STATE GAMBLING AND RACING BOARD



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2003

19.2 Termination of the employment of the Finance and Administration Manger: V Makhan

Mr V Makhan's employment was terminated on 13th of May 2003 after he was suspended on 11 November 2002. The dismissal was based on the fact that he had a previous conviction for fraud which is in contravention with section 10(1)(a) read with section 5(1)(a) of Act 6 of 1996. Mr Makhan referred a dispute to the CCMA for conciliation, based on unfair dismissal on the 16th of May 2003. To date, the Board has not been provided with a date for conciliation by the CCMA.

Mr Makhan brought an urgent application against the Board to restrain the Board from discontinuing his monthly contributions with regard to medical aid and pension fund until the conciliation is finalised. This application was dismissed with cost on 17 June 2003.

In light of the above, the Board is positive that Mr Makhan's dispute will not be successful.

19.3 Resignation of the Law Enforcement Manager: V van Rooyen

Mr van Rooyen resigned on the 11th of March 2003 and immediately thereafter a medical certificate was submitted for the full period of his notice month. His resignation was effected on 11 April 2003.

On the 10th July 2003, Mr van Rooyen filed an application for condonation in respect of an unfair dismissal together with the referral of such a dispute for conciliation based on unfair labour practice. No date has been set for the above by the CCMA.

The Board intends to oppose the application by Mr van Rooyen.

FREE STATE GAMBLING AND RACING BOARD



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