

VICTORIA

Auditor-General
of Victoria

SPECIAL REPORT No. 54

**VICTORIA'S
GAMING INDUSTRY**

**An insight into the
role of the regulator**

Ordered by the Legislative Assembly to be printed

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The President
The Speaker

Parliament House
Melbourne Vic. 3002

Sir

Under the provisions of section 16 of the *Audit Act* 1994, I transmit the Auditor-General's Special Report No. 54, "*Victoria's Gaming Industry: An insight into the role of the regulator*".

Yours faithfully

C.A. BARAGWANATH
Auditor-General

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Foreword

From time-to-time, the work of an Auditor-General focuses on the activities of an industry regulator.

This Report documents the results of a performance audit of the Victorian Casino and Gaming Authority. The audit examined the manner in which the Authority has discharged its regulatory responsibilities dealing with the State's gaming industry.

Since the introduction of electronic gaming machines and the establishment of a casino adjacent to the business centre of Melbourne, the gaming industry has experienced significant growth, a factor which has reinforced the importance of the regulatory function of the Authority. In this regard, the Authority's work is the principal avenue through which Parliament, government and the public can have confidence that gaming activities are conducted honestly, and are free from criminal influence and exploitation.

The key conclusion reached in the Report is that an effective regulator is overseeing the day-to-day workings of a major Victorian industry. This conclusion reflects the overall professionalism and competence exhibited by the Authority in managing its vital regulatory role.

The Authority is currently well advanced in addressing weaknesses in its licensing procedures identified during the audit. It now needs to direct attention to those issues raised in this Report concerning the limited level of information currently available to players of electronic gaming machines. These issues point to the desirability of a *Players' Charter* for the industry. Such a charter could complement the industry's voluntary codes of practice and articulate the whole range of information deemed as essential to players.

A positive response by the Authority to the above matters would enable it to achieve greater effectiveness in its role as the industry's regulator and in maintaining public confidence in the conduct of gaming within the State.

C.A. BARAGWANATH
Auditor-General

Part 1

Executive summary

Part 1.1

Overall audit conclusion

1.1.1 The role of a regulator in any industry is central to the maintenance of public confidence in the integrity and fairness of activities within the particular industry. This situation is directly applicable to the regulatory functions of the Victorian Casino and Gaming Authority within the State’s gambling industry.

1.1.2 In Victoria, the Authority has the major and challenging task of ensuring that gambling activities are conducted honestly and remain free from criminal influence and exploitation.

1.1.3 The importance of the Authority’s work has been reinforced by the marked expansion of the gambling industry in the period since 1992-93 following the introduction of electronic gaming machines within Victoria and the establishment of a casino adjacent to the business centre of Melbourne. As an illustration, aggregate net revenue (after payment of player prizes) from electronic gaming machines outside the casino reached \$1.4 billion in 1996-97 and on present indications is likely to be higher in the current financial year. The manner in which the Authority has discharged its regulatory responsibilities having regard to these contemporary characteristics of the industry has been the principal focus of attention during this performance audit.

1.1.4 In this Report, audit is pleased to acknowledge the professionalism and competence exhibited by the Authority in managing its demanding regulatory role. It is an organisation which is continually directing attention to the achievement of quality improvement in its operations. This continuous improvement focus was particularly evident to audit when evaluating the Authority’s past strategic response to the rapid expansion of the industry and identifying its plans to address the future consequences of such swift growth.



1.1.5 The audit examination did disclose some specific shortcomings in the methodology followed by the Authority’s licensing staff over the years since 1992-93 when assessing applications for a gaming venue operator’s licence and for the granting of approval to manufacturers or suppliers of gaming machines to be placed on its official Roll of Recognised Manufacturers and Suppliers. The procedures which have been used for investigating an applicant’s associates as well as business associates of both applicants and any identified associates of applicants were considered by audit to be particularly deficient.

1.1.6 To its credit, the Authority has been progressively developing new guidelines for its licensing staff with an initial focus on licence applications to operate a gaming venue. Part of this process has involved the seeking of legal advice, legislative change and a major restructure of staffing positions within the Authority’s Licensing and Compliance Branch. Audit has stressed that until the new procedures have been formally endorsed and are fully operational, the members of the Authority cannot be completely satisfied that all licensing decisions are soundly based and consistent with the organisation’s statutory aim of ensuring the gambling industry is free from criminal influence and exploitation.

1.1.7 Currently, it is questionable whether the level of fees payable for a venue operator’s licence or for approval to manufacture or supply gaming machines bears any direct relationship to the potential commercial value of such licence or application. The Authority should move to address this matter.

1.1.8 The legislation requires that only gaming systems, equipment and software approved by the Authority may be utilised within the industry. Drawing on specialist assistance, audit assessed the adequacy of the Authority’s technical standards governing systems and equipment and of testing against the standards of systems and equipment submitted for approval by parties within the industry. The matters addressed by audit in this area were generally very technical and, in parts, highly sensitive from both commercial and security viewpoints.

1.1.9 The overall conclusion reached by audit was that the standards developed by the Authority are comprehensive in coverage and have been instrumental in assisting the Authority in the establishment of technical integrity in the conduct of gambling activities. Audit also found the testing laboratories utilised by the Authority are performing their contracted tasks in a conscientious and professional manner and, at present, the testing process is working well.

1.1.10 Nevertheless, some important areas for further enhancing the effectiveness of the standards and testing procedures were identified during the audit. These areas cover components integral to game software within electronic gaming machines such as random number generators which fulfil the vital functions of determining and controlling the randomness of game outcomes, i.e. both winning and losing combinations.

1.1.11 In addition, audit considered there is definite scope for the Authority to widen its regulatory purview, encompassing both its standards and testing functions, dealing with application of the concept of *player fairness* to electronic gaming machines. From the perspective of the playing public, this concept is vital to maintaining public confidence in the industry.

1.1.12 For most forms of gambling, information on winning chances and other relevant data is usually made available to patrons or can be readily acquired by patrons. For electronic gaming machines, the relevant information, while mathematically determined, resides electronically and thus, out of sight to players, within game software. This Report raises several issues concerning player fairness and argues that players of gaming machines have a “*right to know*” a range of basic information and that this right is of such significance that it warrants urgent assessment by the Authority.

1.1.13 This matter also points to the desirability of the formulation of a *Players’ Charter* which could complement the industry’s voluntary codes of conduct and articulate the whole gamut of information deemed as essential to players in order that their position in terms of fairness is totally assured. As the industry’s regulator striving in its corporate vision for “*A fair and crime free gambling industry which optimises the benefits for Victorians*”, the Authority should drive the development and dissemination within the industry of such a charter.

1.1.14 The Report explains at some length the Authority’s ongoing monitoring and inspection of the operation of approved gaming systems and equipment within gaming venues (Part 5) and of the conduct of gaming at the casino (Part 6). In both these areas, the Authority’s vital regulatory functions are soundly managed. Also, audit is pleased to commend the sophistication and advanced nature of the central monitoring and control systems established by the State’s 2 gaming operators. In addition, it is appropriate to recognise that the technology in place at the casino to support surveillance of gaming activities is, without doubt, highly advanced.

1.1.15 In terms of gaming operations at the casino, the Report summarises a number of matters including the various breaches of game rules and procedures and the extent of patron disputes which have been identified since June 1994 up to 31 December 1997. While each breach and patron dispute can be serious in their own right, audit considers the extent of such incidents, relative to the extent of daily activity at the casino, does not give rise to concern that gaming in the casino has been conducted to date other than in an honest manner.

1.1.16 Finally, the Report identifies that the Authority has overseen in recent years an extensive range of research activity into the social impact of gambling. The collective results of this research were an important source of information for the Government in reaching its decision in December 1997 to retain the cap of 27 500 electronic gaming machines in Victoria until the year 2000. The Authority is also carefully refining its performance measurement and reporting framework to further drive its management improvement process and service its accountability obligations to Parliament and the Government.



1.1.17 In summary, based on the results of this performance audit, the Parliament, Government and community can be confident that an effective regulator is continually overseeing the day-to-day workings of the State’s major gaming industry.

☐ RESPONSE by Director of Gaming and Betting, Victorian Casino and Gaming Authority

The staff of the Victorian Auditor-General’s Office have conducted this audit in a very professional and open manner. Their preparedness to consult and communicate was very much appreciated by me and my staff.

The Authority welcomes audit’s conclusion that

“... the Parliament and community can be confident that an effective regulator is continually overseeing the day-to-day workings of the State’s major gambling industry”.

The Authority is pleased that audit has acknowledged “... the professionalism and competence exhibited by the Authority in managing its demanding regulatory role”, and recognises the Authority’s commitment to continually improving its operations.

The Authority notes that audit has concluded that the Authority’s vital regulatory functions are well managed with regard to the ongoing monitoring and inspection of the operation of approved gaming systems and equipment within gaming venues and the conduct of gaming at the casino.

The Authority concurs with audit’s conclusion that the extent of breaches and complaints relative to the daily activities at the casino does not give rise to concern that gaming in the casino has been conducted other than in an honest manner.

Audit has concluded that procedures used for investigating an applicant’s associates as well as business associates of the applicant and any identified associates of the applicant were considered to be particularly deficient (para. 1.1.5). While acknowledging that the Authority has been progressively developing new guidelines and procedures for its licensing staff, audit has concluded that, until the new procedures have been formally endorsed and are fully operational, the Authority cannot be completely satisfied that all licensing decisions are soundly based and consistent with the statutory aim of ensuring that the gambling industry is free from criminal influence and exploitation (para. 1.1.6).

The Authority does not accept this conclusion. Deficiencies claimed by audit pose no risk to the effectiveness of the licensing process.

Management reports to the Authority on the key indicators covering the legislative criteria underlying the investigation of each application for a venue operator’s licence. Current processes involved in carrying out investigations and inquiries into each application preclude the Authority relying on the judgment of licensing staff.

The Authority assesses each application submitted to it to ensure that all relevant issues have been investigated and, where considered necessary, seeks clarification on particular issues from management of the Authority or outside legal counsel.

The Authority is satisfied that all licensing decisions are soundly based and consistent with its statutory obligations.

Licensing is carried out by the Authority at the point of entry to the gaming industry to ensure that only suitable persons are permitted to participate. Subsequent control and monitoring is carried out by the Authority through a rigorous compliance and enforcement regime.

After more than 5 years of gaming in which participants have been licensed, there has not been one substantiated case of criminal influence or exploitation having entered the gaming industry.

Audit questions whether the level of fees payable for a venue operator's licence or for approval to manufacture or supply gaming machines bears any direct relationship to the potential commercial value of such a licence or approval. Audit recommends that the Authority should move to address this matter (para. 1.1.7).

Government agencies are required to set fees on the basis of cost recovery. If any other basis for setting a fee is used (e.g. assessed commercial value) so that revenue is derived, then it is considered to be charging a tax not a fee. Before such a tax is set, enabling legislation must contain a specific power to impose the tax. An appropriate amendment to the Gaming Machine Control Act 1991 would be necessary to charge fees related to the assessed commercial value of a licence or approval. As such, this would be a policy issue for government.

Audit considers that there is definite scope for the Authority to widen its regulatory purview, encompassing both its standards and testing functions, dealing with application of the concept of player fairness (para. 1.1.11). Audit argues that players of gaming have a "right to know" a range of basic information and that it warrants urgent consideration by the Authority (para. 1.1.12). Audit also sees the desirability of a "Players' Charter" with the Authority driving the development and dissemination within the industry of such a charter (para. 1.1.13)

The Authority considers that there is merit in audit's comments regarding the provision to players of information about approximate winning chances. The issues raised are beyond the scope of current legislation with regard to return to player which, under the Gaming Machine Control Act 1991, requires that each venue (not each machine) returns a minimum of 87 per cent of bets to players each calendar year.

The Authority's technical standards addressing player fairness augment current legislative requirements and are consistent with the endorsed "National Standards for Gaming Machines". For the Authority to widen its regulatory purview, as suggested by audit, may require amendment to the Act. If so, this would be a policy issue for government. However, the Authority will consider audit's comments, consult with those gaming regulators that have endorsed the National Standards for Gaming Machines and the gaming industry in general, and make its views known to the Minister for Gaming in due course.

Part 1.2

Summary of major audit findings

LICENSING OF GAMBLING INDUSTRY PARTICIPANTS

Page 33

- There have been significant shortcomings in the Victorian Casino and Gaming Authority's licensing methodology utilised by its staff in investigating licence and approval applications since the introduction in 1992-93 of electronic gaming machines.
Paras 4.22 to 4.26 and para 4.35
- The procedures of the Authority dealing with applications for a gaming venue operator's licence, or for approval to manufacture or supply gaming machines, were particularly deficient in investigating an applicant's associates as well as business associates of both the applicant and any identified associates of the applicant.
Para. 4.35
- The Authority has been progressively developing new procedural guidelines for the assessment of licence applications with an initial focus on applications to operate a gaming venue.
Paras 4.27 to 4.34
- The Authority has completed its investigation into the suitability of the associates of an approved manufacturer and supplier of gaming machines and intends to raise some matters with various associates of the approved manufacturer and supplier.
Paras 4.37 to 4.39
- Although no investigative activity had occurred in earlier years, the Authority commenced investigations during 1997 into structures established by 4 clubs which had been granted a venue operator's licence, with one investigation completed at the date of audit.
Paras 4.50 to 4.56

LICENSING OF GAMBLING INDUSTRY PARTICIPANTS - continued

- A combination of the careful scrutiny exercised by the Liquor Licensing Commission when assessing applications for club liquor licences and subsequent investigations by the Authority, as deemed necessary, should minimise the risk of clubs attempting to utilise artificial structures to unfairly take advantage of the lower tax rate applicable to clubs.
Paras 4.40 to 4.57
- In a positive initiative, the Authority has introduced a risk-based approach to the licensing of particular categories of employees within the gaming industry.
Paras 4.58 to 4.70
- It is questionable whether the level of fees payable for a venue operator’s licence, or for approval to manufacture or supply gaming machines, bears any direct correlation to the potential commercial value of such licence or application.
Paras 4.71 to 4.77

MONITORING OF GAMBLING OPERATIONS AND PLAYER INFORMATION

- The standards developed by the Authority for testing and evaluation of gaming systems and equipment are comprehensive in coverage and have been instrumental in assisting the Authority in the establishment of technical integrity in the conduct of gambling activities within the State.
Paras 5.14 to 5.25
- The Authority’s contracted testing laboratories are performing their tasks in a conscientious and professional manner and at present, the testing process is working well.
Para. 5.26
- Several issues identified by audit concerning the limited level of information currently available to players of electronic gaming machines point to a need for the Authority to widen its official regulatory approach to the concept of player fairness.
Paras 5.28 to 5.36
- The Authority should drive the development and dissemination within the industry of a *Players’ Charter* which articulates the whole range of information deemed as essential to players in order that their position in terms of fairness is totally assured.
Para. 5.37
- Scope exists for the Authority to further enhance the effectiveness of its standards and testing processes in several important technical areas integral to game software within electronic gaming machines.
Paras 5.38 to 5.47
- The Authority’s monitoring and inspectorial activities relating to approved gaming systems and operations are soundly managed.
Paras 5.51 to 5.81

MONITORING OF**GAMBLING OPERATIONS AND PLAYER INFORMATION - continued****Page 55**

- The significance of the level of cash flows transacted through gaming venues is illustrated by the fact that, for 1996-97, net revenue after player prizes totalled in excess of \$1.4 billion.
Paras 5.82 to 5.83
- For virtually the whole of the 5½ year period to 31 December 1997, weekly net revenue derived from gaming venues at any point in time has been greater than the equivalent figure in respect of all previous weeks.
Paras 5.84 to 5.86
- The Authority has pro-actively moved to address the problem of poor accounting practices within some gaming venues.
Paras 5.87 to 5.93
- The Authority has played a lead role to date in the development of a proposed national approach to the already major ramifications emerging for governments from interactive gambling.
Paras 5.97 to 5.102

CASINO SUPERVISION**Page 83**

- The collective efforts of several parties, namely, members of the Authority, the Authority's Director of Casino Surveillance, casino inspectors appointed by that Director, members of the Victoria Police Casino Crime Unit and the casino operator through the casino surveillance staff, contribute to ensuring that gaming in the casino is conducted honestly.
Paras 6.18 to 6.44
- It is appropriate to recognise that the technology in place at the casino to support security and surveillance activities is highly advanced.
Para. 6.40
- The extent of occurrence to date of patron disputes and identified breaches of game rules and procedures at the casino, relative to the magnitude of daily activity, does not give rise to concern that gaming in the casino has been conducted other than in an honest manner.
Paras 6.45 to 6.48
- At 31 December 1997, 375 exclusion orders were in force at the casino, including 65 self-initiated by individuals.
Paras 6.49 to 6.54
- Given the difficulties associated with supervision and monitoring of exclusion orders, it is clear that the various parties have discharged their responsibilities in this area in a diligent manner.
Paras 6.55 to 6.58
- To date, no incidents of money laundering at the casino have been reported to the Authority by Victoria Police.
Paras 6.59 to 6.65

CASINO SUPERVISION - continued

- The Authority has moved in a positive way to address weaknesses in its investigative practices relating to controlled contracts at the casino.
Paras 6.81 to 6.89
- The Authority has acted in relation to an identified breach of a condition of the Casino Agreement (which underpins the casino licence) concerning the licence holder's debt-to-equity ratio.
Paras 6.98 to 6.108
- At the date of audit, the Authority was considering the circumstances relating to a potential breach of a condition within the Casino Agreement requiring it to be notified of certain lease arrangements entered into by the licence holder.
Paras 6.109 to 6.112

RESEARCH INTO THE SOCIAL IMPACT OF GAMBLING

- The aggregate research expenditure up to 31 December 1997 of \$1 353 600 from the Community Support Fund into the social impact of gambling represents 0.8 per cent of total expenditure from the Fund to that date.
Paras 7.13 to 7.15
- The Authority has overseen in recent years an extensive range of research activity into the social impact of gambling and has consulted periodically with key external bodies to receive input on suggested research topics.
Paras 7.16 to 7.23
- If the Authority's baseline database is to satisfy the basic purpose of assisting the Authority to answer fundamental gambling-related questions, it will be important that the database is progressively updated from both current research material and relevant data as it becomes available from future research projects.
Paras 7.24 to 7.29
- In December 1997, the Authority released the findings of a research project which analysed and evaluated the results of all past projects and identified the specific impacts of gaming in Victoria.
Paras 7.30 to 7.36
- While recognising the advanced nature of the Authority's research relative to international experience, the December 1997 summary research report also drew attention to some issues which need to be addressed by the Authority in order for it to enhance the effectiveness of its overall research function.
Paras 7.37 to 7.38

RESEARCH INTO THE SOCIAL IMPACT OF GAMBLING - continued**Page 109**

- Late in 1997, the Government determined to retain the cap of 27 500 electronic gaming machines in hotels and clubs, a decision based principally on the outcomes from the Authority's research into the social impact of gambling.

Paras 7.39 to 7.43

- The Authority expects the quantum of applications submitted to it for approval to vary, upward and downward, the number of approved gaming machines at venues to continue to increase as gaming operators negotiate with venue operators on the renewal of contractual arrangements.

*Paras 7.44 to 7.54***OTHER MATTERS****Page 129**

- The Authority is currently moving in a positive manner to progressively refine its initial work associated with the development of a performance measurement and reporting framework.

Paras 8.4 to 8.18

- In directing attention to the formulation of effectiveness measures, the Authority should establish mechanisms such as periodic surveys for assessing the level of satisfaction of key stakeholders, including members of the public, with the regulatory functions undertaken by it.

Paras 8.16 to 8.17

- Reviews under the National Competition Policy of 2 of the 9 pieces of legislation relating to the State's gambling industry have been finalised and the resultant reports are currently under consideration by the Government.

Paras 8.19 to 8.22

Part 2

Outline of the regulatory framework for gambling in Victoria

INTRODUCTION

2.1 In 1990, the then Government embarked on a policy direction which involved expansion of the range of gambling activities available to the Victorian public. The Government’s action in this area involved the introduction of electronic gaming machines and the establishment of a casino close to the business centre of Melbourne. As part of this policy direction, gaming operations involving electronic gaming machines in hotels and clubs began in 1992-93 and a casino (operating initially from a temporary site) opened in Melbourne in June 1994. The casino moved to a permanent site in May 1997.

2.2 The regulatory framework initially established by the Government for its expanded gambling industry comprised 2 regulatory bodies, the Victorian Gaming Commission and the Victorian Casino Control Authority, operating under separate statutes.

2.3 In September 1993, the current Government commissioned a review of electronic gaming machines in Victoria. The review’s terms of reference included a requirement that particular regard be given to the need for effectiveness and efficiency in the regulatory and managerial framework governing the introduction and operation of electronic gaming machines. The review’s recommendations conveyed to the Government in an April 1994 report stressed the importance of having one Minister responsible for all aspects of gambling and identified the scope to amalgamate the Victorian Gaming Commission and the Victorian Casino Control Authority.

2.4 The Government subsequently determined to form a single regulatory organisation covering all gambling activities in Victoria and falling within the responsibility of one Minister. In this regard, in June 1994, the Victorian Gaming Commission and the Victorian Casino Control Authority were formally dissolved under the *Gaming and Betting Act* 1994 and the Victorian Casino and Gaming Authority was created under this legislation as the new monitoring and controlling body for gaming, wagering and other forms of gambling in Victoria.

ROLE AND RESPONSIBILITIES OF THE VICTORIAN CASINO AND GAMING AUTHORITY

2.5 The Victorian Casino and Gaming Authority is an independent statutory body, currently comprising a Chairperson, Deputy Chairperson and not more than 8 members, which reports to the Minister for Gaming. It is a requirement of the *Gaming and Betting Act* 1994 that one of the members of the Authority be a member of Victoria Police nominated by the Chief Commissioner of Police. Members of the Authority, including the Chairperson, are appointed by the Governor-in-Council on the recommendation of the Minister.

2.6 The regulatory responsibilities of the Authority are very wide ranging and are derived from the various Acts listed below:

- *Casino Control Act 1991;*
- *Casino (Management Agreement) Act 1993;*
- *Club Keno Act 1993;*
- *Gaming and Betting Act 1994;*
- *Gaming Machine Control Act 1991;*
- *Lotteries Gaming and Betting Act 1966;*
- *Racing Act 1958;*
- *Tattersall Consultations Act 1958; and*
- *TT-Line Gaming Act 1993* (legislation governing gaming on the trans-Tasman shipping line).

2.7 A multiplicity of gambling activities, some of which have substantially expanded in recent years, fall within the regulatory obligations of the Authority including:

- electronic gaming machines;
- casino gaming;
- horse and greyhound wagering;
- sports betting;
- lotteries;
- instant scratch tickets;
- club keno;
- lucky envelopes (involving automated machines);
- bingo;
- raffles; and
- trade promotions (competitions or other games conducted by a trade or business to promote the sale of its products or services).

2.8 The Authority's stated corporate vision, as documented in its 1997-98 corporate plan, is "*A fair and crime free gambling industry which optimises the benefits for Victorians*". Its mission is "*To be at the forefront of effective regulation of the gambling industry*".



2.9 The statutory objectives of the Authority are set out in the various pieces of legislation referred to in the above paragraph. Because of some overlap in references to these objectives within the various statutes, the Authority has developed a consolidated strategic statement, as presented below, of its principal legislative objectives:

- ensure that gambling activities regulated by the Authority are conducted honestly and remain free from criminal influence and exploitation;
- ensure that regulation is efficient and effective;
- act as a source of advice to the Minister on gambling issues and ensure that the Government's policy on gambling is implemented;
- conduct research into, and advise the Minister on, the social impact of gambling; and
- promote tourism, employment and economic development generally in the State.

2.10 As pointed out in the Auditor-General's Special Report No. 40, tabled in the Parliament in May 1996, dealing with a performance audit of the Community Support Fund, the Authority advised during that audit that it had determined not to have a direct role in matters relating to:

- increasing the size of the gambling market;
- increasing employment through the gambling industry;
- increasing revenue to the Government from gambling; or
- promotion of the gambling industry.

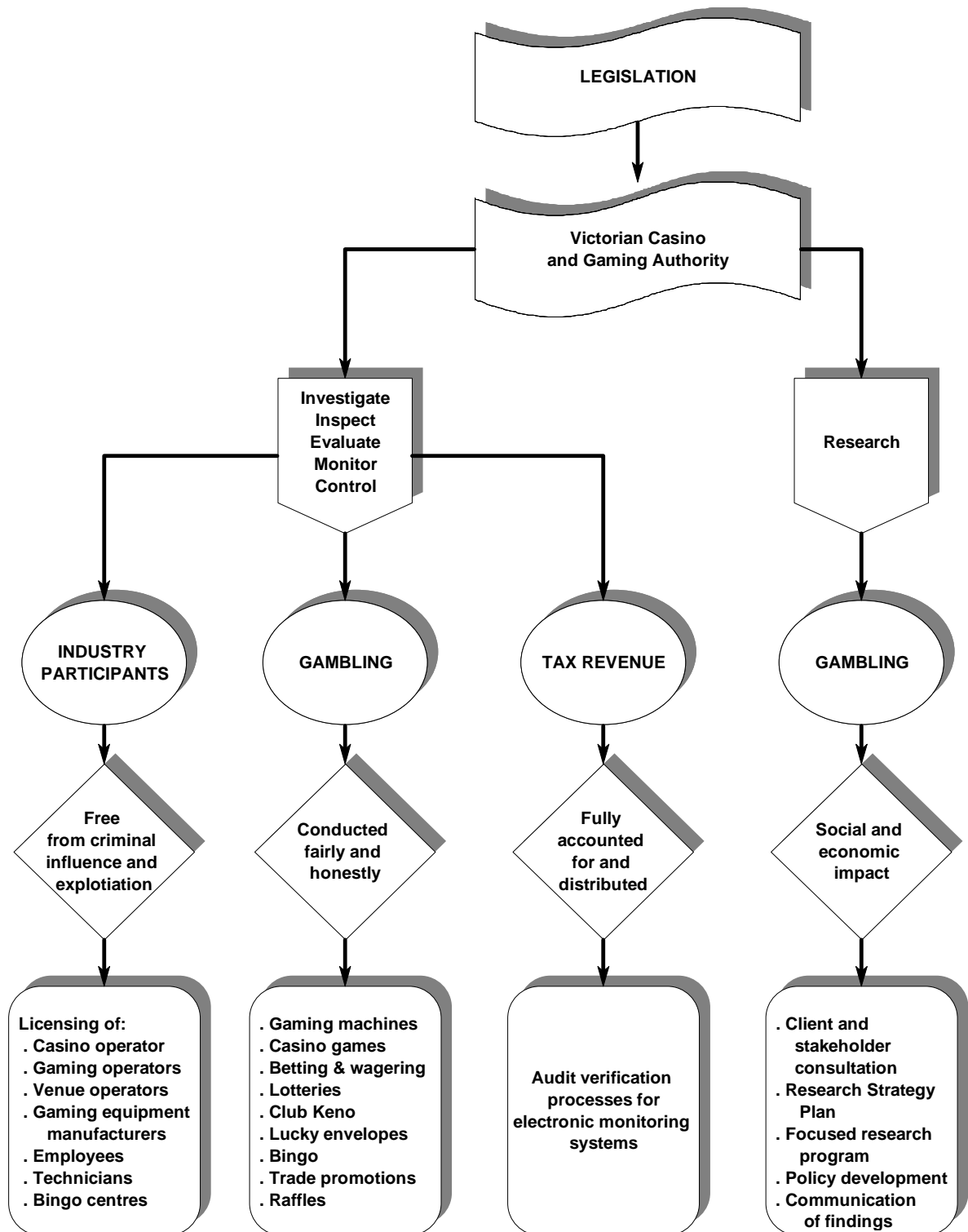
2.11 In essence, the Authority indicated to audit that it does not participate in promotion of the industry as it viewed such activities to be in conflict with its regulatory role.

2.12 The Authority's Business Plan for 1996-97 addressed some fundamental issues in a manner which provided an understanding of how the Authority perceived its role and function. In particular, the plan documented the Authority's rationale for regulation of the State's gambling industry as necessary to:

- prevent any criminal or unsuitable people from becoming involved in the industry;
- ensure public confidence in the industry;
- ensure government receives all revenue due to it from approved gambling activities; and
- protect patrons of approved gambling activities from unfair or unreasonable treatment.

2.13 A diagrammatic representation of the Authority's key statutory responsibilities is shown in Chart 2A.

CHART 2A
 OUTLINE OF PRINCIPAL STATUTORY RESPONSIBILITIES
 OF THE AUTHORITY



Source: Chart compiled by Victorian Auditor-General's Office.



Statutory positions of Director of Gaming and Betting and Director of Casino Surveillance

2.14 The members of the Authority are assisted in meeting their collective responsibilities by the occupants of 2 independent statutory positions, the Director of Gaming and Betting and the Director of Casino Surveillance. The occupants of these 2 statutory positions are appointed by the Governor-in-Council on the recommendation of the Minister for Gaming.

2.15 The 2 Directors are primarily responsible to the members of the Authority for managing, in their respective areas, the various tasks and functions necessary for achievement of the Authority’s statutory objectives in regulating the State’s gambling industry.

2.16 In addition, each Director has specific legislative authority to undertake particular tasks, such as the appointment of inspectorial staff, independent of members of the Authority. Both Directors can be called upon to provide advice to the Minister on relevant matters without reference to the members of the Authority. Furthermore, managerial and administrative staff working for the Authority are employed under the provisions of the *Public Sector Management Act* 1992 and are regarded by the members of the Authority as employees of the related Department, namely, the Department of Treasury and Finance.

Quasi-judicial role of members of the Authority

2.17 It is also important to recognise that members of the Authority are obligated under the legislation to consider and reach final determination on appeals lodged by external parties against decisions of either Director. In such circumstances, the members of the Authority advised audit that they assume a quasi-judicial role and must therefore always be seen to be at arms-length from, or have no direct responsibility for, those decisions of Directors which are subject to appeal. Notwithstanding the need to be distanced from individual decisions, the members of the Authority have the overall responsibility to satisfy themselves that the procedures followed by Directors are appropriate and consistent with the Authority’s legislative objectives.

2.18 In view of the factors outlined in the preceding paragraphs, organisational references to the Authority within this Report can involve decisions or actions of the members of the Authority and/or those of the 2 Directors with the latter category not necessarily falling within the direct responsibility of the members. Relevant information is provided, as necessary, to explain the nature of such references.

2.19 Because of the statutory status of the 2 Directors within the gambling industry’s regulatory framework and the overall significance of their roles, some specific information dealing with the responsibilities of each statutory position is presented in the succeeding paragraphs.

Director of Gaming and Betting

2.20 The statutory functions of the Director of Gaming and Betting are set out in several Acts and include to:

- investigate compliance with relevant legislation, regulations, betting rules, licences and permits;
- ensure the conduct of specified gambling activities is supervised;
- detect offences committed in, or in relation to, specified gambling activities;
- receive and investigate complaints from patrons concerning the conduct of gambling;
- investigate the suitability of applicants for licences, permits and approvals; and
- report generally to, and assist the members of, the Authority regarding the operation of various Acts.

2.21 As mentioned earlier, the Director of Gaming and Betting is also required to provide advice, from time-to-time, to the Minister. In addition, the occupant of the position reports to the Secretary of the Department of Treasury and Finance in relation to the management of staff and budgetary matters.

Director of Casino Surveillance

2.22 The statutory responsibilities of the Director of Casino Surveillance are set out in the *Casino Control Act 1991* and require the occupant of the position to, inter alia:

- supervise directly the operation of casinos and the conduct of gaming and betting within them;
- make recommendations to the Authority concerning the games that may be played in casinos and the rules of such games;
- detect offences committed in, or in relation to, casinos;
- receive and investigate complaints from casino customers concerning the conduct of gaming or betting in the casino;
- appoint, supervise, direct and control inspectors;
- make recommendations to the Authority concerning systems of internal controls, and administrative and accounting procedures for casinos;
- ensure that taxes, charges and levies payable under this Act are paid; and
- report generally to, and assist, the Authority regarding the operation of casinos.

2.23 While most of the legislative terms refer in the plural to *casinos*, the functions of the Director to date have concerned the one casino operated in the State since June 1994.

Some key features of the industry

2.24 The most significant developments impacting on the Authority’s regulatory functions have occurred in the years since 1992-93. This period has seen the marked expansion of the gambling industry involving the introduction of electronic gaming machines and the establishment of a casino adjacent to the business centre of Melbourne.

2.25 Key features of the Government’s policy direction to date dealing with these specific segments of the gambling industry and which form part of the industry’s legislative framework, include:

Electronic gaming machines other than at the Melbourne casino

- The maximum number of gaming machines permitted in the State to be available for gaming in licensed venues is currently 27 500, with this figure subject to next review in the year 2000;
- The issue of gaming operator licences to 2 operators, TABCORP Holdings Limited and Tattersall’s (both licences expire in 2012) with each party permitted to operate 50 per cent of the maximum permissible number of gaming machines available for gaming in the State;
- The issue of venue operator licences to approved hotels and licensed clubs to operate as gaming venues;
- The number of gaming machines placed in approved venues is equally distributed between hotels and licensed clubs;
- Gaming machines placed in approved venues are purchased by the 2 gaming operators, remain in the ownership of the operators and can be moved between venues under commercial decisions of the operators;
- The maximum permissible number of gaming machines available for gaming in any licensed venue is 105 machines, with a limit of 100 machines within the restricted (i.e. designated) gaming area of the venue;
- The proportion of gaming machines to be located outside the Melbourne metropolitan area is not less than 20 per cent; and
- Specific arrangements in place which provide for the allocation, in designated proportions, of net revenue derived from gaming machines (i.e. after deduction of players’ winnings) to government revenue, gaming operators, venue operators and a special trust fund, the Community Support Fund (used for special research into gambling and for specified community purposes).

The Melbourne casino

- The issue, following a competitive tendering process, of a casino licence in November 1993, covering an initial period of 40 years, to Crown Limited;
- A current maximum of 350 gaming tables, e.g. roulette and poker, and of 2 500 electronic gaming machines permitted to be available for gaming within the casino;



- Inclusion within the management agreement relating to the casino of the following special provisions:
 - no other casino is permitted to operate anywhere in the State before November 1999 or within a radius of 150 kilometres from the Melbourne casino before November 2005;
 - the total number of gaming machines permitted to be used in the State prior to November 2005 is limited to 45 000 (as explained above, the current limit is 27 500); and
 - the maximum number of gaming machines permitted to be used in any approved venue located within a radius of 100 kilometres of the Melbourne Casino must remain at 105 until November 2005.
- The application of lower taxation rates to revenue derived from specially categorised high stake gamblers;
- Deduction of a 1 per cent Community Benefit Levy from all gaming net revenue for payment to a special trust fund, the Hospitals and Charities Fund; and
- Provision for an investigation by the Authority, at least every 3 years, into the suitability of the casino operator to continue to hold the licence and whether it is in the public interest that the casino licence continue in force.

2.26 As pointed out in an earlier paragraph, the Authority acts as a key source of advice to the Minister on gambling issues and, as part of its regulatory role, is required to ensure that the Government's policy on gambling is implemented. As such, the above key features of the Government's policy direction in respect of the industry constitute an integral part of this element of the Authority's responsibilities.

Significance of the Authority's regulatory functions

2.27 A clear characteristic of the State's gambling industry for several years now has been a continuing expansion, as reflected in relevant financial data, in the extent of public participation in the industry. This expansion has been particularly evident in the public's use of electronic gaming machines in gaming venues across the State (since their introduction in 1992) and in the annual revenue of the Melbourne casino.

2.28 Some of the indicators of this industry expansion are presented below:

- The total number of licensed gaming machine venues had reached 558 at 31 December 1997, made up of 299 clubs and 259 hotels;
- A progressive rise in the number of gaming machines approved for installation in licensed venues (12 970 machines at 30 June 1993 increasing to 26 570 at 31 December 1997, and comprising 13 738 in hotels and 12 832 in clubs);
- Marked escalation in the total net revenue (after deduction of players' winnings) derived from gaming machines moving from \$673 million in respect of 1993-94 (the end of the second full year of gaming machine operations) to \$1.4 billion for 1996-97; and
- A continuing upward trend in the level of funds paid into the Community Support Fund and available for distribution for research and designated community purposes (rising from \$12.9 million for 1992-93 to \$81.1 million for 1996-97).



*Tattersall's gaming venue:
The Celtic Club in Melbourne.
(Reproduced with the permission of Tattersall's)*

2.29 The impact of the above factors is clearly manifested in the significant growth in taxation revenue derived by the Government from gambling activities in the period since 1991-92. In this regard, revenue from gambling activities has become the fourth most significant revenue source to the Government, with payroll tax, taxes on property and franchise fees now the only categories generating higher levels of revenue than gambling taxes. Table 2B illustrates the growth in taxation revenue from gambling since 1991-92.

TABLE 2B
GAMBLING TAXATION DERIVED BY GOVERNMENT,
1991-92 TO 1996-97
(*\$million*)

<i>Source</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>
Electronic gaming machines	0.2	94.9	258.8	384.0	509.1	625.7
Lotteries	300.2	290.2	286.1	296.6	297.9	274.4
Racing	191.6	198.4	201.7	144.1	122.0	121.2
Melbourne casino	Nil	Nil	Nil	67.8	110.4	128.2
Other	21.2	16.8	14.2	15.2	11.9	7.9
Total	513.2	600.3	760.8	907.7	1 051.3	1 157.4

Source: Government financial statistics obtained from the Department of Treasury and Finance.



2.30 The increase of \$644 million (125 per cent) in the Government's aggregate gambling taxation revenue over the 5 year period to 1996-97, as shown in Table 2A, is entirely due to the escalating levels of taxation derived from electronic gaming machines and the Melbourne casino, with the most significant contribution emanating from gaming machines.

2.31 Clearly, the current magnitude of the gambling industry and its financial significance to the State reinforce the absolute importance of the regulatory role of the Authority.

Part 3

Conduct of the audit

AUDIT OBJECTIVE

3.1 The overall objective of this performance audit was to evaluate the effectiveness of the Victorian Casino and Gaming Authority in achieving its statutory objectives in its capacity as the Government’s official regulatory body for the State’s gambling industry. Specifically, the audit was aimed at determining and evaluating the extent to which the Authority is:

- ensuring that gambling operations are conducted honestly and that the management and operation of approved gambling activities remain free from criminal influence and exploitation;
- acting as a source of advice to the Minister on gambling issues and ensuring that the Government’s policy on gambling is implemented;
- funding research into, and advising the Minister on, the social impact of gambling; and
- promoting tourism, employment and economic development generally in the State through the administration of the various Acts associated with its regulatory responsibilities.

3.2 In the pursuit of this objective, audit sought to give recognition to any continuous improvement initiatives taken by the Authority to enhance the quality and effectiveness of its regulatory role.

AUDIT SCOPE

3.3 While the audit dealt with the strategies and operating procedures adopted by the Authority in the pursuit of its statutory objectives identified under the State’s gambling legislation, emphasis was directed to the regulatory activities of the Authority in respect of the industry’s 2 prime growth segments, namely, electronic gaming machines and the Melbourne casino.

3.4 Having regard to these 2 industry segments, the scope of the audit included examination of procedures followed by the Authority for the following key aspects of its regulatory responsibilities:

- licensing and ongoing monitoring of industry participants;
- monitoring, supervising and controlling the manner in which gambling is conducted in the State;
- ensuring fairness to players and patrons of the various forms of gambling;
- verifying gambling taxation revenue due to the State;
- undertaking research into the social impact of gambling; and
- generally, overseeing the implementation of the Government’s policy on gambling.



3.5 In addition, the audit included an assessment of the Authority’s strategic management practices dealing with corporate governance, particularly in terms of:

- corporate and business planning;
- the formulation by the Authority of performance measures and targets for evaluating the effectiveness of its regulatory tasks; and
- the soundness of procedures in place for progressive monitoring of actual performance against targets and the reporting of related information to the Parliament and the community.

3.6 The scope of the audit did not include the initial granting of licences to the State’s 2 gaming operators and the holder of the casino licence.

3.7 The audit was performed in accordance with Australian Auditing Standards applicable to performance audits and, accordingly, included such tests and other procedures necessary in the circumstances.

SPECIALIST ASSISTANCE

3.8 Specialist assistance was provided to the audit team by the following representatives of the Department of Computer Science, Monash University:

- Dr Graham Farr;
- Professor Chris Wallace;
- Dr Rod Worley; and
- Dr David Dowe.

3.9 This assistance related to an examination of the Authority’s technical and functional standards for gaming systems and equipment, and evaluation of the testing strategies employed by the Authority’s contracted testing laboratories. The specialists were requested to place emphasis on software issues associated with electronic gaming machines, on mathematical factors pertaining to player returns and on the integrity of game software generally.

IMPETUS FOR THE AUDIT

3.10 The principal impetus for this performance audit was derived from the huge expansion in recent years in the gambling industry, especially in relation to the major growth area of electronic gaming machines.

3.11 The industry’s expansion has served to reinforce the critical importance of complete public confidence at all times in the conduct of gambling and in the integrity and effectiveness of the manner in which the Authority discharges its statutory responsibilities as the industry’s regulator.



3.12 An independent assessment under a performance audit of the Authority’s regulatory role was seen, having regard to the magnitude of the industry’s growth, to be a relevant and suitable exercise by the Auditor-General on behalf of the Parliament and community.

3.13 The undertaking of a performance audit in the subject area also accorded the opportunity to update material previously reported to the Parliament in relation to expenditure from the Community Support Fund on research into the social impact of gambling. The management of such research is an important responsibility of the Authority and comment on this aspect of the Authority’s work up to February 1996 was incorporated in the Auditor-General’s Special Report No. 40 “*The Community Support Fund: A significant community asset*” which was tabled in the Parliament in May 1996.

3.14 Finally, the decision to undertake a performance audit dealing with the Authority’s regulatory role within the State’s gambling industry was endorsed by the Parliament’s Public Accounts and Estimates Committee following consultation with the Committee by the Auditor-General on annual performance audit planning, as required by the *Audit Act* 1994.

ASSISTANCE PROVIDED TO AUDIT

3.15 The current Director of Gaming and Betting (and the predecessor occupant of the position), the Director of Casino Surveillance, Branch Managers and other staff of the Authority provided significant support and assistance to audit. All representatives of the Authority responded in a highly professional and co-operative manner to the many requests made of them for information and discussion during the course of the performance audit.

3.16 Appreciation is also extended to the Authority’s 2 contracted testing laboratories, to venue operators and staff at venues visited by audit, members of the Victoria Police Gaming and Vice Squad, and the Registrar of the Liquor Licensing Commission for their helpful assistance.

3.17 Audit wishes to acknowledge the contribution that the above assistance and co-operation made to the preparation of material included in this Report.

Part 4

Licensing of gambling industry participants

OVERVIEW

4.1 A key responsibility of the Victorian Casino and Gaming Authority in its legislative role as regulator of the gambling industry is to ensure the management and operation of approved gambling activities remain free from criminal influence and exploitation. This responsibility reinforces the importance of the Authority having in place sound procedures for assessing licence and other applications submitted by prospective entrants to the gambling industry and for its ongoing monitoring of licensed or approved participants.

4.2 The audit examination disclosed some specific shortcomings in the Authority’s licensing methodology followed by its licensing staff over the years since the introduction in 1992-93 of electronic gaming machines within the State. These shortcomings involved the absence of interpretative guidance to staff on key criteria specified in the legislation as requiring attention in considering a licence application, a general lack of critical evidential matter on files to support licensing decisions and the practice of the Authority not to pro-actively monitor the circumstances of licensees, especially in terms of possible changes in their relationships with other parties, during the period of a licence term. Audit considered the procedures of the Authority dealing with applications for a gaming venue operator’s licence or for approval to manufacture or supply gaming machines were particularly deficient in investigating an applicant’s associates as well as business associates of both the applicant and any identified associates of the applicant.

4.3 To its credit, the Authority has been progressively developing new procedural guidelines for the assessment of licence applications with an initial focus on licence applications to operate a gaming venue. Part of this process has involved the seeking of legal advice, legislative change and a major restructure of staffing positions within the Authority’s Licensing and Compliance Branch. It has also introduced, in conjunction with Victoria Police, a risk-based approach for the licensing of employees within the industry.

4.4 Audit has stressed to the Authority the importance of timely introduction of its revised licensing methodology. Until the new procedures are fully operational, the members of the Authority cannot be completely satisfied that all licensing decisions are soundly based and are consistent with the organisation’s statutory aim of ensuring the gambling industry is free from criminal influence and exploitation.

4.5 Finally, it is questionable whether the level of fees payable for a venue operator’s licence or for approval to manufacture or supply gaming machines bears any direct correlation to the potential commercial value of such licence or approval. The Authority should move to address this matter.



□ RESPONSE by Director of Gaming and Betting, Victorian Casino and Gaming Authority

OVERVIEW

4.2 Audit makes comments regarding a number of shortcomings it believes is evident in the Authority's licensing methodology. These matters are addressed in the responses to paras. 4.22, 4.23 and 4.35.

4.5 Audit questions whether the level of fees payable for a venue operator's licence or for approval to manufacture or supply gaming machines bears any direct correlation to the potential commercial value of such a licence or approval and recommends the Authority address this matter. This matter is addressed in the response to para. 1.1.7 of the Overall Audit Conclusion.

THE IMPORTANCE OF LICENSING IN VICTORIA'S LEGISLATIVE FRAMEWORK FOR GAMBLING

4.13 Audit refers to the Authority's quasi-judicial role in determining appeals against the decisions of the Director and states that the Authority "... must therefore always be seen to be at arms-length from ... the statutory decisions made by the 2 Directors ..."

The Authority is, in fact and appearance, at arms-length from the statutory decisions made by the 2 Directors.

ACTION NECESSARY BY AUTHORITY TO STRENGTHEN ITS LICENSING METHODOLOGY

4.22 Audit identifies 3 areas where it believes there have been shortcomings in licensing methodology, being:

- methodology not containing official interpretation of key evaluative criteria;
- the focus of the methodology being directed more to physical movement of paperwork rather than factors influencing the judgement of licensing staff; and
- no provision within the methodology for pro-active monitoring of relevant aspects of licensees' circumstances and those of other industry participants such as manufacturers and suppliers of gaming machines.

The matters of methodology not containing official interpretation of key evaluative criteria is addressed in the response to para. 4.23. The matter of pro-active monitoring of relevant aspects of licensees' circumstances and those of other industry participants is addressed in the response to para. 4.35.

The Authority does not accept audit's view that the focus of the methodology has been directed more to physical movement of paperwork rather than factors influencing the judgement of licensing staff. The procedures manual was developed with the assistance of the Australian Quality Council and was developed deliberately to focus on the decision-making processes rather than the paperwork.

4.23 Audit states that in the absence of an official interpretation by the Authority, very little supplementary information was available to guide judgements and decisions of the licensing staff in ensuring the requirements of the legislation were adequately and consistently implemented. Audit states that as a consequence of this, licensing officers have found it necessary to exercise a significant amount of discretion in assessing the suitability or otherwise of licensing applicants which, over the years, has created the risk that performance of the Authority's licensing functions may not always have been directly in line with the legislative requirements.

The Authority does not agree that there is a lack of fully documented policies and procedures in the licensing process and also rejects that there is material risk of exposure to inconsistency or that decisions have been made which are not always directly in line with legislative requirements. The Authority notes that audit has not demonstrated that this “material risk” has led to any unsuitable persons being licensed.

Documents and procedures currently used by licensing staff are sufficient to enable them to process licence applications in a consistent and uniform manner. Each licensing officer has a copy of relevant Acts which contain the objectives of the legislation and definition of key matters to be taken into account in licensing. In addition, each licensing officer has a procedures manual which sets out the licensing procedures and an overall description of the licensing process. If, after consulting these documents, licensing officers are unsure of what to do, they are encouraged and required to consult their supervisor, who may seek legal or other advice if necessary.

SOME SPECIFIC DEFICIENCIES ARISING FROM THE INADEQUATE LICENSING METHODOLOGY

4.35 Audit reports that its examination identified some specific deficiencies in the Authority’s licensing procedures which it felt were primarily attributable to the less than comprehensive coverage of key concepts within the Authority’s licensing methodology.

The Authority again notes that audit has not demonstrated that this has led to any unsuitable persons being licensed.

Audit also states that the overall lack of adequate documentation of the licensing process has led to senior management and ultimately the members of the Authority and the Directors of Gaming and Betting and Casino Surveillance relying totally on the judgement of licensing staff.

The Authority does not accept that it or management is at risk of relying totally on the judgement of licensing officers. Documentation used by licensing officers is sufficient to cover most cases to ensure a consistency and uniformity in processing applications.

In those cases where an application presents matters not covered within this documentation, legal advice is sought before proceeding. In addition, every application requiring determination by the Authority is reviewed by supervisors including the Manager, Licensing and Compliance, the Manager, Legal and Legislation, and the Director of Gaming and Betting before being submitted. With respect to the assessment of casino special employees, officers are required to refer all applications having criminal offences detected to the Director of Casino Surveillance for determination.

It is also the Authority’s policy that any issue which may impact on the suitability of applicants is brought to its attention. In addition, the Manager, Licensing and Compliance, is available at all meetings of the Authority to answer questions on particular applications and assist the Authority as required.

Audit states that in a significant number of instances, licensing staff of the Authority failed to establish whether particular parties identified during investigations fell within the legislative categories of either an associate or business associate of an applicant. Audit states as an example a supplier who borrowed \$3.7 million from an external party and implies that the provider of the finance should have been considered to be an associate.



The Authority rejects the assertion that licensing staff failed to establish whether particular parties identified during investigations fell within the legislative categories of either an associate of an applicant or had a business association with an applicant or associate of an applicant. The definition of “associate” in the Gaming Machine Control Act 1991 requires, in addition to a financial involvement, that such a person or entity should “... by virtue of that (financial) interest ... (be) able or will be able to exercise a significant influence over or with respect to the management or operation of that gaming machine business”.

In the case referred to by audit, it was determined at the time of application that the provider of the \$3.7 million had a relevant financial interest, but that this interest would not enable the company to exercise a significant influence over, or with respect to, the management of the gaming machine business. As such, it was determined at the time, that the provider of the finance was not an associate, as defined by the Act, of the applicant.

Audit has observed that it has been past practice of the Authority to place almost total reliance on licensees and approval holders to meet their legislative obligations in ensuring that the Authority is advised of all relevant changes in their circumstances.

While licensees and approval holders have a responsibility to advise the Authority of changes, the Licensing and Compliance Branch now has ongoing monitoring strategies in place including audits of the associates of a sample of venues and a highly effective covert surveillance unit which visits every venue throughout the State at least once, and usually more often, every year. As part of this surveillance, investigators monitor parties with apparent interest in the venue to ensure they are approved to have such an interest. In addition, as each venue operator’s licence requires renewal after 5 years, this means on average, 20 per cent of venues will have their associates freshly identified and checked for probity each year as part of this renewal process.

4.56 Audit has stated that it has recommended to the Authority that it consider whether a specific venue (not named in the Report, but identified to the Authority during the review) should be assessed under section 136A to determine which rate of tax should be applied.

The venue in question has recently been assessed as part of the renewal of its venue operator’s licence. The corporate structure of the club has been amended and is now considerably different to that reported by audit and as such there are now no reasons to review whether a different tax rate should be applied.

LICENSING FEES AND COST RECOVERY

4.77 Audit has stated that the Authority should move to establish a closer correlation between applications fees for venue operator licences and approvals to manufacture or supply gaming machines and the assessed commercial value of such licences and approvals.

The Authority has addressed this point in its response to para. 1.1.7 of the Overall Audit Conclusion.

**THE IMPORTANCE OF LICENSING
IN VICTORIA'S LEGISLATIVE FRAMEWORK FOR GAMBLING**

4.6 It is common international practice in the regulation of gambling industries that a structured framework is in place for the licensing of participants in the management and operation of the industry. This approach is principally aimed at excluding undesirable elements from the industry as the means of minimising criminal influence and exploitation, protecting patrons from fraudulent activities by operators and their employees, and safeguarding government revenue streams. Similar to the general international position, these factors are directly relevant to Victoria's gambling industry.

4.7 In Victoria, the legislative framework governing gambling specifies the licensing and approval requirements in respect of the various classes of management and operating participants within the gambling industry. The major classes of industry participants associated with electronic gaming machines and the operation of the Melbourne casino within the State are:

- the 2 gaming operators (Tattersall's and TABCORP);
- gaming machine venue operators and their nominees;
- the operator of the Melbourne casino (Crown Limited);
- manufacturers and suppliers of gaming machines and machine components;
- gaming machine technicians;
- specified categories of employees of both gaming and venue operators; and
- specified categories of employees of the casino operator.

4.8 Expressed in a collective sense, the 3 key gaming statutes, the *Gaming Machine Control Act 1991*, the *Casino Control Act 1991* and the *Gaming and Betting Act 1994*, can be viewed as requiring the Authority in relation to licensing to ensure that the management and operation of approved gambling activities remain free from criminal influence and exploitation.

4.9 This significant statutory obligation reinforces the importance of the Authority having in place sound procedures for assessing licence applications submitted by prospective entrants to the gambling industry and for its ongoing monitoring of licensed participants.

Principal elements of the Authority's licensing activities

4.10 Under the legislation, the power to grant particular licences and approvals rests with the members of the Authority (i.e., carried as a decision at a meeting of the Authority). For certain other cases, the granting power is assigned to the occupants of the 2 statutory positions within the Authority, the Director of Gaming and Betting, and the Director of Casino Surveillance.

The nature and range of licences and approvals granted by the Authority

4.11 Details of licences and approvals granted by the members of the Authority and the 2 Directors up to 31 December 1997, but excluding renewals, are shown below in Table 4A.

**TABLE 4A
LICENCES AND APPROVALS GRANTED BY THE AUTHORITY
UP TO 31 DECEMBER 1997**

<i>Licences and approvals granted by the members of the Authority</i>	<i>Licences and approvals granted by the Director of Gaming and Betting</i>	<i>Licences granted by the Director of Casino Surveillance</i>
Licences		
Casino Operator Licence (1 licence)	Licensing of Gaming Special Employees and Technicians (34 265 licences)	Licensing of Casino Special Employees (9 174 licences)
Licensing of Gaming Operators (3 licences, including the former TAB)		
Licensing of Gaming Venue Operators (hotels and clubs) (706 licences including transfers of ownership)		
Approvals		
Approval of Nominees of Gaming Venue Operators (135 approvals)	Approval of Listings on the Roll of Recognised Manufacturers and Suppliers of Gaming Machines and Restricted Components (22 approvals)	
Approval of contracts between Gaming Operators and Gaming Venue Operators (a) (706 approvals including transfers of ownership)		

(a) Under amending legislation effective from 22 January 1998, the Authority is no longer required to grant these approvals.

Source: Table developed by Victorian Auditor-General's Office from data provided by the Authority.

4.12 As mentioned in the description of the State's regulatory framework for gambling set out within Part 2 of this Report, it is important to recognise that members of the Authority are obligated under the legislation to consider and reach final determination on appeals lodged by external parties against decisions of either Director. Up to 31 December 1997, the members of the Authority have deliberated on 21 appeals lodged against decisions of the Directors, of which 8 have been upheld.



4.13 The earlier Part 2 also mentioned that, in the above circumstances dealing with appeals, members of the Authority assume a quasi-judicial role and must therefore always be seen to be at arms-length from, or have no direct responsibility for, the statutory decisions made by the 2 Directors as all such decisions are subject to appeal. Notwithstanding this need to be distanced from these decisions, the members of the Authority have the overall responsibility to satisfy themselves that the procedures followed by the Directors are appropriate and consistent with the Authority’s legislative objectives.

Features of the Authority’s approach to its licensing responsibilities

4.14 Responsibility for administering the Authority’s licensing activities rests with its Licensing and Compliance Branch under the direction of a Branch Manager.

4.15 When assessing applications for licences and approvals in respect of the various classes of industry participants, the Branch focuses principally on the extent of compliance with various requisite criteria specified in legislation. The criteria generally relate to the character, honesty and integrity of individuals (and their identified associates) seeking to participate within the industry. In this regard, applicants and specified associates are required to furnish, for investigation by the Authority, extensive information pertaining to their personal and corporate circumstances and background.

4.16 The investigations performed by the Authority are designed to validate furnished information as a means of determining the overall suitability of the applicant and any identified associates. An important part of this investigation process involves the fingerprinting of applicants.

4.17 A further significant facet of the process concerns probity checking. This process can encompass the following steps:

- checking of fingerprints by the Authority against the relevant database of Victoria Police;
- examination by the Authority of criminal records to establish whether the applicant and associates have any previous history of criminal offences and convictions; and
- scrutiny of criminal intelligence by the Gaming and Vice Squad of Victoria Police which is particularly aimed at identifying any actual or potential connections by applicants or associates with known criminals in Australia or elsewhere.

4.18 At the time of the audit examination, the Licensing and Compliance Branch had a full-time staffing establishment of 50 positions. Of this establishment, 4 full-time staff members of the Branch are permanently deployed at Victoria Police to provide assistance with probity checks on licensing applicants and on any identified individuals and entities associated with applicants.

4.19 For 1996-97, expenditure by the Authority in respect of its licensing activities totalled \$3.4 million.

**ACTION NECESSARY
BY AUTHORITY TO STRENGTHEN ITS LICENSING METHODOLOGY**

4.20 A critical factor influencing the soundness of the Authority’s approach to its licensing responsibilities involves the adequacy and completeness of its documented licensing methodology. In this regard, the documented methodology developed by the Authority constitutes the principal guidance available to licensing staff on the key issues to be considered in the evaluation of applications submitted by prospective entrants to the gambling industry and the ongoing monitoring of licensed participants.

4.21 The evaluation undertaken by licensing staff forms the basis of decisions by the members of the Authority or the 2 statutory Director positions concerning entry of individual persons or entities to the industry. As illustrated in earlier paragraphs, these regulatory decisions of the Authority represent the source of assurance to the Parliament and the community that the industry is free from criminal influence and exploitation.

Shortcomings identified in licensing methodology

4.22 The audit examination disclosed some significant shortcomings in the Authority’s licensing methodology followed by its licensing staff over the years since the introduction in 1992-93 of electronic gaming machines (the audit examination covered licences issued subsequent to the initial granting of licences to the 2 gaming operators and the casino operator). Relevant details are as follows:

- the methodology did not contain the Authority’s official interpretation of key evaluative criteria which, under the legislation, must be addressed in the consideration of applications for licences and approvals;
- the focus within the methodology was directed more to the physical movement of paperwork associated with the licensing process rather than factors influencing the judgement of licensing staff on issues arising from the process; and
- there was no provision within the methodology for pro-active monitoring by the Authority of relevant aspects of licensees’ circumstances and those of other approved industry participants such as manufacturers and suppliers of gaming machines.

4.23 A number of the evaluative criteria had not been specifically defined in the legislation, which meant, in the absence of an official interpretation by the Authority, that very little supplementary information was available to guide judgements and decisions of licensing staff in ensuring that the requirements of the legislation were adequately and consistently implemented. The consequence has been that licensing officers have found it necessary to exercise a significant amount of discretion in assessing the suitability or otherwise of licensing applicants, a situation which, over the years, has created the risk that performance of the Authority’s licensing functions may not always have been directly in line with the legislative requirements.



4.24 Several of the undefined legislative criteria have particular relevance to the Authority’s consideration of applications submitted to it for a licence to operate a gaming machine venue and include:

- “*significant influence*” - the exercise of which, or the ability to exercise, in relation to the management or operation of the gaming machine business of the applicant is a key factor requiring investigation by the Authority under the legislation in identifying associates of applicants;
- “*business association*” - with any person, body or association, which must be considered by the Authority in respect of both the applicant and any identified associates of the applicant;
- “*undesirable or unsatisfactory financial resources*” - an attribute specifically prohibited under the legislation if any person, body or association deemed to have a business association with the applicant or any associates of the applicant is to be regarded by the Authority as of good repute; and
- “*satisfactory ownership, trust or corporate structure*” - required under the legislation to be in place in the case of applicants who are not natural persons.

4.25 These legislative concepts were considered by audit to be central to the Authority’s legislative responsibility for effective regulation of licensing within the gambling industry.

4.26 In short, there was a pressing need for the Authority to upgrade the quality of its licensing methodology.

Action to enhance the Authority’s licensing methodology

4.27 The weaknesses in the Authority’s licensing methodology and the limited nature of guidance available to its staff in examining licence applications were raised with the Authority at an early stage of the audit.

4.28 During the discussions with audit, the Authority advised that it had been aware of the shortcomings in its documented licensing procedures. With a view to remedying the position, it had sought and received external legal advice in September 1996 concerning interpretations of the undefined legislative evaluative criteria which might be suitable for incorporation within its licensing methodology.

4.29 Audit was informed that, on the basis of this legal advice, the Authority had commenced a process of enhancing its licensing methodology with an initial focus on documented procedures relating to the evaluation of applications for a gaming venue operator’s licence. However, the Authority indicated that adoption of these procedures had been deferred because of 3 factors, namely:

- Certain amendments to the licensing provisions of the *Gaming Machine Control Act 1991*, dealing with the Authority’s examination of an applicant’s financial stability and soundness, were before the Parliament and the outcome of Parliament’s deliberation was likely to impact on the Authority’s licensing procedures (amendments were passed by the Parliament in December 1997;



- It had been necessary to seek further legal advice on interpretation of particular legislative terms impacting on the licensing procedure and the legal position has still not been resolved; and
- In November 1997, under its continuous improvement strategy, the Authority commenced a restructure of staffing positions within its Licensing and Compliance Branch directly involved in the assessment of licensing applications. As part of this process, those positions subject to restructure were declared vacant and advertised both within and outside the public sector.

4.30 The Authority advised audit that the restructuring process was likely to be finalised during March 1998.

4.31 The documentation developed for the Authority by its legal consultant deals with proposed new guidelines to assist licensing staff in assessing licence applications to operate a gaming venue. In audit opinion, this documentation would, if adopted by the Authority, represent a marked improvement on the licensing methodology utilised in the past.

4.32 It is also appropriate to recognise the underlying purpose of the Authority's current restructuring action for its Licensing and Compliance Branch. This action is designed to ensure that the organisation utilises an optimal level of requisite skills and expertise for this significant element of its regulatory role.

4.33 Nevertheless, the most critical imperative for the Authority is to ensure that no further delay is experienced before official introduction of its revised licensing methodology. The need for timely action is reinforced by the fact that over 5 years have now elapsed since the introduction of electronic gaming machines within the State, a period during which acute growth occurred within the industry. In addition, the majority of licensed venue operators are likely to apply to the Authority for renewal of their licences over the next 18 months and the Authority is required under the legislation to apply to the renewal process the same degree of assessment, particularly in terms of probity factors and determining the suitability of the applicant, as would occur for an initial licence application.

4.34 Finally, there is a need for the members of the Authority to formally endorse the upgraded licensing methodology as suitable for use by the Authority's licensing staff. Audit considers it would only be through the knowledge that licensing staff are utilising a methodology which adequately addresses all key issues, including the definition and interpretation of principal terms and concepts, that the members of the Authority could be completely satisfied all licensing decisions are soundly based and serve to facilitate achievement of the organisation's statutory aim of ensuring that the gambling industry is free from criminal influence and exploitation.

Some specific deficiencies arising from the inadequate licensing methodology

4.35 The audit examination identified some specific deficiencies in the Authority’s licensing procedures which it is felt were primarily attributable to the less than comprehensive coverage of key concepts within the Authority’s licensing methodology, as discussed in the preceding paragraphs. These deficiencies are summarised below:

- *Inadequacies in evidence supporting licensing decisions*

The analysis by Authority staff of information gathered during the investigation of licence applications was generally found to be poorly documented and lacking critical evidential material necessary to support licensing decisions. The lack of supporting evidence was particularly prevalent in respect of assessments by licensing staff when investigating the suitability and financial standing of the applicant and associates, corporate structure of the applicant and of whether identified business associates of both the applicant and associates met the “good repute” criteria specified in the legislation.

In a significant number of cases dealing with applications for venue operators’ licences, important documentation such as evidence of probity checks on associates of applicants and on identified business associates of both applicants and associates was not recorded within the relevant Authority files.

In effect, the overall lack of adequate documentation of the licensing process has led to senior management and ultimately the members of the Authority and the 2 Directors, relying totally on the judgement of licensing staff, with little in the way of recorded analysis to support recommendations and decisions.

Accordingly, it is essential that the Authority’s impending adoption of an upgraded licensing methodology, as discussed in earlier paragraphs, encompasses the introduction of new documentation standards which need to be adhered to by licensing staff. This action, together with closer management and peer review of the relevant licensing documentation, would provide greater assurance to the members of the Authority and the Directors that approved licensing procedures are consistently followed and lead to defensible licensing decisions.

- *Identification and investigation of associates and business associates*

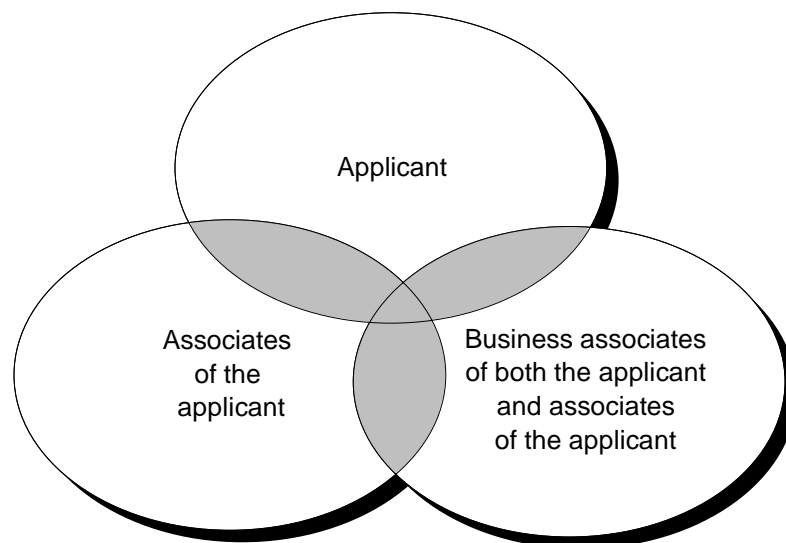
The legislation requires the Authority to consider a range of specific matters before determining whether or not to grant a venue operator’s licence or an approval (e.g. for listing as an approved supplier of gaming machines). In terms of identified associates of applicants and of business associates of both applicants and any identified associates, the Authority must consider whether:

- “each applicant and associate of the applicant is of good repute, having regard to character, honesty and integrity”;
- “each person [meaning the applicant and associate of the applicant] is of sound and stable financial background” [amending legislation yet to be proclaimed removes this specific requirement];

- “any of those persons [meaning the applicant and associate of the applicant] has any business association with any person, body or association who or which, in the opinion of the Authority, is not of good repute having regard to character, honesty and integrity or has undesirable or unsatisfactory financial resources”; [and]
- “each director, partner, trustee, executive officer and secretary and any other officer or person determined by the Authority to be associated or connected with the ownership, administration or management of the operations or business of the applicant is a suitable person to act in that capacity”.

It follows that, for the Authority to properly consider an application in accordance with the legislation, it must investigate not only the applicant but also the applicant’s associates as well as business associates of both the applicant and identified associates. The interconnection between these lines of inquiry required of the Authority within its licensing investigations is presented diagrammatically in Chart 4.A.

**CHART 4A
INTERCONNECTION BETWEEN LINES OF INQUIRY
DEALING WITH APPLICANTS AND ASSOCIATES
WITHIN THE AUTHORITY’S INVESTIGATIONS**



Source: Chart developed by Victorian Auditor-General's Office.

In a significant number of instances examined by audit, licensing staff of the Authority failed to establish whether particular parties identified during investigations fell within the legislative categories of either an associate of an applicant or a business associate of an applicant or of an identified associate of an applicant. By way of an example, although the Authority’s investigation revealed that an applicant (a private company) seeking listing on the roll of approved suppliers of gaming machines had borrowed \$3.7 million from an external party who had been identified as having a commercial relationship with the Executive Chairman of the applicant company, no inquiries were undertaken to establish whether the lender of funds was an associate or business associate of the applicant company.

In addition, it was clear in a number of other cases that, although information regarding identified associates and business associates had been collected during the investigative process, there was no evidence to indicate that the information had been specifically used in the assessment of an applicant’s suitability for granting of a licence or approval.

Because of the above factors, audit considers the Authority could not be assured that, over the years, all associates and particularly business associates of relevant parties had been identified and investigated under its licensing procedures in accordance with legislative requirements.

- *Ongoing monitoring of licensees and approval holders*

Licences for venue operators granted by the Authority cover a period of 5 years and licensees are able to apply for a renewal of their licences at the end of this period. Approvals issued for listing on the statutory roll of recognised manufacturers and suppliers of gaming machines and restricted components are open-ended in relation to the term of the approval.

In recognition of the risk that a licensee or approval holder could subsequently forge new relationships with associates and/or business associates which may not necessarily be in the best interests of the industry, the legislation requires licensees, manufacturers and suppliers to notify the Authority of any such new relationships (for new relationships involving associates, notification is necessary prior to the forging of relationships). Over and above this requirement, the Authority has specific legislative power to conduct investigations in this area at any time.

It has been past practice of the Authority to place almost total reliance on licensees and approval holders to meet their legislative obligations in ensuring that the Authority is advised of all relevant changes in their circumstances. As a general rule, it has not pro-actively monitored the level of compliance by industry participants with the legislative requirements.



In order to ascertain an indication of the extent of compliance by licensees and approval holders, audit selected a sample of venue operators who had been licensed for at least 4 years and conducted company searches through the Australian Securities Commission's database. The searches revealed instances involving new associates which had not been advised to the Authority. Relevant details were passed to the Authority for its consideration.

In discussions with the Director of Gaming and Betting on this matter, audit was advised that the Authority intends, as part of its upgraded licensing methodology, to complement reliance on notification of changes from industry participants with periodic risk-based reviews of the ongoing status of participants and their relationships with other parties.

4.36 The above factors reinforce the importance of early finalisation by the Authority of its current strategic action aimed at having in place an investigative framework which will provide greater assurance on the effectiveness of its regulatory scrutiny of the industry.

**INVESTIGATION INTO
AN APPROVED MANUFACTURER AND SUPPLIER OF GAMING MACHINES**

4.37 In August 1996, the Authority commenced an independent investigation into the suitability of the associates of an approved manufacturer and supplier of gaming machines under section 142A of the *Gaming Machine Control Act* 1991.

4.38 The Director of Gaming and Betting announced in December 1997, in response to a media enquiry, that staff of the Authority were continuing the investigation.

4.39 The Authority advised audit that it has now completed its investigation. It indicated the nature of any subsequent action will be dependent upon the outcome of matters to be put to various associates of the approved manufacturer and supplier.

**IMPORTANCE OF BONA FIDE STRUCTURES
IN PLACE FOR CLUBS GRANTED A VENUE OPERATOR'S LICENCE**

4.40 Under the *Gaming Machine Control Act* 1991, clubs holding a venue operator's licence retain $33\frac{1}{3}$ per cent of the total net daily cash balances (i.e. the total amount wagered on gaming machines less the sum of all prizes paid). In the case of hotels, the return to the venue is 25 per cent of the total net daily cash balances. The variance between clubs and hotels of $8\frac{1}{3}$ per cent represents the percentage of revenue derived from hotel-based venues which is payable into the Community Support Fund to finance research into gambling and specified community purposes.

4.41 The rationale for the lower tax rate for clubs, as stated in the Second Reading Speech in the Parliament relating to 1993 amendments to the legislation, is to assist clubs in improving the facilities they offer to their members and local communities.



4.42 In addition to this specific financial advantage accorded to clubs over hotels, the Government has adopted as a further policy position that the number of gaming machines placed in approved venues shall be equally distributed between the 2 categories of venues. Audit was advised by the Authority that the allocation of new electronic gaming machines to hotels has been near saturation point for some time whereas the number of clubs seeking to install machines has consistently lagged behind that category’s allocated share.

4.43 In the circumstances, audit assessed the powers available to, and the role played by, the Authority in providing assurance that artificial club structures are not utilised to circumvent the Government’s policy in this area and take advantage of the lower tax rate applicable to clubs.

Investigative powers available to the Authority

4.44 It was clear to audit from discussions with the Authority that it has no power under the legislation to investigate the bona fide nature of clubs when an application is lodged for a venue operator’s licence. This position can be attributed to the fact that a prerequisite for granting by the Authority of such a licence is that the club must hold a club liquor licence issued by the responsible body within the State, namely, the Liquor Licensing Commission. In other words, if the Commission has previously granted a club liquor licence to an applicant for a venue operator’s licence, the applicant must be automatically classified as a club by the Authority for licensing and therefore taxation purposes.

4.45 The legislation, however, does assign some investigative powers to the Authority concerning the bona fide nature of club structures but, importantly, these powers can only be exercised at some time **after** the licence has been granted to, and utilised by, a club. Specifically, the legislation (section 136A of the *Gaming Machine Control Act 1991*) authorises the Authority to classify, by way of declaration, a club as a hotel for taxation purposes if:

- *“the freehold of the approved venue is not vested in the venue operator; or*
- *“in the opinion of the Authority, the terms of the lease of the approved venue or any other agreement provide, whether directly or indirectly, for payment of rent or charges calculated by reference to revenue derived from gaming machines; or*
- *“in the opinion of the Authority, the terms of an agreement provide, whether directly or indirectly, for payment of revenue derived from gaming machines to a person other than the holder of the licence referred to in section 19(1)(c) [i.e. the holder of the club liquor licence].”*

Importance of the role of the Liquor Licensing Commission

4.46 Since the introduction of electronic gaming machines in the State in 1992-93, the Liquor Licensing Commission has directed increasing attention to the bona fide of applications for club liquor licences having regard to the importance of the distinction between clubs and hotels as operators of gaming venues. The Commission’s approach in this area was identified in the following terms by Commissioner Horsfall in the Reasons for Decision and Determination formally issued in respect of a Commission hearing in April 1995:

“Therefore the amount received by a club from gaming machines is ... higher than other venue operators.

“This is an obvious incentive for the application to be for a club licence rather than a general licence under this Act. However this Commission is not responsible for the issue of venue operator’s licences or the enforcement of the Gaming Machine Control Act. All that this Commission can take into account is whether the applicant should be granted a club licence under the Liquor Control Act in accordance with the principles of that Act. However the financial advantage given by Parliament in the gaming legislation to the holders of club licences emphasises this Commission’s duty to carefully apply the provisions of the Liquor Control Act relating to their grant.”

4.47 Since 1992-93, every application for a club liquor licence from a newly-formed club where gaming is involved has been the subject of a Commission hearing where all issues associated with the bona fide of the applicant club are extensively canvassed by a Commissioner. The Commission advised audit that before the hearing stage all applications are subject to intensive investigations by Commission staff and many applications do not proceed beyond this point. Prior to 1992-93, hearings by the Commission were unusual in that they were only held if there was an objection to the application. The Commission also advised that, over the 3 year period 1 July 1994 to 30 June 1997, it had conducted 32 hearings dealing with applications for club liquor licences, of which 4 were refused by the Commission and 2 were withdrawn by the applicant.

4.48 Once the Commission has granted a club liquor licence, the licence is automatically renewed on an annual basis, so long as the appropriate licence fees have been paid and the licence has not been cancelled by the Commission.

4.49 It can be seen, therefore, that the manner in which the Commission is addressing the appropriateness of applications received for club liquor licences, in the context of the emergence of electronic gaming machines in the State, means that stringent safeguards are in place to prevent any attempts to gain an unfair financial advantage through the use of questionable club structures.

Implications to the Authority

4.50 As mentioned earlier, the relevant investigative powers of the Authority can only be exercised at some time after a venue operator’s licence has been issued to the club. In this regard, audit was advised by the Authority that any reservations that it may hold in terms of a particular club’s structure would normally be formed during its consideration of the application lodged by that club for a venue operator’s licence.



4.51 Given the extent of scrutiny exercised by the Liquor Licensing Commission, it was evident to audit that the potential for clubs to gain a tax advantage through artificial means is limited to situations where significant features of club structures such as management agreements with outside parties and leasing arrangements are subsequently changed without notification to both the Commission and the Authority. Such action would breach both liquor licensing and gaming laws. It follows, therefore, that the Authority needs to have in place a risk-based process which could detect any such action.

4.52 The audit inquiries on the extent of the Authority’s investigative activities to date dealing with club structures revealed that 4 investigations under section 136A of the legislation were commenced by the Authority in 1997. No investigative activity had occurred in the preceding years.

4.53 Three of the investigations were continuing at the time of the audit examination. In the one completed case, the Authority was satisfied that a modification made to a management agreement between the club and an external party obviated the need for any action to vary the tax rate applicable to the club.

4.54 During the Authority’s investigations, some questions concerning the interpretation and application of section 136A have arisen and required the seeking by the Authority of legal advice. The legal position, from the viewpoint of the Authority, is still unresolved and, as a consequence, the 3 current investigations are yet to reach a hearing stage before the members of the Authority.

4.55 The Authority’s immediate strategy is to proceed with and finalise its current investigations into the 3 clubs when the legal situation is fully clarified. It also intends to direct specific attention to detecting any significant changes which may have subsequently occurred in club structures as clubs apply for renewal of their venue operator’s licences.

4.56 An examination by audit of a small selection of the Authority’s licensing files focused on the nature of management and leasing arrangements in place at clubs (licensed by the Liquor Licensing Commission prior to 1992-93) at the time the Authority had granted venue operator’s licence. This examination identified one instance where, under the club’s leasing arrangements involving land and buildings, significant periodic increases in lease payments (60 per cent over 2 years) were made by the club to the lessor company, whose Directors and shareholders included 3 members of the club’s committee, including the Chairman. Audit advised the Authority that these circumstances constituted a prima facie basis for investigation by it under section 136A of the legislation and has recommended to the Authority that such action occurs.

4.57 In summary, the combination of the careful scrutiny undertaken by the Liquor Licensing Commission in assessing applications for club liquor licences since introduction of electronic gaming machines and use, where deemed necessary, by the Authority of its legislative powers should identify any attempts by clubs to use artificial structures to circumvent the Government’s policy and unfairly take advantage of the lower tax rate applicable to clubs.

RISK-BASED APPROACH TO LICENSING OF SPECIAL EMPLOYEES

4.58 An earlier paragraph identified that the major classes of industry participants associated with electronic gaming machines and the operation of the Melbourne casino within the State included:

- gaming machine technicians;
- specified categories of employees of both gaming and venue operators; and
- specified categories of employees of the casino operator.

4.59 These 3 classes of participants within the industry are classified as special employees within the relevant legislation with specific responsibilities assigned to the Authority in relation to the regulation of each employee category.

4.60 Special employees of gaming operators and gaming venues, under the *Gaming Machine Control Act 1991*, are persons employed or performing prescribed duties for a gaming operator or in an approved gaming venue. This category of special employees includes gaming machine technicians who are responsible for the servicing, maintenance and repair of gaming equipment.

4.61 The granting of licences to special employees of gaming operators and venues, including technicians, is a responsibility of the Director of Gaming. The licences are valid for a period of three years.

4.62 With regard to the Melbourne casino, the licensing of special employees of the casino operator is the responsibility of the Director of Casino Surveillance. The *Casino Control Act 1991* specifies 3 categories of special employees of the casino operator, namely:

- Category A - employees in a managerial capacity or authorised to make decisions exercising personal discretion in respect of the casino's operations;
- Category B - employees involved in activities directly associated with the casino's gaming operations including the movement of money or chips about the casino, the exchange of money or chips of casino patrons, counting of money or chips in the casino, the operation, maintenance, construction or repair of gaming equipment, and security; and
- Category C - employees engaged to undertake casino cleaning activities.

The Authority's approach to the licensing of special employees

4.63 The Directors of Gaming and Betting and of Casino Surveillance have a legislative obligation to investigate all special employee licence applications and assess such applications against the following criteria:

- *“the integrity, responsibility, personal background and financial stability of the applicant”*;
- *“the general reputation of the applicant having regard to character, honesty and integrity”*; and
- *“the suitability of the applicant to perform the type of work proposed to be performed by the applicant as a licensee”*.



4.64 In the lead-up to the establishment of the industry and in its early period of operation up to the latter part of 1993, the Authority’s investigation of prospective employees of gaming operators and venue operators was understandably quite comprehensive and consisted of:

- checking of fingerprints against the relevant database of Victoria Police;
- examination of criminal records to establish whether the applicant had ever been charged with any criminal offence or appeared in court regardless of the outcome; and
- interrogation, by the Gaming and Vice Squad of Victoria Police, of a number of police criminal intelligence databases (including interstate and where necessary international databases) to identify any possible association between the applicant and known criminals or unexplained or unsatisfactory financial resources of the applicant.

4.65 Once licensed, the names of special employees are entered on the criminal records system of Victoria Police and the Authority is informed by Victoria Police of any finding of guilt or conviction for a criminal offence (whether industry-related or not) against employees.

4.66 In late 1993, the Authority introduced 2 classifications to cover special employees within gaming venues, namely, a venue manager/supervisor and a gaming machine attendant in recognition of the 2 different levels of responsibility assigned to such employees.

4.67 By about mid-1996, knowledge accumulated since the inception of gaming in the State indicated that in nearly all cases investigated by Victoria Police where the examination of criminal records disclosed no instances of dishonesty or of serious offence(s), in relation to special employee applicants, the third and final step in the process, the police criminal intelligence check, did not provide sufficient weight for Victoria Police to recommend against the granting of a licence.

4.68 In light of this experience and the fact that the interrogation of criminal intelligence databases involved a considerable amount of resources of Victoria Police, the Authority agreed, in consultation with Victoria Police, that all prospective special employees of gaming operators and venue operators would only be subjected to a criminal intelligence check if the prior examination of criminal records disclosed an offence of dishonesty or of a serious nature. The Authority also agreed that this modified approach apply to category C special employees (those engaged in cleaning activities) of the casino operator.

4.69 The new procedures became effective from August 1996 and reflected extension of the use of risk-based principles by the Authority in the assessment of prospective special employees. In essence, the Authority determined that the extent of overall probity checking for special employees should be commensurate with the risks posed by the position of the applicant in the gaming industry.

4.70 Audit considers that this risk-based approach adopted by the Authority to the licensing of special employees constitutes a positive initiative and does not breach the requirements of the *Gaming Machine Control Act 1991*.

LICENSING FEES AND COST RECOVERY

4.71 Section 149B of the *Gaming Machine Control Act 1991* empowers the Authority to recover costs associated with the investigation of applications for licences and approvals.

4.72 The legislation specifically provides that the Authority may require applicants to pay such amount as is determined by it, but not exceeding the reasonable costs of investigation, in respect of applications for:

- any licence;
- listing on the Roll of Recognised Manufacturers and Suppliers (of gaming machines and components); and
- approval as a nominee responsible for a gaming machine venue.

4.73 A fee structure for the various applications was established by the Authority at a very early stage of the industry in 1991. This structure has remained unchanged over the years although a fee of \$400 for the renewal of venue operator licences was introduced in August 1997.

4.74 From time-to-time in its consideration of applications, the Authority finds it necessary to engage in extensive investigations, sometimes involving external specialist assistance, in order to satisfy its legislative responsibilities. In some cases, particularly involving venue operator’s licences, the costs associated with individual investigations have been as high as \$40 000 compared with the standard licence fee of \$1 400.

4.75 In discussions with the Authority on the question of cost recovery, audit was advised that since 1994-95 TABCORP has been required under legislation to pay an annual supervision charge, determined by the Treasurer having regard to the reasonable costs and expenses incurred by the Authority in meeting its legislative responsibilities. A similar annual charge is payable by Tattersall’s commencing in respect of the 1997-98 financial year. As such, the Authority will be in a position to recoup all costs associated with its licensing function from and inclusive of 1997-98.

4.76 While the imposition of a supervision charge as a tax on the 2 gaming operators will ensure that all licensing costs are recovered annually by the Authority for payment into the Consolidated Fund, it is questionable whether the level of fees payable for a venue operator’s licence (initial licence fee of \$1 400 and \$400 renewal fee every 5 years) or for approval to manufacture or supply gaming machines (fixed fee of \$3 800) bears any direct relationship to the potential commercial value of such licence or approval.

4.77 Audit considers that the Authority should move to establish a closer correlation between application fees for venue operators licences and approvals to manufacture or supply gaming machines and the assessed commercial value of such licences and approvals.

Part 5

Monitoring of gambling operations and player information

OVERVIEW

5.1 The legislation requires that only gaming systems, equipment and software approved by the Victorian Casino and Gaming Authority can be utilised within the State’s gambling industry. This requirement is central to the Authority’s responsibility for ensuring that gambling activities, including electronic gaming machines, are conducted honestly. An important avenue through which the Authority discharges this obligation is the formulation of technical standards governing gambling systems and equipment, and the carrying out of the necessary testing against the standards of systems and equipment submitted for approval by parties within the industry.

5.2 Drawing on specialist assistance, audit assessed the adequacy of the Authority’s standards and testing functions. The latter functions have been outsourced by the Authority to 2 testing laboratories. Because the matters addressed by audit were generally very technical and, in parts, highly sensitive (from both commercial and security viewpoints), the presentation of material within sections of this Part has been simplified as far as possible and shown in general terms where deemed necessary.

5.3 The overall conclusion reached by audit was that the standards developed by the Authority are comprehensive in coverage and have been instrumental in assisting the Authority in the establishment of technical integrity in the conduct of gambling activities within the State. Audit also found that the testing laboratories are performing their contracted tasks in a conscientious and professional manner and, at present, the testing process is working well.

5.4 Some important areas for further enhancing the effectiveness of the standards and testing procedures were identified during the audit. In addition, there is a need for the Authority to widen its regulatory purview, encompassing both its standards and testing functions, dealing with the concept of player fairness. From the perspective of participating players, this concept is critical to maintaining public confidence in the industry. This issue also points to the desirability of the formulation of a *Players’ Charter* which could complement the industry’s voluntary codes of practice and articulate the whole range of information deemed as essential to players. The Authority would seem to be the appropriate body to drive the development of such a charter.

5.5 After approval has been granted for systems and equipment, the Authority directs significant attention to ongoing inspection and monitoring of the actual operation of approved gaming systems and equipment within venues. Audit found the various monitoring and inspectorial activities, which encompass both technical and financial matters, undertaken by the Authority were soundly managed. These activities incorporate use of advanced techniques necessary to adequately address the complexity and sophistication of the systems and equipment utilised by the gaming operators.



OVERVIEW - continued

5.6 The Authority deserves credit for the manner in which it has discharged this aspect of its responsibilities. Its approach complements the high level of importance directed within the legislation to ensuring effective monitoring and control mechanisms operate within the industry. Its work in this area enables the Parliament and the Government to have confidence that all revenue due to the State is properly accounted for and distributed in accordance with the legislation.

5.7 The significance of the Authority’s monitoring activities is reinforced by the fact that total net revenue (after payment of prizes) from gaming machines in 1996-97 reached \$1.4 billion and that, for virtually the whole of the period since July 1992, monthly net revenue at any point in time has been greater than the equivalent figure in respect of all previous months.

5.8 Finally, the Authority has played a lead role to date in the development of a proposed national approach to the already major ramifications emerging for governments from interactive gambling.

☐ RESPONSE by Director of Gaming and Betting, Victorian Casino and Gaming Authority

OVERVIEW

5.4 Audit points to the desirability of the formulation of a “Players’ Charter” and considers that the Authority would seem to be the appropriate body to drive the development of such a charter.

This matter is addressed in the Authority’s response to para. 1.1.13 of the Overall Audit Conclusion.

ADEQUACY OF ATTENTION TO PLAYER FAIRNESS ISSUES

5.28 to 5.37 These matters are addressed in the Authority’s response to para. 1.1.13 in the Overall Audit Conclusion.

MONITORING OF THE CONDUCT OF GAMBLING

5.9 As mentioned in Part 2 of this Report, the Authority’s corporate vision is “A fair and crime free gambling industry which optimises the benefits for Victorians” and its mission is “To be at the forefront of effective regulation of the gambling industry”.

5.10 This Part addresses the strategies established by the Authority for the monitoring of gambling operations within the State, with a particular emphasis on electronic gaming machines. It focuses on the obligations of the Authority for ensuring that gambling activities involving electronic gaming machines are conducted honestly and that all revenue due to the State has been accounted for in line with legislative requirements.

5.11 Responsibility for this aspect of the Authority’s legislative obligations rests with the Gambling Operations and Audit Branch which reports to the Director of Gaming and Betting. At the time of the audit examination, this Branch had a full-time staffing establishment of 25 positions. For 1996-97, expenditure by the Authority in respect of the monitoring activities of the Branch totalled \$2.7 million.

5.12 As part of its business planning, the Authority has identified its strategic goals associated with the monitoring of gambling operations in the following terms:

- “Keep abreast of technological changes which impact on gambling regulation;
- Ensure all gambling equipment complies with established standards and provides adequate protection of player entitlement and Government revenue;
- Conduct risk assessments of all systems and ensure appropriate procedures are in place to provide integrity over operations;
- Ensure licensed gambling service providers conduct operations in accordance with legislative requirements and approved procedures;
- Ensure venue operators have adequate internal controls to identify fraud and malfunctioning gaming equipment;
- Identify, investigate and resolve anomalies in relation to player entitlements and Government revenue;
- Ensure that all moneys are properly accounted for and distributed as prescribed; and
- Analyse and report on trends in gambling activity”.

5.13 It can be seen that these strategic goals directly concern the supervision, monitoring and control of gambling activities and such critical issues as the technical soundness and reliability of gambling equipment, the protection of player entitlement including player fairness and the completeness of related government revenue.

Strategies for testing and assessing gaming equipment and systems

5.14 Through its Gambling Operations and Audit Branch, the Authority has formulated strategies designed to ensure that all gambling equipment complies with established standards and provides adequate protection of player entitlement and government revenue. These strategies principally relate to:

- the setting and dissemination within the industry of technical and functional standards governing gambling systems and equipment;
- testing against its established standards of gambling systems and equipment submitted for its approval by the 2 gaming operators, the casino operator or gaming machine manufacturers; and
- pro-active participation, with other States, in the development of national standards for testing of gambling systems and equipment.

Technical and functional standards for gaming systems and equipment

5.15 The Authority has established a number of objectives for its standards setting responsibility within the industry including:

- setting the highest possible integrity standards for gaming equipment utilised within Victoria;
- placing sufficient controls on electronic gaming equipment and operations to ensure gaming is fair, secure, reliable and auditable;
- ensuring gaming equipment does not cheat, mislead or disadvantage players and does not endanger players or authorised personnel; and
- confirming gaming equipment works correctly.

5.16 The standards promulgated by the Authority currently comprise detailed technical requirements covering the following areas:

- computer hardware and software;
- game design, fairness and artwork;
- banknote acceptance devices for gaming machines; and
- communications systems including central monitoring and control of gaming machines.

5.17 In the development of the standards, the Authority researched and took account of the experiences of other interstate and international gaming jurisdictions including:

Other Australian States

- New South Wales Department of Gaming and Racing; and
- Queensland Office of Gaming Regulation.

New Zealand

- New Zealand Casino Control Authority; and
- New Zealand Department of Internal Affairs.



Canada

- Atlantic Lottery Corporation.

United States of America

- North American Gaming Regulators Association;
- State of Nevada Gaming Control Board;
- State of Montana Department of Justice Gambling Control Commission; and
- State of South Dakota Lottery Authority.

5.18 The Authority advised audit that its standards have been followed by emerging gaming jurisdictions around the world and particularly jurisdictions in South Africa and Canada.

5.19 For the calendar year ended 31 December 1997 (the first period in which the Authority maintained computerised records of its approvals), the Authority granted 365 approvals to the gaming operators or gaming machine manufacturers for use of systems or equipment within the industry.

Testing of gaming systems, equipment and software

5.20 The legislation requires that only gaming equipment approved by the Authority can be operated in Victoria. In addition, the Authority is authorised to withdraw the approval of an approved gaming machine type or game if the Authority considers it necessary, or appropriate, in the public interest or for the proper conduct of gaming.

5.21 The Authority's management of its responsibilities associated with the testing and approval of gaming systems, equipment and software comprises 2 main components, namely, the setting of technical and functional standards, as described in the preceding paragraphs, and the outsourcing of detailed testing against the standards to 2 independent testing laboratories.

5.22 Since the appointment of the testing laboratories, the Authority has engaged external consultants to undertake 2 separate reviews of the testing procedures followed by the laboratories. The first of these reviews was completed in April 1996 and the second in September 1997. While some issues were raised with, and subsequently addressed by, the Authority, both reviews concluded positively in respect of the overall performance of each of the testing laboratories.

Assessment by audit of the Authority's strategies for testing and evaluating gaming systems and equipment

5.23 This segment of the audit process incorporated use by audit of external specialist assistance and was aimed at reviewing the adequacy of the Authority's standards and of testing and evaluative tasks performed by the testing laboratories engaged by the Authority. Some emphasis was placed by audit on gaming machine software issues associated with player fairness and mathematical factors as they pertain to player returns and to the integrity of gaming operations generally. The ambit of the audit activity encompassed direct examination of gaming software and of the testing methodology implemented by the testing laboratories.

5.24 Consistent with the nature of the Authority's standards and testing strategies, the matters addressed by audit were generally highly technical and, in parts, commercially sensitive. For this reason, the paragraphs which outline the various matters have been simplified as far as practicable and presented in general terms where deemed necessary. The detailed audit findings have been extensively discussed with the Authority and its 2 testing laboratories.

5.25 The overall conclusion reached by audit was that the standards developed by the Authority are comprehensive in coverage and have been instrumental in assisting the Authority in the establishment of technical integrity in the conduct of gambling activities within the State. The Authority has been pro-active in ensuring that its standard development process took into account local and international experiences. In this regard, the Authority has played a lead role in the formulation of national technical standards for gaming equipment.

5.26 Audit also found that the testing laboratories are performing their contracted tasks in a conscientious and professional manner and, at present, the testing process is working well.

5.27 Some important areas for improvement were identified by audit. Firstly, there is a need for the Authority to widen its regulatory purview, encompassing both its standards and testing, on issues dealing with the concept of player fairness which, when viewed from the perspective of participating players, is integral to maintaining public confidence in the industry. Secondly, there is scope to further enhance the effectiveness of the standards and testing processes in relation to certain important technical issues. Also, audit considered that generally there was a need for greater precision in the standards, e.g. in the level of significance at which statistical tests must be satisfied.

Adequacy of attention to player fairness issues

5.28 As indicated in an earlier paragraph, the Authority’s responsibility for the monitoring of gambling operations involves, inter alia, an obligation to ensure that gambling activities associated with electronic gaming machines are conducted honestly. This obligation requires the Authority to attach some significance in its regulatory role to the concept of player fairness.

5.29 The Authority has articulated, in a high-level strategic sense, its responsibility in respect of player fairness within its corporate vision which, as also previously mentioned, is “*To ensure a fair and crime free gambling industry which optimises the benefits for Victorians*”.

5.30 Complementing this corporate vision, the Authority’s technical and functional standards for gaming systems and equipment include a specific objective dealing with *game fairness* (broadly, the term “game” represents a specific activity available to, and selected by, a player in respect of electronic gaming machines; some machines have single games while others may have several games).

5.31 Under amendments to the *Gaming Machine Control Act* 1991 passed by the Parliament in December 1997, the Authority is now required to specifically consider, inter alia, whether a game is suitable in respect of game fairness before granting its approval for the game’s use within the industry.

5.32 The concept of game fairness is referred to in the Authority’s standards in the following terms:

“All games are to be fair to players in that the game must not be designed to give the player a false expectation of better odds by falsely representing any occurrence or event”.

5.33 The interpretation, implementation and enforcement of the objective dealing with game fairness within the standards are largely in the hands of the Authority’s contracted testing laboratories. The objective is broadly based and requires the testing laboratories to confirm, from a fairness standpoint, the technical integrity of gaming software in that the software operates in a manner which would not convey any misleading information to a player. This aspect of player fairness, as addressed by the testing laboratories, was found to be adequately managed.



5.34 However, audit formed the view during examination of testing procedures that there was definite scope for the Authority to consider the impact on player fairness of important information currently not made available to players. Relevant details are presented below:

- *Multiple levels of player return in respect of the same game*

The *Gaming Machine Control Act 1991* requires that the payout tables on gaming machines at each gaming venue be set at a level which ensures a minimum return to players of 87 per cent of the total amounts wagered each year at that venue, after the deduction of jackpot special prizes paid during the year. The Authority enforces this requirement by only approving individual games which have a return to players of 87 per cent or more over a year. The return-to-player percentage is able to be calculated by determining the total possible number of combinations of symbols on a game and then the frequency of prize winning combinations for the different levels of prize.

It is normal practice for the Authority to approve multiple versions of the same game with each version having a different level of return-to-player percentage (sometimes 3 to 4 approvals may be granted). The various return percentages approved by the Authority for different versions of the same game typically range between the 87 per cent minimum level and 95 per cent or more, and must be adhered to when the particular versions are in use.

It is important to recognise that commercial decisions made by the gaming operators and the casino operator to apply return-to-player percentages above the statutory return level of 87 per cent directly benefit players. However, this situation also means that games which appear identical to players within a venue can in fact be configured in a manner which will result in different levels of return over time.

The lack of player awareness of these circumstances effectively denies a player the opportunity of making an informed choice of which venue to visit or which machine to play based on respective returns, given that different return rates could actually apply to versions of the same game within a venue.

In discussions with the Authority on the above issues, it was put to audit that players soon detect any change in game behaviour and will avoid games with a relatively lower expected rate of return. Audit considered that this viewpoint was somewhat dubious as, apart from not directly addressing the question of player fairness, it only applies to players who:

- have considerable experience in playing electronic gaming machines and interpreting a game's sometimes complex rules and behaviour; and
- have had to invest money in a game before they have been able to detect the relative level of return.

Audit has recommended to the Authority that, based on player fairness, information available to players on electronic gaming machines within a gaming venue or the casino should include sufficient details to enable players to be aware of all return-to-player percentages applicable to games, including any differences in such percentages in respect of the same game.



- *Player returns below the statutory minimum during certain phases of metamorphic games*

The commonly-used *metamorphic* games on gaming machines feature the accumulation of bonus tokens or signs as games are played and generate a bonus phase, such as free games, when a particular number of such tokens or signs has been accumulated. For most games within this category, the likely return-to-player percentage prior to the bonus phase can be well below the statutory minimum level of return of 87 per cent. This situation is regarded as acceptable by the Authority given that there is overall compliance with the minimum level of return stipulated within the legislation when all phases of the game are completed.

In a metamorphic game examined by audit and which had been approved by the Authority, it was found that:

- A large proportion of the overall player return percentage is derived from the bonus phase of the game and, if returns from bonus games are excluded, the player return percentage is in the vicinity of only 72 per cent; and
- The bonus games are triggered by the occurrence, over time, of a significant number of events of a certain type. In this regard, on average a bonus game sequence occurs after well in excess of 2 000 single credit, single line games have been played. This situation may require considerable time and financial input by the player. It is questionable whether some players, particularly newcomers to electronic gaming machines, would be aware of this circumstance and, as such, a player may participate through lack of information for some time within the game at the lower return rate. In addition, if the player is then motivated to leave the game, the accumulated bonus tokens or signs would be to the advantage of another player.

Drawing again on the principle of player fairness, audit considers that the Authority should ensure the 87 per cent statutory minimum return to players is enforced for all pre-bonus phases of metamorphic games. In this regard, any bonus derived from the metamorphic character of a game should take the form of a return over and above the 87 per cent minimum level.

- *Complicated rules of some games*

The rules of some games are complex and the manner in which they are presented to players does not necessarily facilitate adequate comprehension of such rules.

The rules of games are displayed in the artwork of gaming machines or in game information menus which can be accessed by players. The rules provide information on winning combinations (not the odds of winning) and the prizes paid for those combinations as well as on other specific features of individual games such as substitute symbols etc.



Many rules are difficult to understand either because of the inherent sophistication of the game or because they have not been expressed in a clear manner. Based on its examination of the rules of various games, audit concluded that it would be likely that many players would struggle to understand some rules properly or, more importantly, the implications of some rules. This problem may in some respects be less serious for games based on traditional gambling activities such as poker or roulette, where the player is generally in a position to assess the events of the game and their respective payouts. However, the complexity of many games within electronic gaming machines makes it more difficult for players to reach such an informed position.

Audit found that the testing laboratories contracted by the Authority are well aware of the potential for player confusion and, in line with the Authority's standards, thoroughly test the manner in which rules are displayed to players. It is acknowledged that perfect clarity is sometimes difficult to achieve because of the complexity of some games. Nevertheless, the present situation is not entirely satisfactory, at least in terms of fairness to the uninitiated or novice player.

Given this position, the Authority, as part of its application of the player fairness concept, should require that the presentation of game rules, whether involving artwork or specific information menus, be in such a form that a player, experienced or otherwise, can always readily understand why a given payout has occurred.

- *Information on winning chances not available to players*

A further issue concerning rules considered by audit was that, while prize tables for particular winning combinations in games are displayed, as part of game rules on each gaming machine, no information is currently available to players on the odds of achieving the displayed winning combinations. For most other forms of gambling, information on approximate winning odds is generally available either directly to players (e.g. assessment of winning chances reflected in bookmakers' odds) or published on the Internet, or in books or magazines. In fact, the features of many other forms of gambling and their winning chances are actually presented on the Internet by one of the gaming operators and information on other types of gambling is canvassed in many publications.

With electronic gaming machines, all relevant information dealing with winning chances is effectively quarantined from players as it resides within game software which cannot be accessed by players. The integrity of this information, which comprises mathematical data on winning probabilities in respect of different symbol combinations, is subject to examination and verification by the testing laboratories as part of their evaluation of game software against the Authority's standards. The information can be readily summarised and tabulated in a form which presents in a simple manner each individual prize and the odds of winning that prize over a full game cycle (the total possible number of symbol combinations). It could be made available to players in simple tabulated form within a special menu on gaming machines (as an illustration, data relating to a number of approved games was analysed and tabulated by audit and showed that the odds of winning the top prizes in these games ranged between 9.8 million and 12.1 million to one).

In audit opinion, from a player fairness perspective, there does not appear to be any valid reason why players of electronic gaming machines should be treated differently to patrons of other forms of gambling in terms of availability of information on approximate winning chances. It is an important matter which requires specific attention by the Authority as part of its regulatory role.

Also, with multi-venue linked jackpots, the technical features of the jackpot system, which have been approved by the Authority, influence to some extent the occurrence of jackpot prizes at particular venues. The general principle underpinning the approved linked jackpot system, as required by the Authority, is that contributions made by a venue to the jackpot prize pool must have the statistical expectation of being returned to that venue as jackpot prizes, i.e. jackpot prizes will occur predominantly in higher revenue generating venues. Drawing on this principle, the selection of a winning gaming machine within the linked jackpot system is determined randomly from gaming machines in operation at the venue selected by the system.

While audit does not disagree with this fundamental underlying principle of the linked jackpot system, it would seem only fair that players are made aware of the fact that linked jackpot prizes are not determined on a totally random basis across all venues and gaming machines linked to the jackpot system across the State.

5.35 In outlining the above matters dealing with player fairness, audit does not question the right of the State’s 2 gaming operators and of the casino operator to make commercial decisions on player return percentages and winning probabilities, in a manner which is consistent with the legislative framework and which ultimately is to the benefit of players. Also, the Authority’s sound track record to date of confirming the technical integrity of gaming systems and equipment and that no information is presented to players which is false or likely to be misleading is recognised. Further, the distinctive entertainment characteristics of electronic gaming machines with their strong focus on the unknown in terms of both winning and losing, need to be acknowledged.

5.36 Nevertheless, audit considers that players of gaming machines have a “*right to know*” a range of basic information as identified in the earlier paragraphs. This right is of such significance that it warrants further assessment by the Authority of its official regulatory approach to date to the concept of player fairness. There would be merit in directing this assessment to the adequacy of coverage of player fairness issues in the Authority’s current standards which, as already mentioned, form the basis of work undertaken by the contracted testing laboratories. Apart from any other considerations, action by the Authority which resulted in enhanced player awareness in terms of such key aspects of the gaming environment would serve to further reinforce public confidence in the industry, an outcome directly linked to the regulatory role of the Authority.



5.37 Finally, the matters raised by audit also point to the desirability of the formulation of a *Players' Charter* which could complement the industry's voluntary codes of practice and articulate the whole range of information deemed as essential to players in order that their position in terms of fairness is totally assured. As the industry's regulator striving in its corporate vision for "*A fair and crime free gambling industry which optimises the benefits for Victorians*", the Authority would seem to be the appropriate body to drive the development and dissemination within the industry of such a charter.

Verification of mathematics supporting payout tables

5.38 This element of the testing procedures conducted by the testing laboratories involves verification of the mathematics underpinning the payout tables which govern the occurrence of winning combinations and associated prizes within games. The purpose of this testing activity is to confirm the return-to-player percentage specified by the manufacturer as applicable to a particular game.

5.39 Audit found that, in general, the testing of payout tables as currently performed by the testing laboratories was proficient and effective in confirming the mathematical integrity of pay tables developed by game manufacturers. Only on very rare occasions, errors in the mathematical calculation of payouts devised by manufacturers have not been detected by the laboratories and have subsequently surfaced as problems after going "live" in gaming venues.

5.40 Notwithstanding this favourable position, there is a continuing need for the testing laboratories to ensure that testing procedures maintain pace with rapidly occurring developments in gaming technology and prevent any potential deterioration in the error status of pay tables.

5.41 On this matter, audit has emphasised to the Authority the importance of the testing laboratories augmenting their existing computerised payout table tests with facilities which have the capability of electronically replicating all (or as many as possible) game outcomes as a means of verifying payout specifications. These facilities are likely to be particularly useful for application to larger and more complex games expected to progressively emerge within the industry.

Testing of random number generators

5.42 The matters addressed by audit in the review of testing procedures followed by the Authority's contracted testing laboratories included an assessment of the adequacy of the Authority's standards and related test programs dealing with the operation and security of random number generators.

5.43 The importance of random number generators within the gaming environment is reinforced by the fact they constitute an integral component of game software within electronic gaming machines and fulfil the vital functions of determining and controlling the randomness of game outcomes, i.e. both winning and losing combinations.



5.44 Audit raised with the Authority and testers some specific issues which, if implemented, would bring about improvement in current procedures concerning random number generators. In particular, the issues focused on:

- Specific characteristics of existing random number generators such as their *cryptographic* security and their testing implications. Audit recommended to the Authority that the testing laboratories be required to establish that random number generators submitted for its approval have adequate cryptographic strength;
- Ensuring that the Authority’s standards specifically require that the time cycle of the random number generators submitted for testing as part of game software is sufficient to cover all possible game outcomes with the required frequencies. A generator’s time cycle, or period, determines how long the generator takes before it repeats previous behaviour and the variety of possible outcomes it can produce;
- Placing some reliance on the results of statistical testing of random number generators, as reported in authoritative technical literature, rather than expecting testing laboratories to duplicate such tests; and
- Increasing the randomness of game outcomes, as determined by random number generators, by means of physical devices such as unpredictable electronic circuits.

Communication links between electronic gaming machines and central monitoring and control systems

5.45 The Authority’s standards include coverage of communication links between electronic gaming machines and central monitoring and control systems. This coverage forms the basis of related testing on these communication links by the testing laboratories for compliance with the standards. In other words, the purview of the testers in this area extends beyond those matters relating to individual games.

5.46 The objective of this section of the standards is to promote secure communications between all gaming venue equipment, including electronic gaming machines, and between venues and the central monitoring and control systems of the 2 gaming operators.

5.47 Obviously, given the sophistication of the infrastructure in place for gaming operations, security of communications must constitute a high priority to the Authority in terms of maintaining and preserving the integrity of such operations. In this respect, significant attention is directed within the standards to such security requirements which reflects the overall importance placed on security by the Authority.

5.48 Consistent with the general position on procedures followed by the testers, audit found that this highly critical element of testing activities had been thoroughly performed by the laboratories. In conveying this view to the Authority and its contracted testers, audit also drew attention to some matters particularly relating to comprehensive simulation of the gaming environment for testing purposes, encryption issues and general technological advancements. In these areas, audit considered there was potential for the Authority to gain, through appropriate action, further confidence in terms of communication links between central systems and gaming equipment within venues.



Monitoring the performance of the testing laboratories

5.49 Opportunities exist for the Authority to further strengthen its overall strategies for monitoring the performance of the 2 testing laboratories, over and above the commissioning of periodic external reviews. These opportunities relate primarily to:

- scope for enhancing the form and content of the contracts entered into between the Authority and the testing laboratories;
- requiring on occasions that both testing laboratories undertake testing of the same game to enable scrutiny and comparison by the Authority of the respective test results; and
- the need for more complete documentary evidence on file of issues, including testing strategies, which have been the subject of discussion and communication by the Authority with the laboratories.

5.50 As mentioned in an earlier paragraph, all of the issues associated with the Authority's testing functions have been discussed by audit in some detail with the Authority and its contracted testing laboratories.

Inspection and monitoring of gambling systems and operations

5.51 The preceding paragraphs within this Part have dealt with the responsibility of the Authority to approve all gambling systems and equipment intended for use within the industry by gaming operators and manufacturers. The paragraphs which follow build on the earlier discussions and address the mechanisms established by the Authority for ongoing inspection and monitoring of the actual operation of approved systems and equipment within venues.

5.52 In terms of its inspectorial and monitoring activities of gambling systems and operations, the Authority has identified 3 specific strategic goals, namely:

- *“Conduct risk assessments of all systems and ensure appropriate procedures are in place to provide integrity over operations;*
- *Ensure licensed gambling service providers conduct operations in accordance with legislative requirements and approved procedures; and*
- *Ensure venue operators have adequate internal controls to identify fraud and malfunctioning gaming equipment”.*

5.53 To achieve these strategic goals, the Authority's Gambling Operations and Audit Branch has implemented the following strategies:

- periodic audits of the casino, wagering and gaming systems to identify any technical or procedural weaknesses which could impact on player entitlement or government revenue or provide potential avenues for criminal exploitation;
- a combination of announced and surprise field inspections by technical staff of installed gambling systems and equipment at gaming venues;
- a separate round of inspections, mainly by accounting staff and centering on financial operations of venues, to confirm legislative compliance and assess each venue's ability to detect fraud and malfunctioning equipment;



- assessment of the suitability of premises for which a licence or permit is sought for the conduct of gaming or for the storage of gaming equipment; and
- supervision of the conduct of lottery draws and validation of taxes on lottery products.

5.54 These strategies, which extend beyond matters relating to financial accountability, are designed to ensure that all aspects of gambling operations within the State are subject to adequate levels of ongoing monitoring and testing.

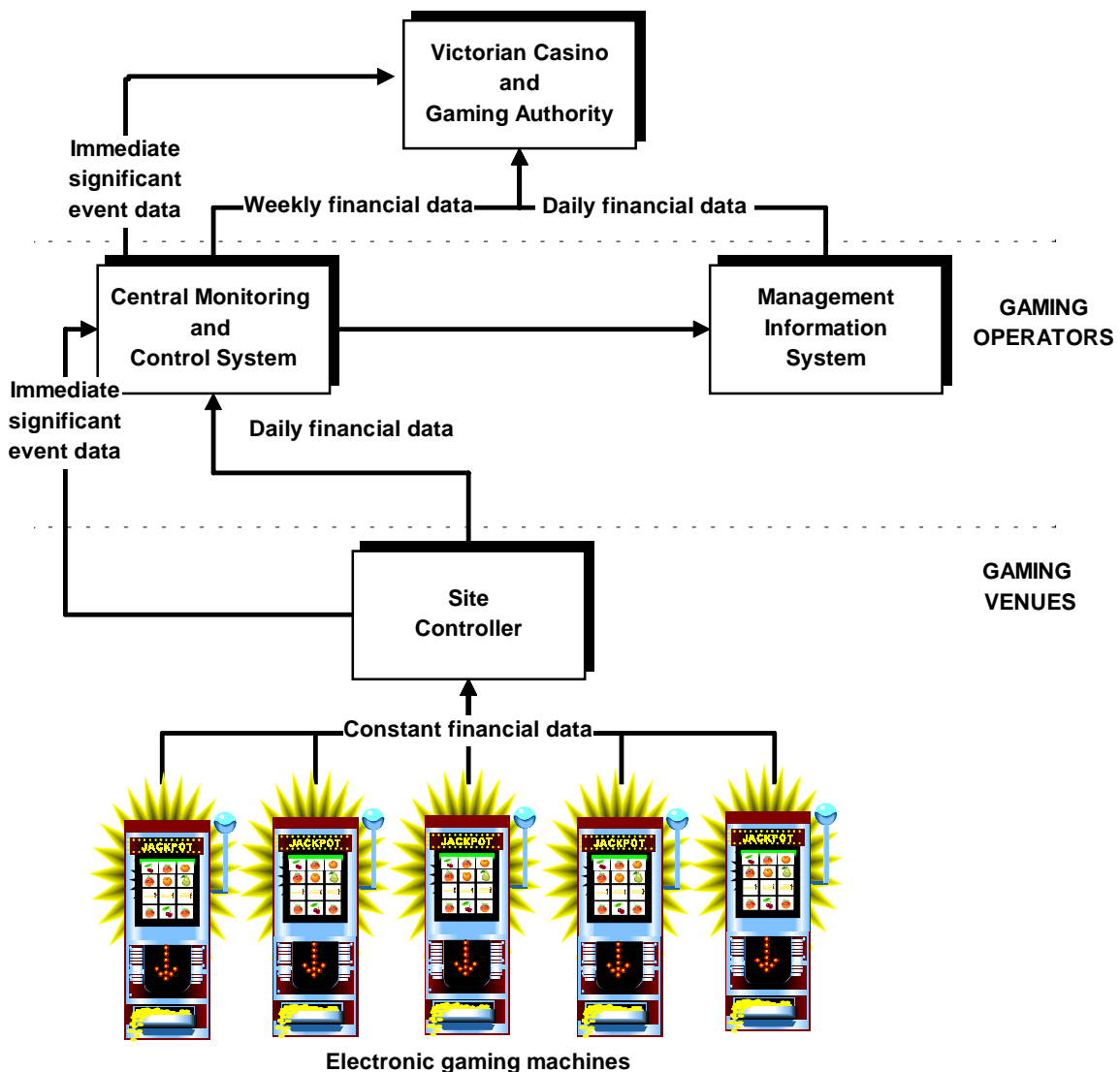
5.55 The audit examination in this area focused mainly on the Authority’s monitoring and inspectorial strategies relating to electronic gaming machines operated by the 2 gaming operators within the State. Some of the important control features of the gaming systems of these operators, which are designed to ensure the integrity of gaming on electronic gaming machines and which are highly relevant to the Authority’s work, include:

- All electronic gaming machines and related game software require approval by the Authority before utilisation within the industry;
- On all coin-operated machines, the game software (including the random number generator) which determines the outcome of games played, is sealed into a micro-processor chip to prevent the installation of unauthorised game software or the modification of authorised software. On card-operated machines, the game software is maintained on the internal hard disk of machines which is electronically protected from external interference;
- Game software is also housed in locked and sealed areas of the gaming machines which are protected by electronic tamper detection devices;
- Maintenance and repair of gaming machines can only be performed by technicians who have been licensed by the Authority. Technicians are required to log all maintenance performed on machines. In addition, the central monitoring and control systems of the 2 gaming operators monitor and record all instances where gaming machine doors are opened; and
- All gaming machines are electronically connected to central monitoring and control systems maintained on host computers operated by the 2 gaming operators. These central monitoring and control systems, which form an integral part of the operators’ overall management control framework, fulfil the following key tasks:
 - Daily checks of the validity of game software installed on all gaming machines at venues. If unapproved software was detected on a machine during this process, the machine would be automatically deactivated;
 - Constant monitoring of operation of all electronic security features within gaming machines. The systems will immediately deactivate a machine if a tamper detection device is triggered; and

- Downloading of gameplay data (e.g. coins in, coins out and credits played) from all gaming machines on at least a daily basis. This gaming data is used by both the Authority and gaming operators to monitor and control gaming venue operations, including the detection of unusual or irregular patterns, as well as to calculate the respective revenue shares of the government, gaming operators and venue operators.

5.56 The downloading of gameplay data, as described above, represents the flow of electronic data through the networks of the 2 gaming operators. While the processes relating to the individual operators are technically different, the common features of the electronic data flows of the operators’ systems can be diagrammatically illustrated as set out in Chart 5A.

**CHART 5A
ELECTRONIC DATA FLOWS - GAMING MACHINE NETWORKS**



Source: Chart developed by Victorian Auditor-General's Office based on more detailed data held by the Authority.



5.57 The information presented in the above paragraphs is indicative of the high level of importance directed by the Government within the gaming legislation to ensuring that effective monitoring and control mechanisms operate within the industry. Ongoing assessment by the Authority of the soundness of such mechanisms constitutes a principal task of the Authority as the industry’s regulator.

The Authority’s monitoring and testing of gaming operators’ central systems

5.58 The main means by which the Authority undertakes its monitoring and testing of the central systems of the 2 gaming operators is through the conduct of periodic audits of such systems. As mentioned in an earlier paragraph, these audits are aimed at identifying any technical or procedural weaknesses which could impact on player entitlement or government revenue or provide potential avenues for criminal exploitation.

5.59 On average, the Authority conducts around 4 audits of the central systems of the 2 gaming operators each year. At the conclusion of each audit, a report detailing findings and recommendations is extensively discussed with, and issued to, the respective gaming operator. Most issues raised in these reports are technical in nature and address the implications arising from the issues and the necessary action required of the operator.

5.60 In the early years of the industry, the Authority’s conduct of annual audits and, in particular, its liaison with the gaming operators on action necessary to address issues raised during audits, were restricted by the fact that the initial legislation provided only limited power to the Authority to approve the operators’ systems or require changes considered necessary to such systems.

5.61 One consequence of this situation was that the gaming operators were often tardy in acting on audit issues raised and recommendations made by the Authority.

5.62 In 1994, the legislative position was only partially rectified when the *Gaming Machine Control Act 1991* was amended to allow the Authority to test an operator’s central monitoring and control system in order to determine compliance by the operator with the relevant provisions of the Act and its Regulations. However, the legislative changes still did not address the absence of approval or sanction powers for the Authority. These powers were not formally accorded under legislation to the Authority until 1996 when further amendments provided that:

- “A gaming operator must not use a central monitoring and control system unless it has been approved by the Authority” [retrospective approval power was also given in that a central monitoring and control system lawfully used by a gaming operator immediately before the introduction of the amendment was deemed to be approved by the Authority]; and
- “A gaming operator must not use a central monitoring and control system which has been varied from the system approved by the Authority, unless the variation has been approved by the Authority”.



5.63 Because of the retrospective element of the legislative amendments, any subsequent changes made by the operators to their central monitoring and control systems in place at the time would require scrutiny by the Authority. This position helped to offset the fact that, even after this further round of legislative changes, the Authority still did not have direct power to force the operators to improve their existing central systems. The audit strategies devised by the Authority since 1996 have reflected this situation in terms of the attention directed by it to changes submitted by the operators and to the impact of such changes on existing control features.

5.64 In terms of methodology and procedural practices, audit concluded that the activities of the Authority in this area are soundly managed and utilise advanced techniques necessary to effectively address the complexity and sophistication of the operators' gaming systems and equipment.

5.65 Specifically, in recent years, the scope of the Authority's system reviews has more sharply focused on the 2 critical areas of the correctness of player entitlements and verification of government revenue. Audit regards this strategic move as positive, given the relevance of the 2 areas to the Authority's overall objectives and the ongoing imperative of maximising outcomes from available scarce resources.

5.66 As part of this improvement action, the Authority, in early 1995, commenced development of a set of *Regulator's Control Models* which encompass the totality of review and inspectorial functions undertaken by it. These documents essentially constitute a modern risk-based and integrated approach to review activities within the industry's highly computerised and complex environment, with the emphasis clearly on player entitlement and government revenue. The Authority expects a complete set of Regulator's Control Models will be formally adopted within the organisation by June 1998.

Specific tasks associated with verification of government revenue

5.67 In addition to the activities described in the previous paragraphs, the Authority undertakes specific tasks designed to ensure that all moneys derived from gaming operations are properly accounted for and distributed as prescribed under legislation. These tasks include:

- ongoing reconciliation of daily data received from gaming operators via their management information systems with weekly data directly extracted from the operators' central systems; and
- periodic visits to venues to extract source data from a number of individual gaming machines in order to verify the completeness and accuracy of data recorded on the operators' central systems.

5.68 An indication of the value of the ongoing reconciliations of daily data performed by the Authority was evident in April 1997 when the Authority detected a problem associated with the real-time reporting of revenue derived from machines via the central system of the relevant gaming operator.

5.69 Because of this problem, it was not possible to automatically determine the level of taxation revenue due to the Government in respect of the affected machines. It was necessary for the gaming operator to retrieve missing source data and manually verify the amount of taxation payable to the Government. The Authority's staff have randomly re-performed verification tasks to confirm the accuracy of outstanding taxation revenue.

5.70 This malfunction was only recently resolved in January 1998 to the satisfaction of the Authority.

5.71 The Authority advised audit that, because of the technical problem, it had agreed with the gaming operator that an amount in excess of \$400 000 was due in terms of unpaid taxation revenue over the period March 1997 to January 1998. Around half of this amount has since been paid by the operator with the balance due in March 1998 on completion of the Authority's verification work.

Monitoring and testing of systems and operations at venue level

5.72 The work of the Authority specifically aimed at the verification of government revenue is complemented by inspectorial functions at the gaming venue level.

5.73 An earlier paragraph identified the 2 types of inspectorial functions carried out by the Authority at venue level as:

- a combination of announced and surprise field inspections by technical staff of installed gambling systems and equipment at gaming venues; and
- a separate round of inspections, mainly by accounting staff and centering on financial operations of venues, to confirm legislative compliance and assess each venue's ability to detect fraud and malfunctioning equipment.

5.74 The performance audit included an examination of the Authority's documented inspectorial procedures and direct observation of inspections at a number of venues.



*The TABCORP gaming venue, Highways at Sandown.
(Reproduced with the permission of TABCORP)*



Technical inspections of gaming venues

5.75 Technical inspections performed at gaming venues can take a number of different forms but are primarily focused on ensuring that the earlier-described security measures associated with game software and the venue’s communication links between the gaming machines and the central systems are operating in accordance with approvals granted by the Authority. In essence, the purpose of these inspections is to confirm the security and integrity of the gaming operations within gaming venues.

5.76 An inspection by the Authority’s technical staff of a gaming venue can include some or all of the following elements:

- testing of gaming machine coin mechanisms to ensure that only valid coins are accepted by machines and that credits are registered correctly;
- verifying that gaming machines and site controllers are communicating with the central monitoring and control system;
- carrying out of tests to ensure that only approved games and software have been installed on machines and site controllers;
- checking that equipment has been installed in accordance with the Authority’s technical standards; and
- generally, observing the extent to which the venue is operated in accordance with all legislative requirements, the Authority’s rules for gaming venues and the licence conditions.

5.77 The Authority’s rules for gaming venues comprise a standard listing of requirements which must be followed by the venue operator and be publicly displayed within the venue. In addition, the legislation sets out other requirements relating to such matters as prohibition of credit betting, restrictions on gambling by minors etc.

5.78 Over the course of a financial year, technical staff inspect each of the State’s 558 approved gaming venues on at least one occasion. The nature of actions arising out of inspections will vary according to the particular issues identified by Authority staff, e.g. a schedule of items requiring attention at the venue will be given to the venue operator at the conclusion of the inspection and matters with more serious implications would be reported to the Authority. To date, technical inspection activities of the Authority have not identified any matters which indicate that the integrity of gaming operations has been compromised.

5.79 The Regulator’s Control Models referred to in an earlier paragraph also encompass the functions of technical staff during venue inspections. Accordingly, the tasks undertaken in this area are increasingly risk-based in nature. In addition, more and more emphasis has been directed in recent years to accentuating that the prime responsibility for security and control over operations rests mainly with gaming operators so that the work of inspectorial staff can be directed to areas of greatest significance.



5.80 The Authority has also moved to improve the quality of its documentation dealing with the outcomes of inspections and of resultant reporting to members of the Authority on significant issues through the establishment of a computerised gambling database.

5.81 Audit concluded that the inspection activities of the Authority dealing with technical matters at gaming venue level are planned, implemented and reported in an effective and efficient manner. In addition, adequate attention has been directed by the Authority to ensuring continuous improvement occurs in its inspectorial methodology and procedures.

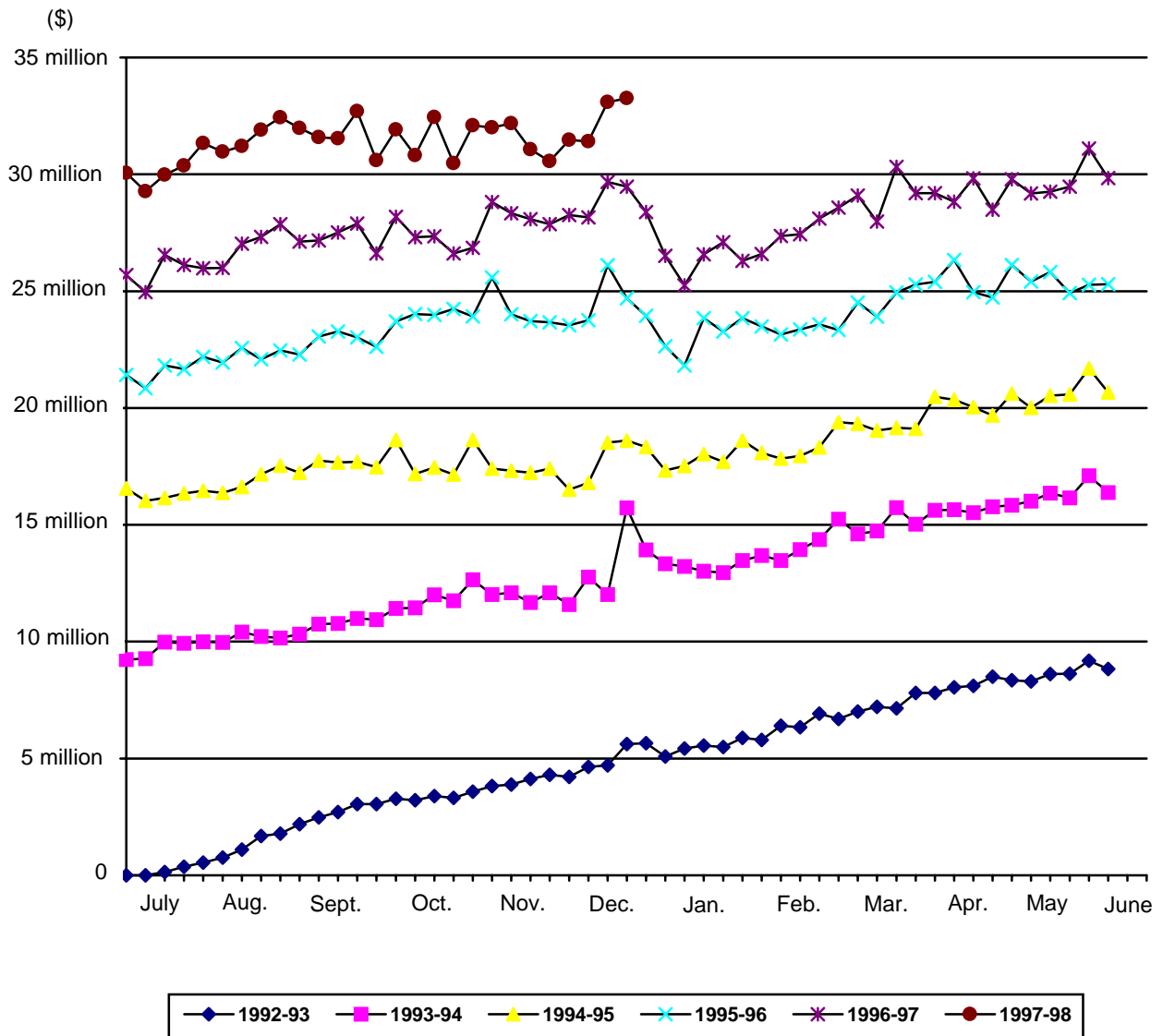
Inspection of financial operations at venues

5.82 As previously mentioned, the second category of inspectorial activity undertaken by the Authority at gaming venues focuses on financial operations and is aimed at ensuring venue operators have adequate internal controls to identify any fraudulent activities and malfunctioning gaming equipment.

5.83 The maintenance of adequate internal controls and financial procedures by gaming venues is clearly important given the significant level of cash flows transacted through gaming venues. In this regard, the aggregate cash flows (net revenue after player prizes) of licensed gaming venues within the State has increased markedly and consistently over the last 5 years with total net revenue in 1996-97 amounting to \$1.4 billion.

5.84 Chart 5B illustrates the level of escalation in weekly net revenue in respect of cash flowing through all gaming venues in the State (excluding the casino) since 1992-93.

CHART 5B
WEEKLY NET REVENUE AFTER PAYMENT OF PRIZES FROM GAMING VENUES
1992-93 TO 31 DECEMBER 1997



Source: Chart developed by Victorian Auditor-General's Office from data held by the Victorian Casino and Gaming Authority.

5.85 Chart 5B shows that, for virtually the whole of the period to 31 December 1997, weekly net revenue derived from gaming venues at any point in time has been greater than the equivalent figure in respect of all previous weeks.

5.86 From an individual venue perspective, the average daily net revenue per machine on a Statewide basis for the 1997 calendar year was \$166. Over this period, the 10 highest averages, based on venue locations, ranged from \$270 to \$370 with all 10 involving suburban areas of Melbourne.

5.87 The audit examination of the Authority's inspectorial activities in respect of the financial operations of gaming venues included direct observation on site of a number of inspections.



5.88 The general experience of the Authority for some time now in respect of this aspect of its regulatory activity has been that the standard of accounting for gaming machine revenue in gaming venues is variable and in some cases extremely poor. While this situation has no real bearing on the bringing to account of the Government's share of taxation revenue from gaming machines, the Authority sees itself as having a role in this area on the basis that poor accounting records in venues can increase the risk of fraudulent activity and may adversely impact on its capacity to detect malfunctioning gaming equipment.

5.89 In a survey of venues commissioned by the Authority, approximately 15 per cent of venues advised that they had experienced one or more instances of fraud in their gaming operations during 1996. The Authority advised audit that, while there has been a small number of more serious cases involving venue management, the majority of fraudulent activity has been associated with employees and small amounts of cash. Very few cases have been identified to date where fraudulent activity by patrons has occurred (other than use of unauthorised or foreign coins).

5.90 The Authority also advised that 36 licences have been cancelled because of fraudulent activity in gaming venues.

5.91 The Authority has pro-actively moved to address the problem of poor accounting practices within venues. In this regard, it issued *Standards for Gaming Venue Accounting Records* in October 1994 and, in June 1996, distributed *Accounting Guidelines for Gaming Venues*. The Authority opted to encourage venues to follow the approach outlined in its documentation rather than make compliance mandatory. While there was some improvement in the standard of accounting procedures by venues, the Authority considered that further action was still required if the improvement was to be consistent across the industry.

5.92 The Authority's further action took the form of the introduction of a standard approach to reconciling a venue's weekly net revenue which must be completed by all venues. In addition, the Authority determined that, from 1 October 1997, any venue found not to be using this standard approach would be subject to formal reprimand by the Authority.

5.93 Inspections of financial records performed by the Authority contribute to the achievement of the Authority's objectives in promoting the honesty and integrity of the industry. Its activities have been directed towards raising the standard of financial operations within venues following early identification of the need for significant industry improvement in this area.

Monitoring of technological changes which impact on gambling regulation

5.94 An earlier paragraph indicated that one of the objectives established by the Authority was to keep abreast of technological changes which impact on gambling regulation.

5.95 In this regard, the Authority has identified, as a key corporate strategy, a need to continually monitor technological developments in computer systems and communications, and assess the implications for the gambling industry and the Government's revenue base. To date, the Authority has implemented this strategy through a range of initiatives, including:

- regular contact, incorporating periodic meetings on technical issues, with industry participants, such as gaming operators and gaming machine manufacturers;
- communication and liaison with interstate and international gambling regulators;
- attendance at relevant regulators' and industry conferences; and
- general monitoring of developments in computer and other technologies (e.g. impending use of electronic smart cards which are likely to have a consequential impact on gambling products and regulation).

5.96 Based on discussions with the Authority and examination of relevant documentation, audit considered that the Authority was directing sufficient attention to the challenge of keeping pace, from its regulatory viewpoint, with a rapidly changing technological environment impacting on gambling activities.

Interactive home gambling

5.97 An emerging key issue confronting not only the Authority but other gambling regulators interstate and around the world in recent years has been the advent of new forms of gambling which have been facilitated by developments in telecommunications and computer technologies. Examples of such developments include gambling facilities now available on the Internet and telephone gambling.

5.98 In response to these developments, all Australian Gaming Ministers and Racing Ministers met in May 1996 and agreed on a set of principles for developing a draft National Regulatory Model for new forms of interactive home gambling products. Following this meeting, a working party comprising gaming officials from all States and Territories was established to develop the draft model. The Manager of the Authority's Gambling Operations and Audit Branch, as Victoria's representative, chaired the national working party.

5.99 After consideration of a draft model prepared by the working party, a further meeting of State and Territory Gaming Ministers was held in Melbourne in May 1997 where it was agreed to release a *Draft National Regulatory Model for Interactive Home Gambling Products* to enable feedback by September 1997 from the public and industry representatives.



5.100 The draft model, released for comment, proposed a national approach to interactive home gambling comprising both legislative and non-legislative components. Its key features included:

- establishment of a uniform approach to licensing, audit and inspection functions within each State to facilitate the regulation of interactive gaming products across Australia;
- introduction of a Code of Conduct in respect of the advertising and marketing of interactive home gambling products;
- implementation of operational controls similar in nature to those currently used to control and regulate gaming machine networks;
- specific prohibition of access to these gambling products by persons under 18 years of age;
- specific prohibition also of credit gambling;
- inclusion of conditions in service providers' licences aimed at preventing money laundering; and
- legislative provisions designed to address potential problems arising from compulsive and problem gambling.

5.101 After taking into account industry and other feedback, the Government formally endorsed the adoption of this model in Victoria in early October 1997. On this basis, Victoria has agreed to prepare "example legislation" based on the principles embodied in the model. The Minister publicly announced at the time that Victoria hoped to be in a position to enact legislation during 1998 to regulate and licence home gambling products which other States and Territories could mirror as part of a co-operative national approach.

5.102 It can be seen that the Authority has played a lead role to date in the development of a proposed national approach to the already major ramifications emerging for governments from interactive gambling.

Part 6

Casino supervision

OVERVIEW

6.1 One of the principal aims of the framework established under the *Casino Control Act* 1991 for supervision and control of casino operations is to ensure that gaming in the casino is conducted honestly. The collective efforts of several parties, members of the Victorian Casino and Gaming Authority, the Authority's Director of Casino Surveillance, casino inspectors appointed by that Director, members of the Victoria Police Casino Crime Unit and the casino operator through the casino's surveillance staff, make important contributions to achievement of this legislative goal.

6.2 In this Part, audit has summarised the various breaches of game rules and procedures and the extent of patron disputes which have been identified at the casino since June 1994 through to 31 December 1997. While each breach and patron dispute can be serious in their own right, audit considers that the extent of occurrence of such incidents, relative to the extent of daily activity at the casino, does not give rise to concern that gaming in the casino has been conducted to date other than in an honest manner.

6.3 This position can be attributed to the level of importance directed to supervisory and monitoring issues within the legislation and to the resultant strategic efforts of the various parties mentioned above as having collective responsibility in the area. In particular, audit is pleased to commend the intensity and effectiveness of supervisory scrutiny exercised over the conduct of gaming at the casino by the Authority's inspectorial personnel and the casino's surveillance staff.

6.4 It is also appropriate to recognise that the technology in place at the casino to support security and surveillance activities is, without doubt, highly advanced.

6.5 The circumstances described in this Part dealing with the exclusion of persons from the casino and prevention of money laundering also point to the diligent manner in which the respective parties have addressed the supervision and monitoring of gaming operations at the casino.

6.6 The one aspect of casino supervision requiring attention by the Authority concerns its scrutiny over contracts for the supply of goods and services to specific segments of the casino's operations. These contracts are known as controlled contracts. Some shortcomings in investigative practices (which are undertaken by the Authority's Licensing and Compliance Branch) relating to these contracts were identified by audit and the Authority has moved quickly to review its procedures in this area.

6.7 Finally, the Authority has, during the current financial year, acted in relation to an identified breach of a condition of the Casino Agreement (which underpins the casino licence) concerning the casino's debt-to-equity ratio. Also, at the date of audit examination, the Authority was considering the circumstances relating to a potential breach of a condition within the Casino Agreement requiring it to be notified of certain lease arrangements entered into by the licence holder.



□ RESPONSE by Director of Gaming and Betting, Victorian Casino and Gaming Authority

OVERVIEW

6.3 The Authority is pleased that audit commends the intensity and effectiveness of supervisory scrutiny exercised over the conduct of gaming at the casino by the Authority’s inspectorial personnel and the casino’s surveillance staff.

6.5 The Authority welcomes audit’s recognition of the diligent manner in which the Authority’s inspectorial personnel have contributed to the supervision and monitoring of gaming operations at the casino with regards to the exclusion of persons from the casino and the prevention of money laundering.

CONTROLLED CONTRACTS BETWEEN THE CASINO OPERATOR AND OTHER PARTIES

6.86 Audit has commented on what it sees as unsatisfactory aspects of the Authority’s practices in relation to assessing controlled contracts in that:

- *probity checks were carried out only on key persons nominated by the prospective contractor;*
- *only key employees, rather than directors and shareholders of the companies involved, were investigated for suitability; and*
- *in a case involving an overseas parent company and its local subsidiary seeking to supply gaming equipment, only the directors of the local subsidiary were probity checked.*

The Casino Control Act 1991 requires the Authority to consider the “operation of the contract and the suitability of each person who is a party to the contract”. This provision exists to ensure criminal exploitation is prevented from entering the casino through the provision of goods and services. Probity checking of the key individuals involved in the delivery of the goods and services as part of the contract, rather than the beneficial owners of the companies, is a more effective method of ensuring the legislative requirements are met. However, audit’s comments will be taken into consideration in the Authority’s current review of controlled contracts.

INTRODUCTION

6.8 As mentioned in Part 2 of this Report, a casino was established close to the business centre of Melbourne late in June 1994. The casino operated initially from a temporary site and moved to a permanent location, immediately south of Melbourne’s business centre, in May 1997.



*The Melbourne casino.
(Reproduced with the permission of Crown Limited)*

6.9 Part 4 of this Report dealt with the Authority's legislative responsibilities for the licensing of gambling industry participants and included discussion of licensing matters relating to employees within the industry (including casino employees).

6.10 The previous Part 5 addressed the strategies formulated by the Authority for the monitoring of gambling operations within the State. The issues discussed in that Part included the Authority's development of technical standards for gambling systems and equipment and its implementation of strategies for testing such systems and equipment. While these issues had a particular emphasis on electronic gaming machines, they reflected the legislative framework under the *Gaming Machine Control Act 1991* which applies to machines within both the casino and other licensed gaming venues.

6.11 This Part of the Report deals with a number of other aspects of the Authority's regulatory responsibilities directly relating to the operation of the casino subsequent to the granting of the licence to the casino licence holder on 19 November 1993. As was also the case in Part 5, some of the matters addressed in this Part have been presented in general terms because of their sensitivity and overall importance to the security of casino operations.

Legislative basis for casino regulation

6.12 The majority of the Authority’s responsibilities in respect of the casino are derived from the *Casino Control Act 1991*, the *Casino (Management Agreement) Act 1993* and the *Gaming Machine Control Act 1991*.

6.13 The purpose of the *Casino Control Act 1991* is to establish a system for the licensing, supervision and control of casinos with the aims of:

- ensuring that gaming in casinos is conducted honestly;
- ensuring that the management and operation of casinos remain free from criminal influence or exploitation; and
- promoting tourism, employment, and economic development generally in the State.

6.14 The detailed provisions of the Act support these aims and specify requirements, including the powers and functions of the Authority in the following areas:

- licensing of casinos;
- supervision and control of casino operators;
- licensing of casino employees;
- casino operations;
- minors;
- casino regulation including the appointment of casino inspectors;
- fees and taxation; and
- casino internal controls.

6.15 On the latter point of casino internal controls, the legislation prohibits a casino operator from conducting operations in a casino unless the Authority has approved a system of internal controls and administrative and accounting procedures for the casino. Any subsequent changes to the approved system have to be sanctioned by the Authority. The Act specifies a wide range of areas of casino operations which must be covered by the approved system of controls and procedures, including:

- accounting processes;
- job descriptions and the system of organising personnel and supervisory levels and responsibilities;
- the conduct and playing of games and approved betting competitions;
- the receipt, storage, and disbursement of chips and cash, the cashing of cheques and the redemption of chips;
- the collection and security of money at gaming tables and other areas of the casino, and for the transfer of money within a casino;
- security arrangements for the counting and recording of revenue; and
- the use and maintenance of security and surveillance facilities including closed-circuit television systems.

6.16 The *Casino (Management Agreement) Act 1993* formally ratifies within statute the management agreement entered into between the Minister on behalf of the State and the operator of the Melbourne casino.

6.17 In summary, the legislative framework is very extensive and reflects the importance directed by the Government and Parliament to matters relating to the supervision and monitoring of casino operations.

Role of the Director of Casino Surveillance and of casino inspectors

6.18 The occupant of the statutory position of Director of Casino Surveillance is appointed by the Governor-in-Council and holds office for 3 years, with eligibility for re-appointment.

6.19 The legislation assigns a very wide range of supervisory and monitoring powers as well as responsibility for verification of revenue to the Director (these powers are itemised in Part 2 of this Report), including a power to appoint casino inspectors to assist in the discharge of the position's responsibilities.

6.20 Within its organisational structure, the Authority has established a Casino Control Branch which comprises the Director, other management and administrative staff as well as casino inspectors appointed by the Director.

6.21 Currently, the Branch employs 30 inspectors who are located within the casino premises and work in shifts to provide 24 hour per day supervision of the casino's operations.

Victoria Police presence in the casino

6.22 In addition to the monitoring and supervisory activities of the Authority's Casino Control Branch, the Victoria Police Casino Crime Unit, a division of the Gaming and Vice Squad, maintains a 24 hour presence within the casino premises. At the time of the audit, this Unit comprised 17 police officers whose primary functions include:

- monitoring casino operations to detect criminal activity;
- conducting probity investigations in relation to special employee licence applications, goods and services contracts proposed by the casino operator and *junket organisers or promoters* (the persons who introduce a person or a group to a casino operator and receive a commission based on gambling activity attributable to the introduced person or group);
- carrying out of investigations into alleged criminal offences within the casino;
- liaising with external agencies and other police squads; and
- intelligence gathering and dissemination.

6.23 The Casino Control Branch provides the Victorian Police Casino Crime Unit with access to certain facilities and records utilised by the casino inspectors in the performance of their duties.

ENSURING THAT GAMING IN THE CASINO IS CONDUCTED HONESTLY

6.24 As mentioned in an earlier paragraph, one of the 3 primary aims of the framework for licensing, supervision and control of the casino established by the *Casino Control Act* 1991 is to ensure that gaming in the casino is conducted honestly. The members of the Authority, the Director of Casino Surveillance and the casino inspectors appointed by the Director each have an important role to play in ensuring that this legislative aim is met and, in turn, that fairness to players within the casino can be assured.

6.25 The audit examination included an assessment of the role played by the above parties in respect of:

- the granting of approval for the wide range of casino games, including table games but not including electronic gaming machines, and the rules for those games;
- the granting of approval for, and the exercise of controls over, gaming equipment at the casino; and
- the functions of casino inspectors specifically relating to the conduct of gaming.

Granting of approval for casino games and related rules

6.26 The members of the Authority, acting on the advice and recommendations of the Director of Casino Surveillance, are responsible for the granting of approval for the various casino games and the rules to govern the playing of those games. Details of approved games and their rules are required to be published in the *Government Gazette*.

6.27 In addition, for each approved game, a comprehensive set of game procedures, which pertain mainly to casino staff procedures and are not published, are separately approved by the Authority and included in an internal control manual utilised by the casino operator.

6.28 It is an offence under the legislation for the casino operator or any other person to allow a game to be conducted or played in the casino unless the game has been approved by the Authority and the game is conducted or played in accordance with the approved rules.

6.29 The games (other than electronic gaming machines) and related rules permitted to be played at the casino were initially approved by the Authority in June 1994. Since that time, there have been a number of amendments to the gazetted rules of games and the Authority has approved several new games. In March 1997, shortly before the opening of the casino at its permanent site, the Authority approved a consolidated schedule of all games and rules cleared by it for play at the casino. This consolidation was published in the *Government Gazette* of 24 April 1997.

6.30 An important feature of the legislative framework is that the casino operator is obligated to provide specific information to patrons regarding the rules of games and related issues. In this regard, the casino operator is responsible for ensuring that:

- At the request of a casino patron, a copy of the detailed approved rules of gaming in respect of any particular game is made available for inspection by the patron;

- There is prominently displayed within the casino such advice or information concerning gaming rules, mode of payment of winning wagers, the odds of winning for each wager and such other advice or information to the player as may be directed by the Director of Casino Surveillance;
- At the request of a patron of the casino, a brochure summarising the rules of gaming in respect of a game played in the casino is provided to the patron. The content of such brochures has to be approved by the Director of Casino Surveillance; and
- There is prominently displayed at each gaming table or location related to the playing of a game, a sign indicating the permissible minimum and maximum wagers pertaining to the relevant game.

6.31 Audit examination of prepared documentation and inspection of gaming operations at the casino indicated that the casino operator has fulfilled its obligations in respect of the above matters. In addition, the Director of Casino Surveillance has approved the text of the explanatory brochures developed by the casino operator in respect of each approved game. In discussions with the Director, audit was advised that this particular approval process is designed to ensure that casino patrons are provided with accurate information which is consistent with the approved rules of the games.

6.32 It is also important to recognise that the casino operator has established, on its own initiative, special areas within the casino offering complimentary learn-to-play facilities in respect of certain table games for novice or inexperienced patrons.

6.33 The second dot point identified above in respect of the casino operator's obligations provides for "*the odds of winning for each wager*" to be included in the information prominently displayed within the casino. In practice, the Authority has interpreted this requirement quite broadly in the sense that it has agreed the displayed information can take the form of the return odds for a winning wager. It has followed this approach because for many table games at the casino the specific odds of winning can continually change during play, particularly in the case of card games. Nevertheless, patrons playing those games can generally acquire relevant information either through direct observation or books and publications on the features of the games and the relative winning chances of patrons and that of the house, i.e. *the house advantage*.

6.34 It is this latter point on the availability of information to players which distinguishes the casino's table games from electronic gaming machines (in operation at both the casino and other gaming venues) and which prompted the audit discussion on player fairness issues dealing with electronic gaming machines presented in Part 5. Also, as mentioned in Part 5, data on probability of winning in respect of gaming machines can be mathematically determined, however, it resides electronically, and thus out of sight to the player, within game software.

Approval of and controls over gaming equipment

6.35 Gaming equipment in use at the casino and the layout of the gaming area require approval of the Director of Casino Surveillance. Layout issues encompass the location and positioning of gaming tables and gaming machines, surveillance cameras, security equipment and money counting facilities.



6.36 All sensitive gaming equipment (playing cards, dice, roulette wheels etc.) not currently in use in the casino is stored in a secure room which can only be accessed by authorised staff of the casino operator. An inventory is kept of all equipment in storage which must be updated by casino staff whenever equipment is delivered or removed.

6.37 Used sensitive gaming equipment, which is no longer required, is returned to a secure holding room until it is destroyed, denatured (e.g. for playing cards, a hole is drilled through the middle of packs) or returned to the supplier.

6.38 The casino operator is required to advise casino inspectors whenever a piece of gaming equipment in use in the casino is found to be out of order. On each occasion after an item of equipment is repaired, an inspector must inspect the equipment and be satisfied that it is operating correctly before approving its return to operational use.

6.39 An indication of the soundness of controls over gaming equipment can be gleaned from the fact that, in 3¹/₂ years operation of the casino (at both the temporary and permanent sites), the Authority, through its inspectorial staff at the casino has determined that all problems experienced to date with faulty gaming equipment have not been the result of deliberate manipulation or tampering.

6.40 It is also appropriate to mention that the technology in place at the casino to support security and surveillance activities is highly advanced.

Functions of casino inspectors relating to the conduct of gaming

6.41 An earlier paragraph mentioned that the Authority's inspectorial staff within its Casino Control Branch undertake functions directly relating to the conduct of gaming through a 24 hour a day supervisory and monitoring presence in the casino. The other major function of the Branch involves verification of daily revenue (relevant comment on this latter function is presented in later paragraphs of this Part).

6.42 The primary purpose of the Authority's casino inspectors in relation to the supervision of the conduct of gaming in the casino is to ensure that gaming is conducted honestly and in accordance with the rules of the games and games procedures approved by the Authority. Audit was advised that around 40 per cent of inspectors' time involves observation of gaming operations and takes the form of:

- direct observation of the conduct of gaming on the casino floor or observation facilitated by the use of surveillance cameras; and
- inspection and testing of gaming equipment including electronic gaming machines, dice, roulette wheels, roulette balls, cards and spinning wheels.

6.43 Inspectors are required to make a written report of all violations of the approved games' rules and procedures detected by or reported to them. In addition, the casino operator's surveillance department maintains records of all dealer errors and procedural breaches which are either observed by that department's staff or drawn to their attention by operational staff seeking resolution of gaming disputes with patrons.

6.44 All instances of non-compliance are investigated by inspectors. While the Director of Casino Surveillance has the power to investigate whether there are grounds for disciplinary action against special employees at the casino, the members of the Authority have the responsibility to determine the actual nature of any disciplinary action taken against the casino operator as well as special employees.

Specific matters arising from inspections

6.45 Information held by the Authority showed that, from the time of opening of the casino at its temporary site in June 1994 through to 31 December 1997, the following matters had been identified either by inspectorial staff of the Authority or surveillance staff of the casino operator and dealt with by the Authority:

- *Non-compliance with the legislation and approved game rules and procedures*

Eight significant incidents of non-compliance with game rules and procedures by the casino operator and its staff have been identified and investigated. Two cases have concerned a breach of the rules of Baccarat and fines totalling \$15 000 were imposed on the operator. In the other 6 instances, the operator was required to implement new procedures to prevent further breaches. Gaming staff involved in a number of these breaches were issued with written warnings by the Director of Casino Surveillance and one member was dismissed by the casino operator and subsequently charged by Victoria Police.

The Authority has imposed fines totalling \$90 000 for 48 breaches of the Act relating to minors entering the casino. In another matter, a fine of \$15 000 was imposed for an unauthorised change to the casino layout.

In terms of less serious incidents, 720 breaches of table gaming rules or procedures have been detected by the Authority's inspectors. The ongoing surveillance activity conducted by the casino operator has identified over 29 000 dealer and procedural errors (mainly minor incidents), equivalent to a daily average of about 23 errors since the opening of the casino.

On 49 occasions known to the Director of Casino Surveillance, playing card decks or shoes (a card container with a shape similar to a shoe from which cards are dealt) have been found to hold an incorrect number of cards. On each occasion, the decks or shoes had been used for live gaming and it is possible that this situation may have affected the results of games and returns to patrons. In all instances, the departure from rules were not considered by the Authority to be deliberate acts, however, the casino operator has been required to implement improved procedures for the checking of cards before use on gaming tables. The Director of Casino Surveillance has issued written warnings to gaming staff involved in a number of these instances. Audit was advised by the Director that inspectors have since monitored the casino operator's implementation of improved procedures.



The Authority does not consider the number of breaches of game rules which have been identified to date to be excessive given the size of the casino's gaming facility, the level of patronage and the fact that virtually all dealers, although provided with extensive training, had no gaming experience prior to the opening of the temporary casino. In addition, it felt that the number of breaches involving incorrect card numbers needed to be assessed in light of the fact that approximately 1.2 million decks of cards had been used by the casino operator in the period up to 31 December 1997.

- *Incidence of repairs to gaming equipment*

Over the period to 31 December 1997, inspectors have been called on over 3 200 occasions to examine gaming equipment which, for a variety of reasons, required repairs and needed official clearance before re-use within the casino.

- *Patron disputes*

If casino staff are unable to resolve patron disputes relating to the conduct of gaming, they are required to advise patrons of their right to refer the matter to a casino inspector.

Casino staff, with assistance from the surveillance department of the operator, deal in the first instance with an average of around 3 000 patron disputes each month. Approximately 98 per cent of these disputes are resolved without recourse to inspectors after examination of video coverage of incidents.

Up to 31 December 1997, casino inspectors have dealt with 638 patron disputes, of which 52 (8 per cent) were resolved in favour of patrons. Of the total number of disputes, 287 (or 45 per cent) concerned Roulette (these disputes were primarily related to the placement of chips on the table) and 163 (or 25 per cent) concerned Blackjack (and primarily related to misunderstanding by patrons of the rules of the game).

6.46 Clearly, all breaches of game rules and procedures, and patron disputes within the casino warrant specific attention and can be serious in their own right. Nevertheless, audit considers that the extent of occurrence of such incidents, as summarised above, relative to the totality of daily activity does not give rise to concern that gaming in the casino has been conducted other than in an honest manner.

6.47 This position can be attributed to the level of importance directed to supervisory and monitoring issues within the legislation and to the resultant strategic approach adopted by both the casino operator and the Authority. In this regard, audit is pleased to commend the intensity and effectiveness of supervisory scrutiny of the conduct of gaming undertaken by the Authority's inspectorial personnel and the casino's surveillance staff.

6.48 Obviously, it will be important for the Authority to ensure that there is continuation of the standard of vigilance exercised for this aspect of the casino's operations.

EXCLUSION OF PERSONS FROM THE CASINO

6.49 The *Casino Control Act 1991* empowers the Director of Casino Surveillance and the casino operator to issue an exclusion order which prohibits a person from entering or remaining in the casino. In addition, the Chief Commissioner of Police may direct the casino operator to issue an exclusion order. The Act also enables a person to voluntarily apply to the Director or the casino operator for an order (generally referred to as self-exclusion orders) to be excluded from the casino.

6.50 In cases not involving self-exclusion orders, action taken under the legislation in this area will primarily result from behavioural problems and/or criminal offences committed in the casino. In regard to self-exclusion orders, individual personal factors will obviously influence the submission of an application. Any person granted a self-exclusion order who opts to seek revocation of the order is required under the procedures established by the casino operator to supply medical and/or psychological evidence that the problem which formed the basis for the initial application for a self-exclusion order no longer exists.

6.51 At 31 December 1997, a total of 1 373 exclusion orders had been issued and comprised:

- 1 340 issued by the casino operator, of which 287 resulted from applications for self-exclusion; and
- 33 (none of which related to self-exclusion) issued by the Director of Casino Surveillance.

6.52 The Authority advised audit that, currently, there are a total of 375 exclusion orders in force, including 65 related to self-exclusion.

6.53 To date, the Chief Commissioner of Police has not ordered any persons to be excluded from the casino under the provisions of the legislation.

6.54 Persons who are issued with exclusion orders can appeal to the members of the Authority against the imposition of the order. To date, the Authority has heard 15 appeals against decisions reached by the casino operator. All appeals were rejected by the Authority.

6.55 Primary responsibility for preventing excluded persons from re-entering the casino rests with the casino operator. Not surprisingly, the operator has experienced difficulty in this area due to the volume of patronage at the casino, the large number of exclusion orders in place and the many means available for the public to enter the casino.

6.56 To the end of December 1997, 821 breaches of the Act by excluded persons from the casino have been investigated by either casino inspectors or the Victoria Police Casino Crime Unit. Excluded persons who breach the Act by re-entering the casino have committed an offence under the Act and action can be taken against them in court. The maximum fine which can be imposed by the court on a person for breaching the Act is \$2 000. One excluded person is known to have re-entered the casino on at least 91 occasions.

6.57 Casino inspectors play a direct role in interviewing and removing excluded persons from the casino as well as in preparing briefs of evidence for court action. These tasks, which divert scarce resources away from direct monitoring of gaming operations, have proved to be quite time consuming, particularly in respect of multiple re-offenders. The Government has given consideration to the introduction of on-the-spot fines and, to date, has opted to retain the present arrangements.

6.58 Given the difficulties associated with this aspect of supervision and monitoring of gaming operations, audit considers the various parties have discharged their responsibilities in a diligent manner.

CONTROLS IN PLACE TO PREVENT THE LAUNDERING OF MONEY

6.59 Investigative and regulatory authorities worldwide find it necessary to direct attention to the prevention of activities which have the aim of introducing into a legitimate financial system moneys derived from illegal activities. Such activities are commonly referred to as money laundering.

6.60 The United States Department of the Treasury, which through its Financial Crimes Enforcement Network works to assist the prevention, detection and prosecution of money laundering, has included the following definition of money laundering in its Internet web site (www.treas.gov/fincen/):

“Money laundering involves disguising financial assets so they can be used without detection of the illegal activity that produced them. Through money laundering, the criminal transforms the monetary proceeds derived from criminal activity into funds with an apparently legal source.”

6.61 The potential use of the casino, by patrons, to launder the proceeds from illegal activities is addressed within the *Casino Control Act 1991*. Specifically, the Act requires the casino operator’s approved system of controls and procedures to include procedures for the payment and recording of winnings associated with gaming in the casino, where the winnings are paid by cheque.

6.62 The Authority has approved the casino operator’s procedures and controls over the payment of winnings by cheques. These procedures contain specific provisions under which all winnings paid by cheque at the request of a patron are subject to prior verification by the casino operator (in other words, if a patron seeks to convert chips into a winnings cheque, staff of the operator verify both the amount of money used by the patron for the initial purchase of chips and the amount of winnings). The patron is then provided with 2 cheques, one for the amount of the initial purchase of chips and the other for the confirmed winnings endorsed “*Winnings*”.

6.63 Casino inspectors perform periodic reviews of the operator’s compliance with these procedures and controls. Audit examined the controls and procedures in place and is satisfied that adequate precautions have been established to prevent the utilisation of the casino as a medium for money laundering. At the date of preparation of this Report, no incidents of money laundering at the casino had been reported to the Authority by Victoria Police.

6.64 Also relevant to this subject matter is the fact that the casino falls within the definition of a “cash dealer” under the terms of the Commonwealth’s *Financial Transactions Reports Act 1988*. The objectives of this Act are to facilitate the administration and enforcement of taxation and other laws within Australia. The Act requires the reporting by cash dealers of transactions of \$10 000 or more to AUSTRAC (the agency responsible for administering the Act). Cash dealers are also required to report details of suspect transactions and international telegraphic fund transfers to AUSTRAC.

6.65 Further confidence in the manner in which the casino operator is scrutinising gaming transactions can be gleaned from the fact that AUSTRAC has periodically examined the casino operator’s approach to reporting of stipulated information and has confirmed that the casino operator is satisfactorily meeting the relevant legislative requirements.

CASINO-RELATED CRIME

6.66 As mentioned in an earlier paragraph, the Victoria Police Casino Crime Unit maintains a 24 hour presence within the casino premises.

6.67 Later in this Part, reference is made to the first triennial review of the casino licence holder undertaken by the Authority in accordance with section 25 of the *Casino Control Act 1991*. The report on that review was issued in July 1997 and included a summary of the position to 31 May 1997 concerning casino-related crime, as advised to the Authority by the police unit.

DAILY VERIFICATION OF CASINO REVENUE

6.68 As mentioned in Part 2 of this Report, a key function of the Director of Casino Surveillance is to ensure that the taxes, charges and levies payable by the casino operator, under the *Casino Control Act 1991*, are paid to the Authority for transmission to the Department of Treasury and Finance.

Casino taxes, charges and levies

6.69 The various taxes, charges and levies payable by the casino operator are specified in detail in the *Casino (Management Agreement) Act 1993*. Table 6A summarises the taxes, charges and levies which have applied since the granting of the casino licence in November 1993.

TABLE 6A
SUMMARY OF TAXES, CHARGES AND LEVIES
WHICH HAVE APPLIED SINCE THE GRANTING OF THE CASINO LICENCE

Description of tax, charge or levy	Effective from 19 November 1993	Effective from 1 July 1994	Effective from 1 November 1995	Effective from 1 January 1996	Effective from 1 July 1997	Position at 31 December 1997
Licensing fee (one-off payment)	\$200 million.					
Casino supervision and control charge	\$5 million per annum for 4 years.	No change.	No change.	No change.		
Tax on gross gaming revenue		20 per cent payable monthly.	No change.	No change.	21.25 per cent payable monthly.	Still current.
Additional casino tax on gross gaming revenue		Calculated on a sliding scale of 1 per cent for every \$20 million to a maximum of 20 per cent in respect of financial years in which gross gaming revenue exceeds \$500 million (this amount is indexed against movements in the Consumer Price Index).	No change.	No change.	No change.	Still current but annual revenue threshold of \$500 million is yet to be exceeded.
Community benefit levy		1 per cent of all gross gaming revenue.	No change.	No change.	No change.	Still current.
Additional casino tax		\$2.4 million per month for 2 years.	No change.	No change.		
Payments to Tourism Victoria for marketing of Victoria (a)			\$1 million per annum for 5 years.	No change.	No change.	Still current.
Additional payments to the State (a)				\$2.8 million per month for 3 years.	No change.	Still current.
Tax on gross gaming revenue derived from commission-based players				9 per cent payable monthly.	No change.	Still current.
Additional tax on gross gaming revenue derived from commission-based players				Calculated on a sliding scale of 1 per cent for every \$20 million to a maximum of 12.25 per cent in respect of financial years in which gross gaming revenue derived from commission-based players exceeds \$160 million (this amount is indexed against movements in the Consumer Price Index).	No change.	Still current.

(a) These payments by the casino operator were introduced as consideration for the increase in the number of gaming tables permitted in the casino from 200 to 350 and the introduction of lower tax rates for revenue derived from commission-based players, which were agreed to by the Government in October 1995.

Source: Table developed by Victorian Auditor-General's Office.

6.70 Table 6A shows that 2 specific taxes relating to gaming revenue derived from commission-based players at the casino were introduced from 1 January 1996. Commission-based players are players who participate in either a premium player arrangement where the operator agrees to pay the player a commission based on the player's turnover of play in the casino, or a junket which is an arrangement whereby a junket organiser or promoter introduces a player or group of players to the casino operator and receives a commission based on gambling activity in the casino of the player or group players. Prior to 1 January 1996, gross gaming revenue in respect of commission-based players was taxed at the same rate applied to all other gross gaming revenue.

Verification of casino gaming revenue

6.71 The revenue verification process followed by the casino inspectors is quite complex due to the unique accounting systems necessitated by the nature of casino operations. Expressed in broad terms, the verification of daily revenue derived from table games encompasses a variety of tasks including:

- supervision of the removal of money from individual gaming tables;
- scrutiny of the counting of money by the casino operator's staff;
- accounting for the redemption of chips by patrons;
- verification of documentation supporting the casino operator's calculation of gross gaming revenue and the carrying out of an independent procedure to confirm the accuracy of the calculated sum; and
- implementation of special procedures for calculation and verification of gross gaming revenue in respect of the casino's commission-based players.

6.72 Documentation held by the Authority indicated that its revenue verification procedures had been independently examined and confirmed by consultants and its internal audit function.

6.73 Audit re-performed the verification process followed by the casino inspectors in respect of a number of randomly selected days in particular months. Following this exercise and the direct observation of certain daily procedures, audit concluded that the process is soundly implemented by casino inspectors and the computation of the casino's daily gross gaming revenue and of the resultant taxation figure payable to government has been accurately determined.

<p>CONTINUING FOCUS ON IMPROVING EFFECTIVENESS OF CASINO SUPERVISION</p>

6.74 The regulatory framework in place in respect of Australian casinos has traditionally been characterised by a high level of supervision and direct involvement in the operation of internal controls by government inspectors. In recent years, the supervisory role of government casino inspectors has progressively evolved towards more of a risk-based approach with less emphasis on direct involvement of inspectors in many internal control functions. Such functions are viewed under this change as fundamental management responsibilities of casino operators.

6.75 In Victoria, the supervisory arrangements in place in respect of the temporary casino were such that casino inspectors were directly involved in the implementation of controls over key facets of the casino's operations. For example, inspectors attended the daily removal of drop boxes containing cash used by patrons to purchase chips from gaming tables and recorded details of this process as a means of ensuring that all drop boxes were properly accounted for. The casino operator did not maintain records of the operation of this control.

6.76 In preparation for the move to the permanent casino site in 1997, the Authority reviewed the level of its direct involvement in the operation of internal controls at the casino operators. This review was performed in light of the size of the permanent casino and the fact that the Authority has approved the casino operator's system of internal controls.

6.77 As a result of this review, references to the direct involvement of inspectors in the operation of internal controls and procedures were removed from the approved system of internal controls. This initiative was based on the fact that it is the responsibility of the casino operator to ensure that the system of internal controls approved by the Authority is adhered to and that casino inspectors should be focusing on compliance by the casino operator with the approved system rather than direct involvement in its implementation.

6.78 In line with this revised approach to casino supervision, the casino inspectors have recently developed a wide range of standard test programs covering all aspects of the conduct of gaming and security arrangements. These programs will be performed on a periodic basis and are designed to ascertain the extent of compliance with the approved system of internal controls.

6.79 Audit examined the content of the casino operator's approved system of internal control and the revised test programs with a view to ascertaining whether they comprehensively address the requirements of the *Casino Control Act* 1991. On the basis of this examination, audit concluded that the revised arrangements rightly directed prime responsibility to the casino operator for implementation of internal controls and should result in more efficient and effective supervision of such controls by the Authority.

6.80 Finally, it is also relevant to mention that the Authority is playing a lead role in the application by casino regulators of risk-based principles on a national basis through the involvement of its Director of Casino Surveillance as Chairperson of the National Working Party on Casino Risk Management. This working party was formed in 1996 to examine and formulate recommendations on key risks and issues in casino supervision for submission to the annual Australasian Gambling Regulators Conference.

CONTROLLED CONTRACTS BETWEEN THE CASINO OPERATOR AND OTHER PARTIES

6.81 The *Casino Control Act* 1991 provides for the casino operator to notify the Authority of the details of proposed contracts for the supply of goods and services to specific areas of its operations (referred to as controlled contracts), at least 28 days before entering into such contracts. The Authority, in turn, must respond in writing within the 28 day period to indicate whether it objects to the contract or requires more time to conduct its investigations.

6.82 If the Authority does formally object to a controlled contract, the casino operator is not permitted to proceed with the contract and the position is final.

6.83 While not stated explicitly in the *Casino Control Act* 1991, the rationale for including such legislative provisions, as acknowledged by the Authority, is to ensure that the Authority can exercise control over such contracts as part of its responsibility to supervise and control the casino's operations.

6.84 The importance of an effective approach to the regulation of contracts between casino operators and suppliers of goods and services to casinos was emphasised by the Chairman of the New Jersey Casino Control Commission, in a presentation in August 1997 to the Gaming Regulators Conference in New South Wales. Drawing on that Commission's experience in New Jersey, the Chairman indicated that tight controls over the supply of goods and services to casinos were very essential and that "... *strict regulatory controls have prevented organised crime from ownership or operation of casinos in New Jersey*".

6.85 While the legislation requires the Authority to inquire into the operation of controlled contracts and the suitability of each person who is a party to the contract, the grounds on which the Authority can object to a contract are not specified and the Authority is yet to formulate any standards to guide its investigations.

6.86 Audit examination of investigations undertaken by the Authority's Licensing and Compliance Branch for a number of controlled contracts covered a range of goods and services including various foods, laundry, dry cleaning, security and gaming equipment supplied to the casino. Some unsatisfactory aspects of the Authority's practices were identified during this examination in that:

- probity checks were carried out only on key persons actually nominated by the prospective contractor and, in some cases, even the contractor's nominated individuals were not investigated;
- while a range of information had been gathered on the corporate and ownership structure of prospective contractors, only key employees were probity checked, with no activity undertaken in respect of directors and shareholders of any primary and related companies; and
- in a case involving an overseas parent company and its local subsidiary seeking to supply gaming equipment, only the directors of the local subsidiary were probity checked.

6.87 The legislation does not require any ongoing monitoring by the Authority of parties to controlled contracts covering, for example, changes in ownership, directorship or key management after a contract has been formalised. However, some limited monitoring is performed by the Authority based on discussion with gaming industry representatives, monitoring of media sources and exchange of information with interstate gaming regulators.

6.88 During the course of the audit, the Authority advised that it had established a working party to review a range of issues associated with controlled contracts

6.89 Given the importance of the Authority's regulatory role in relation to controlled contracts, early action should be taken to formulate, through its working party, standards and criteria to govern its investigations of contracts and to address any shortcomings in its current procedures. As part of this process, the Authority should also assess whether more effective strategies for monitoring any changes to contractors' circumstances during the terms of contracts are warranted, recognising the need for continuation of a risk-based approach in this area.

TRIENNIAL REVIEW OF CASINO OPERATOR AND LICENCE

6.90 Section 25 of the *Casino Control Act 1991* requires the Authority at least every 3 years to "... investigate and form an opinion as to whether or not the casino operator is a suitable person to continue to hold the casino licence and it is in the public interest that the casino licence should continue to remain in force".

6.91 Following an extensive process, the Authority completed the inaugural statutory review in June 1997 and the report arising from the review was publicly released by the Minister in July 1997.

6.92 The overall opinion reached by the Authority from the review was as follows:

"The Authority has unanimously formed the opinion that in respect of the period under review:

- the casino operator is a suitable person to continue to hold the casino licence; and that*
- it is in the public interest that the casino licence should continue in force".*

6.93 A number of the issues addressed during the Authority's review concern aspects of its ongoing regulatory role which have been discussed in earlier paragraphs of this Part. For this reason, the summary of the Authority's findings, as presented in the review's report, is reproduced in full below:

FINDINGS REACHED BY THE AUTHORITY FOLLOWING ITS TRIENNIAL REVIEW OF CASINO OPERATOR AND LICENCE

“It is the view of the Authority that Crown has effectively, efficiently and fairly conducted the operation of a major casino in its first three years of operations.

“From a financial perspective, Crown has complied with all of its legislative and contractual arrangements with the State and with the Authority. Crown’s financial resources are considered adequate to ensure its ongoing financial viability.

“Having regard to the probity investigations, the Authority is satisfied that the casino operator and its associates are suitable persons to continue to be involved in the conduct of the casino.

“From an operational perspective, Crown has satisfactorily operated the Galleria [the temporary casino] and Melbourne Casinos. It has engaged the services of sufficient appropriately experienced persons in the management and operation of the casino. Crown has developed and maintained sufficient business ability to conduct a successful casino, and has established and maintained, throughout the period under review, a high level of operational efficiency. Crown has also planned, developed and operated both the Galleria and Melbourne Casinos with all necessary security and operating systems in place and functioning satisfactorily.

“The Authority is satisfied that the casino operator and its associates are operationally capable to be involved in the conduct of a casino.

“The Authority is satisfied that, having regard to the criteria set out in section 9 of the Act, the casino operator is a suitable person to continue to hold the casino licence.

“In considering the public interest, the Authority has had regard to casino patronage, the level of complaints by the public, the actual and alleged criminal offences associated with casino operation and the number of breaches of casino legislation, approved rules and procedures.

“The Authority is satisfied that the Galleria and Melbourne Casinos have been operated in a manner which has engendered and continues to engender public confidence and trust in the credibility, integrity and stability of casino operations.”

Source: Review of Casino Operator and Licence, June 1997, conducted by the Authority.

6.94 As mentioned above, the audit examination incorporated a number of matters addressed in the Authority's review, particularly in terms of the responsibility of the Authority for ensuring that gaming in the casino is conducted honestly. The various issues discussed in this Part directly relate to this element of the Authority's regulatory obligations. The generally favourable conclusions reached by audit on these issues have confirmed the earlier positive findings from the Authority's review, a position which should serve to reinforce public confidence in the actual conduct of gaming within the casino.

6.95 Within its report, the Authority stated that, in respect of its probity investigations, there were 3 matters which it determined should not be considered in forming its opinion at the time as to the suitability of the casino operator to continue to hold the casino licence. These matters, which were referred to in the report, related to circumstances which were the subject of investigations in course by other bodies or involved court process.

6.96 The Authority indicated in its June 1997 report on the review that it will consider the 3 matters upon the conclusion of the investigations or court process. At the date of preparation of this Report, the Authority advised audit that one matter has since been investigated and completed. It indicated that, in this case, "*... there were allegations concerning the involvement by Consolidated Press Holdings Ltd (CPH) in the sale of an environmental engineering company to Australian National Industries (ANI) when CPH was a controlling shareholder in ANI. The Authority has determined that the allegations remain unfounded and further action in this matter is not contemplated unless the Authority becomes aware of fresh information that would warrant investigation*". The 2 other matters referred to in the Authority's June 1997 report remain outstanding.

MONITORING OF CONDITIONS RELATING TO CASINO LICENCE HOLDER

6.97 Under the legislative framework, the Authority was required to ensure that a management agreement between the State and the proposed casino operator was in place before it issued a licence to the proposed operator. The management agreement entered into between the 2 specified parties was formally ratified by the Parliament on 16 November 1993 and the casino licence was issued to the operator by the Authority on 19 November 1993.

Debt-to-equity ratio

6.98 One of the documents underpinning the casino licence is the Casino Agreement. This agreement sets out, inter alia, a number of conditions relating to the company structure of the licence holder. These conditions include a requirement that the debt-to-equity ratio of the company (i.e. the licence holder) must not exceed 60 per cent after the casino commenced operation at its permanent site. The relevant requirement is worded in clause 22.1 (m) of the Casino Agreement as follows:

"... at any time after the Melbourne Casino is completed, the liabilities of the Company must not exceed 60% of the sum of the liabilities and shareholders' funds without the prior written approval of the Authority".

.....

6.99 Monitoring of compliance by the licence holder against the above condition by the Authority is undertaken on an ongoing basis. In this regard, the licence holder is required to provide a quarterly report including a certificate to the Authority outlining details of the current debt-to-equity ratio.

6.100 During September 1997, the licence holder initially advised the Authority that its debt equity ratio at 30 June 1997 was 58 per cent and later in the month, 24 September 1997, provided further information indicating that the ratio had been recalculated to be 59.73 per cent. In the second letter, the licence holder also sought consent of the Authority to modify the definition and application of the debt-to-equity ratio.

6.101 Officials within the Authority did not share the licence holder's view of the debt-to-equity position at 30 June 1997 and, at a meeting on 29 September 1997, the members of the Authority were advised that if the ratio as at 30 June 1997 was calculated in strict accordance with the Casino Agreement it would be 61.3 per cent. The differences related to the treatment of Deferred Income Tax Liability and Future Income Tax Benefit. The members determined at this meeting to await the results of further investigation by the Authority.

6.102 Early in October 1997, following discussions between the licence holder and the Authority, the licence holder again sought the Authority's consent to modify the definition and application of the debt-to-equity ratio. A few weeks later, on 24 October 1997, the licence holder formally advised the Authority that its debt-to-equity ratio at 30 September 1997 was 60.8 per cent. The licence holder's formal notification also stated that the Authority had been informed during the earlier discussions of the likelihood that the ratio at 30 September 1997 would exceed the prescribed level. The licence holder further informed the Authority at this time of its proposal to issue \$290 million of equity for its acquisition of Crown Management Pty Ltd which if approved, as it expected, would quickly remedy the position.

6.103 Following further discussions between the Authority and the licence holder, the members of the Authority determined on 10 November 1997 to formally advise the licence holder that the breach relating to the debt-to-equity ratio needed to be rectified within 60 days, or action satisfactory to the Authority needed to be commenced within that time. The formal notice was issued on that day by the Authority's Chairman.

6.104 Shortly after receiving this formal notice, the licence holder for a third time sought the Authority's consent to vary the method of calculation of the debt-to-equity ratio. In response, the Chairman indicated that the licence holder should address the formal notice in a substantive manner and that the need or otherwise for any change to the method of calculation would be considered as part of a wider review of the Casino Agreement by the Authority.



6.105 On 8 December 1997, the licence holder provided preliminary information to the Authority of its proposal to raise fresh equity capital to address the breach of the debt-to-equity requirement. On 15 December 1997, it furnished comprehensive material to the Authority on its equity raising plans. After extensive overnight examination by the Authority's officials of documents, particularly underwriting documents, the members of the Authority at their scheduled meeting of 16 December 1997, approved the proposed action and on the basis of the information determined to advise the licence holder it was satisfied with the progress towards rectifying the breach of the debt-to-equity ratio. Formal advice of this decision was provided by the Chairman to the licence holder on that day.

6.106 The above decision of the members of the Authority was publicly released by the Acting Director of Gaming and Betting on 8 January 1998. The information released by the Acting Director also included the comment that there were no grounds at that stage for consideration of disciplinary action against the licence holder.

6.107 Since 16 December 1997, the licence holder has advised the Authority on a fortnightly basis (a timeframe requested by the Authority) of the progressive status of its equity raising plans.

6.108 Finally, on request from the Australian Securities Commission, the Authority has liaised with that Commission in respect of issues pertaining to matters under consideration by that body.

Leases

6.109 The Casino Agreement includes a requirement for the licence holder to provide the Authority with prompt notice of any lease that it proposes to enter into for any asset relating to the operation of the casino or any other asset exceeding \$1 million. The agreement also requires the licence holder to ensure that the lessor enters into a supplementary agreement (a tripartite agreement) with the Authority, regulating access to the equipment on terms satisfactory to the Authority.

6.110 In September 1997, the Authority first became aware, through a review of the licence holder's financial statements for the period ended 30 June 1997, that the licence holder was a party to a number of substantial leasing arrangements. On this basis, the Authority requested the licence holder to provide full details of all operating and finance leases as at 30 June 1997.

6.111 The licence holder responded to the Authority's request on 17 September 1997 and provided full details of all existing and proposed operating and finance leases. At their meeting of 29 September 1997, the members of the Authority formally noted that Authority staff were investigating leases that have been entered into by the licence holder to ascertain if there are grounds for disciplinary action against the licence holder on this matter.

6.112 Audit was advised by the Director of Casino Surveillance that investigations have been completed and legal advice has been obtained in relation to the matter. The issue will be shortly referred to the members of the Authority.

.....

Variations sought by licence holder

6.113 The licence holder engages in frequent communications with the Authority on matters involving variations to conditions or other requirements set out in the various agreements underpinning the casino licence.

6.114 At the date of preparation of this Report, the following 2 matters were under consideration by the Authority at the request of the licence holder:

- the previously discussed matter concerning the basis of calculation of the licence holder's debt-to-equity ratio; and
- the possible corporate restructuring of the casino licence holder involving the establishment of a listed property trust.

6.115 Also, at the date of this Report, the Authority was considering a request from the Minister for advice regarding the payment of liquidated damages to the Government relating to the construction of the Lyric Theatre and the Southern Tower of the casino's hotel.

Part 7

Research into the social impact of gambling

OVERVIEW

7.1 The Auditor-General's May 1996 Special Report No. 40 *The Community Support Fund: A significant community asset* commented on the Victorian Casino and Gaming Authority's research activities up to February 1996. Since that time to 31 December 1997, the Authority has completed an additional 15 research projects. Aggregate research expenditure from the Community Support Fund up to that date has totalled \$1.35 million or 0.8 per cent of total expenditure from the Fund (compared with 0.6 per cent to the end of February 1996).

7.2 The Authority has overseen in recent years an extensive range of research activity into the social impact of gambling. It has also consulted periodically with key external bodies to receive input on suggested research topics.

7.3 Since the previous audit report, the Authority has completed the development of a computer system to drive its major long-term baseline database project and has incorporated a range of data sets within the project's database. The Authority views this project as leading edge. It expects it to become increasingly useful for analysis and interpretation of research results, including geographical data.

7.4 Currently, the Authority is evaluating techniques which can be used to incorporate the results from completed research projects within the database. As the database is specifically designed to assist the Authority in answering fundamental gambling-related questions, it will be important for the Authority to progressively update the database from research material already gathered by it and from the findings of future research projects.

7.5 The Authority should be commended for arranging during 1997 a research project which brought together, for analysis and evaluation, the results of all past research projects managed by it to date. The results of this analysis of past research covered the specific impacts of gaming in Victoria and are summarised within this Part. The report on the project also drew attention to a number of issues which need to be addressed by the Authority in order to enhance the effectiveness of its overall research function.

7.6 Late in 1997, the Government determined to retain the cap of 27 500 electronic gaming machines in Victoria until the year 2000. This decision was based principally on the results of the Authority's research into the social impact of gambling.

7.7 Finally, since the announcement of the cap, the Authority has noticed an increase in the number of applications submitted to it for approval to vary, upwards and downwards, the number of licensed gaming machines at venues. These applications, which are submitted by venue operators, emanate principally from commercial decisions reached by the gaming operators based on the revenue performance of venues. The Authority expects this trend to continue over the coming months as negotiations take place between gaming operators and venue operators on machine numbers during the renewal of contractual arrangements involving these 2 parties.

□ **RESPONSE** by Director of Gaming and Betting, Victorian Casino and Gaming Authority

OVERVIEW

7.5 The Authority is pleased to note that audit has commended it for arranging during 1997 a research project which brought together, for analysis and evaluation, the results of all past research managed by it to date.

INTRODUCTION

7.8 The *Gaming Machine Control Act 1991* requires the Authority to fund research into, and advise the Minister on, the social impact of gambling. This research is funded from the Community Support Fund, established under section 138 of the Act.

7.9 The legislation clearly indicates that such research is the first priority for the allocation of moneys from the Community Support Fund.

7.10 The May 1996 Auditor-General's Special Report No. 40 *The Community Support Fund: A significant community asset* included comment on the Authority's responsibility for the management of research into the social impact of gambling. That Report examined research expenditure up to February 1996 and the Authority's strategic approach to the management of this element of its responsibilities.

7.11 The key audit findings identified in the May 1996 Report in respect of the management of research expenditure were as follows:

- *“An aggregate outlay of \$364 200, or just 0.6 per cent of total expenditure from the Fund, on research into the social impact of gambling over the first 3½ years of the gaming industry in the State was not consistent with the legislative significance placed on such research;*
- *“It was only from early 1995, around 2½ years after commencement of gaming operations in the State, that the direction of research into the social impact of gambling began to equate with the major significance placed on such research by the legislation;*
- *“Through its current Baseline Database Project, the Victorian Casino and Gaming Authority is now overseeing highly important research which is directly consistent with the intention of the legislation dealing with research into the social impact of gambling;*
- *“The Authority needs to ensure that the salient features of its research are publicly released as soon as possible after completion of individual projects;*
- *“The improved focus and increasing relevance of the Authority's research activities during 1995 mirrored the setting-up of a specific strategic framework for research; and*
- *“Consideration should be given to legislative change under which responsibility for managing and controlling research into the social consequences of gambling was independent of the regulatory and other statutory functions of the Authority”.*

7.12 As mentioned in Part 3 of this Report, the undertaking of a performance audit of the Authority's regulatory role within the gambling industry provided an opportunity for audit to update material previously reported to the Parliament in relation to research expenditure from the Community Support Fund.

OUTLINE OF ADDITIONAL RESEARCH EXPENDITURE UNDERTAKEN TO 31 DECEMBER 1997

7.13 During the period 1 March 1996 to 31 December 1997, further expenditure amounting to \$989 400 was incurred by the Authority for research purposes. A summary of the additional expenditure is presented in Table 7A.

**TABLE 7A
EXPENDITURE ON RESEARCH INTO THE SOCIAL IMPACT OF GAMBLING
MARCH 1996 TO 31 DECEMBER 1997
(\$)**

<i>Research project</i>	<i>Cost of research</i>
Baseline Database Scoping Project (completed). This project commenced early in 1995 and an internal report was produced later that year. The project was conducted by the Government's Office of Geographic Data Survey. The results of the project formed the basis of the Authority's bid for funding from the Community Support Fund for the development of the Baseline Database Project.	9 900
Assessment of the impact of the introduction of electronic gaming machines on charitable and non-profit organisations (completed). Commenced in April 1995. The focus of this research project was on the impact on the revenue raising capacity of charitable and non-profit organisations of the introduction of electronic gaming machines. The project was undertaken by Praxion Consultants. A report from the consultant on the results of the project was received by the Authority in November 1995 and was publicly released in January 1996. The total cost of this project was \$12 100 (\$7 800 expended to February 1996).	4 300
Second survey of the economic effects of gaming on venues (completed). The emphasis of these surveys, which are undertaken by the Authority's research team, is primarily economic with a focus on the income and employment effects of gaming. Responses to the second survey were received by the Authority up to October 1995 and a report was publicly released in March 1996.	2 500
Research on the positive and negative perceptions of gambling (completed). A report on the results of this research, commenced in December 1995, was released in September 1996. This research involved an examination of the cultural perceptions of both the positive and negative aspects of gambling and opinions as to what constitutes a "problem gambler". This research was undertaken by Hames Sharley, a research consultancy firm. The total cost of this project was \$40 800 (\$16 000 expended to February 1996).	24 800
Fourth survey of community gambling patterns (completed). The aim of this survey, which commenced in August 1996 and was completed in December 1996, was to observe changes in gambling patterns which have occurred following the establishment in June 1994 of the temporary casino in Melbourne and increased levels of licensed gaming venues. The survey was undertaken by external consultants, Market Solutions. A 2 volume report on the results of this survey was released in January 1997.	39 900

TABLE 7A
EXPENDITURE ON RESEARCH INTO THE SOCIAL IMPACT OF GAMBLING
MARCH 1996 TO 31 DECEMBER 1997 - continued
(\$)

<i>Research project</i>	<i>Cost of research</i>
Impact on retail outlets since the expansion of gambling in Victoria (completed). This project commenced in September 1996 and was completed in February 1997. It was designed to provide an insight into the perceived causes of the decline in sales and profits by retail business in Victoria since the introduction of electronic gaming machines and the opening of the temporary casino. The survey was carried out by the National Institute of Economic and Industry Research and a report on the results was released in March 1997.	43 000
Definition and incidence of problem gambling (completed). Commenced in February 1997 and completed in August 1997, this project examined the definition and incidence of problem gambling within the State with the aim of recommending a standard benchmark to define and measure problem gambling. The project was conducted by the Australian Institute for Gambling Research and the results of the project were published in August 1997.	50 600
Effect of gambling on employment in Victoria (completed). The focus of this project, which commenced in December 1996 and was completed in August 1997, was to identify the areas of increased employment due to the expansion of gambling activities in Victoria since July 1992 and those areas where the effect of gambling has been to lessen both employment and employment opportunities. The project was undertaken by the National Institute of Economic and Industry Research and a report was released in August 1997.	39 500
Older people and gambling (completed). Commenced in March 1997 and completed in September 1997, this research examined the nature and extent of gambling patterns of persons 55 years and older in Victoria and assessed any changes in such patterns since the introduction of gaming machines and the casino. The research was undertaken by Roy Morgan Research and the results of the exercise were published in September 1997.	55 000
Profile of a major casino operating in a metropolitan environment (completed). The aims of this study undertaken by the research consultancy firm Hames Sharley, were to obtain a demographic profile of casino patrons, (including changes in patronage following the move of the casino from the temporary to permanent site) and to identify issues that may arise from the findings of the research. The project was completed in October 1997 and the resultant report was released in December 1997	61 100
Social and economic effects of electronic gaming machines on non-metropolitan communities (completed). Two external consultants, Deakin Human Services Australia of Deakin University and the Melbourne Institute of Applied Economic and Social Research at the University of Melbourne, were appointed to undertake this project to examine the impact of electronic gaming machines on the non-metropolitan communities of Geelong, Ballarat, Bendigo and the Latrobe Valley municipalities of Baw Baw and Latrobe. The project commenced in April 1997 and a report was published in December 1997.	137 500
Community facilities resulting from providers of gaming (completed). Consultants Hames Sharley were engaged to examine the provision of community facilities which can be attributed to the providers of gaming in Victoria. The project was aimed at providing insight into what is returned to the community by the providers of gaming in the form of assets, facilities, donations etc. to charitable, sporting and community organisations. It commenced in March 1997 and a report was issued in December 1997.	28 000

TABLE 7A
EXPENDITURE ON RESEARCH INTO THE SOCIAL IMPACT OF GAMBLING
MARCH 1996 TO 31 DECEMBER 1997 - continued
 (\$)

<i>Research project</i>	<i>Cost of research</i>
Impact of electronic gaming machines on small rural communities (completed). This project also involved the consultants Hames Sharley and had the objective of examining both the social and economic impacts of gaming machines on the small rural communities of Balmoral/Coleraine, Camperdown and Sale. The project commenced in May 1997 and a report was released in December 1997.	63 500
Impact of electronic gaming machines on inner city municipalities (completed). A consortium of consultants lead by the Melbourne Institute of Applied Economic and Social Research of the University of Melbourne was engaged to examine the impact of gaming machines and the casino on 4 inner city municipalities, namely, the cities of Maribyrnong, Moonee Valley, Moreland and Darebin. The project commenced in May 1997 and a report was released in December 1997.	107 600
Second survey of the positive and negative perceptions of gambling combined with a fifth survey of community gambling patterns (completed). This project was a continuation of the first survey on the positive and negative perceptions of gambling completed in late 1996 and of the 4 earlier surveys of community gambling patterns. The external consultants Market Solutions, and Associate Professor Mark Dickerson of the Australian Institute for Gambling Research were appointed to undertake this project. A report was published in December 1997.	84 900
Research summary report (completed). A firm of consultants, Arthur Andersen, was appointed in October 1997 to undertake this project which had the aim of critically analysing and evaluating past research projects undertaken by the Authority and drawing conclusions about the social and economic impacts of gambling. The report on this project was released in December 1997 for public information.	74 300
Baseline Database Project (ongoing). The purpose of this major long-term research project is to "... collect and integrate different sources and types of data relating to different aspects of gambling and the different types of social and economic impact to enable the Authority to provide answers to a range of fundamental questions such as who is gambling, why, where the money is coming from and the impact on individuals and the economy". Expenditure to 31 December 1997 has principally related to completion of the computer system development component of this project, i.e. the technological platform for recording and tracking over time the results of individual research projects and costs associated with the purchase of various data sets.	163 000
Total research expenditure from 1 March 1996 to 31 December 1997	989 400
Total research expenditure up to February 1996 as previously reported	364 200
Aggregate research expenditure to 31 December 1997	1 353 600



7.14 As indicated in Table 7A, all individual research projects commenced before 31 December 1997 had been completed by the Authority and work was continuing under the ongoing baseline database project. The results of all completed research projects are summarised by the Authority in its annual report presented to the Parliament (also, the individual research reports can be purchased from Information Victoria, the State Government Information Service).

7.15 The aggregate research expenditure of \$1 353 600 from the Community Support Fund into the social impact of gambling up to 31 December 1997, represents 0.8 per cent of total expenditure from the Fund to that date (compared with 0.6 per cent up to the end of February 1996).

THE AUTHORITY'S STRATEGIC APPROACH TO RESEARCH

7.16 The comments in the Auditor-General's May 1996 Report on the Community Support Fund referred to the fact that, it was only from about early 1995, that the direction of the Authority's research program began to match the significance placed on research within the legislation. The Report also mentioned that some significant decisions taken by the Authority around that time dealing with the establishment of a strategic framework for the management of research had contributed to this improved position. Central to this enhanced approach to research was the development of a research charter under the direction of the Authority's Research Committee.

7.17 The structure of the Authority's annual research programs in recent years has reflected the strategic approach described in the earlier Auditor-General's Report. In this regard, the various research projects mentioned in the earlier Table 7A fall into the following 3 main research categories established by the Authority to guide its research activity:

- broad macro-economic and social impacts of gambling on the Victorian community;
- the community's gambling patterns and perceptions of gambling; and
- micro-economic impacts and social impacts of gambling on 11 community study areas (Bendigo, Ballarat, Geelong, Latrobe Valley, Balmoral/Coleraine, Camperdown, Sale, Maribyrnong, Moonee Valley, Moreland and Darebin).

7.18 It is appropriate for audit to recognise in this Report that the Authority has overseen in recent years an extensive range of research activity into the social impact of gambling.

7.19 In terms of future research topics, the Authority, through its Research Committee, is currently in the process of continuing its consultation with key external bodies on research suggestions and ideas for consideration in the development of the Authority's 1998 research program. It anticipates to be in a position to seek Ministerial approval for the 1998 program during May 1998.

7.20 The key external bodies involved in consultation with the Authority are the Gaming Industry Forum and the Inter-Church Gambling Task Force.

7.21 The Gaming Industry Forum consists of representatives from :

- Australian Hotels Association;
- Australian Football League;
- Licensed Clubs Association of Victoria;
- Returned and Services League Incorporated (the Victorian Branch);
- TABCORP; and
- Tattersall's.

7.22 The Inter-Church Gambling Task Force includes representatives of Catholic, Anglican, Baptist, Uniting, Churches of Christ and Salvation Army denominations.

7.23 The Authority invites each group to submit suggestions for proposed research initiatives and arranges a series of meetings with the groups to discuss the Authority's research program and related issues.

7.24 In addition to the management of individual research projects, the Authority has continued to overview further developmental work associated with its major long-term baseline database project. It has completed the computer system development component, including geographical data, of this project and is progressively incorporating relevant data sets within the database

7.25 The Authority advised audit that, at 31 December 1997, the baseline database contained the following data sets:

- gaming venues and related information;
- net cash balance (i.e. credits played minus credits won) by venue and related gaming machine numbers;
- problem gambling statistics prepared by the Department of Human Services (presented in Statewide format only);
- Census data (1991) with map information;
- population projections;
- employment related information;
- retail expenditure information;
- crime statistics (as available from Victoria Police);
- local government areas;
- Australian Bureau of Statistics boundaries;
- postcode boundaries;
- *Melway* directory references;
- problem gambling service centres;

- State regions as defined by the Department of Human Services;
- labour force regions as used by the Australian Bureau of Statistics; and
- topography (including waterways, carriageways and towns) of the State.

7.26 Currently, the Authority is evaluating techniques which can be used to incorporate within the database the results from completed research projects.

7.27 At the time of the audit examination, the Authority was also exploring avenues for enabling public access to the database via the Internet.

7.28 The Authority informed audit that it expects the baseline database will become increasingly useful for analysis and interpretation of research results and in identifying trends in the various subject matters addressed in the research. It views the database as a leading edge technological tool with substantial potential for assisting its research into the social impact of gambling.

7.29 If the baseline database is to satisfy its basic purpose of assisting the Authority to answer fundamental gambling-related questions, it will be important that the database is progressively updated both from the research material already gathered by the Authority and relevant data as it becomes available to the Authority from future research projects.

USING THE RESULTS OF RESEARCH

7.30 As mentioned above, the focus of the Authority's annual research program in recent years has extended beyond an initial emphasis on the community's behavioural trends and perceptions over time to encompass macro and micro-economic and social impacts of gambling. This extension of focus, coupled with the facilities available under the baseline database, should assist the Authority to gather sufficient empirical information of a socio-economic nature which can be used to objectively measure the social impact of gambling.

7.31 Audit raised with the Authority whether it saw itself as having any direct role in measuring the social consequences of gambling. On this point, the Authority advised audit that, while it does have a direct role in measuring through its research the social consequences of gambling, it is not the function of the Authority to interpret research findings. In this regard, its research findings stand on their own and are viewed as sufficient to inform debate within the community regarding the impact of gambling in the State.



7.32 As part of its 1996-97 research program, the Authority determined to engage a consultant to comprehensively analyse and evaluate the findings of past research projects and to draw conclusions about the social and economic consequences of increased gaming activities in Victoria. The results of this project, published as the *Summary of Findings - 1996-97 Research Program*, were released in December 1997. The project findings, together with the results of other research projects completed in December 1997, formed an important basis for the Government’s consideration of past research conducted by the Authority for the purpose of reaching a decision on whether to maintain the cap on the number of electronic gaming machines, outside the casino.

Key findings from analysis of past research

7.33 The overall conclusions reached by the consultant on the impacts of gaming in Victoria were:

“Victoria has experienced significant and measurable net economic benefits flowing from increased gaming opportunities. At the same time adverse social impacts associated with gaming have been observed.

“Despite uncertainty about their extent and magnitude, adverse social impacts may have been reflected in strong negative community perceptions. However these negative perceptions appear to have been exaggerated when compared with actual social impacts.”

7.34 The specific findings of the consultant on gaming impacts are as presented in Table 7B.

**TABLE 7B
SPECIFIC IMPACTS OF GAMING IN VICTORIA**

<p>Actual impacts</p> <ul style="list-style-type: none"> • There have been measurable economic benefits accompanied by observable net adverse social impacts of indeterminate magnitude and extent. <p>Economic impacts</p> <ul style="list-style-type: none"> • The Victorian economy as a whole has benefited significantly, however, increased gaming has created some micro-economic and household “winners and losers”. • State employment, economic activity and State tax revenue and expenditure have substantially increased. • Some sectors of the economy, particularly those involved in or who supply the gaming industry, have expanded while others have contracted. • There appears to be a redistribution of wealth from players to non-players. <p>Social impacts</p> <ul style="list-style-type: none"> • While some social benefits have resulted, it appears on balance that a net adverse social impact has occurred. • Disadvantaged individuals have been more negatively affected by gaming than other groups. • Families and households, particularly children and partners of problem gamblers, have been significantly adversely affected. • Community groups who own, use or are beneficiaries of gaming venues have benefited while other groups have been negatively impacted. • Some public and community services have experienced increased workloads.

TABLE 7B
SPECIFIC IMPACTS OF GAMING IN VICTORIA - continued

Impacts of community perceptions regarding electronic gaming machines

- Negative community perceptions of gaming have created pressure to reduce and better manage the social impacts and costs of gaming.
- It is the community perception that the social impacts and cost of gaming in Victoria are growing and are too high.
- These perceptions are driven by strong interest groups and the media who exert influence over the community in various ways. This is combined with a lack of public awareness of the benefits of gaming to Victoria.

Source: Research report *Summary of Findings - 1996-97 Research Program, December 1997* prepared for the Victorian Casino and Gaming Authority by an external consultant.

7.35 In presenting the above findings, the consultant drew attention to the following factors which needed to be taken into account in consideration of the identified gaming impacts. These factors were described as follows within the consultant’s report:

Coverage and reliability of research

- *“In terms of the coverage and sufficiency of data to provide guidance on each of the areas of impact, we found that there was high coverage amongst two thirds of the impact areas with limitations in terms of micro-economic effects, social services effects and the drivers of community perceptions.”*
- *“Applying a conclusiveness test to the data we found that just under half of the impact areas were fully satisfied. The strongest areas were in the economic impacts with limitations and gaps in most areas of social impacts and amongst the drivers of community perceptions. It should be recognised that the ability to collect social data is a difficult and often complex task.”*

Varying research methodologies

- *“The approach and methodology adopted by the researchers varied considerably between research reports. This was evident in the differing methods of sample selection, surveying and data collection techniques. These varying approaches affected the data analysed and the conclusions drawn. This was particularly noticeable where qualitative, largely anecdotal data was collected for social research areas.”*

Limited period of data collection

- *“A complication associated with the gaming impacts research is the time period over which the research has been conducted. With the introduction of EGMs [electronic gaming machines] in 1992, only a relatively short time span had elapsed for meaningful data collection purposes. This has resulted in a lack of longitudinal research data, combined with a lack of social data available for gaming researchers.”*
- *“In order to strengthen measurement of the benefits and costs associated with increased gaming opportunities in Victoria the measurement period needs to occur over a 5-10 year period. Greater certainty in the research data can only emerge as extended time series data becomes available.”*

Descriptive research emphasis

- *“The data analysed in this report was primarily of a descriptive nature. While the various research projects included both qualitative and quantitative information requirements, the majority of the findings presented are qualitative with only a limited number of the findings based on quantitative research and analysis. This emphasis arose due to:*
 - *terms of reference which encouraged researchers to undertake descriptive investigations;*
 - *initial research undertaken by the Authority consisted of a number of small scale projects with researchers required to complete these projects within a short time frame in order to meet various deadlines; and*
 - *challenges in building explanatory models when conducting social research.”*

Relevant overseas literature

- *“A further complication in the overall research program and its objectives was the limited guidance available from overseas research. Of the related research conducted overseas, it was generally anecdotal in nature, failed to provide adequate benchmarks and was largely related to the establishments of casinos. In undertaking a comprehensive research program into the social and economic impacts of increased gaming opportunities, Victoria appears to be leading the way.”*

7.36 The Authority should be commended for arranging a research project which brought together, for analysis and evaluation, the results of all research projects into the social impact of gambling managed by it to date.

7.37 In general, while recognising the advanced nature of the Authority’s research relative to international experience, the issues raised by the consultant signal the need for the Authority to complement its research initiatives to date with greater emphasis directed in future research projects to:

- wider coverage of gaming impacts, specifically micro-economic effects, social services effects and the drivers of community perceptions dealing with gaming;
- use of research methodologies which rely on quantitative data rather than anecdotal evidence; and
- generation of greater longitudinal research data covering a more extensive period of time.

7.38 The Authority has indicated to audit that the matters raised by the consultant will be specifically addressed as part of the development of its 1998 research program.

Government decision to maintain cap of 27 500 electronic gaming machines in Victoria's hotels and clubs

7.39 In December 1995, the Government announced that the number of gaming machines permitted to operate in Victoria's hotels and clubs would be restricted to 27 500, pending a comprehensive research study by the Authority. The Government envisaged at the time that sufficient research data to facilitate the reaching of such an important decision should be available within the Authority by late in 1997.

7.40 On 2 December 1997, the Minister announced that the Government had determined to retain the cap of 27 500 electronic gaming machines in Victoria following a period of extensive and independent research commissioned by the Authority into the social and economic effects of gaming. The Minister also mentioned that the cap would remain in place until the year 2000 when the gaming machine limit would be reviewed again.

7.41 The Minister's statement signalled that the year 2000 review would be wide-ranging and will include examination of the method by which gaming machines are allocated and the return to the community from the proceeds of gaming machines.

7.42 The statement by the Minister also acknowledged that the industry had expanded quickly since the introduction of gaming machines in 1992 and, while gaming machines have brought clear benefits to the community, the Government's decision reflects the desire within the community for a period of industry consolidation.

7.43 It can be seen, therefore, that this key government decision to retain for a further period the present limit on the number of gaming machines within the State was based principally on the results of the Authority's research activities to date dealing with the social impact of gambling.

Some outworkings of the Government's decision to retain the gaming machine cap

7.44 As mentioned in Part 2 of this Report, 26 570 machines had been installed in licensed venues as at 31 December 1997. The Authority advised audit that it expected the cap of 27 500 machines would be reached in the near future.

7.45 Charts 7C and 7D show the distribution of machines in venues across the State by local government area as at 31 December 1997.



[Maps are too detailed to be viewed satisfactorily on the screen. Please contact the Office for a photocopy.]

**CHART 7C
DISTRIBUTION OF GAMING MACHINES IN VENUES
ACROSS VICTORIA BY LOCAL GOVERNMENT AREA, AT 31 DECEMBER 1997**

Source: Victorian Casino and Gaming Authority.



[Maps are too detailed to be viewed satisfactorily on the screen. Please contact the Office for a photocopy.]

CHART 7D
**DISTRIBUTION OF GAMING MACHINES IN VENUES WITHIN OR SURROUNDING
THE METROPOLITAN AREA OF MELBOURNE, AT 31 DECEMBER 1997**

Source: Victorian Casino and Gaming Authority.



7.46 The information shown in the 2 charts indicates that, in total:

- 20 135 machines (372 venues) were located within or surrounding the metropolitan area of Melbourne; and
- 6 435 machines (186 venues) were situated in areas beyond Melbourne.

7.47 Some of the matters relevant to the Government’s decision to maintain a cap on the number of machines, in terms of the internal operations of the industry, include:

- the likely impact on commercial decisions by the 2 gaming operators, taken from time-to-time, to relocate machines between venues based on revenue performance (i.e. decisions over and above the installation of new or replacement machines within venues); and
- the official regulatory position adopted by the Authority in relation to movements of machines within the industry.

7.48 In terms of past commercial decisions reached by the gaming operators, the Authority advised audit that, as a result of such decisions, venue operators obtained its approval on an average of 215 occasions during both 1995-96 and 1996-97 for a variation in the number of machines located at their respective venues.

7.49 The commercial decisions of the gaming operators are almost invariably based on revenue performance factors and are consistent with the contractual arrangements in place between gaming operators and venue operators. These arrangements provide for periodic assessments by gaming operators of venue performance and enable the gaming operators to relocate machines, based on performance, whenever deemed necessary.

7.50 The frequency or magnitude of the operators’ decisions on machine movements may well become greater over the coming months. As mentioned in Part 4 of this Report, the majority of licensed venue operators are likely to apply to the Authority for renewal of their licences over the next 18 months. One of the pre-requisite conditions which must be satisfied before the Authority will consider an application for licence renewal is that a contractual agreement exists between a gaming operator and the venue operator. This situation could place gaming operators in a strong negotiating position with certain venue operators during contractual discussions on the future level of machine numbers. This factor, combined with the emergence of the cap on aggregate available machines, could accentuate the commercial imperative underpinning the periodic decisions reached by the gaming operators.



7.51 In regard to the impact of the cap on the official regulatory position of the Authority, the organisation’s responsibilities in relation to movements of machines within the industry encompass:

- the granting of approval for those movements of individual machines between venues which result in a change to the number of machines specified in the venue’s licence; and
- receipt of advice from gaming operators (for subsequent use in its venue inspections) of all machine movements, including replacement machines, which do not result in a change to the number of machines specified in the venue’s licence.

7.52 The ongoing monitoring by the Authority of the movement of individual machines between venues is necessary to provide continuing assurance that the maximum number of machines utilised by a venue operator does not exceed the relevant figure stipulated in the operator’s licence and that only authorised machines are in operation within venues at any point in time.

7.53 In recent months, the Authority has noticed an increase in the number of approval applications submitted to it for variations, upward or downward, in the number of licensed machines at venues. It expects this trend to continue given that the current round of contract renewals is likely to escalate over the coming months and associated negotiations take place between gaming operators and venue operators.

7.54 Apart from the 2 functions mentioned above, the Authority informed audit that it does not see itself as having any further regulatory involvement in commercial decisions reached by the gaming operators dealing with the movement of individual machines between venues.

7.55 In other words, any further involvement in this area would be seen by the Authority as in conflict with its regulatory role within the industry, notwithstanding the commercial reality that, from time-to-time, movement of machines between venues will impact adversely on the financial viability of the less profitable venues. This situation, in turn, can negatively influence the overall economic position of affected localities, particularly those in rural areas of the State.

APPROPRIATENESS OF THE AUTHORITY HAVING RESPONSIBILITY FOR RESEARCH
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7.56 In the Auditor-General’s May 1996 Special Report on the Community Support Fund, audit raised the question as to whether the Authority’s direct involvement in the management of research was totally complementary to its statutory position as regulator of the industry. In that Report, audit concluded that “... *consideration should be given to legislative change under which responsibility for managing and controlling research into the social consequences of gambling was independent of the regulatory and other statutory functions of the Authority*”.



7.57 In the response provided by the Department of Premier and Cabinet to this section of the May 1996 Special Report, the then Secretary of the Department indicated that the audit proposal raised a matter for policy consideration by the Government.

7.58 The Government has since determined that no action is necessary on the matter. Specifically, the response by the Minister for Finance to issues raised in Auditor-General's Reports during 1995-96, which was presented to the Parliament in November 1996, stated that *"There are no current plans for legislative change regarding Government policy on the responsibility of the Victorian Casino and Gaming Authority ... for managing and controlling research into the social consequences of gambling"*.

7.59 Also, more recently in May 1997, the Minister for Gaming advised a hearing of the Parliament's Public Accounts and Estimates Committee that the 2 responsibilities of the Authority, namely, overseeing gambling and researching the effects of gambling, were regarded as consistent.

Part 8

Other matters

OVERVIEW

8.1 In line with the Government's Management Reform Program, the Victorian Casino and Gaming Authority has directed extensive attention to the development of a framework governing its performance management responsibilities. It is currently moving in a positive manner to progressively refine its initial work in this area.

8.2 As recognised by the Authority, there is significant scope to develop measures and targets to periodically evaluate the effectiveness of the organisation in discharging its regulatory responsibilities.

8.3 In the development of effectiveness measures, it will be important for the Authority to establish mechanisms for periodically assessing the level of satisfaction of key stakeholders in the regulatory functions undertaken by the Authority. Such mechanisms are integral to determining external views on how well the Authority has contributed to maintaining the integrity of the State's gambling industry through ensuring that gambling activities are conducted honestly and remain free from criminal influence and exploitation. Members of the public, who have a direct involvement in the industry as patrons and an indirect involvement as taxpayers need to be regarded in this process as principal participants in the industry.

THE AUTHORITY'S APPROACH TO PERFORMANCE MEASUREMENT AND REPORTING

8.4 Performance measurement and reporting are key management functions within a public sector organisation. These functions reflect the responsibility of the organisation to achieve objectives established by the Parliament within legislation or government and to periodically report, as an integral element of its accountability framework, to the Parliament and the community.

8.5 Similar to the position in other Australian States, performance measurement and reporting functions are becoming increasingly significant as governments progressively adopt an output-based approach to resource planning, budgeting and reporting. Within Victoria, this development is proceeding as an important element of the Government's Management Reform Program.

Progress to date in development of a performance management framework

8.6 Like most other public sector entities, the Authority has been directing considerable attention to action designed to improve the quality of its performance measurement process. This action has principally reflected the emerging requirements of the Management Reform Program, particularly in terms of the development of output groups, specific outputs and related performance targets which collectively can be linked to the Government's intended outcomes for each particular area of activity.



8.7 In its 1996-97 Annual Report to the Parliament, the Authority presented information on a range of performance measures which it had established under 8 areas of corporate priority. The majority of these measures were quantitative in nature.

8.8 In recognition of the need for improvement in its overall performance management framework and in line with the Government's move to introduce output budgeting for the 1997-98 budget, the Authority determined to review its output measures. This process resulted in the formulation of 33 outputs with associated performance measures and targets. The results of this exercise were then used as the basis for a consultancy which was completed during August 1997 and was designed to further upgrade the hierarchy of outputs, performance measures and targets in place, and to refine the performance management reporting framework within the organisation.

8.9 Following this consultancy, the Authority adopted a revised performance management reporting framework with effect from 1 July 1997 under which monthly performance reports showing progress against targets in both textual and graphical forms (including trend data) are produced for the information of branch management. In excess of 60 performance measures have now been formulated for use within this framework.

8.10 The members of the Authority receive a quarterly consolidated summary of performance information.

8.11 The new performance management framework will form the basis of reporting by the Authority of performance against targets in its 1997-98 Annual Report to the Parliament.

8.12 The Authority has complemented its initiatives in relation to performance management and reporting with the commissioning of a consultancy arrangement with the Australian Quality Council dealing with benchmarks for the Authority's licensing functions. The purpose of this consultancy exercise, which was in course at the date of audit examination, is to facilitate comparison of the licensing processes of the Authority with similar processes in other organisations with the aim of developing efficiency and timeliness benchmarks.

Performance management strategies for 1998-99

8.13 The above paragraphs indicate that the Authority has directed extensive attention to the development of a framework governing its performance management responsibilities.

8.14 The Government's output management framework requires performance measures developed by public sector agencies to describe the quantity, quality, timeliness and cost of the outputs to be delivered by the agencies. In line with this overall requirement and the standard procedures established by the Department of Treasury and Finance for the Government's 1998-99 output-based budget, the Authority has categorised its output measures under 2 output groups with individual performance measures and targets for each group identified under the 4 headings of quantity, quality, timeliness and cost. Table 8A summarises this position.

TABLE 8A
THE AUTHORITY'S OUTPUT GROUP SUMMARY FOR 1998-99

<i>Performance Measures</i>	<i>Targets 1997-98</i>	<i>Targets 1998-99</i>
Output: Regulation of Gambling		
<i>Quantity:</i>		
Licences	17 700	19 200
Compliance services	8 330	8 360
<i>Quality:</i>		
Licences - processing procedures are completed accurately	95%	95%
Compliance services - ensure preventable incidents and irregularities do not occur in gaming operations	95%	95%
<i>Timeliness:</i>		
Licences - processed within target time	80%	80%
Compliance services - performed within target time	95%	95%
<i>Cost:</i>		
Total output cost	\$12.1m	(a)
Output: Policy Advice		
<i>Quantity:</i>		
Advice on issues	395	505
Legislation	4	4
Research projects	10	6
<i>Quality:</i>		
Advice on issues - provide appropriate and strategic advice, to meet Ministerial and Board satisfaction	90%	90%
Legislation - implement legislation which is effective in achieving desired goals	90%	90%
Research projects - investigate social and economic impact of gambling	-	-
<i>Timeliness:</i>		
Advice on issues - provide advice on a timely basis	90%	90%
Legislation - implement to meet ministerial and government requirements.	90%	90%
Research projects - results released on time	90%	90%
<i>Cost:</i>		
Total output cost	\$2.5m	(a)

(a) The Authority's budget for 1998-99 is currently under consideration by the Treasurer.

8.15 In recognition of the need to direct greater attention to the identification of effectiveness measures of a qualitative nature, the Authority has recently endorsed a further review of its performance management system by its internal auditor. The terms of reference for this review are set out below:

- review and assess the Authority's current 1997-98 performance indicators and proposed 1998-99 indicators in line with the Authority's corporate objectives;
- review and assess procedures and systems supporting the generation of performance indicators, to ensure reported results are accurate and not prone to manipulation;
- consider and recommend the extent to which the Authority members should be involved in performance measures;
- assess the level at which the Authority should reasonably be involved, having regard to the Authority's obligations, statutory and otherwise;



- determine the most important performance measures upon which the Authority should focus; and
- propose suitable outcome measures (such as the fraud survey and the triennial casino licence review).

8.16 Audit supports the overall strategic direction underway within the Authority in relation to the measurement of organisational performance. Clearly, and as recognised by the Authority, there is significant scope for:

- further development of measures and targets which can be used by both the Authority and the Parliament to periodically evaluate the effectiveness of the Authority in the discharge of its regulatory responsibilities; and
- reduction in the number of identified performance measures and targets to a more manageable level.

8.17 In the development of effectiveness measures, it will be important for the Authority to establish mechanisms, e.g. through periodic surveys, to assess the level of satisfaction of key stakeholders in the services provided by it and the overall contribution made to maintaining the integrity of the State's gambling industry through ensuring that gambling activities are conducted honestly and remain free from criminal influence and exploitation. Such mechanisms need to encompass all principal participants in the industry, including members of the public who have a direct involvement as patrons and an indirect involvement as taxpayers.

8.18 In summary, the Authority is moving in a positive manner to progressively refine its initial work in the development of a performance management framework. It recognises that performance measures and targets play a key role in its management improvement process. In time, the Authority's accountability to the Parliament and community will be reinforced through provision of trend information on its efficiency in producing outputs and its effectiveness in achieving intended outcomes.

NATIONAL COMPETITION POLICY REVIEWS OF LEGISLATION

8.19 Under the National Competition Policy, governments and territories are required to review and, where appropriate, reform all legislation and regulation which restricts competition.

8.20 As mentioned in Part 2 of this Report, 9 separate pieces of legislation govern the operations of the State's gambling industry. In recognition of this position, the Department of Treasury and Finance engaged a consultant in March 1997 to prepare an industry-wide framework which could be used as the basis for reviews of individual pieces of gambling legislation as required under the National Competition Policy. The consultant provided a detailed report to the Department in May 1997.

.....

8.21 The Government's timetable for review of legislative restrictions on competition under the National Competition Policy published in June 1996 included the timing of reviews of legislation governing the State's gambling industry. The status of the various legislative reviews, which are co-ordinated by the Legislative Review Steering Committee of the Department of Treasury and Finance, at the date of preparation of this Report was as follows:

- *Casino Control Act 1991*

Initially scheduled to commence in July 1997 and be completed during July 1998, the review is now to be undertaken as a limited internal review.

- *Casino (Management Agreement) Act 1993*

Also scheduled for commencement in July 1997 and completion during July 1998, this review is now to be undertaken as a limited internal review.

- *Club Keno Act 1993*

The review, which was conducted by the Reform Policy Unit of the Department of Treasury and Finance, commenced in January 1997 and was completed in September 1997. The report arising from the review is currently with key industry stakeholders and under consideration by the Government.

- *Gaming and Betting Act 1994*

While earmarked to commence in July 1997 and be completed during June 1998, the review is yet to commence.

- *Gaming Machine Control Act 1991*

Initially scheduled to commence in January 1997 and be completed during December 1997, the review has been postponed until 1999.

- *Lotteries Gaming and Betting Act 1966*

This review was scheduled to commence in January 1997 and be completed during December 1997. The Government has determined that a review is now not necessary as the legislation in relation to minor gaming was recently subject to major amendment which also satisfied the requirements of the National Competition Policy.

- *Racing Act 1958*

Although this review was scheduled to commence in June 1996 and be completed during June 1998, it is yet to commence.



- *Tattersall Consultations Act 1958*

The review, conducted by an external panel comprising a Professor of Economics and a senior partner in a major legal practice, commenced in October 1997 and was completed in January 1998. The report arising from the review is currently under consideration by the Government.

- *TT-Line Gaming Act 1993 (legislation governing gaming on the trans-Tasman shipping line)*

The review of this Act will form part of the review of the *Gaming Machine Control Act 1991*.

8.22 In summary, reviews of 2 of the 9 pieces of legislation relating to the State's gambling industry have been finalised to date. In addition, the reports arising from the 2 completed reviews are currently under consideration by the Government and it has yet to determine whether the reports, or parts thereof, will be publicly released.

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<i>Report number and title</i>	<i>Date issued</i>
12 Alfred Hospital	May 1990
13 State Bank Group - Impact on the Financial Position of the State	May 1990
14 Accommodation Management	October 1990
15 Met Ticket	November 1990
16 Fire Protection	April 1992
17 Integrated Education for Children with Disabilities	May 1992
18 Bayside Development	May 1992
19 Salinity	March 1993
20 National Tennis Centre Trust / Zoological Board of Victoria	April 1993
21 Visiting Medical Officer Arrangements	April 1993
22 Timber Industry Strategy	May 1993
23 Information Technology in the Public Sector	May 1993
24 Open Cut Production in the Latrobe Valley	May 1993
25 Aged Care	September 1993
26 Investment Management	November 1993
27 Management of Heritage Collections	November 1993
28 Legal Aid Commission of Victoria / Office of the Valuer-General	November 1993
29 International Student Programs in Universities	November 1993
30 Grants and Subsidies to Non-Government Organisations	March 1994
31 Purchasing Practices	May 1994
32 A Competent Workforce: Professional Development	November 1994
33 Handle with Care: Dangerous Goods Management	May 1995
34 Managing Parks for Life: The National Parks Service	May 1995
35 Equality in the Workplace: Women in Management	May 1995
36 The changing profile of State education: School reorganisations	October 1995
37 Promoting industry development: Assistance by government	October 1995
38 Privatisation: An audit framework for the future	November 1995
39 Marketing Government Services: Are you being served?	March 1996
40 The Community Support Fund: A significant community asset	May 1996
41 Arts Victoria and the Arts 21 Strategy: Maintaining the State for the Arts	June 1996
42 Protecting Victoria's Children: The role of the Children's Court	Not tabled
43 Protecting Victoria's Children: The role of the Department of Human Services	June 1996
44 Timeliness of Service Delivery: A Customer's Right	October 1996
45 Building Better Cities: A joint government approach to urban development	November 1996
46 Public housing: Responding to a fundamental need / Law Enforcement Assistance program: Better information on crime	November 1996
47 Vocational Education and Training: A Client Perspective	December 1996
48 Major civic projects: Work in progress	April 1997
49 Metropolitan Ambulance Service: Contractual and outsourcing practices	April 1997
50 Metropolitan Ambulance Service: Fulfilling a vital community need	November 1997
51 Victorian Rural Ambulance Services: Fulfilling a vital community need	November 1997
52 Schools of the Future: Valuing accountability	December 1997
53 Victoria's multi-agency approach to emergency services: A focus on public safety	December 1997



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