



Regulating Gambling and Liquor



VICTORIA

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Auditor-General

Regulating Gambling and Liquor

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The Hon Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Telmo Languiller MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report
Regulating Gambling and Liquor.

Yours faithfully



Andrew Greaves
Auditor-General

8 February 2017

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Audit overview

Abuse of alcohol and problem gambling can cause significant harm for individuals, families and the community. Because of this, the government regulates both industries. It controls:

- who can sell alcohol and gambling products
- where people can buy and consume alcohol or gamble
- what alcohol and gambling products may be sold
- how and when alcohol and gambling products may be available.

In general, industry participants must be licensed, and the government's compliance-checking activities seek to ensure that licensees comply with the legislation and conditions of their licences.

The government established the Victorian Commission for Gambling and Liquor Regulation (VCGLR) in 2012 by bringing together the functions and resources of two predecessor regulators—the Victorian Commission for Gambling Regulation (VCGR) and Responsible Alcohol Victoria (RAV). The VCGLR is headed by the chair and commissioners, known as the Commission.

The government's aim was to create a modern world-class regulator—one that would apply an integrated and risk-based approach to regulation—in order to deliver more efficient and effective regulation, and compliance monitoring and enforcement, with a focus on minimising harm.

VCGLR has faced significant challenges since its establishment. Its creation coincided with significant changes in the gambling industry, including Victoria's move to allow venue operators to own and operate electronic gaming machines. This ended the previous duopoly arrangement where two companies owned all electronic gaming machines in Victoria outside the Melbourne casino. VCGLR's budget and staff were reduced by around 30 per cent in the four years from 2012, compared to the resources of RAV and VCGR, which had a combined budget of \$41.3 million and staff of around 287.

VCGLR has also lost experience and expertise, with 24 experienced officers departing on redundancy packages offered as part of the Sustainable Government Initiative in 2012, followed by a further 22 redundancies up to mid-2014.

VCGLR inherited staff engagement and cultural challenges, including:

- the second lowest staff satisfaction levels in the Victorian public sector, as measured by the 2012 'People Matter' survey
- 12 industrial and employee relations matters carried over from RAV, including performance management cases and a serious bullying case
- dissent between compliance inspectors and management at the time of VCGLR's establishment over the decision to bring in inspectors from RAV and VCGR at different pay levels and working conditions.

It also inherited information technology (IT) issues relating to the absence of a single IT platform across its liquor and gambling activities, which was not addressed until October 2015. An integrated IT system was originally intended to incorporate around 30 legacy IT systems into a single solution by mid-2014, but it was launched, after significant delays, in December 2016.

In May 2015, the Minister for Consumer Affairs, Gaming and Liquor Regulation outlined the government's significant concerns about VCGLR's ability to engender community confidence, and requested that the new chair of VCGLR review its capability and performance.

The chair reported to the minister in November 2015 that although VCGLR aspired to be a risk-based regulator, this ambition was either underdeveloped or unrealised in a number of areas of operation, particularly its compliance activities. The chairperson found there was a solid foundation to build on, but also found that VCGLR needed to address the following significant challenges as a matter of priority:

- a lack of leadership stemming from delays in filling the chief executive officer role and an unstable management team
- a critical need to develop a positive and unified workplace culture
- inadequate and poorly implemented information and other systems and procedures
- a lack of integration of gambling and liquor functions, particularly in the compliance division
- the need for greater focus on compliance and enforcement activities relating to:
 - regional Victoria
 - the supply of alcohol to minors and intoxicated people
 - access of minors and intoxicated people to gambling activities
- pressures throughout the organisation due to either resource constraints or possible misalignment of resources.

The chair recommended a number of measures to address these issues:

- building VCGLR's leadership capacity
- addressing serious systemic gaps in the compliance division
- seeking additional budget to establish a presence in regional Victoria
- reviewing and updating people and culture policies and practices
- working better with other regulatory and enforcement bodies such as Victoria Police.

VCGLR has since acted to improve organisational culture and staff engagement, and there has been greater stability in the management team since mid 2015.

The minister's statement of expectations for VCGLR for 2016–17 indicated that it should:

- develop regional hubs to support compliance efforts in regional Victoria
- review standard liquor licence conditions to determine if they are effective and appropriate for minimising harm
- further streamline licensing processes, including those that impose unnecessary duplication on industry
- improve its service and determination times by enabling online licence applications for both temporary and permanent licences
- make the Commission's published decisions available in a form that is modern and more readily searchable
- deliver a modern inspection and compliance IT system to better support risk-based regulation
- refine its risk-based approach to assessing and determining licence applications
- refine its risk-based approach to compliance activities to appropriately target the supply of alcohol and gaming to minors and the supply of alcohol to intoxicated people
- implement a consistent ongoing formal training program to support compliance inspectors to undertake their role effectively
- develop performance indicators aligned with VCGLR's strategic priorities, particularly harm minimisation, evidence-based decision-making and co-regulatory activities.

VCGLR took action during 2015 and 2016 to address the issues and recommendations arising from the chair's review and the minister's statement of expectations. This included undertaking additional assessments of priority activities and seeking additional funding from government to establish a regional presence.

Against this background, in this audit we assessed VCGLR's licensing and compliance functions, its performance measurement and reporting, and its collaboration with other agencies. We also followed up on our recommendations from two previous audits, *Taking Action on Problem Gambling* in 2010 and *Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm* in 2012.

Conclusion

VCGLR's plans and actions to further develop its risk-based approaches to licensing and compliance are largely sound, and its recent focused attention to improving the way it manages, develops and deploys its regulatory staff, particularly compliance inspectors, is encouraging.

However, these actions are not yet complete and the scale of required reform is significant, meaning that much work remains for VCGLR to become a fully effective regulator.

Ongoing challenges in merging the people, systems and cultures from VCGLR's two predecessor regulatory bodies, along with the lack of a sufficiently risk-based approach, have precluded VCGLR from fully realising the benefits expected when creating a single regulator.

These significant shortcomings continue to reduce assurance that VCGLR's efforts are adequate to protect the Victorian community from the harms associated with the misuse and abuse of liquor and gambling.

To this end, VCGLR also needs to improve the way it measures and publicly reports on its performance to provide genuine insight into its effectiveness as a regulator in minimising harm, and in ensuring the integrity of the liquor and gambling industries.

Findings

Licensing

VCGLR has made limited progress over the past two years in reorganising the licensing division, training staff and providing improved guidance material to start moving towards a more risk-based approach to licensing activities.

Much work remains and weaknesses in VCGLR's approach mean it still cannot demonstrate that it properly examines and assesses all licensing applications in line with legislative provisions before approving them. These weaknesses are more significant for liquor applications and arise because VCGLR largely accepts the information provided to it by these applicants at face value. It relies heavily on both the honesty of applicants and the diligence of Victoria Police and potential objectors to raise issues about the suitability of applicants, amenity issues or social harms associated with these applications.

The provisions of the *Liquor Control Reform Act 1998* provide some basis for VCGLR to rely on the information submitted by applicants and the absence of objections when deciding on licence applications. However, this may not be sufficient to meet the legislative intent for VCGLR to minimise harm and prevent criminal influence and exploitation. We identified instances where VCGLR granted licences without fully identifying and assessing the suitability of applicants and their associates, including cases where applicants had not provided complete information on their associates and past criminal convictions.

VCGLR has recently acted to address weaknesses in its quality assurance for licensing processes and needs to continue its work developing a more robust, risk-based approach to scrutinising applicants.

Compliance

VCGLR has not adequately monitored compliance with gambling and liquor legislation.

Compliance activities are not sufficiently risk based because VCGLR has focused on meeting a target number of inspections, rather than directing inspections to where noncompliance has a high risk or high potential for harm. This approach to compliance does not support the legislative objectives for harm minimisation.

VCGLR has not adequately managed its compliance monitoring functions due to longstanding serious and systemic weaknesses in the design and operation of its compliance activities. Key issues include:

- inflexible allocation of resources to compliance activities based on factors other than risk
- a management approach and culture focused on meeting quotas, which encourage superficial inspection activities rather than activities to address harms
- inadequate guidance and training for inspectors
- unreliable data about liquor and gambling inspections.

VCGLR has identified and started to address many of these issues since late 2015, and its proposed actions to better organise and train its inspectors and target its activities based on relevant data and indicators of risk are reasonable. However, these actions are not yet sufficiently developed for us to assess whether they will improve the effectiveness of VCGLR's compliance activities in minimising harm and protecting the community.

Casino supervision

VCGLR is responsible for regulating and monitoring the Melbourne casino. It has acted to address the lack of a coherent organisation-wide approach to casino supervision across its licensing and compliance functions. However, its compliance division has not applied a level of focus on the casino that reflects its status and risk as the largest gaming venue in the state and its approach has lacked continuity.

VCGLR's predecessor operated with a team solely focused on supervising casino operations. Instead, VCGLR rotates all compliance inspector teams through the casino, but it has not supported them with adequate training, guidance and consistent management oversight.

As a result, VCGLR has not paid sufficient attention to key areas of risk in the casino's operations, such as detection of people excluded by Victoria Police, responsible gambling and money laundering. VCGLR has recognised these issues and has taken action to address this loss of expertise. It is now moving to establish a dedicated casino team.

Reporting on performance

VCGLR's publicly reported performance information provides limited insight into its effectiveness in meeting legislative objectives relating to harm minimisation. VCGLR largely measures and publicly reports on activity rather than its effectiveness or impact. It includes some information in its annual report on actions relating to its effectiveness. However, its emphasis on counting activities such as the number of compliance inspections has encouraged operational behaviour that focuses on matters with little relevance to, or impact on, harm minimisation.

VCGLR has improved its internally reported performance measures by introducing indicators that seek to measure the impact and effectiveness of its regulatory activities. It is now recording the proportion of venues with a previous breach found to be in breach on a subsequent inspection, and changes in the number of specific breaches following a targeted education campaign.

Reporting publicly on the results of these measures would provide more valuable and meaningful insight to Parliament and the community on the impact of VCGLR's activities, rather than the measures it currently reports on.

Relationships between the agencies

VCGLR and the Department of Justice and Regulation (the department) have worked cooperatively to implement new policies for both the gambling and liquor industries, including the collection of wholesale alcohol sales data. VCGLR also has formal and informal relationships with Victoria Police that have led to effective information sharing, however there is scope to broaden this relationship to better coordinate enforcement activities.

VCGLR has also taken steps to strengthen its engagement with a range of other regulators and agencies including VicRoads, AUSTRAC, local government, and agencies involved in the investigation of organised crime.

Implementing past VAGO recommendations

VCGLR, the department and Victoria Police have made progress in addressing the recommendations made in our two previous audits.

There is still work to be done by all three agencies, including development of a joint enforcement strategy for VCGLR and Victoria Police. The department has developed an evaluation framework for alcohol-related strategies but has not yet used it to assess strategies such as the overall success of the freeze on issuing late-night liquor licences in some inner-city municipalities.

Recommendations

We recommend that the Victorian Commission for Gambling and Liquor Regulation:

1. amend its liquor licensing process to:
 - require applicants to provide evidence to show that all directors and associates have been disclosed
 - document its assessments against all relevant legislative considerations when determining applications, including applicant suitability, amenity issues, and risks of misuse and abuse of alcohol (see Sections 2.3.1 and 2.3.2)
2. undertake ongoing checks of liquor licensees to ensure company changes have been disclosed, in line with the *Liquor Control Reform Act 1998* (see Section 2.3.1)
3. improve its guidance on assessment of licence applications, particularly for uncontested applications, and ensure licensing officers use this guidance (see Section 2.5.1)
4. complete implementation of the licensing risk-based model by developing and implementing:
 - a set of risk indicators
 - checklists containing triggers for the escalation of applications within or between teams
 - a risk matrix to be considered through the determination phase (see Section 2.2.1)
5. develop principles or guidance for assessing net detriment and report transparently against them in decisions on applications for electronic gaming machines (see Section 2.4.2)
6. broaden its management reporting on licensing activities beyond the speed of processing applications to include quality indicators (see Section 2.6.2)
7. conduct robust data integrity checks across all divisions, particularly when relying on data for reporting purposes (see Section 3.2.3)
8. continue to revise the risk-based approach to compliance to ensure better targeting of compliance activities (see Section 3.3.1)
9. complete its quality assurance framework for compliance, and ensure it focuses on key divisional processes that contribute to the targeting and quality of inspections (see Section 3.3.2)
10. continue to roll out its training and ensure there is regular, ongoing training for compliance inspectors (see Section 3.3.2).

Recommendations – *continued*

We recommend that the Victorian Commission for Gambling and Liquor Regulation:

11. complete its planned actions to improve the supervision of casino operations (see Section 4.2.4)
12. work the Department of Justice and Regulation to improve the quality of its publicly reported performance measures to focus on the outcomes and impact of its work (see Section 5.2.1).

We recommend that the Victorian Commission for Gambling and Liquor Regulation and Victoria Police:

13. develop a comprehensive collaborative enforcement strategy to more efficiently and effectively target harms associated with licensed premises (see Section 5.4.2).

We recommend that the Department of Justice and Regulation:

14. develop performance measures to enable regular monitoring and reporting on the impact of liquor and gambling strategies and initiatives (see Sections 5.4.1 and 5.4.2).

Responses to recommendations

We have consulted with the Victorian Commission for Gambling and Liquor Regulation, the Department of Justice and Regulation and Victoria Police, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to those agencies and asked for their submissions or comments.

The following is a summary of those responses. The full responses are included in Appendix A.

All agencies responded and accepted our recommendations. VCGLR provided a detailed action plan on how it will address our recommendations, although noted that its ability to fully action all recommendations is dependent on the availability of funding.



1 Audit context

1.1 Introduction

The social and economic lives of many Victorians include consuming alcohol and participating in gambling activities. About 75 per cent of the population gamble at least occasionally, and about 80 per cent drink alcohol regularly. The alcohol and gambling industries employ over 130 000 people in Victoria, and both are important parts of our tourism industry.

In 2015–16, Victorians' expenditure on gambling activities (player loss) was more than \$5.8 billion. Gambling in Victoria includes sports betting and wagering, 30 000 electronic gaming machines (EGM), Keno, lotteries, minor gaming (such as bingo, lucky envelopes and raffles) and Melbourne's casino.

The Victorian Government collected \$1.9 billion in taxation and licence fees from liquor and gambling activities in 2015–16.

1.2 Harm from gambling and alcohol

Both the gambling and liquor industries have a high economic and social impact on the community. The misuse or abuse of gambling and alcohol can have serious negative impacts for individuals, their families and friends, and the wider community. These impacts include street and domestic violence, injuries and fatalities associated with vehicle accidents, depression, theft and fraud to support gambling and alcohol addiction, neglect of family, the loss of family assets and income, and medical conditions associated with alcoholism.

Gambling and alcohol harm have a financial cost to the community. Alcohol-related harm may include violence, hospital admissions and car accidents, while the negative impact of problem gambling can be more hidden and may include family violence, child neglect and self-harm.

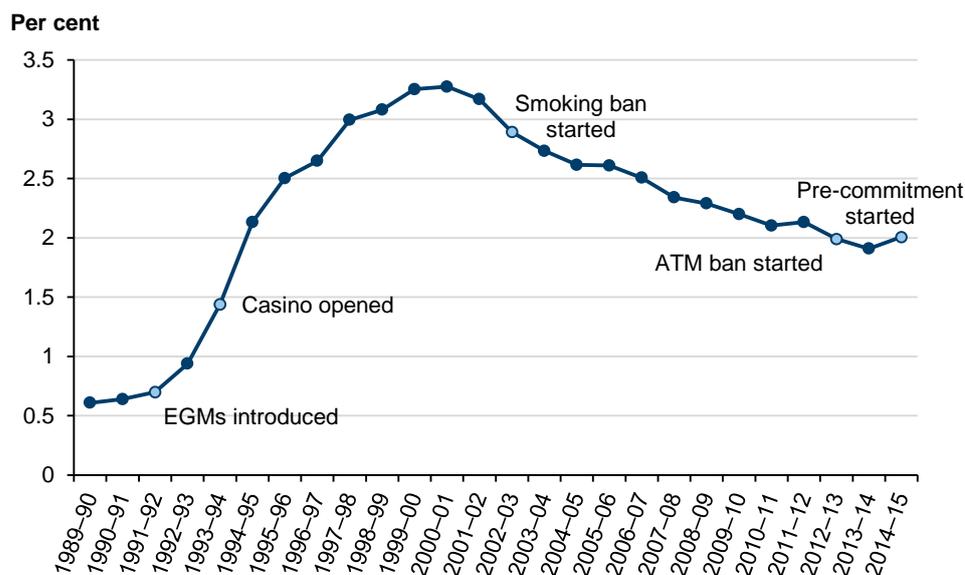
While no Victoria-specific data is available, studies have estimated the cost of alcohol abuse in Australia to be in excess of \$14 billion per year and the cost of problem gambling to be almost \$5 billion per year.

The population is drinking more alcohol over a longer period than previous generations. Some recent data on alcohol consumption in Victoria shows:

- about 42 per cent of Victorians will drink more than four standard drinks on a single occasion—in the 18 to 24 age group, this rises to about 75 per cent of men and 60 per cent of women
- in 2010, over 1 200 deaths in Victoria were directly attributable to alcohol, and about 2 per cent of hospital admissions were related to alcohol consumption.

Gambling in Victoria has become increasingly common over the last 25 years. In 2014–15, Victorians lost on average 2 per cent of their household disposable income on gambling. Figure 1A shows a steep increase following the introduction of EGMs in 1992 and the opening of Melbourne's casino in 1994. More than half of Victorians' annual gambling expenditure (loss) is spent on EGMs.

Figure 1A
Gambling expenditure as a percentage of household disposable income



Note: The pre-commitment scheme enables players to track the time and money they spend on EGMs and pre-commit a time or dollar amount if they choose to do so.

Source: VAGO, based on *Australian Gambling Statistics*, 32nd edition.

The Victorian Responsible Gambling Foundation and the Department of Justice and Regulation (the department) jointly funded a 2014 study on the prevalence of gambling, which found that about 0.81 per cent of the population, or 35 563 adult Victorians, are problem gamblers.

1.3 Gambling and liquor regulation in Victoria

Government regulation of gambling and liquor is important to support the economic and social benefits of alcohol and gambling, while minimising harm for individuals, businesses and the community. Regulation also helps to ensure the integrity of the participants and practices involved in providing gambling activities and alcohol to the community.

1.3.1 Legislative framework

In Victoria, alcohol and gambling are primarily regulated by the following legislation:

- *Liquor Control Reform Act 1998* (LCRA)
- *Gambling Regulation Act 2003* (GRA)
- *Racing Act 1958*
- *Casino Control Act 1991*
- *Casino (Management Agreement) Act 1993*.

The government regulates these activities by controlling:

- **who** can sell alcohol and gambling products
- **where** alcohol and gambling may be sold and consumed
- **what** alcohol and gambling products may be sold
- **how and when** alcohol and gambling products may be available.

A licence must be granted to operate a liquor or gambling venue, and compliance activities seek to ensure that licensees comply with the legislation and conditions of their licence.

The regulatory remit is wide, and covers businesses, individuals, products, premises and systems involved in the provision of gambling and alcohol to the community.

Licences in Victoria

There are around 21 000 liquor licences in Victoria—the range of licensed venues includes traditional pubs and clubs, restaurants and cafes, bars, packaged liquor outlets, wholesalers, and wine and beer producer licences. Organisers of one-off events such as music festivals must also apply for a temporary liquor licence.

There are about 500 venues that have both liquor and gaming licences. However, the largest number of gambling licence applications come from employees of the gaming industry, certain types of casino employees and associates of EGM venue operators.

Figure 1B lists the number of gambling and liquor licence applications finalised since 2012–13.

Figure 1B
Licensing applications finalised by year

	2012–13	2013–14	2014–15	2015–16
Liquor applications	16 101	16 014	15 873	15 776
Gambling applications	9 920	9 784	10 767	7 810
Total applications	26 021	25 798	26 640	23 586

Source: VAGO.

Crown Casino is the only licensed casino in Victoria and has a contract to operate until 2050. It is the only venue in Victoria permitted to offer table games such as roulette, poker, blackjack and baccarat. The casino has around 540 gaming tables, 200 automatic table games and 2 628 EGMs. This makes Crown Casino the eleventh-largest casino in the world.

Gaming industry employees whose jobs involve functions related to the integrity of gaming machines or restricted monitoring units must be licensed for that purpose. Casino employees who conduct or supervise gaming or betting, or monitor the movement, exchange or counting of cash or chips, and security and surveillance staff must also hold a licence.

Sports organisations can apply for approval to become a sports controlling body to enable them to participate in the monitoring of betting on their sport. When a sports organisation becomes a sports controlling body, they enter into agreements with betting providers to receive a share of the revenue betting providers earn when offering betting opportunities on their events.

Betting providers cannot offer bets on events without an agreement in place with a sports controlling body. Under these agreements sports controlling bodies can access information from betting providers on who is placing bets on their sport, to help them monitor compliance with integrity systems. Sports organisations that are approved sports controlling bodies include the Australian Football League, Tennis Australia and Bowls Australia.

1.3.2 Victorian Commission for Gambling and Liquor Regulation

The Victorian Commission for Gambling and Liquor Regulation (VCGLR) began operating in February 2012. It is an independent statutory authority that regulates Victoria’s liquor and gambling activities.

The VCGLR’s chair and commissioners—known as the Commission—are appointed by the Governor in Council, on the recommendation of the minister. The current chair was appointed in May 2015.

The commissioners perform statutory decision-making under gambling and liquor regulation. The commissioners also perform the functions that a board would perform in a public sector body—they are collectively accountable to government for the organisation's overall strategy, governance and performance.

The *Victorian Commission for Gambling and Liquor Regulation Act 2011* (the VCGLR Act) sets out its functions and responsibilities, including:

- licensing activities—approval, authorisation and registration—under relevant Acts
- informing and educating the public about VCGLR's regulatory practices and requirements
- promoting and monitoring compliance
- detecting and responding to contraventions of gambling and liquor legislation
- advising the Minister for Consumer Affairs, Gaming and Liquor Regulation on the Commission's functions and the operation of gambling and liquor legislation
- ensuring that government policy on gambling and liquor is implemented.

The key purposes of the *Casino Control Act 1991* are to ensure that gaming in casinos is conducted honestly, and that the management and operation of casinos is free from criminal influence or exploitation. VCGLR's remit for regulating the Melbourne casino is wide ranging and includes approving some suppliers, new activities such as automatic table games, rule changes and the layout of the gaming floor. VCGLR is also required to conduct a review into the casino operator and licence every five years. The most recent review was completed in June 2013.

VCGLR took on the responsibilities of its two predecessor regulatory bodies—the Victorian Commission for Gambling Regulation (VCGR) and Responsible Alcohol Victoria (RAV), a business unit of the former Department of Justice. The new entity was formed with the intention of providing Victoria with a modern, world-class regulator that could deal with both liquor and gambling matters, particularly for the compliance role.

VCGLR is a statutory body within the department's portfolio. It is accountable to the Minister for Consumer Affairs, Gaming and Liquor Regulation, and is obliged to comply with the minister's directions.

VCGLR has authority for all licensing activities and holds public hearings on matters such as the approval of proposed gaming premises or requests for increases to numbers of EGMs. It also holds hearings on contested liquor licences, disciplinary actions and reviews of decisions made by a single commissioner or VCGLR staff.

Compliance inspectors

VCGLR has compliance inspectors who are appointed by the chair under the VCGLR Act. Before appointing an inspector, the chair must be convinced that the person is competent to perform the role and of good repute.

Compliance inspectors monitor licensed gambling and liquor premises throughout Victoria by inspecting licensed venues. This involves visiting a venue to ensure it is complying with either the LCRA or the GRA, or both for gambling venues. Compliance inspectors are located at the Melbourne casino 24 hours a day, seven days a week, to monitor the integrity of the casino's operations.

Compliance inspectors have the power to:

- enter and inspect licensed premises
- request that licensees and their staff answer questions and provide information, documents, records and equipment
- seize items as evidence
- request proof of age and seize liquor from minors
- issue infringement notices.

VCGLR's compliance inspectorate is based in Melbourne and is made up of about 40 operational inspectors divided into eight teams. Currently, each team is responsible for conducting inspections in a number of metropolitan local government areas and in a regional area of Victoria.

VCGLR's regulatory approach

VCGLR describes itself as a risk-based regulator. A risk-based regulator makes informed choices on how it allocates the resources dedicated to its core activities and functions by assessing the risk level. For example, a risk-based approach would apply more effort and resources to assessing a liquor licence application for a late-night pub than for a cafe that closes at 5pm.

VCGLR's regulatory approach is based on five principles:

- **risk-based**—using a risk-based strategy to guide decisions, priorities and use of resources in discharging statutory functions
- **proactive**—assessing the environment to detect, proactively manage and dedicate more resources to emerging issues
- **collaborative**—finding opportunities to partner, collaborate and share information with other co-regulators and industry
- **transparent**—giving industry, the community and other regulatory partners a clear understanding of what to expect from VCGLR, its regulatory approach and its decision-making
- **targeted**—following a targeted enforcement approach that involves an escalation of sanctions, in accordance with the severity of the breach or risk posed to the community.

Difficulties with the establishment of VCGLR

Establishing VCGLR and bringing together diverse regulatory functions was a major undertaking in a time of intense change. In its first 12 months, VCGLR staff were relocated to new premises and a new governance framework and operating environment were established, requiring the rapid development of integrated processes and systems. Additionally, there were a number of major gaming and liquor projects and activities taken on by the new organisation. A number of foundation pieces of work were also commenced including the development of strategic priorities, corporate values, a focus on business process improvement and the development of a regulatory framework.

Budget and staff issues

VCGLR has faced budget reductions since it was established. The predecessor organisations—VCGR and RAV—had a combined budget of \$41.3 million in 2010–11 and around 287 staff members. In contrast, VCGLR's budget in 2016–17 is just under \$31 million and its staffing is 206 full-time equivalent staff members. This equates to about a 30 per cent reduction in both staff numbers and in its budget in real terms. In 2016–17 VCGLR received supplementary funding of \$1.5 million from the department to meet operational requirements. This additional funding is for one year only and is not recurrent.

VCGLR was given a target to reduce 24 positions as part of the Sustainable Government Initiative in 2012. VCGLR awarded voluntary departure packages based on length of service, which led to 24 experienced officers departing. A reduction in base funding from 2012 caused VCGLR to restructure, and a further 22 staff were made redundant in June 2014.

VCGLR also inherited 12 outstanding industrial relations and employee matters from RAV—six performance management cases, four WorkCover cases, one return-to-work case and one serious bullying case, which resulted in a major investigation.

While the merger of RAV and VCGR should have created some cost efficiencies, VCGLR's establishment coincided with a range of industry changes that had to be rolled out or continued by the regulator. This included implementing Victoria's move to allow venue operators to own and operate EGMs, ending the duopoly arrangement that existed previously—where two companies owned all EGMs in venues other than the Melbourne casino—and implementing a new EGM monitoring licence which required the development of new processes and system changes.

When VCGLR was first established, the satisfaction level of the merged staff was the second lowest in the Victorian public sector, as measured by the 2012 'People Matter' Survey. As a result, VCGLR created improvement plans, and VCGLR's staff satisfaction has increased to now be generally similar to comparable agencies.

When VCGLR was established, inspectors were brought in from RAV and VCGR at different pay levels and working conditions. The process to align these has created dissent between compliance inspectors and the management of the division. Tensions remain, and VCGLR's proposal for new roster arrangements to provide greater flexibility in deploying inspectors at higher risk times is yet to be agreed on by staff and management.

Information technology issues

When VCGLR was established, it did not have a single information technology (IT) platform. Liquor systems ran from the department's IT platform, and the VCGR's IT platform was retained for gambling matters. VCGLR sought to integrate the IT platforms using the department's IT provider. However, it was not until October 2015, after VCGLR hired its own in-house technical experts, that it was able to operate from a single IT platform.

VCGLR's IT issues have been further compounded by the issues it has faced with its IT system LaGIS (liquor and gambling information system). LaGIS was originally intended to incorporate about 30 IT systems, including VCGLR's internet and intranet platforms. The contractor was unable to deliver the planned system, and the scope of the project has now been significantly reduced to incorporate only three IT systems used in the compliance division. The system suffered a range of delays and was rolled out in December 2016.

Review of VCGLR during 2015 and ministerial expectations

In May 2015, the Minister for Consumer Affairs, Gaming and Liquor Regulation requested that the incoming chair of VCGLR review its capability and performance.

The minister outlined the government's significant concerns about VCGLR's ability to make the community feel confident that Victoria has an effective regulator for gambling and liquor industries. These concerns included:

- ongoing absence of a permanent chief executive officer (CEO)
- the need to develop a positive and unified workplace culture and integrate gambling and liquor functions to create a truly integrated regulator
- a significant decline in compliance and enforcement activities, particularly in regional Victoria, relating to harms such as the supply of alcohol to minors and intoxicated persons and allowing minors and intoxicated persons to gamble
- delays in delivering LaGIS.

The minister asked that the review focus on how VCGLR could more effectively enforce and ensure compliance with the legislation, including in regional Victoria, minimise the harm from problem gambling and the misuse and abuse of alcohol, and better engage with industry and community stakeholders.

The chair completed his review in November 2015 and provided a report to the minister. The report identified that although VCGLR aspired to be a risk-based regulator, this ambition was either underdeveloped or unrealised in a number of areas of operation, particularly in its compliance activities. The chair found that there was a solid foundation to build on, but also found that VCGLR needed to address significant challenges as a matter of priority including:

- a lack of leadership stemming from the lengthy time taken to fill the CEO role, an unstable management team, and a past lack of cohesion in the management team—the first chair was in the position for less than a year, the inaugural CEO was in the role for just over two years, and the senior executive team had undergone considerable change throughout the three years of VCGLR's operation, with people serving in acting positions for extended periods
- a critical need to develop a positive and unified workplace culture
- inadequate and poorly implemented systems and procedures, which undermined the quality and efficacy of accountability and reporting mechanisms
- a lack of integration of gambling and liquor functions, particularly in the compliance division
- the need for greater focus on a range of compliance and enforcement activities, particularly in regional Victoria and in relation to the enforcement of prohibitions on supplying alcohol to minors and intoxicated persons and allowing minors and intoxicated persons to gamble
- pressures throughout the organisation due to either resource constraints or possible misalignment of resources
- inadequate IT systems, due in large part to the significant delays in the delivery of the LaGIS project.

The chair recommended a number of actions including building VCGLR's leadership capacity, addressing serious systemic gaps in the compliance division, seeking additional budget to establish a presence in regional Victoria, finalising the LaGIS system, reviewing and updating people and culture policies and practices, working better with other regulatory and enforcement bodies such as Victoria Police, and having greater input into decision-making by the department and minister on Budget Paper 3 performance measures.

The minister's statement of expectations for VCGLR for 2016–17 indicated that it should:

- develop regional hubs to support compliance efforts in regional Victoria
- review standard liquor licence conditions to determine if they are effective and appropriate for minimising harm
- further streamline licensing processes including those that impose unnecessary duplication on industry
- improve its service and determination times by enabling online licence applications for both temporary and permanent licences
- make the VCGLR's published decisions available in a form that is modern and more readily searchable

- deliver a modern inspection and compliance IT system to better support risk-based regulation
- refine its risk-based approach to assessing and determining licence applications
- refine its risk-based approach to compliance activities to appropriately target the supply of alcohol and gaming to minors and the supply of alcohol to intoxicated persons
- implement a consistent ongoing formal training program to support compliance inspectors to undertake their role effectively
- develop performance indicators aligned with VCGLR's strategic priorities, particularly harm minimisation, evidence-based decision-making and co-regulatory activities.

VCGLR took action during 2015 and 2016 to address the issues and recommendations arising from the chair's review and the minister's statement of expectations. This included undertaking additional assessments of priority activities and seeking additional funding from government to establish a regional presence.

In this report, we looked at VCGLR's progress on a number of these issues and highlight outstanding gaps.

1.4 Other bodies

1.4.1 Department of Justice and Regulation

The department's Office of Liquor, Gaming and Racing (OLGR) is responsible for gambling and liquor regulation policy and provides advice to the Minister for Consumer Affairs, Gaming and Liquor Regulation.

The OLGR is involved in major gambling and liquor projects. It is currently undertaking reviews of the LCRA and the regulatory arrangements for the operation of EGMs. It has recently rolled out the pre-commitment scheme for EGMs, which allows gamblers to set limits on the time or money they spend and track their gaming machine activity.

VCGLR is included in the department's 'Industry Regulation and Support' output group for the purposes of Budget appropriations and reporting. VCGLR must negotiate its Budget Paper 3 performance measures with OLGR. To request new funding, VCGLR must go through OLGR and the department's internal processes.

1.4.2 Victoria Police

Victoria Police has a number of roles in liquor regulation. Victoria Police has three Divisional Licensing Units located in Melbourne, Stonnington and Geelong. It also has Police Service Areas (PSA) in each local government area. The commander of each PSA is responsible for reviewing liquor licence applications in the area and can object on the basis of detriment to the amenity of an area. The Chief Commissioner of Victoria Police may also object on any grounds he or she thinks fit.

Victoria Police also undertakes targeted liquor licensing compliance and enforcement activities via Taskforce Razon and has a dedicated liquor licensing prosecutions team known as the Liquor Licensing Unit.

Victoria Police signed a memorandum of understanding with VCGLR in October 2015. This agreement gives VCGLR access to Victoria Police data and sets out a framework for cooperation.

Victoria Police undertakes a range of activities related to gambling including investigating illegal gambling, and gathering and assessing intelligence relating to the integrity of racing and other sporting activities where gambling is involved. However, this work has little impact on or crossover with the activities of VCGLR.

1.4.3 Local councils

Local councils play an important role in the licensing process for liquor and gambling venues. They have the power to grant or reject planning permits. A licensee must already have a planning permit for the venue when applying for a liquor licence.

Councils also have a role in VCGLR's processing of applications for licences. VCGLR must notify the relevant council when it receives a new liquor licence application or variation of an existing licence. The council has 30 days to object to the granting of a new liquor licence, or a variation or relocation of an existing licence for an objection to be considered by VCGLR.

Under the LCRA, a local council can object on the grounds that the licence would detract from the amenity of the area around the venue or premises. Councils can also object to packaged liquor or late-night packaged liquor licences only, on the grounds that they would be conducive to or encourage the misuse or abuse of alcohol.

VCGLR is not required to notify a local council in the case of an application for a major event licence or a limited licence or transfer.

1.5 Why this audit is important

Alcohol and gambling provide a range of positive economic and other benefits to the community. However, the misuse and abuse of gambling and alcohol can have significant harmful effects on individuals, families and the community, and both industries need to be regulated effectively to minimise these risks of harm.

1.6 What this audit examined and how

Our objective was to examine the effectiveness and efficiency of VCGLR in regulating gambling and liquor activities. To assess this objective, we examined whether:

- VCGLR's licensing and compliance activities adequately fulfil legislative requirements
- VCGLR works effectively with the department and Victoria Police to regulate gambling and liquor activities
- VCGLR effectively monitors, evaluates and reports on performance to demonstrate efficient achievement of intended outcomes.

We focused on VCGLR's policies, procedures, systems, data and processes, and examined the relationships between VCGLR and the department and Victoria Police. We also followed up on the recommendations made in our previous audit reports *Taking Action on Problem Gambling in 2010* and *Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm in 2012*.

VCGLR, the department and Victoria Police were key sources of information for this audit. We gathered evidence by conducting interviews, reviewing key documents provided by VCGLR, the department and Victoria Police. We also conducted file reviews of licensing applications, analysed VCGLR's compliance data and observed compliance inspections.

We conducted the audit in accordance with section 15 of the *Audit Act 1994* and the Australian Auditing and Assurance Standards. The total cost of the audit was \$590 000.

1.7 Report structure

The remainder of the report is structured as follows:

- Part 2 examines VCGLR's licensing methodology, its process for assessing liquor and gambling applications, and the tools it uses to support licensing decisions
 - Part 3 examines VCGLR's compliance methodology, its inspections for liquor and gambling applications and, the tools it uses to support compliance activities
 - Part 4 examines VCGLR's supervision of casino operations
 - Part 5 examines VCGLR's internal and external performance measures and reporting, the actions taken by VCGLR, the department and Victoria Police to address our previous recommendations, and VCGLR's relationships with the department and Victoria Police.
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2 Licensing industry participants

The Victorian Commission for Gambling and Liquor Regulation (VCGLR) makes decisions on a large number of gambling and liquor licence applications each year. These include applications for permanent licences, temporary licences, variations and transfers of existing licences, and approval of new directors or nominees.

A robust licensing process is essential for VCGLR to meet its legislative and regulatory objectives of minimising harm and ensuring industry participants are suitable.

This Part of the report examines VCGLR's licensing framework and processes, including guidance and training for decision-makers and quality assurance.

2.1 Conclusion

VCGLR cannot demonstrate that all licensing applications are properly examined and assessed before being approved.

VCGLR has made progress over the past two years in reorganising the licensing division, training staff and providing guidance material to support a move to a more risk-based approach to licensing activities. However, significant weaknesses remain in VCGLR's licensing approach, and this has compromised its achievement of legislative objectives for harm minimisation and for the prevention of criminal influence and exploitation.

2.2 Licensing framework and approach

Since its establishment, VCGLR has made some progress in implementing a risk-based approach to its licensing functions. It has established a licensing branch structure and an initial triaging process for applications informed by basic risk factors.

VCGLR's documented approach to regulating the gambling and liquor industries emphasises:

- risk-based targeting—analysing the risks presented by individuals and businesses in these industries that may cause harm
- understanding these risks and using them to guide VCGLR's decision-making, priorities and use of resources in discharging its functions.

However, significant work remains for VCGLR before it has a fully risk-based framework to assess applications.

2.2.1 Risk framework for assessing applications

Following VCGLR's creation in 2012, licensing officers continued to only process either liquor or gambling applications, based on their previous roles, with the exception of a small 'dual licensing' team.

In August 2014, the licensing division was restructured into three streams to encourage a more agile workforce and to implement a risk-based approach to licence processing. This stream-based structure was refined in October 2015, with three streams merged into two. Now, one stream deals with low–medium risk applications (Stream 1) and the other stream deals with medium–high risk applications (Stream 2).

Stream 1 staff triage and assign applications based on a risk rating. The risk rating for each application is determined by the type of application. This is primarily based on a risk-based fee structure initially set by government in 2009, to determine the cost of a liquor licence based on risk factors such as late-night hours and patronage. These risk factors have not been reviewed since they were established in 2009, and this model does not incorporate any risk factors specifically related to gambling venues or licence types.

VCGLR's move towards a risk-based model for processing licence applications was based on advice from external consultants and intended to enable active consideration of risk throughout the entire application assessment process. In late 2014, the licensing branch committed to developing risk indicators and implementing an initial risk matrix, with checklists containing 'red flags' for delegates to trigger the escalation of applications within a team or between teams, and a further risk matrix to be considered during the determination phase. A project plan for developing risk indicators was drafted in early 2015, but the project did not progress and the checklists and risk matrixes have not yet been developed.

VCGLR advised us that it intends to continue with this project as part of a broader program of work focused on its regulatory approach but it will take time. The importance of this work was highlighted in January 2015 advice to the acting chief executive officer of VCGLR from the licensing branch director, in the chair's review of VCGLR in late 2015, and in the June 2016 statement of expectations for VCGLR from the Minister for Consumer Affairs, Gaming and Liquor Regulation.

Since the move to a two-stream model, no applications have been escalated between teams, and we found no evidence of applications being escalated within teams in the licensing files we reviewed as part of this audit. This indicates that following the initial triaging of applications, there is no systematic ongoing review of risk as applications progress through the assessment process.

To deal with the high number of low-risk liquor licence applications, different licensing officers are rostered to process correspondence and objections received for these applications. The aim is to process and finalise applications as quickly as possible, to meet VCGLR's 60-day processing benchmark.

However, VCGLR does not systematically review the risk profile of individual applications when it receives the relevant attachments, so it is not possible to determine whether all applications finalised in this manner are low risk or whether VCGLR should escalate some applications for further review before making a decision.

This approach primarily focuses on speed rather than quality, and it is not in line with VCGLR's claimed risk-based regulatory approach.

A risk-based approach optimises the use of available resources. However, VCGLR does not have an integrated information management system that shows how many cases each licensing officer has on hand, or how many applications individual officers have determined across the entire branch.

2.3 Assessing liquor licence applications

VCGLR received about 15 800 liquor licence applications in 2015–16, including new applications, temporary licence applications, variations, transfers and changes to directors for existing licences. The bulk of liquor licence applications—almost 10 000—were for temporary liquor licenses.

VCGLR must assess and determine liquor licence applications in accordance with the *Liquor Control Reform Act 1998* (LCRA).

We assessed a sample of 85 liquor licences that were granted between August 2014 and March 2016, to determine whether:

- decisions and the reasons for them were adequately documented
- there was adequate documentation on file to support decisions
- decisions were made in accordance with the legislation.

2.3.1 Consideration of relevant matters

VCGLR's assessment of liquor licence applications does not adequately address the requirements of the LCRA. It does not sufficiently consider the key matters specified in legislation that must be assessed when making a determination for every application, including:

- the suitability of applicants
- the identification and assessment of associates
- the potential impacts on amenity
- the potential for misuse and abuse of alcohol.

The LCRA specifies applicant suitability and amenity and harm issues associated with the granting of a liquor licence as grounds on which VCGLR may refuse to grant an uncontested application.

VCGLR advised that because Victoria Police, local councils and the public can object to an application on any of these grounds, VCGLR considers that when no objection is received it can proceed to grant a licence without needing to document its own assessment of these matters. VCGLR considers that in these circumstances the VCGLR staff member is entitled to assume the granting of the application is in accordance with the LCRA.

This view is not soundly based. The LCRA states: 'It is the intention of Parliament that every power, authority, discretion, jurisdiction and duty conferred or imposed by this Act must be exercised and performed with due regard to harm minimisation and the risks associated with the misuse and abuse of alcohol.'

The LCRA clearly obligates VCGLR to gather and carefully consider evidence on all matters, including 'optional considerations' specified in the legislation, when they are relevant to the decision to grant or refuse a licence. This includes any associated risks or potential harm arising from the misuse or abuse of alcohol.

It is good practice and good public policy for a regulator to make use of all available powers to further the purpose of the legislation and demonstrate that decisions are made in support of policy objectives. Failing to do this undermines confidence that the licensing approach is effective and that decisions are soundly based.

VCGLR's recently obtained advice indicates that licensing determinations should be based on all relevant considerations and not just on mandatory criteria. Specifically, this advice states that:

- VCGLR is required to determine an application by reference to both the grounds for refusal and the objectives of the LCRA.
- Reasons for decisions should refer to the relevant statutory provisions in more detail and identify at the outset the test to be applied, any mandatory considerations and other considerations relevant to the decision. This includes the relevant objectives of the Act under which decisions are made.

The case study in Figure 2A provides an example where VCGLR did not document its consideration of an applicant's initially undisclosed criminal history when recording the reasons for granting the licence application. The decision recorded on this application should have documented VCGLR's assessment of the relevance of this history and the fact that the applicant did not disclose it in his application to its determination on his suitability to hold a licence.

Figure 2A
Case study: Liquor licensing

An applicant applied for a liquor licence but did not initially disclose his history of criminal convictions. Victoria Police lodged an objection to the application based on the lack of information the applicant had disclosed in his application about his criminal history. Following the objection, the applicant provided details of his criminal history to VCGLR, which showed that he had a range of earlier convictions and his most recent criminal conviction was for making a false statutory declaration.

Once VCGLR became aware of the applicant's criminal history, Victoria Police withdrew its objection. The applicant also advised VCGLR that he was a current director of two other licensed premises and a former director of two further licensed premises.

The applicant was granted a liquor licence. There was no evidence on file that VCGLR asked the applicant for further information or an explanation about his criminal history. In addition, the decision record for this application did not explicitly deal with the relevance of the past criminal convictions and their initial non-disclosure to its assessment of the applicant's suitability. This was despite Victoria Police bringing the issue of the applicant's criminal convictions to VCGLR's attention.

Despite having copies of the applicant's criminal history, VCGLR believed there was no evidence on which to question whether the applicant was suitable to hold a licence. Although having a criminal conviction does not preclude an individual from holding a liquor licence, we expected VCGLR to document its examination of these matters as part of its assessment of the applicant's suitability.

Source: VAGO.

Reliance on information from applicants

VCGLR largely accepts the information provided to it by applicants at face value. It relies heavily on the honesty of applicants and the diligence of Victoria Police and potential objectors to raise issues about the suitability of applicants, amenity issues or social harms associated with applications.

The LCRA specifies applicant suitability as a matter relevant to VCGLR's assessment of liquor licence applications. Under the LCRA, applicants must provide details of their associates when applying for a liquor licence, and this includes the associates of all directors where the applicant is a company. VCGLR provides Victoria Police with a copy of the application. However, VCGLR's assessment processes do not provide sufficient assurance that all directors and associates are declared and sufficiently scrutinised as part of the liquor licensing process.

License application forms require applicants to disclose information on directors and associates. The LCRA makes it an offence for an applicant to provide false or misleading information to the VCGLR, including by omitting material information. This offence and the requirement for applicants to complete a statutory declaration places obligations on applicants to be truthful, and VCGLR is entitled to place some reliance on this when making determinations on applications.

However, VCGLR does not take adequate steps to confirm the accuracy of information provided by applicants. Specifically, it does not require applicants to provide company extracts from the Australian Securities and Investments Commission (ASIC) to support their applications, and it does not routinely conduct its own ASIC searches to verify that all directors and associates have been correctly identified.

We conducted ASIC searches on 19 companies that had been granted liquor licences since 2013, and found that four had either directors or shareholders that had not been disclosed at the time the application was made. This demonstrates that the LCRA's provisions do not ensure the accuracy of information that applicants submit and indicates that VCGLR should not simply rely on the diligence and honesty of applicants.

VCGLR's reliance on self-disclosure by applicants is a significant weakness in its assessment of applicants' suitability. If VCGLR's processes do not ensure that applicants disclose all associates, then resulting checks by Victoria Police will be incomplete and licences may be granted to applicants with unsuitable company directors or associates. Clearly, VCGLR needs to take action to mitigate this risk by requiring applicants to provide evidence to support the information they provide and to be more proactive in checking this information.

VCGLR's view is that requiring all applicants for liquor licenses to submit an ASIC extract would place extra regulatory and financial burdens on applicants. However, the cost of an ASIC company extract is not excessive, and VCGLR has not demonstrated that the additional burden would not be justified. We note that VCGLR requires this information for gambling licence applications.

Further, VCGLR does not have sufficiently robust processes in place to ensure that liquor licence holders comply with obligations to inform it of changes in company directors and associates after a licence is granted.

Unlike most gambling licences, which have expiry dates, liquor licences are granted once and do not expire if the licensee continues to make annual licence renewal payments and is not found to be in serious breach of the LCRA. The LCRA recognises that the ownership, control and associates of liquor licences may change and requires licensees to advise the VCGLR of any changes in directors or associates. These important provisions are relevant to VCGLR's achievement of the objectives of the LCRA.

VCGLR relies primarily on licensees informing it of relevant changes. Compliance inspectors undertaking routine inspections may sometimes pick up changes, although they do not systematically check for changes in directors or associates due to a lack of consistently applied compliance procedures.

VCGLR could better monitor whether company details have changed via random checks of licensees. Alerting licensees to the possibility of being randomly checked would encourage compliance with the LCRA.

2.3.2 Decision records

Decision records are retained on VCGLR's licensing files to document the basis for licensing decisions. To determine whether a robust assessment process was in place, we looked at decision records to assess whether they acquitted applications against all relevant legislative considerations, clearly documented reasons for decisions and were signed by a VCGLR staff member with the appropriate authorisation to make the decision.

Although licensing files were well organised, there were gaps in the quality and content of decision records. The decision records we examined were inconsistent, did not comprehensively address key matters specified in legislation or contain sufficient information to demonstrate why a liquor licence was granted. Analysis of 85 liquor licensing files showed:

- the LCRA was mentioned in only 13 per cent of decision records
- misuse or abuse of alcohol was mentioned in only 16 per cent of all decision records
- it was unclear who had made the decision in 60 per cent of all decision records.

The poor quality of decision records means the VCGLR cannot provide adequate assurance that liquor licence applications are assessed in accordance with the legislation.

VCGLR has acknowledged that its decision records could be more complete. VCGLR recently conducted a quality assurance review, which highlighted issues with decision records for liquor licence applications, and undertook to do more work to improve decision records.

2.4 Assessing gambling licence applications

VCGLR received almost 8 000 gambling licence applications in 2015–16. VCGLR is responsible for administering 18 different types of licences and approvals. A large volume of applications comes from trade promotion lottery permits, modifications to electronic gaming machines (EGM) including new games and systems, new gaming industry employees and associates of venue operators.

We reviewed a sample of 100 gambling applications that VCGLR granted between 2014 and 2016, including from the following types:

- new and renewal gaming venue operator licences
- associate or nominee of gaming venue operator licences
- directors of gaming venues
- gaming industry employees
- casino industry employees
- new and modified gaming machine hardware and game software
- sports controlling bodies.

We reviewed these files to determine whether VCGLR made decisions in accordance with the *Gambling Regulation Act 2003* (GRA) and the *Casino Control Act 1991*, and whether decisions met the objectives of the legislation, including that gaming on gaming machines is conducted honestly and that the gambling industry is free from criminal influence and exploitation.

We also assessed VCGLR's administrative practices to determine whether there was adequate documentation in the files, including whether decisions were appropriately documented.

2.4.1 Licensing gaming venue operators, directors, associates and nominees

Venue operator licences allow an entity to operate gaming machines in Victoria. The licence is granted for 10 years, after which it must be renewed. The GRA specifies that when assessing applications, VCGLR must be satisfied:

- the applicant and associates are of good repute, having regard to character, honesty and integrity
- the applicant has, or has arranged, a satisfactory ownership, trust or corporate structure
- whether any person related to the ownership, trust or corporate structure has a business association with a person who, or body or association which, is not of good repute or has unsatisfactory financial resources
- any person connected to the ownership, administration or management of the operation or business is a suitable person to act in that capacity.

VCGLR typically obtains sufficient information from applicants for gambling licences to enable it to address these matters. The files documenting VCGLR's assessment of applications for gaming licences were in good administrative order and the documentation on the basis for these licensing decisions was generally adequate.

However, we identified an instance where VCGLR's licensing of venue operators and associates did not fully ensure that the legislative objectives of the GRA were met. The case study in Figure 2B provides an example where VCGLR's assessment process was not sufficiently robust to ensure VCGLR fulfilled the objectives of the legislation relating to avoiding criminal influence and exploitation.

Figure 2B
Case study: Gaming venue operator's licence

A key objective of the GRA is to ensure that the management of gaming machines and gaming equipment is free from criminal influence and exploitation.

An associate of an applicant for a venue operator's licence (the applicant's husband) stated in the application that his role was to provide financial support and operational assistance in the management of the venue, which clearly indicated that he was a significant investor and ongoing manager of the business.

VCGLR's licensing process appropriately identified that the associate had previous business connections with an alleged underworld figure who is excluded from Victorian race tracks and Crown Casino.

The matter was referred to the compliance branch for investigation. The compliance branch determined that 'there probably wasn't an issue arising from this association because there hadn't been reports of contact between the alleged underworld figure and the applicant for two years'.

This advice appears deficient as it was solely based on a review of publicly available information. There was no evidence on the file that VCGLR:

- put this matter to the applicant to obtain explanations and assurances about the nature and status of the association with the alleged underworld figure—this was surprising given that it did seek additional explanations from the applicant about her husband's failure to disclose his involvement in a number of liquidated companies
- sought any information from Victoria Police on the relationship between the applicant and the alleged underworld figure.

It is of further concern that VCGLR granted the licence and did not place any conditions on it to deal with the risks associated with this matter.

Source: VAGO.

In Figure 2B, VCGLR did not properly investigate the relationship between the associate and the alleged underworld figure. This could undermine the objectives of the GRA to ensure that the management of gaming machines and gaming equipment is free from criminal exploitation. VCGLR should properly consider and investigate matters that are central to achieving the objectives of the GRA.

2.4.2 Electronic gaming machines—assessing 'no net detriment'

Gaming venue operators have to apply to VCGLR for approval of additional venues or machines. The GRA requires VCGLR to satisfy itself that the net economic and social impact of its approval will not be detrimental to the wellbeing of the community where the venue is located.

These decisions are made by VCGLR commissioners, rather than being delegated to licensing officers or executive staff. VCGLR provides the commissioners with social and economic impact assessments containing information on key indicators such as unemployment, homelessness and housing stress in the area where the venue is located. The assessments also contain data on the number of gaming machines in the area and the average spend (loss) per head, relative to the statewide average. The content and quality of the social and economic impact assessments has improved, in line with the recommendation made in our 2010 report *Taking Action on Problem Gambling*.

Applicants try to show in their applications and in hearings in front of the Commission how increasing the number of gaming machines will have a positive impact on the community, for example, by providing increased employment or by the venue making financial contributions to the community. The Commission assesses these factors to determine whether there is 'no net detriment' to the local community as a result of increasing the number of gaming machines.

The GRA does not provide guidance on how the test for no net detriment should be applied. VCGLR has undertaken a number of initiatives to improve the way it assesses no net detriment, including:

- providing information to commissioners during their induction
- holding biannual meetings to discuss the content, style and consistency of VCGLR decision records on gaming
- drafting guidance material for EGM matters.

Despite this, VCGLR still lacks comprehensive guidance for commissioners on how to assess and calculate net detriment. Its draft guidance for assessing EGM matters provides summaries of key points from case law, however there is further opportunity for VCGLR to refine this and provide more comprehensive guidance for commissioners.

In our 2010 report *Taking Action on Problem Gambling*, we recommended that the former gambling regulator develop principles for assessing net detriment. The former gambling regulator did not accept this recommendation on the basis that it published its reasons for decisions in determinations on its website. It proposed reviewing the format for its written decisions to ensure its reasons were clearly articulated.

Since our 2010 audit, and following a 2013 Victorian Civil and Administrative Tribunal (VCAT) case, the Commission has changed the way it reports on net detriment in its decision records. VCAT stated that a table of likely economic and social benefits and disbenefits, with comments on the weighting to be given to each factor, would be a useful way to transparently deal with the no-net-detriment test.

The Commission's recent decision records show a focus on no net detriment, and it has been clear in listing the factors it takes into consideration and the relative weighting that it gives each factor when making a decision.

However, there is scope for the Commission to further improve its decision records as some stakeholders, in particular local councils, advised that they found it difficult to understand how the Commission reached a position of no net detriment, particularly in areas with high levels of socio-economic disadvantage and a high number of EGMs.

The Commission is also currently reviewing the adequacy of its decision documents, which provides it with an opportunity to clarify the principles for assessing net detriment, strengthen decision-making and develop a transparent framework.

2.4.3 Other gambling licensing decisions

Gaming industry employees and casino special employees

When we reviewed the processing of employee applications, we found that VCGLR receives enough information from applicants to be assured that all legislative requirements have been met. Applicants provide a criminal history check, a credit report and two passport photos to support their application.

VCGLR has a template for licensing officers that directs them to consider all relevant legislative requirements before they approve an application. There was evidence that when issues with suitability were identified, licensing officers undertook further checks, including asking the applicant for more information before granting the licence.

Sports controlling bodies

VCGLR approves sports controlling bodies by assessing whether they have appropriate processes and policies in place to ensure the integrity of betting on their particular sport, and whether they can monitor and enforce their own integrity systems.

We examined the process for approving three applications from sports controlling bodies. We found that the application forms and VCGLR's assessment of them demonstrate compliance with the legislative requirements for approval, and the assessment process was well documented.

New and modified gaming machine hardware and software

VCGLR approves new and changed hardware and software for EGMs using a framework established by the GRA, and Victorian and national standards.

Applications for VCGLR approval of EGM hardware and software must include a recommendation from an approved testing laboratory. These laboratories are nationally accredited, and VCGLR assesses their work using a range of evidence. The laboratories are engaged directly by the manufacturers, and VCGLR has little visibility on the extent of other work performed by these laboratories for the manufacturers.

Our 1998 report *Victoria's Gaming Industry: An insight into the role of the regulator* commented on fairness issues for players of EGMs and suggested opportunities to improve the level of information made available to players about 'metamorphic games'. These games typically feature players accumulating tokens over multiple games and then reaching a bonus phase, where they receive free games, after accumulating a particular number of tokens.

For most games within this category, the theoretical return-to-player percentage before the bonus phase can be well below the statutory minimum level of return of 85 per cent. This is acceptable given that the bonus feature is an intrinsic part of the game and there is overall compliance with the minimum level of return. However, the electronic game information screen available to players of metamorphic games does not currently disclose information on the extent to which the bonus feature contributes to the overall return to players. There is an opportunity to provide additional information to players on this issue.

2.5 Supporting licensing decisions

With applications being processed and determined by a large number of licensing officers, it is important that VCGLR provide licensing officers with up-to-date, consistent and comprehensive guidance and training.

2.5.1 Online guidelines for licensing staff

The licensing branch of VCGLR launched an interactive online 'Wiki' site in November 2015 to make guidance on licensing processes more accessible and to encourage greater staff engagement. Although this was a positive development, the content on the site is incomplete and inconsistent in style, which reduces ease of interpretation and application.

While guidance is available for contested applications, licensing officers commented that they did not rely on the guidance available and asked a colleague instead.

Where an application is uncontested, we found there was insufficient guidance to assist licensing officers to consider relevant information on matters such as applicant suitability. This could compromise the quality of licensing decisions, as licensing officers may make inconsistent decisions or follow poor practice by not using guidance.

2.5.2 Training licensing officers

Over the last two years, the licensing division has provided training to cross-skill all staff in both gambling and liquor, with the aim of training each person in the area that was unfamiliar (either liquor or gambling).

Although this was a positive step, staff are not yet fully trained and experienced in both areas, because not all licensing officers in Stream 1 process a mix of liquor and gambling applications.

VCGLR's most recent quality assurance process has identified that some staff require further training.

2.6 Quality assurance and management reporting

A robust quality assurance licensing process should assure the Commission that the powers it delegates are being appropriately used. It can also provide information for VCGLR to allow it to identify any areas for improvement in its guidance and training.

Management reporting is an important function because it provides regular information on the performance of an area. It lets management identify any issues and target its resources to address issues with performance.

2.6.1 Quality assurance

There is no evidence that VCGLR consistently applied quality assurance processes across its licensing activities before 2014. The licensing branch began a quarterly quality assurance review of liquor and gambling decisions in 2014–15, which focused on whether:

- applications were allocated to the right stream, based on the risk allocation model
- there were supporting documents on file, such as training certificates, documents on maximum patron capacity, and planning permits
- Victoria Police and the local council received a copy of the application for comment
- objections were made in accordance with the legislation
- the reasons for the licensing decision or determination were clearly stated.

These quarterly reviews examined too few applications and criteria to provide VCGLR with assurance that its licensing decisions adequately considered the information submitted by applicants or objectors, and that its decisions were made in accordance with legislation and internal guidance.

In 2016, the licensing branch reviewed and strengthened its quality assurance process. It is now reviewing 14 files per month (eight liquor and six gambling) and has expanded the criteria to include assessment of whether:

- applicants had an opportunity to respond to matters raised in a contested application
- licensing delegates had the correct delegation
- operational policies and instructions were taken into account where necessary
- unambiguous reasons were recorded for decisions.

The licensing branch has improved its quality assurance process. Its report to the Commission identified issues for further improvement but did not include an action plan. VCGLR's licensing division needs to address remaining deficiencies in its quality assurance process by using an action plan that includes time frames for monitoring progress.

2.6.2 Management reporting

Management reporting on licensing activity is narrowly focused on the number of applications processed and the speed of processing.

The licensing branch produces monthly reports that track the number of applications processed against the following benchmarks:

- 100 per cent of applications received are finalised or cleared each month
- 80 per cent of applications are finalised within 60 days
- 95 per cent of applications are finalised within 120 days.

The monthly report also presents data on:

- numbers of pending applications
- numbers of applications over the benchmark
- totals for the preceding month
- year-to-date total for the financial year
- numbers for each category of application—commercial licensing, employee licensing, products, minor gaming and liquor—against each of the benchmarks.

There is evidence that the licensing branch uses these monthly reports to manage its activities by prioritising actions in the branch and moving resources to meet needs.

However, the internal benchmarks in the monthly report differ from VCGLR's Budget Paper 3 (BP3) targets, which means that VCGLR does not have a monthly report that tracks all BP3 performance. VCGLR reports separately to the Commission and the department on a quarterly basis on its progress against BP3 measures.



3 Assuring compliance

Licensees in liquor and gambling must comply with requirements in the legislation and licence conditions in order to achieve the policy objectives of the legislation.

The Victorian Commission for Gambling and Liquor Regulation (VCGLR) seeks to make sure that licensees comply by educating them, inspecting venues and activities, investigating potential breaches, and taking action against licensees when needed.

This Part of the report examines VCGLR's compliance approach and activities.

3.1 Conclusion

VCGLR has not adequately performed its compliance functions. Compliance activities are not sufficiently risk based and have been focused on meeting a target number of inspections, rather than on targeting inspections where noncompliance has a high risk or high potential for harm. This approach to compliance does not support the legislative objectives for harm minimisation.

VCGLR has identified and started to address many of these issues, and its proposed actions are reasonable. However, these actions are not yet sufficiently developed, so it is too early to assess whether they will improve the effectiveness of VCGLR's compliance activities in minimising harm and protecting the community.

3.2 Managing and targeting inspection activities

VCGLR has not yet established a robust compliance inspection methodology, and compliance activities are not sufficiently targeted to the risks of noncompliance.

VCGLR's public statements about its regulatory approach emphasise that risk guides its activities and the use of its resources. However, it does not have a risk-based methodology for its compliance activities that is integrated, focused on harm minimisation, and underpinned by robust data.

VCGLR's compliance inspection activities have focused on the need to meet publicly reported targets for these activities, rather than on its legislative objectives to minimise harm and uphold a culture of integrity in the liquor and gambling industries.

VCGLR's compliance division has 40 compliance inspectors working on an eight-week roster that covers 24 hours a day, seven days a week. During 2015–16, inspectors conducted over 14 000 inspections of gaming venues and premises with liquor licences. Inspectors maintain a constant presence at the Melbourne casino.

There are eight inspection teams, each with responsibility for specific local government and regional areas. Each team has a team leader and usually three inspectors. Each team is assigned a target number of inspections to be carried out each financial year in their areas, based on VCGLR's overall Budget Paper 3 (BP3) target for the number of compliance inspections. This approach is focused on maximising the number of inspections to reach the performance target, and it discourages the allocation of resources to inspection activities focused on minimising harm, which typically take longer to perform.

VCGLR has not sufficiently considered the risk of the misuse and abuse of alcohol when planning and undertaking compliance activities in regional Victoria. There is no evidence to support current decisions on inspection activity in regional areas, and the budget allocated for regional visits influences decision-making about inspections, rather than the risks to be addressed.

The compliance division has recognised the weaknesses in its current approach, and has started a wide range of actions over the past 12 months to review and improve its activities so they are more flexible and risk based.

3.2.1 Liquor inspections

Liquor compliance inspection activities are not currently based on evidence of potential harms and risk. Instead, inspection activity is driven by the need to meet BP3 targets rather than meeting the objectives of the legislation and VCGLR's stated goals to deliver risk-based regulation.

This has resulted in an ineffective approach to inspections, which focuses on administrative matters and not the risks of harms that should be driving VCGLR's compliance activities. Inspectors assessing venues licensed to serve liquor focus on maximising the number of inspections they perform. This delivers a large number of short and largely superficial inspections rather than inspections focused on more difficult harm minimisation issues, such as the service of intoxicated patrons.

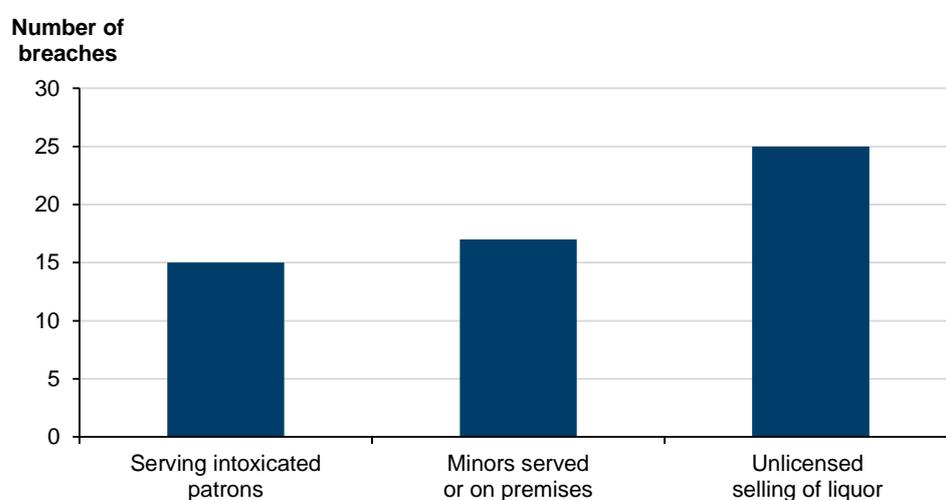
In 2015–16, VCGLR performed 12 474 liquor inspections, against a target of 11 000. While VCGLR's inspection BP3 target remains at its current level, it will continue to encourage VCGLR to meet targets rather than address risks and focus on harm minimisation.

Breaches detected

In our 2012 audit *Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm*, we found that 75 per cent of breaches detected during liquor licensing compliance inspection activity in 2009–10 and 2011–12 were administrative in nature. These breaches included failure to display the liquor licence or other required notices, and failure to produce a plan of the premises for inspection. These types of breaches are less directly associated with alcohol-related harm and, therefore, achievement of the harm minimisation objective of the *Liquor Control Reform Act 1998* (LCRA) than, for example, breaches for serving intoxicated people or minors.

In this audit, we found that VCGLR's compliance focus remains largely on administrative matters. In 2015–16, the 12 474 liquor inspections resulted in the detection of 5 384 breaches. Data shows that only 57, or 1 per cent, were high-risk breaches, which include unlicensed selling of liquor, serving intoxicated patrons, and breaches related to minors. Figure 3A shows high-risk liquor breaches detected by VCGLR during 2015–16.

Figure 3A
Breakdown of high-risk liquor breaches detected in 2015–16



Source: VAGO, based on data from VCGLR.

Timing and duration of liquor inspections

It is widely accepted that alcohol-related harms on licensed premises are more likely to occur between midnight and 7 am. However, almost 88 per cent of VCGLR's inspections of these venues are conducted outside this high-risk time period.

The compliance division set a target of 8 per cent of liquor inspections to be conducted between midnight and 7 am in 2015–16. This was the first time a target had been set and the aim was to double the proportion of inspections conducted in this time period, from under 4 per cent in 2014–15. The division achieved this target in 2015–16.

For 2016–17, the compliance division has set a target of 12 per cent of liquor inspections to be conducted between 10 pm and 7 am. However, analysis of VCGLR's compliance data shows that it achieved 12 per cent of inspections between 10 pm and 7 am in 2015–16. This new target will not result in additional inspection activities during high-risk times.

We expected that the focus of liquor inspections during periods of greater risk would be on detecting offences associated with such harms as service of intoxicated people or minors. However, analysis of the results of these inspections shows that less than 1 per cent of the total number of inspections undertaken between midnight and 7 am between July 2015 and April 2016 resulted in a high-risk breach being detected.

Detecting offences associated with harms takes more time than checking venue licence details, display of responsible service of alcohol posters and patron numbers. However, the average time spent in venues for the late-night inspections between July 2015 and April 2016 was less than 15 minutes, indicating that high-risk or high-harm offences were not adequately targeted. The compliance division's risk and intelligence unit recommended the development of a specific checklist for late-night inspections to help inspectors target compliance activities to high-risk breaches. However, this checklist has not been developed.

VCGLR data on the duration of liquor inspections conducted in 2015–16 shows that 60 per cent were completed in 10 minutes or less, and almost 88 per cent of all inspections were completed in 20 minutes or less, as illustrated in the case study in Figure 3B. This is further indication that much of VCGLR's work is targeted at meeting BP3 targets and not high-risk breaches.

Figure 3B
Case study: Liquor compliance inspections

On 1 April 2016, one inspector undertook 16 individual inspections on Bourke and William streets in Melbourne.

The inspector began his first inspection at 10.55 am and finished his last inspection at 3.00 pm, including a period of 50 minutes between 1.06 pm and 1.56 pm where he did not log any activity.

The length of these inspections ranged from two minutes to 10 minutes, with an average length of about five minutes and 20 seconds.

Despite the inspector recording three breaches and issuing a warning at one venue, the inspection still only lasted seven minutes. No high-risk breaches were detected.

Source: VAGO.

Regional inspections

Most liquor inspections occur in Melbourne, with only 2 512 (20 per cent) conducted in regional Victoria in 2015–16. VCGLR includes Geelong in its regional data, which inspectors visit regularly from Melbourne.

Of these 2 512 regional inspections, 2 142 (85 per cent) had been conducted by the end of February, and only 370 inspections were carried out in the four months from March to June 2016. The compliance division had exhausted its travel budget by February, and therefore limited its work in regional areas from then on to following up complaints and taking part in joint operations in response to requests from other regulators.

This demonstrates that the compliance program for regional Victoria is not constant and regular. Compliance inspectors commented that it was difficult to get approval for regional inspections and to follow up on issues in regional Victoria. VCGLR's planning of inspection activities does not take into account the particular risks posed by alcohol in regional areas.

In the review conducted in late 2015, the chair of the VCGLR examined the effectiveness of VCGLR's approach to regional compliance activity. He recommended that VCGLR obtain additional budget funding to increase inspections in regional Victoria and improve compliance activity.

The Minister for Consumer Affairs, Gaming and Liquor Regulation issued a statement of expectations for VCGLR on 10 June 2016, which included the recommendation that VCGLR introduce regional hubs to increase its presence in regional Victoria. VCGLR is seeking funding to implement this model.

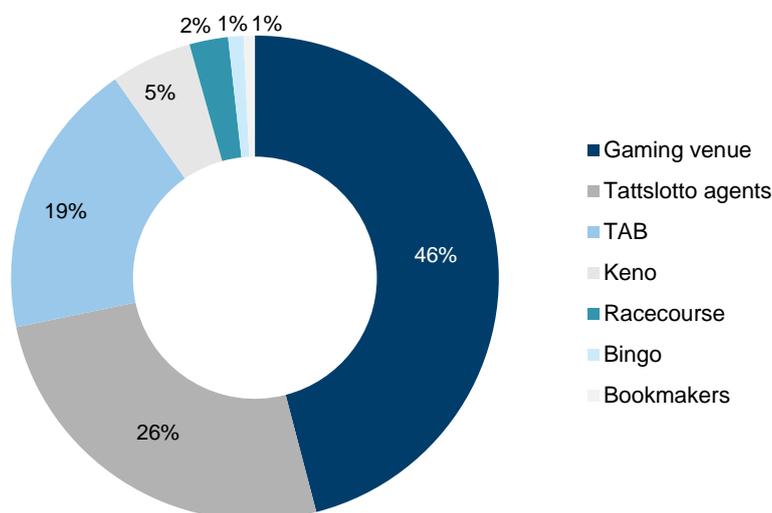
3.2.2 Gambling inspections

Gambling compliance inspection activities are not based on information about potential harms and risk. Inspection activity is driven by the need to meet BP3 targets, rather than meeting the objectives of the legislation and VCGLR's stated goal to be a risk-based regulator.

Inspections of gambling venues and operations were a minor part of VCGLR's compliance work in 2015–16. The 1 874 inspections of gambling venues made up around 15 per cent of total inspections performed. VCGLR has increased the target for gambling inspections as a proportion of all compliance inspections from 15 per cent to 30 per cent in 2016–17, but the rationale for this target has not been clearly explained.

Figure 3C shows the different types of gambling inspections undertaken across Victoria in 2015–16.

Figure 3C
Gambling inspections in 2015–16



Source: VAGO, based on information from VCGLR.

Almost half of all inspections were of gaming venues, and about a quarter were of Tattslotto agents. There were less than 20 inspections of bingo operations, despite the higher potential for fraud due to the cash-based nature of this activity.

VCGLR does not analyse this data regularly. We found no evidence of any risk analysis or rationale underpinning the number of gambling inspections conducted, and why particular types of venues were inspected. Inspection teams can decide how they meet quotas for gambling inspections. This means that the knowledge and preferences of particular inspectors may drive the choice of venues and operations to inspect, rather than any coherent risk- or evidence-based approach.

The coverage across Melbourne is also inconsistent. We found that it was common for multiple inspections to be carried out at gaming venues within the Melbourne metropolitan area during 2015–16 with little apparent reason. Specifically, we found 40 examples where venues were visited twice in a short period of time, despite no recorded compliance issues being identified on the first inspection.

The case study in Figure 3D highlights two examples where venues were re-inspected within weeks of a first inspection, despite no breaches being identified at the initial inspection.

Figure 3D Gambling inspections

In July 2015, a compliance inspector visited Venue A and conducted audits of the venue's program for gamblers seeking to be excluded from that venue and compliance with its code of conduct. The inspector did not detect any breaches and noted that the venue was very well organised and staff completed daily checklists. However, just over two weeks later, two different compliance inspectors visited Venue A again and conducted the same audits with the same result.

In 2015–16, inspectors visited Venue B five times, with no breaches detected and no reasons recorded for this level of coverage. Different inspectors conducted two visits eight days apart. In the first visit, inspectors examined the venue's self-exclusion program and conducted a gaming venue audit. There were no issues identified. In the second visit, inspectors also examined the venue's self-exclusion program and the venue's code of conduct program.

Source: VAGO.

This practice is in part the result of pressure felt by teams to meet compliance targets aligned with the VCGLR's BP3 measures. Teams are allocated geographical regions with similar numbers of liquor licensed premises, but the number of gambling venues varies between regions. In the CBD, there are fewer gaming venues, so inspectors visit these venues multiple times to meet targets, despite no compliance issues being detected.

While compliance activity should not be solely focused on detecting breaches of legislation, targeting the same venues on multiple occasions when no indicators of harm or risk are apparent is an inefficient use of resources.

According to VCGLR's business rules, a visit is counted as one inspection, even if two or more different audits are carried out during the visit. This creates a perverse incentive for teams to visit venues multiple times and undertake audits more frequently, to meet team targets. Multiple visits also create a burden for gaming venues.

VCGLR's resources could be better used to increase inspections of other venues or types of gaming activity with greater integrity risks, such as bingo.

We found some examples of good practice in gambling inspections:

- An inspector undertook an audit of the pre-commitment program at a gaming venue. The venue was not compliant as it did not have the correct posters displayed and information cards available for players. The venue operators promised to remedy this. One week later, the same inspector revisited the venue and found it to be compliant.
- Inspectors undertook three covert visits to a gaming venue in response to reports of gaming staff gambling while on duty. Inspectors observed staff for periods of up to 45 minutes at a time. No breach was detected.

Although there is some evidence of good practice in gambling inspections, VCGLR needs to develop a more risk-based approach to the targeting of inspection activity for gambling compliance.

Regional gambling inspections

VCGLR undertook 430 gambling inspections in regional areas in 2015–16. The distribution over the year was similar to liquor inspections, with the bulk of these inspections conducted in the first nine months of the year. By March 2016, 413 inspections had been completed, and only 17 were done between April and June. VCGLR said that this was due to budgetary issues.

Breaches

We expected VCGLR to be analysing data on gambling inspection breaches to inform its activities and enable it to target its inspection program.

According to VCGLR data, inspectors detected 316 breaches in 2015–16. Seven of these breaches were high risk and related to minors gambling or being in gaming venues. The limited information available indicates that 249 breaches were in gaming venues and 18 related to Tattsлото agencies. VCGLR does not further analyse this data, and there is no evidence that it uses this data to inform its inspection programs for gambling.

3.2.3 Inaccurate recording of inspections

VCGLR is unable to provide assurance on the number of inspections it reports as part of its BP3 data due to inaccurate recording of inspection data. This issue was first identified during an internal audit in late 2015 and has not been resolved.

An internal audit of VCGLR's compliance functions in November 2015 reported that:

- 8 per cent, or 1 100, of all liquor inspections undertaken in 2014–15 were external observations—inspecting the venue from the outside without physically entering the premises. The purpose of these external inspections was not always clear and they often only lasted a few minutes.
- VCGLR has not consistently retained supporting documentation or evidence on file to support the inspections it performed. For 22 of the 50 liquor inspections tested, the compliance team was unable to provide the internal audit team with evidence of the inspection being performed. For 58 out of a sample of 60 compliance inspections tested, there was no evidence of the licensee acknowledging that an inspection had occurred.

We found that the data recorded on liquor licence compliance activities is not reliable. Our analysis of VCGLR's data showed an inspector attending up to three inspections, including in different suburbs, at the same time. These inspections occurred before the November 2015 internal audit.

We expected that this practice would be eliminated and controls would be in place to identify and manage this issue following the internal audit. However, inspection activities recorded in May 2016 show the same inspector attending two inspections in different suburbs at the same time.

VCGLR has developed business rules and included them in the compliance division's business plan about what constitutes an internal or external observation. The division is also monitoring the reporting of observations. When observations do not meet the business rules, they are removed from the division's count of activities.

The compliance division needs to further instruct its inspectors on the importance of accurate recording of inspection activities. It also needs to establish a robust data analytics process to enable the timely detection and review of suspect recording of inspection activities. Inspectors found to be recording inaccurate information should be subject to appropriate disciplinary action.

The compliance division believes its new Liquor and Gambling Information System (LaGIS) will enable improved monitoring of the recording of inspection activities to deliver improved data integrity.

3.3 Supporting better compliance activities

The internal audit of VCGLR's compliance approach and activities in late 2015 found that VCGLR was not meeting its regulatory obligations due to:

- inconsistent inspection methodology and the absence of a demonstrably risk-based approach, leading to inefficiency and reduced effectiveness
- a lack of endorsed and operationalised standard operating procedures (SOP)
- the absence of a standardised inspection program being used consistently across the organisation
- inadequate human resource management, including staff training, development and performance management.

The internal audit report recommended a range of actions to address these gaps and weaknesses, including the development and implementation of a consolidated compliance inspection methodology covering both gambling and liquor activities.

In February 2016, the compliance division documented actions to address the weaknesses in its approach to compliance and has begun work in many of these areas. However, VCGLR has significant further work to do before it can be assured that its approach to compliance promotion, monitoring and enforcement is fully effective.

3.3.1 Recent efforts to implement a more risk-based approach

VCGLR has recognised that its risk-based approach is not sufficiently robust or mature.

The compliance division conducted an Intoxication Pilot Program in 2015. It used intelligence to target licensed venues suspected of serving intoxicated patrons for covert inspections. The results showed that although venues appeared to be well targeted, inspectors were sometimes hampered in making covert observations by the need to identify themselves to gain entry to some venues, or by being recognised by venue staff.

At the beginning of 2016, the compliance division refocused its risk and intelligence unit. It began to collect intelligence and produce a range of reports on issues and risks in the community that could be used to inform the targeting of compliance activities, including monthly risk reports to the director of compliance. These reports are supported by data from past compliance activities and data from Victoria Police.

More recently, VCGLR has taken other actions to review and improve its practices, making them more risk based, including producing a range of maps that:

- identify venues and high-risk venues not inspected within 12 months, recent licence transfers and recidivism of licensees
- show data from Victoria Police and Ambulance Victoria on assaults and ambulance call-outs mapped against the location of licensed venues.

By using this data and information to target compliance activities, VCGLR is taking a positive step towards meeting its legislative objectives.

3.3.2 Managing compliance activities

Standard operating procedures

When VCGLR was established, two compliance teams were brought together from two separate organisations that had previously regulated either gambling or liquor activities. In order to manage the differences in the approaches and practices of these compliance teams, it was essential that VCGLR document SOPs to clearly communicate baseline expectations for consistent compliance monitoring and inspection practices.

This did not occur. The internal audit in late 2015 found a lack of endorsed and operationalised SOPs, with only seven approved SOPs in place and no standardised inspection programs in use across the division.

The compliance division has taken action during 2016 to address this issue and has almost completed all SOPs, with only three remaining in draft form. By September 2016, 22 SOPs were approved and in operation, compared to seven at the time of the internal audit.

The SOPs and manuals for liquor and gambling inspections are lengthy, technical documents that do not always provide practical guidance on how to undertake key processes. For example, there are three SOPs that relate to issuing an infringement, but none provide sufficiently detailed information on the key steps in this process, such as the internal review procedure.

The new SOPs have been circulated to all compliance inspectors, but they are not yet being consistently applied. We observed variations in the way inspections were carried out. The lack of a consistently applied inspection methodology limits VCGLR's ability to regulate gambling and liquor effectively.

It will take time for VCGLR to achieve consistency, and it needs to support staff by providing improved training and management oversight. The compliance division's information system—LaGIS—may also support more consistent inspections. LaGIS has checklists for conducting inspections, and inspectors have been issued with mobile devices to guide and record inspection activities.

Training

Compliance inspectors operate under two distinct and complex legislative frameworks for gambling and liquor regulation, and they need comprehensive and ongoing training. The lack of formal ongoing training has contributed to inconsistencies in inspection practices and has reduced VCGLR's ability to effectively regulate gambling and liquor.

VCGLR has provided training of various kinds to groups of inspectors since its establishment in 2012. For example:

- former liquor inspectors received four days of training on casino operations in September 2013, 18 months after VCGLR was established
- eight newly appointed assistant inspectors received 11 days of training in December 2013, which covered a broad range of VCGLR's activities and included a practical inspection component
- an unknown number of staff new to the compliance division received 14 days of training in January 2015.

There is some evidence of who attended these training programs, but efforts to train inspectors have been largely ad hoc and have not covered all inspectors. In addition, there is no evidence of any evaluation of training.

Inspectors told us that they dealt with gaps in training by learning from each other and acknowledged that this contributed to inconsistent approaches to inspections across the various inspection teams.

The compliance division drafted training plans in 2014 and 2015 for up to 10 key modules, but there is no evidence that this training has been implemented.

In early 2016, the compliance division allocated resources to developing a draft training plan and content for compliance inspectors. Training has commenced and, if the plan is followed, 75 per cent of VCGLR inspectors will complete 11 out of 15 modules towards a Certificate IV in Government (Investigation) by 30 June 2017. The training will include online modules, face-to-face training and self-directed learning. There will be workshops that cover all aspects of VCGLR's regulatory remit including the casino, liquor and gambling activities.

The compliance division is also planning to provide leadership development training to team leaders and managers within the division.

ICT systems to support compliance activities

In the four years since VCGLR's formation, despite its commitment to the development of an integrated ICT system, the compliance division continues to operate using three different systems—one each for liquor, gambling and the casino—which are outdated and unconnected.

The aim of LaGIS was to incorporate the functionality of these systems into a single integrated system by mid-2014. However, this project was significantly delayed and was not rolled out until December 2016.

The continued use of multiple legacy systems has only served to reinforce the cultural and practical barriers that existed when VCGLR was established, as staff continued to use the systems that were in use in 2012.

Quality assurance

VCGLR has lacked a documented and consistently applied quality assurance process for routine compliance inspection activities, but it is taking action to address this gap.

The November 2015 internal audit recommended that VCGLR implement a formal quality assurance process. The aim is to ensure consistency in compliance processes and address a range of weaknesses in the documentation of compliance inspection activities, including unreliable data recording by inspectors.

The compliance division responded to the internal audit by committing to develop a quality assurance process for compliance activities. The framework for this process is in the final stages of development. The draft framework covers 15 areas or activities, including systems assurance, evidence management, complaints management, gambling inspections, liquor inspections, training and development, stakeholder management, and administrative matters such as vehicle and telephone usage.

In some cases, the draft documents for this new quality assurance program appear to still be more focused on assuring adherence to schedules and administrative requirements, rather than on monitoring the comprehensiveness and quality of compliance activities. The division advised that it intends to build in a stronger emphasis on the quality of compliance work as it finalises the program.

4 Casino supervision

Melbourne's casino—the eleventh largest casino in the world—is the only licensed casino in Victoria. Player loss at the casino was more than \$1.8 billion in 2015–16. The casino holds 13 liquor licences and is the only venue in Victoria that provides gambling and alcohol 24 hours a day.

The *Casino Control Act 1991* (the Act) is the primary legislative framework for supervision and control of casino operations. One of the principal aims of the Act is to ensure that the management and operation of the casino remains free from criminal influence or exploitation.

This Part of the report examines how effectively the Victorian Commission for Gambling and Liquor Regulation (VCGLR) performs its casino supervision functions.

4.1 Conclusion

There is a need for VCGLR to improve its oversight of the casino. VCGLR is not able to demonstrate that its casino supervision is efficient or effective as is required for best practice regulation of a major participant in Victoria's gambling industry. Despite multiple reviews and proposals to improve VCGLR's approach dating back to 2013, these efforts have not sufficiently progressed due to multiple changes in VCGLR management. Its current approach is not adequately risk based or purposeful and, while further work is underway to improve this area of regulation, many important activities have been undertaken only sporadically.

VCGLR has acted to develop a more integrated, organisation-wide approach to casino supervision, but its compliance division has not applied a level of focus on the casino that reflects its status and risk as the largest gaming venue in the state. As a result, VCGLR has not given enough attention to key risks in the casino's operations.

4.2 VCGLR's approach to casino supervision

VCGLR has not pursued a fully integrated approach to overseeing casino operations. It has chosen instead to have two separate streams—one focused on licensing and the other on compliance. This has made it difficult for VCGLR to maintain a coherent, organisation-wide approach to casino supervision. VCGLR took appropriate actions to address this in late 2015.

VCGLR does not follow the approach used by its predecessor regulators, which had a team solely dedicated to supervising casino operations. VCGLR rotates all compliance inspection teams through the casino, but has not supported them with adequate training, guidance and consistent management oversight.

VCGLR recognises the need to significantly improve its approach to casino supervision—it is currently proposing roster changes in the compliance division to enable it to establish a specialist casino inspection team.

4.2.1 Approach to licensing

The licence for Melbourne's casino was granted in November 1993 and expires in November 2050. VCGLR has a range of ongoing licensing tasks relating to the casino operator and operations including:

- assessing applications from individuals seeking to be associates of the casino operator and applications from certain categories of employees of the operator
- managing the regulatory approvals process for the introduction of new gaming products, systems and related functions at the casino
- reviewing commercial submissions and applications from the operator including any proposed amendments to the casino agreements or licence
- monitoring date-based obligations under the licence and related agreements
- taking disciplinary action against the casino operator when necessary
- assisting with the five-yearly review of the casino operator and licence.

VCGLR established a major licences management team in 2013–14 to provide an improved organisation-wide approach to monitoring the casino operator and other major gambling licensees.

4.2.2 Approach to compliance

VCGLR's predecessor regulators had a specialised team of inspectors solely focused on supervising casino operations. VCGLR undertook a review of its compliance operations during its establishment phase and, in 2013, determined not to use a specialist casino inspection team. Instead it has rotated all compliance inspector teams through the casino using a rotational roster system.

The current roster rotates two staff per team, per shift, from the eight operational teams through the casino. This means that an inspector rostered on at the casino on any particular day may not be rostered back at the casino for 18 days. VCGLR acknowledges that this has resulted in a lack of consistent presence at the casino. It has also made it difficult to maintain continuity of work, consistently apply work practices, and provide adequate training to all staff.

There was also a lack of consistent management oversight in 2013 and 2014, with four different people in the role of manager, casino operations, during that period. This further undermined consistency and led to a number of false starts in reviewing and improving the approach to and conduct of compliance inspection activities. The current manager of casino inspection activities has been in place since October 2014 but is not assigned to the casino on a full-time basis.

The inspectors we interviewed during the audit acknowledged a lack of expertise in monitoring casino operations. They attributed this to a lack of standard operating procedures, inadequate training on casino activities, and limited opportunity to have continuous exposure to the casino due to the roster.

VCGLR's review of its compliance operating model, together with the reduction in staff, has also highlighted a loss of expertise in casino supervision. VCGLR is in the final stages of consultation to change its rostering arrangements to provide for the establishment of a specialised casino team with responsibility for both gambling and liquor to strengthen inspectors' skills in overseeing casino operations.

4.2.3 Integration between licensing and compliance

VCGLR has recently acted to address the need for a coherent organisation-wide approach to casino supervision and integration between the licensing and compliance divisions. Managers from the two divisions now meet regularly to share information, and members of both the licensing and compliance divisions attend meetings with the casino operator.

4.2.4 Reviews and proposals to improve casino supervision

VCGLR has been slow to act on multiple prior reviews and proposals to improve its approach to casino supervision.

There were three separate proposals from the compliance division between 2013 and 2015 to review the scope and scheduling of audits and inspections conducted at the casino. They were not acted on, largely due to ongoing changes in management of the division.

These proposals were focused on creating a more purposeful, risk-based and targeted approach to VCGLR's casino supervision activities. They also sought to increase staff awareness of risks such as money laundering and criminal infiltration, and improve the use of information obtained during audits and inspections.

External review in 2015

VCGLR commissioned a consultant to review its regulatory approach to the casino in August 2015. The consultant found:

- VCGLR lacked a coherent organisation-wide approach to the casino operator across its licensing and compliance functions
- a very underdeveloped risk-based approach to casino regulation, with little supervision effort directed at areas of high harm such as problem gambling and risks associated with intoxicated patrons and money laundering
- an absence of direction and leadership for compliance staff at the casino
- slow progress in clarifying roles and responsibilities with co-regulators such as Australian Transaction Reports and Analysis Centre (AUSTRAC), the financial intelligence agency with regulatory responsibility for anti-money laundering and criminal abuse of the financial system, resulting in little certainty that assumptions about 'who is doing what' were based on solid ground
- a loss of corporate knowledge and expertise on the casino and its unique operations, compounding the weaknesses in VCGLR's regulatory approach.

This review recommended VCGLR improve its approach to casino supervision by:

- reviewing keys risks and its regulatory interventions, to adopt a more risk-based approach
- developing the expertise of licensing and compliance staff working on casino matters through regular training
- identifying and advising government on any legislative impediments to a more risk-based approach
- establishing a cross-organisation casino risk group to monitor risks, share casino-related intelligence and information, engage with co-regulators, adapt VCGLR practice, and report regularly to the VCGLR executive
- working with co-regulators to clarify roles and responsibilities.

VCGLR has begun actions to address the findings and recommendations from this review, including recently completing a regulatory strategy risk review of its approach to the casino.

Regulatory strategy risk review

The regulatory strategy risk review began in mid-2016 to assess the risks of VCGLR's current activities at the casino against the requirements in the Act.

The review has been completed and recommends reducing or eliminating VCGLR compliance activities at the casino in areas where the casino operator has a responsibility or incentive to mitigate risks, such as the handling and counting of money and casino chips, and the verification of gaming equipment. However, the review does not demonstrate that VCGLR has assurance that the casino operator is in fact effectively managing these risks.

VCGLR does not think that maintaining compliance activities in these areas is necessary because its compliance data shows a low breach rate in these types of casino operations. However, the acknowledged weaknesses in VCGLR's approach to casino supervision mean that this data cannot be relied on to justify a reduction in supervision.

4.3 VCGLR's compliance activity at the casino

We found that some audits on key areas of risk for casino operations have not been performed consistently or at all since 2012.

The Act prohibits the casino operator from running the casino unless the VCGLR has approved its system of internal controls, and administrative and accounting procedures. While the Act requires the casino operator to implement the approved controls and procedures, VCGLR should regularly assess whether this is happening.

VCGLR's program of standard inspections and audits at the casino includes over 30 separate activities. There are audits on premium players, table games, money counting and gaming equipment, and the operator's surveillance department.

In late 2013, a compliance division manager overseeing activities at the casino directed inspectors to stop doing routine audits and inspections while the templates for these activities were reviewed. However, this review did not proceed as it was superseded by other planned reviews, and the program of routine inspections and audits did not restart until around September 2014 when a new manager began at the casino. VCGLR inspectors have conducted the audit program regularly since then apart from the exceptions noted below.

4.3.1 Assessment of the casino operator's internal audit function

Regular reviews of the casino's internal audit activities can provide assurance about the adequacy of the casino's internal controls and oversight. VCGLR planned to undertake a quarterly audit on the operator's internal audit function, but has not undertaken any such reviews since August 2012.

VCGLR obtains information on the casino operator's annual internal audit program and copies of the agenda and minutes of the operator's audit and compliance committee meetings. However, VCGLR could not demonstrate that it systematically reviews this material. In addition, the information the operator provides is not sufficient to give assurance that its internal controls and oversight are robust or adequate, because it does not adequately demonstrate the risk assessments, resources, processes or quality assurance used in these activities.

VCGLR can request complete documentation of the operator's audit and compliance committee meetings but has not done so since 2013. This is a gap in its approach because this information could be used to improve its understanding of the effectiveness of the operator's internal controls and to inform the targeting of VCGLR's compliance activities.

VCGLR advised that it intends to reinstate audits of the operator's internal audit function and review the information provided by the operator.

4.3.2 Money laundering

Regulatory authorities worldwide seek to prevent and detect money laundering—the introduction of money from illegal activities into a legitimate financial system.

VCGLR has a standard audit program on the risks of money laundering associated with gaming by premium players at the casino. However, this audit has only been conducted three times since VCGLR was established in 2012 due to a lack of staff with enough knowledge to conduct it. VCGLR advised that it plans to increase the frequency of this audit when it has addressed the deficiencies in its casino supervision training.

4.3.3 Commission-based players and junkets

Commission-based players participate in either a premium player arrangement, where the casino pays them a commission based on their turnover of play, or a junket arrangement, where the casino pays a commission to a junket organiser who introduces a player or group of players to the casino.

VCGLR has audited the casino operator's junket and premium player arrangements five times since the beginning of 2015. These audits have identified potential weaknesses in the casino operator's documentation for some players and junket arrangements. VCGLR is assessing further information from the casino operator on these matters and has directed the casino operator to cease its relationship with a particular junket operator following one of these audits.

VCGLR advised that the frequency of this audit will be increased when it establishes a specialist casino team. Although this is a positive step, restrictions on VCGLR's capacity to fully access the operator's systems compromise the robustness of this audit.

4.3.4 Controlled contracts

Certain categories of contracts that the casino operator enters into are deemed to be 'controlled contracts' under the Act. The categories currently include contracts for gaming equipment, security and surveillance, and gaming-related contractors. The controlled contract regime aims to help prevent the casino operator from entering into business associations with suppliers who may lack integrity.

VCGLR has not undertaken an audit of controlled contracts since 2013 and could not demonstrate that it regularly assesses the effectiveness of the casino operator's controls on these contracts. VCGLR advised that the casino operator had not informed it of any new controlled contracts between 2013 and late 2016 and that it will conduct a risk review to determine whether an audit is required on these contracts.

4.3.5 Analysis of VCGLR audit results

VCGLR does not routinely analyse the results of its audit and inspection activities at the casino. In the absence of such analysis, VCGLR is unable to properly reflect on the results of its own work to inform the conduct, adjustment and better targeting of casino inspection activity.

VCGLR advised that it has not prioritised analysis of the results of the current audit program due to the low breach rate detected. However, VCGLR does intend to analyse its audit program when it has reviewed and adjusted the focus of its compliance program at the casino to inform the targeting of resources.

5 Measuring performance and addressing past audit recommendations

The purpose of the regulatory framework for liquor and gambling is to minimise harm caused by these industries. To achieve this objective, the Victorian Commission for Gambling and Liquor Regulation (VCGLR) has the power to license participants and manage compliance activities. VCGLR should measure and report on how its activities contribute to achieving the objective of harm minimisation.

To regulate these industries effectively, VCGLR needs good working relationships with both the Department of Justice and Regulation (the department) and Victoria Police.

This Part of the report examines VCGLR's internal and external performance measures, and its relationships with the department and Victoria Police.

This Part also reports on agencies' progress in implementing recommendations from our 2010 report *Taking Action on Problem Gambling* and our 2012 report *Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm*.

5.1 Conclusion

VCGLR has started to address weaknesses in how it measures its performance, but public reporting on its performance provides little insight into the extent to which it is meeting the key legislative objectives of harm minimisation. Its emphasis on counting activities—such as the number of compliance inspections—has contributed to operational behaviour that is focused on matters with little relevance to, or effect on, harm minimisation.

VCGLR and the department have worked cooperatively to implement new policies for both the gambling and liquor industries. VCGLR has effective formal and informal relationships with Victoria Police, but there is scope to strengthen these relationships to improve the coordination of compliance activities.

All agencies have made progress in addressing VAGO's past audit recommendations. However, the implementation of several recommendations has been too slow or incomplete.

5.2 Measuring and reporting on performance

Regularly capturing and reporting performance information and data is an important way of providing insights into how an organisation is performing. It also promotes accountability and enables early remedial action to be taken when necessary.

VCGLR collects data and reports on a number of performance measures outlined in the Budget Paper 3 (BP3). It also collects data on a range of other measures that it reports on internally.

5.2.1 Publicly reported performance information

VCGLR's publicly reported performance information focuses on measuring activities, with little direct relevance to, or impact on, harm minimisation.

Figure 5A shows VCGLR's key publicly reported performance measures and performance since 2013–14.

Figure 5A
VCGLR BP3 performance measures

Measure	2013–14	2014–15	2015–16		2016–17
	Actual	Actual	Target	Actual	Target
Quantity					
Liquor and gambling compliance activities	25 000	26 000	NR	NR	N/A
Liquor and gambling inspections completed by VCGLR—metropolitan	NR	NR	11 400	11 835	11 400
Liquor and gambling inspections completed by VCGLR—regional	NR	NR	1 600	2 512	1 600
Liquor and gambling approvals, licence, permit applications and variations determined by VCGLR	46 574	46 020	46 000	46 400	46 000
Liquor and gambling information and advice	131 620	133 104	128 000	126 188	128 000
Operations with co-regulators to identify licensees supplying alcohol to minors or people who are intoxicated	NR	NR	20	35	20
Quality					
Liquor and gambling licensing client satisfaction—percentage	84	84	80	95	80
Timeliness					
Calls to VCGLR client services answered within 60 seconds—percentage (previously recorded as 'Liquor and gambling information and advice responsiveness')	98.4	95	96	84.4	96
Liquor and gambling approvals, licence, permit applications and variations completed within set time	NR	NR	80	94	80

Note: NR = Not publicly reported.

Source: VAGO analysis of BP3 measures.

Changes in these measures each year since 2012 make it difficult to track VCGLR's performance over time. VCGLR changed the definition of the relevant BP3 measure for 2015–16 to count the number of inspections rather than the number of compliance activities. The target for this measure was reduced from 26 000 in 2014–15 to 13 000 for the new measure in 2015–16, and was split between metropolitan and regional inspections.

Although this change was useful, VCGLR is still counting activity rather than measuring impact. VCGLR's performance measures focus almost exclusively on counting the number of activities performed, such as the number of licensing determinations and number of compliance activities and inspections.

Measures such as these can create perverse incentives—activities may be planned and carried out solely to meet numerical targets rather than to achieve regulatory objectives. For example, inspections may be conducted at particular times, venues and locations to allow a high number of inspections to be recorded. The items checked during an inspection may be selected primarily because they are relatively quick to check.

This means that, with a fixed budget to undertake regulatory activities, VCGLR's activities are less likely to identify breaches associated with harms such as irresponsible service of liquor or gambling. This is because detecting breaches of the liquor and gambling legislation associated with high harms requires more time than assessing compliance with administrative matters and requires inspectors to spend time in venues. Based on the findings of this audit, a move to a properly risk-based regulatory approach would likely see a better impact on harm reduction through a reduction in the number of inspections carried out.

VCGLR introduced a new performance measure for 2015–16 on the number of operations with co-regulators, to identify licensees supplying alcohol to minors or people who are intoxicated. This measure will provide some information on compliance actions that are focused on harm minimisation.

Our audit and an internal audit found issues with the reliability of VCGLR's data on compliance activities and inspections—see Part 3 of this report. The weaknesses in the data mean that VCGLR cannot be confident about the accuracy of its publicly reported information.

5.2.2 Internally reported performance measures

VCGLR has improved its approach to measuring and reporting performance for internal management purposes over the last four years. It has reduced the number of measures and included more focus on aspects of performance relevant to achieving the objective of harm minimisation.

VCGLR regularly collates and reports performance data to senior management and commissioners. It is positive that VCGLR has reduced the number of internal performance measures from 125 in 2012 to seven performance measures in July 2016. The current performance measures and frequency of reporting are shown in Figure 5B.

Figure 5B
VCGLR’s current internal performance measures

Internal measure	Reporting frequency
Licences determined within 60 days	Monthly
Contacts to client services	Monthly
Proportion of inspections at high-risk times	Monthly
Inspection—to breach—to enforcement action	Monthly
Proportion of venues with previous breach found to be in breach on subsequent inspection	Monthly
Proportion of new and varied licences subject to breach/compliant in first year	Quarterly
Change in number of specific breaches following targeted education campaigns	Ad hoc

Source: VAGO, based on information from VCGLR.

Previously, VCGLR’s internally reported performance measures largely mirrored the BP3 measures, with a focus on timeliness of processing and counting activity rather than focusing on impact. Under its new approach, VCGLR has broadened its internal performance reporting to include measures more closely aligned to its legislative purpose and objectives.

There is scope to move further towards measuring performance against VCGLR’s legislative objectives and stated regulatory approach, and to publicly report on the new measures, whether or not this is done as part of BP3 reporting.

5.3 Relationships with other agencies

VCGLR is an independent public authority with body corporate status within the department’s portfolio. Maintaining good relationships with other agencies is important for VCGLR to effectively undertake its role. The department has an advisory role to the Minister for Consumer Affairs, Gaming and Liquor Regulation, including advising on the performance of portfolio agencies.

VCGLR depends on government for its funding and must seek any additional funding via the department’s Office of Liquor and Gaming Regulation (OLGR). It also reports to OLGR on a range of operational matters, such as budget expenditure and performance against BP3 targets. VCGLR also works with OLGR as the gambling and liquor policy owner to implement any changes made to industry regulation.

VCGLR also has a relationship with Victoria Police, as a co-regulator in the liquor and gambling industries.

Although there is scope for improvement, VCGLR's relationships with the department and Victoria Police effectively support its role as regulator.

5.3.1 Department of Justice and Regulation

At a senior management level, the Chief Executive Officer of VCGLR and the Executive Director of OLGR meet monthly as part of the legislation and policy committee to discuss issues. There is evidence that new policy initiatives, such as the collection of wholesale alcohol sales data, are discussed and the implementation is tracked and reported on.

In recent years, VCGLR has implemented a number of policy changes in conjunction with OLGR. These have included major policy initiatives such as 'The Freeze'—an initiative that places restrictions on new late-night liquor licences in selected council areas. VCGLR and OLGR discussed ambiguities in the interpretation of the new ministerial guidelines, issued in 2015, to clarify such issues as what constitutes 'live music' and what support would be required from councils.

VCGLR and OLGR also maintain contact and cultivate less formal relationships at officer level as the need arises.

5.3.2 Victoria Police

VCGLR and Victoria Police have made various efforts to improve collaboration between the two agencies. Since 2012, VCGLR and Victoria Police have developed their relationship and entered into a memorandum of understanding (MoU). They regularly communicate about enforcement issues, joint operations and other liquor licensing issues that may arise.

MoU and data sharing

VCGLR and Victoria Police signed an MoU in October 2015 that allows the two agencies to share relevant data.

The MoU was originally intended to be broader in scope and include performance and accountability measures for each agency. However, the final version only covers information sharing. There is scope for the MoU between VCGLR and Victoria Police to be broader, as originally intended.

Victoria Police shares with VCGLR data from its Law Enforcement Assistance Program (LEAP) database, which stores information about crimes brought to the notice of police. This provides VCGLR with intelligence for compliance activities. Victoria Police also shares information on high-harm premises with VCGLR. VCGLR provides Victoria Police with its database of liquor-licensed premises. There is evidence that both agencies are using the data they receive.

Consultation between VCGLR and Victoria Police

There is regular formal and informal contact between VCGLR and Victoria Police. At a formal level, there are terms of reference that guide quarterly executive meetings between VCGLR and Victoria Police. Members of VCGLR attend Victoria Police's Liquor Licensing Working Group.

Victoria Police also has a Liquor Licensing Unit based in VCGLR's office. This gives VCGLR's licensing and compliance divisions access to Victoria Police personnel for any questions they may have on Victoria Police information or advice.

Informally, the intelligence unit of VCGLR's compliance division speaks regularly with Victoria Police's Taskforce Razon about enforcement issues, joint operations and other liquor licensing issues that may arise.

5.4 Action on past audit recommendations

The recommendations from our 2010 report *Taking Action on Problem Gambling* and our 2012 report *Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm* have mostly been implemented. However, action has been too slow or incomplete in several key areas and more work needs to be done.

5.4.1 *Taking Action on Problem Gambling (2010)*

In our 2010 audit *Taking Action on Problem Gambling*, we examined the basis for and implementation of the government strategy for managing the harmful effects of gambling. We found that limited research into problem gambling meant initiatives included in the strategy were not supported by a robust evidence base. There was also an absence of baseline data and targets, and a weak evaluation framework, which meant that we were unable to determine whether the strategy had reduced problem gambling.

We made seven recommendations, three directed to the former Department of Justice (DOJ) and four directed to the former gambling regulator, the Victorian Commission for Gambling Regulation (VCGR). All recommendations were accepted, except one directed to VCGR.

Figure 5C summarises agencies' progress in implementing the recommendations.

Figure 5C
Progress in implementing recommendations
from our 2010 audit

No.	Recommendations	Status
1.	The Department of Justice (DOJ) should continue to address critical gaps in the evidence base through evaluation, its performance management and reporting system and research programs.	✓
2.	The VCGR should further develop its template for social and economic impact assessments by: <ul style="list-style-type: none"> • expanding the data included in the assessments to more comprehensively consider the impact of gaming venues in communities • using trend data • taking account of the socio-economic profile of different areas within municipalities • examining how other indicators, such as gambling-related bankruptcy and homelessness, could be used to augment the analysis of social and economic impact. 	✓✓ ✓✓ ✓✓ ✓✓
4.	VCGR should revise the criteria for approving codes of conduct and self-exclusion programs to allow actions taken by venue operators in implementing these initiatives to be audited.	✓✓
5.	VCGR should provide venue operators with documentation of the outcome of audits relating to responsible gambling initiatives.	✗
6.	DOJ should: <ul style="list-style-type: none"> • evaluate the effectiveness of current responsible gambling training arrangements • expand the scope of the Responsible Gambling Ministerial Advisory Council's upcoming review of the learning principles to address quality assurance processes, standardised assessments, and multiple levels of training. 	✓✓ ✓✓
7.	DOJ should improve evaluation of its strategy, including establishing baseline data, and developing targets and performance indicators.	✓

Note: ✗ = not commenced, ✓ = commenced, ✓✓ = completed.

Source: VAGO.

Evidence-based policy

In our report, we recommended that former DOJ (now the Department of Justice and Regulation) should continue to address critical gaps in the evidence base by conducting evaluations and using its performance management and reporting system and research programs. The department has partially addressed this recommendation.

The Victorian Responsible Gambling Foundation (VRGF) was established in 2011 to research gambling-related harm, provide frontline services to support Victorians affected by problem gambling, and foster greater understanding and awareness in the wider community. VRGF has published a range of research and data on gambling since 2011.

However, the department could not demonstrate that it has implemented or developed any recent strategies, initiatives or proposals for legislative change, based on research, evaluations undertaken or performance management and monitoring since 2011.

Evaluation of gambling strategies

We recommended that DOJ improve evaluation of its problem gambling strategy, including establishing baseline data and developing targets and performance indicators. The department has partially addressed this recommendation.

Victoria has been without an overarching strategy to address problem gambling since the last one ended in 2011. However, there have been some initiatives aimed at reducing the harm associated with problem gambling. The most significant initiative in recent years has been the introduction of a voluntary pre-commitment system for electronic gaming machines (EGM) in December 2015.

Evaluation of pre-commitment scheme for EGMs

All EGMs have been fitted with pre-commitment technology linked across the state, enabling players to track the time and money they spend on all EGMs and pre-commit a time or dollar amount if they choose to do so.

The department is implementing a two-stage evaluation process of the pre-commitment scheme for EGMs. Stage 1 involved developing performance indicators to measure the success of the scheme. This has been completed and the indicators selected are sound.

Stage 2 of the evaluation involves measuring the success of the scheme using these indicators. The department expects this stage to be completed at the end of 2017. The department is currently measuring the impact of this scheme using these indicators.

In terms of early indications of the success of the pre-commitment scheme, a consultant engaged by the department in October 2015 to test the technology before its introduction using a sample of participants reported that:

- 39 per cent of participants chose to use the time- or spending-limit functions
- there were problems recruiting players to participate in the pilot testing.

Screening problem gamblers from the pilot testing program was a requirement of the ethics committee overseeing the program. This made it difficult to estimate the take up or effectiveness of the program in restricting the time or money spent by problem gamblers on EGMs.

Licence to monitor the pre-commitment scheme

Before introducing the pre-commitment scheme, Victoria had a licence in place with Intralot to monitor EGMs. The data collected by Intralot is used to examine the integrity of the system and expenditure on EGMs in Victoria.

As part of the introduction of the pre-commitment scheme, the government decided to amend the existing monitoring licence with Intralot to include monitoring of the pre-commitment scheme for 11 years. An independent pricing review panel comprising technical and commercial consultants decided on the pre-commitment monitoring fee. It is unclear whether this arrangement represents value for money because it was not put out for tender. This approach was taken because advice to government indicated that it would be better not to introduce a parallel monitoring system for EGMs.

To cover the cost of Intralot monitoring the pre-commitment scheme, venues pay a fee of 74.5 cents per machine per day for the length of the licence, which amounts to more than \$90 million. The fee is indexed each year according to the consumer price index. Should the government decide to end the pre-commitment program in 2017, following the formal evaluation, the state will be liable to pay Intralot a fee estimated to be more than \$26 million.

Responsible service of gambling training

In our 2010 audit, we found problems with the quality and consistency of responsible service of gambling (RSG) training courses delivered by registered training organisations (RTO). We recommended that the department evaluate the effectiveness of RSG training arrangements and expand the scope of a planned review of the RSG training to include quality assurance processes, standardised assessments and multiple levels of training.

The department acted on this recommendation by providing advice that led to changes in legislation. These changes gave the Minister for Consumer Affairs, Gaming and Liquor Regulation power to approve the content and delivery of RSG training courses. New RSG courses will include an online training component, delivered by RTOs, and a practical face-to-face component delivered in venues by venue support workers associated with the VRGF. The practical component will focus on how to detect and manage problem gamblers. The relevant EGM venue staff will be required to repeat this training in full every three years.

While the new training model was approved in September 2016, it is worth noting that this recommendation took six years to implement. It was rolled out on 1 January 2017.

5.4.2 *Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm (2012)*

In our 2012 audit *Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm*, we found that poorly developed, implemented and evaluated initiatives had not been effective in reversing the trend of alcohol-related harm in Victoria. We made 10 recommendations directed to five agencies. At the time of audit, eight recommendations were accepted and two were under review. In this audit, we followed up our earlier recommendations directed to VCGLR, the former DOJ and Victoria Police.

Figure 5D summarises progress by agencies in implementing recommendations that were either accepted or under review following the audit.

Figure 5D
Progress in implementing recommendations
from our 2012 audit

No.	Recommendations	Status
3.	DOJ should:	
	• pilot the collection and analysis of liquor sales data from wholesalers to retailers	✓✓
	• improve communication with stakeholders in the development and implementation of initiatives.	✓✓
4.	DOJ should, together with the Department of Planning and Community Development and in consultation with local councils, overhaul the planning permit and liquor licence application process to:	
	• better address community and health concerns	✗
	• improve efficiency	✗
	• clarify roles and responsibilities	✓
	• incorporate an appropriate level of consultation and scrutiny.	✗
6.	VCGLR should:	
	• review its licensing administration practices	✓✓
	• improve its records management and data integrity	✓✓
	• exercise closer oversight over training providers to maintain standards and remove inconsistencies	✓
	• tailor mandatory industry training to better meet attendees' needs.	✓
7.	VCGLR and Victoria Police should:	
	• develop a comprehensive and collaborative enforcement strategy to minimise harm more effectively and efficiently	✗
	• carry out more targeted and intelligence-led enforcement activities.	✓
8.	VCGLR should implement robust, efficient and, where appropriate, consistent practices across its compliance functions.	✓
9.	Victoria Police should:	
	• develop stronger central leadership for alcohol enforcement policy and activities	✗
	• improve the quality of the data it collects on alcohol-related crime.	✓
10.	DOJ should review the <i>Liquor Control Reform Act 1998</i> to facilitate more effective and efficient enforcement action.	✓

Note: ✗ = not commenced, ✓ = commenced, ✓✓ = completed.

Note: Recommendations 1 and 2 were directed to the former Department of Health and related to health strategies.

Source: VAGO.

Evaluation of liquor strategies

We found the performance evaluation framework for the previous alcohol-related harm reduction strategy was not robust and there was no holistic evaluation of its impact. Although our audit did not include a recommendation on this matter, the department addressed the issue in 2014 by commissioning an evaluation framework for alcohol-related policies.

The case study in Figure 5E provides an example of an instance where use of a robust evaluation framework may have better informed the decision to continue a particular harm-reduction initiative, 'The Freeze'.

Figure 5E
Case study: 'The Freeze'

'The Freeze' is an initiative which restricts VCGLR from granting new late-night liquor licences in the cities of Melbourne, Port Phillip, Stonnington and Yarra. According to the department, there are clear links between the density of late-night liquor licences and harm. The Freeze was introduced in May 2008 and has been extended five times. The government commissioned an independent evaluation in 2013. It found that there was no clear conclusion on the effectiveness of The Freeze. Its success was difficult to assess as it was introduced at the same time as other liquor initiatives.

The Liquor Control Advisory Council (LCAC) provides advice on the problems of alcohol abuse and other matters referred to it by the Minister for Consumer Affairs, Gaming and Liquor Regulation. The department indicated that LCAC advised the minister to extend The Freeze in 2015 based on advice from a working group that had examined evidence on its impact. The department also recommended to the minister that The Freeze policy be extended. The Freeze was extended in July 2015 until 30 June 2019.

Notwithstanding this advice to the minister, the effectiveness of The Freeze has not been assessed using the alcohol-specific evaluation framework that has been in place since 2014. Without clear and consistent evaluation outcomes, the evidence base for this policy is unclear.

In July 2015, the minister introduced additional requirements for high-risk licences in these four local government areas. Businesses applying for late-night licences in these areas must now meet specific criteria including:

- gaining the support of the local council
- developing a venue management plan
- providing evidence that the economic and social benefit of granting the licence will outweigh the impact of the licence on alcohol misuse and abuse and community amenity
- ensuring the capacity of the proposed premises will not exceed 200 patrons.

This is positive and shows that a wider consideration of harm is possible in determining high-risk liquor licence applications. The department will be conducting an internal review of the new criteria for approval in line with the evaluation framework for alcohol policy.

Source: VAGO.

Stakeholder engagement

In our 2012 audit, we found that DOJ's consultation with stakeholders was inadequate. We also found that numerous ad hoc initiatives were implemented, which resulted in unintended financial consequences for small businesses. We recommended that DOJ improve communication with stakeholders in the development and implementation of initiatives.

DOJ responded to this recommendation by documenting and endorsing the Liquor and Gaming Stakeholder Engagement Strategy. The department used this strategy when developing the approach to collecting wholesale alcohol sales data. It consulted on the definition of 'small business' and requested comments from the liquor industry on a consultation paper about the proposed policy.

In addition, since our 2012 audit, the LCAC has been re-established. It has 13 members from the community, industry and government.

Collection of wholesale alcohol sales data

We found that many of DOJ's activities directly or indirectly targeted reducing alcohol consumption rates, yet no data was available to measure this. We recommended that DOJ pilot the collection and analysis of liquor sales data from wholesalers to retailers to enable DOJ to measure consumption rates based on sales.

At the time of the audit, DOJ deemed that piloting the scheme was not feasible, but the department has since implemented the recommendation. The *Gambling and Liquor Legislation Further Amendment Act 2014* requires Victorian liquor wholesalers to report their sales data every year. However, a ministerial order exempts small businesses who produce under 3 500 litres of pure alcohol per alcohol type from this reporting. Victoria is the only jurisdiction to have exempted small businesses from reporting. Wholesalers are now required to submit their sales data annually to VCGLR, and the first round of reporting was due in August 2016.

The department is currently finalising an MoU with VCGLR to address the privacy issues about sharing this data. It is expected that the data will be made public on a local government area basis. The data will give the department information about liquor consumption and will help it assess the effectiveness of liquor-related strategies over time.

Local councils and the liquor licensing process

In our 2012 audit, we found discrepancies between conditions for trading hours and patron numbers on planning permits and liquor licences for the same premises. Our report noted that licensees may inadvertently break the law if they do not understand that, if there are discrepancies, they are bound by the shorter trading hours and lower patron numbers.

We recommended that DOJ and the former Department of Planning and Community Development overhaul the liquor licence and planning process to better address community and health concerns, improve efficiency, clarify roles and responsibilities, and incorporate an appropriate level of consultation and scrutiny.

The department provided advice to the then minister on the issue and recommended legislative amendments to address the following issues:

- liquor licence hearings are too expensive and adversarial in nature, limiting council participation
- councils are unclear on the basis for VCGLR's liquor licence decision-making
- councils have difficulty understanding and establishing the grounds for objection under the *Liquor Control Reform Act 1998* (LCRA).

The minister did not act on the advice and, at the time of this audit, the department had not provided this advice to the current minister. To partly address this recommendation, VCGLR, in consultation with the department, developed the Local Government Liquor Licence Objection Kit in June 2015. The kit provides information on why a council can object to a liquor licence under the LCRA and provides examples. However, most of the issues raised in our 2012 audit remain unaddressed.

Review of the *Liquor Control Reform Act 1988*

We found that ambiguity in the definitions of 'intoxication' and 'drunkenness' in the LCRA was limiting the effectiveness of enforcement activities. We recommended that DOJ conduct a review of the LCRA to facilitate more effective and efficient enforcement action.

A review of VCGLR's compliance inspections related to high-risk harms noted that its activities were hampered by overly technical legislative definitions and points of proof required to meet the evidence for intoxication.

The government has begun its review of the LCRA. It released the terms of reference and a consultation paper in early November 2016. The consultation paper seeks input from stakeholders on how the current compliance and enforcement provisions in the LCRA can be improved.

Data for reducing harm

In our 2012 audit, we found that the lack of a centralised database of alcohol-related harms limited DOJ's capacity to develop evidence-based strategies. It also limited the quality of decisions made on liquor licence applications and the ability of VCGLR and Victoria Police to carry out intelligence-led enforcement.

The Department of Health and Human Services has since established a consolidated centralised database for alcohol-related statistics, called AODStats. The AODStats database now incorporates Victorian emergency presentations data, hospital admissions data, road accident data, drug and alcohol ambulance attendances and data from Victoria Police's LEAP crimes database.

Victoria Police and the department both reported that they have explored options to enhance data made available through the AODStats database. For Victoria Police, further action depends on securing funding. The department is in the early stages of exploring opportunities to add wholesale alcohol sales data. However, it has not progressed at this stage. Agencies would greatly benefit from continuing to pursue options to improve the way they capture data on alcohol harm.

Alcohol enforcement policy and initiatives

We recommended that Victoria Police develop stronger central leadership for alcohol enforcement policy and activities. Following the audit, Victoria Police brought together different alcohol enforcement units including Taskforce Razon and its Liquor Licensing Unit, which was responsible for prosecuting breaches of the LCRA. Victoria Police also formed an Alcohol Advisory Group and a Liquor Licensing Working Group.

However, in early 2016, this centralised approach was abandoned. It is now unclear how Victoria Police will ensure strong central leadership for alcohol enforcement policies and activities. The role of the remaining groups centres on the provision of high-level strategic advice, which is not a substitute for central leadership.

Victoria Police needs to clearly document how it intends to ensure strong central leadership for alcohol enforcement policies and activities in its current devolved structure.

Data collection

In our 2012 audit, we also identified problems with Victoria Police's collection of data about alcohol-related crime.

Victoria Police has a range of databases that collect data on alcohol-related crime. These include LEAP, Alcohol Drug Recorded Intelligence for Tasking (ADRIFT) and Interpose, Victoria Police's principal database for collecting and analysing intelligence. There is also the Fixed and Penalty Payments Offences (FPPO) database, owned by Civic Compliance Victoria.

We found Victoria Police's data to be incomplete and inaccurate. The systems and processes used to record and report alcohol-related crime were inefficient and incompatible with the needs of operational police. Alcohol offences were under-reported because there was no mandatory protocol to record the presence of alcohol in a crime. We recommended that Victoria Police improve the quality of its data on alcohol-related crime.

Victoria Police has partially implemented this recommendation. It has made progress on improving the detail recorded in data entry and in reducing duplication of effort.

Victoria Police has:

- introduced a second version of the LEAP electronic data recorder (LEDR Mk2), which allows frontline police to directly enter data into LEAP, thereby reducing data duplication and double handling
- changed the codes used to record information on crimes to more accurately capture whether an individual is affected by alcohol
- begun recording whether alcohol is involved in family violence incidents.

However, Victoria Police has identified a range of limitations in its current methods of collecting this data and its databases, including:

- data entry issues with LEAP, such as under-reporting of incidents, data errors in addresses and no mandatory reporting of the presence of alcohol
- not all FPPO data being accessible to Victoria Police, hindering access to data about alcohol-specific offences
- optional recording of data in ADRIFT, with some data being captured inconsistently and only captured from those in police custody
- restricted access to Interpose, and an onerous process for obtaining information from the system.

Victoria Police has identified ways of improving the quality of its data and has taken some actions to date.

A collaborative enforcement strategy

In our 2012 audit, we found that there was no whole-of-government enforcement strategy for alcohol and, as a result, there were gaps in the approach to enforcement. We recommended that VCGLR and Victoria Police, as co-regulators, should develop a comprehensive and collaborative enforcement strategy to minimise harm more effectively and efficiently, and carry out more targeted, intelligence-led enforcement activities.

VCGLR and Victoria Police have not fully addressed this recommendation because they have not developed and formally adopted a joint enforcement strategy for alcohol-related compliance activities.

Despite this, there is clear evidence of informal collaboration between the agencies, including regular communication on enforcement issues, joint operations and other liquor licensing issues that may arise. However, without an overarching strategy, there is no mutually agreed shared view on the enforcement approach for the liquor industry, leading to a risk of uncoordinated activities.

Victoria Police's current view is that the LCRA could be amended to include intoxication by alcohol and drugs. VCGLR agrees that legislative change is required to clarify this issue.

We also recommended that VCGLR and Victoria Police carry out more targeted, intelligence-led enforcement activities. VCGLR has begun reporting on the number of enforcement activities it undertakes with Victoria Police. In 2015–16, it conducted 35 joint activities with Victoria Police. There do not appear to be any guidelines on when or why joint activities were undertaken. It is therefore unclear whether these enforcement activities have been targeted and intelligence-led.

Appendix A.

Audit Act 1994 section 16— submissions and comments

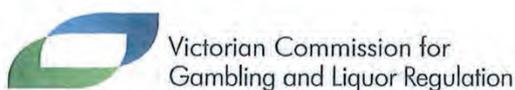
We have consulted with the Victorian Commission for Gambling and Liquor Regulation, the Department of Justice and Regulation and Victoria Police, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Victorian Commission for Gambling and Liquor Regulation	64
Department of Justice and Regulation	67
Victoria Police	69

RESPONSE provided by the Chair, Victorian Commission for Gambling and Liquor Regulation



Victorian Commission for
Gambling and Liquor Regulation

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23 January 2017

Our ref: CD/17/50

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
Melbourne VIC 3000

Dear Mr Greaves

Proposed Performance Audit Report - Regulating gambling and liquor

Thank-you for your letter of 20 December 2016, providing the final opportunity to comment on the proposed performance audit report **Regulating gambling and liquor**.

The Victorian Commission for Gambling and Liquor Regulation (VCGLR) has reviewed the report and notes that many of the issues identified by the audit were also identified by the VCGLR some time ago.

The VCGLR has commenced action to address a number of the recommendations in the audit including those that also relate to the Minister's Statement of Expectations and internal reviews. However, its ability to fully action an ongoing improvement program, and the timing in which this will occur, is dependent on funding availability.

The VCGLR remains committed to continuous improvement of its operations. Enclosed with this letter is the VCGLR's action plan to implement the report's recommendations.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Bruce Cohen', written over a blue line.

Dr Bruce Cohen
Chair

Encl.



RESPONSE provided by the Chair, Victorian Commission for Gambling and Liquor Regulation – continued

VCGLR response to VAGO Proposed Performance Audit Report – Regulating gambling and liquor

Rec. Section	Recommendation	VCGLR Response	Due date
1 2.3.1	That the VCGLR amend its liquor licensing process to: <ul style="list-style-type: none"> require applicants to provide evidence to show that all directors and associates have been disclosed document its assessments against all relevant legislative considerations when determining applications, including applicant suitability, amenity issues, and risk of misuse and abuse of alcohol. 	The VCGLR will <ul style="list-style-type: none"> review its licensing processes and forms with a view to requiring applicants to provide evidence relating to current directors and associates update its decision record templates to explicitly reference all relevant legislative considerations in recording determinations. 	31 December 2017
2 2.3.1	That the VCGLR undergo ongoing checks of liquor licensees to ensure company changes have been disclosed, in line with the <i>Liquor Control Reform Act 1998</i> .	The VCGLR will review its risk approach to incorporate random auditing of licensees to ensure company changes have been disclosed.	30 June 2017
3 2.5.1	That the VCGLR improve its guidance on assessment of licence applications, particular for uncontested applications, and ensure licensing officers use this guidance.	The VCGLR will review and amend existing internal guidance materials to explicitly cover both contested and uncontested applications and incorporate this material in its staff training programs.	30 June 2017
4 2.2.1	That the VCGLR complete implementation of the licensing risk-based model by developing and implementing: <ul style="list-style-type: none"> a set of risk indicators checklists containing triggers for the escalation of applications within or between teams a risk matrix to be considered through the determination phase. 	The VCGLR will continue to develop its licensing risk-based framework and supporting documentation for processing and determining licence applications, however full operationalisation of the framework is contingent on the availability of funding.	30 June 2018
5 2.4.2	That the VCGLR develop principles or guidance for assessing net detriment and report transparently against them in decisions on applications for electronic gaming machines.	The VCGLR will complete its preparation of guidance material for Commissioners in relation to applications for new gaming venues and increases in electronic gaming machines and the application of the no net detriment test.	30 June 2017
6 2.6.2	That the VCGLR broaden its management reporting on licensing activities beyond the speed of processing applications to include quality indicators.	The VCGLR will broaden its internal management reporting of licensing activities to incorporate quality indicators, and will include a review of licensing application processing and reporting into its three year internal audit program.	30 June 2017
7 3.2.3	That the VCGLR conduct robust data integrity checks across all divisions, particularly when relying on data for reporting purposes.	The VCGLR will complete the development of a Master Data framework which provides guidance to enhance data management capability within the organisation. The Master Data framework proposes to initially address areas with high impact of poor data quality (e.g. reporting) with an iterative approach to data quality improvements.	30 June 2017
8 3.3.1	That the VCGLR continue to revise the risk based approach to compliance to ensure better targeting of compliance activities.	The VCGLR will finalise the development of a risk profiling tool to ensure the effective identification of risks (and the level of those risks) and appropriately target organisational resources accordingly.	30 June 2018

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RESPONSE provided by the Chair, Victorian Commission for Gambling and Liquor Regulation – continued

VCGLR response to VAGO Proposed Performance Audit Report – Regulating gambling and liquor

Rec	Section	Recommendation	VCGLR Response	Due date
9	3.3.2	That the VCGLR complete its quality assurance framework for compliance and ensure it focuses on key divisional processes that contribute to the targeting and quality of inspections.	The VCGLR will continue to implement its compliance reform program, including learning and development program, enhancing a risk based approach and operationalising its accountability framework, however the program of work is contingent on the availability of funding.	30 June 2018
10	3.3.2	That the VCGLR continue to roll out its training and ensure there is regular, ongoing training for compliance inspectors.	The VCGLR will continue the planned implementation of its learning and development program for inspectors. Developed and piloted in 2016, the program will be delivered to all existing inspectors with additional training in leadership and investigations practices to follow.	30 June 2018
11	4.2.4	That the VCGLR complete its planned actions to improve the supervision of casino operations.	The VCGLR is currently engaged in consultation with staff in relation to the implementation of a revised roster that will facilitate, among other things, the establishment of dedicated Casino team. It will progress implementation of the new roster at the conclusion of relevant consultation processes.	30 June 2017
12	5.2.1	That the VCGLR work with the Department of Justice and Regulation to improve the quality of its publicly reported performance measures to focus on the outcomes and impact of its work.	The VCGLR will work with the Department of Justice and Regulation to review relevant BP3 measures for implementation in the 2018-19 financial year. The VCGLR will review its current internal performance measures with a view to enhancing performance reporting in its Annual Report.	31 December 2017
13	5.4.2	That the VCGLR and Victoria Police develop a comprehensive collaborative enforcement strategy to more efficiently and effectively target harms associated with licensed premises.	The VCGLR will build upon its existing relationship with Victoria Police to further develop a collaborative enforcement strategy.	31 December 2017

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RESPONSE provided by the Secretary, Department of Justice and Regulation



Department of Justice and Regulation

Secretary



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Our ref: CD/16/648319

12 JAN 2017

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

Proposed Report—Regulating Gambling and Liquor

Thank you for your letter dated 20 December 2016 regarding your Proposed Report (the report) *Regulating Gambling and Liquor*, and the invitation to provide a formal response.

The Department of Justice and Regulation (the department) recognises the importance of effective and efficient regulation for gambling and liquor activities and welcomes the insight provided by the report.

The department accepts the recommendation directed towards it and has provided a proposed action plan for its implementation (Attachment 1).

Thank you again for the opportunity to provide comment.

Yours sincerely

Greg Wilson
Secretary

Encl. Proposed Action Plan – Regulating Gambling and Liquor



RESPONSE provided by the Secretary, Department of Justice and Regulation – continued

Regulating Gambling and Liquor

Department of Justice and Regulation response to VAGO recommendations

Recommendation	Proposed Action	Completion Date
<p><u>Recommendation 14</u></p> <p>That the Department of Justice and Regulation develop performance measures to enable regular monitoring and reporting on the impact of liquor and gambling strategies and initiatives (see Sections 5.4.1, 5.4.2).</p>	<p>Recommendation Accepted</p> <p>The Department of Justice and Regulation will develop key performance indicators (KPIs) for new liquor and gambling strategies.</p>	<p>1 January 2018</p>

RESPONSE provided by the Chief Commissioner, Victoria Police



Graham Ashton AM
Chief Commissioner of Police

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Our ref: FF 101564-1
Your ref: 31980

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
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Dear Mr Greaves

PROPOSED REPORT REGULATING GAMBLING AND LIQUOR

Thank you for the opportunity to comment on the audit into the effectiveness and efficiency of the Victorian Commission for Gambling and Liquor Regulation (VCGLR).

Victoria Police welcomes the robust analysis throughout the audit process and the identification of key issues relating to enforcement, monitoring and compliance. I note the finding that while there is scope for improvement, the relationship between Victoria Police and the VCGLR is effective in supporting its role as regulator.

Victoria Police notes the audit recommendation that Victoria Police and the VCGLR develop a comprehensive collaborative enforcement strategy to target harms associated with licensed premises more efficiently and effectively. Victoria Police supports this recommendation in principle, noting that initial work will focus on scoping a collaborative enforcement strategy.

Victoria Police and the VCGLR have commenced this work and currently have an information sharing Memorandum of Understanding in place to support intelligence led and targeted operations. Victoria Police will revisit this work with the VCGLR and scope a collaborative enforcement strategy, which will include improving risk-based approaches and focusing effort on the most productive enforcement activities, including joint activities where appropriate.

Page 1 of 2

RESPONSE provided by the Chief Commissioner, Victoria Police – continued

I note that the Review of the *Liquor Control Reform Act 1998* may provide a future opportunity for reform that assists enforcement activities on licensed premises, including enhancements to laws regarding supply of intoxicated persons and responses to drugs on premises.

In regard to ensuring centralised leadership for alcohol enforcement policies and activities within Victoria Police, I draw your attention to the Victoria Police strategy, *Policing Alcohol Harm in Victoria 2014–2024* and associated work. In addition to the activities underway to strengthen capability, partnerships and reducing harm; Victoria Police has a sound governance arrangement for coordinating alcohol policy and tasking.

The majority of licensing and enforcement activities are undertaken by police working in regional roles. Resourcing and operational decisions are made at the local level according to need and priority through established statewide tasking and coordination processes. Taskforce Razon supports this approach, responding to high risk venues based on intelligence and requests for assistance. In future, Victoria Police intends to review its training on liquor licensing and update the Licensed Premises Harm Prevention and Enforcement Model to better support staff in policing of licensed premises.

Should you require any further information, please do not hesitate to contact Deputy Commissioner, Capability, Ms Wendy Steendam.

Yours sincerely



Graham Ashton AM
Chief Commissioner

23/01/2017

Auditor-General's reports

Reports tabled during 2016–17

Report title	Date tabled
Enhancing Food and Fibre Productivity (2016–17:1)	August 2016
Audit Committee Governance (2016–17:2)	August 2016
Meeting Obligations to Protect Ramsar Wetlands (2016–17:3)	September 2016
Efficiency and Effectiveness of Hospital Services: Emergency Care (2016–17:4)	October 2016
High Value High Risk 2016–17: Delivering HVHR Projects (2016–17:5)	October 2016
Security of Critical Infrastructure Control Systems for Trains (2016–17:6)	November 2016
Financial Systems Controls Report: 2015–16 (2016–17:7)	November 2016
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015–16 (2016–17:8)	November 2016
Water Entities: 2015–16 Audit Snapshot (2016–17:9)	November 2016
Portfolio Departments and Associated Entities: 2015–16 Audit Snapshot (2016–17:10)	November 2016
Local Government: 2015–16 Audit Snapshot (2016–17:11)	November 2016
Public Hospitals: 2015–16 Audit Snapshot (2016–17:12)	November 2016
Access to Public Dental Services in Victoria (2016–17:13)	December 2016
Managing the Performance of Rail Franchisees (2016–17:14)	December 2016
Managing Community Corrections Orders (2016–17:15)	February 2017

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