

## **Development Lotteries Board - 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Development Lotteries Board for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Development Lotteries Board at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

#### **1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 NonCompliance with Sri Lanka Accounting Standards

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The following observations are made.

<u>Noncompliance with Reference to the Relevant Standard</u>	<u>Comments of the Management</u>	<u>Recomendation</u>
<b><u>S.L.A.S-16</u></b>		
(a) Action had not been taken to forecast and thereby, to account in books or to remove from books the useful life of fixed assets costing Rs. 147,695,903 and the value of which had become zero and are further being utilized by the Board.	Agreed. Steps are expected to be taken from the ensuing year after appoining the Internal Committee in terms of the circulars.	Accounts should be prepared in accordance with Sri Lanka Accounting Standards.
(b) In terms of the Paragraph 34 of the Standard, the lands, buildings of the Development Lotteries Board had not been revalued after 31 December 2010 and machinery had not been revalued after 31 December 2012 and stated at their present value.	Agreed. Assessment reports have been received on 30 May 2019. It is due to be entered in the year of accounts,2019.	Do
(c) In terms of the Paragraph 37 of the Standard, even though assets in similar nature have to be classified under one category, the studio, three-wheelers and mobile phones had been stated as separate items rather than stating them under buildings, vehicles and office equipment respectively.	Agreed. Corrections are due to be made.	Do

## 1.5.2 Accounting Deficiencies

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) The Double Wheel Crew Cab purchased for a sum of Rs. 5,565,000 on 13 September 2018 had not been registered in favour of the Board and had provided to an external party to improve as a propaganda vehicle. Therefore, its value should have been adjusted under the work- in-progress, whereas it had been brought to account under the fixed assets. Further, a sum of Rs. 376,016 had been brought to account as expenditure on depreciations for the year 2018. Accordingly, value of work-in-progress had been understated by Rs.5,565,000 and expenditure on depreciation had been overstated by Rs.376,016 in the accounts.	Agreed. Action will be taken to correct this error in the year 2019.	Amounts should be accounted under the correct classification.
(b) In terms of Provisions of the Development Lotteries Board Act, provisions should not be made for unclaimed prizes after the expiration of a period of six months reckoned from the date of the lottery draw. Nevertheless, unclaimed prizes amounting to Rs. 2,549,000 in relation to the Saturday Fortune special draw held on 28 February 2018 had been carried forward further in the unclaimed prizes payable account at the end of the year under review.	Agreed. This has been corrected by General Ledger in February 2019.	Necessary corrections should be made in accounts in terms of provisions.

- (c) The depreciation expense in the year 2018 had been overstated by Rs. 94,000 over the change in the depreciation percentage due to the classification of the value of machinery, purchased for an amount of Rs. 4.5 million on 01 November 2018, under office equipment without classifying it under machinery.
- Ageed. Action will be taken to make corrections from this year.
- Necessary adjustments should be made after being accounted under the correct classification.
- (d) The value of Rs. 1,583,595 stated as work in progress in the final accounts as at 31 December 2018 is a balance prevailing from the year 2014 and it was the initial expense incurred for suspended constructions. Necessary adjustments had not been made to that value and the value had further been brought to accounts as work in progress for a period of 04 years.
- According to a complain received by the Bribery and Corruption Commission in this regard, files of the Development Lottery Board had been brought, examined and statements have been recorded.
- Necessary adjustments should be made in the accounts in consultation with the Bribery and Corruption Commission.
- (e) A difference totalling to Rs. 3,379,690 was observed between the balances in the unclaimed prizes payable account and the actual balances pertaining to two lotteries.
- Ageed. This has been corrected by General Ledger in February 2019.
- A correct balance should be shown in the Ledger Accounts.
- (f) In the computation of income tax of the Board pertaining to the year 2017, the gross interest income of Rs.26,897,404 adjusted in the financial statements had been adjusted by considering the same as net interest income. As such, the interest income of that year had been overstated by Rs.2,998,601 and as a result, tax expenditure of the year under review as well had been overstated by Rs.839,608.
- The amount remitted as the Withholding Tax will be deducted in the payment of final tax.
- In the computation of Income Tax, computation should be carried out upon correct interest income, and accordingly, it should be brought to account.

### 1.5.3 Lack of Documentary Evidence for Audit

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- (a) Due to lack of evidence in support of 07 expenditure account balances totalling Rs.9,467,671 stated in the financial statements, those items could not be either vouched or verified satisfactorily.

<u>Item</u>	<u>Amount</u> <u>Rs.</u>	<u>Evidence</u> <u>Presented</u>	<u>not</u>	<u>Comments of</u> <u>Management</u>	<u>Recommendat</u> <u>ion</u>
(i) Obtaining fuel for the vehicles reserved for the Sales Agents' meetings.	196,955	Vehicle number and date relevant to the fuel bills..		Vehicle numbers and dates will be correctly included in the bills in future.	Documents should be properly maintained.
(ii) Make payments for the vehicles obtained on rent.	1,794,195	Monthly Running Chart and special approval of the Secretary to the Ministry for obtaining vehicles on rent		Officers have been informed to submit monthly running charts, in future.	Document, registers and books should be properly maintained in terms of provisions.
(iii) Obtaining fuel for the vehicles reserved for the Assistant General Managers.	1,194,648	The letter sent by the Board seeking special approval, Special approved obtained from the President's Office, and letter of granting special approval of the General Treasury.		Copies of the relevant letters have been already sent.	Approval should be obtained properly.
(iv) Branding of 31 Lottery shops.	1,368,860	Action had not been taken to enter into an agreement with the contractor regarding the relevant matter.		Action will be taken to enter into a written agreement in future. Since a confirmation has been given to the contractor an agreement has been created thereby.	A formal written agreement should be signed.
(v) Monthly meetings of the Field Officers.	552,257	Number of meeting sessions conducted during the year, objectives of the meetings and number of officers attended		Instructions have been given to the field officers to place finger print on the finger scanner on the days they report to the	Since a considerable amount of expenditure is incurred in these meetings,

			the meetings.	office. Action will be taken to introduce a register to place signatures of the officers who participate in the meeting.	attendance of the officers should be properly recorded.
(vi)	Sales Promotion Items	3,142,044	Evidence in support of acceptance of the distribution lists and promotional items.	Documents in support of the acceptations of sales promotional items have been appended herewith.	Such documents have not been appended and relevant lists should be properly maintained.
(vii)	Fuel allowance of the Field Officers.	1,218,712	Running Charts, Log Entries and the matters considered in determining that a vehicle can be driven for 35 km at one liter of fuel.	Running Charts and Log Entries have been made compulsory for the Field Officers from the beginning of April, 2019. In the event of failure to maintain such records, fuel allowance of the relevant officer will be suspended.	The Field Officers who obtain fuel allowance should maintain evidence to substantiate the usage of fuel.

9,467,671

**Audit Observation**

- (b) Although requests had been made by a number of audit queries and information request letters from the year 2016 to submit the board papers and the decisions of the Board of Directors pertaining to the year under review immediately after their proper completion to the Audit, the Management had failed to submit relevant information to the Audit expeditiously after their proper completion. Similarly, it had been agreed even at the Audit Committees conducted during the above period that this situation would be corrected. Nevertheless, a procedure relating to

**Comments of the Management**

The Board Papers and the decisions of the Board of Directors will be furnished after passing them at the next Board of Directors meeting and action has been taken to furnish Board Papers and decisions relating to the marketing, only after their implementation.

**Recommendation**

Board of Directors papers and decisions should be properly completed and furnish to the Audit without delay.

the submission of those reports had been adopted after a delay of 02 months to 04 months of completion of the transactions. Therefore, it cannot be ruled out in audit the doubt that the Board had been deprived of the opportunity to minimize certain losses' and risks pointed out in this report.

## 1.6 Accounts Receivable

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### 1.6.1 Funds Receivable

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) The Board had not recovered the amount of Rs. 5,700,000 for a period 15 years since the Board had exparte breached the agreement entered in to for getting the building located at No. 234 in Vauxhall Street on rental basis.	Approval of the Ministry has been sought to write off this amount from the accounts on the approval of the Board of Directors.	The amounts that remain recoverable over a long period should be either recovered or properly settled.
(b) The Board had not taken action to recover a total of Rs. 744,065 comprised of Rs.192,817 to be charged for motor bicycles provided to the Officers on the payment basis in the year 2012 by the Board though a period of 06 years had lapsed and an amount of Rs. 551,248 provided for the construction of sales outlets though a period of 1 to 6 years had lapsed.	Since a sum of Rs.584,065 could not be recovered, the Board of Directors had decided to write off the same and accordingly, it will be eliminated from the accounts in future. A sum of Rs. 100,000 further remains recoverable.	The amounts that remain recoverable over a long period should be either recovered or properly settled.

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

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The following non-compliances were observed.

<u>Reference to Laws,Rules, Regulations etc.</u>	<u>Non-compliance</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
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- (a) Section 17 (5) of the Development Lotteries Board Act No. 20 of 1997
- Action had not been taken to remit an amount totalling to Rs. 69,682,346 comprised of an amount of Rs. 44,733,538 as unclaimed cash prizes and a value of Rs. 24,948,808 as unclaimed non-cash prizes, to the President's Fund.
- The financial value of unclaimed cash rewards and financial value of unclaimed items of special lottery draws will be used again for special promotional lotteries after lapse of 06 months.
- Action should be taken in accordance with the objectives of the Act.
- (b) Public Finance Circulars  
State Finance Circular No. 02/2015 dated 10 July 2015.
- (i) Paragraph 03
- Two vehicles had been disposed of at Rs. 5,500,000 without being complied with the provisions. Further, 06 vehicles older than 10 years had been repaired without obtaining a technical report during the year 2018 and the expenditure incurred thereon had been Rs. 1,612,602.
- This error will be corrected in future.
- Action should be taken in accordance with the existing laws, rules and circulars.
- (ii) Paragraph 12
- The disposal of vehicles had not been reported to the Director General of State Finance and a copy thereof had not been presented to the Auditor General in accordance with the provisions relating to the disposal of vehicles.
- This error will be corrected in future.
- Action should be taken in accordance with the existing laws, rules and circulars.
- (c) Establishments Code of the Democratic Socialist Republic of Sri Lanka

Paragraph 4.1 of Chapter (VIII)	Even though the Field Officers are not entitled to get overtime payment, over time allowances amounting to Rs. 1,337,265 had been paid in the year under review for the Field Officers of the Board.	Payments have to be made to the officers in exigency of the service.	Action should be taken in accordance with the provisions.
	As per the provisions of the Establishments Code, staff officers should compulsorily perform duties for 08 hours per day for getting 1/20 allowance for staff officers. Nevertheless, The Board had paid overtime allowance for staff officers served in holidays for the number of hours they had worked in the ratio of one and half hours overtime pay per one hour of work without taking these provisions in to consideration. Further, staff officers had participated in the lottery draws on those days and had also obtained the allowance paid for taking part in the lottery draw.	In terms of circular No. DLS/ADM/02 dated 21 May 2019, when the staff grade officers engage in duties on Saturday, Sunday and holidays, they are required to perform duties at least for 04 hours and payments should be made in accordance therewith.	Action should be taken in according to the Establishment s Code.
	- Overtime payment had been paid by adding time periods less than one hour without considering the provisions stipulated in the Establishments Code.	Overtime allowances have been paid in exigency of the service of the institute and necessary steps are expected to be taken.	Action should be taken in according to the Establishment s Code.

(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

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| (i) Financial Regulations 103 and 103(1)f | - Notwithstanding the accidents caused to a vehicle in 03 instances, the Board had repaired the above vehicle by spending Rs.129,200 without being taken steps properly against the persons who should be responsible for the said accidents.   | Action has been taken to recover the damages from the parties who should be directly responsible for the accidents and action will be taken to initiate disciplinary actions.   | Action should be taken in accordance with the Financial Regulations.   |
|   | - Five accidents had caused to 04 vehicles during the period from April to December 2018 from a driver who had been recruited on 05 March 2018 a contract basis and confirmed in the post on 07 July 2018. It has been reported that the careless driving had attributed to all the said accidents, whereas steps had not been taken in terms of Financial Regulations in that respect. | Losses and damages will be recovered from the parties who should be directly responsible for the accidents and a warning letter has been issued to the drivers.<br><br>The police stations refuse to issue police reports on the accidents caused due to natural reasons. | Action should be taken in accordance with the Financial Regulations in respect of the relevant loss.   |
| (ii) Financial Regulation 757(2)          | - Although a Board of Survey had been conducted, a report of the Board of Survey had not been furnished to the Auditor General.   | The Board of Survey Report on fixed assets has been handed over to the Government Audit Branch on 30 May 2019.  | A formal Board of Survey Report should be presented and action should be taken in terms of the Financial Regulations. Assets should be properly managed. |

## (e) Treasury Circulars

- (i) Paragraph 02 of the Circular No. PED/57 dated 11 February 2011 of the Ministry of Finance. Annual Promotional Programmed had not been prepared in accordance with the Annual Action Plan and approval had not been obtained from the Public Enterprises Department. Agreed. Annual Programmers have been referred to the Public Enterprises Department for approval from the year 2019. Approval should be obtained in terms of provisions in circulars.
- (ii) Department of Public Finance Circular No.06/2016 dated 17 June 2016. Although the non-refundable deposit relevant to procurement cost estimate of Rs.200 million or less than Rs.500 million should be in a minimum value of Rs.35,000 or maximum of Rs.60,000, the Board had obtained a non-refundable deposit of Rs.5000 only from an institute relating to the procurement process amounting to Rs.464 million on the selection of advertising agencies. It has been informed that action will be taken to retain the deposits according to the Circular No.06/2016 in future. Action should be taken according to the provisions in circulars.
- (f) Paragraph 2 (i) of the Public Administration Circular No. 03/2018 of 20 February 2018 and the Decision of the Board of Directors bearing No. 2017/10/1184 of 09 October 2017. A Pensioner over 60 years had been employed as a Consultant on contract basis with effect from 09 October 2017 up to 31 March 2019 without obtaining the approval of the Cabinet and he had been paid an amount of Rs. 2,151,054 for the period of 09 October 2017 up to 14 April 2019 including a monthly allowance of Rs. 100,000 and medical assistance and transport allowances. Agreed. Although Cabinet approval was sought, it has not been received as yet. A service extension has not been granted and his service has been terminated at present. Action should be taken in accordance with the circular instructions.

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| (g) Paragraph (ii) of the Management Services Circular No. 03/2018 of 18 July 2018 | A seventy-year-old Officer had been recruited to the Post of Project Co-ordinating Officer of the Board with effect from 01 February 2019 on the basis of paying a monthly allowance of Rs. 50,000 and a fuel allowance of Rs. 35,000 regardless of the directions issued in this Circular. | Since the Department of Management services has approved this post, the relevant recruitment has been made. | Action should be taken in accordance with the circular instructions. |
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## 1.8 General Administration in Information Technology (IT)

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
The computer software service that is being currently used by the Board for the lottery draws had been irregularly obtained from a Private Company. Further, it could not be observed that the Management had paid their due attention to therepercussions that might be created through completely assigning the access for data on the lottery draw to the relevant company. A sum of Rs. 117,410,057 had been paid to that Company from 2009 up to 31 December 2018 including Rs. 11,995,200 during the year under review for the maintenance of these computers and software and activities related thereto.	Action will be taken to enter into an agreement for the protection of the Information Technology System of the Development Lottery Board and the confidentiality of the data contained therein. Action has been taken to refer a Board of Directors paper to take over that system to the Board in future.	A lottery drawing system and accounting system should be established.

## 2. Financial Review

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### 2.1 Financial Results

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The operations of the Board for the year under review resulted in a surplus of Rs. 2,187,603,956 as compared with the corresponding surplus of Rs. 507,036,703 for the preceding year, thus observing an improvement of Rs. 1,680,567,253 or 331 per cent of the financial result. This improvement was mainly attributed to the incurring in tax expenditure of Rs. 1,819,191,890 or 78 per cent including outstanding income tax from the before tax profit of the preceding year and decreasing same by Rs.553,166,576 or 20 per cent during the year under review.

## 2.2 Tendency analysis of the main income and expenditure items.

The the main income and expenditure items of the year under review are compared with that of the preceding year as follows.

Income/Expenditure	2018	2017	Increase/Decrease	Percentage
	Rs.	Rs.	Rs.	Per cent
i. Lottery Ticksts income	15,854,856,246	13,981,500,306	1,873,355,940	13.4
ii. Other income	201,525,679	130,891,204	70,634,475	54.0
<b>Cost</b>				
iii. Lottery Tickets printing expenditure.	402,322,679	387,696,730	14,625,949	3.8
iv. Expenditure on prizes	8,296,413,110	7,263,436,665	1,032,976,445	14.2
v. Expenditure on draws	575,478,468	466,033,872	109,444,596	23.5
vi. Distribution expenditure	3,950,410,156	3,541,283,837	409,126,319	11.6
- Promotional Cost	391,624,924	386,284,208	5,340,716	1.4
- Marketing related cost	15,160,049	225,475	14,934,574	6623
- Sales and distribution cost	441,709,412	448,616,423	(6,907,011)	(1.5)
- Sales Agents' commissions	2,898,871,342	2,529,189,690	369,681,652	14.6
- Distribution commissions	203,044,429	176,968,041	26,076,388	14.7
vii. Administrative Expenditure	463,619,071	419,811,037	43,808,034	10.4
- Expenditure on employees remuneration	275,574,584	250,832,151	24,742,433	9.86
- Expenditure on software maintenance.	12,419,486	11,623,676	795,810	6.8
- Reimbursement of allowances of medical bills	27,347,709	21,519,065	5,828,644	27.1

The following observations are made in this connection.

- (a) As compared with the preceding year, lottery sales income had increased by Rs. 1,873,355,940 or 13.4 per cent during the year under review. Although sales income of 07 lotteries had decreased in a range from 0.3 per cent to 50.9 per cent, increase in the sales income of the Adakotipathi Lottery alone by Rs. 2,937,269,200 or 197 per cent had attributed to the above increase.

- (b) The other income of the Board had increased by Rs. 70,634,475 or 54 per cent in the year under review compared to the preceding year. This increase was mainly due to the increase in investments interest income by Rs. 65,144,796, or 72 per cent.
- (c) When comparing expenditure on lottery tickets during the year under review with that of the preceding year, an increase of Rs.14,625,949 or 3.8 per cent was shown. Increase in the expenditure on Adakotipathi Lottery by Rs. 62,527,136 or 161 per cent during the year under review compared to the preceding year and decrease in the expenditure on other 08 Lotteries ranging from 0.8 per cent to 54.6 per cent had been the reason for above increase.
- (d) Decrease in the expenditure on prizes of 06 Lotteries had been in a range from 6.6 per cent to 50.5 per cent during the year under review compared to the preceding year. Nevertheless, increase in the expenditure on prizes by Rs. 1,468,634,600 or 197 per cent compared to the 197 per cent increase in the sales income of Adakotipathi Lottery had given rise to increase in the total expenditure on lottery prizes by Rs.1,032,976,445 or 14.2 per cent.
- (e) As compared with the preceding year, cost of the lottery draws had increased by Rs. 109,444,596 or 23.51 per cent during the year under review and the above increase was mainly attributed to the increase in the expenditure on Adakotipathi Lottery draws by Rs. 96,832,211 or 212.6 per cent in the year under review compared to the preceding year.
- (f) The distribution cost of the Board had increased by Rs. 409,126,319 or 11.6 per cent during the year under review as compared with the preceding year. The above increase was mainly due to increase in the promotional expenditure by Rs. 5,340,716 or 1.4 per cent, marketing related cost by Rs. 14,934,573 or 6623 per cent, sales Agents commission by Rs. 369,681,652 or 14.6 per cent and increase in the distribution commission expenditure by Rs.26,076,388 or 14.7 per cent.
- (g) As compared with the preceding year, administrative expenditure of the Board had increased by Rs. 43,808,034 or 10.4 per cent during the year under review . A sum of Rs. 24,742,433 of the above increase represents the employees' remuneration expenditure and that increase had been 9.80 per cent compared to the preceding year. In addition, increase in the software maintenance expenditure by Rs. 795,810 or 6.8 per cent and medical expenses and expenditure on hospital charges allowances by Rs. 5,828,644 or 27.1 per cent had mainly attributed to the increase in the administrative expenditure.

### 2.3 Ratio Analysis

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A ratio analysis of the operations, profitability and the liquidity of the Board for the year under review and the preceding year is given below.

	2018	2017
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<b><u>Operations</u></b>	<b>Per cent</b>	<b>Per cent</b>
Sales and distribution costs against sales income	25	25
Sales cost against sales income	58	58
<b><u>Profitability Ratio</u></b>		
Gross profit ratio	42	42
Net profit ratio	14	3.6
Sales and distribution expenditure ratio as a	89	89

percentage of the total operating expenditure.

Ratio of transfer of prizes from the net profit 17 59

Income Tax ratio against the net profit 25 358

**Liquidity Ratio**

Current Ratio 1:1.37 1:1.7

Quick Ratio 1:1.31 1:1.8

The following observations are made in this connections.

- (a) Expenditure on sales and distributions carried out by the Board during the year under review and the preceding year had been an equal value of 25 per cent of the sales price. Nevertheless, sales and distribution expenditure ratio in the preceding year and the year under review had been a higher rate of 89 per cent as a percentage of the total operating expenditure. It was observed that the higher expenditure incurred in this manner directly affects the net profit of the Board and it has adversely affects the contribution made to the President's Fund.
- (b) Out of the net profit earned by the Board during the year under review, 17 per cent had represented the recovery of prizes to be awarded to the people. It was observed that due to incurring an outstanding income tax expenditure as a lump sum during the preceding year, the above percentage had been a higher value of 59 per cent and the income tax ratio to the net profit had remained at a higher range from 25 per cent to 358 per cent in the preceding year.
- (c) Increase in the sales cost by Rs. 1,157,046,990 or 14 per cent as compared with the increase in the lottery sales income by Rs. 1,873,355,940 or 13 per cent during the year under review in comparison to the preceding year had attributed to retain the gross profit ratio at an equal level of 42 per cent.
- (d) The current ratios of the preceding year and the year under review had been 1.7 and 1.37 respectively. Accordingly, as it was not observed that the current assets ratio of the Board was at an optimum level, the management's attention had not been drawn on the working capital management even in the year under review.

### 3. Operating Review

#### 3.1 Uneconomic Transactions

The following observations are made.

<b><u>Audit Observation</u></b>	<b><u>Comments of the Management</u></b>	<b><u>Recommendation</u></b>
(a) Although the actual number of participants of 11 sales agents meetings conducted by the Board during the year 2018 stood at 2346, a sum of Rs. 6,001,820 had been paid to the hotels for the supply of lunch for 2639 persons. Accordingly, an additional expenditure of Rs. 593,670 had been incurred on 293 persons.	As family members of the participants too participated in the meeting additional expenditure had to be incurred.	A specific policy should be established.

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| (b) | Although a sum of Rs.2,625,000 had been approved to purchase goods in order to distribute among the participants of the sales agents meetings, an expenditure of Rs. 2,969,780 had been incurred thereon. As such, it was observed that an additional expenditure Rs. 344,780 had been incurred.                | Actual prices had been higher than the estimated value of the Board.  | Estimates should be prepared in realistic basis.                              |
| (c) | Despite the availability of an adequate staff in the Board including a qualified Accountant, the Board had spent a sum of Rs.1,095,000 to obtain service of a private firm for the computation of Income Tax, Value Added Tax, Nation Building Tax and Pay As You Earn Tax relating to the years 2017 and 2018. | At the Management Committee meeting held on 26 September 2017, approval of the Board of Directors had been granted to obtain tax consultancy service. | The Board should formulate a specific policy for the computation of incometax |

### 3.2 Identified Losses

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The following observations are made.

#### Audit Observation

#### Comments of the Management

#### Recommendation

- |     |  |   |  |
|-----|--|---|--|
| (a) | Even though a Double Cab worth Rs. 8,095,000 received by a former Chairman from an Agent had been registered in favour of the Board, a case had been filed against the Board for not paying money by the Board. The total legal expenses incurred by 26 November 2018 were Rs. 2,349,185 and its judgement had been given on 26 November 2018. Accordingly, the Board had to pay an amount of Rs. 16,190,000 to the Agent as the value of the vehicle and as the legal interest. Further, a depreciation expense of Rs. 8,095,000 had been written off against the profit without using this vehicle for any operational activity of the Board. Accordingly, the total loss that had to be incurred by the Board for the said vehicle was Rs. 26,634,185. Accordingly, it was further observed in audit that the contribution to be made to the President's Fund in terms of Section 11 (1) (a) of the Board Act had decreased by Rs.26,634,185. | Since this vehicle had been registered in favour of the Board, relevant provisions for the depreciation have been made. | Although this vehicle had been registered in favour of the Board, since value of the vehicle had not been paid to that institution, this amount and the legal interest have to be paid. Therefore, attention of the management should be focused on the assets management. |
|-----|--|---|--|

- (b) Even though vehicles not registered as exhibition vehicles should be used for marketing promotional activities, 15 Wagon R vehicles had been obtained on the hire of Rs. 2500 per day for the special lottery of “KotipathiShanidaAvurudda” and one Honda Vezel vehicle had been obtained on the basis of paying Rs. 5000 per day for the special lottery of ShanidaWasana New Year Dream and had paid an amount of Rs. 645,900 as hire charges for 16 vehicles. Further, even though the owner should hold the responsibility of the vehicle during the period of the said exhibition, a loss of Rs. 80,900 had incurred due to the accident occurred to Honda Vezel. It was observed that the Board had incurred this expense without conducting any investigation regarding this accident occurred to this vehicle that had been obtained in an informal way.
- Agreed. Action will be taken to prevent from occurring these incidents in future.
- Vehicles not registered as promotional vehicles should be utilized and action should be taken so as to ensure transparency. A formal inquiry should be conducted regarding the accident and the loss should be recovered from the relevant parties.
- (c) Two (02) motor vehicles worth Rs. 4,035,160 and a motor bicycle worth Rs. 219,500 purchased with a view to awarding as prizes for the winners of lotteries were provided for display as per the request made by sales agents and the two motor vehicles and the motor bicycle had met with accident. A loss of Rs.228,855 had caused due to accidents of 02 motor vehicles and the damage of the motor bicycle had not been assessed even by 15 May 2019, the date of audit. The Sales Agents should inform the Board and the insurance company regarding such accidents caused during the period of exhibition and the Sales Agents should hold the responsibility thereon. Nevertheless, the Board had incurred this loss without being recovered the same from the responsible parties or the insurance company by conducting a formal inquiry in this connection.
- Agreed. Action will be taken to prevent from occurring these incidents in future.
- Action should be taken to recover the loss from the responsible parties.

- (d) According to the matters submitted to the audit, the Sales Division had made arrangements to provide a three wheeler (Chassis No. XMD2A25B2XDWC71820X) purchased at the amount of Rs. 411,500 on 17 August 2013 as an exhibition vehicle as per a request made by a sales agent. This vehicle which had been handed over to the sales agent on 28 December 2015 had been again handed over to the Board on 29 November 2017. However, this vehicle was an unregistered one and it had become inoperative at the time of handing over of the vehicle. The Management had not paid any caution on the safety of assets and even though 18 months had lapsed after handing over of the vehicle to the Board and it remained decaying in the premises of the Board.
- Having obtained approval of the Board of Directors to sale this three-wheeler and to remit money to the President's Fund, this matter has been referred to the Cabinet seeking approval. Arrangements have been made to take necessary steps once the above approval is received.
- Since the vehicle being an unregistered vehicle, disposal might be problematic and as such, responsible parties should be recognized and the loss should be recovered from them.

### 3.3 Operating Inefficiencies

The functions of the Board in terms of Section 11 of the Development Lotteries Board Act, No.20 of 1997 are as follows.

- to conduct, or arrange for the conduct, of lotteries for the purpose of generating funds for the President's Fund
- to remit, as provided for in this Act, the proceeds of lotteries so conducted to the President's Fund

The following observations are made.

#### Audit Observation

#### Comments of the Management

- | <u>Audit Observation</u>  | <u>Comments of the Management</u>   | <u>Recommendation</u>   |
|---|---|---|
| (a) It was observed to Audit that out of 10 lotteries introduced to the market by the Board, income of 07 Lotteries had decreased as compared with the year 2017. The sales income of these 07 lotteries amounted to Rs.9,525,778,900 in the year 2017 and that income had decreased up to Rs.8,253,932,700 by Rs.1,271,846,200 in the year 2018. Accordingly, it was observed that sales income of these 07 lotteries had dropped in a range from 0.3 per cent to 50.9 per cent. | Decrease in the number of draws of the lotteries which had low sale attributed to this situation. | Action should be taken to increase the sales by adopting formal marketing strategies. |

- (b) It was observed that the before tax profit of 06 lotteries of the Board had decreased compared to the year 2017. The before tax profit of these 06 lotteries in the year 2017 amounted to Rs.1,491,511,027 and the before tax profit in the year 2018 amounted to Rs.1,281,674,846. Accordingly, the before tax profit had decreased by Rs.209,836,181 as compared with the preceding year and it had ranged from 5.1 per cent to 60.9 per cent among the lotteries.
- It had been stated that the before tax profit too had decreased owing to the above reason.
- Action should be taken to increase profit by using sales promotion strategies.
- (c) As compared with the preceding year, the promotional expenditure of Jayoda and Niyatajaya Lotteries had increased by 16.4 per cent and 64.1 per cent respectively during the year under review, whereas sales income of those lotteries had decreased by 0.3 per cent and 10.2 per cent respectively. Further, when decreasing the promotional expenditure of the Galaxy Star Lottery by Rs.8.7 per cent, its sales income had decreased by 50 per cent. Similarly, while increasing the promotional expenditure of Development Fortune and instant lotteries by 85.7 per cent and 38.8 per cent, sales income had increased only by 12.5 per cent and 03 per cent respectively.
- Since much attention had not been drawn on promotion in the year 2017, it had increased in the year 2018.
- Control systems should be established aiming at performance.
- (d) A sum of Rs.2.5 million had been allocated under the Item No. 16-0006 for market researches in the year 2018 and that provision had been increased by Rs.50,000 by the revised estimate. Nevertheless, market researches had not been carried out during the year under review and the provisions of Rs.2.55 million had been entirely saved by the end of the year.
- Agreed with the paragraph.
- Budget should be prepared including achievable targets.
- (e) It was observed in audit that the project of the construction of 25 Modern Lottery Shops scheduled to be implemented by allocating Rs.25 million through the budget, 2018 had been abandoned.
- The proposed places were not owned by the sales agents and the benefits were not at the expected level.
- Budget should be prepared including achievable targets.
- (f) Even though an allowance of Rs. 40 per kilometre had been paid for using private vehicles for the performance of duties of the Marketing Officers, the Board had not maintained a file including details of the
- Agreed with the paragraph.
- Expenditure should be incurred accordingly to a specific procedure.

vehicles and only the vehicle Numbers were available with the Board. Even though the Board had paid an allowance of Rs. 2,623,260 for the use of private vehicles for the performance of duties, the Board had not specifically mentioned whether the same vehicle that had been informed to the Board had been used for the performance of duties and the type of vehicle for which the amount of Rs. 40 is paid. As such, accuracy of the expenditure incurred in this respect was questionable in audit.

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|-----|--|--|---|
| (g) | The total lottery printing expenditure of the year 2018 stood of Rs.326,382,842 and the expenditure incurred on the lotteries that remained unsold stood at Rs.37,169,426. Accordingly, printing expenditure on unsold lotteries represented 11.34 per cent of the total expenditure. It was observed to Audit that an uneconomic expenditure of Rs.20,850,283 had to be incurred during the current year. | Although lotteries could not be sold due to the reasons such as placing orders before 30 days, failure to sale lotteries, not reporting to the service owing to rains etc, it has been reported that Field Marketing Force and Distribution Sales Agents have been educated to maintain the unsold lotteries at 05 per cent. | Adequate internal control system should be established. |
|-----|--|--|---|

### 3.4 Transactions of Contentious Nature

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) The Board had paid sums totalling Rs.5,560,500 comprising deposit of Rs.160,500 obtained in the issue of tender documents for the vehicles disposal process carried out on 05 April 2008 and the sum of Rs.5,400,000 received from the disposal of 02 vehicles personally to the Administrative Officer and subsequently, it had been deposited in the bank under his signature. Accordingly, failure of the Top Management to pay attention on	The Administrative Officer has taken steps in accordance with the newspaper advertisement.	An effective internal control system should be established on funds.

exchanging moneys of the Board among the officers was a transaction of contentions nature.

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|-----|---|---|---|
| (b) | Even though 30 Field Officers - Sales promotion Assistants and Sales Coordinators had been recruited under various qualifications and salary scales, they were performing duties in the same nature. A sum of Rs. 10,680,829 had been paid as salaries and allowances during the year under review for the above duty in similar nature.  | Although the same duty is performed their responsibilities and supervisions are different from each other.                        | The duties assessed according to the supervision level and the organizational structure of the failed should be assigned. |
| (c) | Even though vehicles which have not been registered as exhibition vehicles should be exhibited for the exhibition vehicles as the prizes of the KotipathiShanidaNewyear Special Lottery, 15 vehicles obtained on rent had been used for that purpose and sums totaling Rs.645,900 had be paid for the use of those vehicles as exhibition vehicles under various rentals as Rs.1,500, Rs.2000, Rs.2,200 and Rs.2,500 per day from 20 March to 10 April 2018 without obtaining proper approval. The use of old vehicles for exhibition so as to mislead the prize winners was a transaction of contentious nature. | Since the supply company lacked stocks of additional vehicles to exhibit, registered Wagon R vehicles were used for that purpose. | Interval control systems should be established relating to the prizes.  |
| (d) | Although approval of the Board of Directors had been sought for the conduct of KotipathiShanida Special New year Lottery draw by the minute No. 2018/03/1247 of the Board of Directors meeting held on 13 March 2018, the relevant approval had been granted at the Board of Directors meeting held on 10 May 2018. Nevertheless, lottery programme had been launched on 10 April 2018. Accordingly, the launching of above special lottery draw without receiving a formal approval was a matter of contentious nature.  | Not commented.  | Action should be taken after obtaining the approval of the Board of Directors.  |

- (e) A sum of Rs.5,599,820 considered as the value of sold lotteries at the time of the draw had been deducted from the sales value and shown as unsold returned lotteries following the lottery draw and accordingly, it was observed in audit as a transaction of contentious nature.
- The unexpected situation emerged in the Theldeniya area had attributed to return the lotteries and the value of expenditure items had been varied owing to a computation error.
- \*A control system should be introduced to maintain the General Ledger which is not maintained for the time being.
- \* Lottery draw programmes should be properly implemented.
- \* Reconciliation reports should be presented for the differences of financial reports and monthly reports.

### 3.5 Idle or underutilized Property, Plant and Equipment

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Following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Sixteen (16) motor bicycles worth Rs. 2,720,587 which were in the running condition had been stored in stores without using them for a period between 01 year to 03 years. One motor bicycle purchased in the year 2017 for a sum of Rs. 233,000 and which had run for 25,000 km by January 2018 was among the 16 motor bicycles. Even though it had been informed that these motor bicycles would be provided to the Marketing Promotion Officers after they are recruited, six (06) motor bicycles worth Rs. 1,631,400 had been purchased on 19 March 2019 for providing those motor bicycles to Marketing Promotion Officers.	A letter has been forwarded to the Ministry seeking approval for the disposal of 16 motor bicycles.  It has been stated that the motor bicycle run over 25,000 Kilometers is not suitable for further use. One motor bicycle is to be given to the Sales Promotion Assistant who is due to be recruited.	Assets should be procured in accordance with the proper procedures after estimating the requirement correctly.

### 3.6 Procurement Management

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>(a) <b><u>Delays in the Procurements</u></b> Action had been taken to convert the Crew Cab ordered at Rs.5,565,000 on 15 March for the transport of lottery tickets by opening bids on 19 February 2018 into a promotional vehicle on 13 June 2018. Further an expenditure estimate of Rs.1,990,000 had been forwarded for this purpose. Accordingly, the above task had been initiated from 25 September 2018, whereas it had not been carried out even by 15 May 2019.</p>	<p>Although two Crew Cab were purchased for the transport of lottery tickets, Management expects to convert one of the above cabs into a promotional vehicle. Accordingly, the creation of promotional vehicle is carried out under 02 stages. The rare structure is created in the first stage and purchase of LED panel and the generator is done in the second stage. As such, a delay had occurred.</p>	<p>Action should be taken in accordance with budget plan and procurement plan.</p>
<p>(b) <b><u>Procurement Plan</u></b> (i) Although procurement plan should be prepared according to the format given in paragraph 4.2.1 of the Guideline 4 of the Government Procurement Guidelines 2006, the Procurement Method had not been included in the Procurement Plan of the Board prepared for the year under review.</p>	<p>Not agreed. It has been stated as bid calling.</p>	<p>Procurement Method should be stated in terms of procurement Guidelines.</p>
<p>(ii) In the preparation of Procurement Plan according to Guideline 4 of the Government Procurement Guidelines, procurement requirements should be recognized. Nevertheless, 14 procurements, that is, procurements of approximately Rs.166.9 million included in the Procurement Plan of the year 2018 had not been implemented during the year 2018 and procurements extraneous to the Procurement Plan had</p>	<p>Observations are accepted. Approval of the Board of Directors has been obtained for the procurements not included in the Procurement Plan. For the purpose of retaining in the market and as a result of promotional</p>	<p>Action should be taken in accordance with the Procurement Guidelines.</p>

been implemented. Accordingly, the management of the Board had fail to taking into account the instructions and objectives strategically and to recognize the procurement requirements properly.

programmes of other competitive institutions, above steps have been taken.

- (iii) Although plans had been drawn to purchase 30,000 umbrellas according to the Procurements Plan, 37,800 umbrellas had been purchased during the year 2018. Accordingly approval and the necessity of the purchase of 7,800 umbrellas worth Rs.2,950,428 in excess to the approved limit were not establish to Audit.

Purchases have been made in accordance with the Procurement Guide lines.

Purchases should be made by correctly realizing the Procurement Guidelines.

(c) **Selection of Advertising Agencies.**

**Rs.196,776,045**

- (i) According to options I or II of section 5.3.13 (a) of the Procurement Guidelines, the value of bid security should be determine as a percentage of the estimated contract value of Rs. 196,776,045. Accordingly, the amount to be determine was Rs. 1,697,760, whereas Rs. 4,378,000 had been recovered. As such, Rs. 2,680,240 had been excessively recovered from the relevant institutions. The procurement entity appointed by the Ministry of Finance too had not paid attention thereon. The criteria specified in the selection of advertising agencies in the years 2016 /2017 that the relevant agencies should have 3 years experience in the field had been reduced up to 1 year experience relating to the years 2017/2018 and this procurement which should have been carried out by the Procurement Committee appointed by the Cabinet had been carried out by the Departmental Procurement Committee. Accordingly, it was observed that the procurement relating to the selection of advertising agencies had not been properly carried out.

Action will be taken in accordance with the Procurement Guideline and the condition of 03 years experience had to be altered as one year experience owing to the decision taken by the Department Committee that obtaining contribution of creative institution with newest ideas was suitable in this regard.

Action should be taken in accordance with provisions in the Procurement Guidelines and the members of the Departmental procurement committee should taken decisions in terms of provisions in the procurement Guidelines.

(ii) The procurement activity relating to the selection of a advertising agency pertaining to the period 2016/2017 was completed on 31 July 2017 and the procurement activity relating to the period 2017/2018 had been initiated on 16 January 2018. Accordingly, it was observed that an expenditure of Rs. 16,373,268 had been incurred for the promotional activities over a period of 05 months during which a procurement process was not in operation.

Action will be taken in accordance with the procurement Time Table.

Action should be taken in terms of provisions in the Procurement Guidelines.

(iii) Four agencies had been selected for advertising commercial advertisements and one of the above agencies had been selected for the creation of advertisements of the Niyata Jaya lottery. It was observed according to the cost estimates reconciliation statement that the cost of that institution had been higher than that of the other 03 institutions. Accordingly, the selection of a institution with high cost which had only 02 years experience in the field of business for the creation of advertisements of only one Lottery was questionable in audit.

Advertising agencies Do have been selected according to the double cover system based on the creativeproposals.

**(d) Purchase of prizes (Kotipathi Shanida) Rs. 27,300,000**

(i) It had been decided to provide 05 Wagon R (Brand New) as prizes for “KotipathiShanida” Lottery and quotations should be invited and purchases should be made only from the Agent in terms of Paragraph 3.5 of the Procurement Guidelines. Nevertheless, quotations had been called from Car Sales and purchased 05 reconditioned vehicles amounting to Rs. 17.5 million. Further, an amount of Rs. 18,000 had been paid to the relevant Committee members even though the members of Procurement Committees and Technical Evaluation Committees cannot be paid for purchases made under the direct contracting method as per Paragraph 2.9.1 of the Procurement Guidelines.

The Toyota Lanka Ltd. does not import that brand and AMW stated that stocks were not available. Accordingly, quotations have been called for from the Local importers. Payments have been made to the said members based on the contract value.

Action should be taken in accordance with the provisions of procurement Guidelines.

- (ii) As per Section 1.2.1 (c) of the Procurement Guidelines, fair, equal and maximum opportunity had not been offered for eligible interested parties to participate in Procurement due to the mentioning of the brand name "Damro" at the same moment it was decided to provide furniture sets worth Rs. 1.5 million for the special draw of "KotipathiShanidaKotipathiAvurudda". In the preparation of procurement budget it had been carried out based on the prices of the Damro Furniture. Nevertheless, in calling for quotations bids have been invited from the other institutions as well. Do

(e) **Purchase of Sales Promotional Items**  
**Rs.14,322,323**

- (i) Action had been taken to purchase 35,000 umbrellas in three occasions and as per Condition 17 stipulated in the bidding document, goods have to be delivered within the due period from the date of awarding the contract and it has been further mentioned that a late fee would be charged if goods were not delivered in the due time period. Accordingly, even though a fine of Rs. 418,260 should be charged owing to non-receipt of items on due date, action had not been taken accordingly. Agreed. It has been informed that fines will be charged. Do
- (ii) Further, even though the quantity of umbrellas required for the period of 01 October 2018 to 31 December 2018 was 7500, a number of 20,000 umbrellas had been ordered and only 11,900 umbrellas had been received by 31 December 2018. The rest of 8100 umbrellas had not been received to the Board even by 11 April 2019. Further, 6718 umbrellas worth Rs. 2,541,151 were remained at the Stores even by 31 December. Sale of lottery tickets relating to one lottery draw had slowly taken place and accordingly, it was not possible to issue all the umbrellas to the market as at 31 December 2018. Since the instant lotteries are conducted through strategically method, this stock will be issued to the market as appropriate to the circumstances. Purchase should be made by making plans in keeping with the requirements.

- (iii) Even though a Performance Security worth 10 per cent of the value of the relevant Contract has to be submitted within 10 days from the date of issuing the notice of awarding the contract to the selected supplier as per General Condition No. 15 of the bidding document, it was observed that the performance security had been obtained after purchasing the total quantity of the order of 10,000 umbrellas valued at Rs. 4,299,965 on 10 July 2018.
- Certain stock of umbrellas had to be brought to the Stores without performance security in order to meet the market demand. A certain period of time had been taken to submit the performance security to the Board.
- Action should be taken in accordance with the provisions of the procurement Guidelines.

(f) **Provision of Lunch for the Staff Rs.4,819,179**

A supplier had been selected for the year 2015 up to date for the supply of the lunch for the staff of the Board totally excluding the procurement process and an amount more than Rs. 4.8 million had been paid for that purpose during the year 2018.

It has been stated that action will be taken to select a suitable supplier by calling for quotations.

Do

(g) **Purchase of a Fork Lift. Rs.4,500,000**

Any Division or main Store or Sub-Stores of the Board had not informed the requirement of a Fork Lift to be used to increase the distribution efficiency as indicated in the Corporate Plan. Further, this purchase had not been approved according to the Procurement Plan, whereas it had been purchased from the Toyota Lanka Ltd. on 02 July 2018, by spending Rs. 4,500,000. Moreover, this purchase had been made deviating from the procurement process and therein, defects such as specifications being different, carrying out technical evaluation without recommendations of the Technical consultant and without a Technical Evaluation Committee member appointed by the Ministry of Finance, not recommending values suitable to make purchase, obtaining consultancy service by spending Rs. 25,000 without proper approval had taken place. Similarly, it was revealed at the examination carried out by the Audit that there were no adequate space facilities within the Stores and the premises of the Board to use such machine.

Since this value had been budgeted and approved through the Corporate Plan, 2018, it is not correct to state that the above machine had not been requested by any Divisions.

Action should be taken in accordance with the provisions of the Procurement Guidelines.

Since the Toyota Lanka Ltd is a Local agency, this purchased has been made on the approval of the procurement committee.

The members of Technical Evaluation Committee who have been appointed by the Ministry of Finance should be involved in.

Since the officer appointed by the Motor Traffic could not be

After recognizing the requirement from the Divisions, Board of Directors

involved, service of papers should be another consultant was referred and a obtained. formal approval

Report of the Technical Consultant has been received should be obtained as decisions of the Board of Directors.

The approval of the management had been subsequently granted for the Rs.25,000 requested by the Consultant.

**(h) Purchase of Crew Cab. Rs.12,555,000**

- (i) In the procurement process carried out relating to the purchase of sales promotion vehicles, necessary technical consultations had been obtained from a Consultant. Nevertheless the report of the Consultant including the reasons led to the selection of relevant institution had not been furnished to the Procurement Committee as required by Paragraph 7.3.1 of the Procurement Guidelines. Assistance of the Consultants have been obtained for the evaluation of quotations. The recommendation is available in the file. Action should be taken in accordance with provisions of the Guidelines.
- (ii) In terms of Guideline 2.8 (a) of the Government Procurement Guidelines, the technical evaluation committee shall consist of at least one person who is expert on the subject and one member who is knowledgeable on the procurement process. Nevertheless, a member who is knowledgeable on the above matters had not been included in the procurement committee appointed relating to the purchase of sales promotion vehicle and as such, the procurement process relating to the LED panel and the generator had become inefficient. Additional technical assistance for the preparation of specification and the evaluation had been obtained from the Sri Lanka Rupavahini Corporation and accordingly, bids have been invited. Relevant evaluations are in progress at present. Do

### 3.8 Utilization of Resources of Other Organizations

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The following observation is made.

#### Audit Observation

#### Comments of the Management

#### Recommendation

Even though it had been agreed to provide the land in extent of 01acre owned by Tissamaharama Divisional Secretary's Division on long term lease, the Board had incurred an amount of Rs. 492,392 for the development activities of the land for the construction of a Guest house without entering in to a formal lease agreement. However, the Divisional Secretary of Tissamaharama had been informed on 13 September 2018 to retransfer the land as the land was not suitable to construct a guest house. Accordingly, action had not been taken to write off the expenditure incurred on this from the accounts and it had been further shown in accounts as an asset.

Agreed. It has been informed that action will be taken to write off the same from the accounts in future.

Action should be taken to eliminate from the accounts in terms of relevant provisions.

### 3.9 Human Resource Management

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The following observations are made.

#### Audit Observation

#### Comments of the Management

#### Recommendation

- (a) A person who was 64 years of age had been recruited to the post of Sales and Marketing Consultant which was not included in the approved cadre of the Board as at 31 December 2018 and a person older than 70 years of age who was not a staff member had been recruited to the post of Project Coordinator on contract basis by 30 April 2019 for a period of 6 months along with another 4 persons. The approval of the Cabinet had not been obtained for the recruitment of above persons who had exceeded 60 years of age.

Although a Cabinet paper was forwarded to the Ministry only for the post of Consultant, approval had not been granted.

In terms of circulars, recruitments should be made after obtaining relevant approvals.

- (b) In terms of scheme of recruitment and promotions approved on 16 December 2015 as per the Management Services Circular No.30 of 2006, in making recruitments to the staff of the Board such recruitment should be made upon results of a written test or an interview conducted by calling applications through newspaper advertisement or public notifications. Nevertheless, 18 person had been recruited to various 5 post of the Board from January to 30 July 2018 without calling for application through a public notification.
- (c) Recruitment of Assistant General Manager (Human Resources and Administration)
- (i) In order to call for 48 applicants comprising 27 applicants selected from the applications received in the year 2016 and 21 out of 45 applications received in the year 2017 for the interview conducted on 15 and 17 February 2018, calling letters has been singed on 12 February 2018. Twenty four applicants had not attended the interview and it was observed that sufficient time had not been given for the applicants to participate in the interview.
- (ii) According to the interview reports, 30 marks had been granted to service experience for 10 years at 03 marks per year. Nevertheless, it was observed that an applicant who had received high marks had not been given marks for service experience. Further, reasons for not giving marks for the service experience by the interview board had not been explained.

Since the chairman of any institution reserves the right to independently call for applications for employments, recruitment have been made on that basis.

Action should be taken in terms of provisions in circulars.

The interview had not been conducted on 15 and 17 December 2017 and it had been conducted on 15 and 17 February 2018. Twenty Four applicants had informed via telephone that they would not participate in the interview due to various reasons such as receipt of other employments, proceeding abroad etc.

Recruitment should be made according to a proper methodology.

Interview was conducted to verify the accuracy of the data included in the Biodata.

Original copies should be examined to substantiate their authenticity. Interview should be conducted in a manner ensuring its transparency.

Nevertheless, there was no evidence that the selected applicant had completed the required service period and it was not observed that the authenticity of the

documents presented from the former working stations to establish the service experience had been substantiated.

**(d) Recruitments for the post of Driver**

- (i) Having conducted interviews for the recruitment of drivers in two instances from 14 June 2018 to 19 October 2018, eight drivers had been recruited. It was observed that the interview Boar had given marks for educational qualifications and professional qualifications in different manner in the above two instances.
- Since two representatives of the Ministry had participated in two occasions of the interview, the criteria used in giving marks had changed.
- Specific criteria should be established and it should not be depended on a person.
- (ii) Six drivers so recruited had not furnished the education certificate issued by the Commissioner General of Examination to substantiate their educational qualifications and the Board had not established the accuracy of such qualifications.
- The certificate issued by the Commissioner General of Examination is checked during the period of probation after making recruitment and most probably accuracy of the certificate is established within a period of year.
- The original copies should be examined at the interview.
- (iii) According to the news paper advertisement published on 20 August 2018, three hundred and twenty applications had been received for 03 posts of Driver and out of which, only 29 applicants had been invited to the interview. It was observed that the applications of two out of three selected applicants had been received on the day prior to the conduct of the interview.
- People can forward applications to the Chairman by registered post seeking employments and those are considered at the time of conducting interview.
- A formal recruitment policy should be established. Further, all recruitments should be made in accordance with the scheme of recruitment approved on 15 December 2015.

### 3.10 Vehicle Fleet Management

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<b>(a) Disposal of vehicles</b>		
(i) Without being called for quotations at least from 3 institutions for repairing the vehicles bearing Nos.GJ/3934 and 65-3920 and based on only one estimate obtained from the relevant vehicle agency, the Board had taken steps to dispose of the vehicles citing that carrying out repairs would not be economically effective.	The vehicles were disposed of upon instructions given by the former Chairman since it was economically ineffective to carryout repairs to those vehicles.	A new internal control system should be introduced to properly carry out maintenance of assets.
(ii) Sums totaling Rs.160,500 consisting of refundable deposits obtained at Rs.5,000 for issuing tender documents for the disposal of vehicles and non refundabledepsits at Rs. 3000 had been directly obtained by the Administrative Officer and deposited in the bank. Any details such as the name of the customer, national identity card number and the reason for the payment of money had not been included in the relevant receipt. Although it had been stated that applications would be issued only up to 1 p.m. on 05 April 2018 according to the tender notice, 07 applications had been issued after that time.	The time of money depositing is clearly stated and there is a delay in depositing money in the bank relating to only one receipt.	Internal control system should be established.
(iii) It was observed that higher quotations had been presented by two sales representatives of the Board for the vehicle baring No. WP 65-3920. Accordingly, a sum of Rs. 3,650,000 as the maximum quotation and Rs.3,550,000 as the second maximum quotation had been presented. Since the person who presented the quotation Rs. 3,650,000 had not arrived to obtained the vehicle, the vehicle had been handed	The person who presented the highest quotation had refused to accept the vehicle and the documents have been taken over by the person who took over the vehicle. The person who presented the second highest quotation had accepted the vehicle	

over to the person who had presented the 2<sup>nd</sup> highest quotation and resided in the same address at the prize less than Rs. 100,000. However, the Security Division had reported that the person who had presented the highest quotation and refused to accept the vehicle had carried away the relevant vehicle. Accordingly, without properly looking into this transaction carried out with an agent who daily involves in the transaction with the Board, the procurement Committee of the Board had approved the handing over of the vehicle.

and the all the accessories by placing his signature and at his discretion, the vehicle had been driven away by another person.

- (iv) At the time of registering the vehicle after 11 months from its sale in favour of the person who bought the vehicle, he had informed the Board on 26 January 2019 to pay the Luxury Vehicle Tax relating to the vehicle for the years 2003/2004 that had not been paid by the Board and submit the relevant receipt. Accordingly, the Board had paid a fine of Rs.7,500 on 25 March 2019 and handed over the receipt to the person who had refused to buy the above vehicle.
- The receipt relating to Disposal of vehicles should be properly carried out while ensuring its transparency.
- The payment of fine has been handed over to the brother of the tenderer at his request.

#### 4. Accountability and Good Governance

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##### 4.1 Corporate Plan

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) As stated in the Paragraph 5.1.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a copy of the updated Corporate Plan with the approval of the Board of Directors should be furnished to the Auditor General 15 days before the commencement of the next financial year. Nevertheless, the Board had not furnished the Corporate Plan pertaining to the year 2018 to the Auditor General as indicated above and the Board of Directors had approved such plan at the meeting held on 25 September 2018.	Observation is accepted..Action will be taken to obtain relevant approval.	Action should be taken in accordance with the provisions in circulars.

- (b) It had been stated by the Letter No. PE/MD/NLB/MO/2018 dated 09 January 2018 of the Director General of Department of Public Enterprises that the Corporate Plan, Action Plan along with the Annual Budget and Annual Procurement Plan approved by the Board of Directors should be presented to the Department of Public Enterprises 15 days prior to the commencement of the financial year. Nevertheless, the Board had not taken action accordingly.
- The relevant plans have been taken in accordance with the provisions in circulars. Action should be taken in the year 2019.

## 4.2 Annual Action Plan

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(c) It had been informed by the Letter No. PE/MD/NLB/MO/2018 dated 09 January 2018 of the Director General of the Department of Public Enterprises that the Performance Report of the Action Plan and Quarterly Reports on financial and physical performance should be presented to the Department of Public Enterprises within 30 days from the close of the quarter. Nevertheless the Management of the Board had not taken steps accordingly.	The performance evaluation of the 1 <sup>st</sup> quarter 2019 has been sent to the Ministry of Finance at the Department of Public Enterprises.	Action should be taken in accordance with the provisions in circular.
(b) The Action Plan for the year 2018 had not been prepared in detail so as to include targets expected to be achieved in the year 2018 and the steps to be taken therefor, estimated amounts and costs, relevant time frame and the budgetary provisions. Further, an appropriate methodology had not been introduced to timely evaluate the progress of the Action Plan.	This will be implemented in the year 2019.	An appropriate methodology should be introduced to timely evaluate the progress of the Action Plan.
(c) The Corporate Plan, Action Plan, Procurement Plan and the annual budget had not been prepared so as to be in consistent with each other.	Action had been taken to include in the Corporate Plan and the Procurement Plan.	Those plans should be prepared so as to be in consistent with each other.

- (d) According to the Promotional Plan of the Board, approval of the Board of Directors should be obtained for the promotional schedule during the first quarter, whereas action had not been taken accordingly.
- This has been referred to the Ministry of Finance and the Department of Public Enterprises seeking approval.
- Action should be taken on formal approval.

### 4.3 Budgetary Control

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) In terms of Paragraph 5.2.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, titled Good Governance, the budgeted trial balance should be included in the budget, whereas the budgeted trial balance had not been included in the revised budget of the Board.	This has been corrected in the budget,2019.	Budget should be prepared in accordance with the circular.
(b) In order to establish an accounting system in the year 2017 and 2018, provisions of Rs.30 million had been made each year. Nevertheless, the Board had failed to establish an accounting system up to date.	A Board of Directors' paper has been forwarded to establish a consolidated accounting system.	Necessary steps should be taken to establish an accounting system.
(c) Although provisions of Rs.6,250,000 had been made by the budget in order to conduct 11 sales representative meetings during the year 2018, provisions had been inadequate and as such, the Board had to obtain additional provisions of Rs.2,400,000. Accordingly, the approved total provisions amounted to Rs.8,650,000 and a sum of Rs.10,979,490 had been spent for the conduct of those meetings. Accordingly, it was observed that an additional expenditure of Rs.2,329,490 had been incurred.	Payments have been made by obtaining relevant approval for the expenditure incurred in excess.	A realistic budget should be prepared.
(d) Despite being allocated Rs.10.2 million through the budget estimate 2017 for the creation of a sales promotion vehicle, the Board had planned to convert one Crew Cab as a sales promotion vehicle out of the 02 Crew Cabs planned to be	As a strategy to popularize lotteries at villages level, this vehicle is being converted into a sales	Activities should be properly planned and then implemented.

purchased for the transport of lottery tickets. It was accordingly observed to audit that a capital of Rs.5,565,000 had remained idle.

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| (e) | In order to select an advertising agency in the year 2018, provisions of Rs.196,776,045 had been allocated in the revised budget and Rs.100,000,000 allocated in the Procurement Plan. It was accordingly observed that budgetary provisions had been made extraneous to the Procurement Plan.  | Action will be taken to correct this matter in future.  | Values in the budget and the Procurement Plan should be realistic. |
| (f) | In the examination of provisions made relating to 09 Objects of the Board and the actual expenditure, it was observed that provisions ranging from 67 per cent to 99 per cent relating to those Objects had been saved. Accordingly, it was observed that the Board had failed to properly forecast the expenditure for these Objects relating to the year under review and therefore, budget could not be utilized as an effective instrument in management control. | Attention has been drawn on valuating the budget, Corporate Plan, Action Plan etc. quarterly and to use as an effective instrument in management control. | A specific budgetary control system should be established.         |
| (g) | Since budgetary provisions had been made without recognizing the needs, 60 per cent of the total provisions made for the purchase of fixed assets had remained underutilized.   | This will be corrected in the year 2019.  | A realistic budget should be prepared.                             |

#### 4.4 Environmental Issues and Fulfilment of Social Responsibility.

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The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) <b>Monitoring Process Implemented in Lottery Draws</b>		
(i) In opening and again sealing the sealed sacks of balls with stickers, a Staff Officer of the Board who held a post of equal level to the Supervising Officer or an Executive Officer of the Board had not placed their signatures on the stickers together with the Supervising Officer.	The Junior Managers are suitable for that purpose.	The control system should be developed as pointed out by the audit observation.

- (ii) The certified copies of the report pertaining to the lottery draw including the information such as the number of lotry tickets printed, sales and the the number of unsold lottery tickets had not been furnished to the Supervising Audit Officer before the commencement of the lottery draw. That report is furnished to the General Manager instead of the Supervising Audit Officer. Do
- (iii) At the time of sealing the sacks with balls in the presence of the Supervising Audit Officer at the end of the broadcating the lottery draw programme, the other two members of the supervisory board are released from the supervising duties. Since the audit supervision carried out within the supervisory board does not require to subject to the supervision of the other memebers of that board, other two members of the supervisory board are released from the supervising duties. Do
- (iv) There is no practice to submit a copy of the final result to the Supervising Audit Officer immediatly after the completion of the lottery draw. Since the official result being a confidention information, a copy of the relevant report will be furnished to the Supervising Audit Officer subsequently. Do

**(b) Reliability of the results of the prizes of lottery draws**

- The lotteries worth Rs.5,559,820 which had been considered as sold lotteries in the lottery draw had been considered as unsold returned tickets at the end of the lottery draw. The unrest situation broke out in Teldeniya area in March 2018 had given rise to this matter. A formal lottery drawing process should be implementd.
- (c) A motor bicycle and 02 motor vehicles worth Rs.4,254,660 that had been used by the Board and repaired after causing damages had been awarded as prizes of the Adakotipathi, Dasalakshapathi and Super Balls Lotteries. Action will be taken to prevent these incidents in future. The prize awarding system should be streamlined. The parties responsible for the damages should be recognized by way of conducting a formal

