

National Lotteries Board - 2012

1. Financial Statements

1.1 Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the National Lotteries Board as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1. Sri Lanka Accounting Standard

The impairment test of the property, plant and equipment valued of Rs.444,148,738 had not been carried out in terms of Sri Lanka Accounting Standard No 36 and the actual value of the assets had not been shown.

1.2.2 Accounting Deficiencies

The following observations are made.

(a) Even though the accounting for the Customs Duty amounting to Rs.26,774,238 comprising Rs.9,448,681, Rs.7,876,877 and Rs.9,448,680 paid in the years 2009,2010 and 2012 respectively on the motor vehicles purchase as the prizes of the Airport Supiri Wasana Sampatha Lottery as expenditure, that amount had been shown under the current assets in the financial statement as a balance receivable.

(b) According to the accounts presented, the value of the publicity materials stock of the Sevana Lottery amounted to Rs.513,314 whereas the value of the physical stock computed according to the stores ledger amounted to Rs.72,600. As such the value of that stock had been overstated by a sum of Rs.440,654 thus resulting in the over statement of the profit for the year under review by that amount.

- (c) Even though the value of the publicity materials stock had been shown as Rs.583,294 in the financial statements, the stock of G1 pipes valued at Rs.99,325 included therein had not appeared in the stores ledger. As such the balance of the publicity materials stock had been overstated by a sum of Rs.99,325.

1.2.3 Accounts Receivable and Payable

The following observations are made .

- (a) Action had not been taken even up to the end of the year under review for the recovery of the advances amounting to Rs.160,000 paid in the year 2004 for the purchase of fuel for the motor vehicles of two suppliers from whom services are not procured at present.
- (b) Lottery service chargers amounting to Rs.182,593 payable to the District Sales Agents of the Samurdhi Lottery remained without being settled since the year 2008 up to the end of the year under review.
- (c) Action had not been taken for the recovery of outstanding balance amounting to Rs.42,854 relating to two computers given to two District Sales Agents on the basis of payment of one half to the value. It was revealed that the distributors are not functioning at present.
- (d) The value of debtor balances of the Board remaining without being recovered for more than 05 years as at 31 December 2012 amounted to Rs.7,306,105.
- (e) The rent amounting to Rs.10,000,000 payable by the Board to the Airport and Aviation Services Sri Lanka Ltd. for the years 2008 to 2012 in connection with the Airport Supiri Wasana Sampatha Lottery had not been settled even by the end of the year under review.
- (f) Publicity expenditure of the year 2011 amounting to Rs.1,471,000 had been shown under the accrued expense without taking action for payment.

- (g) The unsettled balance of the Dishonored Cheques Account receivable as at 31 December 2012 amounting to Rs.757,498 relating to the sale of the Sevana Lottery tickets continued to be brought forward since the year 1996.

1.2.4 Non- compliance with Laws, Rules, Regulations and Management Decision

The following instances of non – compliance were observed during the course of Audit.

Reference to Laws, Rules, Regulations, etc	Non- compliance
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(a) Section 6(2)(a) of the Payment of Gratuity Act, No.12 of 1983.	Even though the payment of gratuity to officers should be made at ½ month salary drawn, contrary to that, a sum of Rs.2,658,275 had been paid based on the salary for one months to the officers who retired during the preceding year and up to June of the year under review without obtaining proper approval. Even though a sum of Rs.7,392,287 had been over period to the officers who returned from 01 January 2011 to 30 June 2012 action had not been taken for the recovery of that amount.
(b) Final Regulation of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 685 and the National Procurement Agency Circular No.8 of 25 January 2006.	Out of the printing expenditure of the year under review amounting to Rs.393,049,086 a sum of Rs.178,802,547 had been paid without inviting bids.
(c) Establishments Code Chapter vii, Section 10.1, Paragraph (a)	Even though 08 hours of duty should be performed for obtaining holiday pay, a sum of Rs.3,794,304 computed at 1/20 of the salary for 07 hours, ¼ of the salary for 3½ to 7 hours and another 1/20 of salary for over 12 hours

had been paid contrary to that provision in the year under review.

(d) Public Enterprises Circular

No. PED/12 of 02 June 2003 on Public Enterprises Guideline on Good governance – Section 9.7.

- (i) The salary of Rs.25,640 entitled to the officers recruited to the post of Assistant General Manager, Sales and Distribution and three Agent Managers had been increased with effect from July 2011 to Rs.45,000 by a decision of the Board of Directors dated 03 January 2011 without obtaining the approval of the Treasury. As such an overpayment totalling Rs.735,680 had been made in the years 2011 and 2012 without obtaining approval.
- (ii) A sum of Rs.7,217,490 had been paid as the transport allowance to the staff in the year under review as in the preceding years without obtaining Treasury approval.
- (iii) A sum of Rs.7,904,225 had been paid to the officers who participated in the lottery

draws in the year under review
as in the
preceding years without
obtaining Treasury approval

- (e) Guideline 4.2 of the Procurement Guideline of the Government. Procurement Plan for works and services had not been prepared.
- (f) National Budget Circular No.142 of 31 December 2008 of the Minister of Finance and Planning. Even though the Festival Advance payable to the employees of Corporations and Boards amounted to Rs.5,000, due to the payment of the salary of one month as the Festival Advance, a sum of Rs.2,379,245 had been overpaid to 209 officers.
- (g) Management Services Circular No. 34 (1) of 01 June 2009. Contrary to the rates of combined allowance recommended for the employees of Corporations and Boards a sum of Rs.11,642,757 had been paid as combined allowance at different rates as in the preceding years.
- (h) Public Administrative Circular No.13/2008(iv) of 9 February 2011. Contrary to the monthly fuel allowance payable to the officers entitled to the allocated motor vehicles a sum of Rs.2,544,000 had been paid to the officers.
- (i) Public Enterprises Circular No.35 of 17 January 2006 and No.37 of 19 April 2006. Even though no allowance or benefit other than those approved should be paid to the Non-executive Directors, incentive amounting to Rs.114,575 had been paid to a Director of the Board in addition to providing pool motor vehicles.

- (j) Paragraph 4 of the Public Enterprises Circular No.50 of 28 July 2008. Even though the officers entitled to official motor vehicle should not use the pool motor vehicles of the institution, instance of pool motor vehicles also given to an officer was revealed at a test check.
- (k) Department of Management Services Circular No.30 Even though the approved initial salary step of an officer had been Rs.25,640 action had been taken to pay the salary placing him in the initial salary step of Rs.32,780.
- (l) Sections 17.1(a) and 14(2) of the Finance Act, No.11 of 1963 as amended by the Finance Act, No.35 of 1997. Even though the Prices Reserved Account should be used in accordance with the provision in Section 14(2) of the Act, contrary to that a sum of Rs.548.7 million had been credited to the Consolidated Fund.
- (m) Paragraph 6 (iii) and (iv) of the Public Enterprises Circular No.57 of 11 February 2011. The approval of the Minister in charge of the subject had not been obtained in accordance with the above provision for the sponsorship and donation expenditure totalling Rs.37,918,100 revealed at the test check.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented the financial result of the Board for the year under review amounted to a surplus of Rs.1,264 million as compared with the corresponding surplus of Rs.1,016 million for the preceding year thus indicating as improvement of Rs.248 million or 24 per cent in the surplus for the year under review as compared with the preceding year.

An analysis of the improvement of the financial result is given below.

		Variance	

Income	Favorable	Adverse	
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	Rs. millions	Rs. millions	Rs. millions
Lottery Sales Income	1,912.0		
Other Income	104.0		
	-----	-----	2,016.0
Expenditure			

Cost of Sales		1,395.0	
Distribution Expenditure		17.0	
Administrative Expenditure		45.0	
Other Expenditure		137.0	
Finance Cost		0.2	
Payment of Income tax		174.0	
			1,768.2
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Total Variance (Favorable)			247.8
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2.2 Ratios and Percentages

According to the information obtained several significant ratios and percentages relating to the operation of the Board for the year under review and the preceding year are given below.

		Year	
		2012	2011
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(a) Profitability Ratios			

(i)	Net Profits Ratio (percentage)	18.03	17.25
(ii)	Return on Equity (percentage)	129.38	91.23
(iii)	Return on Average Assets (percentage)	40.00	36.70
(b) Capital			

(i)	Equity/ Total Assets (Ratio)	0.29	0.37
(ii)	Equity/ Non- current Assets (Ratio)	0.61	0.75
(c) Liquid Assets			

(i)	Current Assets (Standard Ratio 2:1)	1.74	2.52
(ii)	Quick Assets Ratio (Standard Ratio 1:1)	1.71	2.45

The profitability ratios of the Board had indicated an improvement as compared with the preceding year while the liquid assets ratio as well had exceeded the standard level.

3. **Operating Review**

3.1 **Management Inefficiencies**

The balance of the Building Construction Receive Account, maintained for the construction of a building for the National Lotteries Board, as at 01 January 2012 amounted to Rs.618,842,734. A sum of Rs.35,000,000 out of the profit of the year and a sum of Rs.200,000,000 out of the retained profit had been allocated and the balance as at the end of the year amounted to Rs.853,842,734. Nevertheless the Board had not taken action for the construction of a building for the Board. The Board had spent a sum of Rs.16,305,332 as the rent for the building in which Board is maintained at present and a sum of Rs.734,094 had been spent on the modernization of the building during the year under review.

3.2 **Transactions of Contentious Nature**

The following observations are made.

- (a) Concurrently with the opening of a Lottery Distribution Office by the Board in the Kilinochchi area, the Board had spent a sum of Rs.13,059,459 in 03 stages for the distribution of school books, school bags, dry foods, plastic chairs and agricultural equipment among the children of 06 schools in the area and the parents of the children. Even though the Board had furnished to audit the documents in support of the goods supplied to the schools under the third stage, the principle concerned made statements to audit that those goods valued at Rs.3,676,032 had not been actually handed over to them.
- (b) Even though only 5 per cent of the income from the conduct of the Sampath Rekha Lottery had been credited to the Consolidated Fund, 25.5 per cent comprising 20.75 per cent to the Fiftieth Anniversary Celebrate Fund and 4.75 per cent to the Board, had been retained for the purposes of the Board.
- (c) The promotion materials in connection with a special Lotteries draw held concurrently with the Deyata Kirula 2012 Exhibition comprising 19,000 units of 09 varieties of goods such as school bags, T shirts, raincoats, etc valued at Rs.9,000,000 had been purchased in 09 instances from a supplier who is engaged in the import and sale of timber and spare parts. Instead of taking action in that connection in accordance with Guideline No 2.14.1 and 3.4.1 (a) and (b) of the Procurement Guidelines, procurement had been done by inviting quotation through fax.

3.3 **Apparent Irregularities**

The following observations are made.

- (a) A sum of Rs.422,178 had been paid as salaries and allowance to a Security Guard without establishing the fact that he was deployed in the service of the Board, An investigation had not been conducted in that connection.
- (b) It was revealed at an audit – test - check that according to the Daily Running Charts, an officer who had been paid a sum of Rs.556,500 as lottery draw allowance in the year under review, that on the dates of draws the relevant officer had been on duty in other area. Nevertheless he had obtained the allowances by signing as an officer participating in the lottery draws.

3.4 **Uneconomic Transactions**

The following observations are made.

- (a) The sale of lottery takes place mostly among the general public of the country and as such huge publicity can be achieved through publicity campaigns aimed at the general public. But the Board had spent a sum of Rs.9,113,280 in the year under review for the display of the Brand Name of the Board in the websites. A formal agreement in that connection had not been entered into in terms of the Guidelines 8.9.1 and 8.9.3 of the procurement Guidelines.
- (b) Despite being informed by the Ministry of Finance and Planning that the officers who, will serve for long periods with the Board should participate in the training seminars and workshops as the Board incurs expenditure on such training, to enable the use of the knowledge and experience gained for the benefit of the institution, contrary to such construction, a Director had been sent at a cost of Rs.308,541 to participate in a seminar conducted in London.
- (c) Two officers recruited on contract bases had been sent to participate in the conference on Creative Lottery Planning held in France in the year 2012 and

the service of one officer had been terminated with effect 01 January 2013. The Board had spent a sum of Rs.749,452 for the participation of that officer in the above conference.

3.5 **Identified Losses**

The following observations are made.

- (a) Action had not been taken for recovery of the sum of Rs.273,710 from the relevant printing company for the damage and defects caused in the printing of Instant Lottery Tickets. The agreement between the Board and the relevant company was expired at present.
- (b) The Colombo Airport Supiri Wasana Lottery priced at US Dollar 50 per ticket - run by the Board had incurred a loss of Rs.3,896,211 in the year under review. That lottery had incurred an accumulated loss of Rs.23,759,168 during the year under review and the 04 preceding years.
- (c) Even though the Cabinet of Minister had, by the Cabinet Memorandum dated 02 November 2006, granted approval for the printing of lottery tickets through a foreign company for a period of 03 years from the year 2007. In consequence of action taken contrary to the Cabinet Memorandum cess amounting to Rs.12,720,000 and import duty amounting to Rs.7,767,241 alone had to be incurred in the year under review unnecessarily. The accumulated loss incurred by the Board in the preceding year amounted to Rs.69,804,877.
- (d) In view of the failure to maintain adequate stocks of Samurdi Instant lottery Tickets by placing orders in a timely manner, the gross income of the lottery for the preceding year amounting to Rs.95,606,020 had decreased by Rs.58,330,020 or 61 per cent to Rs.37,276,000 in the year under review. Because of the delay in placing orders, the Board had incurred a loss of Rs.3,926,664 in the import of instant lottery tickets in the year under review due to the depreciation of the US Dollar.

3.6 **Delayed Projects**

- (a) A sum of Rs.50 million had been allocated in the year 2011 for the construction of a Circuit Bungalow in Mannar and the construction had been planned for completion within 180 days. Nevertheless the construction of the Circuit Bungalow had not been completed and handed over to the Board even by 30 April 2013.
- (b) The work on repairs to the building procured on lease for a period of 30 years in the year 1986 for use as the Circuit Bungalow in the Anuradhapura area and the additional construction had been awarded to a contractor for a sum of Rs.7,403,596 in the year 2011. Action had not been taken to complete the work and handover to the Board even by 30 April 2013 and the sum of Rs.6,596,984 paid to the contractor had been shown as advances in the financial statements. Even though the repair works had been commenced to provide accommodation to the officers participating in the Deyata Kirula Exhibition 2012 the expected objective had not been achieved. It was observed that spending such sum of money on the repairs to the building disregarding the expiry of the lease in the year 2016 is economically not feasible.

3.7 **Irregular Transactions**

Out of the sum of Rs.187,865,745 payable to the Consolidated Fund from the income of the Sevana and Samurdi Lottery in the years 2011 and 2012 a sum of Rs.96,344,018 comprising Rs.90,142,271 relating to the Sevana Lottery and Rs.6,201,747 relating to the Samurdhi Lottery had not been remitted to the Consolidated Fund. It was revealed in audit that the money is retained to cover the expenditure on cess paid by the Board for the import lottery tickets. But the Treasury approval for that had not been obtained.

3.8 **Utilization of Resource**

The following observations are made.

- (a) According to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 2 June 2003 on Public Enterprises Guidelines on Good Governance, the resource of the

Board should not be deployed for use by the line Ministry or any other Government institution. Contrary to that provision, the Board had released 03 motor vehicle to other institutions during the year 2006 and the Board had spent a sum of Rs.1,266,782 in the year under review as repair and maintenance expenditure of those motor vehicle. In addition, three officers receiving salary from the Board had been released contrary to the above provision to external institution.

- (b) The Board did not have a methodology for the determination of the item and the maximum and minimum limits of the money in connection with the sponsorships given for the promotion of the image of the Board. Out of the total expenditure amounting to Rs.168,259,788 incurred in the year under review for the promotion of the institutional image, a sum of Rs.37,918,100 or 22.5 per cent had been spent on 18 items.
- (c) Even though a sum of Rs.10,000,000 had been allocated for the reconstruction of the places of worship destroyed in the North and the East according to the publicity plan for the year 2012 with a view to discharging the social responsibility, no expenditure whatsoever had been incurred during the year under review.
- (d) Out of the sum of Rs.26,941,268 spent in the year under review on public relations expenditure, 25.33 per cent, that is, a sum of Rs.6,831,000 had been made available in 03 instances to 03 institutions. In this connection, it was observed that the Board is not maintaining a formal methodology and a policy covering the entire Island in the selection of item for public relations under the publicity expenditure.

3.9 **Staff Administration**

Even though the approved staff had been 293 the Board had deployed a staff of 301 in service. The vacancies in the approved staff as at 31 December 2012 had been 20 and 28 persons had been recruited outside the approved staff on contract bases.

4. **Accountability and Good Governance**

4.1 **Budgetary Control**

Significant variances were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

5. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Human Resources Management
- (c) Assets Management
- (d) Expenditure Management
- (e) Printing of Lottery Tickets
- (f) Procurement