## Development Lotteries Board – 2016

---------------------------------------------------

The audit of financial statements of the Development Lotteries Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 14(3) of the Development Lotteries Board Act, No.20 of 1997.My comments and observations which I consider should be published with Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report. A Detailed report in terms of Section 13(7)(a) of the Finance Act, was issued to the Chairman of the Board on 27 October 2017.

### 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 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 Auditing 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 judgement, 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 Board'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 Board'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. Sub-section (3) and (4) of Section 13 of the Finance Act,No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

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 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 Development Lotteries Board as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Comments on Financial Statements

#### 2.2.1 Presentation of Financial Statements

Financial statements of the year under review had been presented to Audit on 28 February 2017. The revised financial statements, having rectified the deficiencies totaling Rs. 25,342,964 included in the financial statements of the preceding year with respect to 10 items of accounts and the weaknesses pointed out by the Audit relating to the year under review, had been presented on 04 October 2017.

#### 2.2.2 Sri Lanka Accounting Standards (LKAS )

The following non-compliances were observed.

**(a) Sri Lanka Accounting Standard 07**

(i) The cost of Rs. 22,973,877 of the fixed assets sold during the year under review had been reported in the cash flow statement as cash inflows under the investment activities, and the cumulative depreciations relating to those fixed assets totaling to Rs. 22,973,877 had been adjusted to the profit in the cash flow statement as a Non Cash Movement. It was observed the outcome of the operating activities and investing activities of the cash flow statement had been distorted, even though there was no impact on the net cash flow.

(ii) Even though the Interest received during the year was Rs. 81,544,767 according to the note number 05 in the financial statements, A sum of Rs. 80,395,703 had only been shown in the cash flow statement as the interest receipt and the interest income amounting to Rs. 1,149,064 received from the staff loans had not been adjusted in the cash flow statement as cash inflow.

**(b) Sri Lanka Accounting Standard 08**

**------------------------------------------------**

(i) The total equity capital of the Development Lotteries Board had become a negative amount of Rs. 519,726,031 due to outstanding tax liability of Rs.1,557,163,004 relating to the preceding years had been shown under the equity capital in the financial statements .

The tax liability amounting to Rs. 1,557,163,004 shown as a negative value under the equity Capital, had been further prevailed as a negative amount of Rs. 1,256,728,883 even after the adjusting of outstanding tax liability amounting to Rs. 300,434,121 settled in 2016 relating to preceding years. Due to this accounting procedure, the total equity capital of the Board still prevailed as a negative value of Rs. 499,526,897. The disclosures had not been made in the financial statements as per the paragraph 42 of this Standard.

(ii) As per the provisions of Section 117 of the Standard, accounting policies should be adequately disclosed in order to gain an understanding of the financial statements, the Board had not disclosed the related policies for the following subjects.

- Taxation,
- Financial instruments,
- The prize payable,
- The Studio, mobile phones, Three wheel vehicles depreciation rates

**(c) Sri Lanka Accounting Standard 10**

**---------------------------------------------**

As per the provisions of Section 17 of the standard, the Entity had to disclose the date on which the Entity gave the approval to issue the financial statements. But Development Lotteries Board had not been complied with that requirement.

**(d) Sri Lanka Accounting Standard 16**

**---------------------------------------------**

(i) Although the each class of asset should be revalued every three or five years and should be disclosed the fair value in the accounts as per the provisions of Section 34 of the Standard, the assets such as machineries, Land and buildings had not been revalued after the year 2012.

(ii) Due to the useful life of Non-Current assets not reviewed annually, the non-current assets costing Rs.115,033,174 had been fully depreciated but were still in use. Accordingly, the error of estimation of lifetime was not corrected in accordance with Sri Lanka Accounting Standard 08.

(iii) As per the provisions of Section 37 of the Standard, the assets of similar nature should be categorized under a same group, but Development Lotteries Board had not complied with that requirement. The situation prevailed in preceding years had not been corrected even in the year under review.

**(e) Sri Lanka Accounting Standard 19**

**-------------------------------------------**

As per the provisions of Section 63 of the Standard, the net gratuity value at present should have been shown in the statement of financial position by distinguishing between the assets and liabilities separately and set off them separately. However, the Board had shown the gratuity assets and its related liabilities separately in the statement of financial position.

**2.2.3 Accounting Deficiencies**

**-------------------------------------**

The following observations are made.

(a) The outstanding Income tax for the period from 2009 to 2014 amounting Rs. 221,541,899 had been omitted from the accounts.

(b) It was observed that tax expense amounting to Rs. 447,406,433 out of Rs. 917,136,129 shown in the financial statements in the year under review was the arrears of tax expenses for the preceding years. As a result, the profit for the year under review had been understated by that value.

(c) Even though the assessment of tax for the year 2015 was Rs. 302,866,101 only Rs. 56,356,927 had been allocated in the accounts. Accordingly the deficit tax provision relating to the year 2015 amounted to Rs. 246,509,174 it had only been recorded a sum of Rs. 166,863,795 in the accounts of the year under review. As a result, it was observed that additional taxes amounting to Rs. 79,645,379 relating to the year 2015 should have been recorded in the financial statements of the year under review.

(d) Although the interest income on the fixed deposit for the financial year 2016 amounting to Rs. 60,516,783 had been recorded in the financial statements, the Profit of year had been understated by an amount of Rs.486,094 due to the correct interest income on the fixed deposit amounted to Rs. 61,002,877.

(e) Due to the sales value of lotteries tickets amounting to Rs. 148,994,637 as at 31 December 2016 not received by cash had been recorded as receipts in the cash book of the Board, the bank balance had been overstated by that amount. This amount had been shown as the unrealized cash in the bank reconciliation statement.

(f) The Profit of the year and the value of Non-Current assets had been understated by that amount due to a capital expenditure of Rs. 2,057,930 spent on the building improvements had been recorded as maintenance expenses of buildings.

(g) The total depreciations relating to the buildings and office equipment amounting to Rs. 76,065 had not been recorded in the accounts.

**2.2.4 Contingent Liabilities**

The information about the proposed penalty of Rs. 1,289,590,835 arisen on the non-settlement of tax liabilities for the period from 2001 to 2013 had not been disclosed in the financial statements.

**2.2.5 Lack of evidence for audit**

Following observations are made.

(a) The corroborative evidence totalling amount of Rs. 281,836,321 shown in the financial statements consisting of Rs. 229,173,159 for a liability balance, four assets balances totaling to Rs. 12,540,705 and two expenses balances totaling to Rs. 40,122,457 had not been made available for audit. Details are as follows.

| | Item | Value (Rs.) | Non presented audit evidence |
|---|---|---|---|
| (i) | Expenditure on the sales outlets | 10,861,523 | Detailed information including provided Sales outlets and their addresses since the inception of the Board up to now.<br><br>Sales Outlets Receiving Notes (GRN) and Sales Outlets Issuing Notes (GIN)<br><br>Primary plans, supervision plans supervision reports relating to the Sales Outlets constructed during the year 2016. |
| (ii) | Expenditure on installation of the CCTV Camera System | 4,758,308 | Agreements, Procurement file |
| (iii) | Promotional Items | 29,260,934 | The Estimates,<br>Store Requisition Notes,<br>Particulars of the Distributed Parties and Articles confirming the goods accepted. |
| (iv) | Contract and Construction Cost | 4,090,925 | Contract Payment Document, Duly Completion of the Construction and evidences that the asset was handed |

| | | | |
|---|---|---|---|
| | | | over to the Board and evidences for Board acceptance. |
| (v) | Land in Thissamaharama | 492,392 | Lease agreements, Title deed and the documents confirm the ownership of the land obtained from the Divisional Secretariat |
| (vi) | The cost of construction of the Reception Counter | 3,199,080 | Extra work estimate submitted by the Engineering Consultancy Institute, Work Endorsement Certificate and the evidence for acceptance after the work completion. |
| (vii) | Trade Creditors | 229,173,159 | Balance confirmation letters, Creditors sub ledgers/ Creditors control accounts<br>Age analysis |
| | | ------------- | |
| | | **281,836,321** | |
| | | ======== | |

(b) Although the Board Papers of the Board of Directors for the year under review had been requested to present for the audit from the Chairman by the letter dated on 20 October 2016, these documents had not been presented to audit until July 2017. The chairman had reported to the audit by his letter No.VC/5/III, dated on 29 November 2016, that a member of the Board of Directors stated, that question is due to inquire from the Government Auditor the reason for the request the papers of the Board of Directors as well. By responding as such, it was observed that the powers vested with the Parliament in respect of fiscal control by Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka and the powers of the Auditor General vested by Article 154 as well have been challenged.

## 2.3. Accounts receivable and payable

---------------------------------------------

The following observations are made.

(a) Although, as the doubtful debts a sum of Rs.7,496,220 had been allocated from the trade debtors of Rs.10,535,573 included in the financial statements, over 23 years a debtor balance out of those balances amounting to Rs.2,520,000 was proposed to be received back to the Board. Without taking actions to recover the value determined by a court verdict had been still shown as provision for doubtful debts in the financial statements.

(b) Although the rent advances of Rs. 5,700,000 which had been shown as receivables from the Ministry of Trade, Commerce and Consumer Affairs and brought forward in the accounts from the year 2003, no any observation was made regarding the usage of buildings on the rent basis by the Board. Accordingly, the Board had not taken sufficient action to recover that amount.

The total advance of Rs. 3,863,727 paid relating to the works which consisting the payment of Rs. 237,000 for the preparation of an Interactive Voice Responses (IVR) in 2014 and consultancy fees paid in 2013 to an advisory firm as advisory fees amounting to Rs. 3,626,727 had not been completed and no actions had been taken to recover the relevant amounts.

**2.4 Transactions without adequate authority**

The following observations are made.

(a) The property, plant and equipment valued at Rs. 2,547,138 had been disposed without the approval of the Board of Directors.

(b) Ten Air Conditioners purchased in 2008 valued at Rs. 1,464,000 had been disposed at a price of Rs. 20,000 without a recommendation of the Board of Survey.

**2.5 Non-compliances with the Laws, Rules, Regulations and Management Decisions**

The following non-compliances were observed.

| Reference to Laws, Rules and Regulations | Non-compliances |
|---|---|
| (a) The Development Lotteries Board Act, No. 20 of 1997 | |
| (i) Section 18 (3) | The remaining cash balance of the Prize Reserve Account should be used for awarding prizes of the lotteries draws, that are being held in the future, but a sum of Rs.580,305,484 had been invested in fixed deposits against the provisions in the Act. A sum of Rs. 302,054,379 had been utilized to pay the arrears taxes of Rs.216,230,041 for the period from 2001 to 2015 and also a sum of Rs.76,000,000 to pay the taxes in the year under review. The balance amount of Rs.9,824,338 had been retained in the Bank Account, No. 0002695681 of Bank of Ceylon. |

| | | |
|---|---|---|
| | (ii) Paragraph 17 (5) | Even though, As per the provisions of the Act, the cash from the sale of prizes not presented for claims over six months should be transferred to the Presidents' Fund, but the prizes valued at Rs. 863,010 had been recorded in the books as non-current Assets of the Board.<br><br>Six hundred thirty four unclaimed Prizes had been idle over the number of years in the store. The value of 14 Prizes was not presented to the audit and the estimated loss to the Presidents' Fund regarding the remaining 620 prizes was Rs.3,512,157. |
| (b) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br>--------------------------------------- | |
| | Financial Regulations 394 (a) and 396 | Actions in respect of three cancelled cheques valued at Rs. 11,110 had not been taken in terms of the Financial Regulations. |
| (c) | Government Procurement Guidelines of 2006<br>------------------------------- | |
| | (i) Guideline 2.9.2 | The officers who participated in the procurement and Technical Evaluation Committees had been paid a sum of Rs.397,500 without examining the documents of the Form. |
| | (ii) Guideline 2.14.1 | Although not less than three sealed bids should be called to purchase goods value up to Rs.5 million, five i-Phones worth of Rs. 599,995 had been bought only calling bids from two institutions. In the case of purchases of up to Rs.10 million, at least five bids were to be called, but only two bids were called when purchasing 20,000 umbrellas worth Rs.6,680,000 and there were no signatures and official seals. |

| | |
|---|---|
| (iii) Guideline 3.4 | Although the maximum limit of the value of goods that could be purchased through the shopping method was Rs. 500,000, it had been paid Rs. 1,350,000 to buy 30 sales outlets beyond the threshold. |
| (iv) Guideline 5.3.10 | Exceeding the validity periods of the Bids by twenty seven days and forty three days had been given to purchase goods valued at Rs. 4,090,925 and Rs. 5,623,655 respectively. |
| (v) Guideline 8.13.4 | Before granting the approval, the Chief Accounting Officer had to seek the approval for a variation over 10 per cent regarding the contract works in progress from the Technical Evaluation Committee appointed by him, but the Chairman of the Development Lotteries Board had approved a variation over 15.75 per cent of the initial contract price for the Internal Construction of the Marketing Section. |
| (vi) Guideline5.3.11 | No Bid Securities were obtained with the Bids regarding 07 contracts amounting to Rs. 9,291,645 those carried out during the year 2016. |
| (vii) Guideline 5.4.8 | Performance Bonds for 07 Contracts had not been obtained from duly acceptable institutions. |
| (viii) Guideline 5.4.12 | After being made the payments regarding VAT on or before the 15th day of the following month, the details of such payments should be reported to the Commissioner General of Inland Revenue with a copy to the Auditor General, but regarding seven Construction contracts that provision were not complied. |
| (ix) Guideline 8.9.1 | Even though the contract works that exceeding the value of Rs. 250,000 and contracts regarding the goods and services exceeding value of Rs. 500,000 should be signed a formal agreement, seven contracts estimated value of Rs. 5,623,655 regarding the purchase of stationary had not been entered into the required agreements. |

(e) Public Enterprises Circulars

| | |
|---|---|
| (i) Circular, No. PED / 57 dated 11 February 2011 | A donation of Rs. 500,000 had been granted for the Festival of Sinhala and Hindu New Year without obtaining approval from the Department of Public Enterprises. |
| (ii) Section 2 of Circular, No. PED/1/2015 dated 25 May 2015 | Assigned vehicles had been allocated to 08 officers in MM 1-1 salary scale who are not qualified for assigned vehicles, and had been spent a sum of Rs. 1,119,105 for fuel and a sum of Rs.7,288,698 for salaries and overtime payments of drivers. |
| (f) The National Budget Circular, No.01/2016 dated 17 March 2016, the Public enterprises Circular, No.28 dated 31 January 2015 and the letter of the Director General of Public Enterprises, No.PED/LO/DLB/GEN/2015 dated 12 November 2015. | A Jeep had been hired by the Board on a monthly rent of Rs.198,000 instead of obtaining a vehicle under the operating Lease as per the regulations. Accordingly, from December 2015 to September of the year under review a sum of Rs.790,000 had been paid as lease rental over the required limit. |

## 3. Financial Review

### 3.1. Financial result

According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs. 1,783,386,637 as compared with the corresponding surplus of Rs. 1,727,063,739 for the preceding year, thus indicating a growth of Rs.56,322,898 or 3.3 per cent as compared with the preceding year. The growth was mainly driven by the income increased from prizes write back amounting to Rs. 28,266,240 by the Board which was not taken over by the winners.

In analyzing the financial results of the year under review and the 04 preceding years, a surplus of Rs. 1,937,967,198 was recorded in 2012 and even it showed a slight growth at the end of 2013, but shown a decline in the year 2014 and 2015. The financial result in the year under review had shown a growth of 3.3 per cent as compared with the preceding year. However, after the adjustments had been made in respect of employee emoluments, depreciation on the non-current assets, and taxes paid to the Government, the contribution for the year 2012 amounting to Rs. 2,645,519,929 had continuously improved up to 2014. Nevertheless, the contribution had been deteriorated to an amount of Rs.3,247,754,540 in the year 2015 and it had been improved up to Rs.3,797,831,858 again in the year under review. It was observed that performing of social responsibility had been limited to some extent due to the write back of unclaimed prizes ranging from 9.3 per cent to 16 per cent had been included in the net profit after tax from the year 2012 to the year under review.

## 3.2 Analytical Financial Review

An analysis of operations, Profitability and Liquidity ratios of the Board in respect of the year under review and the preceding year, is given below.

| | 2016 | 2015 |
|---|---|---|
| **Operation** | **Percentage** | **Percentage** |
| Sales & distribution expenses on the selling price | 24 | 23 |
| Cost of sales on selling price | 58 | 57 |
| **Profitability Ratios** | | |
| Gross Profit Ratio | 42 | 43 |
| Net Profit Ratio | 12 | 14.5 |
| Ratio on Taking over Prizes on the net profit | 16 | 15 |
| Ratio on Income Tax on the Net Profit | 51 | 38 |
| **Liquidity Ratios** | | |
| Current Ratio | 1:2 | 1:2 |
| Quick ratio | 1:2 | 1:2 |

The following observations are made.

(a) The sales and distribution expenditure in the year under review and in the preceding year of the Board had been recorded a higher amount of 24 per cent and 23 per cent respectively, And it was observed that the actual expenditures had been shown an increase over the budgeted sales and distribution expenditure in the year under review and in the preceding year, and the actual sales and distribution expenditure as a percentage of total operating expenditure was 90 per cent and 89 per cent respectively. It was observed that the high advertising cost of the Board had been affected directly to the net profit of the Board and adversely affected on the contribution made to the President's Fund as well.

(b) Sixteen per cent of net profit earned by the Board during the year under review had been represented from the unclaimed prizes written back.

(c) Due to the non-payment of correct income taxes relating to the preceding years had been resulted an outstanding tax liability, and payment of income taxes as a percentage of net profit had been accounted a higher amount of 38 per cent and 52 per cent in the year under review and the preceding year respectively.

(d) Although the sales income in the year under review had been increased by Rs. 2,885,215,637 or 24 per cent as compared with preceding year with the introduction of three new lotteries to the market, and the cost of sales increased by Rs.1,099,366,403 or 21 per cent had been affected to the gross profit remains unchanged.

(e) During the year under review and in the preceding year the Current Ratio and the Quick Ratio were equal to 1:2, and it was observed that the Board was not aware of the working capital management due to the current assets exceeded the current liabilities during the year under review.

However, as revealed in the audit, an account balance included in the current assets amounting to Rs. 158,037,384 can not be regarded as current assets, and observed that the actual Current Ratio should have been 1: 2.3 after the adjustment being made by that value.

## 3.3 Legal Cases Instituted Against or By the institute

Two cases in the courts had been filed against the Board, expecting reinstatement in service by a former employee of the Board and an external institution expecting compensation of Rs. 8,095,000 for defaulting payments. The information about these cases had not been disclosed in the financial statements of the Board as contingent liabilities.

# 4 Operating Review

## 4.1 Performance

The following observations are made.

(a) In terms of Section 11 of the Development Lotteries Board Act, No. 20 of 1997, the objectives of the Board are as follows.

- To conduct, or arrange for the conduct of lotteries for the purpose of generating funds for the President's Fund.

- To remit the proceeds of lotteries so conducted to the Presidents' Fund.

The following observations are made in order to accomplish the above mentioned objectives.

(i) During the year under review, the Board had conducted 851 Lottery draws on the 10 Lotteries and an income of Rs.14,759,875,240 had been earned from the sales of lotteries. Accordingly a sum of Rs.7,755,659,066 had been allocated as prizes from the income earned during the year and the amount remitted to the Presidents' Fund was Rs.1,783,386,637.

(ii) During the year under review the Board had incurred a cost of Rs.12,475,080,593 to earn the above income and a sum of Rs.384,232,565 or 3.08 per cent from that cost had been incurred on the advertising activities.

(iii) The Board had allocated for the prizes a 50 per cent from the income of lotteries sale. During the year under review, a sum of Rs.6,726,171,273 had been distributed as prizes for 166,388,074 prize winners and It was an improvement of 19 per cent as compared with the preceding year. However, during the year under review, no actions had been taken to distribute the prizes amounting to Rs.283,820,540 among the winners by the Board.

(b) The performance in sales income acquired comparing with the advertising cost incurred for the sale of lotteries given below.

| Name of the Lottery | Sales Income | | | | Advertising Cost | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | Variance | Percentage | 2016 | 2015 | Variance | Percentage |
| | Rs.Million | Rs.Million | Rs.Million | % | Rs.Million | Rs.Million | Rs.Million | % |
| Saturday Fortune | 2,486 | 2,541 | (55) | (2.2) | 34 | 27 | 7 | 26.2 |
| Development / LagnaWasana | 2,899 | 2,939 | (40) | (1.3) | 41 | 30 | 11 | 36.2 |
| Jayoda | 1,425 | 1,424 | 1 | 0.08 | 36 | 24 | 12 | 46.5 |
| Janajaya / Galaxy star | 1,137 | 1,099 | 38 | 3.4 | 28.4 | 28 | 0.4 | 1.5 |
| Niyatha Jaya | 1,241 | 1,176 | 65 | 5.5 | 49 | 26 | 23 | 86.9 |
| Super Ball | 2,744 | 2,524 | 220 | 8.7 | 32 | 30 | 2 | 5.7 |
| Sanwardane Lakshapathy | 1,000 | - | - | - | 50 | - | - | - |
| KotipathyShanida | 1,572 | - | - | - | 57 | - | - | - |
| Development Fortune | 48 | - | - | - | 14 | - | - | - |

The following observations are made regarding the above.

(i) Although the cost of advertising of the Saturday fortune and Development LagnaWasana lotteries in the year under review had been increased by 26 per cent and 36 per cent respectively as compared with the preceding year, the Sales income had been decreased by 2.2 per cent and 1.3 per cent respectively.

(ii) Although the cost of advertising of the Jayoda lottery had been increased by 47 per cent as compared with the preceding year, the sales income had only been increased by 0.08 per cent very law. Nevertheless, the advertising cost of the Galaxy Star lottery had been increased only by 1.5 per cent for an increase of 3.4 per cent of sales income. Accordingly, it was observed that the productivity of the higher advertising costs on some lotteries were at a very lower level.

(iii) An unusual advertising expenditure of 29 per cent had been spent on the sales income of Development Fortune Lottery.

(c) Performance achieved by the Board from the cost incurred on the printing of lotteries had been reduced due to unsold lotteries stock. During the year under review amount of 807,949,550 lottery tickets had been printed for a cost of Rs. 444,990,802 by the Board, and out of that amount of 53,781,800 lotteries tickets printed at a cost of Rs. 40,991,700 had been returned by the distributors. The cost of Rs.18,830,000 relating to 26,525,400 lottery tickets kept in the stores without issuing to distributors, and the printing cost of these lotteries were Rs 59,821,700. The management had been failed to implement a proper mechanism to minimize the number lottery tickets remained, and it had been directly affected to the performance of the Board.

(d) The annual net profits earned by the Board should be credited to the President's Fund as per the regulations and a sum of Rs. 1,783 million or 12 per cent of sales income in the year under review was credited to Presidents' Fund. And a sum of Rs.2353 million of net profits earned as 19.17 per cent of the sale income in the year 2014 had been credited to the Presidents' Fund and it was valued to 14.54 per cent of the sales income in 2015. Accordingly, it was observed that the contribution made to the Presidents' Fund by the Board had been continuously decreased as a percentage of the sale income.

(e) A performance report including the targets and objectives achieved during the year under review by the Board had not been prepared by June 2017 and following are some observations on the progress of achieving the targets according to the audit test checks.

(i) As per the Action Plan of the year 2016, hundred sales outlets had been failed to complete, which were planned to be constructed by spending Rs.3,375,000 during the year under review.

(ii) Hundred twenty two sales outlets out of the five hundred ten or 23 per cent had been completed which planned to be constructed during the year under review on the basis of paying a maximum of Rs.15,000 for Sales Distributors.

(iii) Action had not been taken the amount of 30 sales outlets given to Kilinochchi and Vavuniya districts by 31 March 2017, which planned to be given in the year 2016.

(iv) The Board had spent a sum of Rs. 800,000 on the construction of 20 sales outlets which was not included in the Action Plan in 2016.

(v) Although the cash requirement to construct the Sales Outlets amounting to Rs.03 million had been stated in the Annual Action Plan, the approval had been taken only for a sum of Rs.10 million from the annual budget.

**4.2. Management activities**
**--------------------------------------**

The following observations are made.

(a) Due to the management failed to settle the taxes as required in the relevant years four fixed deposits amounting to Rs.302,054,379 owned by the Board had been withdrawn before the maturity for the payment of outstanding taxes relating to the preceding years and for the year under review. Accordingly, an interest income amounting to Rs. 33,255,379 to be received from the fixed deposits had been lost.

(b) Despite the liability for tax in arrears amounting to Rs. 1,306,945,943 as at 31 December 2016, a sum of Rs. 13,475,000 had been provided for various institutions by the Board as donations. Thus, it was not observed that the Line Ministry (Ministry of Finance) had been apprised of the liability for tax in arrears by the management whilst a control on the non-productive expenses was not observed as well.

**4.3. Operating activities**
**------------------------**

The following observations are made.

(a) According to the audit test checks carried out regarding 9 lotteries, it was observed in audit a possibility of printing fake lottery tickets due to the lottery tickets printed in 21 instances were not in the standard size in the lottery draws.

(b) It was observed that a formal methodology had not been introduced by the Board to minimize the risk of the fake lottery tickets that coming into the market and the current security system, a Coloured Stripe Pattern printed on the face of the lottery tickets was inadequate for the security of the lottery tickets.

(c) Although the cab motor vehicle purchased in 2008 at a cost of Rs.8,095,000 had been misplaced from that date, no any formal action had been taken to reacquire this cab by the Board. The vehicle had been disclosed as an asset in the financial statements of the Board and provision for the depreciation amounting to Rs. 6,476,000 had been made relating to this vehicle for the period from year 2013 to 2016. It was questionable in the audit, that the provision for depreciations amounting to Rs.1,619,000 had been made annually on the vehicle not used for operating activities and expensed against the profit of the Board.

(d) The balance of the Prize reserve account relating to certain lotteries had been a negative figure due to the required plans that enable to come to conclusions about the prizes to be given under each lottery had not been prepared. As such the negative figures of the Prize reserve account were reported relating to 06 lotteries conducted by Board and the total of those figures was Rs.75,877,900. This was the main reason behind the decision of giving special prizes for some lotteries from time to time.

**4.4 Transactions of Contentious Nature**
**-----------------------------------------------**

Following observations are made.

(a) Although the engineering estimate submitted for the construction of the reception counter amounted to Rs.3,450,900, variations of a 35 per cent was observed due to the actual expenditure was Rs.2,258,251. Accordingly, the value mentioned in the engineering estimate was controversial.

(b) In the year under review a sum of Rs. 1,200,000 has been paid to the owners of a legally registered website for the propagation of the lottery brands. And it was also a matter of controversy that the expected objectives of the Board had been achieved by advertising lottery brands through a website.

**4.5 Idle and Underutilized Assets**
**--------------------------------------**

The following observations are made

(a) The CCTV camera system valued at Rs.4,758,308 which had been shown under the property, plant and equipment in the financial statements were idle since 2010, but a methodology for the disposal at the system had not been implemented.

(b) The stock of goods valued at Rs.3,400,167 which had been bought for giving the lottery winners had been kept in storage for several years, action had not been taken to credited relevant cash which was sold these items to the Presidents' Fund.

(c) While eight motorcycle at the running condition with a value of Rs.1,353,872 were kept without using in the vehicle yard of the Board, thirteen motorcycle had been purchased by spending of Rs.3,159,099 during the year under review and the preceding year.

(d) For the promotional purposes 12,275 umbrellas purchased at spending Rs. 4,216,325 had been kept in the store without a proper distribution at the end of the accounting year.Also,the value of Rs.68,250 relating to the 130 umbrellas bought to distribute for the government institutions, had been kept in the store without use.

(e) The studio which had been built spending Rs.42,720,098 in 2012 by the Board had been idled from that day without the use and it was observed as per the documents, that the estimated value of the studio was Rs.38,752,448.

## 4.6 Identified Losses

Four promotional items valued at Rs.227,514 entered in promotional item ledger had not been kept at the relevant branches at a physical inspection carried out by the audit.

## 4.7 Abandoned projects

Although, a preliminary expenditure of Rs.1,583,594 had been spent in the year 2014 for the construction of a canteen and a store, relevant construction had been abandoned without completing any construction up to now, and that cost had been recorded in the accounts as works in progress under the Non-Current assets.

## 4.8 Contract Administration

The following observations are made

The following matters were observed regarding the studio valued at Rs. 42,720,098 had been constructed during the period from year 2010 to 2012.

(i) The studio was unusable condition due to the planning without a feasibility study, not functioned as per the Section 2.14.1 of Procurement Guidelines and the non-arrangement of air conditioning system and sound administration system.

(ii) As contractors had been selected by calling for quotations separately after segmenting the cost of the contract so as for the Board of Directors to take decisions on the construction, a certain party could not be entrusted the responsible for the weaknesses of the building.

(iii) According to the objective of the action plan, although it was planned to award the contract in the first quarter of 2017 after being summoned the quotations in year 2016 to complete shortcomings of the studio, no any action had been taken to for that by audited day of 30 June 2017.

(iv) Due to the above mentioned weaknesses, the expected objectives of the Studio was not achieved, and a sum of Rs.115,200,000 had been paid to Sri Lanka Rupawahini Corporation to get performed those tasks during the period from the year 2014 to 2016 and the opportunity of earning a good income by providing service of the Studio to National Lotteries Board had also been lost.

## 4.9 Implementation of projects at the Properties/Lands not vested property

The Board had spent a sum of Rs. 492,392 as initial expenses for the construction of a circuit bungalow in the land situated in Tissamaharama that has not a legal title to the Board.

**4.10 Resources of the Board released to other State Institutions**

The following observations are made.

(a) Although, in terms of Clause 8.3.9 of Public Enterprises Circular, No. PED/12 issued on 2 June 2003, the physical and human resources of public enterprises cannot be released to the line ministry or other state institutions, two motorcycles valued at Rs.338,385 had been released to the Ministry of Finance on 16 February 2016 contrary to the above provisions.

(b) Contrary to the provisions of the above Circular, 10 members in the cadre of the Board had been released for the service of the Ministry of Finance and a sum of Rs.3,376,415 for their remunerations had been spent by the Board.

**4.11 Personal Administration**

The following observations are made.

(a) Twenty two vacancies and excess 11 officers in some post were observed when the actual cadre was 287 of the Board as at 31 December 2016 and the approved cadre was 298, however the number of excess officers had been increased up to 15 as at 28 February 2017.

(b) The functions of the Board had not been carried out according to an updated Human Resource plan. Accordingly, an information system including delegation of specific duties, updated staff details, the information about the seniority and qualifications of the staff and the number of posts assigned only to the holder etc., had not been maintained by the Board.

(c) An officer had been appointed for post of General Manager on the secondary basis and no actions had been taken to fill the permanent post over many years. And also, the actions had not been taken up to now to recruit the officers for the posts of Assistant General Manager (Human Resource) and Assistant General Manager (Procurement).

(d) No actions had been taken to recruit a permanent officer for the vacant post of Electrician and to confirm the appointment of the person who was covering the duties of the post of the Electrician for nearly ten years.

(e) The officers had been recruited on the contract basis for o4 advisory post, one Legal Officer Post, six posts of Management Assistants and nine posts of Office Assistants without getting the approval of the Department of Management Services. Three officers recruited for the advisory posts had been deployed on the duties in the Ministry of Finance. Monthly allowances of Rs. 100,000 per each officer had been paid by the Board.

And also the applications had been called on 13 June 2016 to recruit as internal promotion for the vacancies of 03 Marketing Officers and one Accounting Officer. The approval had been taken on 30 June 2016 after the applications closing date of 13 June 2016 from the Department of Management Services for the recruitment of six by each three Marketing and Accounting Officers. It was observed that the opportunity had been missed for the officers qualified to apply for the promotions due to the recruitments of ten posts were done only by using the application received on 13 June 2016 without recalling applications for these posts.

(f) It was observed that a fair process in the delegation of works had not been done by a Service Waiting List for the drivers of the Board. Thirty five drivers had been engaged in the service by the Board and according to the information made available to the audit by the transport division 20 out of them had not been taken related for the preparation of the Roaster.

(g) Duties in same nature had been assigned for the officers in the two posts of the Sales Promotional Assistant and the Sales Coordinator, and although to recruit for this posts the qualification and salary scale had been decided separately, a recruitment procedure for the post of the Sales Coordinator approval had not been obtained. Accordingly, 14 sale coordinators had been recruited without approving a recruitment procedure.

**4.12 Utilization of vehicles**
**----------------------------------**

The following observations are made.

(a) The vehicle purchased in 2009 at a cost of Rs.10,098,026 had been used by chairman of the Board of since its purchase. It was reported that this vehicle unsuitable for the use of the chairman from November 2015, and the Treasury approval had been obtained on 15 November 2015 to dispose this vehicle. Even after the approval, the vehicle had been deployed for the running and due to the running without a proper care, reported a repair of Rs.1,167,437 approximately. Therefore, the Board had lost the opportunity of obtaining the real value from the disposal.

(b) It was observed the instances of using pool vehicles by 5 officers in addition to the assigned vehicles and a sum of Rs.74,796 worth fuel had been consumed due to the running distance was approximately 3731 kilo metres and on it. The adequate evidences were not made available to audit to ensure the necessity for the use of such pool vehicles.

**4.13 Market share**

---

National Lotteries Board and Development Lotteries Board which conducted the lotteries on behalf of the Government had made the contribution by selling the lotteries in the year under review and in the four preceding years as follows.

**Sales Income of Lotteries**

| **Year** | **Development Lotteries Board Rs. Million** | **National Lotteries Board Rs. Million** | **The Market share of the Development Lotteries Board (Percentage )** |
|---|---|---|---|
| 2016 | 15,314 | 20,170 | 43 |
| 2015 | 12,280 | 17,394 | 41 |
| 2014 | 12,232 | 15,153 | 45 |
| 2013 | 10,611 | 14,537 | 42 |
| 2012 | 10,668 | 12,024 | 47 |

The following observations are made.

(a) The Development Lotteries Board had acquired a market share less than 50 per cent comparing with the market share of the National lotteries Board.

(b) The market share of the Board in 2012 was 47 per cent had been fallen down to 43 per cent in 2016 and it had been fluctuated in the range from 47 per cent to 41 per cent during the period from the year 2012 to 2016.

**5 Accountability and Good Governance**

---

**5.1. Corporate plan**

---

According to Section 5.1.2 of the Public Enterprises Circular, No. PED / 12 dated 02 June 2003, it had been shown that an Action Plan should be prepared to identify clearly expected objectives and targets and the responsible management which are to be achieved during the planned period of the Corporate Plan. However, the following shortcomings were observed in the Corporate Plan prepared by the Development Lotteries Board for the years from 2016 to 2020.

(a) The estimated amounts, costs and time periods of the expected targets to be achieved by the Board during the period from the year 2016 to 2020 had not been included.

(b) The information about the management responsible on the expected targets and Objectives to be achieved had not been included.

(c) When preparing the Corporate Plan in accordance with Section 9.2 of the said Circular, a human resource plan should be prepared on the requirements of the institution, but such a plan had not been prepared by the Board.

(d) Contrary to Section 5.1.2 of the said Circular, the Corporate Plan had not included information relating to the resources belonging to the Board, and the performance indicators.

**5.2. Action Plan**
**--------------------**

The following observations are made.

(a) The detailed Action Plan had not been prepared for the year 2016, including the expected targets to be implemented in the year 2016, measures to be taken, the estimated amount and cost and time period. Furthermore, it was not observed that the Action Plan had been prepared in parallel with the corporate plan and annual budget and an appropriate methodology had not been introduced to test the progress of the Action Plan timely.

(b) Construction of sales outlets, distribution of specific targets with values and quantities in the action plan for the year 2016 had not been shown.

**5.3 Procurement plan**
**-------------------------------**

The following observations are made.

(a) According to Section 4.2.1 of Chapter 4 of the Procurement Guidelines, the Procurement plan should be prepared according to the format provided in the procurement manual, but the Board had not prepared such a detailed procurement plan.

(b) As mentioned in the above (a) paragraph, the following details had not been included in the procurement plan.

(i) Category of procurement
(ii) Procurement method
(iii) Subscribing Specific dates to be started and completed the procurement activity.

**5.4 Internal audit**
**--------------------**

Although an internal audit division was established and assigned 05 members of staff of the Board, there was no effective internal audit in the areas of financial, marketing and administration etc. due to lack of sufficient staff.

## 5.5 Budgetary controlling

According to Section 5.2.1 of the Public Enterprises Circular, No. PED / 12 dated 02 June 2003, the budgeted balance sheet which had to be with the annual budget had not been prepared and submitted to Audit.

## 5.6 Establishment of computerized systems

The following observations are made.

(a) The service of computer software that is currently being used for the lottery drawings of the Board had been hired from a private company and there was no formal agreement for that. As the relevant company had been fully responsible for data entry relating to the lottery draws, it was observed that the Board had not taken into consideration the risks associated therewith, and the Board had not supervised the operations of the software. A sum of Rs. 9,345,000 in the year under review had been spent on the maintenance of computer software and its related activities, and the total expenditure incurred until 31 December 2016 was Rs. 92,988,744.

(b) There had been no co-ordination of information including Information System between the finance and sales divisions due to the unavailability of an Integrated Computerized Information System. Although a sum of Rs. 3,337,382 had been spent on the IT Division established in the year under review by assigning 3 officers together with an Assistant General Manager, the Board had not received adequate benefits there from.

## 5.7 Commitment to the Environmental, Economic and Social Responsibilities

The following observations are made.

(a) Although the responsibility of the Board was to conduct lotteries and award prizes for winners, due to various reasons the Board had not carried out any follow up action regarding the prize winners relating to the unclaimed prizes. As a result, all the unclaimed prizes passed over six month had been taken to the income of the Board, and a sum of Rs. 1214 million for the period from 2013 to 2016 had been taken to income including a sum of Rs.284 million of the year under review.

(b) The Board had conducted 851 lottery draws during the year under review, and out of that 793 draws had not been supervised by auditors. Accordingly, it was questionable in audit as to whether the Board had conducted lottery draws properly and transparently in a manner that the social responsibility is fulfilled.

(c) The number of lotteries for which the Board had disbursed prizes during the year under review, had been 184,040,754, and only the prizes ranging between Rs. 20 to Rs. 200 had been allocated for 183,482,914 lotteries or 99.69 per cent there from. As for the said range, 89 per cent had been the prizes worth Rs. 20. The fact was observed that the winner of the prize worth Rs. 20 is compelled to buy another lottery ticket, or prize is neglected at all, was highly favourable from the standpoint of the Board in respect of increasing the profits. Nevertheless, it is observed that such a decision had not paved the way for the fulfillment of social and economic responsibility from the perspective of the public.

(d) Following the test check conducted on 04 lotteries, huge variances were observed between the number of lottery tickets printed and the number of lottery tickets that should be printed with respect to the balls representing numbers, letters and zodiac signs used in the lottery machine. As such, the possibility of the non-availability of a single lottery ticket for a draw, ranged between 72 per cent to 98 per cent. When comparing the number of lottery tickets to be printed with the number of lottery tickets with prizes in accordance with the number of balls, the possibility of the non-availability of a ticket with a prize, ranged between 91.77 per cent to 99.60 per cent. Hence, it was questionable as to whether the social responsibility of the Board had been adequately carried out.

## 5.8 Contribution of the Board to the Presidents' Fund

According to the financial statements presented to Audit on 28 February 2017, expenditure on sales stalls that had not actually been provided by the Board, had been shown as an accrued expense through a detailed schedule as follows. Accordingly, due to the Audit pointing out that the contribution of the Board to the President's Fund had decreased by a sum of Rs. 7,606,870, the rectified financial statements had again been presented to the Audit on 04 October 2017. As the said value had been eliminated from accounts through a journal entry by considering it a recording error, the contribution to the Presidents' Fund had increased by that value.

| | Rs. |
|---|---:|
| Direct material cost on 408 sales stalls | 6,120,000 |
| Expenditure on the stickers for sales stalls | 90,000 |
| Digital printing and computerization | 3,120 |
| Promotional and printing expenditure | 16,750 |
| Amount due payable for 30 sales stalls. | 1,350,000 |
| | 7,579,870 |
| Nation Building Tax | 27,000 |
| | 7,606,870 |

The fact that this situation makes fraudulent entries in order to increase or decrease the contribution to the Presidents' Fund despite the result arising out of the transactions, and contradicts the Section 18(2) of the Development Lotteries Act, cannot be ruled out in audit.

## 6. 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.

| Areas of Systems and Controls | Observations |
| --- | --- |
| (a.) Accounting | (i) As the ledgers maintained for sales promotional items had included all the issuances such as, prizes awarded to the agents, prizes awarded to the winners, and the goods granted to the employees of the institution, the ledger had been maintained improperly. |
| | (ii) Although the sales promotional items in the accounts division, and the balances shown in the sub ledger had been copied to the main ledger, a methodology had not been followed to easily identify them, and the unit values had not been included in the said sub-ledger. |
| | (iii) The cash not received had been recorded in the cash book by considering as being received, and recording the received cash in the cash book had been slow. |
| (b.) Human Resource Management | (i) Recruitments had been made without obtaining proper approval for the Scheme of Recruitment. |
| | (ii) All the activities such as, procurements, maintenance of buildings, obtaining vehicles on rent, and disposal of vehicles had been carried out by the Administrative Officer without a suitable delegation plan. |
| (c.) Control of Operations (Control of printing tickets) | (i) Failure to receive the printed ticket containers to the stores of the Board in accordance with the serial numbers. Destroying the lottery tickets with printing mistakes without a proper supervision, thus observing a risk. |
| | (ii) Due to reasons such as, printing lottery tickets in large quantities irrespective of the quantities ordered by the distributors, and the Board receives the printed lottery tickets on the same day the draw takes place, unsold lottery tickets had accumulated at the stores in large amounts. |

| | | | |
|---|---|---|---|
| (d.) | Stores Control | (i) | Failure to maintain stock control levels relating to the stores goods and bin cards. |
| | | (ii) | Non-availability of a specific post for the stores administration. |
| | | (iii) | Weakness in the internal control with respect to stores administration and delegation of activities. |
| (e.) | Documentary Control | | Failure to maintain relevant documents properly in relation with the issue of sales promotional items (umbrellas). |
| (f.) | Control of Credit sales | | Weakness in the system of the credit sales of lotteries tickets without a guaranty and the recovery of money on due dates. |