

EXECUTIVE SUMMARY

In India, the States can organise lotteries subject to observance of provision of the Lotteries (Regulations) Act, 1998 and Lotteries (Regulations) Rules, 2010. The Lotteries (Regulation) Act, 1998 regulates the Lotteries and provides for matters connected therewith throughout the country. The Act empowered the Central Government as well as the State Governments to make Rules to implement the provisions of the Lotteries (Regulation) Act. The first Scheme for conduct of Sikkim Government Lotteries was notified in March 1972 more than 45 years ago when Sikkim was not a State of India. After merger with India, the first Lottery schemes by the State Government were introduced in 1978 and various schemes of Lotteries have been organised by the Government of Sikkim.

(Paragraph 1.1 & 1.2)

During 2010-16, the State of Sikkim organised 44,834 draws of various lottery schemes. Audit observed many lapses in the lottery operations of the State relating to monitoring, maintenance of records, deposit of revenues, failure to authenticate and ascertain prize payments by Marketing Agents (MAs), the draw process, failure to obtain details of prize winning tickets and unsold tickets from MAs and absence of checks and controls on operation of lottery schemes.

(Paragraph 2.1)

The MAs were appointed for marketing the State Lotteries. The appointment of MAs lacked transparency and consistency. The MAs were selected sometimes through the tender process, sometimes through negotiation after calling for offers individually and sometimes by extension of terms of contract with existing MAs without tendering which deprived the State to get the highest bid and optimum revenue.

(Paragraph 2.2)

Rule 3(2) of Rules, 2010 envisaged that the State Government should organise a lottery or lotteries only after issuing notification in the Official Gazette, outlining the purpose, scope, limitation and methods thereof. Failure to issue mandatory notification under Rule 3(2) of Rules, 2010 in time resulted in repeated litigations, delay in award of marketing contract and consequent financial loss of ₹ 13.52 crore.

(Paragraph 2.2.3)

Despite disqualification of the tender and contrary to recommendation of the tender selection committee, M/s Pan India Network Pvt Ltd. was awarded marketing contract of Online Lotteries in November 2012 for five years.

(Paragraph 2.2.5)

Rule 18 of the Sikkim Online Network Lottery Rules, 2001 inter alia envisaged that the State Government may after opening of tenders and on the recommendation of Tender Security Committee or any organisation authorised by the State Government appoint MA for selling computerised network lottery tickets. There was no provision in the Rules for appointment/re-appointment by extension of contract without calling for tenders. M/s Summit Online Trade Solutions Pvt. Ltd. was appointed MA for marketing eight on-line lottery schemes of

the State without calling for tenders. Further, the MA had not installed the Central Server within Sikkim as required under the agreement signed with the State.

(Paragraph 2.2.6)

Against the total sale proceeds of ₹ 44,834.87 crore during 2010-16, the MAs deposited ₹ 628.74 crore to the Government Account which comprised of Minimum Guaranteed Revenue (MGR), prize money above ₹ 10,000, draw expenses, printing charges (in respect of paper lotteries) and the unclaimed prizes. The sale proceeds deposited to Government Account constituted only 1.40 per cent of the total sale proceeds while 98.60 per cent of the proceeds were retained by the MAs. The net revenue (MGR) realised by the State after meeting the expenses on draw, printing costs of lottery tickets, prize money above ₹ 10,000 etc. constituted a mere 0.40 per cent of the sale proceeds. Thus, the MAs appeared to be the de facto beneficiaries of the State's Lotteries while the State received a meagre revenue from its Lotteries' business.

(Paragraph 2.3.1)

During 2010-16, in the three online weekly games with large prize money, the Directorate allowed the MA to retain prize money amounts ranging from ₹ 1.00 crore to ₹ 11.58 crore for periods ranging from one week (7 days) to 80 weeks (560 days). No penalty was imposed on the MA for retention of the undrawn prize money. Allowing the MA to regularly retain the prize money against the above games for prolonged periods till the jackpot was hit resulted in undue favour to the MA of ₹ 3.50 crore towards interest (calculated @ 8 per cent per annum) due to non-insistence for deposit of undisbursed prizes.

(Paragraph 2.3.5)

It was noticed that during 2010-16, paper lottery tickets were printed mainly from four security printers, without call of tenders. The printing presses were instructed by the Directorate of Sikkim State Lotteries (DSSL) to deliver the paper lottery tickets directly to the two area distributors appointed by the MA (located at Kolkata) without any check by any officer of the DSSL. Hence, there was no control over actual number of tickets printed and the delivery and distribution of lottery tickets to the MA. The MA provided details of sale of tickets to the Department from time to time. The Department had adopted a system of sale on "all sold" basis where all tickets handed over to the MA were considered as 'sold' and did not insist on the MA to return the unsold tickets.

The tickets in the case of Online Lotteries were printed instantly on demand of customers at the points of sale. The number of tickets printed depended upon the demand of the customers. The State had no means to independently verify the number of tickets printed and sold by the MAs against any draw. The State entirely depended on the statements submitted by the MAs regarding the number of tickets sold. There was no mechanism to regulate the printing, sale, cancellation and accounting of 'unsold' tickets in respect of Online Lotteries.

(Paragraph 2.4)

In contravention to the provision of the Lottery (Regulation) Rules, 2010 relating to conduct of draw of lots by operating draw machine or any other mechanical method visibly

transparent to the viewers, the State, for Online Lotteries, used electronic devices called Random Number Generators (RNGs) for drawing results of the lottery schemes. 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 at Mumbai and from thereon to the various points of sale placed in different States. Thus, the draw of results for Online Lotteries was done by using a method which was non-mechanical, could not be easily understood and not visibly transparent to the viewers. Merely by looking at the draw of results through RNGs, it was not understood how the Department could ascertain that the system was free from manipulation.

(Paragraph 2.5)

The internal control system in the Department was weak as evidenced by absence of control system in preparation of the lottery game designs or schemes. All schemes were prepared by the MAs themselves while the Department approved the schemes without any vetting to verify if the lottery schemes conformed to the Act and Rules. The MAs were authorised to distribute prizes upto ₹ 10,000 but there was no system in the Department to verify the authenticity of distribution of such prizes by MAs indicating serious lapse of control. The MAs were never asked to submit audited statement of accounts, there was no system for proper verification of submitted accounts/records and for periodical inspection of accounts of distributor/area distributor etc. Monitoring of the activities of the distributors or their sub-agents to detect illegalities/irregularities was found lacking. Despite running Online Lotteries since August 2001 for more than 14 years, the Directorate of Sikkim State Lotteries did not have any expert on Information and Communication Technology (ICT) on its roll. The entire operation of Online Lotteries was run by the MAs using application software, computer programmes and internet networks of their own choice without prescription of any norms and standards by the State. The Central Servers were located in Mumbai in data centres of the MAs' own choice, in contravention of Lottery Rules, 2010 which provide that it should be located within the State. Annual finance and systems audit of the various lottery schemes organised by the MAs had not been conducted so far (July 2017) as necessitated by the Lottery Rules, 2010.

(Paragraph 2.7 & 2.8)