

## **National Lotteries Board - 2015**

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The financial statements of the National Lotteries Board for the year ended 31 December 2015 comprising the Financial Status Statement as at 31 December 2015 and the Income Statement, Changes in Equity Statement and the 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(a) 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 of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Managements Responsibility for the Financial Statements**

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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 National 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 Accounting Standards**

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The following observations are made.

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

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The sum of Rs. 2,130,953,970 paid as contribution to the Consolidated Fund had been shown in the financial statements as sales cost instead of being identified as changes in equity.

##### **(b) Sri Lanka Accounting Standard 02**

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The value of stock of instant lottery tickets valued at Rs. 268,463 had been overstated in the accounts as a result of erroneous computations.

##### **(c) Sri Lanka Accounting Standard 07**

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The following observations are made.

- i. Disposal of Properties, Plant and Equipment amounting to Rs. 601,492 which does not affect the financial movements and the profit from revaluation of properties, plant and equipment amounting to Rs.48,452,076 had been shown as cash generated from investments in the cash flow statement.
- ii. The profit from transfer of foreign cash to local cash amounting to Rs. 12,568,730 had not been shown as a note of adjustment to the opening balance in the schedule of cash and cash equivalents.
- iii. The sum of Rs. 50,000,000 paid to the Treasury had been shown under operating activities instead of being shown under financial activities.

##### **(d) Sri Lanka Accounting Standard 19**

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The matters to be disclosed in the financial statements with regard to the employees' gratuity, as per standard, had not been disclosed.

### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) Unsold tickets valued at Rs. 19,883,160 which were in the custody of an officer of the Mobile Publicity Unit of the Board had been accounted for, as credit sales. As a result, the income from sales and the debtors had been overstated in the accounts by similar amounts.
- (b) Sales stalls valued at Rs. 3,045,000 prepared for agents had not been handed over to them upto 31 December 2015. This had been accounted for, as credit sales.
- (c) A sum of Rs. 247,406,503 as allocated prizes of lottery draws but had not won had not been accounted during the year under review.

### 2.2.3 Unexplained Variations

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The following observations are made.

- (a) A sum of Rs. 14,011,346 had been shown as receivable from agents in the Financial Statements as at 31 December of the year under review. However, it was observed as Rs. 13,584,864 in the schedule showing a difference of Rs. 426,482.
- (b) The value of instant lottery tickets recoverable by the Board as per Financial Statements amounted Rs. 54,857,689 and it was Rs. 54,877,894 as per schedule furnished to audit showing a difference of Rs. 20,205.
- (c) The instalments due from agents on behalf of the bicycles given to them on concessionary basis amounted to Rs. 1,259,010 as per financial statements and it was Rs. 1,078,113 as per schedule furnished to audit showing a difference of Rs.180,897.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Action had not been taken by the Board to recover the bicycle and lottery stall loans of Rs.454,113 due from lottery sales agents for over 2 years and the sum of Rs. 9,666,309 due for lotteries given on credit in 2014 and 2015 and the sum of Rs. 325,678 due from district sales agents for over 3 years.
- (b) Instant lottery tickets had been issued to Zonal Managers to show the increase in sales of the previous year. A sum of Rs. 1,404,500 remained further unsettled in this regard and action had not been taken to recover this even as at 29 February 2016.
- (c) A sales agent who had received lottery tickets for Rs. 467,600 on credit in 1999 had expired in 2014. However, no action, whatsoever, had been taken to recover that loan even from the sureties,
- (d) No action, whatsoever, had been taken with regard to the sum of Rs. 21,462,363 payable to 6 creditors for over 5 years and the sum of Rs. 1,317,614 receivable from 4 debtors.

- (e) The amount payable to 43 agents who had functioned as sales agents of the Board and had become inactive for over 5 years was Rs. 1,143,934 and the amount due from one agent was Rs. 265,368. Action had not been taken to settle these amounts.
- (f) Action had not been taken to settle Rs. 212,420 which had been recovered in excess before 2 years from 13 staff members of the Board.
- (g) Action had not been taken to recover the advance of Rs. 15,000 paid in 2012 to an officer who had been dismissed from the services of the Board and the sum of Rs. 262,500 remaining recoverable from 3 external institutions for over 12 years.
- (h) Instalments amounting to Rs. 15,000 due to the Board for over 2 years on behalf of 03 bicycles issued to the Ratnapura District Distribution Agent had not been recovered.

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

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 The following non – compliance with laws, rules, regulations and management decisions were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non – compliance</b>
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(a) <b>Finance Act No.11 of 1963 as amended by the Finance Act (Revised) No. 35 of 1997</b>	
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(i) Sections 14(2) and 17(1) a

A sum of Rs.82,630,582 belonging to the Supiri Vasana Sampatha Prize Reserve Account had been utilized for paying the prizes of other lotteries, contravening the provisions in the Act.

(ii) 14(2),16(1) and 16(4)

The Board should enter into agreements while conducting lotteries for other Ministries, Departments and Authorities. However, agreements had not been entered into such agreements with the respective institutions for lotteries, namely, Govisetha, Supiri Vasana, Jathika Sampatha and Neeroga and a sum of Rs. 4,368,361,086 had been paid as prizes during the year under review. Prize money amounting to Rs. 104,927,000 to prizes not come accept for over 6 months had been transferred to the Consolidated Fund.

(iii) Section 17(2)

The balances of income derived from lotteries after deducting the respective expenses should be credited to the consolidated fund. However, a sum of Rs. 438,624,364 pertaining to previous years had been retained without being credited.

(iv) Section 20(2)(1)

Sales income of Rs.2,543,526,020 had been earned by the Board by conducting lotteries such as Sampath Rekha, Power Lotto, Neeroga and Double Bonus without framing rules for conducting the lotteries, obtaining the approval of the Minister in charge of the subject and by publishing it in the Gazette Notification. Of this sales income, a sum of Rs. 1,217,946,470 had been allocated for prizes and a sum of Rs. 475,678,527 had been spent on paying commissions to sales agents.

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

(i) Paragraphs 10.1 and 10.2 of Chapter VIII

Work should be performed for not less than 8 hours for payment of holiday pay. However, a sum of Rs. 118,846 had been paid to 18 officers in contravention. Holiday pay amounting Rs. 50,023 had been paid to 03 officers who had performed 12 hours of work considering the number of days as two.

(ii) Paragraphs 5.2.1 and 5.8 of Chapters XIX

An official residence of the Board had been given for occupation of the Working Director from the month of February of the year under review. However, the rent of the quarters amounting to Rs. 88,415 due from him had not been recovered. Expenditure on water and electricity amounting to Rs.116,566 had been incurred by the Board.

(iii) Paragraph 11 of Chapter XXIV

Payment of property loans for employees of the Board should be made through banks from 01 January 2005. However, property loans amounting to Rs. 1,877,400 had been paid to officers of the Board during the year under review by utilizing the Funds of the Board. The interest recoverable from officers on those loans should be increased by 4 per cent, 8 per cent and 11 per cent, according to the loan obtained. However, the Board had recovered the minimum interest rate of 4 per cent for the entire loan.

**(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

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(i) Financial Regulation 395

The Board should prepare Bank Reconciliation Statements for all the accounts before 15<sup>th</sup> of the following month and furnish them to the Auditor General. However, bank reconciliation statements of 06 bank accounts for December of the year under review had not been prepared and furnished to the Auditor General even by 16 May 2016.

(ii) Financial Regulation 396 (d)

Action had not been taken in terms of the Financial Regulation with regard to 93 cheques totalling Rs. 2,569,994 which had not been presented for payments for over 06 months.

**(d) Public Administration Circulars**

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(i) Circular No. 13/2008 (iv) of 9 February 2011

A sum of Rs..2,783,900 had been overpaid to 09 officers who are entitled for official vehicles in excess of the monthly fuel limits.

- (ii) Circulars No.25/2014 of 12 November 2014 and No. 07/2014 of 26 August 2016 and the letter of the Department of Management Services No.DMS/E1/04/4/016 of 26 August 2010
- Vacancies should not be filled or posts should not be created without the approval of the Department of Management Services. However, contravening this, 09 officers had been recruited for 04 posts.

**(e) Public Enterprises Circular**

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- (i) Circular No. PED/12 of 02 June 2003
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- Paragraph 9.7

A sum of Rs. 25,676,400 had been paid to officers who participates in lottery draws during the past years and the year under review as well with the approval of the Board of Directors, without obtaining the approval of the Treasury. The fees had also been increased during the year under review with the approval of the Board of Directors.

- Paragraph 9.12

A sum of Rs. 12,079,998 had been paid to the staff as welfare allowances during the past years and the year under review as well with the approval of the Chairman on a request made by the Welfare Association for which the approval of the Treasury had not been obtained.

- (ii) Circular No. 95 of 14 June 1994 and Circular No. PED/12 of 02 June 2003

A sum of Rs. 84,615,696 had been paid as incentive allowances during the year under review too with the approval of the Board of Directors for which the approval of the Treasury had not been obtained.

- (iii) Paragraph 2.5 of the Public Enterprises Circular No.PED/03/2015 of 17 June 2015

A sum of Rs. 315,294 had been paid by the Board as incentive allowances to the Chairperson and the Working Director during the year under review, contravening the circular provisions.

- (iv) Circular No.57 of 11 February 2011

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Paragraph 02

A sum of Rs.753,535,738 had been spent on publicity activities during the year under review without preparing an annual publicity plan and forwarding it for approval of the Department of Public Enterprises.

An expenditure of Rs. 52,034,860 had been incurred on the publicity activities pertaining to the issue of newly introduced Neeroga lottery tickets in the market. It was observed in audit that the payment made to the publicity institution amounting to Rs. 8,292,090 and the payment made to the hotel which conducted the celebrations amounting to Rs. 1,100,000 too had been included in those expenses.

An expenditure of Rs.11,807,372 had been incurred on the celebrations relating to the Sales Reward Festival of 01 December of the year under review for which the prior approval of the Finance Minister had not been obtained.

Paragraphs 6 (iii) and (iv)

Approval of the Minister in charge of the subject and the Finance Minister should have been obtained for concessions, donations and religious festivals made to private institutions and State institutions by the Board. However, expenditure of Rs.5,147,600 and Rs.21,665,008 respectively had been incurred on donations and concessions on 06 instances and 17 Pereheras during the year under review.

Paragraph 8

Although the board is expected to use State media for the respective publicity, it had paid Rs.3,570,000 to 02 private television channels, deviating from the procurement procedure.

- (v) Paragraph (d) of the Circular Although it had been informed that the



No.PEI/70/7/Vol.11 of 21 balance of lottery income remaining after deducting expenses allowed by the Deputy Secretary to the Treasury should be remitted to the Treasury, the Board had only remitted 16.5 per cent of 2 out of 9 types of lotteries and 10 per cent only of the remaining 07 lotteries conducted by the Board. Approval had not been obtained for the changes in those percentages.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Board for the year under review had resulted in a surplus of Rs.241,016,039 as against the deficit of Rs.8,663,584 of the previous year and a comparison of the financial results of the previous year with the year under review shows an improvement in financial results by Rs.249,679,623. Although the expenditure on Income Tax had increased by Rs.551,931,733 the increase in gross income by Rs.421,753,575 and the decrease in sales, publicity and distribution expenditure by Rs.437,535,246 had mainly attributed to the above improvement in financial results.

An analysis of the financial results of the year under review and the past 4 years showed that financial surplus had occurred in all the years except the years 2013 and 2014 and the improvement in 2014 was 94 per cent whereas the improvement during the year under review was 2,882 per cent. While considering the Tax paid to the government, employees' remuneration and the depreciation for non current assets, it was observed that there was an improvement in contributions from 2011 to 2013. However, there was minor deterioration in 2014. It had again improved by 39 per cent during the year under review and had become. Rs.4,297,528,212.

### **4. Operating Review**

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#### **4.1 Performance**

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The objectives and functions of the National Lotteries Board established by the Finance Act No.11 of 1963 are as follows.

- (a) I increase the contributions to the government through increasing the existing income level and profitability.
- (b) maintain the market leadership status.
- (c) improve the operating efficiency.
- (d) improve the infrastructure facilities of the Board.
- (e) improve the efficiency and the output of the staff.

- (f) improve the consumer stratification.

The following observations are made with regard to the fulfilment of the above objectives.

- (a) Although many years had elapsed since the inception of the Institution, the attention of the management had not been drawn towards improving the infrastructure facilities of the Institution.
- (b) The lottery income and the publicity cost of the Board for the years 2014 and 2015 are given below.

Name of the Lottery	Sales Income				Publicity Cost			
	2014	2015	Variance	Percentage	2014	2015	Variance	Percentage
	Rs.(mn)	Rs.(mn)	Rs.(mn)	%	Rs.(mn)	Rs.(mm)	Rs.(mn)	%
Mahajana Sampatha	4,331	4,734	403	9.3	103	107	4	3.9
Vasana Sampatha	1,410	1,350	(60)	(4.3)	73	61	(12)	(16.4)
Govisetha	2,552	4,511	1,959	76.8	80	81	01	1.3
Supiri Vasana	1,835	1,747	(88)	(4.8)	76	70	(06)	(7.9)
Jathika Sampatha	1,248	1,319	71	5.7	68	67	(01)	1.5
Sampath Rekha	1,692	1,629	(63)	(3.7)	84	80	(4)	(4.8)
Double Bonus/ Mega 50	125	176	51	40.8	16	12	(4)	(25)
Power Lotto	243	305	62	25.5	65	41	(24)	(36.9)
Neeroga	-	432	432	0	-	81	81	0
Colombo Airport Super Draw	-	40	40	0	6	01	(5)	(83)
Samurdhi	188	206	18	9.6	4	03	(01)	(25)
Sewana	1,490	944	(546)	(36.6)	6	02	(04)	(66.6)

Apart from the 10 types of lotteries sold in the previous years, 2 types of lotteries had been introduced during the year under review. The income from 06 types of lotteries had increased during the year under review as compared with the previous year. However, the income from Vasana Sampatha, Supiri Vasana, Sampath Rekha and Sewana had dropped by over 60 per cent. While considering the publicity expenses incurred on the sale of lottery tickets, there was minor increase in the publicity expenses of Mahajana Sampatha and Govisetha which had earned the highest income whereas the publicity expenses of all other lotteries had decreased.

- (c) A lottery system through SMS and Web design had been planned during the year under review to earn additional income amounting to Rs. 1,000,000,000. However, no action, whatsoever, had been taken to commence such an activity. Institutional image development programmes and tele dramas costing Rs.183,453,000 and rehabilitation of religious places costing Rs.15,000,000 had been included in the publicity expenses. However, the activities concerned had not been fulfilled.

## 4.2 Management Activities

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The following observations are made.

- (a) “The Power Lotto” lottery ticket introduced to the market by the Board during the year 2014 held 90 draws and had been stopped in the month of March 2016. During those draws, a gross income of Rs.71,646,750 had been obtained and the initial super prize of Rs. 5 million had been won only once. Within the prize pattern at a draw 48 per cent of the gross profit such as, amounting to Rs. 34,390,440 had been allocated for prizes. However, 39 per cent of the gross profit alone had been shared among winners. The additional expenditure of Rs. 55,259,129 had been incurred for publicity and other expenses for conducting this lottery programme had been met from utilizing the prize reserve.
- (b) Out of the advance of Rs. 3,692,531 paid by the Board in March 2013 for purchase of furniture and household furniture, goods worth Rs.168,560 had not been supplied even as at 07 June 2016. Meanwhile, action had not been taken to settle the amount.

## 4.3 Operating Activities

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The following observations are made.

- (a) The Board of Directors had decided to draw up a plan to obtain security bonds from agents on 23 April 2015. Such a plan had had not been drawn up even by 10 June 2016. Out of the 94 lottery ticket agents who had been registered during the year under review, 24 agents pertaining to instant lotteries and 08 agents pertaining to drawing lottery tickets drawn alone had furnished their security bonds. Lottery tickets exceeding the limits had been issued to 14 agents of instant lottery and 08 agents of lottery tickets and the amounts were Rs. 3,746,187 and Rs. 5,307,369 respectively. Lottery tickets valued at Rs.43,051,822 had been issued to sales agents who had not furnished any security.
- (b) The Board had spent Rs. 401,630 for preparation of estimates and invitations for bids to select a publicity institution to organize publicity activities for the Mahathma Reward Celebrations of the year under review. However, the estimate prepared had been cancelled due to its deficiencies. Again, a contract valued at Rs. 4,703,500 had been awarded to the Magic Mango Firm to publicize the programme. The National Reputahini which carry out lottery draw programmes had refused to accept this programme. As such, the Independent Television had been selected for this publicity work which had resulted in an additional expenditure of Rs. 51,960.

- (c) Printing of Mahajana Sampatha tickets had been entrusted to the State Printing Corporation by the Board with the approval of the Cabinet of Ministers. Board on that decision, printing of the newly introduced Sampath Rekha lottery had been entrusted to the same institution in October 2012 contravening 8.9.1 and 8.9.3 of the Government Procurement Procedure. A sum of Rs. 184,544,881 had been paid to that institution for printing of lottery tickets from October 2012 to November 2015.

#### 4.5 Transactions of Contentious Nature

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The following observations are made.

- (a) A sum of Rs. 64,680,000 had been paid in November 2014 to a supplier who had been selected in contravention of the Procurement Procedure Guideline in order to exhibit 150 publicity notice boards. The photos which were affixed to the notice boards were not approved by the Management of the Board and as such 120 notice boards had been removed and kept aside by an external institution in the month of February 2015. A sum of Rs.4,194,801 had been paid to the same supplier again to install 91 of those notices.
- (b) The Board had conducted an islandwide publicity programme consisting of video shows and street dramas from November 2014 to January 2015 by utilizing 4 huge trucks incurring an expenditure of Rs.66,858,960. Meanwhile, a video tape had been prepared by spending Rs.2,484,720 from a selected supplier without calling for quotations, contravening the Procurement Procedure Guideline. An audit examination revealed that aspect of the publicity had not been highlighted in that video tape. Further, no evidence what so ever had been furnished to audit to confirm whether the message delivered to customers through the streets drama group could coincide with the expected objectives of publicity.
- (c) A contract had been awarded for Rs. 11,900,000 to construct 400 lottery sales stalls at the rate of Rs.29,750 per stall. The following observations are made in this connection.
- (i) The production capacity of the manufacturer had not been explored and a written agreement had not been entered into in terms of 8.9.1 and 8.9.3 of the Procurement Guideline.
- (ii) Orders for the manufacture had been handed over to the respective institution on 05 January 2016 and the supplies were expected before 23 March 2016. However, 92 trade stalls only had been supplied even by 30 March 2016.
- (iii) The performance bond was valid from 01 January 2016 to 29 April 2016. Though the validity period had expired, action had not been taken to obtain extension of time.
- (d) The Board had selected a supplier through the procurement procedure to print lottery tickets at Rs. 0.537 (including tax) for a period of 03 years from 23 October 2013 to 23 October 2016 and during the year 2014 lottery tickets valued at Rs.247,252,495 had been printed by the said institution.

The following observations are made.

- (i) According to paragraph 3.13 of the agreement entered into with the supplier, the lottery tickets should have been printed in special protective papers with water mark. However, the company concerned had not printed tickets in protective papers with water mark upto 11 October 2014 as per agreement.
  - (ii) The Board had not taken proper action against the supplier in spite of the fact that they had violated the prime condition affecting the quality and safety of lottery tickets. Lottery tickets had been purchased upto 11 October 2014 as per agreement by paying at the rate of Rs. 0.537 per tickets.
  - (iii) An assessment had not been made regarding the action to be taken for the damage caused to the Board as a result of printing identical tickets twice and the damage caused to the Board by erroneous printing as referred to in Section 2.22 of the agreement.
  - (iv) According to paragraph 2.11 of the agreement, the supplier should furnish to the Board the tickets that are printed with shortcomings. However, it had not been furnished in the said manner and evidence had not been furnished to audit to show that the Board had been made aware of the lottery and figures printed and the machines used by the printers. Further, action had not been taken to take necessary action with regard to the two types of printing letters used for printing pointed out in audit and to take necessary action accordingly.
  - (v) The Board had not taken adequate action regarding 05 lottery tickets printed and supplied with identical group numbers and identical prize numbers.
- (e) Quotations should have been called for, from at least 05 institutions in terms of Section 2.14.1 of the Procurement Guideline and the Ministerial Procurement Committee should have selected the institution to publicize by notices about the changes made in the draw dates of Govisetha and Mahajana Sampatha Lotteries. However, contravening this, a sum of Rs. 12,995,928 had been paid to an institution selected by the Board without calling for quotations, whatsoever.
- (f) A publicity programme for sale of instant lottery tickets had been conducted from October 2015 to March 2016 by the Board on a request made by one sales agent. The minimum number of tickets to be sold per day were 1000. The Board was bound to pay him Rs. 60,000 whenever he sells the minimum number of tickets and the expenditure on publicity should be met from his income. During the first stage of 30 days, 57,500 tickets had been sold for which the Board had paid Rs. 1,800,000 to him. However, the income from sale to tickets was Rs. 1,150,000. No analysis, whatsoever, had been done and again a sum of Rs. 900,000 had been paid to him under the second stage of 15 days of December 2015 while the income from sale of tickets amounted to Rs. 400,500. Accordingly, while considering the institutional expenditure it came to light that the Board had spent a cost of Rs. 2,552,702 allowing room for the agent to obtain a personal net profit of Rs. 1,633,741.

- (g) A private publicity institution had been selected through a Board paper contravening the procurement procedure and without making any feasibility studies to conduct 02 musical shows for 04 days from 31 December 2014 to 03 January 2015 during the period of Presidential Election on the presumption of getting useful publicity to the Board. Advances amounting to Rs. 3,200,000 and Rs.3,757,500 had been paid for these shows. However, action had not been taken to settle the advances concerned even up to 14 March 2016 the date of audit. Meanwhile, confirmations had not been furnished to shows that those musical furnished had been held.
- (h) The sub - office of the People's Bank which maintains the bank account of the Board had recovered a service commission of 0.5 per cent from 25 April 2007 based of the sales income of lottery tickets. Accordingly, a sum of Rs. 29,743,395 had been recovered as bank charges during the year 2014. However, that was Rs.36,563,614 during the year under review. The bank had not furnished a schedule to the Board showing the computation of charges. Meanwhile, the Board too had not inquired into it.

#### **4.6 Resources of the Board given to Other institutions**

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According to paragraph 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the resources of the Board cannot be utilized by the Line Ministry or other state institutions. However, contravening this, a vehicle and 03 officers of the Board who draws salaries from the Board had been released to the Ministry of Finance from the year 2006 and from February of the year under review respectively. However, action had not been taken to get the reimbursement of Rs.812,891 paid to those officers as employees' remuneration and incentives.

#### **4.7 Staff Administration**

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The following observations are made.

- (a) The approved cadre as at 31 December 2015 was 342 and the actual cadre was 311 resulting in 20 vacancies. 18 officers had been recruited on contract basis overriding the approved cadre.
- (b) According to the scheme of recruitment of the Board, the age of recruitment should not be less than 18 years and not more than 45 years. In spite of this, a person of 52 years of age as at 15 February 2015 had been recruited on contract basis and he had been confirmed on 01 October 2015. Similarly, the certificate of educational qualification had not been filed in the personal file to confirm his minimum qualifications.
- (c) Action had not been taken to appoint a permanent officer for the post of Chief Financial Officer. Instead, an officer had been appointed on contract basis by extending the period by annually.

#### **4.8 Idle and underutilized Assets**

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A large quantity of software purchased by the Board by spending Rs. 9,938,460 had been idle for over one year.

#### 4.9 Market Share

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Lotteries had been conducted by 2 state institutions, namely, the National Lotteries Board and the Development Lotteries Board. A comparison of the market share of the Development Lotteries Board with the National Lotteries Board showed an improvement of 4 per cent during the year under review as compared with the year 2011 resulting a 58.65 per cent. However, the increase had fluctuated annually. Details are as follows.

Year	Income from Sale of Lotteries		Market Share of the National Lotteries Board
	National Lotteries Board	Development Lotteries Board	
	Rs(mn)	Rs(mn)	%
2015	17,394	12,265	58.65
2014	15,153	12,592	54.62
2013	14,537	10,611	57.8
2012	12,024	10,668	52.98
2011	10,092	8,335	54.76

### 5. Accountability and Good Governance

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#### 5.1 Presentation of Financial Statements

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According to paragraph 6.5.1 of the Circular No.PED/12 of 02 June 2003, the financial statements of the Board should be furnished to the Auditor General before 28<sup>th</sup> of the year following the financial year. However, it had been furnished on 27 May 2016.

#### 5.2 Action Plan

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Action had not been taken to prepare the performance report and the human resources management plan for evaluation of the performance of the Action Plan for the year 2015.

#### 5.3 Budgetary Control

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The publicity expenses of the year under review had been estimated as Rs.1,296 million. However, the actual expenditure on publicity was Rs.753 million. Accordingly, significant variations of 58 per cent were observed and the budget had not been utilized as an efficient instrument of management control.

#### 5.4 Unresolved Audit Paragraphs

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The following observations are made.

- (a) The Committee on Public Enterprises had directed on 21 March 2013 to take action to consult the Attorney General for recovery of the overpaid employees' gratuity

amounting to Rs.7,392,287. Action had not been taken to recover that amount or to show it as amount receivable in the financial statements.

- (b) The Committee on Public Enterprises which met on 04 November 2014 directed to select an architect through the procurement procedure to construct a building on the 112 perches land at Vauxall Street, belonging to the Board. However, action had not been taken accordingly even by 30 May 2016. During the year under review, rent amounting to Rs.36,273,720 had been paid to function the head office and stores and a sum of Rs. 13,823,720 had been paid for modernization of the office in the building and for rewiring with the approval of the Board of Director, without the approval of the ministry, under 4 stages of transactions. Further, the agreement entered into for obtaining the office and stores on rent had not been registered at the office of the Land Registry.

## 6. **Systems and Controls**

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Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Board. Special attention is needed for the following areas of control.

<u>Systems and Control</u>	<u>observation</u>
(a) Accounting	<ul style="list-style-type: none"> <li>i. A method to enable the accounts branch to get update information through the existing computerized information system had not been prepared.</li> <li>ii. The surcharge recoverable from Sales distributor when they return of unsold tickets to the Board had not been accounted for. For example, the sum of Rs. 12,714 recoverable from sales distribution for the 780 unsold lottery tickets had been not taken to accounts.</li> </ul>
(b) Printing of bills	Non introduction of a safety method to avoid erroneous printing and issuing of group number of lottery tickets in any other lottery bills.
(c) Human resources management	A human resource management plan had not been prepared.