

## **National Lotteries Board - 2013**

---

The audit of financial statements of the National Lotteries Board for the year ended 31 December 2013 comprising the Statement of financial position as at 31 December 2013, Statement of comprehensive income and 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 11 (b) of the Finance Act No. 11 of 1963. My comments and observations which I consider should be published with the Annual Report of the Board in terms Section 14 (2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for 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 risk assessments, the auditor considers internal control relevant to the Board for the 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 internal control of the Board. 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 power to the Auditor General to determine the scope and the 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 Adverse Opinion**

---

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

### **2. Financial Statements**

---

#### **2.1 Adverse Opinion**

---

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the National 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 Accounting Deficiencies**

---

The following observations are made.

- a) As the amount of Rs. 1,753,135,197 remitted to the Consolidated Fund during the year under review from the income generated by the Board by drawing lotteries, had been adjusted as a cost of sales in the Financial Statements, the gross profit of the year under review had been understated by that amount.
- b) In the absence of winners to claim their prizes, the cash prize should be credited to the Fund of the Board and transferred to the Treasury subsequently. However, as in the previous years and the year under review, an amount of Rs. 247,738,070 unclaimed for 6 months after the draw had been directly paid to the Treasury without being credited to the Fund of the Board and, that amount had not been disclosed in the Financial Statements.
- c) As non-cash prizes had been given to the winners, an amount of Rs. 8,850,393 paid by the Board to the Commissioner General of Inland Revenue in the year under review as withholding tax, had been accounted under financial expenses instead of being accounted under allocations for prizes.
- d) Lottery tickets worth of Rs. 7,707,160 remained in the custody of an officer of the mobile propaganda division of the Board as at the end of the year under review, had been accounted as sales on credit. Hence, sales income and debtor value had been overstated in the accounts by that amount.

#### **2.3 Accounts Receivable and Payable**

---

The following observations are made.

- a) An advance of Rs. 8,072,087, paid to a private contractor by the Board in the years 2011 and 2012 for the construction of Circuit Bungalow in Anuradhapura, remained unsettled as at 31 December 2013.
- b) The value of debtor balances remained outstanding for more than 2 years as at 31 December 2013, amounted to Rs. 3,992,562. There was a balance of Rs. 714,298 to be recovered with regard to 09 dishonored cheques given by 3 sales agents relating to the period 1999 – 2004.
- c) It was observed that an amount of Rs. 5,693,536, out of the balance amounting to Rs.10,129,401 to be recovered as at 31 December 2013 in connection with bicycles and lottery outlets provided to Sales Agents on credit by the Board, remained unrecovered since the year 2012 and previous years
- d) A sum of Rs.12,000,000 to be paid by the Board to the Airport Development Authority for the period from 2008 to 2013 on the drawing of “Colombo Airport Super Draw Lottery” , had not been settled even as at the end of the year under review.

#### 2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

---

Instances of following non-compliances were observed in audit.

<u>Reference to Laws, Rules, Regulations, etc.</u>	<u>Non-compliance</u>
a) Finance Act No 11 of 1963 as amended by Finance Act (amendment) No 35 of 1997 (i) Sections 14(2) and 17(1) a	The cash prize for a draw should be deducted from the cash allocated for the prizes and only the balance amount should be credited to the Prize Reserve Account. Contrary to that, an amount of Rs 301,800,000 had been credited to prize Reserve Account from the retained profit.
(ii) Section 14(2) and 17(2)	As per provisions of the Sections, only the expenses approved by the Secretary to the relevant Ministry could be deducted from the lottery income. However, no such approval had been obtained for the expenses incurred in the year under review.
(iii) Section 20(2)(1)	A sales income of Rs. 1,964,171,400 had been earned through “Sampath Rekha“ and “Mega 50 Million “ lotteries without formulating rules for operating those lotteries and publishing in the Gazette with the approval of the Minister in charge

of the subject as per provisions of the Section. Out of the said amount, a sum of Rs. 1,023,591,494 had been allocated for prizes and sum of Rs. 367,997,582 had been spent for the payment of commissions to Sales Agents.

b) Establishments Code of the Democratic Socialist Republic of Sri Lanka

(i) Section 11 of Chapter xxiv

Property loans should be granted through banks with effect from 01 January 2005; nevertheless, property loans totaling Rs. 125,672,534 had been granted to officers using the funds of the Board from the aforesaid date up to the end of the year under review.

(ii) Section 11.4.1 of Chapter xxiv

Officers who obtained property loans under a maximum limit equivalent to 5 years monthly salary prior to 01 January 2005, had again obtained the difference between the monthly salary of 7 years and the previously obtained 5 years loan by erroneously interpreting this Section. Loans totaling Rs. 19,073,496 had been granted to 55 officers from the year 2009 up to the end of the year under review.

(iii) Section 11.5.1 of Chapter xxiv

The interest recoverable from officers with respect to Property Loans obtained should be 4 , 8 or 11 per cent based on the loan amount; nevertheless, the Board had provided all the Property loans under the minimum interest rate of 4 per cent.

(iv) Section 11.2.2 of Chapter xxiv

Property Loans totaling Rs.2,223,380 had been granted to 2 officers who had not completed 5 years permanent service period.

c) Public Enterprises Circular No. PED/12 dated 02 June 2003.

(i) Paragraph 9.7

An amount of Rs. 9,900,700 had been paid on the approval of the Board of Directors in the year under review and the previous years as well to the officers who participated in the draws of lotteries without the approval of the Treasury

(ii) Paragraph 9.12

(i) Welfare allowances amounting to Rs.10,511,041 had been paid for the staff on a request made by the Welfare

Association on the approval of the Chairman without obtaining the approval of the Treasury.

- (ii) Cash prizes totaling Rs. 12,040,000 had been distributed among the officers of the Board in commemoration of the 50<sup>th</sup> anniversary of the Board. Particulars such as values and information of prizes had not been presented when Treasury approval was sought.

d) Department of Public Enterprises Circular No 95 dated 14 June 1994 and Public Enterprises Circular No PED/12 dated 02 June 2003.

An amount of Rs. 64,263,101 had been paid as incentives in the year under review and the previous years as well on the approval of the Board of Directors without obtaining the approval of the Treasury in terms of Circulars.

e) Guideline 1.3.2 of Government Procurement Guidelines - 2006

All “Sampath Rekha” lotteries of the year under review and all other lottery drawn up to 23 October of the year under review had been printed through a printer selected without being complied with procurement procedure and, an amount of Rs. 217,556,830 had been paid.

f) Public Administration Circular No 13/2008 (iv) dated 09 February 2011

Payments amounting to Rs. 2,532,727 had been made to 09 officers entitled to assigned vehicles by exceeding the monthly fuel allowances.

g) Department of Management Services Circular No 30 dated 24 August 2010.

Although the approved initial salary step of an officer of the Board had been Rs. 25,640, action had been taken to pay salaries by placing him on the initial salary step of Rs. 32,870 with effect from 16 February 2009. Accordingly, over payment of salaries amounting to Rs.414,120 had been made from the year 2009 up to the end of the year under review.

h) Paragraphs 6(iii) and (iv) of Public Enterprises Circular No 57 dated 11 February 2011.

Approval of the Minister in Charge as per the aforesaid provisions, had not been obtained on the sponsorships and donations totaling Rs. 46,167,803 spent by the Board on Private and Public institutes, and religious ceremonies during the year under review.

### 3. Financial Review

#### 3.1 Financial Results

According to the financial statements presented, the financial results of the Board for the year under review amounted to a deficiency of Rs.133,406,928 as against the corresponding surplus of Rs.312,190,960 for the preceding year thus indicating a deterioration of Rs.445,597,888 or 143 per cent in the surplus for the year under review as compared with the preceding year. The adverse variation of administrative expenses, other expenses and tax expenses amounting to Rs. 2,923,704,082 , as compared with the favorable variation of the income amounting to Rs. 2,478,106,194 for the year under review had mainly attributed to the deterioration of financial results.

#### 3.2 Legal Proceedings Instituted Against the Board.

An employee, interdicted by the Board had filed a case with the Labor Tribunal claiming compensation amounting to Rs. 3,000,000 while an external person had instituted legal proceedings against the Board on defamation claiming compensation of Rs. 50,000,000.

### 4. Operating Review

#### 4.1 Performance Data

Particulars of important operating items of the Board for the year under review and past 03 years are as follows.

<u>Particular</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	Rs.	Rs.	Rs.	Rs.
Income	14,537,362,545	12,004,268,616	10,092,330,623	8,862,869,826
Other Income	220,209,583	275,197,318	178,866,138	212,424,233
Printing Cost	459,877,814	393,049,086	376,528,826	293,504,383
Promotional Expenses	1,010,422,751	618,985,298	496,428,627	470,189,405
Remuneration to				
Employees	247,527,709	222,844,221	203,294,269	203,535,560
Contribution to				
Consolidated Fund	1,753,135,197	1,574,149,137	1,345,046,907	1,173,460,051

The following observations are made.

- a) Promotional expenses for the year under review as compared with the year 2010, had increased by 115 per cent. Correspondingly, the increase in the income had increased by 64 per cent. It was further observed that promotional expenses for the year under review had increased by 63 per cent as compared with the previous year though, the increase in the income was 21 per cent.

- b) When the sales income was compared with the total marketing advertising and distribution expenses incurred by the Board for the year under review and the previous year a sales income of Rs.18.52 per rupee spent on sales, advertising and distribution expenses for the previous year had been earned. However, that value was Rs. 14.04 per rupee for the year under review. Hence, the sales income earned per rupee spent on advertising had decreased by Rs. 4.48. The success of advertising activities conducted remains questionable.

#### 4.2 Management Inefficiencies

---

The following observations are made.

- a) Particulars on 2 draws that took place during the year under review with respect to “Mega 50 Million” lottery introduced to the market in the year under review to commemorate the 50th anniversary of the Board, are as follows.

<u>Description</u>	<u>Mega 50 Million</u> <u>1<sup>st</sup> Draw</u> Rs.	<u>Mega 50 Million</u> <u>2<sup>nd</sup> Draw</u> Rs.	<u>Total</u> Rs.
Lottery income	279,174,000	236,230,600	515,404,600
Allocations for prizes (58 per cent from the income)	161,920,920	137,013,748	298,934,668
Actual prizes granted	181,579,300	147,630,391	329,209,691
Amount obtained from Rewards Reserve	19,658,380	10,616,643	30,275,023
Accounts of other lotteries to award prizes			
Contribution to the Consolidated Fund (10 per cent from the income)	27,917,400	23,623,060	51,540,460

Despite 47-49 per cent of the sales income generated by other lotteries of the Board had been allocated to the prizes, 58 per cent had been allocated for the prizes of “Mega 50 Million” lottery. However, 64 per cent of the sales income had been spent on prizes with regard to 2 draws of the lottery.

- b) Out of an income amounting to Rs. 1,448,766,800 earned by the Board through “Sampath Rekha” lottery during the year under review, only a sum of Rs. 72,438,340 or 5 per cent had been credited to the Consolidated Fund. A sum of Rs. 68,816,423 or 4.75 per cent from the total income had been allocated to settle the expenses of the Board whereas, a sum of Rs. 373,057,451 or 25.75 per cent had been allocated to settle the expenses of the 50<sup>th</sup> anniversary of the Board.
- c) The following inefficiencies were observed in connection with printing of lottery tickets.
- (i) Lottery tickets of “Govi Setha ,Jathika Sampatha”, “Supiri Wasana Sampatha”, and “Wasana Sampatha” had been printed up to 23 October 2013 through the same private company which printed lottery tickets since the year 1995, without selecting a printer by following the procurement procedure. As per the information made available for audit,

the value of the lottery tickets printed in that manner without being adhered to the procurement procedure up to 23 October of the year under review and the past 5 years , amounted to Rs. 1,003,068,565.

- (ii) Even though bids had been called by the Board on 31 October 2011 to select a new printer, 2 years had been spent to select a printer. The computable loss incurred by the Board due to delay in selecting a printer despite calling for bids, was as follows.

Description	Expenditure in terms of cost per ticket at Rs. 0.5661 provided without adhering procurement procedure	Expenditure in terms of cost per ticket at Rs. 0.537 provided by adhering procurement procedure	Loss
	----- Rs.	----- Rs.	----- Rs.
Position as at 23 October 2013 in case a supplier was selected on 01 January 2012 by calling for quotations on 31 October 2011.	352,715,366	334,584,264	18,131,102
Position as at 23 October 2013 in case a supplier was selected on 01 January 2013 by calling for quotations on 31 October 2011.	174,094,997	165,145,758	8,949,239

#### 4.3 Operating Inefficiencies

---

The following observations are made.

- a) Lottery tickets of special draws and scratching lotteries valued at Rs. 1,054,348,000 had been sold to agents on credit basis during the year under review without the approval of the Board of Directors. Out of those credit sales no guarantee whatsoever had been obtained on the credit sales of Rs. 75,353,610. Sales valued at Rs. 15,198,728 had been made by exceeding the maximum limit for guaranty. Out of a debtor balance of Rs.98,940,951 recoverable as at the last date of the year under review, the balance to be recovered further as at 26 September 2014 amounted to Rs. 38,130,804. Furthermore, the Board had not introduced a proper methodology to regulate the lotteries given to agents on credit basis
- b) The following matters were observed in connection with promotional expenses of the Board in the year under review.



- (i) The Board had not introduced either a criteria or a proper methodology to select items and decide on the amount of money given in providing sponsorships and assistance under marketing campaign.
  - (ii) Expenses amounting to Rs. 959,275,274 had been made for promotional programs during the year under review without obtaining the approval of the Department of Public Enterprises in terms of Public Enterprises Circular No 57 dated 11 February 2011.
  - (iii) A sum of Rs. 2,288,500 had been paid for sponsorships without getting the recommendation of the Regional Manager appointed by the Board in the relevant area and without getting an assurance whether expected publicity had taken place and without verifying that the publicity was actually conducted.
  - (iv) Although an amount of Rs. 10 million had been allocated in the year under review and the previous year as well, for the reconstruction of vandalized sacred places in Northern and Eastern provinces, no provision had been spent in that regard and those provisions had been spent on other promotional activities by deviating from the relevant objective.
- c) As per information made available to audit, there were 85,055,730 unsold lottery tickets out of 714,783,300 lottery tickets printed during the year under review. The printing cost of those lottery tickets was approximately Rs. 54.7 million.
- d) There was a balance of Rs. 853,842,734 in the Buildings Reserve Account as at 01 January 2013 out of which, an amount of Rs. 301,800,000 had been transferred to Rewards Reserve Fund and the balance amounting to Rs. 552,042,734 had been transferred to retained profit during the year under review without being utilized for the intended purpose by closing the Buildings Reserve Account.

#### **4.4 Transactions of Contentious Nature**

---

The following observations are made.

- a) A commission of 20 cents per ticket is paid by the Board to distributors for distributing lottery tickets to the sales agents. Distributors had directly sold 21,084,569 lottery tickets without being distributed to sales agents. Nevertheless, the Board had paid a sum of Rs.4,216,914 based on the above rates to the distributors for distributing those lotteries as well.
- b) A sum of Rs. 9,113,280 had been spent during the year under review for displaying the brand name of the Board on privately-owned web sites without entering into a formal agreement as per Procurement Guidelines.
- c) A supplier selected by the Board without calling for open competitive bids as per Procurement Guidelines, had printed 76,774,126 “Sampath Rekha” lottery tickets valued at Rs. 43,461,833 from October 2012 up to the end of the year under review.

- d) The Board had purchased 278,000 key holders valued at Rs. 9,980,200 during the year under review based on Technical Evaluation Committee recommendations made only by inspecting the samples presented by bidders without a pre-prepared specification as per Paragraphs 2.3.2(d), 2.6.1(a)(ii) and 5.6 of Government Procurement Guidelines. This purchase, which should have been made by calling for open competitive bids, had been made by calling for limited competitive bids by misinterpreting the Paragraph 3.3 of Procurement Guidelines.
- e) The Board had purchased 450 sarees of inferior quality for uniforms at Rs. 3,950 per each at a cost of Rs. 1,777,500 during the year under review as bids had been called without properly preparing specifications and, the standard of samples presented when bids had been called and the items supplied following the order, had not been inspected by a technical institute.

#### **4.5 Idle and Underutilized Assets**

---

The following observations are made.

- a) Amounts of Rs. 1,708,286 and Rs. 122,778 in the Current Accounts maintained by the Board for “Shrama Wasana” and “Suwasetha” lotteries had remained idle from April 2011 and June 2011 respectively up to the end of the year under review.
- b) Only 28 jeeps had been won in the draw, although 40 jeeps had been allocated as prizes for the 2<sup>nd</sup> draw of the “Mega 50 Million” lottery. As the Board had taken steps to purchase all 40 jeeps, 12 jeeps valued at Rs. 25,178,568 remained idle even as at 31 August 2014

#### **4.6 Resources of the Board Given to Other Public Institutes.**

---

The following observations are made.

- a) Even though it was not possible for the resources owned by the Board, to be utilized by the Line Ministry or any other Public Institute in terms of Paragraph 8.3.9 of Public Enterprises Circular No PED/12 dated 02 June 2003, the Board had released 3 vehicles to other Public Institutes since the year 2006 and an amount of Rs. 610,721 had been spent as repair and maintenance expenses for those vehicles during the year under review.
- b) Three officers drawing salaries from the Board, had been released to external institutes in the years 2007 and 2008 and, steps had not been taken to reimburse a sum of Rs. 1,131,833 paid to those 03 officers as remunerations during the year under review.

#### **4.7 Personnel Management**

---

Even though the approved cadre had been 293 as at 31 December 2013, the Board had deployed a staff of 313 in service. The vacancies in the approved staff had been 09 and 29 persons had been recruited outside the approved cadre on contract bases.

### **5. Accountability and Good Governance**

---

#### **5.1 Budgetary Control**

---

A Significant variance ranging from - 6 per cent to + 900 per cent was 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 management control.

#### **5.2 Procurement Plan**

---

Even though a Procurement Plan for the year under review had been prepared by the Board, However, all the procurements of the Board had not been covered therefrom in terms of Guideline 4.2 of Government Procurement Guidelines.

#### **5.3 Unresolved Audit Paragraphs**

---

The following observations are made.

- a) Even though the Committee on Public Enterprises had directed on 21 March 2013 that the employee gratuity amounting to Rs. 7,392,287 overpaid during the previous years be recovered to the Board, the amount had neither been recovered, nor disclosed in the financial statements as an amount receivable. The Board had only informed the relevant retired officers in writing that the overpaid gratuity be reimbursed to the Board.
  
- b) Two buildings obtained on rent had been used to maintain the head office and stores without taking actions to construct a building for the Board on the land owned by the Board since the year 2005 with an extent of 112 perches situated in the vicinity of Colombo City. The building being used to maintain the head office had been obtained on rent since the year 1999 and a rental of Rs. 1,368,880 had been paid during the year under review. A building in the vicinity of Colombo had been obtained on rent for storage facilities for several years and a rental of Rs. 1,521,880 had been paid during the year under review. Furthermore, the written agreement on the rent of the building in which the stores had been maintained, had not been presented to audit.

### **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