

Abstract

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The crediting of the Slot Machine Association's proceeds to the state

The Slot Machine Association was established in 1938 to obtain funds for voluntary health and social welfare organizations from gaming. From the start its activities have been based on cooperation between the Slot Machine Association, health and social welfare organizations and the state in accordance with gaming legislation. Obtaining funds by taking advantage of people's desire to gamble has only been allowed within strict limits and for the purpose of promoting charitable activities. The Slot Machine Association credited about €346 million in proceeds to the state in 2001.

The present audit was intended to ensure that all proceeds from the Slot Machine Association are credited to the state according to current legislation and in a proper manner. The audit's approach was to follow the cash flow all the way from game stakes to the state treasury. The audit dealt first with factors reducing proceeds which were observed in the cash flow. Secondly it dealt with the internal and external control of operations, which is meant to ensure the accumulation of proceeds. Thirdly it dealt with the budgeting of proceeds and the crediting of proceeds to the state.

The main observation with regard to items reducing proceeds was that no improprieties could be observed in their content. The biggest item is payouts to players. This is a necessary expense which was estimated to exceed €1.1 billion in 2001. The item is not included in the Slot Machine Association's bookkeeping, as a result of which payouts are not displayed in its income statement. In the opinion of the State Audit Office, the information in the Slot Machine Association's annual report concerning the real cash flow would be improved by information concerning how much money has been paid out to players in relation to stakes.

According to the Slot Machine Association's accounts, the biggest cost item is space rental or payments to parties providing facilities for games. In 2001 space rental totalled €84.4 million. Since these payments reduce the amount of proceeds credited to the state, the State Audit Office considers all measures aimed at keeping them to a minimum important.

According to the Lottery Tax Act, the Slot Machine Association must pay taxes on the proceeds from money games. In December 2001 Parliament called for the Government to prepare amendments to the Lottery Tax Act so that all organizations arranging money games on the basis of exclusive rights are treated in an equal manner. In the opinion of the State Audit Office, the question of whether to tax organizations arranging money games or players' winnings should be reevaluated in this connection. Present technical development would allow new methods of taxation which in the past were not possible financially or technically.

The audit indicated that control of the Slot Machine Association by the Ministry of the Interior has been meagre. This control has largely relied on the Slot Machine Association's

own accounts. Control by the local police has also been quite limited and in some cases non-existent. Efforts have been made to correct the situation with the help of the control provisions in the new Lotteries Act which came into force at the beginning of 2002, however. In the opinion of the State Audit Office, official control requires planning and a systematic approach. Control can use information supplied by the Slot Machine Association, but this information should not be the sole basis for meagre control.

The audit also indicated that the Slot Machine Association credited proceeds to the state in 2000-2001 in a proper manner. The estimation of proceeds in the state budget is complicated and unclear, however. Accounts and entries for a single year are handled in three different fiscal years. On the basis of budget information it is difficult to understand the connection between the profit shown in the Slot Machine Association's financial statements on the one hand and the estimated revenue and corresponding appropriations in the state budget on the other.

In the opinion of the State Audit Office, the budgeting of proceeds should be clarified. The budgeting of grants on the basis of the Slot Machine Association's proceeds should take into consideration the principles of annuality and completeness, which protect Parliament's budgetary authority, as well as budget clarity, which is required by the principle of transparency.