

## Chapter II Audit Findings

### **2.1 Audit Objective -1: 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**

#### **2.1.1 General Conditions**

In terms of Rule 3(13) of Lotteries (Regulation) Rules 2010, the Financial Commissioner, Government of Mizoram is responsible for organising lottery. A high level State Lottery Committee (SLC) functioning under the Chairmanship of Chief Secretary, Government of Mizoram supervises the overall working of Lottery business. Other members of the SLC are Financial Commissioner, Secretary, Law & Judicial Department and Director, Institutional Finance & State Lotteries, Government of Mizoram as Member Secretary.

In terms of Rule 3(2) of the Lotteries (Regulation) Rules 2010, Government of Mizoram (GoM) notified (December 2011) in its Gazette that the Government intended to organise State Lottery to be styled as “Mizoram State Lottery” and sale of lottery tickets to augment the State’s revenue for the purpose of health care, education, public sanitation and other social sector services. The types, method and system of lotteries to be organised were Online and Paper Lotteries with Bumper draws as are permissible under the relevant provisions of the Lotteries (Regulation) Act 1998 and the Rules made thereafter.

#### **2.1.2 Selection of distributors and selling agents**

##### **2.1.2.1 Tendering process**

Section 4(c) of the Lotteries Regulation Act 1998 envisaged that the State Government shall sell the Lottery tickets either itself or through distributors or selling agents. Rule 4(1) of Lotteries (Regulation) Rules 2010 envisaged that the Organising State may specify qualifications, experience and other terms and conditions for appointment of distributors or selling agents.

To market the Mizoram State Lotteries, the GoM called invitation for Expression of Interest (IEI) for appointment of Lottery Distributor/Selling Agents in March 2011. The IEI was published in one regional daily (Assam Tribune) and one local daily (Highlander). The details of bids received from different bidders are as tabulated below:

**Table-2.1: Comparative statement of bids in response to first IEI**

Name of Bidder	Bid Amount (in ₹)		
	Paper	Online	Bumper
M/s Pooja Fortune Pvt. Ltd.	-	15,109	-
M/s Swagat Lottery Agency	56,700	56,700	6,51,500
M/s Shri Jalaram Agency	51,250	52,000	5,00,000
M/s A.K. Agency	-	37,000	10,00,000
<b>M/s E-Cool Gaming Solution</b>	-	<b>36,786</b>	-
<b>M/s Summit Online Lottery</b>	55,800	<b>60,300</b>	6,59,700
M/s Future Gaming Solution	-	10,150	-
M/s Ideal Gaming Solution	-	35,107	7,00,000
M/s Lotwin Online Lottery	57,000	23,500	7,86,000
<b>M/s N.V. International</b>	-	<b>10,100</b>	-
M/s Tashi Dalek Solution (P) Ltd	-	41,846	-
M/s Teasel Marketing (P) Ltd	16,009	21,004	-
<b>M/s Teesta Distributors</b>	<b>10,051</b>	-	-

Source: Departmental records

However, the bids were not processed as discussed at **Paragraph-1.2** in Chapter I and the Directorate again invited IEI in December 2011. The IEI was published in one national daily (The Times of India) and two local dailies (Mizo Express and Romei). Out of the total five bids received, one bid was not addressed to the Directorate and so was rejected in the initial stage. The remaining four bids were opened on 17 February 2012. The comparative statement of these four bids is as shown under in the **Table-2.2**:

**Table-2.2: Second IEI Comparative statement of bids**

Name of the Bidder	Rate per draw per scheme (in ₹)		
	Paper	Online	Bumper
M/s N.V. International	-	10,000	-
M/s Summit Online Trade Solutions Pvt. Ltd.	-	10,000	-
M/s E-Cool Gaming Solutions Pvt. Ltd.	-	10,000	-
M/s Teesta Distributors	10,000	-	5,00,000

Source: Departmental records

Details of names and addresses of the distribution companies/firms including the names of the owners of the companies and their PAN numbers are given **Appendix-2.1**.

The SLC in its meeting held on 18 May 2012 accepted the bids offered by M/s N.V. International, M/s Summit Online Trade Solutions Pvt. Ltd. and M/s E-Cool Gaming Solutions Pvt. Ltd. for online lottery. The Committee recommended that the three companies/firms who submitted bid for online lottery be appointed as selling agents/distributors of Mizoram State Lottery for an initial period of two years or the period as determined by the Government of Mizoram from time to time. However, the Committee did not accept the bid received from M/s Teesta Distributors for paper lottery with bumper draws since it was a single bid and recommended for re-tendering of paper lottery with bumper draws.

The Government approved the SLC recommendations on 23 May 2012 after considering the advice of the Law & Judicial Department and opinion of the Advocate General in the following manner:

1. Three bids for online lottery from three different parties were approved as recommended by the SLC.
2. The single bid for paper lottery from M/s Teesta Distributors was accepted considering it as valid on the same line with the other three bids for online lottery in the interest of revenue hitherto being lost for some years due to stoppage in organising lottery and to avoid further delay and to prevent anybody going to Court again.

Accordingly, four bidders were selected and awarded six draws of lotteries per day. The details of the selected distributors of Mizoram State Lottery and the states in which lottery tickets were sold during the audit period are as shown in the table below:

**Table-2.3: Details of the distributors and place of sale**

Name of the distributor	Type of lottery	Place of sale of lottery tickets
M/s Teesta Distributors <sup>1</sup>	Paper	Maharashtra, Sikkim, West Bengal
M/s E-Cool Gaming Solutions Pvt. Ltd. <sup>2</sup>	Online	Goa, Maharashtra, Punjab, Sikkim
M/s N V International <sup>3</sup>		
M/s Summit Online Trade Solutions Pvt. Ltd. <sup>4</sup>		

Source: Departmental records

**Audit observed that:**

- Out of 13 bidders who participated in the first IEI, nine bidders did not participate in the second IEI due to alleged non-clarification from the department on many issues such as non-mentioning of time of deposit of Minimum Assured Revenue, date of signing of agreement and conducting first draw, action to be taken in case of default by the successful bidder to sign the agreement, action to be taken if draws are not started on time by the successful bidder, the criteria to allocate 24 draws per day and 6 bumper draws per year *etc.* in the tender document.
- M/s Teesta Distributors was the single bidder for the bumper draw in the second IEI for a bid amount of ₹ 5,00,000.
- Four bidders had quoted the same bid amount of ₹ 10,000 per draw for paper and online lotteries in the second IEI, which was lesser than their previously quoted bid amount.

It therefore transpires that as a result of several ambiguities existing in the second IEI, nine bidders who had quoted higher bid amount in the first IEI did not participate in the second IEI. Thus, the participation was limited to the remaining four bidders in the second IEI who quoted the same bid amount of ₹ 10,000 per draw for both online and

<sup>1</sup> T-19 (D) Peace Villa, Beside PWD Building, Tuikhuahtlang, Aizawl

<sup>2</sup> 613, A Wing, Kohinoor City, Kirol Road, Off LBS Marg, Vidyavihar Road, Kurla West, Maharashtra-400 070

<sup>3</sup> E-217, Greater Kailash-I, 1<sup>st</sup> floor, New Delhi-110 048

<sup>4</sup> 6/35 WEA Karol Bagh, New Delhi-110 005

paper lotteries. As a result, the state Government was deprived of the benefit of a better quoted price.

The Government replied (June 2016) that the case was *sub-judice* and court judgement was awaited.

### 2.1.2.2 Negotiation after opening of bid

As per Central Vigilance Commission (CVC) Guidelines on Tenders<sup>5</sup>, negotiation after opening of bid should be avoided except only in case of proprietary items or items with limited source of supply or items where there is suspicion of a cartel formation. The justification and details of such negotiations should be duly recorded and documented without any loss of time.

Audit noticed that the department held a negotiation meeting with the representatives of recommended bidders on 22 May 2012 and the rate of sale proceeds was revised to ₹ 10,500 per draw per scheme as mutually accepted by officers of IF&SL and representatives of the bidders. However, the committee (SLC) recommending the negotiation neither recorded nor documented the justification and details of such negotiation in line with the CVC Guidelines on Tenders.

The Government in its reply (June 2016) stated that through negotiation additional revenue was ensured over the quoted rate.

The fact remained that all the bidders, apparently forming a cartel had quoted same rates and as such the government instead of justifying meagre increase in the revenue after the negotiation should have called for fresh tenders in the interest of state revenue.

### 2.1.2.3 Appointment of Sub-Agent by M/s N.V. International

As per clause 2.1 of the agreement, the three online distributors were appointed to market and sell six number of online lottery schemes each in a day.

Audit noticed that M/s N.V. International appointed M/s Future Gaming Solutions in July 2012 as its sub-agent through a Memorandum of Understanding (MoU)<sup>6</sup> for the agreement period of two years. As per the MoU, M/s N.V. International handed over the right of marketing six draws of online lottery per day obtained from the Government to M/s Future Gaming Solutions at guaranteed revenue of ₹ 18,620 per draw at a premium<sup>7</sup> of ₹ 8,120 per draw. A fresh MoU was signed in May 2014 between the two parties at guaranteed revenue of ₹ 16,800 per draw at a premium<sup>8</sup> of ₹ 4,800 for the first extension period of one year. As a result, during the period 29 May 2012 to 28 May 2015, M/s N.V. International earned ₹ 4.57 crore<sup>9</sup> simply by virtue of being one of the successful bidders without involving itself at all in the actual marketing of the lottery.

<sup>5</sup> Office Order No. 68/10/05 dated 25 October 2005 and Circular No. 4/3/07 dated 3 March 2007

<sup>6</sup> Security Deposit of ₹ five crore was payable to the Director, IF&SL and advance sale proceed of ₹ two crore was payable to M/s NV International by the sub-agent

<sup>7</sup> ₹ 18,620 - ₹ 10,500

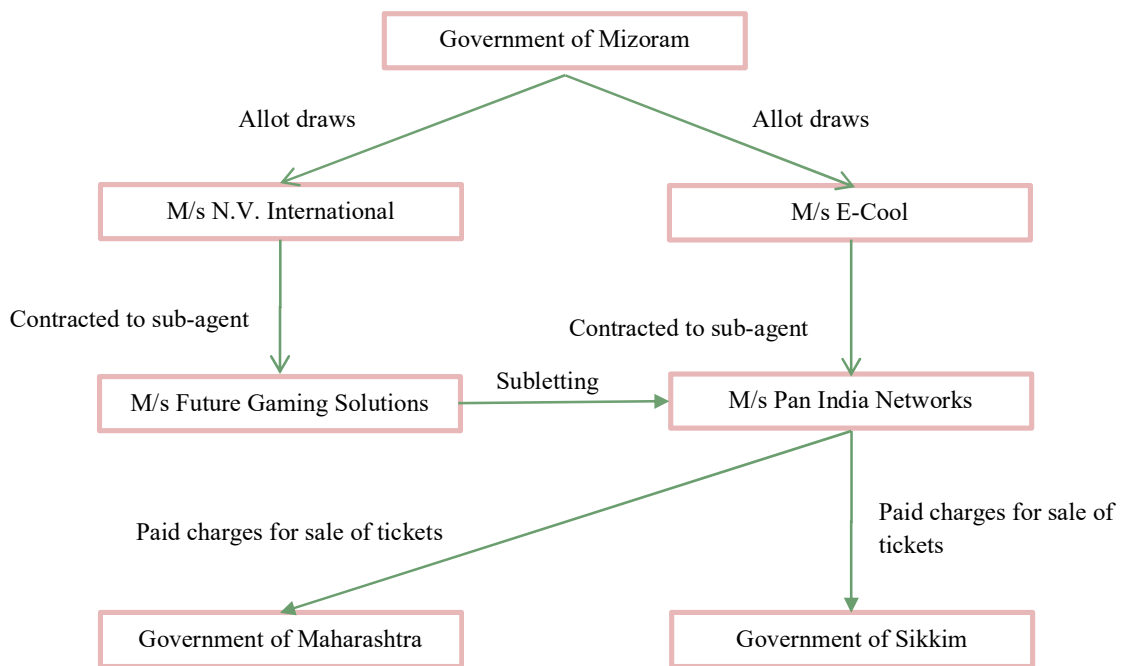
<sup>8</sup> ₹ 16,800 - ₹ 12,000

<sup>9</sup> ₹ 8,120 x 6 draws x 362 days x 2 years + ₹ 4,800 x 6 draws x 362 days

Besides, during the joint physical verification of sites/offices and central server locations of online distributors in Mumbai, it was observed that M/s Future Gaming Solutions was not marketing all the six lottery draws allotted to M/s N.V. International. Rather, the sub-agent had sublet two draws each to M/s E-Cool Gaming Solutions and M/s Summit Online Trade Solutions.

Further, scrutiny of the records on payment of charges on sale of lottery tickets revealed that in March 2015, M/s Pan India Network Ltd., the sub-agent of M/s E-Cool was paying charges on sale of lottery tickets to the Governments of Sikkim and Maharashtra for draws marketed by M/s N.V. International for Keno lottery scheme during the month as shown in the Chart below:

**Chart – 2.1: Subletting of draws**



Further, audit observed that in Punjab (22 February 2016 onwards), the three online distributors were interchanging their draws so that their draws were marketed sequentially in order, avoiding any competition among them as shown below:

**Table-2.4: Interchanging of allotted draws**

Draw Time	Draw licenced from GoM by	Draw marketed in Punjab by
1:45 PM	M/s Summit	M/s E-Cool
2:00 PM	M/s Summit	M/s Summit
2:15 PM	M/s Summit	M/s NV International
2:30 PM	M/s NV International	M/s E-Cool
2:45 PM	M/s NV International	M/s Summit
6:30 PM	M/s E-Cool	M/s Summit
6:45 PM	M/s E-Cool	M/s NV International
7:00 PM	M/s E-Cool	M/s E-Cool

Audit observed that the Directorate was totally unaware of this process of sub-letting and interchanging of allotted draws among the online distributors.

Thus, M/s N.V. International took part in the tender without having any infrastructure of its own for marketing online lotteries and appointed M/s Future Gaming Solutions as its sub-agent. But the sub-agent had further sub-let the draw rights to E-Cool and Summit Online. With this arrangement, both E-Cool and Summit Online are marketing more than the six draws originally allotted to them. It appeared that the bidders have distributed between themselves the draws they have been marketing as per their mutual understanding.

Thus, appointment of sub-agents by M/s N.V. International and interchanging of draws among the distributors was in violation of the agreement they entered into with the State Government. These appointments facilitated income for M/s N.V. International without actually marketing the scheme, besides allowing more than the permitted six daily draws to other bidders as brought out above.

The Government replied (June 2016) that the matter would be looked into.

#### **2.1.2.4 Details of agreement with sub-agents**

Though the distributors submitted the name and address of sub-agents (**Appendix-2.2**) to the Directorate, they did not disclose agreements which they entered into with their sub-agents from time to time. The Directorate also did not insist upon the distributors to submit these details. In the absence of these agreements, the Directorate had never checked whether the Government's interest was adequately protected by the distributors.

The Government replied (June 2016) that the agreements would be examined so that the Government's interest is protected.

#### **2.1.2.5 Violations of provisions of Act and Rules in the agreement**

During the review of the signed agreements, audit found that the agreements were not in conformity with the Lotteries (Regulation) Rules 2010 as detailed below:

- Rule 4(4) read with Rules 2(h) and 3(17) provides that the prize money is to be paid by the Organising State from the sale proceeds collected. However, in violation of the above, clause 9.1 of the agreement provided that the agents should submit ₹ one crore in the form of Demand Draft drawn on any Nationalized/Scheduled Bank located at Aizawl in favour of the Director, as a Prize Pool. These funds were utilised for payment of prize money above ₹ ten thousands.
- Rule 2 (h) read with Rule 3(17) states that whole of the sale proceed calculated at face value should be deposited to the Consolidated Fund of the State. However, in violation of the above, clause 12.1 of the agreement provides that the revenue of the State Government of Mizoram from lottery is MGR of ₹ 10,500 (₹ 12,000) per draw per

scheme or proportionate MGR of ₹ 36,20,000 (₹ 43,44,000) annually per draw per scheme, whichever is higher and ₹ 5,00,000 per draw per Scheme for Bumper Draws.

Audit observed that from the time of inviting tender, the depiction of sale proceeds was misinterpreted and incorporated as Minimum Guaranteed Revenue (MGR) in the agreement instead of as defined at Rule 2(h) of Lotteries (Regulation) Rules 2010. This has been discussed in **Paragraph-2.2.3**.

The Government replied (June 2016) that the matter would be looked into and corrective measures would be taken.

#### 2.1.2.6 Delay in deposit of MGR

As per Clause 12.1 of the agreement, the Distributors were required to deposit Minimum Guaranteed Revenue (MGR) into the Consolidated Fund of the State by the 7<sup>th</sup> day of the succeeding month. However, the Mizoram Lotteries (Regulation) Rules 2011 as well as the agreements did not contain any provision of penal interest for delay in deposit of revenue, even the MGR.

Audit observed that the distributors took advantage of the absence of any penalty and repeatedly delayed the deposit of MGR as shown in the **Table-2.8** below (details shown in **Appendix-2.3**):

**Table-2.8: Range in delay in deposit of MGR by the four distributors (Minimum – Maximum)**

Name of the Distributor	Range in delay in deposit of MGR (in days)		
	2012-13	2013-14	2014-15
M/s Teesta Distributors	2 to 1006	7 to 99	1 to 361
M/s N.V. International	--	11 to 28	4 to 130
M/s Summit Online Trade Solutions Pvt. Ltd.	11 to 202	7 to 1007	9 to 47
M/s E-Cool Gaming Solutions Pvt. Ltd.	10 to 136	15 to 174	20 to 235

Source: Departmental records

Due to absence of such provision, there was no enforcement mechanism to ensure deposit of MGR by the distributors into the Consolidated Fund of the State depriving the State Government timely receipt of revenue. This allowed the money to be held by the distributors un-authorisedly. However, no notices were issued by the department to the distributors on the breach of agreement.

The department stated that each distributor had deposited ₹ one crore as advance Sale Proceed to safeguard the interest of the State, from which adjustment was made in case of non-receipt of MGR in time. However, audit observed that adjustments were not made in time during the audit period and deposits of MGR were generally delayed by the distributors.

The Government of Sikkim had included a penal interest provision in its agreements with the distributors. It charges penal interest at the rate of 12 *per cent* per annum in case of delayed payment or default of any kind. Based on the same provision, audit

have worked out that ₹ 37.31 lakh of penal interest<sup>10</sup> could have been recovered from the distributors for the period 2012-13 to 2014-15 for delay in deposit of MGR.

### 2.1.2.7 Bank Guarantees/Security Deposit

As per Clause 7.1 and 7.2 of the agreement, the distributors shall furnish ₹ five crore as security in the shape of Deposit-at-call-Receipt or Demand Draft issued by any Nationalized Bank having a Branch at Aizawl in favour of the Director for due performance of his obligations under the agreement at any time between signing of the agreement and before the first draw is conducted.

Audit noticed that the four distributors submitted Term Deposit Receipt/Advice (TDR/TDA) of ₹ five crore each (deposited in their name in various banks) as security deposit to the Directorate as shown below:

**Table-2.6: Details of Term Deposit Receipt furnished as security by the four distributors**

Name of distributor	Bank Branch	Date of TDR/TDA	Date of first draw
M/s Teesta Distributors	SBI, SF Road, Siliguri	01.06.2012	03.06.2012
M/s N.V. International	Vijaya Bank, Nanjappa Road, Coimbatore	07.07.2012	16.07.2012
M/s Summit Online Trade Solutions Pvt. Ltd.	Bank of Baroda, Triplicane Chennai	14.06.2012	20.06.2012
M/s E-Cool Gaming Solutions Pvt. Ltd.	Bank of Baroda, Worli, Mumbai	22.06.2012	16.07.2012

Source: Departmental records

Audit observed that:

- None of the distributors deposited their security in the form of Deposit-at-call Receipt or Demand Draft as required by Clause 7.1 of the agreement. However, the Term Deposit Receipt/Advice furnished in lieu of the above was not made out in favour of Director, IF&SL. The Directorate had not written to the concerned bank branches for verification of the Term Deposit Receipt/Advice. This was necessary considering the fact that Term Deposits can be withdrawn anytime by the depositor. Further, the bank branches issuing the Term Deposit Receipt/Advice were outside the territory of Mizoram.
- In case of M/s Teesta, the security deposit was not renewed on expiry of its validity on 1<sup>st</sup> June 2014 but after a delay of 17 days on 18 June 2014.

The Government replied (June 2016) that the security deposits would be verified from the concerned banks to check whether they were pledged to the Director, IF&SL and bidders would be asked to submit a security deposit made in a bank branch in Aizawl.

<sup>10</sup> Name of the distributor	Interest (₹ in lakh)
M/s Teesta Distributors	9.71
NV International	2.85
Summit Online Trade Solutions Pvt. Ltd.	11.87
E-Cool Gaming Solutions Pvt. Ltd.	12.88
<b>Total</b>	<b>37.31</b>



The fact, however, remained that the security deposit furnished by the distributors were not as per the agreement.

### 2.1.2.8 Advance Sale Proceeds

As per clause 8.1 of the agreement, the distributor shall deposit ₹ one crore as advance payment of Sale Proceeds in the form of challans of money deposited in the consolidated fund of the State of Mizoram with a copy to the Director, IF&SL within 10 working days following the date of signing of the agreement and before the first draw is conducted. The advance sale proceed may be adjusted by the Government if the distributor failed to deposit the MGR to Government.

First extension of the agreement with the distributors was signed on 15 April 2014. Therefore, by 25 April 2014, the distributors were required to deposit ₹ one crore as advance sale proceed if the advance balance with the State Government was nil or deposit the balance amount which falls short of ₹ one crore. However, advance sale proceed/balance amount of the advance sale proceeds was not deposited within the stipulated time by three distributors as shown in the table below:

**Table-2.7: Delay in payment of advance sale proceed**

Name of distributor	Date of payment	Delay in payment
M/s NV International	06.03.2014 (₹ 99,00,000)	-
	21.05.2014 (₹ 1,00,000)	26 days
M/s Summit Online Trade Solutions Pvt. Ltd.	24.05.2014	29 days
M/s E-Cool Gaming Solutions Pvt. Ltd.	28.05.2014	33 days

Source: Departmental records

Audit noticed that the department could not initiate any action for violation of conditions of agreement as the same did not contain either any penal clause for violations of conditions of agreement or penal interest clause for delay in deposit.

The Government replied (June 2016) that such lapses would be prevented in future.

### 2.1.2.9 Prize Pool Money

As per clause 9.1 of agreement signed between the State Government of Mizoram and the distributors, the distributor should submit ₹ one crore in the form of demand draft drawn on any Nationalised/Scheduled Bank located at Aizawl in favour of the Director, as a Prize Pool money within 10 working days following the date of signing of the agreement and before the first draw is conducted. Prize pool money is a security at the hand of the Government to carry out its liability of payment of prizes if the distributor failed to deposit prize money in time for payment of prizes to the winners.

First extension of agreement for one year from 29 May 2014 to 28 May 2015 between the State Government of Mizoram and the distributors was done on 15 April 2014. By 25 April 2014, the distributors were to deposit ₹ one crore as prize pool money to the Directorate. Out of the four distributors, M/s Teesta Distributors delayed payment of the prize pool money by 40 days. The delay in payment of prize pool money resulted in violation of agreement terms. Audit noticed that as the agreement did not contain any

penal clauses the department was not able to take any punitive action for the delayed payment.

The Government replied (June 2016) that such lapses would be prevented in future.

#### **2.1.2.10 Absence of a system for analysing markets**

Clause 3.7 of the agreement provides that the prize money offered shall not be less than 50 per cent of the gross face value of the tickets for each draw. During the course of audit of lotteries, audit observed that the Government had not set up a system of analysing market trends. The market trend analysis is required for fixing the percentage of the prize with respect to total gross face value of tickets. Further, it would help in fair composition of prize money above ₹ 10,000 and up to ₹ 10,000.

The Director stated (February 2016) that the Government always review the market conditions and consult the Distributors on regular interval to satisfy that the process of fixing prizes was fair. The discussion was usually held in an informal meeting where there was no record of the proceedings. Hence, documentary evidence could not be produced to Audit.

The Government replied (June 2016) that minute of informal meetings and market visits for analysing the market would be prepared in future.

The replies clearly show that there is no system in the Department to analyse market trends as they could not furnish to audit any documentary evidence.

#### **2.1.3 Organising lotteries**

##### **2.1.3.1 Notifying the lotteries**

In terms of Rule 4(3) of the Mizoram Lotteries (Regulation) Rules 2011, the Government notified from time to time information about each lottery scheme *viz.* name of lottery scheme, prizes of the lottery tickets, total number of tickets printed in case of paper lottery, gross value of tickets printed, name of the distributor with its address, prize structure, the amount offered as prize money, periodicity of the draw, the place where the draw shall be conducted *etc.*

Audit observed that the procedure for drawing the prize winning tickets or prize-winners was not provided in the notifications. Though the draw method was mentioned in the notifications, it did not describe the detailed procedure for conducting the draw by draw machine or by any other mechanical method based on random technology which is visibly transparent to the viewers.

The Government replied (June 2016) that the procedure of conducting draws would be incorporated in the notifications.

##### **2.1.3.2 Lottery Schemes**

Section 4(h) of Lotteries (Regulation) Act 1998 states that no lottery shall have more than one draw in a week. The name of schemes of weekly/monthly lotteries for both

paper and online lotteries during 2014-15 are as shown in the **Table-2.10** below (complete list is given in **Appendix-2.4**):

**Table-2.10: List of lottery scheme names conducted during 2014-15**

Name of the distributor	Group/Set Name	Lottery Scheme Name
M/s Teesta Distributors (Paper Lottery)	Mizo Star Weekly	Mizo Star Deluxe Monday, Mizo Star Classic Tuesday, Mizo Star Super Wednesday, Mizo Star Prince Thursday, Mizo Star Gems Friday
	Mumbailaxmi Weekly	Mumbailaxmi Ram Monday, Mumbailaxmi Shankar Tuesday, Mumbailaxmi Seeta Wednesday, Mumbailaxmi Chand Thursday, Mumbailaxmi Suraj Friday, Mumbailaxmi Raja Saturday, Mumbailaxmi Rani Sunday
	Mumbailaxmi Gold Friday Weekly	Mumbailaxmi Gold Friday Weekly
	Dear Evening Weekly	Dear Affectionate Evening Monday, Dear Loving Evening Tuesday, Dear Sincere Evening Wednesday, Dear Faithful Evening Thursday, Dear Kind Evening Friday, Dear Tender Evening Saturday, Dear Gentle Evening Sunday
	Singam Weekly	Delight Singam Monday, Great Singam Tuesday, Vigour Singam Wednesday, Energy Singam Thursday, Dignity Singam Friday, Tough Singam Saturday, Zeal Singam Sunday
	Mumbailaxmi Special Monthly	Mumbailaxmi Special Monthly
	Mumbailaxmi Laxman Tuesday	Mumbailaxmi Laxman Tuesday
	Labhlaxmi Weekly	Labhlaxmi Aries Monday, Labhlaxmi Taurus Tuesday, Labhlaxmi Gemini Wednesday, Labhlaxmi Cancer Thursday, Leo Friday, Labhlaxmi Virgo Saturday, Labhlaxmi Libra Sunday
M/s Summit Online Trade Solutions Pvt. Ltd. (Online Lottery)	Sugar Online	Chanchal, Delta, July, Lotto, Nootan, Aman, Bulbul
		Chetak, Drishti, Joy, Lata, Nayan, Alto, Baba
		Chaman, Diksha, Janak, Lokesh, Nanda, Apollo, Brick
	Smart Online	Kash, Madelia, Pandu, Riva, Sushant, Amisha, Gopada Kashmira, Maddock, Pragati, Ring, Surbhit, Arpan, Girijesh Koel, Mount, Peter, Rochak, Sadiq, Anek, Gange
M/s E-Cool Gaming Solutions Pvt. Ltd. (Online Lottery)	Superior Cards	Tom, Mickey, Bheem, Donald, Jerry, Snoopy, Bean Nandan, Chandan, Vandan, Bandhan, Tandan, Khandan, Razdan Water, Paani, Jal, Aqua, Neeru, Thannir, Zulal
	Easy Online	Old, Gold, Sold, Fold, Hold, Bold, Mold
	Keno	Monday, Tuesday, Wednesday, Thursday, Friday, Saturday, Sunday
M/s NV International (Online Lottery)	Superb Online	Ladybug, Dog, Tiger, Horse, Penguin, Python, Ant Caterpillar, Hen, Panther, Goat, Whalrus, Chameleon, Termite
		Keno
	Super Cards	Gagan, Gunjan, Gajab, Gill, Giri, Garv, Gazal Yash, Yakin, Yajna, Yami, Yavan, Yaar, Yen

Audit observed that a set of weekly lottery schemes run every day of the week. The scheme names were designed by suffixing or prefixing sub-names for each day of the week to the lottery group/set name. Further, same or similar lottery scheme names were found to be used in lottery tickets of other States. This reduced the status of the Organising State to mere appendage to the scheme names as shown below. As a matter of fact, audit has observed many lapses in monitoring, maintenance of records/accounts

and deposit of revenue in time as a consequence of running large number of lottery schemes as brought out in various paragraphs of the report.

<p>Mizoram State Lotteries : Singam Delight Monday</p>	<p>Sikkim State Lotteries : Singam Delight Monday</p>
<p>Bodoland Territorial Council (Assam): Mumbailaxmi Shankar Rani</p>	<p>Mizoram State Lotteries: Mumbailaxmi Shankar Tuesday</p>

Though the Lotteries (Regulation) Act 1998 envisaged one draw a week for a scheme, it does not specifically impose a ceiling on the number of schemes that can be operated in a week. The Lotteries (Regulation) Rules 2010, however, allowed 24 draws of 24 different schemes in a day. As a result, if an Organising State organises 168 (24 x 7) different schemes in a week, it can conduct 168 (24 x 7) draws in a week. Audit observed that taking benefit of this situation; similar lottery schemes were being run every day of the week by prefixing and suffixing sub-names, thereby compromising the spirit of the Act to limit the number of draws.

#### 2.1.4 Printing of lottery tickets

##### (i) Selection of printers for paper lottery

As per Rule 3(5) of the Lotteries (Regulation) Rules 2010 the paper lottery tickets shall be printed by the Organising State at a Government Press or any other high security press included in the panel of the Reserve Bank of India or the Indian Banks' Association (IBA), Mumbai.

The printing presses in the panel of IBA from where Mizoram State Lottery tickets were printed are shown in the table below. The details of their printing units are given at the footnote.

**Table-2.13: Details of the security printers**

M/s Nu Tech Security Printers <sup>11</sup> B-25/3, Okhla Industrial Area, Phase – II, New Delhi-110 020
M/s Sai Security Printers Pvt Ltd <sup>12</sup> SC_63, 1 <sup>st</sup> Floor, Huda Market, Near Prestine Mall, Sector 31, Faridabad-121 003, Haryana
M/s Gemini Graphics Pvt Ltd <sup>13</sup> 44/45 Naubad Industrial Area, Bidar-585 402, Karnataka
M/s KL Hi-Tech Secure Print Limited <sup>14</sup> Plot No. 230, Road No. 36, Jubilee Hills, Hyderabad-500 033

Audit observed that printers for printing Mizoram State Lottery were not selected through tender process to get the benefit of competitive bidding. In reply to an audit query, the Director stated (24 February 2016) that they were randomly selected from the list of high security presses included in the panel of Indian Banks' Association, Mumbai. The Government replied (June 2016) that only specific printers were capable of printing huge amount of lottery tickets, however, possibility of tendering for selection of security printers would be looked into.

Thus, the Government of Mizoram could not avail the benefit of competitive bidding in selecting the printers.

**(ii) Agreements with Printers**

Audit noticed that no agreements were signed between the State of Mizoram and the printers to safeguard the Government's /stakeholders' interest with regard to number, quality, security features and inspection requirements of tickets/printing process etc. Therefore, the liabilities of the printers in terms of printing risks involved were not laid down in the form of a legally enforceable contract.

During the joint inspection of the printing press at Faridabad (March 2016), Audit noticed that States such as Nagaland, Arunachal Pradesh, Maharashtra, Punjab and Bodoland Territorial Council were having signed agreements with the same printing presses from where Mizoram State Lotteries tickets were printed.

The Government replied (June 2016) that steps were being taken for signing of agreements with the security printers.

**(iii) Form, size and design of tickets**

Rule 4(9) of the Mizoram Lotteries (Regulation) Rules 2011 states that the form, size and design of tickets shall be decided by the Director on behalf of the State Government. Rule 4(10) further states that the printed tickets for a particular draw shall bear the imprint and logo of the State Government, distinctive number, the date/time of draw and the sale price of the ticket/minimum retail price and facsimile signature of Director,

<sup>11</sup> 23-DLF Industrial Estate, Phase – II, Faridabad-121 003, Haryana

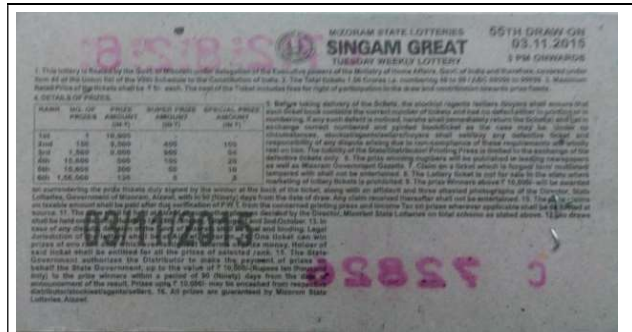
<sup>12</sup> Village Durgapur, Kawnra Industrial Area, P.O. Badarpur Syed, Kheri Jasana Road, Faridabad-121 101, Haryana

<sup>13</sup> 44/45 Naubad Industrial Area, Bidar-585 402, Karnataka

<sup>14</sup> Plot No. 22-23, Anrich Industrial Estate, IDA Bollaram, Medak District, Telangana-502 325

IF&SL. On the reverse side of the tickets, there shall be printed information in English/Hindi or any Regional language showing prize structure and such other essential details and conditions as the State Government may consider necessary for the purchasers. Such terms and conditions which appear on the Lottery tickets shall be determined by the State Government through the Director.

Audit noticed that the size of fonts of the information printed on the back side of the paper lottery tickets of Mizoram State Lottery (MSL) marketed in West Bengal and Sikkim were so small that they were barely legible even to a person of normal vision. Further, it was observed that the reverse side of the tickets did not contain address, contact



Backside of MSL Ticket: Singam Great Tuesday

number and website address of the Directorate for easy reference of the customers. The picture above shows the exact size of the SINGAM GREAT Tuesday scheme.

Apparently, as different state lottery tickets were printed in the same printing presses, the bidders were proposing similar design and size to minimise printing costs. Thus, the design and size of the paper lottery were indirectly determined by the distributor and the printing presses. The department gave approval of whatever designs proposed by the distributor. Thus, the customers were not in a position to read information of the lottery schemes from the reverse side of the ticket.

Audit further observed that the name of the organising State and its logo were given less importance in comparison to the name of the lottery scheme as evident from the size of the fonts and logos. Audit also noticed that the lottery tickets of Mizoram and Nagaland were so similar to one another that they could not be easily distinguished as shown in the photographs below.



In comparison, the lottery tickets of West Bengal were found to be distinct and instantly recognisable as shown below.



Thus, the Mizoram State Lottery tickets were not differently designed from the other state lottery tickets and the players were not able to recognize the tickets distinctly from other state lottery tickets. As a matter of fact, Directorate had not taken appropriate action to ensure that the unique identity of Mizoram state lottery ticket as a brand was established.

The Government replied (June 2016) that the size of font and logo would be increased as per space availability. As the tickets were sold in other States, the design needs to be according to the selling area and the possibility of improving the design would be looked into and the printers would be asked to provide at least three designs of specimen tickets to select from.

The fact, however, remained that the players could not easily distinguish the Mizoram State Lottery tickets from other state lottery tickets.

**(iv) Security features of the tickets**

Clause 4.4 of the agreement provides for security feature such as bar code in the lottery tickets to protect the interest of the customer as well as the Government.

It was stated that the security features included in the lottery tickets were micro-lettering, penetrating ink for numbering, line formation in place of dot in design and special font etc.

Further, during joint inspection visit (April 2016) to the office of the area distributor at Siliguri, audit was shown one false claim received by the area distributor. It was stated that such false claims were occasionally received by the area distributor. Thus, the security features in the Mizoram State Lottery tickets were not robust enough to prevent counterfeiting.

On the other hand, there was no system of evaluating and reviewing the adequacy of the security features of lottery tickets periodically by the Directorate or the Government. The GoM had not even insisted on inclusion of bar codes in the lottery tickets though provided for in the agreement. During joint visit (March 2016) to the printing presses, representative of M/s Sai Security Printers had stated that the cost of inclusion of bar code in the tickets would be 50 *paise* per ticket. The financial consideration of the

distributor was no ground for the GoM to dilute the prescribed security features of lottery tickets.

The Government replied (June 2016) that the security features would be strengthened.

**(v) Stationery of online tickets**

As per Rule 3(5) of the Lotteries (Regulation) Rules 2010, the stationery on which the online lottery tickets are issued shall be printed by the Organising State at a Government Press or any other high security press included in the panel of the Reserve Bank of India or the Indian Banks' Association, Mumbai.

Audit observed that the stationery on which the online lottery tickets were issued was not printed by the State at a high security press as required by the Rules. Instead of that the distributors and their sub-agents were procuring printed stationery directly from the security printers. The printed details contained rules and regulations and the rest of the details are printed by the inbuilt printer of the terminal at the time of purchase of the ticket.

The Government replied (June 2016) that the department was issuing instructions to the online distributors to print stationery through the department.

In view of the deficiencies discussed above and to make the tickets more transparent, secured and to protect Government interest, it is recommended that:

- (i) Quotations may be called from security printers for printing of the paper tickets and agreements entered into with clearly defined liabilities of the security printers to protect the interest of the State Government.**
- (ii) The size of the ticket as well as the font may be suitably adjusted so that all the lottery details are visible to the players.**
- (iii) Robust security features may be incorporated in the tickets to prevent tickets from being counterfeited.**
- (iv) Sufficient number of designs should be called for from the printing presses for approval by the Directorate whenever new schemes were to be introduced. Local content may also be incorporated in the design of the tickets.**

**2.1.5 Distribution of lottery tickets**

As per Clause 4.7 of the agreement, the Agent and/or any of his sub-agents or retailers shall not be involved in receipt or dispatch of the Lottery tickets or stationeries thereof from the Government Press/Security Press.

However, during joint inspection of printing presses<sup>15</sup>, audit found out that the printed lottery tickets were directly delivered to the area-distributors of the Distributor of the paper lottery. This was a serious security lapse on the part of the Government as printed tickets should have been delivered to the Directorate only. The Directorate should after

<sup>15</sup> M/s NuTech Security Printers and M/s Sai Security Printers



due verification of tickets in terms of number/quality *etc.*, handover the same to the distributor.

The Government replied (June 2016) that it had contemplated opening an office at Kolkata, to receive lottery tickets from the printing presses for further distribution to area-distributors, however, it could not do so due to acute financial constraint. It is now under the consideration of Government to entrust the work to Assistant Resident Commissioner, Mizoram House, Kolkata.

### **2.1.6 Sale of online lottery tickets**

In terms of Rule 4(1) of the Mizoram Lotteries (Regulation) Rules 2011, GoM may organise paper lottery or online lottery or both subject to the conditions specified in the Lotteries (Regulation) Act 1998, Central Rules and State Rules.

Online lotteries are similar to paper lottery except that tickets are not printed in advance for sale. In online lotteries, tickets are printed at the point of sale after the player has selected his choice of combination representing ticket number.

#### **2.1.6.1 Keno Scheme of Online Lotteries**

Section 4 (a) of Lotteries (Regulations) Act 1998 stipulates that “prizes shall not be offered on any pre-announced number or on the basis of a single digit.” Further Rule 3(14) of Lotteries (Regulations) Rules 2010 laid down that “An Organising State shall not offer a prize on a lottery ticket or in an online lottery on the basis of single, double or triple digit in any form or combination”.

The Ministry of Home Affairs (MHA), Government of India (GoI) had issued (August 2011) directions under Section 10 of the Lotteries (Regulation) Act 1998 on the responsibility of the State Governments to ensure compliance with the provisions of the Lotteries (Regulation) Act 1998 and the Lotteries (Regulation) Rules 2010 in letter and spirit. As per the directions issued, the State Governments were to ensure that at least four digit lotteries were organized. Moreover, in any draw of four digits, a complete number should be drawn and nothing should be prefixed and suffixed to a single/double/triple digit number so drawn.

During scrutiny of the records, audit observed that the Keno online scheme does not conform to the above direction of MHA as discussed below.

The Keno, an online game has a matrix of 80 balls numbering from 01 to 80. A player can select 2 to 10 balls called spots from the matrix of 80 balls. The players will win prizes depending upon the number of matches of selected balls with the 20 balls drawn by the draw machine. Audit observed that the KENO scheme has two inbuilt restrictions:

- 20 balls are drawn out of the set of 80 balls without replacement by the draw machine. As such, the numbers once picked up do not get picked up again. Thus, Keno online scheme violated the condition of drawing four complete numbers as the chances of picking up of numbers have been restricted.

- As discussed above, the scheme has a matrix of 80 balls numbering from 01 to 80. As such, the players do not have freedom of picking up all numbers from zero to nine at each digit place.

Hence, Keno online scheme did not conform to Rule 3(14) of Lotteries (Regulation) Rules 2010 as clarified by the MHA, GoI.

The Government replied (June 2016) that the matter would be looked into.

#### ***2.1.6.2 Restriction in online lotteries***

The very nature of online lottery allows not only the sale of all tickets in each individual scheme irrespective of geographical location but also empowers the player to choose the exact ticket to be purchased. This special property intrinsic to online lottery is not being followed by the online distributors in the current situation.

##### ***(i) Geographical distribution of groups of specified sets of lottery tickets***

During joint inspection, audit observed that in the process of selling online lottery tickets, the distributors had designed the system in such a way as to restrict the choice of tickets available for purchase at the Point of Sale (PoS) with respect to certain online lottery schemes viz. Easy Online, Sugar Online, Superb Online, Super Cards, etc.

Although for paper lottery it is not possible to make available all choices to the players, for online lottery this choice can be easily made available. The software should support the sale of the entire series of tickets in any of the schemes mentioned above from any PoS. However, audit observed that only certain groups of tickets were available for purchase at any PoS.

The distributor informed (during joint visit) that only specific series of lottery tickets were allotted to individual retailers to be sold. As per the distributor, this was done on the request of the retailers as per prevailing market conditions. Secondly, the distributor also stated that this was done to ensure equal distribution of market on all available ticket ranges citing similar practices in paper lottery.

Thus, the players of online lotteries were deprived of the option of choosing the full range of ticket numbers.

***The Directorate may consider insisting on the sale of the entire range of online lottery tickets in all places where they are sold.***

#### ***2.1.6.3 Stoppage time and sales report***

The tickets of online lotteries were sold till the last moment before the draw. No sales report was generated before the draw and there was also no information at the disposal of the Government officer/judges to verify that the lottery draw was conducted on sold tickets. Audit observed that no stoppage time for sale of online tickets before the actual time of draw was fixed by the Department. This was necessary to get the sales report and list of sold tickets by the Directorate from the online distributors before the actual time of draw to prevent claiming of prize from unsold tickets.

The Government replied (June 2016) that the matter would be looked into and sales report would be insisted upon to be furnished as soon as possible until mirror servers are provided at the Directorate.

**(ii) Restrictive design of user interface of the sale terminals**

As per Section 2(b) of 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.

Further, Rule 4(39) of Mizoram Lotteries (Regulations) Rules 2011 laid down that “No prize shall be offered on a lottery ticket or in an online lottery on the basis of single, double or triple digit in any form or combination”.

Examination of the online lottery tickets revealed that the ticket number of each lottery scheme has an alphanumeric series which determines the ticket number of the lottery scheme. The total number of tickets of a lottery scheme is the total number of combination of these alphanumeric characters as per example given below.

Series No. (2 letters)	1 <sup>st</sup> to 4 <sup>th</sup> digits				5 <sup>th</sup> letter	6 <sup>th</sup> digit	7 <sup>th</sup> letter	8 <sup>th</sup> digit
A,B,C,D,E,F,G,H,J,K/ A,B,C,D,F,G,H,J,K,L	0-9	0-9	0-9	0-9	X/Y	1-5	A/B	1-5

For example a first prize winning number can be AL 1234 X1A5 or KA 4321 Y5B1. At the point of sales, the players are normally made to choose only the alphanumeric characters from the 7<sup>th</sup> and 8<sup>th</sup> letter/digit of any ticket number (the 5<sup>th</sup> and 6<sup>th</sup> letter/digit

are pre-selected). The software in the terminals did not display the four digit number sequences under 1<sup>st</sup> to 4<sup>th</sup> digits. For the first prize the complete set of

**Online lottery draw result from the computer of Directorate of Lotteries, Mizoram**

alphanumeric characters (*i.e.* all 10 letters/ digits including the series) are considered. Players choose only the alphanumeric characters under the 7<sup>th</sup> and 8<sup>th</sup> digits, When the tickets are printed the software automatically generates the series numbers and number under the 1<sup>st</sup> to 4<sup>th</sup> digits. This was a violation of the Act and Rules as all the players should be offered an opportunity to select the entire 10 letter/digits of the ticket.

As per information furnished by the Distributor, 10,00,00,000 combinations of tickets can be generated from the entire ten alphanumeric characters in one single draw. Since the probability to sell all 10,00,00,000 combinations in a single draw was very less hence, the probability of winning numbers falling on an unsold tickets was very high.

The Government replied (June 2016) that the user-interface has the option to select all the combinations. The distributor justified the restricted choice to select the alphanumeric characters to players to decrease the time to conclude each individual transaction.

The fact, however, remained that as the time gap between each online draw at the lottery terminals was 10 to 15 minutes, the option of selecting all the combinations was not offered to the players for all practical purposes, which was against the Act/Rules.

Thus, the system adopted for online tickets was not only a violation of the Act and Rules, but was also deceiving the public who play online lottery and the probability of winning of 1<sup>st</sup> prize was very remote as the entire combination were never sold and the draw was held from the entire 10,00,00,000 combinations.

**The Directorate may consider insisting on letting the players select all the combinations.**

**2.1.6.4 Multiple tickets of same number**

Examination of online tickets of Mizoram State Lotteries (MSL) revealed that the unique ticket numbers were sold out from the online lottery terminals more than one time as shown in the photographs below:



This shows that the online lottery system allowed buying multiple times the same ticket number of same draw. Hence, online lottery distributors can theoretically sell any number of lottery tickets of a particular draw while always leaving infinite number of unsold tickets. In one way, multiple sale of same ticket number is turning the lottery into gambling or betting. This has been discussed in **Paragraph-2.1.14.**

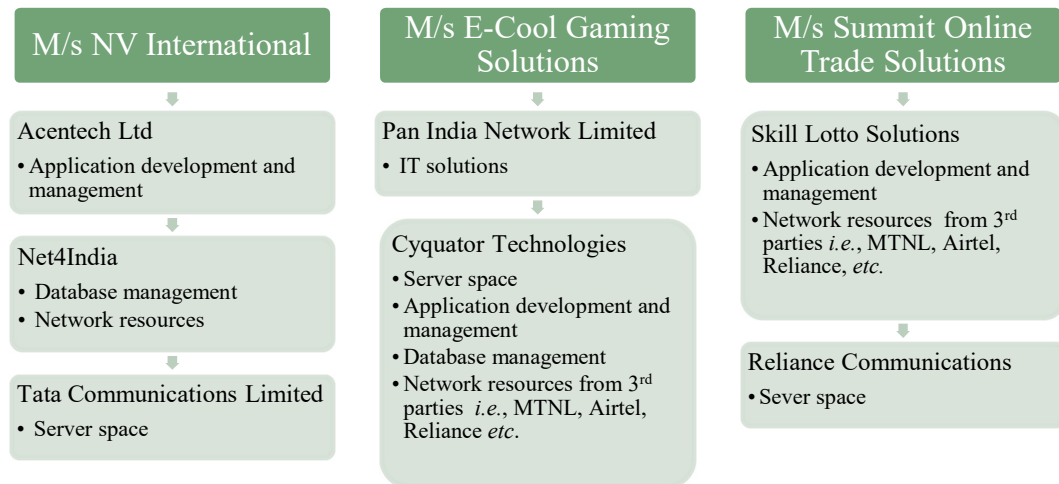
The Government replied (June 2016) that the matter would be looked into.

**The GoM needs to plug the loopholes regarding sale of multiple tickets of same number.**

### 2.1.7 IT process of online lottery distributors/selling agents

During the period between January-March 2016 three joint inspections were held with officials from the Directorate for checking the IT process of the online lottery. Audit found that each distributor had outsourced IT processes to a third party in the following manner:

**Chart-2.2: Process flow of IT operations of online lottery distributors**



As can be seen from the Chart above, the actual online portion (including application development and management, database management, server hosting and network resource management) of the online lotteries being conducted by the three distributors on behalf of the Government of Mizoram has been handed over to three different entities viz. Acentech Ltd., Pan India Network Ltd. and Skill Lotto Solutions.

Audit observed that this arrangement is detrimental to the interests of the State as it creates a vacuum wherein the Government is not able to monitor the development of the lottery software as it exercises no control to ensure that the software is compliant with the scheme guidelines and that there is no manipulation of results.

The Government replied (June 2016) that due to lack of IT expert at the Directorate, this aspect could not be monitored.

#### 2.1.7.1 Central computer server

As per definition 2(1)(b) of Mizoram Lotteries (Regulation) Rules 2011, “central computer server” means a system of multiple computers at a central location under the direct control of the GoM that accepts, processes, stores and validates the online lottery transactions or otherwise manages, monitors and controls the entire system of online lottery.

However, audit noticed that none of the central computer servers of the three online lottery distributors were located under the direct control of the State of Mizoram. The

central servers of online distributors were located at different places (Bangalore and Mumbai) as shown in **Appendix-2.5**.

The central server and back-up server of M/s Summit Online Traders Pvt. Ltd. were kept at two different seismic zones in active mode – one at Dhirubhai Ambani Knowledge Centre (primary data centre), Navi Mumbai and the other at Hyderabad (secondary data centre). The data from the primary data centre was replicated to secondary data centre on real time basis so that in case of disaster in one location, the other centre would ensure continuity of business. However, the central servers and back-up servers of M/s E-Cool Gaming Solutions and M/s N.V. International were installed on the same floor of the same building at Vashi, Navi Mumbai and Whitefield, Bangalore respectively. In case of any disaster striking the building, there was risk of disruption in continuity of business of the distributors.

In all cases at the organisational level, the buildings where the lottery applications were designed, developed and hosted and where the data was stored were kept under tight physical and digital surveillance. Access control protocols were implemented in almost all areas within the organisation to permit only authorised personnel to access their area of work.

At the PoS level, the system could be accessed only through a password. Each PoS was granted access to the main server after it cleared the authorisation and authentication process. The hardware installed at the PoS had unique terminal ID built in the system hence only authorised terminal with matching terminal ID was granted access to the main server. If the PoS personnel changed any configuration or hardware in any PoS, the access to the main server was barred.

Following the visits, one distributor - M/s Summit Online Traders Pvt. Ltd. provided an external drive containing data dump from the Central Server for 2014-15 which was over 250 GB captured in Linux based Centos Operating System. However, the data provided could not be accessed due to lack of compatible software and as such Audit could not test check the data. The other distributors did not provide data dump to Audit despite several requests.

As the distributors have outsourced installation and maintenance of central servers to the third parties, the GoM did not have any direct control over the central servers storing data related to Mizoram State Lotteries.

The Government replied (June 2016) that due to poor connectivity the central servers are not placed in the territory of Mizoram. The reply is not acceptable as the government should take measures to ensure proper connectivity so that the central servers are under direct control of the State Government as per Rule to safeguard government interests.

#### ***2.1.7.2 Mirror server***

A mirror server is a file server that contains a duplicate set of files, so that the site or files are available from more than one place. As per Rule 4(6) of Mizoram Lotteries (Regulation) Rules 2011, a mirror server shall be monitored in the Directorate of IF&SL by the Director or his authorized officer.

However, no mirror servers were installed by the three online distributors in the draw hall of the Directorate to back up the data in the Central Servers in violation of the said rule. Thus, it deprived the Directorate of real-time access to the data available in the central servers for any monitoring or internal audit purposes.

It was also observed that the Government/Department did not have access to the database or backups of database of online lottery within the geographical limits of the State depriving the Government access to its own database and the actual physical and financial status of the online lottery.

The Government replied (June 2016) that mirror servers would be installed shortly.

#### ***2.1.7.3 Online lottery terminals***

Audit observed that the distributors of online lottery did not disclose the number of lottery terminals installed State-wise to the Directorate from time to time. Thus, the Directorate is totally in dark about the functioning, closing of old or opening of new terminals. The Directorate has also never insisted for these details and verified the status of terminals.

The Government replied (June 2016) that the number of state-wise lottery terminals have now been submitted to the department.

#### ***2.1.7.4 Geo-targeting/geo-mapping of online lottery terminals***

Audit noticed that there was no system of geo-targeting/geo-mapping of online lottery terminals by the online distributors to ensure that online lotteries were not run in the States/UTs where it was banned.

The Government replied (June 2016) that the matter would be looked into and feasibility explored.

#### ***Sale of tickets in Goa:***

During the joint site visit to the headquarters of M/s Summit Online Trade Solutions at Gurgaon and M/s N.V. International at New Delhi, audit found that online tickets of Mizoram State Lottery were being sold in Goa without the knowledge of the Directorate. This fact came as a surprise to the Government.

The Government replied (June 2016) that the Directorate had informed the Government of Goa in October 2014 that M/s E-Cool Gaming Solutions Pvt. Ltd. would be marketing Keno Game in Goa *w.e.f.* 3 November 2014.

The reply, however, does not explain how the other two online distributors were marketing online lotteries in Goa without proper intimation to the Directorate. The State had not devised a mechanism of detecting irregularities, if any, relating to its lottery operated in other States by way of putting a strong monitoring cell/internal audit to monitor/detect illegal sale for both paper and online lotteries.

### 2.1.7.5 Absence of experienced IT personnel or support

The State has been organising online lotteries for many years, which require services of an expert on Information & Communication Technology (ICT) to handle the complex operations and to safeguard government's interest. The online distributors used IT solutions of their own choices and convenience for running their respective lottery schemes.

Audit observed that there was no regular officer/official in the Lottery Directorate having adequate knowledge of the operating systems, programme software and applications and communication technology used in running the online lottery schemes to regularly monitor the draw process of online lotteries/activities of the online distributors. Further, no expert IT personnel had been appointed by the Government in the Directorate.

In the absence of such IT staff or support, the Directorate was not able to monitor the activities of the online lottery distributors. Thus, the Directorate was unable to oversee the functioning of online lotteries or issue specific instructions regarding the quality, make and the uniformity, vulnerability or transparency *etc.* of ICT applications to be used from time to time.

The Government replied (June 2016) that appointment of an IT expert at the Directorate would be pursued.

### 2.1.8 Lottery Draws

Total number of weekly draws and bumper draws conducted in each year during audit period are given in **Tables-2.11** and **2.12** below:

**Table-2.11: Number of weekly draws conducted during the audit period**

Year	Name of Distributor	Type of lottery	Number of actual weekly draws held	Average number of draws held per day	Started from
2012-13	Teesta	Paper	714	2	3 June 2012
	NVI	Online	1502	6	16 July 2012
	Summit		1254	4	20 June 2012
	E-Cool		1383	5	16 July 2012
	<b>Total</b>		<b>4853</b>	<b>17</b>	
2013-14	Teesta	Paper	620	2	-
	NVI	Online	2172	6	-
	Summit		1890	5	-
	E-Cool		2172	6	-
	<b>Total</b>		<b>6854</b>	<b>19</b>	
2014-15	Teesta	Paper	832	2	-
	NVI	Online	1399	4	-
	Summit		1671	5	-
	E-Cool		1925	5	-
	<b>Total</b>		<b>5827</b>	<b>16</b>	

Source: Figures furnished by Directorate of Institutional Finance and State Lotteries

It can be seen from the above Table that the total number of weekly draws held from all schemes during 2012-13, 2013-14 and 2014-15 were 4,853, 6,854 and 5,827 respectively.

The number of bumper draws conducted during the audit period is shown in the table below (Details given in **Appendix-2.6**):



**Table-2.12: Number of bumper draws conducted during the audit period**

Year	Name of Distributor	Number of bumper draws
2012-13	M/s Teesta Distributors	2
2013-14	- do -	4
2014-15	- do -	0

Source: Departmental records

It can be seen that no bumper draws were held during the year 2014-15 by M/s Teesta Distributors<sup>16</sup> and as a result, the Government did not get any revenue on account of the bumper draws.

Thus, the Government while fixing the maximum<sup>17</sup> number of bumper draws, did not insist for any minimum number of bumper draw in a year. As a result, the distributor did not conduct any bumper draw and the Government lost the opportunity for a possible revenue upto ₹ 30 lakh during 2014-15 alone.

During the exit conference, the Government informed (June 2016) that fixation of minimum number of bumper draws to be held in a calendar year will be considered.

### 2.1.8.1 Draw process

Section 4(e) of the Lotteries (Regulation) Act 1998 provides that the State Government itself shall conduct the draws of all the lotteries. Also, Section 4(g) states that the place of draw shall be located within the Organising State.

Rule 4(21) of the Mizoram Lotteries (Regulation) Rules 2011 provides that all draws of Mizoram State Lottery shall be held and conducted within the territory of Mizoram and under the direct supervision of the Director or his authorised representative and in the presence of at least two Draw Judges duly appointed by the Director, IF&SL.

Further, Rule 2(1)(f) of the Mizoram Lotteries (Regulation) Rules 2011 envisaged that the draw of prize winning numbers for each lottery or lottery scheme is conducted by operating the draw machine or any other mechanical method based on random technology visibly transparent to the viewers.



**Paper lotteries:** The draws of the paper lotteries were conducted between 11:00 AM to 9:00 PM every day except on the National Holidays, in the draw hall located in the office of the Directorate of IF&SL under the direct supervision of the Director or his authorised representative in presence of two draw judges. The draw judges were appointed from among retired officers not below the rank of Under Secretary duly approved by the Government. Paper lotteries were drawn by operating a mechanical draw machine (shown alongside) based on random technology which was visibly transparent to the viewer.

<sup>16</sup> Distributor that bid successfully for conducting bumper draw

<sup>17</sup> Maximum number of bumper draws that can be held in a calendar year is six as per the Lotteries Act ,1998

**Online lotteries:** Online lotteries were drawn by using Random Number Generator (RNG<sup>18</sup>) in case of M/s Summit Online Trade Solutions Pvt. Ltd. (Summit) and M/s E-Cool Gaming Solutions Pvt. Ltd. (E-Cool). Summit is using hardware Quantis AIS 31 and E-Cool is using hardware ComScire to generate random number seeds for drawing of the results. The RNGs were programmed to generate the results automatically exactly at the time of draw and such results were instantly transmitted to the central servers and subsequently to the various points of sale located in different States.

In case of M/s N.V. International, no RNG device was used to generate random numbers to get draw result. This was confirmed during the joint visit to the office of M/s N.V. International in Greater Kailash-I, New Delhi. The technical expert of the M/s N.V. International stated (March 2016) that random numbers were called by using random number generating function embedded in the lottery software itself. This method of using function embedded in the software of the lottery application itself is generally accepted as a less dependable method<sup>19</sup> of random number generation as compared to the technology used in RNG machines mentioned above.

#### 2.1.8.2 Security arrangements during the draw

As per Rule 4(13) of the Mizoram Lotteries (Regulation) Rules 2011, no instrument of any kind used in transmission of alpha-numeric message or any instrument of audio visual display/recording shall be allowed to the person(s) present at the draw place.

**Paper lotteries:** Audit noticed that this provision of the said Rule was not enforced by the department and mobile instruments were freely used by the office staff and the agents in the draw hall. This posed a security risk in the conduct of draws.

The Government replied (June 2016) that corrective steps would be taken up.

**Online lotteries:** During the joint visit to the headquarters of M/s Summit Online Trade Solutions Pvt. Ltd. at Gurgaon, Haryana (March 2016), the technical expert told the audit team that there should be two machines (Desktop PC) at the draw place – a draw machine which is offline to conduct the draw and a broadcasting machine which is online to broadcast the draw result to the Central Server by transferring the draw result from the draw machine with a pen drive to the broadcasting machine. This was to secure the draw machine from any online intrusion.

However, audit observed that none of the online distributors had separate draw and broadcasting machines. Both the functions were being carried out from the same machine which was always online and the second machine was only kept as back-up in case of emergency. As the draw machines were always online, the draw machines of the online distributors were exposed to online fraud/intrusion. Hence, a system audit of the Network Operating Systems and whole set up of the online lotteries as provided in Clause 15.3 of the agreement is required to detect any systemic faults/shortcomings.

<sup>18</sup> a device which generates random numbers to get lottery draw result

<sup>19</sup> Source: <https://software.intel.com/en-us/articles/intel-digital-random-number-generator-drng-software-implementation-guide>

The Government replied (June 2016) that in order to avoid delay, only one machine was used. However audit observed that the risk of online intrusion to the draw machine was not mitigated.

***It is suggested that a dedicated independent RNG machine also be used to ensure the integrity of the result to the maximum extent possible.***

### **2.1.9 Publication of results**

As per Rule 4(37) of Mizoram Lotteries (Regulation) Rules 2011, the Director shall publish the result of the draws in at least one national and two local newspapers out of which one shall be in English as well as in the Mizoram Gazette.

Audit noticed that the result of the draws were published on the website of the Directorate and also sent to the Government for publication in the Official Gazette. The Directorate did not itself publish the result of the draws in any newspapers. However, M/s Teesta Distributors and M/s NV International published their draw results, though not regular, in two local dailies – Zozam Times (Mizo) and Highlander (English), the cost of which was borne by the distributors themselves.

The results of the draws were published in various newspapers both national and local in the States where Mizoram State Lotteries were sold by the distributors as given in **Appendix-2.7**. The cost of publication of result of draws in various newspapers was borne by the distributors themselves.

Thus, the Directorate, in violation of the above rule, has passed on the responsibility of publication of results in two local newspapers and one national newspaper to the distributors.

### **2.1.10 Margin of prize money for online lottery**

Clause 3.7 of the agreement specifies that the margin of prize pay-outs as a percentage of the entire sale of tickets has to be at least 50 *per cent*. This has been prescribed to ensure that an organiser of a lottery must ensure that majority of the sale proceeds is assigned for distribution of the prize payments. At the same time it also implies that after deducting administrative costs and prize pay-outs, the Organising State should not suffer financially for running the lottery.

During test check of the sales records of the online lottery distributors, audit found that the percentage of prize pay-outs was, on an average, 79-80 *per cent* which is significantly higher than the minimum margin required. During visits to the online lottery data centres at Mumbai, the distributors stated (February 2016) that the prize pay-out percentage of illegal lottery have been generally on the higher side. Due to this competition between the State organised and the illegal lottery, prize pay-out percentage has been kept deliberately on a higher side. This had been accomplished by designing the lottery software in a manner that it ensures the desired prize pay-out percentage.

Scrutiny of the records provided by E-Cool online distributor revealed that it was not possible to differentiate prizes won by sold and unsold tickets in terms of prize money. It was evident that the pay-out shown in the sales data also took into account winning

numbers of unsold tickets. In this way, the distributors have managed to project a prize pay-out above 50 *per cent* of the sale proceeds requirement. However, there is no evidence that such pay-out had been actually made to the players in the absence of a system of preserving all the prize winning tickets at the Directorate.

The Government replied (June 2016) that the matter would be looked into.

#### **2.1.11 Disbursement of prize money**

As per Rule 3(18) of the Lotteries (Regulation) Rules 2010, it shall be the responsibility of the Organising State to ensure that the prize money is credited to the bank account(s) of the prize winner(s).

Audit noticed that prizes above ₹ 10,000 were paid by the Directorate either by crediting to the winner's bank account or through account payee cheque after checking the genuineness of the tickets from the respective printers and credential of the winner. The details of prize winners for prize money above ₹ 10,000 were maintained by the Directorate.

However, audit observed that contrary to above rules, bulk of the prizes distributed was below ₹ 10,000 and were paid by the Distributors in cash. During the period 2012-15, the total prize pay-out for prizes above ₹ 10,000 was ₹ 23.77 crore, which was only 0.25 *per cent* of total prize pay-out (₹ 9,460.58 crore). In other words, 99.75 *per cent* of the prize pay-out was in cash and through the distributors. As such, the above rule 3(18) was not observed at all.

Thus, the Directorate did not have any supervision/control over payment of prize up to ₹ 10,000. Further, details of prize winners such as names, addresses, prize amounts for prizes up to ₹ 10,000 were not maintained by the distributors. The Director stated (24 February 2016) that as small prizes were numerous, it was neither viable nor possible to maintain the details of prize winners. At the same time, the reply was silent about why the distributors could not maintain the same as those records are their permanent accounting records and would be required for verification by their Chartered Accountants or by the Income Tax Department during scrutiny besides the departmental verification. Moreover, the details of winners could be recorded on the reverse side of the ticket and surrendered for claiming a prize. This would act as a proof of payment with the Directorate.

The Government replied (June 2016) that the department ensures its supervision over the payment of prizes up to ₹ 10,000 by occasional physical verification in case of paper lottery. However, in case of online lotteries, it could not be done due to absence of an IT expert in the Directorate.

The Government needs to take suitable action to ensure that prize money is credited to the bank accounts of the prize winners.

#### **2.1.12 Co-ordination with Other States**

The Government of Mizoram intimated other State Governments under whose jurisdiction the Mizoram State Lottery tickets were being sold about the number of

lottery draws being conducted daily from time to time. The information included details of scheme and name and address of the area-distributor responsible for paying tax.

The Director stated (February 2016) that no complaint has ever been received by GoM for non-intimation of number of draws or non-payment of charges from other States under whose jurisdiction the Mizoram State Lottery tickets were sold. It was further stated that no other State Government had brought to the notice of the GoM any violations of the provisions of the Act and Rules by it or its distributors or selling agents.

However, audit noticed that online distributors were marketing lotteries in Goa without proper intimation through the Directorate as already discussed in **Paragraph-2.1.7.4**. On the other hand, Government of Goa has not detected the sale of online lotteries of Mizoram in Goa without intimation. Thus, there was lack of co-ordination between the organising state and the states in whose jurisdiction lottery tickets were being sold.

### **2.1.13 Deposit of unsold paper tickets**

As per Rule 4(5) of the Lotteries (Regulation) Rules 2010, the distributors or selling agents shall return the unsold tickets to the Organising State with full accounts.

In violation of the above rule, audit noticed that the distributor of paper lottery never returned the unsold tickets to the Directorate. Audit further observed that the State Rule as well as the agreement did not specify when the distributor had to file the details of unsold tickets and return physically the same to the Directorate so that the unsold tickets were not part of the draw. The GoM has not issued any orders/instructions in this regard also.

The Director stated (24 February 2016) that since the tickets were marketed in different locations, it was not possible to physically return the unsold tickets as the tickets were sold till the actual time of draw. Further, the Government replied (June 2016) that there was no unsold tickets as all the tickets were sold at the Government/Distributor point.

The reply of the Government is not acceptable as the gross sale proceed of the tickets calculated at the face value of the tickets is not deposited in the Consolidated Fund of the State. Further, stopping the sale of lottery tickets before the actual time of draw (the time may be decided by the Directorate) and getting the details of unsold tickets to exclude them from the draw is a statutory obligation of the Directorate and unsold tickets are required to be returned in due course along with all the prize winning tickets.

### **2.1.14 Lottery or Gambling**

Lottery as a subject matter has been listed at entry 40 of the List I - Union list and entry 62 of the List II - State List of the seventh schedule to the Constitution of India. "Betting and Gambling" has been listed separately as entry 34 of the State list. Thus, the constitution has distinguished lottery from gambling activity.

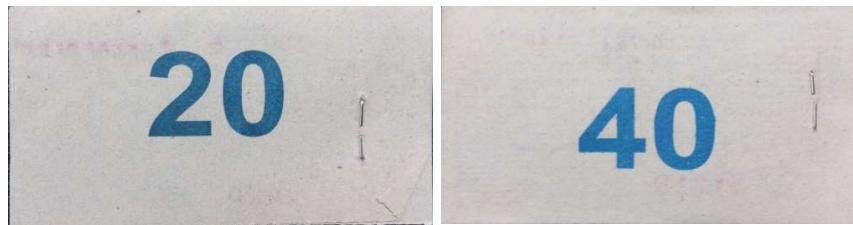
Section 2(b) of the Lotteries (Regulation) Act 1998 defines "Lottery" as a scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance to those persons participating in the chances of a prize by purchasing tickets.

During the audit of the IT processes of online lottery, audit observed that the various schemes for online lottery were designed with certain set parameters *i.e.* fixed number of tickets, fixed price of tickets, fixed number of winning tickets and fixed prizes for winning tickets. With these parameters, the scheme was designed to realise a certain fixed prize amount and percentage as per Clause 3.7 of the agreements between the distributors and the Government.

However, audit scrutiny of the sales data provided by online lottery distributors revealed that the total number of unique tickets sold per draw was a small fraction of the total number of tickets available for purchase in each draw/scheme.

Audit noticed that this small percentage of tickets sold was enough to support their business model. This situation has been made possible because in the system of online lottery each unique ticket is allowed to be sold an infinite number of times thereby acting as a multiplying factor in terms of both sales and total prize value. This increases the risk of a small number of tickets winning a large prize amount. This is a risk that both the players and distributors are willing to bear. It is clear that through the design of the schemes (*i.e.* high prize-to-ticket ratio and high risk of winning) these lottery schemes have been turned into gambling.

As a matter of fact, even in case of paper tickets, the players purchase bunch of tickets



having same numbers but different series based on their special

numbers. Audit has observed during the field visit in West Bengal that the Mizoram and Nagaland paper lottery tickets were being sold in bunch of 4-6-20-40 tickets.

For both the lotteries, selection of the numbers may be predictions based on previous draw results, their hunch or gut feelings, lucky numbers, important event dates (birthdates and so on), anything. The idea is to purchase similar number of bulk tickets and if they win they maximise their gain by winning multiple prizes. In all these activities, the players take calculated risk in the hope of getting larger pay-outs as in a gambling.

The manner in which Mizoram State lottery is being organised at present, blurred the distinction between an equal opportunity scheme and gambling. The system of purchasing bulk tickets and sale of unique ticket multiple times was against the spirit of Lottery and tends to be more akin to gambling.

The Government replied (June 2016) that all the schemes of Mizoram State Lottery were in conformity with Lottery Act/Rules.

The fact, however, remained that selling multiple numbers of same online ticket number is in violation of Lottery Act/Rules.

## **2.2 Audit Objective 2: Whether 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**

### **2.2.1 Assessment of revenues from the lotteries**

It has been observed in audit that the Government/Directorate do not have a system of proper assessment of revenue for each year during the audit period. Further, no study has been conducted to benchmark the revenue potential based on reliable field sales data. As a matter of fact there was no system of submission of sales report by the distributors to the Directorate. In the absence of such system, the Directorate could not analyse the sales reports and explore the possibility of realising the due share of the revenue from time to time.

The Director stated (11 March 2016) that revenue realisable from Lottery was fixed by the rates quoted by each Distributor and negotiation thereafter. Further, Finance Department stated (12 February 2016) that the previous year's revenue generated was used as a yard stick for fixation of revenue target in the budget for each year. However, if a fresh Memorandum of Understanding is signed or if revision of rates was made, computation of revenue target would be based on the new rates agreed upon.

However, as the revenues were fixed on Minimum Guaranteed Revenue (MGR) concept and not on sale proceeds, the revenue target from lottery was much less than the actual potential of the lottery schemes. This is brought out by the fact that during the period 2012-15, the revenue to the Government by way of MGR and administrative expenses was ₹ 25.45 crore, while the total sale proceed was ₹ 11,834.22 crore (discussed in Chapter-III).

### **2.2.2 Charges for organising lotteries**

As per Rule 3(10) of Lotteries (Regulation) Rules 2010, the Organising State shall charge a minimum amount of five lakh rupees per draw for bumper draw of lottery and for all other forms of lottery, a minimum amount of ten thousand rupees per draw.

Again, as per Rule 3(11) of the said Rules, the State Government under whose jurisdiction the lottery tickets are being sold shall be entitled to charge a minimum amount of two thousand rupees per draw from the Organising State but the maximum amount chargeable shall not be more than what is being charged by the State Government from its own lotteries.

The State Government did not make any Act, rules or notifications regarding charges to be levied on sale of lottery tickets within Mizoram from its own lotteries or lotteries organised by other States.

The Government replied (June 2016) that the question of levying charge on lotteries did not arise as no lottery tickets of any State including Mizoram were being sold in the State of Mizoram.

As a matter of fact, as Mizoram organises both paper and online lottery, it cannot stop other States from selling paper and online lottery tickets in Mizoram. Therefore, the Government needs to enact a law fixing the amount of charges to be levied on sale of various lottery tickets of other states in Mizoram.

The charge per draw levied by other State Governments, under whose jurisdiction the Mizoram State Lottery tickets were sold, were paid by designated area distributors/sub-agents on behalf of the State Government. The Director stated (March 2016) that the charge per draw were regularly paid by the distributors and there was no due to any State.

The charge per draw being levied by the State Governments, under whose jurisdiction the Mizoram State Lottery tickets were being sold, are given below:

**Table-2.14: Charge levied by other States per draw (in ₹)**

Types of Draw	Mizoram	West Bengal	Sikkim	Maharashtra	Punjab
	MGR per draw	as charge per draw			
Weekly Draw	10,500/ 12,000	5,00,000	2,000	60,000	Card Games: 55,000 / 80,000 (w.e.f. 20.10.14) Keno Games: 50,000
Bumper Draw	5,00,000	10,00,000	2000 <sup>#</sup>	12,00,000 <sup>#</sup>	1,10,00,000 <sup>#</sup>

Source: Departmental records

# - Figures given for comparison only. Bumper lottery tickets of Mizoram State Lottery were sold only in West Bengal

From the above table, it is clear that the participating States (except Sikkim) were getting more revenue per draw out of Mizoram State Lottery than what the Organising State *i.e.*, Mizoram was getting of its own Lottery. The financial implications of the MGR are discussed in **Chapter-III at Paragraph-3.2.**

### 2.2.3 Sale proceeds

“Sale Proceeds” have been defined in Rule 2(h) of Lotteries (Regulation) Rules 2010 as the amount payable by the distributor to the Organising State in respect of sale of tickets calculated at the face value printed on each ticket in respect of lotteries of a particular draw or scheme or both.

Rule 3(17) of the said Rules provides that the Organising State shall ensure that proceeds of the sale of lottery tickets, as received from the distributors or selling agents or any other source, are deposited in the Public Ledger Account or in the Consolidated Fund of the Organising State. Further, the directions<sup>20</sup> issued by the Government of India, Ministry of Home Affairs states that: the State Governments of the Organising States are to ensure that the entire proceeds of the sale of lottery tickets, as received from the distributors or selling agents are first credited into the Public Ledger Account/Consolidated Fund of the Organising State without any deductions *etc.* Payments of commission to distributors/sole selling agents *etc.* and other sundry payables should be made after the entire proceeds are deposited in the Government Account.

<sup>20</sup> Letter No. F.NO.V.17013/2/2011CSR-I dated 2 August 2011



Therefore, the sale proceeds of tickets calculated at the face value of the tickets should be wholly deposited into the Consolidated Fund of Mizoram without incurring any expenses out of it. However, audit observed that in violation of the said rules and the directions, this provision has not been followed and sale proceeds have been equated as MGR<sup>21</sup> and realised on the basis of number of draws as per Clause 12.1 of agreement signed (May 2012) between the Government and the four distributors.

Rule 3(10) of the Lotteries (Regulation) Rules 2010 states that the Organising State shall charge a minimum amount of five lakh rupees per draw for bumper draw of lottery and for all other forms of lottery, a minimum amount of ten thousand rupees per draw. Scrutiny of the records revealed that the rate of MGR has been benchmarked on the rate of charges leviable by the Organising State from its own lotteries as provided in above rule which was irregular. The MGR has to be the sale proceeds realisable from sale of tickets and not the charges on lottery which has to be in lieu of a tax on sale of lottery.

This misinterpretation of minimum charges on lottery provided in Rule 3(10) for sale proceed realisable from sale of tickets began from the very beginning when the first IEI for appointment of Lottery Distributor/Selling Agents was floated by the Directorate in March 2011. Under Serial No. 1 of terms and conditions in the IEI dated 9 March 2011, the rate of sale proceeds per draw per scheme that may be offered by the bidders was mentioned as follows:

***“The minimum rate fixed by the Government of India, Ministry of Home Affairs is five lakh rupees per draw for bumper and ten thousand rupees per draw for others”.***

The Sample of bid document was also designed on the above assumption of minimum rate of sale proceed per draw per scheme basis for paper/online/bumper lottery. This was again repeated in the second IEI floated by the Directorate in December 2011.

Thus, due to misinterpretation of Rule 3(10) by the Department, defective agreements were executed with the distributors which were not in conformity to the provisions of the Lottery Rules. On the basis of this interpretation, instead of the sale proceeds, minimum guaranteed revenue has been collected, which has led to huge loss to the State exchequer and undue windfall gain to the distributors at the cost of the state government (discussed in detail in **Chapter-III**).

The MGR received by the State Government was the net revenue from lottery to the State Government as all other expenses such as prize money, printing, publication of result, charges payable to other States *etc.*, were being borne by the distributors which was against the Act/Rules.

The Government replied (June 2016) that the existing procedure of collection of sale proceeds would be examined and if they were not in conformity with the Acts/Rules, then necessary amendments would be proposed.

<sup>21</sup> ₹ 10,500 per draw per scheme or proportionate minimum assured revenue of 36,20,000 annually per draw per scheme whichever is higher during 29 May 2012 to 28 May 2014 which was revised to ₹ 12,000 per draw per scheme or proportionate minimum assured revenue of 43,44,000 annually per draw per scheme whichever is higher *w.e.f.* 29 May 2014

#### 2.2.4 Unclaimed prize money

Section 4(f) of Lotteries (Regulation) Act 1998 provides that the prize money unclaimed within such time as may be prescribed by the State Government or not otherwise distributed shall become the property of that Government.

Further, as per Rule 4(17) of Mizoram Lotteries (Regulation) 2011, prizes that are not claimed by the prize winners within a period of 90 days from the date of draw shall not be disbursed and shall stand forfeited to the State Government as unclaimed prize money. The Director may, in exceptional circumstances, disburse the prize amount to the prize winners on his/her application even after the expiry of the said period of 90 days but not exceeding 120 days if he is satisfied that the reasons for not claiming the prize amount within the said period of 90 days are genuine. Further, in order to determine the unclaimed or undistributed prize money, the distributors shall submit the audited accounts to the Director within a period of one month from the expiry of the period of 90 days allowed to claim prize money.

Audit noticed that the distributors did not submit the audited accounts to the Directorate regularly within a period of one month after the expiry of 90 days from the date of draw. Hence, there was no system in the Directorate to regularly determine the unclaimed prize, forfeit the same and deposit to the Consolidated Fund of the State. Audit also observed that unclaimed prize money pertaining to the three test-checked months (March 2013, June 2013 and March 2015) was lying with the distributor till audit pointed it out (February 2016). Subsequently, total unclaimed prize amount of ₹ 1.35 crore pertaining to 2012-16 was deposited in February-March 2016 to State Government Account. However, in the absence of any detailed records supported by winning tickets, audit could not verify the accuracy of the amount deposited as unclaimed prize money.

Thus, the Directorate failed to regularly verify the accounts of the distributors to ensure that unclaimed prize money was deposited to the Consolidated Fund of the State.

The Government replied (June 2016) that it would be ensured that there is no delay in deposit of unclaimed prize money

*There is a need to set up a system so that the accounts of unclaimed prize money can be settled sooner and remitted regularly to the Government account. Moreover, unclaimed prize money for prizes up to ₹ 10,000 needs to be calculated systematically on weekly/fortnightly/monthly basis after the expiry of 90 days by the distributors and settled with the Directorate regularly. The Directorate also needs to regularly calculate the unclaimed prize for prizes above ₹ 10,000 systematically on weekly/fortnightly/monthly basis after the expiry of 90 days.*

#### 2.2.5 Deduction of Income Tax at source

##### 2.2.5.1 Commission to distributors/selling agents

As per Rule 4(4) of the Lotteries (Regulation) Rules 2010, the State Government was to fix the rate of commission payable to the distributors for marketing lottery of the State.

From the commission, Income Tax<sup>22</sup> at the rate of 10 *per cent* was required to be deducted at source by the Directorate before payment of commission and the sum so deducted was to be credited to the Central Government.

However, no Income Tax was deducted from the distributors as the entire amount of revenue from sale of lotteries were retained by the distributors and as such there was no system to give commission to the distributors on marketing of Mizoram lottery tickets.

### **2.2.5.2 Prize value higher than ₹ 10,000 and printing bills**

As per Rule 3(18) of Lotteries (Regulation) Rules 2010, it is the responsibility of the Organising State to ensure that income tax on prizes, wherever applicable, is deducted at source and that the prize money is credited to the bank account(s) of the prize winner(s). Further, as per Section 194B<sup>23</sup> of the Income Tax Act 1961, the Director is required to deduct income tax at the rate of 30 *per cent* from the prize amounts above ₹ 10,000. Again, as per Section 194C (1) of the Act, income tax at the rate of two *per cent* is required to be deducted from the printing bills before payment.

Audit observed that the Directorate was deducting income tax (TDS) on prizes paid to the winners for prizes above ₹ 10,000 and printing charges paid to the security printers and crediting the sum so deducted to the account of the Central Government.

However, examination of records revealed that all the lottery schemes were proposed by the distributors and the same approved by the Government without any alteration. It was also observed that the first prize in respect of all the online lottery schemes except Keno games and paper lottery schemes sold in West Bengal does not exceed ten thousand rupees. The prize structure was determined by the distributors and therefore prizes were kept at rupees ten thousand or below to avoid payment through the Directorate with the consequence of avoiding payment of income tax.

Audit observed during the field visit in West Bengal that the lottery tickets were being sold in bunch of 4-6-20-40 tickets of same number of different series. Similarly, audit observed that online tickets were purchased in a bunch. Audit noted that though the tickets were sold in bunch, the prizes were distributed individually as per single ticket to avoid TDS. Such practice facilitates evasion of income tax, since if one bunch happens to be the prize winning bunch, the total prize money may be more than ₹ 10,000. Thus, the possibility of a prize winner getting total prize amount more than ₹ 10,000 from multiple prize winning tickets while evading tax cannot be ruled out.

Audit observed that at present there is no system in the Directorate to find out cases where a single prize winner may get total prize amount of more than ₹ 10,000 from multiple prize winning tickets in a single draw. Further, the Lottery Act also did not contemplate more than one prize per ticket. The distributors offered multiple tickets on same number (online) as brought out in paragraph No.2.1.6.4 leading to possibility of

<sup>22</sup> Section 194G of Income Tax Act, 1961

<sup>23</sup> Section 115BB of the Income Tax Act, 1961

winning multiple prizes on the same ticket number and also distributed the prizes as if there were multiple winners which resulted in non-deduction of Tax at source.

In response to audit query regarding deduction of TDS by the distributors from multiple prize winners of total prizes more than ₹ 10,000, the Director stated (February 2016) that cases of multiple prize winners of prizes up to ₹ 10,000 had not come to the notice of the Directorate till date and hence the question of deduction of TDS did not arise. Further, the Government replied (June 2016) that the distributors would be instructed to report cases of total prize money paid above ₹ 10,000 though individually prize was less than ₹ 10,000 to deduct TDS.

### 2.2.6 Multiple Bank Accounts

The GoM is following Central Government Account (Receipts & Payments) Rules 1983 as there are no separate financial rules enacted by the Government. The Finance Department, GoM had issued (May 2006) directions that opening of Bank Accounts in the name of the Departments/Offices should be avoided to the most possible extent and prior permission of Finance Department should invariably be obtained in case of absolute necessity.

Audit observed that the Directorate was maintaining two current Bank Accounts<sup>24</sup> and a Savings Account<sup>25</sup> during the audit period for lottery transactions. The Savings Account in SBI was closed on 7 July 2014.

Further, audit noticed that approval of Finance Department, GoM was taken for opening an account in IDBI for keeping security deposit and prize money. However, the account in IDBI was not used strictly for the designated purposes and was utilised for depositing advance sale proceeds and MGR. The Directorate failed to produce to audit any approval of the Finance Department for opening the account in Axis Bank. The account in Axis Bank was used for deposit of MGR, deposit of prize money, deposit of printing cost, payment of prizes, remittance of TDS *etc.*

The Government replied (June 2016) that the account in IDBI Bank would be used strictly for the designated purposes and ex-post facto approval of opening of the account in Axis Bank would be taken.

### 2.2.7 Reconciliation of cash balances

**Bank Accounts:** Rule 13(iv) of Central Government Accounts (Receipts and Payments) Rules, 1983 states that at the end of each month, Head of the Office should verify the cash balance in the cash book and record a signed and dated certificate to that effect. However, audit observed that cash analysis at the end of each month was not done properly. The difference between the cash book and pass book balances was not analysed and recorded in the cash book.

<sup>24</sup> Axis Bank A/c No. 390010200003018 and IDBI A/c No. 159102000003162

<sup>25</sup> SBI A/c No. 10763514935

The Director stated (11 March 2016) that reconciliation was being done regularly. However, the cashier could not explain the discrepancies between the cash book balance and pass book balance.

**Distributors:** Audit also observed that reconciliation between the records of the Directorate of lotteries and the distributors was not done regularly. This was apparent from the fact that the short deposit of MGR and administrative expense of ₹ 8,23,000 in the first year of agreement period (29 May 2012 to 28 May 2013) in respect of M/s Teesta Distributors could be finally settled in November 2015 only.

The Government replied (June 2016) that steps would be taken to ensure proper reconciliation of accounts.

*It is recommended that proper cash analysis be made at the end of each month and discrepancies between the cash book and pass book balance be reconciled and noted in the cash book. Further, reconciliation of book of accounts of the Directorate and the distributors needs to be done regularly on monthly basis and discrepancies, if any, properly recorded.*

### **2.3 Audit Objective 3: Whether records relating to printing, sale and return of unsold tickets were maintained by the Directorate of Lotteries and the distributors/selling agents**

#### **2.3.1 Maintenance of records**

In terms of Rule 3(16) of Lotteries (Regulation) Rules 2010, the Organising State shall keep records of the tickets printed, issued for sale, sold and those remaining unsold at the time of the draw, and the prize winning tickets along with the amount of prize or prizes in respect of each draw, in the manner prescribed by the Organising State.

The Directorate maintained records for tickets printed in case of paper lottery. However, records relating to number of tickets sold and remaining unsold were not maintained as the distributors did not furnish any report to the Directorate. The Directorate maintained records for prize winning tickets above ₹ 10,000. However, it did not maintain any record relating to prize winning tickets up to ₹ 10,000.

The Director stated (11 March 2016) that as the tickets were presumed to be hundred *per cent* sold the moment the tickets were handed over to the distributor, maintenance of records relating to sold and unsold tickets did not arise. It was also stated that since tickets were sold till the actual time of draw, it was not possible to submit records of unsold tickets before the draw. Also, since tickets were directly received by the distributor from the printers, record for sale of tickets/unsold tickets *etc.*, was not maintained by the Department.

The reply of the department is not acceptable as the practice adopted was in violation of the Lottery Rules.

During the three test-checked months audit observed that one particular area-distributor M/s Pooja Marketing, Mumbai had claimed prize from unsold tickets even for the prizes exceeding ₹ 10,000 as shown in the table below:

**Table-2.15: Amount of prize claimed from unsold tickets during three test-checked months (in ₹)**

Month & Year	Name of the area distributor	Total prize above ₹ 10,000	Prize claimed from unsold tickets	Percentage
March 2013	M/s Pooja Marketing	85,00,000	38,00,000	44.71
June 2013		66,00,000	43,00,000	65.15
March 2015		111,00,000	27,00,000	24.32

Source: Departmental records

Thus, non-maintenance of records relating to unsold tickets in violation of Lottery Rules contributed to the claim of prize money from unsold tickets by the area distributor.

The Government replied (June 2016) that proper records would be maintained in future.

### 2.3.2 Unsold paper tickets

Rule 4(3) and 4(5) of the Lotteries (Regulation) Rules 2010 requires the distributor to maintain a record of the unsold tickets and return the unsold tickets with full accounts to the GoM.

As per Rule 6(1) of the Mizoram Lotteries (Regulation) Rules 2011, the distributor or selling agent shall immediately after each draw is held, return the unsold tickets to the Director with full accounts along with the challans of the money deposited in the Public Ledger Account or in the Consolidated Fund of the State Government, with a copy of such return or detailed accounts to the designated authority.

Rule 6(2) of the Mizoram Lotteries (Regulation) Rules 2011 states that the unsold tickets and unused counterfoils of lottery tickets, if any, shall be disposed of in the manner specified by the Government of Mizoram or the Director from time to time.

However, in violation of the above Rule, the paper lottery distributor never returned the unsold tickets to the Directorate with full accounts. The reason stated by the distributor was that it had handed over all the tickets to its sub-agents and it had paid the MGR of the lottery draws to the Government. This argument was not acceptable as the distributor did not deposit the total sale proceed calculated at face value of the tickets to the Consolidated Fund of the State.

Audit noticed that the Directorate of IF&SL had never made any attempt to call for the details of unsold tickets before the time of draw or the unsold tickets from the distributors subsequently. Further, it was observed that neither the State Government nor the Director has specified till the date of audit (March 2016) the manner in which the unsold tickets and unused counterfoils of lottery tickets were to be preserved and then disposed of. This resulted in claiming of prize money from unsold tickets by the area distributors as mentioned in **Paragraph-2.3.1**. This was clearly in violation of provisions of Lottery Act and Rules, benefitting the distributor/area distributors. In addition, it minimized the chances of actual buyers to win the draw as the draws were not conducted only on sold tickets.

During joint inspection of operation of area distributor (M/s Divya Jyoti Distributors) of Mizoram State Lottery at Siliguri (April 2016) audit observed that the area distributor receives the list of unsold tickets from the stockists before the actual time of draw. However, the list of unsold tickets was not furnished to the Directorate so that those unsold tickets could be excluded from the draw. This indicated that prize amount on Prize Winning Tickets (PWT) from unsold tickets was retained by the area distributor.

The Government replied (June 2016) that whenever the situation of unsold tickets arises, it would be disposed of in a safe manner.

The fact, however, remained that unsold tickets were returned to area-distributors from the stockists, retailers *etc.* and the area-distributors were not returning the same to the paper lottery distributor and then to the Directorate and claimed prize money from unsold tickets.

#### **2.4 Audit Objective 4: Whether the internal control mechanism was adequate and effective**

Internal control is an integral function of an organisation which ensures achievement of the objectives of the organisation. It is intended to provide reasonable assurance of proper enforcement of Acts and Rules. Internal Audit is an important instrument to examine and evaluate the level of compliance with rules and procedures as envisaged in the relevant Acts/Rules so as to provide independent assurance to management on the adequacy of the risk management and internal control. Evaluation of internal control mechanism in the administration of lotteries by the Directorate revealed deficiencies in operational and monitoring controls as discussed in the succeeding paragraphs:

##### **2.4.1 Internal Control**

During audit, it was noticed that no suitable means and procedures were devised to effectively supervise the conduct of the Lotteries as required under the Act/Rules. This was evident from the shortcomings listed below:

1. There was regular delay in submission of MGR, unclaimed prize money, sales report, audited accounts;
2. There was absence of verification of submitted accounts/records;
3. Monitoring of the activities of the distributors or their sub-agents to detect illegalities/irregularities was found lacking as occasional surprise checks and physical verification of records of distributors were not carried out;
4. The Directorate did not have any system in place for receiving/registering complaint from public relating to Mizoram State Lottery via specific email address and contact number; and
5. The State Government had not issued any manuals/guidelines/instructions/orders for the effective functioning of lottery business of the State.

The Director stated (February 2016) that the Director, IF&SL is the sole authority to report any cases of violation of any provisions of Act and Rules and for taking appropriate action. However, this fact was not put out for public awareness in the website as well as Notice Board of the Directorate. The Government also stated (June

2016) that the department would address any complaint to remedy the grievances by providing necessary services. The Government further, replied (June 2016) that the Director reviews the internal control system from time to time and the department is in a position to attend to grievances with the existing working staff.

The fact, however, remained that there was absence of proper internal control in the Directorate and there was hardly any monitoring of the state lottery business. Further, due to non-framing of guidelines/manuals, there was no system of internal checks. Many irregularities of compliance with rules and procedures as envisaged in the relevant Acts/Rules were noticed during audit which clearly indicated weak internal control system of the Directorate.

#### **2.4.2 Internal Audit**

The Internal Audit organisation of GoM functioning under the control of Chief Controller of Accounts & Treasuries was responsible for conducting internal audit of State Government departments. However, audit noticed that internal audit of the Directorate was not conducted to evaluate the functioning of the Directorate till date of audit (March 2016).

In terms of Rule 3(19) of Lotteries (Regulation) Rules 2010, every Organising State shall conduct a systems audit of the various online lottery schemes organised by it. However, systems audit of the various online lottery schemes organised by the State have not been conducted so far as necessitated by the Lotteries (Regulation) Rules 2010 till audit (March 2016).

The Government replied (June 2016) that internal audit for the Directorate would be proposed to be taken up in future from the office of the Chief Controller of Accounts and Treasuries, Mizoram and the department was trying to find a suitable firm to carry out systems audit of the working of the online lotteries.

*The Government may consider preparing manuals/guidelines for effectively regulating the functioning of the lottery business of the State. The Government may also ensure conducting internal audit. The Government needs to conduct systems audit of the various online lottery schemes on an urgent basis to enable it to take corrective measures on shortcomings/deficiencies/irregularities pointed out in such audit.*

#### **2.4.3 Discrepancy between revenue figures of the Finance Accounts and departmental records**

Financial rules require that the controlling officer should periodically reconcile the departmental figures of revenue with those booked by the Accountant General. The revenue figures of the department with those booked by the Accountant General during the audit period are as given in the table below:



**Table-2.16: Discrepancy of revenue figures from lotteries**

(₹ in crore)			
Year	Collection of revenue as per the Finance Accounts	Collection of revenue as per the departmental figures	Difference Excess (+)/less (-)
(1)	(2)	(3)	(4) = (3) – (2)
2010-11	2.17	2.17	-
2011-12	0.45	0.45	-
2012-13	3.85	3.85	-
2013-14	9.51	9.30	(-) 0.21
2014-15	11.34	11.78	(+) 0.44
<b>Total</b>	<b>27.32</b>	<b>27.55</b>	<b>(+) 0.23</b>

Source: Figures furnished by the Directorate and the Finance Accounts for the respective years

There was a difference of ₹ (-) 0.21 crore during 2013-14 and ₹ 0.44 crore during 2014-15 in the revenue figures of the department with those booked by the Accountant General. The difference in revenue figures indicated that the department did not reconcile the revenue figures of state lottery with those booked by the Accountant General.

The Government replied (June 2016) that the discrepancies in revenue figures were due to the fact that reconciliation was carried out by the department major-head wise, not minor-head wise.

The reply of the Government is not acceptable as the department needs to reconcile the minor head wise revenue figures with those booked by the Accountant General regularly to avoid such discrepancies.

## **2.5 Audit Objective 5: Whether the revenue generated is being used for the identified purposes for conducting lottery**

### **2.5.1 Non-utilisation of revenue from lottery for the identified purposes**

In terms of Rule 3(2) of the Lotteries (Regulation) Rules 2010, Finance Department, Government of Mizoram notified on 2 December 2011 in its Gazette vide Notification No.G20015/1/2011-F.IF&SL dated 30 November that the Government of Mizoram intends to organise State Lottery to be styled as “Mizoram State Lottery” and sale of lottery tickets to augment the State’s revenue for the purpose of health care, education, public sanitation and other social sector services. Every notification of the Mizoram State Lottery scheme mentioned that the revenue generated from the sale proceeds of the tickets shall be invested for the purpose of health care, education, public sanitation and other social sector services.

Audit noticed that the declared purpose is too general and not specific enough to channel the revenue realised from organising lottery. It was further noticed that there was no separate objective for different schemes of Mizoram State Lottery other than the notified general purpose.

It may be mentioned that even before advent of state lottery, private lotteries functioned with/without Government approval for such raising of funds for welfare causes. Some well-known Indian examples are Manav Kalyan Lottery for Cancer Society Bombay, lotteries organised for Cancer Institute Madras, Tamil Nadu and Medicity Hospitals at Hyderabad, Victoria Memorial Hall at Kolkata and Barabati stadium at Cuttack Odisha.

The proceeds from United Kingdom (UK) National Lottery is utilised for funding various National Lottery projects<sup>26</sup> including London Olympics 2012, Angel of the North, restoration of the Flying Scotsman, preserving national treasures, constructing sport facilities, undertaking community projects, organising school field trips *etc.* In the United States (US), proceeds from State Lotteries are utilised for funding K-12 education<sup>27</sup>, health care, development of natural resources and environment, aid to local governments and public safety *etc.*

Audit noticed that there was no separate budget allocation towards the specified purposes out of revenue earned from lottery business during any year of the audit period. Hence, audit could not verify whether the revenue generated from organising lotteries were utilised for the purposes of health care, education, public sanitation and other social sector services.

The Finance Department stated (February 2016) that the revenue receipts of the State, Tax and Non-Tax, met only about nine *per cent* of the State's needs. Therefore, all the revenue from lottery was added into the State Pool of Non-Tax Revenue. Since the State revenue was very small, it was not practicable to utilise revenue earned from organising lottery for a particular purpose. The Government further replied (June 2016) that mechanism to direct the lottery revenue to the specified purposes would be explored.

Such practice, however, prevented the Government from channelling the fund to specific purposes for which outcome of the utilisation of fund is measurable. Thus, the objective of organising lottery by the State of Mizoram has not been fulfilled.

***The State needs to take action to direct the revenue generated from lottery towards the intended purposes by evolving a mechanism to allocate funds mandatorily to the intended purposes out of revenue generated from lottery in the annual budget of the State.***

<sup>26</sup> In the year 2014-15, funds from UK National Lottery were shared as follows: Health, Education, Environment and Charitable Causes (40 *per cent*), Sports (20 *per cent*), Arts (20 *per cent*) and Heritage (20 *per cent*)

<sup>27</sup> Kindergarten (K) and the 1<sup>st</sup> through the 12<sup>th</sup> grade (1-12)