

Development Lotteries Board - 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Development Lotteries Board as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

In making provisions for accrued expenses for an expenditure to be incurred in the future in terms of Sri Lanka Accounting Standard 36 the commitment for such expenditure should arise from a reliable estimate. Nevertheless, it was observed that the provision of Rs.111,571,290 made for accrued expenses in the accounts for the year under review by the Board had not been made on such reliable estimates in accordance with the said Accounting Standard. The information on the variance between the provision made for accrued expenses during the 03 preceding years and the actual expenditure is given in the following table.

Year	Provision for Accrued Expenses	Actual Expenses	Over provision made
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	Rs.	Rs.	Rs.
2008	137,122,097	83,252,520	53,869,577
2009	164,948,648	148,566,745	16,381,903
2010	50,672,602	49,348,882	1,323,720

1.2.2 Accounting Deficiencies

The following observations are made.

- (a) The Board had purchased a land with a building for Rs.421,199,000 on 23 September 2005 and that amount had been brought to account as lands and buildings and had not made provision for depreciation instead of computing the value of the building and providing for depreciation for the building. Subsequently, provision of 10 per cent had been made only on the capital expenditure of Rs.184,306,554 incurred on carrying out repairs to the building.
- (b) The interest received annually from the fixed deposit of Rs.44,951,587 maintained by the Board utilizing the security deposits made by the Lottery Sales Agents amounting to Rs.23,934,881 and the interest on that amounting to Rs.21,016,706 received by the Board had not been taken to income by the Board.
- (c) Four motor vehicles purchased by the Board in February 2012 at a cost of Rs.16,000,000 had been debited to the assets of the year under review and credited to the Expenditure Payable Account. As such the assets and liabilities of the year under review had been overstated by that amount.
- (d) The studio constructed by the Board in the year 2009 at a cost of Rs.42,965,051 and the sum of Rs.33,491,297 payable on the construction to the contractors as at 31 December 2010 had not been disclosed in the accounts as assets and liabilities respectively.
- (e) Even though 332 sets of plates and 1,789 sets of tea cups valued at Rs.12,553,360 purchased for awarding prizes for the Deyata Kirula Exhibition 2008 were physically available in the stores that value had not been disclosed in the accounts.

1.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Two debtors balances amounting to Rs.7,496,220 older than 05 years had been carried forward in the accounts without taking action for recovery or any other suitable course of action.
- (b) Even though 06 balances of accounts amounting to Rs.1,539,985 shown as payments made in advance in the financial statements for the year under review, had been brought forward from the year 2007, adequate action had not been taken either to get work relating to the payments carried out to or to recover the payments made in advance.

1.2.4 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been furnished to audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
(a) Branded Stalls	43,826,514	i. Register of Fixed Assets ii. Physical Verification Reports
(b) Lottery Printing Expenses	175,754,473	Evidence in support of action taken in terms of Procurement Guidelines
(c) Expenditure Introduction of Second Chance	1,942,080	Evidence in support of action taken in terms of Procurement Guidelines

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

The following non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Deficiencies	Non-compliance
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(a) Development Lotteries Board Act, No. 20 of 1997	
i. Section 18(1) and (2)	According to the Section of the Act, all income from each lottery other than the expenditure relating to the lottery draw and any other expenditure as may be specified by the Minister, should be remitted to the President's Fund. Contrary to such provisions, the Board retained a sum of Rs.35,218,000 in the Buildings Establishment Fund in addition to the depreciation on buildings.
ii. Section 19(1),(2) and (3)	Powers have been conferred by the Act to make rules on all matters stated as specified in the Act or on all matters authorized under the Act and such rules made and approved by the Minister should be published in the Gazette. Nevertheless, the Board had not made rules relating to the Lotteries conducted under the relevant section and published in the Gazette.
(b) Cabinet Memorandum No. MF2/2/DLB/TEND/02 dated 17 December 2008 and the Cabinet	Even though the tender for printing of the Instant Lottery had been awarded for one year in the year 2009 in accordance with the Cabinet Paper,

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|---|---|
| Paper No. 08/2356/306/145/TBR | Lottery ticket had been purchased from that company up to the year under review. |
| (c) Establishments Code of the Democratic Socialist Republic of Sri Lanka : Sections 12:2:5 and 12:2:6 of Chapter vii | Acting allowance amounting to Rs.90,000 had been paid in the year under review alone to an officer who had not been appointed formally without obtaining the appropriate approval. |
| (d) Management Service Circular No. 28 of 10 April 2006 Paragraph (d) | A post of Information Technology Executive not included in the approved cadre of the Board had been created on 01 July 2010 and a sum of Rs.300,000 at the rate of Rs.25,000 per month had been paid in that connection in the year under review. |
| (e) Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka Section 9.3.1 | Action in terms of the Procurement Guidelines had not been taken in connection with the repairs costing Rs.971,238 carried out to motor vehicles in the under review. |

1.2.6 Transactions of Contentious Nature

A sum of Rs.1,504,500 had been paid in the year under review for carrying out improvements to the Lottery Software System of the Board. Action in terms of the Procurement Guidelines had not been taken in connection with this payments while a written agreement had not been signed.

2. Financial Review

2.1 Financial Results

- (a) According to the financial statements presented the operations of the Board for the year under review had resulted in a surplus in the provision for the President's Fund amounting to Rs.1,489.93 million as compared with the corresponding surplus of the provision for the President's Fund for the preceding year amounting to Rs.1,081.98 millions , thus indicating an increase of the provision for the President's Fund, as compared with the preceding year by a sum of Rs.407.95 million or 37.70 per cent. In addition a sum of Rs.144.07 million had been added for the profit in the preceding year due to the winners of lotteries not presenting claims while the corresponding sum for the year under review amounted to Rs.174.30 million indicating an increase of Rs.30.23 million or 20.98 per cent.

An analysis of the improvement in the financial results is given below.

	Variance		
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	Favorable	Adverse	
	-----	-----	
	Rs.(Millions)	Rs.(Millions)	Rs.(Millions)
<u>Income</u>			
Lottery Sales Income	1,216.46		
Other Income		32.86	
Prizes not claimed by winners added to profit	30.25		
	-----	-----	
	1,246.71	32.86	1,213.85
	=====	=====	
<u>Expenditure</u>			
Lottery Expenses		54.75	
Prizes Awarded		713.96	
Draw Expenses		1.05	
Administration Expenditure		40.07	
Publicity and Distribution	24.92		
Finance Expenses	2.40		
Taxes		23.39	
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	27.32	833.22	805.90
	=====	=====	-----
			407.95
			=====

(b) **Ratios and Percentages**

	<u>Year</u>	
	<u>2010</u>	<u>2011</u>

(I) **Profitability Ratios**

i. Net-profit Ratio (Percentage)	16.5	19.1
ii. Return on Equity	120.2	142.7
iii. Return on Average Assets	69.9	83.0

(II) **Capital**

i. Equity / Total Assets	69.9	83.0
ii. Equity / Non-current Assets	0.58	0.58

(III) **Liquid Assets**

i. Current Assets Ratios	0.49	0.61
ii. Quick (Liquid) Assets Ratio	0.39	0.55

Even though the profitability ratios of the Board had indicated an improvement as compared with the preceding year, the current assets ratio and the quick ratio continue to be below the expected levels. Thus a considerable weakness in the assets management was observed.

3. Operating Review

3.1 Management Inefficiencies

According to Section 18(1) of the Development Lotteries Board Act the money remaining after, the deduction of the approved expenditure of the Board and the expenditure approved by the Minister should be credited to the President's Fund. Nevertheless, since the inception of the Fund up to date, sums less than the sums to be so credited had been credited to that Fund. The particulars of the sums so under-credited during the year under review and 03 preceding years had been as follows.

Year	Balance to be credited brought forward	Amount to be credited to the Fund according to the Act	Amount credited to the Fund	Further amount due to be credited
	Rs.(Millions)	Rs.(Millions)	Rs.(Millions)	Rs.(Millions)
2008	20	720	656	84
2009	84	715	735	64
2010	64	973	889	148
2011	148	1,468	1,446	170

3.2 Idle and Underutilised Assets

The following observations are made.

- (a) A studio constructed in the year 2010 at a cost of Rs.42,965,051 had not been used. Attention had not been paid for the utilization of the studio to earn an income by any other means.
- (b) A Security camera system costing Rs.4,718,504 purchased in April and November 2009 and March 2010, had not been used during the period 15 November 2010 to 26 March 2012.
- (c) A stock of 2,411,750 instant lottery tickets purchased at a cost of Rs.3,222,094 in December 2009 remained in the stores even up to the end of the year under review and those had been issued to the agents at a very slow pace.

3.3 Identified Losses

The following observations are made.

- (a) A sum of 56 cents per ticket had been paid for the printing of the lottery tickets for the Saturday Fortune, Development Fortune, Janajaya and Deyata Kirula lotteries carried out through a private company without

calling for quotations while a sum of 48 cents per ticket had been paid for printing of the Jayoda Lottery tickets for which the cost had been decided by calling for quotations. As such the Board had incurred a loss of Rs.24,385,865 in the year under review due to getting the tickets printed without calling for quotations.

- (b) Due to the failure to take action in terms of the instructions in the Cabinet Memorandum No. MF2/2/DLB/TEND 02 submitted to the Cabinet of Ministers on 17 December 2008 to get the Instant Lottery Tickets printed through a local company, the Board had incurred a loss of Rs.40,697,200. In addition incurred an expenditure amounting to Rs.38,466,600 as cess and Rs.14,483,186 as Customs Duty in the year under review.

4. Accountability and Good Governance

4.1 Budgetary Control

Significant variances were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in the following areas of control.

- (a) Accounting
- (b) Human Resources Management
- (c) Assets Management
- (d) Expenditure Management

