

## **Development Lotteries Board - 2015**

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The audit of financial statements of the Development Lotteries Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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**

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The 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**

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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 Auditing 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 judgement, 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'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**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except 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 2015 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following instances of non-compliances were observed.

##### **(a.) Sri Lanka Accounting Standard 01**

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- (i) Even though assets and liabilities should not be set off against each other unless otherwise required or permitted by Sri Lanka Accounting Standards, the credit balance of Rs.201,187,108 that had not been confirmed by the Board as overdrafts, was shown in the statement of financial position by setting off against the bank balance.
- (ii) Even though the nature and objective of the Prize Reserve Account valued at Rs.934,026,234 should have been disclosed, the Board had not done so.

##### **(b.) Sri Lanka Accounting Standard 07**

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- (i) Instead of separately identifying and showing in the financial statements, the provision for the payment of gratuity in the year under review amounting to Rs.8,161,089, and a sum of Rs.807,934 paid in the year as gratuity had been set off and the gratuity provision for the year had been shown as Rs.7,353,155.
- (ii) In adjusting the working capital movements while preparing the cash flow statement, movements of non-current liabilities valued at Rs.31,748,430 had also been adjusted.

##### **(c.) Sri Lanka Accounting Standard 08**

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As an outstanding tax liability of Rs.1,557,163,004 arisen as a result of defaulting income tax for the period from the year 2001 to 2009, had not been retrospectively

adjusted to the financial statements, the equity of the Board in the preceding year amounting to Rs.1,132,035,053, had unusually eroded to a minus value of Rs.519,726,031.

**(d.) Sri Lanka Accounting Standard 19**  
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Matters relating to the employee gratuity that should have been disclosed in the financial statements, had not disclosed as per the Standard.

**2.2.2 Accounting Deficiencies**  
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A sum of Rs.606,195,948 paid to the Commissioner General of Inland Revenue during the year under review by the Board in respect of the income tax for the preceding years, had been deducted from the contribution payable to the President's Fund without being adjusted to the statement of comprehensive income.

**2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions**  
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The following non-compliance were observed

**Reference to Laws, Rules, Regulations  
and Management Decisions**  
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**Non-compliance**  
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(a) The Development Lotteries  
Board Act, No. 20 of 1997

(i) Section 18(3)

Only in the event that funds in sufficient for awarding the prizes of new development lotteries, funds of the Prize Reserve Account can be utilised. However, in accordance with the decisions taken by the Board of Directors, a sum of Rs.405,000,000 had been used from the Prize Reserve Account for the acquisition of the land and the building in which the office of the Board had been located.

(ii) Sections 19(1), (2), and (3)

A sales income of Rs.10,119,457,760 had been earned by conducting scratch-and-win lotteries and drawing lotteries even in the year under review as in the preceding years without formulating rules on lotteries in accordance with provisions in the Act, and without obtaining the approval of the Minister in charge of the subject and publishing in the Gazette. Out of that amount, a sum of Rs.6,150,951,795 had been allocated for prizes and granted sales agents commission of Rs.2,146,551,646 on the approval of the Board of Directors.

- (b) Section 11 of Chapter XXIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, and the letter No. MF2/DLB/GEN/VOL/I of the Ministry of Finance and Planning, dated 09 December 2014. Contrary to the provisions on the Government property loans, the Board had paid interests amounting to Rs.160,527 and Rs.402,772 to the banks in the years 2014 and 2015 respectively by considering personal bank loans totalling Rs.9,125,000 obtained by 14 officers, as property loans.
- (c) Government Procurement Guidelines of 2006.
- (i) Guideline 9.3.1 (a) Even though it had been stated that repairs could be done through the manufacturers or the Agents, only if the fairness of the quotations furnished are satisfied, vehicles of the Board had been repaired at a value of Rs.1,321,914 in 07 instances by considering only the quotations furnished by the Agents.
- (ii) Guideline 9.3.1 (b) Approval of the Secretary to the Line Ministry should be obtained for the repair of motor vehicles exceeding Rs.200,000. Contrary to that, a sum of Rs.853,907 had been spent on repairs in 02 instances.
- (d) Government Procurement Guidelines, Public Enterprises Circular, No. PED/28, dated 31 January 2005, and the Letter No. PE/LO/DLB/GEN/2015 dated 12 November 2015 of the Director General of Public Enterprises. A vehicle had been obtained at a monthly rental of Rs.198,000 by deviating from the procurement procedure and without obtaining the approval of the Director General of Public Enterprises.
- (e) Sections 9.7 and 9.12 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003 Without obtaining the approval of the Treasury, the Board had paid Medical assistance amounting to Rs.12,468,593 to the employees solely on the decision of the Board of Directors during the year under review and a sum of Rs.9,713,405 had been paid without source documents to establish the transaction included in that amount.
- (f) Public Enterprises Circular, No. PED/1/2015 dated 25 May 2015, and Section 8.3.5 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003. Contrary to the provisions of the Circulars, and despite the non-availability of budgeted provisions, official vehicles had been assigned to 06 Assistant General Managers of the Board and fuel allowances of Rs.969,890 had been granted. A sum of Rs.2,664,340 had also been paid as salaries and allowances of the drivers of those vehicles.

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| (g) Paragraph 02 of the Ministry of Finance and Planning Circular, No. PED/57 dated 11 February 2011.        | Even though an expenditure of Rs.180,746,018 had been incurred by the Board on publicity and promotional expenses in terms of the provisions of the Circular, the annual publicity programme approved by the Department of Public Enterprises in that connection, was not been made available to audit. |
| (h) National Budget Circular, No.02, dated 24 July 2003  | Diviating to the provisions of the Circular, a vehicle with the cylinder capacity of 2690 had been obtained on rent basis.  |
| (i) Circular, No. MDPI/MPRD/VEN dated 11 October 2002 of the Ministry of Policy Planning and Implementation. | When vehicles are obtained on rent, and the Board provides the driver and fuel, the insurance and repairs should be provided by the supplier of the vehicles. Contrary to those provisions, agreement had been entered into in a manner that the said expenses would be incurred by the Board.          |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs.2,333,259,687 as compared with the corresponding surplus of Rs.2,353,246,338 for the preceding year, thus indicating a deterioration of Rs.19,986,651 in the financial result of the year under review as compared with the preceding year. Although the expenditure of the year under review had decreased by Rs.491,581,670, the decrease in the income by a sum of Rs.511,568,321 had attributed to this deterioration.

In analyzing the financial results of the year under review and the 04 preceding years, the financial result had continuously improved from the year 2011 up to 2014. Nevertheless, the surplus had deteriorated in the year under review as compared with the year 2014. After adjustments had been made in respect of employee emoluments, depreciation on the non-current assets, and the taxes paid to the Government, the contribution for the year 2011 amounting to Rs.2,056,854,697 had continuously improved up to 2014, and it amounted to Rs.3,853,950,488 in the year under review.

#### **3.2 Analytical Financial Review**

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An analysis of profitability and working capital ratios of the Board in respect of the year under review and the preceding year, is given below.

	<u>2015</u>	<u>2014</u>
(i) Gross Profit Ratio (per cent )	43	44
(ii) Net Profit Ratio (per cent )	19	19
(iii) Current Ratio	1:1.6	1:1.5
(iv) Quick Ratio	1:1.5	1:1.5

The following observations are made.

- (a.) Although the income from sale of lottery tickets had decreased by Rs.396,817,887 or 3.2 per cent in the year under review as compared with the preceding year, the decrease in cost of sales by Rs.124,516,322 or 1.8 per cent had attributed to the constant gross profit ratio.
- (b.) Other income, and taking over of un-wined prizes had decreased by Rs.92,519,356 and Rs.22,231,080 respectively. However, the comparative decrease in the distribution cost of the lotteries by Rs.93,853,621 had attributed to the constant net profit ratio.
- (c.) The current liabilities of the Board exceeded its current assets, and the Board had not drawn its attention on the management of working capital even in the year under review.

### **3.3 Legal Cases Instituted by the Board**

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Even though a case had been filed by the Board to recover a sum of Rs.2,520,000 that remained recoverable from an external person, the Court proceedings had not come to an end by 31 December 2015.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

- (a.) **In terms of Section 11 of the Development Lotteries Board Act, No. 20 of 1997, the objectives of the Board are as follows.**
  - (i) To conduct, or arrange for the conduct of lotteries for the purpose of generating funds for the President's Fund.
  - (ii) To remit the proceeds of lotteries so conducted to the President's Fund.

In order to accomplish the said objectives, 8 lotteries had been conducted in the year under review by generating a sum of Rs.1,727 million, out of which a sum of Rs.1,628 million had been remitted to the President's Fund.

## (b) Comparison of the Sale of Tickets and the cost of publicity

Name of the Lottery	Sales Income				Cost of Publicity			
	2014	2015	Variation	Percentage	2014	2015	Variation	Percentage
	Rs.	Rs.	Rs.	%	Rs.	Rs.	Rs.	%
Shanida Wasanawa	2,007,008,025	2,096,216,100	89,208,075	4.44	7,791,985	26,927,823	19,135,838	245.58
Sanwardana/Lagna Wasanawa	2,492,645,100	2,424,568,575	(68,076,525)	(2.73)	27,736,856	30,233,422	2,496,566	9.00
Jayoda	1,255,317,525	1,174,951,800	(80,365,725)	(6.40)	26,562,805	24,484,608	(2,078,197)	(7.82)
Janajaya/Galaxy Star	854,071,350	906,953,850	52,882,500	6.19	10,795,645	27,748,445	(16,952,800)	157.03
Niyatha Jaya	1,025,266,275	970,588,575	(54,677,700)	(5.53)	24,502,245	26,113,147	1,610,902	6.57
Super Ball	2,314,937,625	2,082,186,975	(232,750,650)	(10.05)	39,286,399	30,310,818	(8,975,581)	(22.85)

The following observations are made.

- (i) The cost of publicity of the *Shanida Wasana* and *Janajaya / Galaxy Star* lotteries had increased by 246 per cent and 157 per cent respectively in the year under review as compared with the preceding year. However, the percentage by which the sales income had increased, was as low as 4 per cent and 6 per cent respectively.
- (ii) Although the cost of publicity of the lottery "*Niyatha Jaya*" had increased by 6.57 per cent in the year under review as compared with the preceding year, a deterioration in the sales income by 5.33 per cent was observed.
- (iii) As compared with the preceding year, a deterioration of 10.05 per cent was observed in the sales income of the "*Super Ball*" lottery.
- (iv) Although the cost of publicity of the lottery "*Sanwardana/Lagna Wasana*" lottery had increased by 9 per cent in the year under review as compared with the preceding year, a deterioration in the sales income by 2.73 per cent was observed.

#### 4.2 Management Activities

The following observations are made.

- (a.) As cash had been withdrawn by terminating the fixed deposit investments valued at Rs.131,270,475 in the year under review in order to settle the outstanding taxes resulted in due to defaulting taxes in the preceding years, the Board had been deprived of the receivable interest income of Rs.4,815,246.

- (b.) In issuing lottery tickets on credit basis for promoting sales, it had been decided to give one ticket free for every 25 lottery tickets purchased. In comparing the progress before and after this promotional activity had been carried out with respect to 13 draws for 02 lotteries, sales of 42,227 ticket books had decreased. Accordingly, whether the value of Rs. 107,250 relating to the 130 tickets books issued free was a futile expenditure, could not be ruled out in audit.
- (c.) A supplier had been selected in the year 2009 for the installation of an information system for draws of the lotteries without following the procurement procedure, and a service agreement had been entered into up to 31 August 2014. Even though the relevant company had been granted 02 extensions from that date up to 31 August 2016 and paid a sum of Rs.81,997,776, the information system had not been installed even by 13 July 2016.

#### **4.3 Operating Activities**

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The Board had sold Rs.52,298,100 weekly-drawn lottery tickets valued at Rs.862,918,650 on credit during the period from 01 April 2015 to 31 March 2016 without obtaining a surety / security.

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

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The following observations are made.

- (a.) For promoting the sales of the lottery “*Galaxy Star*”, a sum of Rs. 308,000 had been spent on the distribution of 700 umbrellas on which the emblem of the “*Galaxy Star*” to be imprinted. However, the expected objectives of the Board had not been achieved as the umbrellas with the supplier’s trade mark had been distributed.
- (b.) It was revealed that the Double Cab motor vehicle valued at Rs. 8,095,000 and registered in the name of the Board on 22 April 2008 had been acquired by the then Chairman from the supplier company. But, the said vehicle had not been handed over to the Board even up to the last date of the year under review, and the Board had failed to confirm the physical existence of the vehicle to audit. Nevertheless, the vehicle had been accounted as an asset of the Board and its corresponding liability had been shown as a liability under the trade and other payables.

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

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Even though a studio had been constructed by the Board in the 2010 by incurring a sum of Rs.38,752,448 in order to film the drawing of lotteries, it had not been utilized for the intended purpose, and the Board had not taken action to implement the recommendations made by the Rupavahini Corporation in the year 2012 after studying the existing weaknesses of the studio. As such, the National Rupavahini Corporation had been paid a sum of Rs.36,850,000 in the year under review as the drawing of lotteries had been carried out



through the National Rupavahini Corporation without making use of the studio owned by the Board, whereas the studio of the Board had been used as an auditorium.

#### **4.6 Identified Losses**

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Due to reasons such as, failure to make procurements by preparing a proper Procurement Plan and failure to enter into agreements for printing lottery tickets within the specific period, the activities relating to printing had caused a loss of Rs. 6,093,297 to the Board.

#### **4.7 Uneconomic Transactions**

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Even though a total sum of Rs.3,472,393 had been spent in the year under review on the installation of a network information system, this expenditure had become fruitless as the said activity had been cancelled subsequently.

#### **4.8 Personnel Administration**

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Even though the approved cadre had been 221, the actual cadre was 238. The number of vacancies existed in the approved cadre of the Board as at 31 December 2015 was 19, whereas there was a surplus of 36.

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

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#### **5.1 Corporate Plan**

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As the Performance Reports or Progress Reports approved by the Board of Directors were not made available to audit, it could not ensure whether the Board had reached the targets stated in the Corporate Plan in terms of Section 05 of the Public Enterprises Circular, No. PED/ 12, dated 02 June 2003.

#### **5.2 Procurement Plan**

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A proper Procurement Plan had not been prepared for the year under review.

#### **5.3 Budgetary Control**

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As variances ranging from 10 per cent to 94 per cent were observed between the budgeted income and expenditure, and the actuals of the year under review, it was observed that the Budget had not been made use of as an effective instrument of financial control.

#### **5.4 Commitment to the Environmental and Social Responsibilities**

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It was observed that around 4 per cent of the value of the prizes are not claimed by the winners in each year, and the unclaimed value during the 05 preceding years amounted to Rs. 1,103,636,625. Out of the lottery tickets that had not been claimed for during a period of 07 months in the year under review, there had been 49 Lotteries the values of which ranged from

Rs.50,000 to Rs.1,000,000. Awarding relevant prizes to the winners shall build the public confidence thereby uplifting the reputation of the Board. Nevertheless, attention of the Board had not been drawn so as to implement any methodology whatsoever to minimize the prizes becoming unclaimed.

## 6. Systems and Controls

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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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Accounting	Failure to identify and disclose taxes of the Board and the prizes payable in the final accounts. Failure to maintain a computerized accounting system.
(b) Personnel Administration	Deployment of a considerable number of staff on contract basis, in addition to the approved cadre.
(c) Assets Management	Failure to prepare a methodology to conduct an impairment test on the studio of the Board.
(d) Stores Control	Failure to maintain proper stores registers.