

Development Lotteries Board - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Development Lotteries Board for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 the Financial 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 financial statements give a true and fair view of the financial position of the Board as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditors' 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 the 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 Sub-section 16(1) of the National Audit Act, No. 19 of 2018, it 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 Audit Scope

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

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

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

	Audit Observation	Comments of the Management	Recommendation
(a)	Even though the investment interest income should be added again to the profit before tax and the interest actually received in cash during the year should be indicated as a cash inflow under investment activities when calculating cash flow from operating activities using the indirect method according to Sri Lanka Accounting Standard No. 07, the amount of Rs.177,922,791 itself added again to the profit before tax as investment interest income in the year 2024 had been indicated as cash receipts of investment interest under investment activities. However, the investment interest actually received in cash during the year had been Rs.284,754,828. Accordingly, the cash receipts of investment interest had been understated by Rs.106,832,037.	<p>We have included the grand total of investment interest income received in cash, as indicated by the audit, in investment income in the cash flow statement.</p> <p>This amount of Rs.106,832,037 is the difference between the interest income receivable for the year 2023 and received in cash during the year 2024 and the interest income receivable at the end of 2024. This amount has been adjusted under investment activities in the cash flow statement.</p> <p>Even though this cash flow amounting to Rs.106,832,037, which should be indicated within the investment interest receipts, has been indicated under investment activities, there was no impact on the net cash flows received from investment activities.</p> <p>However, relevant changes are scheduled to be made from this year as pointed out by the audit.</p>	Investment interest received in cash should be included in the cash flow statement.
(b)	Although cash inflows and cash outflows during the year under the investing activities of the cash flow statement should be indicated separately as per Sri Lanka Accounting Standard No. 07, the cash inflows and cash outflows of two fixed deposits amounting to Rs.377,732,522 which were withdrawn without reinvestment after maturity during the year under review and an	<p>This amount of Rs.106,832,037 is the difference between the interest income receivable for the year 2023 and received in cash during the year 2024 as described above and the interest income receivable at the end of the year 2024.</p> <p>Even though this cash flow amounting to Rs.106,832,037, which should be indicated within investment interest</p>	According to Sri Lanka Accounting Standard No. 07, investment cash inflows and investment cash outflows during the year should be shown separately.

amount of Rs.9,791,292, which was invested in a fixed deposit during the year under review had not been indicated in the cash flow statement and an amount of Rs.474,773,267 had been indicated as cash received from fixed deposits. Accordingly, the cash received from fixed deposits had been overstated by Rs.106,832,037.

receipts as pointed out by the audit, has been indicated under investment activities, there was no impact on the net cash flows received from investment activities.

However, relevant changes are scheduled to be made from this year as pointed out by the audit.

- (c) If economic benefits that can be derived from an item of property, plant and equipment flow into the entity and its cost can be reliably measured then that item could be considered as a property plant and equipment according to section. A cab valued at Rs.8,095,000 which is not physically not possessed by the Board and 07 lottery Machines valued at Rs.7,641,159 which have been currently out of me, had been included under property, plant and equipment in the year under review.

It is agreed with the audit observation that the double cab vehicle worth Rs.8,095,000 mentioned in the audit query has not been in the possession of the Board physically. Court proceedings have been initiated regarding this cab and since it has been registered in the name of the Board, it has been accounted as a fixed asset.

The value of Rs.7,641,119 mentioned here includes 4 lottery machines, 01 air compressor and balls used for the lottery draw. These items were used by the Board for the functioning of lottery draw in early stages of the lottery draw and these items were recorded as assets of the Board. Since these items were special machines used for the function of lottery draw, there is a problem in disposing them. Due to their uniqueness and dilapidated condition, it has become difficult to dispose of these machines to external parties. At present, these machines have been indicated in the accounts as they have not been disposed of and the management has planned to conserve and store the machines.

Action should be taken in accordance with paragraph 07 of Sri Lanka Accounting Standard No. 16.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	The expenditure of Rs.1,728,884 incurred in the years of 2017 and 2018 for the renovation of the dining room, store room and boundary walls of the Development Lotteries Board had been accounted as work in progress. Although more than 07	The work on the renovation of the dining room, store room, and boundary wall mentioned in this audit query has not yet been completed. The relevant asset must be completed to the level of generating benefits in order to recognize it as an	Action should be taken in accordance with the Accounting Standard No. 16.

years had passed since that work was completed by the end of the year under review, the necessary accounting adjustments had not been made and it had continued to be indicated as work in progress under property, plant and equipment.

asset. Since the above constructions had not been completed even by 31 December 2024, action had not been taken to capitalize and depreciate the items mentioned in the audit query.

- (b) Even though all expenses incurred in generating the income should be deducted against the income when calculating profit or loss according to the Matching Concept, Rs.15,094,967,030 of prize expenses calculated based on the percentage determined by the Board of Directors as the prize expense for 08 types of lotteries in the year under review had been recognized in contrary to that concept. However, as the actual prize expense was Rs.14,945,564,011 the prize expense of the year under review had been over stated by Rs.149,403,019. Therefore, the profit had been under stated by that amount.

It has been stated in Section 18 (3) of the Development Lotteries Board Act, No. 20 of 1997, where any prize money in a development lottery that is not won by any person, such prize money shall, notwithstanding anything in this section, be credited to a "Prize Reserve Account". The prize amount has been recognized as an expense in the income statement as per the pre-approved prize percentage to be complied with this section of the Act, and the difference between the actual prize expense and the approved prize expense has been credited to the prize reserve account. Accordingly, we have carried out our activities in accordance with the Development Lotteries Board Act, No. 20 of 1997 and this has been disclosed by No. 3.3.3 of the accounting policies. Accordingly, there has been no deliberate disregard for the accounting adjustment concept and the above accounting methodology has been followed as an accounting practice for a long time in order to comply with the provisions of the Development Lotteries Board Act.

Action should be taken in compliance with generally accepted accounting concepts and Standards.

- (c) During the period from 01 January 2024 to 28 February 2024, the total prize expenses amounting to Rs. Rs.64,100,000 incurred for the special prizes given under the name of "Devana Warama" for 06 lottery types namely Saturday Fortune, Lagna Vasana, Jayoda, Superbowl, Ada Kotipathi, and Supiri Dhana Sampatha had not been accounted as prize expenses for the year and the amount had been adjusted to the prize reserve fund. Accordingly, the profit for the year under review had been

In terms of Section 18 (3) of the Development Lotteries Board Act, No. 20 of 1997, the prize shall be credited to the prize reserve account in the event that the prize of a development lottery has not been won by any person, and it has been stated that the amounts accumulated in that account shall be used to award prizes in subsequent draws of the development lotteries. Accordingly, an amount of Rs.64,100,000, out of the

Action should be taken in compliance with generally accepted accounting concepts and standards.

overstated by Rs.64,100,000 due to the recognition of prize expenses in contrary to the matching concept.

funds accumulated in the prize reserve account within the year 2024 has been spent again for the award of additional prizes in order to comply with the above Section of the Act.

Accordingly, the Board has provided additional prizes using the prize reserve account in accordance with the Development Lotteries Board Act and since adjustments have been made in the income statements in previous years for the amount of funds accumulated in the prize reserve account, it cannot be indicated again as an expense in the current year.

Accordingly, there has been no deliberate disregard of the accounting adjustment concept and the aforementioned accounting methodology has been followed as an accounting practice for a long time in order to comply with the provisions of the Development Lotteries Board Act.

- (d) According to the accrual concept, there should be a present obligation and that there should be the possibility of an outflow of resources in settling the expense and its value can be measured reliably when accrued expenses are recognized. Due to weaknesses in the methodology of recognizing accrued expenses since the year 2021, certain accrued expenses were recognized in a manner that was contrary to the accrual concept and it was recognized as income because the expenses were not incurred in the year followed by the year in which they were recognized. Although they were recognized as accrued expenses in the year 2023, Rs. 12,848,010 had been added back to profit in the year under review as those expenses had not been incurred.

This has been a correction made for changes in estimates based on accrued expenses made in previous years as pointed out in this audit query. Therefore, provisions of LKAS-8 have been applied. As indicated by this accounting standard (LKAS-8), the corrections of accrued expenses made based on estimates of the previous years should be applied to the current year (Prospective recognition).

Action should be taken to accurately identify the expenses related to the financial year.

- (e) As it is not allowed to deduct amounts transferred to a reserve or other place for anticipated expenses or losses to be incurred in a future assessment year in computing taxable income as per Section 10(b) of the Inland Revenue Act, No. 24 of 2017, such provision debited as an expenditure in the statement of comprehensive income should be added back to profit in computing taxable income. Since the recovery of the gratuity provision of Rs.4,570,469 which had been debited to the statement of comprehensive income as an under provision in the reassessment of the employees' gratuity liability as at 31 December 2024, and the refundable deposit of Rs.723,780 paid for acquiring a building on a rental basis in the year 2003 were uncertain, the income tax for the year under review had been under-calculated by Rs.1,159,274 and accounted as the provision made in the year 2024 for suspense receipts amounting to Rs.723,780 had not been added back to the profit in calculating the taxable income.
- The calculation of annual income tax is done by making an allocation only based on an estimate for that as per Sri Lanka Accounting Standards (LKAS) 12 at the time of preparing the financial statements. Since this is a lengthy process, the Inland Revenue Department has given a period of time until 30 September of the following financial year to specifically calculate the annual income tax and to pay the tax.
- Taxable income must be calculated accurately in accordance with the Inland Revenue Act, No. 24 of 2017.
- Accordingly, we will calculate the actual income tax for the year 2024 as scheduled and make the relevant tax payments before 30 September 2025.
- (f) As per the provisions of Section 16 (4) and Schedule 02 of the Inland Revenue Act No. 24 of 2017, the losses occurred in the disposal of assets for which capital allowances have been fully received is an expense not allowed in the calculation of taxable profit and should be added again to the accounting profit. Although the total loss of Rs.467,974; occurred due to the disposals during the year under review done in respect of the office equipment worth Rs.502,595, furniture and fittings with a cost of Rs.289,791 and computers with a cost of Rs.12,570 for which the capital grants were received by the Board as of the year under review, had been deducted from the accounting profit as an expenditure of the year under review, the said loss had not been added back to income in the calculation of the taxable income. Consequently, the income tax for the year under review had been under-calculated by Rs.140,392.
- For the calculation of annual income tax, only an allocation is done based on an estimate in line with Sri Lanka Accounting Standards (LKAS) 12 at the time of preparing the financial statements.
- Although the accounting profit regarding the disposals of assets had been prepared on an accounting basis for the financial statements, it takes some time for the calculation of the profit on the disposal of assets based on the relevant tax criteria for the income tax basis. Consequently, this tax allocation has been done considering the preliminary tax calculations at the time of preparing the financial statements for the year 2024 for accounting requirement. When the actual income tax is calculated, a broad tax calculation is done taking all the relevant technical factors into consideration and the payments are done on the due date.
- The taxable income should be calculated accurately as per the Inland Revenue Act No. 24 of 2017.

- (g) Even if the capital allowances should be calculated and deducted in the calculation of taxable income in accordance with the provisions of Section 16 (2) of the Inland Revenue Act No. 24 of 2017, the Board had not calculated the capital allowance correctly in the calculation of taxable income and a sum of Rs.65,800,414 which is 60 percent from the depreciation expense of Rs.109,667,357 in the year under review had been deducted as the capital allowance.
- As the calculation of annual income tax cannot be done precisely at the time of preparing the financial statements, only an allocation is done based on an estimate in accordance with Sri Lanka Accounting Standards (LKAS) 12. Since there is no time for calculation of capital allowances at the time of preparing the financial statements, the capital allowances have been used as an estimate based on annual depreciation.
- The capital allowance should be calculated under the percentages allowed for tax in accordance with the Inland Revenue Act No. 24 of 2017.

The Inland Revenue Department has given until 30 September of the next financial year to correct calculated pay the annual income tax. Accordingly, we calculate the actual income tax for the year 2024 and make the relevant tax payments as scheduled before 30 September 2025.

1.5.3 Unreconciled Control Accounts or Records

	Item	Comments of the Management	Recommendation
(a)	A sum of 34,116,012 had been accounted in 06 ledger accounts related to non-current assets as depreciation expense in the year 2024, But according to the fixed asset schedules provided to the audit. The depreciation expense was Rs.33,367,046 Accordingly, it was observed that the depreciation expense in the year under review had been overstated by Rs.748,966.	<p>As the assets disposed in the year 2024 are not shown in the schedule, the depreciation related to it is also not shown in the said schedule.</p> <p>Consequently, I kindly inform that the depreciation cannot be compared according to the ledger accounts in the categories of office equipment, furniture and fittings and computers and accessories and the depreciation and the asset schedule.</p> <p>However, the change in depreciation amounting to Rs. 299,797 in the computer software category stated in the audit query is accepted and the said changes will be corrected during this year.</p>	The asset balances in the financial statements should be compared with the schedules
(b)	Although the amounts payable to Sri Lanka Rupavahini Corporation and Associated Newspaper of Ceylon Limited (ANCL) as per the Financial Statements of the Board as at 31 December of the year under review	The Sri Lanka Rupavahini Corporation and Associated News of Ceylon Limited have been informed in writing to provide the relevant details to identify the variance that has been pointed out	Action should be taken to settle those balances by having discussions with the relevant

were Rs.62,960,000 and Rs.3,875,113 respectively, the balances directly confirmed by these two institutions were Rs.77,079,512 and Rs.6,343,788 respectively.

by the audit.

institutions.

Consequently, once the said details are received, we will do balance reconciliation, and take actions to present the reasons for this difference in the future.

The discussions should be held with the respective institutions and the steps should be taken to settle the balance.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Even if a period of 18 years had passed for the deposit of Rs.5,700,000 paid by the Board in accordance with the agreement entered into in the year 2006 to acquire the building at No. 234, Vauxhall Street on a lease basis, the Board had failed to recover the said amount.	A committee was appointed in the Ministry of Finance and a report was obtained on the recovery of the amount of Rs.5,700,000 receivable to the Board in relation to obtaining the building at No. 234, Vauxhall Street for rent, and the necessary legal actions to implement the recommendations stated in the report are being handled by the Attorney General's Department. All relevant details have been given to the Attorney General's Department. The Attorney General's Department has also confirmed the receipt of the relevant details. However, as the progress of the actions taken in this regard has not been received from the Attorney General's Department, the progress of the actions taken in this regard have been inquired from the Attorney General's Department by sending letters dated 24.07.2023 and 21.02.2025.	The actions should be taken to recover the money receivable.
(b) Even if a period of nearly 9 years has passed since the case filed to recover the building rental deposit amounting to Rs.2,520,000 deposited in accordance with the rental agreement entered into with an individual in the year 1990 for obtain a building in Ward Place on rental basis, the	The progress of this law suit was inquired by sending a letter to the Attorney General's Department on 24.02.2025. Therein, the lawyer in charge of this legal matter stated that as the progress of this legal matter was inquired on 24.02.2025. The lawyer in	This amount should be recovered immediately.

Board had not taken the necessary steps to charge of this matter informed us that. recover the said amount.

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

	Reference to laws, rules, regulations etc	Non-compliance	Comments of the Management	Recommendation
(a)	Section 19 of the Development Lotteries Board Act No. 20 of 1997	Although rules should be made regarding the details to be mentioned in a ticket, the commission to be paid to sales agents, the publication of the winning numbers and winners of the ticket, and other required matters, action had not been taken to make rules in accordance with the Act until the end of the year 2024.	The rules prepared in accordance with Section 19 of the Development Lotteries Board Act No. 20 of 1997 were presented to the 295th Board of Directors' meeting held on 28.09.2022. Therein, the Board of Directors instructed to refer this matter to an expert committee related to the field and to take further actions. Accordingly, subsequent to obtaining recommendations by referring it to the Department of Computer Studies, University of Colombo, it has been presented again to the 296th Board of Directors' meeting. Therein, the Board of Directors had informed to refer it to the Attorney General's Department through a committee consisting of a member of the Legal Affairs Division of the Ministry of Finance and a member of the Department of Computer Studies in the University of Colombo and obtain further instructions. However, even if the necessary steps were taken to nominate the members for this committee, a positive response from the Legal Division of the Ministry of Finance was not received. Consequently, the drafted report has been referred to the Attorney General's Department on 03.09.2024 in order to obtain legal advice.	The proceedings should be made in accordance with the Development Lotteries Board Act.

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| (b) | Section 11 of the Development Lotteries Board Act and the Section 14.1 of the Circular No.01/2024 of the Department of Public Enterprises. | A total of Rs. 73,266,631 had been spent by the Board to organize the activities of the Scholarship function program conducted by the President's Fund to grant scholarships to 100,000 selected students from Grade 1 to Grade 11 and to 6000 selected students studying for G.C.E. (Advanced Level) in schools and Pirivenas across the island from June 19 to 24 July 2024. | This task which was assigned to us by the Secretary to the President on the instructions of the then President was done subject to the prior approval of the Board of Directors. | The activities should be done as per the Development Lotteries Board Act and the provisions of the related circulars. |
| (c) | Paragraph 3.2 (v) of the Operational Manual dated 16 November 2021 of the Department of Management Services | An amount of Rs.121,772,415 had been paid to the staff as incentives during the year under review without having an incentive payment scheme approved by the Department of Management Services. | There was no approved method in paying the incentives of the Board, and a method was prepared for this endeavour and submitted to the Board of Directors for approval in 2024. Based on that approval, the required information has already been forwarded to the Department of Public Enterprises of the Ministry of Finance. | As per the provisions of the Public Finance Management Circular, the payments should not be made for unapproved expenses. |
| (d) | Assets Management Circular No.05/2020 dated 02 October 2020 | Although repairs should be carried out when repairing is feasible of a vehicle which is not in use, a motor car bearing No.301-1470 has been parked since 20 April 2023 despite it could be repaired. | Quotations were called on two occasions for the repair of the motor vehicle bearing No.301-1470, However, as certain parts of the vehicle are not available in the market at present according to the quotations obtained, the repair of this vehicle was delayed. However, although the efforts were made to obtain quotations again after the opportunity was given again to import motor vehicle parts, the quotations for certain parts have not been submitted as before. Therefore, as it is observed that the repair of this motor vehicle, which is more than 20 years old, is not economically productive, the approval of the board of directors has been obtained and the further arrangements have been made for the dispose of this motor vehicle in the future. | After a proper study the relevant vehicle should be repaired. |

(e) **Financial Regulation of the Democratic Socialist Republic of Sri Lanka**

- i. Financial Regulation 134 (1) Although the Internal Audit Unit should be independent from the operational and control activities, the responsibility of organizing the events of the Presidential Scholarship Program held in Jaffna and Kilinochchi districts had been assigned to the Internal Auditor of the Board.
- The services of the internal auditor had to be obtained at certain occasions due to the shortage of officers in order to successfully carry out the special projects done in the field of the Board. As a result, the services of the internal auditor had to be obtained for the Presidential Scholarship Program held in Jaffna and Kilinochchi districts. However, as pointed out by the audit, the internal auditor has given required instructions not to obtain support services for such special projects also.
- The proceedings should be done as per the relevant Financial Regulations.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a profit of Rs.4,197,090,255 and the corresponding profit of the preceding year was Rs.3,516,296,477. Accordingly, an increase of Rs.680,793,778 was observed in the financial result. The increase in lottery ticket sales revenue by 14 percent up to Rs.28,880,477,301 and reduction of lottery ticket printing expenditure by 27 percent from Rs.1,147,660,028 to Rs.832,983,406 had mainly contributed for this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

The lottery ticket sales revenue had increased by 14 percent to Rs.3,438,345,588 in the year under review as compared to the previous year.

2.3 Ratio Analysis

An analysis of the ratios indicating the Board's operations, profitability and liquidity for the year under review and the previous year is provided below.

	2023	2024
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<u>Profitability ratio</u>		
Gross profit ratio (Percentage)	39	40
Net profit ratio (Percentage)	14	14
<u>Liquidity ratio</u>		
Current ratio (Number of times)	1:1.19	1:1.03
<u>Operating ratio</u>		
Prize payments as a percentage of lottery income	53	54
Payment to the President's Fund as a percentage to lottery income	14	14
Agents' commissions as a percentage to lottery income	21	21

3. Operational Review

3.1 Management Deficiencies

	Audit Observations	Comments of Management	Recommendation
(a)	A software application had been developed for the purpose of conducting the lottery draw of Supiri Dhana Sampatha Lottery, and a sum of Rs.1,160,613 had been paid to a private audit firm to carry out a system audit in order to test the functionality of that software. In addition, a sum of Rs.3,350,000 had been spent for the development of a Game Animation Software to demonstrate the drawing process by mixing balls through a drawing machine and randomly selecting a ball. However, use of the said software was discontinued from the process of lottery draw when a lottery machine was purchased during the year under review. As a result, this software had become idle.	<p>As stated by audit the Game Animation Software had not been removed from the process of lottery draw with the introduction of the new drawing machine, but instead, it had been retained as a backup facility and continued to be operated daily to ensure the continuity of the process of lottery draw.</p> <p>As stated by audit in relation to this paragraph, a sum of Rs.4,510,613.00 had not been lost to the Board. This amount represents an investment made by the Board for the regular conduct of the draw process of the Supiri Dhana Sampatha Lottery. Furthermore, it is informed that this investment has enabled the Board to save a considerable amount of money which would otherwise have been spent on purchasing an additional drawing machine as a backup.</p>	When introducing a new lottery ticket, the infrastructure for conducting the draw must also be established.
(b)	The Board had maintained an average monthly balance of approximately Rs.565,797,125 in the Interest Sweep Account bearing No. 014200190000651 maintained at the Union Place Branch of the People's Bank, which is used by the Board for day-to-day transactions. An interest income of Rs.17,966,768 had been earned during the year 2024 based on the annual interest rate of 2.2 percent. However, due to the failure to invest the surplus funds in an appropriate manner and retaining them in the savings account, the Board had lost the opportunity of earning an additional interest income of Rs.55,864,543, which could have been obtained if the funds had been invested in fixed deposits at an interest rate of 8 percent.	<p>As explained above, the bank balance referred to in the audit query had been maintained to meet the short-term liquidity requirements of the Board, and considering the necessity to maintain flexibility in financial operations, it was not possible to invest these balances in long-term investments.</p> <p>Furthermore, as stated in the audit query, if the funds were placed in 7-Day Call Deposits, it would not have been possible to transfer money to other accounts maintained at the Bank of Ceylon through RTGS. This situation could have created difficulties in the daily operational activities of the Board.</p>	Since there is a significant monthly cash balance in two savings accounts, the Board should take steps to invest is profitably.

3.2 Operational Deficiencies

	Audit Observations	Management Comments	Recommendation
(a)	Although three sales promotion programs had been implemented in 2024 at a cost of Rs.14,002,480 with the objective of increasing the weekday sales of the Supiri Dhana Sampatha Lottery which was introduced to the market on 09 November 2023 up to 245,000 tickets on a weekday and up to 220,000 tickets on a Sunday. As the average weekday sales had remained at only 164,419 tickets and the average Sunday sales at only 133,051 tickets the strategy had not been successful.	Due to intense competition, various promotional activities had to be carried out in order to establish this new lottery in the market. However, those promotional activities have now been discontinued and measures have been taken to reduce the prize payout ratio in order to enhance the profitability. Furthermore, by April 2025, an increase in sales had been recorded, with the average weekday sales reaching 177,077 tickets and the average Sunday sales reaching 146,171 tickets.	Measures should be taken to implement sales promotion programs that are properly planned and capable of increasing lottery sales.
(b)	With the ongoing innovations in technology, there is a tendency for all business activities in the future to move away from physical markets and be converted to online markets. However Out of the 745,645,051 lottery tickets sold by the Board during the year, only 1,119,059 lottery tickets (0.15%) were sold using the online method.	When this application was introduced, it was implemented in accordance with the procedures prescribed by the central Bank, which made it difficult for customers familiarize with the application and the usage as a result, the sales of E-lottery tickets in 2024 amounted to 1,118,871. However, the target for E-lottery sales set in the approved 2024 budget was 1,201,241 tickets. Accordingly, 93.14 percent of our expected target was achieved.	Attention should be given to promoting the online sale of lottery tickets in line with technological advancements.

3.3 Procurement Management

	Audit observation	Management Comments	Recommendation
(a)	During the procurement process for the creation, development, printing, and supply of seven types of lottery tickets for the period from 01 August 2024 to 31 July 2025, the bids submitted for the Jayoda and Super Ball lotteries were initially removed at the primary bid evaluation stage. This decision was made by the Technical Evaluation Committee on the grounds that the bidders did not fulfill the mandatory requirements specified in Clause 2.C of the bid document.	The bids submitted by Print care Secure Ltd were rejected solely on the basis that the information provided by the company could not be verified that its staff in the Information Technology division were permanent IT officers engaged in lottery printing services. Furthermore, it was confirmed in writing that the officials named by Print care Secure Ltd were unrelated to the IT duties relevant to lottery provision, and that the IT functions	The bidders who fulfill the requirements as per the Procurement Guidelines should be selected.

However, as the contract for the supply of three types of lottery tickets, including the Jayoda and Super Ball lotteries was awarded to the second-lowest bidder—who had not fulfilled the mandatory requirements specified in Clause 2.C of the bid document as a result an operational loss of Rs. 8,140,000 occurred during the printing of the Jayoda and Super Ball lottery tickets.

related to lottery printing of Print care Secure Ltd are carried out through a third-party institution.

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| (b) | <p>According to Clause 6 of the bid document, audited financial statements for the past three years were required to be submitted; However, only financial statements for two years were provided by the selected bidder and, as per the Clause 16.iii of the bid document, the bidder was required to submit details of similar supplies made over the past three years along with supporting documents, but such information was also not provided. Despite these shortcomings, the contract for the printing of the Lagna Vasana and Kapruka lottery, valued at Rs. 234,460,000, was awarded to the selected supplier without due consideration of these requirements.</p> | <p>According to the mandatory bid condition 2.a, the bidder was required to have three years of experience in variable data printing. The bidder indicated that they had performed lottery ticket printing for this institution in 2015/2016 and had supplied tickets to the National Lottery Board (NLB) in 2017. Furthermore, as per Section 8.1.2 of the evaluation report dated 04 April 2024, it was noted that the bidder was engaged in variable data printing for banks and insurance institutions at the time of the factory inspection. Accordingly, the Technical Evaluation Committee has conclusively confirmed that Toppan Forms (Colombo) Ltd possesses the required experience and capability in variable data printing.</p> | <p>The bidder who can fulfil the requirements of the Procurement Guidelines should be selected.</p> |
| (c) | <p>As the lottery operations and management processes within the Development Lottery Board were being carried out through an external service provider, it was decided to execute the entire process through the Board's own staff.</p> <p>However, after more than five years still the bid evaluation activities have not been completed. As a result, a sum of Rs. 92,541,077 was paid to an external service provider for lottery management software services for the past five years.</p> | <p>It was particularly noted that, due to the adverse economic conditions prevailing in the country during 2022/2023, the cost of IT professionals increased, and there were difficulties in attracting and retaining experienced professionals in the public sector. In such circumstances, the Technical Evaluation Committee informed the procurement entity that the procurement-related tasks should be carried out only after first determining the full human resource requirements of the IT division and recruiting new staff to fill the identified vacancies.</p> | <p>Relevant procurement procedures should be completed promptly and the lottery operations and management process should be established.</p> |

Accordingly, Board approval has been obtained for the recruitment of permanent staff for the proposed LMS system, and this matter was informed to the Ministry of Finance on 12 January 2024.

Accordingly, approval from the Ministry was received on 26 July 2024. During the first bid invitation for the system installation, several items included in the original scope were subsequently modified. These modifications have been incorporated into the bid documents, and the bid conditions specify that two engineers from the supplier organization must work with the Board's staff to provide training and ensure understanding of the proposed system. Provisions have been included to obtain the services for a period of up to five years, in accordance with the mandatory two-year service requirement. Accordingly, a bid has now been invited for this procurement, and the bid opening is scheduled to take place on 17 June 2025.

4. Accountability and Good Governance

Budget Control

Audit Observation	Management Comments	Recommendation
<p>Considering the current global technological advancements and the competition in the lottery market, a digital application named 'DLB Sweep' was launched to conduct lottery sales via digital media, including e-lottery sales through SMS and promotional activities. Although a sum of Rs.20,000,000 was planned to be utilized from the 2024 budget for these activities, only Rs.576,066 was actually spent, representing approximately 3 percent of the estimated allocation.</p>	<p>Although initial promotional programs were organized to introduce the application to the public, these promotional activities were suspended until the practical technical issues of the application were resolved.</p>	<p>Promotional activities for e-lottery tickets should be implemented to increase lottery sales.</p>