

EXECUTIVE SUMMARY

In order to strictly regulate the scheme of lottery the Government of India (GoI) enacted the Lotteries (Regulation) Act 1998. 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. The Ministry of Home Affairs, GoI notified the Lotteries (Regulation) Rules 2010 on 1 April 2010. The Government of Mizoram started organising Mizoram State Lotteries from 21 April 1987. The Directorate of State Lottery was established on 29 July 1987. It was renamed as the Directorate of Institutional Finance and State Lottery (IF&SL) in September 2005 and given the responsibilities for all activities related to the operation of State Lotteries. The Government of Mizoram notified (9 March 2011) the Mizoram Lotteries (Regulation) Rules 2011. The State Government in May 2012 through tendering process selected four distributors for operating and marketing of all lottery schemes (paper and online) of Mizoram.

(Paragraphs 1.1&1.2)

In order to examine the compliance of the procedure as laid down in the Lotteries (Regulation) Act 1998, the Lotteries (Regulation) Rules 2010 and the Mizoram Lotteries (Regulation) Rules 2011 and the overall functioning of the Department, a Performance Audit of “Mizoram State Lotteries” was conducted covering the period from 2010-11 to 2014-15. The significant audit findings are summarised below:

Each Distributor was awarded six draws of lottery per day. However, one distributor without having any infrastructure of its own for marketing online lotteries had appointed a sub-agent and handed over the right of marketing of six draws of online lottery per day and earned ₹4.57 crore in three years by virtue of being one of the successful bidders without involving itself at all in the actual marketing of the lottery.

(Paragraph 2.1.2.3)

The State Government, in violation of Rule 2 (h) and 3(17) of the Lottery Regulation Rules 2010 had entered into an agreement with four distributors to conduct lotteries (both paper and online) on realization of Minimum Guaranteed Revenue (MGR) per draw from the distributors @ ₹10,500 to ₹12,000 for regular draws and ₹5.00 lakh for bumper draws instead of ensuring that the

whole sale proceeds calculated on the face value of the tickets was deposited in the Consolidated Fund of the State. Out of the total sale proceeds of ₹11,834.22 crore during 2012-13 to 2014-15, the distributors deposited only ₹25.45 crore (as Minimum Guaranteed Revenue and Administrative Expenses) to the Consolidated Fund of the State. Thus, in violation of rule ibid the distributors neither deposited the balance amount of ₹11,808.77 crore to the Consolidated Fund of the State nor was it demanded by the Government. Against the revenue accrued to the distributors of ₹2,182.79 crore (18.44 per cent of the gross sale) during 2012-13 to 2014-15, the Government received a paltry revenue of ₹25.45 crore (0.22 per cent of the gross sale).

(Paragraphs 2.1.2.5 & 3.2)

The printers engaged for printing of lottery tickets were not selected through tendering process. No agreement was signed between the State Government and printers to safeguard the Government's/stakeholders' interest. Further, details about the address, contact number and website address of the Directorate were not available on the tickets. The tickets of Mizoram State Lottery were not designed with strong security features like bar code.

(Paragraph 2.1.4)

The tickets of online lotteries were sold till the last moment before the draw. No sales report was generated before the draw. In one single draw 10,00,00,000 combinations of tickets can be generated from the entire ten alphanumeric characters. The online lottery draws were not conducted on sold tickets but on the entire combination of tickets which was against the Act and Rules. Hence, the probability of winning numbers falling on unsold tickets was very high. Further, the online lottery system allowed buying of the same ticket number multiple times. Hence, online lottery distributors can theoretically sell any number of lottery tickets of a particular draw while always leaving infinite number of unsold tickets. None of the central computer servers of the three online lottery distributors were located under the direct control of the State of Mizoram. Thus, the GoM could not exercise direct control over the central servers. 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. Further, no personnel having IT experience had been appointed by the Government in the Directorate.

(Paragraphs 2.1.6 & 2.1.7)

As per Rule, 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 prizes in respect of each draw. 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 paper lottery distributor never returned the unsold tickets to the Directorate along with detailed accounts in violation of the Rule and Clause 5.3 of the agreement. This resulted in prize money being claimed from unsold tickets by the area distributors.

(Paragraphs 2.3.1 & 2.3.2)

The internal control system in the Department was weak as State Government had not issued any guidelines/manuals etc., and not established effective monitoring systems for the lottery business in the State. Internal audit of the Directorate had not been conducted to evaluate the functioning of the Directorate till March 2016. Systems audit of the various online lottery schemes organised by the State had not been conducted as necessitated by the Lottery Rules 2010 till March 2016. Government of Mizoram intended to organise State Lottery to augment the State's revenue for the purpose of health care, education, public sanitation and other social sector services. However, there was no separate budget allocation towards the specified purposes out of revenue earned from lottery business during the audit period and hence audit could not verify whether the revenue generated from organising lotteries was utilized for the intended purposes.

(Paragraphs 2.4.1, 2.4.2 & 2.5.1)