

# *Crown Melbourne*

## Risk management process assessment

23 May 2018

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## ***Introduction***

The Victorian Commission for Gambling and Liquor Regulation (the VCGLR) is undertaking the Sixth Review of the casino operator and licence (the Review) in accordance with section 25 of the Casino Control Act 1991 (the Act), and for that purpose has established an internal project team (Casino Review Team).

The Review requires the VCGLR to form a view as to the ongoing suitability of Crown Melbourne Limited (CML), the casino operator, with governance and risk being relevant factors.

The VCGLR believes that CML has a well-documented Enterprise Risk Management (ERM) framework for the:

- ongoing identification, evaluation and management of Crown Melbourne's key and emerging risk exposures
- preparation and approval of Crown Melbourne's Risk Management Plan based on the model outlined in AS/NZS ISO 31000:2009 Risk Management and Guidelines, and
- reporting of Risk Management activities to the executive team, Audit Committee and Crown Melbourne Board.

The VCGLR has now engaged PwC to provide it with a report advising of any material matters of a risk systems nature the VCGLR should take into account in determining whether the casino operator is still a suitable person to continue to hold the licence in accordance with section 25 of the Act.

## ***Executive Summary***

We have interviewed the CML Head of Risk and a range of executives and management, to understand how risks are identified, how risk management is embedded across CML and how management respond to key issues. We have found that the core fundamentals of a risk management framework are in place and applied across the business.

The following are the key elements of CML's risk management framework as articulated by management:

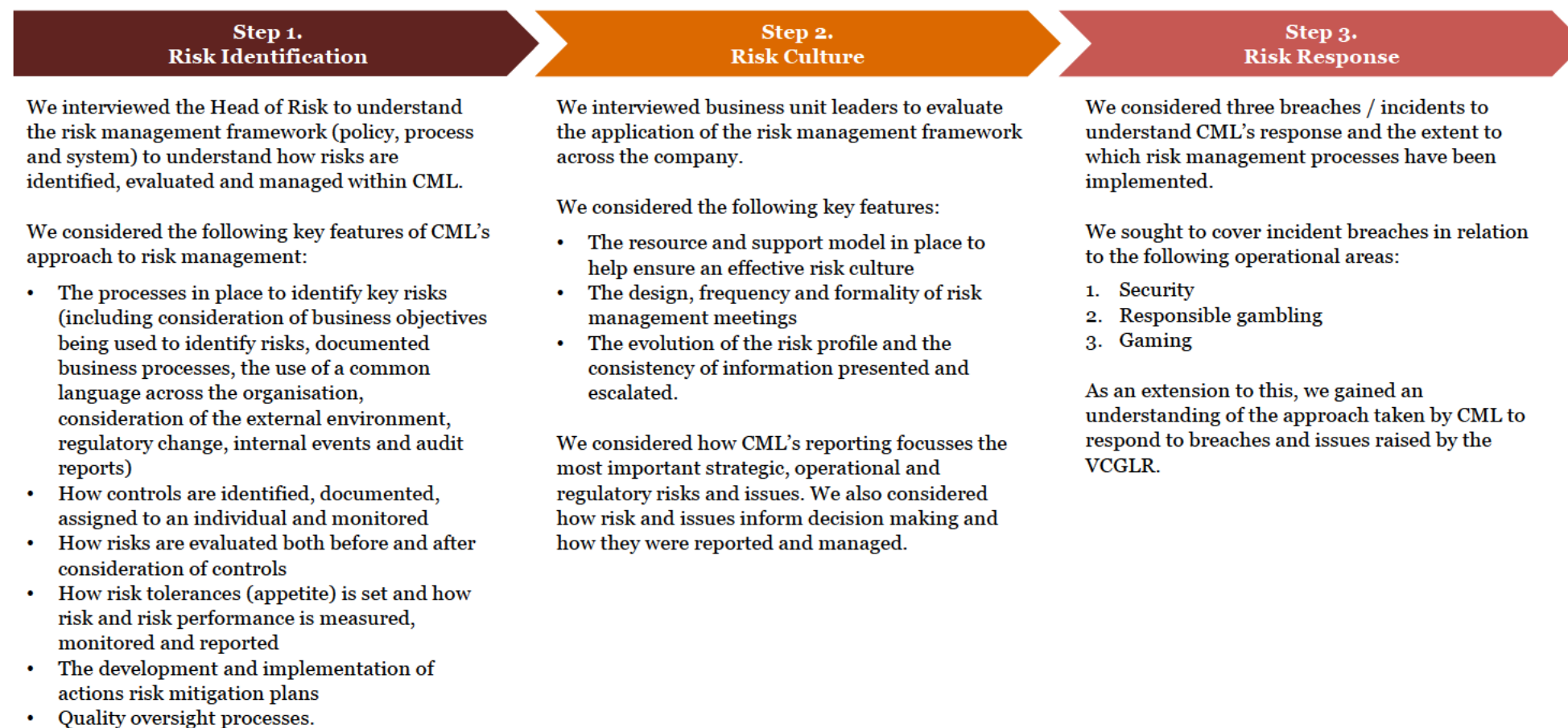
- Both regular interaction and formal engagement between Head of Risk and the business, and systems and processes to identify, evaluate and report on key risks within CML.
- A culture whereby risk management was seen by executives and management as being embedded in the daily business and operational practices.
- Risks, events and issues are receiving visibility by executives and management, with a clear focus on regulatory compliance, protecting patrons, staff and the Crown brand.
- Reporting of consistent risk information, data and key issues throughout the business up to the executives, relevant governance committees and the Board.
- While control standards, ownership and escalation requirements are not always clearly documented, it is a relatively flat structure and we evidenced management decisions and escalation based on experience in response to the events and issues we examined.
- Risk profile content, key issues reported and focus areas have evolved in line with our general expectations, e.g. focus on Cyber, Terrorism and Responsible Gambling.

There are areas of enhancement and maturity possible relative to best practice, which the Head of Risk is currently evaluating, subject to ensuring additional administrative burden will not undermine processes which are seen to be currently working well from a practical application perspective. We recommend one prioritised improvement area being establishing a risk appetite for material risks and reporting risk performance measures relative to appetite on a regular basis.

# Our Approach

The work consisted of 3 key steps to determine:

1. How key and emerging risks are identified, evaluated and managed (CML Risk Registers), including risks related to responsible gambling
2. The extent to which risk identification, evaluation and management is embedded and active across all operations of the Melbourne Casino
3. How effectively and timely Crown responds to key operational and regulatory risks, and informs its decision making processes, and how CML responds to the outcomes of the VCGLR's Compliance audits (based on a sample of VCGLR Compliance audits).



# 1. Risk Identification

*How key and emerging risks are identified, evaluated and managed (CML Risk Registers), including risks related to responsible gambling*

## Objective

To understand the risk management framework (policy, process and system) to understand how risks are identified, evaluated and managed within CML.

## Approach

We interviewed the Head of Risk and senior executives over the course of three days to understand the risk management framework (policy, process and system) to understand how risks are identified, evaluated and managed within CML.

We considered the following key features:

- The processes in place to identify key risks (including consideration of business objectives being used to identify risks, documented business processes, the use of a common language across the organisation, consideration of the external environment, regulatory change, internal events and audit reports)
- How controls are identified, documented assigned to an individual and monitored
- How risks are evaluated both before and after consideration of controls
- How risk tolerances (appetite) is set and how risk and risk performance is measured, monitored and reported
- The development and implementation of actions and risk mitigation plans
- Quality oversight processes.

We reviewed the CML Risk register structure, consolidated corporate risk profile, risk management mitigation plan and risk management meeting minutes.

We also considered in further detail how Responsible Gambling risks were considered and monitored.

## Results & Perspectives

Executives and management interviewed demonstrated that they individually and collectively see themselves as the owner of key business risks, controls and risk assessment. Risk identification, evaluation and documentation is considered as emerging challenges and issues arise.

We observed a good awareness of risk management across those executives and managers that we interviewed and interacted with.

Formal processes are in place to annually update business unit risk profiles and the overarching corporate risk profile. These processes involve formal, documented meetings between the Risk team, business unit executives and management.

We are advised the profile is generally stable and events and incidents would precipitate a review of the risk profile. We were able to see this in working practice from the recent security incident – refer section 3 below.

Risk profiles for each of the business units were well documented, of similar quality and standards and up to date.

We specifically considered and discussed Responsible Gaming. The associated risks are assessed by CML as being rated “significant” and are prominent in both business unit and corporate risk profiles. In conjunction with well established operational controls, we also evidenced that this risk is subject to regular separate executive governance and oversight through executive committees, management reporting, standard operating procedures and staff training.

### Summary

Overall we found the core fundamentals of an adequate risk management framework are established and applied, incorporating regular engagement and adequate systems and processes to identify, evaluate and report on risks facing CML.

## 2. Risk Culture

*The extent to which risk identification, evaluation and management is embedded and active across all operations of the Melbourne Casino*

Objectives	Approach	Results & Perspectives
<p>To consider the application of the risk management framework across the company.</p>	<p>We interviewed the following people to get insight into their understanding and interaction with Risk Management</p> <ul style="list-style-type: none"> <li>• Anne Siegers (Head of Risk)</li> <li>• Xavier Walsh (Chief Operating Officer)</li> <li>• Joshua Preston (Chief Legal Officer)</li> <li>• Lindsay Maloney (Head of Security)</li> <li>• Craig Preston (Group GM IT Governance)</li> <li>• Sonia Bauer (GM Responsible Gaming)</li> <li>• Michelle Fielding (Group GM Regulatory &amp; Compliance)</li> </ul> <p>We used three live topics and issues to evaluate risk response with Lindsay, Joshua and Sonia in relation to Security, the VCGLR Issue response on Gaming (Junket issue) and Responsible Gaming. (Refer Section 3) .</p> <p>We also discussed and evidenced the reporting on the evaluation and maturity of the Cyber Risk Management evaluation and risk management strategy.</p>	<p>CML made available to PwC a suite of documentation which evidenced its approach to risk management, the interaction between Risk and the business and the reporting of risk throughout the business. The documentation provided included:</p> <ul style="list-style-type: none"> <li>• CML's Risk Management Framework</li> <li>• Business unit risk registers and the overarching CML risk profile</li> <li>• Meeting minutes demonstrating the business' involvement in the development, and updating of risk registers</li> <li>• Reporting of Risk Profiles and Risk Management mitigation plans to the Risk Committee and Board Audit Committee.</li> <li>• Integration of Internal Audits work to focus on key risks as overseen by the Board Audit Committee.</li> </ul> <p>Executives and management interviewed demonstrated a clear risk awareness and knowledge of risk management fundamentals.</p> <p>The business unit risk profiles provided evidenced a consistency of approach and quality across risk profiles and risk documentation.</p> <p>Management was open to PwC visiting any part of the casino to meet key people, discuss operations and to discuss how risks are identified and mitigated on a daily basis as well as reflecting how these flow through to risk and governance reporting.</p> <p>It was apparent that there is ongoing interaction between the GM Risk and the business owners with contemplation of the Risk Assessment process within the Risk Management Framework.</p> <p><b>Summary</b></p> <p>We observed a culture whereby risk management was seen by executives and management as being embedded in to the daily business and operational.</p> <p>Reporting was available which provided evidence that risk information was communicated throughout the business up to the Risk Management Committee and Board.</p>



### 3. Risk Response - Security

*How effectively and timely Crown responds to key operational and regulatory risks, and informs its decision making processes.*

Objectives	Approach	Results & Perspectives
<p>To understand how the Crown Melbourne Executive Management Risk Reporting ensured that the most important emerging strategic, operational and regulatory risks and issues were being identified to inform decision making and how these were reported and managed.</p>	<p>We identified through consultation with the VCGLR and CML management three key events/breaches to understand Crown Melbourne's response to assist PwC to consider the extent to which risk management processes have been implemented.</p> <p>The events were in relation to</p> <ol style="list-style-type: none"> <li>1. Security</li> <li>2. Responsible gambling</li> <li>3. Gaming</li> </ol> <p>We interviewed Anne Siegers and Lindsay Maloney in relation to how security risks are identified and managed, and to identify a recent issue to understand and evidence how this issue was managed.</p>	<p><b>Security</b></p> <p>CML demonstrated that it had identified and documented on its risk register a suite of risks relating to security (including terrorism) and that it has established processes and controls to reduce the likelihood and impact of such risks.</p> <p>There was a highly public and serious incident at Crown Melbourne on 27 February 2018 involving a man claiming to be a terrorist. The Heads of Risk and Security provided a suite of relevant documentation that demonstrated the way in which Crown managed this incident at the time and the Business/Risk/Senior Executive oversight response.</p> <p>Documentation provided included:</p> <ul style="list-style-type: none"> <li>• Incident Timeline (Surveillance)</li> <li>• Serious Incident Report: Security Services</li> <li>• Formal Debrief notes with the police</li> <li>• Evidence of a meeting of the executive including attendance from Risk.</li> <li>• Review of Crown Melbourne Emergency Management Plan</li> <li>• Initial Security Risk Assessment that will go to the Board that considers the balance of a potential strategic response, which would also create an additional risk</li> </ul> <p><b>Summary</b></p> <p>CML's response to the incident was timely, involved the input and engagement of Risk and interfaces with the Risk Framework to support decision making about possible changes to processes and controls.</p> <p>Board, executive and management reporting provided demonstrated that the security incident on 27 February 2018 had visibility throughout the organisation, including visibility of the Board. Evidence provided indicated also that the Head of Risk is working closely with the business, and utilising the Risk Management Framework, to evaluate possible tactical and strategic responses to mitigate this risk which will subject to oversight and decision from the Board.</p>



### 3. Risk Response - Responsible gambling

*How effectively and timely Crown responds to key operational and regulatory risks, and informs its decision making processes*

Objectives	Approach	Results & Perspectives
<p>To understand how the Crown Melbourne Executive Management Risk Reporting ensured that the most important emerging strategic, operational and regulatory risks and issues were being identified to inform decision making and how these were reported and managed</p>	<p>We identified through consultation with the VCGLR and CML management three key events/breaches to understand Crown Melbourne's response to assist PwC to consider the extent to which risk management processes have been implemented.</p> <p>The events were in relation to</p> <ol style="list-style-type: none"> <li>1. Security</li> <li>2. <b>Responsible gambling</b></li> <li>3. Gaming</li> </ol> <p>We interviewed Sonia Bauer and Anne Siegers in relation to Responsible Gaming.</p> <p>We examined:</p> <ul style="list-style-type: none"> <li>• The Responsible Gambling Code of Conduct</li> <li>• The Crown Melbourne Responsible Gaming Charter (that outlines the key strategies)</li> <li>• The Review of compliance with the Code of Conduct (provided to VCGLR)</li> <li>• The most recent audit report (September 2016) on Responsible Service of Gaming which highlighted only staff training as an area for improvement, which we understand has significantly improved and is reported on to executives.</li> <li>• Responsible Gaming code of conduct Internal Control Statement compliance</li> <li>• Reporting to the Responsible Gaming Committee</li> </ul>	<p><b>Responsible gambling</b></p> <p>We sought to identify a breach, incident or risk event in relation to Responsible Gaming. The subject matter is complex and we were advised by management that there has been no such breach or issue or significance identified by either Crown or the VCGLR.</p> <p>We discussed the level of material in place to alert customers of responsible game risks and the support available to those customers who are displaying visible signs of addiction.</p> <p>We discussed the staffing in place (including psychologists), general training and staff protocols to identify and support patrons who are showing observable signs of gambling issues. We also discussed progress made with facial recognition to help proactively identify customers who have breached self exclusion.</p> <p>We sought to evidence Responsible Gaming in operation. We were provided with the daily Responsible Gaming report (redacted for privacy) which demonstrated the range of measures for a given day in operation and saw on screen examples of patrons who have been subject to a range of support mechanisms.</p> <p>We examined the Responsible Gaming Committee meeting pack and minutes from previous meeting. We are advised that the Responsible Gaming Committee sits every 2 months and overviews the suite of relevant information that gives them comfort that key Responsible Gaming initiatives are operating (including an overview of key management information in relation to initiatives and habits)</p> <p>We discussed recent court case in relation to the Dolphin Machines which was recently found in Crowns favour. We understand (and viewed on screen regarding this specific issue) that such material risks and issues are reported to, and discussed up through the Crown Governance structure by Risk.</p> <p><b>Summary</b></p> <p>CML has identified Responsible Gaming as a key risk. It has therefore put in place training for all staff (irrespective of job role), processes and controls to assist it to minimise the harm gambling causes to its patrons. There is regular reporting and monitoring of responsible gambling initiatives and management information through to the Responsible Gaming committee. While challenging and complex, there may be an opportunity to better use data, in conjunction with risk appetite, to further inform how well this risk is being managed.</p>

### 3. Risk Response - Gaming

*How effectively and timely Crown responds to key operational and regulatory risks, and informs its decision making processes*

Objectives	Approach	Results & Perspectives
<p>To understand how the Crown Melbourne Executive Management Risk Reporting ensured that the most important emerging strategic, operational and regulatory risks and issues were being identified to inform decision making and how these were reported and managed</p>	<p>We identified through consultation with the VCGLR and CML management three key events/breaches to understand Crown Melbourne's response to assist PwC to consider the extent to which risk management processes have been implemented.</p> <p>The events were in relation to</p> <ol style="list-style-type: none"> <li>1. Security</li> <li>2. Responsible gambling</li> <li>3. <b>Gaming</b></li> </ol> <p>We discussed Gaming and the VGCLR issues with Michelle Fielding and Anne Siegers.</p> <p>We reviewed recent correspondence from the VGCLR in relation to issues covering a Junket issue and gaming machine screen configuration issue, and how management had responded to these issues.</p>	<p><b>Gaming</b></p> <p>We sought to gain an understanding of the ongoing response and culture within the business in relation to issues flagged to Crown throughout the year from the VCGLR observations and issues. We evidenced that where a recent issue had been flagged in relation to screen configuration (i.e. due to a screen shift there was no visible clock on screen that may help ensure a person was aware of how long they had been gambling), that Crown Compliance and technology acted to remediate the issue as soon as practicable and additional monitoring implemented to check that no other similar issues existed at that time.</p> <p>CML advised that there was an in depth compliance audit carried out by the VGCLR during 2016 which, in December 2016, reported 21 breaches of casino act rules and regulations. CML management advised that the final report identified 13 breaches covering:</p> <ul style="list-style-type: none"> <li>• Six examples of illegible handwriting</li> <li>• Five examples where players named were not properly recorded on the junket agreement</li> <li>• One example where there was no recording of front money on the documentation</li> <li>• One example where Crown failed to notify of a new junket operator.</li> </ul> <p>The VCGLR sees the issues reported in its audit of Crown's Junket Player Programs as being significant as failures identified by the audit included not naming the junket program players in multiple junket agreements, one instance of not documenting front money, not legibly recording the authorised Crown representative in junket agreements and one instance where a new non-resident junket operator was not notified to the VCGLR. The audit findings resulted in the VCGLR fining Crown \$150,000 on 6 December 2017.</p>

### ***3. Risk Response – Gaming (continued)***

#### **Results & Perspectives (continued)**

Management stated that it has taken the identified issues seriously, and has undertaken a specially convened internal audit of additional samples of documentation which as resulted in a key process improvement to remove reliance on hand-writing

Management advised that as an outcome of the internal audit conducted that there was additional staff training and communications and staff disciplinary implications where practicable.

#### **Summary**

CML provided evidence which demonstrated that for the incidents examined it had put in place processes and controls to respond to the concerns of the VCGLR.

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## ***Appendix A – Stakeholders interviewed***

*We interviewed the following Crown stakeholders over the period 18 – 20 April 2018.*

<b>Name</b>	<b>Role</b>
Anne Siegers	Head of Risk
Xavier Walsh	Chief Risk Officer
Joshua Preston	Chief Legal Officer
Lindsay Maloney	Head of Security
Craig Preston	Group GM IT Governance
Sonia Bauer	GM Responsible Gaming
Michelle Fielding	Group GM Regulatory & Compliance

## ***Appendix B – Documentation examined***

***Our consideration of Crown's risk management processes involved examination of the following documents provided. These documents are seen by Crown as being commercially sensitive and were not retained by PwC.***

- Crown Melbourne Risk Management Framework overview of roles and responsibilities, presented by governance structure levels
- Organisational structure: Business Operational Team Melbourne and Risk Management reporting structure
- Governance and reporting overview, including an introduction of the 3 lines of defence
- Extract of July 2017 Crown Melbourne Audit Committee papers (CMAC): Audit Committee Charter
- Extract of July 2017 CMAC papers: Independence of the Internal Audit Department
- Minutes from F18 business unit discussions that provide input into the business unit risk profile updates.
- Example Risk maps and risk profile updates for each of the five business areas
- Corporate Risk Profile (current)
- Corporate risk map and risk definitions (current)
- Risk Management Committee (RMC) minutes: July and November 2017
- Corporate risk profile paper for the RMC
- F18 Risk Management Plan for approval by the RMC and distribution to the CMAC
- Extract of July 2017 CMAC papers: internal audit and risk section
- Extract of November 2017 CMAC papers: internal audit and risk section
- VCGLR letter dated 6 December 2017: Junket Player Program audit
- Internal Memo: Compliance department to relevant departments and department heads in relation to compliance requirements
- Internal audit report: Junket and Premium Players Processes Audit
- Minutes of meeting with relevant department heads in relation to Audit and compliance findings
- Examples of operational forms prior to change and post change in format (introducing drop down names and license IDs for readability purposes.)
- Extracts of business unit meeting minutes during which risk of terrorism was discussed resulting in changes to BU risk profiles
- RMC paper making reference to relevant changes and highlighting escalation of terrorism risk at corporate risk profile level
- July 2016 CMAC paper presenting updated Corporate risk profile to reflect terrorism risk
- Cyber and AML
- Extracts of business unit meeting minutes during which Cyber and Ant Money Laundering risks were discussed
- RMC paper making reference to relevant changes and highlighting escalation at corporate risk profile level
- December 2017 CMAC paper presenting updated Corporate risk profile to reflect terrorism risk
- Operational documents highlighting processes implemented to assist management to manage Responsible Service of Gambling risks

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