

## **National Lotteries Board - 2017**

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The audit of financial statements of the National Lotteries Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of 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 11 (b) of the Finance Act, No. 11 of 1963. My comments and observations which I consider should be published with the 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 sent to the Chairman of the Board on 30 August 2018.

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

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Management is responsible for the preparation and fair preparation 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**

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My responsibility is to express an opinion on these financial statements based in 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 judgment, including the assessment of the risks of material misstatement 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-sections (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**

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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 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Lotteries Board as at 31 December 2017 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**

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##### **2.2.1 Sri Lanka Financial Reporting Standards 07**

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Even though the carrying amount of each of the categories of financial assets and financial liabilities should be disclosed either in the statement of financial position or in the notes in terms of Paragraph 08 of the Standard , the carrying amount of the debtors and the other liabilities payable belonging to the Board had not been so disclosed in the financial statements .

##### **2.2.2 Sri Lanka Accounting Standards**

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The following observations are made.

###### **(a) Sri Lanka Accounting Standard 01**

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The Nations Building Tax expenditure amounted to Rs. 235,767,246 had not been classified under the other expenses in the financial statements in terms of Paragraph 103 of the Standard .

###### **(b) Sri Lanka Accounting Standard 07**

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- (i) Since the rent income received in cash in the year under review from the circuit bungalows which had been categorized under the investment property amounted to Rs. 827,011 had not been appeared under the investing activities of the statement of cash flow in terms of the Paragraph 16 of the standard, the cash flow generated from the investing activities and operating activities had been underestimated and overestimated by the same amount.
- (ii) The employees gratuity payment amounted to Rs. 4,546,578 had been shown under the financing activities of the statement of cash flow not complying with the instruction of the Paragraph 17 of the Standard.

- (iii) The unrealized gain amounted to Rs.7,199,256 arising from changing in foreign currency exchange rates had not been adjusted to the opening balance of the cash and cash equivalent in the statement of cash flow in order to deduct from the profit before tax in term of Paragraph 28 of the standard.
- (iv) Even though the paid income tax during the year review amounted to Rs.1,120,934,690 should be shown under the operating activities in the statement of cash flow as per the instructions in the Paragraph 35 of the Standard, in contrary to that it had been shown under the financing activities.
- (v) It had been shown in the financial statements that the overstating of variances in current assets by Rs.548,478,160 and the understating of the variances in trade and other liabilities by Rs.549,999,999 at the computation carried out in audit.
- (vi) As a sum of Rs.480,416,033 which had credited to the rewards and reserves account had been adjusted to the profit before tax whilst being preparation of the statement of cash flow, the cash flow generated from the operating activities had been overstated by that amount.

**(c) Sri Lanka Accounting Standards 08**  
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When the entity had not applied that financial Reporting Standards which were issued but is not yet effective to the period of the financial reporting in terms of the Paragraph 30 and 31 of the Standard, it should be disclosed. Nevertheless, such disclosures had not been made in respect of the difference occurred in the Sri Lanka Financial Reporting Standards 9, 15 and 16 .

**(d) Sri Lanka Accounting Standard 12**  
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- (i) The current tax liabilities (assets) for the current and prior periods should be measured at the amount expected to be paid to (or recovered from them) the taxation all authorities using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period in terms of Paragraph 46 of the Standard. Nevertheless, it was not observed that whether the instructions in the standard for the income tax policy of the Board had been followed.
- (ii) The relevant disclosures had not been made in respect of the deferred tax in terms of the Paragraph 81 (g) of the Standard.
- (iii) Even though a provision for income tax amounted to Rs. 35,621,740 had been made in the year under review for the accrued expenses amounted to Rs. 64,766,800 adjusted to the retained profit reversing to the relevant preceding years by the Board , it had been considered as a tax expenditure of the year under review in contrary to the Paragraph 62 (a) of this Standard.

**(e) Sri Lanka Accounting Standard 18**  
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Even though the computed revenue expected to be collected or the expected receipt of that or the income received should be measured at the fair value, it had not been included in to the policy of the revenue identification of the Board as per the Paragraph 9 of the Standard.

**(f) Sri Lanka Accounting Standard 24**  
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(i) The totals of the following categories of management and employees benefits had not been shown separately and disclosed in the financial statements as stipulated in Paragraph 16 of the Standard and the Paragraph 25 of Sri Lanka Accounting Standard 19 .

- (a) Short - term employees benefit
- (b) Post - employment benefit
- (c) Other long - term benefits
- (d) Termination benefits

(ii) If there are outstanding balances in respect of Government institutions and other institutions in term of Paragraphs 25 and 26 of the Standard it should be disclosed, had not been so done.

**2.2.3 Accounting Policies**  
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Even though the reduction of value added tax paid on the sales of the Lotteries from the sales income of the statement of income had been the policy of the Board, it was observed that the Board had claimed back for the value added tax amount paid earlier on inputs.

**2.2.4 Accounting Deficiencies**  
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The following observations are made.

(a) The Board had prepared the financial statements identifying the annual estimated figures as expenses and a methodology of cost reversing had not been followed using journal entries in the following year. Accordingly, a sum of Rs. 54,966,857 had been identified as accrued expenses not complying with the Paragraph 69 of the Sri Lanka Accounting Standard 01 in the year 2016 and a sum of Rs. 48,766,800 in the year 2016 to the retained profit, a sum of Rs. 49,415,642 as an other income and deduction of a sum of Rs. 5,551,215 from the expenses had also been made by the journal entries in the year 2017 and following observations are made in this regard.

(i) Under-estimation of profit by 13 per cent in the year 2016 and overestimation of the profit by 39 per cent in the year 2017 had occurred due to the above accounting methodology .

(ii) An additional tax on advertising expenses included in the accrued expenses reversed in the year 2017 amounted to Rs. 2,396,152 had to be paid to the Board.

- (iii) An under-computation by Rs. 30,231,771 and over-computation by Rs. 57,053,511 had occurred in the income tax liability in the years 2016 and 2017 respectively due to the accounting error above .
- (b) A sum of Rs. 480,416,033 remained from the provision made for the prizes for the winners of the Lottery Draws held in the year under review should be debited to the retained profit again, due to taken in to account as an expenditure of the year under review the profit of the year had been understated by that value.
- (c) Due to the impairment loss amounted to Rs. 1,355,557 relating to the year under review had not been added to the net surplus of the year at the computation of the taxable profit, the value of the income tax had been understated by Rs. 745,556 .
- (d) The Board had purchased the Lottery Tickets valued at Rs.16,525,700 to avoid the sales outback occurred due to the price increase of a Lottery Ticket up to Rs. 30 in year under review and although the cost of those Lottery Tickets had been identified as an expenditure, it had not been confirmed from the Department of Inland Revenue in respect of that whilst the computation of the taxable income.
- (e) A sum of Rs. 3,526,260 remaining recoverable as penalties for the 176,313 Lottery Tickets which were not presented to the Board by the Lotteries Distribution Agencies during the year under review, had been omitted from the accounts.
- (f) Even though a sum of Rs. 5,336,575 invested by the Board in a private Bank had been taken over by the Government under a Notification published in the Gazette Extraordinary No. 1546/ 18 of 23 April 2008, that had been shown further under the investments without making adjustments for that in the accounts.
- (g) The necessary adjustments had not been made in the financial statements assessing the fair value for the book value of the sovereigns , gold coins and gold jewelries amounted to Rs. 682,561 purchased but not awarded as prizes for the Special Draws in the year 2016 and before the preceding year .
- (h) Although out of the Scratch (Instant) Lottery Tickets handed over to the Agents on loan basis in the year 2016 the Lotteries Tickets worth of Rs. 13,174,730 had been sent back, due to they were not taken in to accounts as returned back , the surplus of the year under review had been shown overstated by the same value.
- (i) The accounting policy applied for the Government Grants including the presentation method used in financial statements and the matters such as the nature and size of those Government grants had not been disclosed in the financial statements and the value of the motor vehicle granted from the Ministry of Finance amounted to Rs.5,795,000 had been taken in to accounts considering as an other income.
- (j) As the opening balance of the cash book was brought forward with errors whilst conversion of foreign exchange rate into local currency it was observed that the profit of the foreign exchange of the current year was over- computed by Rs. 7,199,256 .

### **2.2.5 Unexplained Differences**

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Although the balance confirmations had been requested in order to the recoverable balance amounting to Rs. 223,894,560 from 128 Lottery Agents by the Board, only 07 Agents had provided the balance confirmations. Further, a difference of Rs. 2,885,435 was observed whilst the comparison of the confirmation received from 04 Institutions who had sent the balance confirmations with the balances of the financial statements of the Board, the reasons thereon had not been clarified.

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Formal course of actions had not been taken for the recovery of the installments totalled to Rs. 3,910,272 as a sum of Rs. 3,527,572 recoverable for the Lottery Sales Booths issued to 440 Sales Agents on loan basis by the Board in the year 2014 and before it and a sum of Rs. 382,700 recoverable from the year 2016 and before that for the cycles provided for 49 Sales Agents.
- (b) Within the debtor balance totalled to Rs. 223,894,561 remained as at the end of the year under review, the balance totalled to Rs. 4,839,325 had been remained recoverable from the 09 Lottery Sales Agents for more than 02 years.
- (c) The necessary adjustments had not been made in respect of the balance amounted to Rs. 467,600 receivable from a Sales Agent who had died in the year 2014 consisted in the debtors.
- (d) The balances totalled to Rs. 1,317,614 consisted in the other debtor balances of the Board related to the Sales Agents had not been identified exactly and it was observed that those balances had remained for more than 07 years period.
- (e) Even though the Scratch (Instant) Lottery Tickets valued at Rs. 105,000 had been issued on loan basis for the personal names of two Zonal Managers employed in the Board with the objective of increase of the sales in the year 2016, those money had not been settled to the Board even by 30 May 2018.
- (f) A sum of Rs. 202,500 deposited with two external institutions for the supply of water and fuel for the Board had not been recovered over a period exceeding 04 years and it was observed that those institutions do not make any more supplies to the Board.
- (g) A sum of Rs. 11,251,109 remaining recoverable of the Board for the Colombo Airport Super Draw Lottery 32 within the debtor balance had not been recovered as at 31 December 2017.
- (h) Only 32 out of 128 Sales Agents who had registered in the Board had placed Security Bonds at the end of the year under review. The Instant Lottery Tickets amounted to Rs. 22,411,113 had been issued to the Sales Agents who had placed the Security

Bonds exceeding that Security Bond and to the 96 Sales Agents who had not kept Security Bond amounted to Rs. 161,374,396 . The money remaining recoverable for the Scratch (Instant) Lotteries amounted to Rs. 26,067,256 sold on credit to 40 Sales Agents in the year 2016 had not been settled even by 30 May 2018 and no course of actions had been taken to recover that money from the Security Bond as well.

- (i) No course of action whatsoever had been taken to recover the balance of Rs. 1,232,991 consisted in the other debtor balance but the outstanding age-related period could not be identifiable even by the year under review.
- (j) The list of individual credit balance relating to the balance amounted to Rs. 3,585,823 consisted in the creditors control account had not been furnished and that balance remained unchanged from the year 2016 to even by the end of the year under review and no course of action thereon had been taken to settle those balances.
- (k) No steps whatsoever had been taken to examine and take necessary actions in respect of the loan balances amounted to Rs. 15,249,243 shown under 05 creditors over a period exceeding 07 years.
- (l) No course of action whatsoever had been taken to settle the balances amounted to Rs. 1,502,083 which should have been paid to 57 Sales Agents who were inactive for more than 07 years but functioned as the Sales Agents of the Board and the balance remained receivable amounted to Rs. 556,606 .
- (m) The incentive amounted to Rs. 240,983 payable to the officer who had died in the year 2003 whilst being employed in the Board and two officers who were interdicted in the same year further remained in the accounts as the balances payable without being settlement.
- (n) A sum of Rs. 404,017 remained payable for the District Agents for several years were being brought forward in accounts considering overcharged computer installments without settling properly.

#### **2.4 Non - Compliance with Laws, Rules and Management Decisions**

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The following non- compliances with laws, rules, regulations and management decisions were observed.

**Reference to laws, Rules and Regulation**

**Non- Compliance**

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**(a ) Finance Act, No. 11 of 1963 as amended by the Finance (Amendment) Act, No.35 of 1997**  
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**(i)** Sections 14 (2), 16 (1) and 16 (4)

When the Board conducts Lotteries for other Ministries, Departments and Authorities it should be entered into agreements with the relevant institutions. Nevertheless, without entering into agreements with the relevant institutions in connection with the Govi Setha, Supiri Wasana Sampatha, Jathika Sampatha, Neeroga and Sevana Lotteries, the Prizes amounting to Rs. 7,482,186,980 had been awarded during the year under review. Further, which were not claimed for the prizes older than 06 months amounting to Rs. 160,104,460 had been transferred to the Consolidated Fund and the Non - cash prizes had not been transferred.

**(ii)** Section 17 (2)

Even though the balance remaining after the deduction of the expenditure from the income of the Lotteries should be credited to the Consolidated Fund, a sum of Rs. 653,427,833 relating to the preceding years had been retained without being credited.

**(iii)** Section 20 (2) (1)

Even though the Board should make rules in connection with the conduct of Lotteries and obtain the approval of the Minister in Charge of the Subject and publish in the Gazette, it had not been so done in connection with the new Lottery Tickets such as Mega Power, Neeroga, Dollar Fortune, Ran Kirula, and Sevana introduced since the year 2013. The sales income of those Lottery Tickets amounted to Rs. 2,851,185,380 and out of that income, a sum of Rs. 1,382,509,976 for the prizes and a sum of Rs. 529,309,006 as the commission of the Sales Agents had been paid.



**(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka**

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**(i)** Paragraph 10. 1 and 10. 2  
of Chapter VIII

Even though 1/ 20 of the salary can be paid as an allowance for being on duty for not less than 08 hours during the week ends or public holidays, in contrary to that Provision, the Board had considered being on duty for 12 hours on a day as two days and made payments accordingly. The payments made during the year under review in 30 instances so considered as two days amounted to Rs. 71,095 . Further, 16 instances of payments of holiday pay by considering the working days of the week as public holidays were observed and the payments so made amounted to Rs. 23,940.

**(ii)** Paragraph 11 of Chapter XXIV  
and Department of Public  
Enterprises Letter No. PE/ LO/  
NLB/ COPE / 2018 of 23  
January 2018

Even though the granting of property loans with effect from 01 January 2005 should be made through Banks and also it had been emphasized by the Department of Public Enterprises, the Property Loans amounting to Rs. 23,496,950 had been granted to 15 officers from the funds of the Board to officers without considering that during the year under review. Further, the interest recoverable from the officers in accordance with the provisions relating to the Property Loans had been ignored and every officer had been granted Loans at the minimum 4 per cent rate.

**(c)** Public Administration Circular  
No. 13/2008 (iv) of 09 February  
2011

A sum of Rs. 1,628,536 had been overpaid exceeding the monthly payable fuel limit for the 04 officers who entitled to official motor vehicles.

**(d)** Public Enterprises Circular  
No. 01/ 2015 of 25 May 2015

The fuel allowance amounted to Rs. 3,298,368 had been paid during the year under review for the 24 Zonal Managers and 17 Sales Promotion Officers who had not entitled for the official vehicles.

**(e) Public Enterprises Circulars**

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**(i)** Circular No. PED/ 12 of 02  
June 2003

- Paragraph 6.5.1

Draft of the Annual Report for the year under review had not been presented to the Auditor General along with the financial statements.

- Paragraph 9.12
  - Commencing a Fund named Asarana Sarana by the Board in the year 2006 without obtaining the approval of the Treasury and the donations from the Lottery Prize Winners and a 0.5 per cent out of Neeroga Lottery sales income had been credited to the above Fund for that.
  - Even though a welfare allowances of Rs. 15,605,217 had been paid to the staff during the year under review on the approval of the Chairman of the Board, the approval for that from the Treasury had not been obtained. This allowance had been paid in the preceding years as well.
- (ii) Circular No. 95 of 14 June 1994 and Circular No. PED/12 of 02 June 2003
- An Incentive Allowance Scheme had been implemented for the staff of the Board without obtaining the approval of the Treasury and the payment made as Incentive Allowances in the year under review amounted to Rs. 77,792,278..
  - Even though instead of the government approved subsistence allowance, arrangements had been made to be able to obtain a special promotional allowance up to Rs. 3,000 in maximum per day the approval of the Treasury had not been taken for that. Further, the amount which had been so paid was Rs. 3,470,700 in the year under review.
- (iii) Circular No. PED/ 03/ 2015 of 17 June 2015  
Paragraph 2.5
- The Board had paid an incentive amounting to Rs. 286,185 to the Chairman and the Working Director during the year under review in contrary to the Provisions in the Circulars.
- (iv) Circular No. 57 of 11 February 2011
- Instead of preparing an Annual Publicity Plan and obtain the approval of the Department of Public Enterprises, a sum of Rs. 940,272,567 had been paid whilst a sum of Rs.1,013.545,562 had been spent in the preceding year.
- (f) Public Finance Circular  
No. 02/ 2015 of 10 July 2015  
Paragraph 03 and 05
- Five vehicles and 09 motor bicycles had been sold without appointing a Mechanical Engineer as well as a Motor Vehicle Examiner of the Department of Registrar of Motor Vehicles to the Board of vehicles conducted in the year under review.

- (g) Letter of the Deputy Secretary of the Treasury No. PE/70/7 Vol.11 of 21 January 1993
- Even though out of the income of the all the Lotteries conducted on behalf of the Government a 16.5 per cent should be remitted to the Consolidated Fund, only 10 per cent had been remitted from the income of the Lotteries held in the year under review such as Sampath Rekha, Mega Power, and Supiri Delakshapathi , the value not remitted to the Treasury further was Rs. 180,353,340 .

## 2.5 Transactions not confirmed by Adequate Authority

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The following observations are made.

- (a) Even though the payments ranging from Rs. 1,200 to Rs. 4500 were being made for a Draw without assigning a proper service circle and exact duties to the officers participated for the terms of Lottery Draw, the approval of the Treasury had not been obtained for that and the payment made as such only for the during the year under review was Rs. 55,932,000.
- (b) The Lottery Tickets valued at Rs. 64,724,000 had been sold by the advertising coaches all over the island by the staff and the sales commission thereon amounted to Rs. 11,326,700 or 17.5 per cent had been paid to the drivers and the advertising officers who were employed on that duty in the year under review. However, a formal approval for that duty had not been observed in audit.
- (c) The private auditors had been appointed for the audit of 04 various types of Funds which are being maintained for the staff and a sum of Rs. 235,000 had been paid for those auditors in the year under review as audit fees from the funds of the Board. A formal power of authority had not been furnished for this payment.
- (d) The interest income received for the investments belonging to the Board in the year under review was Rs. 310,402,912 and a sum of Rs. 144,994,647 or 46 per cent from the interest income had been earned by investing the money of the Prize Reserve Fund as per the calculation made in audit. Nevertheless, the interest income earned had been credited to the income of the year without having the formal authority.
- (e) A special promotion and special duty allowance amounted to Rs. 119,000 for the 18 officers who had participated to the Sinhala New Year Programmes held in Niyagama, Galle and Angunakolapelessa on the days of April 13,14 and 15 of the year 2017 and in addition to that 42 gift vouchers valued at Rs. 21,000 each by Rs. 500 had been offered. Actions had not been taken to obtain the approval of the Treasury for those allowances.

### 3. Financial Reviews

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#### 3.1 Financial Result

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According to Financial Statements presented the financial result of the Board for the year under review had been a surplus of Rs. 139,805,208 as compared with the corresponding surplus amounting to Rs. 414,761,431 for the preceding year thus indicating an deterioration of Rs. 274,956,223 in the financial result as compared with the preceding year. Being decreased the gross profit by Rs. 556,845,017 due to the decrease in Lottery income of the Board by approximately 17 per cent in the year under review as compared to the preceding year had been the main reasons for the above deterioration.

In analyzing of the financial results for the year under review and 04 preceding years, although a deficit had indicated in the financial results in the years 2013 and 2014, a surplus of the financial results had been earned in the other years up to the year under review. Nevertheless the surplus of the year under review had deteriorated by 67 per cent as compared to the preceding year. However, in the re-adjustment of the employees' remuneration and the depreciation for the non-current assets and the taxes paid to the Government to the financial result, the contribution from the year 2013 to the year under review had been a favourable amount. Nevertheless, a deterioration in the contribution in the year 2014 and the year 2017 as compared to the preceding years, an improvement in the years 2015 and 2016 were observed and the deterioration in the contribution in the year under review was 15 per cent or Rs. 717,906,549 .

#### 3.2 Analytical Review

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An analysis in respect of the profitability and the working capital ratios of the Board in the year under review and the preceding year are as follows.

Ratio	Year	
	2017	2016
i Gross Profit (Percentage)	12.36	13.02
ii Net Profit/Loss (Percentage)	0.83	2.05
iii Current Assets Ratio	1.65:1	1.34:1
iv Instant Assets Ratio	1.61:1	1.31:1

The following observations are made in this regard.

- (a) The Lottery sales income for the year under review had decreased by Rs. 3,423,237,530 or 17 per cent as compared to the preceding year and due to that, the gross profit ratio also had decreased by 0.66. Enacting of a product tax based on sales of the year under review also had mainly attributed for this.
- (b) The attention should be drawn to maintain the current and quick ratio of the Board at an optimum level further, and even though the quick ratio of the year under review shown as 1.61:1, the Prize Reserve Fund and the Employee Gratuity Fund had been the reason for that.

#### 4. Opening Review

##### 4.1 Performance

##### 4.1.1 Planning

The Board had not taken actions to prepare a Performance Report for the evaluation of the progress as per the Action Plan for the year 2017.

##### 4.1.2 Activity and Review

The following observations are made.

(a) Even though several years elapsed after the commencement of the Institution, the attention of the Management had not been drawn relating to the improvement of the infrastructure facilities of the Board.

(b) The Lottery Tickets income and the advertisement cost relating to the year 2016 and 2017 of the Board are appear below.

Name of the Lottery	Sales Income				Advertising Cost			
	2017	2016	Variance	Percentage	2017	2016	Variance	Percentage
	Rs. Mil.	Rs. Mil	Rs. Mil	%	Rs. Mil	Rs. Mil	Rs. Mil	%
Mahajana Sampatha	4,885	5,342	(457)	(8.6)	144	132	12	9.1
Wasana Sampatha	814	1,143	(329)	(28.8)	74	93	(19)	(20.4)
Govisetha	4,053	4,011	42	1.0	135	121	14	11.6
Supiri Wasana	1,023	1,683	(660)	(39.2)	69	83	(14)	(16.9)
Jathika Sampatha	954	1,355	(401)	(29.6)	69	83	(14)	(16.9)
Sampath Rekha	1,162	1,632	(470)	(28.8)	93	102	(9)	(8.8)
Wasana Sampatha	-	154	(154)	0	-	-	-	-
Super Fifty								
Mega Power	1,298	1,135	163	14.4	79	79	0	-
Power Lotto	-	72	(72)	0	-	-	-	-
Neeroga	1,063	1,308	(245)	(18.7)	91	90	1	1.1
Manusath Mehevara	-	30	(30)	0	-	-	-	-
Supiri Delakshapathi	421	517	(96)	(18.6)	55	66	(11)	(16.7)
Raja Dinuma	101	140	(39)	(27.9)	-	-	-	-
Samurdhi	51	176	(125)	(71.0)	-	3	(3)	(100)
Sevana	848	1,475	(627)	(42.5)	40	4	36	900
Supiri Govisetha	73	-	73	-	-	-	-	-

- (i) Out of the 15 types of Lotteries sold in the preceding year, as 03 types of Lotteries had not fulfilled the sales targets in the year under review had been stopped and out of the remained Lottery Tickets, the income had increased only in 02 types of Lotteries as compared to the preceding year. Nevertheless, the growth of that revenue had been less than 15 per cent and the income of the 10 types of Lotteries had decreased between the range from 8.6 per cent to 71 per cent. Accordingly, the overall income had decreased by Rs. 3,427 million as compared to the preceding year and as a percentage, it was 17 per cent.
- (ii) Even though the increase of the income of the Govisetha Lottery in the year under review as compared with the preceding year was Rs. 42 million or one per cent, the advertising expense of that had increased by 11.6 per cent.
- (iii) Even though the advertising expense of the Mahajana Sampatha Lottery which had earned the highest income amounted to Rs. 4,885 million as per the data above had been at the lowest figure as 2.9 per cent out of the sales income, the advertising cost of the Sampath Rekha Lottery which had earned an income of Rs. 1,162 million had been taken 8 per cent higher in sales out of the sales income.
- (e) Even though the Board had earned a profit amounted to Rs. 139,805,208 during the year as per the computation carried out at the audit, the following unfavourable financial result amounted to Rs. 160,024,736 had occurred as follows by selling of Lotteries.

	<b>Rs.</b>
Net Lottery sales income	15,638,283,224
Cost of sales	(13,567,962,820)
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Gross profit	2,070,320,404
Sales and distribution expenditure	(1,130,365,799)
Administration expenses	(666,740,574)
Financial cost	(36,583,170)
Income tax (except for tax interest income)	(396,655,597)
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<b>Selling of net loss after the tax</b>	<b>(160,024,736)</b>
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The following observations are made in this regard.

- (i) Even though, the percentage of the provision made for the expenses of the activities of the Board out of the sales price of a Lottery Ticket was 22.18 per cent, because of a 23.88 per cent had incurred, a sum of Rs. 284,702,063 or 1.7 per cent had been incurred exceeding the limit allowed to be spent.
- (ii) Even though the total of the other incomes of the Board in the current year was Rs. 387,784,659, being the net profit of the year was Rs. 139,805,208, the above loss occurred by sales of the Lottery Tickets which was the main operating activity of the Board the cause was that the above loss was covered by other income.



## 4.2 Management Activities

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The following observations are made.

- (a) Despite the necessity of obtaining the Security Bond from the Agents of the Board had been emphasized by the Board of Directors without considering that decision a credit insurance had been obtained relating to the period from July 2016 to July 2017 by incurring additional cost of Rs. 8,290,055. Nevertheless, out of the 118 Agents who had registered under the Board 27 had not been entered in to this Scheme and the reasons for that had not been clarified. However, even though the unsettled loan balance for more than 06 months for the years 2016 and 2017 were Rs. 42,073,492 , it was not observed that no course of actions whatsoever had been taken to identify the risky credit balances out of those loan balances and recover from the insurance coverage.
- (b) As the printing orders had been provided without forecasting properly the necessity of the Lottery Tickets which are printed by the Board, about a portion of 12.26 per cent out of the Lottery Tickets in every Draw had remained unsold and accordingly, the printing cost of the remained Lottery Tickets as at the end of the year was Rs. 53,282,897.
- (c) The attention had not been drawn in respect of the realizable value of the unsold Lottery Tickets focus on identifying and taking in to accounts according to the stock removal method of the Board.
- (d) Actions had not been taken to take over the irrevocable Attorney Power in respect of 108 Deeds related to the property loans granted by the Funds of the Board.
- (e) An awarding ceremony named “ Mahathma” had been held with the expectation of appreciation of the staff of the Board, District Sales Agents, Sales Agents and Sales Assistants in the year under review and a sum of Rs.10,388,500 had been paid without preparation of criteria for the appraisals and granting the supervision and operations to a selected advertising company in contrary to the procurement procedure for that. However, the Sales Agents of the Board had been totally removed from this appraisal procedure and as it was not estimated the expected participation for the program properly, though the facilities were available for 1,100 of persons the actual number of participants had been 700.
- (f) It had been handed over to two selected advertising companies at two instances for the sales of Colombo Airport Super Draw 32 Lottery Tickets without following procurement procedure. Further, even though the Security Bonds amounted to Rs. 46,240,297 or 85 per cent should be obtained based on the number of the Lottery Tickets agreed to be provided to those sales companies, the Security Bond valued at Rs. 2,200,000 had only been obtained. Accordingly, no course of actions whatsoever had been taken to obtain the Security Bond valued at Rs. 44,040,297.



- (g) Whilst the assets remained under the property plant and equipment issuing to various divisions of the office, due to those were not documented accurately, a formal examination had not been conducted in respect of 879 items valued at Rs. 43,463,400 which had been identified as misplaced at the Boards of Survey of the year under review.
- (h) In addition to settling the monthly bills for more than the 480 telephones by the National Lotteries Board, 60 telephone connections to dial 9 and obtain direct calls facilities had been provided. Further, Approximately 15 officers and 45 other Branch Officers who receive the approved telephone allowances in terms of the public Enterprises Circular No. PED /2 / 2015 of 25 May 2015 had also been provided that telephone facility and the telephone expenses for the year under review was Rs. 30,214,282. Further, actions had not been taken to recover a sum of Rs. 514,299 incurred by exceeding the approved limit from 17 officers obtain the telephone allowances.

### **4.3 Operational Activities**

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The following observations are made.

#### **(a) Operational Activities**

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The following observations are made.

- (a) The printing works of the Mahajana Sampatha Lottery being conducted by the Board from the year 2008, the printing works of the Neeroga Lottery from the year 2015 have been doing by the State Printing Corporation since 2016 up to now and an agreement was not available for that. Even though, the lowest price received for the printing of a ticket through the Procurement Process for the printing of the Lottery Tickets implemented during the year under review was Rs. 0.3570, a sum of Rs. 0.5021 for the printing of one Mahajana Sampatha Lottery and the printing cost of Rs. 0.6637 of a Neeroga Lottery Ticket are being paid to the State Printing Corporation. Due to not considering the competitive prices, the estimated loss could have been occurred from the printing of Mahajana Sampatha Lottery for only the year under review amounted to Rs. 31,791,602, the estimated loss from the printing of Neeroga Lottery Tickets had been approximately Rs. 7,815,276.
- (b) Due to the decentralization of the Centralized Sage ACCPAC Computer Software in the year 2016 which was introduced in the year 2003 for the carrying on the accounting activities by the Board thereon, the services which could be able to obtain from that software had been in limit. The reliability of the company's transactions was also questioned under this decentralized system by the previously existed centralized method and the company which had introduced this software had refused to accept responsibility for the risks involved due to relevant changes made.
- (c) Out of the Gold Coins purchased for the Govisetha 1,500 Special Draw held on 28 June 2017, the book value of 58 Gold Coins amounted to Rs.1,484,800 had remained in the stores without assessing again even by the 30 May 2018.

- (d) Even though the value of the prizes of the winners not appeared should be remitted to the Treasury after credited to the Fund of the Board, though a jeep purchased valued at Rs.2,350,000 to award a prize from the Prize Reserves Fund in the year 2013/ 2014 had been offered for the Special Draws in several instances a turning up a winner had not occurred and that had been taken to the use of the Board without obtaining the approval from the Treasury.

#### **4.4 Transaction in contentious nature**

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The following observations are made.

- (a) Despite the legal ownership had not alienated totally, the Board had granted a Housing Loan amounted to Rs. 774,480 to an officer there and the proposed land for the construction of the house had been alienated to the officer by the owner of the land entrusted with the life interest. A written statement had been forwarded by the owner of the land through a private Law Firm as he would remove the possession of that land and ownership of the land would be alienated to the officer. Nevertheless, that party had filed a case in Court demanding the possession of the relevant property later and the Board had been nominated as a party. Despite a professionally qualified lawyer is being employed in the Board, a sum of Rs. 211,475 had been paid by the Board for 11 trials for this case as legal fees to the external lawyers.
- (b) Due to purchase of 1,085,200 Lottery Tickets valued at Rs. 32,556,000 from 4,707,000 printed Lottery Tickets by the Board itself for 09 Draws relating to 06 types of Lotteries held on 01, 02, and 03 of January in the year under review without having the approval of the Secretary to the Ministry of Finance, it was observed in audit that an additional payment amounted to Rs. 16,845,862 had occurred.
- (c) Even though the Scratch (Instant) Lottery Tickets sent to the Agents in the year 2016 valued at Rs. 13,174,730 and credited to the sales income had been returned in the year under review, without considering that, the incentives amounted to Rs. 35,813,250 had been paid in the preceding year to the staff and the Agents thereon based on the overall sales of the year 2016.
- (d) Even though, the sale of the Colombo Airport Super Draw 32 and Dollar Fortune Lottery Tickets are being carried out in US\$ and Sri Lankan Rupees, all the receiving should be credited to the bank account of the Board by US\$. An informal permission had been given to the officers of the Sales Division to work with private money changers to convert the cash collected in Sri Lankan Rupees to the US\$ accordingly.

#### **4.5 Fund Management**

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Whilst the Sales Agents deposits money in the Collection Account maintained by the Board in the Peoples' Bank ,though the bank had charged the service charge totalled to Rs. 36,226,108 as 0.05 per cent, the Board had not drawn any attention in respect of that.

#### **4.6 Idle or Underutilized Assets**

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The 02 trucks purchased on 31 December 2015 amounted Rs. 7,650,000 and 05 Single Cabs purchased in the year under review by incurring Rs. 20,750,000 by the Board for the purpose of Trade Branding had been parked at the premises of the Institution not using for that task even by the 30 May 2018 and the Motor Car No. BMW (A1) 5860 belonging to the Board also had been in idle.

#### **4.7 Uneconomic Transactions**

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The following observations are made.

- (a) Despite the Legal Officer was appointed for the legal activities of the Institution a sum of Rs. 1,656,000 had been paid to the external parties for the legal activities in the year under review.
- (b) Thirty five thousand Lottery Tickets per every draw had been issued as far as the North East Region is concerned by changing the language and art works from the 1269 Govisetha Draw, only to that area. Accordingly, although 5,495,000 Lottery Tickets had been printed in 157 draws accordingly, a number of 1,874,280 or 34.10 per cent out of total number of Lottery Tickets cost at Rs. 655,998 had remained without sold.
- (c) The following observations are made in respect of the Colombo Airport Super Draw 32.
  - (i) Due to a sum of Rs, 26,691,000 collected from the Lottery Ticket sellers not being properly banked, the interest income amounted to Rs. 184,100 could be able to obtain to the Board directly had been lost as per the computation of the auditors.
  - (ii) Even though the vehicle to be awarded for the prize of the Lottery Ticket was a 47 per cent of the Lottery Ticket income or Rs. 12,697,755, the value of the vehicle granted was Rs. 18,000,000 or 67 percent, thus a sum of Rs. 5,305,245 had been incurred exceeding the due value of the prize.
  - (iii) It was observed in audit that, due to the draw occurred before the sale of all the Lottery Tickets printed for this Draw, the 7,204 Lottery Tickets cost at Rs. 396,220 remained without selling was an uneconomic expenditure.

#### **4.8 Identified Losses**

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No course of action whatsoever had been taken to recover the worth of 135 misplaced Lottery Tickets made valid to the Colombo Airport Super Draw valued at Rs. 627,750.

#### **4.9 Legal Actions Instituted against the Board**

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It was observed that the external parties had filed 06 cases in Courts against the Board demanding the compensation amounted to Rs. 84,905,330 due to the matters such as termination of services, payments not made for the services provided to the Board, granting a loan to a cancelled Deed of Gift .

#### **4.10 Commencement of the Projects in the Lands not acquired formerly**

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Although the Circuit Bungalows were built and maintained in 02 State owned lands in Anuradhapra and Mannar Districts, no course of actions whatsoever had been taken to take over the ownership of such lands legally.

#### **4.11 Resources of the Board released to other Government Institutions**

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Even though the resources belonging to the Ministry should not be released to the Line Ministry or the other Government Institutions in terms of the Paragraph 8.3.9 of the Public Enterprises Circular No. PED/ 12 of 02 June 2003, eight officers of the Board had been released to the Ministry of Finance in contrary to that from the January in the year under review. Further, actions had not been taken to reimburse a sum of Rs. 1,589,656 paid to those officers from the Board as personal emoluments and incentives.

#### **4.12 Staff Administration**

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The following observation are made.

- (a) Although it had been approved to recruit 10 Zonal Managers to the Board on contract basis, due to 14 persons recruited to that post 04 had been recruited exceeding the approved number. Further the advertisements had not been published in terms of the Paragraph 5.4 of the approved Scheme on Recruitment whilst the recruitments being made and an officer from the Line Ministry had not been appointed to the Interview Board. It was further observed that the persons had been appointed to those posts who had not fulfilled the approved streams and work experience .
- (b) Even though the approved cadre of the two posts of the labourer and the supporting announcer of the Board was 31, twenty had been recruited exceeding that number and a sum of Rs. 1,381,698 had been paid in the year under review as salaries.
- (c) The designation of the approved Finance Officer of the Board was suppressed and a post of Marketing / Promoting Officer was created for the Board without having the concurrence of the Department of Management Services. A person who had hold the position as a Management Assistant had been appointed from 08 August 2017 for that post without mentioning the required qualifications and despite it had been ordered to suspend 03 salary increments of that officer, without taking such action salaries had been paid for the new post.

- (d) It should have been taken action to recruit those who sat the G.C.E (O/L) examination under structured interviews for the posts of labourers of the Board in terms of the Paragraph 5.4 of the Scheme of Recruitment. Nevertheless, even though it had been stated that 03 officers who did not confirm that they sat for that exam were also mentioned that they sat for the examination, it was observed that 04 labourers who had not furnished educational certificates had also been recruited.
- (e) An appointment has been made by an officer on contract basis by changing the position of General Manager (Marketing and Promotions) of the Board as Chief Sales Officer with the recommendation from a member of the Board of Directors. Nevertheless, although the salary entitled to that post was Rs. 41,566 without considering that a salary amounted to Rs. 90,000 had been paid monthly and in addition to that the payments of incentives for other staff and 200 liters of fuel had also been provided. Accordingly, a sum of Rs. 49,232 had been paid exceeding the entitled salary and the monthly overpaid amount was Rs. 30,000 as other allowances. The salaries totalled to Rs. 1,467,384 had been overpaid as Rs. 295,392 in the year 2015, Rs. 590,784 in the year 2016, Rs. 581,208 in the year under review accordingly.
- (f) A Hand Book had not been prepared in terms of Paragraph in 9.14 of Public Enterprises Circular No. PED/ 12 of 02 June 2003.

#### 4.13 Market Share

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The Lotteries sales activities had been maintained by the National Lotteries Board and Development Lotteries Board that are two Government Institutions in Sri Lanka . In the year under review, the National Lotteries Board had a Market Share of 54.5 per cent as compared to the Market Share of the Development Lotteries Board and it was down by 2 per cent in the year under review as compared to the year 2016 and 4 per cent as compared to the year 2015. Further, it was observed that, it has been fluctuated annually since 2012 and the details are given below.

Year	Lottery Sales Income		Market share of the
	National Lotteries Board	Development Lotteries Board	National Lotteries Board
	Rs. Million	Rs. Million	%
2017	16,747	13,982	54.5
2016	20,170	15,314	56.84
2015	17,394	12,265	58.65
2014	15,153	12,592	54.62
2013	14,537	10,611	57.80
2012	12,024	10,668	52.98

#### **4.14 Weaknesses in Common Control System of Information Technology**

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The sufficient actions had not been taken to overcome the following flaws exists in the Information Technology System of the Board.

- (a) Not using a system secret code to confirm the identity of the persons who insert the data into the computer system and change the data.
- (b) Actions not taken to correct the ability of issuing the sales invoices beyond the number of Lottery Tickets received in printed to the stores existing in the current computer system of the Board.
- (c) Not developing computer system to enable the entry of data on the inter-transaction Tickets among the Sales Agents. Because of this, observe the occasions of the parties that ultimately are responsible could not be identified the in respect of issued tickets by the Board
- (d) Even though a Vehicle Management and Vehicle Tracking Module had been purchased incurring a sum of Rs.740,000 for the supervision of every vehicle being used in the Board in the year 2012, due to not using its technical tools and equipment properly those equipment were functioned relating to only 02 vehicles. Nevertheless, the attention of the Management had not been drawn in respect of this.

### **5. Sustainable Development**

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#### **5.1 Achievement of Sustainable Development Goals**

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Even though every Public Institution should act in compliance with the Circular No. NP/SP/S/DG/17 of 14 August 2017 issued by the Secretary to the National Policy and Economic Affairs and the United Nations year 2030 “Agenda” for Sustainable Development . Nevertheless, due to failure of the being aware of the said Agenda for the year 2030 Ministry of Public Administration, actions had not been taken to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievement of such targets.

### **6. Accountability and Good Governance**

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#### **6.1 Procurement**

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The following observations are made.

- (a) A Master Procurement Plan had not been prepared for the all the procurement activities of the Board for the year under review in terms of 4.2.1 of the Government Procurement Guideline 2006 and only an estimate had been prepared for the expected sales promotion items.

- (b) The printers had been selected without following the formal procurement procedure for the 06 type of Lottery Tickets from 11 categories being operated by the Board in the year under review. Further, the necessary Procurement activities to select a new printer on 31 May 2015 for the printing activities had not been carried out even by the 30 May 2018.
- (c) Even though the contractual period entered into with advertising firms had been completed on 30 April 2016, without make any re-procurement the service had been obtained from the same institutions by extending the time.

## **6.2 Unresolved Audit Paragraphs**

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The following observations are made.

- (a) Even though the Committee on Public Enterprises had directed on 21 March 2013 to recover overpayment of Rs.7,392,287 as employee gratuity made in the preceding years, action had not been taken either for the recovery of that amount or for the disclosure in the financial statements as an, amount receivable. The Board had only issued a written notice to the retired officers informing them to reimburse to the Board the gratuity overpaid.
- (b) According to the Directive made by the Committee on Public Enterprises at the meeting held on 04 November 2014, a new building should have been constructed on the land, 112 perches in extent owned by the Board situated on the Vauxhall Street. Nevertheless, the selection of an Architect for the preparation of the building designs only had been done even by the end of the year 2016. This construction work had not been commenced up to 31 May 2018 and the rent paid for the 03 buildings taken on rent for the maintenance of the office and the stores activities of the Board during the year under review amounted to Rs. 26,907,240 .

## **6.3 Performing of Environmental and Social Responsibilities**

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Even though more than a 700 metric tons of papers are being used by the Board for the printing of Lottery Tickets annually the attention of the Board had not drawn in respect of any alternative method to minimize the damage occurred to the environment after releasing those Lottery Tickets to the market.

## **7. Systems and Controls**

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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 systems and controls.

## **Areas of Systems and Control**

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## **Observation**

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|---------------------------------------|---|
| <b>(a)</b> Accounting                 | <b>(i)</b> Non - updating and not correcting the transaction broken down by decentralization of the Computerized Accounting System (ACCPAC Accounting System with ERP facilities), not using the software correctly.<br><b>(ii)</b> Estimated figures taking in to accounts<br><b>(iii)</b> Applying a large number of journal vouchers repeatedly in monthly, applying the journal vouchers in the same number, non – maintenance of the main ledger accurately, journal vouchers taking in to accounts without an approval. |
| <b>(b)</b> Operational Control        | <b>(i)</b> The surcharges recoverable from the Agents at the instances non - return of unsold Lottery Tickets by the Agents not taken in to account.<br><b>(ii)</b> Not-introducing the security system for the prevention of the possibility the Lottery Class Number being printed erroneously under another Lottery Bill.  |
| <b>(c)</b> Human Resources Management | Not carrying out the recruitments and promotions in accordance with their procedures and non- preparation of the plans to for the recruitments for the vacancies available.   |
| <b>(d)</b> Debtors Control            | Inability to obtain an age analysis from the decentralized Computer System.   |
| <b>(e)</b> Contract Control           | Non- submission of copies of contract agreements to the Auditor General.  |
| <b>(f)</b> Stock Control              | Non- inclusion of sales promotion items in to the stock registers.  |