

National Lotteries Board - 2019

1.1 Qualified Opinion

The audit of the financial statements of the National Lotteries Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the comprehensive income statement, statement of changes in equity and cash flow statement and notes to financial statements for the year then ended 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 the Finance Act, No. 38 of 1971. My comments and observations which I consider should be presented to Parliament appear in this report.

In my opinion, except for the effects of 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 National Lotteries Board as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines 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 Board 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 Board.

1.4 Scope of Audit

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 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 audit 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 audit report. However, future events or conditions may cause the Board 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

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

1.5.2 Non-compliance with Sri Lanka Financial Reporting Standards

| Non-compliance with the relevant Standard | Comments of the Management | Recommendation |
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| The Accounting Policy of the Board regarding the fair value measurement had not been disclosed in compliance with Paragraph 91 of the Sri Lanka Financial Reporting Standard 13. | It is noted down to disclose in the year 2020. | Accounts should be prepared in accordance with the Financial Reporting Standards. |

1.5.3 Non-compliance with Sri Lanka Accounting Standards

The following observations are made.

(a) **Standard 01**

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| (i) The value of Rs. 51,734,747 recognized as current liabilities in preceding years contrary to paragraph 69 of the Standard had been brought to account by reversing and identifying as other income in the year under review. It was further observed that this procedure is continuously adhered to by the Board even from preceding years. | The relevant parties have been made aware of identifying the accrued expenses accurately in the year 2020. | Accounts should be prepared in accordance with the Financial Reporting Standards. |
| (ii) Distress loans amounting to Rs.39,177,041 granted to the officers of the Board had not been classified as current and non-current assets according to the period of settlement in compliance with paragraphs 60 and 66 of the Standard. | It has been noted down to classify the amount of distress loan as current and non-current assets in the year 2020. | -do- |

(b) **Standard 07**

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| (i) In the preparation of cash flow statement, a sum of Rs. 233,574,416 credited to the Prizes Reserve Account had been adjusted to the pre-tax profit. As such, the cash flow generated from the operating activities had been overstated by the same amount. | Even though there was no financial variance in the Prize Reserve, the variance thereof should be stated. If not, the cash flow statement will not be balanced. | -do- |
| (ii) As the variances in working capital of the cash flow statement, the increase in stocks had been understated by Rs.1,099,590 while the decrease in current assets had been understated by the same amount . | In case of such variances in the year 2020, it has been noted down to make adjustments through stocks. | -do- |

(c) **Standard 08**

According to Note No. 2.1.8 of the accounting policy presented relating to the financial statements prepared by the Board, the income and the cost relating thereto, should be shown separately in the financial statements. On the contrary, it was observed that the value of prizes pertaining to the lottery tickets purchased by the Board, had been shown by deducting from the relevant cost.

In case of such transaction in future, it has been noted down to account for the income and expenditure separately. -do-

(d) **Standard 12**

The provision for income tax amounting to Rs.788,696 made in respect of the value of omissions from stocks totalling Rs.1,099,590 which was adjusted to the retained earnings as rectifications pertaining to preceding years by the Board, accrued expenses of Rs.3,912,369 which was not brought to account in the preceding year and in respect of underprovision for depreciation amounting to Rs.3,967 made in the preceding year, had been shown after deducting from the expenditure on tax of the year under review contrary to paragraph 62A of Sri Lanka Accounting Standard 12. The relevant disclosures on the said retrospective adjustments had not been made as per Sri Lanka Accounting Standards 01 and 08.

It has been noted down to make the rectifications pertaining to income tax of the preceding year and to make adjustments as per the Standard in the future. -do-

(e) **Standard 16**

The carrying amount of idle assets valued at Rs.350,153,304 owned by the Board of which the value was fully written off but still in use, had not been disclosed in the financial statements in terms of paragraph 79 of the Standard.

It has been noted down to disclose it in the accounts during the year 2020. -do-

(f) **Standard 19**

Even though provisions amounting to Rs.61,842,602 had been made for

The Board has invested an amount of -do-

employees' gratuity by the Board as at the end of the year under review, an appropriate investment plan therefor had not been prepared. Moreover, in terms of paragraph 135 of the Standard, the Accounting Policy regarding the identification of actuarial loss, had not been disclosed as well.

Rs.53,000,000 as at 31.12.2019 and an additional amount has been added to the said deposit in the year 2020. Further, it has been noted down to disclose about identifying the actuarial loss in the year 2020.

(g) **Standard 24**

The following categories of key management and personnel compensation had not been separately disclosed in the financial statements in total as stipulated in Paragraph 17 of the Standard and the Paragraph 25 of Sri Lanka Accounting Standard 19.

- Short - term employees benefits
- Post - employment benefits
- Other long - term benefits
- Termination benefits

It has been noted down to disclose them in the year 2020.

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(h) **Standard 36**

Examinations on impairment of assets had not been carried out in terms of Paragraph 12 of the Standard.

Action will be taken in the year 2020 to revalue the assets and upon the value thereof, to report on the impairment of assets.

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1.5.4 Accounting Deficiencies

The following observations are made.

Audit Observation

Comments of the Management

Recommendation

(a) The remaining sum of Rs.233,574,416 out of provisions made for prizes of draws conducted in the year under review, should be debited to the retained profit and credited to the Prize Reserve Fund. Nevertheless, it had been brought to account as an expenditure of the year.

The provisions of remaining prizes are remitted to the Consolidated Fund by the Board after a lapse of 06 months. Since the said value of prizes is an expenditure, the profit has not been understated.

The accurate accounting methodology should be adopted.

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| (b) | Even though a sum of Rs.5,336,575 invested in a private bank by the Board, had been taken over by the Government under the Gazette Extraordinary No.1546/18 dated 23 April 2008, the said amount had been further indicated under investments without making necessary adjustments therefor in accounts. | Since the Pramukha Bank was liquidated on 12 June 2002, it has been transferred to the Equity Capital of the Savings Bank of Sri Lanka by the Gazette dated 23.04.2008. The Director General of the Department of Public Enterprises, by a letter addressed to the Department of State Accounts, had sought the recommendation required to write off the said amount. However, no reply therefor has been received as yet. | Necessary adjustments should be made in accounts on relevant approvals. |
| (c) | The deferred tax assets amounting to Rs.3,983,844 of the Board had been stated by deducting from the liabilities shown in the statement of financial position. | It has been noted down to indicate the deferred tax assets under the assets in the financial statements in future. | Action should be taken in accordance with the accounting principles. |
| (d) | In calculating the deferred tax during the current year, the value of written off tax of the motor vehicles and furniture acquired in the year 2015 should be zero as at the end of the year under review. Nevertheless, that amount had been erroneously shown as Rs.2,106,732 and as such, provision for deferred tax in the current year had been overstated by Rs.589,884. | Even though the value of deferred tax had been shown within brackets, the balance has been calculated accurately and indicated. | Action should be taken in accordance with the accounting and taxation principles. |
| (e) | An impairment loss of Rs.1,355,557 and disallowable expenses of Rs.16,325,700 incurred for the purchase of lottery tickets of the Board by the Board itself, which do not come under the deductions had been considered as deductions in calculating the expenditure on income tax in the year 2017. However, no action had been taken even by the date of audit to rectify the said errors and to pay the tax payable in this connection. | Action will be taken in the future to calculate and pay the income tax pertaining to the expenditures of the year 2017. | Action should be taken in accordance with the accounting and taxation principles. |

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| <p>(f) A sum of Rs.3,526,260 recoverable as penalty for 176,313 lottery tickets not presented to the Board by the agents of distributing lotteries during the year under review, had omitted from accounts.</p> | <p>Out of the commission of 0.05 cents paid to the District Sales Agents once in 03 months, a sum of Rs.16.50 and a penalty of 0.05 cents is recovered per one lottery ticket and brought to account.</p> | <p>Action should be taken without delay to get back the lottery tickets returned by the agents.</p> |
| <p>(g) A number of 307931 lottery tickets sold to agents had been purchased by the Board itself due to the curfew imposed in the North Western Province on 13 and 14 May 2019. Further, the cost of Rs.148,740 for 7431 lottery tickets had also been understated due to the weaknesses in maintaining registers. When issuing lottery tickets for agents in respect of a draw subsequently conducted relating to the lottery tickets purchased by the Board, 13169 lottery tickets had been issued in excess while the cost thereof amounting to Rs.214,655 had not been brought to account. The cost of 300494 lottery tickets taken by the Board had been credited to the Accrued Expenditure Account without crediting it to the debtors account, thus the debtors of the year had been overstated by Rs.4,898,052 and the accrued expenditure had also been overstated by the same amount. Consequently, provision for doubtful debt had also been overstated by Rs. 244,961.</p> | <p>The total number of lottery tickets purchased by the Board had been 307931 and the total number of lottery tickets issued to the agents therefor stood at 321100. The value of 13169 lottery tickets issued to the agents in excess has not been recovered. In case of such transaction entered into in future, it has been noted down to make relevant adjustments for debtors and to account for.</p> | <p>It should be brought to account accurately.</p> |

1.6 Accounts Receivable and Payable

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
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| <p>(a) Proper action had not been taken to recover installments totalling Rs.4,830,926 comprising Rs.4,739,226 recoverable for lottery sales stalls issued from the year 2013 to the year 2018 to</p> | <p>Sums amounting to Rs.395,558, Rs.443,390, Rs.729,690 and Rs.1,449,000 pertaining to the years</p> | <p>Installments should be recovered and adjustments should be made on relevant approvals.</p> |

sales agents and Rs.91,700 recoverable for the year 2016 and since before that year, for bicycles provided to 91 sales agents on credit basis by the Board.

2013,2014,2016 and 2019 respectively had been written off and deducted relating to the year 2020 while a sum of 25 cents for all lottery tickets has been granted to the sales agents who acheive the targets of the promotion programme implemented from June 2018. It has been planned to write off a sum of Rs.1,600,000 relating to the year 2020.

- (b) Action had not been taken even by 30 June 2020 to settle money recoverable for instant lottery tickets valued at Rs.12,799,984 sold to 20 sales agents on credit basis in the year 2016.

It has been issued on credit basis according to the credit policies of the Board without security deposits. Since lottery tickets valued at Rs.718 million were issued on credit basis as at 31.12.2016, a sum of Rs.12.69 million was further recoverable out of the credit sum of Rs.381 million which should have been recoverable. The sum of Rs.9.59 million recoverable after the adjustment of Rs.3.1 million which should have been deducted on returning the lottery tickets issued on cash, had remained recoverable. It is informed that future action will be taken expeditiously.

Action should be taken to recover in accordance with insurance agreements.

- (c) Even though lottery tickets valued at Rs.1,003,038 had been issued on credit basis to two employees of the Board in

A case has been filed in the High Court, Galle during the year 2007.

Loans should be recovered by taking proper action.

the year 2007, those moneys had not been recovered. It was further observed that one officer is not in the active service at present.

According to the said judgement, a sum of Rs.1,000,000 was paid to the National Lotteries Board and subsequently, the person named W.Uyangoda had informed the Court that he does not agree with the judgement. Due to the said disagreement, the case against W.Uyangoda is on trial at the High Court.

(d) The trade debtors balance totalling Rs.273,559,415 remained as at the end of the year under review comprised of Rs.4,662,778 for the Colombo Airport Superdraw Lottery and Rs.19,508,730 recoverable from sales agents over a period more than one year. Moreover, balances of sales agents comprised of Rs.559,300 recoverable from two deceased sales agents. Necessary adjustments had also not been made regarding these values.

Since two sales agents were dead at present, it is not possible to recover the sum of Rs.559, 300. It has been referred to the Ministry of Finance on 03/08/2018 for seeking the necessary approval to write off the said loan on the approval of Board of Directors dated 15/05/2018.

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(e) A sum of Rs.2,559,121 pertaining to the lottery tickets issued on credit basis, was receivable from the Welfare Society of the Board as at the end of the year under review. Out of the said lottery tickets obtained by the Society, instant lottery tickets valued at Rs.1,500,608 had been issued to 03 Territory Managers and 04 officers. Action had not been taken to settle those balances even by the date of audit.

Mr. Wimal Cooray has stated that the sum of Rs.219,265.94 will be settled by the payments of his pension and they will settle the loans of Housing Development Authority while the money is being recovered monthly from one agent as per the decision of Board of Directors. The Territory Manager has informed that he will take action to recover from the agents to whom the Territory Manager has issued lottery tickets.

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| | Further, necessary action will be taken on the persons who had left the service. | |
| (f) | Other loan balances remained as at the end of the year under review comprised of a loan balance of Rs.1,317,614 older than 09 years and the said loan balance comprised of Rs.2,758,935 payable to 70 inactive sales agents and Rs.722,731 receivable. However, action had not been taken to settle them as well. | Approval of the Board of Directors has been received to credit to the Miscellaneous Income Account, the loan balances identified in the credit balance of Rs. 2,758,935 stated as balances without transactions after writing off the balance values except of agents, from accounts and it has been referred to the Ministry for seeking the approval. Necessary adjustments will be made in accounts after receiving the said approval. |
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| (g) | No action whatsoever had been taken by the end of the year under review to settle the deposits amounting to Rs.102,500 paid to an institution 06 years ago for the supply of water and fuel and a security deposit of Rs.160,000 paid to 02 institutions for obtaining fuel in the years 2004 and 2006, despite the close-down of relevant institutions. | A letter has been sent to the Ministry of Finance on 03.08.2018 and 27.08.2019 for seeking the approval to eliminate these balances from accounts. As such, it is expected to eliminate from accounts after receiving the relevant approval. |
| | | The balances should be looked into and settled properly. |
| (h) | Action had not been taken to settle the balances comprising an unidentified credit balance of Rs.3,585,823 brought forward since before the year 2016, Rs.4,979,245 payable to 04 creditors remained over a period of 09 years and Rs.169,311 payable to 14 officers of the staff. | The balance of Rs.3,585,823 has arisen due to the transactions entered into as a result of entering unnecessary new data in to the Accpac Accounting System. A letter has been sent to the Ministry of Finance on |
| | | The balances should be looked into and settled properly. |

03.08.2018 and 27.08.2019 to eliminate these balances and as such, it is expected to eliminate from accounts after receiving the approval.

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| (i) | Incentives amounting to Rs.240,983 payable to two deceased officers and who had been interdicted in the year 2003 and a sum of Rs.256,952 received as computer installments from district sales agents 09 years ago and computer installments received in excess, were remained without being settled. | The two officers who were not paid incentives have been interdicted and a case is on trial. A letter on other moneys has been sent to the Ministry of Finance on 27.08.2019 and as such, it is expected to eliminate from accounts after receiving the approval. | The balances should be looked into and settled properly. |
| (j) | The money receivable in respect of lottery tickets valued at Rs.449,640 issued to an agent in the draw 1896 Special 003 of Govisetha lottery conducted in September 2018, had not been recovered even by 30 June 2020. | Action is being taken on the loan recoverable. | The balances should be looked into and settled properly. |

1.7 Non - Compliance with Laws, Rules, Regulations, Management Decisions etc.

 The following observations are made.

| Reference to Laws, Rules, Regulations etc. | Non- Compliance | Comment of the Management | Recommendation |
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| (a) Finance Act, No. 11 of 1963 as amended by the Finance (Amendment) Act, No.35 of 1997 | In conducting Lotteries for other Ministries, Departments and Authorities by the Board, an agreement should be entered into with relevant institutions. Nevertheless, agreements | In conducting Lotteries for other Ministries, Departments and Authorities by the National Lotteries Board, agreements are not entered into with relevant institutions | Action should be taken in terms of the Act. |
| (i) Sections 14 (2), 16 (1) and 16 (4) | In conducting Lotteries for other Ministries, Departments and Authorities by the Board, an agreement should be entered into with relevant institutions. Nevertheless, agreements | In conducting Lotteries for other Ministries, Departments and Authorities by the National Lotteries Board, agreements are not entered into with relevant institutions | Action should be taken in terms of the Act. |

had not been entered into with the relevant institutions for lotteries such as Govisetha, Supiri Wasana, Jathika Sampatha, Neeroga and Sevana Lotteries. Even though the value of unclaimed prizes older than 06 months should be credited to the Consolidated Fund in terms of provisions in the Act, only the cash prizes valued at Rs.389,032,360 unclaimed as prizes during the year under review had been credited to the Consolidated Fund. However, no step had been taken on the unclaimed non-cash material prizes valued at Rs. 16,821,648 . Further, winners have not appeared for a Jeep purchased at a cost of Rs. 2,350,000 in the year 2013 and a Van purchased at a cost of Rs. 8,500,000 in the year 2016 for awarding prizes, thus the said motor vehicles had been utilized for the purposes of Board. However, approval of the Ministry of Finance had not been obtained therefor in terms of the provisions.

as the relevant money is being credited directly to the Consolidated Fund. In terms of the Finance Act, the money pertaining to unclaimed cash prizes are credited to the Consolidated Fund after the lapse of relevant period and the action to be taken in case of unclaimed prize goods awarded since the commencement of lottery, had not been specified. As the prize goods cannot be credited to the Consolidated Fund practically, such prizes are used for the draws conducted in future. Moreover, those have been included as special prizes in certain instances of several draws while a Van and a Jeep have been included in the vehicle pool of the institution with the approval of the Board of Directors on the requirement of the Board for duty purposes of the institution and it has been brought to account properly.

(ii) Section 17(2)

Even though the balance of the proceeds of lotteries after deducting relevant expenses from such proceeds, should be credited to the Consolidated Fund, a sum of Rs.1,601,530,457 relating to preceding years had been retained as at 31 December 2019 without being so credited.

Even though the after-tax profit of the current year amounted to Rs.605 million as the accounting activities of the Board is being carried out on accrual basis, it is informed that the amount to be remitted to the Treasury can be determined after considering the current assets, liabilities and the financial position as at the end of the year. Moreover, the sum of Rs.20 million remained in the SITST Fund has already been remitted to the Treasury while a contribution of Rs.25 million has also been made to the Covid-19 Fund.

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(iii) Section 20(2)(1) Even though the Board should make rules in respect of conducting Lotteries and obtaining the approval of the Minister in Charge of the Subject and publish in the Gazette, it had not been so done regarding new lotteries such as Mega Power, Neeroga, Dhana Nidhanaya, Sevana and Darudiri Sampatha introduced since the year 2013. A sales income totaling Rs.6,013,524,440 had been earned from the said lotteries. Out of that income, a sum of Rs.2,919,790,331 had been allocated for prizes and Rs.1,164,693,868 had been paid as commission for sales agents.

Action is being taken to publish the rules pertaining to changes made in the prize patterns of all lotteries in the Gazette. Since the publishing of changes made in prize patterns from time to time within a short period as per nature of business, in the Gazette is not practicable, the Legal Draftsman's Department has given instructions to amend the relevant Section and include a new Section when making amendments to the Act pertaining to the Board.

The general public should be made aware of the rules relating to the conduct of lotteries through Gazette notifications properly.

(b) Section 2(A) (1) (h) of the Motor Traffic (Amendment) Act, No.8 of 2009

Even though no person shall knowingly use a motor vehicle which has been modified or the construction of which has been changed in any manner, without the prior written approval of the Commissioner-General of Motor Traffic, a sum of Rs.1,625,000 had been spent to modify the bodies of 06 single Cabs which were purchased by spending Rs.20,750,000 in the year 2016 by the Board, so as to look like double Cabs.

These Cabs have been purchased in the year 2017 for sales activities of the Board. As no significant change in the number of seats or in the body has been made, there was no need to obtain the approval of the Commissioner General of Motor Traffic. I point out that it was not a complete change made to the body of a motor vehicle and it is possible to convert to the previous condition by removing the Canopy. However, if necessary, it will be referred to the Commissioner of the Department of Motor Traffic in future and steps will be taken in this connection.

Action should be taken in terms of provisions in the Motor Traffic Act.

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

- (i) Paragraphs 10.1 and 10.2 of Chapter VIII
- Even though a 1/20 allowance of the salary can be paid for being on duty for not less than 08 hours during the weekends or public holidays, contrary to those provisions, the Board had considered being on duty more than 12 hours per day as two days and made payments accordingly. The payments made during the year under review in 18 instances so considering as two days amounted to Rs. 70,405. Further, instances of payments of holiday pay by considering the working days of the week as public holidays, were observed and the payments so made amounted to Rs. 84,738.
- Approval for making payments has been obtained in accordance with the Board Paper No.3579(10) dated 26.09.2002 and action is being taken accordingly.
- Relevant approvals should be obtained according to laws and rules stipulated in the Establishments Code.
- (ii) Section 11 of Chapter XXIV and the Letter No. PE/ LO/ NLB/ COPE / 2018 of 23 January 2018 of the Department of Public Enterprises
- The granting of property loans with effect from 01 January 2005 should be done only through banks and even though it had been emphasized by the Department of Public Enterprises as well, property loans amounting to Rs. 18,215,909 had been granted from the funds of the Board in the year under review without considering those provisions. Further, every officer had been granted loans at the minimum interest rate of 4 per cent without considering the interest recoverable from the
- Action has been taken to grant housing loans for the employees who have been in the permanent service for a period over 05 years, on the approval of the Board of Directors since the year 1995. Housing loans have been granted on the interest rate of 4 per cent due to the difficulties faced by the employees in obtaining housing loans through banks and with the objective of providing welfare to the employees who contribute to the productivity of the institution. The additional interest income of 4 per cent
- Action should be taken as per the instructions of the Treasury.

officer in accordance with provisions relating to the property loans. received therefrom is credited to the Fund of the Board.

(iii) Chapter XXIV A person had been recruited for the post of Deputy General Manager (Marketing / Promotion) without considering the approved Scheme of Recruitment and provisions of the Establishments Code and salaries and allowances were being paid to him from 01 October 2018 to up to now. A report has been submitted to seek instructions of the Board of Directors regarding the recruitment for the post of Deputy General Manager (Marketing / Promotion) and further action will be taken on the decision of the Board of Directors. Relevant recruitments should be made in accordance with the approved scheme of recruitment.

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

(i) Financial Regulation 394

A number of 420 cheques valued at Rs.3,400,584 which were issued for the payments in respect of services obtained by the Board and other expenditure had been retained in the institution and cancelled without handing over to the payees. When paying allowances payable to the sales agents, cheques have to be cancelled due to the reasons such as accounts relating to those payments being dormant and incorrect account numbers. As the said payments were not made through Slip Transfer during the preceding period, a large number of cheques have been issued while the number of cheques cancelled has also increased. Since those payments are being made through Slip Transfer at present, cancellation of cheques in large numbers cannot be observed. I inform that necessary action will be taken in future to adjust the said balances in the statements of accounts. Action should be taken in terms of Financial Regulations.

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| (ii)Financial Regulation 702(3) | Even though a copy of the contract agreement should be presented to the Auditor General, it had not been so done in respect of agreements on printing of lotteries, publicity and supply of goods and services. | Copies of certain agreements have been presented and action will be taken in future to present the copies of agreements on printing of lotteries, publicity and supply of goods and services as well. | Action should be taken in terms of Financial Regulations. |
| (iii)Financial Regulations 754,756,757,758 and 770 | The Annual Boards of Survey had not been conducted in terms of provisions. | In terms of Financial Regulation 754, the officers in custody of the stores has taken action on balancing the accounting books and a Board of Survey is appointed for the survey on assets in general under Financial Regulation 756 while the unserviceable goods are also reported by the said Board. In terms of Financial Regulation 757, the Inventory Books balanced by the officers in custody of the stores have been checked and signed by the Board of Survey. Moreover, stock balance is monthly calculated by the Stores Division in terms of Financial Regulation 758 while the relevant division has been made aware of checking it once in three months in the future. In terms of Financial Regulation 770, Board of Survey Reports have been prepared by indicating letter "D" for unserviceable articles and letter "R" for the repairable and reusable articles. Action will be taken in future to streamline it further. | Action should be taken in terms of Financial Regulations. |

- (e) Public Administration Circular No. 13/2008 (iv) of 09 February 2011 and the Public Enterprises Circular No. 01 of 25 May 2015
- (i) A sum of Rs. 1,812,130 had been overpaid exceeding the monthly fuel limit for the 04 officers who are entitled to official motor vehicles. The said fuel allowance granted on the approval of Board of Directors has already been rectified in accordance with the circular. Action should be taken to obtain the approval of the Ministry of Finance in writing.
- (ii) A fuel allowance had been paid for the 24 Territory Managers and 17 Sales Promotion Officers who are not entitled for official vehicles and in case of using the personal motor vehicle, allowances amounting to Rs.14,993,976 had been paid to officers during the year under review with their salaries as an additional monthly allowance. The fuel allowance has been provided by calculating the number of kilo meters run only for duty requirements subject to the maximum monthly limit of Rs.25,000 for a Territory Manager and maximum monthly fuel limit of 25 litres for a Sales Promotion Officer with the approval of the Board of Directors. A letter has also been sent to the Ministry of Finance in this connection and the approval of the Ministry is expected to be received in future. Action should be taken to obtain the approval of the Ministry of Finance in writing.
- (iii) During the year under review, a sum of Rs.140,000 had been paid as fuel allowance to an officer released to the Ministry of Finance. On the approval of the Board of Directors, fuel allowance has been granted to the three officers released to the Ministry of Finance. Action should be taken to obtain the approval of the Ministry of Finance in writing.

(f) Public Enterprises Circulars

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

- Paragraph 8.3.9 Even though the resources owned by the Board should not be provided to the line Ministry or other Government institutions, contrary to that, 06 officers and 04 motor vehicles valued at Rs.20,126,786 owned by the Board had been released to the Ministry. Motor vehicles have been released on the approval of the Board of Directors for the use of officers released to the Ministry of Finance while those motor vehicles have already been handed over to the National Lotteries Board. Salaries for the duties performed by the said staff Action should be taken in terms of circular provisions.

of Finance from January of the year under review. Further, action had not been taken to reimburse the employees' remuneration and incentives amounting to Rs.2,050,000 paid by the Board to those officers. have been paid under the supervision of the Ministry while a fuel allowance has been granted on the approval of the Board of Directors. Nevertheless, such moneys are not reimbursed.

- Paragraph 9.12

(i) A Fund named Asarana Sarana had been commenced by the Board in the year 2006 without obtaining the approval of the Treasury and the donations from the Lottery Prize Winners and a 0.05 per cent out of Neeroga Lottery sales income had been credited to the above Fund. There was a balance of Rs.181,199,942 in the said Fund as at the end of the year under review. The Asarana Sarana Fund has been commenced in the year 1998 on the approval of Board of Directors with the intention of providing relief to the helpless persons from the funds donated by prize winners. Action is being taken to seek the approval of the Ministry. Out of the sales income due from the Neeroga Lottery, 0.5 per cent is being credited to the said Fund. Approval of the Treasury should be obtained.
- (ii) Even though a welfare allowance of Rs.7,695,000 had been paid to the staff for the year under review on the approval of the Chairman of the Board, the approval of the Treasury had not been obtained therefor. This allowance had been paid in the preceding years as well. This allowance has been paid to all employees who hold the membership of the Welfare Society on the approval of the Board of Directors based on the Sinhala New Year Festival in April and Christmas Festival since the year 2007. Action should be taken on the approval of Treasury.
- (ii) Circular No. 95 of 14 June 1994 and Circular No. PED/12 of 02 June 2003

(i) An Incentive Allowance Scheme had been implemented for the staff of the Board without obtaining the approval of the Treasury and the Board was under the purview of the President's Office during the period when the National Lotteries Board was under the purview of the Ministry. Action should be taken to obtain the approval of Treasury.

payment so made as incentive allowances in the year under review amounted to Rs. 105,509,897.

of the H. E. the President. Further, according to the request made for an increase in the incentive allowance paid to the staff of the National Lotteries Board, the Department of Public Enterprises has proposed that incentive allowances should be increased by increasing the income.

(ii) Even though provisions had been made so as to enable the staff to obtain a special promotion allowance for a maximum of Rs.3,000 per day instead of the Government approved combined allowance, a formal approval had not been obtained therefor. The amount so paid during the year under review had been Rs.5,791,000.

Allowances are paid for special promotions and special duties on the approval of the Board of Directors. Action should be taken to obtain the approval of Treasury.

(iii) On the approval of the Board of Directors, a sum of Rs.5,309,879 had been paid as overtime allowances, combined allowances and telephone allowances to the Territory Managers and Sales Promotion Officers employed in the Board without obtaining the approval of the Department of Public Enterprises.

Approval of the Board of Directors has been granted for the overtime and combined allowance and telephone allowance. Action should be taken to obtain the approval of Treasury.

(iii) Circular No. PED/2/2015 of 25 May 2015 Limits for telephones had been determined by the Board exceeding the limits approved by the circular. Payments are being made on the approval of Board of Directors in accordance with the Government circular. Action should be taken subject to the limits stipulated in circulars.

Accordingly, the Board had incurred an expenditure totalling Rs.25,500 for the calls made by 05 officers exceeding the approved limit. The necessary approval had not been obtained therefor.

No.446 of 01.09.2010 and no amendment has been made.

- | | | | |
|---|---|--|---|
| (iv) Circular No. PED/03/ 2015 of 17 June 2015 Paragraph 2.5 | The Board had paid incentives and bonuses totalling Rs. 413,023 to the Chairman and the Working Director during the year under review contrary to the provisions in Circulars. | As they have been assigned very important duties such as assisting the Board in activities, signing all documents, participating in meetings etc., the said payment which entitled to the entire staff of the National Lotteries Board, is made to the Chairman of the Board for acting responsibly towards the development of the institution. | Action should be taken to obtain the approval of Treasury. |
| (v)Public Finance Circular No. 02/2015 of 10 July 2015 Section 10 | The income of Rs.6,688,650 earned in the year 2019 by the sale of 04 motor vehicles belonging to the Board, had not been credited to the Consolidated Fund. | Approvals of the Board of Directors and Ministry of Finance have been obtained in the year 2019. The proceeds of the sale of motor vehicles have not been credited to the Consolidated Fund. Action will be taken in future as per circulars of the Treasury. | Action should be taken as per provisions in the Treasury circulars. |
| (vi)Public Enterprises Circular No.57 of 11 February 2011 | The Board had paid a sum of Rs. 1,037,345,636 as publicity expenses without preparing an Annual Publicity Plan and obtaining approval of the Department of Public Enterprises and the amount so paid in the preceding year as well had been Rs.1,023,507,765. | A plan has been prepared including the annual publicity budget prepared by the Marketing Division and it has been included in the overall budget of the Board and further, it has been submitted for the approvals of the Department of Public Enterprises and the Ministry of Finance after having obtained the approval of the Board of Directors. | Action should be taken as per provisions in the Treasury circulars. |

- (g) Letter No. PE1/70/7/Vo11 of 21 January 1993 of the Deputy Secretary to the Treasury
- A percentage of 16.5 per cent of the income received from all lotteries conducted on behalf of the Government should be remitted to the Consolidated Fund. Nevertheless, only a value of 10 per cent of the income that is, less than the due percentage from 02 types of lotteries, namely Mega Power and Dhana Nidhanaya conducted in the year under review had been remitted and as such, the value not remitted further to the Treasury amounted to Rs.245,317,469.
- Approval of the Ministry has been sought for the percentages credited to the Consolidated Fund of the Government from all lotteries maintained by the National Lotteries Board.
- Due percentages should be remitted as per the Treasury instructions.
- (h) Management Services Circular No. 05/2017 of 25 October 2017 Paragraph 2(ii)
- Even though the officers who obtain other allowances are not entitled for a professional allowance in terms of the relevant provisions, an officer released to the post of an Additional General Manager of the Board had been paid a professional allowance totalling Rs. 315,000 at Rs.15,000 per month during the period from October 2017 to June 2019.
- According to the instructions of the Ministry of Finance, that allowance was not entitled. As such, arrangement has been made to recover this allowance granted to the said officer.
- Action should be taken to recover the overpayment.

1.8 Financial Management

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|---|---|--|
| (a) A sum of Rs. 85,127 debited as expenditure and a sum of Rs.284,544 credited as receipts to the bank account of the Board, had not been identified correctly and brought to account for over 04 years. | Most of the debit and credit balances in current accounts as at 31.12.2019 have already been settled. | Rectifications should be made without delay. |

- | | | |
|--|---|--|
| <p>(b) A service charge of 0.45 per cent had been charged by the bank in depositing moneys by the sales agents in the Collection Account maintained in the People's Bank by the Board. Information on the computation of the said charges was not available with the Board while a written agreement and the approval of the Board of Directors as well had not been submitted. The service charge recovered by the bank for the year 2019 amounted to Rs.24,577,338 and the charges so paid during the 05 preceding years had been Rs.213,034,815. Even though Collection Accounts had been opened in a private bank and in a state bank without a charge as an action to reduce this charge, it was observed in Audit that collections in the bank which make charges, were continuously being made.</p> | <p>As mentioned here, no charge is paid for the Collection Account maintained in the People's Bank. A charge is paid by the People's Bank to meet the expenditure of the bank branch maintained in the National Lotteries Board . The bank make the charges only on the basis of deposits made at the Liberty Plaza Branch of the People's Bank and not the deposits of the Collection Account in the entire island. (in addition, 0.5 per cent is charged by the Maliyadeva Branch) Action has been taken to reduce the said bank charges and accordingly, the percentage has been reduced up to 0.05-0.045 after the discussions had with the Bank. In addition, action has been taken to reduce the bank charges by making several changes to the operating process of the institution. Moreover, discussions are taking place in respect of maintaining the branch under a fixed bank charge instead of the basis of collections.</p> | <p>Action should be taken to obtain the receipts of agents without a charge.</p> |
|--|---|--|

1.9 Information Technology (IT) General Management Systems

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| ----- | ----- | ----- |
| <p>The centralized computer software named Sage ACCPAC which introduced in the year 2003 by the Board for maintaining the accounting activities thereof, had been centralized in the year 2016 and as such, the services which could</p> | <p>A balance in the Creditors' Control Account which occurred in using the centralized Sage Accpac computer software, remains already in the Main Journal. The computer software applications newly added to</p> | <p>Controlled environment required for the implementation of computer software should be created.</p> |

be obtained from the said software had been limited. The reliability of the transactions of the institution that existed through the centralized system which existed previously, had also become questionable under this decentralized system and taking responsibility of the risks due to relevant changes had been refused even by the company which introduced this software.

the Accpac system for preventing such transactions in future, had been removed from the Main Journal and being used as software separately at present. As such, accounting activities can be maintained more accurately and efficiently due to the decentralized computer system.

2. Financial Review

2.1 Financial Results

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| | ----- (Rs.) | ----- (Rs.) | ----- (Rs.) | ----- (Rs.) | ----- (Rs.) |
| Net profit after tax (Before paying dividends) | 978,585,273 | 38,092,926 | 139,805,208 | 414,761,431 | 241,016,039 |
| Employees' remuneration | 458,633,719 | 420,862,040 | 375,410,032 | 380,279,707 | 320,462,652 |
| <u>Taxes paid to Government</u> | | | | | |
| Income Tax | 717,469,811 | 1,174,402,368 | 484,610,312 | 482,128,237 | 669,785,229 |
| Nation Building Tax | 281,800,099 | 286,551,044 | 235,767,246 | 285,776,997 | 253,267,754 |
| Value Added Tax | 911,198,767 | 890,352,095 | 742,298,500 | 706,868,280 | 573,252,862 |
| Contribution to the Consolidated Fund | 2,637,962,104 | 2,426,947,888 | 2,016,986,336 | 2,445,594,544 | 2,130,953,970 |
| <u>Depreciation</u> | | | | | |
| Depreciation for motor vehicles | 27,022,836 | 19,290,936 | 55,627,510 | 54,979,532 | 48,727,716 |
| Other depreciations | 53,260,748 | 60,229,778 | 70,474,209 | 68,497,174 | 60,061,990 |
| | ----- 6,065,933,417 | ----- 5,142,368,354 | ----- 4,120,979,353 | ----- 4,838,885,902 | ----- 4,297,528,212 |
| | ===== | ===== | ===== | ===== | ===== |

According to the financial statements presented, the financial profit of the Board for the year under review had been Rs.978, 585,273. The errors pointed out by Audit in the year 2018 had been rectified and the financial statements of the said year had been prepared again. As such, the financial result had been a loss of Rs. 38,092,926 due to the decrease of Rs. 98,174,870 in the loss of that year. Thus, an increase of Rs.1, 016,678,199 was observed in the financial result of the year under review as compared with the preceding year.

An analysis of the financial results of the year under review and 4 preceding years revealed a decrease in the contribution in the years 2015 and 2017 and an improvement in the years 2016, 2018 and 2019

in re-adjusting the employees' remuneration, Government tax and depreciation on non-current assets to the financial result.

2.2 Analysis of Ratios

An analysis of ratios on profits and working capital of the Board in the year under review and the preceding year is shown below.

| Ratio | Year | |
|--------------------------------------|--------|--------|
| | 2019 | 2018 |
| (i) Gross Profit (Percentage) | 14.09 | 14.45 |
| (ii) Net Profit/ (Loss) (Percentage) | 4.43 | - 0.18 |
| (iii) Current Assets Ratio | 2.20:1 | 1.80:1 |
| (iv) Quick Assets Ratio | 2.18:1 | 1.78:1 |

The tax which had to be paid on the remittances made to the Consolidated Fund and the National Kidney Fund in the year 2018 had been withdrawn from the said Funds and as such, the percentage of net profit and also the current and quick assets ratios of the year under review had increased.

3. Operating Review

3.1 Uneconomic Transactions

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| (a) Even though a post had been created for a legal service of the Board and recruited a Legal Officer therefor, various legal services of the Board had been carried out through external lawyers' institutions without carrying out procurement. Moreover, the ability of obtaining relevant legal services through the Attorney General's Department as well had not been looked into. A sum of Rs.3,108,097 had been spent for the legal service so obtained in the year under review. Moreover, it was observed that three lawyers | When considering the necessity, it is decided to obtain the legal service from the Attorney General's Department or from a lawyer of the Panel of Lawyers of the National Lotteries Board on the approval of the Board of Directors. Three lawyers have been engaged in a case on trial in the Colombo Commercial Court. When a President's Counsel appears in court, it is obligatory to appear with a junior Lawyer. As such, the said President's Counsel appears for that case with a junior Lawyer and the other Lawyer acts as the Registered Lawyer of the case. | Legal action should be taken in consultation with the Attorney General. |

have been engaged and paid for each court session in a case on trial in the Colombo Commercial Court. The lawyers' fees paid for 05 court sessions of the said case amounted to Rs.459,275.

(b) When reissuing lottery tickets in respect of the lottery tickets returned by the sales agents, a Return Reimbursement Voucher for the Bank is prepared by the Board and making relevant adjustments to the returns of agents through bank accounts is entrusted to the Bank. As such, the bank had charged a commission by adding 0.45 per cent therefor as well. Accordingly, the commission so paid twice during the period from the year 2014 to June 2020 amounted to Rs.18,220,437 while the information and schedules pertaining to the said computation were not made available to Audit and action had not been taken to recover such money.

(c) Even after making all payments relating to the advertisement submitted to the Board by creative advertising agencies after completing producing and editing, uneconomic payments of 11.5 per cent of the total service charge is paid to the said advertising agency continuously every time the said advertisement is aired on the relevant media. It was observed in Audit that a sum of Rs.40,810,083 had been so paid in the year 2019 alone.

Action will be taken to look into this matter in future.

Financial loss should be recovered.

Those agencies have been recruited through the procurement methodology and action has been taken in compliance with the definitions provided relating to the payments as per the agreements entered into. In case of taking action not to pay the said commission of 11.5 per cent, steps should be taken without the agents being involved while it is not practical as the payment of such a commission is the general practice carried out in the Marketing Sector.

Action should be taken to amend the agreements and to earn the relevant economic profit from institutions.

- (d) It was observed in Audit that, when the advertisements produced by old advertising agencies are repeating by the new advertising agencies, an uneconomic payment of 11.5 per cent of the said charge of airing advertisements is made to the new advertising agency due to the weaknesses of the Board in taking over the ownership of electronic advertisements created by advertising agencies. Accordingly, the amount so paid during the period from 01 October to 31 December 2019 amounted to Rs.7,371,544.
- When taking action with the new agents recruited through the procurement methodology, the editing of electronic advertisements created by old advertising agencies should be done by the new advertising agency. As such, steps have been taken as per the agreement to make a payment of 11.5 per cent of the charge for airing electronic advertisements of old advertising agencies. Action will be taken in future to directly release all productions with no changes to the original production, for media and to pay only the commission of 3.5 per cent of the media coordinating agency.
- It should be made economically viable by the Board itself .
- (e) Activities pertaining to telecasting daily lottery draws of the National Lotteries Board on television and publishing the results had not been carried out by the Board itself and assistance of advertising agencies had been obtained as intermediary for such activities while a service charge of 15 per cent had been paid therefor. Out of the amount expected to be spent, a sum of Rs.4,464,672 could be saved by the end of September 2019 alone due to engaging only the staff of the Board for the telecasting of Sevana Lottery conducted without such intermediary assistance. However, activities pertaining to advertising of that lottery had also been assigned to a new advertising agency from 01 October 2019 thus, a sum of Rs.1,262,806 which could
- A service charge of 15 per cent is paid to advertising agencies by the respective institutions for telecasting all lottery draws on television and publishing those official results. The Board is not involved in these payments and as there was no agency for the Sevana Lottery during that period, payments have been made to the said institutions by reducing that service charge. An agent has been recruited for the Sevana Lottery by considering the difficulty of the Board to carry out directly the activities basically connected with the functions of production, telecasting and publishing results.
- Action should be taken to amend the agreements and reduce the relevant uneconomic expenses.

have been saved for the last three months of the year 2019 as mentioned above, was deprived of to the Board. Moreover, a sum of Rs.73,682,624 had been uneconomically spent for carrying out such activities of other 08 lotteries through the advertising agencies.

(f) Publishing advertisements on websites had been done by the Group M Media itself without following the procurement procedure since the year 2016. The relevant cost had been directly obtained by the Group Media and out of that cost, 11.5 per cent was obtained by the institution which published the relevant advertisement on web site while 3.5 per cent had been obtained by the Group M Media. Further, a sum of Rs.1,496,716 had been charged for publishing the said advertisement on the website of the Group M Media without informing the Board. It was observed in audit that a sum of Rs.2,722,353 has been saved in the year 2019 as a result of creating this web advertisement by the Board itself and referring the said advertisement to the relevant institution.

(g) Procurement procedure had not been followed in publishing the lottery results of the Board on newspapers and radio broadcast while such activities had been

Various advertising campaigns in marketing sector through digital publishing is a new trend and the National Lotteries Board has also done it as an experiment. However, the Board did not have adequate experiences in this connection while there were difficulties in obtaining the technical information on the relevant matters. As the legal Media- co-ordinating Agency (Group M Media) is an institution possessing international experiences, it is deemed necessary to obtain their service. Accordingly, their service has been obtained.

Publishing the results in newspapers distinguishing from other advertisements published in the newspaper would be more attractive. Further, allocating space in newspapers at a minimum

The functions to be performed by the Board should be looked into and advertising activities should be carried out accordingly.

The possibility of performing the function by the Board itself should be looked into.

carried out through the advertising agencies. Out of the value of bills pertaining to radio and newspaper institutions, an additional sum of 15 per cent had been charged therefor by those institutions. The commission for agents so paid relating to 08 lotteries in respect of the years 2017, 2018 and 2019 totalled Rs. 31,683,786. The advertisements of one lottery relating to publishing in newspaper and radio broadcast had been submitted by the Board itself. Accordingly, the commission for agents saved during the period from July 2017 to July 2019 amounted to Rs.2,271,588.

- (h) Attention had not been paid to the minimum extent of space in a newspaper used for publishing the results of lottery draws, thus payments had been made for various extents of space in newspapers under various rates on charges. The Board had allocated half of a page of 04 daily newspapers and the amount so paid in this connection during the years 2017, 2018 and 2019 had been Rs.55,806,970, Rs. 67,052,788 and Rs. 42,686,370 respectively. Further, the results sheet of all the lotteries drawn is given to lottery sales stalls and distributors island wide on the following day after the draw. Moreover, advertisements were published on websites

cost in this manner would be more profitable. Moreover, reports are prepared based on the newspaper readers and advertisements are published after a study on rates according to the page of relevant newspaper on which the advertisement is published.

Publishing the results in newspapers distinguishing from other advertisements published in the newspaper would be more attractive. Further, allocating space in newspapers at a minimum cost in this manner would be more profitable. Moreover, reports are prepared based on the newspaper readers and advertisements are published after a study on rates according to the page of relevant newspaper on which the advertisement is published.

A study should be conducted on the requirement of customers and the extents of space required should be determined accordingly.

without carrying out a proper study or an evaluation on the extent of a newspaper advertisement.

- (i) A temporary building had been constructed on the land belonging to the Board which situated at the Vauxhall Street, for storing unsold lottery tickets disposed after draws of the National Lotteries Board and despite the storage facility available therein, a storage facility of 3136 square feet in extent of the Building Materials Corporation Ltd had been obtained therefor by the Board since the year 2015. Subsequently, it had been increased to 6217 square feet and an uneconomical payment of Rs.12,572,495 had been made therefor per year. It was further observed that lack of methodologies to destroy the lottery tickets by cutting into pieces after a lapse of 06 months from the disposal, directly affects the said cost.

The National Lotteries Board had obtained 7 stores from the Building Materials Corporation on monthly rental basis in several instances since the year 2015 and unsold lottery tickets of the Distribution Section have been stored in 3081 square feet out of the said storage. A stores of 784 square feet in extent is being utilized by the Transport Division and tyres removed from motor vehicles, spare parts and old documents of the Transport Division have been stored herein. Two stores of 784 square feet each in extent is being utilized by the Document Stores and promotion goods, scrap items and documents have been stored therein. The company who obtained the tender for taking over the unsold lottery tickets stored in 03 stores at present, has refused to take over those lottery tickets. As such, a Board Paper has been submitted to handover the lottery tickets to the National Paper Company Limited and there is the possibility of releasing the 03 stores after receiving the said approval.

The function should be performed by the Board itself by purchasing suitable machines and the relevant materials should be disposed.

- (j) An expenditure on publicity totalling Rs.10,962,695 which was inaccurately identified and brought to account as an expenditure payable during the preceding year, had been reversed and brought to account as other income in the year under review. Consequently, an additional sum of Rs.3,069,554 had to be paid as income tax during the year under review.

The balance arisen due to incurring expenditure less than the estimated advertising expenses of the year 2018 has to be brought under other income. Necessary action has already been taken to minimize such occurrences.

Action should be taken to prepare the estimates which can be implemented practically.

3.2 Identified Losses

The following observations are made.

| Audit Observation | Comment of the Management | Recommendation |
|--|---|---|
| ----- | ----- | ----- |
| (a) The motor vehicle bearing No.PS-2354 purchased at a cost of Rs.825, 000 in the year 2012 had met with an accident on 12 June 2018. As such, the insurer had informed the Board that it has to be condemned and the insurance claim agreed to be paid was Rs.600,000. | The motor vehicle bearing No.PS-2354 was purchased in the year 2012. This motor vehicle has been used for duty purposes of the Board for a period of 08 years up to now and it had been purchased for a sum of Rs.825, 000 at that time. However, the insurance company relating to the accident, had agreed to condemn the motor vehicle and pay a sum of Rs.600,000 to the Board. Since the market value of this kind of a used vehicle is approximately Rs.400,000- Rs.500,000 , it would be profitable for the Board in case of obtaining the amount agreed to pay by the insurance company after being condemned the vehicle. However, a decision should be taken after carrying out a proper technical evaluation thereon and a formal Technical Committee has been appointed therefor. Until their recommendations and instructions of the Board of Directors were obtained , no action has been taken by the relevant party to obtain compensation or to carry out repairs of the motor vehicle. It is expected to take necessary action in future on the recommendation of Technical Committee without causing any loss to the Government. | Necessary action should be taken without delay. |

- (b) The motor vehicle bearing No.KV-0392, provided to a Coordinating Officer who was recruited to the service by National Lotteries Board and released to the Ministry of Finance, had met with an accident on 12 April 2018 when being used for a private journey of the said officer without informing the Board. However, a cost of Rs.538,650 had to be incurred for repairs of the said motor vehicle while no action whatsoever had been taken thereon.
- A sum of Rs.520,925 has been spent on the repairs carried out relating to the motor vehicle bearing No.KV-0392 and the said total amount has been settled through the insurance company.
- A formal inquiry should be held and taken the necessary action.
- (c) There had been 135 misplaced lottery tickets valued at Rs.627,750 cancelled in the 32nd draw of the Colombo Airport Super Draw Lottery conducted on 21 January 2018 and those comprised of 66 lottery tickets misplaced by the private advertising company and 69 lottery tickets misplaced by the staff of the Publicity Division of the Board. A sum of USD 26,140 receivable in respect of 1027 lottery tickets valid for the relevant draw, had not been recovered even by 31 December 2019. The market value thereof amounted to Rs.5,607,420.
- Even though 15,000 tickets of 32nd Colombo Airport Super Draw had been printed, subsequent to a proper study carried out by the Management and the former Board of Directors, the draw has been conducted on 21/01/2018(5810)from the lottery tickets sold up to the said draw with a view to minimizing the loss which would be occurred by maintaining the said lottery further.
- The sale of that lottery ticket has been carried out by private sales agents as well as the staff of the Board. When preparing lottery tickets for the draw, it was reported that 154 lottery tickets were missing and according to the permission and consent of the top Management, a newspaper advertisement (in Sinhala/Tamil/English)has been published informing to handover the lottery tickets, (sold or unsold) if any, to the
- The parties responsible should be identified and taken the necessary action by holding a preliminary inquiry and losses should be recovered.

National Lotteries Board. As such, 20 lottery tickets have been received to the Board and those lottery tickets have been scheduled for the draw again.

Moreover, it has been further stated in the said newspaper advertisement that the tickets of which the identity could not be assured by any person, would be cancelled from the draw. As such, the relevant 135 lottery tickets have been withdrawn from the draw subsequent to a police complaint lodged on the previous day and the approval of the Board of Directors has also been obtained therefor. Accordingly, it is informed that the said 135 lottery tickets could not be considered as valid tickets.

Moreover, it is informed that a complaint has been lodged with the Criminal Investigation Division in Colombo with the consent of former Board of Directors and the Management to recover USD 26,188.5 equivalent to approximately Rs.4,059,217 recoverable in respect of 1027 lottery tickets obtained to be sold by the private advertising agency and action has been taken to recover it legally from the said institution. The officers of the Board and the relevant party have already been summoned and statements have been recorded while the relevant legal action is being taken. When computing the value thereof, the value of a lottery ticket should be computed by considering as USD 25.5 but not as USD 30 due to the fact that the Board make the recoveries from every party by deducting the relevant commission (15%).

3.3 Management Inefficiencies

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| <p>(a) The Committee on Public Enterprises held on 21 March 2013 had directed the Board to recover the employees' gratuity amounting to Rs.7,392,287 overpaid during the preceding years. However, action had not been taken to recover the said amount or to indicate in the financial statements as an amount receivable. The Board had only taken action to notify the relevant retired officers in writing to reimburse the overpaid gratuities to the Board.</p> | <p>Instructions from the Attorney General's Department have been obtained on the recovery of gratuities amounting to Rs.7,392,287 paid to the retired officers and since the payment of gratuity for retired officers is considered as offering a reward, the then Board of Directors has decided that it is not possible to recover the said money unless they reimburse it.</p> | <p>Approval of the Committee on Public Enterprises should be obtained.</p> |
| <p>(b) According to the directive given at the Committee on Public Enterprises held on 04 November 2014, a new building should have been constructed on the land of 112 perches in extent, located at Vauxhall Street, belonging to the Board. However, only the selection of an Architect for planning the building had been carried out even by the end of the year 2016. Moreover, this construction had not been commenced up to 01 June 2020 while a monthly rental of Rs.101,532,720 and a sum of Rs.3,175,057 for partitioning and renovation of the building inclusive of VAT were being paid for the building obtained for maintaining the office purposes of the Board in the year under review.</p> | <p>As agreed by the Consulting Firm which was appointed for the construction of new office building, the works up to preparing of bid documents have been completed and a Cabinet Paper had been submitted on 21 March 2018 to the Cabinet for the new estimate. Since the Board has been informed by the letter of the Ministry of Finance and Mass Media dated 03 April 2018, that permission cannot be granted for the construction of new building according to existing Government policies, the institution is functioned in a building obtained on monthly rental basis.</p> | <p>The relevant building should be constructed and approval of the Committee on Public Enterprises should be obtained.</p> |

3.4 Operating Inefficiencies

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|---|--|--|
| (a) The National Lotteries Board had deployed a Driver and a Publicity Officer each for 21 mobile publicity vehicles in the year under review and sold lottery tickets to the value of Rs.119,386,000. The relevant sales commission of 17.5 per cent amounting to Rs.20,892,550 had been allowed to pay for the officers engaged in the said purpose without obtaining any documented evidence whatsoever. The role of the said division had not been established with the approval of the Board of Directors while the details of fuel used for the motor vehicles involved in the relevant activity had not been included in running charts. | The Mobile Publicity Division is functioned for sales promotion and publicity. It has been planned to take necessary action on the role of said division and a Board Paper thereon has also been referred to the next meeting of the Board of Directors. | The relevant action should be taken by maintaining proper Registers. |
| (b) Private auditors had been appointed for auditing 04 various Funds maintained in respect of the staff and audit fees totalling Rs.180,000 and Rs.354,000 had been paid for those auditors in the year under review and preceding years respectively by utilizing the funds of the Board without being utilized the relevant funds. An approval of the Ministry of Finance had also not been obtained by the Board for the said payment . | As the private audit firm which conducted the audit of funds of the Board is serving for a long time, the service has been obtained from them. - According to the Minute of the Employees Provident Fund , all expenditures of the said Fund, are incurred by the Board. - Funds for the Medical Insurance Fund are remitted through the Board and in case of any balance in the Fund, it will be settled again to the Board. As such, those payments are being made by the Board. | Action should be taken on the approval of the Ministry of Finance. |

- When paying audit fees of the Employees Welfare and Thrift Fund, audit is being conducted by a private audit firm on the approval obtained from the then top management. Since the annual income tax should also be computed, service from the said audit firm has been obtained over a long period. Moreover, when paying audit fees, such payments have been made to the relevant firm on the approval of the Chairman.

(c) The Board of Directors had emphasized the requirement of obtaining security bonds from the sales agents registered in the Board. However, without taking action therefor, the Board had incurred an additional cost of Rs.8,290,055 to obtain a credit insurance coverage for the period from July 2016 to July 2017. Nevertheless, it was observed in Audit that necessary action had not been taken thereby to recover the loan balance amounting to Rs.23,365,438 not paid for the years 2016 and 2017.

Even though the benefits pertaining to loan balances not settled from the insurance coverage have been claimed, those could not be obtained from the National Insurance Trust Fund Board since the said claims were made after the expiry of due period. Nevertheless, all relevant loan balances have been settled by the commencement of the year 2020. Moreover, legal action has been initiated against the debtors who have not settled the balances.

The reasons for failure in recovering the said losses should be looked into and taken action accordingly.

(d) Action had not been taken to vest the irrevocable power of attorney in respect of 114 deeds pertaining to the property loans granted from funds of the Board.

The properties relating to the housing loans granted from funds of the National Lotteries Board, have been mortgaged to the National Lotteries Board. The said 114 Mortgage Bonds have been duly prepared and certified by a Lawyer cum Notary Public and registered in relevant Land Registries. In case of a default of payment by the person who obtained the loan, a Mortgage Bond Case can be filed in Courts and the loan can be recovered. As such, there is no need to vest the irrevocable power of attorney.

Action should be taken to vest the irrevocable power of attorney.

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|-----|--|--|--|
| (e) | Orders for printing has been given by the Board without duly forecasting the number of lotteries required to be printed during the year under review and as such, about 9 per cent of the printed lotteries has remained unsold during the year. | The National Lotteries Board had printed 1163 million lottery tickets for daily draws in the year under review and out of that, 95 million can be identified as unsold lottery tickets. It represented 8.19 per cent. Action has been taken to maintain this per cent less than 5 per cent by the beginning of the year 2020 through regular supervision on the sale of district sales agents for daily draws and the number of lottery tickets returned and through the management of orders from district sales agents. | Even though correct explanations have been identified, action should be taken to give orders for printing on the relevant forecasts. |
| (f) | Out of 650 public address systems valued at Rs.6,110,000 for which procurement activities were carried out in the year 2017, one hundred and sixty nine public address systems valued at Rs. 1,588,600 had remained in the stores even by 12 June 2020 without being distributed. A proper study on the quality, and durability of the said goods and the requirement of the agents therefor, has also not been carried out and it was further observed that the guarantee period thereof has also been expired. | The requirement of public address systems has been identified by the Field Officers. It has been planned to purchase for providing to the relevant sales agents while those equipment could not be purchased within the specified period due to the practical issues in the procurement process. However, after receiving the relevant equipment, those public address systems have been provided for the requirements identified and out of that, remaining public address systems stood at 169 by now. I inform that action will be taken to provide them according to requirements. | Purchases should be made by considering the actual requirement. |
| (g) | Even though due service has been obtained from the deposits valued at Rs. 380,000 which existed among the sundry deposits stated under assets in the statement of financial position, those had not been settled. | It is not possible to recover the deposit of Rs.100,000 paid in the year 2004. Since a letter seeking the necessary approval to eliminate it from accounts , has been sent to the Ministry of Finance on 03.08.2018 and 27.08.2019, it is expected to | Necessary settlements should be done without delay. |

eliminate it from accounts after receiving the approval.

Moreover, the advance of Rs.200,000 has been deducted when making the last payment for the Hotel where the said programme was held while a balance is shown in this manner due to an error occurred in accounting, thus steps has been taken to rectify it. Further, action will be taken to recover the sum of Rs.20,000 paid to the Airport.

- (h) There were instances where the email notification on unsold lottery tickets send to the Board by agents through their emails, had been printed twice in a bill erroneously by the existing computer software. No action whatsoever had been taken to rectify those errors.

The unsold lottery tickets received by email are shown for issuing credit notes after processing and it is not shown in the Menu subsequent to selecting the serial numbers of the lottery tickets of the relevant agent and issuing a credit note by one person. There is an internal control system preventing it being entered in the system again and a message informing the Data Operator is automatically received by the system at that time. When the computer network system is busy and in case of instances when the bill is saving in the data base after selecting serial numbers of lottery tickets to issue the relevant credit note, if another data operator selects it before being saved, there are instances where the Data Operator is unable to receive the said notification due to the Database Table Lock as a result of busy computer network system. A remedy for this fault cannot be made available in the prevailing

The existing computer software should be updated.

system (due to the non-availability of source code in the lottery management system) while initial steps have been taken to design a new software after the said error handling.

(i) A scheme of recruitment for sales agents had not been formulated by the National Lotteries Board and as such, examining their qualifications, supervision, registration, financial viability, and removals had not been determined accordingly. Recruitment process had not been carried out in a transparent manner by publishing the number of vacancies of the sales agents existed at present and further, the money recoverable to the Board had not been recovered by conducting formal investigations on inactive agents. The general public had not been made aware through advertisements on the agents whose membership was cancelled. It was observed that other active sales agents are carrying out their work through the accounts of 04 inactive agents by 20 June 2020.

A written recommendation of Territory Manager of the relevant District is obtained for the request of a post of agent on the approval of Chairman of the Board . These files are examined and recommended by the Agent Management Officer, Assistant General Manager (Agent Management) and Assistant General Manager (Sales) and subsequently, those are referred to the Chairman through General Manager and Additional General Manager and further, a number for sales agent is given after entering into agreement. A sales target per day is given for each sales agent by the Sales Division. The progress of new sales agents is observed by the Sales Division and action such as cancellation of the post of sales agent is also taken regarding the agents whose sales were at a weak level.

A scheme of recruitment should be formulated and made the recruitments and further, inactive agents should be removed without delay.

(j) The Dollar Fortune lottery which commenced by the National Lotteries Board in the year 2016 without the approval of the Minister in charge of the subject and the Minister of Finance and without carrying out a study on the lottery market, had not been drawn even by 30 June 2020. The printed lottery tickets thereof

When dividing the income of Dollar Fortune lottery, the allocated amount of rewards has been USD 100,000 while the commission was 15 per cent of the sales. A Profit and Loss Account is prepared at the end of draw and in case of a profit therefrom, the said amount is remitted to the Consolidated Fund.

Action should be taken as per the provisions in the Act and instructions of the Treasury.

stood at 30000 while the number of lottery tickets sold as at 09 December 2019 had been 6027. The number of lottery tickets remained at stores and in hand as at that date stood at 21942. Even though 2031 lottery tickets had been issued to various parties, information of them had not been submitted to the Board.

Moreover, there are no lottery tickets in the possession of any external party while there are lottery tickets in the possession of employees, Territory Managers and Sales Promotion officers at present. Further, since a date for the draw has not been declared as yet, opportunity has been given to sell those lottery tickets directly. The number of lottery tickets in their possession is about 982 tickets. Those lottery tickets will be obtained while the lottery tickets sold will be used for draws subsequent to declaring a date for the lottery draw.

- (k) It had been stated that the instructions of Circular No. N.L.B./circulars/2019/02 dated 29 March 2019 should be followed when attaching the staff for the duties of lottery draws in the National Lotteries Board. Since attachments have been made exceeding the limits specified for the officers on probation, two Assistant General Managers and one officer had obtained sums totalling Rs.1,452,000 as lottery allowances for 165 days. Even after filling a vacancy, a payment of Rs.167,200 had been made to an officer again for 19 days, considering it as a vacant post.

The Assistant General Manager (Sales) has acted in the post of Assistant General Manager (Agents Management) and the said vacancy has been filled on 02.09.2019. Nevertheless, the Assistant General Manager (Agents Management) has not been included in the duty roster of the month of September while the Assistant General Manager (Sales) has performed the duties of lottery draws for 12 days. Details of the number of days for which the Assistant General Manager (Sales) was engaged in the service as per the duty roster during the said period are as follows.

Action should be taken as per the instructions in Treasury circulars.

| Month | Number of days paid | Number of additional days paid |
|-----------|---------------------|--------------------------------|
| September | 12 | 4 |
| October | 12 | 4 |
| November | 12 | 4 |
| December | 11 | 3 |
| | | 15 |

Accordingly, even though it was informed that 04 additional days have been paid for the month of December, only 03 additional days have been paid. Moreover, even though 09 days each have been assigned as per the duty roster of the months of January and February, payments were made for only 08 days. The institution has obtained his service through the duty roster on the exigencies of service and at present, he is being paid for only 08 days.

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| <p>(l) Inventoried goods valued (mobile phones, I Pad, Mack Book) at Rs. 922,000 which were handed over to the Board of Directors and officers served in the National Lotteries Board during the period from the year 2015 to 2019, had not been returned even by 09 June 2020 while a sum of Rs.582,356 payable to them had also been retained in the institution. A letter dated 16 January 2020 informing the relevant parties to return the goods had been sent in this connection.</p> | <p>Action is being taken to recover the value after depreciating the goods provided to the former Chairman, Working Director and Additional General Manager on the approval of the Board of Directors.</p> | <p>Action should be taken to get back the inventoried goods or to recover the relevant money.</p> |
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3.5 Transactions of Contentious Nature

 The following observations are made.

| Audit Observation ----- | Comments of the Management ----- | Recommendation ----- |
|--|---|---|
| <p>(a) Despite non-vesting the full ownership of the land legally, the Board had granted a housing loan of Rs.624,780 to one of its officers and the said officer had left the service on 17 June 2017. The land where</p> | <p>Since that property was mortgaged to the National Lotteries Board by the said officer, the National Lotteries Board had been named as a party of the Case No. 2075/L filed in the District Court, Gampaha. The said case was</p> | <p>Action should be taken to recover the relevant losses without delay.</p> |

the house is proposed to be constructed, had been vested in the officer by the said land owner subject to the life interest. A written statement declaring that the ownership of the said land is vested in the officer after withdrawing the life interest of land, had been submitted by the land owner through a private law firm. However, the said party had filed a case in courts, for the recovery of possession of the relevant property again and the Board had been named as a party thereof. Despite having a professionally qualified lawyer in the Board, external lawyers had been engaged by the Board, paying the legal fees totalling Rs.313,825 for 13 trials of this case.

concluded and the judgement was given in favour of the officer. It was judged that the ownership of relevant property is vested in the officer.

- (b) Instant lottery tickets valued at Rs.2,859,585 credited to the sales income after issuing bills to agents in the year 2016, had been returned in the year under review. However, incentives amounting to Rs.35,813,250 had been paid to the staff and agents in the year 2016, based on total sales and action had not been taken to adjust the said values as well.

The District Agents who delayed the payment of due amounts pertaining to lottery tickets and who had not duly paid the same, have taken action to get back the part of lottery tickets to the Head Office. Since it was not possible to account the instant lottery tickets as returns inwards according to the computer system, action is being taken to record them properly and to sale them through other district agents and Mobile Publicity Division of the institution. Under these circumstances, readjustments were not made in this connection.

Incentives paid should be readjusted.

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| <p>(c) The total number of 264,000 lottery tickets issued to the agents of the Kandy District in respect of 04 draws had been withdrawn from the relevant draws, considering as unsold, on the violent situation prevailed in that District on 07 March 2018. An approval of the Ministry of Finance was not presented to Audit relating to cancellation of all lottery tickets including all lotteries sold up to then by the said agents.</p> | <p>This decision has been implemented as one of the most appropriate business decisions which minimize the losses caused to the customers and sales network. Further, the Board of Directors has the power of taking business decisions and as such, it is the view of Management that obtaining the approval of the Ministry relating thereto, is not necessary.</p> | <p>Decisions on the lottery tickets sold to the customers, should be taken on the approval of the Secretary to the Ministry of Finance.</p> |
| <p>(d) A number of 8,000 unsold lottery tickets pertaining to the 1896th Govisetha Lottery Draw conducted on 28 September 2018, had been handed over to the Stores Division of the National Lotteries Board by the relevant District Sales Agent on 20 September 2018. However, invoices had not been issued therefor, thus action had been taken considering the said number as sold tickets. As such, it was observed in Audit that no action whatsoever had been taken even by 30 June 2020 relating to the amount to be repaid to the sales agent and failure to perform the relevant duties.</p> | <p>I inform that action will be taken to conduct a formal investigation thereon through the Internal Audit Division of the institution and to implement the decisions made by the Board of Directors regarding the failure to take the responsibility of the parties identified and their mistakes.</p> | <p>The process of taking over the lottery tickets should be revised.</p> |
| <p>(e) Nine hundred lottery tickets of the 55th draw of Dhana Nidhanaya and 500 lottery tickets of the 285th draw of Mega Power due to be drawn on 28 September 2018, were</p> | <p>The number of lottery tickets included in the bar code range relating to these 02 types of lottery tickets, had been withdrawn from the lottery draws to be conducted on</p> | <p>A formal process on the losses and misplacements of lottery tickets, should be identified and initiated.</p> |

misplaced in transporting to the relevant District Sales Agent. As such, all those lottery tickets had been withdrawn from the relevant draw, considering as unsold. Nevertheless, no formal inquiry thereon had been conducted and the relevant losses had not been computed and brought to account.

28.09.2018, by the Management subject to the covering approval of the Board of Directors. An investigation on this incident is also being conducted by the Hanguranketha Police.

(f) The amount recoverable from an officer who had obtained a property loan from the Board and left the service from 23 August 2000, had been Rs.340,275 as at that date. No action whatsoever had been taken even by 30 June 2020 to recover the said loan.

Necessary action has been taken to recover the relevant loan from the said officer.

Recovery of loan should be expedited.

(g) All lottery tickets in possession of the agents which remained unsold due to the curfew imposed in the North Western Province on 13 and 14 May 2019, had been purchased by the Board itself and the prizes relating thereto had been brought to Fund of the Board while the approval of the Ministry of Finance had not been obtained therefor.

On the approval of the Board of Directors, this decision has been implemented as the most appropriate business decision which minimize the losses caused to the customers and sales network from the lottery draw conducted during the curfew imposed in the North Western Province on 13 and 14 May 2019.

Decisions should be taken on the approval of Chief Accounting Officer.

3.6 Idle or Underutilized Property, Plant and Equipment

| Audit Observation | Comments of the Management | Recommendation |
|---|--|---|
| <p>The Board had spent a sum of Rs.329,693 on repairs carried out to a machine valued at Rs.1,000,000 purchased from the Development Lottery Board in the year 2010 for</p> | <p>This machine was in a fully operative condition. The Console of this machine has been used for about 08 years as a replacement for the inoperative Console of the</p> | <p>Necessary action should be taken regarding the unused goods on the approval of the Board of Directors.</p> |

lottery draws, it had remained idle without being used up to now.

machine used for the Mahajana Sampatha lottery draw. It is being used even at present. Procurement process has been commenced for the purchase of a new machine considering the new requirements of the Lottery Board as well.

3.7 Procurement Management

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|--|---|---|
| (a) The procurement for printing of two types of instant lotteries introduced to the market by the Board, had been awarded to the selected printer on 12 February 2020. Nevertheless, no agreement was entered into even by 30 June 2020 as the relevant printer did not have the specific printing materials and as such, the printing work thereof had been carried out by the previous printer. | The contract for printing instant lottery tickets has been awarded on 12.02.2020 to the Ceylon Business Appliances, being the new printer selected for printing instant lottery tickets and the said institution has planned to commence the printing work from 01.05.2020. However, it has been informed that the materials and printing equipment ordered by the said printer could not be imported within the due period owing to the Corona pandemic spread worldwide by the last part of March 2020. Accordingly, the printer has made a request to print lottery tickets for a very short period on temporary basis deviating from the approved specifications on size until the specific materials were received and as such, instructions have been given to commence the printing work of instant lottery tickets from 16.06.2020 on the approval of Ministry Procurement Committee. | Decisions on future actions should be taken on the decision of Procurement Committee. |

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| (b) | <p>Out of 500 solar panels purchased in the year 2018 by spending a sum of Rs.2,400,000, a stock of 267 solar panels valued at Rs.1,212,426 had remained in the stores even by 16 June 2020. The requirement as well as the beneficiaries had not been determined in this procurement and their guarantee period had also expired in the stores itself.</p> | <p>Those goods could not be obtained within the due period owing to the practical issues in the procurement process. Nevertheless, after receiving the relevant goods, these solar panels have been provided for the requirements identified while only 150 solar panels out of that, had remained in the stores by now. I inform that action will be taken to provide such quantity as well for the requirements identified.</p> | <p>Action should be taken to utilize the relevant goods without delay.</p> |
| (c) | <p>Even though a sum of Rs.168,511,500 had been estimated for 41 items of promotion in the year 2019 by the Board, procurement activities of only 12 items had been completed in that year and the value thereof amounted to Rs.50,986,500.</p> | <p>Thirty one promotion items have been included in the Procurement Plan and about 15 promotion items have been completed during that year. Despite including in the Procurement Plan, only essential goods have been purchased on the request made by the Marketing Division and on requirement that is, by considering the market behavior and promotion programmes of the competitive institution as well.</p> | <p>Plans should be made to carry out procurement activities within the due period.</p> |
| (d) | <p>Orders have been placed in February 2019 for manufacture and supply of 300 lottery sales stalls valued at Rs.13,128,900 in the year 2018. Nevertheless, only 51 sales stalls had been supplied by 10 July 2019. Liquidated damages amounting to Rs.847,689 and the security bond of Rs.1,509,823 have been recovered from the relevant supplier due to the failure in supplying the sales stalls to be supplied</p> | <p>Liquidated damages amounting to Rs.847,689 and the performance security bond of Rs.1,509,823 have been recovered from the relevant supplier due to the failure in supplying those sales stalls. Procurement activities have been recommenced on 07 July 2020.</p> | <p>Action should be taken to carry out the procurement process again.</p> |

further and moreover, the said agreement had been cancelled. The new procurement activities thereon had not been carried out as at 30 June 2020.

- (e) The printing of 02 lotteries, Sevana and DhanaNidhanaya commenced in July 2016 and May 2018 had been assigned to two printers without procurement on a decision of the Board of Directors. Even though the procurement period of 04 out of 10 types of lotteries conducted in the year under review by the Board, had ended in August 2019, new procurement activities had not been carried out as at 30 June 2020. Moreover, printers had been selected without following the formal procurement process for other 06 types of lotteries.
- In introducing the Sevana and Dhana Nidhanaya Lottery tickets to the market, printing contract has been awarded on temporary basis until suitable suppliers were selected on the approval of Board of Directors considering the urgent requirement at that time. Instructions have been given by the Ministry Procurement Committee to carry out procurement activities for all lottery tickets at once. The Board of Directors has given the approval to extend the contract period again up to September from May 2020 due to the practical issues regarding the procurement process. At present, the procurement process for the selection of new printers is in progress.
- Procurement activities should be planned and implemented as per a specified Time Schedule.
- (f) The State Printing Corporation had carried out the printing of Mahajana Sampatha Lottery, Neeroga Lottery and Mega Power Lottery conducted by the Board from the years 2008, 2015 and 2018 respectively up to now while a written agreement had not been entered into therefor. The minimum price received for printing one ticket through the procurement process was Rs.0.3448.
- The printing of Mahajana Sampatha lottery is being carried out by the State Printing Corporation on the approval of Cabinet of Ministers. Agreements on printing contract have been signed on 06.07.2020. Since the printing of Mahajana Sampatha lottery is being carried out through a Government institution on the approval of Cabinet of Ministers, it was not possible to revise the printing charges. However, it has been proposed
- Action should be taken to revise the prices of printing in an economically profitable manner.

Nevertheless, the State Printing Corporation was being paid a printing cost of Rs.0.50231 relating to a one lottery ticket of Mahajana Sampatha, Neeroga and Mega Power. The estimated loss occurred from printing lottery tickets of Mahajana Sampatha, Neeroga and Mega Power by the end of the year under review due to failure in considering competitive bids, amounted to Rs.52,396,404, Rs.8,709,206 and Rs.21,529,523 respectively.

to submit a Cabinet Paper to revise the price in future. Instructions have been given to commence the procurement process at once. Accordingly, the new procurement activities are being carried out by now.

- (g) No action whatsoever had been taken regarding the deficiencies such as using low cost paper, carrying out relevant printing without safeguarding the prescribed standards and printing the same lottery tickets twice contrary to requirements mentioned in the specification relating to computerized printing of lottery tickets in the year 2018. For an example, printing 30 lottery tickets twice and supply for the Govisetha Lottery draw conducted on 13 January 2019 by the relevant printer and further, an additional profit of Rs.9,472 had been earned as a result of printing of lottery tickets reducing the size by certain printers.

That institution has been informed both verbally and in writing, of printing the lottery tickets reducing its size contrary to the specifications of bidding pertaining to lotteries. It is expected to deduct the value stated as the balance of cost obtained by the printer contrary to the specifications on sizes, in the report presented by the Audit Division, from the relevant printing charges to be paid to them.

To minimize these kind of errors in future, it is expected to examine and obtain a quality certificate on the accuracy of serial numbers, dates, figures and fonts of relevant lotteries from the relevant printer relating to each draw and also to include a Section into the Printing Agreement in a manner that a fine can be levied from the printer in respect of all errors arising in printing lotteries. In case of any lottery ticket erroneously printed at the

Action should be taken according to relevant standards as much as possible.

Press, it is expected to obtain a detailed report thereon from the printer relating to each lottery draw.

(h) Even though the Board had given instructions to printers to print by including all data into a QR Code for the protection of buyers of lottery tickets, instances in which the incorrect QR Codes were printed when following the said protective methodology by relevant printers, were observed. The equipment used for testing the said methodology was also not in the possession of Board. Moreover, the said test had not been carried out by the Board for lottery tickets submitted by winners.

The QR Code has been introduced to the lottery ticket to facilitate identifying a genuine lottery ticket for the protection of customers and thereby verifying winning of lottery tickets through the web site automatically to customers on lottery draws in future. Moreover, the QR Code test can be easily carried out by customers merely using software that can be freely downloaded with the help of a smart mobile phone without using any specialized tool. No specialized equipment is required therefor. As such, it is not a failure to achieve the expected results of the Board as mentioned here while highly successful results have been obtained and future steps are being taken to implement the second stage thereof as well.

Action should be taken to follow the protective methodologies introduced.

(i) Even though the monthly assessment value given by the Valuation Department for the building of 26,000 square feet in extent obtained on rent by the Board in the year 2018 was Rs.3,750,000, the monthly rental value paid therefor was Rs.7,677,173. An adjoining building of 4,885 square feet in extent constructed on iron beams had been obtained on a monthly rental of Rs.1,099,125. However, action had not been taken to obtain the plan of said buildings, Occupancy Certificate, approval of the Urban Council and the assessment of the Valuation Department etc.

Approval of the Ministry Procurement Committee and the Cabinet of Ministers have been received to obtain this building for a rental of Rs.270 per square feet excluding the Value Added Tax per square feet that is, Rs. Rs.7,677,173 and also the building of 2,880 square feet in extent, constructed adjoining the part behind this building on rent basis for 2 years. The owner of building has been informed in several instances to obtain the approved building plan and Occupancy Certificate (OC).

Charges should be paid on the entering into agreements for rates of rentals of the Valuation Department and taking action to rent the buildings constructed under relevant approvals.

3.8 Human Resource Management

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|---|---|--|
| (a) The post of Financial Officer, approved in the Board, had been suppressed and a post of Sales/Promotion Officer had been created without the concurrence of the Department of Management Services. A person holding a post of Management Assistant had been appointed from 08 August 2017 without mentioning specific qualifications for the said post. Despite the directions given to defer 03 salary increments of the officer appointed to that post, payment of salaries for the new post had been made without taking action accordingly. | Promotions have been made by temporarily changing the designation with the approval of the Board of Directors within the approved cadre on the requirement of duty of the institution with the objective of motivating old employees. | Appointments should be made on approvals. |
| (b) The officer who was appointed to the post of Assistant General Manager -Sales Promotion, had been attached to the post of Assistant General Manager – Loan Recovery. Nevertheless, the post of Assistant General Manager – Loan Recovery had not been approved by the Department of Management Services and the duties of the substantive post of the officer attached to the said post had not been covered as well. Duties and functions have also not | Action has been taken to obtain the approval of the Department of Management Services therefor and the number of posts in the organization structure has not been exceeded thereby. As such, he has not been deprived of the post or the benefits thereof while it has been only a new duty assignment and a change in the designation. | Duties of the posts for which the recruitments were made according to qualifications, should be performed. |

been properly assigned to that post not approved while he had been paid salaries and allowances amounting to Rs.1,438,805 as at 31 May 2020.

- (c) Without entering into an agreement and a proper duty assignment, a Professor of the University of Moratuwa has been appointed prior to the year 2017 for the identification and rectification of problems in the existing computer system and for obtaining new proposals. Nevertheless, the said duty had not been performed in a proper manner. As such, a Consultant had been appointed again to perform that duty on the recommendation of a member of the Board of Directors in the year 2019 contrary to the approved Scheme of Recruitment of the Board. He had been paid a total sum of Rs.1,364,948 comprising an initial payment of Rs. 350,000 and a sum of Rs.250,000 under the second stage pertaining to the said duty. Subsequently, the Board had sent a letter seeking the approval of the Ministry of Finance for the recruitment of an officer to the post of Consultant on contract basis. Approval for a monthly payment of Rs.80,842 had been given by the Ministry of Finance. Accordingly, an

Approval of the Ministry of Finance has been given to recruit a Consultant in Information Technology on contract basis for a period of 06 months until the vacancy in the post of Deputy General Manager (Information Technology) was filled. Moreover, a monthly payment of Rs.80,842 has been made to the said Consultant from April 2019 on the approval of the Ministry of Finance. Nevertheless, the payment of Rs. 350,000 and the monthly payment of Rs.250,000 have been made to this Consultant on the approval of the Board of Directors and it was a payment made before informing the limit of monthly payment by the Ministry of Finance.

Relevant duty should be performed through a proper duty assignment.

uneconomical payment of Rs. 1,014,948 had been made monthly by the Board owing to the said recruitment.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| <p>In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements of the Board should be presented to the Auditor General before 28 February of the ensuing year after the closure of the year of accounts. However, the financial statements of the year under review had been presented to Audit only on 12 May 2020.</p> | <p>The preparation of financial statements have been completed by the National Lotteries Board by 10 March and the Board Papers which is signed by hand were prepared by 13 March. Nevertheless, obtaining approval after referring to the Board of Directors has delayed due to the holidays declared and subsequently, the curfew imposed by the Government owing to the outbreak of Corona pandemic in the country by that time. Consequently, financial statements were presented to the Auditor General on 12 May.</p> | <p>Action should be taken in terms of circular instructions.</p> |

4.2 Annual Action Plan

The following observations are made.

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| <p>(a) Even though several years had elapsed since the inception of the institution, attention had not been paid by the Management to improve the infrastructure of the institution.</p> | <p>A land with 112 perches in extent at No.55/57, Vauxhall Street, Colombo 02, has been purchased for the National Lotteries Board in the year 2009 and the objective of this purchase is to construct a place of work with all infrastructure required for the National</p> | <p>Action should be taken identify the infrastructure of the institution and to provide them.</p> |

Lotteries Board. Even though all initial steps necessary therefor had been taken, that work could not be carried out further, due to the existing Government policy of not permitting to construct new buildings for Government institutions.

(b) In terms of Section 9.14 of the Public Enterprises Circular No. PED 12 of 02 June 2003, a manual on human resource management had not been prepared.

Action will be taken in future to prepare a manual on human resource management.

Attention should be paid to the human resource management.

(c) The following observations are made on the income and expenditure of publicity relating to lottery tickets of the Board pertaining to the years 2018 and 2019.

The issue of 02 types of lotteries namely Sampath Rekha and Supiri Delakshapathi which were drawn at the beginning of the year 2018, to the market, has been suspended and instead, a lottery ticket namely Dhana Nidhanaya has been issued to the market in a manner to conduct the draw on three days per week. Only 09 lotteries of which the draws are conducted daily, have been issued to the market during the year under review. An increase in the sales income by Rs.71 million was observed when comparing the sales income received by the three lotteries namely, Sampath Rekha, Supiri Delakshapathi and Dhana Nidhanaya during the year 2018 and the income earned by the Dhana Nidhanaya lottery during the year 2019. In addition, an increase can be observed in the sales of 05 types of lotteries namely, Govisetha, Jathika Sampatha, Mahajana Sampatha, Mega Power and Wasana Sampatha.

Lotteries should be introduced and blocked after carrying out a proper study.

(i) Even though the income of 07 types of lotteries had increased, the income of 05 types of lotteries had decreased during the year under review as compared to the preceding year. Accordingly, the total income had increased by Rs.1641 million as compared to the preceding year and it represented 8.03 per cent.

When considering the two types of lotteries, namely Neeroga and Sewana, sales income representing 99.57 per cent and

99.25 per cent respectively has been earned during the year 2019 as compared to the year 2018 and the two lotteries have been maintained with a slight increase in the average daily sale. Moreover, the reduction in draws conducted in the year 2019 as compared to the year 2018 can be identified as the reason for this mild recession in the sales income of two lotteries. The number of Neeroga draws conducted during the year 2018 had been 153 while only 151 draws had been conducted during the year 2019. In addition, 52 Sevana draws had been conducted in the year 2018 while it was 51 during the year 2019.

Overall, there was an increase of Rs.1763 million in the sales during the year 2019 as compared to the year 2018 and it represented 8.99 per cent. Moreover, the sales income of 06 types of lotteries of which the draws were conducted daily, had been increased and even though the sales income of two lotteries has slightly decreased, it was observed that average daily sales have slightly increased. A substantial decrease was observed only in the sales income of Supiri Wasana lottery during the year under review. Based on these observations, it has been launched again by June 2020 with the changes in lottery patterns attracting more buyers.

(ii) Even though the income from the lotteries Supiri Wasana, Neeroga and

More expenditure has to be incurred due to the efforts made to protect in the market, the

Expenditure on publicity should be incurred based on a proper study.

Sevana has decreased by 15 per cent, 4 per cent and 10 per cent respectively as compared to the preceding year, the expenditure on publicity thereof had increased by 4 per cent, 10 per cent and 3 per cent respectively.

lotteries of which the draws are conducted on 2 or 3 days per week.

(iii) The publicity cost of Govisetha lottery which has earned a high income of Rs.7,316 million, had been at a low level representing 2.6 per cent of the sales income. The publicity cost of the lotteries Wasana Sampatha, Supiri Wasana, Neeroga and Dhana Nidhanaya which have earned the incomes of Rs.424 million, Rs. 731 million, Rs. 972 million and Rs. 1,236 million, had been at a high level representing 13 per cent, 11 per cent, 10 per cent and 8 per cent of the sales income respectively.

The draws of Govisetha lottery are conducted on all the 7 days of week and its sales income is at a high level. Supiri Wasana, Neeroga and Dhana Nidhanaya are the lotteries of which the draws are conducted on 2 or 3 days. More expenditure has to be incurred due to the efforts made to protect those lotteries in the market.

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(d) The number of lottery draws conducted in the preceding year stood at 1415 and that number has increased by 8 draws up to 1423 in the year under review. The sales income of lotteries had increased by Rs.1,640,617,135 or 8.03 per cent as compared to the preceding year.

The total income earned during the year 2019 has increased by Rs. 1763 million as compared to the year 2018 and it represented 8.99 per cent. The Dhana Nidhanaya lottery has been issued to the market as a new lottery ticket to be drawn on three days per week (first draw on 25 May). As such, the lottery mixture existed as 27 lottery draws per week has been changed in a manner to be conducted 28 lottery draws per week.

The number of draws should be increased based on a proper study.

The Management has decided

not to conduct 9 lottery draws which were to be drawn in the common lottery mixture. In addition, a significant decrease can be observed in the sales on the day after a major election such as Presidential Election, General Election etc and based on the above observations, 4 lottery draws scheduled to be conducted on the day after the Presidential Election on 16 August, have been cancelled. Consequently, 20 extra lottery draws have been conducted during the year 2019 as compared to the year 2018. Nevertheless, 13 lottery draws have been cancelled due to the changes made externally to the lottery mixture considering the position of market and the institutional profit. Overall, 1416 and 1423 lottery draws had been conducted during the years 2018 and 2019 respectively and the number of draws increased had been 07.