

CHAPTER-VIII

CHAPTER VIII

STATE LOTTERY

A Performance Audit on “West Bengal State Lotteries” involving ₹ 158.51 crore is discussed in the following paragraphs:

8.1 Performance Audit on “West Bengal State Lotteries”

Revenue from the State Lotteries is a non-tax receipt of the State. The proceeds derived from sale of lottery tickets organised by the Government of West Bengal and charges imposed by it on the Organising States¹¹⁶ for lottery draws are sources of revenue for the Government of West Bengal. A Performance Audit on State Lotteries was conducted to ensure that procedures laid down in the Lotteries (Regulation) Act were followed, revenue from lotteries were properly assessed and remitted to the government accounts and that internal control mechanism was adequate and effective.

Highlights

- In the absence of a system to cross-verify the records with that of Organising States, evasion of lottery charges of ₹ 79.17 crore involving 4,013 lottery draws could not be detected.
(Paragraph 8.3.1.1)
- Collection of sale proceeds of ₹ 237.68 crore against ₹ 317.02 crore due to sale of lottery tickets at prices below the face value of tickets resulted in short realisation of sale proceeds of ₹ 79.34 crore.
(Paragraph 8.3.2.1)
- Adoption of improper procedure of adjustment of departmental expenditure with the revenue receipts and delayed processing of transfer bills resulted in credit of Government revenue of ₹ 80.24 crore with delays ranging between five and 918 days.
(Paragraph 8.3.2.2)

8.1.1 Introduction

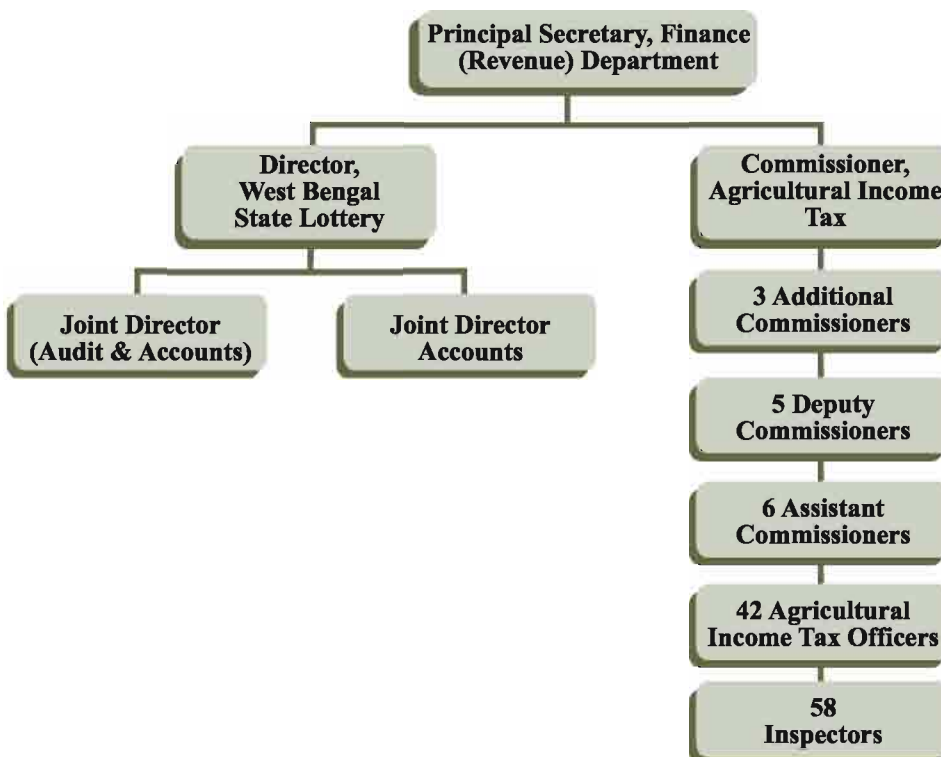
Lotteries organised by the Government of India or the Government of a State is a Union subject as per entry 40 of the List I – Union List in the seventh schedule to the Constitution of India. As per entry 62 of the List II – State List of the seventh schedule to the Constitution of India, taxes on sale of such lotteries is a State subject. Lotteries are regulated by the Lotteries (Regulation) Act, 1998 (Act) which empowers the Central Government as well as the State Governments to make rules to carry out the provisions of the Act. While the Central Government has enacted the Lotteries (Regulation) Rules, 2010, Government of West Bengal had earlier framed the “West Bengal State Lottery Rules, 1968” to regulate the lotteries in the State. Later, it framed the West Bengal Lotteries (Regulation on Payment of Charges for Draw) Rules, 2011, under the authority of the Central Act, 1998 referred to above.

¹¹⁶ “Organising State” means the State Government which conducts the lottery either in its own territory or sells its tickets in the territory of any other State.

The Directorate of State Lotteries, West Bengal (DSLWB), under the Finance (Revenue) Department is responsible for organising West Bengal State Lotteries (WBSL) and to assess and collect revenue thereof. At present, 54 draws¹¹⁷ of four schemes of lotteries viz. Bangalakshmi draw (twice in a month), Bangasree draw (monthly), Bangabhumi Super draw (monthly) and Bumper draws (six) are organised by the DSLWB in a year. Lottery tickets are printed by DSLWB through M/s Saraswaty Press Limited, a high security government press. These tickets are marketed exclusively within West Bengal through West Bengal Lottery Stockists Syndicate Pvt. Ltd. (WBLSSPL)¹¹⁸, the sole distributor of WBSL appointed for the purpose. Under Rule 5 of the West Bengal Lotteries (Regulation on Payment of Charges for Draw) Rules, 2011, Government of West Bengal provided for charges on the Organising State at the prescribed rate¹¹⁹ from 18 July 2011 onwards. The amount so charged was to be paid into the Government treasury by the Organising States and a copy of the challan evidencing payment of the amount was to be furnished to Commissioner of Agricultural Income Tax (CAIT) at least three days before the date of draw. The Commissioner of Agricultural Income Tax (CAIT), West Bengal was responsible for collection of charges for lottery draws conducted by the Organising States like Mizoram, Nagaland, Sikkim etc., including West Bengal.

8.1.2 Organisational set up

The organisational set up of the Directorate of State Lotteries, West Bengal (DSLWB) and Commissioner of Agricultural Income Tax (CAIT) is presented in the following organogram:



¹¹⁷ As per the Annual Administrative Report 2014-15 of Finance Department, Government of West Bengal.

¹¹⁸ It is a private company registered under the Companies Act, 1956.

¹¹⁹ ₹ five lakh for bumper draw and ₹ one lakh for other draws respectively which was revised to ₹ 10 lakh and ₹ five lakh respectively w.e.f. 28 November 2011.

8.1.3 Rationale for taking up audit

Rule 3(20) of the Lotteries (Regulation) Rules empowers the Central Government to conduct audit of any lottery or lottery scheme organised by any State through the Comptroller and Auditor General of India (CAG). Ministry of Home Affairs, Government of India had requested (August 2015) the CAG to conduct an audit of accounts of the last five years of the directorates of lotteries of nine states and one region¹²⁰.

A Performance Audit of the West Bengal State Lotteries for the period from April 2010 to March 2015 was conducted.

8.1.4 Audit Objectives

The audit was conducted to determine whether:

- Procedures laid down in the Lottery (Regulation) Act and Rules were complied with while organising the lotteries;
- Revenue from lotteries duly accruing to the State Government was properly assessed and remitted through the distributors/selling agents on time; and
- Internal control mechanism was adequate and effective.

8.1.5 Audit Criteria

Criteria for the Audit were derived from:

- The Lotteries (Regulation) Act, 1998;
- The Lotteries (Regulation) Rules, 2010;
- The West Bengal Lotteries (Regulation on Payment of Charges for Draw) Rules, 2011;
- Agreements made with the distributors/selling agents/printers;
- Notifications/orders issued by the Government from time to time.

8.1.6 Scope and methodology of Audit

Audit of West Bengal State Lotteries covering the period from 2010-11 to 2014-15 was conducted between January and March 2016. The methodology of audit included issue of questionnaires and examination of records/reports available with the Finance Department, DSLWB, CAIT and WBLSSPL which is the sole distributor of West Bengal State Lotteries. Besides, cross verification of records of lotteries organised by the States of Mizoram, Nagaland and Sikkim was also carried out to ascertain the correctness of payment of charges by the distributors of those States.

8.1.7 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Finance Department, DSLWB and CAIT in providing necessary information and records. An Entry Conference to discuss the objectives, scope

¹²⁰ Andhra Pradesh, Goa, Kerala, Maharashtra, Mizoram, Nagaland, Punjab, Sikkim, West Bengal and Bodoland (in Assam). West Bengal was included as tickets of lotteries organised by States like Arunachal Pradesh, Nagaland etc., are also sold in West Bengal.

and methodology of the Performance Audit was held in January 2016 with the Director, DSLWB and Deputy Commissioner of Agricultural Income Tax, West Bengal. Audit findings were reported to the Finance Department/Directorate in May 2016. An Exit Conference to discuss the outcome of the Performance Audit was held in November 2016 with the Director, West Bengal State Lotteries and Additional Commissioner of Agricultural Income Tax. Replies and views of the Department/Directorate, conveyed in the exit conference, have been suitably incorporated in the report.

8.1.8 Trend of receipts

Position of actual collection of charges from Organising States, actual collection of revenue of DSLWB, net revenue of DSLWB and their percentage with reference to the total non-tax revenue of the State are given in the following table:

Table 8.1

Trend of receipts

(₹ in crore)

Year	Actual receipts from charges collected by CAIT	Actual receipts from sale of WB state lotteries by DSLWB	Cost of collection of DSLWB	Net revenue of DSLWB	Total non-tax revenue	Percentage of actual receipts from charges to the total non-tax revenue	Percentage of net receipts of DSLWB to total non-tax revenue
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (2) *100/(6)	(8) = (5) *100/(6)
2010-11	-	32.39	23.51	8.88	2,380.49	-	0.37
2011-12	77.38	45.20	36.81	8.39	1,340.25	5.77	0.63
2012-13	95.60	71.35	46.50	24.85	1,918.15	4.98	1.30
2013-14	99.45	68.09	45.40	22.69	2,022.72	4.92	1.12
2014-15	93.05	66.78	38.94	27.84	1,626.66	5.72	1.71

Source: Annual Administrative Reports of the Finance Department, Govt. of West Bengal

Analysis of the above data indicates that the percentage of net revenue of DSLWB ranged between 0.37 and 1.71 of the total non-tax receipts of state during the year 2010-11 to 2014-15, while the percentage of charges collected by CAIT during 2011-12 to 2014-15 ranged between 4.92 and 5.77 of the total non-tax revenue. As such, the contribution of lotteries to non-tax revenue of the state was negligible. Collection of charges in 2014-15 decreased due to banning of online lotteries by the Government of West Bengal from May 2013 and conduct of lesser number of draws by the organising state of Sikkim.

Audit Findings

Audit Objective 1: Procedures laid down in the Lottery (Regulation) Act and Rules were complied with while organising the lotteries

8.2.1 Purpose for which lotteries were organised not notified

Under Rule 3(2) of the Lotteries (Regulation) Rules, 2010, the State Government may organise lotteries by issuing a notification in the official gazette outlining the purpose, scope, limitations and methods thereof, along with other information.

In 270 draws of the lotteries conducted by DSLWB during the period of audit, it was observed that before conduct of each lottery, notification was issued by the Finance Department outlining the scope of such lottery. Audit further observed that the purpose for which lotteries were organised by the State was not outlined in any of the notifications issued. As such, the revenue generated from lotteries was being deposited in the state exchequer but not directed at welfare/development projects, as envisaged in the Lotteries (Regulation) Rules, 2010.

The Directorate of Lotteries, in the Exit Conference stated (November 2016) that lotteries were organised for raising additional revenue of the State and the purpose was also notified in the official gazette. This reply needs to be seen in the light of the fact that the said notification was issued in 1968 which was prior to the introduction of the Lotteries (Regulation) Act and Rules and, thus, cannot be construed to be issued in pursuance of the Lotteries (Regulation) Rules, 2010. Further, the specific purpose for which lotteries were to be organised was not mentioned in the official gazette.

8.2.2 Printing and distribution of lottery tickets

DSLWB gets lottery tickets printed by M/s Saraswaty Press Limited, a Government high security printing press with the cost of printing of tickets being borne by the Department. Maximum retail price of each ticket, including date and time of draws, were clearly mentioned on each lottery ticket. The procedure for claiming of prize money and other terms and conditions were also clearly mentioned in the back of each lottery ticket. Through an agreement executed in April 2011, WBLSSPL was appointed as the sole marketing agent of DSLWB for two years. The agreement was extended from time to time till December 2013. In January 2014, revised agreement was executed for further period of three years.

Scrutiny of records of DSLWB and WBLSSPL relating to the distribution of lottery tickets showed some deficiencies which are discussed in the succeeding paragraphs:

8.2.2.1 Delayed issue of lottery tickets to the distributor

As per the marketing/sale agreement executed between DSLWB and WBLSSPL, lottery tickets are to be issued to the distributor at least four to six weeks ahead of date of draw.

Scrutiny of records of DSLWB showed that after executing the marketing agreement, 216 draws were conducted by DSLWB between April 2011 and March 2015. From the scrutiny of delivery challans of lottery tickets, it was found that in 155 draws (72 per cent) the minimum time frame of four weeks (28 days) for delivery of tickets to the distributor was not adhered to by DSLWB. Delay in issue of tickets was attributable to the delayed delivery of lottery tickets by the printing press. Due to non-adherence to the time frame for issue of tickets by DSLWB, the distributor did not get ample time for marketing. This was the main reason for 86.36 lakh tickets remaining unsold, involving revenue of ₹ 4.38 crore as shown in the following table:

Table 8.2

Delayed issue of lottery tickets to the distributor

(₹ in lakh)

No of days before which the tickets issued from the draw date	No of cases	No of unsold tickets	Revenue involved
Upto 10 days	1	2,50,000	3.75
Between 11 and 20 days	55	37,67,996	142.65
Exceeding 20 but less than 28 days	99	46,17,840	291.14
Total	155	86,35,836	437.54

After this was pointed out, the Department accepted the audit observation and stated (November 2016) that concerted efforts had been initiated involving the printing press, distributor and government so that the tickets of lottery were marketed well ahead of the dates of the draws.

8.2.2.2 Absence of a system of monitoring and review of marketing of lottery tickets

As per clause 5(i) of agreement executed between DSLWB and WBLSSPL in April 2011, the distributor was required to furnish a district-wise report of lifting and marketing of tickets by sub-stockists/agents to DSLWB within 15 days from the draw date to facilitate monitoring and review of marketing in respect of each draw. However, this clause was omitted in the agreement executed in January 2014.

From scrutiny of records of DSLWB it was found that WBLSSPL had never submitted a district-wise report of lifting and marketing of tickets by sub-stockists/agents to DSLWB between April 2011 and January 2014. As a result, the Directorate was totally unaware of the status of distribution and marketing of lotteries and could not ascertain whether the required distribution of tickets as per demand had been made by WBLSSPL throughout the State. Consequently, DSLWB could not decide on increase/decrease in the printing of tickets based on such statistical data. DSLWB also did not have any system of conducting a market survey for this purpose. Due to the absence of any system for monitoring and review of marketing process, DSLWB was solely dependent upon WBLSSPL regarding enhancement/reduction of the scheme-size of the lotteries.

After this was pointed out, the Department stated (November 2016) that DSLWB maintained liaisons with the agents/sellers throughout the year in this regard. The Department further stated that market survey was last conducted in 2012 to assess the market trend. The reply did not address the issue

regarding regular monitoring and market review as no periodicity was prescribed by the Department for such market surveys to keep track of the latest trends. Such periodical reports/returns would have also facilitated the Department in taking more informed decisions regarding increase/decrease in printing of tickets.

8.2.3 Draw process and publication of results

Audit observed that in all the lotteries conducted by DSLWB, date and time of the draw were clearly mentioned on the back of each ticket. The draws were held at a fixed venue through an electro-mechanical device based on random technology, under the supervision of judges appointed by the Finance Department. The lists of unsold tickets submitted by the distributor were handed over to the judges before the draws, to ensure that draws were being held on sold tickets only. After the draw process, official result sheets were signed by the judges present for the draw. Under Rule 3(12) of Lotteries (Regulation) Rules, 2010 the Organising State was to publish the result of draws in at least one National and two State level newspapers, out of which one was to be in English, as well as in its official gazette.

Audit observed that after completion of the draw processes, official result sheets were being forwarded to the Information and Cultural Affairs Department (I&CA), Government of West Bengal for publication of results in newspapers, the cost of which was borne by Finance Department. However, the names of the newspapers in which such results were being published was not furnished to audit by DSLWB. Thus, audit could not assess whether provisions of the Lotteries (Regulation) Rules, 2010 relating to publication of results were properly followed by DSLWB. Audit also observed that the results were neither published in the official gazette of the State Government nor in the official website of the Finance Department. Apart from the fact that this was in violation of the Lotteries (Regulation) Rules, 2010, this affected transparency of the entire process.

After this was pointed out, the Department accepted (November 2016) the audit observation and stated that the official website of the Finance Department was being reoriented to provide all such information.

8.2.4 Co-ordination with other States

Under Rule 5 of the Lotteries (Regulation) Rules, 2010 if a State Government is of the opinion that the Organising State or their distributors/selling agents are organising lotteries in violation of the provisions of the Act/Rules, it shall immediately bring the violations to the notice of the Organising States concerned along with the details of such violations or irregularities noticed and the Central Government shall also be apprised of such violations/irregularities simultaneously. The Organising State is required to send suitable response on the reported violations within 30 days of the receipt of such communication. If the State Government concerned is not satisfied with the response or the Organising State does not take any action, it shall bring to the notice of the Central Government all relevant details of violations or irregularities along with the recommendations relating to the action to be taken including banning of the lottery scheme in the geographical limits of its

State. Thus, a strong co-ordination mechanism with other States is essential to detect the illegalities in the organisation of lotteries by those States.

Audit observed that the Government of West Bengal had not devised any mechanism of detecting illegalities, if any, relating to lotteries organised by other States by way of putting a strong monitoring cell/internal audit to monitor/detect illegal sale of both paper and online lotteries. This was in dilution of the mandate provided under Rule 5 of the Lotteries (Regulation) Rules, 2010. It was observed that DSLWB or CAIT was not empowered to inspect or verify accounts of distributors of any Organising State, operating within its territory. Audit also observed that in the absence of suitable provisions in the West Bengal Lotteries (Regulation on Payment of Charge for Draw) Rules 2011, CAIT, responsible for collection of charges for conducting draws by Organising States, had never cross verified records with the other Organising States to ascertain correctness of charges paid by their distributors. As a result, evasion of payment of charges by distributors of other Organising States could not be detected by the Department as mentioned in paragraph 8.3.1.1.

After this was pointed out, the Department stated (November 2016) that no such provision of coordination with other States was prescribed in the Act/ Rules. The reply was not tenable as Rule 5 of the Lotteries (Regulation) Rule, 2010 clearly provided the mandate for such coordination among the Organising States to track violations.

Audit Objective 2: Revenue from lotteries duly accruing to the State Governments was properly assessed and remitted through distributors/selling agents

Assessment of revenues from lotteries

DSLWB is responsible for ensuring that revenue derived from the sale of lottery tickets are paid by the distributor in full and the same are remitted in government accounts within the specified time frame. Similarly, CAIT is responsible for ensuring that the charges per draw levied by the State are properly assessed and paid by the distributors of other Organising States. Scrutiny of records of the CAIT and DSLWB relating to assessment and collection of revenue showed the following deficiencies:

8.3.1 Absence of authority to monitor sale of lotteries by Organising States

Under Section 12 of the Lotteries (Regulation) Act, 1998, the State Government may, by notification in the official gazette, make rules to carry out the provisions of the Act.

Audit observed that Government of West Bengal had empowered CAIT for collection of charges from Organising States by way of enactment of the West Bengal Lotteries (Regulation on Payment of Charges for Draw) Rules, 2011. In order to ensure correctness of payment of charges by Organising states, CAIT might require to examine the accounts, registers, documents or records including electronic records in the possession of distributors/selling agents/sub-agents of Organising States. Audit however found that CAIT

could not examine the records of the distributors of Organising States in the absence of specific provisions in the said Rules. Thus, monitoring on the part of CAIT was absent.

In absence of such monitoring, the Department could not detect evasion of tax by distributors of other Organising States as discussed below:

8.3.1.1 Evasion of lottery charges by distributors of other Organising States

Under Rule 5 of the West Bengal Lotteries (Regulation on Payment of Charges for Draw) Rules, 2011, Government of West Bengal had levied charge on Organising States at the prescribed rate¹²¹ from 18 July 2011 onwards. The amount charged was to be paid into the Government treasury by the Organising States and a copy of challan evidencing payment of the amount was to be furnished to CAIT at least three days before the date of draw or beginning of sale of tickets whichever is earlier. Further, under Rule 7 of the said Rules, a person authorised to act on behalf of the Organising State shall submit a monthly return in Form-A within 10 days after completion of each such month to the CAIT.

From the information received from the lottery departments of Mizoram, Nagaland and Sikkim, it was observed that M/s Future Plus Enterprises Pvt. Ltd. was appointed as the distributor of paper lotteries of those States while M/s T.S. Distributors was appointed as the distributor for marketing online lotteries of Nagaland in West Bengal during the period covered under audit. As per the information received from lottery departments of the aforesaid Organising States, it was found that the said distributors had sold tickets of 12,698 lottery draws (both paper and online), conducted by those States, in West Bengal between 18 July 2011 and 31 March 2015. Thus, the distributors were liable to pay charges of ₹ 399.76 crore against those lottery draws. Cross-verification of the above information with the weekly statements/monthly returns submitted by the distributors to CAIT, however, showed that the distributors had paid charges amounting to ₹ 320.59 crore only against the disclosed figure of 8,685 lottery draws conducted during the same period in their returns. Thus, the distributors did not disclose the actual number of lottery draws conducted and tickets marketed in West Bengal in the returns, resulting in evasion of charges amounting to ₹ 79.17 crore in respect of 4,013 lottery draws as shown in the following table:

¹²¹ ₹ five lakh for bumper draw and ₹ one lakh for other draws respectively which was revised to ₹ 10 lakh and ₹ five lakh respectively from 28 November 2011.

Table 8.3

Evasion of lottery charges by distributors of other Organising States

(₹ in crore)

Name of the Organising States	Name of the distributors	Nature of lottery	Actual number of lottery draws conducted	Amount of charges payable	Number of draws disclosed in returns	Amount of charges paid	No of draws not disclosed in returns	Evasion of charges
Mizoram	M/s Future Plus Enterprise Pvt. Ltd.	Paper	1,371	68.85	811	40.85	560	28.00
Nagaland	M/s Future Plus Enterprise Pvt. Ltd.	Paper	618	19.10	529	18.21	89	0.89
	M/s T.S. Distributors	Online	4,563	45.63	1,615	16.15	2,948	29.48
Sikkim	M/s Future Plus Enterprise Pvt. Ltd.	Paper	6,146	266.18	5,730	245.38	416	20.80
Total			12,698	399.76	8,685	320.59	4,013	79.17

In the absence of detailed information of online lotteries from the DSL of Mizoram, Sikkim and Goa, evasion, if any, by lottery draws conducted in these States could not be verified. Due to non-conduct of cross-verification of records with the Organising States such evasion, as well as possible illegal sale of lotteries without payment of charges, remained undetected.

After this was pointed out, the Department stated (November 2016) that action had been initiated with the Organising States to reconcile the difference pointed out by audit. However, the issue of cross-verification of records of the distributors of other Organising States, which could have provided an effective mechanism to stop such illegal sale of lotteries, was not addressed by the Department.

8.3.2 Sale proceeds

DSLWB is responsible for assessment and collection of revenue from sales of lottery tickets. The Directorate is required to ensure that proceeds from sales of lottery tickets are duly received from the distributor and are paid into government account. Audit found deficiencies in assessment and collection of sale proceeds and their remittance in government account which are discussed in the succeeding paragraphs.

As per the agreement between DSLWB and the distributor, i.e., WBLSSPL, the latter was allowed to lift the total number of tickets printed for each draw on credit, against bank guarantee submitted by it. The sale proceeds of all the tickets were required to be paid by WBLSSPL within eight weeks from the date of lifting of tickets or seven days after the date of draw, whichever was earlier.

8.3.2.1 Short realisation of sale proceeds due to sale of tickets below face value

As per Rule 2(1)(h) of the Lotteries (Regulation) Rules, 2010, sale proceeds mean 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 a particular draw. Further, as per Rule 3(17) of the Lotteries (Regulation) Rules, 2010, read with the direction of the Ministry of Home Affairs,

Government of India, the Organising State shall ensure that the entire proceeds from the sale of lottery tickets, as received from the distributors or selling agents or any other source, are first deposited in the Consolidated Fund of the State without any deduction. Payment of commission to distributors/agents and other sundry payables, if any, should be made from the budget allocations.

Scrutiny of records showed that the Finance Department had issued notifications for conducting draws of various lotteries between April 2010 and March 2015. In these notifications the Finance Department had fixed the face value (MRP) of the tickets to be printed on each ticket. In violation of the provisions of Rule 2(1)(h) of the Lotteries (Regulations) Rules, 2010, the Finance Department also fixed the sale value which was less than MRP/face value and this was to be collected from WBLSSPL.

During the period under audit, WBLSSPL lifted 49.04 crore tickets of paper lotteries pertaining to 270 draws conducted by DSLWB. WBLSSPL sold 47.40 crore tickets¹²² and paid sale proceeds of ₹ 237.68 crore to DSLWB, calculated at the sale value which was below the face value printed on the tickets, as against the payable amount of ₹ 317.02 crore, calculated on the face value of tickets. This resulted in short realisation of sale proceeds of ₹ 79.34 crore, as detailed in the following table:

Table 8.4

Short realisation of sale proceeds due to sale of tickets below face value

(₹ in crore)

Name of lottery	Total no. of draws	No. of tickets printed	Actual No of tickets on which revenue was payable	Actual sale proceeds realised on sale value	Actual sale proceeds realisable on face value	Short-realisation of sale proceeds
Bangabhumi Super	60	7,92,50,000	7,48,54,969	28.82	37.43	8.61
Bangasree Super	60	7,18,50,000	6,66,26,600	49.14	66.63	17.49
Bangalakshmi	120	25,70,00,000	25,11,76,070	37.68	50.23	12.56
Bumper	30	8,23,47,500	8,13,63,110	122.04	162.73	40.68
Total	270	49,04,47,500	47,40,20,749	237.68	317.02	79.34

After this was pointed out, the Department stated (November 2016) that the tickets were sold to the distributor at a pre-determined price below MRP or face value, as specified in the approved scheme by the Government of West Bengal. The reply was not tenable as Rule 2(1)(h) provided for collection of sale proceeds calculated at the face value printed on each ticket. As such, the notifications issued by the Department approving the draws were flawed and violated the provisions of the Lotteries (Regulation) Rules, 2010. This was also not in line with directions issued by Ministry of Home Affairs which stated that the entire proceeds from the sale of lottery tickets were to be deposited in the Consolidated Fund of the State.

¹²² As per the agreement executed between DSLWB and WBLSSPL, the distributor was required to pay for a minimum guaranteed sale of 90 per cent of the printed tickets. Hence, in cases where distributor sold less tickets, value of 90 per cent of the printed tickets has been taken into account.

8.3.2.2 Delayed credit of sale proceeds in the government account

Rule 3.01 of the West Bengal Treasury Rules, 2005 and explanation given thereunder prescribes that all moneys received by or tendered to Government employees on account of the revenues of the State shall, without undue delay i.e. within the next working day at the latest, be paid in full into the treasury linked bank or any other bank authorised by the Finance Department and shall be included in the Government Account.

As per agreement, WBLSSPL was required to pay sale proceeds of the tickets printed by DSLWB at sale prices fixed by Finance Department within eight weeks from the date of lifting of lottery tickets or seven days after a particular draw, whichever was earlier. As per the agreement, prize money up to ₹ five thousand was paid to prize winners by WBLSSPL and it was required to submit claim for reimbursement to DSLWB within 120 days from the date of draw. DSLWB was required to reimburse such prize money from the budget allotment received from the Finance Department. It was however, observed that instead of reimbursement of the prize money from the expenditure head of account, DSLWB adjusted the same against the value payable for the tickets (revenue) issued on the subsequent occasions. Since, payment of prize money was adjusted with revenue, a transfer bill was drawn by DSLWB for debiting the expenditure head and crediting the revenue head by the prize money simultaneously on receipt of budget allotment.

It was observed during scrutiny of transfer bills register maintained by DSLWB that 244 bills for reimbursement of prize money amounting to ₹ 80.24 crore was submitted by WBLSSPL. These were adjusted with the value of the lottery tickets lifted by WBLSSPL during the period between March 2009 and March 2015. It was seen that the transfer bills for the aforesaid adjustments were drawn by DSLWB between June 2010 and March 2015 with delays ranging between five and 918 days from the date of adjustment of revenue as shown below:

Table 8.5

Delayed credit of sale proceeds in the government account

(₹ in crore)

Range of delay	No of cases	Amount involved
5 to 180 days	75	30.30
181 to 365 days	58	18.62
366 to 730 days	101	29.11
Exceeding 730 days	10	2.21
Total	244	80.24

Scrutiny of records further showed that the delay in processing of transfer bills was due to want of adequate budget allotment. Thus, a large amount of government revenue was kept out of government account for a considerable time, in violation of Treasury Rules. Moreover, delayed deposit of revenue had an adverse impact on Wages and Means Advances availed of by the Government.

After this was pointed out, the Department stated (November 2016) that there was backlog in the drawal of adjustment bills in 2010-11, for want of allotment of funds by the Finance Department; however, with the increased allotments from the government in the subsequent years, the accumulation has been cleared and that, from 2013-14 onwards, the drawal of transfer bills for adjustment was being done regularly without any delay. The reply was not tenable as 83 out of 244 pending cases pointed out by Audit pertained to the period from 2013-14 onwards, involving delays ranging from five to 918 days.

8.3.3 Payment of prize money

Audit observed that the prize money from winning of lottery tickets exceeding ₹ five thousand were paid by the Finance Department. Winners of prize money were required to submit the prize winning tickets, along with their claims for the prizes to DSLWB, through nationalised banks within a period of 30 days from the date of draw. After verification of the prize winning tickets, the prize money was paid by DSLWB into the bank accounts of the prize winners, while prize moneys up to ₹ five thousand are paid by the distributor on behalf of DSLWB. The distributor was required to settle accounts with DSLWB within a period of 120 days from the date of draw. Scrutiny of records of DSLWB and WBLSSPL showed the following deficiencies:

8.3.3.1 Repeated winning of prizes by a group of families

During scrutiny of records relating to payment of prize money by DSLWB, it was observed by audit that members of three families, residing at three different households, had repeatedly won major prize money¹²³ aggregating ₹ 93.60 lakh in 32 lottery draws conducted between May 2010 and September 2013. Audit also observed that one of the families was engaged in selling of lottery tickets as an agent of WBLSSPL. This is an indicator of the possibilities of fraudulent practices being indulged in claiming of prizes.

After this was pointed out, the Department stated (November 2016) that the Directorate did not have any authority to restrict repeated winnings and deny the prize money to a person if original prize winning tickets were produced. The reply did not address as to how members of the same family were the recipients of such benefits repeatedly.

Audit Objective 3: Adequacy and effectiveness of the internal control mechanism

Internal control is an integral component of an organisation's management process established in order to provide reasonable assurance that the organisation's operations are carried out effectively, economically and efficiently. Evaluation of internal control mechanism in the administration of lotteries by the DSLWB showed deficiencies in operational and monitoring controls, as discussed in the succeeding paragraphs:

8.4.1 Non-conducting of inspection of the records of the distributor

As per clause 14 of agreements executed between DSLWB and WBLSSPL in April 2011 and January 2014, DSLWB or its representative is authorised to inspect the books of accounts of the distributor. As per clause 2.3 the marketing agreement of January 2014, the distributor or any of his family members/business partners shall not be associated in any manner with any

¹²³ Prize money in excess of ₹ five thousand.

other company/firm/body associated or engaged in lottery business conducted or organised by other government or its agents.

It was observed that the records of WBLSSPL had never been inspected by DSLWB or its authorised representative. Further, no report, returns are submitted by the distributor to DSLWB. Due to non-inspection of records of the distributor, the violation of the Rules and breach of conditions of agreement by the distributor could not be detected by the Department and consequently remedial action could not be taken by it as discussed below:

- Audit observed that the Board of WBLSSPL, a company registered under the Companies Act, 1956, had three directors. From the website of the Ministry of Corporate Affairs, Government of India, it was seen that one of the directors of WBLSSPL and the son of another director were engaged in the sale of other states lottery viz. Mizoram, Nagaland and Sikkim. Thus, from the records it was evident that the director of WBLSSPL and their family members were closely associated with companies engaged in lottery business conducted or organised by other Governments or their agents, in violation of clause 2.3 of the agreement of January 2014.
- From the sale/marketing agreement executed between DSLWB and WBLSSPL it was observed that WBLSSPL comprised eight stockists. From the enquiry report of the Inspector of the Directorate of Agricultural Income Tax (DAIT) in March 2016 it was, however, observed that two agents of WBLSSPL were also engaged in the sale of lottery tickets of the State of Mizoram and Nagaland, which was detrimental to the interest of State Government. This violated clause 2.3 of the agreement of January 2014 and was thus, illegal.

After this was pointed out, the Department stated (November 2016) that the distributor had been requested to furnish its reply in this regard. However, the Department did not furnish any reply for non-conduct of periodical inspection of the records of the distributor.

8.4.2 Other deficiencies

Audit observed that DSLWB did not have an internal audit wing (IAW) of its own. The IAW of Finance Department was responsible for conducting the internal audit of the directorate. From records of DSLWB audit found that internal audit of Directorate was conducted only once (April 2010) during the period covered by audit. A strong IAW could have prevented the occurrence of the kind of irregularities highlighted in this report.

After this was pointed out, the Department did not furnish any reply (October 2016).

8.5 Conclusion

The Performance Audit on the West Bengal State Lotteries showed a number of deficiencies relating to the organisation and monitoring of State Lotteries. The purpose of organisation of State lotteries has not yet been notified by the Department. DSLWB organised lotteries to raise additional revenue. However, the net revenue mobilised through organisation of State Lotteries


was very low compared to the total non-tax revenue of the State and the same was not utilised by the Department for specific development activities as envisaged in the Lotteries (Regulation) Rules, 2010. The Department could not ensure realisation of full amount of revenue from the distributor as per Lotteries (Regulation) Rules, 2010 and their timely credit in the government account due to adoption of improper accounting procedures. The Department also did not have any effective co-ordination system with the other Organising States.

The monitoring mechanism of the Department in respect of other State lotteries was deficient, which resulted in sale of tickets of other State lotteries without payment of charges. Internal control mechanism as well as internal audit system of the Department was inadequate, rendering the whole process of organisation of lotteries mostly inefficient.

8.6 Recommendations

Seventeen States¹²⁴ of India have discontinued the organising of lottery in their territory on account of higher social costs. Considering the insignificant revenue generated in West Bengal from State Lotteries and deficiencies in organisation of State Lotteries stated above, the Government may consider discontinuance of West Bengal State Lotteries in its current form.

Kolkata 31.01.2017


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¹²⁴ Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Odhisa, Rajasthan, Tamil Nadu, Telengana, Tripura, Uttar Pradesh and Uttarakhand.

