Development Lotteries Board - 2013

The audit of financial statements of the Development Lotteries Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 14(3) of the Development Lotteries Board Act, No. 20 of 1997. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard No. 12

The deferred tax for the property, plant and equipment amounting to Rs.90,679,944 acquired by the Board in the year under review had not been adjusted in the financial statements.

(b) Sri Lanka Accounting Standard No. 18

The income of the Lottery for the year under review had been shown in the financial statements by adding Value Added Tax amounting to Rs.448,943,791 contrary to the Standard.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

(a) Interest amounting to Rs.26,698,045 received in respect of the preceding years on the investment of security deposits placed in the Board by the Sales Agents had been shown in the financial statements for the year under review as a liability payable instead of being recognized as income.

(b) Even though the bonus payable to the employees of the Board amounted to Rs.2,052,000, the Board had paid a sum of Rs.8,089,439 , thus resulting in an overpayment of Rs.6,037,439.

(c) The balance recoverable as at 31 December 2013 on the motor cycle loans granted to the Lottery Sales Agents, on the basis of recovery of 50 per cent amounted to Rs.845,797. But the loan balances recoverable as at the end of the year under review had been shown in the financial statements as Rs.1,661,209 by adding a sum of Rs.815,412 spent by the Board as sales promotion expenses.

(d) Even though the double cab motor vehicle valued at Rs.8,095,000 ordered by the Board and registered in the name of the Board on 22 April 2008 had been removed by the then Chairman from the supplier company, that had not been received by the Board even by the end of the year under review. The value of the double cab motor vehicle had been included in the financial statements under Property, Plant and Equipment and that value had been shown as a liability payable to a private institution. Provision for depreciation on the double cab motor vehicle for the year under review amounting to Rs.1,619,000 had also been made.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Development Lotteries Board Act, No. 20 of 1997	
(i) Sections 9(1) , (2) and (3)	Lotteries had been conducted in the year under review also as in the preceding years without the formulation of rules on lotteries in accordance with provisions in the Act, obtaining the approval of the Minister in charge of the subject and publishing in the Gazette.
(ii) Section 11(1)	Even though the function of the Board in terms of the provisions in the Act, is the conduct of lotteries for the generation of funds for the President's Fund, contrary to that, the Board had remitted Rs.462,000,000 from the year 2008 to the year 2013 to the District Secretaries of the Districts where the Deyata Kirula Exhibition was held without being remitted to the President's Fund.

	(iii) Section 18(2)	All the expenditure of the Board for the year under review amounting to Rs.8,699,452,431 had been incurred without obtaining the approval of the Secretary to the Ministry of the Minister in charge of the subject as in the preceding years.
(b)	Public Enterprises Circular No. 95 of 14 June 1994 and Public Enterprises Guidelines on Good Governance No. PED/12 of 02 June 2003	Incentive allowance amounting to Rs.40,022,081 had been paid in the year under review as in the preceding years without obtaining the approval of the Treasury.
(c)	Public Enterprises Circular No. PED/12 of 02 June 2003	
	(i) Section 8.3.5 (g)	Official motor vehicles had been assigned to officers without entitlement and a sum of Rs.1,252,560 had been spent in the year under review for fuel.
	(ii) Section 9.7	(i) Lottery Draw Participation Allowance amounting to Rs.18,080,640 had been paid in the year under review without obtaining the approval of the General Treasury.
		(ii) A sum of Rs.2,379,000 had been paid in the year under review as the Daily Allowance of the Sales Promotion Officers without obtaining the approval of the General Treasury.
		(iii) Five hundred gold coins valued at Rs.16,500,000 had been purchased on account of the Thirtieth Anniversary of the Board without obtaining the approval of the General Treasury and 230 gold coins had been described among the employees as at 31 December 2013.
(d)	Management Services Circular No. 34(1) of 01 June 2009	Contrary to the Circular, combined allowance based on different rates amounting to Rs.1,954,400 had been paid in the year under review.

(e)	National Budget Circular No. 142 of 31 December 2008	Overpayments of festival advances made in the year under review contrary to the Circular amounted to Rs.970,000.
(f)	Government Procurement Guidelines	
	(i) Guideline 1.3.2	Lottery tickets relating to two categories of lotteries valued at Rs.176,305,920 had been printed in the year outside the Procurement Procedure through a private company.
	(ii) Guideline 3.4.1 and Supplement No. 21 of the Procurement Guideline	Instead of calling for quotations, gold coins and sales promotion goods valued at Rs.46,088,600 had been purchased through Shopping Procedure.
	(iii) Guideline 4.2	The Procurement Entity had not prepared a Procurement Plan covering all procurements.

2.4 Accounts Receivable and Payable

An advance of Rs.8,685,360 had been paid to the Ministry of Trade on 01 November 2003 for obtaining a building on rent basis for the Head Office of the Board. Subsequently, the Board had decided against obtaining the said building on rent. Out of the advance paid, a sum of Rs.5,700,000 remained receivable as at 31 December 2013 and the Board had not taken a formal course of action for the recovery of the money.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Board for the year under review had resulted in a surplus of Rs.2,126 million as compared with the corresponding surplus of Rs.1,938 million for the preceding year, thus indicating an improvement of Rs.188 million or 9.7 per cent as compared with the preceding year.

4. Operating Review

4.1 Management Inefficiencies

The following matters are observed.

(a) An Anniversary Fortune Lottery had been introduced to the market concurrently with the Thirtieth Anniversary of the Board. Even though the sales target of 3,054,480 tickets out of that lottery had been expected the actual sales amounted to 1,337,220 lottery tickets or 44 per cent and had created 3,809 winners only. Even though an estimate of Rs.8,000,000 had been prepared for the achievement of the sales target, the actual expenditure amounted to Rs.10,967,877 , thus indicating the increase of sales expenses by 37 per cent. But the sales target had not been achieved.

(b) Even though a net sales income of Rs.292,150,400 had been earned from the Highway Dream Lottery conducted by the Board in the year under review, a sum of Rs.250,150,400 or 85 per cent had been allocated for the prizes. The amount that could be remitted to the President's Fund after the deduction of the other direct expenses and the quantifiable costs was only to a very small sum of Rs.6,228,053 or 2 per cent of the income.

(c) A software supplier for the operation of the computer system of the Board for lottery draws had been selected outside the Procurement Procedure and entered into a service agreement for a period of 05 years from the year 2009 to the year 2014. The payments made to that company up to 31 December 2013 amounted to Rs.58,511,176.

(d) Even though high quality accurate tickets should be supplied in accordance with the agreement entered into with the contractor for the printing of instant lottery tickets, the contractor had not done accordingly in several instances. Nevertheless,, the Board had not taken action against the contractor in terms of the Guideline 8.11.4(a) and (b) of the Procurement Guideline. It was observed that this matter had been the reason for the decrease of the instant lottery income for the year under review by a sum of Rs.173,199,718 or 29 per cent as compared with the preceding year.

4.2 Operating Inefficiencies

The following observations are made.

(a) The ticket of the "Super Ball" and "Highway Dream" totaling Rs.2,241,727,950 had been sold on credit basis without the approval of the Board of Directors and without obtaining guarantees.

(b) Even though 19 per cent of the lottery income as shown below had been remitted to the President's Fund in the year 2012, that had decreased to 17 per cent in the year under review.

Year	**Lottery Income**	**Amount that can be remitted to the President's Fund**	**Percentage**
	Rs. Million	**Rs. Million**	
2012	8,624	1,657	19
2013	10,611	1,811	17

(c) The approval of the Department of Public Enterprises in terms of paragraph 2 of the Public Enterprises Circular No. PED/57 of 11 February 2011 had not been obtained for the Annual Publicity Programme of the Board. Similarly the approval of the Ministry of Finance and Planning in terms of the paragraph 6 (iii) and (iv) of the same circular had not been obtained for the sponsorships exceeding Rs.100,000 given to any parties whatsoever outside the Government and sponsorships exceeding Rs.2 million given to any party.

(d) The Board had not introduced the criteria for the selection of items for giving sponsorships and aid under the sales publicity and for determining the amount of aid given. Several instances of sponsorships and aid given appear below.

(i) Sponsorship and aid amounting to Rs.2,572,225 had been given in the year under review under the account of "Chairman's Expenditure Item" and a sum of Rs.1,500,000 out of that or 60 per cent had been given for 03 instances of sponsorships.

(ii) A sum of Rs.64,773,026 had been spent in the year under review from the account of "Normal Publicity Expenses" for sponsorships. Out of that the expenditure incurred on 30 items ranged between Rs.200,000 and Rs.3,500,000.

(iii) The Board had spent a sum of Rs.69,064,164 in the year under review for collective publicity expenditure. Out of that , a sum of Rs.50,939,998 or 74 per cent had been spent on 08 items and consisted of expenditure ranging from Rs.300,000 to Rs.19,900,000. Out of that the expenditure incurred on the musical shows in the north at the request of a private organization amounted to Rs.19,900,000.

(e) Reconciliation of the lottery publicity expenditure and the normal publicity expenditure shown under the distribution expenditure in the financial statements revealed that an income of Rs.27.69 for each Rupee of publicity expenditure had been earned in the preceding year and that for the year under review amounted to Rs.25.15. Accordingly, the income earned per Rupee of publicity expenditure as compared with the preceding year had decreased by Rs.2.54.

(f) The cost of 671,887,900 tickets printed for the draws in the year under review amounted to Rs.410,016,327 and the number of unsold tickets had been 83,176,950 and the cost thereof amounted to Rs.45,656,399 and represented 11 per cent of the total cost of tickets.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) A sum of Rs.1,200,000 had been paid in the year under review without the approval of the Board of Directors and without entering into an agreement for the exhibition of the Trade Name and Logo of the Board in a Website.

(b) A Consultant had been recruited on contract basis without the publication of formal public notices for carrying out the preliminary work required for the creation of a computer information system for the Board through an external party. The Board had not set a specific time frame for the Consultant for the completion of the work. The item of work that should be completed in the year 2013 in accordance with the time frame provided by the Consultant had not been completed even by 31 March 2014. The Board had paid an allowance of Rs.1,005,000 to the Consultant from December 2012 to 31 December 2013.

4.4 Idle and Underutilised Assets

The following observations are made.

(a) Even though the Board had constructed a studio in the year 2010 at a cost of Rs.38,752,448 for filming the lottery draws that studio had not been used for filming.

(b) Fourteen categories of sales promotion goods of total value amounting to Rs.1,698,310 remained in the stores over periods ranging between 3 and 10 years.

(c) An audit inspection of the stocks of instant lottery tickets carried out on 13 July 2013 revealed that 3,857,457 tickets costing Rs.3,427,500 relating to 15 draws remained in the stores without being issued over periods ranging from 01 to 04 years.

4.5 Identified Losses

The following observations are made.

(a) The printing of Saturday Fortune and Development Fortune lottery tickets at 56 cents per ticket is being done through a private company selected in the year 2009 without following the Procurement Procedure. A company selected through the Procurement Process has printed Jayoda tickets at 48 cents per ticket from the year 2010 to 31 December 2013. On the assumption that each ticket of the Saturday Fortune and the Development Fortune lotteries at 48 cents, had action been taken for the printing of those tickets through a supplier selected through the Procurement Process, the quantifiable loss incurred by the Board from the year 2009 to 31 December 2013 amounted to Rs.74,922,840.

(b) It was observed that the quantifiable loss incurred by the Board due to the printing of the Highway Dream Lottery Tickets without calling for quotations amounted to Rs.1,492,260.

4.6 Personnel Administration

The following observations are made.

(a) Even though the approved cadre stood at 190 the actual cadre stood at 229. Accordingly, the vacancies in the approved cadre of the Board as at 31 December 2013 stood at 06 and the excess cadre stood at 45.

(b) Fifteen officers had been deployed in service on contract basis from 06 March 2012 to 31 December 2013 without obtaining the approval of the Department of Management Services. In addition to the monthly allowance determined and paid to 14 of those officers, a sum of Rs.2,533,696 representing the bonus, incentives and medical allowances paying to the permanent staff of the Board had been paid for the period January to 31 December 2013 while 13 officers had been given 13 gold coins in connection with the Anniversary celebrations.

(c) Two officers had been recruited contrary to the circular provisions and without the formal approval for the posts of Confidential Secretary and the Marketing Consultant while the Chief Security Officer had been recruited without following the formal Scheme of Recruitment. In addition, a Security Officer had been released to another institution contrary to the Public Enterprises Guidelines on Good Governance No. PED/12 of 02 June 2003.

5. Accountability and Good Governance

5.1 Procurement

The following observations re made.

(a) One thousand bicycles and 204 wheelchairs for sales promotion activities had been purchased for Rs.16,598,600 by considering the quotations of only 2 suppliers instead of inviting open competitive quotations.

(b) Despite the recommendation made for purchase by the Technical Evaluation Committee for the quotations invited in the first instance for the purchase of 16,000 T-shirts and 15,000 caps those quotations had been rejected without adducing valid reasons and purchases had been made another supplier selected by inviting quotations again. Reconciliation of the quotation of the first instance recommended by the Technical Evaluation Committee and those of the second instance revealed that the Board had made an overpayment of Rs.2,670,000.

6. 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 respect of the following areas of control.

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