

National Lotteries Board - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Lotteries Board for the year ended 31 December 2020 comprising the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be reported 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 accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion.

My opinion is qualified 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends 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 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 (Auditor's Responsibilities for the Audit of Financial Statements)

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 material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the

financial statements or, if such disclosures are inadequate to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the 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 Audit Observations on the preparation of financial statements

1.5.1 Internal control over the preparation of financial statements

The entity is required to “devise and maintain” a system of internal accounting controls sufficient to provide a 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 and specific authorization and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate is taken with respect to any are differences. Audit observations with regard to maintenance of key accounting records included under the following headings.

Audit Observation -----	Management Comment -----	Recommendation -----
<p>Since the sage ACCPAC software system introduced in the year 2003 by the board for the operation of its accounting functions had been decentralized in the year 2016, services to be obtained from this software package had been limited. The credibility by the previous centralized system in respect of transactions of the Board had become interrogative under</p>	<p>Since a balance in the creditors control account in using the centralized sage ACCPAC computer software had remained in the main journal, for the prevention of such transactions in future, the modules newly added to the system are removed from the main journal and used as two separate system. As a result, certain features in internal control are omitted and as</p>	<p>Requirement of maintaining the updated computer software system and the computer security system in a manner that fulfill the aimed functions with more credibility.</p>

this system. Since certain changes are done from time to time, taking responsibility for occurring risks due to such changes, the company by which this software was introduced had turn down. Moreover, a sum Rs.13,931,289 had been incurred for the maintenance of the software system by the board during the year under review. However, a security system for the protection of software system had also not been maintained. By the date of audit, the sage ACCPAC computer software was subjected to a break down and the activation of the accounting system of the Board became a critical condition.

such, certain facilities had become inactive. Being precluded from practical problems, necessary studies are carried out for the introduction of a new software package under the overall ERP system modification program by minimizing problems now. The agency by which the above mentioned sage ACCPAC ERP system is maintained, the security system in the software is maintained by supplying with approved methodologies. Due to certain breakdowns, in the main data system, temporary failures were happened but are not related to this service agreement.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with reference to particular standard	Management comment	Recommendation
<p><u>Sri Lanka Accounting Standard-16</u></p> <p>In terms of paragraph 6 of the standard, property, plant and equipment are tangible assets “that are held for use in the production or supply goods or services for rental to other or for administrative purposes and are expected to be used during more than one period”. Contrary to that, computer software system valued at Rs.21,954,215 had been brought to account under property, plant and equipment instead of accounting under intangible assets.</p>	<p>Since the software system has got manufactured only for the Board itself, they are stated under intangible assets, it is noted that intangible assets stared now under tangible assets and all intangible assets proposed to be acquired in future are accounted under intangible assets in terms of Sri Lanka Accounting Standard 16.</p>	<p>Requirement of accounting intangible assets in terms of the standard.</p>

1.5.3 Accounting Policies

Audit Observation	Management Comment	Recommendation
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Contrary to the policy on making provision for bad and doubtful debts of the Board, provision for doubtful debts for the entire balance of Rs.11,948,108 included in the trade debtors, consisting of 5 sales agent debtors with judicial action and debtors arisen from sale of lottery tickets had been made and it had not been sufficiently disclosed in the financial statements.	It is stated that sufficient disclosures will be made in future.	Requirement of making provisions in compliance with predetermined accounting policy.

1.5.4 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
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(a) A sum of Rs.261,676,181 remained after allocation of for prizes in respect of draws held during the year under review should be debited to the retained profit and credited to the reward reserve fund. Since it was accounted as expenditure of the year, the profit of the year under review had been understated by that amount, and that value had been adjusted to the pretax profit in the preparation of cash flow statement.	The balance money after deducting all prizes is credited to the reward reserve fund, and this fund is used only for getting money for the payment of rewards. The value of Rs.261,676,181 is not a financial variant and credited to the unclaimed rewards reserve account in the financial statements and debited under reward expenses account. In the preparation of cash flow statement, this value had been adjusted to the pre-tax profit and the cash variant generated therefrom is stated.	Transfers for reserve funds to be debited to retained profit.

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| (b) | Even though sales agents had confirmed the Board that tickets were not sold during the year under review, a sum Rs.11,429,657 including the penalties on 701,206 tickets not physically handed over to the Board and due by the end of the year under review had not been shown in the financial statements. | After giving the details of unsold tickets by the Government Audit Division, necessary action will be taken to recover this money. | Since the receivable value of unsold tickets not physically returned to the Board can be determined through the system of the Board, such value can be accounted as a receivable value, as confirmed that they have not been sold. |
| (c) | The total balance of cancelled cheques account as at the closing date of the year under review amounted to Rs.12,996,213. It includes payments made to various suppliers and creditors since 2018 by 235 cheques. Action had not been taken to remove relevant balances from the cancelled cheques account and transfer to the creditors balance even up to the end of the year under review and necessary action had also not been taken to settle such balances. | Action will be taken to credit the balances lapsed for more than 6 months to the revenue of the Board. | Requirement of proper accounting in respect of dishonored cheques. |
| (d) | Despite the money had not been paid by a sales agent for lottery tickets invoiced, having being falsely entered a sum of Rs.4,687,855 to the computer during the period from September 2020 to December 2020, saying that it had deposited tickets had been fraudulently purchased from the Board. Such fraudulent money was included in the unrealized deposit account and no disclosures had been made in the financial statements. | A preliminary investigation had been carried out at Board level in this connection and an inquiring officer had been appointed to hold the formal disciplinary inquiry and it is being done now. In addition, it had been complained to the Criminal Investigation Department and such investigation is also going on. The money so defalcated is included in the unrealized deposit account and it is noted that this will be disclosed in the accounts in the year 2021. | To identify the parties related to the fraud and to disclose it in the financial statements. |

- (e) It was decided that the value of lottery tickets returned by sales agents, already credited to the related collection account to be adjusted again through the People's Bank collection account. A commission of Rs.18,220,437 had been recovered by the bank as collection commissions for the period 2014 to June 2020. Even though a compromise was reached with the People's Bank, the money had not been recovered up to now.
- Several discussions have been held with the People's Bank in this regard and it was informed in writing that this amount would be given. An investigation is conducted by the Internal Audit Division of the People's Bank now and at the end of this investigation this money will be given to the Board. A letter has been sent by the Bank requesting A further period up to 31 August 2021 and the Bank also informed in verbally that it could not be finalized due to Covid-19 pandemic. Accordingly, necessary disclosures will be made in the financial statements once the consent of the Bank is obtained.
- Take action to recover the dues, being obtained the consent and to account appropriately.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation -----	Management Comment -----	Recommendation -----
(a)	The value of debtors receivable from sales agents to whom instant lottery tickets were given and lapsed for more than 365 days as at 31 December 2020 amounted to Rs.50,744,968 and the value of debtors with bank guarantees was only Rs.8,839,957. The attention of the Board had not been paid to recover the debtor balances exceeding the credit period of one year or to recover such dues having being encased the bank guarantees.	A method of payment of debts lapsed for over 6 months as at 30 November 2020, as installments has been prepared and made aware of sales agents in writing. Recovery of such debts by installments is implemented since December 2020.	Requirement that the recovery of debts, lapsed for more than one year or encase the bank guarantees.
(b)	The receivable balance from 764 sales agents by 31 December 2020 for sales stalls amounted to Rs.5,612,225, of which the balance relating to more than 5	Of the recoverable balance of Rs.4,244,451, it is expected to recover from incentives payable to sales agents, and also to recover the receivable balance of	Required that expedite the action as commented by the Board.

years amounted to Rs.2,454,363. Rs.1,385,643.

The Board had not taken action to recover such balances up to now.

1.6.2 Accounts Payable

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
An unidentified credit balance of Rs.3,585,823 brought forward prior to the year 2016, a sum of Rs.4,979,245 payable to 4 creditors remained a period more than 9 years and a sum of Rs.169,311 payable to 14 office staff had been shown in the financial statements and action had not been taken to recover such balances.	For the unidentified credit balance of Rs.3,585,823 action will be taken in accordance with the recommendations made by the Ministry of Finance. Approval of the Ministry of Finance has been obtained to credit the balance of Rs.4,979,245 payable to creditors to the revenue of the Board. Of the balance of Rs.169,311 payable to staff, approval of the Ministry of Finance has been received to credit a balance of Rs.35,192 to the revenue of the Board subject to certain recommendations.	Quick action to be taken in accordance with the recommendations/approvals of the Ministry of Finance.

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

----- Reference to Laws, Rules and Regulations -----	----- Non-compliance -----	----- Management Comment -----	----- Recommendation -----
(a) Section 10(5) of the Finance Act No. 38 of 1971 and Section 17(2) of the Finance Act No. 11 of 1963 revised by Finance Act No. 35 of 1997 (revised).	After being deducted expenses specifically stated in the Act from the lottery income, the balance should be credited to the Consolidated Fund. However, without being so credited to the Consolidated Fund, a total retained profit of Rs.2,486,581,711 by the end of the year under review had been	The total retained profit shown at the end of the year is not totally a financial assets and that accumulated profit includes assets and liabilities of the Board. If the entire amount is credited to the Consolidated Fund, the Board may face severe problematical in its day to day	Requirement of taking action in accordance with provisions stated in relevant acts.

retained in the Board operations. Therefore, even by 31 December 2020, it is impossible to credit the total amount to the Consolidated Fund.

- (b) Sections 14(2), 16(1) and 16(4) of the Finance Act No. 11 of 1963 revised by Act No. 35 of 1997. (revised). Even though the Board should enter into agreements with relevant entities when lotteries are drawn on behalf of Ministries, Government Departments and statutory boards, agreements had not been entered into with relevant institutions in respect of Govisetha, Supiri wasana, Jathika sampatha, Neeroga and Sevana lotteries. Since the collections related to lottery draws held by the Board are direct credited to the Consolidated Fund without being credited to those entities, agreements had not been entered into with related entities. Requirement of taking action in accordance with provisions stated in relevant acts.

Similarly, in terms of provisions in the Act, the value of unclaimed prizes lapsed for more than 6 months need to be credited to the Consolidated Fund but action in terms of provisions in the Act had not been taken in respect of unclaimed non-financial material rewards valued at Rs.7,018,415 relating to the lottery draws held during the period from 01 July 2019 to 30 June 2020. Action had also not been taken to get the approval of the General Treasury in this regard. If the presenters do not claim prizes after 6 months, such money has been credited to the Consolidated Fund.

- (c) Paragraphs 15(2) and (3) of the Being crediting a percentage of 0.005 Based on the nature of business, this fund was Act in accordance with Circular

Public Finance Circular No. 01/2020 of 28 August 2020.	from donations of presenters and sales income of Neeroga lottery, a fund called "Asarana sarana" had been established by the Board in the year 1998. There was a balance of Rs.22,484,736 as at the end of the year under review. A approval had not been obtained to maintain such a special fund.	created under the approval of the then Board of Directors in the year 1998 for the social compassionate and requirements of sales agents and sales network. Every member of the National Lotteries Board in every stratum had not requested incentives given by all other Lotteries, from this lottery. 0.5 per cent of the sales value could be allocated as employees incentives had been contributed to the Asarana Sarana Fund.	instructions.
(d) Letter No. PE1/70/07/Vo11 dated 21 January 1993 of the Deputy Secretary to the Treasury.	From all lotteries income held on behalf of the government, 16.5 per cent should be remitted to the Consolidated Fund. Since only 10 per cent value of the income from 'Mega power' and the 'Dhana nidhanaya' lotteries held during the year under review, that is less than the specific percentage had been remitted to the Consolidated Fund, the value not further remitted to the Treasury was Rs.258,274,111.	By the time these instructions were given by this letter, there were only 2 lotteries of Mahajana Sampatha and Wasana Sampatha. As a result of remitting 16.5 per cent to the Consolidated Fund mainly, both these two lotteries had become loss making entities by now. The contribution that can be given from the income of other newly opened lotteries is only 10 per cent. If more than 10 per cent of sales income is given, all lotteries may incur losses and also they could not be operated. All other expenses are met from the income of the	Requirement of taking action as per the instructions of the Treasury letter.

Board. Being remitting 16.5 per cent from the income of Mahajana Sampatha and Wasana Sampatha lotteries 10 per cent from the income of all other lotteries, to the General Treasury, the National Lotteries Board is operated as a profit making entity as a result of an enormous effort. Money gives to the General Treasury as a percentage of sales income could not be increased and only 10 per cent can be paid. The Ministry of Finance was made aware about this issue.

2. Financial Review

2.1.1 Financial Result

The operation of the Board for the year under review had resulted in a surplus of Rs.1,434,824,231 as compared with the surplus of Rs.1,841,111,500 for the preceding year. Accordingly, a deterioration of Rs.406,287,269 was observed in the financial results. Since the country had been locked down in the middle of the year under review due to Covid-19 pandemic, stoppage the sale of lottery tickets and subsequent drop in sale of lottery tickets had mainly caused to this deterioration.

2.2 Analysis of tendencies in the main income and expenditure items

The following observations are made in respect of lottery tickets income and publicity expenses of the Board in the year 2019 and 2020.

- (a) As compared to the preceding year sales income of lottery tickets of the year under review and the cost of sales had dropped by Rs.4,038,115,575 and Rs.3,131,683,602 or 18.29 per cent and 17.34 per cent respectively.
- (b) As compared with the preceding year, Sales Marketing and distribution expenses of the year under review had dropped by Rs.614,872,280 or 40.78 per cent.

2.3 Ratio Analysis

An analysis on the ratios of profitability and working capital at the Board relating to the year under review and the preceding year, is given below.

	Type of Ratio	Year 2020	Year 2019
(a)	Gross Profit Ratio	14.89	14.09
(b)	Net Profit Ratio	6.00	4.43
(c)	Current Assets Ratio	2.99:1	2.20:1
(d)	Quick Assets Ratio (Liquidity Ratio)	2.96:1	2.18:1

3 Operating Review

3.1 Uneconomic Transactions

Audit Observation	Management Comment	Recommendation
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(a) Despite there is an ability to construct a temporary building in the land at Vauxhall Street for storing unsold lottery tickets discard from lottery draws of the National Lotteries Board, stores accommodation of 3,136 square feet had been obtained on rent basis since 2015 from the Building Materials Corporation Ltd. It had subsequently been extended up to 6,217 square feet and a sum Rs.12,572,495 had been paid therefor.	Of the 7 stores taken on monthly rental basis from the Building Materials Corporation Ltd., only 5 stores are used by the Board as at 01.04 2021. Being selected a disposal firm through the formal procurement process, it is the method of disposing discarded lottery tickets and other waste papers but, the selected firm through the procurement process had stopped bringing such waste papers on the way. Thereafter, the procurement process was again started but due to various reasons such as not presenting bidders in several occasions and presented first but then rejected; a lot of time had taken to select a buyer through the procurement process. As a result, this stock of documents had to be stored here. However, action is being taken to give such stock a selected new buyer in the year 2020.	Requirement that stores facilities to be obtained in a Board premises that is economically beneficial.

- (b) Even though the cabinet approval was granted in the year 2016 for the construction of business premises in the Vauxhall Street land belongs to the Board, construction works had not been carried out even by the end of the year under review.
- According to the financial statements, a sum of Rs.27,003,862 had been spent works in progress of the building construction works. The above payments had been made for the initial works such as the appointment of a consultancy firm for the preparation of building plan, to get that plan approved, find out the ability of supplying water and electricity, to get the approvals for the standard height of the building from the Civil Aviation Authority to obtain the required approvals and documents. Approval of the Cabinet of Ministers had been obtained for the cabinet paper No. 16/2468/719/150 to put up a new building in the land at Vauxhall Lane belongs to the Board. All activities in the planning stage of the building had got done through the selected consultancy firm and the building permit had also obtained from the Urban Development Authority to construct the building. These are primal planning stage expenses and the approval of the Cabinet of Ministers was received for the construction of building. All expenses were incurred on the approval of the Cabinet of Ministers received for the above cabinet paper and the Board of Directors.
- Requirement to put up the building in accordance with the cabinet approval.

3.2 Management Inefficiencies

_Audit Observation -----	Management Comment -----	Recommendation -----
(a) A sum of Rs.97,429,500 as an initial deposit equal to one year rent had been paid to the building owner for the building obtained on rent basis to maintain the head office of the National Lotteries Board. According to the agreement, 35 per cent of the initial deposit should be set off against the monthly rental within the year, after reaching one year. Accordingly, at the end of the agreement period, a deposit amount of Rs.63,329,175 is remained with the building owner, and that balance money needs to be paid back to the Board by the building owner within 30 days after handing over the building. In addition to such deposits, an another sum of Rs.24,357,375 had been paid to the building owner as a security deposit equal to 3 month rental in terms of paragraph 8(b) of the agreement in respect of unpaid building rent, telephone, water and electricity etc.	The Ministry Procurement Committee with the recommendations of the Technical Evaluation Committee had approved the payment of one year advance for the building taken on rental basis by the National Lotteries Board and to recover about 35 per cent of the monthly rent since the 2 nd year of agreement.	Requirement that entering into agreements, it should be on conditions, advantageous to the Board.
(b) Even though the Committee On Public Enterprises had directed on 21 March 2013 that over paid employees gratuity of Rs.7,392,287 in previous years should be recovered back by the Board, action had not been taken to recover that money or to	Advice of the Attorney General's Department had been obtained in respect of the recovery the amount of Rs.7,392,287 overpaid to pensioners. The then Board of Directors had decided that payment of gratuity to pensioners is considered to be a gift and as such, it is impossible to recover	Requirement__of the recovery of overpaid amount.

disclose in the financial statements as a receivable amount. The Board had only informed the pensioners to reimburse the overpaid gratuity to the Board in writing. back, if they do not reimbursed.

3.3 Operating Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Even though the number of sales agents registered with the Board as at 31 December 2020 amounted to 114, it was observed that bank guarantees had been obtained only from 43 sales agents.	In getting a district sales agent post of the Board, keeping one million bank guarantee is mandatory in terms of the existing rules and regulations but it is not an essential requirement for old district sales agents. At present, one million bank guarantee is obtained from all new applicants since the year 2018 to date as a policy of the Board. For the purpose of further implementing of this method, action has strategically been taken to get one million bank guarantees in transferring district agency post to another person, when old district agents have died. If anyone fails to keep a guarantee, such transfers are not done. It is hopped to conjoint the old district sales agents (active) who had not bank guarantees, into this flow in future, stage by stage.	Implementation of a formal methodology to get bank guarantees from sales agents who had not kept bank guarantees.

- (b) Total debtors of the Board as at the end of the year under review amounted to Rs.137,704,393 and 22 per cent or Rs.29,771,317 of them only had been obtained bank guarantees. Bank guarantees had not been obtained from sales agents at the beginning but currently, obtaining bank guarantees is obligatory, when sales agents are appointed. Many sales agents buy lottery tickets by cash. In order to expedite the sales targets, without considering bank guarantees lottery tickets are sold on the approval of the Board of Directors in drawing special lotteries. These loans are recovered soon. Implementation of a formal methodology to get bank guarantees from sales agents who had not kept bank guarantees.
- (c) Out of 10 types lottery tickets printed during the year 2020, lottery tickets ranging from 9 per cent to 18 per cent had remained unsold during the year under review. It was observed that sales requirement is not accurately forecasted and due to distribution process followed by the Board had caused to this surplus. Of these 10 types of printed lottery tickets, a stock of 116,045,964 had remained unsold during the year and the printing cost annually incur thereon amounted to Rs.45,998,592. In addition, the number of lottery tickets not distributed to sales agents and remained in the stores by the end of the year under review amounted to 23,257,800 and their direct printing cost was Rs.8,710,976. Main reasons affected on this include; the gradual outbreak of Covid-19 pandemic since 10 March and strict travel restrictions imposed during the period 20 March to 18 May. Even though travel restrictions were lifted in many places since 18 May, tickets returns and the balance stock in the stores had increased in un controllable manner on the regular fluctuations in the consumer demand and the manner in obtaining lottery tickets for sales through the market network. Moreover, the existence of massive printing problems in the State Printing Corporation and delays in receiving lottery tickets had also caused to increase the stock of tickets. Requirement that being carry out an accurate forecast on sales requirement and distribution process, lottery tickets need to be printed.

3.4 Transactions of Contentious Nature

	Audit Observation	Management Comment	Recommendation
(a)	Of the buildings construction reserve fund created for the construction of head office building of the National Lotteries Board proposed to be built in the Vauxhall Street land, a sum Rs.550 million had been remitted to the General Treasury in the year 2016 and that amount had been shown in the financial statements as a receivable amount from the Treasury to the Building Reserve Fund at the end of the year under review. Nevertheless, such a balance had not been shown in the financial statements of the Government as at 31 December 2020 as a balance payable to the National Lotteries Board.	This money had been remitted to the Consolidated Fund on the basis of returning back to the Board. It is confirmed from the letter of 19.09.2016 sent to the Deputy Secretary to the Treasury by the then Chairperson.	Being obtained a balance confirmation from the General Treasury, action needs to be taken to account it appropriately.
(b)	Even judicial action had been taken for the loan value of Rs.7,169,678 due from 5 debtors, it was observed that there is an uncertainty for the recovery of debts through judicial action, since incomplete records are maintained by the Board in respect of transactions carried out with sales agents.	Legal action had been taken against those debtors and it cannot be specifically said about the irrecoverable risk, until the court decision is declared.	Being obtained legal advice, the recoverability to be determined and the requirement of accounting appropriately.

- (c) Of the total expenditure of the year under review, 53 per cent or Rs.893,002,443 had been sales marketing and distribution expenses out of which about 81 per cent had been marketing and sales promotion expenses. Similarly marketing and sales promotion expenses represented 43 per cent of the overall expenses.
- The National Lotteries Board and the Development Lotteries Board are the only two Public Enterprises in operation in the market within the lotteries business in Sri Lanka. The lottery is not an essential good to the consumer. By using the publicity strategy in selling lottery tickets, the consumer must be frequently motivated by creating fortunate future prospects of the consumer a considerable cost has to be incurred. This feature can be identified in the global lottery industry as well. In order to motivate consumers at grassroots level, consumer promotion programs need to be implemented as a market strategy and certain promotional goods should be purchased therefor. Similar strategy has also to be used for the members of the sales network. In addition, considerable expenses are incurred as normal commissions and special commissions in certain occasions. All these expenses are market realities and under any market condition, these expenses are inevitable. If such expenses are cut down, profits can be increased at short term but if it happens at long run it is inevitable to collapse the market. Attention was paid to minimize the distribution cost and all island distribution system has been started through a distribution service and as a result, it is expected to minimize the distribution cost at a considerable level. The attention of the Department of Public Enterprises is paid in respect of the requirement of publicity and sales promotion expenses incurred by lotteries boards and approval had been granted in terms of Circular No. 57 of 11 February 2011 to incur
- Being carried out a formal analysis on sales income and expenditure, promotion expenses need to be incurred more economical and beneficial manner.

expenditure up to 10 per cent of lottery income. Similarly, in terms of Circular No. PS/GPA/Circular/36/2020 dated 10 December 2020 of the Secretary to the President, approval had granted to spend publicity and sales promotion expenses not exceeding 10 per cent of the previous year income. This is the approval given being realized the exclusive instance on the requirement of publicity with regard to lotteries. However, with the objective of maximizing its profit, only about 5 per cent of its income is spent effectively as annual publicity and sales promotion expenses.

3.5 Idle and underutilized Property Plant, and Equipment

Audit Observation

It was observed that 6 vehicles, comprising motor cars, bicycles and 5 other gift items purchased by the Board for prize giving valued at Rs.8,764,996 had remained in the stores for periods ranging from 4 months to 5 years without being used for the intended purpose. The warranty period of certain gift items had also lapsed.

Management Comment

Gift items are purchased to give them as additional prizes at special draws on the approval of the Board of Directors. Even though the additional prize winners come into existence in certain draws, items so purchased for additional prizes are remained in the store as the winners are not present. In such cases, gift items are used for next draws when winners are not present. Even though the remaining gift items are repeatedly used again and again for giving as prizes, practical difficulties arise in respect of using such items for another special draw immediately after being lapsed the relevant period. Balance gift items are remained due to such factors as targeted consumers, period of holding lottery draws and the cost of such gift items. In that case, there will be a time gap between the date exceeding the period of 6 months which has been given to the prize winners for presentation and the date such gift items are re-used for new special draws. Till then such reward items are remained in the store.

Recommendation

Requirement that idle or underutilized assets to be used or destroyed before being expired.

3.6 Human Resources Management

Audit Observation	Management Comment	Recommendation
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Without approval of the Department of Management Services, a marketing/promotion officer post has been created without mentioned the specific qualifications for the post, had been appointed since 08 August 2017. Despite it was ordered to differ 3 salary increments of that officer, salaries of the new post has been paid to him until he retired in January 2020 without executing the above order.	For the purpose of motivating old employees who have reached to the retirement age and the service requirement, he has been promoted, having being changed the name of the post temporarily on the approval of the Board of Directors within the approved cadre.	Staff needs to be recruited in terms of Treasury Circular instructions.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Observation	Management Comment	Recommendation
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The annual report of the year 2019 had not been tabled in Parliament by the Board even up to 31 August 2021.	This has been referred to the Ministry of Finance on 22.06 2021 to obtain the cabinet approval to be presented to Parliament.	Action to be taken to present the annual report in Parliament on due dates.