

National Lotteries Board – 2018

1.1 Qualified Opinion

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

1.2 Basis for Qualified Opinion

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

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

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

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

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

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

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

1.4 Scope of Audit (Auditor's Responsibility for Audit of Financial Statements)

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Financial Reporting Standards

Non-compliance with the relevant Standard	Comments of the Management	Recommendation
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(a) Financial assets of the Board had been classified contrary to paragraph 4.1.1 of Sri Lanka Financial Reporting Standard 9.	It is recorded to correct it in the year 2019.	That the accounts should be prepared in accordance with Financial Reporting Standards.
(b) Accounting Policies of the Board regarding the fair value measurement had not been disclosed in compliance with paragraph 91 of Sri Lanka Financial Reporting Standard 13.	It is recorded to disclose in the year 2019.	-Do-
(c) The relevant disclosures had not been made in the financial statements prepared by the Board in compliance with requirements of paragraph 110 of Sri Lanka Financial Reporting Standard 15.	-Do-	-Do-

1.5.2 Non-compliance with Sri Lanka Accounting Standards

(a) Standard 1

- (i) Even though it had been reported through the Note No. 1.4 to financial statements and paragraph 2.1.2 that the financial statements had been prepared by the Board in compliance with Sri Lanka Accounting Standards, it had been reported by the Note 2.7 that the Sri Lanka Financial Reporting Standards 9 and 15 had not been followed. It is recorded That the accounts mention in policies should be prepared in accurately in the compliance with year 2019. Financial Reporting Standards.
- (ii) The sum of Rs.488,000 recovered due to failure in supplying the public address system purchased in the year under review to the institute on due date, had been shown deducting from the cost of public address system contrary to paragraph 32 of the said Standard without considering as other income. Penalties recovered -Do- after this adjustment, have been brought to account in the Penalty Account under the income and it is not accounted in the future by setting off against the expenditure.
- (iii) The value of Rs.9,063,436 recognized as current liabilities in preceding years contrary to paragraph 69 of the Standard had been brought to account by identifying as another income in the year under review. It was observed that this procedure is continuously adhered to by the Board even from preceding years. Measures will be -Do- taken in the future so as to minimize such adjustments.
- (iv) A sum of Rs.16,141,331 estimated as current liabilities in preceding years contrary to paragraph 69 of the Standard, had been deducted from expenses in the year under review. As such, the actual expenditure of the current year had been understated by the same amount. -Do- -Do-

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| (v) The expenditure on Nation Building Tax amounting to Rs.286,551,044 had not been classified under expenditure on sales and distribution in the financial statements in terms of paragraph 103 of the Standard. | It has been shown as expenditure on sales and distribution in revised closing accounts of the year 2018. | -Do- |
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(b) **Sri Lanka Accounting Standard Standard 7**

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| (i) A loss of disposal assets amounting to Rs.82,494 not occurred in the current year as well as not included in the income statement had been added to the profit before tax contrary to paragraph 18(b) of the Standard. | Action will be taken to prepare the cash flow statement by taking into consideration the values paid and received in cash in the future. | That the accounts should be prepared in accordance with Financial Reporting Standards. |
| (ii) Even though the value of taxes on income paid in cash in the current year had been Rs.483,706,173, it had been shown as Rs.498,037,403 in the cash flow statement contrary to paragraph 35 of the Standard. Indicating the value of Withholding Tax on interest income of the Board, in cash flow statement by adding to the taxes on income, had been the reason therefor. | -Do- | -Do- |
| (iii) The long-term liabilities valued at Rs.1,371,712 paid to the Ports Authority during the year under review had not been indicated under financial activities in terms of paragraph 17 of the Standard. However, the difference of Rs.4,115,137 between the opening balance and the closing balances of the year relating to the said liability had been shown under operating activities of the cash flow statement. | -Do- | -Do- |
| (iv) Even though the cash payments made in acquiring fixed assets during the year under review had been Rs.62,697,098, it had been shown as Rs.74,300,042 in the cash flow statements without considering the instructions of paragraph 16(a) of the Standard. | -Do- | -Do- |

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| <p>(v) Even though the rent income from circuit bungalows and hire income from motor vehicles received in cash during the year under review, had been Rs.1,768,785, it had been shown as Rs.1,728,365 in the cash flow statement without considering the instructions of paragraph 16 of the Standard. Failure in considering the income of Rs.40,420 received in cash in the year under review relating to the preceding year had been the reason for above difference.</p> | <p>-Do-</p> | <p>-Do-</p> |
| <p>(vi) The value of difference of Prizes Reserve amounting to Rs.430,370,642 of the year under review had been shown under financial activities contrary to paragraph 35 of the Standard.</p> | <p>-Do-</p> | <p>-Do-</p> |
| <p>(vii) The value of profit from foreign exchange variances amounting to Rs.940,502 generated from debtors maintained in foreign currency, had been adjusted to the opening balance of the Cash Book instead of adjusting to the opening balance of those debtors. As such, the variance of trade debtors had not been represented correctly in the cash flow statement.</p> | <p>It is recorded to adjust the debtors opening balance in the year 2019.</p> | <p>-Do-</p> |
| <p>(viii) As mentioned above, the cash flow statements had been prepared without considering instructions of the said Standard. As such, the decrease in stocks, increase in other current assets and increase in trade and other liabilities represented in the working capital, had been overstated, understated and overstated by Rs.8,500,000, Rs.14,371,650 and Rs.8,507,299 respectively .</p> | <p>Action will be taken in the future to prepare the cash flow statement by considering the values paid and received in cash.</p> | <p>-Do-</p> |

- (c) **Sri Lanka Accounting Standard Standard 12**
 Even though the income tax policy of the Board had been reported by the Note to financial statements No.2.3.4, the accounting policy of the Board regarding the income tax had not been presented in terms of paragraph 61(a) of the Standard. According to Sri Lanka Accounting Standard 12, it has been indicated under 2.3.4 of Accounting Policies in detail. -Do-
- (d) **Sri Lanka Accounting Standard Standard 16**
 The carrying amount of idle assets and assets of which the value was fully written off but still in use, had not been disclosed in the financial statements in terms of paragraph 79 of the Standard. According to Sri Lanka Accounting Standard 16, it is recorded to mention accurately in Accounting Policies in the year 2019. -Do-
- (e) **Sri Lanka Accounting Standard Standard 19**
 Even though provisions amounting to Rs.52,031,249 had been made for employees' gratuity by the Board as at the end of the year under review, appropriate plans therefor had not been prepared. Moreover, in terms of paragraph 135 of the Standard, the Accounting Policy regarding the identification of working loss, had not been disclosed. According to Sri Lanka Accounting Standard 19, it is recorded to disclose the investment plan and manner in which the investment was made in the year 2019. -Do-
- (f) **Sri Lanka Accounting Standard Standard 20**
 The value of the motor vehicle of Rs.5,795,000 granted to the Board by the Ministry of Finance had been shown in the income statement in the preceding year as other income contrary to paragraph 25 of the Standard. Action had not been taken even in the current year to correct the said error and accordingly, the said motor vehicle with a net value of Rs.2,776,770 had been further indicated in the statement of financial position not in the nature of a grant. According to Sri Lanka Accounting Standard 20, it is recorded to adjust them correctly to accounts in the year 2019. -Do-

(g) **Sri Lanka Accounting Standard Standard 24**

- (i) The following categories of management and employees benefits had not been separately disclosed in the financial statements in total as stipulated in Paragraph 17 of the Standard and the Paragraph 25 of Sri Lanka Accounting Standard 19.
- According to Sri Lanka Accounting Standard 24, it is recorded to disclose the information mentioned in paragraphs (i) and (ii) correctly in the year 2019.
- Short - term employees benefit
 - Post - employment benefit
 - Other long - term benefits
 - Social benefits

- (ii) In terms of paragraph 18 of the Standard, related party transactions should be disclosed in the financial statements. However, the sum of Rs.102,018 payable to a member holding a post of Director of the Board at present, during the period in which he had served as a District Sales Agent of the Board before holding the said post, had remained in the debtors balance. However, the said value had not been disclosed duly and separately.

(h) **Sri Lanka Accounting Standard Standard 40**

Even though the values of circuit bungalows owned by the Board had been disclosed under investment property, the cost of other office buildings of Rs.1,086,820, constructed on the land where the Anuradhapura circuit bungalow is located, had been disclosed under investment property.

According to Sri Lanka Accounting Standard 40, it is recorded to disclose this matter in final accounts of the year 2019.

That the accounts should be prepared in terms of Sri Lanka Accounting Standards.

1.5.3 Accounting Policies

Audit Observation

Provisions for accrued expenditure had been made by considering the budgeted data instead of making provisions for accrued expenditure of the Board on the realistic basis. As such, excess provisions for accrued expenditure in the year under review had been Rs.8,732,081.

Comments of the Management

The Board had not made provisions for accrued expenditure on budgeted data and provisions for accrued expenditure have been made based on maximum realistic data obtainable.

Recommendation

Accounting the actual payables as accrued expenditure.

1.5.4 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Necessary adjustments had not been made for the residual value of lottery tickets amounting to Rs.809,062 remained as at the end of the year under review. Instead of that, the printing cost thereof totalling Rs.40,352,380 had been included in the sales cost.	Action will be taken to account the residual value of unsold lottery tickets in the year 2019.	That the action should be taken in accordance with accounting principles.
(b)The remaining sum of Rs.430,370,642 out of provisions made for prizes of draws conducted in the year under review, should be adjusted to the retained profit. However, it had been accounted as an expenditure of the year under review, thus understating the profit of the year by the same amount.	As the provisions for remaining prizes are remitted to the Treasury after elapse of 06 months, the adjustment of the said amount to the retained profit is not necessary.	That after making provisions for prizes, the cash prize for which winners are not determined, should be credited to the Prize Reserve Fund by adjusting to retained profit.
(c) A sum of Rs. 10,973,697 paid to the Ports Authority as surcharges and other expenses thereof had been taken into consideration as expenses of the Board in the computation of income tax of the year under review by the Board. It was observed that the said expenditure is an expenditure which should be settled by the Board relating to preceding years and according to paragraphs 10 b (iii) and 11 (i) of the new Inland Revenue Act, it was observed that the said expenditure could not be written off against the profit. As such, the value of taxes of the year under review had been underestimated by Rs.3,070,635.	It has been rectified through final accounts in the year 2018.	That the action should be taken in terms of current Inland Revenue Act.
(d) According to the Inland Revenue Act, No.10 of 2006, the income tax ratio relating to the National Lotteries Board was 40 per cent while according to the new Inland Revenue	-Do-	-Do-

Act, No.24 of 2017 which is effective from 01 April 2018, it was 28 per cent. Even though the accounting period of the Board is from 01 January to 31 December, both the old and new tax ratios mentioned above should be taken into consideration in the computation of expenditure on annual income tax relating to the said period. Accordingly, the old tax ratio should be applied in terms of paragraph 203(1) of the new Inland Revenue Act, for the first quarter beginning from 01 January 2018 to 31 March 2018 and new ratio be applied for the 03 remaining quarters. However, the Board had applied 28 per cent as the tax ratio for the whole year. Accordingly, it was observed that the expenditure on income tax for the first quarter had been underestimated by 12 per cent.

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| <p>(e) Action had not been taken to make necessary adjustments even in the year under review to unallowable expenses totalling Rs.17,681,257 taken into consideration in the computation of income tax of the preceding year and to pay the income tax thereon.</p> | <p>It is informed that action is taken to pay the impairment loss not fallen under deductions in the computation of income tax in the year and to pay taxes payable for the purchase of lottery tickets of the Board in the year 2017 by the Board after reaching the concurrence by holding discussions with the Department of Inland Revenue.</p> | <p>That the action should be taken in terms of current Inland Revenue Act.</p> |
| <p>(f) Even though a sum of Rs.5,336,575 invested in a private bank by the Board, had been taken over by the Government under a notification published in the Gazette Extraordinary No.1546/18 dated 23 April 2008, the said amount had been further indicated under investments without making necessary adjustments therefor in accounts.</p> | <p>It has been referred to the Department of Public Enterprises for necessary instructions thereon. However, no reply had been received up to nw.</p> | <p>That the action should be taken in accordance with accounting principles.</p> |

- (g) A number of 3,317 lottery tickets valued at Rs.142,636 remained unsold of the Dollar Fortune Lottery due to be conducted in the future by the Board, had been considered as sales and indicated by deducting from the closing stock. The Dollar Fortune Lottery is still being sold and it is expected to take action in this connection by the Marketing Division together with the Finance Division. Conducting the Board of Survey correctly.
- (h) A number of 1,169 T-shirts valued at Rs.730,625 purchased for the staff remained without distributing and 34 gift vouchers valued at Rs.329,800 not distributed among agents, had not been included in inventories. This error had occurred due to failure in including applications in ledger books as a result of conflict situation occurred in shifting the National Lotteries Board from Colpetty to the new place at Mudalige Mawatha. This error has been corrected by now. Comparison of inventories correctly in conducting Board of Survey and taking action accordingly.
- (i) Legal fees relating to the year under review, amounting to Rs.610,155 and expenditure on agents and extra sales promotion amounting to Rs.145,000 had not been identified as accrued expenditure. It is recorded to correct in the year 2019. Taking action according to Accounting Principles.
- (j) The unclaimed sponsorships valued at Rs.865,000 included in publicity expenses during the year under review, had been recorded twice in the Accrued Expenditure Account, thus the accrued expenditure had been overstated by the same amount. -Do- -Do-

1.5.5 Lack of Evidence for Audit

Item	Amount	Evidence not made available	Comments of the Management	Recommendation
Sponsorship expenses	Rs. 2,047,500	Applications and lists of names of relevant sponsors had not been made available to Audit for confirming the expenses of Rs.2,047,500 relating to the year 2018 out of accrued expenditure of Rs.10,072,500 brought forward under accrued expenditure as sponsorship expenses of publicity activities.	Evidence for expenditure relating to the year 2018 is available with the Publicity Division.	Accounting the expenditure payable by identifying according to actual evidence made available.

1.6 Accounts Receivable and Payable

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Proper action had not been taken to recover installments totalling Rs.6,446,001 comprising of Rs.6,083,363 recoverable for lottery sales stalls issued from the year 2013 to the year 2017 to sales agents and Rs.362,638 recoverable for the year 2016 and since before that year, for bicycles provided to 45 sales agents on credit basis by the Board.</p>	<p>Measures are being taken to recover outstanding moneys. Moreover, action will be taken within this year to adjust sales agents' incentives retained without paying in the year 2018 and a sum of Rs.3 million retained from special promotion programmes.</p>	<p>To take measures to recover installments and to adjust retained moneys on proper approvals.</p>
<p>(b) Only 31 out of 91 sales agents registered in the Board at the end of the year under review, had placed security bonds. Instant lottery tickets had been issued at values of Rs.19,819,533 exceeding the due security limit and Rs.139,282,243 to 89 sales agents without security bonds. Action had not been taken even by 31 May 2019 to settle money recoverable for instant lottery tickets valued at Rs.23,365,438 sold to 29 sales agents on credit basis in the year 2016 due to weaknesses in recovery of loans.</p>	<p>It is difficult to maintain a strict financial control due to limited number of district sales agents with financial capacity to place bank securities and due to less priority given by sales agents to sell instant lottery tickets. As such, instant lottery tickets are being issued under credit limits determined according to the credit policy approved by the Board of Directors. The net amount recoverable is Rs.13.9 million.</p>	<p>Obtaining security bonds and taking action under correct financial control.</p>

- (c) Lottery tickets valued at Rs.1,003,038 had been issued on credit basis to two employees of the Board in the year 2007. Those moneys had not been recovered from them even by 30 June 2019. It was further observed that one officer is not involved in active service at present.
- A case against one person is on trial and action will be taken according to the said judgement and to recover the money recoverable from the other person.
- Recovery of loans by taking proper action.
- (d) Action had not been taken even in the year under review to settle a total sum Rs.9,085,823 allocated under accrued expenditure without identifying relevant liabilities specifically from the year 2013 by the Board.
- This accrued balance represents moneys payable for services obtained from relevant institutions by the Board. The sum payable to the Gamini Arts Advertising Services, has not been still paid due to a legal problem arisen thereon.
- Making payments to institutions by which services are completed.
- (e) The trade debtors balance totalling Rs.212,276,805 remained as at the end of the year under review comprised of Rs.4,728,146 for the Colombo Airport Super draw Lottery and Rs.30,983,156 recoverable from sales agents over a period of 03 years. Moreover, balances of sales agents comprised of Rs.559,300 recoverable from deceased sales agents. Necessary adjustments had not been made regarding these values.
- Action is being taken to recover debtors balance and it has been referred to the Ministry of Finance for seeking approval to write off the loan amounting to Rs.559,300 of two deceased persons.
- Recovery of loans by taking proper action.

- (f) Action had not been taken even by the date of audit to settle balances of lottery tickets valued at Rs.1,567,992 sold to the welfare society and instant lottery tickets valued at Rs.2,011,363 issued to 04 Zonal Managers of the Institution with the intervention of the welfare society by the Board in the year 2016. According to budget proposals-2017, a Cess levy was imposed on lottery, thus resulting in an unfavourable situation in respect of stocks of instant lotteries of the Board. Under these circumstances, the said stocks of lotteries were issued even to the Field Officers of the Board. A police complaint has been lodged against one agent out of them and payment of incentives of one person who had vacated the post and other two officers had been suspended. It is informed that a part of outstanding amount had been recovered and action is taken to recover remaining moneys. -Do-
- (g) Other loan balances remained as at the end of the year under review comprised of a loan balance of Rs.1,317,614 older than 08 years and the said loan balance comprised of Rs.2,637,199 payable to 71 inactive sales agents and Rs.566,146 receivable. However, action had not been taken even to settle them. Action will be taken to write off the balances remained for a long period from accounts after receiving the approval of the Ministry. Settlement of loans by taking proper action.
- (h) Action had not been taken to settle creditors loan balances comprising of an unidentified credit balance of Rs.3,585,823 brought forward since before the year 2016, Rs.15,543,973 payable to 04 creditors remained over a period of 08 years and Rs.213,112 payable to 14 officers of the staff. It has been referred to the Ministry of Finance for seeking the approval to eliminate two unsettled balances from accounts. Settlement of relevant balances by taking proper action.

- (i) Incentives amounting to Rs.240,983 payable to two officers who had deceased and who had been interdicted in the year 2003 and a sum of Rs.256,952 received as computer installments from district sales agents before 08 years and computer installments received excessively, were remained without being settled. One case against one person is on trial and there are no applicants for claiming on behalf of other officer. It has been referred to the Ministry of Finance for seeking the approval to eliminate two payable balances from accounts. Settlement of loans by examining properly.
- (j) The sum of Rs.7,611,611 recovered as refundable deposits by the Board had been received relating to the period from the year 2011 to the year 2017. Even though the relevant services had been obtained, those had not been settled to the said institutions. Moreover, it was observed that action had not been taken to settle a sum of Rs.107,953 paid to institution as deposits by agents. It has been referred to the -Do- Ministry of Finance for seeking the approval to eliminate these payable balances from accounts.

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

Reference to laws, Rules, Regulations etc.	Non- Compliance	Non-compliance of Management	Recommendation
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(a) Finance Act, No. 11 of 1963 as amended by the Finance (Amendment) Act, No.35 of 1997

In conducting Lotteries for other Ministries, Departments According to the Finance Act, No.11 of 1963, the main objective Taking action in terms of the

- (i) Sections 14 (2), 16 (1) and 16 (4) and Authorities by the Board, an agreement should be entered into with relevant institutions. However, a sum of Rs.5,204,004,004 had been awarded as Prizes during the year under review without entering into agreements with the relevant institutions for lotteries such as Govi Setha, Supiri Wasana, Jathika Sampatha, Neeroga and Sevana Lotteries. As such, action had been taken at the discretion of the Board in respect of prizes unclaimed by winners. Several such instances are given below.
- of establishment of the National Lotteries Board is to conduct lotteries. Accordingly, there is no need to enter into an agreement with any other institution in conducting lotteries. According to the Finance (Amendment) Act, No.22 of 1998, (7.2.1A), a Prize Reserve Fund should be established for awarding prizes. Further, this Fund is used for additional prizes in special lottery draws. As such, it is pointed out that there is no need to obtain approvals from Ministries therefor due to provisions made under the said Act.
- Crediting the value of air tickets amounting to Rs.2,306,400 unclaimed by 06 winners to the Prize Reserve Fund Cash prizes had been awarded instead of those prizes with the approval of the Board of Directors due to claiming moneys by foreign tour winners and due to procurement difficulties occurred in obtaining the said prizes. Cash prizes of winners who have not appeared for obtaining prizes had been again credited to the Prize Reserve Fund. -Do-
 - Failure in taking proper action regarding unclaimed non-cash prizes valued at Rs.12,762,192 older than 06 months There are practical difficulties in remitting prize goods for which winners have not appeared, to the Treasury as cash prizes and the source for raising funds for the said prizes mostly, is the Prize Reserve Fund. -Do-
 - Utilization of two unclaimed motor vehicles valued at Rs.10,850,000 by the Board Matters such as unfitting appearance of the Jeep which was purchased in the year 2013, for awarding as a prize due to displaying it continuously at showrooms, and reusing the Van purchased in the year 2016, as a prize due to failure to appear for obtaining the said prize by the -Do-

relevant winner or failure to win by any person at the next draw, may develop negative attitudes among consumers. As such, those motor vehicles had been included in the vehicle pool with the approval of the Board of Directors on the requirement of the Board.

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| (ii) Section 17(2) | Even though the balance of the proceeds of every national lottery after deducting relevant expenses from such proceeds, should be credited to the Consolidated Fund, a sum of Rs.523,075,433 relating to preceding years had been retained without being credited so. | In case of crediting the proceeds to the Consolidated Fund, the Board has to face a severe financial crisis. As such, the going concern of the Board is uncertain. As the accumulated profit consists of assets and liabilities of the Board, there is no possibility of crediting it to the Consolidated Fund. | Taking action according to the Act. |
| (iii) Section 20(1)(2) | Even though the Board should make rules in respect of conducting Lotteries and obtaining the approval of the Minister in Charge of the Subject and publish in the Gazette, it had not been so done regarding new lotteries such as Mega Power, Neeroga, Supiri Delakshapathi, Dhana Nidhanaya and Sevana introduced since the year 2013. | Action has been taken to refer the rules formulated by the Board relating to lotteries and changes made in all lotteries, to the Legal Draftsman's Department. The Ministry of Finance has observed that the publishing of revisions such as lottery prizes patterns, number of lottery draws and dates of lottery draws in the Gazette every instance, is not practicable. The Cabinet approval has been granted to formulate a new Act in the name of "National Lotteries Board Act" apart from the Finance Act and in formulating the said Act, the Legal Draftsman's Department as well has considered that publishing the changes in lottery prizes patterns in the Gazette, is not practicable. | Briefing the parties who purchase lotteries, on rules relating to the conduct of lotteries through Gazette notifications properly without delay. |

<p>(b) Section 2A (1) (h) of the Motor Traffic (Amendment) Act, No.8 of 2009</p>	<p>Even though a sum of Rs.1,625,000 had been spent to modify the bodies of 06 single Cabs which were purchased by spending Rs.20,750,000 in the year 2016 by the Board, so as to look like double Cabs, the proper approval of the Commissioner of Motor Traffic had not been obtained therefor.</p>	<p>Only a modern Fiber Canopy had been fixed to rear side of Cabs without separating bodies thereof. The special character thereof is that only the front side and rear side of the Cab are joined with each other thereby. As no changes in the number of seats or in the body had been made, there is no need to obtain the approval of the Commissioner General of Motor Traffic. However, if necessary, action will be taken to refer to the Department of Motor Traffic and obtain the approval thereon.</p>	<p>Taking action to obtain the proper approval for modifications</p>
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(c) Establishments Code of the Democratic Socialist Republic of Sri Lanka

<p>(i) Sections 10. 1 and 10. 2 of Chapter VIII</p>	<p>Even though a 1/ 20 allowance of the salary can be paid for being on duty for not less than 08 hours during the weekends or public holidays, contrary to those provisions, the Board had considered being on duty for 12 hours per day as two days and made payments accordingly. The payments made during the year under review in 60 instances so considering as two days amounted to Rs. 184,000. Further, 40 instances of payments of holiday pay by considering the working days of the week as public holidays, were observed and the payments so made amounted to Rs. 68,706.</p>	<p>The majority of the staff have to perform duties on weekends and public holidays due to matters such as introducing new lotteries to the market, conducting lottery draws 04 times a day, conducting lottery draws throughout the 07 days of the week and opening the office for nearly 360 days of the year. Accordingly, payments are made with the approval of the Board of Directors by considering the above matters.</p>	<p>Obtaining the relevant approval according to laws and rules of the Establishment s Code</p>
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<p>(ii) Section 11 of Chapter XXIV and the Letter No. PE/ LO/ NLB/ COPE / 2018 of 23 January 2018 of the Department of Public Enterprises</p>	<p>The granting of property loans with effect from 01 January 2005 should be done only through banks and it had been emphasized by the Department of Public Enterprises as well. The Property Loans amounting to Rs. 18,183,883 had been granted to 13 officers from the funds of the Board in the year under review without considering those provisions. Further, every officer had been granted Loans at the minimum interest rate of 4 per cent without considering the interest recoverable from the officers in accordance with provisions relating to the property loans.</p>	<p>Housing loans are granted on the interest rate of 4 per cent with the objective of providing staff welfare on the approval of the Board of Directors since the year 1995. In case of settlement of the loan before the due date on any reason, action will be taken to settle the loan by paying an interest of 18 per cent therefor.</p>	<p>Taking action in consultation with the Treasury.</p>
<p>(iii) Chapter XXIV</p>	<p>A person had been recruited for the post of Deputy Manager Marketing / Promotion without considering the approved Scheme of Recruitment and provisions of the Establishments Code and salaries and allowances were being paid to him from 01 October 2018 to up to now.</p>	<p>A letter has been referred to the Department of Management Services for instructions and correct measures will be taken thereon in the future.</p>	<p>Making relevant recruitments by following the approved scheme of recruitment</p>
<p>(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</p>			
<p>(i) Financial Regulations 103(1), 104(3), 104(4) and 1642</p>	<p>Proper inquiries had not been instituted and responsibilities fixed in respect of 16 accidents occurred to motor vehicles owned by the Board in the years 2017 and 2018. Moreover, it had not been reported to the nearest Police Station as well.</p>	<p>Arrangements have been already made to take action according to Financial Regulations.</p>	<p>Taking action in terms of Financial Regulations.</p>

(ii) Financial Regulation 702(3)	Even though a copy of the contract agreement should be presented to the Auditor General, it had not been so done in respect of agreements on printing of lotteries, publicity and supply of goods and services.	According to the requirement, action will be taken to present copies of contract agreements to the Auditor General in the future.	Taking action in terms of Financial Regulations
(iii) Financial Regulations 754,756,757,758 and 770	The Annual Boards of Survey had not been conducted in terms of provisions.	Instructions had been given to take into consideration these matters in conducting the Board of Survey in the year 2019.	-Do-
(e) Public Administration Circular No. 13/2008 (iv) of 09 February 2011 and the Public Enterprises Circular No. 01 of 25 May 2015	(i) A sum of Rs. 1,402,219 had been overpaid exceeding the monthly fuel limit for the 04 officers who are entitled to official motor vehicles.	The allowance paid at present has been approved at the special meeting of the Board of Directors held on 02 June 2008 on constructions given at the meeting chaired by the Secretary to the Ministry of Finance and Planning held on 29 May 2008.	Taking action to obtain the approval of the Ministry of Finance in writing.
	(ii) A fuel allowance had been paid for the 24 Zonal Managers and 17 Sales Promotion Officers who are not entitled for the official vehicles and in case of using the personal motor vehicle, allowance of Rs.5,237,409 had been paid to officers during the year under review with their salaries as an additional monthly allowance.	The fuel allowance is provided by calculating the number of kilo meters run only for duty requirements subject to the maximum monthly limit of Rs.25,000 for a Zonal Manager and maximum monthly fuel limit of 25 litres for Sales Promotion Officer with the approval of the Board of Directors.	-Do-
(f) Public Enterprises Circulars			
(i) Circular No.PED/12 of 02 June 2003			
• Paragraph 8.3.9	Even though the resources owned by the Board should not be provided to the line Ministry of other Government institutions, contrary to that,	According to requests and recommendations of the Ministry of Finance, 05 officers recruited to the Board on contract basis have been attached to the	Reimbursement of salaries and allowances paid to them

05 officers and 03 motor vehicles valued at Rs.11,276,786, owned by the Board had been released to the Ministry of Finance from January of the year under review. Further, action had not been taken to reimburse the employees' remuneration and incentive amounting to Rs.1,800,323 paid by the Board to those officers in the year 2018.

Ministry of Finance. Salaries and allowances are paid to them under supervision of the Ministry. Salaries and allowances paid to them, are not reimbursed.

• Paragraph 9.12

(i) A Fund named Asarana Sarana had been Commenced by the Board in the year 2006 without obtaining the approval of the Treasury and the donations from the Lottery Prize Winners and a 0.5 per cent out of Neeroga Lottery sales income had been credited to the above Fund. There was a balance of Rs.14,016,057 in the said Fund as at the end of the year under review.

The Asarana Sarana Fund consists of funds donated by prize winners voluntarily and this Fund donates towards helpless persons.

Obtaining the approval of the Treasury

(ii) Even though a welfare allowance of Rs.19,129,643 had been paid to the staff on the approval of the Chairperson of the Board, the approval of the Treasury had not been obtained therefor. This allowance had been paid even in the preceding years.

This allowance is paid every year based on the Sinhala New Year Festival in April and Christmas Festival on the approval of the Board of Directors.

-Do-

- (ii) Circular No. 95 of 14 June 1994 and Circular No. PED/ 12 of 02 June 2003
- (i) An Incentive Allowance Scheme had been implemented for the staff of the Board without obtaining the approval of the Treasury and the payment made as Incentive Allowances in the year under review amounted to Rs. 97,228,123.
- Payments are made on the approval given at the discussion held at the Presidential Secretariat in the year 2004. -Do-
- (ii) Even though provisions had been made so as to enable the staff to obtain a special promotion allowance for a maximum of Rs.3,000 per day instead of the Government approved combined allowance, a proper approval had not been obtained therefor. The sum paid so in the year under review had been Rs.4,910,750.
- Allowances are paid for special promotions and special duties on the approval of the Board of Directors. -Do-
- (iii) Circular No. PED/ 03/ 2015 of 17 June 2015 Paragraph 2.5
- The Board had paid an incentive amounting to Rs. 343,486 to the Chairman and the Working Director during the year under review contrary to Provisions in Circulars.
- Instructions, guidelines and generous contribution of the Chairman and the Working Director is very essential in carrying out all activities such as taking quick decisions in facing the competition at the market for reaching the highest income targets set out by the Ministry to increase the income of the Government, planning various activities, holding and participating at various meetings, holding the responsibility of supervision of whole procedure of conducting lotteries. -Do-
- As they have been assigned very important duties such as assisting the Board in daily activities, signing all documents,

participating in meetings etc., payment of incentive for them is reasonable and it is further observed that it is more fruitful to the Board.

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|---|--|--|--|
| (iv)Public Enterprises Circular No.57 of 11 February 2011 | The Board had paid a sum of Rs.1,023,507,765 as publicity expenses in the year under review without preparing an Annual Publicity Plan and obtaining approval of the Department of Public Enterprises and the sum so paid in the preceding year as well was Rs.940,272,567. | Approval of the Board of Directors had been obtained for the publicity budget of the Marketing Division and subsequently submitted for the approval of the Department of Public Enterprises. | Action should be taken to obtain relevant approval. |
| (g)Letter No.PE1/70/7/Vo11 of 21 January 1993 of the Deputy Secretary to the Treasury | A percentage of 16.5 per cent of the income received from all lotteries conducted on behalf of the Government should be remitted to the Consolidated Fund. However, only a value of 10 per cent of the income from 02 types of lotteries, namely Mega Power and Dhana Nidhanaya conducted in the year under review had been remitted and as such, the value not remitted further to the Treasury amounted to Rs.200,901,108. | A percentage of 16.5 per cent is remitted to the Consolidated Fund from only the two lotteries, Mahajana Sampatha and Vasana Sampatha since the commencement itself and it was implemented after obtaining approval of the Board of Directors for remitting 10 per cent from the remaining lotteries commenced subsequently. | Making due remittances as per the Treasury instructions. |

1.8 Financial Management

Audit Observation

A service charge of 0.05 per cent had been charged by the bank in depositing moneys of sales agents to the Board's Collection Account. Information on the computation of the said charges was not available with the Board while a written agreement and the approval of the Board

Comments of the Management

Steps have been taken to reduce the existing bank service charge percentage for deposits made in the Board's Collection Account from 0.50 per cent to 0.45 per cent. Activities relating to

Making a suitable arrangement to minimize bank charges.

of Directors as well had not been submitted. The service charge recovered by the bank for the year 2018 amounted to Rs.41,591,442 and the charges so paid during the 05 preceding years had been Rs.171,443,373. It was observed in Audit that no action had been taken by the Board in reducing this charge.

e-mail deposits had been withdrawn from the bank and are being carried out by the Board.

1.9 Information Technology (IT) General Management Systems

Audit Observation	Comments of the Management	Recommendation
<p>The centralized computer software introduced in the year 2003 by the Board for maintaining the accounting activities thereof, had been decentralized in the year 2016 and as such, the services which could be obtained from the said software had been limited. The reliability of the transactions of the Institute that existed through the centralized system which existed previously, had become questionable as well and taking responsibility of the risks due to relevant changes had been refused by the company which introduced this software.</p>	<p>A balance in the Creditors' Control Account which occurred in using the centralized Sage Accpac computer software, remains in the Main Journal even now. The computer software applications newly added to the Accpac system for preventing such transactions in future, had been removed from the Main Journal and being used as software separately at present. Accounting activities can be maintained more accurately and efficiently due to the decentralized computer system.</p>	<p>Implementation of the computer system to protect features of the software applications.</p>

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a deficit of Rs.136,267,795 as against the surplus of Rs.139,805,208 of the preceding year, thus observing a decline in the financial result by Rs.276,073,003 as compared with the preceding year.

An analysis of the financial results of the year under review and 4 preceding years revealed that, as compared with the preceding year it had declined by 197 per cent in the year under review. However, in readjusting employees' remuneration, depreciation for non-current assets and tax paid to the Government to this financial result, a decrease in the contribution in the years 2014 and 2017 and an improvement in the years 2015, 2016 and 2018 were observed. Details appear below.

	2018 ----- Rs. Million	2017 ----- Rs. Million	2016 ----- Rs. Million	2015 ----- Rs. Million	2014 ----- Rs. Million
Net profit after tax (Before paying dividends)	(136,267,795)	139,805,208	414,761,431	241,016,039	(8,663,584)
Employees' remuneration	420,862,040	375,410,032	380,279,707	320,462,652	267,215,394
<u>Taxes paid to Government</u>					
Income Tax	1,174,402,368	484,610,312	482,128,237	669,785,229	117,853,496
Nation Building Tax	286,551,044	235,767,246	285,776,997	253,267,754	211,761,787
Value Added Tax	890,352,095	742,298,500	706,868,280	673,252,862	540,502,194
Contributions to the Consolidated Fund	2,426,947,888	2,016,986,336	2,445,594,544	2,130,953,970	1,888,455,133
<u>Depreciation</u>					
Depreciation for motor vehicles	19,290,936	55,627,510	54,979,532	48,727,716	33,000,569
Other depreciations	60,229,778	70,474,209	68,497,174	60,061,990	26,090,623
	----- 5,142,368,354 =====	----- 4,120,979,353 =====	----- 4,838,885,902 =====	----- 4,297,528,212 =====	----- 3,076,215,612 =====

2.2 Trend Analysis of Major Income and Expenditure Items

Audit Observation -----	Comments of the Management -----	Recommendation -----
(i) As compared with the preceding year, while the income of the Vasana Sampatha Lottery had decreased by 48 per cent, the expenditure on publicity had decreased by only 30 per cent. While the income from the Supiri Vasana Lottery had decreased by 6 per cent, the publicity expenditure thereof had increased by 9 per cent.	There are strategies used for safeguarding the brand in the competitive market. There are decisions taken according to market behavior.	Using new tactics for sale of lotteries.

- (ii) The publicity cost of the Mahajana Sampatha Lottery which had earned the highest income of Rs.4,885 million, had taken a low value as 2.9 per cent of the sales income. However, the publicity cost of the Sampath Reka Lottery which had earned an income of Rs.1,162 million, had taken a high value of 8 per cent of the sales income.
- Sampath Reka is a lottery sold only once a week and expenditure on publicity has to be incurred for securing the market.
- Considering the existence of a lottery primarily and planning on publicity expenditure.
- (iii) Taking into consideration the number of lottery draws conducted in the year under review and the super prizes and the structure of other cash prizes, the percentage of prize winners less than Rs.2000 had taken a higher value than 99 per cent.
- Except for the super prize and the first prize, the other levels of prizes have been arranged in a manner that winners of small scale take a high value. Persuading the purchase of lotteries through increasing winners and minimizing the negative impact on lotteries by convincing that he is a winner of a certain level.
- Deciding on a maximum prize for more number of winners.

2.3 Analysis of Ratios

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

Ratio -----	Year -----	
	2018 -----	2017 -----
(i) Gross Profit (Percentage)	13.04	12.36
(ii) Net Profit / (Loss) (Percentage)	0.67	0.83
(iii) Current Assets Ratio	1.75:1	1.65:1
(iv) Quick Assets Ratio	1.73:1	1.61:1

Further attention should be paid in maintaining the current and instant ratios of the Board at an optimum level and even though the instant ratio of the year under review was indicated as 1.73:1, it was observed that those ratios had been obtained by investing prize reserve fund and employees' gratuity fund in the current assets.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
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<p>(a) Even though a post had been created for a legal service of the Board and recruited a Legal Officer therefor, various legal services of the Board had been carried out through external lawyers' institutions without carrying out procurement. Moreover, the ability of obtaining relevant legal services through the Attorney General's Department as well had not been looked into. A sum of Rs.2,189,109 had been spent for the legal service so obtained in the year under review. Moreover, the lawyers' fees paid for 05 court sessions engaging three lawyers for each court session in a case on trial in the Colombo Commercial Court, amounted to Rs.471,750.</p>	<p>The duties of the Deputy General Manager (Legal) of the National Lotteries Board include formulation of agreements, filing basic matters for cases in which the Board is one of the parties, carrying out basic activities including observations thereon and coordinating the Attorney General's Department or the Panel of Lawyers of the National Lotteries Board and acting as the Secretary to the Board of Directors and the Secretary of the Audit Committee. Legal services had been obtained only from the Attorney General's Department and the Panel of Lawyers appointed by the Board of Directors of the National Lotteries Board.</p> <p>Moreover, it is obligatory that a registered lawyer and a President's Counsel appear for the case on trial in the Colombo Commercial Court bearing No. HC/CIVIL/262/MR and when a President's Counsel appears in court, it is essential that he appears with a Junior Lawyer.</p>	<p>It is appropriate to obtain the assistance of lawyers by consulting the Attorney General.</p>

- (b) Even after making all payments relating to the advertisement submitted to the Board by creative advertising agents after completing producing and editing, uneconomic payments of 11.5 per cent of the total service charge is paid to the said advertising agency continuously every time the said advertisement is aired on the relevant media. It was observed in Audit that a sum of Rs.36,724,054 had been so paid in the year under review.
- Recruitments are made through procurement methodologies and entering into agreements with the said institutions is not carried out by the Marketing Division and transactions are carried out according to the relevant agreement.
- The Board itself carrying out relevant activities by reserving airing time.
- (c) The advertising companies had been paid a 15 per cent service charge reporting that assistance of the advertising companies had been obtained as intermediate institutions for telecasting daily lottery draws of the National Lotteries Board. However, a sum of Rs.5,738,357 could be saved in the year 2018 alone due to engaging the staff of the Board for the Sevana Lottery conducted without such assistance at present. Nevertheless, a sum of Rs.65,256,074 had been uneconomically spent by reporting that, assistance was obtained from advertising agencies without providing such assistance relating to the other 10 lotteries.
- A service charge of 15 per cent is paid by the Rupavahini Corporation to advertising agencies selected according to the prescribed procurement procedure relating to all lotteries. The Board is not involved in these payments and as there is no agency only for the Sevana Lottery, action had been taken to make payments to the Rupavahini Corporation by reducing that service charge.
- do-
- (d) Despite having the ability of direct registration of brands carried out by the National Intellectual Property Office for lotteries conducted by the Board through submitting a simple application, a sum of Rs.296, 305 had been uneconomically paid in the year under review to external legal companies by engaging them in the said purpose.
- In the registration of the trade mark, the names of lotteries are registered according to Series and objections against the Gazette Notification are done. The service of a lawyer is needed therefor.
- In handing over the application, if there are objections, taking relevant legal action is adequate.

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
<p>(a) There had been 135 misplaced lottery tickets valued at Rs.627,750 cancelled in the 32nd draw of the Colombo Airport Super Draw Lottery and those comprised of 66 lottery tickets misplaced by the private advertising company and 69 lottery tickets misplaced by the staff of the Publicity Division of the Board. No measures whatsoever had been taken to recover the said moneys by holding a formal inquiry relating thereto.</p>	<p>The draw had been commenced considering the 135 tickets as unsold tickets and it was decided to publish in 03 leading newspapers in the three languages so as to provide an opportunity to notify the Board within a reasonable period in case of any owners of the said tickets.</p>	<p>A preliminary inquiry should be held relating to the misplacement of lottery tickets and action taken accordingly.</p>
<p>(b) An advertising structure created in the year 2018 on the lorry bearing No.227-0217 owned by the Board by spending a sum of Rs.451,605 had been damaged due to an accident with a truck and no steps whatsoever had been taken to recover the said loss.</p>	<p>Even by the instance of the accident, it had been 2 years after creating this advertisement and it was in the condition of being recreated. As a large expenditure has to be incurred therefor and as it is difficult in sales activities, it had been planned to remove the house structure on the said vehicle and to create a small house structure instead, on a cab vehicle newly purchased.</p>	<p>Taking action to hold preliminary inquiries relating to damaged properties and to recover losses.</p>
<p>(c) The motor vehicle bearing No.PS-2354 purchased by spending Rs.825,000 in the year 2012 had met with an accident on 12 June 2018. As such, the insurer had informed the Board that it has to be condemned and the insurance claim agreed to be paid was Rs.600,000.</p>	<p>The United Motors had submitted a total estimate of Rs.402,610 for the repairs of the motor vehicle bearing No.PS-2534 which had been purchased in the year 2012 for Rs.825,000. However, the insurance company had agreed to condemn the motor vehicle for Rs.600,000 instead of repairing it. Accordingly, a committee had been appointed by now to look into this matter and to take necessary action.</p>	<p>Speedy action should be taken according to appropriate recommendations.</p>

- (d) The motor vehicle bearing No.KV-0392, provided to a Coordinating Officer who was recruited to the service of National Lotteries Board and released to the Ministry of Finance, had met with an accident on 12 April 2018 when being used for a private journey of the said officer without informing the Board. Even though a cost of Rs.538,650 had to be incurred for repairs of the said motor vehicle, no steps whatsoever had been taken thereon.
- The total amount of Rs.538,650 had been received from insurance. Accordingly, the Board had not sustained any loss due to the accident. The Preliminary Report had been submitted in terms of Financial Regulation 104(3) relating to the incident. Moreover, the Matara Police Station had been reported of the incident and according to evidence obtained, it is also indicated that this is not a fault of the Driver of the motor vehicle.
- Taking action on engaging office motor vehicles for private purposes.

3.3 Management Inefficiencies

Audit Observation

Comments of the Management

Recommendation

- (a) The Committee on Public Enterprises held on 21 March 2013 had directed to recover the employees' gratuity amounting to Rs.7,392,287 overpaid during the preceding years. However, action had not been taken to recover the said amount or to indicate in the financial statements as an amount receivable. The Board had only taken action to notify the relevant retired officers in writing to reimburse the overpaid gratuities to the Board.
- According to a decision taken by the then Board of Directors, the basic salary of one month has been paid as gratuity during the period from 2010 to 2012. Instructions relating to this matter had been obtained from the Attorney General's Department as well and the recovery of moneys in that manner was impractical. As such, the Administration Division of the National Lotteries Board had decided to write off this amount on the approval No.3810 (19) dated 29 June 2018 of the Board of Directors and had been submitted to the approval of the Ministry of Finance.
- Action should be taken according to decisions made by the Committee on Public Enterprises.

<p>(b) According to the directive given at the Committee on Public Enterprises held on 04 November 2014, a new building should have been constructed on the land of 112 perches in extent, located down Vauxhall Street, belonging to the Board. However, only the selection of an Architect had been carried out even by the end of the year 2016. Moreover, this construction had not been commenced up to 31 May 2019 while a sum of Rs.9,336,994 inclusive of VAT was being paid monthly for the building obtained for maintaining the office and storing purposes of the Board in the year under review.</p>	<p>As agreed by the Consultancy Services Institution, the works up to preparing of bid documents had been completed. However, due to exceeding the approved estimate of the building and obtaining approval again from the Cabinet, the Procurement Committee appointed by the Cabinet had instructed the Consultancy Institution to submit a report indicating the reasons for the increase in the estimate. Accordingly, a Cabinet Paper had been submitted on 21 March 2018 to the Cabinet for the new estimate.</p> <p>Moreover, we have been informed in terms of the letter dated 03 April 2018 of the Ministry of Finance and Mass Media that permission cannot be granted for the new building construction according to existing Government policies.</p>	<p>Necessary approval should be taken for constructions on revised estimates in compliance with Government policies and taken action thereon.</p>
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3.4 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a) The National Lotteries Board had deployed a Driver and a Publicity Officer each for 21 mobile publicity vehicles in the year under review and sold lottery tickets to the value of Rs.158,125,880. A sum of Rs.27,672,029 had been paid to the officers engaged in the said purpose as sales commission of 17.5 per cent without any documented evidence whatsoever. The role of the relevant division had not been established with the approval of the Board of Directors.</p>	<p>The payment of the commission remaining after settling Rs.16.50 for each lottery ticket obtained for sale by the Mobile Publicity Division and the staff involved in special sales and promotion programmes, is not documented. An approval of the Board of Directors had not been obtained specially for its role and it is our view that there is no necessity in doing so.</p>	<p>Registers should be maintained on handing over and taking over of commission paid by the Board.</p>
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- (b) A sum totalling Rs.354,000 comprising Rs.119,000 and Rs.235,000 in the year under review and the preceding year had been spent by the Fund of the Board to private auditors for auditing 04 various Funds maintained on behalf of the staff. Even an approval of the Ministry of Finance had not been obtained for paying the said audit fees from the Fund of the Board without paying from the relevant Fund.
- Audit fees have been incurred by the Board since the commencement. Necessary measures are being taken to obtain approval from the Ministry of Finance.
- Payments should be made according to Treasury approvals.
- (c) The Board of Directors had stressed the requirement of obtaining security bonds from the sales agents registered in the Board. However, without taking action therefor, the Board had incurred an additional cost of Rs.8,290,055 during the period from July 2016 to July 2017 and obtained a credit insurance coverage. It was observed in Audit that necessary steps had not been taken even by the end of the year under review to recover the loan balance amounting to Rs.23,365,438 unpaid for the years 2016 and 2017 relating thereto.
- Measures such as giving reminders by telephone calls for recovery of loan balances, non-provision of special draw lottery tickets on credit basis to sales agents with old balances, retaining service charges without releasing them and thereby recovery of loans in installments had been taken. Moreover, legal action is being taken against agents who do not respond favourably in this connection.
- Action should be taken to recover outstanding balances relating to the period for which the insurance policy is in effect.
- (d) Out of 650 public addresses valued at Rs.6,110,000 for which procurement activities were carried out in the year 2017, one hundred and eighty public addresses had remained in the stores even by 31 May 2019 without being distributed. It was not observed as well that a proper study on the quality, durability of the said goods and the requirement of the agents therefor, had been carried out even by the end of the year 2018.
- One hundred and sixty nine public address systems remain in the stores and action will be taken to use the said number in obtaining sales targets in special draws and for encouraging sales agents in sales agents' seminars, based on performance.
- Purchase of goods on identification of requirements and distribution without delay.

3.5 Transactions of Contentious Nature

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>(a) Despite non-vesting the full ownership of the land legally, the Board had granted a housing loan of Rs.624,780 to one of its officers and the said officer had left the service on 17 June 2017. However, the said party had filed a case in courts, for the recovery of possession of the relevant property and the Board had been named as a party thereof. Despite having a professionally qualified lawyer in the Board, external lawyers had been engaged by the Board, paying a sum of Rs.263,975 for 12 trials of this case.</p>	<p>The judgement of this case relating to the interest of this land between the mother and son (employee of the National Lotteries Board) would be given at the end of the trial and future decisions are expected to be taken after the judgement given by the honorable court.</p>	<p>Taking action to recover the property loan and the relevant legal fees.</p>
<p>(b) Instant lottery tickets valued at Rs.4,298,410 credited to the sales income after issuing bills to agents in the year 2016, had been returned in the year under review. However, incentive amounting to Rs.35,813,250 had been paid to the staff and agents in the year 2016, based on total sales and action had not been taken to adjust the said values as well.</p>	<p>As action was taken in the year 2017 to take over the instant lottery tickets sold in the year 2016 on credit basis, it is not possible to account the value of the said tickets as returns inwards.</p>	<p>Taking action to readjust sales commission and allowances for unrealized lottery tickets.</p>
<p>(c) The total number of 264,000 lottery tickets issued for 04 draws to the agents of the Kandy District had been removed from the relevant draws, considering as not sold, on the violent situation prevailed in that District on 07 March 2018. An approval of the Ministry of Finance was not presented to Audit relating to cancellation of all tickets including all lottery tickets sold by then by the said agents.</p>	<p>It was decided on the approval of the Board of Directors to refrain from presenting lottery tickets for the draw on the emergency situation which arose in the Kandy District on 07 March 2018 and to consider them as lottery tickets taken over again by the Board. It is our view that obtaining the approval</p>	<p>Action should be taken on the approval of the Ministry of Finance by identifying the number of unsold lottery tickets.</p>

of the Ministry of Finance relating to such business decisions, is not necessary.

- (d) In the 1896th Govisetha Lottery Draw conducted on 28 September 2018, a number of 8,000 unsold lottery tickets had been handed over to the District Sales Agent relating to the Stores Division of the National Lotteries Board on 20 September 2018. However, invoices had not been issued therefor and thus action had been taken considering the said number as sold tickets. As such, it was observed in Audit that no measures whatsoever had been taken even by 10 June 2019 relating to the amount to be repaid to the sales agent and officers who did not perform the prescribed duties.
- The officers in charge of relevant Divisions have confirmed that no written confirmation whatsoever had been submitted even by 28 September 2018, the date of the lottery draw, to the Lottery Order Division or the Lottery taking over Division relating to handing over of these 8,000 lottery tickets. The Internal Audit Division of the Board will look into this matter and take necessary action thereon.
- The internal control system of taking over again of lottery tickets should be carried out properly.
- (e) Nine hundred lottery tickets of the 55th draw of Dhana Nidhanaya and 500 lottery tickets of the 285th draw of Mega Power due to be drawn on 28 September, had been misplaced in transporting to the relevant District Sales Agent. As such, only all those lottery tickets had been withdrawn from the relevant draw, considering as unsold. However, no formal inquiry had been conducted, computed the relevant losses and brought to account.
- The quantities of lottery tickets included in the bar code range relating to these 02 types of lottery tickets subject to the covering approval of the Board of Directors, had been withdrawn from the lottery draws relating to draws on 28 September 2018.
- Preliminary inquiries should be held and action taken in terms of Financial Regulations relating to misplacements.
- (f) The amount recoverable from an officer who had obtained a property loan from the Board and vacated the post from 23 August 2000, had been Rs.340,275 as at that date. No action whatsoever had been taken even by 30 June 2019 to recover the said loan.
- Even though this officer had vacated the post on 23 August 2000, the Administration had not taken action to recover the said property loan since it could be recovered from his Employees' Provident Fund. Moreover, he has made a written request on
- Taking action to recover loans without delay.

27 November 2018 to pay his remaining Provident Fund after recovering all loans recoverable to the Board. Accordingly, all activities relating to the payment of the remaining Provident Fund after recovery of the property loan have been finalized.

3.6 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) The BMW motor vehicle bearing No.5860 owned by the Board, had remained idle.	This motor vehicle is used by the Chairperson for her official purposes and it is run in an economical manner.	The vehicle should be run appropriately.
(b) Even though the Board had incurred a further expenditure of Rs.329,693 for repairs of a machine valued at Rs.1,000,000 purchased in the year 2010 for lottery draws, it had not been made use of up to now.	The English letter in this machine for lottery draws, is indicated on the right side and a large amount of money is needed to change it and as such, it has not been changed. As the Console consisting of the software of the existing machine for Mahajana Sampatha Lottery Draw was inoperative, the Console of this lottery drawing machine is being used for this purpose. As such, it cannot be stated that the said machine remains idle.	Purchases should be made according to correct technical specifications.

3.7 Procurement Management

Audit Observation	Comments of the Management	Recommendation
(a) The period of agreement for printing purposes of two types of instant lotteries introduced to the market by the Board, had expired on 31 May 2015. However, necessary procurement activities had not been carried out to select a new printer up to 31 May 2019.	The procurement called on 29 March 2016 for printing instant lottery tickets, had been cancelled due to a petition relating to violation of fundamental rights. Approval of the Ministry of Finance had been received on 21 August 2019 for carrying out evaluations after calling for quotations by the new Procurement	Procurements should be properly planned.

Committee and awarding of bids. However, one bidder had filed a case against the said procurement in the Supreme Court relating to violation of fundamental rights. Accordingly, reference has been made to the Attorney General's Department for instructions on 23 August 2019. Nevertheless, no response whatsoever has been received therefor up to now.

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| <p>(b) Out of 500 solar panels purchased in the year under review by spending a sum of Rs.2,400,000, a stock of 474 solar panels had remained in the stores even by 16 June 2019. The requirement as well as the beneficiaries had not been determined in this procurement.</p> | <p>These solar panels have been purchased by determining the sales agents as beneficiaries, who are running the sales stalls with the objective of minimizing the electricity connection for sales stalls at least to a certain extent.</p> | <p>Carrying out procurements on requirement and distributing them.</p> |
| <p>(c) Even though a sum of Rs.118,964,725 had been estimated for 31 items of promotion in the year 2018 by the Board, procurement activities had been completed for only 6 items in that year and the value thereof amounted to Rs.21,569,725.</p> | <p>Even though 31 promotion items have been included in the Procurement Plan, only the procurement activities of 15 promotion items have been completed during the year. Despite including in the Procurement Plan, only essential goods are purchased on requirement, which is by considering the promotion programmes of the competitive institution.</p> | <p>Action should be taken to purchase goods on requirements as planned.</p> |
| <p>(d) Even though orders have been placed in February 2019 for manufacture and supply of 300 lottery sales stalls valued at Rs.13,128,900 in the year 2019, only 50 sales stalls had been supplied even by 10 July 2019. Moreover, no agreement had been entered into with the relevant supplier therefor and action had not been taken to recover liquidated damages as well.</p> | <p>The supplier failed to manufacture and distribute 300 sales stalls in the year 2019 and as such, the sum of Rs.1,509,823.50 has been recovered by the relevant security bond. In future, action will be taken to recover liquidated damages in the payment for sales stalls supplied, due to the delay in supply of sales stalls.</p> | <p>The Procurement Time Schedule should be duly implemented.</p> |
| <p>(e) A plan had not been prepared for all the procurement activities of the Board in the year under review and an estimate had been prepared only for expected sales promotion items.</p> | <p>A Procurement Plan had been prepared for all expected procurements including sales promotion items for the year 2018 and obtained approval of the Board of Directors.</p> | <p>All items should be included in preparing the Procurement Plan.</p> |

- (f) The printing of the 02 lotteries, Sevana and Dhana Nidhanaya commenced in July 2016 and May 2018 had been assigned to two printers without procurement by a decision of the Board of Directors. It was observed that printing had been again assigned to another two printers subsequently due to printing errors occurred in carrying out relevant printing. Moreover, printers had been selected without following the proper procurement process for 06 types of lotteries, out of 11 types of lotteries conducted in the year under review by the Board.
- In introducing the Sevana and Dhana Nidhanaya Lottery tickets to the market, the contract was awarded to a printer available at present, considering matters such as the urgent requirement, quality and efficiency of service. According to the Procurement Time Schedule, awarding of bids had been planned for 31 October 2018. However, contracts could not be awarded to qualified printers due to a trial of petition in the Supreme Court against the said invitation for bids. The Ministry Procurement Committee has granted approval for extending the contract period up to 31 December 2019 of printers available.
- Action should be taken to appoint printers according to the procurement.
- (g) Even though the State Printing Corporation had carried out the printing of Mahajana Sampatha Lottery, Neeroga Lottery and Mega Power Lottery conducted by the Board from the years 2008, 2015 and 2018 respectively up to now, a written agreement had not been entered into therefor. The minimum price received for printing one ticket through the procurement process during the year 2016 was Rs.0.3570. Nevertheless, the State Printing Corporation was being paid a printing cost of Rs.0.50231 relating to Mahajana Sampatha, Neeroga and Mega Power Lottery tickets. The estimated loss which could occur from printing lottery tickets of Mahajana Sampatha, Neeroga and Mega Power for the year under review alone due to failure in considering competitive prices, amounted to Rs.44,804,393, Rs.8,474,222 and Rs.17,858,050 respectively.
- There is a bank guarantee of Rs.05million for printing of the Mahajana Sampatha Lottery. Even though a draft was prepared and submitted for entering into the printing agreement, the said agreement has not been signed. Bids were not invited to select suitable printers according to a request made by the Minister of Mass Media to the Chairperson of the National Lotteries Board, not to invite for bids relating to Neeroga Lottery as well. Instructions have been given to commence the procurement process at once for 08 types of lottery tickets including Neeroga and Mega Power drawn according to instructions of the Ministry Procurement Committee on 26 June 2018. As such, the works of the new procurement are being carried out by now.
- Entering into agreements with printers and making arrangements to obtain relevant bank guarantees.

- (h) It was observed in Audit that the relevant lottery tickets had been printed using low cost paper, contrary to requirements mentioned in the specification relating to computerized printing of lottery tickets in the year 2018. Moreover, there were instances in which the relevant printing had not been carried out by printers so as to safeguard the prescribed standards. No steps whatsoever had been taken thereon. In the Govisetha Lottery draw conducted on 13 January 2019, the relevant printer had printed 30 lottery tickets twice and supplied.
- Action is expected to be taken on including a clause in the agreement of printing to enable to recover a penalty from the printer relating to errors of this manner, to provide all lottery printers with a standard printing style, to inspect the factories of lottery printers once in 04 months by a committee knowledgeable on printing of lotteries, on their internal control system on printing and to obtain agreement of relevant printers in awarding of tenders in future.
- Entering into agreements so as to safeguard standards and examining the execution thereof.
- (i) Even though the Board had given instructions to printers to print by including all data into a QR Code for the protection of buyers of lottery tickets, instances in which the relevant printers had not followed the said protective methodology, were observed. Moreover, the said test had not been carried out by the Board for lottery tickets submitted by winners.
- Cannot be agreed.
- The QR Code has been introduced to the lottery ticket to facilitate identifying a genuine lottery ticket for the protection of customers in lottery printing and thereby verifying winning of lottery tickets through the web site automatically to customers on lottery draws in future.
- Printing of tickets including methodologies for easy identification and protection of customers.
- It has been commenced as a pilot project along with Neeroga Lottery and subsequently introduced for all lottery tickets due to its success. Bar Code numbers and printed variable data relating thereto are confirmed through our main information network and reports of the Government Analyst.
- Moreover, the QR Code test can be easily carried out using software that can be freely downloaded with the help of a smart mobile phone and specialized equipment is not required therefor.
- As such, highly successful results have been obtained and future steps are being taken as well to implement the second stage thereof.

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| <p>(j) Even though the monthly assessment value given by the Valuation Department for the building of 26,000 square feet in extent obtained on rent by the Board was Rs.3,750,000, the monthly rental value paid therefor was Rs.7,677,173. An adjoining building of 4,885 square feet in extent constructed on iron beams has been obtained on a monthly rental of Rs.1,099,125. However, action had not been taken to obtain the plan of the said building, Certificate of Residency, approval of the Urban Council and the assessment of the Valuation Department etc. Many building owners were deprived of the opportunity of applying, as tenders were called not less than 40,000 square feet in this procurement and the required capacity of electricity has not been looked into. As such, an expenditure of Rs.1,011,840 had been incurred monthly for electricity.</p> | <p>Even though the valuation of the building of 26,000 square feet in extent obtained on the requirement of the Board was Rs.3,750,000.00, the recommendation of the Technical Evaluation Committee and the approval of the Ministry Procurement Committee and the Cabinet has been obtained for the payment of Rs.7,677,173 therefor.</p> <p>An approved Plan and the Certificate of Residency and the approval of the Urban Council has not been obtained for the building of 4,885 square feet in extent, constructed adjoining the main building. The capacity of electricity has been increased at present and a generator is not used.</p> | <p>Obtaining an approved valuation from the Valuation Department relating to relevant constructions and taking action to minimize the cost as much as possible.</p> |
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3.8 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) The approved cadre of the National Lotteries Board as at 31 December 2018 consisted of 12 persons not approved and recruited on contract basis and that number included 01 employee of Senior Level and 11 employees of Primary Level.</p>	<p>The said officer has served on contract basis due to the service extension up to 06 months after retirement on the approval of the Ministry of Finance and the Board of Directors.</p>	<p>Recruitments should be made according to the approved scheme of recruitment.</p>
<p>(b) Salaries amounting to Rs.1,200,000 had been paid in the year under review by recruiting three and one officers respectively for 02 new categories of posts as Development Coordinating Officer and Special Project Consultant, not included in the approved cadre.</p>	<p>The officers for the posts of Special Project Consultant and the District Coordinating Officer have been recruited on the approval of the Ministry of Finance and the Board of Directors.</p>	<p>Action should be taken to recruit according to qualifications and to update the approved cadre.</p>

(c) The post of Financial Officer, approved in the Board, had been suppressed and the post of Sales Promotion Officer had been created without the concurrence of the Department of Management Services. A person holding a post of Management Assistant had been appointed from 08 August 2017 to the said post without mentioning specific qualifications. Despite directing to defer 03 salary increments of the officer appointed to that post, payment of salaries for the new post had been made without taking action accordingly.

Promotions have been made by temporarily changing the designation with the approval of the Board of Directors within the approved cadre on the requirement of duty of the Institute with the objective of motivating old employees.

Implementing according to orders of the Administration.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
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In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements of the Board should be presented before 28 February of the ensuing year after the closure of the year of accounts. However, the financial statements of the year under review had been presented to Audit only on 12 June 2019.	A problem has arisen on the computation of income tax relating to the payment made to the Consolidated Fund. Moreover, a solution thereto by the Ministry of Finance had delayed and as such, the financial statements could not be presented on the due date.	Action should be taken in terms of circular instructions.

4.2 Corporate Plan

Audit Observation

In terms of Section 5.1.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003, an updated copy of the Corporate Plan approved by the Board of Directors should be presented to the Auditor General 15 days before the commencement of the ensuing financial year. However, the Board had not presented the Corporate Plan relating to the year 2018 to the Auditor General as mentioned above and the prepared Corporate Plan had been approved by the Board of Directors at the meeting held on 03 June 2018.

Comments of the Management

The service of an external party has been obtained for the preparation of the Corporate Plan of the year under review. The said Plan has been presented on 06 November 2017. It was instructed at the Management meeting to prepare the Corporate Plan by including the matters concluded after further discussions by the Board of Directors.

As a considerable time was taken to conduct training programmes, to prepare the Corporate Plan and the Action Plan and to obtain approval of the Board of Directors, the Corporate Plan could not be submitted to relevant Divisions before the due date.

However, in terms of the Public Enterprises Circular No. PED/12, it is informed that action will be taken in future to prepare the Corporate Plan and Action Plan, obtain approval of the Board of Directors and present a copy of it to the Auditor General without delay.

Recommendation

The Corporate Plan should be prepared and submitted in terms of circular instructions.

4.3 Annual Action Plan

Audit Observation

(a) In terms of Section 5.2.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003, copies of the final updated Budget approved by the Board of Directors should be forwarded to the line

Comments of the Management

It is informed that the Budget approved by the Board of Directors according to instructions of the Public Enterprises Circular No. PED/12 in the ensuing years will be submitted to relevant parties without delay.

Recommendation

Action should be taken in terms of Circular instructions.

Ministry, Department of Budget Enterprises, General Treasury and the Auditor General not later than 15 days before the commencement of the ensuing year. Nevertheless, the said report has been issued only on 02 February 2018.

- (b) The Corporate Plan, Action Plan, Procurement Plan and the Annual Budget should be prepared parallel to each other. However, instances were observed in which action had not been so taken.
- It is recorded that the Corporate Plan, Action Plan, Procurement Plan and the Annual Budget should be prepared parallel to each other as possible.

4.4 Budgetary Control

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
(a) Provisions of Rs.87 million and 15.5 million allocated respectively for purchase of a new Draw Balling Machine and other accessories for conducting draws for the Mahajana Sampatha Lottery and computer software, had been saved. Moreover, out of provisions allocated for purchase of computer hardware and spare accessories, office equipment and other goods and accessories, 84 per cent had been saved.	Can be agreed. The procurement process for purchase of a new Draw Machine for the Mahajana Sampatha Lottery Draw had been commenced in the year 2019 and preparation of the bidding documents in calling for bids is being finalized.	Procurement plans should be duly implemented.
(b) Even though a sum of Rs.20 million had been allocated for “Mahatma Appreciation”, for encouraging District Sales Representatives in the year under review, such a	The “Mahatma Appreciation” was scheduled to be held at the end of the year 2018 and the situation in the country had affected the Institute. As such, the organization and appreciation of	Relevant provisions should be made by planning specifically.

<p>function had not been held during the year.</p> <p>(c) The provisions of Rs.6,000,000 allocated in the year under review for the market survey and introducing new lotteries, had been saved without spending.</p>	<p>Mahatma Awards could not be carried out properly.</p> <p>Replies not submitted.</p>	<p>Provisions should be made by specific identification</p>
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4.5 Sustainable Development Goals

Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>Every Government Institution should act in terms of the “2030 Agenda” of the United Nations on sustainable development. However, the National Lotteries Board had not been aware of the manner of implementing relating to functions that come under its scope in the year under review. As such, it had not been able to identify the sustainable development goals and targets relating to the functions of the Board and focal points in achieving those targets and the indices for measuring the achievement of targets as well.</p>	<p>The officers of our institute had not been aware in any instance of implementing the “2030 Agenda” relating to sustainable development goals. A letter has been forwarded to related parties informing that if necessary arrangements are made for awareness, officers could be made to participate.</p>	<p>It is appropriate to consult the line Ministry in taking action.</p>