

Chapter I Introduction

1.1 Legal framework - general

Lottery means a scheme for raising money for government, charity etc., in which tickets are sold and draw is held for distribution of prizes by lot or chance to those persons who participated by purchasing tickets. Lotteries organised by the Government of India or the Government of a State is a Union subject¹. But the tax on sale of such lotteries is a State subject².

In order to strictly regulate the scheme of lottery the Government of India enacted the Lotteries (Regulation) Act, 1998. The Act came into force on 2 October 1997. The Union Act regulates the Lotteries and provides for matters connected therewith throughout the Country. The Act empowered the Central Government as well as the State Governments to make Rules to carry out the provisions of the Lotteries (Regulation) Act. The Government of India has enacted the Lotteries (Regulation) Rules 2010, which provides for matters relating to organisation of lottery, appointment of distributor or selling agent and procedure to prohibit the sale of lottery tickets by the Central Government in April 2010; the Government of Mizoram has subsequently enacted the Mizoram Lotteries (Regulation) Rules 2011 by issuing Gazette Notification in March 2011, which provides in detail for matters relating to form, size and design of tickets, delivery of tickets, information to be printed on the tickets, mirror server, mode of payment of prize, claim period, claim of prize, examination of prize winning tickets, draw time during a day, supervision of conducting draw, maintenance of records, disposal of unsold lottery tickets, appointment of distributors and sub-agents, mode of payment to and by the Government of Mizoram, *etc.*

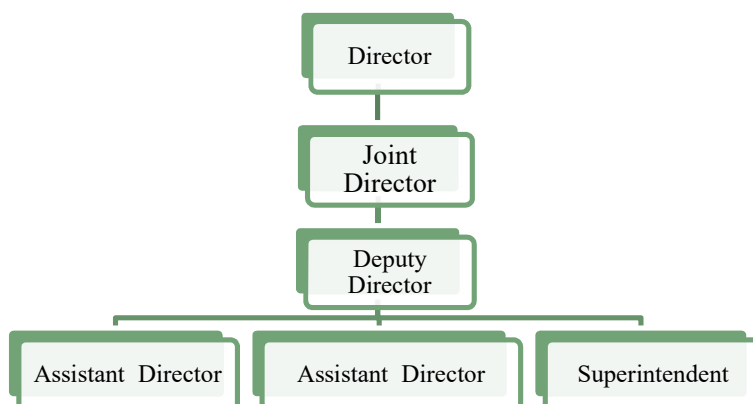
1.2 Evolution of the Mizoram State Lotteries

The Government of Mizoram (GoM) started organising Mizoram State Lotteries from 21 April 1987. The Directorate of Mizoram State Lottery was established on 29 July 1987. It was amalgamated with the Directorate of Institutional Finance and Small Savings and renamed as Directorate of Small Savings and State Lottery from 10 January 2005. It was further renamed as Directorate of Institutional Finance and State Lotteries (Directorate) from 22 September 2005. The organisational set up of the Directorate is as given in **Chart-1.1**. The Directorate is under the administrative control of the Finance Department, Government of Mizoram. The Financial Commissioner, Government of Mizoram, is the designated authority responsible for organising lottery by the State as per Rule 3(13) of Lotteries (Regulation) Rules, 2010.

¹ entry 40 of the List I – Union list in the seventh schedule to the Constitution of India

² entry 62 of the List II – State List of the seventh schedule to the Constitution of India

Chart 1.1 Organizational set up of the Directorate



While day to day running of Mizoram State Lottery is looked after by the Directorate, the Finance Department exercises overall control over Mizoram State Lottery and is involved in most of the important functions like notification, tendering,

selection of distributors, approval of schemes, fixation of revenue target *etc.*

The Finance Department, GoM under Section 5 of the Lotteries (Regulation) Act, 1998 prohibited³ (18 March 2010) the conduct, organization, promotion and sale of all kinds of lottery tickets within the State of Mizoram (State) with immediate effect and until further order. The ban was imposed due to on-going litigations⁴ in court between the then existing distributors and the GoM over the issue of introduction of re-modelled financial structure for operating online lotteries while existing agreement was still operative. The ban was revoked on 3 January 2011 by the Finance Department⁵ GoM.

In March 2011, the Director, Institutional Finance & State Lotteries (IF&SL) floated⁶ invitation for Expression of Interest (IEI) for appointment of Lottery Distributor/Selling Agents. However, three firms *viz.* M/s Teasel Marketing (P) Ltd., M/s Tashi Delek Gaming Solutions (P) Ltd. and M/s Pooja Fortune (P) Ltd. went to court and filed a writ petition⁷ for accepting bids sealed with cello tape as against the requirement of a sealed cover. As a result, the said IEI was withdrawn⁸ by the GoM and a fresh IEI was floated by the Directorate in December 2011.

In the meanwhile, the GoM notified (December 2011) in its Gazette that it intended to organize State Lottery to be styled as “Mizoram State Lottery”, and sale of lottery tickets to augment the State’s revenue for the purposes of health care, education, public sanitation and other social sector services.

Agreement for operating and marketing all kinds of Lottery Schemes (paper and online lotteries) on behalf of the State was executed (29 May 2012) between the GoM and the selected Distributors for an initial period of 2 years. The agreement period was extended (15 April 2014) for one year up to 28 May 2015. The agreement was further extended

³ vide notification No.G.16010/43/2010-F.IF&SL dated 18 March 2010

⁴ W.P.(C) No. 10/2010 and W.P.(C) No. 11/2010 at Aizawl Bench of the Guwahati High Court

⁵ Vide notification No.G.16010/43/2010-F.IF&SL dated 3 January 2011

⁶ Memo No.F.23012/19/10-DTE(IF&SL)/LOT dated 9 March 2011

⁷ WP(C) No. 69/11, 70/11 and 77/11 in the Guwahati High Court, Aizawl Bench

⁸ Notification No. G.16010/39/2009-F.IF&SL dated 5 October 2011

for three years *w.e.f.* 29 May 2015 to 28 May 2018. The salient features of the agreement are given at **Appendix-1.1**.

1.3 Rationale for taking up audit:

Rule 3(20) of the Lotteries (Regulation) Rules 2010 empowers the Central Government to conduct an audit of any lottery or lottery scheme organized by any State through the Comptroller and Auditor General of India (CAG). Accordingly, to examine the compliance of the procedure as laid down in the Lotteries (Regulation) Act 1998, the Lotteries (Regulation) Rules 2010 and the Mizoram Lotteries (Regulation) Rules 2011 and the overall functioning of the Department, a Performance Audit of “Mizoram State Lotteries” was conducted covering the period from 2010-11 to 2014-15.

1.4 Statutory conditions regulating lotteries

As per the Lotteries (Regulation) Act, 1998 -

Lottery- means a scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance to those persons participating in the chances of a prize by purchasing tickets {Section 2(b)}.

Bumper draw of a lottery- means a special draw of lottery conducted on or during any festival or other special occasion wherein the prize money offered is greater than the prize money offered in the case of other ordinary draw of lotteries {Section 2 (a)}.

The law/Act governing the organizing, conducting or promoting lottery inter-alia also lays down:

- *The prizes shall not be offered on any pre-announced number or on the basis of a single digit {Section 4 (a)};*
- *The State Government shall print the lottery tickets bearing the imprint and logo of the State {Section 4(b)};*
- *The State Government shall sell the tickets either itself or through the distributors or selling agents {Section 4 (c)};*
- *The State Government itself shall conduct the draws of all lotteries {Section 4 (e)};*
- *The number of bumper draws in a year shall not be more than six in a calendar year {Section 4 (j)};*
- *A State Government has the power to prohibit the sale of tickets within the State, of a lottery organised, conducted or promoted by every other State (Section 5);*
- *Section 7 (1) to (3) of the Lotteries (Regulation) Act provides that organizing/promoting/conducting any lottery by any department of the State Government in contravention of the provisions of the Act or sale, distribution or purchase of the tickets of such lottery by any person or agent or distributor, shall*

be punishable with rigorous imprisonment for a term which may extend to two years or with fine or with both; and

- *The offence under this Act shall be cognizable and non-bailable (Section 8).*

1.5 The Lotteries (Regulation) Rules, 2010, *inter-alia stipulates*

- *A State Government may organise lottery(ies) by issuing a notification in the official gazette outlining the purpose, scope, limitations and methods thereof along with other information⁹;*
- *The organising State may sell the tickets itself or by engaging distributors or selling agents following prescribed procedures;*
- *The Organising State shall charge a minimum of ₹five lakh per draw for bumper draw of lottery and for all other forms of lottery a minimum of ₹10,000 per draw;*
- *The State Government under whose jurisdiction the lottery tickets are being sold shall be entitled to charge a minimum amount of ₹2,000 per draw from the organising State but the maximum shall not exceed the amount charged by the State Government from its own lotteries;*
- *The organising State shall keep records of the tickets printed, issued, sold and that remaining unsold, the prize winning tickets along with the amount of prize or prizes in respect of each draw;*
- *Every organising State shall conduct an annual financial and systems audit of the various lottery schemes organised by it including online lotteries;*
- *The organising State shall devise suitable means and procedures to effectively supervise the conduct of the lottery including the process of draws and all steps till publication of results to avoid any malpractices;*
- *Every State Government shall ensure that no lottery, in any form, is organised by any authority other than the organising State or its appointed distributors or selling agents within its jurisdiction;*
- *The distributors/selling agents (if there is any) shall maintain records of the tickets obtained from the organising State, tickets sold and those which remain unsold up to the date and time of draw along with other details as may be specified by the organising State;*
- *The organising State shall pay to the distributors or selling agents any commission due to them and the prize amounts disbursed by the distributors or selling agents to the winners, if any, out of the money so deposited in the Public Ledger Account (PLA) or in the Consolidated Fund (CF) of the organising State;*

⁹ Name, price of tickets, total number of tickets printed in case of paper lottery, gross value of the tickets printed, name(s) of the distributors or selling agents with their addresses and contact information, prize structure, the amount offered as prize money, periodicity and place of the draw and the procedure for drawing the prize winning tickets or prize winners

- *The distributor or selling agents shall return the unsold tickets to the organising State with full accounts along with the Challans of the money deposited in the PLA or CF of the organising State. The unsold tickets shall be disposed of in the manner specified by the Organising State from time to time.*

The full citation of the Rule 3 (organisation of lottery) is available at **Appendix-1.2**. The relationship among Organising State, States under whose jurisdiction lotteries are sold, the distributors/selling agents and customers- their inter-operability and additional factors involved are depicted at **Appendix-1.3**.

1.6 Audit Objectives

The audit was conducted to determine whether:

- Procedures laid down in the Lotteries (Regulation) Act, Rules, the Mizoram Lotteries (Regulation) Rules and the agreements were observed by the State while organising lotteries;
- Revenue from lotteries accrued to the State were properly assessed and got remitted through the distributors/selling agents on time and taxes on income wherever applicable had been deducted at source and remitted into proper head of accounts;
- Records relating to printing, sale and return of unsold tickets were maintained by the Directorate of Lotteries and the distributors/selling agents;
- The internal control mechanism was adequate and effective; and
- The revenue generated is being used for the identified purposes

1.7 Audit Criteria

The audit findings were benchmarked against the following sources of criteria:

- The Lotteries (Regulation) Act 1998;
- The Lotteries (Regulation) Rules 2010;
- The Mizoram Lotteries (Regulations) Rules 2011;
- Agreements made with the distributors/selling agents/printers and
- Notification/orders issued by the State and Central Governments from time to time.

1.8 Scope and methodology of Audit

The Audit of Mizoram State Lotteries covered the period from 2010-11 to 2014-15. The methodology consisted of -

- Issue of questionnaires and examination of records/reports *etc.* available with the concerned wings in the Finance Department; Directorate of IF&SL and Distributors/selling agents.
- Examination of printing process of lottery tickets, security features/anti-counterfeit features imbedded on lottery tickets and the system of destruction of unsold lottery tickets by undertaking a joint visit with the departmental representatives to printing presses and store depot.

- Joint physical visit with the officers of Directorate of IF&SL to the IT server sites, maintenance and operation sites of online lotteries and point of sale of paper lottery and online ticket counters to collect samples of tickets.

1.9 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Finance Department (FD) and the Directorate of IF&SL in providing necessary information and records for Audit.

An entry conference was conducted on 30 December 2015 with the Finance Department and Directorate of IF&SL at the level of the Finance Commissioner and the Director. During the conference the rationale for taking up the Audit and the audit objectives, scope and methodology were discussed. Audit findings and recommendations were communicated to the Finance Department and the Directorate, IF&SL on 6 May 2016 which were also discussed in an exit conference held on 7 June 2016 which was attended by the representatives of the FD and the Directorate. The replies furnished by FD on 2 June, 10 June, 22 June 2016 and the replies of the FD and the Directorate furnished during the exit conference have been appropriately incorporated in respective paragraphs of the review.