

National Lottery Board - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Lottery Board for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity, and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effect of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the National Lottery Board as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Scope of Audit (Auditor's Responsibility for Auditing the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Board has complied with applicable written law, or other general or special directions issued by the board of governing body of the Board.
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
(a) The Sub-section (4) of Section 14 (3) (a) of Finance Act, No.11 of 1963 states that after the expiration of a period of six months reckoned from the date of the drawing of lots for the prizes in any national lottery, any prize in such lottery which has not been granted to the person entitled thereto by reason of the fact that such person is not to be found shall be forfeited. However, out of the prizes granted for the additional zodiac sign of the Handahana lottery from 27 January 2022 to 30 June 2022, an amount of Rs.11,879,880 that remained unclaimed for six months had been retained in the Fund of the Board without crediting to the Consolidated Fund. Nevertheless, this amount which should be credited to the Consolidated Fund was not identified and brought to account as a liability payable to the Treasury.	These prizes have been introduced as customer promotional prizes from time to time and they are not part of the main prize pattern. Accordingly, these prizes do not fall under the category of forfeited prizes.	According to the National Lottery Board Act, the unclaimed prizes which exceed 06 months from the lottery draw conducted by the Lottery Board shall be credited to the Consolidated Fund and brought to account as a liability.

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| <p>(b) Allocation of necessary provisions for Rs. 25,921,120 in relation to the prizes unclaimed within 06 months out of the prizes awarded for the additional zodiac sign of the Handahanalottery from 01 July 2022 to 31 December 2022 had not been stated in the financial statements.</p> | <p>The draws for the additional zodiac sign of the Handahana lottery are conducted as a special prize outside the main prize pattern. These customer promotional prizes are again credited to that Fund and the funds are subsequently utilized for future draws.</p> | <p>The allocation of necessary provisions for unclaimed prizes exceeding 06 months of each lottery should be adjusted to the financial statements.</p> |
| <p>(c) Although the Board should have paid Rs. 665,771 to the Development Lottery Board for making lottery counters, branding and preparing creative structures, that liability had not been accounted for in the financial statements of the Board.</p> | <p>It is notified that the relevant provisions have been inadvertently omitted from the accrued expenses and the relevant settlements will be effected and the relevant adjustments will be properly made in this year.</p> | <p>Adjustments should be made in the financial statements for the liabilities payable by the Board.</p> |

1.5.2 Non-reconciled Control Accounts or Reports

According to the financial statements and the corresponding reports as at 31 December 2022, there observed a difference of Rs.378,500 and Rs.25,641,271, respectively between the unclaimed prize values exceeding six months in balance of the SupiriWasana lottery reserve.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comment of the Management	Recommendation
<p>(a) Out of 118 Passive and Instant lottery debtors of Rs.233,055,845 stated in the financial statements, only 08 debtors valued at Rs.16,440,443 had confirmed balances to the Audit as at 31 December 2022. Accordingly, 110 Passive and Instant lottery debtors totalling Rs.216,615,402 had not confirmed the balances as at 31 December 2022.</p>	<p>Although letters are sent requesting balance confirmations as at 31 December of each year, majority of recipients do not make such confirmation practically.</p>	<p>The Board should assist the Audit for providing balance confirmations of the debtors and action should be taken to recover the dues promptly.</p>
<p>(b) Out of the debtors who confirmed the balances to the Audit, only two debtors had agreed with the relevant balances and a balance of a debtor amounting to Rs. 1,964,108 was stated as to be incorrect. Similarly,</p>	<p>The debtors have settled the payments due for the lottery values within the first quarter of 2023.</p>	<p>Accounts should be corrected by finding out the reasons behind the differences and the receivables should be recovered.</p>

the remaining 05 debtors had stated that there were no such overdue loan balances to be settled. Accordingly, a difference of Rs.8,691,754 was observed relating to the aforementioned five debtors.

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| (c) | A list of balances of the debtors as at 31 December 2022 relating to the Airport Super Draw lotteries worth Rs.4,510,280 and Dollar Fortune lotteries worth Rs.964,678 which were directly sold to the respective buyers was not submitted to Audit. | There are debtors balances worth Rs.4,510,280 and Rs.964,678 pertaining to the Airport Super Draw and the Dollar Fortune lotteries, respectively as at 31 December 2022. | Expeditious action should be taken to recover the receivables to the Board. |
| (d) | Out of advances granted to external parties for various purposes, 02 advances totalling Rs.1,141,490 remained unrecovered from the year 2019, while a balance of Rs.10,000 remained unrecovered from the year 2021 to 31 December of the year under review. | The unsettled advance of Rs. 1,141,490 for the year under review consists of three separate amounts, including Rs. 126,000 paid to the to the National Housing Development Authority, Rs. 1,005,490 paid to the Company, and Rs.10,000 paid to the Department of Valuation, respectively. | Expeditious action should be taken to recover the receivables to the Board. |
| (e) | Out of the funds provided to 51 sales agents to construct sales outlets from the year 2016 to 2019, a sum of Rs.450,958 remained unrecovered as at 31 December 2022. | On the approval of the Board of Directors, this amount will be settled at the end of this year. | Action should be taken to recover the dues without delay. |
| (f) | A sum of Rs.275,908 to be recovered for the assets which had not been returned by the former officers of the Board was not recovered even by 31 December 2022 and that value was stated in the financial statements under the sundry receivable income. | Attention was drawn on this matter at the Board of Director's meetings, and accordingly, decision has been reached to recover the dues from the relevant officer, and otherwise, to pursue legal measures. | Action should be taken to recover the dues without delay. |
| (g) | Sums totalling Rs. 2,201,168, comprising festival advance of Rs.34,840, distress loans of Rs.645,132 and housing loans of Rs.1,521,196 due from deceased, interdicted employees and those who | Action will be taken to recover the dues in the future. | Action should be taken to recover the dues without delay. |

vacated the service, which had been stated under the employees loan in the financial statements, were not recovered even by 31 December 2022.

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| <p>(h) No action whatsoever had been taken to settle a deposit amounting to Rs. 102,500 made to an institution on 06 occasions from 2010 to 2014 for the supply of water to the staff of the Board, even by the end of the year under review.</p> | <p>For the supply of water bottles to the National Lottery Board for nearly a period of 05 years from 2010 to 2014, the contract had been awarded to a private company and it is revealed by the documents maintained by our institute that the Board had deposited the money therefor on 06 occasions.</p> | <p>Action should be taken to recover the dues without delay.</p> |
| <p>(i) A sum of Rs. 65,000 recoverable in relation to a motor bicycle provided to a sales representative in 2015 remained unrecovered even by 31 December 2022.</p> | <p>The concurrence of the relevant person has been received to recover the due amount of Rs.65,000 within this year and accordingly, action has been taken to recover the dues.</p> | <p>Action should be taken to recover the dues without delay.</p> |
| <p>(j) Out of the money disbursed to sales representatives in the year 2020 for computers and accessories, a sum of Rs.92,336 further remained unrecovered even by 31 December 2022.</p> | <p>Since the relevant district sales representative position remained inactive several years ago, action will be taken to settle the dues from the account under the approval of the Board of Directors.</p> | <p>Action should be taken to recover the dues without delay.</p> |

1.6.2 Payables

Audit Observation

Comment of the Management

Recommendation

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| <p>(a) There was an amount of Rs. 1,941,900 recovered by the Board during the period from 2018 to 2020 for providing sales outlets to the district sales agents without being so provided the sales outlets to the relevant parties or settled the monies, and that balance had been further shown under the current liabilities.</p> | <p>The down payment payable by the sales representatives for the sales outlets to be provided on concessionary basis has been deposited with the Board and plans have been drawn to provide new sales outlets in the year 2023.</p> | <p>Action should be taken to settle the amount without delay.</p> |
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| (b) | Out of the service charge paid for the lotteries sold by the district sales representatives, a sum of Rs.3,305,181 payable to the relevant district sales representatives as at 31 December 2022 had been retained as withholding money. Although this balance included the service charges of the relevant representatives retained on various occasions during the year 2011, no necessary steps were taken even by the end of the year under review to settle those withholding money. | Out of this withholding money, a sum of Rs.353,286 has been deducted for the loans recoverable to the Board. | Action should be taken to settle the amount without delay. |
| (c) | A sum of Rs.3,920,676 that the Board should pay to 50 sales representatives for scanning winning lotteries to award prizes to the winners had not been settled from the year 2015 to 31 December of the year under review, and 99 percent or Rs.3,867,101 thereof was the balances continued to exist for more than a period of one year. | Action is due to be taken to offset Rs.1,161,727 against a loan. Action will be taken to retain the amount of Rs. 646,632 of the relevant district sales representatives to settle the future loans and the remaining amount will be settled during the next quarter. | Action should be taken to settle the amount without delay. |

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

Reference to Laws, Rules, Regulations	Non-compliance	Comment of the Management	Recommendation
(a) Section 10(5) of the Finance Act No. 38 of 1971 and Section 17(2) of the Finance Act No. 11 of 1963 as amended by the Finance (Amendment) Act No. 35 of 1997	Once the expenditure specifically mentioned in the Act is deducted from the lottery income, the balance should be credited to the Consolidated Fund. However, without being so credited the profits totalled Rs.2,396,866,790 retained by the end of the year under review to the Consolidated Fund, it had been further retained in the Board even by 31 December 2022.	In terms of Sections of the Finance Act and the amendment Acts read in conjunction therewith, and the guidelines issued by the Ministry of Finance, a percentage of the sales from each lottery is credited to the Consolidated Fund monthly.	The provisions of the related Act should be complied with.

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| <p>(b) Section 11 of the Finance Act No. 38 of 1971</p> | <p>Although the funds of any government corporation shall not be invested unless with the approval of the Minister of Finance, the Board had invested Rs.5,511,647,458 and Rs.1,729,638,584 in fixed deposits and termdeposits, respectively by the end of the year under review.</p> | <p>The funds which are available in the reserves for the payment of prizes are invested by the National Lottery Board and the entitlement for the prizes is valid till 06 months period for the drawn tickets. Therefore, those funds are retained in the relevant accounts until that time.</p> | <p>The provisions of the related Act should be complied with.</p> |
| <p>(c) Paragraphs 15(2) and (3) of Public Finance Circular No. 01/2020 dated 28 August 2020.</p> | <p>The Board had established a Fund named AsaranaSarana in the year 1998. The receipts of 0.005 percent from the donations of the lottery winners and the lottery sales proceeds had been credited to that Fund, and the balance of the Fund as at 31 December 2022 was Rs.26,580,127. Approval had not been obtained in terms of circular provisions to maintain such specific Fund and the funds that should be credited to the Consolidated Fund had been unlawfully retained in the Board.</p> | <p>With the approval of the Board of Directors, the Asarana Sarana Fund was utilized to provide school requisites such as books and stationery to the children of the current staff members of the National Lottery Board, as well as the children of those who passed away during their employment with the National Lottery Board. These funds will be closed after being used for the welfare activities by the end of this year.</p> | <p>Cirvuler provisions should be followed.</p> |
| <p>(d) Section 17(2) of the National Lottery Board's Finance Act No. 11 of 1963 and Deputy Secretary to the Treasury's letter No. PE1/70/7/Vo11 dated 21 January</p> | <p>An amount of 16.5 percent of the sales proceeds of all the lotteries conducted for the Government should be remitted to the Consolidated Fund. Since the amount remitted to</p> | <p>According to this letter, the named two lotteries of the Mahajana Sampatha and the Wasana Sanpatha had made 16.5 per cent contribution to the Consolidated Fund and</p> | <p>Action should be taken in accordance with the provisions of the relevant letter.</p> |

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the Consolidated Fund from 11 lotteries conducted during the year under review was only 10 percent, that is, less than the due amount, a sum of Rs.560,218,552 was still due to be remitted to the Treasury.

as it was found difficult to maintain the subsequently introduced lotteries by remitting 16.5 per cent to the Consolidated Fund, 10 percent contribution is continuously made for those lotteries.

(e) Procurement Guidelines – 2006 of the Democratic Socialist Republic of Sri Lanka

(i) 4.2.1 Section (b) and (c)

Even though a Master Procurement Plan detailing the procurement activities envisaged at least for a period of three years shall be prepared and approved, a detailed procurement plan including lottery printing, supply and their handing over during the period from 2019 to 2023, which was taken into account for audit, had not been prepared and approved.

The annual procurements should be carried out while studying the lottery sales of the National Lottery Board, which is maintained as a business, and the market behaviour. Accordingly, the sales and marketing plans prepared considering the economic pattern of the country will be referred to the Line Ministry for informational purpose on annual basis after obtaining the approval of the Board of Directors.

The Guidelines of the Government Procurement Guidelines should be followed.

(ii) Section 4.3	<p>Although the total cost estimate related to the procurement should be correctly prepared, without being correctly identified the total cost related to printing of 09 types of lotteries, the relevant procurement had been initiated by the procurement committee of the Ministry. However, this procurement had been subsequently cancelled stating that the relevant procurement process should be carried out by the Cabinet Procurement Committee.</p>	<p>Since the expected cost at the beginning of this procurement exceeded the limit of the Ministerial Procurement Committee, the Ministerial Procurement Committee has made recommendations to refer the relevant procurement to the Cabinet Procurement Committee limit.</p>	<p>The Guidelines of the Government Procurement Guidelines should be followed.</p>
(iii) Section 4.2.3	<p>Although action should be taken to complete the relevant purposes within the due period by properly determining the time to be spent for each step of the procurement, the bid for the printing of 09 kinds of lotteries had not been awarded to a supplier even by February 2023 despite the lapse of 01 year and 08 month by then from the commencement of the relevant procurement on 25 June 2021</p>	<p>Due to the matters beyond the control of the procurement entity such as the Corona epidemic situation and the Dollar crisis prevailing in the country in 2022, the award of the procurement for printing lotteries was delayed and the contract for the printing of lotteries of this procurement has been awarded for a period of one year from 01 April 2023.</p>	<p>The Guidelines of the Government Procurement Guidelines should be followed.</p>
(iv) Section 4.4	<p>Instead of identifying annual printing requirement of the Board and implementing the procurement to make purchase according to that requirement, the procurement had been carried out by identifying</p>	<p>Due to the reasons beyond the control of the procurement entity, a delay was caused in the selection and award of printers for printing lotteries for a period of one year. Accordingly, taking into account the</p>	<p>The Guidelines of the Government Procurement Guidelines should be followed.</p>

the printing requirement of a short period of a month or several months. This situation had led to neglect the procurement authority limits as per Guideline 4.4 of the Government Procurement Guidelines.

time to be spent to complete that procurement, several interim procurements have been done in order to ensure uninterrupted lottery supply to the market.

(v) Sections 8.9.1 (b) and 8.9.3

Although a formal contract agreement should be signed after the acceptance of the bid of the bidder, an agreement had not been signed with the private institute selected for the distribution of the lotteries until the relevant contract was cancelled. Similarly, the contract agreements with the other private institute selected for the period from 18 January to 31 December 2022 had been signed on 16 August 2022, after 08 months.

It was not possible to sign a contract agreement with the A.B.S Currier (Pvt.) Limited since the relevant company did not submit the performance bond similar to 10 percent of the contract amount. Since the parent company of the Fronto Lanka Currier company is located in a foreign country, it had been taken a considerable time to submit the Bond Resolution to enter into the relevant agreement.

The Guidelines of the Government Procurement Guidelines should be followed.

(f) Sub-section 20(3) of the Finance Act No.11 of 1963 pertaining to the National Lottery Board.

• According to the provisions of the Act, the rules approved by the Minister of Finance and Planning in relation to the conduct of lotteries shall be published in the Gazette. However, the rules approved by the Board of Directors in relation to the Mega Power, Dana Nidanaya and Handahana lotteries launched on 21 May 2016, 25 May 2018 and 27 January 2022, respectively, were not

The final draft including the amended rules was referred to the Legal Draftsman's Department on 11 November 2022. Subsequently, by the letter dated 03 January 2023, we have been informed to resubmit observations regarding several rules stated therein.

Action should be taken in accordance with provisions of the relevant Act.

published in the Gazette in terms of provisions of the Act. Furthermore, the draws of 05 lotteries initiated for various purposes from 28 February 2010 to 01 March 2022 were suspended, whereas the public was not made aware of these suspensions by publishing notices in the Gazette.

- In accordance with the Extraordinary Gazette No. 1975/37 dated 31 January 2013, the amount allocated for the prizes of the Govisetha and JathikaSampatha lotteries was 47 per cent of the lottery sales income and the amount allocated for the Board's account was 24.25 percent and 19.25 percent, respectively. Nevertheless, 49 percent and 52 percent of the lottery sales income were allocated for prizes, while 22.25 percent and 19.25 percent were allocated for the Board's account, respectively, from 17 February 2021. However, this was not published through a Gazette notification as per the provisions of the Act.

The final draft including the amended rules were referred to the Legal Draftsman's Department on 11 November 2022. Subsequently, by the letter dated 03 January 2023, we have been informed to resubmit observations regarding several rules stated therein.

Action should be taken in accordance with provisions of the relevant Act.

(g) Public Finance Department Circular No. 08/2019 dated 17 December 2019.

Although the Government institutions including State Corporations should

The Board has registered under the e-Government Procurement System at present and action will be

Action should be taken in accordance with circular

register under the e-Government Procurement System (e-GP) introduced under the www.promise.lk website from 2019, the National Lottery Board had not registered under that method and carried out procurements accordingly even by the date of audit.

taken to conduct procurements in accordance with that system in the future.

provisions.

1.7 Non-compliance with Tax Regulations

Audit Observation	Comment of the Management	Recommendation
<p>In the calculation of income tax payable for the taxable profit of Rs. 1,292,310,780 of the Board for the year 2022, a ratio of 24 per cent should be apply on the profit of the first half of the year, while a ratio 30 per cent should be apply on the profit of the second half of the year. However, the Board had applied a 24 per cent tax ratio on the profit of the whole year and as a result, income tax for the year under review had been understated by Rs. 38,769,324 and the after tax profit for the year had been overstated by that amount.</p>	<p>In the calculation of income tax liability for the year 2022, a ratio of 24 per cent has been taken into account for the entire year. Accordingly, the revised tax value calculated at 30 per cent for the second half as per the amended Inland Revenue Act, No.45 of 2022 has been adjusted in the year 2023.</p>	<p>Action should be taken in accordance with provisions of the Inland Revenue Act.</p>

2. Financial Review

2.1 Financial Result

The financial result for the year under review was a profit of Rs. 1,085,769,648 as compered with the profit of the preceding year amounting to Rs.960,349,617. Accordingly, an improvement of Rs.125,420,031 was observed in the financial results. This improvement was mainly due to an increase in the sales income and a decrease in the sales, marketing and distribution expenditure in the current year.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
(a) For the construction of the business premises of the Board on its land located at the Vauxhall Strre, a sum of Rs. 27,178,359 had been spent for obtaining consultancy service from the year 2016 up to the year under review and it was stated as Work in Progress in the statement of non-current assets. However, no action had been taken to construct the relevant building and the expenditure incurred by the Board had turned out to be an uneconomic expense.	Although approval was sought from the Ministry of Finance and the Public Enterprises Department to construct the relevant building, they have informed that the approval cannot be granted.	Expenditure should not be incurred without obtaining the necessary approval.
(b) As it was not possible to construct the building on the land of the Board situated at Vauxhall Street, the office is maintained in a building obtained on rent and a sum of Rs. 487 million has been paid as lease rent of the building by 31 December 2022. Further, a part of this building obtained on rent by the Board had been constructed without permission and Rs. 31,654,000 under the above expenditure had been incurred for that purpose.	By the letter dated 03 April 2018, the then Ministry of Finance and Mass Media informed that the permission could not be granted for the construction of new building under the prevailing policies of the government.	Construction of a building or obtaining a building on rent to the Board should be carried out after a proper evaluation.
(c) The Board should purchase promotional items after properly planning the necessity. However, despite already having undistributed 460 ladies umbrellas and 384 men's umbrellas purchased as promotional items in the stores as at 31 December 2022, additional 4,200 men's umbrellas and 2,500 ladies umbrellas had been purchased at a cost of Rs. 8,292,650 for the promotional activities of the MahajanaSampatha Jaya King 5000	The 5000 draw of the MahajanaSampatha, which is a significant milestone of the said lottery, had fallen on 14 January 2023. Accordingly, it is required to encourage the sales network as well as customers thought the year to sale and purchase lottery tickets. Therefore, this promotional items procurement for the years 2022 and 2023 was conducted	Action should be taken to increase sales income by spending that promotional expenses before the date of lottery draw.

special lottery draw conducted on 14 January 2023. However, only 15 men's umbrellas had been issued on the date that the lottery draw was conducted. Accordingly, the expenditure incurred on the above promotional programme had become an uneconomic expense.

in parallel to this Jaya Ling programme.

3.2 Identified Losses

Audit Observation

Comment of the Management

Recommendation

(a) As the Board could not select a printing company to print the Govisetha lottery during the period from 05 March 2022 to 04 May 2022, 55 lottery draws scheduled for that period could not be held. Having conducted 280 lottery draws last year, an income of Rs.4,442 million had been earned and the income of a single draw was approximately 15.86 million. Accordingly, the Board had lost an income of nearly 872.3 million for the aforesaid unimplemented lottery draws of the Govisetha Lottery.

Due to the dearth of papers for printing lotteries and imposition of import restrictions with the Dollar remittance crisis, the printers of the National Lottery Board, who have the maximum market share of the lottery business, including the State Printing Corporation and the Department of Government Printing, faced a crisis. However, only two lotteries were suspended during 55 lottery draws and funds were continuously remitted to the Consolidated Fund while retaining the lotteries in the market.

According to the agreement, the relevant suppliers should keep sufficient stocks of raw materials to print and supply lotteries. In case of breach of conditions by the suppliers, the Act should be followed.

(b) Due to the Dollar crisis and the lack of papers, the printing company that undertook the printing of NLB Handahana lottery had refused to print that lottery after two draws, and consequently, 29 draws of the NLB Handahana lottery had not been conducted from 05 March 2022 to 03 April 2022. When taking into account the average income of previously conducted 37 draws of the NLB Handahana lottery, the Board had lost an income of approximately 263

After the first draw of the NLB Handahana lottery, the Ceylon Bushiness Appliances (Pvt.) Limited informed about their inability to print Handahana lotteries since it was not possible to import printing raw materials due to the Dollar remittance crisis. Due to the severe obstacles caused in the import of printing raw materials amidst the Dollar crisis occurred in the country

According to the agreement, the relevant suppliers should keep sufficient stocks of raw materials to print and supply lotteries. In case of breach of conditions by the suppliers, the Act should be followed.

million due to not conducting the above lottery.

in 2022, all the printing establishments in the pool including the Department of Government Printing were unable to carry out lottery printing.

(c) The sale of Dollar Fortune lottery had been started in 2016. Although more than 6 years had elapsed until 09 December 2022 for drawing the lottery ticket, only 6,603 tickets or 22 percent of the 30,000 printed tickets had been sold and collected money. Accordingly, when taking into account only the revenue received from sale of tickets on the day of the draw and the cost of the prize money of the lottery ticket, the National Lottery Board had to be incurred a loss of USD. 33,970 or approximately Rs.12,263,170.

Only 6,603 lottery tickets could be sold over a period of 06 years. Therefore, taking into consideration the people's trust rather than the incurred loss, this special draw of the Dollar Fortune Lottery has been conducted after 06 years with the approval and recommendation of the Board of Directors.

In the introduction of a new lottery to the market, its sales targets should be estimated as correctly as possible and efforts should be made to achieve those sales targets. Action should be taken to conduct the relevant lottery during a reasonable period of time.

(d) It had been stated that the Board had sold 6,869 lottery tickets and money had been received only for 6,603 lottery tickets. Accordingly, money had not been received for 266 lottery tickets. However, without identifying the people who should settle the money for the said 266 lottery tickets and recovering dues, provisions of Rs. 964,678 had been made in the financial statements of the Board as at 31 December 2022.

Out of 6,869 Dollar Fortune lottery tickets sold, money had been received only for 6,603 tickets. The money for the remaining 266 lottery tickets had not been received up to the day of the draw.

Action should be taken to check the issuing process of lottery tickets for sale and to recover the dues from the responsible parties.

(e) A certain amount of above lotteries had been handed over to the Marketing Division of the Board for sale, of which 552 lottery tickets had been misplaced. It has not yet been confirmed as to what happened to those missing tickets and the value of those 552 lottery tickets was USD 5,520 or approximately Rs. 2,029,262 as at 31 December 2022.

Out of the lottery tickets handed over to sell, the number of tickets that was not returned and was unable to identify was 552.

Action should be taken to recover the due amount from the responsible parties.

3.3 Management Inefficiencies

Audit Observation**Comment of the Management****Recommendation**

- (a) The National Lottery Board was established by the Finance Act No. 11 of 1963 and several sections of the Act were amended in 1997 and 1998. However, despite the lapse of 06 years for the approval given by the Cabinet Decision No. 17/0295/719/026 dated 22 February 2017 to draft a new Act to suit to current objectives of the Board, the Board had so far failed to draft a new Act.
- The Legal Draftsman has informed that since a Cabinet revision occurred before completing the final stage of the new draft to match the current objectives of the National Lottery Board, a new cabinet approval should be obtained and the said cabinet approval is to be obtained.
- Action should be taken to amend the existing Act or to prepare a new Act in a manner correcting the deficiencies in the existing Act and to reveal the new changes.
- (b) According to the agreement signed by the National Lottery Board with its district sales agents, the district sales agents should purchase lottery tickets on ready cash for normal lottery draws and lotteries can be purchased on credit in special lottery draws. However, relevant total credit amount should be settled within 03 working days from the conduct of the relevant special lottery draw. Further, tickets are issued on credit basis to 03 sales agents who sell lottery tickets through SMS and to the staff sales agents, and the amount should be settled in full within 30 days from the relevant draw. However, contrary to that primary agreement, the credit balance exceeding 30 days was Rs.32,001,952 as at 31 December 2022.
- The credit balance of Rs.196,211,722 applicable for lottery draws, the credit value for less than 30 days is Rs.175,898,890. The remaining credit balance exceeding 30 for the lotteries applicable for draws is Rs.20,312,832 and the value due from 09 sales agents is Rs.10,159,094.
- Action should be taken to recover the money from the debtors within the due timeline.
- (c) A sum of Rs.238,530,755 was due from the lottery sellers by 31 December 2022. Although the lottery sellers are required to deposit a guarantee, guarantees had been so deposited only for debtor value of Rs.40,960,581. Accordingly, bank guarantees had not been obtained for the loan balance of 11 percent or Rs.27,210,670 of the lottery ticket
- Relevant notifications have been made to recover the loans and several debtors are paying their dues in instalments. Legal actions have been initiated regarding other debtors.
- Necessary guarantees should be obtained to recover the losses incurred by the sales on credit.

sellers debtor balance, except for the sales on credit related to special lottery draws.

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| (d) | Out of the total debtor value reported as at 31 December 2022, debtors exceeding 05 years amounted to Rs.15,969,774 and no adequate measures had been taken to recover a debt balance of Rs.14,223,839 of the above sum. Further, the Board had failed to recover the debtors amount of Rs.10,011,554 between 1-5 years or to the encashment of the bank guarantees from the debtors with bank guarantees worth Rs.1,047,490. | This debtor value included Rs.2,710,613 for lotteries applicable for draws, Rs.,748,881 for instant lottery tickets and Rs.4,510,280 applicable for Colombo Airport Supper Lottery. | Action should be taken to recover the money from the debtors before the expiry of due timeline. |
| (e) | It has been more than 06 months as at 31 December 2022 since the conduct of Darudiri Sampatha, Sampatha Lagna Warama, Manusath Mehewara, Rankirula and Rajadinuma, and Sevana Passive lotteries. However, no action had been taken to settle the unfavourable balance of Rs.6,297,864 remained in the prize reserve fund of the Darudiri Sampatha, Sampatha Lagna and Sevana Passive lotteries and the a favourable balance of Rs.10,150,180 in the prize reserve fund of Manusath Mehewara, Rankirula and Rajadinuma lottery tickets. | Necessary arrangements have been made to transfer it to the relevant account in the preparation of monthly accounts for February 2023. | Actions should be taken to correct the accounts by adjusting to the correct accounts the reserve balances of the lottery tickets that have been drawn. |
| (f) | Sums totalling Rs.5,065,088, including Rs.2,335,562 to be paid to the State Engineering Corporation for the construction of the Mannar circuit bungalow of the National Lottery Board and Rs.2,729,526 retained as a retention money during the related construction had been stated under the trade and other creditors as a payable balance from the year 2020 without being settled or properly carried out the relevant purposes. | Arrangements will be made to release the relevant bills in the future for the repairs carried out by the State Engineering Corporation so far. | Before settling the retention money, action should be taken to obtain an engineering certificate ensuring that the relevant works have been completed correctly. |
| (g) | The WasanaSampatha, Jaya Viru, DarudiriSampatha, Sampatha Lagna | Since the sales of Wasana Sampatha, Daru Diri | Action should be taken to credit the cash prizes |

Varama and Sewana Passive lottery tickets draws had been stopped by the Board on 01 March 2022, and as at 31 December 2022, the prize value that had exceeded 06 months after the draw was stopped amounted to Rs.63,687,263. However, these cash prizes for which the winners did not claim had not been identified as unclaimed prizes and no relevant action had been taken thereon.

Sampatha, Sampatha Lagna warama and Sevana Passive lottery tickets mentioned here was not profitable, the drawing of the lottery tickets has been suspended and accordingly the remaining reserve money of those reserves will be re-credited to the same reserves from which the money was obtained on the previous occasions.

unclaimed exceeding 06 months to the Consolidated Fund.

(h) The warranty period of 19 items of 08 types of prizes such as Apple iphone, Laptop, televisions and refrigerators purchased at a cost of Rs.2,383,619 to award as the lottery prizes had expired by 31 December of the year under review. It was observed that some of the gift items in the store were not in a suitable condition to be presented as gifts again, and the attention of the management had not been focused in this regard.

Every product cannot be presented for every special draw. Hence, there is a certain period of time between the re-submissions of the remaining products due to the winners not presenting to obtain gifts. Therefore, the goods remain in the stores until then.

Necessary steps should be taken to award the relevant prizes to the winners within the warranty period.

3.4 Operating Inefficiencies

Audit Observation

The audit staffs participating in the lottery draws observed that the machine used by the Board to draw the MahajanaSampatha lottery had to be operated repeatedly due its failure to function properly, not giving the signs the numbers, and letters obtained by the machines correctly at the same time, stuck the balls with those numbers, letters and zodiac signs in the machine. The draft audit report of the year 2021 had also indicated in this regard. However, the board had failed to purchase the ball drawing machine worth Rs. 150 million till 10 April 2023 which had been included in the

Comment of the Management

The machine which is currently used for drawing the Mahajana Sampatha lottery has been used for more than fifteen years and there have been errors in the JathikaSampatha lottery drawing machine in some cases. There is no substitute machine for these two machines which can be used in case of emergency. Accordingly, the procurement entity has been instructed to inform the Board of Directors for purchase of two seven-chamber lottery machines at

Recommendation

Necessary arrangements should be made to carry out lottery drawings more accurate manner.

Action Plan and Procurement the same time.
Plan,2022 of the Board.

3.5 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the Management	Recommendation
A total of 43 units of gold coins and gold articles valued at Rs. 810,311 purchased since 2015 to be presented as prizes in lottery draws had been deposited in bank safes without being used for the relevant purpose. The current value of those items was Rs.4,482,935.	As at 31 December 2022, there were 43 items of gold items that had been purchased in the previous special draws to award as additional prizes to the winners who did not present themselves to claim their prizes.	Action should be taken to use the remaining gift items for future lottery draws.

3.6 Procurement Management

Audit Observation	Comment of the Management	Recommendation
(a) The National Lottery Board had initiated the procurement activities related to the printing, supply and delivery of 04 types of lotteries in June 2018, and subsequently, the procurement activities had been cancelled a year later in May 2019 as the bid documents had not been prepared in accordance with the correct procurement guidelines. Once again, the procurement activities related to the printing, supply and delivery of 09 types of lotteries had been started on 14 February 2020. However, the procurement had to be cancelled on 21 June 2021, that is, after 01 year and 04 months due to the fact that those activities had not been carried out within the due procurement authority. Similarly, procurement activities had been again initiated on 25 June 2021 for the same 09 types of lotteries and 01 year and 09 months had been spent to the bid awarding up to 01 April 2023. Accordingly, the	A considerable period of time has been spent to offer the procurement commenced in June 2021. After the grant of Cabinet approval dated 13 February 2023 for awarding bids, the printing of lottery tickets for a period of one year from 01 April 2023 to 31 March 2024 has been awarded to new printing companies.	Action should be taken to complete procurement activities related to lottery printing within a reasonable period of time.

National Lottery Board had failed to select suppliers for the printing, supply and delivery of lottery tickets through proper procurement process from 01 September 2019 to 31 March 2023.

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| (b) | Due to the failure to select suitable suppliers for the procurement of lottery tickets for a specific period of one year according to the provisions of the Procurement Guidelines, lottery tickets had been printed for short periods of 06 months, 04 months, 02 months, 01 months from 2019 to 31 December 2022 by giving time extensions on 68 occasions to the same suppliers who provided lotteries before the year 2019 contrary to the provisions of 8.14 of the Government Procurement Guidelines. | With the objective of ensuring uninterrupted supply of lottery tickets to the lottery ticket market in keeping with the relevant situation and environmental factors, the period of contract agreements of the existing printing establishments has been extended from time to time under the approval of the Board of Directors and the Procurement Committee. | Action should be taken in accordance with the provisions of the Procurement Guidelines. |
| (c) | In the year 2022, the Board had selected a company to print the lottery tickets on 2 occasions at 4 months each for the two lottery tickets of Govosetha and Handhana under the national competitive bidding method and further, printing companies had been selected for the above two lottery tickets on 5 occasions at 1 month each under the limited competitive bidding method. However, no action had been taken to recover the loss incurred by the Board from performance security of the company that undertook the order to print the Govisetha lottery ticket and then refused to provide the same, and that company had been again selected to print and supply the Govisetha lottery ticket for the period from 31 October to 30 November 2022. | All the suppliers had to face this situation commonly due to economic instability and the situation clearly impacted on the Ceylon Business Appliances (Pvt.) Company first and the Government Printing Corporation and the Department of Government Printing respectively. Due to the common factors and the limited number of confidential printing companies in the printing industry, action has not been taken to recover the performance security deposited by the D. P. J. Holdings (Pvt.) or blacklist the company. | Action should be taken to recover the loss incurred by the Board from the parties who violated agreements. |
| (d) | Instead of the Supiri Vasana lottery ticket sold till 20th January 2022, the Board had started a new lottery ticket named NLB Handhana from 27 | In case of reissuing a lottery to the market by changing the name of an existing lottery ticket, it is the general practice | Printing and supply of lottery tickets should be carried out in accordance with provisions in |

January 2022. However, contrary to the provisions stipulated in Chapter 3 of the Government Procurement Guidelines, the task of printing and supplying the NLB Handahana Lottery had been handed over to the company that printed the Supiri Vasana Lottery without calling for bids, and contract had not been signed for this purpose.

hitherto used by the National Lottery Board to give the printing task to the same printing company that printed the previous lottery ticket. Accordingly, the printing task related to the NLB Handahana Lottery were carried out through the Ceylon Business Appliances (Pvt) Company, which was doing the printing of the SupiriVasana Lottery at that time, at the same printing rates, and there has been no arisen a need to enter into an agreement in place of existing agreement regarding printing activities.

Chapter 3 of Government Procurement Guidelines.

4. Accountability and Good Governance
4.1 Budgetary Control

Audit Observation

The budget, 2022 of the Board had been approved on 29 December 2021 and it was revised again on 16 August 2022 and 31 October 2022. However, during the second revision, these original budget estimates had been reduced from 12 per cent to 40 per cent, and differences from 19 per cent to 58 per cent were observed between the second revised budget estimates and the actual values in the financial statements. Accordingly, the Board had failed to make use of the budget as an effective instrument in control.

Comment of the Management

According to the circulars issued in parallel with the high inflationary situation in the country, the foreign exchange crisis due to the deterioration of foreign reserves, the political crisis situation and government expenditure management strategies, the Board revised the budget on 3 occasions on the requirement of the management and Board of Directors.

Recommendation

In the preparation of budget estimates, it should be done as accurately as possible considering the limiting factors affecting the Board and the budget should be made use of as an effective instrument in control for the achievement of the objectives of the Board.