

Development Lotteries Board - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Development Lotteries Board for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 provisions of the National Audit Act No. 19 of 2018 and the 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 effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Board as at 31 December 2023, 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 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 my 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 intends 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 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 Audit Scope

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 skepticism 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 audit 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 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 governing body of the Board,
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources 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 Non-compliance with Sri Lanka Accounting Standards

	Audit Observation	Comments of the Management	Recommendation
(a)	Although the inventory should be stated in the financial statements at the lower of cost or net realizable value in terms of Sri Lanka Accounting Standard No.2, a stock of 2883 instant lottery tickets costing Rs.443,609 with no net realizable value and physically non existing as at 31 December 2023 had been entered in the closing stock at purchase cost. Thus the retained earning reserve and closing balance of instant lottery tickets stock had been overstated by the same amount.	As lottery tickets do not have net realizable value practically, they have been valued at purchase cost.	To comply with Sri Lanka Accounting Standards.

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| <p>(b) Although an item of property, plant and equipment should be recognized as property, plant and equipment only if its future economic benefits will flow into the entity and its cost can be measured reliably in terms of Sri Lanka Accounting Standard No. 16, a cab valued at Rs.8,095,000 which do not physically possessed by the Board and cannot meet the condition of economic benefit flowing into the entity and 07 draw machines valued at Rs. 7,641,159 that have been removed from use had been shown under property, plant and equipment during the year under review.</p> | <p>It is agreed with the audit observation that the double cab mentioned in the audit query valued at Rs.8,095,000 is not physically available in the Board. A case has been filed in the Colombo District Court regarding this cab (Case Number - DMR/4781/2021) and it has been accounted for as a fixed asset because it was registered in the name of the Board.</p> <p>Within the value of Rs.7,641,119 mentioned here, 4 draw machines 1 air compressor and balls used for draw are included. These items are the items initially used by the Board for the purpose of draw and these have been recorded as assets of the Board. As those items are special machines used for the purpose of draw, there is a problem with the disposal of these machines. Due to its uniqueness and dilapidated condition it has been difficult to dispose these to outside parties. Showing these in the machinery accounts has been done because of failure of disposing these machines by this time.</p> | <p>To comply with Sri Lanka Accounting Standards.</p> |
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1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Due to the amount of Rs.761,885,800 paid as prizes during the period from 01 January to 05 July of the year under review by the Development Lotteries Board for special second draws of 06 lotteries of Shanida Wasana, Lagna Wasana,</p>	<p>The Development Lotteries Board has adopted a strategic method of introducing additional winning opportunities to customers as Dewana Warama and Second Chance under the approval of the Board of Directors with a view to</p>	<p>The related expenses should be incurred through the prize expense account of the year without using the provisions of the reserve</p>

Jayoda, Kapruka, Ada Kotipathi and Valampuri and for “Dewana Warama” and “Second Chance” draws of 08 lotteries of Shanida Wasana, Lagna Wasana, Jayoda, Super Ball, Kapruka, Ada Kotipathi, Supiri Dhana Sampatha and Valampuri during the period from 06 July to 31 December was adjusted to the prize reserve account without accounting for as a prize expenditure in the year under review, the prize expenditure had been understated and the profit had been overstated by the same amount in the year under review.

avoid the quantified potential decline in customer demand for lottery tickets in relation to raising the selling price of a lottery ticket from 06 July 2023 .

account for “Dewana Warama” and “Second Chance” winning opportunities.

Additional prizes have been awarded using the prize reserve account in terms of the Development Lotteries Board Act and as the amount accumulated in the prize reserve account has been adjusted through the income statement on previous occasions, I inform that it should not be shown as an expense once again.

(b) Although the value of lottery tickets printed for next year's draws and handed over to the DLB warehouse by 31 December was identified as closing stock in the final stock verification as per stock calculation methodology of Development Lotteries Board, 4,605,000 lottery tickets printed for 01 January 2024 to 27 January 2024 draws and valued at Rs.5,787,310 which were handed over to the warehouse on 31 December of the year under review were not included in the closing stock. Thus the closing stock and trade creditors had been understated by that amount.

Even though the amount of 460,500 ticket books mentioned in the audit query had been received in the warehouse by 31 December 2023, GRN's had not been issued. As such the stock of tickets had not been accounted for on 31 December 2023.

As this stock of tickets has been received by the warehouse by 31 December 2023 it should be considered as a stock in hand.

(c) Due to the interest income receivable as at 31 December of the year under review for 06 Fixed Deposits invested in two State Banks for the payment of gratuity payable to employees of the Development Lotteries Board on retirement or leaving service amounted to Rs.6,619,629 was added to value of fixed deposits under current assets

The interest income of Rs. 6,619,629 is interest income receivable and as the interest income is not reinvested by the Board in the fixed deposit, it has been added to the value of fixed deposits under current assets without considering when computing the net employee

As these 06 fixed deposits have been made for payment of gratuity to employees who are leaving from office, interest income receivable should be taken into

without taking into account in calculating the net employee benefit liability, the fixed deposit balance and employee benefit liability balance in the statement of financial position for the year under review had been overstated by that amount.

- (d) Even though 123 gift vouchers valued at Rs.592,500 issued by the Lanka Sathosa (Pvt) Ltd in the year 2009 had been entered as the final stock of gift items in the financial statement, as more than 14 years had elapsed since these vouchers were received by the Lotteries Board at the end of the year under review and despite there is an uncertainty regarding receiving money for it, it had been recorded as a current asset in the statement of financial position without making necessary adjustments for it.

- (e) Although more than 06 years had elapsed by the end of the year under review, after making the expenditure of Rs..1,728,884 for the repair of dining room, warehouse and boundary walls of Development Lotteries Board in the years 2017 and 2018 it had been stated as work-in-progress under property plant and equipment without making the necessary accounting adjustments.

benefit liability.

As Lanka Sathosa (Pvt) Ltd has informed in a letter that it is not possible to reactivate these vouchers, it has been referred to the Board of Directors of the Development Lotteries Board on 20 May 2024 on the advice of the Audit and Management Committee regarding the removal from accounts because it was revealed that it is futile to maintain the voucher balance in the accounts. The approval has been received from the Board of Directors to remove the amount from the accounts.

The relevant asset should be completed to the point where benefits are derived, to be recognized as an asset. Therefore, since these constructions have not been completed by 31 December 2023, arrangements have not been made to capitalize and depreciate the items mentioned in the audit query.

consideration in calculating the net employee benefit liability.

As it seems these gift vouchers cannot be encased or reactivated, an appropriate decision should be made regarding this balance.

As the dining room and storage room are already in use, necessary accounting adjustments should be made.

1.5.3 Unreconciled Control Accounts or Records

Item	Value as per financial statements Rs.	Value as per corresponding records Rs.	Difference Rs.	Comments of the Management	Recommendation
(a) Balances payable as at 31 December of the year under review				Details relating to balances confirmed directly to the audit by the Sri Lanka Broadcasting Corporation and the Associated Newspapers of Ceylon Limited are requested to be provided and relevant arrangements will be made to clarify the difference.	The balance should be reconciled in consultation with the relevant institutions.
- Sri Lanka Broadcasting Corporation	11,884,975	22,606,401	10,721,426		
- Associated Newspapers of Ceylon Limited	4,735,627	2,754,832	1,980,795		
(b) Fixed Asset Balances as at 31 December of the year under review				This difference mentioned in the audit query has been corrected in the accounts of the year 2024.	Asset balances in the financial statements should be reconciled with the schedules.
- Office equipment and mobile phone balance	43,416,368	43,353,012	63,356		
- Balance of furniture and fixtures	14,802,820	14,881,156	78,336		
- Computer Accessories	57,425,324	57,175,052	250,272		

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Comments of the Management	Recommendation
(a)	Because of the Board had unilaterally breached the agreement entered into to acquire the premises at 234 Vauxhall Street on a rent basis from October 2006 the Board had failed to recover the Rs.5,700,000 which is the sum of Rs. 723,780 paid as deposit and Rs. 4,976,220 which is part of the rent paid for those years throughout 17 years by now.	A Committee of the Ministry of Finance was appointed and received a report regarding the collection of the sum of Rs. 5,700,000 receivable to the Board in connection with the rental of the building No. 234 of Vauxhall Street and the Attorney General's Department is carrying out the necessary legal actions to implement the recommendations mentioned in the report. All relevant information has been provided to the Attorney General's Department. However, since the progress of the actions taken in this regard was not received from the Attorney General's Department, an inquiry was made regarding the actions taken by the Attorney General's Department by sending another letter dated 24 July 2023.	Actions should be taken to recover the amounts receivable promptly.
(b)	The verdict in the case which was filed 24 years ago requesting to recover building rent deposit of Rs 2,520,000 in terms of the tenancy agreement entered into with a person at Ward Place in 1990, had been received on 11 January 2016. Even though it had elapsed approximately 7 years since the verdict was announced to recover the relevant amount, the Board had failed to recover the amount even by the end of the year under review.	The government lawyer informed us in writing on 25 October 2023 that the court action on the recovery of this amount is at the final stage.	Actions should be taken to recover this amount promptly.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
<p>There was a balance of Rs.414,095,595 in the trade creditor account as at 31 December 2023 and within that, there was a balance of Rs.207,860 lasting for a period of 1 to 2 years, and a balance of Rs.2,800,000 lasting for more than 3 years. Actions had not been taken even at the end of the year under review to settle said loan balances.</p>	<p>As these balances are to be paid in the future, it has been included in the in the balance of the trade creditors account in the final accounts of the year 2023 and actions will be taken to settle the payments.</p> <p>The balance of Rs 2,800,000 for more than 3 years is the amount payable in connection with the formulating of procedural rules of the Development Lotteries Board. Due to the fact that the necessary revisions in this activity have not been completed, making of payments have been withheld up to now.</p>	<p>Actions should be taken to re-check the legality of payables.</p>

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

With reference to laws, rules, regulations etc	Non-compliance	Comments of the Management	Recommendation
<p>(a) Development Lotteries Board Act No. 20 of 1997</p> <p>(i) Section 17 (5)</p>	<p>Although the money received from the sale of the goods purchased for the prizes which have not been claimed by the prize winners and the period of 06 months has elapsed, should be credited first to the Fund and then to the President's Fund. Even though the approval was given in the Meeting of Board of Directors held</p>	<p>The approval was received in the Meeting of Board of Directors held on 31 May 2022 to dispose of 03 motorcycles bought as prizes of the Super Ball and Kotipathi Shanida lottery tickets in the years 2018 and 2020 and to send the money to the President's Fund.</p>	<p>Actions should be taken in terms of Development Lotteries Board Act.</p>

on 31 May 2022, to sell the three motorcycles which were purchased as gifts in 2018 and 2020 with a total value of Rs.779,750 and to take action in terms of the Act, the related works had not been completed even by now.

Accordingly, a Committee has been appointed to formally re-evaluate these 03 motorcycles and after the assessment, actions will be taken to transfer the funds to the President's Fund by carrying out a formal disposal process within the next 02 months.

(ii) Sections 19 (1) and 19 (2) Although the Board shall make rules in all matters declared or authorized by this Act to be prescribed, it had not been done so.

The document containing the currently drafted rules has been forwarded to the Board of Directors and the rules related to the computer system have been confirmed by the Computer Department of the University of Colombo and the revised draft is proposed to be forwarded to the Board of Directors in the future by including the matters to be included regarding the activities among the divisions of the Board.

Actions should be taken in terms of Development Lotteries Board Act.

(b) Department of Public Finance Circular No. 08/2019 dated 17 December 2019 Although public institutions including public corporations should register under the e-Government Procurement System (e-GP) introduced under the website www.promise.lk before 31 January 2020. As the Development Lotteries Board had not been registered under this system, the procurement activities had not been carried out accordingly.

The Board has registered for e-GP and officers have participated in the related training programs. The instructions given there and carrying out the implementation of basic training models of the system has been started.

Actions should be taken in terms of the relevant circular.

(c) Procurement
Guidelines of the
Democratic
Socialist Republic
of Sri Lanka

- (i) Supplement 31 to Section 4.2.3 - Although the procurement activities for selection of printers for the year 2023 to carry out and supply the printing works of 08 types of lotteries at an estimated value of Rs.1,328 million should be completed within 10 weeks, 65 weeks had been spent for that. In consideration of matters arising from time to time during the procurement evaluation process, an additional time has been spent over the estimated time. Even though the guidelines state that the procurement should be done within 10 weeks, there is provision to adjust the procurement time table depending on the nature of the procurement. Actions should be taken on the provisions of the Procurement Guidelines.
- (ii) Supplement 32 to Section 2.9.2 - The procurement activities should be completed within 10 weeks to pay the full allowance to the procurement and technical committee members. Although 65 weeks have been taken to select printers to print lottery tickets, sum totalling Rs.345,000 has been paid in full for respective committee members. When paying to Procurement Committees, the payments are made taking into account whether the procurement works have been completed in accordance with the approved procurement schedule. Accordingly, those allowances have been paid upon performing of said duties by the Technical Evaluation Committee and Procurement Committee. Arrangements should be made in terms of Procurement Guidelines.
- (iii) Section 4.2.1 - A Detailed Procurement Plan had not been prepared for the year under review. As the stages for each procurement item are constantly being revised a Detailed Procurement Plan had not been prepared. Arrangements should be made in terms of Procurement Guidelines.

- (d) Department of Public Enterprises Circular No. 02/2022 (i) dated 18 January 2022
- (i) A total of Rs. 141,599 had been overpaid as telephone allowance for the period January 2022 to February 2023 to 11 officers of the Development Lotteries Board without considering the telephone allowance limit.
- Actions have been taken to deduct the telephone charge of Rs. 141,599, which exceeded the limit of telephone expenses, from the monthly salary of the relevant staff members.
- Arrangements should be made in terms of Circular provisions.
- (ii) A total of Rs.1,200,064 was paid as telephone allowance to 53 officers who were not entitled to telephone allowance during the year under review and the approval of the Department of Public Enterprises had not been obtained as per the Decision of the Board of Directors dated 23 February 2023 for that.
- In this regard, instructions have been given to prepare a new system for giving the telephone allowance and the method of giving the telephone and obtain the approval of the Board of Directors for that according to the letter received from the Department of Public Enterprises dated 07 March 2024. Accordingly, a formal system was prepared in this regard and a Memorandum of Board of Directors was presented to the 294 Meeting of Board of Directors held on 20 May 2024 and the approval of Board of Directors for that has been received for that. Accordingly, henceforth, the instructions given by the Department of Public Enterprises will be prepared and acted upon according to the method.
- The approval of the Department of Public Enterprises should be taken.

- (e) Paragraph 2.3 of Department of Public Enterprises Circular No. PED/1/2015 dated 25 May 2015 Official vehicles were provided for five officers who do not have the right for an official vehicle. A total of Rs. 2,913,410 had been incurred as fuel expenses for that in the year under review. A Memorandum of Board of Directors was forwarded to the 294th Meeting of Board of Directors to be held on 20 May 2024 to obtain necessary approval for providing transport facilities to Assistant General Managers following a system by the Development Lotteries Board similar to that followed by the National Lotteries Board in order to proceed as per the letter sent by the Department of Public Enterprises dated 09 July 2023. Accordingly, approval was received for the Memorandum of Board of Directors prepared according to the instructions given by the Department of Public Enterprises and the new system will be implemented from June 2024. Arrangements should be made in terms of circular provisions
- (f) Department of Public Enterprises Circular No. 04/2016 dated 30 May 2016 An officer who was not eligible to have an official vehicle was given a motor vehicle obtained by the Board under the operating lease system and a sum of Rs. 2,028,000 had been paid as operating lease rent for the said motor vehicle during the year under review. Due to the lack of motor vehicles of the Board, 03 motor vehicles have been acquired under operating lease system. Out of those of motor vehicles, 02 motor vehicles have been assigned to a General Manager and a Deputy General Manager and the other motor vehicle has been assigned to an Assistant General Manager. A motor vehicle in the vehicle pool of the Board has been assigned to a Deputy General Manager. Arrangements should be made in terms of Circular provisions.

Arrangements will be made to attach the vehicle obtained under the operating lease system to this Deputy General Manager in the future.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a profit after tax of Rs.3,622,506,725 and the corresponding profit after tax for the preceding year was Rs.3,210,687,041. Accordingly, an increase of Rs.411,819,684 was observed in the financial result. The improvement in lottery ticket sales revenue from Rs.19,071,456,751 to Rs.25,442,131,713 by 33 per cent had mainly contributed for this improvement.

2.2 Trend Analysis of Major Income and Expenditure Items

The lottery ticket sales revenue had increased by Rs. 6,370,674,962 that is 33 per cent in the year under review as compared to the previous year. This was mainly due to the increase in the price of a lottery ticket from Rs.20 to Rs.40 from July in the year under review.

2.3 Ratio Analysis

An analysis of the ratios indicating the operations, profitability and liquidity of the Board for the year under review and the previous year is as follows.

	Year	
	2023	2022
<u>Profitability Ratios</u>		
Gross Profit Ratio (Percent)	39	40
Net Profit Ratio (Percent)	14	17
<u>Liquidity Ratios</u>		
Current Ratio (Number of times)	1:1.18	1:1.32
Quick Ratio (Number of times)	1:1.16	1:1.3
<u>Operating Ratios</u>		
Cost of sales to Sales Income (percentage)	60	60
Total Distribution and Administrative Expenses to Total Income (Percentage)	29	27

The gross profit of the Board and net profit ratios in the current year were 39 per cent and 14 per cent respectively and those rates were 40 per cent and 17 per cent respectively in the preceding year. Accordingly the gross profit and net profit ratios have decreased by 01 per cent and 03 per cent respectively in the current year as compared to the previous year. Accordingly, it is observed that the performance of the operational activities of the Board has decreased.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Although the lottery tickets received from the Board and left unsold, should be delivered to the Head Office within 14 days after the draw as per letter No. DLB/FIN/ CIR/2011/11 dated 26 June, 2011 issued by the Development Lotteries Board to the District Distribution Agents, 77,406 lottery tickets which remained unsold during the year under review by the distribution agents had not been handed over to the Board after the draw.	Circulars have been issued in this regard to the District Distribution Agents. Remaining lottery tickets should be handed over to the Board within 14 days. In cases where this does not happen, the Board considers the sales value of the lottery tickets as if they were sold by the distribution sales agents and collect their commission related to the draws as a penalty. This issue has almost resolved by now.	Actions should be taken as per Internal Management Letter of Development Lotteries Board.
(b) The management had given approval to increase the percentage allowed for returns from lotteries issued to distribution agents from 05 per cent to 10 per cent from February 2023. The number of lottery tickets returned from the 03 types of lotteries namely Valampuri, Lucky Freedom and Supiri Dhana Sampatha in the year under review, was 5,163,662 and it was 28, 17 and 21 per cent of the lottery tickets issued for sale respectively. The total printing cost of the unsold returned lottery tickets was Rs.14,701,781 .	The Supiri Dhana Sampatha Lottery ticket was launched on 09 November 2023 and daily sales of the ticket were higher than the expected sales of the Board during the launching period. Accordingly, sufficient tickets were offered to the wholesale market in the initial stage for the Supiri Dhana Sampatha Lottery ticket as well and a daily sale at the level expected by the Board was made. After our competitor observed and confirmed that this ticket is stable in the market, a similar ticket was introduced to the market by them. Thereafter the daily sales of our ticket have decreased. As a result, there was an increase in the number of returns and at present only supply is made to meet the demand. So action has been taken to avoid large number of returns.	Actions should be taken within the percentage allowed for returns of lotteries issued to sales agents.

- (c) After the expiration of a period of six months reckon from the date of the determination of prize winners in any development lottery any prize such lottery which has not been awarded to the person entitled there to by reason of the fact that such person is not to be found shall be forfeited and credited to the President's Fund. A total of Rs.11,000 had been paid for 27 lottery tickets of 05 types that had expired for 06 months owned by an Assistant General Manager of the Development Lotteries Board. Further, even though lotteries for which validity period has exceeded 06 months from the date of the draw into the lottery management system of the Board had been rejected as invalid lotteries during scanning, actions had been taken to change the computer system to enable to pay for these 27 lottery tickets.
- The internal controls methodologies have been strengthened so that future payments of this nature cannot be made without special approval from the Chairman/Board of Directors if need to be paid.
- The internal control system should be strengthened not to be able to pay the prize money for lottery tickets older than 6 months from the date of draw and take actions in accordance with the Development Lotteries Board Act.
- (d) As the lottery operation and management process in the Development Lotteries Board is done through an external service provider, the activities on preparation of bid documents for designing and installing a lottery management software system, selecting a suitable supplier for staff training had been started in July 2020 and the activities had not been completed even by the end of the year under review. Therefore, due to choosing a software service provider company outside of the competitive tender process by extending the service contract period with 68 per cent increase in monthly service fees and obtaining lottery operation and management software services from the year 2020 to the end of the year under review, a sum of Rs. 73,221,351 had been paid from the year 2020 to the end of the year 2023.
- The Board of Directors had decided to revise the scope of the procurement made in 2019 and invite bids again in 2020 in order to establish a lottery management software system for the Board. Accordingly, creating a lottery management software system (With Source Cord) so that the Board will have full ownership of this organization and carrying out the operation process daily shall be carried out jointly with the staff of the Board after the installation of the software system by the supplier selected for that purpose had included to this scope. Accordingly, since the staff of the Board will receive an understanding about all the processes of the software system while working together with the officers of the service organization, the scope had been so determined.
- Although more than 03 years had elapsed for the process of selecting a supplier to design and install a lottery management software system and to train staff, as it was not finished, it should be done promptly.

However, since the establishment of the lottery management software system and its use for operations is a task that should be carried out by suitably qualified Information Technology professionals, I would also like to inform you that further activities are expected to be carried out in this regard as described above.

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| <p>(e) Even though the Board had received powers to conduct a system audit related to the services provided by the software service provider company in terms of the agreement entered into between the Development Lotteries Board and the Software Service Provider Company dated 18 August 2009 the Board had not taken actions in that regard.</p> | <p>It is intended to work with this in the future. Since the preliminary works have already been done to select a new Information Technology System in the procurement process to replace the Information Technology System that is currently being acquired and operated by the LMS, it is proposed to take decisions on this in the future considering the huge cost to be incurred for the audit of the Information Technology System.</p> | <p>Actions should be taken in terms of the agreement with the software service provider company.</p> |
| <p>(f) The Development Lotteries Board had paid a total of Rs.105,739,646 as incentives to the staff during the year under review without incentive payment procedure approved by the Department of Public Enterprises as per Operational Manual No. 01/2021 of the Department of Public Enterprises dated 16 November 2021.</p> | <p>The Board has prepared a new system including the method of payment of incentive and presented a Memorandum of Board of Directors to the 294th Meeting of Board of Directors held on 20 May 2024 and the Board of Directors has approved it and the necessary activities will be done to get the approval of the Department of Public Enterprises in the future.</p> | <p>Prepare a proper procedural rules and obtain approval from the Department of Public Enterprises for the payment of incentives should be done.</p> |
| <p>(g) Although it is appropriate to include the necessary criteria for the evaluation of factors such as the nature of work, experience and performance of each staff member and prepare a system for payment of incentives, incentive payments had been made to the staff based only on the criterion to be worked on 18 government working days per month.</p> | <p>A Memorandum of Board of Directors prepared in respect of the incentive payment method has been submitted for the 294th Meeting of Board of Directors held on 20 May 2024 and arrangements will be made accordingly, in the future.</p> | <p>An incentive system should be established by including the necessary criteria to evaluate the work performance of the staff</p> |

(h) Valampuri Special Lottery 04 draws from draw number 02 to draw number 05 have been held during the year under review and the return percentage of the lottery tickets issued to the distribution sales agents in relation to those draws was 27, 21, 23 and 45 per cent respectively of the total amount of lottery tickets issued and it was considerably higher than the 10 per cent allowed for returns by the Development Lottery Board and the printing cost for these returned lottery tickets was Rs.2,874,111.

(i) A preliminary investigation had been conducted during the year under review in respect of non-recovery of Rs. 2,673,875 receivable to the Board for 2945 instant lottery ticket books that were considered missing in the year 2020 and a preliminary investigation shall be conducted and completed within two months in accordance with Section 13.2 of Chapter XLVIII, Volume II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka and however, although the time should be extended with sufficient acceptable reasons if additional time is required more than 30 months were taken to complete the preliminary investigation and extension of time had not been obtained submitting adequate and acceptable reasons by the Investigation Officer for the delay. Similarly, the investigation officer was selected without any specific method and although payments should be made according to the provisions of the Public Administrative Circular relating to payment for preliminary investigations dated 30 May 2014 No. 14/2014, a total

During this period, there was a decline in the sale of lottery tickets due to the engagement of workers in public and private sectors throughout the country in protests and strikes against the government's new tax policy. Further, the rainy conditions throughout the island at the beginning of July have also affected decline of lottery sales. The above factors have affected to the gradual decline in sales from draw 2 to draw 05 of Valampuri Lottery. As a result, the percentage of returns has increased.

After a written notice was given to the investigating officers on 06 January 2021 to carry out this preliminary investigation, due to the presence of the Corona threat that affected the entire world as well as Sri Lanka, the investigation was formally started in the period of late 2022. Therefore, no investigation whatsoever was done for almost 02 years. After that, there was a bit delay due to practical problems in finding information related to this investigation.

Out of the 2945 instant lottery ticket books that have been misplaced, 2471 ticket books have not been found with any documents stating that they were requested by any party or issued to or received by any party. Similarly, as legal actions have been taken to recover this money from the parties identified as receivable by now, it will be possible to recover a significant amount from the missing lottery tickets books.

members.
Strategies should be developed to increase sales of Valampuri Special Lottery.

Necessary legal actions should be taken to recover the amount receivable.

of Rs.683,971 had been paid during the year under review by wrongly using the maximum rates of the Public Administration Circular No. 18/2018 dated 31 July 2018 for payment for disciplinary inquiries.

Due to the the Development Lotteries Board did not have any written evidence regarding 2471 ticket books out of 2945 ticket books which could be considered as missing were requested by any party or issued or handed over, a sum of Rs.2,191,785, which was 83 per cent of the amount receivable for instant lottery ticket books could not be recovered.

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| <p>(j) In printing Kapruka Lottery tickets drawn from 01 December 01 to 10 December of the year under review, the sum of Rs. 470 million, which was the Supiri Jayamalla, was printed with errors as "Sihina Jayamalla Rs. 47000 lakhs in the sketch on the upper right corner of the face of the lottery ticket and 4,392,010 lottery tickets with printing errors had been released to the market due to the weaknesses in the internal control system installed by the Bard for checking the draft art work and printed lottery ticket samples and the failure of the officers of the Marketing Division and the officers of the Quality Inspection Board appointed to detect printing errors. Further, the Board had to incur an amount of Rs.22,873 for publishing newspaper advertisements to inform the customers about this printing error and how to correct it.</p> | <p>A correction was made for this on 06 December 2023 by informing the customers through several newspaper advertisements. The internal control system has been strengthened to avoid such mistakes in the future.</p> | <p>Disciplinary actions should be taken in respect of failure of officials who have been appointed to detect misprinted lottery tickets before they are released to the market.</p> |
| <p>(k) The Supiri Dhana Sampatha Lottery draw is done using a computer software in a room outside the studios of the Rupavahini Corporation. A video is</p> | <p>As it takes about 06 months to purchase a new machine for the Supiri Dhana Sampatha Lottery draw process and with the aim to generate the</p> | <p>Telecast the real draw to incur customer confidence.</p> |

created and telecast in such a way that the balls are mixed by a lottery machine and a winning number is randomly selected by using a video animation software (Game Animation Software) without showing the actual draw during telecast. The Board had paid an amount of Rs 3,350,000 to the private company selected to create this video animation software in the year under review and it had agreed to pay Rs. 1,860,000 annually for the provision of services from the year 2024 at the rate of Rs. 5,000 per day. However this lottery draw has been conducted using a draw machine since 02 May 2024.

desired income in the year 2023, attention was drawn on selecting winning numbers through digital technology. The entire process of draw takes place through 03 software created there and its software for generating winning numbers has been prepared with carrying out a full audit. Further, a video animation similar to the real form of the lottery machine has been given to the customer with an image similar to the lottery machine, thus able maintain to receive customer attraction. This has been done so that even after purchasing the new machine, the lottery drawing process can be maintained in the same format so that it does not change. Otherwise, it was observed that if the lottery drawing process takes place in one method at the initial time when the lottery ticket is introduced, and in another method after purchasing a lottery machine, it may affect the customer's reliability.

(I) The draw of Sasiri Lottery, which was introduced to the market in 2020 by the Development Lotteries Board, are conducted in a room outside the studio of the Rupavahini Corporation. A video is created and telecast using video animation software without showing the actual draw during telecast. Further, actions had not been taken even by the end of the year under review to correct 15 different types of errors consist of 04 system errors, 04 system limit errors, 03 structural weakness errors, 03 user interface errors and 01 control deficiency errors identified in a system audit by a private auditing firm in the year 2021.

The errors mentioned here are in respect of the items that are not required for conducting daily lotteries and are not currently used in the system and correcting those errors and expanding the system is expected to be completed in the second phase.

Make arrangements to correct 15 different types of errors soon. Telecast the actual draw in order to sustain the customer trust.

(m) The 49th Draw of the Supiri Dhana Sampatha

(i) The Supiri Dhana Sampatha Lottery draw was conducted using a computer software. Due to technical and administrative errors in the draw No 49 held on 27 December year under review, the official result consisting of 06 numbers and an English letter was issued with one wrong number. Thus cash payment had been made to the winners based on the wrong number.

Due to some mistakes in the Lottery draw process of the Development Lotteries Board, a wrong number was declared as the official result instead of the correct number. Based on this result, the respective winners of the draw appear to claim their winning prize from the day after the draw date. As per the usual practice, the payment has been made in relation to the file containing the winning information which is entered into the LMS System during the daily draw. However, after observing the related problem, according to the report of 289th Meeting of Board of Directors held on 05 January 2024, it was observed that it is appropriate to make further payments as per the winning data file for which payments have already been made. This was done because if the announced official result is declared to be incorrect, it would erode the customer confidence, which could have a major impact on the lottery industry.

As this type of incident has happened for the first time, a system has not been introduced on what steps to be taken. Therefore, the Board of Directors met immediately on 05 January 2024 to get the necessary advice and took the necessary decisions and steps.

However, internal control systems have been further strengthened and arrangements have been made to provide necessary training to prevent reoccurring of such incidents.

The 15 different types of errors identified should be corrected promptly and telecasting of actual manner in which draws are made to incur trust of customers.

- (ii) Even though the 289th Meeting of Board of Directors held on 05 January 2024 decided to pay for the accurate 06 winning numbers and English letter given by the lottery software in the 49th draw of Supiri Dhana Sampatha, even though it was announced in a newspaper notice on 10 January 2024 the computer system of the Board had not been updated to make the payments to be able to make the said payments even by 24 April 2024.
- As this is the first time that both the accurate number and the published number have to be paid, it takes some reasonable time to make the necessary changes in the computer system to make it suitable for payment. Therefore, the Board did not deliberately delay payment to the correct number and it took reasonable time to adjust the system so that no party would be unfairly treated due to the responsibility and accountability of the Board to the lottery customers. As the system has now been updated, it is possible to make relevant payments as well as receive prize money.
- The computer system should be updated on time and trust of customers should be ensured.
- (iii) Even though a winning lottery ticket of Rs.2,500,000 had been sold which matched all 06 correct winning numbers given by the lottery software in the 49th draw of the Supiri Dhana Wasana lottery ticket, because of the failure of the Board to correct this error happened in the process of draw, the customer who bought the lottery ticket had got only Rs.2,000.
- Necessary arrangements had been made to get it reimbursed from the Board for obtaining Rs.2,000 claimed ticket for claiming the prize after the issuing of the Supiri Dhana Wasana 49th Lottery and before issuing of the results with the accurate numbers. Even though Rs 2,500,000 has been won for the ticket according to the accurate winning number data file, as it is a ticket presented up to the District Agent and it is difficult to find out the true winner, it has been considered as a payment of Rs.2,000 furthermore based on the responsibility and accountability of the Board to lottery customers. However, with the aim of doing justice to all parties including the respective winner under the responsibility and accountability mentioned above, all the parties have been informed through newspapers in all three languages on 10 January 2024.
- Arrangements should be made to ensure trust of customers.

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| (n) | <p>The E - Lottery sale of 07 types of lottery tickets for the period from January to 05 July 2023 where the selling price of Rs.20 was 453,948 lottery tickets and sale of E - Lottery for the period from 06 July to 31 December 2023 after increasing the selling price to Rs.40 had declined by a percentage of 99.7 per cent up to 2953 lottery tickets.</p> | <p>With the price increased to Rs.40, a Lagna Warama and Second Chance draw was conducted in addition to the regular lottery draw. The existing computer system had to be changed for that accordingly. The relevant information technology institution had informed that it would take some time for that change. Therefore, the Sweep App system, which was stopped from 06 July 2023, was restarted on 25 December 2023.</p> | <p>A systematic programme should be implemented to promote the sale of E - lottery tickets.</p> |
| | | <p>It is reported that sales have declined since the sales operations through Sweep App were stopped from 06 July 2023 to 25 December 2023 for computer system development.</p> | |
| (o) | <p>After increasing the lottery price to Rs.40, E - Lottery sales of 07 lottery tickets Shanida Wasana, Lagna Wasana, Kapruka, Super ball, Ada Kotipathi, Sasiri and Jayoda had been stopped and even though E Lottery has started sales of 06 types of lotteries in December 2023, Kapruka E - Lottery sales had completely been stopped.</p> | <p>The Sweep App sales were inactive due to development activities in the computer system.</p> | <p>The development of the computer system should be completed immediately and the sale of E - lottery tickets should be commenced again.</p> |

3.2 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>It had been planned to implement the Enterprise Resource Planning (ERP) Project for the Development Lottery Board in the year 2019 upon the approval of the Board of Directors. Even though the activity of establishing an accounting software system as the first phase of this project has been included in the</p>	<p>It was planned to establish an ERP system for the organization as mentioned in this paragraph. Accordingly, the need related to the overall operational process of the Board has been determined and the process performed at each sector level has been studied and a report including</p>	<p>Actions should be taken as per the Procurement Plan.</p>

Procurement Plan of every year from the year 2020, the procurement activities had not commenced by the end of the year under review.

its scope has also been prepared. Later, it was decided to establish an accounting software system as the first phase of this project and had been handed over to the Arthur C Clark Centre. Nevertheless, since that institution has refused to carry out the work subsequently, the management has decided to call for competitive bids again and select a suitable supplier.

4. Accountability and Good Governance Budgetary Control

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although it had been planned to use an amount of Rs. 57,625,000 in the budget of 2023 for the functions of starting a digital application called DLB Sweep and selling E - lotteries through SMS media, sales promotion etc. to conduct lottery sales using digital media considering the current technological trends in the world and the competition in the lottery market, only an amount of Rs. 1,643,873 was utilized for E - Lottery sales promotion activities in the year 2023 and it was a very low percentage of about 3 per cent of the estimated amount.</p>	<p>As this application was created on the instructions of the Central Bank of Sri Lanka, there were problems making sales through this application due to the fact that the customer has to face some practical difficulties in accessing this application. Accordingly, the instructions have been given in the Meeting of the Board of Directors held on 28 September 2022 to correct those obstacles and then carry out promotional activities to promote this application. Therefore, it was not possible to fully utilize the allocations reserved for promotional activities.</p>	<p>Actions should be taken to implement promotional activities of E Lottery tickets and to improve lottery sale.</p>
<p>(b) Even though it had been forecast to generate a target lottery sales revenue of Rs.27,086,530,651 as per the revised budget of the year under review, the actual lottery sale income was Rs.26,608,397,380. The actual income earned was Rs.478,133,271 less than the budgeted income.</p>	<ul style="list-style-type: none"> • Even though it had been stipulated to release Supiri Dhana Sampatha Lottery ticket to market in October 2023 by the revised budget, since it took some time to create the existing technical system existing there, the lottery ticket was released to the market in November 2023. As a result, the income expected to be received from those lotteries was reduced. • Although it had been stipulated 02 Valampuri draws by revised budget, 	<p>Actions should be taken to generate targeted sales income.</p>

due to low demand for Valampuri Lottery with the price being Rs.40, as a result of non-conduct of those 02 draws, the Board had lost the sale income.

With the price of Rs.40, it could not reach the expected revenue of instant lotteries.

- (c) A total expenditure of Rs 28,812,660 had been made exceeding revised budget of 17 expenditure items. When considering each of those items, excess expenditure had ranged between 2 per cent and 1503 per cent.
- These 17 expenditure objects are the expenditure objects related to the administrative expenditure category and there was a problem of accurately predicting the budget allocation due to constant changes in raw material prices and service prices in the bad economic situation of the year under review.
- Action should be taken to act according to budgetary allocations when incurring expenditure.