

Development Lotteries Board - 2021

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Development Lotteries Board for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 the Financial Act No. 38 of 1971. My comments and observations which I consider should be reported 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 accompanying financial statements give a true and fair view of the financial position of the Board as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector 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 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 Public Sector 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, it 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

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 internal control.
- Evaluate the appropriateness of the accounting policies adopted by the management and the fairness of the accounting estimates used the related disclosures.
- 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 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.

1.5.1 Audit Observations on Preparation of Financial Statements

1.5.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The interest receivable as at 31 December 2021 on fixed deposits kept for employee benefit liabilities under non-current liabilities had been overstated by Rs. 838,937 . As a result, the profit in the statement of comprehensive income and the investment value in the statement of</p>	<p>A change has occurred in number of days while calculating interest on fixed deposit as at 31.12.2021. Since this fixed deposit is valid from 07.06.2021 to 07.06.2022. This difference will be corrected while preparing the year-end accounts by calculating the interest paid by the bank on</p>	<p>Actions should be taken to calculate the interest pertaining to the year accurately.</p>

financial position had also been overstated by Rs.838,937.

maturity.

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| <p>(b) As a result, in rectification of overstated depreciation consisted in provision for accumulated depreciation account as at 01 January 2021 amounting to Rs.1,757,377 was credited to the depreciation account of the year under review, the actual depreciation of the year under review had been understated by Rs.1,757,377.</p> | <p>Agree with the entries to accounts amounting to Rs.1,757,377 mentioned in this query and this difference is a difference in the accumulated depreciation account. This difference has been corrected in between depreciation account and accumulated depreciation account in the current year . It has been mentioned that the differences in accounting estimates shall be accounted for in the current year in terms of LKAS 8. Accordingly, adjustments have been made for the year under review.</p> | <p>The amount of depreciation which was overstated in relation with the previous year should not be deducted from the actual depreciation related to the year under review.</p> |
| <p>(c) The Drawing Ball Validation Machine which was received by the Board on 08 November 2018 and is currently being used for drawing had not been accounted for as an asset of the Board as at 31 December 2021 .</p> | <p>The item called Drawing Ball Validation Machine has been provided by the supplier free of charge with the drawing ball machine in 2018 . This has been entered in the Register of Fixed Assets in the year 2022. Arrangements will be made to account for in the future.</p> | <p>Arrangements should be made to account for the all the assets belonging to the Board.</p> |
| <p>(d) The value of 84 mobile phones had been revalued in the year 2019 and adjusted in the financial statements. Those mobile phones and office equipment had been accounted for under the asset category. The policy of the Board was to depreciate mobile phones at 50 per cent and office equipment at 25 per cent. As the Mobile</p> | <p>The aforesaid problem has arisen because the Board had classified the mobile phones and office equipment in the account before the year 2012. An asset verification is already being carried out with the intervention of the Internal Audit Division to identify the old assets recorded in these accounts. Arrangements will be made to remove the assets</p> | <p>Assets purchased should be accounted for under the correct categories.</p> |

phones and office equipment were accounted under the asset category, they had been depreciated at 25 per cent annually. But if the mobile phones were depreciated at 50 per cent each, the net value should have been zero by the end of 2020 and if that error was rectified in the year under review, a sum of Rs.143,175 should have been debited to the accumulated fund and credited to the provision for depreciation account pertaining to the preceding year. Due to failure to do so, the depreciation in the year under review amounting to Rs.71,588 and the net value of mobile phones in the statement of financial position amounting to Rs.71,588 had been overstated.

which could not be verified and to make related adjustments in the future through this .

- (e) A debtor had defaulted a payment of Rs.1,354,016 and the Board had taken legal actions to recover the said amount and it had not been disclosed in the financial statements. The letters for obtaining through bank guarantees have been given to Sanasa Bank Ukuwela branch on 12 June 2019 in relation to Rs.1,354,016 to be collected from the debtor. But the bank has violated the terms of the bank guarantee and defaulted. A case number DMR 875/21 has been filed so far. The case will be disclosed in the financial statements 2022 . It should be disclosed in the Financial statements on transactions for which legal action has been taken.
- (f) A provision for bad debts had not been made in the financial statements of the year 2021 for a debtor of Rs.1,354,016 that has exceeded one year. Legal actions have been taken to recover the amount of Rs.1,354,016 receivable from this debtor. Since there was no risk of recovery exists by 31 Since it is a balance of arrears from the year 2019, a provision for

December 2021 as per the opinion of the Board, there was no need to make entries in the accounts by making of provision for bad debts for that.

- (g) A total of Rs. 1,728,884 had been included in the work-in-progress account as Rs. 1,336,676, Rs.246,918 and Rs.145,290 spent in the year 2018 for the repair of existing dining room, storage room and wall. Arrangements had not been made to capitalize and depreciate those items even at the end of the year under review.
- This money has been spent for the basic work of the planned constructions. But, although the necessary arrangements to carry out the construction have been made in several cases, it was impossible due to various reasons. However, a provision was also made in this year's budget to complete these works-in-progress. But as stated in circular 03/2022 issued by the National Budget Department, non-essential constructions have been temporarily suspended. Accordingly, it is not possible to carry out these constructions this year and the related constructions will be carried out after reduce the restrictions of the above Circular.
- bad debts should be made for that.
- Actions should be taken to complete the activity and recognize as assets.

1.5.3 Lack of Evidence for Audit

Audit Observation	Unavailable Audit Evidences	Comments of the Management	Recommendation
(a) Giving Bank guarantees for lottery tickets valued at Rs.20,150,000 received by the distribution agents.	Original copies of the documents relating to bank guarantees.	The relevant bank make aware the District Sales Representatives that the original copy of the bank guarantee extended by the bank should be given to the institution within 14 days from the date of extension and	Actions should be taken to obtain original copies of documents relating to bank guarantees.

arrangements will be made to formalize it in future and if it is not received, actions will be taken to temporarily disable the relevant distribution agent account through the computer system.

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| (b) | Tax amounting to Rs.207,423 withheld for fixed deposits | Bank confirmations for taxes withheld | The banks have been made aware by letters in respect of retention certificates and we have already received certificates valued at Rs.3,039,128. Furthermore, The relevant certificates amounting to Rs. 207,423 have not been given by the respective banks up to now and actions will be taken in future to inform the respective banks about this through letters and obtain retention certificates. | Arrangements should be made to obtain relevant certificates for withholding tax. |
| (c) | Fully depreciated assets valued at Rs.7,464,727 in Schedule of Fixed Assets | Register of fully depreciated assets | Agree with the difference shown. The balances shown are very old balances and actions will be taken to make a write off from accounts in future. | Assets listed as a totalled value should be separately recorded. |
| (d) | Expenditure of Rs.2,353,650 payable for calendars in the year 2015 | Invoices | The amount of Rs.2,353,650 mentioned here is an expense to be paid for the calendars 2015 and the Accounts Division has copies of | Arrangements should be made to take it to income as it is an overdue unpaid expense. |

invoices related to it. It has been included in the accrued expenses of the year 2014 at the request of the Procurement Division. This accrued expense will be cancelled and taken into income in future.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Board had unilaterally breached the agreement entered into to acquire the premises at 234 Vauxhall Street on a rent basis from October 2006. Therefore, Board had failed to recover 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 for a total of 16 years.</p>	<p>Since the Legal Division of the Ministry of Finance has given instructions to implement the recommendation given by the Committee appointed by the Ministry of Finance, actions are being taken accordingly.</p>	<p>Arrangements should be made to recover the relevant amount.</p>
<p>(b) The judgement of the case filed 23 years ago to recover the building rent deposit of Rs. 2,520,000 had been received on 11 January 2016 as per the rent agreement entered into with a person in Ward Place in the year 1990. Although almost 06 years had passed since the case was declared to recover the relevant amount, the Board had failed to</p>	<p>The Attorney General's Department takes legal actions to recover this amount. Since the direct party to the recovery of this amount is now deceased, his son and wife have been implicated in this case and the Attorney General's Department has sent an interlocutor to pay this amount to them.</p>	<p>Actions should be taken to recover the relevant amount.</p>

recover the amount even at the end of the year under review.

1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
<p>A sum of Rs.324,823,802 had been stated as the creditor balance under trade and other payable balances in the financial statements. The balance had been Rs. 43,656,155 by 31 May 2022 . There was a loan balance of Rs.29,146,198 pertaining to the year under review, a loan balance of Rs.1,222,935 more than a year old, a loan balance of Rs.8,382,316 for more than 02 years and a loan balance of Rs.4,904,706 for more than 03 years.</p>	<p>The balances in the creditors' age analysis provided to the Audit Division by the Board as at 31 December 2021 are matched with the balances shown in this audit query. Out of the amount of Rs.324,823,802 indicated as trade creditors under the debt balance to be paid here has been reduced to Rs.43,656,155 by the month of May 2022 after making payments in the year 2022. Out of that, old creditor balances will be taken into income as shown in this creditors' age analysis.</p>	<p>Arrangements should be made to take the balances that have existed for a long time to the income .</p>

1.6.3 Advances

Audit Observation	Comments of the Management	Recommendation
<p>(a) An advance of Rs.202,800 was paid to one institution and three individuals to get accommodation facilities for the Dayata Kirula Programme in the year 2015. The funds of the Board had been allowed to be retained by external parties for a period of 08 years and the Board had failed to recover the money even by the end of the year under review.</p>	<p>Written notices have been given to the party who had paid the money on several occasions to recover this amount. Because the money has not been paid by those stakeholders, actions will be taken to file a complaint with the police and take legal actions to collect the relevant money as soon as possible</p>	<p>Actions should be taken to recover the advances.</p>

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| (b) | A total of Rs.3,626,727 as Rs.2,877,144 on 3 occasions in the year 2013 and Rs.749,583 in 2014 had been paid as advances as building design consultancy fees to a private firm. The Board had allowed an outside party to hold the funds of the Board during the period of 8 years to 9 years . | Answers have not been given. | Actions should be taken to recover the advances from the relevant institution. |
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1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section 17(5) of the Development Lotteries Board Act No. 20 of 1997	After the expiry of a period of six months counted from the date on which the prize winners of a certain development lottery were determined, any prize that has not been awarded in that lottery due to the inability to find the person entitled to that prize in that lottery should be in the possession of the government and although it should be credited to the President's Fund after that, the amount of prizes that had been taken to the prize reserve fund without doing so in the year 2021 had been Rs. 15,341,900.	Awarding prizes of Lotteries by Development Lotteries Board are being done as per the two ways stated in Sections 17(5) and 18(3) of the Act . The Attorney General's Department has given a rule that the prizes given using the Prize Reserve Account but not appeared for the prizes should be credited back to the Reserve Fund. Accordingly, this amount of Rs.15,341,900 has been credited to the Prize Reserve Fund.	Actions should be taken in terms of the Section of the Act.

(b)	Section 8 of Chapter XIV of the Establishments Code	Although the officers on field duty in government agencies can pay only Rs.12 per kilometer for the vehicle they drive to perform their duties, the Board had paid a total of Rs.3,712,160 as Rs.40 each to the marketing managers for running one kilometer.	Fuel allowance of Rs.40/- per kilometer has been paid to the Regional Managers for using their vehicles to obtain fuel and drive. The payment has been made as per the approval given in the 205th Board meeting held on 29 August 2016.	Actions should be taken in accordance with the provisions of the Establishments Code.
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(c) **Financial Regulations**

(i)	F.R. 104	The Thissamaharama land valued at Rs.492,392 included in fixed assets as at 01 January 2021 had been removed by the journal entry No. 2021/07/167 dated 31 July 2021 . It had been decided to do so in the Board Meeting held on 02 March 2021. Actions had not been taken for that write off in terms of Financial Regulation 104 .	Actions will be taken to provide the relevant copies promptly by making arrangements in terms of Financial Regulations 104 in relation to write-off of the cost incurred to develop this Kavanthissapura Land.	Actions should be taken in terms of the Financial Regulations.
(ii)	F.R. 371 (2)	Ad hoc sub-imprest of Rs.2,586,000 had been paid to non- staff officers during the year under review	This problem cannot be corrected due to practical difficulties.	If the limits are exceeded as per the Financial Regulations, the approval of the Treasury should be obtained.

(iii) F.R. 396	A number of 23 expired cheques totalled to Rs.610,274 as at 31 December 2021 had been held in cheques payable account. without taking actions as per F.R.396 (d)	These cheques will be accounted for as income in the year 2022 .	Actions should be taken in terms of the Financial Regulations.
(d) Paragraph 5.2 of National Budget Circular No. 142 dated 31 December 2008	The Board had paid distress loans totaled to Rs.10,487,342 to 145 officers exceeding the limit of Rs.250,000 in contrary to the terms mentioned in the Circular.	The Management has decided to limit the maximum disbursement of distress loans to Rs.250,000 after 01 July 2022 .	Actions should be taken in terms of the Circulars.
(e) Paragraph 02 of Public Enterprises Circular No. 02/2018 dated 14 November 2018	A total of Rs.4,982,000 had been invested in a private bank as at 31 December 2021 in contrary to the provisions in the Circular.	Nearly 30 of the distribution agents belonging to the Board are depositing money into this account at present and it is observed that the closing the account on their further request is a hindrance to the daily collection activities of the Board and if it does so, the amount of money to be settled by the daily distribution agents may increase.	Treasury approval should be obtained to invest in private banks.

(f)	Development Lotteries Board Circular No. DLB/MTK/୧୯୬୩ ି Circular/2015/14 dated 26 October 2015	The evidences confirming that a total of Rs.1,056,825 has been recovered at a rate of Rs.25 each for delay per lottery book for 42,273 lottery books handed over after a delay of 14 days from January to December 2021 and still not handed over by 21 September 2022 had not been furnished to audit.	With the opening of the country by the month of October 2021, the Chairman was also made aware and on the instructions of the General Manager, the vehicles of the institution were deployed and the stock was brought back to cover all the Districts from the middle of November. It took over 3 months to check the stock. Checking of stocks was also delayed due to the Corona pandemic and also the employees were called for duties on a roster list. Therefore, the validity period for the tickets had also exceeded and the recovery of fines had not made by now. Arrangements were made to recover the fines as stipulated, from November 2021.	Actions should be taken in terms of the Circulars.
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2. Financial Review

2.1 Financial Results

The operating result of the year under review was a profit of Rs. 2,953,528,558 and the corresponding profit of the preceding year was Rs. 2,993,501,638. Accordingly, a deterioration of Rs. 39,973,080 was observed in financial results. Increase of expenditure on prizes, increase the distribution expenses and increase of income tax had mainly attributed for this deterioration.

2.2 Trend Analysis on Major Revenue and Expenditure Items

The main items of income and expenditure of the year under review are given below compared with the previous year.

Income/Expenditure	2021 Rs.	2020 Rs.	Difference Rs.	Percentage Per cent
Ticket Income	15,364,398,498	15,033,029,360	331,369,138	2
Other Income	110,304,701	158,323,671	(48,018,970)	30
Cost				
Expenses on Prizes	7,865,640,218	7,702,515,219	163,124,999	2
Draw Expenses	542,022,297	509,983,411	32,038,886	6
Distribution Expenses	3,484,491,585	3,357,266,425	127,225,160	4

The following observations are made in this regard.

- (a) The ticket sales income had increased by Rs.331,369,138 that is, 02 per cent in the year under review as compared to the preceding year. The other income of the Board had decreased by Rs. 48,018,970 that is, 30 per cent in the year under review as compared to the preceding year.
- (b) The expenditure on prizes had increased in the year under review by Rs.163,124,999 that is 2 per cent as compared to the preceding year. The cost of drawing of tickets had increased by Rs.32,038,886 that is 06 per cent in the year 2021 .
- (c) The distribution cost had increased by Rs.127,225,160 that is 4 per cent in the year under review as compared to the preceding year. Decrease of marketing related costs by Rs.3,266,071 that is 52 per cent, increase of advertising costs by Rs.44,510,370 that is 36 per cent and increase of distribution costs by Rs.17,951,582 or 12 per cent had caused to this improvement.

2.3 Ratio Analysis

The analysis on the ratio showing the operations , profitability and liquidity of the Board for the year under review and the previous year are shown below.

	2020	2021
Operational Ratios	Per cent	Per cent
Sales and distribution expenses to sales income	22	23
Cost of sales to sales income	58	58
Profitability Ratios		
Gross Profit Ratio	42	42

Net Profit Ratio	20	19
Sales and distribution expense ratio as a percentage of total operating expenses	87	87
Ratio of awarded prizes from net profit	11	12
Ratio of income tax to net profit	0.4	2.8
Liquidity ratios		
Current Ratio	1:1.664	1:1.296
Quick Ratio	1:1.637	1:1.271

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
<p>A former Chairman of the Board had taken away a modern Mitsubishi L200 cab without paying from a private company in the name of the Board. The Board had paid a total of Rs. 16,842,554 to the respective agency for that cab by 31 December 2020. Although the Board had continued to carry out legal proceedings to recover the amount from the former Chairman for that cab and also the details of the litigation were disclosed in the financial statements, the details in respect of the amount to be recovered had not been disclosed.</p>	<p>Agree . Actions will be taken to disclose the amount of Rs. 16,842,554 that should be recovered in the accounting year 2022 .</p>	<p>The vehicle should be acquired to the Board and to make arrangements to recover the overpaid amount.</p>

3.2 Identified Losses

Audit Observation	Comments of the Management	Recommendation
Due to failure to accurately estimate during the year under review, a number of 9,193,750 tickets had remained in the stores out of the lottery tickets printed with a total cost of Rs.41,537,940 and a number of 80,918,070 lottery tickets had remained unsold furthermore.	The sales had declined completely due to the periodical closure of the country due to the Covid epidemic situation in the country, lack of people in the cities due to this health situation, restricting the consumer from buying lotteries, and the sales were completely reduced due to the difficulties in selling from the beginning of the year 2020 to the month of December 2021. The lottery draws were not held in 80 days in the year 2021 and the lottery tickets printed on those cancelled dates were sold in the following months as the tickets printed past days .	Lottery tickets should be accurately and realistically estimated and printed .

3.3 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) In comparing the list of vehicles registered under the name of the Development Lotteries Board in the Department of Motor Traffic with the list of vehicles that were mentioned in the financial statements of the Development Lotteries Board, 37 vehicles mentioned in the Department of Motor	The parties who had purchased certain vehicles sold by the Development Lotteries Board by following tender have not submitted for registration up to now because this problem has arisen due to the existing of these vehicles of Motor Traffic Department under the name of the Motor Board. Out of these 37 motor vehicles, letters related to 22 motor vehicles have been submitted to the	Information about the disposed vehicles should be sent in timely manner to the Department of Motor Traffic .

- Traffic had not been mentioned in the financial statements.
- Department of Motor Traffic so far. Actions will be taken to submit information related to other motor vehicles promptly and to remove the registration of those motor vehicles registered in the name of the Board.
- (b) A sum of Rs. 256,585,000 was estimated for the capital expenditure of the year 2021 and out of that, 12.4 per cent that is, Rs.31,822,204 had only been spent as capital expenditure.
- Agree. As a result of the instructions received to restrict all the non-essential capital expenditures as per the Circular No.s 07/2019, 07/2020 and 03/2021 of Department of National Budget priority was given to essential capital expenditures and the rest of the capital expenditures were not carried out.
- Estimates should be prepared accurately and realistically.
- (c) The Board had spent Rs.38,752,448 for the construction of a studio in 2012. It had remained in idle even by the end of the year under review without fulfilling the intended objectives of constructing of a studio.
- A report was obtained from the Sri Lanka Rupavahini Corporation to carry out a cost benefit analysis to ascertain whether further huge costs would be incurred to achieve that objective through the currently established studio. The observations mentioned in the report were presented to the Board of Directors held on 29.01.2021 and actions are being taken to maintain the built studio as an auditorium.
- Cost estimates should be prepared to meet the desired objectives.
- (d) The value of 06 motorcycles owned by the Board had been revalued to Rs.305,000. The said 06 motorcycles had remained unused in the vehicle parking of the office premises from the year
- Five motorcycles are being disposed of and the other motorcycles are at the condition to run .
- The motorcycle in running condition should be used for the activities of the Board and dispose of other motorcycles should be carried out

2018 even by the end of the year under review.

promptly.

- (e) According to the Memorandum of Board of Directors No. 2021/03/1768 dated 25 March 2021, a Member of the Board was assigned the supervision of the sales force. If it acts in contrary to the information given in the GUIDLINES ON CORPORATE GOVERNANCE FOR STATE OWNED ENTERPRISE introduced by the Department of Public Enterprises in respect of the duties of the Members of the Board of Directors, the approval for that should have been obtained. The Board had assigned a vehicle and recruited a driver for 06 months on contract basis to perform the functions without obtaining such an approval. A gross salary totalled to Rs. 407,712 had been paid to the driver for the period from April to November 2021.
- The Board was unable to meet the sales agents and discuss their problems during the period of Corona risk. Board Members were appointed as a short-term solution at the Board on 28 March 2021 in this regard and it was observed that it should meet the dealers and discuss their problems . As there is no driver to use a vehicle owned by the Board for that purpose, a driver was assigned on contract basis and a salary of Rs.407,712 was paid for it for a period of 06 months. At present, the service of this Director is not being taken and the vehicle has been given to the Board.
- Actions should be taken as per the Guideline introduced by the Department of Public Enterprises.
- (f) A Code of Procedural Rules had not been prepared regarding administrative and operational activities since the inception of the Development Lotteries Board and a qualified person had been appointed for that purpose in the year 2016. The relevant party
- The translation of the Draft Report regarding the Rules into Sinhala has been completed by now and the management of the institution expects to discuss this matter and correct the areas that need to be corrected and submit it to the Board of directors as soon as possible and the translation
- The Board shall prepare and approve the necessary regulations as per the Act.

had studied the existing laws and rules and regulations and had prepared the relevant Code of Procedural Rules and handed it over to the Development Lotteries Board on 14 October 2019. It had agreed to pay Rs. 4,500,000 to the relevant party for this activity and of which, a sum of Rs. 1,700,000 had been paid so far. Even though he had submitted the relevant Code of Procedural Rules to the Board in two parts, the payment of the balance amount had been suspended by giving the reasons that the Code of Procedural Rules had been prepared to be inconsistent with the existing system of the Board.

Further, the Board had informed the party that prepared it to suspend the activity of preparing the rules for "lottery and draw activities, internal control and audit activities" mentioned in the agreement signed for this purpose. Accordingly, the relevant activity had not been completed up to now and it was observed that the amount spent for that was not a frugal transaction. Further, it was observed that there is a legal risk of breaching the terms of the contract signed for this

into Tamil will be done after receiving the approval of the Board of Directors.

work and the remaining amount due.

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| (g) | There were 10 lottery draw machines as per the Register of Fixed Assets and according to the Annual Boards of Survey there were 15 such machines. Accordingly, 05 lottery draw machines owned by the Board had not been accounted for as assets. | These lottery draw machines are very old machines of the Board with technical defects, and at present the machines are in a condition that cannot be used for lottery draws. Therefore, there is no need to re-account these lottery draw machines. This old lottery draw machine is expected to be displayed as an artefact. | Assets owned by the Board should be properly identified and accounted for. |
| (h) | Assets with a cost of Rs.35,438,340 that had zero value as at 01 January 2021, had not been revalued in the year under review. | Assets revaluation has been done on 01 January 2019 . It is stated that the revaluation of assets should be done within a period of 03-05 years as per Section 35 of Sri Lanka Accounting Standard No. 16. Therefore, a revaluation will be done and necessary adjustments will be made in the financial year 2024, which is 5 years from the year 2019 . | Actions should be taken to revalue the assets currently active with nil values. |

3.4 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though the number of 422,730 unsold lottery tickets received from the Board for sale by distribution dealers from January to December 2021, and 14 days have passed since the draw, the lottery tickets had not been given to the Board. Accordingly, the Board had failure to prove	A number of 77,031 unsold ticket books received from the Board for sale by distribution agents from January to October 2021 have not been returned to the Board. The letter will be sent informing the dealers in the next 7 days and if it is not possible to return the ticket books within that period, actions will be taken to charge fines.	Actions should be taken as per the system introduced by the Board in respect of the remained tickets.

whether the lottery tickets not so returned were sold or not.

- (b) The concept of e-tickets was used as a solution to the difficulty of selling of tickets physically during periods of pandemic like Corona. However, as a result of low percentage of sales of e-lottery tickets reported as 0.2 per cent from Sasiri Lottery, 0.2 per cent from Lagna Wasana Lottery, 0.3 per cent from Superbowl Lottery and 0.2 per cent from Shanida Wasana Lottery, the concept of e-tickets had failed.
- (c) The Board had spent a sum of Rs.3,275,246 for issuing lottery tickets through Sweep App. The lottery tickets issued by the Board are printed by two private companies. One out of the two private institutions is printing. The private institution had refused to sell the lottery tickets printed by one of the two private institutions through the App. Because of this, the Board had impossible to make full use of the expenditure incurred for the APP.
- (d) Three motor bicycles valued at Rs.775,750 bought for prizes, 123
- There were some practical problems in taking the digital lottery application implemented by the Board to the people because of the recent Covid epidemic situation. That is, to familiarize the targetted customers with this App, it is needed to go to them and insert the app directly into their mobile phones. For that, the health situation in the country had become a threat. Therefore, there was a practical problem of further popularizing this application among the people.
- At the time of the introduction of this digital lottery ticket, there was a printer selected through a call for tenders and as a result of the conditions for providing the necessary facilities for this digital lottery were not included their tenders, one supplier did not agree to provide the facility. A new lottery printer has been selected by now and the printer has prepared the sale of all related lottery tickets through Sweep App. However, a software development cost has not been incurred for the developing of this Sweep App.
- E Lottery tickets should be introduced to the market to increase sales.
- The printing contractor who can implement the decisions of the Board should be selected.
- Arrangements should be made to use those goods as

gift vouchers valued at Rs.592,500 for a period of 13 years and gold articles valued at Rs.5,053,530 bought for prizes were not used for prizes for a long period.

August 2018, Kotipath Shanida on 26 January 2018 and Super Bowl Special Lottery tickets on 30 January 2020 and also the prizes that have not been claimed by winners 6 months after the draw.

prizes for other lottery tickets or to dispose them otherwise.

3.5 Human Resources Management

Audit Observation

The approved number of staff of Development Lottery Board was 341 . The post of Deputy General Manager (Innovations, Concepts and Promotions) had not been approved. The Board had paid a total of Rs.634,955 as salaries and a total of Rs.277,075 as allowances for the aforesaid post in the year under review for a period of 04 months.

Comments of the Management

An officer has been recruited on contract basis for the post of Deputy General Manager (Innovations, Concepts and Promotions) according to service requirement. For that, this recruitment has been done after receiving the approval of the Board of Directors in the 254th Meeting of the Board of Directors on 09 July, 2021. However, after 31 December 2021, he has left the service.

Recommendation

Recruitment should be carried out only for approved posts.

4. Accountability and Good Governance

4.1 Tabling of Annual Reports in Parliament

Audit Observation	Comments of the Management	Recommendation
The Annual Report of the year 2021 had not been tabled in the Parliament.	Agree.	The Annual Report should be tabled in Parliament before the due date in terms of the Circular.

4.2 Market Share

Audit Observation	Comments of the Management	Recommendation
(a) When comparing with the competitor institution, the total market share of the year under review, was 48 per cent .	Due to competitive market strategies taking place in the market from time to time, the market share is changed.	Actions should be taken to improve the Market Share.
(b) Although the tickets of the National Lotteries Board which the Board mentioned as its own competitive body are sold by the same sales agents in the same sales booths and distribution of the lottery tickets of the National Lottery Board to remote areas is also done by the vehicles of the Board, a specific agreement or concurrence had not been entered into with the National Lottery Board since the inception of the Board .	Agree.	A written concurrence or agreement should be entered into with the National Lottery Board by drawing attention on the risk of the Board.