

*For internal use in Indian Audit and Accounts Department only*

# **State Revenue Audit Manual**

## **Kerala State Lotteries**

**(First Edition, 2010)**

**Issued by:**  
**Office of the Accountant General (WF&RA), Kerala, Thiruvananthapuram**

## **PREFACE**

This Manual is meant to provide general directions and detailed instructions regarding the audit checks to be exercised by the field parties auditing the offices of Lotteries Department. The instructions in the Manual are only supplementary to those contained in the Codes and Manuals issued by the Comptroller and Auditor General of India and other authorities.

The provisions of this Manual shall not be quoted as authority in any correspondence outside this office.

SRA(HQ) Section dealing with the receipt audit of lotteries is responsible for keeping the Manual up to date.

Suggestions for improvement are welcome.

Sd/-

Thiruvananthapuram  
Dated 7.1.2010

**V.KURIAN**  
**ACCOUNTANT GENERAL (WF&RA)**  
**KERALA, THIRUVANANTHAPURAM**

## CONTENTS

<b>Chapter No.</b>	<b>Chapter</b>	<b>Page</b>
II	Introduction	1
III	The Lotteries (Regulation) Act, 1998	3
IV	The Kerala Paper Lotteries (Regulation) Rules 2005	5
V	Audit Checks	10

# **CHAPTER I**

## **INTRODUCTION**

Lotteries organized 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. But as per entry 54 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 and the Government of Kerala have made legislation on the subject through Kerala Tax on Paper Lotteries Act 2005 which is administered by Commercial Taxes Department. This manual is confined to the functions of the Department of Lotteries.

To eliminate the prevalence of single digit and instant lotteries and the malpractices in the lottery trade in the country, Lottery (Regulation) ordinance 1997 was promulgated on 1.10.1997 and to continue the effect of the provisions, Lotteries (Regulation) Second ordinance was promulgated on 30.12.1997 and again another ordinance on 23.4.1998. The Lotteries (Regulation) Act 1998 was enacted to replace the ordinance and it came into force on 2.10.1997. The Union Act regulates the Lotteries and provides for matters connected therewith throughout the country.

The Act empowers the Central Government as well as the State Governments to make rules to carry out the provisions of the Act. Accordingly, the Government of Kerala framed rules – Kerala Paper Lotteries (Regulation) Rules, 2003 which was repealed on 27.1.2005 as per GO(P)12/05/TD dated 27.1.2005 published as SRO No. 74/05. Consequent on declaring the State a Lottery free zone and later, on restoration of paper lotteries conducted by the Government of Kerala, another set of Rules – Kerala Paper Lotteries (Regulation) Rules were introduced with effect from 20.2.2005. This was further amended by the Kerala Paper Lotteries (Regulation) Amendment Rules 2008 notified in GO(P) No.27/2008/TD dated 20.2.2008 as SRO No. 225/2008. This was again amended by the Kerala Paper Lotteries (Regulation) Second Amendment Rules 2008 notified in GO(P)218/2008/TD dated 13.11.2008 as SRO No. 1160/2008. The Rule along with the Lotteries (Regulation) Act 1998 regulates the lottery trade in the State. According to the Act, only the State Governments, subject to the

conditions specified therein, shall organize, conduct or promote a lottery and any offence under the Act is cognizable and non-bailable.

The Department of Lotteries is headed by Director of State Lotteries who is assisted by one Joint Director, two Deputy Directors and one Finance Officer. There is one Regional Deputy Director at Ernakulam who is in charge of distribution of tickets and also conduct the draw of Soubhagya weekly lottery. There is one District Lottery Officer for each revenue District who issues lottery tickets to agents and distributes prizes up to Rupees One lakh and also issues agency for the sale of lottery tickets.

**CHAPTER II**  
**LOTTERIES (REGULATION) ACT, 1998**

**Lottery:** 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 purchasing tickets (*Section 2(b)*).

**Bumper draw of a lottery** means a special draw of lottery conducted on or during any festival or other special occasion wherein the prize money offered is greater than the prize money offered in the case of other ordinary draw of lotteries .(*Section 2(a)*).

No State Government shall organize, conduct or promote any lottery (*Section 3*) unless the following conditions are fulfilled.

- The prizes shall not be offered on any pre-announced number or on the basis of a single digit (*Section 4(a)*)
- The State Government shall print the lottery tickets bearing the imprint and logo of the State (*Section 4(b)*)
- The State Government shall sell the tickets either itself or through the distributors or selling agents. (*Section 4( c)*)
- The State Government itself shall conduct the draws of all lotteries (*Section 4(e)*)
- The number of bumper draws in a year shall not be more than six in a calendar year (*Section 4(j)*) and
- The proceeds of the sale of lottery tickets shall be credited into the public account of the State (*Section 4(d)*).

State Government has the power to prohibit the sale of tickets, within the State, of a lottery organised, conducted or promoted by every other State (*Section 5*).

Section 7 (1) and (2) of the Act envisages penalty for organizing/ promoting/ conducting any lottery by any department of the State Government in contravention of the provisions of the Act.

As per Section 7(3) of the Act, those who act as an agent or promoter or trader of any lottery, organized, conducted or promoted in contravention of the provisions of the Act or sells, distributes or purchases the tickets of such

lottery, shall be punishable with rigorous imprisonment for a term which may extend to two years or with fine or with both.

The offence under this Act shall be cognizable and non-bailable (*Section 8*).

The Central Government shall have power to give directions to the State Government to carry out any provisions of the Act or of any rule or order made there under (*Section 10*).

The Central Government may make rules to carry out the provisions of the Act (*Section 11(1)*).

The State Government is empowered to make rules to carry out the provisions of this Act and such rules should have the approval of the Legislature concerned. (*Section 12*).

### CHAPTER III

#### KERALA PAPER LOTTERIES (REGULATION) RULES 2005

The Government of Kerala, at present, organises lotteries, viz., Kairali, Periyar, Soubhagya, Chaithanya, Megawin, Win-Win and Sun Fun weekly lotteries, Twenty-Fifty and Kanakadhara bi-weekly lotteries and six Bumper lotteries. The purpose for which special purpose lotteries will be organized will be decided by the Government from time to time.

The Director of State Lotteries shall obtain the model and design of the Paper Lottery Tickets for each draw and get the same approved by the Government before it is sent for printing (**Rule 3(1)**). The tickets shall be printed at Government press or at any other high security press approved by the Government and the Director shall be responsible for ensuring security in printing the tickets (**Rules 3(7) & 9**). As regards the printing charges, there is a rate contract with the KBPS valid for five years. Present rates are Rs 115/1,000 for ordinary tickets and Rs 125/1,000 for Bumper tickets. This has been modified and the Director is vested with powers to take decision on the design, advertisement to be printed on reverse side of the ticket.

There shall be a counterfoil for each ticket which shall contain the date of draw, the number of the draw and the ticket number.

The series, the number of tickets to be printed in each series and the total number of tickets to be printed shall be decided by the Government (**Rule 3(5)**). The power to decide the number of tickets to be printed has been delegated to the Director (GO(Ms) No. 124/2007/TD dated 15.5.2007). But the Director has the discretionary power to print tickets less than the number approved and get his action ratified by the Government (**Rule 3(6)**).

The details of orders placed for printing of tickets, the amount paid for the same, the date of receipt etc. shall be recorded in Form I (reproduced below) (**Rule 3(10)**).

FORM I

Sl. No.	With whom placed	No. of tickets printed	Date of placement of order	Date of receipt of ticket	Amount paid



The Director of State Lotteries shall be responsible for the conduct of Kerala State Paper Lotteries in accordance with the provisions of the Act (**Rule 4(1)**). The draw shall be conducted under the supervision of a panel of judges including a Chairman recommended by the Director and approved by the Government. The quorum of the panel of judges shall not be less than three and the majority decision of the judges present shall be final in respect of all matters connected with the draw. The Director or his authorized subordinate not below the rank of Deputy Director shall announce the results of the draw and it shall be arranged to be published in three or four leading newspapers the next day itself and in the Government Gazette. (**Rules (2) to (5)**).

The Director may appoint one or more Agents for the sale of Paper Lottery in the State (**Rule 4(2)**).

Agent or Agency means an individual, partnership body corporate with a legal entity under any Act of the State or Central Government who is issued agency by the District Lottery Officer for the sale of the lottery tickets of the Government (**Rule 2(2)**).

Any person desirous of obtaining an agency may apply in Form II to the District Lottery Officer by remitting a fee of Rs 200 (Rupees Two hundred only) in cash.

The agency may be renewed for further calendar year by submitting application in form II to the District Lottery Officer who granted the agency, on payment of a renewal fee of Rs 50 in cash. The agency which is not renewed by the end of a subsequent calendar year of grant of agency shall, stand cancelled automatically. An identity card shall be issued to the agent and if the card is lost or damaged a duplicate card shall be issued on payment of Rs 50 (Rupees Fifty only) (**Rule 5(1)&(2)**). Further temporary agency is also allowed on payment of fee of Rs 50 (Rupees Fifty only). The agent may sell lottery tickets through any number of sub agents and sellers whose particulars are to be produced to the Director or District Lottery Officer, or to any Authorized Officer, on demand for verification (**Rule 6**).

### **Sale of lottery tickets**

Before issuing the tickets seal of the office through which the tickets are sold shall be affixed on the reverse of the tickets in such a manner as to get it impressed both on the ticket and its counterfoil and the counterfoil shall be cut off and kept in the office of issue (**Rule 7(3)**).

Tickets shall be issued only from the respective district of registration. But an agent who buys tickets worth face value of rupees one lakh from his District of registration will be allowed to purchase tickets from other districts also on the basis of certificate/authorization issued from the District of Registration in Form VI (**Rule 7(6)**).

Lottery tickets shall be sold to agents either on cash payment or by exchange of prized tickets at the face value after making 'agency discount' at the prescribed rates (**Rule 7(1)**). 'Agency discount' means the amount or the percentage of discount allowed from time to time on the face value of tickets at the point of sale.

Tickets once sold will not be taken back (**Rule 7(2)**). Lottery tickets will be sold on credit also on the basis of bank guarantee on the following conditions.

1. The bank guarantee should be of a nationalized/Scheduled/State Co-operative/District Co-operative Bank. The Director of State Lotteries will be responsible for revoking/renewing bank guarantee on or before due date.
2. The credit sales will be allowed for the purchase of a maximum of one lakh tickets and a minimum of five thousand tickets of each draw of any lottery from the office of registration.
3. The agents must settle the full amount before the accounts of a particular draw is closed by the District Lottery Office.
4. If the agent(s) fail to settle the dues within the prescribed time limit the Bank Guarantee will be encashed. Interest @ 12 *per cent per annum* for the period of delay will also be realized by deducting the amount from the agent's claim.

5. The dues can be recovered by revenue recovery or by any other legal procedures.
6. Non-settlement of dues in time will forfeit the facility for purchase of tickets on bank guarantee by an agent.

The stock and issue of tickets shall be maintained in Form III, IV & V [**Rule 7(5)**].

The unsold tickets shall be kept under safe custody and these tickets and the counter foils of the sold tickets shall be disposed as per the orders of the Government after recording the details in a register in Form VII. [**Rule 7(7)**]

The sale proceeds of tickets shall be credited to the general revenue of the State under the Head of Account 0075-103-99-Sale-proceeds of Lottery tickets (**Rule7(2)**)

#### **Prize and Prize claims**

The prize money is paid by DD/Exchange of tickets/cash after deducting such amounts required under any agreement or under any law. [**Rule 9(2)**]. It can be claimed either directly or by post or through Bank affixing the prize winner's name address and signature on the reverse of the ticket. Prize claims up to and including Rs.5,000 (Rupees five thousand only) is sanctioned by the Officer authorized by the Director and prizes above that amount are sanctioned by the Director within 30 days from the date of draw. As per GO(Ms)No.124/2007/TD dated.15.05.2007 the limits have been enhanced as follows :-

District Lottery Officer	-	Up to Rs.1 lakh
Deputy Director	-	Above 1 lakh up to Rs.20 lakh
Director	-	Above Rs.20 lakh.

The prize winning tickets shall be presented along with the following documents.

- (a) Stamped receipt in Form VIII;
- (b) Recent passport size photo attested by a Gazetted Officer/notary;

- (c) Attested photocopy of both sides of the prized tickets;
- (d) Attested copy of Passport/Ration Card/Election Identity Card/Driving Licence/ Pan Card, to prove identity; and
- (e) In the case of surrendering the tickets through Banks, in addition to the above the following documents also are required.
  - i. Authorization of prize winner.
  - ii. Certificate of Receiving Bank.
  - iii. Certificate of Collecting Bank. **[Rule 9 (3)].**

Prizes and prize money not claimed within 30 days from the date of draw of the results, will become the property of the Government provided the delay of presenting the prize winning tickets can be condoned up to 90 days by the District Lottery Officer, up to 180 days by the Director and up to one year by the government, if there are cogent reasons for the delay which is to be recorded. **[Rule 9 (4) and 9(10)].**

Prize money shall be paid after ascertaining the genuineness of the prize ticket. Payment of prize above Rs.100 (Rupees One hundred only) shall be made after matching it with the concerned counter foil kept in the office. **[Rule 9 (8)].**

Income Tax and Surcharge will be deducted from the prize claims and remitted to Income tax Department, as per rules. **[Rule 9(7)].**

The agents can collect prized tickets for the amount up to Rs.5,000 (Rupees five thousand only) and present the same within a period of 90 days from the date of draw. **[Rule 9(5)].**

No ticket shall be eligible for more than one prize in a draw. In any event of a ticket winning more than one prize in a draw, the ticket shall be eligible only for the highest prize declared to it. **[Rule 9(6)].**

Agent prize, Incentive to agents etc. should be claimed within three months from the date of draw **[Rule 9(3)].**

## CHAPTER IV

### AUDIT CHECKS

List of Important Registers/Documents at:

#### 1. District Lottery Office

- \* Cash Book.
- \* TR 5 receipts.
- \* Challans.
- \* Reconciliation Statements.
- \* Agency Register.
- \* Stock – cum-Issue Register of Tickets in form III
- \* Daily Ticket issue Register in form IV.
- \* Agent wise Distribution Register in Form V.
- \* Accounts of unsold Tickets in form VII.
- \* Receipts for prize money in form VIII.
- \* Certificate/Declaration for distribution of tickets to agents registered in other Districts.
- \* Accounts showing credit sales and realization of dues along with interest, if any.
- \* Particulars of Bank Guarantee furnished and those invoked.
- \* Report of Internal Audit Wing.
- \* Register showing distribution of prize.
- \* Register showing unclaimed prizes.
- \* Register relating to claim of Agents.
- \* Files relating to daily returns to RDDSL/DSL.

#### 2. Regional Deputy Director's Office, Ernakulam.

- Register showing district wise distribution of lottery tickets to District Lottery Officers.
- Particulars showing receipt of tickets of each lottery from the printing press and the number ordered for printing.
- Files relating to conduct of Soubhagya Lottery.
- Report of Internal Audit Wing.

### 3. Directorate of State Lotteries.

- Files relating to each lottery.
- Files relating to publicity and advertisement.
- File relating to conduct of lotteries.
- Daily returns from DLOs on sale of lotteries.
- Remittance challans.
- Register for distribution of prize.
- Register showing unclaimed prizes.

#### Audit Checks.

Some of the important audit checks are:-

#### District Lottery Office

- Ø Verification of Cash Book.
- Ø Verification of remittance challans.
- Ø Reconciliation of receipts with treasury figures.
- Ø Verification of TR 5 receipts with cash book.
- Ø Stock register of TR 5 books.
- Ø Collection of agency fee, renewal fee and casual agency fee.
- Ø Whether agency was renewed beyond the end of calendar year ?
- Ø Check the daily ticket issue register with the remittance challans.
- Ø Verify the particulars in issue Register, stock register and agent wise distribution register.
- Ø Ensure the correctness of agency discount allowed.
- Ø Verify the details of unsold tickets with stock register.
- Ø Verify the credit sale account. Whether the full amount in respect of a particular lottery was settled before the accounts of the draw closed?
- Ø Whether interest @ 12 per cent per annum was realized for the delay? Whether other conditions for credit sales such as the minimum and maximum number of tickets, furnishing of bank guarantee form the specified banks, invoking of bank guarantee etc. were fulfilled.
- Ø Verify the daily returns on sale of tickets to Director/Deputy Director with reference to Issue Register.

- Ø Verify the distribution of prizes. Whether, claimed within the stipulated time? Whether the prizes were released after verifying with the counterfoils of the ticket kept at the District Lottery Office.
- Ø Whether the unclaimed prizes were credited to Government account.
- Ø Verify the distribution of agent's prizes. Whether claimed within the stipulated time?
- Ø Ensure that income tax at the rate applicable is deducted in cases where income from lotteries exceeds Rs.5,000 and also from agent's commission.

**Regional Deputy Director's Office, Ernakulam.**

- Ø Verify the number of tickets received with reference to the number ordered for printing.
- Ø Whether the entire tickets were distributed to the District Offices?
- Ø Verify the files relating to the conduct of Soubhagya Lottery.
- Ø Verify the register of distribution of prizes. Whether claimed within the stipulated time? Whether unclaimed prizes were credited to Government account.

**Directorate of Lotteries.**

- Ø Verify the files relating to each lottery. The number of tickets ordered for printing. The number of tickets received. The number of unsold tickets of each lottery. Whether the printing charges paid is as per the agreed rate?
- Ø Whether the remittance of sale proceeds of lottery tickets by the District Lottery offices agree with daily returns of sale of Lotteries received from each DLO?
- Ø Verify the register for distribution of prizes. Whether the prizes were claimed within the stipulated time? Whether the prizes were released after verification with the counterfoils of the ticket and after ensuring the identity of the claimant?
- Ø Whether the unclaimed prizes were credited to the government account?
- Ø Whether any effective steps have been taken to identify the unauthorized lotteries (such as Kerala Vyaparotsav) and to curb their prevalence?

**Some important orders issued by State Government on the conduct of  
lotteries in the State of Kerala**

**SRO 73/2005. (G.O(P)11/2005/T.D dtd.27.1.2005)**

Government of Kerala prohibited the Sale of tickets of all lotteries organized, conducted or promoted by every State Government including Kerala State and declared Kerala as “lottery free zone”.

**SRO.382/2005. (GO(P)68/2005/T.D dtd.22.4.2005)**

Government of Kerala lifted the prohibition by permitting the sale of paper lotteries of every State government including Kerala. But the prohibitions imposed on the sale of computerized and online lotteries organized, conducted or promoted by every State Government shall continue to remain in force.

**G.O(Rt)232/2005/TD dtd.22.4.2005.**

Government have passed ‘Kerala Tax on Paper Lotteries Act, 2005’ and ‘Kerala Tax on Paper Lotteries Rules, 2005’ for levy and collection of tax in the state on the conduct of paper lotteries and matters incidental thereto. Accordingly, the incidence of tax is based on the number of draws conducted by the promoters of lotteries.

The Director of State Lotteries being the promoter of Government Lotteries in the State is responsible for remitting tax to the Commissioner, Commercial taxes.