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1 July 2019

Ms Catherine Myers
Chief Executive Officer
Victorian Commission for Gambling and Liquor Regulation
Level 3, 12 Shelley Street
RICHMOND VIC 3121

cc: Rowan Harris

By Email

Dear Ms Myers,

Sixth Review of the Casino Operator and Licence (Sixth Review) - Recommendation 3

I refer to Recommendation 3 of the Sixth Review and to our response dated 2 July 2018. Recommendation 3 provides:

The VCGLR recommends that, by 1 July 2019, Crown assess the robustness and effectiveness of its risk framework and systems, including reporting lines in the chain of command, and upgrade them where required. This assessment should be assisted by external advice.

An extensive review of Crown's Risk Management Framework has been undertaken since mid-2017, which commenced with the recruitment of a Group General Manager - Risk and Audit. The recruitment process targeted a risk and audit professional with extensive and proven experience in Risk Management, including the development and implementation of effective and robust risk management frameworks in complex environments. The new Group General Manager – Risk and Audit joined Crown in December 2017.

Between December 2017 and March 2018, an extensive review of existing processes and practices was undertaken. The review included not only the formal and documented processes and framework in place, but also an extensive assessment of the depth of understanding and management of risk across the operation.

This review found that although the formalisation of the risk framework presented a number of opportunities for enhancements, risk was fundamentally well understood and managed within the business and operations. There were also very effective escalation mechanisms that ensured

effective risk-based decision-making and an overall low materialisation of risks in a very large scale, significantly human/manual labour reliant business, with a strong and well embedded risk culture that supported integrity, compliance and customer focus. The review led to a number of recommendations presented to the relevant Executive and Board committees, recommending enhancements across many aspects of the risk framework.

The recommendations for enhancement targeted a number of key framework elements, including:

1. Enhancement of the fundamental risk tools (risk matrix and risk map, system);
2. Enhancement of the Executive risk governance framework, with the creation of a Melbourne Executive Risk and Compliance Committee (**ERCC**);
3. Enhancement of the formalisation of the Board's expectations around risk management, including the documentation of a formal risk appetite and introduction of the three lines of defence model;
4. Formalisation and enhancement of the bottom-up and top-down risk profiling process; and
5. Enhancement of the reporting framework.

At the time PwC came to perform a review of Crown's Risk Management Framework for the VCGLR as part of the Sixth Review in April 2018, item 1 above had been completed and items 2 to 3 were well advanced.

PwC's review confirmed the internal assessment that overall risk management was effective at Crown, noting that 'core fundamentals of a risk management framework are in place and applied across the business', but that there were 'areas of enhancement and maturity possible relative to best practice'. PwC in particular noted the formalisation of a risk appetite and reporting against that appetite as a key item for consideration. That recommendation was in alignment with item 3 above.

Following PwC's review, and taking their input into account, Crown continued its enhancement program and the following elements have now been undertaken and/or implemented:

- A review of the Board Governance Structure, and the existence of a dedicated Audit Sub-committee of the Board, which also includes reporting on risk, that ensures adequate focus of these two material areas of responsibilities of the Board, which confirmed that it is in line with best practice for reporting lines and chain of command.
- The formalisation of the Risk and Audit Team's second and third line roles, with enhanced reporting lines, separation and chain of command.
- The structure and resourcing of the risk team has been enhanced, with the recruitment of a Risk Analyst, that supports the effective reporting of risk to relevant layers of management and governance, and the recruitment of two Risk Managers, embedded in the business, that facilitate the identification, analysis, reporting, communication and management of risks within key business areas (see organisational chart in **Appendix A**).
- The first Melbourne ERCC meeting was held in July 2018 (see ERCC Charter in **Appendix B**).
- The creation of risk categories, to facilitate the creation of a risk appetite and the reporting against it (see Board paper in **Appendix C**).
- The Risk Appetite was extensively deliberated and it received final approval by the Board in November 2018 (see **Appendix C**).

- As aligned with Crown's risk profile, Responsible Service of Gaming is recognised as a material risk to the organisation, and as such has been specifically called out in the formulation of the Risk Appetite (see **Appendix C**).
- The Enterprise Risk Management system CURA has been rolled-out to Crown Melbourne, as the IT system for reporting, recording and management of risks.
- The enhancement of risk reporting to the relevant Executive and Board Committees.
- The consolidated documentation of the Board's expectations in relation to risk management in a 'Risk Management Strategy' document, that was endorsed by the Crown Resorts Risk Management Committee on 29 May 2019, and was approved by the Crown Resorts Board on 12 June 2019. The Risk Management Strategy was immediately applicable to all Crown majority owned entities, including Crown Melbourne (see Risk Management Strategy document in **Appendix D**).

To further ensure the robustness of the enhancements being introduced within the risk management framework, Crown Melbourne sought advice from an external advisory firm on the major elements of the program. The third party review considered that *'Crown's risk management framework and its design is consistent with the risk management standard ISO 31000:2018 Risk Management'* and that *'Crown has a risk management program with the key elements for effective risk management either in place or under development.'* A number of their recommendations were incorporated into the Risk Management Strategy document that was presented to the Crown Resorts Board and approved in June 2019.

Additional comments were provided for future and longer term enhancements, which will be incorporated and/or considered as to their relevance/appropriateness for the longer term continuous improvement program of Risk Management at Crown.

Crown considers that the completion of the assessment of the robustness and effectiveness of its Risk Framework and systems, including reporting lines in the chain of command, and upgrade of them where required, has been completed in satisfaction of Recommendation 3 of the Sixth Review. Crown notes however, that it will continue to enhance its risk framework over time. Further, as noted by the external advisors, *'enhancements to the risk management framework have been made since the PwC review, which will need to be in place for a period of time before their operation and the degree to which they are embedded is assessed.'*

Please do not hesitate to contact me or Joshua Preston if you have any queries.

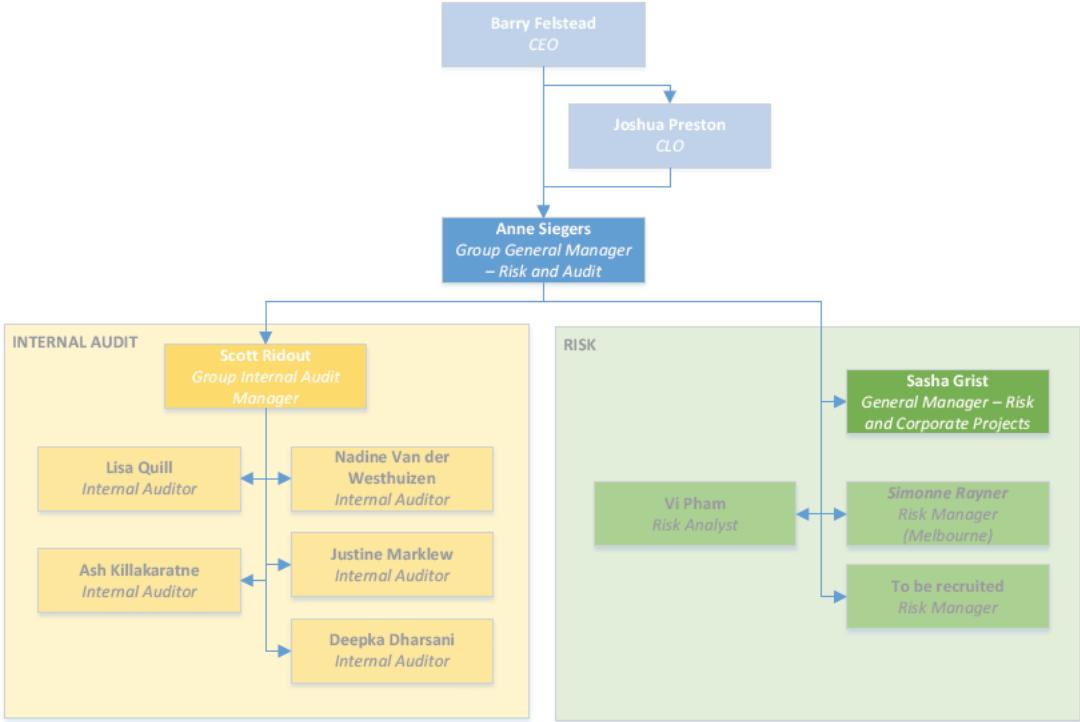
Yours sincerely



Barry Felstead
Chief Executive Officer – Australian Resorts

Encl.

Appendix A – Risk and Audit Organisational Chart



Please note, all roles are Group roles unless otherwise specified.