Development Lotteries Board - 2017

The audit of financial statements of the Development Lotteries Board for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 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 issued to the Chairman of the Board on 15 November 2018.

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-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

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the 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 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

2.2.1 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Accounting Standard 1

(i) In terms of Section 32 of the Standard, assets and liabilities and income and expenses should not be set off against each other unless otherwise required or permitted by Sri Lanka Accounting Standards. However, the loss from sale of motor cycles amounting to Rs.189,638 had been indicated by setting off against other income by the Board. Further, debit balances of eight bank accounts totalling Rs.844,650,423 had been set off against the credit balances of three bank accounts totalling Rs.105,184,705 and shown under cash and cash equivalents of the statement of financial position as Rs.739,482,123. However, these balances had been shown in notes for accounts separately.

(ii) In terms of paragraph 54 of the Standard, intangible assets should be separately presented in the statement of financial position. However, the computer software, website development etc. to the total value of Rs.2,243,478, had been indicated under property, plant and equipment by the Board.

(iii) In terms of paragraph 66 of the Standard, the assets which are expected to be realized within 12 months after the reporting period shall be classified as current assets. Nevertheless, the value of 11 fixed deposits amounting to Rs.1,012,526,906 realized within one year, had been indicated under non-current assets of the statement of financial position.

(b) Sri Lanka Accounting Standard 7

Even though the interest income received as cash receipts in the year under review had been Rs.119,182,529, it had been indicated as Rs.120,768,549 under investing activities of the cash flow statement. As such, the cash flow arising from investing activities had been overstated by Rs1,586,020.

(c) Sri Lanka Accounting Standard 16

(i) In terms of paragraph 51 of the Standard, even though the assets costing Rs.165,556,090 had been fully depreciated as the useful life of non-current assets had not been reviewed annually, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 8.

(ii) In terms of provisions of paragraph 34 of the Standard, the lands and buildings and machinery belonging to the Board had not been revalued and the fair value thereof had not been indicated in the financial statements even after 31 December 2010 and 31 December 2012 respectively.

(iii) In terms of provisions of paragraph 55 of the Standard, the Board had begun the depreciation of an asset when it was available for use. However, it had been indicated in the financial statements that the policy on depreciation of the Board is that the assets are depreciated proportionately in the year of purchase and provision for depreciation is not made for the year of sale.

(d) Sri Lanka Accounting Standard 19

In terms of paragraph 63 of the Standard, liabilities and assets for employees' gratuity should be recognized separately and the current net gratuity value arising from setting off them against each other had been indicated in the statement of financial position. Gratuity assets and liabilities relating thereto had been indicated separately in the statement of financial position.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The value of investment of gratuity of Rs.38,412,622 had been indicated in the value of fixed deposits amounting to Rs.1,050,939,528 shown in the statement of financial position. As such, the value of fixed deposits and the value of investment of gratuity had been overstated and understated by the same amount respectively.

(b) The depreciation for constructions relating to the Reception Counter and the Information Technology Unit which had been used from March and April of 2017, amounting to Rs.230,999 and Rs.209,171 for the year 2017, had not been brought to account respectively.

(c) Even though only a sum of Rs.13,612 should be adjusted as depreciation for the air conditioner for the year 2017, which was purchased at a cost of Rs.72,600 on 01 April 2017, a sum of Rs.54,698 had been depreciated and as such, the expenditure on depreciation had been overstated by Rs.41,086 in the account.

2.2.3 Unexplained Differences

According to the information presented to Audit, a difference of Rs.3,709,070 was observed between the total value of all allowances granted to the staff and the value of allowances indicated in the financial statements. Moreover, a difference of Rs.2,828,300 was observed between the information presented by the Finance Division and the Administration Division relating to payments made for the staff for conducting of lottery draws and reasons for these differences had not been explained.

2.2.4 Lack of Evidence for Audit

The following observations are made.

(a) Evidence indicated against 04 balances of Expenditure Accounts totalling Rs.13,249,192 indicated in the financial statements, had not been made available to Audit.

	Item	Value Rs.	Evidence not made available
(i)	Expenditure on hiring of motor vehicles	9,317,866	Monthly Running Charts Special approval of the Secretary to the Ministry for hiring of motor vehicles
(ii)	Expenditure on training for the staff	1,740,549	Training Plan for the year 2017 Basis for determining payments relating to the resource person allowance of Rs.100,000 Attendance Register of participants for training programmes Letter on calling for Training for Multi Media Diploma Course

			Circulars/ Internal Memo Cabinet Decision and Paper Agreement entered into between the Board and the Trainer
(iii)	Overtime for drivers of mobile vehicles	1,047,590	Documents for confirmation of arrival and departure relating to payment of overtime for drivers who involve in mobile sale of lotteries
(iv)	Expenditure on fuel, service, repair and maintenance of motor cycles provided to Sales Promotion/ Field Officers	1,143,187	Running charts, log entries or documents for confirmation of running places and duties relating to motor cycles
		----------- 13,249,192 ========	

(b) It had been requested through many audit queries and request information letters since the year 2016 to submit duly completed Board of Directors' Papers and Decisions relating to the year under review, to the Audit expeditiously. Moreover, attention was paid thereon even in the Audit Committee Meetings held during the said period. However, a methodology of submitting those reports after completion of transactions and a period of delay between 02 and 04 months had been followed therefor. As such, the doubt whether the possibility of minimizing certain losses and risks shown in this report had been deprived of to the Board, could not be ruled out in Audit.

2.3 Accounts Receivable

The following observations are made.

(a) The agreement entered into for obtaining the building of No.234, Vauxhall Street to the Board on rental basis, had been breached unilaterally by the Board. As such, the sum of Rs.5,700,000 recoverable to the Board, could not be recovered over a period of 14 years.

(b) Six years had elapsed after providing officers with motor cycles on payment basis in the year 2012 by the Board. However, action had not been taken to recover a total sum of Rs.1,049,315 comprising sums of Rs.192,187 recoverable for motorcycles and Rs.856,498 granted for the construction of sales outlets over a period between 01 year and 05 years.

2.4 Non-compliances with 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	
Sections 11(a) and 18(2)	Even though the key function of the Board is generating funds for the President's Fund, the outstanding amount of Rs.17,862,341 to be remitted to the said Fund by 03 March 2018, had not been duly remitted.
(b) Paragraph 03 of the Circular No.SEC 2011/ 1 of 28 February 2011 issued as an annexure relating to Section 133 of the Inland Revenue Act, No.10 of 2006	Even though the percentage of withholding tax recovered on interest income had been 10 per cent, without considering it, withholding tax had been recovered as 10 per cent from one state bank and as 8 per cent from 2 other state banks. However, action had not been taken to call for explanations from relevant banks in respect of recovery of two percentages of withholding tax from the same institution and to pay the accurate amount.
(c) Government Gazette Notification under Section 03 of the Manufacturing Tax (Special Provisions) Act, No.13 of 1989	Despite having powers to increase the price of every lottery by 15 per cent or Rs.5 or whichever is more, the Board had to incur an unusual fruitless printing cost of Rs.11.2 million due to increasing the price of a lottery by 50 per cent or Rs.10.
(d) Establishments Code of the Democratic Socialist Republic of Sri Lanka and Public Administration Circulars	
Section 11 of Chapter XXIV of the Establishments Code and Public Administration Circulars No. 15/2007 (i) of 12 June 2007 and No. 15/2007 (ii) of 26 December 2014	In terms of provisions of Circulars, a total sum of Rs,2,642,120 comprising Rs.241,040 for two officers and Rs.2,401,080 for 05 officers had been paid exceeding the approved loan limit and property loan had been granted twice for three officers. Further, legal fees amounting to Rs.42,094 that should be incurred by the debtors, had been incurred by the Board.

(e) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
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(i) Financial Regulations 103 and 103(1)(f)	In case of accidents, it should be reported to the Auditor General and the Police as well as the responsible parties thereon should be fixed and in case of losses of certain types a register should be maintained to recover them. Nevertheless, action had not been taken accordingly. Sixty one accidents relating to 42 motor vehicles had occurred from the year 2015 to the year 2017 and the loss sustained by the Board had been Rs.2,010,948. The said loss which cannot be recovered from an insurance firm had been recovered from the Fund of the Board without being recovered from responsible parties.
(ii) Financial Regulation 135	In the recommendation, authorization, approval and certification of payments of 4 vouchers totalling Rs.1,549,705, payments had been made without confirming the accuracy of relevant documents.
(iii) Financial Regulations 260 and 389	In terms of provisions, vouchers relating to payments should be handed over to the proper person or institution. However, 04 cheques valued at Rs.1,448,575 comprising 03 cheques valued at Rs.1,417,500 and an open cheque valued at Rs.31,075 incurred for training programmes had been obtained by the staff of the Board.
(iv) Financial Regulation 757(2)	Even though a board of survey had been conducted in terms of provisions, in the year under review a report thereon had not been furnished to the Auditor General.
(v) Financial Regulation 1179	In terms of provisions, fees which can be payable to an officer should not exceed his monthly salary. Nevertheless, there were instances in which fees and allowance for conducting lottery draws had been paid exceeding the monthly salary of officers of the Board. Allowances so paid exceeding monthly salaries during the year under review amounted to Rs.23,567,305.

(f) Public Enterprises Circulars

(i) Section 2 of the Circular No.PED/1/2015 of 25 May 2015	Official motor vehicles had been allocated for 08 officers who had not fulfilled qualifications in terms of provisions and fuel allowance amounting to Rs.1,471,440 had been paid therefor.

(ii)	Section 2.5 of the Circular No.PED/3/2015 of 17 June 2015	Provisions of the said circular emphasized that except for the allowance entitled to Board members including the Chairman, Working Director, no additional allowances whatsoever can be paid. However, a sum of Rs.1,142,000 had been paid in the year under review to the Chairman, Working Director and Board members for the participation in conducting lottery draws.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs.507,036,703 as compared with the corresponding surplus of Rs.1,783,386,637 for the preceding year, thus indicating a deterioration of Rs.1,276,349,934 or 72 per cent in the financial result of the year under review as compared with the preceding year. The payment of total outstanding income tax of Rs.1,208,002,376 remained from the year 2001 to the year 2009, made during the year 2017 had been the main reason for this deterioration.

An analysis of financial results of the year under review and 04 preceding years revealed that the surplus which was Rs.2,126,428,341 in the year 2013 had declined up to Rs.1,727,063,739 as at the end of the year 2015 and it had improved up to Rs.1,783,386,637 in the year 2016. However, it was observed that the financial result had declined by Rs.1,276,349,934 or 72 per cent in the year under review as compared with the preceding year. After adjusting the employees' remuneration, depreciation on the non-current assets, and the Government tax to the financial result, the contribution which was Rs.3,086,604,730 in the year 2013 had improved by Rs.721,228,361 or 23 per cent in the year 2016. However, it had again declined by Rs.256,524,904 or 7 per cent in the year 2017.

3.2 Analytical Financial Review

An analysis on ratios of operations, profitability and liquidity of the Board in the year under review and the preceding year, is given below.

	2017	**2016**
Operating Ratios	**Percentage**	**Percentage**
Selling & distribution expenses on the sales income	25	24
Cost of sales on the sales income	58	58

Profitability Ratios

Gross Profit Ratio	42	42
Net Profit Ratio(Before Tax)	17	18
Net Profit Ratio(After Tax)	3.6	12
Ratio on awarding Prizes on the net profit (Before Tax)	13	10
Ratio on awarding Prizes on the net profit (After Tax)	59	16
Income Tax Ratio on the Net Profit(Before Tax)	78	34
Income Tax Ratio on the Net Profit(After Tax)	358	51
Selling and Distribution expenses as a percentage of the total operating expense	89	90

Liquidity Ratios

Current Ratio	1:1.7	1:2
Quick ratio	1:1.8	1:2

The following observations are made.

(a) The selling and distribution expenses incurred by the Board in the preceding year and in the year under review had taken a high value such as 24 per cent and 25 per cent of the sales price. Further, a significant increase of 411 per cent and 353 per cent were observed in the actual expenditure on selling and distribution than the budgeted expenditure on selling and distribution respectively of the Board in the preceding year and in the year under review. The actual expenditure on selling and distribution had been 90 per cent and 89 per cent respectively as a percentage of total operating expenses. Moreover, incurring such a high cost had directly affected the net profit of the Board and it was observed that it had adversely affected the contribution made to the President's Fund.

(b) Almost 59 per cent of the net profit after tax earned in the year under review by the Board consisted of prize moneys which were not obtained by winners and it was 13 per cent of the net profit before tax.

(c) Fifty one per cent and 358 per cent out of the net profit after tax of the Board of the preceding year and the year under review had been paid as income tax and it was 34 per cent and 78 per cent of the net profit before tax respectively. The income tax payable relating to each year in preceding years had not been paid accurately and as such, those outstanding taxes had to be settled. Therefore, the payment of income tax in the year under review and in the preceding year had been an amount as high as a percentage of the net profit.

(d) The new lottery ticket named “Ada Kotipathi” which conducts draws every day from 30 August of the year under review as compared with the preceding year had been introduced to the market. Nevertheless, the income from sale of lottery tickets had decreased by Rs.778,374,934 representing 5.3 per cent and the decrease in the sales cost by Rs.406,127,121 or 4.8 per cent as compared with the income, had mainly attributed to the continuous existence of the gross profit ratio.

(e) The current and quick ratio of the preceding year and the year under review had taken a similar value such as 1:2. Accordingly, it was observed that there are current liabilities in the Board exceeding the current assets. As such, it was not observed that the attention of the Board had been paid even in the year under review on the management of the working capital.

3.3 Legal Action instituted against or by the Board

One case claiming compensation amounting to Rs.8,095,000 for a motor vehicle had been filed by an external institution and 02 cases requesting the reinstatement of an officer who was dismissed from the service had been filed in Courts.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) The following deficiencies were observed in the Corporate Plan of the Board prepared for the years from 2017 to 2021.

(i) Details on estimated quantities, costs and the management responsible for time periods etc. of objectives and targets expected to be achieved from the year 2017 to the year 2021 had not been included therein.

(ii) In terms of paragraph 5.1.3 of the said Circular, copies of the Corporate Plan should be presented to the Auditor General at least 15 days before the beginning of the following financial year. Nevertheless, those copies had been presented only on 01 June 2017.

(iii) In the preparation of the Corporate Plan as mentioned in paragraph 9.2 of the said Circular, a Human Resources Plan should be prepared on the requirement of the Board. However, it had not been prepared by the Board. Even though the audit had made aware thereon in preceding years, the attention of the Management had not been paid thereon.

(iv) Out of targets pointed out in the Corporate Plan, one is to maximize the contribution to the President's Fund. Further, it is the key function of the Board as well in terms of Section 11(1) of the Development Lotteries Board Act, No.20 1997. However, strategies adhered for reaching the said target had not been pointed out in the Corporate Plan.

(b) The Action Plan had not been prepared in detail by the Board for the year 2017 including the targets expected to be implemented in the year 2017, action taken therefor, estimated quantities and costs and relevant time periods and budgeted provisions thereon. Further, it was not observed that the Action Plan had been prepared concurrently with the Corporate Plan and the Annual Budget of the Board and a suitable methodology as well had not been introduced for examining the progress of the Action Plan in a timely manner.

4.1.2 Function and Review

(a) The following observations are made in respect of selling of lottery tickets and remittance of proceeds therefrom to the President's Fund.

(i) A number of 1,190 lottery draws had been conducted for 10 lotteries launched by the Board during the year under review and the income collected through the selling of lottery tickets had been Rs.13,981,500,306. Moreover, a sum of Rs.7,263,436,665 out of the income collected during the year had been allocated as prizes and the sum remitted to the President's Fund amounted to Rs.507,036,703 representing 3.6 per cent including sums of Rs.376,145,499 and Rs.130,891,204 received from income from selling of lottery tickets and from other income.

(ii) No money whatsoever had been remitted from the "Dasa Lakshapathi" Lottery to the President's Fund and the sum remitted from the remaining 09 lotteries ranged as less as between 0.98 per cent and 5.6 per cent from the income collected from each lottery.

(iii) A cost of Rs.12,078,580,888 had been incurred during the year under review by the Board for collecting income and out of the said cost, 3.2 per cent representing a sum of Rs.386,509,683 had been incurred for publicity.

(iv) Fifty per cent of the income received from sale of lottery tickets is allocated for prizes by the Board. A sum of Rs.6,920,946,975 had been awarded as prizes to 172,507,676 winners during the year under review and it had been an improvement of 3 per cent as compared with the preceding year. Further, proper action had not been taken to award prizes valued at Rs.297,376,550 to relevant winners, which should be obtained before elapse of 06 months by winners during the year under review.

(b) The following observations are made in respect of the performance of sales income received in relation to the cost of publicity, incurred for selling of lottery tickets of the Board.

(i) Even though the cost of publicity of lotteries such as “Saturday Fortune, Lagna Wasana and Super Ball” had increased by 34 per cent, 2.6 per cent and 6.5 per cent respectively in the year under review as compared with the preceding year, the sales income had gone down by 8.5 per cent, 26 per cent and 27 per cent respectively.

(ii) The cost of publicity of lotteries such as “Galaxy Star and Dasa Lakshapathi” had gone down by 9 per cent and 11 per cent as compared with the preceding year and the sales income thereof had gone down by 34 per cent and 50 per cent.

(iii) Out of the sales income from “Galaxy star and Dasa Lakshapathi” lottery tickets, 3.4 per cent ad 9 per cent had been incurred respectively as expenditure on publicity of those tickets while the expenditure on publicity of other lottery tickets had been 2 per cent of the sales income.

(iv) The expenditure on publicity of the “Kotipathi Saturday Fortune” had decreased by 0.27 per cent in the year under review as compared with the preceding year. However, the sales income had increased by 34 per cent.

(c) The net profit remitted to the President’s Fund in the year 2014 had been Rs.2,353 million and it had been Rs.507 million in the year under review. As such, the remittance to the said Fund had decreased continuously by 81 per cent from 19.17 per cent to 3.6 per cent from the year 2014 to the year 2017. The settlement of outstanding lease rents of preceding years, during the year under review had been the reason for this position.

Year	**2017**	**2016**	**2015**	**2014**
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	Rs.	Rs.	Rs.	Rs.
Sales Income	13,981,500,306	14,759,875,240	11,874,659,603	12,271,477,490
Profit after tax	507,036,703	1,783,386,637	1,727,063,739	2,353,246,338
Income after deducting tax as a percentage of sales	3.6	12.08	14.54	19.17

(d) Except for two lottery tickets introduced by the Board to the market, the sale of all other lottery tickets had significantly decreased in the year 2017 as compared with the year 2016 while the overall lottery sale of the Board had decreased by Rs.685 million as compared with the year 2016. The decrease in the sale of lottery tickets ranged between 8.5 per cent and 50.4 per cent and the sale of 05 lotteries had dropped by an amount more than 25 per cent.

(e) The expenditure on conducting lottery draws relating to every lottery ticket had increased in the year under review as compared with the year 2016. Moreover, it was observed that among those increases, the expenditure relating to three lotteries such as “Saturday Fortune, Sanwardana Lakshapathi and Kotipathi Shanida” had increased by 36 per cent, 49 per cent and 94 per cent respectively.

4.2 Management Activities

The following observations are made.

(a) Quotations had been called for in the year 2014 for the construction of a stores complex by the Board and agreements as well had been entered into with the Primedare Company on 31 December 2014 to the estimated value of Rs.14.5 million. However, the Chairman of the Board had notified the contractor that the said agreement is breached and the contract will be suspended on 12 March 2015 and thereafter, a compensation of Rs.2,500,000 incurred therefor had to be paid on 07 March 2017 to the contractor (through Amicable Settlement) . Therefore, a loss totalling Rs.3,536,501 comprising Rs.996,501 as consultancy fees and Rs.40,000 as judgement fees had to be sustained by the Board due to the decision taken by the Management.

(b) The Transport Officer who had been appointed in an improper manner in the year 2015 had been terminated by stating that the said appointment is illegal. However, the said officer had filed a case on 19 May 2015 by making a request to reinstate him in his post and that case is on trial in the Court. Moreover, the legal fees incurred therefor as at 31 December 2017 had been Rs.854,000 and it was observed in audit that the said fees was an expenditure which had to be incurred by the Board due to improper recruitments made by the Top Management.

(c) A forged lottery had been printed on behalf of the Lottery “Niyatha Jaya” of which the Jack Pot was Rs.10,441,580 in the 402nd wining draw conducted on 17 May 2016, by an employee of the Digiscan Printing and Packaging by which the said Lottery is printed. In terms of Clause 6 of the agreement entered into with the said Institution, a compensation of Rs.500,000 can be recovered in case of an offence or fraud committed due to software bug. However, no action whatsoever had been taken to recover compensation therefor.

(d) Out of the total value of various types of allowances amounting to Rs.123,505,364 paid among 251 officers of the year under review, 21 per cent representing Rs.26,456,847 had been distributed only among 22 officers due to anomalies of distribution of allowances. Out of expenditure on allowances of conducting of lottery draws amounting to Rs.32,423,800 indicated in the financial statements of the year under review, distribution of Rs.13,670,850 representing 42 per cent among 23 officers of the Top Management including an officer of the Board of Directors had been the main reason for the said situation.

4.3 Operating Activities

The following observations are made.

(a) The Board had used 08 vans as mobile motor vehicles for the sale of instant lotteries without the approval of the Board of Directors. Even though a sum of Rs.7.07 had been spent for one lottery ticket in the selling of lotteries by mobile motor vehicles, the cost incurred in the selling of lottery tickets by sales agents had been Rs.2.67. Accordingly, an additional cost of Rs.9,690,120 had to be incurred for 2,202,300 lottery tickets at a rate of Rs.4.40 per ticket due to sale of instant lottery tickets by mobile motor vehicles. However, it had been reported by the Board that this decision has been taken to face the competition of the market as a sales promotion.

(b) The Board had introduced a Lottery named "Ada Kotipathi" to the market so as to be implemented from 30 August 2017. A sum of Rs.279,496,493 had been paid as sales agent commission and distribution commission including Rs.25,813,683 paid as special incentive for dealers to increase the sale of this new lottery ticket. However, the sale of all other lotteries had dropped and accordingly, it was not observed that a survey on competition in the market and behavior of consumers had been carried out in introducing new lotteries. Moreover, out of all types of lotteries, the number of lottery tickets remaining without being sold from October to 31 December 2017 stood at 32.5 million and the printing cost thereof had been approximately Rs.14.5 million.

(c) According to the annual classification reports, profit before tax computed separately from each type of lottery out of 08 types of lotteries and instant lotteries implemented by the Board, had dropped by an amount ranging from 31 per cent to 85 per cent in the year under review as compared with the preceding year. The total profit before tax so dropped had been Rs.2,950,124,307 in the year under review as compared with the preceding year.

(e) Twenty two sales agents had deviated from furnishing bank security of Rs.12.2 million as agreed at the meeting held on 23 March 2017 under the theme of " Improvement of financial feasibility of Sales Agents" .

Even though lottery tickets valued at Rs.108 million had been given to distributers on credit basis during the year under review, adequate security deposits had not been available with the Board for recovery of them and as such, the risk of loans granted to distributors had been Rs.105 million. Even though the said steps had been taken to minimize the risk relating to lottery tickets granted on credit basis, those objectives had not been achieved.

(f) A cost of Rs.346,417,188 had been incurred for printing 800,940,150 lottery tickets drawn during the year under review and lotteries had been printed without considering projections of the entire market including matters such as laws, rules, behavior of customers, movement of lotteries in the market, effect occurred through the benefit structure of each lottery. As such, 119,656,730 lottery tickets printed at a cost of Rs.51,748,146 during the year under review had remained without being sold and that expenditure had become fruitless.

4.4 Transactions of Contentious Nature

The following observations are made.

(a) It was observed during the audit test checks carried out on providing fuel for motor vehicles that 112 litres of fuel valued at Rs.10,678 had been provided in 13 instances exceeding the capacity of fuel tank. The manner in which fuel had been provided exceeding the capacity of fuel tank was a matter of contentious nature in Audit.

(b) Quotations had been submitted by a supplier registered in the Board for sales promotion items (umbrellas and mugs) on 22 June 2017. The accuracy of the address indicated by the relevant supplier had not been confirmed and no telephone numbers whatsoever had been mentioned therein. However, it was observed at the physical inspection carried out by the Audit that there was no such address or institution therein.

The said supplier had appeared as an Area Manager of the Kandurata Umbrella Industries (Pvt) Ltd. in the instance of purchasing promotion items on 20 December 2016 and submitted quotations by using Letterheads of the Kandurata Umbrella Industries (Pvt) Ltd. However, the said Company had assured the Audit that such an Area Manager is not therein, those Letterheads are not owned by them and that no branches whatsoever are located in the said address.

Further, all documents submitted by the said Company are photocopies and no originals had been presented to audit at any instance. Moreover, it was further observed in audit that the signatures placed on those submitted letters were different from each other. As such, the purchase of sales promotion items valued at Rs.1,905,230 during the year 2017 from such a forged institution was a transaction of contentious nature.

(c) The Sales Division had notified the stores to issue Y-144(Part B) out of types of instant lotteries to the market on 29 March 2017 and to issue 100 boxes of lottery tickets with 25 umbrellas per box at the same instance. However, according to the inventory of instant lotteries of the stores, this stock of instant lotteries (Y-144(B) had been issued on 28 February 2017. Further, information such as the correct date of issue of lottery tickets, number of umbrellas issued and register of distribution had not been made available. However, the Board had reported to Audit that the stocks of lotteries remained at the main stores had been transferred to the sub-stores on 28 February 2017.

4.5 Idle and Underutilized Assets

The following observations are made.

(a) Despite having kept 19 motor cycles valued at Rs.3,405,757 which were in running condition including 03 motor cycles with 04 year guarantee period, purchased in the years 2016 and 2017, in the stores without being utilized for a period between 02 months and 2 ½ years, 12 motor cycles valued at Rs.2,892,999 had been purchased at a rate of 06 motor cycles per year in the years 2016 and 2017.

(b) Unserviceable stocks valued at Rs.1,594,664 included in the stock balance valued at Rs.58,355,403 indicated in the financial statements.

4.6 Identified Losses

The following observations are made.

(a) A Cab motor vehicle valued at Rs.8,095,000 had been taken over from a motor vehicle agency of the year 2008 and registered in favour of the Board by the then Chairman without approval of any officer of the Board. Nevertheless, that motor vehicle had been misplaced from that date. Legal fees of Rs.2,244,685 had been incurred by the Board by 31 December 2017 for the case filed by the said agency due to failure in paying money to the relevant agency up to now and the Board was unable to obtain relevant assets up to now. However, the value of the said motor vehicle had been indicated as assets in the financial statements in the year 2013 and depreciated annually and the contribution lost to the President's Fund from the year 2013 to the date of this report had been Rs.10,339,635.

(b) It was observed that vouchers valued at Rs.690,500 including 121 gift vouchers valued at Rs.590,500 received as sales promotion items from the SATHOSA in the year 2009 and 32 expired gift vouchers valued at Rs.100,000 received from STC Institute on 18 February 2013 had remained in the safe without being used. Even though those institutions had been asked on 12 June 2017 for renewal of these vouchers, they had not agreed to therefor, thus indicating a fruitless expenditure to the Board. However, this expenditure had been further shown as sales promotion items in accounts.

4.7 Commencement of Projects on Lands/Properties not vested properly

Even though it had been agreed to obtain the land of 01 acre in extent belonging to the Tissamaharama Divisional Secretariat Division from the Tissamaharama Divisional Secretariat on long term lease basis, a sum of Rs.492,392 had been spent by the Board for development activities of that land with the aim of constructing a circuit bungalow, without entering into a proper agreement.

4.8 Resources of the Board given to other Government Institutions

In terms of Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Board is not permitted to deploy its resources on behalf of the line Ministry or any other Government institutions. Nevertheless, 11 persons recruited to the staff of the Board had been released to the Ministry of Finance and Mass Media from the date of recruitment itself. This staff had not made any contribution for activities of the Board. However, a sum totalling Rs.7,101,415 comprising Rs.3,376,415 and Rs.3,725,000 had been paid in the year 2016 and up to 19 June 2017 respectively as employees remuneration from the Fund of the Board.

4.9 Staff Administration

The following observations are made.

(a) The approved cadre of the Board as at 31 December 2017 stood at 269 while the actual cadre stood at 289. Twenty one vacancies existed therein and excess cadre stood at 39. Failure in making recruitments by identifying functions for essential posts of the Board so as to suit them and making recruitments for unnecessary posts exceeding the limit had been the reason for vacancies and excess cadre.

(b) According to the Scheme of Recruitment and Promotion approved on 16 December 2015 by the Department of Management Services in terms of provisions of Management Services Circular No.30 of 2006, the methodology of recruitment to the staff should be carried out by calling for applications through a newspaper advertisement or public notice and on results of a written competitive examination and /or a structured interview conducted by a Board decided by the Appointing Authority as decided by the Board of Directors of the Lotteries Board. However, no applications had been called for through public notices or newspaper advertisements in making recruitments during the year 2017.

(c) Action had not been taken up to 30 July 2018, the date of audit to appoint the Assistant General Manager (Procurement) and as such, many instances were observed, in which procurements valued at Rs.386,847,211 had been made contrary to Guidelines of the Procurement Guidelines during the year under review.

(d) Public Relation Officers at a monthly salary of Rs.60,000 and Rs.22,104 in the years 2016 and 2017 respectively, an officer of 70 years of age as a Private Assistant at a monthly salary of Rs.30,000 and another officer at a monthly salary of Rs.60,000 had been recruited on contract basis without approving the Schemes of Recruitment and Promotion.

(e) Even though the approval of the Cabinet of Ministers should be obtained in the recruitment of officers older than 60 years, recruitments had been made on contract basis for the posts such as Private Assistant, Driver, Management Assistant and Sales Consultant on the payment of monthly allowance of Rs.30,000, Rs.25,918, Rs.50,000 and Rs.100,000.

(f) The approval of the Department of Management Services had not been received for the posts mentioned in paragraphs (d) and (e) above and it was observed that recruitments had been made by paying allowances with severe anomalies for the same post without following a proper methodology.

(g) Eighteen Field Officers had been appointed so as to cover all districts to assist in the achievement of sales targets of lottery tickets sold by the Board and to examine sales outlets and they should present an Advance Programme every month. Even though 04 officers had been appointed for supervision through GPS Technology whether they perform duties according to the said programme, such supervision had not been carried out.

(h) A Driver had been recruited on contract basis from 24 March 2017 and his service had been abolished on 30 September 2017. This officer had not actively participated in any activity of the Board within a period of 06 months of his service period of the Board. However, a sum of Rs.279,744 had been paid as salaries, overtime, incentive and attendance allowances by the Board.

(i) A sum of Rs.104,716,157 had been paid for the period from the year 2014 to 31 December 2017 for obtaining services from a private institution for conducting lottery draws without entering into a proper agreement. Even though a Division with a post of Assistant General Manager (Information Technology) and 03 persons of the staff, had been established for this purpose, attention had not been paid on the possibility of carrying out this process internally.

(j) The per capita cost per employee which was Rs.782,817 in the year 2016 had become Rs.948,218 in the year 2017, thus indicating an increase by Rs.165,401 or 21 per cent.

4.10 Utilization of Motor Vehicles

(a) The approval of the Treasury had been obtained on 15 November 2015 for disposal of the luxury motor vehicle of the make Hyundai purchased at a cost of Rs.10,098,026 in the year 2009. This motor vehicle had been used for requirements of the Top Management of the Board as a pool vehicle without any technical defect from 01 November 2015 to 16 December 2016. Even though the Audit had pointed out that adequate reasons for such disposal were not available, thereafter, that motor vehicle had been utilized carelessly and as such, the motor vehicle agency had estimated an expenditure on repair of Rs.852,755 for a gear system or an expenditure on installation of a new gear system valued at Rs.1,167,637. However, the said motor vehicle had been kept in an unprotected manner without taking action to repair or dispose over a period of 2 ½ years from that date. Moreover, the Audit had continuously pointed out regarding this matter and as such, this motor vehicle had been repaired by spending a sum of Rs.396,900 and entered to the vehicle pool again on 03 October 2018, thus resulting an excess market value of Rs.5,000,000 to the Board.

(b) A motor vehicle purchased on 14 September 2001 at a cost of Rs.1,425,000 had been used as a pool vehicle from March 2017. However, only 06 repair works out of 14 works estimated at a cost of Rs.239,749 and only works at a cost of Rs.26,927 out of an estimated cost of Rs.92,139 had been repaired on 20 April 2016 and 15 June 2016 respectively. However, this motor vehicle of which only a part had been repaired without properly repairing defects existed, had been disposed of on 05 April 2018.

(c) Repairs of a motor vehicle purchased on 24 may 1999 at a cost of Rs.2,943,000 had been carried out only through private institutions and only on 17 October 2016, an estimate valued at Rs.1,901,864 had been obtained after exhibiting the said vehicle to the agency for repairs. Only in that instance, the said motor vehicle had been disposed of on the recommendation made by the Transport Instructor that this is not economically effective on the price purchased from the sales agent.

(d) The assessed value of 02 motor vehicles mentioned in (b) and (c) above had been Rs.1,200,000 and Rs.2,500,000 respectively and the sales prices thereof had been Rs.1,850,000 and Rs.3,550,000 respectively (highest demand price is Rs.3,650,000) and as such, those motor vehicles had been sold more than the assessed value by 54 per cent and 42 per cent. Accordingly, assessed values given to these motor vehicles were of contentious nature in audit.

(e) The Board had to incur a high cost on motor vehicles due to obtaining them on hire basis from private institutions. Four motor vehicles had been obtained so on hire basis during the year 2017 and an expenditure of Rs.9,495,518 had been incurred therefor.

(f) Eight vans belonging to the Board had been used as mobile vehicles for sale of instant lottery tickets and handing over of those motor vehicles to drivers, observing places where sales are carried out, through GPS Technology, keeping motor vehicles under the custody of sales officers or sales promotion officers at night etc. should be carried out. However, those functions had not been carried out.

(g) The distance which can be run per litre of fuel as mentioned by the agent company in respect of 11 motor cycles purchased in the years 2016 and 2017 and provided to Field Officers, ranged between 65 and 70 km. However, the Field Officers had obtained fuel by indicating that about 35 km can be run per litre of fuel. The total distance run by 11 motor cycles by 23 April 2018 was 293,312 kilometres and the quantity of fuel consumed was 8,281 litres. However, as mentioned by the agent company, the quantity of fuel spent therefor was 4,512 liters, thus incurring an excess expenditure on fuel of Rs.440,915 for 3,769 litres.

4.11 Market Share

Sales Income from Lotteries

Year	Development Lotteries Board Rs. Millions	National Lotteries Board Rs. Millions	Market Share of the Development Lotteries Board (Percentage)
2017	14,629	16,747	47
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) When considering the sales income from lotteries in 06 years, the Development Lotteries Board had acquired a less amount as compared with the market share of the National Lotteries Board.

(b) The market share of the Board which was 47 per cent in the year 2012 had fluctuated from 42 per cent to 43 per cent from the year 2013 to the year 2016 and it had again improved up to 47 per cent in the year 2017.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals and Targets

Every Government Institution should act in terms of the 2030 "Agenda" of the United Nations for Sustainable Development. However, the Development Lotteries Board had not been aware of the manner in implementing the functions that come under its scope, relating to the year under review.

However, the Development Lotteries Board had not been aware of the 2030 "Agenda" as above and as such, the sustainable development goals, targets relating to those functions and focal points to reach those targets and indices for measuring the achievement of targets had not been identified.

6. Accountability and Good Governance

6.1 Presentation of Financial Statements

Even though the financial statements should be presented to Audit within 60 days after the close of the year of accounts in terms of paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the draft financial statements for the year under review had been presented on 28 February 2018 and the final financial statements had been presented to Audit only on 03 August 2018 after a delay of 05 months.

6.2 Internal Audit

The following observations are made.

(a) An Internal Audit Unit had been established in the Board and a staff comprising 05 persons had been attached to it. However, adequate staff so as to cover the scope of the Board, had not been attached to that Unit.

(b) Even though internal audit queries had been presented to the Chairman of the Board, it was observed that action had not been taken thereon in an efficient manner.

6.3 Procurement and Contract Process

6.3.1 Procurements

The following observations are made.

(a) About 50 per cent procurements which should have been carried out in the year under review had not been implemented due to failure in proper identification of requirement of procurements in terms of Guideline 4 of the Government Procurement Guidelines 2006.

Moreover, contrary to the Procurement Plan, procurements valued at Rs.98.5 million had been implemented without prior approval. Out of that, procurements valued at Rs.56 million had been commenced without budget provisions in terms of paragraph 4.1.1(d) of the Procurement Guidelines. Further, in terms of provisions of Guideline 4.2.1 of the Procurement Guidelines, the Procurement Category and Procurement Method had not been included in the Procurement Plan and the Procurement Plan had not been approved by a responsible officer.

(b) The following observations are made in respect of 10 procurements valued at Rs.386,847,211.

(i) Purchase of Sales Promotion Items - Rs.5,731,645

- In the purchase of umbrellas and mugs as sales promotion items, a period of 07 days should be given for submission of bids under the Shopping Method in term of paragraph 6.2.2 of the Procurement Guidelines. However, only 03 days had been given therefor.

- In terms of paragraph 5.3.18 (b) of the Procurement Guidelines, Value Added Tax should not be considered in the evaluation of bids. However, in the evaluation of quotations of 2,500 umbrellas, the quotations with Value Added Tax of one institution had been compared with quotations exempted from Value Added Tax of another institution. As such, a sum of Rs.138,043 had to be over paid.

(ii) Providing Lunch for the Staff – Rs.7,806,187

- A supplier had been selected for providing lunch for the staff of the Board from the year 2015 up to now, contrary to the procurement procedure and a sum of Rs.7,806,187 had been spent therefor in the year 2017. Further, an excess expenditure amounting to Rs.593,125 had been incurred by the Board due to ordering lunch exceeding the number arrived in each month.

(iii) Purchase of Motor Vehicles for the Super Prize of the Dasa Lakshapathi – Rs.8,643,740

The estimated value relating to purchase of 04 motor vehicles for the super prize of the Lottery Dasa Lakshapathi had not been included in the Procurement Plan and in the Budget Estimate of the year 2017. Action had not been taken relating to conditions such as calling for sealed quotation at least from 5 institutions for purchases up to Rs.10 million in terms of Guideline 3.4 of the Procurement Guidelines and the Supplement 33 dated 15 March 2017, obtaining bid securities in terms of Guideline 5.3.11 and entering into agreements in terms of Guideline 8.9.1. Further, an expert on motor vehicles had not been appointed to the Technical Evaluation Committee and the Assistant General Manager (Finance) had recommended to purchase of those motor cars on 18 February 2017 before receiving the approval of the Technical Evaluation Committee on 27 February 2017.

(iv) Purchase of Roneo Machines - Rs.742,500

Even though Minor Procurements and Technical Evaluation Committee had been appointed for purchases less than Rs.10 million by the Ministry of Finance and Mass Media, approval and recommendations of those Committees had not been obtained for these purchases. Further, action had not been taken in terms of Guidelines such as preparation of bidding documents in terms of Guideline 5.3.1(d), maintaining a record pertaining to the issuance of the bid documents in terms of Guideline 6.1.4, obtaining sealed bidding documents in terms of Guideline 6.3.1, submission of bid securities in terms of Guideline 5.3.11, appointment of Bid Opening Committee in terms of Guideline 6.3.3, Recording the proceedings of the bid opening and placing signatures therein by members in terms of Guideline 6.3.6, completion of activities within the bid validity period in terms of Guideline 5.3.10, entering into a proper agreement with the supplier in terms of Guideline 8.9.1(b) and submission of Performance Securities in terms of Guideline 5.4.10.

(v) Purchase of T-Shirts – Rs.10,384,200

In terms of Guideline 4.2.3 of the Procurement Manual and Supplement 31 dated 15 March 2017, in the purchase of goods valued from Rs.5 million to Rs.25 million, a maximum time period of 04 weeks can be allocated for procurement process of those goods. Nevertheless, 193 days had been spent for these purchases valued at Rs.10,384,200.

(vi) Purchase of CCTV Camera System – Rs.3,961,977

Out of 29 institutions by which quotations had been submitted for the purchase of CCTV Camera System, 09 institutions had submitted quotations in compliance with specifications. However, reasons for non-evaluation of 5 institutions out of them had not been made available to Audit. Further, differences between information submitted by bidders and information included in the report of the Technical Evaluation Committee were observed. Moreover, a Performance Security had not been submitted by the institution to whom the contract was awarded firstly, within 7 days from that date and in terms of Guideline 5.3.13 (d) of the Procurement Guidelines, the bid security valued at Rs.50,000 had not been recovered by the Board.

(vii) Conducting Employees Training Workshops – Rs.1,740,549

A private institution had been selected and a sum of Rs.401,340 had been paid for obtaining food, accommodation and hall facilities for two Employees Training Workshops conducted during the year review without following the procurement process.

(viii) Expenditure on Publicity of Lotteries – Rs.302,609,501

A sum of Rs.302,609,501 had been spent for publicity of lotteries by the Board during the year under review and details on selecting publicity agencies had not been included in the Procurement Plan of the Board. Further, in the selection of publicity agencies, a sum of Rs.6,956,000 had been paid for designing and publicity of advertisements contrary to Guidelines 3.7.1, 7.4.4, 5.1.1 and 5.2.3 of the Instructional Guidelines 2007.

(ix) Printing of Lottery Tickets – Rs.346,417,189

- In the procurement process of selecting a supplier for printing of lottery tickets, action had not been taken in accordance with the Procurement Plan and Time Schedule in terms of Guidelines 4.2.1 and 4.2.2 of the Procurement Guidelines. Moreover, in terms of Guideline 5.3.2, main eligibility criteria and qualification requirements of the successful bidder had not been included in the invitation to bid. Further, despite having given instructions by the Secretary to the Ministry of Finance to keep bids in a safe manner without opening at the instance in which Procurement Committees and Technical Evaluation Committees had not been appointed, bids had been opened without following the said instructions and opening of bids had not been recorded properly in terms of Guideline 6.3.6.

- According to the special Term No.5 of bidding documents, institutions by which lottery tickets are printed and supplied to the National Lotteries Board, should not be selected for printing purposes. However, a supplier who had carried out printing purposes of the National Lotteries Board had been selected for printing of 03 lotteries.

- A bidder who had not fulfilled qualifications that should be possessed by a qualified bidder according to the Annexure A of bidding documents, had been selected for printing of 03 lotteries.

- The agreement relating to printing purposes for the year 2016/2017 had expired on 31 July 2017 and even though the newspaper advertisement for inviting bids for selecting a new supplier for the year 2017/2018 had been published on 31 July 2017, printing purposes of the new supplier had been commenced from January 2018. Accordingly, printing purposes had been carried out by the old bidder within the period from 01 August 2017 to 31 December 2017, thus incurring an excess cost of Rs.9,125,619.

(x) Construction of Information Technology Unit – Rs. 2,788,948

Even though quotations had been called for from 09 registered suppliers, only one institution had submitted quotations. In terms of Guideline 6.2.2 of the Procurement Guidelines, time period of 7 days should be given for submission of bids. Nevertheless, only 03 days had been given therefor. In terms of Guideline 7.12 of the Procurement Guidelines, when lack of effective competition is clearly evident, bids received should be rejected and bids should be re-invited. Nevertheless, action had not been taken accordingly. Further, in terms of Guideline 8.9.1, a proper agreement had not been entered into with the selected contractor.

6.4 Budgetary Control

The following observations are made.

(a) In the preparation of Budget of the Board presented for the year 2017, it had been prepared by considering sales value of a lottery ticket as Rs.30. However, the sales price of a lottery ticket had been revised as Rs.20 from 01 February 2017 and as such, the revised budget had not been prepared and presented. As a result, actual income and expenditure could not be reconciled with the budgeted income and expenditure. Accordingly, the budget had not been prepared in a realistic manner and reviewed from time to time and as such, it was observed that the budget had not been made use of as an effective instrument of management control.

(b) Even though the budgeted balance sheet as well should be included in the budget in terms of Section 5.2.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the budgeted balance sheet had not been included in the budget of the Board.

(c) The estimated expenditure for printing of lottery tickets drawn for the year 2017 and instant lotteries according to the budget, had been Rs.307 million while according to the Procurement Plan, that expenditure had been Rs.468 million. The estimated expenditure for lotteries "Ada Kotipathi and Sanwardhana Vasana" amounting to Rs.24 million had not been included in the said amount of Rs.468 million. However, the actual expenditure for the year 2017 had been Rs.346 million and as such, it was not observed that the budget had been prepared concurrently with the Procurement Plan and the Action Plan.

6.5 Unresolved Audit Paragraphs

There were 19 unresolved audit paragraphs including 13 audit paragraphs with the financial value of Rs.297,416,453 on which adequate attention had not been paid up to the year under review despite having pointed out by the Audit reports in the preceding year.

6.6 Performance of Social Responsibilities

(a) Contribution of the Board to the President's Fund

It was problematic in audit whether the social responsibilities which should be carried out by the Board had been properly carried out due to failure in taking follow up action to confirm whether action is being taken in terms of Section 11(1)(b) of the Development Lotteries Board Act, No.20 of 1997. The following observations are made.

(i) Contributions out of the proceeds of lotteries remitted to the President's Fund by the Board should be made to the Mahapola Higher Education Scholarship Trust Fund in terms of Section 11(1)(b) of the Development Lotteries Board Act, No.20 of 1997. However, moneys of Rs.972 million including the sum of Rs.254

million contributed on behalf of the Development Lotteries Board of the year 2017 receivable from the President's Fund to the Mahapola Higher Education Scholarship Trust Fund since the year 2012, had not been received to the said Fund.

(ii) Approval of the Mahapola Fund or Development Lotteries Board Act had not been received to incur Higher Education Scholarships valued at Rs.263 million which should be awarded from the contribution payable to the Mahapola Higher Education Scholarship Trust Fund, by the President's Fund on behalf of the said Fund. It was not observed that the Board had been made aware on matters such as moneys remitted to the President's Fund and the Mahapola Higher Education Fund, moneys set off against the payment of tax, moneys receivable to the Mahapola Higher Education Scholarship Trust Fund etc. The Mahapola Higher Education Scholarship Trust Fund had followed a policy for recording only money received and the Board had not taken follow up action and as such, it was problematic in audit whether objectives had been performed in terms of Section 11(1)(b) of the Development Lotteries Board.

(iii) Action had been taken contrary to provisions of Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003 and as such, the contribution lost to the President's Fund from the Board as per paragraph 4.8(a) of this report had been Rs.7,101,415.

(b) Transparency of Conducting of Lottery Draws

A number of 1,190 lottery draws had been conducted by the Board in the year under review and an expenditure of Rs.466,033,872 had been incurred therefor. However, it was not observed that the attention of the Board had been paid to obtain audit supervision or representatives for 961 out of 1,190 lottery draws.

(c) Prizes to Winners

- It was not observed that the structural performance of conducting lottery draws of the Development Lotteries Board had been prepared so as to ensure existence of equal opportunities in distribution of prizes in the entire economy in order to reduce inequalities within the country according to Sustainable Development Goals (SDG-10). The number of draws conducted by the Board within the period from January to October of the year under review stood at 946 and the quantity of winning lottery tickets relating to draws was 25 per cent. When considering the prizes structure, the percentage of winners less than Rs.250 was 99.98 per cent.
- Even though action had been taken to award the first prize in cash valued at Rs.2,500,000 of the Dasa Lakshapathi Lottery, it had been decided to award motor car therefor. Even though the money allocated as prizes for 04 draws of the year 2017 had been Rs.10,000,000, the expenditure incurred for 04 motor cars had been Rs.8,643,740. As such, the value lost to winners was Rs.1,356,260.
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7. 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) Introducing an internal control methodology of recognizing money credited directly by agents and transactions based for cheques issued but not submitted for payments and a methodology of maintenance of the cash book. (ii) Failure in indicating specific and clear balances in the cash book and unusual deterioration in the working capital due to an unusual difference between the balances of financial statements and balances in bank statements. (iii) Failure in maintaining a process of recording notes for accounts properly in making payments to sales agents for lottery tickets less than Rs.100,000 in winning instances. (iv) Recording notes in the cash book considering unreceived cash as cash received.
(b) Maintenance of books and registers	(i) Even though 03 current accounts were operated for cash receipts, only one cash receipt book had been maintained therefor. (ii) Maintenance of cash book without checking relevant receipts when crediting cash to the bank by sales agents.
(c) Accounting	Satisfaction of following matters indicated in the financial statements was problematic in audit due to weaknesses in financial administration and reporting and non-implementation of computerized systems of the Board.

		(i) Accuracy of expenditure incurred for sale of each lottery. (ii) Accuracy of balances in each bank account. (iii) Accuracy of income from sale of lottery tickets indicated in financial statements. (iv) Accuracy of money receivable (v) Accuracy of expenditure on prizes (vi) Accuracy of balance indicated in the cash receipt book
(d)	Management of Fixed Assets	High cost of repair of motor vehicles and being subjected to decay and disposal of motor vehicles due to weaknesses in control over motor vehicles.
(e)	Procurement	Non-implementation of a proper internal control system in the Board in respect of procurement activities.