

Chapter I: Introduction

1.1 Legal framework

In terms 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. Lotteries organised by Government of India (GoI) or the Government of a State is a Union subject, but the taxes on sale of such lotteries is a State subject. The policy of GoI relating to lotteries has been strictly against holding, authorising or extending support to any kind of lottery in any form and for any purpose howsoever laudable on the ground that they encourage the gambling spirit and disturb the normal economic equilibrium. However, States are allowed to organise lotteries subject to scrupulous observance of provision of the Lotteries (Regulations) Act, 1998 and Lotteries (Regulations) Rules, 2010.

The Lotteries (Regulation) Act, 1998 regulates the Lotteries and provides guidance for matters connected therewith throughout the country. The Act empowered the Central Government as well as the State Governments to make Rules to carry out the provisions of the Lotteries (Regulation) Act. While the Central Government has enacted the Lotteries (Regulation) Rules, 2010, State Governments have simultaneously enacted their own Rules, viz. Sikkim State Lottery Rules, 2003 and Sikkim Online Network Lottery Rules, 2001.

1.2 Evolution of the Sikkim State Lotteries

On the basis of records available with the Directorate of Sikkim State Lotteries (DSSL), the first Scheme of Sikkim Government Lotteries was notified in March 1972, i.e. more than 45 years ago when Sikkim was an independent kingdom. After merger with India (1975), the first Lottery Scheme was introduced in 1978 by the State Government. Various schemes of lotteries have been organised by Government of Sikkim continuously since commencement of lotteries in the State.

In the earliest stage of implementation of Lottery Schemes in Sikkim prior to 1978, a commission of 25 *per cent* of the value of tickets was allowed at source to the agents at the time of purchasing of tickets. The rate of commission, however, varied from time to time by the Government in the interest of sales/revenue. Bonus was also allowed on prize winning tickets to the agents/sellers.

The proceeds from the lotteries were aimed to be utilised for developmental activities and for the welfare of ex-armed Servicemen of Sikkim. The Authority to frame rules relating to the Lotteries was vested with the Government of Sikkim.

After 1978, however, the State Government began organising lotteries through Organising Agent (s) (*referred to as Marketing Agent at present*), selected from time to time through negotiation or by calling tenders and entering into agreements. All such lotteries were initially drawn through paper tickets printed in advance bearing the name of the lottery,

date of draw, ticket number, prizes, name of the State, price of ticket, terms and conditions for claim of prizes etc.

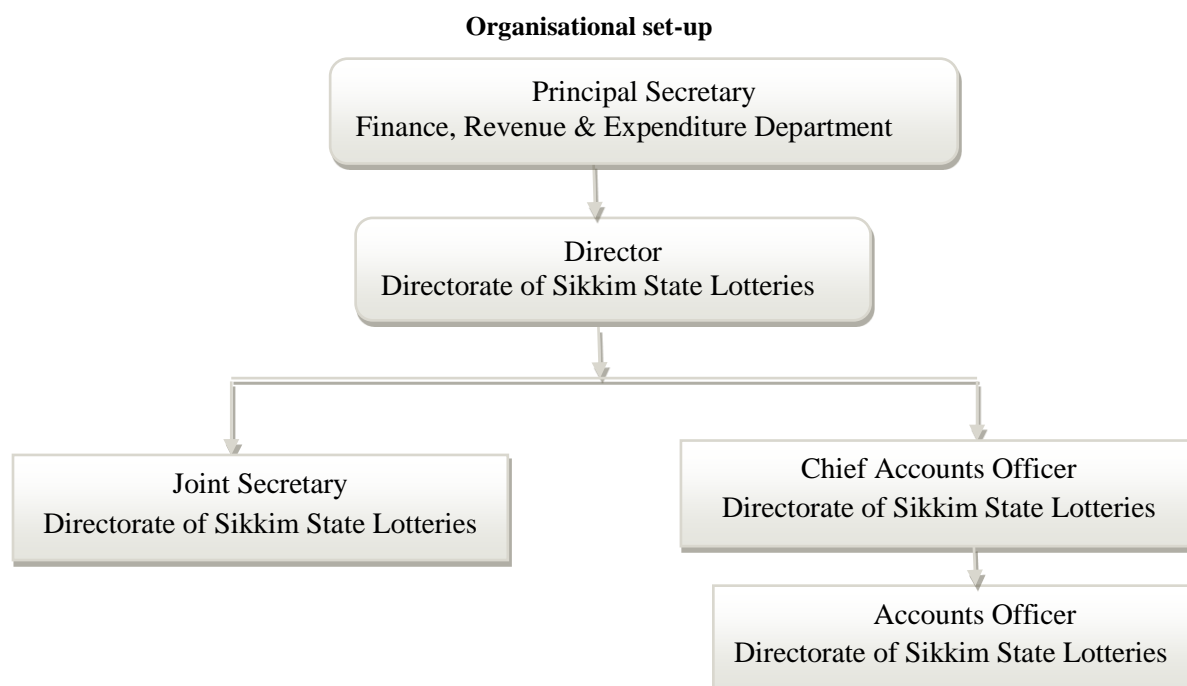
The State Government introduced 'Online Lotteries' in August 2001. Online lottery scheme is an internet based lottery established to facilitate players to purchase lottery tickets, generated by computers or instant ticket vending machines at lottery terminals. Information about the sale of tickets and the player's choice of any particular number or combination of numbers, are simultaneously registered with a central computer server.

Rule 3(20) of the Lotteries (Regulation) Rules, 2010 empowers the Comptroller and Auditor General of India (CAG) to conduct audit of any lottery or lottery scheme, organised by any State. In view of the said provision, audit of lotteries organised by the State of Sikkim, for the period 2010-16 has been conducted.

During the period 2010-16, the State was organising both conventional paper based Lottery as well as Online Lotteries. The State engaged three distributors for marketing its lotteries – two for online lotteries and one for paper lotteries. Total 44,834 lottery draws were conducted during the period.

Organisational set-up

Principal Secretary, Finance, Revenue and Expenditure Department (FRED), Government of Sikkim is the overall administrative head of Sikkim State Lotteries. The Director, Directorate of Sikkim State lotteries (DSSL) oversees the day to day functioning of the State Lotteries. The Director is supported by a Joint Secretary, a Chief Accounts Officer, an Accounts Officer and other accounts and administrative staff in the discharge of his functions. Organisational set-up is given in the diagram below.



1.3 Audit Objectives

The audit was conducted to assess whether:

- *procedures laid down in the Lottery (Regulation) Act, 1998/the Lotteries (Regulation) Rules, 2010 and the State specific Rules of Sikkim Government on Lotteries, were adhered to while organising lotteries;*
- *revenues accrued through operation of lotteries were properly assessed and remitted;*
- *all records relating to printing, sale of tickets and return of unsold tickets, were maintained;*
- *the internal control mechanism was adequate and effective; and*
- *the revenue generated was used for prescribed purposes.*

1.4 Audit Criteria

The audit findings were benchmarked against the following criteria:

- ❖ The Lotteries (Regulation) Act, 1998;
- ❖ The Lotteries (Regulation) Rules, 2010;
- ❖ Sikkim State Lottery Rules, 2003;
- ❖ Sikkim Online Network Lottery Rules, 2001;
- ❖ Notification/orders issued by the Central/State Government from time to time.

1.5 Scope and methodology of audit

The audit covered the period from 2010-11 to 2015-16. The audit methodology consisted of issue of questionnaires, examination of records/reports etc., available with DSSL and the Marketing Agents, joint site visits to Points of Sale, Central Servers etc.

The audit commenced with an Entry Conference with the Principal Secretary, FRED, Government of Sikkim and his team of officers on 15 January 2016 wherein, audit objectives, criteria and methodology were discussed. The Exit Conference was held on 9 December 2016 with the Principal Secretary, FRED and his team of officers wherein the audit findings were discussed. The Report, with modifications, was issued again to the Government and replies were received in July 2017. Replies furnished by the Department have been suitably incorporated in the Report.

1.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the State Government in providing all records and information during this audit.