Issue of licences for the provision of gambling activities and control over the operations of gambling providers

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Executive summary

According to the Ministry of Finance, gambling in Estonia was provided by 18 companies in 154 gambling facilities and games of skill were provided by 3 companies, as of December 2004. Two fifths of all gambling places are located in Tallinn. According to the data of the commercial register, the total turnover in the gambling activity in 2003 was EEK 1.1 billion.

The State Audit Office (SAO) has audited the activities of the Ministry of Finance in granting permissions to offer gambling games (games of skill, games of chance, betting, totalisators) and in exercising control over gambling operators. The objective was to find out if the shortcomings in gambling regulations and the activity of officials, identified as an outcome of the previous similar audit in 2001, have been eliminated. The audit covered the period from the beginning of 2002 to September 2004.

No major infringements were observed in the procedures for the issue of licences and operating permits to gambling providers, however, there were significant deficiencies in the manner in which supervision was exercised.

The Government has not designated a supervising authority referred to in the Gambling Act, instead supervision is carried out by the officials of the Ministry of Finance and of the Tax and Customs Board appointed by the Minister of Finance.[1] Until now they have mainly inspected if gambling providers have followed the government regulations for lawful gambling and persons allowed to gamble, and if all taxes due to government have been paid on gaming machines and tables. No serious infringements thereof have been detected and no licences have been revoked.

The Government has not imposed any requirements in the Gambling Act with regard to the fairness of games, i.e. if gamers are being cheated or not, thus this has not been inspected so far. The lack of such requirements was brought to the attention of the Ministry of Finance by the SAO already in 2001.

In the course of the previous audit, the SAO pointed out serious shortcomings in the payment by gambling operators of government fees for licences and operating permits. The current audit showed that the shortcomings highlighted in the 2001 report had not recurred, however, the unpaid fees have not been collected in full.

Major proposals to the Minister of Finance

- Consider the opportunity to prohibit in the Gambling Act the grant of a gambling licence to a company whose owners' background or the origin of resources cannot be reliably verified by the licensing authority.
- Submit to the Government of the Republic the draft legislative acts laying down the regulatory requirements for the gaming equipment used in gambling establishments (the imposition of such requirements is set forth in subparagraph 5 of § 19(2) of the Gambling Act) and the game rules, including the rules for the game system in use (the authority to establish such requirements is set forth in § 6(4) of the Gambling Act). Take action in order to ensure that supervising officials are able to verify compliance with the said rules and requirements after their enforcement.
- Determine the amount of the prize at a game of chance played on a gaming machine as a percentage of total stakes, as provided in the Gambling Act [§ 10 (2)(2)].
- Submit to the Government of the Republic a proposal for the designation of a gambling control authority.

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In his reply to the SAO, the Minister of Finance states that the draft of the new Act governing the organisation of gambling activities proposes to bring the information gathered on the background of a gambling licence applicant to bear upon the grounds for refusal to grant licence. Further, it has been envisaged to designate the Tax and Customs Board as a supervising authority for gaming operations.

The Minister of Finance does not see any need for the imposition of requirements for the gaming equipment used in gambling facilities, the game rules or the prize won at a game of chance played on a gaming machine as a percentage of total stakes as provided in the Gambling Act and thus the said provisions will not be included in the draft.

It appears from the response of the Minister of Finance that the Ministry sees no need for enforcing the rules that would enable gamblers to approximately estimate their chances to win or the Tax and Customs Board to forecast the proceeds from gambling. The SAO hopes that the abovementioned issues will be thoroughly debated by the Government of the Republic and the Parliament upon the discussion of the new law on gambling.

The full text of the response from the Minister of Finance has been appended to the audit report.

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