



# **Practice Guideline for Provincial Licensing Authorities**

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### *Acknowledgement*

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# PRACTICE GUIDELINE FOR PROVINCIAL LICENSING AUTHORITIES

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### ATTACHMENTS

- A Audit file index**
- B Investigation file index**
- C Exceptions/Findings schedule**
- D Audit process model**
- E Investigation process model**

# PRACTICE GUIDELINE FOR PROVINCIAL LICENSING AUTHORITIES

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## 1. INTRODUCTION

This guideline is designed to serve as a highlevel practical guide and framework to assist provincial licensing authorities in the development/refinement of operating procedures covering licensing, audit, investigation, enforcement and inspection functions and processes – not only in respect of limited payout machines, but also covering other areas of operation. As such this guideline focuses on sound principles and best practices aiming to assist in achieving a certain level of uniformity and standardisation in operating approaches, processes and procedures, which would lead to an acceptable level of quality assurance shared by all provincial licensing authorities in the Republic.

Attached to this guideline is documentation that could be customised to individual requirements, but the ultimate format of working papers, work programmes, checklists, report formats and work methodology rest with each individual provincial licensing authority. However, co-operation between provincial licensing authorities in achieving national uniformity in all areas of commonly shared interests is highly desirable and a worthwhile goal to strive for.

It is hoped that this guideline will act as a vehicle to encourage interaction between provincial licensing authorities. In order to further the development and refinement of this guideline, comments and contributions are invited from interested parties. This can be addressed to the Chief Executive Officer of the National Gambling Board, who will arrange for the co-ordination of all inputs. This can be done via e-mail to: [info@ngb.org.za](mailto:info@ngb.org.za)

## 2. QUALITY ASSURANCE

To give credibility to a regulatory environment and to act as the foundation for reliance on the work performed by provincial licensing authorities, quality assurance is an essential ingredient necessary in the performance of all functions.

Quality assurance starts with the use of standardised working papers designed to assist in understanding and achieving work objectives using best practices and preferred methodologies and providing evidence of the work performed. This is achieved through user-friendly design of documentation, incorporating into every working paper the high-level objectives of the work as well as clear instructions for the completion of tasks.

The underlying principles in achieving quality assurance on audit, investigation and other work assignments undertaken by provincial licensing authorities are as follows:

- Each assignment should have a working paper file, which should contain information and evidence of the procedures performed, organised in a manner that would enable a third party to review, understand and evaluate the work carried out in arriving at the findings contained in the report on the assignment.
- Every task should be signed off by the individual who performed the task
- A responsible manager should review the work performed on the assignment to ensure proper and appropriate performance of tasks.
- Before releasing the report on an assignment, the person responsible for the release of the report should perform a quality review on the work performed.

### **3. WORKING PAPERS**

#### **3.1 General**

Proper and appropriate working papers are the building blocks of quality assurance and provide the evidence of work performed.

Standardised working papers should be designed to achieve the following:

- Be used as a tool in performing recurring work assignments in a consistent and organised manner, effectively and efficiently
- Understanding the objectives of the relevant work assignment
- Providing suggested procedures to achieve specified objectives
- Ensuring coverage and completeness of appropriate pre-defined procedures
- Facilitating delegation and training
- Providing a record of:
  - Procedures performed
  - Transactions tested
  - Who did the work
  - Work notes/queries
  - Discussions
  - Findings

Working paper documentation should be revised and refined on a continuous basis.

#### **3.2 Set of Working Papers**

A set of standardised working papers and specimen reports and letters, used in the day to day activities, should be developed and used.

#### **3.3 Filing**

Working papers should be appropriately filed in an organised manner, numbered, indexed and cross-referenced to underlying documentation, in a manner that would enable a third party to review and follow the work trail. For recurring work, such as audits and investigations, standardised file layouts and indexes should be developed – see examples per *Attachments A and B*.

In general the following principles apply to the filing of working papers:

- Main document on top
- Underlying documents below in numbering order
- Documents cross-referenced to facilitate follow-up
- Superseded/replaced working papers containing important notes should be retained and filed appropriately

### **3.4 Tick and other marks used**

Where tick and other marks are used on working papers to indicate work procedures performed, these should be referenced to a legend on the working paper, explaining the procedures performed.

### **3.5 Signing-off of work performed**

Work performed should be signed off by the person who performed it. This also applies to individuals reviewing the work performed by other staff members.

### **3.6 Names of individuals who performed the work**

The names and designations of individuals, who performed the work on an assignment, including their specimen signatures/initials, should be recorded in the working paper file for identification purposes.

### **3.7 Exceptions/findings (work results)**

Exceptions/findings relating to work performed should be recorded on a working paper designed for that purpose – see example per *Attachment C*. Clear formulation in the provided framework and proper cross-reference to underlying documentation will greatly assist in concluding on the findings. This will also facilitate the prompt formulation of a report on the assignment.

### **3.8 Clearing work notes**

All work notes should be cleared or transferred to a special summary and filed as *Notes for Discussion*.

### **3.9 Notes for discussion**

Notes for discussion prior to finalisation should be filed in the front part of the file or specific section as appropriate.

### **3.10 Quality review**

Prior to the formal release of a report on an assignment a manager or responsible staff member should review the relevant working paper file for compliance to work standards.



## **4. AUDITS**

Regular audit of licensees is one of the main components of the compliance function of a provincial licensing authority. The scope, extent and timing of such audits are determined by the primary objectives of a particular assignment.

### **4.1 Overall regulatory objectives**

The main objectives in the regulation of gambling activities can be summarised as:

- Ensuring the accuracy, completeness and timely payment of taxes due and payable in terms of the Act, Regulations and Rules of a provincial licensing authority
- Ensuring the protection of the public with specific reference to fairness of gambling activities, including devices and practices used in connection therewith

### **4.2 Types of audits**

An audit approach should be formulated to achieve the above-mentioned objectives.

- As tax collections are based on revenue, the first objective would be achieved by the formulation of a Revenue Audit approach, focusing on procedures to verify the revenue and tax collection base of a licensee.
- Protection of the public is largely based on the maintenance of internal controls, ensuring fairness of gambling activities and practices, including the integrity of gambling devices and compliance to regulatory requirements. This objective would be achieved through the formulation of a Compliance Audit, focusing on procedures to confirm the continuous satisfactory operation and maintenance of internal control systems designed to provide the required assurance with regard to the protection of the public.

### **4.3 Audit approach**

The overall principles of a suitable audit approach can be summarised as follows:

#### **4.3.1 Risk-based**

The audit approach should be designed to achieve optimal balance between focusing on the areas with the highest inherent risk relating to the audit assurance required and achieving appropriate coverage in respect of the number of audit areas within a given period of time.

#### **4.3.2 Objective-driven**

Clearly formulated objectives should be driving audit procedures. This contributes towards a better understanding by all staff involved of what has to be achieved in order to conclude on work performed and to report thereon. It further promotes better training and delegation of work.

#### **4.3.3 Audit-by-exception/Analytical review**

Audit and inspection actions should be triggered by and focused on behaviour in data ratios and trends, exceptional events, complaints and allegations. In this regard financial and operational statistical data should be reviewed and interpreted on a continuous basis through the application of analytical review procedures, including ratio and trend analysis, industry comparison of key performance indicators and other relevant methodologies. By focusing on critical issues audit assurance is enhanced.

#### **4.3.4 Standards**

The principles embodied in the South African Auditing Standards (SAAS) and the Institute of Internal Audit Standards (IIAS) should be adhered to insofar as it may be applicable to the nature of the work being performed. Reference to the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Casinos* should also be taken into account.

#### **4.3.5 Effectiveness, efficiency and economy of effort**

Audit processes and procedures should take into account accepted methodologies and best practices to ensure effectiveness, efficiency and economy of effort which, on top of the techniques embraced in the above-mentioned principles, should include:

- Planned reliance on internal controls
- Planned reliance on work performed by licensees' internal and external audit functions
- Computerised auditing techniques
- Sampling techniques
- Rotation of emphasis on audit areas
- Surprise visits
- Outsourcing of expertise that cannot be sustained in-house on a fulltime basis

#### **4.4 Audit process model**

An audit process model is depicted in *Attachment D*, dealing in respect of each phase of the audit process – i.e. Planning, Execution, Evaluation and Reporting – with the following elements:

- Objectives
- Deliverables
- Success definitions/measurement
- Critical success factors
- Best practices

The format of this document is a valuable aid in understanding and driving the audit process and can be customised to the required criteria of a provincial licensing authority.

### **4.5 Risk model**

Risk analysis should form part of every assignment undertaken and should be taken into account in the design of procedures to be performed and the extent and timing thereof to achieve the desired objectives.

### **4.6 Sampling model**

Consideration should be given to the adoption of a sampling model.

### **4.7 Reliance on internal/external audit**

The work performed by the licensee's internal audit function and their external independent auditors will form a significant source of audit assurance to the regulator. Reliance should, however, be subject to quality review of work performed by these disciplines.

### **4.8 Audit programmes/audit automation**

Standardised audit programmes should be developed and used where appropriate. Consideration should also be given to audit automation such as specialised software and computer assisted audit techniques, where appropriate.

### **4.9 Specimen reports/management letters, etc**

Specimen reporting frameworks, management and other letters of a recurring nature should be developed and used.

## **5. INVESTIGATIONS**

### **5.1 General**

Investigations are performed to assist in the licensing/registration process as well as for other purposes, the main types being the following:

- Viability and financial investigations relating to an application for a licence – to evaluate and select the most appropriate candidates in terms of relevant selection criteria.
- Probity investigations covering the business of an applicant and individuals having an interest in its ownership as well as the management of an applicant – to filter out undesired elements from the industry. This process starts at the initial application for a licence and is thereafter monitored on a continuous basis for changes that might require re-investigation.
- Probity investigations of a licensee's key and other relevant employees to be registered/licensed – to ensure a high level of integrity within the industry.
- Ad hoc investigations emanating from complaints, allegations, etc.

### **5.2 Guidelines**

Guidelines for conducting investigations should be developed and used.

### **5.3 Investigation process model**

An investigation process model is depicted in *Attachment E*, dealing in respect of each phase of the investigation process – i.e. Planning, Execution, Evaluation and Reporting – with the following elements:

- Objectives
- Deliverables
- Success definitions/measurement
- Critical success factors
- Best practices

The format of this document is a valuable aid in understanding and driving the investigation process and can be customised to the required criteria of a provincial licensing authority.

### **5.4 Risk model**

Risk analysis should form part of every assignment undertaken and should be taken into account in the design of procedures to be performed as well as the extent and timing thereof to achieve the desired objectives.

**5.5 Sources of information**

In many cases an applicant has already been licensed in one or more gambling jurisdictions locally and/or overseas. In order to avoid duplication of cost and effort this valuable source of information should be tapped as a first course of action in any investigation.

**5.6 Reliance on information**

Reliance on internal and external information of the entity being investigated is to be based on the judgement of the individual performing the task, unless specific instructions are received to the contrary. In applying judgement, the particular circumstances of each case should be taken into account. Criteria to this effect will normally be:

- Status of the person/jurisdiction furnishing the information
- Substantiating evidence provided
- Quality assurance review where appropriate

**5.7 Work programmes/specimen reports/engagement letters, etc**

Work programmes, specimen reporting frameworks, engagement and other letters of a recurring nature should be developed and used where appropriate.

## **6. GAMING CONTROL**

Various types of inspections and other processes will be carried out in the normal course of activities, of which the most common types are the following:

### **6.1 *Inspections prior to start-up***

An inspection process should be conducted to assess the state of readiness of a licensee to start with operations. Relevant standardised work programmes, checklists, specimen reports and letters should be developed and used.

### **6.2 *Hardware and software modifications / changes***

Inspections to oversee hardware and software modifications / changes could make up a major part of the activities of inspection / gaming control. Appropriate work programmes and checklists should be developed and used.

### **6.3 *Routine inspections***

Routine inspections for general observation and / or specific purposes are usually more effective if carried out on a surprise basis. Apart from keeping abreast of the current situation at the licensee, this also provides a psychological benefit from a compliance point of view.

### **6.4 *Covert inspections***

Covert inspections may be undertaken from time to time. This will be directed on an ad hoc basis.

## **8. MONITORING OF PROPOSAL DELIVERABLES**

A provincial licensing authority should have an operational function to monitor the compliance of licensees to deliver in accordance with the undertakings contained in their proposals. In case this function is outsourced, management should take control of managing the process through participation in meetings and liaison with the external monitoring team.

## **8. LAW ENFORCEMENT**

The function of law enforcement largely focuses on the eradication of illegal gambling and other infringements of the law. As such there is a degree of overlap between the functions of law enforcement and the compliance (i.e. audit, investigation and gaming control) function. A close working relationship between these two functions is therefore desirable, practical and will add value.

### **8.1 *Main activities***

Among the activities carried out by the law enforcement function are the following:

- Intelligence gathering
- Routine and covert inspections
- Assisting in police raids on illegal gambling sites
- Supporting the compliance function with regard to criminal activities conducted on licensed premises
- Dealing with complaints and disputes
- Reviewing incidents reports
- Reviewing relevant significant event reports
- Managing the internal security of a jurisdiction

### **8.2 *Supporting systems***

In order to properly discharge its duties the law enforcement function should have in place supporting systems (e.g. databases) designed for:

- Recording and dealing with complaints and disputes
- Assisting with intelligence gathering
- Review and follow-up of incident and significant event reports

### **8.3 *Working relationships***

It is most important that the law enforcement function should have a good working relationship with the Director of Public Prosecutions and the police in general.

## 9. LICENSING FUNCTION

The licensing function is responsible for all the elements in the licensing and registration process including the licensing/registration of employees and gambling devices.

### 9.1 *Licensing process*

A normal licensing process entails the following:

- Publication of a notice inviting applications for a licence
- Issue of a Request for Application (RFA)
- Clarification process with regard to the RFA
- Receipt of applications
- Arrange and oversee public inspection
- Receipt of objections
- Investigation and evaluation (conducted by investigation function)
- Arrange and assist in public hearings
- Deliberation and selection (by the Board)
- Issuing or denial of a licence

### 9.2 *Supporting systems*

To properly discharge its duties the licensing function should have in place supporting systems (e.g. databases) designed for:

- Recording of document and workflow to be able to ascertain the status and location of a document at any point in time.
- Recording and control of all licensees and registrations (e.g. employees and gambling devices). This system should be able to handle all the required information in respect of every licensee/registration as well as the complete history thereof.
- Producing complete and accurate licence certificates from source information
- Filing all relevant documentation pertaining to a licensee, including working papers and reports relating to investigations conducted



## **10. RISK MANAGEMENT**

The objective of risk management in the operations of a provincial licensing authority is to identify risks that might prevent it from achieving its operational goals and to formulate appropriate preventative measures to respond to those risks.

Risk management is mainly achieved through:

- Staffing – recruitment, training, performance management, etc.
- Work planning
- Staff planning
- Time and cost budgeting (including a cost record system)
- Monitoring and control of planned elements
- Management meetings

### **10.1 Staffing**

This comprises all activities in order to have the right personnel, properly trained, supported by appropriate infrastructure and tools and able to perform the planned functions in the planned timeframe.

### **10.2 Work planning**

An annual plan should be prepared to cover the work relating to all licensees. The work should then be allocated to individual or group staff and dealt with in the staff planning. Regular activity feedback should be obtained, indicating progress made and future planned action.

### **10.3 Staff planning**

Staff planning should be done on an annual basis and shorter intervals to ensure that the work plan is achieved. The plan should be revised on a regular basis and take into account annual and study leave, training and ad hoc work assignments.

### **10.4 Time and cost budgeting (including cost recording system)**

All assignments should be driven by budgeted time and cost estimates. Timesheets, incorporating travelling and other costs, should be completed on a regular basis. This information is used in monitoring time and cost spent on jobs as well as recovering time and cost in the case of recoverable assignments such as investigations. It is desirable that a database be developed and used to gather and manage this information.

**10.5 *Monitoring and control of planned elements***

In order to achieve targets and goals, and to take timely corrective action, continuous monitoring and control of all planned elements are of the utmost importance.

**10.6 *Management meetings***

Regular management meetings should be held to discuss issues and to monitor progress of the work planned.