

National 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 National Lotteries Board had maintained proper accounting records for the year ended 31 December 2010 and 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 National 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 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.25,677,753 due from 12 debtors had been older than 05 years by 31 December 2010 and adequate courses of action had not been taken for the recovery of that amount.
- (b) Even though a sum of Rs.545,926 remained recoverable from an agent for over one year, adequate courses of action had not been taken for the recovery of the amount.
- (c) Money relating to dishonored cheques issued to the Board by the agents of the Sevana Lottery amounting to Rs.1,490,445 remained irrecoverable over a period of 14 years.

1.2.2 Lack of Evidence for Audit

Expenditure on printing of tickets amounting to Rs.293,504,383, publicity expenditure amounting to Rs.144,286,796 and debtors totaling Rs.34,734,079 could not be satisfactorily vouched in audit due to the unavailability of written agreements, evidence supporting the procurement procedure followed and confirmation of balances. In respect of these matters, the Chairman of the Board, by his letter dated 07 June 2011, informed me

that the Board is following better practices with regard to printing, publicity expenses and debtors control areas.

1.2.3 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 Act, No. 35 of 1997	The allocation of funds and the structure of the prizes had been done in accordance with the draft regulations furnished to the Legal Draftsman on 22 August 2008. Those regulations had not been published in the Gazette up to date.
(b) Third Schedule of Chapter 11 relating to Financial Regulation 502 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	The Board had not maintained the Register of Fixed Assets in accordance with the Financial Regulation. The verified balance had not been adjusted to the balance of the fixed assets and as such the lost and misplaced items and the losses caused to the assets had not been disclosed in the financial statements.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003 Section 9:7 of Chapter 9.	The approval of the Treasury had not been obtained for the transport allowance paid to the staff of the Board.
(d) Section 5:4:4 of the Procurement Guidelines of the Government	According to the Guideline the maximum advance payable for works and services should not exceed 20 per cent of the contract sum. Nevertheless advances exceeding the specified limit had been granted.

1.2.4 Transactions of Contentions Nature

The reimbursement of the medical bills of the employees of the Board from a Board Fund had been commenced in the year under review in place of the Insurance Scheme maintained with an Insurance Company for the reimbursement of the medical bills of the employees. A sum of Rs.15,000,000 had been recorded in the financial statements as expenditure for this purpose in respect of the year under review. The amount had been deposited in a Bank account and payments had been made from that deposit.

It had resulted in a possibility of using the funds of the Board outside the financial control of the Board. The balance of that account as at the end of the year under review amounting to Rs.3,986,916 had also not been disclosed in the financial statements. Thus the expenditure of the Fund had been overstated and the cash balance had been understated by that amount.

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 surplus of Rs.31,637,890 after tax as compared with the corresponding net surplus of Rs.45,512,371 for the preceding year thus showing a deterioration of Rs.13,874,481 in the financial result for the year under review. The deterioration as compared with the preceding year amounted to 30.5 per cent.

Even though the sales income, as compared with the preceding year had increased, the deterioration of the financial result had been due to the increase in the provision for tax by a sum of Rs.32,401,850 as compared with the preceding year.

Even though a provision of Rs.164,941,354 had been made for tax in the preceding year, the actual tax paid amounted to Rs.198,991,306. Thus the financial result of Rs.79,562,323 disclosed in the financial statements for the preceding year had decreased to Rs.45,512,371 after the adjustment of the under – provision for tax amounting to Rs.34,049,952.

2.1.2 Analytical Financial Review

- (a) The expenditure under the following items had increased as compared with the preceding year.

	Increase of the Expenditure as compared with the preceding year	Percentage of increase as compared with the preceding year
	----- Rs.	----- %
(i) Gratuity	21,668,831	271.37
(ii) Repair and Maintenance of Motor Vehicles	3,837,049	47.29
(iii) Consultancy and Professional Charges	426,764	15.87
(vi) Motor Vehicle Hire Charges	2,730,057	197.07
(v) Repair and Maintenance Expenditure	4,753,298	177.81
(vi) Cleaning and Maintenance Expenditure	781,575	71.33
(vii) Office Modernization Expenditure	3,008,977	159.08
(viii) Production and Telecasting Expenditure on Publicity Programmes	30,476,570	39.94
(ix) Corporate Image Advertising	43,265,994	47.17
(x) Telephone and Internet Facilities Expenditure	1,890,292	18.37
(xi) Ticket Transport Charges	863,962	24.65
(xii) Expenditure on Fuel for Motor Vehicles	1,069,846	12.86

The Board had not reviewed the abnormal increases under (i), (iv), (v), (vi) and (vii) above to ascertain the reasons for such increases.

- (b) The annual remittances made by the National Lotteries Board during the past five years to the Consolidated Fund and the other Statutory Funds as compared with the annual remittances made by the Development Lotteries Board, an institution competing with the National Lotteries Board in the sale of lottery tickets, to the Presidents' Fund and other Statutory Funds during the same period and such remittances as a percentage of the sale of lottery tickets by the respective institutions are given below.

Year	National Lotteries Board			Development Lotteries Board		
	Income from Sale of Lottery Tickets	Remittances made to the Consolidated Fund and Other Statutory Funds	Remittances to the Consolidated Fund and Other Statutory Funds as a Percentage of the Sales	Income from Sale of Lottery Tickets	Remittances made to the Consolidated Fund and Other Statutory Funds	Remittances to the Consolidated Fund and Other Statutory Funds as a Percentage of the Sales
	Rs.	Rs.		Rs.	Rs.	
2006	6,166,031,736	967,282,580	15.69	3,761,749,339	942,467,000	25.05
2007	5,799,100,996	767,590,790	13.24	3,947,213,671	845,327,000	21.42
2008	6,534,404,643	898,282,571	13.75	4,259,779,178	655,883,000	15.40
2009	8,123,312,024	1,136,298,465	13.99	4,886,477,659	735,001,000	15.04
2010	8,360,978,554	1,189,460,051	14.22	5,266,907,459	888,511,000	16.87

According to the above statement, the remittances made from the sale of lottery tickets made to the Presidents' Fund and the Statutory Funds by the Development Lotteries Board represented a higher percentage over the remittances made to the Consolidated Fund and other Statutory Funds by the National Lotteries Board.

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

(c) Ratios and Percentages

According to the information made available, several important ratios relating to the operations of the Board for the year under review and the preceding year were as follows.

	Years	
	2010	2009
	-----	-----
	%	%
(i) <u>Profitability Ratio</u>		
i. Net Profit Ratio	2.96	2.85
ii. Return on Equity	1.99	2.90
iii. Return on Average Assets	1.19	1.58
(ii) <u>Capital Adequacy</u>		
i. Equity / Total Assets	0.59	0.63
ii. Equity / Non – Current Liabilities	20.35	39.60
(iii) <u>Liquid Assets</u>		
i. Current Assets Ratio	2.23	2.35
ii. Liquid Assets Ratio	2.16	2.28

2.2 Operating Review2.2.1 Idle and Underutilized Assets

The following observations are made.

- (a) The stock of G.I. pipes valued at Rs.99,325 included in the stock of publicity materials shown in the financial statements at a value of Rs.777,776 was not available in the physical stock. The loss had not been investigated. The stock of gold coins valued at Rs.678,451 remained in the stores over a period of about 05 years without being used for publicity purposes. The market value thereof had not been adjusted in the accounts.

- (b) The stock of computers shown in the financial statements at a value of Rs.77,000 included 06 unusable printers purchased on 23 January 2003 at Rs.3,750 per printer and a computer valued at Rs.54,500 recovered due to the non – payment of installments by an agent. That computer was not physically available in the stock while there was no evidence that it was received by the Board. The loss had not been investigated.
- (c) Six three wheeler vehicles purchased in the year 2009 for Rs.2,048,040 at Rs.341,340 per vehicle remained in an unusable condition. The Board had not carried out an investigation to ascertain the reasons for premature failure.
- (d) Sixteen motor cycles valued at Rs.1,584,000 costing Rs.99,000 per cycle remained idle in the stores without being used. The need for the purchase and the reasons for remaining idle had not been investigated. A stock of 130 bicycles valued at Rs.931,000 costing Rs.7,162 per bicycle had been retained idling in the stores.
- (e) A stock of Agents' uniforms valued at Rs.3,675,080 purchased at Rs.395 per uniform remained idling in the stores since the year 2008 without taking action for the disposal of the stock.
- (f) A BMW motor vehicle valued at Rs.15,436,511 purchased in the year 2007 for the Colombo Airport Super Draw remained idle up to the date of this report. A motor vehicle purchased for Rs.1,249,000 in the year 2008 for award as a prize for the Sevana Lottery remained idle up to the end of the year under review. This has resulted in the unproductive utilization of cash resources.

2.2.2 Identified Losses

The following observations are made.

- (a) According to the judgment on a case filed for the recovery of a sum of Rs.1,538,785 due from an agent who functioned as an employee of the Board, that amount remained irrecoverable. Nevertheless, that amount had been shown under the debtors in the financial statements without making necessary provisions in the books of accounts.

- (b) Even though four debtors balances totalling Rs.13,481,567 remained irrecoverable due to the failure to take legal action for recovery over a long period those had been shown under the debtors in the accounts without making necessary provisions in the books accounts.

2.2.3 Human Resource Management

The Board had employed 272 persons whereas the approved cadre stood at 262 only. The following table shows the position of the approved and the actual cadre of the Board and the vacancies / excesses as at 31 December 2010.

Employee Category	Approved Cadre	Actual Cadre	Vacancies	Excess
Executive Grades	28	24	04	--
Non – Executive Grades	234	227	07	--
Contract Basis	--	20	--	20
Others	--	01	--	01
Total	262	272	11	21

2.2.4 Budgetary Control

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

3. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Board by my detailed audit report issued in terms of Section 13(7)(a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Fixed Assets
- (b) Fuel Expenses
- (c) Computerized Information System
- (d) Stores Records
- (e) Purchases