

## **National Lotteries Board – 2016**

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The audit of financial statements of the National Lotteries Board for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of 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 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 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 preparation 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 statements based in 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 judgment, including the assessment of the risks of material misstatement 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**

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 2.2 of this report, the financial statements give of a true and fair view of the financial position of the National Lotteries Board as at 31 December 2016 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 01  
The Particulars of the nature and the objectives of each reserve in the equity had not been presented in terms of paragraph 79(b) of the Standard.
- (b.) Sri Lanka Accounting Standard 07
- (i.) Instead of adjusting the loss of Rs.1,522,862 sustained by the Board in connection of foreign currencies into local currency to the statement of changes in equity and adjusting to the opening balance of the cash and cash equivalents in the cash flow statements in terms of paragraph 18(b) and (c) of the Standard that had been shown as a cash flow generated from the operating activities.
- (ii.) The following items which should not be adjusted to the pre-tax profit in the cash flow statement as stipulated in paragraph 20 of the Standard, had been adjusted to the pre-tax profit.

Particulars	Value
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	Rs.
Transfers to the Unusable Stock	81,000
Changes in the Prizes Reserve	99,346,909
Decrease in the balance of Housing Loans	272,963

- (c.) Sri Lanka Accounting Standard 08

As the expenditure relating to the estimated total of Rs.64,766,800 of accrued expenditure in the preceding years had not emerged that amount should have been adjusted to the profit of the current years as an estimated change. Nevertheless, that amount had been adjusted to the retained profit in the statement of changes in equity and as such the favourable profit of the year under review had been understated by that amount.

(d.) Sri Lanka Accounting Standard 12

An expenditure of the relationship between the tax expense (income) and accounting profit in either or both of the following forms had not been disclosed in the financial statements as stipulated in paragraph 81(c) of the Standard.

- (i.) A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax, disclosing also the basis on which the applicable rate is computed, or
- (ii.) A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.

(e.) Sri Lanka Accounting Standard 19

Even though provision of Rs.29,270,262 had been made for the future commitment for the employees' gratuity, suitable investment plan had not been prepared and implemented.

(f.) Sri Lanka Accounting Standard 20

- (i.) It was observed that the alternative methods introduced in paragraph 25 of the Standard for receipts as Government Grants had not been followed. Even though the cost of the motor vehicle valued at Rs.5,795,000 received from the Treasury during the year under review had been brought to account under the non-current assets, action had not been taken to account for the amortization relating to that.
- (ii.) The following disclosures as well had not been made in terms of Paragraph 39(a) of the Standard.
  - The accounting policy adopted for Government Grants including the method of presentation adopted for disclosure information on Government Grants in the financial statements.
  - The nature and the extent of such grants.

(g.) Sri Lanka Accounting Standard 21

Even though the profit of the conversion of foreign exchange relevant to the year under review amounted to Rs.5,046,090, that had been shown in the financial statements as a loss of Rs.1,522,862 due to the failure to apply the correct exchange rate for the conversion of the balance of the Foreign Currency Account of the Board to Local Money.

In addition, even the above loss disclosed in the financial statements had been valued in excess by a sum of Rs.547,132 due to the above error. Instead of accounting for such loss for the year under review in terms of paragraph 28 of the Standard that had been adjusted to the realized profit. As such it was observed that even the taxable profit is not correct.

(h.) Sri Lanka Accounting Standard 24

The totals of the following categories of employees benefits had not been shown separately disclosed in the financial statements as stipulated in paragraph 17 of the Standard.

- (i.) Short Term Employee Benefits
- (ii.) Post-employment Benefits
- (iii.) Other Long Term Benefits
- (iv.) Terminal Benefits

(i.) Sri Lanka Accounting Standard 36

Actions in terms of paragraphs 59 and 60 of the Standard had not been taken for the identification and accounting for of the impairment loss that could arise from two assets of net value of Rs.558,310 eliminated from use.

### **2.2.2 Accounting Deficiencies**

The following observations are made.

- (a.) The contribution to the Consolidated Fund amounting to Rs.2,445,594,544 had been adjusted to the financial statements as sales costs instead of being identified as a change of equity .
- (b.) An expenditure relating to the year under review amounting to Rs.99,354 had been brought to account as a prepayment and as such the current assets and the profit for the year under review had been overstated by that amount.
- (c.) A sum of Rs.1,043,160 being the value of 52,158 Lottery Tickets not returned by the Lottery Distribution Agents during the year under review had been omitted in the accounts.
- (d.) A sum of Rs.1,000,000 received from a Lottery Sales Agent, on a Court Order had been Credited to the Lottery Income Account of the year under review instead of being credited to the Creditors Account.
- (e.) Instead of carrying out inquiries in terms of the Financial Regulation 396 and making the necessary adjustments on cheques totalling Rs.4,382,409 issued by the Board but not presented for payment within 06 months, that amount had been shown as a deduction from the expenditure for the year.
- (f.) The depreciation of 03 non-current assets for the year under review had been overstated by a sum of Rs.21,153.
- (g.) A sum of Rs.982,320 receivable by the Board for sale of Lottery Tickets older than 06 months to the National Paper Corporation had not been brought to account.
- (h.) The receipts amounting to Rs.3,142,147 of a Bank Current Account of the Board not identified over a period exceeding one year had not been identified and brought to account.
- (i.) The prizes amounting to Rs.99,346,909 allocated to the winners of the Lottery Draws of the year under review but not claimed had been adjusted to the retained profit instead of being adjusted again to the profit and as such the profit for the year under review had been understated by that amount.

- (j.) Even though a sum of Rs.5,000,000 invested by the Board in a private Bank had been taken over by the Government under a Notification published in the Gazette Extraordinary No.1546/18 of 23 April 2008, that had been shown further under the investments without making adjustments for that in the accounts.

### **2.3 Transactions Not Supported by Adequate Authority**

Even though payments in the ranges from Rs.1,200 to Rs.4,500 had been made to the Officers of the Board participating in the Lottery Draws, the Treasury approval for that had not been obtained. The sums so paid in the year under review amounted to Rs.39,990,200.

### **2.4 Accounts Receivable and Payable**

The following observations are made.

- (a.) Action had not been taken even in the year under review for the settlement of the sum of Rs.1,866,015 relating to the year 2013 included in the sum of Rs.7,716,731 receivable by the end of the year under review on account of the Lottery Sales Booths issued by the Board on credit basis.
- (b.) Action had not been taken for the recovery of installments totalling Rs.1,011,338 remaining recoverable from the year 2014 and prior years on account of the motor cycles and push cycles given by the Board to the Sales Agents.
- (c.) The trade debtors balance as at the end of the year under review totalling Rs.523,965,797 included balances totalling Rs.8,549,003 recoverable from Lottery Sales Agents over periods ranging from 01 year to 05 years and a sum of Rs.560,000 receivable on account of the Lottery Tickets issued to the members of the staff and a formal course of action had not been taken for the recovery of those balances.
- (d.) Action had not been taken for the settlement of a sum of Rs.467,600 included in the above debtors receivable from a Sales Agent who had died in the year 2014.
- (e.) No steps whatsoever had been taken for the recovery of the debtors balances totalling Rs.1,535,740 comprising the balances older than 05 years totalling Rs.975,774 receivable from three District Sales Agents and the balances older than 02 years totalling Rs.559,966 receivable from 04 Agents as at 31 March 2017.
- (f.) No courses of action whatsoever had been taken for the settlement of a sum of Rs.21,462,363 payable to 06 creditors remaining over a period exceeding 06 years.
- (g.) Action had not been taken to examine formally and settle a sum of Rs.255,017 payable to 117 Sales Agents who had functioned as Sales Agents but remaining inactive over periods exceeding 06 years.
- (h.) Incentive allowances amounting to Rs.240,983 payable to two Officers of the Board who had died in the year 2003 while in service and interdicted in the same year had been shown in the accounts as a balance payable without being settled.

- (i.) A sum of Rs.149,000 remaining payable to the District Sales Agents over a number of years had been brought forward in the accounts as an over recovery of computer installments without being settled.
- (j.) A sum of Rs.168,560 out of the advance paid to an external party in the year 2013 for the purchase of furniture to the Board had been brought forward in the accounts even by the end of the year under review without being settled.
- (k.) A sum of Rs.202,500 deposited with two external institutions for the supply of water and fuel for the Board had not been recovered over a period exceeding 12 years and it was observed that those institutions do not make any more supplies to the Board.
- (l.) An advance of Rs.15,000 granted to an officer in April 2012 had not been recovery even by June 2017.

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

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 Non-compliances with the following Laws, Rules, Regulations and Management Decisions were observed.

### Reference to Laws, Rules, Regulations, etc.

### Non-compliance

- (a.) Finance Act, No.11 of 1963 as amended by the Finance (Amendment) Act, No.35 of 1997

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 (i.) Sections 14(2) and 17(1)(a)

- A sum of Rs.30,000,000 out of the Prize Reserve Accounts of the Supiri Wasana Sampatha and the Jathika Sampatha had been used Contrary to the provisions in the Act for the payment of prizes of other Lotteries of the Board.

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

- When the Board conducts Lotteries for other Ministries, Departments and Authorities agreements should be entered into with the relevant institutions. Nevertheless, without entering into agreements with the relevant institutions in connection with the Govi Seta, Supiri Wasana Sampatha, Jathika Sampatha and Niroga Lotteries, Prizes amounting to Rs.4,792,887,453 had been awarded during the year under review. Further, the prizes older than 06 months without being claimed amounting to Rs.365,393,530 had been transferred to the Consolidated Fund.

- (iii.) Section 17(2)
- Even though the balance remaining after the deduction of the expenditure from the income of the Lotteries should be credited to the Consolidated Fund, a sum of Rs.522,548,543 had been retained without being credited.
- (iv.) Section 20(2)(1)
- Even though the Board should make rules in connection with the conduct of Lotteries, obtain the approval of the Minister in Charge of the Subject and publish in the Gazette, it had not been so done in connection with the Sampath Rekha, Power Lotto, Mega Power, Niroga, Supiri Delakshapathi, Manusath Mehewara and Super Fifty Lotteries introduced since the year 2012. A sales income of Rs.4,692,245,550 had been earned from those whilst a sum of Rs.2,309,431,338 had been allocated for the prizes and a sum of Rs.848,111,451 had been paid as the commission of the Sales Agents.
- (b.) Inland Revenue Act, No.10 of 2006 Section 114
- The Pay As You Earn Tax of Rs.5,270 recovered from an officer in the year 2002 had not been remitted to the Commissioner General of Inland Revenue.
- (c.) Establishments Code of the Democratic Socialist Republic of Sri Lanka
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- (i.) Section 2.10 of Chapter VI
- Even though the Board should report to the Auditor General all appointments, promotions, payments of salary increments, suspension of service, retirements, etc. it had not been so done.
- (ii.) Section 10(1) of Chapter VIII
- Even though 1/20 of the Salary can be paid as an allowance for being on duty for not less than 08 hours during the week ends or public holidays, contrary to that provision, the Board had considered being on duty for 12 hours on a day as two days and made payments accordingly. The payments made during the year under review in 86 instances so considered as two days amounted to Rs.206,889. Further, 04 instances of payments of holiday pay by considering the working days of the week as public holidays were observed and the payments so made amounted to Rs.18,038.

- (iii.) Section 11 of Chapter XXIV
- Even though the grant of property loans with effect from 01 January 2005 should be made through Banks Property Loans amounting to Rs.8,333,758 had been granted from the Board funds to officers during the year under review. Further, the interest recoverable from the officers in accordance with the provisions relating to the Property loans had been ignored and every officer had been granted Loans at the minimum 4 per cent rate.
- (d.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
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- (i.) Financial Regulations 396(d)
- Action in terms of the Financial Regulation had not been taken on 65 cheques totalling Rs.388,509 which had not been presented for payment for more than 06 months.
- (ii.) Financial Regulation 702(3)
- Even though the copies of contract agreements should be forwarded to the Auditor General action in compliance with that had not been taken.
- (e.) Public Administration Circular No.13/2008(iv) of 9 February 2011
- Payments exceeding the monthly fuel limit by Rs.2,783,900 had been overpaid to 09 officers entitled to official motor vehicles.
- (f.) Management Services Circular No.25/2014 of 12 November 2014 and No.07/2014 of 26 August 2016 and the Letter No.DMS/E1/04/4/06 of 26 August 2010
- Nine Officers had been recruited to 04 posts without the approval of the Department of Management Services.
- (g.) Public Enterprises Circulars
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- (i.) Circular No.PED/12 of 02 June 2003
- Section 6.5.1
    - A draft of the Annual Report for the year under review had not been presented to the Auditor General along with the financial statements.
  - Section 9.12
    - Even though a Welfare Allowances of Rs.12,855,777 had been paid to the staff during the year under review on the approval of the Chairman of the Board, the approval for that from the Treasury had not been obtained.

- (ii.) Circular No.95 of 14 June 1994 and Circular No.PED/12 of 02 June 2003 - An Incentive Allowances Scheme had been implemented for the staff of the Board without obtaining the approval of the Treasury and the payment made as Incentive Allowances in the year under review amounted to Rs.99,864,317. Even though provision had been formulated for the payment of a Special Promotional Allowances not exceeding Rs.2,500 per day to the staff in place of the Combined Allowance approved by the Government, specific approval for that had not been obtained. The sum so paid during the year under review amounted to Rs.3,096,500.
- (iii.) Paragraph 2.5 of the Circular No.PED/03/2015 of 17 June 2015 - The Board had paid Incentive Allowances amounting to Rs.315,294 during the year under review contrary to the provisions in the circulars.
- (iv.) Circular No.57 of 11 February 2011 - Instead of preparing an Annual Publicity Plan and obtain the approval of the Department of Public Enterprises, a sum of Rs.1,013,545,562 had been paid whilst a sum of Rs.753,535,738 had been spent in the preceding year.
- (h.) Government Procurement Guidelines 2006  
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- (i.) Guidelines 1.3.2 - Out of 14 Lotteries conducted by the Board during the year under review, the Printers for 10 Lotteries had been selected without following the formal Procurement Process.
- (ii.) Guidelines 7.8.6 and 7.8.7 - In the evaluation of the quotations invited for 05 categories of Lotteries, the quotations of two Printing Companies which had reportedly made substantially responsible quotation had been estimated from evaluation by the Technical Evaluation Committee. The printing work of 02 Lotteries had been awarded to a printing company which had not proven to have made responsible bids.
- (iii.) Guidelines 7.12.4 - The records of matters agreed with the bidder during negotiations had not been maintained whilst Memorandum of Understanding with the bidders had not been signed.

### 3. **Financial Review**

#### 3.1 **Financial Results**

According to Financial Statements presented the financial result of the Board for the year under review had been a surplus of Rs.414,761,431 as compared with the corresponding surplus amounting to Rs.241,016,039 for the preceding year thus indicating an improvement of Rs.173,745,392 in the financial result as compared with the preceding year. The increase of other income by a sum of Rs.157,348,155 and the decrease of income tax by a sum of Rs.187,656,992 had been main reasons for the above improvement.

An analysis of the financial results for the year under review and 04 preceding years, indicated that, except the years 2013 and 2014, net profits had been earned in the other years and the profit of Rs.241,016,039 in the year 2015 had improved to Rs.414,761,431 in the year under review. Nevertheless, in the adjustment of the employees' remuneration, the non-current taxes and the depreciation on the non-current assets to the financial result, the contribution from the year 2012 to the year under review had been a favourable amount and the contribution of Rs.3,014,201,011 in the year 2012 had improved to Rs.4,830,885,902 by the end of the year under review and that had fluctuated annually.

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

##### 3.2.1 **Ratio Analysis**

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

<b><u>Ratio</u></b>	<b><u>Year</u></b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
(i.) Gross Profit (Percentage)	13.02	13.39
(ii.) Net Profit /(loss) (Percentage)	2.05	1.38
(iii.) Current Assets Ratio	1.34:1	1.26:1
(iv.) Quick Assets Ratio	1.31:1	1.24:1

The following observations are made in this connection.

- (a.) Even though the Lottery sales income of the year under review, as compared with this preceding year had decreased by Rs.2,775,954,070 or 15.95 per cent the gross profit ratio had decreased by 0.37 per cent. The increase of the cost of sales for the year under review, as compared with the preceding and the increase of the Value Added Tax rates as compared with the preceding year had been the reasons for that.
- (b.) The attention of the Board should be further paid for the working capital management in order to the maintenance of the current and quick ratios of the Board at the optimum level.

#### **4. Operating Review**

##### **4.1 Performances**

The objectives and functions of the National Lotteries Board established under the Finance Act, No.11 of 1963 are given below.

- (a.) Increase of the contributions made to the Government through increasing the existing income level and the profitability.
- (b) Maintain the Market Leadership
- (c) Improvement of operating efficiency
- (d) Improvement of infrastructure facilities of the Institution.
- (e) Improvement of the efficiency and productivity of the staff.
- (f) Increasing the consumer satisfaction.

The following observations are made in connection with the achievement of the above objectives.

- (a.) Even though a number of years have lapsed since the establishment of the institution, the management had not paid its attention for the improvement of the infrastructure facilities of the institution.
- (b.) The Lottery Ticket income and the publicity cost of the Board for the years 2015 and 2016 are given below.

<u>Name of Lottery</u>	<u>Sales Income</u>				<u>Cost of Publicity</u>			
	<u>2016</u>	<u>2015</u>	<u>Variance</u>	<u>Percentage</u>	<u>2016</u>	<u>2015</u>	<u>Variance</u>	<u>Percentage</u>
	<u>Rs.millions</u>	<u>Rs.millions</u>	<u>Rs.millions</u>	<u>%</u>	<u>Rs.millions</u>	<u>Rs.millions</u>	<u>Rs.millions</u>	<u>%</u>
Mahajana Sampatha	5,342	4,734	608	12.8	132	107	25	23
Wasana Sampatha	1,143	1,350	(207)	(15.3)	93	61	32	52
Govi Setha	4,011	4,511	(500)	(11.1)	121	81	40	49
Supiri Wasana	1,683	1,747	(64)	(3.66)	83	70	13	19
Jathika Sampatha	1,355	1,319	36	2.73	83	67	16	24
Sampath Rekha	1,632	1,629	3	0.18	102	80	22	28
Wasana Sampatha Super Fifty	154	-	154	0	-	-	-	-
Mega Power	1,135	-	1,135	0	79	12	67	558
Power Lotto	72	305	(233)	(76.4)	-	41	(41)	(100)
Niroga	1,308	432	8.76	203	90	81	9	11
Manusath	30	-	30	0	-	-	-	-
Mehewara Supiri	517	-	517	0	66	-	66	-
Delakshapathi Raja Dinuma	140	-	140	0	-	-	-	-
Samurdhi	176	206	(30)	(14.6)	3	3	-	-
Sewana	1,475	944	531	56.3	4	2	2	100

- (i.) In addition to the 10 categories of Lotteries sold in the preceding year, five categories of Lotteries had been introduced during the year under review. Even though the income of 05 categories of Lotteries in the year under review had increased as compared with the preceding year, the income of Wasana Sampatha, Govi Setha, Supiri Wasana Sampatha, Power Lotto and Samurdhi Lotteries had decreased. The publicity expenses incurred on the sale of Lottery Tickets of the Lotteries had increased as compared with the preceding year.
- (ii.) Publicity expenses had not been incurred in the year under review for 04 categories of Lotteries as compared with the preceding year. Even though the income of the Govi Setha Lottery had decreased by Rs.500 million or 11 per cent, the publicity expenses thereof, as compared with the preceding year, had incurred by 49 per cent in the year under review.
- (iii.) According to the above data, the publicity cost of the Mahajana Sampatha Lottery which had earned the highest income of Rs.5,342 million amounted to a very low 2.5 per cent of the sales income whilst the publicity cost of the Wasana Sampatha Lottery which had earned an income of Rs.1,143 million amounted 8.14 per cent approximately of the sales income.

- (iv.) The number of Lottery draws conducted by the Board in the year under review, as compared with the preceding year, had increased by 247 draws. The introduction of the 04 new lotteries had been the main reason for that, and the net increase of the number of Lottery draws had been only 33 per cent.
- (c.) The additional cost incurred up to the year 2016, on the Power Lotto introduced to the market in the year 2014 without conducting a market study amounted to Rs.55,259,129. Nevertheless, that Lottery had been ceased in the year 2016 due to incurring losses over and over again.
- (d.) The Wasana Sampatha Super Fifty introduced to the market in June 2016 had been ceased in the year 2016 itself after conducting 12 Lottery draws due mainly to the weak level of the market demand.
- (e.) It was observed that an advance plan had not been made with regard to the number of Agents required by the Board and the number of Agents enrolled from the year 2012 up to the year under review had been 52. The attention had not been paid to the difficult areas in the appointment of Sales Agents. Action had not been taken during this period for the appointment of any Sales Agents to 13 Zones.
- (f.) Even though the sale of 1,004,000 Lottery Tickets at Rs.100 per ticket of the Manusath Mehewara Lottery introduced by the Board in the year under review had been planned, the actual sales had been only 297,564 Lottery Tickets. Even though it had been decided to credit 39.63 per cent from the income of Lottery to the Consolidated Fund, instead of so doing, action had been taken to treat the entire income as the income of the Board.
- (g.) The prizes of a motor cycle and Rs.1,000,000 relating to a Lottery draw of the year under review had not been awarded at the request made by an Agent. It was observed that the public dissatisfaction arising from failure to the award of prizes to the winners could result in an adverse impact on the goodwill of the Board.
- (h.) No action whatsoever had been taken for the implementation of the following activities included in the Action Plan for the year under review with an allocation of Rs.691 million for implementation.
  - (i.) Introduction of 25 new sales booths
  - (ii.) Use of 50 motor cycles and 40 push cycles for the publicity work of the Board.
  - (iii.) Installation of a vending machine within the limits of Colombo.

#### **4.2 Uneconomic Transactions**

Despite the possibility of obtaining legal service from within the Board, instances of action taken for obtaining that service from an external institution were observed. The expenditure incurred in one such instance amounted to Rs.119,000.

### 4.3 Management Activities

The following observations are made.

- (a.) According to the winning numbers and the houses of horoscope presented in the Niroga Lottery introduced without the approval of the Minister and a Gazette Notification exceeding a minimum of 1,300,000 Lottery Tickets should be sold per draw. Nevertheless the average sales per draw had been 447,198. In view of the inadequacy of the income from the sale of Lottery Tickets for the payment of prizes, it was observed that the additional money had been obtained from the Rewards Reserve Fund of the Board. The money so obtained for that purpose during the year under review amounted to Rs.4,416,796.
- (b.) Instead of adhering to the instructions given by the Board to the printers in connection with the printing Lottery Tickets, the Printers had been using the paper in a manner to the minimize the cost of paper and the management had not paid attention to the matter. According to an audit test check, the additional profit earned by one printer in one instance in the printing of 39,970,000 Lottery Tickets amounted to Rs.354,097.
- (c.) The Board of Directors had emphasized the need for obtaining adequate security bonds from the Agents in order to minimize risk involved in the issue of Lottery Tickets on credit basis to the Sales Agents registered under the Board. Nevertheless, the Board had neglected the decision of the Board of Directors and introduced a credit insurance cover and spent an additional sum of Rs.8,290,055 in that connection in the year under review. Out of 118 Agents registered with the Board 27 Agents had not been included in this scheme and the reasons for that had not been explained. According to the information received by the Audit, the debtors balance older than 6 months not settled by 12 Agents amounted to Rs.1.819.750 and it was not observed that action had been taken to identify the risky debtors included therein and settle through the insurance cover.
- (d.) Instead of awarding the procurement to the Bidder selected for the Mega Power Lottery commenced in the year 2013, printing work had been awarded to the State Printing Corporation resulting the considerable losses monthly. Such Loss sustained from September 2016 to February 2017 amounted to Rs.1,489,289 approximately.
- (e.) The procurement process for the Sampath Rekha Lottery introduced in the year 2012, commenced in several instances had not been formally finalized even by 30 June 2017. The printing work of this Lottery had been awarded to a particular printer from the year 2012 and it was observed that the printing of these Lottery Tickets from 01 January 2016 to 07 February 2017 had resulted in a loss of Rs.9,089,149 approximately to the Board.
- (f.) The period of agreement for the printing of 02 categories of 02 Instant Lotteries introduced to the market by the Board had expired on 31 May 2015. Nevertheless, the Procurement work for the selection of a Printer had not been carried out even up to June 2017.

- (g.) In the printing of Lottery Tickets, the Board had issued printing orders without carrying out a proper forecast of the Lottery Ticket requirements. As such about 10 per cent of the Lottery Tickets printed for each draw remained without being sold. The cost of printing of the balance Lottery Tickets had remained as at the end of the year under review amounted to Rs.48,082,180.
- (h.) Action had not been taken to obtain the irrevocable Powers of Attorney in respect of 97 title deeds relating to the property loans granted from the funds of the Board.

#### **4.4 Operating Activities**

The following activities are made.

- (a.) Out of 118 Sales Agents registered with the Board 31 Agents only had produced security bonds and Lottery Tickets valued at Rs.85,248,254 exceeding the security limits had been issued to the Sales Agents who had furnished security. Lottery Tickets valued at Rs.424,619,373 had been issued to the Sales Agents who had not produced security bonds.
- (b.) The Board had introduced a communication network at a monthly cost of Rs.572,000 for the communication of the information such as the distribution of Lottery Tickets among the Agents, the balance Lottery Tickets remaining after the sales, etc. by Email. Nevertheless, certain Sales Agents had communicated the information in different ways without using the Communication Network and as such it was observed that due to the problem of the reliability of information and the delays were a hindrance to the activities of the Board. It was not observed that the Board had taken action to rectify the situation.
- (c.) Even though the Board had numerically achieved the sales budget of Rs.20 billion for the year under review, according to a test check carried out in audit revealed that the Instant Lottery Tickets valued at Rs.358.43 million included therein had been issued on credit basis to the Sales Agents in December of the year under review. The debts relating thereto had not been settled by the Sales Agents even by May 2017, whilst unsold tickets valued at Rs.19,673,300 had been returned to the stores in June 2017. Despite that the special incentive allowance as well had been paid to the staff of the Board based on that Lottery income on credit basis.
- (d.) Even though the printing of the Lottery Tickets of the Mahajana Sampatha Lottery which has the highest sales out of the Lotteries conducted by the Board continue to be printed by the State Printing Corporation from the year 2008 to the date there was no written agreement entered into in that connection. The lowest price received per ticket in the Procurement process carried out in the year 2016 for the printing of Lottery Tickets by the Board had been Rs.0.3570 whereas the payments made to the State Printing Corporation had been at the rate of Rs.0.5021 per ticket. The estimated loss from the printing of the Lottery Tickets of the Mahajana Sampatha Lottery in the year 2016 itself due to the failure to consider the competitive quotations amounted to Rs.41,703,626 approximately.

- (e.) Even the printing work of the Niroga Lottery introduced in the year 2015 had been awarded to the State Printing Corporation and the Board had not taken action up to date for the selection of a printer through the formal Procurement Process. The current Printing Cost per Ticket amounted to Rs.0.6637 and the Board was not aware of the composition of that cost. According to the Procurement Process undertaken in the year 2016 for the printing of Lottery Tickets, the minimum bid received for the printing of a similar Lottery Ticket had been Rs.0.3570. The minimum loss that could result from the printing of Niroga Lottery Tickets for the year 2016 amounts to Rs.23,011,087 approximately.
- (f.) The Sage ACCPAC computer software introduced in the year 2003 by the Board for the maintenance of its accounting activities had been decentralized in the year under review at a cost of Rs.224,000 and as such the services obtained from the software had been limited. The reliability of the transactions of the Board the prevailed under the former centralized system, had become questionable under the decentralized system. The institution which introduced this software as well had refused to undertake the responsibility for any risks which may emerge from such alteration made.

#### **4.5 Transactions of Contentious Nature**

The following observations are made.

- (a.) Action had not been taken to conduct a formal investigation into the printing of Lottery Tickets with the same number twice in the printing of the Govi Setha Draw No.1293 in May 2016 and take actions against the printer.
- (b.) Even though the Board had decided to award a Brand New Motor Vehicle as the prize for the Draw No.3328 of the Mahajana Sampatha, the winner had been awarded a reconditioned motor vehicle. Even though the motor vehicles had been purchased from the Agent, according to the documents it was observed that it had been imported by another private party and not by the Agent. The award of a used motor vehicle to the winner due to the purchase of a motor vehicle imported by another party through the Local Agent is a contentious matter in Audit. Even though the Board had incurred a cost of Rs.6,800,000 for that motor vehicle, the value of that according to the Customs Documents amounted to Rs.5,891,268.
- (c.) The Board had paid a housing loan of Rs.774,480 to an officer wherein the full transfer of the title to the land had not been made. The land on which the house was to be constructed had been transferred to the officer by the owner retaining the life interest. A written statement that the owner had withdrawn the tenure of the land and transferred to the officer concerned had been forwarded through a private Firm of Lawyers. But that party had filed a case in the Courts later claiming back the tenure of the land and the Board had been named as a party to the case. Even though the Board is having a professionally qualified lawyer in the staff, the Board had paid a sum of Rs.184,475 as lawyers' fees to outside lawyers for 09 calls of the case.

#### **4.6 Idled or Underutilized Assets**

The following observations are made.

- (a.) Two Tractors purchased for Rs.7,650,000 on 31 December 2015 for Trade Branding purposes had been parked in the premises of the institution even by 26 May 2017 without being used for the purpose whilst the motor vehicles BMW(A1)5860 had been idling throughout the year.
- (b.) Two computer software purchased in the year 2012 for Rs.668,460 and Rs.740,000 for the Stores Control and motor vehicles controls respectively had not been used.

#### **4.7 Resources of the Board Released to Other Government Institutions**

Even though Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003 precludes giving the resources of the Board to the line Ministry or any other Government institutions, two motor vehicle and a motor cycle belonging to the Board valued at Rs.5,660,000 and 06 officers of the Board had been released to the Ministry of Finance since February of the year under review. Nevertheless, action had not been taken to obtain reimbursements of the employees' remuneration and incentive allowances amounting to Rs.1,621,952 paid by the Board to those officers.

#### **4.8 Human Resources**

The following observations are made.

- (a.) A Manual of Human Resources Management had not been prepared as stipulated in Section 9.14 of the Public Enterprises Circular No.PED/12 of 02 June 2003.
- (b.) The approved staff of the Board as at 31 December 2016 stood at 384 and the actual permanent staff stood at 311, thus resulting the vacancies in 73 approved permanent posts. Even though the approved contract posts stood at 20, in view of the actual recruitment of 76 contract employees, 56 had been recruited exceeding the approved limit. Any specific approval obtained for that had not been produced to the Audit.
- (c.) According to the Recruitment Procedure of the Board, those above the age of 45 years should not be recruited to the posts of Drivers. But it was observed that a person over the age of 52 years had been recruited to a post of Driver. It was also observed that the evidence in support of satisfying the completion of educational qualifications stipulated to the post were not available in the file.
- (d.) An officer had been recruited in the year under review to the vacant post of Chief Finance Officer of the Board without following the formal recruitment procedure and in addition to the basic salary of the post, he had been granted 14 additional increments.

#### **4.9 Identified Losses**

It was observed that heavy losses are incurred in the printing of certain Lottery Tickets due to the failure to predetermine the standard size of the Lottery Tickets printed by the National Lotteries Board. The additional estimated cost so incurred on two Lotteries introduced in the year under review amounted to Rs.30,379,949.

#### **4.10 Market Share**

The Lottery sales activities had been done by the National Lotteries Board and the Development Lotteries Board which are two State Institutions in Sri Lanka. The market share of the National Lotteries Board in the year under review had been 56.84 per cent. As compared with the market share of the Development Lotteries Board, that had decreased by 2 per cent in the year under review as compared with the year 2015. Further, it was observed that it had fluctuated annually from the year 2011. The details are given below.

<b><u>Year</u></b>	<b><u>Lottery Sales Income</u></b>		<b><u>Market Share of the National Lotteries Board</u></b>
	<b><u>National Lotteries Board</u></b>	<b><u>Development Lotteries Board</u></b>	
	Rs. millions	Rs. millions	Percentage
2016	20,170	15,314	56.84
2015	17,394	12,265	58.65
2014	15,153	12,592	54.62
2013	14,537	10,611	57.80
2012	12,024	10,668	52.98
2011	10,092	8,335	54.76

#### **4.11 Funds Management**

The following observations are made.

- (a.) Five Bank Current Accounts of the Board had maintained average balances of Rs.2 million over a period of 06 months and the Bank balances in those current accounts as at the end of the year under review totalled Rs.8,926,894. As such any attention of the Board paid for exploring the possibility of investing such idle cash balances retained in the Bank Current Accounts in effective investments was not observed.
- (b.) Even though the Peoples' Bank had charged sum totaling Rs.40,212,740 as 0.05 per cent service charge in connection with the cash deposited by Sales Agents to the Collection Account maintained by the Board in the Peoples' Bank. But, the Board had not paid any attention whatsoever in that connection.

#### **4.12 Control Weaknesses in the Information Technology**

Adequate courses of action had not been taken for the rectification of following defects in the Computer System of the Board.

- (a.) The duplicated printing of the Email message on the unsold tickets at the end of each day by Sales Agents, by the computer system.
- (b.) The non-use of formal secret number systems in order for ensuring the identification of the persons who entered to the data to the computer system and alter the data.
- (c.) Even though the current computer system of the Board has the capacity to issue sales invoices exceeding the quantity of the printed Lottery Tickets received by the Stores action had not been taken to rectify that defect.
- (d.) The computer system had not been improved to enable the entry into the data base the information on the interchange of tickets among the Sales Agents. In view of the situation instances of failure to identify the final responsibility to the tickets specifically were observed.

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

### **5.1 Annual Action Plan**

The Board had not taken action to prepare a Performance Report for the evaluation of the performance according to Action Plan for the year under review.

### **5.2 Discharge of Environmental and Social Responsibility**

Even though the Board uses more than 700 metric tons form of paper annually for the printing of Lottery Tickets, it had not paid attention to formulate an alternative course of action to minimize the damage caused to the environment after the release of those Lottery Tickets to the market. Similarly, a sustainable course of action had not been taken for the 70 metric tons approximately of unsold tickets remaining annually from the printed Lottery Tickets and those stocks are retained in the stores of the Board.

### **5.3 Unresolved Audit Paragraphs**

The following observations are made.

- (a.) Even though the Committee on Public Enterprises had directed on 21 March 2013 to recover overpayment of Rs.7,392,287 as employer gratuity made in the preceding years, action had not been taken either for the recovery of that amount or for the disclosure in the financial statements as an, amount receivable. The Board had only issued a written notice to the retired officers informing them to reimburse to the Board the gratuity overpaid.
- (b.) According to the directive made by the Committee on Public Enterprises at the meeting held on 04 November 2014, a new building should have been constructed on the land, 112 perches in extent owned by the Board situated on the Vauxhall Street. Nevertheless, the selection of an Architect for the preparation of the building designs only had been done even by the end of the year under review. The construction work had not been commenced up to date. The rent paid for the buildings taken on rent for the maintenance of the activities of the Board during the year 2016 amounted to Rs.25,224,472.

**6. Systems and Controls**

Deficiencies in systems and controls observed during the course of the audit were brought to the Chairman of the Board from time to time. Special attention should be paid to the following areas of controls.

<b>Areas of System and Controls</b>		<b>Observations</b>
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(a.) Accounting	-	(i.) The existing decentralized computer system had not been improved to enable obtaining the updated information, examination of the history of transactions and the flow of the transactions through the system.  (ii.) In the preparation of final accounts, instances of lack of accurate coordination of accounting information among other Divisions, lack of a system for the prevention of duplication, non-updating subsequent adjustments made through journal entries accurately, instances of issue of 02 journal entries of the same number were observed.
(b.) Operating Control	-	(i.) Log entries had not been maintained for the verbal orders made by the Board for additional printing; non-recording of Lottery Tickets supplied exceeding the quantity ordered and taking back the Lottery Tickets supplied in excess without the knowledge of the Board.  (ii.) The Surcharges recoverable from the Agents in instances non-return of unsold Lottery Tickets by the Agents had not been brought to account.  (iii.) The security system for the prevention of the possibility the Lottery Class number being printed erroneously under another Lottery Bill had not been introduced.
(c.) Human Resources Management	-	Promotions and Recruitments had not been done according to the relevant procedures and the failure to prepare plans for the recruitment to the existing vacancies.
(d.) Debtors Control	-	Inability to obtain an age analysis from the decentralized Computer System.