

National Lotteries Board - 2011

1. Financial Statements

1.1 Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the National Lotteries Board as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

- (a) Even though 3,474,920 Lottery Tickets valued at Rs.1,820,507 scheduled for future draws had been handed over to the stores as at 31 December of the year under review by the suppliers, the liability to be paid to the suppliers as well as the cost of stocks had been understated in the accounts.
- (b) The Board had spent sum of Rs.376,528,826 and Rs.293,504,383 on printing of lottery tickets in the year under review and the preceding year respectively. Even though such expenditure should be disclosed in the amounts as direct expenses those had been inappropriately disclosed as other expenses.

1.2.2 Accounts Receivable and Payable

The following observations are made.

- (a) The loan amounting to Rs.89,601,618 given to the Building Materials Corporation by the Sevana Lottery affiliated to the National Lotteries Board and the interest amounting to Rs.96,075,562 receivable thereon had not been recovered even up to 31 December of the year under review.
- (b) A sum of Rs.1,405,968 receivable by the Board from the year 1996 from the agents of the Sevana Lottery had not been recovered even by 31 December of the year under review.
- (c) The service charge amounting to Rs.1,314,430 payable from the year 2003 to the District Agents continued to be carried forward as retentions without taking steps to settle the amount.

1.2.3 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been made available to audit.

Item -----	Value ----- Rs.	Evidence not made available -----
(a) Improvements to Circuit Bungalows	7,403,596	Approval of the Ministry of Finance
(b) Jewellery purchased for awarding gifts	2,266,430	i. Report on the weight of gold content ii. Stock Verification Reports issued by a recognized institution

1.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc.,	Non-compliance
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(a) Section 20 of the Finance Act, No.11 of 1963 as amended by the Finance Act, No. 35 of 1997	The allocation of funds and structure of prizes in accordance with the draft rules forwarded to the Legal Draftsman on 22 August 2008 had not been prepared and published in the Gazette even up to the date of this report.
(b) Section 6(2)(a) of the Payment of Gratuity Act, No. 12 of 1983	According to the payment of Gratuity Act, the provision for officers should be made at 1/2 of the last drawn salary. Contrary to that, provision of Rs.65,695,595 had been made at the rate of one month's salary without formal approved. Accordingly a sum of Rs.12,126,300 had been paid to officers who retired in the year under review.
(c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
i. Third Schedule of Appendix II to Financial Regulation 502	The Board had not maintained a Register of Fixed Assets for fixed assets with book value amounting to Rs.388,203,362. The verified assets had not been adjusted to the balance of the fixed assets. As such the losses arising from the lost or misplaced assets had not been disclosed in a financial statements.

- ii. Financial Regulation 685 and National Procurement Agency Circular No. 08 of 25 January 2006
- The Board had spent 29 per cent of the total operating expenditure on the printing of Lottery Tickets and out of that 20.7 per cent had been spent on printing works executed through private institutions. The Procurement procedure had not been followed for this expenditure. As such a sum of Rs.267,387,445 out of the printing expenses of the year under review had been done without calling for bids.
- (d) Public Enterprises Circular No. PED/12 of 02 June 2003
- Chapter 09 Section 7
- (i) The salary of Rs.25,640 relating to 3 officers recruited for the posts of Assistant General Manager, Sales, Distribution and Agency Manager had been increased to Rs.45,000 with effect from 03 January 2011 by a decision of the Board of Directors taken at the meeting held on 20 June 2011. But the Treasury approval for that had not been obtained.
- (ii) The approval of the Treasury had not been obtained for the transport allowances of Rs.7,771,220 paid to the staff.
- (e) Government Procurement Guidelines - Section 5.4.4
- Even though the maximum mobilization advance payable for works and services is only 20 per cent of the contract value, advances amounting to Rs.39,939,818 ranging from 50 per cent to 75 per cent had been paid to contractors.

- (f) National Budget Circular No.142 dated 31 December 2008 of the Ministry of Finance and Planning
- Even though the festival advance payable to the employees of Corporations and Board is Rs.5,000 a sum of Rs.3,220,095 had been overpaid as one month's salary had been paid as the festival advance.
- (g) Management Services Circular No. 34(1) of 01 June 2009
- Contrary to the rates of combined allowance recommended for the employees of Corporations and Boards combined allowances amounting to Rs.8,311,843 had been paid at various rates approved on the decisions of the Board of Directors.

2. Financial Review

Financial Result

According to the financial statement presented, the financial result of the Board for the year under review amounted to a surplus of Rs.209 million as compared with the corresponding surplus of Rs.32 million for the preceding year, thus indicating an improvement of Rs.177 million or 553.12 per cent in the financial result for the year under review.

An analysis of the increase in the financial result is given below.

	Variance		
	Favorable ----- Rs.Millions	Adverse ----- Rs.Millions	
<u>Income</u>			
Lottery Sales Income	1,229	-	
Other Income	-	33	
	-----	-----	
	1,229	33	1,196
	=====	=====	
<u>Expenditure</u>			
Agents Commission	-	235	
Contribution to the Consolidated Fund	-	172	
Award of Prizes	-	562	
Administrative Expenditure	-	10	
Distribution Expenditure	-	4	
Finance Expenditure	4	-	
Other Expenditure	-	95	
Value Added Tax	-	49	
Nation Building Tax	44	-	
Income Tax	44	-	
Special Grant to the Treasury	16	-	
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	108	1,127	1,019
	=====	=====	-----
			177
			=====

3. Operating Review

3.1 Operating Inefficiencies

The following observations are made.

- (a) An agreement had been entered into for the constructions of a circuit bungalow for the Board at a cost of Rs.50 million in the Murunkan area in Mannar. According to the agreement the work was to be commenced on 05 May 2011 and completed in 180 days, that is, 05 November 2011. Nevertheless, the construction work had not been completed even by 31 March 2012.
- (b) The Board had maintained a circuit bungalow in a building in the Anuradhapura area obtained on lease basis for the period 1986 to 2016. The modernization of the building at a cost of Rs.7,403,596 had been entrusted on 01 November 2011 to a private company and the construction work had not been completed by the agreed date. Even though a sum of Rs. 505,253 had been paid to the institution appointed to supervise the construction, the information on the supervision exercised by the institution had not been made available to audit. Nevertheless, economically appropriateness of carrying out such repairs with only 04 years of the lease period remaining raised a questionable issue in audit.
- (c) Even though a land belonging to the Janatha Estates Development Board had been purchased for a sum of Rs.300 million on 21 July 2010 for the construction of a building for the Board and a provision of Rs.619 million had been made for the construction of the building, the work had not been commenced even up to the end of the year under review. Lease rent amounting to Rs.13.58 million had been paid to a external party for the building procured on lease basis for the conduct of business activities.
- (d) Expenditure amounting to Rs.4,000,000 had been incurred under the Sales Promotion Head without any prior planning.

3.2 Idle and Underutilised Assets

The following observations are made.

- (a) Gold Sovereigns with a total value of Rs.678,451 comprising 16 Gold Sovereigns costing Rs.8,668 each, 2 Gold Sovereigns costing Rs.4,860 each and 57 Gold Sovereigns costing Rs.9,299 each purchased from the year 1996 for award as lottery prizes remained in the stores up to 31 December of the year under review without being used for the award of prizes. The current value of those Gold jewellery amounted to Rs.1,185,000.
- (b) Five motorcycles and 02 three wheelers valued at Rs.1,104,536 purchased in the year 2009 for distribution as prizes had not been distributed even up to the end of the year under review. Those vehicles had been parked unprotected in the motor vehicle park of the Board.
- (c) The brass lamps, bicycles, television sets, sewing machines, tea sets, T-shirts and umbrellas with a total value of Rs.536,470 purchased for publicity work of the Sevana Lottery had been kept unprotected in the stores. Those stocks had not been used for distribution as prizes or for any other purposes.

3.3 Identified Losses

The following observations are made.

- (a) A clearing surcharge of Rs.357,291 had to be paid due to the failure to clear a stock of instant lottery tickets imported by the Board from an Indian Company within 07 days of arrival in the port.
- (b) The Board had incurred a loss of Rs.67,914 as 6,700 Sevana instant lottery tickets and 32,900 Samurdhi instant lottery tickets had been destroyed by water in the year under review.

- (c) The Board had to incurred fruitless expenditure of Rs.47,101,200 as cess and Rs.27,703,677 as import duty in the year under review alone due to the failure to take action for printing of lottery tickets through the local suppliers in terms of the Cabinet Memorandum No. MF/2/2/DLB/TEND/02 of 17 December 2008.
- (d) The Board had been deprived of the investment of Rs.5,000,000 invested in the Pramuka Bank and the interests due thereon. Provision for doubtful debtors in a sum equivalent to that investment had been made in the accounts for the year under review.

3.4 Human Resources Management

Even though the approved cadre had been 281, the Board had deployed a staff of 304. The position of the approved and the actual cadre of the Board and the vacancies and excess as at 31 December 2011 are given in the following table.

Category of Employees	Approved Cadre	Actual Cadre	Vacancies	Excesses
Executive Grades	25	24	01	-
Non-Executive Grades	256	242	14	-
Contract Basis	-	38	-	38
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Total	281	304	15	38
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4. Accountability and Good Governance

4.1 Budgetary Control

Significant variances were observed between the budgeted and the actual amounts thus indicating that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Human Resources Management
- (b) Assets Management
- (c) Expenditure Management
- (d) Stocks