

## National Lotteries Board - 2023

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the National Lotteries Board for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with 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 2023, 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 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 for 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 the 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 judgement 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 insufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the 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 Board of 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 Non-compliance with the Sri Lanka Accounting Standards

Audit Observation	Comment of the Management	Recommendation
(a) Even though the Board had accounted on the accrual basis as per Sri Lanka Accounting Standards No.01, it had been accounted on cash basis in accounting the special drawings and special prizes conducted by the Board in the year under review.	When accounting the special prizes given in order to promote the customers by using prizes reserve fund in addition to the normal prize patterns, it is only accounted the prize. The special money prize and the prize of goods ended the valid period and not claimed are not confiscated and the special goods are used for future drawings.	In accordance with Sri Lanka Accounting Standards No.01, the normal prizes and special prizes should be accounted on accrual basis.
(b) On the contrary to paragraph 61 of Sri Lanka Accounting Standards No.37, an amount of Rs.99,904,204 allocated for the Wasana Sampatha Lottery had been adjusted to Mahajana Sampatha Lottery Prize Fund without adjusting to income after cancellation of said lottery.	The only Mahajana Sampatha Lottery had with the Board when Wasana Sampatha Lottery was started and the money prize had been given for Wasana Sampatha from its prize reserve fund. The Wasana Sampatha Lottery commenced by using said funds had been stopped due to decrease of the sales unprofitably. At that occasion, the aggregate of Rs.99,904,204 remaining balance of its prize reserve fund of Rs.72,247,855 and an amount of Rs.27,656,429 of its prize control account had been adjusted to Mahajana Sampatha Prize Reserve Fund and Prize control Account.	In accordance with Sri Lanka Accounting Standards No. 37, having cancelled Wasana Sampatha Lottery, the balance of such fund should be adjusted to the income.

## 1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) An amount of Rs.105,154, 933 which is due to be paid for special money prizes and good prizes for 07 lotteries held by the National Lotteries Board in the year under review had not been adjusted in the accounts of the Board as expenses and liabilities. Therefore, the prize expense and the prize value to be paid of the Board had been understated by such amount in the year under review. Furthermore, even though an amount of Rs.21,671,746 out of above prize value are the special prizes which had not been claimed and lapsed more than 06 months, said value had not been accounted as to be paid to the Consolidated Fund.	In increase the sales of a lottery, the special prize had been included as a consumer attraction strategy and the money allocated for the special prizes is adjusted when only prize winners claim for such prizes within 06 months.	The total prize expense to be paid for every lottery drawing held by the Board should be accounted and the prize money which had not been claimed and lapsed more than 06 months should be identified as a liability for crediting to the Consolidated Fund.
(b) Even though an amount of Rs.28,197,312 out of total sales income of Rs.170,892,800 of the special drawing of Mahajana Sampatha, had to be provided to the Consolidated Fund, it had been remitted to the Consolidated Fund by Rs.11,108,032 less.	An amount of Rs.17,089,280 direct contribution which is the 10 percent contributory percentage of the sales of lotteries properly calculated in relation to the special drawing of Jaya king Special lottery had been credited to the Consolidated Fund.	16.5 percent of the sales income of Mahajana Jayaking special lottery should be credited to the Consolidated Fund of the Government.
(c) From February 2022 to December 2023, an aggregate of Rs.24,520,324 deposited by the sales representatives to a bank account of the Board had been stated in the statement of bank reconciliation submitted for December 2023 without adjusting to the relevant accounts.	This money is the money deposited for the lotteries obtained on credit basis by the sales representatives and an amount of Rs.2,193,805 is remained without adjusting to the related accounts in the first quarter of 2024 from that amount and said amount will be settled in the future.	The money deposited to the bank account of the Board by the sales representatives should be promptly adjusted to the relevant accounts.
(d) The payment of prizes in relation to Mahajana Sampatha Jaya king Lottery had been overstated by	The action had been taken to adjust an amount of Rs.831,096 transferred to	The payment of prizes in the year should be accurately accounted.

Rs.831,096 in the financial statements of the year under review.

Mahajana Sampatha Prize Fund to the cumulative profit account in preparation of monthly accounts in January 2024.

### 1.5.3 Unreconciled Control Accounts or Reports

<b>Audit Observation</b>	<b>Balance as per the financial statements of Board</b>	<b>Balance as per the reports of Department of Motor Traffic</b>	<b>Difference</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
In accordance with the information obtained from the Department of Motor Traffic on 15 August 2023 by the audit, the under-mentioned assets at that Department had not been included in fixed assets register or other reports of the National Lotteries Board.				Since the documents couldn't be found that the vehicles indicated here are belonged to the National Lotteries Board, a request had been made on 07 March 2024 to submit a report from the Commissioner General of Motor Traffic.	Since these vehicles had been registered in the Department of Motor Traffic in the name of Board; more attention should be paid to this matter.
Motor Vehicles	-	05	05		
Motor Lorries	-	01	01		
Single Cabs	-	01	01		

## 1.6 Receivable and Payable Accounts

### 1.6.1 Money Receivable

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though Passive lotteries worth of Rs.166,615,583 had been sold on credit to 91 district sales agents except 04 sales agents of the staff and 03 sales agents who sell the lotteries via SMS as at 31 December 2023, the bank guarantees of Rs.59,525,000 had been obtained from only 48 debtors. Accordingly, the lotteries had been sold on credit to 46 district sales agents except the sales	With an objective of promoting the sales in the competitive market by the National Lotteries Board, the special drawings are executed for the lotteries to be drawn and the lotteries are issued on credit basis to the district sales agents in addition to the bank guarantee. Since the bank guarantees can be only given for day today drawings, the lotteries are issued to the district sales agents on credit basis in addition	The Board should obtain the security guarantees in order to cover the sales value of lotteries which the Board sells on credit and the action should be expeditiously taken to recover the due money to the Board.

agents of the staff without obtaining the bank guarantees or other adequate sureties. At the end of the year under review, an amount of Rs.85,406,299 had to be charged from those sales agents and a balance of Rs.7,341,195 more than one year and a balance of Rs.1,446,198 more than 05 years had existed from 05 sales agents.

to the bank guarantees in executing the special drawings on the approval of Board of Directors.

- (b) The value of Rs.59,043,386 of scratch lotteries had been sold on credit basis to 75 other district sales agents except 04 sales agents of the Board up to 31 December 2023 and the bank guarantees of Rs.4,300,000 had been obtained only from 05 debtors. Accordingly, the lotteries had been sold on credit without obtaining the bank guarantees or other adequate securities from 70 district sales agents except the sales agents of the staff. An amount of Rs.54,875,636 was due from such sales agents and an amount of Rs.7,917,747 elapsed more than one year was due from 17 sales agents as at 31 December in the year under review.
- An amount of Rs. 39,180,912 out of the due loan as at 31 December 2023 had been paid.
- The security guarantees should be obtained in order to cover sales value of the lotteries which are sold by the Board on credit and the action should be taken to promptly recover the due money to the Board.
- (c) The credit sales had been done exceeding such bank guarantee of 34 sales agents who had provided the bank guarantees for passive and scratch lotteries and the amount recovered from such lottery debtors had exceeded by Rs.37,604,678 from the guarantee provided by them as at 31 December 2023.
- The value to be settled further was Rs.1,311,711 as at 31 March 2024. Those values had to be settled under free issue and customer promotion programs of special draws in relation to the year 2023 and the relevant settlement activities are being carried out.
- The guarantees should be obtained in order to cover the value of the lotteries which are sold on credit and the money to be charged from the debtors who do not pay the money should be obtained by the bank guarantees.
- (d) The payment of aggregate distress loan balance of Rs.713,393 provided to 05 officers who serve in the Board had been defaulted by the relevant officers for 2012, 2017,
- The necessary action will be taken in due course.
- The action should be taken to expeditiously recover the due money.

2018, and 2019 and the Board had failed to recover such due loan balances up to 31 December 2023.

- (e) Even though the payment of aggregate housing loan balance of Rs.1,519 920 provided to 02 officers who served in the Board had been defaulted by the relevant officers since 2006 and 2016 the Board had failed to recover the due loan balance up to 31 December 2023.
- Subsequently, 02 officers had defaulted the Payment of housing loans, the necessary legal action had been taken to recover the due loan balance to the Board.
- The action should be taken to recover that money.

### 1.7 Non-Compliance with laws, rules, regulations and management decisions

Reference to laws, rules and regulations	Non-compliance	Comments of the Management	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 amended by the Finance Act (Amended) No.35 of 1997	Even though the remaining balance of the lottery income after deducting the expenses specifically indicated in the Act should be credited to the consolidated Fund, an amount of Rs.3,603,093,604 had been retained in the Board even up to 31 December 2023 without crediting to the Consolidated Fund.	In accordance with the provision for crediting the total profit received from the sale of lotteries through the above mentioned legal provisions and the regulations had been basically issued by the Ministry of Finance to credit a percentage of sale of Mahajana Sampatha and Wasana Sampatha lotteries to the consolidated Fund monthly due to prevalence of only double lotteries. Since the profit after sales of lotteries was not balanced at that time, the National Lotteries Board had been established to formulate the funds to the Consolidated Fund. On the orders of the Deputy Secretary to the Treasury, a direct contribution from the lottery sales is performed to the Consolidated Fund	The provisions of the relevant Act should be complied with.

accordingly and an amount of Rs.3,841,947,982 had been credited to the Consolidated Fund as the direct contribution from the lottery sales for the year ended 31 December 2023.

- (b) Section 17(2) of the National Lotteries Board's Finance Act No.11 of 1963 and Deputy Secretary to the Treasury's letter No.PE1/70/7/Vo11 dated 21 January 1993
- An amount of 16.5 percent of the sales proceeds of all the lottery conducted for the Government should be remitted to the Consolidated Fund. Since the amount remitted to the Consolidated Fund from 11 lotteries conducted during the year under review was only 10 percent, that is less than the due amount, a sum of Rs.560,725,125 was still due to be remitted to the Treasury.
- In accordance with the letter No. PE1/70/7/Vol.II dated 21 January 1993, 16.5 contributory percentage of sales of Mahajana Sampatha and Wasana Sampatha lotteries prevailed at that time had been remitted to the consolidated Fund of the Government and the all other lotteries commenced after that, a percentage of 10 percent of the sales value of the all other lotteries had been credited to the consolidated Fund until becoming stable the sale of those lotteries in the market. The contribution given to the Consolidated Fund as per each lottery had been included into the rules of National Lotteries Board and the necessary steps had been taken to be published through a gazette notification.
- The provisions of the relevant Act should be complied with.
- (c) Subsection (4) of Section 14(3)(a) of the Finance Act No.11 of 1963
- Any prize which had not been awarded due to inability of finding the person who is entitled for any prize of the National Lottery after elapse of 06 months from the date of drawing of every national lottery drawing held by the Board should be confiscated and the value of such prize
- An amount of Rs.21,671,746 of money and goods prizes exceeded 06 months and not claimed related to the drawings are the special prizes outside the main prize pattern. Such special prize money is not confiscated and the
- The provisions of the Act should be complied with.

should be credited to the Consolidated Fund. However, an aggregate amount of Rs.21,671,746 of special money prizes and goods prizes exceeded 06 months not claimed from 01 January 2023 to 30 June had not been credited to the Consolidated Fund and in terms of the provisions of aforesaid Act and retained in the fund of the Board.

money allocated for said prizes is remained in the relevant prize reserve fund and the action is taken to award the goods prizes on which the prize winners had not presented as special prizes in the future drawings. The method of how the Board acts relevant to these prizes had been inserted into the rules of the Board.

- (d) Subsection 20(3) of Finance Act No.11 of 1963 of National Lotteries Board
- As per the provisions of the Act, Even though the rules approved by the Minister of Finance and Planning in relation to conducting of lotteries by the Board should be published in a gazette, the rules approved by the Board of Directors for the lotteries such as Mega Power, Dana Nidanaya, Hadahana and Lucky Seven commenced on 21 May 2016, 25 May 2018, 27 January 2022 and 14 July 2023 by Board had not been published in a gazette in terms of the provisions of the Act. Similarly, even though the of 06 lotteries commenced for various purposes since 28 February 2010 to 06 July 2023 by Board had been suspended, the people had not been made aware on that having published in a gazette.
- On complete alteration of the rules published in the gazette presently, it is due to be amended the rules of the National Lotteries Board and amended rules will be published in the gazette in the tringual.
- The action should be taken as per the provisions of relevant Act.
- (e) Section 11 of the Finance Act No.38 of 1971
- Even though the funds of any government corporation should not be invested with the approval of the Minister of Finance, an amount of Rs.6,121,604,396 and Rs.2,055,129,520 had been deposited in the fixed deposits and time deposits respectively by the Board at
- The investment activities are performed by the Board in three main banks in terms of the paragraph 6.2(v) of the Guidelines issued by the Department of Public Enterprises and the Circular No.02/2028 of Department of Public
- The provisions of the Finance Act No.38 of 1971 should be followed.

the end of year under review. Enterprises for the government corporation and the public enterprises. Even though a letter dated 21.08.2023 had been forwarded to the Department of Public Enterprises to obtain the approval of the ministry for this, no answer had been received so far. However, a letter had been submitted again to the Ministry of Finance and Economic Stabilization to obtain the approval.

- (f) Financial Regulation 71 of Democratic Socialist Republic of Sri Lanka and the provisions of 3.2(i) of the Operational Manual issued by the Management Services Circular No.01/2021 dated 16 November 2021
- The scheme of recruitment including the employee posts (SOR), salary structure requests related to the number of employee including worker allowances, should be submitted to the approval of Director General of Management Services by the state owned enterprises including the statutory bodies with a copy to Director General of Public Enterprises and Director General of National Budget with the approval of the Board of Directors and the recommendation of the line ministry. However, without obtaining the prior approval of the Department of Management Services of the General Treasury under-mentioned salaries and allowances had been paid to the officers of Board only on the approval of Board of Directors.
- Since there was a huge difference in the low level salary scales (Management Assistant/Primary Level) than the salaries of the top management in the salary revision of the employees of public corporations, statutory bodies and fully enterprises state owned in accordance with the Management Services Circular No.30 issued in 2006, a Board Paper had been submitted in 2008 to obtain the approval to grant 05 increments or more than that for providing a higher salary in line with the prevailed economy having specified the contribution given by these employees also. Accordingly, the Board of Directors had given approval to grant 05 salary increments to the employees of the Board to resolve the difference between the required salaries.
- The action should be taken as per the provisions of the circular.
- 06 increments had been given since October 2023 onwards to 341 officers who serve in the Board

and said expense was Rs.3,107,820 in relation to only the financial year 2023 only.

- Aggregate Rs.205,608,174 of allowances had been paid to the all officers who serve in the Board only in 2023 such as duty allowance, risk allowance, uniform allowance, production allowance, ex-gratia allowance, targeted employee motivation benefits, duty allowance on sales by vans and financial awards to the employees. The payments had been made on the approval of Board of Directors.

- (g) Paragraphs 15(2) and (3) of the Public Finance Circular No.01/2020 dated 28 August 2020
- A Fund named “Asarana Sarana” had been established by the Board in 1998. The donations given by the lottery prize winners and 0.005 percent from the lottery sales proceeds had been credited to that fund, as receipts and the balance of the fund was Rs.21,951,248 as at 31 December 2023. Similarly, an approval had not been obtained to maintain a specific Fund as per the provisions of the circular and the funds to be credited to the Consolidated Fund had been retained in the Board in an unlawful manner.
- In accordance with the audit queries forwarded to the National Lotteries Board by informing that such Fund cannot be maintained and the guidance provided at the meeting of Audit and Management Committee held on 13 December 2022 at the premises of Ministry of Finance, the approval had been granted to utilize and end the Fund under the Board Paper No.3854 held on 08 May 2023. Accordingly, the welfare activities had been carried out for the helpless persons in accordance with the objectives of the Fund for utilization of “Asarana Sarana” Fund and the final payments of such activities will be completed in the mid of this year and it is due to be closed the fund.
- The action should be taken as per the provisions of circulars.

- (h) Public Enterprises Circular No.PED 2/2015 dated 25 May 2015 and paragraph 04 of Public Enterprises Circular No.PED 2/2022 dated 18 January 2022
- The expenses for purchase of the mobile phones should be personally borne by the relevant officer and the Board should not bear the expenses for that. However, Rs.2,319,493 had been incurred to provide 24 mobile phones to 22 officers since 2019 to 2023 contrary to that. Moreover, since the prize winner who had won a mobile phone worth of Rs.510,000 which had to be given as an additional prize at the drawing of Mahajana Sampatha 4633 had not presented, that mobile phone had been given to an officer of the National Lotteries Board.
- The contribution of the staff officers such as Assistant General Manager and the officers above that is essential in every moment for maintaining business activities within the duty environment in the National Lotteries Board. The duties had to be handled through the mobile phones on the office days as well as holidays. Since the institute is continuously opened approximately 360 days in the year, these officers had to be frequently engaged in the duty. Therefore, as the providing mobile phones to such officers are a responsibility of the Board, and providing of the mobile phones is carried out subject to the conditions on the approval of the Board of Directors.
- The action should be taken as per the provisions of the circular.
- (i) Public Finance Department Circular No.08/2019 dated 17 December 2019
- Even though the public institutions including the public corporations should be registered under Electronic Government Procurement system (e-GP) introduced under web site [www.promise.lk](http://www.promise.lk) since 2019, the procurement activities had not been performed under said system as at the closing date of the year under review by National Lotteries Board.
- The National Lotteries Board had been registered under the No. P000381 of the Electronic Government Procurement (e-GP) introduced under web site [www.promise.lk](http://www.promise.lk). Subsequently, the action had been taken to obtain the instructions required for carrying out future procurement activities under Electronic Government Procurement (e-GP) system from the Ministry of Finance, Economic Stabilization and National Policies; it is expected to carry out the future procurement
- The action should be taken as per the provisions of the circular.

activities by following Electronic Government Procurement system (e-GP).

- (j) Paragraph 01 of Public Enterprises Circular No.PED 1/2015 dated 25 May 2015
- The middle level managers who are not entitled to the official vehicles can be provided group transport facilities only. Even though it had been informed to take action as per the provisions of above circular in relation to middle level management category they belong in providing the transport facilities for Assistant General Manager by the letter No. PED/S/NLB/04/06(i) dated 17 August 2023 of Director General of Department of Public Enterprises sent to the Board; the under-mentioned action had been taken by the Board contrary to that.
- The approval of the Board of Directors had been granted by the Board paper No.3864-11 dated 19 December 2023 to pay the fuel and transport allowances to the officers who are entitled to the official vehicles considering 09 middle level managers belonged HM 1-1 category. Accordingly, a vehicle of the board and a driver had been allocated to 07 middle level managers since January 2024 and the fuel allowance had been paid 115 litres per each monthly and their private vehicle had been allowed to use for the duties for other 02 officers. For that, Rs.50,000 of transport allowance and fuel
- In accordance with Public Enterprises Circular 1/2015, the approval had been obtained by the Board paper No.3864-11 dated 19 December 2023 for giving the provisions since 01 January 2024 to them in terms of such circular having included Assistant General Managers in middle level subject to the officers in 2.3 categories which is the lowest officer level. Similarly, if there is a possibility of utilizing of pool vehicles for the duties of Assistant General Managers as per the letter of Department of Public Enterprises, such vehicles could be used. If the usage of group transport facility for duties is impractical and expensive, It had been informed by the letter dated 18 April 2024 of director General of Department of Public Enterprises that there is no objection of the Department of public Enterprises in relation to reimbursement of actual travelling expenses incurred for the official visits.
- The action should be taken as per the provisions of the circular

allowance of 115 litres monthly had been paid.

- The fuel allowance of 110 litres had been reimbursed monthly since January 2023 to December for 21 lower level managers ( JM 1-1) who are not entitled to the fuel allowance and a transport allowance of Rs. 35,000 had been paid. Similarly, the fuel allowance had been reimbursed monthly by 25 litres per each to 15 Management Assistants (MA 1-2) and a transport allowance of Rs. 6,000 had been paid. The fuel allowance and transport allowance of Rs. 20,757,669 had been paid to these officers only in 2023.

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| (k) | Section 2.8 of Public Enterprises Circular No.PED 04/2022 dated 08 August 2022   | Even though the all expenses in relation to the anniversary activities of the public institutions should be omitted, aggregate expense of Rs.37,685,576 had been incurred for 60 <sup>th</sup> anniversary of the board in the year under review.                | The super market vouchers of Rs.60,000 per each and 06 increments for the all officers who serve in the Board had been provided to the officers in order to encourage the staff who gives the contribution for the wellbeing of the institute owing to 60 <sup>th</sup> anniversary of the National Lotteries Board in 2023. | The action should be taken as per the provisions of the circular |
| (l) | Paragraph 2.7 of Circular of Public Enterprises no.04/2022 dated 08 August 2022 of Ministry of Finance, Economic Stabilization and National Policies | Even though it had been indicated to suspend the sponsorship, donations, corporate social responsibility (CSR) expenses and promotion expenses not business in all manner and any expense made naturally should be incurred only on the approval of the relevant | An expense of Rs.4,655,000 had been incurred by the Board under head of corporate social responsibility (CSR) in relation to 2023 and such expense had been made only on the approval of Department of Public Enterprises of   | The action should be taken as per the provisions of the circular |

minister and Minister of the Ministry of Finance, Finance, an expense of Economic Stabilization Rs.4,655,000 under corporate and National Policies social responsibility (CSR) with the approval of had been incurred without Board of Directors. relevant approval by the Board in the year under review.

(m) Procurement Guidelines 2006 of Democratic Socialist Republic of Sri Lanka

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| (i)  | Section 4.2.1 (b) and (c)                     | Even though a master procurement plan should be prepared and approved including the expected procurements for a minimum period of 03 years by indicating the procurement related to the printing, supply and delivery lottery tickets of the Board from 2019 to 2023, which was audited a detail Procurement Plan including tasks had not been prepared and approved. | Since the procurement plan had not been prepared for 03 years, it was noted to prepare in due course.  | The provisions of the Procurement Guidelines should be adhered. |
| (ii) | 4.4 and paragraph 4 of the Procurement Manual | A software purchase of Rs.127,350,000 expected to be performed in the year under review had been included into the procurement plan to be purchased under the authority of department procurement committee having split under 09 procurement opportunities.  | The purchase of relevant software had been submitted as items by the Information Technology Division and accordingly, the purchase of relevant items had been mentioned under the authorization of departmental procurement committee in line with the procurement plan. | The provisions of the Procurement Guidelines should be adhered. |

## 2. Financial Review

### 2.1 Financial results

The total income of the Board was Rs.32,014,201,280 in the year under review and the income in the preceding year was Rs.21,208,808,240. Accordingly, the income of the Board had increased by Rs. 10,805,393,040 i.e. 51 percent comparatively to the preceding year. However, the profit after tax was Rs.650,877,152 in the year under review and profit was Rs.1,085,769,648 in the preceding year, the profit after tax had decreased by Rs.434,892,496 i.e. 40 percent. The increase of distribution expenses, administrative expenses and financial and other expenses which are key expense categories comparatively the preceding year had

mainly caused to decrease of profit in the year under review while the increase of income of the Board.

## 2.2 Trend Analysis of key income and expense subjects

The under-mentioned observations are made in relation to the sales, marketing and distribution expenses, administrative expenses and financial and other expenses of the Board in 2023 and 2022.

Description	Year		Difference Rs.	Difference as a percenta ge %
	2023	2022		
	Rs.	Rs.		
Sales, marketing and distribution expenses	1,408,116,521	920,609,013	487,507,508	53
Administrative expenses	1,056,920,215	839,811,722	217,108,493	26
Financial and Other expenses	37,304,827	5,863,160	31,441,667	536

When comparing with the preceding year, sales, marketing and distribution expenses had increased by 53 percent, administrative expenses by 26 percent and financial and other expenses by 536 percent in the year under review.

## 2.3 Ratio Analysis

An analysis on profit and working capital ratios is as follows in the year under review and the preceding year.

Ratio	Year	
	2023	2022
(i) Gross Profit Ratio (percent)	6.3	9
(ii) Net Profit Ratio (percent)	2.03	5.12
(iii) Current Assets Ratio (Number of times )	2.44:1	2.7:1
(iv) Quick Assets Ratio(Number of times )	2.42:1	2.7:1

The gross profit and net profit ratio of the Board were 6.3 percent and 2.03 percent respectively in the current year and such ratios were 9 percent and 5.12 percent respectively in the preceding year. Accordingly, gross profit and net profit ratios in the current year had decreased by 2.7 percent and 3.09 percent respectively comparative to the preceding year. Accordingly, it was observed that the performance of operating activities of the Board had decreased.

## 3. Operating Review

### 3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
A payable Income Tax with penalties of Rs.1,450,773,080	Since the Board does not agree and with the assessment of Income	A concurrence should be promptly created in relation

Rs.1,232,783,401 had been assessed by the Department of Inland Revenue to Board for the years of assessment 2016/2017 and 2017/2018 respectively. The bank guarantees of Rs.335,994,244 and Rs. 308,195,850 respectively had to be provided for the appeals submitted for that and the bank interest of Rs.12,326,250 and Rs.3,852,448 had been incurred respectively at the end of year under review. However, even though more than 02 years had elapsed from the submission of the appeals, said Income Tax issue against the Board had not been solved so far and the interest had to be further paid for the bank guarantees submitted for such appeals unnecessarily.

Tax, the tax appeals referred by the institute couldn't be solved in the level of Commissioner of Inland Revenue and it had been properly submitted to the Commission against the decision of Department of Inland Revenue. It is essential to provide the bank guarantees in making these tax appeals and for that, the bank guarantees had been provided from the banks which had charged the minimum bank charges advantageously to institute having called the quotations from the state banks. Presently, the relevant inquiries are being carried out by the Commission and it is informed that we can't interfere for the period of time for delivering the judgement.

to the facts affected to Income Tax assessment among Board, Ministry of Finance and Department of Inland Revenue.

### 3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
(a) Even though the sales values of Rs.143,253,000 and Rs.143,193,000 had been earned from Mega 60 special lottery of Rs.100 drawn on 28 December 2023 and Mega Million special lottery of Rs.1,000 drawn on 30 December 2023 respectively, the cost of Rs.201,225,240 and Rs. 188,089,073 had been incurred respectively for the promotion expenses including the government contribution, agent commission, prize cost, printing expenses and advertisement expenses. However, 1,432,530 i.e.59.14 percent out of 2,422,371 tickets expected to be sold at drawing of Mega 60 special lottery could be only sold and 143,193 tickets i.e. 47.73 percent out of 300,000 tickets expected to be sold at drawing of Mega	These special lotteries will be released to the market as pilot projects to increase the revenue for the government, inducement of the higher income groups who have no inducement to buy the lotteries with high prices and motivation them had been performed through that. Accordingly, even though the achievement of such objectives had not occurred in the optimum level expected, the necessity of implementation of sales promotion programs with the modern technology for achievement of a higher sales at the next drawings, opportunities prevailed for that and the ability of obtaining a higher sales had been identified.	In accordance with accurate guidelines, the special drawings should be conducted.

Million special lottery. Accordingly, as the Board couldn't be achieved the expected sales targets of these two lotteries, a loss of Rs.57,972,240 and Rs.44,896,073 had occurred.

- (b) An aggregate of Rs. 4,736,005 received as the lottery sales income from 23 incidents from 10 September 2020 to 26 December 2020 by an officer of the Board had been shown as the receipts of the cash book by making false notes and such money had been cheated. However, said cheated money couldn't be recovered to the Board so far and no progress had been achieved except making complaint to the Department of Criminal Investigation against the officer who had cheated such money.
- A preliminary investigation had been carried out on this matter institutionally. Similarly, once they came to know that, the complaint had been made to the Department of Criminal Investigation and the international police had been made aware having obtained the court orders by the Department of Criminal Investigation.
- The internal control systems of the Board should be strengthened and the opportunities of performing financial frauds should be prevented.
- (c) A large amount of the lotteries daily printed for drawings by the Board had remained without sales and 81,142,371 tickets had been printed in December 2023 and 1,664,296 tickets out of that had remained in the stores and another 10,529,100 tickets had been returned to the Board by the sales agents as it was unable to sell. Accordingly, 15.03 percent from the tickets printed had remained without sales only in the month of December. Since 12,193,396 tickets couldn't be sold only in December 2023, an income of approximately Rs.697,661,020 million had lost from that. Similarly, an amount of Rs.14,066,175 had been incurred for printing the tickets which had not been sold and said expense had become an uneconomic expense.
- A severe unfavourable weather situation had prevailed throughout the country within the month of December and specially, the sales in the southern area had drastically dropped on frequent flooding situation in bad weather condition. In this backdrop, the control of sales return of the lotteries which expired from one day is a difficult task practically. Accordingly, it is informed that the printing of the lotteries on the necessity of sales for increase of sales income for enhancement of the government's contribution is not an uneconomic expense.
- The printing of the lotteries having prepared accurate estimates on the daily sales quantity of lotteries

### 3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The National Lotteries Board had been established by the Finance Act No.11 of 1963 and after that, some sections of said Act had been amended in 1997 and 1998. However, 06 years had elapsed since the date of granting the approval for drafting a new Act suitably to the present objectives of Board by the cabinet decision No. CP/17/0295/719/026 dated 22 February 2017 the Board had failed to formulate a new Act so far.</p>	<p>The answers had not been given.</p>	<p>As per the cabinet decision, a new draft should be formulated suitably to the present objectives of the Board.</p>

### 3.4 Operating Inefficiencies

Audit observation	Comments of the Management	Recommendation
<p>(a) The sales of the lotteries through Short Message Service (SMS) of the mobile phones had been commenced in 2016 by the Board. Even though 07 year had elapsed from the commencement of this service, less than 01 percent from total sales of lotteries had been sold by 03 sales agents. Even though there is more opportunity to increase the lottery sales through the short Message Service now, the attention of the management had not been paid to get the benefits from that opportunity.</p>	<p>The actions are being taken by the Board to create the post of the sales agents having held the formal discussions for creation digital sales agents post for sales through not only SMS but also web site, telephone and web optimize mobile app by Board with the modern technological tendencies.</p>	<p>The action should be taken to increase the sales of lotteries through modern technological methods.</p>
<p>(b) Even though the Board had earned Rs.650,877,152 overall profits after tax in the year under review, a loss of Rs.699,603,774 had occurred from the Govisetha, Dana Nidanaya, Hadahana, Lucky Seven, Mega 60 and Mega Million lotteries before adjusting sales, marketing and distribution expenses, administrative expenses and other expenses. Since the Board had not calculated the profit/loss separately for each lottery, the profit/loss condition of each lottery had not been accurately submitted to the users.</p>	<p>In the future, the action will be taken to calculated and presented the profit separately for each lottery in the final accounts.</p>	<p>The profit/loss of each lottery should be calculated separately.</p>
<p>(c) The National Lotteries Board established in 1963 had maintained its business</p>	<p>Even though the commencement of the construction of the</p>	<p>The attention should be paid to effectively utilize</p>

premises in the buildings obtained on rent basis since more than 60 years and an amount of Rs.87,686,550 had been paid as building rent for the maintenance of business premises by the Board in the year under review. Similarly, since the consumer promotional goods had been purchased without a proper evaluation of the stores facilities of the Board, another building had to be rented for a period of 04 months in order to store such promotional goods. However, there is a land in extent of 112.05 perches valued of Rs. 500 million had been purchased in 2009 by the Board at Vauxhall Street, Colombo and a store, driver hostel and vehicle park are maintained in that land.

building which is proposed to be build in the land belonging to National Lotteries Board had been tried, the government had taken a policy decision to suspend the constructions of the buildings temporarily for the public institutions until further notice and such activities were not successful. Therefore, the time period of the lease agreement of the building which the National Lotteries Board is maintained presently had been extended under the approval of the Board of Directors. National Lotteries Board had been purchased 500 bicycles for Sales Assistants and on the facts such as inability of storage of those bicycles in the open places and necessity of covered area for fixing the sales boards and inadequate space in Vauxhall store, a store belonging to Janatha Estate Development Board which is a public institution and located adjacent to such land had been obtained for a monthly rent of Rs. 60,000.

### 3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) The procurement activities in relation to printing of 08 lotteries, supply and handing over for a period of one year from 01 April 2023 to 31 March 2024 couldn't be completed within 38 weeks indicated in 4.2.3 of the Government Procurement Guidelines 2006 by the Board and one year and 09 months at the end of March 2023 had been spent for the completion of such procurement activities which had been commenced on 25 June 2021.	Within the time period where this procurement process had been commenced, very dangerous Covid-19 pandemic situation had prevailed throughout the country in several times and as a result of that, the procurement entity had to face a large number of obstructive incidents. Subsequently, Since the disputed environment prevailed in the country due to power crisis including electricity and fuel and other incidents, the transport difficulties, difficulties	The necessary steps should be taken to complete the procurement activities within the stipulated time by adhering to the provisions of Government Procurement Guidelines.

in calling all employees to the work and enforcement of curfew as well as change the committee members of Cabinet Appointed Procurement Committee from time to time had occurred and those had obstructed to complete the procurement process.

- (b) In accordance with the instructions of 4.2.2 and 4.2.3 of the Procurement Guidelines 2006 and the Manual as well as the format introduced by the Procurement Monitoring Circular No.PMU 03 dated 16 February 2018, the procurement time table had not been prepared having inserted the prior procurement actions up to preparation of bid documents in the preparation of the time table for this procurement.
- The preparation of the procurement timetable is carried out having included the prior procurement actions for future procurements due to be implemented.
- The action should be taken in terms of the provisions of the Procurement Guidelines.
- (c) In accordance with paragraph 5.1 of the Procurement Guidelines 2006, even though the drafting of bids calling documents including the design of technical prescriptions should be commenced by the procurement entity before appointment of Technical Evaluation Committee, the preparation of bid documents related to such procurement had been started after the appointment of Technical Evaluation Committee. Therefore, the Technical Evaluation Committee had spent more than 07 months through 06 committee meetings to be prepared and amended the bidding documents from 04 August 2021 to 08 March 2022.
- The drafting of the bid calling documents is commenced by the procurement entity before appointment of Technical Evaluation Committee and first Technical Evaluation Committee meeting had been held on 04.08.2021 and on that day, subsequently, examining such draft by Technical Evaluation Committee approximately 07 months had been spent to make the timely amendments in the evaluation criteria and the technical prescriptions as periodically to the situation arisen in the country at that time.
- The action should be taken in terms of the provisions of the Procurement Guidelines.
- (d) In accordance with No.7.4 and 7.5 of Procurement Guidelines 2006 and the Manual, even though the evaluation report should be completed by the Technical Evaluation Committee
- Owing to shortage of the raw materials including paper and printing paints occurred due to the import restrictions, a short-term procurement had been commenced for the printing of
- The action should be taken in terms of the provisions of the Procurement Guidelines.

within 50 percent of the maximum period of time for the general bid validity of this procurement as per the time frames indicated in the agreed procurement time table and 5.3.10 of the Procurement Manual enabling to award the contracts within the validity period of the bids by the procurement entity, 201 days had been spent since the date of bid opening for submission the Technical Evaluation Committee Report of this procurement. Similarly, the bid validity period of this procurement awarded for a period of one year had been extended to an abnormal period of 300 days up to 20 February 2023 at 04 incidents including the bid calling incidents. Similarly, since the evaluation committee had not taken action as per 5.3.10 of the Procurement Manual, an institute which had submitted a minimum bid had been removed from the evaluations due to increase of bid prices.

such lotteries in order to reissue Govisetha and Hadahana lotteries to the market and the bid documents called for that had been opened on 22.04.2022. The Technical Evaluation Committee appointed for this main procurement process had been appointed for that and the priority had been given to the technical evaluations in relation to reissue of Govisetha and Hadahana lotteries to the market. Subsequently, the instructions had been given by the procurement committee to carry out a price negotiation with the substantial responsive bidders and accordingly, the final report of the Technical Evaluation Committee had been presented to Standing procurement committee on 22.11.2022.

- (e) Owing to non-availability of the special feature called “Fan Folding Mechanism” for printing the lotteries, the bids had been awarded to print 02 lotteries such as Govisetha and Hadahana having evaluated again as a successful bidder who had substantially responded mentioning that such institute which had been removed from the preliminary bid evaluation as main deviation is using other technology for that. However the risk of shortage of lotteries had not been removed in issuance and take over the lotteries for sales by the Board.

It had been observed by the Technical Evaluation Committee that a method consisting with 06 stages is used to certify whether the barcode numbers of the lotteries are printed in an accurate order at the factory inspection carried out on the approval of the procurement committee later due to non-availability of prescription called” Fan Folding Mechanism” used in printing of lotteries. Accordingly, said company had been considered as a successful substantial responsive bidder and even though the method followed by them does not display a higher position technically comparative with the other bidders, it had been

The attention should be paid to print the lotteries in order to remove the risk of shortage of lottery intermediates.

observed by the Technical Evaluation Committee that the above method consisting with 06 stages can be prevented the change of the pages of lotteries.

- (f) Even though the committee meetings had been conducted by the Board for identification of the faults in relation to printing and handing over of lotteries for the period from 01 April 2023 to 30 September, the committee meetings had not been held for identification of the faults up to 31 December in the year under review after such period. Even though the faults such as not seeing the transparent attraction of the lotteries to the naked eye, colour changes and paint blots exist in the lotteries, no action had been taken to charge the penalties having identified such faults.
- The printing faults in severe manner are only reported in the market and the faults such as not seeing the safety paint, paint blots and blotting of characters are not reported. However, the necessary steps is being taken to improve the quality checking method and penalty charging method taking into account the above situation.
- A continuous quality checking should be carried out to protect the quality of the lotteries.
- (g) The procurement for development of a complete Enterprise Resources planning (ERP) system, supply and implementation, establishment, training and maintenance for board had been awarded to the bid price of Rs.96,788,864 only considering the maintenance cost for one year for a period of 04 years by Board. However, if the total cost of Rs. 394 million of 04 years of this procurement is considered, this procurement should be performed under Ministry Procurement Committee in accordance with 2.14.1 of the Government Procurement Guidelines and the exception No.33 dated 15 March 2017 related to that .It had been carried out under the authority level of Departmental Procurement Committee deviated from that.
- Since the purchase of complete Enterprise Resources System including development, supply, implementation, establishment, training and the maintenance in the first year at a bid price of Rs.96,788,864 from qualified suppliers comes under the authority level of departmental procurement committee, the recommendations of the Technical Evaluation Committee and the approval of departmental procurement committee had been obtained for purchase of such system. Based on a cost review and nature of the information technology sector, the recommendations of Technical Evaluation Committee and approval of departmental procurement committee had been given that it is suitable to maintain this system for further 04 years.
- Taking into consideration the total cost for establishment of the system, the procurement activities should be carried out under the relevant authority limits.

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| (h) | The audit staff who participates for the drawing of lotteries had observed that there were some incidents of operating the machine again and again due to non-operation of the machine utilized for drawing of Mahajana Sampatha lottery in formal way. Not providing figures, characters, and zodiac signs accurately at one time and blocking the balls with such figures, characters and zodiac sign or struck in the machine and it had been also pointed out by the Audit Report 2022. However, the Board had failed to purchase the ball drawing machine valued of Rs.150 million which had been included in the action plan and the procurement plan in 2022 even up to 31 December 2023. | It had been awarded to an institute to purchase a lottery drawing machine with 14 chambers for National Lottery Board.   | The task of establishment of the new machine should be immediately completed.                                     |
| (i) | In the final procurement of selecting advertising agencies to the board for the year 2021/2022 had been awarded to the 25 advertising agencies under 05 categories and the board had not obtained performance bonds from 13 institutions and the board had entered into written agreements only with 15 agencies.  | The performance surety bonds had not been obtained from the advertising agencies selected for BTL category. The obtaining a surety bond and entering into agreements are performed only as per the value of the relevant contract after calling quotations from registered BTL advertising agencies selected as per the BTL activity requirements of National Lotteries Board. | The Board should enter into the written agreements with the selected institutions for the procurement activities. |

#### 4. Accountability and Good Governance

##### 4.1 Action Plan

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Even though the Board had planned to be conducted 14 special draws for several lotteries by an action plan in the year under review, only 5000th special draw of Mahajana Sampatha had been conducted within the scheduled time. Similarly, it had been recommended at the	Having paid attention to each timely requirement, targeted consumer groups and competitive special draws by covering the all lottery brands of the National Lotteries Board, the relevant special draws which had been decided at the time of planning the budget and	The internal guidelines should be prepared with regard to holding the special drawings.

- Committee on Public Enterprises dated 04 December 2020 to formulate the internal guidelines for introduction of new lotteries as per a certain plan without introducing the lotteries on the quick decisions.
- activities having decided the date and the type of brand for having an optimum sales are executed after obtaining the approval of the Board of Directors for the revisions of dates of holding the special drawings and the detailed plan in the preceding year.
- (b) A management software system worth of Rs. 4.8 million had been called bids and awarded the bids to the supplier on 07 February 2024 by the board in order to establish for the Board of Directors. The requirement of purchase a software system with excessive cost which had not been included in the action plan 2023, cost incurred for that and benefits had not been cleared to the audit and the attention had not been paid for performing it through ERP system by incurring Rs.96.79 million by the Board.
- This software is functioned only on the computers provided to the Board of Directors and since the information of the Board of Directors are directly connected to an information system controlled by a centralized computer system such as ERP, a conflicting situation of keeping the confidentiality of such information will be possible. This software which is utilized for holding the meetings of Board of Directors of many public and private enterprises had been specifically created for the relevant task under the security system and the stipulated standards by an expert firm for that.
- The attention should be paid to maintain the information of Board of Directors by securing the confidentiality with the restrictions to ERP system.
- (c) When examining the Action Plan prepared for the year 2023 by Board and its progress at the end of the year, 98 activities expected to be performed within the year under review had been mentioned. 28 activities out of that had not been commenced and 18 activities had not been completed. Moreover, the details on the completed parts in the activities not completed had not been indicated in the report submitted for the audit.
- It had been commenced in 2023 and it is being carried out and its completed parts can't be quantitatively shown in the some activities. Such activities are being carried out and it can be included in the Action Plan in 2024 and its progress can be submitted later with the progress of the action plan 2024.
- The progress of the activities in action plan should be timely examined.