

## **National Lotteries Board - 2021**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the National Lotteries Board for the year ended 31 December 2021 comprising the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements, including a summary of significant, accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Board as at 31 December 2021 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

## 1.4 Scope of Audit

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the

presentation of information to enable a continuous evaluation of the activities of the Board and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board.
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the Preparation of Financial Statements**

### **1.5.1 Internal Control over the Preparation of Financial Statements**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Accounts of the Board had been operated by using the Sage ACCPAC computer software introduced by the Board in the year 2003. Since the said System had been decentralized in the year 2016, services to be obtained from this software had been limited. The credibility by the previous centralized system in respect of transactions of the Board had become questionable under this decentralized System. Since certain changes are made from time to time, taking responsibility for risks occurring due to such changes, had been turn down by the company by which this software was introduced.	A balance in the Creditors Control Account in using the centralized Sage ACCPAC computer software has remained in the main journal. The ACCPAC modules newly added to the ACCPAC system for the prevention of such transactions in future, are removed from the main journal and used as two separate systems. As a result, certain features in internal control are omitted and as such, certain facilities had become inactive. Being precluded from practical problems, action is being taken to reconnect to the centralized system after implementing a special training program therefor.	Maintaining the computer software and the computer security system in an updated for achieving targeted functions with more credibility.

### **1.5.2 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) It was informed by the Letter No.PE/LO/NLB/Gen/2016	A sum of Rs.550 million has been remitted to the General	As it was informed that the said money

dated 03 August 2016 of the Director General of the Department of Public Enterprises to remit a sum of Rs.600 million out of retained earnings of the National Lotteries Board of the year 2016, to the Consolidated Fund. Accordingly, the Board had remitted a sum totalling Rs.550 million to the Consolidated Fund in 02 instances of the year 2016. A sum of Rs.550 million had been shown in the financial statements of the Board of the year 2021 as a receivable amount from the General Treasury to the Building Reserve Fund of the Board. Nevertheless, such a balance had not been shown in the financial statements of the Government for the year ended 31 December 2021 as a balance payable to the National Lotteries Board. As per the Letter No. PED/S/NLB/3/3(ii) dated 25 May 2022 of the Director General of the Public Enterprises, those money so remitted had already been credited to the Consolidated Fund, and as such, those money are not usually returned to the Board. Thus, the Account receivable had been overstated by the same amount.

Treasury in the year 2016 based on discussions held with Minister of Finance and the Prime Minister. A letter has been sent by the then Chairperson to the Deputy Secretary of the Treasury on 19 September 2016 which further revealed that the Deputy Secretary of the Treasury has agreed to return those money. A letter as well mentioning further on the above matter, has been referred to the Addl. Director General of the Ministry of Finance on 08 June 2022.

will not be returned, relevant adjustments should be made in accounts accordingly.

- (b) The variance in the trade and other payable balance and the value of the gratuity paid had been overstated by Rs.2,184,950 in working capital variances of the cash flow statement prepared for

In the preparation of the cash flow statement, the total expenditure for the year has been recorded as the cash value paid for gratuities. The said gratuity payable should be tallied with the variance in trade

The financial statements should be prepared more accurately.

the year under review.

and other payable balances. However, as a result of the said error, the value of the cash flow arising from operating activities has not been varied and it is informed that action will be taken to keep records accurately in preparing accounts in future.

- (c) The balance of the Cancelled Cheques Account as at 31 December 2021 was Rs.14,500,033. The said balance included payments made by 56 cheques issued to various suppliers and creditors since the year 2019. Moreover, transactions included in the Cancelled Cheques Accounts had not been checked and the balance therein had not been settled by making adjustments in relevant accounts even by the end of the year under review. Even though legal action on accrued expenditure totalling Rs.11,241,250 payable to two external institutions, brought forward since the year 2020, had been taken by those institutions, disclosures thereon had not been made in the financial statements.
- Cheques remained un-encashed for more than 06 months are cancelled and the value thereof is transferred to the Cancelled Cheques Account which is a temporary Ledger Account and it has been recorded in trade and other payables under current liabilities of the financial statements. In case those cheques are requested within further 06 months, those will be reissued through the Cancelled Cheques Accounts and if not, those will be adjusted to the staff revenue. Cheques totalling Rs.11,241,250 comprising Rs.3,910,000 and Rs.7,331,250 payable to two private institutions, not released due to a legal matter, had been brought forward in this account since the year 2020 and action will be taken to transfer these balances to the Accrued Expenditure Account in future.
- Balance of the account should be checked and adjustments should be made in relevant accounts and in case legal action had been taken thereon by relevant parties, disclosures thereon should be made in the financial statements.
- (d) According to the bank reconciliation statement prepared as at 31 December 2021 for the Mahajana Sampatha Janabhisheka Golden Jubilee Account operated in the People's Bank by the Board, balances debited and credited to the bank account, but not included in the cash book, were
- This bank account has been opened for the Mahajana Sampatha 4000 and Mahajana Sampatha Janabhisheka Golden Jubilee Cash Book (B700) and later, this Account has been operated for the Raja Dinuma and Ran Kirula and thereafter, the cash book (B690) had to be used for the Govisetha Special Draw No.0003 before settling
- Unidentified balances indicated in the Bank Reconciliation Statement should be identified and settled properly.

Rs.72,260,545 and Rs.76,970,786 respectively. The Board had not taken action even by 15 June 2022 to identify and settle those balances brought forward since the year 2010. and transferring those cash books to relevant accounts. Action is being taken to finalize the settlement of Govisetha Special Draws in the cash book and to transfer money therein to relevant accounts at the end of the month of June. After finalizing the said settlements, Raja Dinuma and Ran Kirula cash books will be settled and thereby, debit and credit balances shown in this bank account, are settled.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

Audit Observation	Comments of the Management	Recommendation
Court proceedings were conducted against the payments made for two winning lottery tickets valued at a total of Rs.4,350,000 comprising Rs.1,000,000 as the cash prize of the Jayaviru Sampatha Lottery drawn on 12 October 2005 and Rs.3,350,000 payable for the Motor Car awarded as a prize of the Mahajana Sampatha Lottery drawn on 24 August 2019. The said balance had been included in the prize balances further payable.	As police investigations and court proceedings are being conducted against the payment of these prizes, awarding relevant prizes has been suspended.	Action should be taken to settle without delay.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 10(5) of the Finance Act, No.38 of 1971 and Section 17(2) of the Finance Act, No.11 of 1963 as amended by the	Even though the balance of the proceeds of lotteries after deducting relevant expenses specified in the	In case of crediting the retained profit to the Consolidated Fund, a huge financial crisis would occur in carrying out day to day activities	Provisions of the relevant Act should be adhered to.

Finance (Amendment) Act, No.35 of 1997	from such proceeds, should be credited to the Consolidated Fund, profit totalling Rs.1,529,921 retained by the end of the year under review had been retained in the Board as at 31 December 2021 without being so credited to the Consolidated Fund.	in the institution. As such, there is no possibility of crediting the said total retained profit to the Consolidated Fund of the Government and the Ministry of Finance has been briefed in this connection by the Letter dated 16 November 2021. Moreover, a sum of Rs.900 million has been remitted to the General Treasury a special levy in the year 2021.	Provisions of the relevant Act should be adhered to.
(b) Section 11 of the Finance Act, No.38 of 1971	Even though no money of a public corporation shall be invested without approval of the Minister of Finance, Sum of Rs.5,071 million and Rs.1,353 million had been invested by the Board in fixed deposits and short term deposits respectively by the end of the year under review.	These investments are made with the approval of the Chief Finance Officer and the Chairman and obtaining approval for these short term investments made more often is not practical at all. Moreover, it had been specified in the Operational Manual for State Owned Enterprises issued recently by the Department of Public Enterprises of the Ministry of Finance that there should be an investment committee for institutions with a minimum turnover of Rs.30 billion. Accordingly, it is not necessary to appoint such a committee in our institution. However, in case of special investments, decisions will be taken by appointing an	

		investment committee therefor, based on a decision taken recently.	
(c)	Financial Regulations (i) F.R. 371(2)	Ad hoc sub-impressts totalling Rs.622,000 had been issued by the Board to Non-staff Officers in 09 instances of the year under review and a delay ranging from 03 months to 08 months had occurred to settle a sum of Rs.139,000 of those impressts.	These are the advances utilized for obtaining fuel for the transport of employees during the lockdown period due to Covid 19 pandemic prevailed in the country. Issuance of these advances has been discontinued by now and in case of an emergency situation, relevant divisions have been briefed to take action to issue advances without exceeding the said amount.
	(ii) F.R.371(5) and 371 (6)	Out of ad hoc sub-impressts issued to Staff Officers, a sum totalling Rs.802,479 relating to 11 instances, had not been settled by the end of the year under review and a delay ranging from 20 days to 780 days had occurred at the time of settlement in the year 2022.	These sub-impressts have been settled currently.
	(iii) F.R. 571	Action had not been taken to settle the Tender deposits totalling Rs.7,766,325 which had lapsed 02 years from the date of deposit or credit it to the revenue of the Board by the end of the year under review.	Action is being taken to settle these Tender deposits.
(d)	Paragraphs 15(2) and (3) of the Public Finance	A Fund named Asarana Sarana had been initiated by the	This Fund consists of proceeds of Neeroga Lottery and donations
			Action should be taken in terms of Financial Regulations.
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			Action should be taken as per circular provisions.



Circular No.01/2020 of 28 August 2020	Board in the year 1998 and the donations from the Lottery Prize Winners and receipts of 0.005 per cent out of proceeds of Lottery tickets had been credited to the above Fund. There was a balance of Rs.24,030,981 in the said Fund as at 31 December 2021. An approval as per the circular provisions had not been obtained for operating such a special Fund. Accordingly, money to be credited to the Consolidated Fund had been retained in the Board in an illegal manner.	from the Lottery Prize Winners and at present, there is no contribution from prize winners to the Fund. Moreover, a sum of Rs.2 million is allocated for making payments through the Asarana Sarana Fund annually on the approval bearing No.3832-17 of the Board of Directors granted based on the Circular No. PED/P/2/25(i) issued on 09 September 2020 by the Ministry of Finance. Accordingly, action will be taken to make financial contribution after ascertaining the requirement by considering the requests made for the year 2022.	Approval should be obtained as per circular provisions.
(e) Public Enterprises Circular No. PED/12 of 02 June 2003	An Incentive Scheme had been implemented for the staff of the Board without obtaining the approval of the Treasury and a sum totalling Rs.110,344,291 had been paid as incentive in the year under review based on proceeds of each lottery.	As the approval of the Ministry of Finance should have been obtained for the payment of incentive as per the Circular No. PED/12 of 02 June 2003, approval has been granted for the payment of incentive by the Secretary to the President on behalf of the Minister of Finance. Further, approval of the Secretary to the Ministry of Finance and Planning has been sought by the letter No.NLB/AD/EX2012 of 12 June 2012 with a view to increasing the percentage of computing of incentive. However, approval has been	

granted by the letter No. PE/TR/DLB/Gen/2018 of 25 January 2019 of the Director General of the Department of Public Enterprises only for maintaining the limit of 0.5 per cent existed then for computing the incentive. Moreover, it has been further informed that action will be taken to introduce a general policy for the payment of incentive of public enterprises in future.

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| (f) | Letter No.PE1/70/7/Vo11 dated 21 January 1993 of the Deputy Secretary to the Treasury | A percentage of 16.5 per cent of proceeds from all lotteries conducted on behalf of the Government should have been remitted to the Consolidated Fund. Nevertheless, only a value of 10 per cent of proceeds that is, less than the due percentage from 11 types of lotteries, conducted in the year under review had been remitted to the Consolidated Fund and as such, the value to be remitted further to the Treasury amounted to Rs.681,851,572. | The contribution relating to lotteries has been accurately credited to the Consolidated Fund by the Board according to the existing percentages. Letters have been forwarded on several occasions to the Ministry of Finance seeking approval for these percentages and no replies therefor have been received so far. | Circular Provisions should be adhered to. |
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## **2. Financial Review**

### **2.1 Financial Results**

The operations of the Board for the year under review had resulted in a surplus of Rs.1,003,355,136 as compared with the corresponding surplus of Rs.1,434,824,231 for the preceding year, thus observing a deterioration of Rs.431,469,095 in the financial result. Discontinuation of selling of lotteries due to lockdown of the country from time to time owing

to the Covid pandemic and decrease in the sale of lotteries thereafter had mainly attributed to the said deterioration.

## 2.2 Trend Analysis of Major Income and Expenditure Items

The following observations are made in respect of proceeds of lottery tickets and advertising expenses of the Board for the years 2021 and 2020.

Description	2021	2020	Difference	Difference as a percentage
	Rs.	Rs.	Rs.	%
Income				
Proceeds of Lotteries	17,292,066,088	18,041,145,000	(749,078,920)	4.15
Cost of sale	14,396,877,247	14,923,669,223	(526,791,976)	3.53
Expenditure on sales, marketing and distribution	1,074,102,918	893,002,443	181,100,475	20.28

- (i) Proceeds of lottery tickets and the cost of sales had dropped by Rs.749,078,920 and Rs.526,791,976 representing 4.15 per cent and 3.53 per cent respectively in the year under review as compared with the preceding year.
- (ii) Even though proceeds of lottery tickets of the Board had decreased by 4.15 per cent as compared with the preceding year, expenditure on sales, marketing and distribution had increased by 20.28 per cent as compared with the preceding year.

## 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	
	2021	2020
(i) Gross Profit Ratio	14.38	14.89
(ii) Net Profit Ratio	5.55	6
(iii) Current Assets Ratio	3.1:1	2.97:1
(iv) Quick Assets Ratio	3.09:1	2.95:1

## 3. Operating Review

### 3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs.27,009,822 had been spent for the consultancy	The said expenditure has been incurred on the	Constructions should be expedited.

services from the year 2016 to the year under review by the Board as work-in-progress for the construction of the business premises on the land owned by the Board, located at Vauxhall Street.

recommendation of the Technical Evaluation Committee and in terms of the agreements for the consultancy services for the construction of the new proposed building of the National Lotteries Board.

- (b) A sum of Rs.24,357,375 had been paid as an additional security deposit for a period of 03 months for telephone, water and electricity charges in terms of paragraph 08(6) of the Lease Agreement relating to the building obtained on rental basis by the National Lotteries Board. An additional payment of Rs.24,357,375 had been made uneconomically by the Board to the owner of the building with a prior understanding of savings of Rs.63,329,175 by the end of two years, of the initial deposit paid in terms of paragraph 08(9) of the said Agreement.
- A rental relating to three months amounting to Rs. 24,357,375 had been paid to the owner of the building as a security deposit in terms of the agreement entered into between the Board and the owner of the building. Further, rental relating to 12 months amounting to Rs.63,329,175 had been paid as a deposit to the owner of the building. Payments had been made by deducting from the monthly rental at a rate of 35 per cent per month of the deposit in terms of the agreement from January 2019 to August 2020. The remaining amount after deducting accordingly, and the security deposit are available with the owner of the building.
- Agreements should be entered into in a favorable manner to the Board.

### 3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
(a) According to information made available to Audit by the Board, out of 30,000 Dollar Fortune lotteries printed in the year 2016 to be sold at USD 10 per ticket, 569 tickets had been misplaced. The value of these misplaced tickets was Rs.1,594,906 as at 31 December 2021 and action had not been taken to hold a	A committee was appointed to look into the misplaced lotteries relating to this lottery draw and the said committee had inspected the total 30,000 tickets. Only a number of 786 tickets had been misplaced and information thereon could not be found. A newspaper advertisement mentioning serial numbers had been	Action should be taken to hold a proper inquiry to identify the loss occurred and responsible parties relating thereto and to recover the loss.

proper inquiry on the said misplacement to identify responsible parties relating thereto and to recover those losses. Moreover, the draw relating to those lotteries had not been conducted even by 30 April 2022.

published in three languages for ascertaining the persons who purchased the lotteries which could not be verified. It is expected to conduct draws by lodging a Police complaint relating to the said lotteries after determining the number of lotteries of which information cannot be obtained.

(b) According to reports on Board of Survey conducted as at 31 December 2021, goods valued at a total of Rs.3,418,665 belonging to 03 various sections of the Board, had not been identified. Goods valued at a total of Rs.1,473,327 belonging to 11 sections had been damaged.

The matter relating to goods which had not been produced at the Board of Survey mentioned herein, was looked into once again. The book value as at 31 December 2021 of fixed assets mentioned as misplaced, is Rs.310,693. Action will be taken relating to these items after holding an inquiry.

A formal inquiry should be held on unidentified and damaged goods.

### 3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs.103,190,357 had been recoverable as at 31 December 2021 from lottery sales agents. Even though the said agents should provide a guarantee therefor, guarantees were so provided only for the debtors' value totalling Rs.20,400,906. Bank guarantees had not been so obtained for the loan balance totalling Rs.82,789,451 representing 80 per cent of the lottery debtors' balance.	At the beginning, bank guarantees had not been obtained from all District sales agents and a bank guarantee is currently obtained when giving appointments to new sales agents.	Guarantees should be obtained from lottery sales agents according to a proper system.
(b) The debtors' value exceeding 365 days by 31 December 2021 was Rs.29,271,401 and	The debtors' value exceeding 365 days by 31 December 2021 for the lotteries drawn, is	A proper recovery system should be implemented.

the Board had failed to recover the said money or to encash bank guarantees of Rs.2,299,197 out of them, which was the value of debtors with bank guarantees. Rs.13,334,463. The value of instant loans exceeding 365 days by 31 December 2021, is Rs.15,936,737. Out of them, the debtors' value with bank guarantees is Rs.126,015 and legal action will be taken to recover the debtors' value of Rs.9,887,694.

- (c) From among the registered sales agents of the Board by 31 December 2021, sixty four and 79 sales agents had been provided with instant lotteries and passive lotteries respectively on credit basis and out of them, only 10 and 25 sales agents had provided bank guarantees for instant lotteries and passive lotteries respectively. Accordingly, bank guarantees had not been obtained from 54 and 54 sales agents relating to instant lotteries and passive lotteries respectively. At the beginning, bank guarantees had not been obtained from all District sales agents and a bank guarantee is currently obtained when giving appointments to new sales agents. Action will be taken to obtain bank guarantees as much as possible from old District sales agents. Bank guarantees should be obtained from all sales agents.
- (d) The debtors' balance relating to the sale of Colombo Airport Super Draw lotteries as at 31 December 2021 was Rs.5,151,652. This lottery draw had been conducted on 21 January 2018 for the last time. The Board had failed to recover this debtors' balance even by 30 April 2022 and provision for doubtful debts had been made by financial statements of the year 2021 for the said total value. A debtors' balance of Rs.5,151,652 remains in the Colombo Airport Super Draw lottery and it is a sum recoverable from Splash Advertising and a complaint had been made in this regard on 22 June 2018 to the Fraud and Investigation Division. Action should be taken to recover debtors' balances after holding discussions with relevant parties.
- (e) In case of failure to hand over the quantities of printed lotteries ordered for various draws within the prescribed Action is being taken to charge penalties for all other draws except for the Mega Power 616, 618 and 620 draws for the Action should be taken in terms of agreements.

period, penalties should have been charged from printing institutions in terms of relevant agreements. The said penalty should have been deducted from the next payment made to the said institution. Printing of lotteries and handing them over had been delayed relating to 13 lottery draws conducted from 20 January 2020 up to 22 September 2020. As such, penalties totalling Rs.1,031,759 had been imposed on the printers and action had not been taken to recover the said penalties even by the end of the year under review.

delay in printed tickets from 20 January 2020 to 22 September 2020. Payments for the Mega Power 616, 618 and 620 draws had been suspended due to printing errors. Moreover, action will be taken to charge relevant penalties and penalties for delays by referring those printing errors for investigation to the printing error investigation committee and obtaining approval of the Board of Directors.

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| (f) | A balance of Rs.275,908 had to be recovered for assets not returned by the former officers of the Board. Moreover, the Board had failed even by 31 December 2021 to recover a sum totalling Rs.309,035 comprising Rs.33,127 recoverable based on disposal, relating to assets removed from use. | The remaining sum payable to the Board by the officers relating to assets and other assets not returned by them when leaving the service of the Board, is Rs.275,908. Relevant action is presently being taken to recover the said sum by appointing a committee therefor. | Expeditious action should be taken to recover money relating to assets not returned. |
| (g) | The Board had failed even by 31 December 2021 to recover a sum totalling Rs.835,218 for bicycles, motorcycles, computer accessories and trade stalls provided to sales agents.  | Action will be taken to recover a sum of Rs.724,068 which should have been recovered by the end of the year under review.  | Expeditious action should be taken to recover balances from sales agents.            |
| (h) | The Board had failed even by 31 December 2021 to recover a sum totalling Rs.2,187,952 as festival advances indicated under employees' loans in the  | Legal action is in progress relating to recovery of festival advance, distress loan and housing loan amounting to Rs.5,000, Rs.645,130 and   | Expedite action should be taken for recovery.  |

financial statements from employees deceased, interdicted and left the service. Rs.1,521,196 respectively. Action is being taken to write off the distress loan balance of Rs.1,696 and to recover the remaining loans as well.

- (i) The balance of the Prize Reserve Fund by 31 December 2021 was Rs.2,411,724,762 and over a period of one year had lapsed after conducting Janabhishekaya, Manusath Mehewara, Ran Kirula and Raja Dinuma lottery draws included therein. Action had not been taken even by the end of the year under review to settle the unfavourable balance of Rs.6,759,950 in the Janabhishekaya Lottery Reserve Fund and the favourable balance totalling Rs.15,166,256 in the Manusath Mehewara, Ran Kirula and Raja Dinuma Lottery Reserve Funds. A sum of Rs.5,016,076 of Rs.14,929,592 on the balance remaining in the Raja Dinuma and Ran Kirula Lottery Reserve Funds, is transferred to the relevant account by the end of June 2022. Moreover, action will be taken to transfer the remaining sum of Rs.9,913,516 to relevant accounts by the end of August 2022. Moreover, necessary action will be taken to transfer the balances of the Reserve Fund relating to Manusath Mehewara and Janabhisheka lotteries to the relevant accounts by the end of August 2022. Expedite action should be taken to settle relevant accounts.
- (j) A sum of Rs.1,070,847,638 had been included in the financial statements as balances of prizes payable by 31 December 2021 and the value of prizes for Power Lotto, Raja Dinuma, Ran Kirula and Mahajana Sampatha Janabhishekaya lotteries comprised therein totalled Rs.15,799,882. Even though a period of 06 months had lapsed after conducting relevant lottery draws, the values of relevant prizes relating to these values had been indicated under prizes payable as at 31 December 2021 without taking action to A payment of Rs.3,775,950 of the balance of Rs.15,517,440 remaining in the Mahajana Sampatha Janabhisheka Prize Payment Account, had been made on 22 March 2022 to the General Treasury as unclaimed prizes. Action is presently being taken to transfer the balance to relevant accounts by settling those cash books. Activities of transferring cash books of Power Lotto, Raja Dinuma and Ran Kirula after settling, to relevant accounts are in progress. Action should be taken to remit lapsed balances to the General Treasury and to settle balances of accounts.



pay the winners or to identify as unclaimed prizes.

- (k) A sum totalling Rs.1,380,400 had been recovered by the end of the year under review from District sales agents during the period from the year 2018 to the year 2020 for providing them with trade stalls. The said balance had been further indicated under current liabilities without providing relevant parties with trade stalls or settling recovered money.
- A balance of Rs.1,380,400 in regard to providing trade stalls remains with the Board relating to 101 sales agents who had deposited money for obtaining trade stalls. Moreover, action will be taken to set off these money against trade stalls planned to be provided during this year, to make relevant adjustments and to settle balances of accounts.
- Relevant processes of setting off money should be expedited.
- (l) The Board pays Rs.0.075 per lottery to the relevant sales agents for scanning the winning lotteries. Accordingly, a sum totalling Rs. 5,380,221 payable to sales agents since the year 2020 for scanning of winning lotteries, had been indicated under trade and other payables without settling even by 31 December 2021.
- The fees for lottery scanning payable to District sales agents had been withheld against the loans recoverable to the Board from those sales agents and action will be taken subsequently to pay the said withheld scanning fees after settlement of loans for relevant lotteries by the District sales agents.
- Action should be taken to expedite the settlement of payable and receivable values.
- (m) In the registration of new sales agents, a sum of Rs.988,500 charged by the Board as registration fees, had been indicated as a receivable balance over a period of 13 years without recovering.
- As there is no further possibility of recovering this balance, the Board of Directors had permitted to write off this balance at the meeting of the Board of Directors held on 14 March 2022 and action will be taken to write off those balances from monthly accounts in June 2022.
- Action should be taken to write off the balance.
- (n) The Cabinet approval had been granted on 18 July 2017 for renting the business premises currently maintained by the Board for a period of
- The lease period of the building in which the National Lotteries Board is currently operated, was to be ended on 01 September 2020. As such,
- Action should be taken to obtain relevant formal approval.

02 years so as to end by September 2020. A lease rental totalling Rs.117,782,484 had been paid as at 31 December 2021 after the end of the said period of lease, by obtaining the said building on lease basis already by March 2022 based on a decision of the Board of Directors, without Cabinet approval.

procurements had been commenced for obtaining a new building on rental basis 03 months before the said date. However, the said procurement was concluded only on 03 March 2021 due to the Covid pandemic which broke out in the country. Nevertheless, the extension of the lease period of this building for a short time was carried out under practical conditions due to inability of selecting a suitable building by the aforesaid procurement as expected and the unexpected delay in the procurement as a result of the Covid pandemic which broke out in the country. Practical issues arose relating to obtaining Cabinet approval in extending the lease agreement within short durations in this manner. No condition whatsoever was included in the lease agreements contrary to the initial decision of the Cabinet in any extension of the lease period whatsoever in such manner and action had been taken in such a way that the goodwill of the National Lotteries Board is ensured.

- (o) The Cabinet had granted approval on 24 July 2018 for obtaining a building of 2,880 square feet in extent on rental basis proposed to be constructed adjoining the premises in which the business activities of the Board are carried out. In obtaining Cabinet approval, the condition of the proposed

The recommendation of the Technical Evaluation Committee has been received on obtaining the building. This building has been obtained on approval of the Cabinet and the Ministry Procurement Committee. Moreover, the approval of the Ministry Procurement Committee had been obtained to pay Rs.225

Action should be taken in terms of the Cabinet decision given relating to the construction of the building on the land owned by the Board.

building had not been revealed. This building had been an unauthorized construction carried out without formal approval and the Board had obtained an unauthorized building on rental basis as a Government institution and paid a rental totalling Rs.19,784,250 from May 2020 to April 2022.

per square feet of this building. Even though the owner of the building has been notified on several occasions to provide the plan for the building approved and the Certificate of Completion (COC) given on the suitability of occupancy, those have not been provided so far by the owner of the building.

- (p) According to Cabinet Decision No.16/2468/719/150 of 29 November 2016, approval had been granted for construction of a building for the Board and to obtain consultancy services therefor amounting to Rs.41 million. Even though a period over 05 years had lapsed by the end of the year under review after granting the said approval, the building had not been constructed. The National Lotteries Board which was initiated in the year 1963, is carrying out operations in buildings obtained on rent and a sum of Rs.399,471,200 had been spent on rented buildings within the period of 07 preceding years alone.

Constructions of the building had been suspended again on the decision taken by the Government again to suspend construction of permanent buildings before finalizing prior activities for the construction purpose on the approval obtained from the line Ministry relating to a permanent building for the Board in the year 2016.

Action should be taken in terms of the Cabinet Decision after reaching agreements with relevant parties.

- (q) The Committee on Public Enterprises had directed on 21 March 2013 to recover the employees' gratuity of Rs.7,392,287 to the Board, overpaid in the preceding years. However, action had not been taken even in the year under review to recover the said sum or to indicate in

After being instructed by the Attorney General's Department in this regard, it has been decided to write off the relevant sum from books of accounts in terms of a paper forwarded to the meeting of the Board of Directors held on 29 June 2018. This matter had been discussed at the Audit

Action should be taken in terms of the directive given.

the financial statements as an amount receivable. The Board had only informed the relevant retired officers in writing to reimburse the gratuity overpaid, to the Board.

and Management Committee meeting held on 24 March 2022 and action will be taken to obtain instructions from the Board of Directors on further measures to be taken in this connection.

- (r) The value of income tax assessment relating to the assessment years 2016/2017 and 2017/2018 issued by the Inland Revenue Department as at 31 December 2021 and the penalties imposed thereon totalled Rs.1,785,860,482 and Rs.819,379,995 respectively. The value of Value Added Tax assessment relating to the assessment years 2015/2016 and 2016/2017 and the penalties imposed thereon totalled Rs.53,073,024 and Rs.39,474,184 respectively. The assessment for Pay As You Earn Tax relating to June 2016 and the penalties imposed thereon amounted to Rs.419,483 and Rs.255,483 respectively. Accordingly, the value of assessments issued by the Inland Revenue Department and penalties imposed totalled Rs. 2,698,462,455. Out of this value, the tax appeals of income tax relating to the assessment year 2016/2017 had been submitted to the Tax Appeal Commission while the appeals relating to the rest had been submitted to the Commissioner General of Inland Revenue. However, no decision had

The Board had submitted relevant tax appeals properly to the Inland Revenue Department and adequate disclosures thereon have been made in the financial statements of the year 2021.

Action should be taken to solve appeals expeditiously by holding discussions with relevant parties.

been given relating to those appeals even by 31 December 2021.

### 3.4 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Fifty seven per cent of the total expenditure of the year under review represented expenditure on sales, marketing and distribution and out of the said expenditure of Rs.1,074,102,918, an approximate value of 84 per cent represent expenditure on marketing and sales promotion. Moreover, the expenditure on marketing and sales promotion had taken a value of 48 per cent of the total expenditure. However, whether this publicity and promotion method is an appropriate method for such an institution operating in an oligopolistic market, was problematic.</p>	<p>Lotteries are not essential consumable goods and the consumer should be constantly motivated to purchase them. Publicity techniques should be definitely used therefor. The Government had permitted both Lotteries Boards to incur a sum not exceeding 10 per cent of the sales income for publicity expenses in these circumstances. However, only the essential publicity techniques are operated without carrying out publicity unnecessarily in any circumstance whatsoever.</p>	<p>Favourable publicity programmes should be implemented by studying the prevailing market situation for lotteries.</p>
<p>(b) Instances of receipt of lottery stocks to the stores were observed on dates immediately close to the date of the lottery draw and as compared with the lotteries received for the last time, the quantity of lotteries remained in the stores had ranged between 60 per cent and 158 per cent. Accordingly, when placing orders for stocks, orders had not been prepared by making</p>	<p>The main reason attributing to the indication of stocks remaining on dates immediately close to the date of the lottery draw relating to the period pointed out by Audit, was the unfavourable weather conditions prevailed on those dates close to the draw. The sale of lotteries has sensitive relations with environmental and social factors (weather changes, enforcement of curfew, lock</p>	<p>When placing orders for stocks, action should be taken to make adequate projections relating to sales and for identification of the selling capability of each sales agent.</p>

adequate projections relating to sales and timely identification of the selling capability of each sales agent. Moreover, there were instances in which stocks relating to certain extra orders of stocks placed by the Board had remained completely in stores.

down of the country, unfavorable situations such as hartal etc.). Action will be taken to consider the aforesaid situations and to place orders to minimize stocks remaining.

(c) In analyzing the financial results of the year under review and 4 preceding years, a decrease in the contribution for the year 2017, an increase in the contribution for the years 2018 and 2019 and again a decrease in the contribution for the years 2020 and 2021 had been observed in re-adjusting employees' remuneration, depreciation for non-current assets and tax paid to the Government.

There were hindrances to the sale of lotteries due to lock down of the country on several occasions, curfews enforced, restriction of travel and public gatherings as a result of the outbreak of Covid – 19 pandemic in the years 2020 and 2021. Accordingly, the numbers of draws missed were 291 and 428 in the years 2020 and 2021 respectively. As such, it can be stated that a significant percentage of the sales income had been deprived of and as a result, the decrease in sales income has attributed to the decrease in the contribution made as a percentage of sales.

As there is a trend in the decrease in contribution during the period of 03 preceding years, attention should be paid therefor.

### 3.5 Idle or Underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
(a) Goods totalling Rs.6,354,620 purchased for sales promotion and publicity purposes by the Board, had remained idle in stores.	A considerable quantity of goods had to be stored without being made use of due to the main reason of the inability of conducting our promotional programmes and the planned special draws etc. as a result of the Easter Attack occurred in April 2019 and the outbreak of the Covid pandemic which	Unutilized goods relating to publicity, should be utilized according to a proper system.

prevailed from 2020 until the beginning of the year 2022.

- (b) Fifty three gold jewellery items comprising gold coins and necklaces valued at a total of Rs.1,787,668 purchased by the end of the year 2015 to be awarded as prizes at lottery draws, had been deposited in bank safety lockers without utilizing for the relevant purpose. The current value thereof amounts to Rs.3.86 million.
- These gold items which were previously included as prizes for the special draws, remain in stores at present as those were not claimed by winners. Moreover, the value of gold items further remaining in stores due to including the said goods as well during this year, is Rs.942,157. Most of the said items have been planned to be included in special draws and as extra prizes in the Dhana Nidhanaya 1000<sup>th</sup> special draw planned to be conducted in the future during the year.
- Action should be taken to utilize prizes remaining idle, in lottery draws according to proper methods.