LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

REVIEW OF
AUDITOR-GENERAL'S REPORT
NUMBER 4, 1994

- Gaming Machine Administration
- Banking Arrangements

Report Number 16 of the Standing Committee on Public Accounts
November 1994

RESOLUTION OF APPOINTMENT

On 27 March 1992 the ACT Legislative Assembly established a Standing Committee on Public Accounts with the following terms of reference:

(1) Examine -

(a) the accounts of the receipts and expenditure of the Australian Capital Territory;
(b) the financial affairs of authorities of the Australian Capital Territory; and
(c) all reports of the Auditor-General which have been laid before the Assembly;

(2) Report to the Assembly, with such comments as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them to which the committee is of the opinion that the attention of the Assembly should be directed; and

(3) Inquire into any question in connection with the public accounts which is referred to it by the Assembly and to report to the Assembly on that question.

MEMBERSHIP

Mr Trevor Kaine MLA (Presiding Member)
Ms Annette Ellis MLA (Deputy Presiding Member)
Mrs Kate Carnell MLA
Mrs Ellnor Grassby MLA
Mr Michael Moore MLA (from 25 February 1993)

Secretary: Bill Symington

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RECOMMENDATIONS AND REQUESTS

The committee recommends that:

the Government investigate the cost-effectiveness of a detection program more fully and advise the Assembly on the outcome when responding to this report. (Paragraph 2.28)

the Government keep the effectiveness of desk audits under review and that it consider alternative cost-effective methods of monitoring licensee returns. (Paragraph 2.33)

The committee requests that:

the Government, in responding to this report, advise the steps taken to develop performance indicators following the ARO review.
(Paragraph 2.12)

the Government, when responding to this report, indicate the current status with amendments to the Gaming Machine Act. (Paragraph 2.20)

1. INTRODUCTION

1.1 Audit Report No 4 of 1994 is the outcome of two performance audits, namely gaming machine administration and banking arrangements.

1.2 The **Gaming Machine Administration audit** was conducted by Mr Ross Burton of the Audit Office and its objective was to provide an independent opinion on:

- the overall effectiveness of ACT Revenue Office (ARO) in the administration of gaming machine activities;
- the efficiency with which the ARO manages its resources in this area; and
- the relative level of gaming machine taxation revenue compared to other States.[1]

1.3 The **Banking Arrangements audit**, conducted by Mr Peter Hade of the Audit Office with the assistance of KPMG Peat Marwick examined the adequacy of systems, controls, procedures, and other arrangements between the State Bank and the ACT Government for the banking services provided to the Government to ensure that:

- there was compliance with the Audit Act 1989; and
- ACT Government assets are appropriately controlled and safeguarded.[2]

2. GAMING MACHINE ADMINISTRATION

Background

2.1 Poker machines were legalised in the ACT in 1976 and the Gaming Machine Section within the ARO has, since 1990, been responsible for administration of all functions associated with gaming machines including enforcement of the Gaming Machine Act 1987.

2.2 The objective of the Section is to ensure gaming machine operations are of a high standard and are conducted fairly without corruption, to collect revenue and to ensure that machines are of a high standard and are purchased fairly and without corruption.

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[1]audit report no4, 1994, p2
[2]ibid, p1

2.3 Under the Act, taxation on gaming machine operations is assessed monthly. The tax on club machines is 1% of the first $8,000 "net theoretical monthly revenue" and 22.5% thereafter and the tax on other gaming machine licensees, such as hotels and taverns, is a flat rate of 35% of net theoretical monthly revenue.

2.4 Licenses are issued in perpetuity provided licensees pay their monthly tax and do not breach the Act.

Audit Conclusions and Findings

2.5. The audit found that gaming machine operations are generally effectively managed except regarding the detection of possible gaming machine operations on non-licensed premises. The audit found that the ARO has no direct procedures to detect gaming machine operations on non-licensed premises.[3]

2.6 The audit revealed a number of issues which the ARO should address and these are enumerated under the following separate headings. The committee sought a response by the Chief Minister and Treasurer on the findings and these responses are also given in relation to the issue raised by context of each of the audit findings.

Other Considerations

2.7 As the audit report dealt with matters of direct interest to the hotel and club industries the committee invited comment from the Australian Hotels Association and the ACT Licensed Clubs Association.

2.8 The ACT Licensed Clubs Association advised the committee that the audit estimates on revenue raising if the ACT had taxed gaming machine operations during 1992-93 at the average rate for other States and the removal of restrictions on gaming machines in taverns were inadequately researched and lacking in foundation.[4]

2.9 The Association challenged the revenue estimates and was particularly critical that the audit comments appeared to lack understanding of relative differences in focus between clubs in the ACT and NSW and the likely impact on club revenues of changes in the taxation structure.[5]

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[3]ibid, p2
[4]Licensed Clubs Assocn of the ACT, letter to the committee dated 25 July 1994
[5]ibid

Performance Indicators

2.10 The audit found that performance indicators published in Treasury's Annual Management Reports are inadequate and recommended they be developed to specifically state the desired outcomes.[6]

2.11 In response, the Chief Minister advised the committee that the audit recommendation was noted and efforts will be made to develop and apply more focussed performance indicators. However, the Chief Minister advised that finalisation will depend on the outcome of the current review of Revenue Office functions, structures and procedures.[7]

2.12 **The committee notes the Chief Minister's comment and requests that the Government, in responding to this report, advise the steps taken to develop performance indicators following the ARO review.**

Control of Gaming machines

2.13 While the audit found that procedures for monitoring and detecting illegal gaming activities are considered to be generally effective, the inspection process could be improved to ensure that all licensees are inspected at least once each three years, and it made recommendations to that effect.[8]

2.14 The Chief Minister advised the committee .that there are 3311 licensed gaming machines in the ACT and during the last financial year the ARO examined and installed 1451 machines. This involved visiting 65% of all premises and, in addition 56 other visits were made. The Chief Minister advised that while there are no written inspection procedures, inspectors carry out random inspections during the course of general visits associated with the administration and regulation of machines.[9]

2.15 The Chief Minister advised that current practice is considered an adequate control, further advising that no unlicensed machines have been found in the ACT since 1976 and it was highly unlikely, given the stringent regulatory procedures, that licensees would risk the use of unlicensed machines. However, the Chief Minister advised the committee that a cyclical program is being designed to ensure inspections at least once every three years.[10]

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[6]iaudit report, op cit,,p13
[7]Chief Minister, letter to the committee dated 13 September 1994
[8]audit report, op cit, pp16/17
[9]Chief Minister, op cit
[10]ibid

Register of Licenses

2.16 The audit found that the ARO has not fully complied with the legislative requirement to maintain a register of licenses.

2.17 The Chief Minister advised the committee that the Act does not prescribe the form of the register and most information is maintained in binders and on computer which ARO considers an appropriate register. The only information not currently included relates to license transfers, suspensions and cancellations. These particulars have been retained on file but will now be included in the computer record.[11]

Character Checks for Machine Repairers

2.18 Repairers, in having access to machines, have the potential to manipulate them. The audit noted that all repairers are registered with the ARO and before registration are subject to character checks through the police. However, the audit noted that after the initial character check no further checks are made whereas in Queensland, for example, checks are made each two years. The audit recommended procedures for periodical character checks.[12]

2.19 The Chief Minister advised the committee that ARO accepted the need for tighter controls. Implementation is dependent upon legislative amendment and this will be done to coincide with any changes following from the national review of current registration arrangements in gaming machine occupational areas.[13]

2.20 **The committee notes the Chief Minister's response and requests that the Government, when responding to this report, indicate the current status with amendments to the Gaming Machine Act.**

Financial Reporting by Licensees

2.21 The audit found that in recent years only a relatively small number of clubs, hotels and taverns have provided income and expenditure statements as required by the Act. The audit noted that there are financial reporting obligations under the corporations law for incorporated bodies and associations and that the reporting requirements of the Gaming Machine Act could be an unnecessary duplication. It recommended either the implementation of procedures or amendment of the Act to remove the requirement.[14]

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[11] ibid
[12] audit report, op cit, p32
[13] Chief minister, op cit
[14] audit report, op cit, p35

2.22 The Chief Minister advised the committee that action has been taken to obtain outstanding reports and procedures reviewed to ensure observance of the Act.[15]

Special Provisions Relating to Clubs

2.23 The audit noted that the Act contains criteria for assessing the eligibility of a club to hold a license. It observed that of the 70 licenses reviewed by the ARO, 13 had not complied with the Act. It recommended procedures to ensure the regular review of club eligibility.[16]

2.24 The Chief Minister advised the committee that considerable time was spent evaluating each club and although some issues had been outstanding none had been sufficient to disqualify any of the clubs and they had since been finalised. However, the Chief Minister advised that a review of club eligibility status is being developed and will be incorporated into the proposed cyclical inspection program commencing in 1994-95.[17]

Illegal Gaming Machines

2.25 The audit found that the ARO did not have adequate procedures for detecting illegal gaming machine activities apart from advice received from the public. It noted that the highest risk for such activities was in non-licensed taverns and recommended that the ARO should consider a program to detect possible illegal machine operations.[18]

2.26 Responding, the Chief Minister advised the committee that a detection program could not be undertaken within current resource allocations and would not be cost effective if additional resources were to be allocated. The Chief Minister advised that during normal operations ARO inspectors attempt to monitor possible illegal machines but that more often the ARO relies on information from the public. It was noted that the police and the ARO have seized a number of illegal machines and prosecutions had been successful.[19]

2.27 While the committee accepts that the costs of detection have to be weighed against the return to revenue of possible illegal machines, it considers that the ARO needs to have a more reliable source of detection than by means of "tip offs" by the public.

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[15] Chief Minister, op cit
[16] audit report, op cit, pp30/31
[17] Chief Minister, op cit
[18] audit report, op cit, p17
[19] Chief Minister, op cit

2.28 **Accordingly, the committee recommends that the Government investigate the cost-effectiveness of a detection program more fully and advise the Assembly on the outcome when responding to this report.**

Monitoring of Licensee Returns

2.29 The audit calculated that the estimated additional revenue of some $15,000 was achieved at the cost of about $67,000 in desk audit salaries and concluded that a risk based audit selection as used by the Taxation Department and Customs would be appropriate.[20]

2.30 In noting the audit comment, the Chief Minister advised the committee that the ARO objective is to administer taxation legislation fairly and in accordance with the law and in doing this it should not be tied solely to achieving additional revenue. The Chief Minister put the view that the audit overlooked the numerous discrepancies detected and rectified prior to finalising monthly desk audits and the issue of re-assessments. The Chief Minister noted that risk targeting may not detect erroneous data and machine malfunctioning and dishonest practices may go unchecked.[21]

2.31 The committee notes that while the audit considered the desk audit function to be operating effectively, its concern was that this was cost inefficient and that risk based selection of licencees for desk audits should result in a high level of effectiveness being maintained.[22] The audit did not, however, specifically recommend a risk based audit.

2.32 In view of this, the committee's inclination is to accept that the position as outlined by the Chief Minister is, at this stage of the ACT's experience with gaming machines, likely to be more effective in protecting the revenue.

2.33 **However, the committee recommends that the Government keep the effectiveness of desk audits under review and that it consider alternative cost-effective methods of monitoring licensee returns.**

Improved Computer Documentation Procedures

2.34 The audit found that the gaming machine computer system (SUN system) which, among other things, is able to identify problem areas including theft from machines has certain weaknesses. These include lack of documentation, lack of authorisation procedures, no formal contingency plan for recovery from system breakdowns and lack of an approved plan for the system. The audit recommended these be rectified.[23]

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[20]audit report, op cit, pp41/42
[21]Chief Minister, op cit
[22]audit report, op cit, p40
[23]ibid, pp41/42

2.35 In response, the Chief Minister advised the committee that a development plan is being prepared and that the company which developed the system is now contracted to provide ongoing facilities management, maintenance and system development.

3. BANKING ARRANGEMENTS

3.1 The audit concluded that there was satisfactory compliance with the Audit Act and that ACT Government assets are appropriately controlled and safeguarded. However, the audit identified several areas where internal controls could be improved and said that detailed recommendations had been provided to the Treasury. It reported that Treasury had subsequently advised agreement with the findings and recommendations. [24]

3.2 The Chief Minister advised the committee that at the time of writing to the committee there remained only one issue (relating to corporate credit cards) needing resolution before a written agreement between the ACT and the State Bank of NSW could be executed.[25] Inquiries by the committee as to the position with this matter disclosed that it had been held up within the State Bank but was expected to be resolved in the near future.

Trevor Kaine MLA
Presiding Member

[24] ibid, pp1/2
[25] Chief Minister, op cit