

## **Divi Neguma Housing Development Lottery Fund - 2014**

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The audit of financial statements of the Divi Neguma Housing Development Lottery Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory Information was carried out under my direction in pursuance of provisions in Article 154 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 45 of the Divi Neguma Act, No. 01 of 2013. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 2.2 of this report.

## **2 . Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in Paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Divi Neguma Housing Development Lottery Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

- (a) The income and expenditure items should be disclosed separately without reciprocating in accordance with Standard No.01 . Nevertheless, the total of 8 per cent withholding tax which was deducted by the Bank amounted to Rs.5,048,484 had been revealed in the financial statements as net value after tax and investment interest income without disclosing separately under expenditure as Rs. 3,973,154 for matured investments and Rs. 1,075,330 for the investments not matured as at 31 December 2014.
- (b) The Cash Flow Statement had been prepared in contrary to the Sri Lanka Public Sector Accounting Standards No. 02 and the following were matters are observed with regard to that.
  - (i) Although the value of cash and cash equivalents as at 31 December 2014 should be Rs. 26,575,357 since it was stated as 39,639,480 had been overstated by a sum of Rs. 13,064,123.
  - (ii) Lottery contribution income which was adjusted to the statement of financial performance on accrual basis instead of income received from cash amounted to Rs. 177,497,070 and investment interest income amounted to Rs. 48,996,169 as cash inflows and provisions for gifts amounting to Rs. 180,000,000 and provision for computer depreciation amounting to Rs. 208,897 had been shown as cash outflows in cash flows from operating activities.
  - (iii) Although a cash flow does not generate under its financial performance, the total of provision for creditors for gifts, provision for depreciation of computers and the adjustments to the accumulated fund amounted to Rs. 180,173,197 had been shown as a cash inflow.

## **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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In terms of Paragraph 3.3 (b) of the Public Finance Circular No. PF/ 423 of 22 December 2006, actions had not been taken to Legislate the Fund.

## **3. Financial Review**

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### **3.1 Financial results**

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According to the financial statements presented, the financial results of the Fund for the year ended 31 December was a surplus of Rs. 45,622,092 and the correspondent surplus of the preceding year was Rs. 33,440,323 , thus indicated a growth of Rs. 12,181,769 in the financial results in the year under review as compared to the preceding year. The increase in investment interest income by Rs. 3,015,090 and decrease of total expenditure by Rs. 9,239,509 had mainly attributed to this growth.

## **4. Operational Review**

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### **4.1 Performance**

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Although the draw should be carried out updating the database in every month in terms of the Regulation No 17 of Divi Neguma Housing Development Lottery, the monthly draws had not been so carried out in the years 2012, 2013 and 2014 and the draws had been held in November 2014 for the years 2012 and 2013 and also in January 2016 for the year 2014. Due to the fact that the computer database had not been updated, including a sum of Rs. 12,150,000 which was the draw value for 81 non-beneficiary families during the period from 2012 to 2014, it had been impossible to award a sum of Rs. 28,650,000 for a total of 191 beneficiaries because of various reasons .

### **4.2 Management Activities**

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The following observations are made.

- (a) As a result of maintaining a cash balance exceeding the cash requirement during the period from January to December of the year under review ranging from Rs. 3,061,151 to Rs. 36,356,373, the interest income that could have been earned by investing that money had been lost. Further, not determining the timeframe for the investment to meet both objectives of requirement of funds and the interest income, all investments valued at Rs.736,408,715 as at 31 December 2014 had been invested in short-term fixed deposits for maturity period of six months each.
- (b) Although the Salaries of the staff who have been employed full time for the activities of the Fund and other overhead expenses are borne by the government, actions had not been taken to prepare a mechanism to reimburse those expenditures and to reimburse to the government.

- (c) Although all the activities of the Fund should be carried out by the Housing Development Lotteries Trust Board in accordance with the Regulations of the Fund, a Board of Trustees had not been appointed during the period from January 2014 to 31 October 2015.

**5. Accountability and Good Governance**  
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**5.1 Submission of Financial Statements**  
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The financial statements for the year under review had been furnished on 07 February 2019 after a delay of four-years period although it should be submitted to the Auditor General within two months from the end of the financial year in terms of Public Accounts Circular No. PF / 423 of 22 December 2006 .

**5.2 Budget Documentary Control**  
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A Budget Estimate and an Action Plan had been not prepared for the activities of the Fund in terms of Paragraph 4.1 of the Public Finance Circular No. PF / 423 of 22 December 2006.

**6. Systems and Controls**  
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The deficiencies observed in systems and controls during the audit were brought to the attention of the Chairman from time to time and special attention should be drawn in maintaining of books and records in a systematic manner through establishing internal control systems by legislating the Fund and the presentation of financial statements in a proper manner.