Preparing for electronic monitoring of gaming machines

This article provides gambling operators with useful information for preparing their venues for the roll-out of the electronic monitoring system (EMS) for gaming machines in pubs and clubs (see also Preferred vendor for electronic monitoring system, page 5).

The Gambling Act makes EMS compulsory.

EMS will help prevent inaccurate record keeping and incorrect banking, which are the most common problems found in audits carried out by the Department of Internal Affairs. It will improve the accountability of how much money is spent in gaming machines, enable better monitoring of the machines and the collection of information supporting policy development.

EMS will:
• ensure the integrity and fairness of games played on gaming machines
• limit opportunities for crime and dishonesty in connection with the operation of gaming machines
• enable the Department to track and monitor the operations of gaming machines
• provide daily automated and accurate meter readings for each gaming machine.

Gambits index, information about the Gambling Act
This issue of Gambits is accompanied by an index of articles published in issues from December 2003 to March 2005. An electronic index will be updated with each issue and will be posted on the Department’s website, www.dia.govt.nz. A hard copy will be produced annually. December 2003 is the first issue published after the Gambling Act was passed. Earlier issues have not been indexed to prevent confusion between the Gambling Act and its now repealed predecessor, the Gaming and Lotteries Act.
Preparing for electronic monitoring

The daily meter readings will record the profit made on each individual machine and at each venue. This includes the requirement to record details of jackpots.

The following is an indicative timeline for the implementation of EMS. The final timing will depend on final contract negotiations.

<table>
<thead>
<tr>
<th>2005</th>
<th>Planning, building, testing</th>
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<tr>
<td>Late 2005/early 2006</td>
<td>‘Pilot phase’ at some venues</td>
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<tr>
<td>Throughout 2006</td>
<td>Training for societies and venues</td>
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<tr>
<td>Throughout 2006</td>
<td>Gradual roll-out of connection to EMS at all venues</td>
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It is planned that the roll-out will begin with the larger societies in 2006 and will end with the connection of the smaller societies such as clubs. Dates for the roll out will be worked out by the Department and the vendor, including, where possible, discussion with the sector. All venues must be connected to the system no later than 19 March 2007.

If gaming machines in a particular venue are not connected to EMS on the date specified by the Department for that venue, the Act requires that they cease operating (section 86).

The organisation selected to run EMS will supply all necessary equipment for the monitoring system up to and including the site controllers. Operators must ensure that all gambling equipment and venues are upgraded to enable gaming machines to be monitored.

A standard specifying how this is to be done will be published after a contract is signed with the vendor.

The standard will include ensuring:

- all gaming machines are QCOM capable
- a fibre optic loop is installed to connect all gaming machines to the site controller
- the venue has an appropriate modem connection - if the telecommunication process is land based, a dedicated phone line would be required
- a dedicated electrical power supply for the site controller.

QCOM version 1.5.5 will be required for gaming machine upgrades to allow for connection to EMS. QCOM version 1.5.5 should be prescribed as the standard by June 2005.

A fibre optic loop will need to be installed at each venue to enable gaming machines to be connected to a site controller. This cable will run from the site controller to the first gaming machine and from the first gaming machine to the next and so on. The last gaming machine will connect back to the site controller. Any break in the loop will disable all gaming machines on that loop.

A QCOM cabling standard will also be prescribed. A consultation document on cabling standards will soon be sent out.

All jackpots that require a hand pay to pay a winning jackpot will be required to connect to EMS to allow accurate recording of gaming machine profits. It is intended that an interim protocol will be specified and jackpot controllers modified to enable them to connect to EMS.
Major gambling survey to be repeated

This year the Department of Internal Affairs will carry out the fifth survey in a series looking at New Zealanders’ Participation in, and Attitudes Towards Gambling.

The survey is conducted throughout New Zealand using face-to-face interviews with 1,500 people aged 15 years and over. The survey has previously been undertaken in 1985, 1990, 1995, and 2000. The survey questionnaire has been relatively standard over that period.

The survey is highly regarded nationally and internationally because it is a longitudinal survey carried out to a high standard.

The survey does not directly address problem gambling, but it does provide information on the level and frequency of gambling participation in New Zealand.

The survey asks whether people have participated in named gambling activities over the past 12 months; why not, if the answer is no; how often; how much money they spend; why they participate in the activity; and whether they think they won or lost money overall.

The survey series also investigates public attitudes to gambling.

This research looks at:

• which factors people think should guide gambling legislation
• the desirability of gambling activities
• where the profits from gambling activities go
• the definition of “worthy causes” for the receipt of gambling profits.

Results of the 2000 survey are available on the Department’s website, www.dia.govt.nz.
Department speakers available

One of the purposes of the Gambling Act is to “facilitate community involvement in decisions about the provision of gambling.” (section 39(h))

The Department of Internal Affairs is happy to provide speakers, as time and staff availability permits, to provide information to the community and the gambling sector about the Act and all aspects of gambling regulation.

Knowledge of the law can help gambling operators and venues avoid breaches, and can help sector and community organisations identify breaches that might occur.

A Department speaker could also help community organisations find out about the rules for access to funding from gaming machines and for operating their own gambling events for fundraising.

Contact details are listed on the back page of Gambits. The Department will consider all requests for a speaker, though it might not be able to always provide one. Events where several organisations will be represented will usually be given priority.

Speaking notes

The following articles summarise recent presentations given by Department staff. If the speakers’ notes are available, they can be obtained by e-mailing the editor of Gambits at vincent.cholewa@dia.govt.nz.

Gambling Act bans ‘remote interactive gambling’

The Legal Advisor in the Department’s gambling regulation unit, Saar Cohen-Ronen, was invited to give a presentation to the Pacific Conference on Internet Gambling, in Sydney in March 2005.

Mr Cohen-Ronen gave a summary of the Act, focusing on Internet gambling.

The Act bans what it calls “remote interactive gambling” in New Zealand unless it is operated by the New Zealand Racing Board (which trades as the TAB) or the New Zealand Lotteries Commission. Remote interactive gambling includes Internet gambling.

The Act also bans the advertising of overseas gambling in New Zealand. The ban on overseas advertising applies to all forms of gambling.

New Zealanders are not prohibited from gambling on an overseas website but that website must not be promoted in New Zealand.

Not legal advice

Please note that, while Mr Cohen-Ronen gave a summary of useful information about the law, it was not legal advice.

While the Department is happy to provide information about its role and what the law states, it is not a legal or financial advisor.

Where a gambling operator needs to apply what the law states to the specifics of its own business practices, the Department advises it to get independent, professional legal or financial advice.
Preferred vendor for electronic monitoring system

The Department’s Deputy Secretary for Regulation and Compliance, Andrew Secker, was invited to give a presentation to the New Zealand Gaming Expo in Hamilton on 18 March 2005.

Mr Secker spoke about the electronic monitoring system (EMS) for gaming machines in pubs and clubs. The Gambling Act makes it mandatory for all machines in pubs and clubs to be connected to EMS no later than 19 March 2007.

The Department has selected European gambling technology company Intralot as the preferred vendor for providing EMS services. Intralot is a leading supplier of integrated gaming and transaction processing systems, innovative game designs and value added services to state-licensed gaming organisations and financial services providers worldwide.

Intralot has 30 subsidiaries, 7 business offices and 1,500 people in 26 countries. With annual revenues of €325.9m (about NZ$600m), the company dominates in Europe, has secured a strong position in South America and has established a foothold in North America. New Zealand will be its first substantial presence in this region. Following a highly successful period of rapid growth, Intralot currently ranks third on revenues and second in profits among lottery suppliers worldwide.

Intralot currently has gaming machine monitoring operations in two European jurisdictions and the same system will be used in New Zealand. Intralot is also actively involved in the roll-out and subsequent operation of many of the systems they supply.

Department staff have visited some of the jurisdictions using Intralot systems and have been impressed with the technical sophistication and operation of these systems. Regulators have expressed a very high standard of satisfaction with all aspects of Intralot’s involvement in the supply, roll-out and operation of the systems in their jurisdictions.

Due diligence is being undertaken, and the Department is currently in contract negotiations with Intralot. It is expected that the negotiations will be completed by April 2005.

Audit New Zealand has reviewed and assured each stage of the procurement process.

Clubs must have problem gambling policies

The Department’s Deputy Secretary for Regulation and Compliance, Andrew Secker, was invited to give a presentation to the Clubs New Zealand Annual Conference in Hamilton on 20 March 2005. Excerpts from his presentation follow.

The purpose of the Gambling Act 2003, is, among other things, to:

• control the growth of gambling
• prevent and minimise the harm caused by gambling, including problem gambling
• facilitate responsible gambling.

The Act balances these factors against others, such as ensuring profits benefit the community, ensuring gambling is free from crime and facilitating community involvement.

A key risk factor associated with problem gambling is regular participation in any continuous form of gambling, especially gambling...
Continuous gambling involves games that people play quickly and repeatedly (e.g. gaming machines, casino table games, race and sports betting, some “scratch” games). Problem Gambling Committee statistics indicate that gaming machines are the biggest problem. In 2003, 77% of new counselling clients cited pub and club gaming machines as their main problem, and 10% cited casino gaming machines. New Zealand surveys suggest that the gambling behaviour of about 20% of regular pub and club gaming machine players is problematic at any given time (Abbot and Volberg, 2000). In practical terms this means that about one in five of a gaming machine venue’s regular players are likely to be actual or potential problem gamblers.

Regular gambling means weekly or more frequent gambling participation.

If you see someone playing machines in your venue regularly enough to recognise them, there is a reasonable chance that their gambling is a problem.

The Department regards statements in harm minimisation policies submitted by societies that the percentage of problem gamblers is very small (typically 1.3% - 2%) as unacceptable. This figure conservatively estimates the percentage of adult members of the general population that may have experienced problem gambling. It misrepresents the percentage of problem gamblers that frequent gambling venues and ignores the many people close to a problem gambler who are also often affected.

Under the Gambling Act licences will be harder to get and easier to lose. Among other criteria, the Department will carefully consider whether sufficient measures have been adopted to minimise the risks of problem and underage gambling. This means ensuring that problem gambling and underage gambling do not take place in your venues.

In order to obtain both an operator’s licence and a venue licence, applicants must satisfy the Department that they will minimise the risks of problem gambling.

Licence applications must contain a statement about how the operator and the venue propose to minimise the risks of problem gambling (including the society’s policy for identifying problem gamblers, required under section 308 of the Act). The Department has reviewed a number of policies submitted by various societies. We applaud those policies that contain comprehensive requirements and guidelines for venue staff, provided the requirements are reasonable and will help achieve the purposes of the Act.

During the most recent licence renewal rounds, the Department focused primarily on the content of problem gambler identification policies, including practical guidelines for venue staff in relation to exclusion provisions. As gambling providers become more aware of problem gambling and familiar with the requirements under the Act and Regulations, it is expected that the Department’s minimum requirements will expand.
International gambling regulators to meet in New Zealand

The Department of Internal Affairs will host meetings of international casino and other gambling regulators in Wellington in April.

The steering committee of the United States-based International Association of Gambling Regulators will meet on April 19. This will include representatives from New Zealand, Australia, the Channel Islands, Scandinavia, South Africa, the United Kingdom and the United States.

International delegates will remain behind to give presentations to the regular meeting of New Zealand and Australian regulators.

Topics to be discussed include the objectives of gambling regulation over the next three to five years, money laundering, gambling among indigenous people (in terms of both problem gambling and economic development), links between alcohol and gambling, and a casino operator’s view of the future.

The meetings will not be open to the public but the Department will endeavour to make papers publicly available, and presenters and overseas delegates available for media interviews.

Journalists interested in possible interviews can contact the editor of Gambits.

Contact details are on the back page.

Funding for community groups, visit www.dia.govt.nz

The Department’s website provides extensive information about the gambling sector, including details of gaming machine societies that make grants to community groups.

Click on “gambling” for:
• funding for community groups
• gambling statistics
• relevant law

Click on “resources” for:
• application forms for licences, including housie and raffles
• and much more.

Click on “what’s new” for:
• new additions to the website.
Pamphlets and signs for pubs, clubs and casinos

All pubs and clubs with gaming machines and casinos must have problem gambling pamphlets and signs in their venues (Harm Prevention and Minimisation Regulation 11). The Department is developing a pamphlet and a sign to help gambling operators meet these requirements. They will be available on the Department’s website this month.

Operators can design their own pamphlets and signs or they can print the pamphlet and sign from the Department’s website www.dia.govt.nz. Printed copies can also be bought from:

Albion Graphics
12 Armidale Street
Petone, Lower Hutt.
Telephone 04 568 2552
e-mail brian@albiongraphics.co.nz

Updated definition of problem gambling

One of the major changes brought about by the Gambling Act is that, for the first time, the law requires gambling operators in casinos, pubs and clubs to have problem gambling policies and to implement them.

Many operators have contacted the Department asking for advice on these provisions of the Act. The Department cannot write policies for gambling operators, but the articles on pages 3 to 10 of the December 2004 issue of Gambits should provide useful information.

One of the points that has arisen is the need for a definition of problem gambling. In the past the Department has endorsed the description used in the Report on the Social Impact of Gambling, DIA, 1995, p102).

That definition is now 10 years old, and subsequent thinking has led the Department to the view that it is not helpful to use terms like “compulsive addiction” in advice about how to identify problem gamblers at venues.

The definition the Department is now suggesting gambling operators use is:

“Problem gambling is gambling that causes harm or may cause harm to the individual, his or her family, or the wider community. Sometimes the harm may result from just one gambling session. In other cases, it might be the result of regular gambling sessions over a period of time and involving substantial amounts of money. The harmful effects of problem gambling can include:

- Financial problems
- Problems at work (ranging from poor performance to fraud)
- Poor parenting and other relationship problems
- Family violence
- Alcohol abuse
- Mental health problems

“Sometimes the damage is irreversible, for example, suicide.
“Problem gambling almost invariably affects both the gamblers themselves and other people in their lives.”

All Gaming and Censorship Regulation staff can be contacted by phoning the Department’s tollfree number 0800 257 887
HARM PREVENTION AND MINIMISATION

634 problem gamblers excluded from casinos

Summary of casino compliance statistics, July 2004–February 2005

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<th>Totals</th>
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<td>Exclusion orders:</td>
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<td>self-imposed</td>
<td>68</td>
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The Department has Gambling Inspectors working in each of the country’s six casinos. Their roles include:

- receiving complaints from gamblers and the public about the casino
- monitoring casino operations to ensure that they comply with the Gambling Act, regulations and other rules
- carrying out regular audits of casino operations.

The investigations carried out by Inspectors include those relating to gamblers’ complaints, alleged cheating, Certificates of Approval for casino staff and access by people aged under 20.

Since 1 July 2004 casinos have been required to use powers under the Act to exclude problem gamblers. Inspectors must ensure that the casinos have, and are applying, problem gambling policies. The numbers of exclusion orders are reported to the Department by the casinos.

Inspectors audit each casino once a month, including checks on cash handling, operation of gaming machines and compliance with game rules.

If you have any questions about articles in Gambits, would like further information or have comments about what information we could provide to make Gambits more useful to you, please contact

Vince Cholewa: Ph: (04) 495 9350 or 027 272 4270
E-mail: vincent.cholewa@dia.govt.nz
Financial information you must provide when applying for a gaming machine licence

The following five articles are about the financial information that gambling operators must provide when they apply for a licence to operate gaming machines in pubs or clubs.

The Department strongly advises operators and organisations considering applying for new licences to show these articles to their accountants.

The articles are:

- New system to renew licences under Gambling Act, p10
- Financial information clubs must provide to renew gaming machine licences, p11
- Annual reports must be provided within three months of balance date, p14
- Annual reports must be audited, p15
- Financial viability of gambling operators, p15.

Providing this information correctly will greatly speed up the processing of licence applications. Getting it wrong is likely to cause delays and could prevent a licence being granted.

If, after consulting with their accountant, operators still have questions about what information they must provide, they should have their accountant call either of the Department’s Investigating Accountants. Their contact details are below:

**John Currie, CA**  
Investigating Accountant  
Gaming Compliance Unit  
Department of Internal Affairs  
PO Box 1308  
Christchurch  
Telephone 03 353 8304 or 0800 257 887

**Lincoln Butler, CA**  
Investigating Accountant  
Department of Internal Affairs  
PO Box 10-095  
Wellington  
Telephone 04 495 9457 or 0800 257 887

New system to renew licences under Act

Gambling operators applying for a gaming machine licence for a second or subsequent time under the Gambling Act will find the process simpler as long as they have provided all the necessary information during their licensing period (see also New licensing dates, page 16).

The Gambling Act has made major changes to the rules for issuing gaming machine licences. It made licensing a key part of the compliance regime and makes it harder to get a licence and easier to lose one.

The first time gambling operators apply for a gaming machine licence under the Act they must provide much more information than was required under the previous law. This applies to both new licences and to applications to renew a licence that had originally been issued under the old law.

Having provided this information, subsequent renewals will be simpler as long as gambling operators provide the necessary information about any changes they wish to make.

Gambling operators are obliged to make the necessary notifications and applications to amend
Financial information clubs must provide to renew gaming machine licences

The Gambling Act 2003 came into effect on 1 July 2004. Clubs that want to renew their operator’s and venue licences must apply to the Department of Internal Affairs before their current licences expire.

This article explains what information is required for the first renewal under the Act, from a financial perspective. It also explains the format in which the information should be presented. Additionally, it describes common problems found in the recent licence application and renewal round (see also Club secretaries and venue managers, page 18).

**Required information**

Section 56 of the Act allows the Secretary to ask clubs to provide any or all of the information that would be required for a new licence when they apply for a licence renewal. As the Department performs a number of tests at licensing renewal to assess financial viability, clubs are required to provide the following information:

- the club’s financial statements for the most recent financial year (i.e. annual report), audited by a chartered accountant
- the club’s financial statements for the forecast year signed-off (by a chartered accountant) as reasonably prepared
- a completed gaming machine account summary
- a copy of its authorised purpose payments schedule
- a clear statement on the club’s policy as to how the club will maximise net proceeds.

The information should be complete and correct to allow the licence renewal to be processed efficiently.

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from page 10

licences if they make changes relating to matters such as key persons, gambling equipment, authorised purposes, problem gambling policies and methods, and systems or policies for considering applications for grants. Providing this information during the year will greatly speed up renewal of licences at the end of the year.

Not providing the information or providing incorrect information is likely to delay processing of renewals and could lead to action being taken against the venue or operator, either during an audit or re-licensing.

The Application to Renew Class 4 Operator’s & Venue Licence(s) form, is the main form societies use when reapplying for their licence each year. A new, simpler form will be used when a gambling operator is re-licensing for a second or subsequent time under the Act. The new form is called the Gaming Machine Account Summary form and it can be obtained from the Department’s website www.dia.govt.nz.

If, after consulting with their accountant, operators still have questions about the Gaming Machine Account Summary form, they should have their accountant call either of the Department’s Investigating Accountants. Their contact details are on page 10.

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continues page 12
Unfortunately, some clubs in the recent re-licensing round did not supply all the required information. For example, often the forecast audit opinion was not included in the application or the schedule of distributions to authorised purposes was missing. The Department must contact the club in these circumstances, creating an unnecessary delay in processing the application. If all information is provided to the Department the processing of the licence renewal can be done quickly and efficiently.

**Forecast financial statements**

These are to be provided for the entire club (or for the gaming operation, where separate audited financial statements for the most recent financial year have been prepared solely for the gaming operation). Information for both the current year and forecast year is typically included in the forecast financial statements and it should be used as the basis to complete the *Gaming Machine Account Summary* (GMAS).

Often the forecast figures have not been supplied and the Department has had to contact the club to get this information. This has caused delays in the processing of the application renewal.

**GMAS**

The *Application to Renew a Class 4 Operator’s and Venue Licence* form also includes a GMAS.

There have been several problems with the completion of this form:

- The Department requires both current year and forecast year amounts to be included on the GMAS. This has not always been completed, and there have been large gaps in the information provided.
- Sheet 6 – Undistributed Funds: Financial Position Nets to Zero has been amended to reflect that the net position may not net to zero when the entire club’s accounts are used.
- On Sheet 7, the method to calculate the Percentage of Total Proceeds Distributed is to use the funds paid out during the year against the total proceeds derived at Point C. A number of applications have used the net proceeds amount and arrived at a percentage that was incorrect. In some cases, when the correct total proceeds amount was used, the required percentage distributed to authorised purposes has been less than the required percentage.
- The forecast figures should be reasonable and not out of line with the current year. If a forecast figure is significantly different a note should be added explaining why this is the case.
- Sheet 4 of the GMAS deals with costs associated with operating a venue or multiple venues. This panel is usually only relevant to public societies who have a number of venues and not to clubs.
- All clubs are required to have the forecast figures they supply in the GMAS signed off by a chartered accountant. That sign-off must be submitted to the Department as part of the application to renew the licence.

**Audited financial statements**

Section 107 of the Act requires clubs to provide audited financial statements to the Department.

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**Auditors of financial statements must be members of the Institute of Chartered Accountants of New Zealand. The audit opinion needs to be signed by a practising chartered accountant for public societies but the Department will also accept the work of retired chartered accountants for clubs.**

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within three months of the end of a club’s financial year.
This requirement comes into effect for the financial year that commences after 1 July 2004.
Auditors of financial statements must be members of the Institute of Chartered Accountants of New Zealand. The audit opinion needs to be signed by a practising chartered accountant for public societies but the Department will also accept the work of retired chartered accountants for clubs. Associate chartered accountants, accounting technicians and non-members of the Institute of Chartered Accountants are not acceptable. “Reviews” completed by chartered accountants are not acceptable as a substitute for a full audit.
A number of audit opinions have been supplied that have not been signed by a chartered accountant.
Unsigned audit opinions will be returned to clubs requesting that this sign-off be completed by a chartered accountant.
If an audit opinion includes a qualification, the auditor must also provide an explanation, either in the audit opinion or on a separate letter, explaining exactly why the qualification was made and specifically what it relates to. The Department needs to review the seriousness of qualified audit opinions issued if those opinions relate to the gaming machine operation or the ability of the club to continue as a going concern.

Maximising net proceeds
An explanation describing how the club will maximise its net proceeds (GMAS - A5 on p5) is to be included.
Statements submitted have varied, from being left blank to being very detailed. The Department would prefer to see how clubs intend to maximise revenue and minimise expenses. For example, revenue may be maximised by updating the games on the machines regularly.

Expenses may be minimised by having a policy of obtaining three quotes for goods or services that the club is going to purchase, before selecting a supplier.

Schedule of authorised payments
The majority of authorised purpose payments made by clubs are paid to the club itself. A schedule showing a breakdown of who the payments were paid to is required.
The Department only requires a copy of the schedule to be submitted at licensing time, but the club must retain financial records supporting this schedule in sufficient detail that each payment could be evidence if required. Clubs have not always provided this schedule and this causes delay in re-licensing.

Overview
The September 2004 licensing round has been a learning period for everyone involved and some processes are being changed as a result.

Information presented to the Department that is complete and understandable is easier and quicker to process. Clubs should try to ensure the information provided to the Department is accurate and complete.

If, after consulting with its accountant, a club still has questions about the information provided above, it should have its accountant to call either of the Department’s Investigating Accountants. Their contact details are on p10.
Annual reports must be provided within three months of balance date

The key section in the Gambling Act requiring gambling operators to provide an annual report to the Department within three months of balance date is section 107.

This section states:

“A corporate society must, not later than three months after the end of its financial year, provide to the Secretary an annual report on the conduct of class 4 gambling by the corporate society during the year.” (section 107(1))

“The first financial year for which a corporate society must provide an annual report is the financial year that commences after the commencement of this section.” (section 107(3))

The Act came into effect on 1 July 2004. For the September 2004 licence application and renewal round, most societies were not required to submit an annual report within three months of the end of their financial year, as their financial year began before 1 July 2004. The Department encouraged operators to work to the three month reporting criteria contained in the Act now, as it will apply in future licence application and renewal rounds.

The Department encouraged operators to work to the three month reporting criteria contained in the Act now, as it will apply in future licence application and renewal rounds.

To provide an example of how the crossover period works between the old legislation and the new legislation, consider an operator society that has a balance date of 31 March 2005 and is due to re-licence in July 2005. The society would use its audited accounts as at 31 March 2005 as part of its Gaming Machine Account Summary form.

It would not be required to submit those accounts to the Department within three months for the purpose of the July 2005 licence application and renewal round. It would be required to submit those accounts, however, as part of the renewal process.

For the July 2006 licence application and renewal round, the operator would have a balance date of 31 March 2006. Because its financial year would have started on 1 April 2005, which is after 1 July 2004 (the commencement of the Act), the operator would be required to submit its annual report within three months of the balance date.

The requirement to submit the annual report to the Department applies regardless of the timing of the licence application and renewal round. The operator in the above example would be required to submit its annual report to the Department by 30 June 2006, which is before the licence application and renewal round in July 2006. Where the renewal date is three months after the balance date (e.g. June 30 in the above example) the annual report would be submitted at the same time as the renewal.

The requirement to provide an annual report to the Department within three months of the balance date would also apply to all future years.

If, after consulting with its accountant, a club still has questions about the information provided above, it should have its accountant call either of the Department’s Investigating Accountants. Their contact details are on page 10.
Annual reports must be audited

The key section in the Gambling Act, which requires societies to have an annual report audited, is section 107.

It states:

“The annual report must include … an auditor’s report on the information contained in the report.”

(section107(2)(b))

“The first financial year for which a corporate society must provide an annual report is the financial year that commences after the commencement of this section.”

(section 107(3))

“In this section, auditor means … a person who is eligible to be appointed as an auditor under section 199 of the Companies Act 1993.”

(section107(6)(b))

Under the Companies Act 1993, section 199(1)(a), a person must not be appointed or act as an auditor of a company unless the person is a chartered accountant (within the meaning of section 19 of the Institute of Chartered Accountants of New Zealand Act 1996).

Many operators already have their accounts or financial statements audited by a chartered accountant. In those cases there will be no change under the Gambling Act in terms of the auditing requirement. Some operators have had their accounts audited by non-chartered accountants. In these cases there will be a change.

The National Manager of the Gaming Compliance Unit revoked all dispensations granted under the Gaming and Lotteries Act to use someone other than a chartered accountant as an auditor. This applies from 1 July 2004. Revocation was made in a letter to all operators sent in July 2004.

This means that all operators are required to have their accounts audited by a chartered accountant for licence application and renewals round unless:

1. the operator’s financial year began before 1 July 2004, and
2. it holds a written dispensation to use a non-chartered accountant, and
3. the audit was completed before the dispensation was revoked on 1 July 2004.

In practice, this means that nearly all operators will be required to have their accounts audited by a chartered accountant for future licence application and renewals.

A template of how operators’ accounts could be prepared and a standard audit report document are available on the website. Hard copies of these documents were posted to all operators in July 2004.

If, after consulting with its accountant, a club still has questions about the information provided above, it should have its accountant call either of the Department’s Investigating Accountants. Their contact details are on page 10.

Financial viability of gambling operations

The key section in the Gambling Act that requires gambling operations to be financially viable is section 52.

It states:

“The Secretary must refuse to grant a class 4 operator’s licence unless the Secretary is satisfied that … the applicant’s proposed gambling operation is financially viable.”

[section 52(1)(c)]

“In assessing financial viability under subsection (1)(c), the Secretary must consider, among other things, the ability of the applicant to reward winners and pay levies, taxes, and other costs, as well as apply or distribute the net proceeds from class 4 gambling to or for authorised purposes.”

[section 52(2)]

As part of the Department’s assessment of whether a gambling operation is financially viable, the Department requires that all operators provide a forecast for their operation for the next 12 months.

All operators will be required to provide this forecast as part of their Gaming Machine...
New licensing dates

From March 2005, as a result of the Department’s project to stagger licence renewal dates, there will be an even spread of licence renewals throughout the year. The previous situation, with the majority of licences having a September renewal date, will no longer exist.

The result will be a more even spread of workload for licensing staff and faster processing. A class 4 gambling operator’s licence and its related venue licence(s) continue in force after the expiry date of the operator’s licence, as long as the licence holder has applied for renewal before the expiry date and the application has not been refused. (See also Financial information you must provide when applying for a gaming machine licence, page 10.)

Operators will receive a reminder letter 3 months before the expiry of current licences with the following documentation enclosed:

- Gaming Machine Accounts Summary (GMAS) – please note the checklist of associated requirements and return address on the final page
- remittance advice form including a schedule of licence fees.

We require the following documentation fully completed from operators to process their renewal application:

- completed GMAS
- financial statements for the most recent financial year (i.e. annual report), audited by a chartered accountant
- an explanation for any qualified audit reports completed by the auditor
- forecast financial statements signed off by a chartered accountant as reasonably prepared
- a copy of the published list of grants or authorised purpose payments
- a list of venues by name and licence number
- completed remittance advice form and the operator’s cheque for payment of licence fees.

In addition, copies of applicable documents are required where there is any change to:

- the operator’s problem gambling and/or underage gambling policies
- venue agreements that have not previously been advised to the Department.

Many of the issues relating to delays in processing renewal applications have been due to operators providing incomplete applications. This has resulted in the Department seeking additional information before processing could be completed.

Many of the issues relating to delays in processing renewal applications have been due to operators providing incomplete applications. This has resulted in the Department seeking additional information before processing could be completed.

In future any incomplete applications will be returned. It is suggested, therefore, that renewal applications are filed as soon as possible before the licences expire.
Casino branding now banned

Pubs and clubs that have gaming machines must not use the word “casino” or any other word or get-up in a way that gives the impression that the venue is a casino.

The Gambling Act bans such branding (section 121). The ban has been in force since 19 March 2005.

The Department’s Gambling Inspectors are checking on compliance with this requirement during regular audits and visits to venues. They might also receive and follow up information from the public.

The Department can take court action under this section and courts can impose fines of up to $10,000. The Department can also take administrative action, including cancelling or suspending gambling licences.

Casino related words and images appearing as part of the standard artwork or branding on gaming machines or jackpot equipment are unlikely to be banned by this section. However, there may be exceptions such as equipment branding combined with venue branding to give an impression of a casino. Each case would still have to be assessed on its merits.

Account Summary for future licence, application and renewal rounds. The forecast must be signed off by a chartered accountant to confirm that it has been reasonably prepared.

An example of how the forecast accounts could be prepared and a standard sign-off document are available on the website. Hard copies of these documents were posted to all societies in July 2004.

To provide an example of which period to forecast for, assume that an operator has a 31 March 2005 balance date and that its next licence application and renewal round is June 2005. In this case the operator would submit a forecast from 1 April 2005 to 31 March 2006 for the June 2005 licence application and renewal round.

To reduce costs, clubs have the option of basing their forecasts on their overall club financial statements. To do this, a club would provide the Department with a forecast of the separate gaming trading account and the overall club statement of financial position.

A more expensive alternative is for clubs to provide the Department with forecasts relating to their gaming operation only. This means, however, that a club would need to prepare separate financial statements for the gaming operation and have these separately audited so the Department can compare the forecast results to the actual results.

The Department’s experience to date is that most clubs prefer to use the less expensive option of basing forecasts on the overall club financial statements.

If, after consulting with your accountant, you still have questions about the requirements, please direct your accountant to call either of the Department’s Investigating Accountants. The contact details are on page 10.
Club secretaries and venue managers

During the renewal of licence applications, the Department has noted that some smaller clubs who may be run by a committee, for example, do not have a venue manager specified.

The Gambling Act requires that an application for a gaming machine licence must include, among other things, a profile of the venue manager and the venue operator, including details of their experience in class 4 gambling, history in gambling, character, and qualifications (section 65(2)(e)). (See also Financial information you must provide when applying for a gaming machine licence, page 10.)

The profile of the venue manager is so the Department can be satisfied that the venue manager is suitable, in terms of section 68, to supervise the conduct of the gambling at the venue and the venue personnel.

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the club to confirm a specific venue manager and may require that person to submit a personal information form and be subject to relevant suitability checks in terms of section 68 of the Act. In addition to being responsible for supervising the gambling and venue personnel at the class 4 venue, the venue manager is also responsible for:

• Banking the proceeds of class 4 gambling into a dedicated bank account with a registered bank within a specified time frame (section 104). If they do not comply with section 104 they are liable on summary conviction to a fine not exceeding $5000.

• Ensuring persons under the age of 18 do not participate in class 4 gambling (section 302) at the class 4 venue. It is an offence to allow a person under the age of 18 to participate in class 4 gambling and the venue manager is liable on summary conviction to a fine not exceeding $1000.

• Displaying a sign at the venue that the venue has a policy for identifying problem gamblers, and that a copy of that policy is available on request (section 308). If they do not comply with this section the venue manager is liable on summary conviction to a fine not exceeding $5000.

• Taking all reasonable steps to use the venue’s problem gambling policy to identify actual or potential problem gamblers (section 308(4)).

• After identifying actual or potential problem gamblers, approaching those persons and offering advice about problem gambling, including self-exclusion procedures and problem gambling information, and issuing exclusion orders (section 309).

• Issuing exclusion orders to self-identified problem gamblers (section 310).

• Removing persons from the class 4 venue who are in breach of their exclusion orders (section 311).

The venue manager, or the club secretary, will be expected to be aware of and comply with these responsibilities. They should also be aware of the implications of non-compliance.
New checklist to help gambling operators assess their operations

The Department has produced a new checklist to provide gambling operators with a tool to undertake a self-assessment of their compliance with the Gambling Act, related regulations, licence conditions and game rules.

It replaces the previous checklist drawn up under the now-repealed Gaming and Lotteries Act. The previous checklist should no longer be used.

The new checklist will be on the Department’s website, www.dia.govt.nz, and is also being posted to all operators. Using the checklist is not compulsory but is encouraged. It will help operators identify any area of their operation where they might need to make changes to ensure that they comply with the law.

If, following completion of the checklist, operators would like to receive feedback or advice on any matters, they can contact one of the Department’s regional offices. Contact details are on the back page.

Totals reduce but gambling operators and venues getting bigger

The Department of Internal Affairs has released statistics showing that, while fewer pubs and clubs are choosing to host gaming machines, those that do, on average, have more machines.

The trend is the same for pubs, clubs and the gambling sector overall. The total number of venues and machines is decreasing, while the average number of machines per venue is increasing.

<table>
<thead>
<tr>
<th>Date</th>
<th>Sector total</th>
<th>Pubs</th>
<th>Clubs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>12.02</td>
<td>13.01</td>
<td>9.31</td>
</tr>
<tr>
<td>2003</td>
<td>11.19</td>
<td>12.24</td>
<td>8.49</td>
</tr>
<tr>
<td>2002</td>
<td>11.39</td>
<td>12.72</td>
<td>7.99</td>
</tr>
<tr>
<td>2001</td>
<td>9.87</td>
<td>10.92</td>
<td>7.45</td>
</tr>
<tr>
<td>2000</td>
<td>8.6</td>
<td>9.7</td>
<td>6.7</td>
</tr>
<tr>
<td>30 June 1999*</td>
<td>6.5</td>
<td>7.0</td>
<td>5.7</td>
</tr>
<tr>
<td>1998</td>
<td>6.05</td>
<td>6.52</td>
<td>5.36</td>
</tr>
</tbody>
</table>

* Figures for 31 December 1999 are not available
The reasons for the change are not simple. They are probably based largely on gambling operators learning more about how gamblers behave and how to better organise their own operations. It could be that operators are concentrating machines in their most profitable venues. When the Gambling Act was passed in September 2003 there was a bump in the statistics, but the trend for more machines on average in each venue goes back a number of years and seems to have resumed. The stricter controls in the Act tend to reinforce the trend for fewer machines and fewer, but bigger, venues. As expected, the Act brought about the first ever reductions in the total number of gaming machines. The number of machines has reduced each quarter since then (from 22,294 last quarter). However, for years now the number of venues has fluctuated, with the overall trend being a slow reduction.

<table>
<thead>
<tr>
<th>Date</th>
<th>Societies¹</th>
<th>Venues</th>
<th>Gaming machines</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>584</td>
<td>1,850</td>
<td>22,231</td>
</tr>
<tr>
<td>2003</td>
<td>672</td>
<td>2,031</td>
<td>22,734</td>
</tr>
<tr>
<td>30 June 2003²</td>
<td>699</td>
<td>2,122</td>
<td>25,221</td>
</tr>
<tr>
<td>2002</td>
<td>729</td>
<td>2,137</td>
<td>24,330</td>
</tr>
<tr>
<td>2001</td>
<td>785</td>
<td>2,129</td>
<td>21,012</td>
</tr>
<tr>
<td>2000</td>
<td>860</td>
<td>2,065</td>
<td>17,679</td>
</tr>
<tr>
<td>30 June 1999</td>
<td>947</td>
<td>2,137</td>
<td>13,812</td>
</tr>
<tr>
<td>1998</td>
<td>1,011</td>
<td>2,193</td>
<td>13,273</td>
</tr>
</tbody>
</table>

¹. The Act calls the organisations that operate gaming machines in pubs and clubs “corporate societies”.  
². Machine numbers peaked in the quarter before the Gambling Act was passed.

Fewer machines, more profit, bigger returns to the community

Another area that is not as simple as some have claimed is the link between the total amount of profit made from gaming machines and the number of machines. In reality, fewer machines do not necessarily mean less profit for operators. Profits can increase while machine numbers reduce. For example, from 30 June 2003 to 30 June 2004, the number of machines decreased by 11% while profits increased by 10%. In previous years, profits increased at very different rates to the increases in machine numbers. Under regulations in force from December last year, a minimum of at least one-third of profits must be returned to community purposes. As the efficiency of the sector increases, then it could return larger proportions of its profit to the community. In 2002-03 societies returned more than $290 million to community purposes from profits of $941 million.
PUBS AND CLUBS

Summary of trends
• fewer machines, fewer venues, but on average more machines per venue
• the number of societies operating gaming machines is reducing significantly
• total profits are not directly related to the total number of machines
• total profits can increase while total machine numbers reduce.

Possible conclusions
The combination of these trends suggests that the sector is becoming more efficient and is lowering its costs. It is producing more profit from fewer machines at fewer venues. This should allow societies to return a higher proportion of their profits to the community.

The statistics suggest two reasons for costs reducing:
• Economies of scale. That is, there are fewer operators and fewer venues but, on average, both are getting bigger and, at the same time, profits have continued to increase.
• Operators are deciding to stop operating machines or reduce operating hours at some venues and are putting more machines into other venues. As total profits have increased while total numbers of machines and venues have reduced, operators might have decided to focus on their more profitable venues.

Much more information on www.dia.govt.nz

One of the purposes of the Act is to “facilitate community involvement in decisions about the provision of gambling” (section 3(h)). To help achieve this the Department provides as much information as it can to the gambling sector and the New Zealand public overall.

The Department’s website includes information about gambling, including funding for community groups, quarterly and annual statistics, legislation and regulation, etc.
Prohibited prizes being reviewed

The Department is reviewing the regulations that prohibit some things being offered as prizes in raffles, lotteries and other games of chance.

Currently the regulations made in 1993 and 1995 under the now-repealed Gaming and Lotteries Act are still in force. The following goods continue to be prohibited prizes:

- alcohol
- firearms and ammunition
- second-hand goods
- land not zoned residential.

The prohibitions apply to such goods and also to vouchers or entitlements to such goods.

New regulations will be made under the Gambling Act in due course.

Licensed promoters must apply to Department for licences

Organisers of large-scale community fund raising, known as “licensed promoters” under the Gambling Act, must now apply to the Department for licences.

Previously, under the now-repealed Gaming and Lotteries Act, licensing was handled by the Department for Courts.

The activities of licensed promoters will still be regulated by the Gaming and Lotteries (Licensed Promoters) Regulations 1978 until new regulations are made under the Gambling Act.

A society must not engage a licensed promoter unless their relationship is covered by a licensed promoter’s agreement.

A society is a non-commercial association.

Society may engage licensed promoter

A society can pay a licensed promoter to promote licensed class 3 gambling on its behalf. The payment (or “reward”) made to a promoter must not exceed the amount applied to authorised purposes or an amount prescribed by regulations.

A society must not engage a licensed promoter unless their relationship is covered by a licensed promoter’s agreement. Regulations may prescribe the content of such an agreement.

A licensed promoter must not promote a class 3 gambling activity on behalf of a society unless the society has obtained a class 3 operator’s licence to conduct the gambling activity.
Director, Gaming and Censorship Regulation Group (GCR), Keith Manch

GCR is the business group within the Department of Internal Affairs whose role is to bring about compliance with New Zealand’s gambling and censorship laws. There is no direct policy connection between gambling and censorship, but they are the only two enforcement functions that the Department carries out and are grouped under one general manager.

National Manager Gaming Compliance, Greg Crott

A team in Wellington issues all licences for non-casino gaming activities, including prize competitions, housie, lotteries and other games of chance. Inspectors based in Auckland, Wellington and Christchurch conduct audits of gaming machine societies and other kinds of gaming, including instant games, housie, lotteries, prize competitions and licensed promoters. Staff investigate complaints from the public and in some cases instigate prosecutions.

- Manager Gaming Licensing, Steve Brunton
- Manager Gaming Compliance Auckland, Geoff Lawry
- Manager Gaming Compliance Wellington, Adrian Straayer
- Manager Gaming Compliance Christchurch, Kevin Owen

National Manager Casino Compliance, Debbie Ferris

Casino Compliance is responsible for inspecting and monitoring casinos. It conducts compliance audits, ensures on-going suitability of certificate of approval holders, investigates incidents and patron complaints and ensures that casinos comply with the Gambling Act.

- Northern Regional Manager Casino Compliance, Maria Bradshaw
- Southern Regional Manager Casino Compliance, Dennis Petersen

Manager Gaming Operational Policy, Kate Reid

Gaming Operational Policy has responsibility for contributing to policy development in the gaming sector generally, the development of licence conditions and providing operational policy support and advice to GCR’s operational units and the Director. The unit also includes technical advisors responsible for the setting of standards and testing requirements relating to the approval and operation of gaming machine equipment and expert advice on technical issues and investigations. The scrutiny requirements under the Gambling Act for Lotteries Commission products are also included.

National Manager Censorship Compliance, Steve O’Brien

Censorship Compliance is responsible for taking action against people who collect or trade child sex abuse images and for enforcing the Chief Censor’s decisions. It operates under the Films, Videos and Publications Classification Act 1993. It carries out inspections, investigates complaints, issues official warnings and instigates prosecutions where necessary.
The Department of Internal Affairs produces Gambits quarterly. Copies are distributed at the beginning of March, June, September and December.

Gambits provides information about the Department’s recent work and significant issues in the gambling sector.

It is intended for sector organisations and the community in general to increase understanding of and compliance with the law.

Editor: Vince Cholewa
Telephone: (04) 495 9350, 027 272 4270
E-mail: vincent.cholewa@dia.govt.nz

Do you want to receive Departmental media releases and Gambits?

If you would like to have your organisation added to the Department’s distribution list for media releases about gambling issues, or want to receive Gambits but are not currently on the mailing list, please fill out this form and return it, or e-mail the information to:

Department of Internal Affairs, PO Box 805, Wellington.
Communications Advisor Vince Cholewa, telephone (04) 495 9350, fax (04) 495 7224, e-mail vincent.cholewa@dia.govt.nz

Organisation name: ........................................................................................................................................

Contact person: ............................................................................................................................................

Media releases e-mail: ....................................................................................................................................

Gambits postal address: ....................................................................................................................................

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