

EXECUTIVE SUMMARY – CHAPTER - VIII

Tax collection The percentage of variation between the Budget estimates and actual receipts was more than 15 *per cent* in all the years. The actual receipts during 2010-11 were 19.71 *per cent* less than the budget estimates. The huge variation indicates that the budget estimates were not realistic.

What is highlighted in this Chapter The following defects were noticed on scrutiny of the data of Lottery Information Management System (LIMS) installed in the Department.

118 multiple claims were submitted for the period 2008-2011 by the prize winners against 91 prize winning tickets, of these 51 cases are still pending finalisation with the Department.

(Paragraph 8.1.5.2)

30,262 prizes involving ₹ 25.80 lakh were given in excess of the number of prizes offered in 66 draws.

(Paragraph 8.1.5.3)

The reliability of the software used by the Department was not tested even after a lapse of four years after its implementation by a competent authority to ensure that all the system controls exist.

(Paragraph 8.1.5.4)

69 prizes amounting to ₹ 3.94 crore were won repeatedly by persons residing at 30 households in Mumbai pointing towards the possibility of fraudulent practice in claiming prizes.

(Paragraph 8.1.5.6)

Recommendations *It is recommended that the Department*

- may ensure that provisions for ascertaining the genuineness of tickets before payment of prizes are strictly observed by the Department;
- may pursue the cases with the crime branch for ensuring credibility;
- may finalise accounts of lotteries scheme wise and draw wise for the efficient conduct of lotteries;
- may fix a time frame for e-payment and adequate security measures and necessary facilities; and
- may ensure a databank of all the persons involved directly or indirectly by making suitable provisions in the software LIMS.

CHAPTER-VIII : NON-TAX RECEIPTS

A. LOTTERIES

8.1 Conduct of Lotteries in the State

8.1.1 Introduction

The Lotteries (Regulation) Act, 1998 promulgated by the Government of India on 7th July 1998 was formed to regulate the system of lotteries in the States of India and empowered the States to regulate the business of lotteries. Lottery as defined in the Act, means a scheme, in whatever form and by whatever name called, for distribution of prizes by lot or chance.

Kerala is the pioneer state which started Government run lottery in India. The aim of conducting lotteries was to enhance the State non-tax revenue and providing a stable income source to the poor and the common. A separate Department called “Directorate of Lotteries” was formed in 1967 under the administrative control of Secretary (Taxes). The functions of the Department were computerised using a web based Lottery Information Management System (LIMS) in the year 2008 developed by a State PSU, M/s KELTRON.

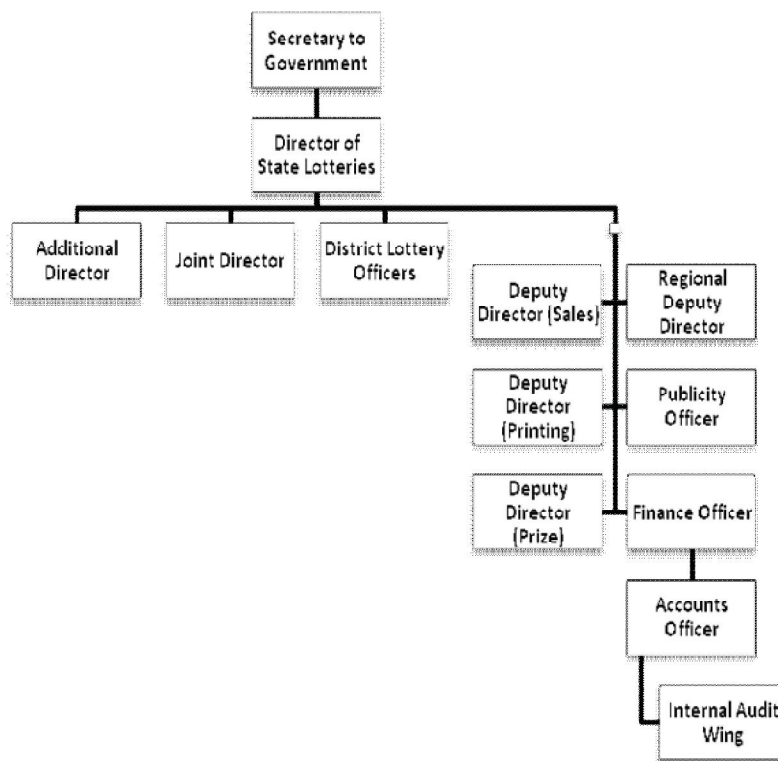
8.1.2 Scope and methodology

The audit was conducted during January to May 2012 for the period from 2006-07 to 2010-11 at the Directorate and selected units and at the selected offices of Commercial Taxes Department with a view to ascertain the efficiency and efficacy of the Department in revenue collection and employment generation.

Before taking up the audit, an Entry Conference was held on 24 January 2012 with the Joint Secretary (Taxes) and Commissioner of Commercial Taxes wherein the scope and methodology of audit was discussed. The Joint Secretary assured full co-operation in the conduct of the review. An Exit Conference was conducted with the Additional Secretary (Taxes) and Director of State Lotteries on 25 June 2012 wherein the audit findings were discussed in detail. The reply received (August 2012) from Department has been incorporated.

8.1.3 Organogram

The organogram of the Department is given below.



8.1.4 Acknowledgement

The audit acknowledges the co-operation of the State Lotteries Department, the Commercial Taxes Department and M/s Keltron in providing the necessary information and records for audit.

8.1.5 Audit Findings

8.1.5.1 Trend of receipts

The Lotteries Department projects the total sale proceeds of lotteries as the total revenue collection of the Department without excluding expenses relating to discount to agents, prize moneys, agents prizes, incentives etc. and other administrative expenses. An analysis of the total and net revenue for the period covered in audit revealed that despite steady increase in total revenue collection during the period, lotteries failed to provide significant contribution to the State revenue-both tax as well as non-tax revenue.

(₹ in crore)

Year	Budget estimate	Actual Receipts	Percentage of Variation	Total Expenditure	Net Revenue	Total Non tax revenue of the State	Percentage of contribution to non tax revenue	Total Tax revenue of the State	Tax on paper lotteries	Percentage to total tax revenue
2006-07	191.00	236.26	23.70	200.35	35.91	937.57	3.83	11941.82	5.50	0.05
2007-08	251.45	333.91	32.79	282.75	51.16	1209.55	4.23	13668.95	19.93	0.15
2008-09	420.00	484.76	15.42	382.11	102.65	1559.29	6.58	15990.18	28.07	0.18
2009-10	474.60	625.74	31.85	513.03	112.71	1852.22	6.09	17625.02	29.62	0.17
2010-11	694.60	557.69	-19.71	470.44	87.25	1930.79	4.52	21721.69	24.15	0.11

It would be seen from the above that the percentage of variation between the Budget estimates and actual was more than 15 per cent in all the years. The actual receipts during 2010-11 were 19.71 per cent less than the budget estimates. The huge variation indicates that the budget estimates were not realistic.

After this was pointed out, the Department intimated that the decrease in actual receipts during the year 2010-11 was due to the cancellation of draws consequent upon the High Court orders.

System defects

The following defects were noticed on scrutiny of the data of LIMS installed in the Department.

8.1.5.2 Non-utilisation of barcode/secret code system

LIMS has provision for ensuring the genuineness of the ticket before payment of prizes, through "barcode (secret code) reader". As per Rule 9(9) of the Kerala Paper Lotteries (Regulation) Rules 2005, criminal proceedings shall be initiated against those who produce forged tickets.

As per the data obtained from LIMS for the period 2008-2011, 118 multiple claims¹ were received against 91 prize winning tickets. In 67 cases, amounts aggregating to ₹ 73,200 were paid to the second claimant. The remaining 51 cases involving prize money of

₹ 67,800 were not settled and are pending verification. It was noticed that admitting of false claim was due to non-reading the barcode of the ticket to ascertain genuineness of the ticket.

After this was pointed out, the Department admitted that in some cases payments were made without reading barcode, however now prize payments are made after reading the barcode of the tickets with computer scanner and ascertaining its

¹ Claim submitted by more than one person on a single lottery ticket.

genuineness. It was also intimated that criminal proceedings were initiated in one case. Thus non-observance of the system resulted in admitting multiple claims and disputes in distribution of the prizes.

It is recommended that the Department may ensure that provisions for ascertaining the genuineness of tickets before payment of prizes are strictly observed by the Department.

8.1.5.3 Absence of validation controls in LIMS

LIMS has provisions to check the number of prizes offered and paid for each scheme of lottery. The number and the amount of prizes to be paid in each draw are fed in LIMS.

Audit analysed the data relating to prizes offered vis-à-vis prizes paid available in the LIMS during the period from August 2008 to September 2010 and found that the Department had distributed 30,262 prizes involving ₹ 25.80 lakh in excess of the number of prizes offered in 66 draws. The excess grant of the prizes shown by the LIMS needs investigation. Besides, validation controls need to be put in place in the system to ensure that prizes distributed match with the prizes offered.

After this was pointed out, the Government stated that the matter is being investigated and report would be submitted.

8.1.5.4 Software certification

The Department had initiated the software certification for LIMS and the first phase of certification by Standardisation Testing and Quality Certification (STQC) started on 8 March 2010. Neither work-order nor payment was released by the Government so far and STQC discontinued the certification process.

The cash accounting of the district lottery offices relies entirely on the LIMS. Even after the lapse of four years from its implementation, the accuracy and reliability of the software was not tested by a competent authority to ensure that all the system controls exist.

After the case was pointed out in audit, the Department stated that steps had been taken for software certification.

8.1.5.5 Mistake in publication of prize winning lottery ticket

As per Rule 8 of Kerala Paper Lotteries (Regulation) Rules 2005, draws of each lottery are conducted by the Government under the supervision of a panel of judges approved by the Government using tokens and manually operated drums and the results announced after verification with the list of unsold tickets.

The second prize of Thiruvonam Bumper Lottery-2011 won by ticket number IR-339602 was wrongly published as TH-339602. Accordingly, the purchaser of ticket number TH-339602 made a claim and after verification the claim was rejected by the Department since the prize was won by ticket No. IR-339602. The necessary corrections were made by the Department through print and visual media. However, taking into account the mental agony suffered by the claimant,

for non-disbursal of his claim, the Government accorded sanction of ₹ 2 lakh as special compensation vide Government Order dated 29 May 2012. The Department stated that this might be due to a mistake in the computer system and strict preventive measures were being taken to ensure correct uploading of results.

However, the fact remains that in addition to the mental agony suffered by the incorrect claimant, the mistake has resulted in a compensation of ₹ 2 lakh paid by the Department.

8.1.5.6 Repeated winning of prizes by persons from particular addresses

The data regarding prize winning tickets from LIMS were analysed to ascertain the trend if any and it was noticed that out of 1,162 major prizes (above ₹ one lakh) amounting to ₹ 216.19 crore claimed during 2008-09 to 2010-11, 344 prizes (29.6 per cent) amounting to ₹ 27.31 crore were claimed by persons residing in other States. Out of the 344 prizes, 69 prizes (20.06 per cent) amounting to ₹ 3.94 crore were won repeatedly by persons residing at 30 households in Mumbai. This is a pointer to the possibility of fraudulent practice in claiming prizes.

After the case was pointed out in audit, the Department stated that claims submitted from Thane and Mumbai in Maharashtra were referred to Crime Branch, Economic Offences Wing, Thiruvananthapuram. It was also stated that the matter has been taken up with the Government and due to stringent action, the number of outside claims received seemed reduced.

It is recommended that the Department may pursue the cases with the crime branch for ensuring credibility.

8.1.5.7 Non-preparation of scheme-wise and draw-wise accounts of lotteries

LIMS software provides facility for finalisation of accounts of lotteries - scheme wise and draw wise. However, it was noticed that the Department was not preparing the accounts of lotteries scheme wise/draw wise. Thus three lotteries that suffered loss of ₹ 1.33 crore could not be stopped immediately. Of these, lottery 'Adithya' was stopped after 22 draws while 'Aiswarya' and 'Amulya' were stopped after five and four draws respectively.

Audit recommends that the Department may finalise accounts of lotteries scheme wise and draw wise for the efficient conduct of lotteries.

8.1.5.8 Lack of adequate safeguards in handling of cash

The daily cash collection in the DLOs ranged from ₹ 22 lakh to ₹ 89 lakh on the test checked days in the selected districts. This amount is remitted into the bank account only on the next day. It was stated that this amount is kept in a cash chest and no security personnel for safeguarding the cash overnight was provided. Facilities like counting machines or fake currency detectors had not been provided in the DLOs so as to enable speedy sales, safe and accurate handling of the money received, remitted or distributed.

After the case was pointed out in audit, the Department stated that steps had been taken for implementation of e-payment. However, no time frame has been fixed for the same.

It is recommended that a time frame for e-payment may be fixed and adequate security measures and necessary facilities may be provided till full fledged e-payment is established in the Department.

8.1.5.9 Absence of data to assess the progress made in providing employment

Providing a stable income source to the poor and the common is one of the aims of the Department. But no data was available with the Department to analyse and compare the figures periodically to ascertain the progress made in this regard. Further, audit analysis of the prizes distributed to agents during 2010-11 revealed that out of 214 prizes amounting to ₹ 810.29 lakh, two² agents had got ₹ 447.21 lakh in 122 prizes. It was 55.19 *per cent* of the total amount indicating monopoly of the agents.

After this was pointed out, the Department stated that even though no authenticated reports are available with the Department, it was assumed that the persons who are engaged in indirect employment would be around five to ten times the number of registered agents. It was stated that the tentative number of registered agents was about 40,000. Out of these, active agents were stated to be around 20,000. The above facts indicate that the Department does not have actual figures of registered agents and achievement of the objective that lottery is providing a stable income source to the poor and the common is not being monitored.

It is recommended that the Department may ensure a databank of all the persons involved directly or indirectly by making suitable provisions in the software LIMS and obtaining information from all persons involved.

² M/s Manjoo Lottery and M/s Meenakshi Lucky Centre

B. INTEREST RECEIPTS

8.2 Non-realisation of interest on loans

Under the provisions of Article 234 of the Kerala Financial Code Volume I Chapter IX, before sanctioning and disbursing a loan the sanctioning authority is required to specify the terms and conditions including the date of commencement of payment of instalments, the periodicity and time within which each loan has to be fully repaid with interest due. Interest is to be determined on the balance of loan outstanding till the dues are fully paid. Any default in the payment of interest upon a loan or in the repayment of the principal, the authority concerned should immediately take steps to get the default remedied. Further, the Government in its circular⁴ instructed the Administrative Departments to maintain a separate register to closely monitor remittance of principal loan and interest and issue demand notices to defaulters.

Government sanctions interest bearing loans to institutions³ and individuals for various purposes. The loans i.e. principal and interest as prescribed are recoverable within a stipulated period in equal periodical instalments as per terms and conditions of the sanction orders. In case of default in repayment of loan or any instalment or interest due as per the terms and conditions of the sanction, penal interest is chargeable from loanees.

Mention was made in paragraph 10.1 of the Report of the Comptroller and Auditor General of India (Revenue Receipts) for

the year ended 31 March 1997 highlighting the shortcomings during the years 1992-93 to 1995-96 regarding recoveries of interest on loans and advances. The Public Accounts Committee (PAC 2001-04) in their 47th Report recommended that separate centralised control mechanism should be evolved in Finance Department for the coordination and effective monitoring of recovery of loans and interest and for that the Finance Department may issue instructions to the concerned authorities for compliance of guidelines in this regard. To ensure compliance of instructions and monitor recoveries, the Finance Department was required to scrutinise the records from time to time. However, a separate centralised control mechanism in Finance Department for the effective monitoring of recovery of loans and interest as recommended by the PAC has not been implemented so far. Due to the absence of monitoring action on the part of the Department, interest and penal interest amounting to ₹ 17.02 crore continued to be outstanding on 31 loans sanctioned between 1979 and 2009 as given detailed in *Annexure III*.

³ Commercial and Public sector undertakings, Co-operative societies, Local bodies, Industries etc.

⁴ Circular No.56/98/Fin dated 10 August 1998.

Further, in respect of 101 cases, the terms and conditions have not been fixed while sanctioning the loan during the period from 1982 to 2010 which resulted in non-levy of interest of ₹ 189.56 crore including penal interest as detailed in *Annexure-IV*.

After this was pointed out (July 2012) the Government stated (August 2012) that for the coordination and effective monitoring of recovery of loans sanctioned by the Government, the Finance Department had issued instruction to all the Administrative Departments and the Heads of various Departments to initiate urgent action to fix the terms and conditions of past cases of loans and also to take steps for repayment of the instalments of loans and interest dues.



**Thiruvananthapuram,
The**

**(Dr. BIJU JACOB)
Accountant General (ERSA)
Kerala**

Countersigned



**New Delhi,
The**

**(VINOD RAI)
Comptroller and Auditor General of India**