

Development Lotteries Board -2010

1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Development Lotteries Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 2.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Development Lotteries Board as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Accounting Deficiencies

The Board had computed the cost of stocks issued to respective Branches by adding the purchases to the opening stock and deducting the closing stock instead of adjusting the correct cost of the stocks to the cost through ledger accounts. As such the losses resulting from the stocks lost, stolen or destroyed had not been disclosed in the financial statements.

1:2:2 Understatements and Overstatements

The following observations are made.

- (a) The sum of Rs.12,553,360 comprising the value of 332 sets of plates costing Rs.5,480 per set and 1,789 tea sets costing Rs.6,000 per set purchased in the year 2008 for awarding as prizes for the tickets of the Deyata Kirula Exhibition of that year had been written off to the profit for the year under review. As such the expenditure had been overstated and the assets had been understated by that amount in the financial statements.
- (b) The excess provision of Rs.16,381,903 relating to the preceding year had not been appropriately adjusted, thus resulting in the understatement of the profit for the

preceding year and the overstatement of the profit for the year under review by that amount in the financial statements.

1:2:3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though a period of 06 years had elapsed after the expiry of the lease agreement between the Board and the Ministry of Trade and Consumer Affairs, an adequate course of action had not been taken for the recovery of the deposit of Rs.723,780 paid to that Ministry in terms of the agreement.
- (b) Thirteen credit balances older than 05 years totaling Rs.1,630,507 are being carried forward in the accounts continuously without settlement or taking any other appropriate course of action.
- (c) Adequate courses of action had not been taken over a period of about 04 years for the recovery of the lease rent amounting to Rs.4,976,220 receivable for the leased buildings.
- (d) Debtors valued at Rs.28,737,539 had not been confirmed as at end of the year under review.

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 and Management Decisions | Non - compliance |
|---|--|
| ----- | ----- |
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| ----- | |
| (i) Financial Regulation 371 (2) (a) | The requisite approval had not been obtained for the grant of petty cash advances amounting to Rs.105,530 in 82 instances. |

- (ii) Financial Regulation 371 (2) (c) According to the Financial Regulation, an officer obtaining a petty cash advance should settle such advance immediately after the completion of the purpose. Nevertheless, the settlement of such advances amounting to Rs.393,078 granted to employees of the Board had been delayed over periods ranging from 28 days to 245 days.
- (iii) Financial Regulation 371 (2) (b) Even though ad hoc sub – imprests exceeding Rs.20,000 should not be approved, the Board had approved ad hoc sub – imprests exceeding such limit totalling Rs.397,896 in 10 instances contrary to the Financial Regulation.
- (iv) Financial Regulation 396 Even though cheques issued but not encashed within 06 months from the date of issue should be written back to income in terms of Financial Regulation 396, cheques valued at Rs.159,970 and older than 03 years had been shown in the records contrary to this provision.
- (v) Financial Regulation 762 The Board had not taken action for maintaining the stock levels (i.e. minimum, maximum and optimum) in terms Financial Regulation. It was also observed that unavailability of stocks existed in certain categories and excess stocks existed in other categories.
- (b) Section 5:4:4 of Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka Even though the maximum mobilization advance that can be paid for supplies and services made to the Government should not exceed 20 per cent of the total value of the contract, the Board had paid advances totaling Rs.12,766,750 ranging between 50 per cent to 75 per cent of the contract value in 09 instances.

2. Financial and Operating Review

2.1 Financial Review

2:1.1 Financial Results

According to the financial statements presented, the operations of the Board during the year under review had resulted in a net profit of Rs.937.93 million as compared with the corresponding net profit of Rs.551.70 million in the preceding year thus indicating an increase of Rs.386.23 million or 70 per cent of the net profit.

The unclaimed prizes of Rs.173.13 million and Rs. 144.07 million had been added to the profit in the computation of the profit for the preceding year and the year under review respectively.

2.1.2 Analytical Financial Review

The following observations are made

- (a) The income received from the sale of lottery tickets of the Board, the amounts remitted to the President's Fund and the other Statutory Funds after the deduction of the operating expenses in terms of Section 18 (2) of the Development Lotteries Board Act and the amounts remitted to the President's Fund and the other Statutory Funds as a percentage of the income for the year under review and the 04 preceding year are given below.

| Year | Income from Sale of Lottery Tickets | Amounts remitted to the President's Fund and Other Statutory Funds | Amounts remitted to the Presidents' Fund and other Statutory Funds as a Percentage of Income |
|-------|--|---|---|
| ----- | ----- | ----- | ----- |
| | Rs. | Rs. | Per cent |
| 2006 | 3,761,749,339 | 942,467,000 | 25.05 |
| 2007 | 3,947,213,671 | 845,327,000 | 21.41 |
| 2008 | 4,259,779,178 | 655,883,000 | 15.39 |
| 2009 | 4,886,477,659 | 775,001,000 | 15.04 |
| 2010 | 5,266,907,459 | 885,511,000 | 16.86 |

The remittances to the President's Fund and other Statutory Funds which stood at 25.05 per cent of the income from the sale of lottery tickets in the year 2006 had deteriorated to 15.04 per cent by the year 2009 and it had slightly improved to 16.86 per cent in the year 2010.

The urgent need for the review of the expenditure structure of the Board in relation to the very insignificant contribution to the President's Fund and other Funds and its gradual decrease over the years is emphasized in audit.

- (b) According to the information made available, some of the important ratios of the Board for the year under review and the 03 preceding years were as follows.

| | <u>year</u> | | | |
|-----------------------------------|-------------|-------|-------|-------|
| | 2007 | 2008 | 2009 | 2010 |
| | ----- | ----- | ----- | ----- |
| (a) Profitability Ratio | | | | |
| ----- | | | | |
| i. Net Profit Ratio (Percentage) | 17.96 | 13.25 | 11.29 | 17.96 |
| ii. Return on Equity | 1.36 | 1.17 | 1.13 | 0.83 |
| iii. Return on Average Assets | 0.77 | 0.55 | 0.44 | 0.71 |
| (b) Capital | | | | |
| ----- | | | | |
| i. Equity / Total Assets | 0.58 | 0.52 | 0.43 | 0.70 |
| ii. Equity / Non – current Assets | 0.70 | 0.67 | 0.54 | 0.88 |
| (c) Liquid Assets | | | | |
| ----- | | | | |
| i. Current Assets Ratio | 0.42 | 0.44 | 0.43 | 0.52 |
| ii. Quick (Liquid) Assets Ratio | 0.25 | 0.32 | 0.30 | 0.38 |

2.2 Operating Review

2.2.1 Operating Inefficiencies

The following observations are made

- (a) Even though publicity expenditure amounting to Rs.28,885,617 and Rs.22,115,426 had been incurred in the preceding year and the year under review respectively on the Double Chance Lottery commenced in the preceding year, holding of that lottery had been stopped in the year under review. Hence the publicity expenditure referred to above had become fruitless.
- (b) While the cost of the computer software as at the end of the year under review amounted to Rs.17,718,257, the expenditure incurred in the year for the maintenance of the computer software amounted to Rs.17,847,760 or 101 per cent of the total cost of the software.

2:2.2 Idle and Underutilized Assets

Financial statements.

- (a) Eleven items of stocks valued at Rs.1,098,040 had been retained in the stores over a number of years without being used or taking any other appropriate course of action.
- (b) Stocks of 294 gas cookers, 70 electric rice cookers and 481 sales covers valued at Rs.4,340,160 had been idling in the stores. The reasons for the purchase of the said equipment had not been investigated.
- (c) The stock of lottery tickets valued at Rs.8,484,491 purchased for the Double Chance Lottery commenced in the year under review had been idling in the stores as holding of that lottery had been stopped.
- (d) A studio valued at Rs.16,795,252 and a building for the electricity generators costing Rs.5,826,035 constructed in the year 2010 remained without being used.

2:2.3 Budgetary Control

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

3. 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) Accounting
- (b) Human Recourses Management
- (c) Assets Management
- (d) Sub – imprests
- (e) Expenditure Management
- (f) Stocks
- (g) Advances