

## **Development Lotteries Board - 2019**

---

### **1.1 Qualified Opinion**

---

The audit of the financial statements of the Development Lotteries Board for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, except for 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 Development Lotteries Board as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

---

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of 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 intend to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

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

## 1.4 Scope of Audit

-----

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

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

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

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

-----

### 1.5.1 Internal Control over the Preparation of Financial Statements

-----

The Board is 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### 1.5.2 Non-compliance with Sri Lanka Accounting Standards

-----

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
-----	-----	-----
<p><u>LKAS 07</u>  Receipts of installments and payments of distress loans amounting to Rs. 15,075,390 and Rs. 29,515,488 respectively had been adjusted under operating activities instead of indicating separately under investing activities in the cash flow statement.</p>	<p>It is agreed.  Future action will be taken to rectify them.</p>	<p>Accounts should be prepared in accordance with Sri Lanka Accounting Standards.</p>

### 1.5.3 Accounting Deficiencies

-----  
The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
-----	-----	-----
(a) According to final accounts as at 31 December 2019, sums of Rs. 1,583,595 and Rs. 2,074,958 indicated as work-in-progress and advances respectively were balances brought forward since the year 2014 and those were the expenditure incurred for suspended constructions. Those values were being brought forward in accounts further for a period of 05 years without making necessary adjustments in accounts. Further, another sum of Rs. 1,325,805 incurred for suspended constructions had been brought to account as property, plant and equipment and action had not been taken to eliminate the said value from the Assets Account, thus overstating the assets by the same value.	It is agreed. As these activities have been discontinued by now, it cannot be rectified again through notes to accounts. The sum of Rs. 2,074,958 has been recorded in outside Advance Account.	Necessary adjustments should be made in accounts.
(b) Even though a sum of Rs. 492,392 spent for a construction activity of a land not belonging to the Board, had been brought to account under lands and buildings, the said amount was observed as a sum receivable from the Tissamaharama Divisional Secretariat. As such, the value of property, plant and equipment had been overstated by Rs. 492,392 whilst current assets had been understated by the same amount.	It is agreed. As final decisions have not been reached relating to the said land, the relevant asset cannot be either eliminated from accounts or recorded as an amount receivable.	Action in terms of relevant provisions should be taken to account them.
(c) A sum of Rs. 1,421,842 spent in the year 2020 for a work not commenced in the year under review, had been brought to account as work-in-progress and creditors of the year under review.	It is agreed. That the said work has been completed by the year 2020.	Action in terms of relevant provisions should be taken to adjust in accounts.

- |     |   |                     |  |
|-----|---|---------------------|--|
| (d) | As the closing stock indicated in the financial statements contained unserviceable stocks valued at Rs. 2,853,172, the closing stock had been overstated by the same value.   | It has been agreed. | Unserviceable stocks should be removed from the closing stock. |
| (e) | A sum of Rs. 1,515,300 further payable for creation of a promotional vehicle had not been brought to account and property, plant and equipment and balances of Expenditure Accounts payable had been understated by the said value. | It has been agreed. | Necessary corrections should be made in accounts.              |

#### 1.5.4 Lack of Evidence For Audit

-----  
The following observations are made.

Audit Observations	Comments of the Management	Recommendation
-----	-----	-----
(a) Evidence for confirmation of the balance of expenditure account on printing of lottery tickets in preceding years, valued at Rs.732,951 indicated in the financial statements had not been made available. As such, those items could not be satisfactorily vouched or verified.	It is agreed. It has been notified that journal entries will be presented.	Documents required for confirmation of journal entries and particulars on expenditure should be made available.
(b) Even though requests had been made by a number of audit queries and information request letters from the year 2016 to submit the Board papers and the decisions of the Board of Directors pertaining to the year under review immediately after their proper completion to the Audit, action had not been taken to submit relevant information to the Audit expeditiously. Moreover, it had been agreed even at the Audit Committees conducted during the above period that this situation would be corrected. Nevertheless, action had not been taken accordingly.	It is agreed.	Board of Directors papers and decisions should be properly completed and furnished to the Audit without delay.

## 1.6 Accounts Receivable

### 1.6.1 Receivables

The following observations are made.

Audit Observations	Comments of the Management	Recommendation
<p>(a) Two (02) motor vehicles and a motor bicycle purchased with a view to awarding as prizes for promoting sales of lotteries had been provided to sales agents as exhibition vehicles and those motor vehicles had met with accidents during the said exhibited period, thus resulting in a loss of Rs. 236,608. Even though the Board had replied to Audit that the said loss will be recovered from sales agents, only a sum of Rs. 177,667 of the said loss had been brought to account as the balance receivable and the remaining sum of Rs. 58,941 had not been brought to account as a balance receivable. Out of that, only a sum of Rs. 12,566 had been recovered during year 2019.</p>	It is agreed.	In terms of provisions, it should be brought to accounts and necessary adjustments should be made in accounts.
<p>(b) It was observed that action had not been taken for a period of 15 years by the Board to recover the total sum of Rs. 4,976,220 comprising the Rs. 723,780 paid as a deposit since the Board had exparte breached the agreement entered into for getting the building located at No. 234 in Vauxhall Street on rental basis and the Rs. 4,252,440 which was a part of rentals paid for years.</p>	It is agreed. A committee has been appointed by the Ministry of Finance for taking action relating thereto and that action will be taken according to recommendations of the Committee.	The amounts that remain recoverable over a long period should be either recovered or properly settled.

- (c) The judgment of the case filed before 23 years by the Board requesting for the recovery of a deposit of building rental amounting to Rs. 2,520,000 provided to external parties by the Board for a building obtained for the use of the Board, had been received on 11 January 2016. According to the said judgment, the aforesaid amount should be recovered. However, action had not been taken to recover the relevant amount despite having lapsed a period of nearly 03 years after receiving the judgment.
- It is agreed. - Do -  
Court proceedings are conducted by the Attorney General's Department for the recovery of the said deposit and those activities are in progress by now.

### 1.7 Non-compliances with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Paragraph 4.1 of Chapter VIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Even though the Field Officers are not entitled to get overtime payment, overtime amounting to Rs. 1,122,318 had been paid in the year under review for the Field Officers of the Board.	It is agreed. Overtime payments are made for holidays for motivation of Field Officers to perform their duties on holidays and as their service on public holidays will be necessary in future, that problem has been referred to the Ministry of Finance on 01.11.2019. However, approval therefor has not been received so far.	Action should be taken in terms of provisions.
	- As per provisions of the Establishments Code, Staff Officers should compulsorily perform duties for 08 hours per day for getting 1/20 allowance. Nevertheless, the Board had paid overtime for Staff Officers served on holidays based on number	It is agreed. The said allowance has been paid over a period of 17 years. When there is a requirement of 04-hour service, making payments by retaining	Action should be taken according to the Establishments Code.

of hours they had worked in the ratio of one and half hours overtime pay per one hour of work without taking these provisions in to consideration. Further, Staff Officers had participated in lottery draws on those days and had also obtained the allowance paid for taking part in the lottery draw.

in the service for 08 hours is uneconomic to the Board and thus, it had been so done.

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

- |  |  |  |   |
|--|--|--|---|
| <p><b>(i) Financial Regulation 272(3)</b></p>  | <p>All paid vouchers should be forwarded to Audit monthly, not later than six weeks from the end of the month to which they relate. Period ranging from 1 month to 07 months had been delayed in forwarding paid vouchers of the year under review to Audit by the Board.</p>  | <p>It is agreed.<br/>Action will be taken to correct them in future.</p>   | <p>Action should be taken in accordance with Financial Regulations.</p>   |
| <p><b>(ii) Financial Regulation 371(2) (b) as revised by the Public Finance Circular No.03/2015 of 14 July 2015</b></p>  | <p>- Even though the maximum Ad hoc Sub-Imprest that can be granted at once had been Rs. 100,000, imprests of Rs. 3,481,827 had been granted exceeding the maximum limit at 20 instances of the year under review.</p> <p>Even though Sub-Imprest should be granted only for Staff Officers, Imprests of Rs. 10,727,741 had been granted to non-Staff Officers during the year 2019.</p> | <p>It is not agreed.<br/>When obtaining an imprest exceeding Rs.100,000, action will be taken by obtaining special approvals of the Chairman/General Manager through internal memos.</p> <p>Practical issues may arise in the settlement of moneys by obtaining Sub-Imprests due to failure in connecting with relevant projects practically and directly.</p> | <p>Action should be taken in accordance with Financial Regulations.</p> <p>Action should be taken in accordance with Financial Regulations.</p> |
| <p>- Savings amounting to Rs. 1,680,806 had been reported at 219 instances of the year under review due to improper preparation of estimates relating to those</p> | <p>to</p>  | <p>It is agreed.<br/>Estimates are not prepared in urgent cases and payments are made under supervision</p>  | <p>Action should be taken in</p>  |



	functions in paying 'Ad hoc' Sub-Imprests.	and approval of the Staff Officers.	accordance with Financial Regulations.
<b>(iii) Financial Regulation 371 (2) (c)</b>	- Advances obtained for certain specific purpose should be settled immediately after the completion of the purpose for which it is granted. However, a period ranging from 18 days to 47 days had been delayed for settlement of advances amounting to Rs. .650,500 in 12 instances from January to April 2019.	It is agreed. Action has been taken to avoid this delay and advances will not be granted again in failure to settle advances.	Action should be taken in accordance with Financial Regulations.
<b>(c) Guidelines on Valuation of Non-financial Assets introduced by Circular No. 4/2018 dated 31 December 2018 of the Secretary to the Ministry of Finance and Mass Media</b>			
<b>(i) Paragraph 1.1.1</b>	Even though all vehicles owned by the Board should be valued, assessment value relating to 44 motor cycles to the value of Rs. 8,958,763 and a Hyundai motor vehicle purchased at a value of Rs. 7,882,371 in the year 2009, had not been obtained.	It is agreed. As it is proposed to dispose of 18 motor cycles, they had not been revalued and as other motor cycles have been given to the Field Sales Force, it is inconvenient to bring all the motor cycles to Colombo on a single day. As such, revaluation had not been carried out. Since the Zonta motor vehicle had been planned to be disposed of, it has not been included in the vehicle list sent to the Department of Motor Vehicles. As a result, it has not been revalued.	Action should be taken in terms of Circular provisions.

(ii) Paragraph 1.3.3	In terms of provisions, vehicles should be classified into 3 groups and valued by a committee, appointed by the Head of the institute, consisting of three persons including an Examiner of Motor Traffic and an officer in Executive Grade of the Board. However, without doing so, they had been valued by the Valuation Department.	It is agreed. Arrangements have been made to revalue motor cycles and all other motor vehicles during the year 2020 as per the circular.	Action should be taken in terms of existing circulars and provisions in Guidelines on Valuation of Non-financial Assets.
----------------------	--	--	--

(d) Section (a) of paragraph 9 of the Public Finance Circular No.02/2015 of 10 July 2015	In terms of provisions, in the event of the ownership of a particular vehicle not being registered in the name of the institute, the disposal process should be carried out only after registration of the ownership of such vehicles in the institute. Nevertheless, the three wheeler purchased in the year 2013 for Rs. 411,500 to be provided to a sales agent, had been kept in his custody until July 2017 without being registered and it had subsequently been handed over to the Board. It had not been registered up to now and bids had been invited on 29 June 2020 for the disposal thereof.	It is agreed. Action will be taken in future to avoid purchase of such prize goods and provide them to exhibit stalls.	Action should be taken in terms of existing laws, rules and circulars relating to issues in the disposal as it is an unregistered vehicle.
--	---	--	--

**2. Financial Review**

-----

**2.1 Financial Result**

-----

The operations for the year under review had resulted in a surplus of Rs. 2,668,792,667 as compared with the corresponding surplus of Rs.2,187,603,956 for the preceding year, thus observing an improvement of Rs. 481,188,711 representing 22 per cent in the financial result. Incurring of a tax expenditure of Rs. 553,166,576 representing 20 per cent inclusive of arrears of revenue of the profit before tax of the preceding year and its decrease of Rs. 235,073,385 representing 08 per cent in the year under review had mainly attributed to this improvement.

## 2.2 Tendency Analysis of the main Income and Expenditure Items

---

The following observations had been made in the comparison of main items of income and expenditure with those of the preceding year.

- (a) The income from sale of tickets had increased by Rs. 1,210,557,766 representing 7.6 per cent in the year under review as compared with the preceding year. The sale of 07 tickets had increased in the year under review as compared with the preceding year and the income from sale of Lagna Vasana tickets had increased by 75 per cent.
- (b) Other income of the Board had dropped by Rs.7,705,644 representing 3.8 per cent in the year under review as compared with the preceding year.
- (c) The expenditure on tickets had increased by Rs.57,774,472 representing 14.2 per cent in the year under review as compared with the preceding year. The expenditure on printing of 06 tickets had increased and the increase in expenditure of printing Lagna Vasana tickets had been 90.8 per cent.
- (d) The expenditure on prizes in the current year had increased by Rs.607,081,273 representing 7.3 per cent as compared with the preceding year. The expenditure on prizes of 07 tickets had increased in the year 2019 and the increase of expenditure on prizes in the Lagna Vasana tickets had been 75.2 per cent.
- (e) The distribution cost had increased by Rs.268,626,423 representing 6.7 per cent in the year under review as compared with the preceding year. The increase in marketing related cost by Rs. 28,850,334 representing 190.3 per cent, increase in commission of sales agents by Rs. 310,479,817 representing 10.7 per cent and increase in distribution commission by Rs.16,023,158 representing 7.8 per cent had attributed to the said increase.
- (f) The administrative expenditure of the Board had increased by Rs.78,180,497 representing 17 per cent in the year under review as compared with the preceding year. A sum of Rs. 33,546,676 itself of the amount increased, represented employees' remuneration and the increase thereof stood at 12 per cent as compared with the preceding year. Moreover, the increase in the expenditure on maintenance of software by Rs. 1,314,800 representing 11 per cent, increase in medical and hospital expenses by Rs. 9,440,856 representing 35 per cent had mainly attributed to this increase.

## 2.3 Analysis of Ratios

---

An analysis of ratios indicating operations, profit and liquidity of the Board for the year under review and the preceding year, appears below.

	2019 ----- Per cent	2018 ----- Per cent
<b><u>Operations</u></b>		
Sales and distribution expenditure against sales income	25	25
Sales cost against sales income	58	58
<b><u>Profitability Ratios</u></b>		
Gross Profit Ratio	42	42
Net Profit Ratio	16	14
Sales and Distribution Expenditure Ratio as a	89	89

percentage of Total Expenditure on Operations		
Ratio of transfer of prizes from the Net Profit	13	17
Income Tax Ratio against the Net Profit	9	25
<b><u>Liquidity Ratio</u></b>		
Current Ratio	1:1.63	1:1.37
<b>Quick Ratio</b>	1:1.60	1:1.31

The following observations are made.

- (a) The sales and distribution expenditure of the Board in the preceding year and the year under review had taken an equal value of 25 per cent of the sales price. However, the sales and distribution expenditure ratio of the preceding year and the year under review had taken a high value of 89 per cent as a percentage of the total expenditure on operations. Incurring of a high cost in this manner directly affects the net profit earned by the Board and it was observed that it has adversely affected the contribution made to the President's Fund as well.
- (b) Out of the net profit earned by the Board in the year under review, 13 per cent itself had been represented by retransferring of prizes to be awarded to customers. This percentage indicated a value of 17 per cent in the preceding year and it was observed that the income tax ratio against the net profit had taken a low value from 25 per cent to 09 per cent.
- (c) The income from sale of lottery tickets had decreased in the year under review by Rs.1,210,557,766 representing 8 per cent as compared with the preceding year and the sales cost had decreased relatively by Rs.673,451,784 representing 7 per cent, thus attributing to a steady level of 42 per cent in the gross profit ratio.
- (d) The current ratios in the preceding year and the year under review had been 1.37 and 1.63 respectively. Accordingly, it was observed that the current assets ratio of the Board had been at a weak level and as such, it was observed that the attention of the Board had not been drawn towards the management of the working capital even in the year under review.

### 3. Operating Review

#### 3.1 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>The supplier relevant to Artwork and Production for the purpose of design and installation of LED notice boards in the office premises of the Board as a publicity strategy, had been paid a sum of Rs.952,000 based on estimates submitted by a private firm. However, it was observed that the said photography had not taken place as mentioned in the estimate. Moreover, it was observed that</p>	<p>It has been informed that these notice boards had been used for briefing of the members' responsibility and the brand name of the lottery and that changes have occurred in the instances of photography. The cost</p>	<p>Payments should be made by ascertaining whether action had been taken according to estimates submitted.</p>

those notice boards are not visible to the public, according to the places they are installed.

incurred on purchase of photographs, expenditure incurred on payments for additional technicians, certain expenses incurred for downloading of photographs from the internet and expenses that had to be incurred twice on the approval of the Board are included herein.

### 3.2 Transactions without Adequate Authority

Audit Observation	Comments of the Management	Recommendation
<p>A sum of Rs. 2,175,000 had been paid at Rs. 5,000 each per year as uniform allowances for the years 2016, 2017, 2018 and 2019 for 146 members of the Management Assistant Staff of the Board. However, according to letter No.MF1/05/01/DLB/04 of 01 September 2016 of the Secretary to the Ministry of Finance, the Director General of the Department of Management Services had notified the Chairman of the Board that the Management Assistant Officers are not required to be provided with a uniform according to the nature of their employment. As such, the payment of uniform allowances had been discontinued from the year 2016 to the year 2018. Even though the Director General of the Department of Public Enterprises had once again granted approval for further payment of the said uniform allowance from 07 January 2019, as per the request of the Board, it was not observed whether approval had been granted for payment of the said allowance for 3 preceding years. Accordingly, the uniform allowance of Rs.1,540,000 paid during the year under</p>	<p>In granting approval by letter No. PE/TR/DLB/Gen/2018 of 07.01.2019, as it is still being paid, consent had been given therefor. As such, according to the request made by the trade unions at the discussion held with the Chairman, that the said allowance had been paid for the years 2016, 2017 and 2018 as well.</p>	<p>Formal approval should be obtained in the payment of allowances.</p>

review from the year 2016 to the year 2018, was a payment made without approval.

### 3.3 Identified Losses

Audit Observations	Comments of the Management	Recommendations
<p>The Board had obtained a Cab worth Rs.8,095,000 from an agent in the year 2008 on credit basis. The cab after being registered under the Board, had been taken away by the then chairman. Following the failure of the Board to pay the value of the said vehicle, the company had filed case against the Board in 2012. The case concluded on 16 November 2018 ordering the Board to pay a sum of Rs.18,834,979 as the value of the vehicle interest on legal affairs and legal charges. Accordingly, a sum of Rs.14,923,369 therefrom the been paid on 14 October 2019.</p>	<p>Agreed legal action had been taken to recover the loss sustained by the institution from the Board.</p>	<p>Formal action should be taken to recover the amount.</p>

### 3.4 Operating Inefficiencies

The following observations are made.

Audit Observations	Comments of the Management	Recommendations
<p>(a) Five employees of the staff had been entrusted with the sale of 100,000 lottery tickets named “Ada Kotipathi” that had been drawn on 31 December 2018, by using the vehicle Number NB-8153. The Board had planned to earn an income of Rs.300,000 with a profit of Rs.163,750 from that sale. But, only 24,000 lottery tickets had been sold by 05 persons within 16 days, thus earning only a profit of Rs.72,000. However, as an expenditure of Rs.254,250 had been incurred in that connections, the Board had sustained a loss Rs.182,250.</p>	<p>Not agreed. Although targets had been set for sales in these programmes, it was the main objective to promote the Board among the people furthermore, yet another objective is to make the people aware of the special prizes’</p>	<p>Action should be taken to implement proper sales strategies thereby increasing sales.</p>

- |   |   |  |
|---|---|--|
| <p>(b) According to the decisions taken by the top level management of the Development Lotteries Board, credit should be settled on the following day when lottery tickets are sold on credit under the normal method. In case of a difficulty in doing so the issue of lottery tickets to the relevant sales agent is suspended. However, as for a period of 08 – 27 months since 31 December 2019, an outstanding amounting of Rs.2,660,369 was observed with respect to 05 sales agents.</p>   | <p>Agreed</p>   | <p>Action should be taken for the proper implementation of decisions taken by the top level management.</p>  |
| <p>(c) The 914<sup>th</sup> draw at the “Super ball” lottery and the 3125<sup>th</sup> draw of the “ Saturday fortune” Lottery had been held as special draws by the Board. Using vehicles in 12 instances, 18,800 super Ball tickets had been sold in 153 man days whilst 21,400 “Saturday Fortune” tickets had been sold on 07 occasions in 74 man days. A sum of Rs.305,582 had been spent as subsistence allowances, overtime payments, and fuel expenses for the staff involved in selling the said lotteries in addition to their salaries. However, 10 super Ball tickets and 41 Saturday Fortune tickets had been sold per man day.</p> | <p>Not agreed. It is expected from such programme to promote sales and make People aware of the lotteries. As lotteries should be sold during sales promotions, targets had been set for the members of the Board taking part in the sale. It was the main affective to make people aware of the special prizes given at the special draw’</p>  | <p>Proper sales strategies should be used for sales promotion thereby increasing sales.</p>  |
| <p>(d) An expenditure of Rs.3,325,821 had been incurred by the Board on the Enterprises Sri Lanka exhibition held in Moneragala between 2018 August 28 and 01 September 2018. A sales income of Rs.4,100,000 representing 41 per cent of the sales target, had been earned. Nevertheless, the average sales cost per ticket amounted to Rs.3.50, but the same had become Rs.16.22 when lottery tickets had been sold at the exhibition. As such, the profit of the Board had decreased by Rs.2,607,000 as compared with the profit earned through the normal sales procedure.</p>   | <p>Not agreed.<br/>Approved at the Board of Directors had been obtained for the Heads of expenditure in that connection. It is not realistic to compare the expenditure incurred on the staff that coordinated those activities, and the sales. As instructed by the Ministry of Finance, the DLB also participated in the exhibition in much the same way the other State Institutions did It was the objective to popularize the brand name of the DLB among the people visiting the exhibitions.</p> | <p>A considerable expenditure is already incurred on advertising. Action should be taken to promote sales through targets set on income and expenditure’</p> |

- (e) An expenditure of Rs.424,023,033 had been incurred by the Board on printing in the year 2019, whilst the expenditure for the lottery tickets that had not been sold, amounted to Rs.31,812,417. As such, the expenditure incurred on printing the lottery tickets that remain unsold represented 7.5 per cent of the total expenditure incurred on printing. The Board was instructed through the audit queries to maintain the said expenditure at 5 per cent, but it was not done even in the year under review.
- Agreed. That was beyond control of the Management due to the situation that prevailed following the Easter attack. As such, the value of unsold lottery tickets had become a higher percentage.
- Action should be taken to maintain the printing expenditure on the remaining lottery tickets at 5 per cent of the total printing cost.

### 3.5 Idle or Underutilized Property, Plant and Equipment

Audit Observations	Comment of the Management	Recommendations
For the purchase of 250 flag posts at 10 per district to be used for programs conducted in line with sales promotional activities, the Board had incurred a sum of Rs.1,000,000 in the year 2018. Those posts so purchased had been stored at the Board in an manner without being used for any promotional program since the date of purchase.	Agreed. A place will be allocated for strong the posts securely, and they will be used for promotional activities. It is informed.	Requirement should be properly assessed before procuring the item in accordance with the procedure.

### 3.6 Delays in Procurements

Audit Observations	Comment of the Management	Recommendations
Modification vehicles for sales promotion. The double wheel crew cab without rear body purchased in 2018 at Rs.5,565,000 had been handed over to U – Sri Institution on 18 October 2018 in order to be modified as a sales promotional vehicle. Even after a period of 01 years and 08 months as at 30 June 2020, only the frame of the body and alter covers had been prepared with the rear doors fixed. Despite the availability of prevision	Agreed. Thus was done under several stages. The said situation occurred due to delays occurred in cash stage. The modification of the vehicle is scheduled to be completed by 15 August 2020.	Promotions of Government Procurement Guidelines should be followed. The top level management should draw their attention thereon



amounting to Rs.10.2 million for purchasing a sales proportional vehicle, a decision had been taken in a hurry to modify a vehicle purchased to transport lotteries as a sales promotional vehicle. Specifications had been prepared and quotations had been called for without following procurement Guideline 2.6 size of the vehicle had also been altered contrary to section 6(1) of the Motor Traffic (Amended) Act No. 2009 (8) Furthermore, owing to the facts such as, 08 months of the warranty period of the items, purchased for that work had elapsed, neglecting the security of the assets and the accessories thereof, risk in registering the vehicles and expiration of the validity period of the performance bands, it was observed in audit that disclosure of the said operation proposed for a cost of Rs.12,670,000, in the relevant account of the financial statements, remained questionable.

### 3.7 Deviation from the Procurement Guidelines

Audit Observations	Comment of the Management	Recommendations
<p><b>(a) <u>Procurement Plan</u></b>            The procurement plan should be prepared in accordance with the format provided as per paragraph 4.2.1 at Section 4 of the Procurement Guidelines – 2006. However, the procurement plan of the Board for the year under review had not been approved by the Secretary to the Ministry.</p>	<p>This situation existed in the procurement plan of the year 2019. The procurement plan presented to the Ministry in each year, but approval is not received.</p>	<p>The procurement guidelines should be followed.</p>
<p><b>(b) <u>Selections of printers for the lotteries</u></b>            (i) Suppliers should be selected in terms of, Public Financial Circulars No.01/2013 02 January 2013 and No.04 dated 09 October 2017” Guidelines 7.6.7, 7.7.1(a), 795(c),</p>	<p>Although a detailed answer had been given in that connection, it appears that answer was not accepted by the Audit.</p>	<p>Government Procurement Guidelines and provisions of Circulars should be followed.</p>

796(b) (iii) and 8.5.1(a) and (b) of the Government procurement guidelines, and Cabinet Memorandum No. 08/2336/306/145/TBR dated 17 December 2008. However, there were instances in which it had not been so done. Some of such instances are as follows.

- ❖ Due to preparation of bid documents by including Procurement criteria without consent of the Department of public Finance, printers favorable to the Board, had been executed from the procurement procedures.
- ❖ The institutions that had not complied with the specifications were also selected for bid evaluation by the Technical evaluation Committee of the Ministry.
- ❖ Selection of bidders who had not responded.

The procurement process was executed in the most suitable manner as per the decision of the Cabinet.

“Printers to the locals” is not relevant for printing tickets contrary to the provisions of the Procurement Guidelines and the Circulars.

(ii) The decision taken by the procurement Committee of the Ministry had been conveyed to the bidders who had made appeals, by disregarding the guidelines, 8.5, 8.5.1(a) (b)(c) (d) of the procurement Guidelines.

- Do -

Provisions of the Government procurement Guidelines should be followed.

(iii) The Chairman of the Board is a member of the Ministry Procurement Committee and the Deputy General Manager (Finance) is a member of the Technical Evaluation Committee of the Ministry. While the Deputy General Manager (Finance) and the Assistant General Manager (Finance) in charge of this subject were aware of the typographical errors, the Technical Evaluation Committee reported according to its report that there were no errors in the printing process and that it could be satisfied on two suppliers.

It has been pointed out that - Do -

the lowest bidder was selected and it cannot be expressed that a loss has been incurred by way of comparing the prices quoted by the disqualified bidders with the prices quoted by the bidder qualified for the contract.

- |  |  |  |
|--|--|--|
| <p>(iv) Payment of an additional prize of Rs. 320,000 by the Board due to printing an erroneous prize pattern on the lottery tickets applicable to the 271 draw of the <i>Kotipathi Shanida</i> lottery drew on 25 March 2018, failure to recover the amount of Rs.320,000 due from the relevant printing company as per the agreement and failure to recover the amount of Rs.500,000 due for printing incorrect data.</p>                            | <p>It has been informed that the above misprints are trivial errors.</p>   | <p>In terms of the agreement Action should be taken to recover the due amount from the printing company as per the agreements.</p> |
| <p>(v) The fact that the party which was the Chairman of the Procurement Committee of the Ministry had sent notification letters to the unsuccessful bidders to call for appeals, served as the Chairman of the Joint Committee which was acting as the Board of Appeals and approved the re-award of the contract on the decision of that Committee. Accordingly, the transparency of this procurement process was questionable during the audit.</p> | <p>Since the appeal process relevant to the tender is handled by the Ministry, no opinion can be expressed thereon.</p>            | <p>Action should be taken in accordance with the provisions of the National Procurement Guidelines.</p>                            |
| <p>(c) <b>Purchase of Prizes (Rs.2,342,360)</b><br/>-----</p>  |  |  |
| <p>(i) A sum of Rs. 672,860 had been allocated for the 20 mobile phones that were to be given away as prizes in the Super Ball Special Lottery and this purchase had been made contrary to the procurement process.</p>  | <p>Not agreed .<br/>This purchase has been made by calling for competitive bids and according to the approval of the Chairman.</p> | <p>Action should be taken in accordance with the provisions of the National Procurement Guidelines.</p>                            |
| <p>(ii) According to Section (b) of Paragraph 8.9.1 of the Procurement Guidelines, although a formal agreement should be reached to purchase goods in excess of Rs.500,000, no agreement had been reached in the purchase of motorcycles worth Rs.1,669,500 for the Ada Kotipathi special lottery draw.</p>  | <p>Agreed.<br/>Relevant matters have been resolved without any problem and there is no dispute regarding it.</p>                   | <p>Action should be taken in accordance with the provisions of the National Procurement Guidelines.</p>                            |
| <p>(d) <b>Purchase of drinking water bottles (Rs.1,911,663)</b><br/>-----</p>  |  |  |
| <p>The Board had selected an institution in the year 2016 for the purchase of drinking water bottles without following the formal procurement process and had been</p>   | <p>Agreed.<br/>Action has been taken to correct it in the year 2020.</p>   | <p>Institutions should be selected by following the procurement process annually in accordance</p>                                 |

purchasing drinking water bottles only from that institution till the date of audit in 2019.

with the provisions of the National Procurement Guidelines.

**(e) Purchasing T-shirts for instant lottery sales promotion**  
-----

Due to factors such as making repurchases regardless of the availability of sufficient stocks in the warehouse, not conducting instant lotteries according to a proper sales plan and not printing and distributing instant lotteries to the market for the promotional items purchased, 17,452 T-shirts worth Rs 9,075,040 purchased for lottery sales promotions remained idle.

Agreed.

It has been informed that the printing orders are given to the printers subject to 50 per cent prize percentage limit and this situation has arisen due to the fact that tickets are ordered and brought due to market fluctuations.

It has been further informed that all these stocks have been issued together with the instant lottery tickets.

In the purchase of sales promotion items, relevant purchase should be made according to a proper plan by taking into account the available stock level.

**(f) Purchase of a fire protection system**  
-----

The Board had installed a fire protection system during the year 2019 at a cost of Rs.2,357,000 and bids therefor had been invited on 03 occasions. There had been no direct involvement of the Procurement Division of the Board in the procurement process for the selection of this supplier and the recommendations of the Fire Service Department had been obtained after the selection of the supplier. There was no evidence that bids had been invited from the institutions recommended by the Fire Service Department, and one of the two bidders was a subsidiary of the company selected for this purpose. Further, both institutions were not the institutions recommended by the Fire Service Department.

Agreed.

This institution has been selected by forwarding the matter to the Technical Committee and obtaining the approval of the Procurement Committee. Approval of the Fire Service Department has been obtained to receive this service from that institution.

Purchases should be made by the Procurement Division in accordance with the provisions of the Procurement Guidelines.

**(g) Purchase of LED Light Board**  
-----

(i) In terms of Paragraph 2.5 and 2.6 of the National Procurement Guidelines,

Since the above service supplying institution is an

Action should be taken in accordance with the

purchases should be determined by the Procurement Evaluation Committee on the recommendations of the Technical Evaluation Committee. Nevertheless, without taking action accordingly, the Assistant General Manager (Marketing) had determined the institution for making the aforesaid purchase valued at Rs.1,358,810.

- institution selected through the procurement process, approval has been given under the financial authority of the Chairman as in the other advertising activities.
- National Procurement Guidelines.
- (ii) According to the Paragraph 8.9.1(b) of the National Procurement Guidelines, an agreement should be reached in purchasing goods and services in excess of Rs.500,000, whereas the Board had not made this purchase in accordance with an agreement.
- As an annual agreement had been entered into with that service supplying institution, an additional agreement is not required to be signed.
- Action should be taken in accordance with the National Procurement Guidelines.

### 3.8 Management Activities

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<b>(a) Installation of Computerized Systems</b>		
The computer software service currently being used by the Board for lottery draws had been obtained from a private company. Although there is an established Computer Division in the Board with a total of 08 officials receiving salaries and allowances of Rs.9 million, including 4 executive officers drawing a total salary and allowance of Rs.6.5 million per annum, this computer related work had not been carried out by them. During the period from 2009 to 31 December 2019, a sum of Rs.130,607,657 had been paid for the services obtained from this private institution.	Agreed. The procurement process is in progress.	Action should be taken to install a computerized system for lottery draws.
<b>(b) Retention of funds of the Board in the possession of outsiders</b>		
The amount unsettled and withheld by lottery distributors during the period from 01 to 187 days from January to September 2019 was	A follow up process has been put in place to properly collect	The management should make an appropriate

Rs.1,638,032,144. The management had not taken appropriate measures to immediately recover the money to the Board. the daily paid arrangement to immediately recover the unsettled money.

**(c) Preparation of Procedural Rules for the Staff**

The Development Lotteries Board had not prepared a Procedural Rules for administrative and operational affairs since its inception and a qualified person had been appointed for that purpose in the year 2016. The relevant party had studied the existing rules and regulations and prepared the relevant Procedural Rules and handed over to the Development Lotteries Board on 14 October 2019. It had been agreed to pay Rs. 4,500,000 to the relevant party for this purpose and Rs.1,700,000 of that amount had already been paid. Although he had submitted the relevant Procedural Rules to the Board in two sections, the payment of the balance had been suspended citing the reasons that the relevant Procedural Rules had been prepared so as not to comply with the existing procedures of the Board. The Board had informed the party involved in drafting the Procedural Rules to suspend the preparation of rules for "lottery and lottery draws, internal control and auditing" contained in the agreement signed for this purpose. Accordingly, the relevant work had not been completed as yet and it was observed that the money spent thereon was an uneconomic transaction. It was also observed in the audit that there was a legal risk regarding breach of the terms of the agreement signed for this purpose and the balance payable.

Not agreed. The Board should take steps to prepare a Procedural Rules as expeditiously as possible.

The resource person has been informed to prepare and submit this draft again. It has been focused to the deliberation of the Board of Directors that the presented draft has been prepared by copying the Establishments Code and the Financial Regulations and accordingly, the resource person has been instructed to draft it again in keeping with the requirements of the Board.

**4. Accountability and Good Governance**

**4.1 Corporate Plan**

Audit Observation	Comments of the Management	Recommendation
In terms of Paragraph 5.1.3 of the Public Enterprise Circular No . PED / 12 dated 02 June 2003, a copy of the updated Corporate Plan approved by the Board of Directors	Agreed.	Action should be taken in accordance with the Circular provisions

should be sent to the Auditor General 15 days before the commencement of the next financial year. Nevertheless, the Board had submitted that copy to the Auditor General on 06 March 2019.

#### 4.2 Annual Action Plan

----- Audit Observation -----	Comments of the Management -----	Recommendation -----
<p>In terms of the Letter No. PE / MD / NLB / MO / 2018 dated 9 January 2018 of the Director General of the Department of Public Enterprises, the Performance Reports and Financial and Physical Performance Reports of the Action Plan should be submitted to the Department of Public Enterprises within 30 days after the end of a quarter. Nevertheless, it was not observed that the above reports had been submitted to the Department of Public Enterprises for the fourth quarter of the year under review.</p>	<p>Agreed.</p>	<p>Action should be taken in accordance with the Circular provisions.</p>