



Executive summary of the public audit report

STATE MONITORING OF GAMING AND NATIONAL LOTTERIES

29 May 2015 No. VA-P-60-4-9



Full audit report in Lithuanian is available on the website
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DEFINITIONS AND ABBREVIATIONS

According to the **Gaming Law** of the Republic of Lithuania¹:

“Gaming” (or **“gambling”**) refers to the playing of a game or mutual betting in accordance with established regulations where the participants seek to win money by voluntarily risking a stake and where winnings or losses depend on chance, an occurrence of any event or the outcome of a sporting event.

“Gaming device” refers to a gaming machine as well as any other electronic or mechanical device designed and manufactured for gaming purposes, the use of which results in winning or losing money by chance.

“Gaming machine” refers to an electronic device designed and manufactured for gaming purposes, the use of which results in winning or losing money by chance.

“Category A gaming machine” refers to a gaming machine with unlimited winnings where the maximum single winning is not limited.

“Category B gaming machine” refers to a gaming machine with limited winnings where the maximum amount of a stake made per game does not exceed 0.5 EUR, the maximum single winning cannot be more than 200 times larger than the stake and the duration of a single game is not less than 3 seconds.

“Betting” refers to mutual betting on the outcome of an event based on guessing where the amount of winnings depends on the amount of the bet made and the betting ratio fixed in advance by the betting intermediary.

“Gaming establishment (casino)” refers to a place where table games (roulette, card or dice games) as well as games by gaming machines of category A are operated in accordance with approved gaming regulations.

According to the **Law on Lotteries** of the Republic of Lithuania²:

“Lottery” refers to a game conducted in accordance with the established rules where the player purchases tickets to win money or goods.

“National lottery” refers to a lottery the operator of which possesses a licence granting the right to distribute lottery tickets across the entire territory of the Republic of Lithuania and the face value of all tickets in the lottery is not limited.

“Face value of lottery tickets” refers to the total selling price of all tickets in the lottery.

Abbreviations:

“AO” refers to an administrative offence.

“CAO” refers to the Code of Administrative Offences of the Republic of Lithuania.

“Supervision Department” refers to the Gaming and Lottery Supervision Department under the Ministry of Finances of the Republic of Lithuania.

Until 1 March 2012 referred to as the State Gambling Supervision Commission.

“STI” refers to the State Tax Inspectorate under the Ministry of Finances of the Republic of Lithuania.

¹ The Gaming Law of the Republic of Lithuania, 17-05-2001, No. IX-325, Art. 2.

² The Law on Lotteries of the Republic of Lithuania, 01-07-2003, No. IX-1661, Art. 2.

EXECUTIVE SUMMARY

Gaming is a type of entertainment and one of the ways of recreation. However, due to its nature and possible effect on the society, this activity is very peculiar³. Despite of bringing revenue to the state budget, it has a negative side as well. Therefore, this activity must be clearly regulated with a defined lottery and gaming regulation policy in order to protect the society against possible negative outcomes. The coordination and control of the implementation of the state policy regarding monitoring lotteries and gaming has been appointed to the Ministry of Finances.⁴

Supervision Department has been established in order to ensure appropriate state monitoring of lotteries and gaming. The purpose of this department is to participate in the implementation of the state policy regarding gaming, also monitor the organisation of gaming and national lotteries in a way to ensure that they are honest and transparent, as well as protect the interests of gamers and lottery participants.⁵

It was noticed that as of 2011 the number of gaming establishments has increased by 11%, which results in an increasing supply and accessibility of gaming activities. At the same time the number of persons that encounter problems regarding gaming and thus applied to the Supervision Department has increased almost twice. Insufficient legal regulation raises a lot of discussions as well. Also, more attention should be focused on underage persons, whose access to gaming has still been insufficiently prevented. The issues of gaming regulation and monitoring encouraged the National Audit Office of Lithuania to perform a public audit of the state supervision of gaming and national lottery organisation.

The goal of the audit is to assess the efficiency of the state supervision of gaming and national lottery organisation.

During the audit we have assessed the following;

- the sufficiency of the legal regulation for the state monitoring of gaming and lottery organisation;
- the efficiency of the "No More Gaming" measure, implemented by the Supervision Department;
- the assessment of the compliance of the gaming machines to gaming device standards;
- the efficiency of the control of the support from the lottery organisers according to the Law on Lotteries;
- if the lottery prize funds meet their standards;
- if the organisation of inspections and investigations is appropriate.

The audit has been performed at the Ministry of Finances and the Gaming and Lottery Supervision Department under the Ministry of Finances. The audit period was 2011-2013. The evaluation of the support according to the Law on Lotteries and the implementation of the requirements for gaming and lottery prize funds involved using the data since 2004. The assessment of the inspections and investigations involved using the data of the 1st half of the year 2014.

We have found that the current regulation of gaming and lotteries is inadequate: there are no official state gaming regulatory policy principles, new forms of gaming have not been regulated and nor has been the preventive measure of voluntary restraint on gaming, etc. The amendments to the Gaming Law and the Law on Lotteries, submitted to the Parliament in 2011 and 2012 have not been adopted so far.

³ Explanatory letter "Regarding the draft Gaming Law of the Republic of Lithuania No. IXP-154", 06-12-2000. Project author – Ministry of Finances.

⁴ Regulations of the Ministry of Finances of the Republic of Lithuania, approved by the Government of the Republic of Lithuania by the Decision No. 1088 of 08-09-1998 (edition of the Decision of the Government of the Republic of Lithuania No. 1453 of 13-10-2010), pt. 8.2.3.

⁵ Regulations of the Gaming and Lottery Supervision Department, approved by the Minister of Finances of the Republic of Lithuania by the Order No. 1K-062 of 21-02-2012, pt. 8.

However, even the adoption of these amendments will not solve important issues: the implementation of the institute of voluntary restraint on gaming will be insufficient, and, of course, it remains unclear how to ensure the implementation of the requirements for the prize funds. Gaming will remain easy to access, etc.

The actions performed by the Supervision Department do not ensure appropriate supervision of gaming and lottery organisation: the support according to the Law on Lotteries is smaller, while the lottery prize funds of the gaming machines and national lotteries do not always meet the standards.

Lack of relevant legal regulation and shortcomings of the Supervision Department activity have a negative impact on the supervision of gaming and lottery organisation.

Having evaluated the evidence accumulated during the audit, we provide conclusions and recommendations, the appropriate implementation of which would make the state supervision of gaming and national lottery organisation more efficient, ensuring transparent gaming and national lottery procedures and increasing the protection of the interests of gamers and lottery participants.

CONCLUSIONS

1. The current legal regulation of gaming and lotteries is insufficient in order to implement efficient state supervision of gaming and national lottery organisation (subchapter 1.1).
2. The "No More Gaming" measure, implemented by the Supervision Department is insufficient, because the gaming restriction and the responsibility of gaming organisers for not letting the gamers that have submitted an application regarding voluntary restraint on gaming into gaming establishments is unregulated and the Supervision Department cannot apply any sanctions for gaming organisers that fail to comply with the requirements of this measure (subchapter 1.2).
3. As of 1 July 2014, after the reorganisation of the State Metrology Service by dividing it into smaller institutions, there is no institution, which would inspect the compliance of gaming machines to the special technical requirements, issue gaming machine documents and special markings. Thus there is a risk that the gaming machines used today do not meet the special technical requirements, are not appropriately documented or marked, as well as imitate gaming machines or gaming devices. Gaming machine supervision is necessary, because they can be easily accessed by underage persons as well (subchapter 1.3).
4. The control of lottery organisers implemented by the Supervision Department does not ensure that lottery organisers providing support according to the Law on Lotteries do not violate the legislative provisions. In the period of 2008-2014 we have determined 21 cases when lottery organisers provided smaller support than it was defined by the Law on Lotteries (subchapter 2.1).
5. The control, whether prize funds meet their standards, implemented by the Supervision Department, is insufficient. We have determined that 30% of the 37 gaming machines inspected during the audit do not meet the requirements for prize funds defined by the law; 46% of the 52 national lottery funds inspected during the audit do not meet the amounts indicated in the rules. This means that the protection of the interests of gamers and lottery participants is not always ensured when the prize funds of the gaming machines and national lotteries are distributed (subchapter 2.2).
6. The Supervision Department does not implement sufficient control of the gaming machine meter readings and the correctness of the data provided in the prize fund reports. We have determined that 20 out of 37 gaming machine reports evaluated during the audit contained inaccurate data, which, in turn, influences the compliance to the requirements of the prize funds (subchapter 2.2).

7. The organisation of gaming and lottery organiser inspections implemented by the Supervision Department has the following shortcomings: failure to assess the risk of all gaming or lottery organisers, routine inspections do not involve considering the violations or their type determined during non-routine inspections and not all cases of violations result in sanctions defined by the law. This has a negative impact on the results of the gaming and lottery organiser control performed by the Supervision Department (chapter 3).

RECOMMENDATIONS

To the Government of the Republic of Lithuania

1. Considering the fact that there is no institution for inspecting the compliance of the gaming machines to the special technical requirements, issuing gaming machine documents and special markings, inspecting gaming machines during their operation, initiating changes in legal acts, also evaluating whether the gaming machine (by its exterior and functions) is not an imitation and whether the software or games are not imitations, it is advisable to determine the order of organising gaming machine use and appoint an institution, which would implement the supervision of the use of gaming machines (conclusion 3).
2. To initiate changes in legislation by providing a requirement to connect gaming machines to a direct monitoring system in order to implement gaming control in a way to ensure fair and transparent gaming, protection of the rights and interest of gamers, more efficient control of the income and payments of gaming organisers, as well as reduce the administrative burden both on gaming organisers and the Supervision Department.

To the Gaming and Lottery Supervision Department under the Ministry of Finances of the Republic of Lithuania

3. In order to increase the efficiency of the gaming and national lottery organising supervision implemented by the Supervision Department, to determine the following:
 - 3.1. control measures of charity or support according to the Law on Lotteries, which would ensure timely and appropriate amounts of charity or support provided by lottery organisers (conclusion 4);
 - 3.2. national lottery prize fund control measures, which would make sure that lottery organisers accumulate sufficient prize funds according to the rules of lottery (conclusion 5);
 - 3.3. the risk assessment of all supervised economic subjects and, when planning routine inspections, consider the type of violations determined during non-routine inspections (conclusion 7).

The measures and terms of the implementation of recommendations are provided in "The plan of implementation of recommendations", provided as the appendix 2 of this report.