

Divi Neguma Housing Development Lottery Fund - 2016

The audit of financial statements of the Divi Neguma Housing Development Lottery Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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

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

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.

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 2016 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

2.2.1 Sri Lanka Public Sector Accounting Standards

Even though the computer accessories cost at Rs.2,369,568 were completely depreciated due to the failure to review the useful life of non-current assets annually in accordance with the Paragraph 65 of Sri Lanka Public Sector Accounting Standards 07 , further being used. Accordingly, actions had not been taken to revise the estimated error occurred in accordance with Sri Lanka Public Sector Accounting Standards 03 .

2.2.2 Accounting Deficiencies

Although it has been disclosed that the income and expenditure are accounted for on accrual basis as per the accounting policies of the Fund, the total amount of Rs.502,955 payable to 3 private institutions for the year under review had not been accounted for as accrued expenses.

2.3 Non-compliance with Rules, Regulations and Management Decisions

Although it had been stated that if there are fair reasons to maintain an unconstitutional Fund, such funds should be legislated by an Act of Parliament in terms Financial Regulations 876 (3)) as published by Circular No. PF / 423 dated 22 December 2006 and Public Finance Circular No. 01/2020 dated 28 August 2020 , arrangements were being made until the year under review in accordance with a set of regulations approved by the Board of Management without taking actions to legislate the Fund .

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Fund for the year ended 31 December of the year under review was a surplus of Rs.447,187,633 and the correspondent surplus of the preceding year was Rs. 42,450,354 thus indicated a growth of Rs.404,737,279 in the financial results for the year under review as compared to the preceding year. As a result of the monthly contribution charged from the beneficiaries was increased from Rs.15 to Rs.50 , increase of contribution income by Rs. 677,960,370 had mainly attributed to the improvement.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) Out of the number of draws made in 2014 and 2015 the number of temporarily suspended beneficiaries was 14 and 23 respectively and the number of canceled

beneficiaries in those years was 32 and 47, respectively. Further, out of 2,400 lottery draws made during the year 2016, a number of 183 prizes that was , Rs. 36,600,000 had been returned from the relevant District Offices for various reasons. Accordingly, the information about the beneficiaries had not been updated.

- (b) It had been decided to pay 57.14 per cent of the contribution from the 14 Lakh of beneficiaries according to the Paper of Board of Trustees DL / 03/17 held on 12

January 2016 . The contribution received during the year under review was Rs. 853,416,530 and thus the contribution paid and to be paid was Rs. 457,000,000 , the prizes given had been a value of 53.54 per cent. The average number of beneficiaries for the year under review was 17,077,822 and out of those beneficiaries, the number of prize winners during the year was 2400 or 0.014 per cent. As a result, necessary arrangements had not been made to achieve the vision and objectives of the Fund, which is a home for every beneficiary.

- (c) Although the one of the objectives of the Fund is to direct for suitable projects to uplift the economic status of the winning beneficiaries in accordance with the set of regulations of the Fund, no action whatsoever had been taken in this regard.

4.2 Management Activities

The following observations are made.

- (a) According to the report of the Board of Trustees meeting dated 12 January 2016, the exact dates for drawing lottery tickets during the year had been mentioned and it was also stated that the prize money of the winners should be sent to the Samurdhi District Offices without delay. However, the lottery draw was always delayed by more than one month during the year under review and delivery of prize money to District Offices had delayed by 27 days to 60 days.
- (b) An allowance of Rs.5,000 had been approved to pay for the Members of the Board of Directors in accordance with the Circular of the Department of Public Enterprises No. PED 58 dated 29 April 2011 . However, the Board of Trustees had decided and paid an amount of Rs 310,000 for the year under review by the Board Paper DL / 03/19 dated 23 February 2016 to pay an allowance Rs.5,000 for non-constitutional members based on the same Circular.
- (c) Since the total investment value of 20 investments as at 31 December 2016 amounting to Rs. 814,409,190 had been invested in short term investments of 06 months each, the interest income that could have been invested in the long run had lost.
- (d) Actions had not been taken to remove the names of the beneficiaries from the database for a specified period of time as a method of stopping the beneficiaries who had won once for a certain period of time to draw again.

- (e) Ten Samurdhi recipients who had removed from the list of Samurdhi recipients in 7 Divisional Secretariats in the Galle District had been selected as the winners from the year 2014 to 2016. Accordingly, it is confirmed that the list of Samurdhi recipients is not updated and as a result, there is a risk that the number of annual benefits would be decreased.
- (f) The Housing Lottery for the years 2014 and 2015 was conducted on 18 January 2016 under the patronage of the Minister in charge of the subject and a sum of Rs. 787,242 had been spent for that. The Board of Trustees had decided to provide Rs. 20,000 to each District to hold ceremonies at District Level and hand over cheques to the winners and a sum of Rs.54,700 had been paid for 3 Districts.

5. Accountability and Good Governance

5.1 Submission of Financial Statements

Although the financial statements should be submitted to the Auditor General within 02 months after the end of the financial year in accordance with the State Accounts Circular No. PF / 423 dated 22 December 2006 , the financial statements for the year under review had been submitted on 14 July 2021 .

5.2 Budgetary Control

A Budget Estimate in respect of the functions of the Fund had not been prepared in terms of Paragraph 4.1 of the Public Finance Circular No. PF / 423 dated 22 December 2006 .

6. Systems and controls

The deficiencies observed on systems and controls during the audit were brought to the attention of the Chairman from time to time and a special attention should be drawn on maintaining of activities properly and efficiently by legislating the Fund and establishing internal control systems.