



Crown Melbourne Limited Audit Committee

Tuesday, 6 August 2019 – 10.00am
Chairman's Office, Level 3, Crown Towers

Attendees: Toni Korsanos (Chair), Professor John Horvath, Ken Barton

Also Invited: John Alexander, Barry Felstead, Mary Manos, Alan McGregor, Joshua Preston, Anne Siegers, Michael Collins (Ernst & Young), Allison Parker (Ernst & Young)

Apologies:

AGENDA

1. **Minutes of Previous Meetings**
 - 1.1. [Confirmation of Minutes of the meeting on 29 May 2019](#)
2. **Matters Arising**
3. **Audit Committee Charter**
 - 3.1. [Review of Audit Committee Charter](#)
 - 3.2. [Independence of External Auditor](#)
 - 3.3. [Independence of Internal Audit Department](#)
4. **[Internal Audit Activity Report: May – July 2019](#)**
5. **[Material Risk Update: May – July 2019](#)**
6. **[Financial Results: Full Year Ending 30 June 2019](#)**
7. **[Ernst & Young Closing Report](#)**
8. **Emerging Risks and Other Business**



AGENDA ITEM 1:
Minutes of Meeting



MINUTES
CROWN MELBOURNE LIMITED AUDIT COMMITTEE
HELD AT THE CHAIRMAN'S OFFICE, LEVEL 3, CROWN TOWERS
WEDNESDAY 29 MAY 2019
12.45PM

IN ATTENDANCE

Committee:	Mrs Toni Korsanos (Chair) Professor John Horvath Mr Ken Barton Mr Joshua Preston (Secretary)
By Invitation:	Mr John Alexander Mr Alan McGregor (CFO Australian Resorts) Ms Anne Siegers (GGM Risk & Audit Australian Resorts) Ms Mary Manos (GC&CS Crown Resorts)
Apologies	Mr Barry Felstead (CEO Australian Resorts)
Start of meeting	12:45pm
Minutes of Meeting Held On 11 February 2019:	The Minutes of the Meeting held on 11 February 2019 were approved.
Matters Arising:	No matters arising.
Internal Audit Charter	<p>Ms Siegers presented the outcomes of the annual review of the Internal Audit Charter. The proposed changes relate to the consolidation of the charters between the Perth and Melbourne properties, in the continued effort to align the framework at the properties and also in advance of Crown Sydney.</p> <p>Professor Horvath enquired as to how the Sydney governance structure would be set up. Mr Barton noted that the regulatory requirements were different to Melbourne, and that most of the governance structure would be at Crown's discretion. At this time, an operating Board has been set up to manage matters in the early stages, however the formal governance structure will be considered and agreed on in the coming months. Professor Horvath supported an early creation of the formal governance structure.</p> <p>Mr Preston noted that in planning for Sydney, all operational governance frameworks were being developed and enhanced with a view that they will be appropriate for Crown Sydney, for example, Risk and Audit Frameworks, Compliance Framework, RSG Framework and the AML Framework</p> <p>The Committee approved the updated Internal Audit Charter.</p>

**Internal Audit Activity
 Report - May 2019**

The paper was taken as read. Ms Siegers spoke to the Internal Audit Activity Report: May 2019, noting the very good results from the Melbourne audits over the period, and noting the main findings for the Group audits, which included a number of moderate issues. The findings around the Patron and Staff Complementaries review related mostly to the efficiency of reporting and transparency mechanisms.

The 'Improvements Required' rating of the Visa Management audit was due to the number of Moderate findings rather than the severity of findings reported. This is in line with the new methodology that standardises findings and report rating for enhanced consistency. The Group audit identified a number of process efficiencies and consistency opportunities between the properties as well as some monitoring enhancements.

Ms Siegers also provide some context around the high number of deferred audits, particularly for Melbourne. Out of the 21 deferred audits, 10 have been rescheduled for F20, and 5 for F21 or F22. 6 were descope due to them being Low risk. Although in sheer number, over half of the reviews were deferred, that only amounted to 28% of total audit effort, since most of the reviews were very small and narrow in scope.

Another element that contributed to delays was the extensive additional (and unexpected) work required by E&Y for the payroll and account payable audits. The work from the Internal Audit team in this respect has doubled since last year. Where requests were deemed unreasonable, Ms Siegers noted that she had challenged them, but with little success. The Internal Audit team has complied with all requests from E&Y which Ms Siegers will ensure is noted in the report.

Mrs Korsanos asked for confirmation that over that period, our payroll and account payable processes and systems had not changed, which was confirmed by management.

Mr Barton noted the increased scrutiny from ASIC of auditing firms like E&Y, and noted that an increased scope of work was required to manage ASIC's expectations. This was resulting in material cost increases to Crown. Mr Barton also noted that E&Y's Crown audit file for F18 was currently being audited by ASIC.

The Committee noted the report.

**Strategic internal Audit
 Plan F20-22**

The paper was taken as read. Ms Siegers noted the focus going forward on a smaller number of larger audits, and where possible, on Group audits. The process has included engagement and feedback from the executive team, and input from the Chair. Most audits are set up on a three year cycle, with the exception of Payroll and Accounts payable which are performed for E&Y reliance.

The format of the Plan is similar to last year's but additional work in the risk management space, including risk profile enhancements and consolidation, means that the Plan is more focused on high risks to the organisation.

Mrs Korsanos suggested that to be pro-active on the potential need to defer

audits in future plans, the Plan could identify, by quarter, the audits that presented less risks to the organisation and could therefore be pushed back with less impact to the assurance activity. Professor Horvath supported this enhanced risk based approach.

Ms Siegers was requested to present at each future meeting, in the Internal Audit Activity Report, the audits that presented less risk to the organisation and could therefore be deferred with less impact to Crown, should it be required. It was also noted that if workload increased with E&Y requirements, the Committee invited Ms Siegers to report back to the Committee and if required seek support for extra resourcing.

The Committee noted its satisfaction with the quality of the process and its approval of the Plan.

Risk Management Update

The update was taken as read and the Committee discussed a number of matters presented in the Executive Summary.

Mr Alexander inquired about the \$25k fine from the VCGLR into a missed junket notification. Mr Preston noted the human error that led to this which was in 2017, but also noted the increased controls framework and scrutiny that was subsequently implemented as a result around junket notifications.

Professor Horvath inquired about the current EA situation. Mr McGregor noted that the Area Manager EA had progressed well, and was going to vote soon with a [REDACTED]. Ms Siegers noted that the risk associated with these events had been increased, knowing the sensitive negotiation period we were in, but that overall the risk had slightly reduced since the last meeting, considering the outcomes of the Area Manager EA. It is proposed that the rating of this risk not be adjusted down until the main EA negotiations are completed.

Professor Horvath also noted the increase in VCGLR related enquiries and matters. Mr Preston noted that significant effort, including by senior management, had been invested into stakeholder engagement including tours with parliamentarians, regulators and related stakeholders, including an upcoming tour with the full Commission of the VCGLR. Mr Alexander and Mr Preston commented that the recently held annual meeting with the Commission was very positive.

Professor Horvath expressed his appreciation of the format and quality of the Update.

The Committee noted the Update.

Risk Management Strategy

Ms Siegers spoke to the Risk Management Strategy paper and noted the process that Crown has been undergoing over the past 24 months in reviewing its risk management framework and ensuring its effectiveness and robustness. Ms Siegers' assessment, which was confirmed by PWC in May 2018 during the S25 review, was that the overall risk framework of Crown was effective and well embedded, but that a small number of governance elements were missing or not well documented. Following the Risk Appetite being formalised and approved by the various Boards in December 2018, the comprehensive Risk

Management Strategy was progressed which formalises the roles and responsibilities, and the minimum standard of risk management expected by the Board.

Ms Manos noted that once the Crown Resorts Board approved the Risk Management Strategy, it would apply to all relevant subsidiaries, including Crown Melbourne.

The Committee noted the Update.

Delegation Policy

Ms Siegers presented the new Delegation Policy, noting some of the history behind the current delegation limits, as well as the shift from property specific to Group functions for a number of areas, including procurement. The change provides Crown with greater purchasing power, but as a result, some of the contracts are increasing in consolidated value.

Ms Siegers noted the robust process that led to the proposed Policy being drafted for consideration.

Mr Barton confirmed that the increase from \$5M to \$10M in overall value was tempered by an annual \$5M limit for contract and commitments.

Ms Manos noted that at the Crown Resorts Risk Management Committee, it was requested that a report on the contracts that had been signed by management that were for a value between \$5M and \$10M be provided to the Committee for information. The Committee agreed with this approach and asked that the provision of the report also be extended to Crown Melbourne.

Mrs Korsanos suggested adding in the purpose section of the Policy that it also aims to assist in effective risk management.

The Committee endorsed the Policy subject to the additional input noted by Mrs Korsanos.

Emerging Risks and Other Business

There were no emerging risks or other businesses brought to the attention of the Committee.

Close:

The meeting closed at 1:43 pm

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Chair



AGENDA ITEM 2:
Matters Arising



AGENDA ITEM 3:
Audit Committee Charter



**CROWN MELBOURNE LIMITED
AUDIT COMMITTEE MEMORANDUM**

To: Audit Committee
From: Anne Siegers
Date: 26 July 2019
Subject: **Crown Melbourne Limited Audit Committee Charter**

Pursuant to Clause 1 of the Crown Melbourne Limited Audit Committee Charter; "the Committee will review the Charter at least annually and refer any proposed changes to the Board of Directors of Crown Melbourne Limited (Board) for approval".

Attached for the Committee's consideration is a copy of the Charter.

The only proposed update is to include consideration for the Risk Appetite.

Kind Regards



Anne Siegers
Group General Manager - Risk & Audit

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	<p>Crown Melbourne Limited Audit Committee Charter</p>
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1. Purpose

The purpose of this charter is to govern the operations of the Crown Melbourne Limited Audit Committee (Committee). The Committee will review the charter at least annually and refer any proposed changes to the Board of Directors of Crown Melbourne Limited (Board) for approval.

2. Functions

The primary function of the Committee is to assist the Board to fulfil its Corporate Governance responsibilities in relation to:

- (a) Financial reporting
- (b) Corporate control and risk management
- (c) External and internal audit

3. Constitution and Membership

- (a) The Board will appoint Committee members (members). Periodically, membership of the Committee will be assessed by the Board and alternate members considered.
- (b) The Committee will comprise a minimum of two Directors independent of the management of Crown Melbourne Limited (Crown);
- (c) The Chief Executive Officer, Chief Financial Officer and such other persons, if any, at the invitation of the Chairman may attend meetings but shall not be entitled to vote.
- (d) The Board will appoint an independent Director as Chairman of the Committee. The Chairman will have a significant background in accounting and / or financial management disciplines. The Chairman may in turn appoint a Deputy Chairman.
- (e) The quorum for any meeting is two members.
- (f) The Committee will maintain direct lines of communication between members, Crown's external auditor, Crown's internal audit department and senior management.
- (g) The Committee may periodically engage expert consultants to assist the Committee to fulfill its responsibilities.

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4. Roles and Responsibilities

(a) Financial Reporting

- (i) The Committee is responsible for overseeing Crown's financial reporting and conveying its observations to the Board. Ultimate responsibility for ensuring Crown's financial disclosures adequately portray the company's financial condition, results of operations, plans and long-term commitments rests with the Board.
- (ii) In discharging its responsibility the Committee will receive, examine and recommend to the Board the half year and full year financial reports of Crown.
- (iii) The Committee may recommend to the Board a change or changes to accounting policy as appropriate. In doing so the Committee will firstly obtain an opinion as to the appropriateness of any change from Crown's external auditor.

(b) Corporate Control and Risk Management

- (i) The Committee is responsible for ensuring the adequacy and effectiveness of Crown's corporate control and risk management systems.
- ~~(ii)~~ The Committee will review Crown Melbourne's Risk Appetite and make recommendations to the Board in relation to its approval.
- ~~(iii)~~ In discharging its responsibility the Committee will receive and disseminate information from Crown's external auditor and internal audit department regarding:
 - (1) The effectiveness of Crown's internal control systems
 - (2) Systems established to assess, monitor and manage key risk exposures
 - (3) Systems established to ensure compliance with relevant legislative and regulatory requirements
 - (4) Findings and recommendations made by either Crown's external auditor or internal audit department and management's responses including:
 - A. The report to the Committee and Board by Crown's external auditor detailing external audit results
 - B. Reports prepared by Crown's internal audit department summarising audit work undertaken, key findings, recommendations and outcomes



- (5) The Committee will report to the Board any significant unresolved differences of opinion between management, Crown's external auditor or internal audit department, and ensure appropriate resolution of the above.

(c) External and Internal Audit

- (i) The Committee is responsible for recommending to the Board the appointment, reappointment, removal and remuneration of Crown's external auditor.
- (ii) The Committee may recommend to the Board the appointment and removal of Crown's Group General Manager Risk & Audit.
- (iii) The Committee will periodically review and ensure the independence of Crown's external auditor, having regard to relationships with Crown beyond external or internal audit, which could impair independence or judgment of Crown. In particular, the Committee will consider annually any non-audit services provided by the external auditor and include a statement in Crown's annual report as to whether, in the opinion of the Committee, the provision of those non-audit services is compatible with the independence of the external auditor.
- (iv) The Committee will periodically review and ensure the independence of Crown's internal audit department by way of:
- (1) Statement by, and inquiry of Crown's Group General Manager Risk & Audit as to the independence and objectivity of the internal audit department; and
 - (2) Meeting with Crown's Group General Manager Risk & Audit independent of management to discuss relevant matters or issues.
- (v) The Committee will review the scope and materiality of audit work performed by Crown's external auditor, having regard to any areas of identified risk.
- (vi) The Committee will ensure the adequate staffing of Crown's internal audit department.
- (vii) The Committee will approve the annual internal audit plan, including resourcing of proposed audit work.
- (viii) The Committee may request Crown's internal audit department to perform reviews, investigations or other services in respect of matters of interest or concern to the Committee.
- (ix) The Committee will ensure that an external independent quality assessment of Crown's internal audit department, against the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, is



conducted at a minimum once every five years, by a qualified independent reviewer or review team from outside of Crown.

5. Meetings

- (a) The Committee will meet at least twice annually and additionally as required by the Committee or the Board.
- (b) The Committee may meet with either representatives of Crown's external auditor or internal audit department, as appropriate.
- (c) Minutes of meetings will be recorded, retained and approved by the Committee as being an accurate record of Committee meetings.
- (d) A copy of the minutes of each Committee meeting will be given to the Board for noting at the next Board meeting.

| July 2019~~9~~

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**CROWN MELBOURNE LIMITED
AUDIT COMMITTEE MEMORANDUM**

To: Audit Committee
From: Alan McGregor
Date: 26 July 2019
Subject: **Audit Committee Charter – Independence of External Auditor**

Pursuant to Clause 4(c)(iii) of the Crown Melbourne Limited Audit Committee Charter, the Crown Melbourne Board Audit Committee (**Committee**) is required to periodically review the independence of the external auditor and in particular, consider annually, "any non-audit services provided by the external auditor," and whether "in the opinion of the Committee, the provision of those non-audit services is compatible with the independence of the external auditor".

To enable the Committee to discharge its responsibilities, non-audit services provided to Crown Melbourne by the external auditor in F19 totalled \$35,926 excluding GST.

Kind Regards



Alan McGregor
Chief Financial Officer Australian Resorts

3.2



**CROWN MELBOURNE LIMITED
AUDIT COMMITTEE MEMORANDUM**

To: Crown Melbourne Audit Committee

From: Anne Siegers

Date: 26 July 2019

Subject: **Audit Committee Charter – Independence of Internal Audit Department**

Pursuant to Clause 4(c)(iv) of the Crown Melbourne Limited Audit Committee Charter; “the Committee will periodically review and ensure the independence of Crown’s Internal Audit Department by way of:

- Statement by, and inquiry of, Crown’s Group General Manager Risk & Audit as to the independence and objectivity of the Internal Audit Department; and
- Meeting with Crown’s Group General Manager Risk & Audit independent of management to discuss relevant matters or issues”.

By reference to the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing (**Standards**) clauses 1110 “Organisational Independence”, 1120 “Individual Objectivity” and 1130 “Impairment to Independence or Objectivity”, I note for the Committee’s consideration, the independence and objectivity of Crown Melbourne’s Internal Audit Department and staff in accordance with the Standards.

Specifically, I am not aware of any personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties or resource limitations impacting the independence or objectivity of the Internal Audit Department and staff.

Additionally, I confirm that in F19, Internal Audit Department staff have not undertaken the assessment of specific operations for which they had previous responsibility, nor completed assurance engagements for functions for which I was previously responsible.

To assist the Committee’s consideration, a paper summarising the Standards’ requirements in respect of the independence and objectivity of internal audit activity is attached.

Kind Regards



Anne Siegers
Group General Manager Risk & Audit

3.3

Independence of Internal Audit

Introduction

- Outlined below is a summary of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (**Standards**) for the independence and objectivity of internal audit activity.

Background

- The Standards **Clause 1100 "Independence and Objectivity"** states that:

"Internal Audit activity must be **independent**, and internal auditors must be **objective** in performing their work".

- The above statement is supported by the following definitions / interpretations:

"Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner", where "the Chief Audit Executive has direct and unrestricted access to senior management and the Board".

"Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made" and "requires that internal auditors do not subordinate their judgement on audit matters to others".

- Further clarification is provided via **Clause 1110 "Organisational Independence"** which states:

"The Chief Audit Executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities" and further "the Chief Audit Executive must confirm to the Board, at least annually, the organisational independence of the internal audit activity".

Sub-Clause 1110.A1 additionally states "the internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results".

- Definitions / interpretations are again provided by the Standards as follows:

"Organisational independence is effectively achieved when the Chief Audit Executive reports functionally to the Board. Examples of functional reporting to the Board involve the Board:

- Approving the Internal Audit Charter;
- Approving the risk based Internal Audit Plan;
- Approving the Internal Audit budget and resource plan;
- Receiving communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the Chief Audit Executive;
- Approving the remuneration of the Chief Audit Executive; and

- Making appropriate inquiries of management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations”.
- Clarification of **individual objectivity** is provided in **Clause 1120 “Individual Objectivity”** which states that:
 - “Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest”.
- Again definitions / interpretations are provided in support of the above:
 - “**Conflict of interest** is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest” which “could impair an individual’s ability to perform his or her duties and responsibilities objectively”.
- **Clause 1130 “Impairment to Independence or Objectivity”** states:
 - “Impairment to organisational independence and individual objectivity may include, but is not limited to:
 - Personal conflict of interest;
 - Scope limitations;
 - Restrictions on access to records, personnel and properties; and
 - Resource limitations such as funding”.
- Summarily, as detailed in **Sub-Clauses 1130.A1, 1130.A2 and 1130.C1** respectively:
 - “Internal auditors must refrain from assessing specific operations for which they were previously responsible”.
 - “Assurance engagements for functions over which the Chief Audit Executive has responsibility must be overseen by a party outside the internal audit activity”.
 - “Internal auditors may provide consulting services relating to operations for which they had previous responsibilities”.



AGENDA ITEM 4:
Internal Audit Activity Report: May – July 2019

	Crown Melbourne Audit Committee Internal Audit Activity Report – FY19 End of Year July 2019
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1. Audits Completed In Reporting Period

1.1 Overview

Two Crown Melbourne audits and one Group audit were completed during the current reporting period, being the final period of the FY19 Strategic Internal Audit Plan. Five Melbourne and four Group audits are currently in progress, all being at the Draft Report stage with the majority awaiting final management comment. It is anticipated that all outstanding FY19 Reports will be rated Satisfactory or better, and will be included in the next Internal Audit Activity Report.

Internal Audit resources were impacted during the period due to the amount of time required to complete the Payroll and Accounts Payable audits for Ernst & Young. This was as a result of the scope of work requested being materially greater than in previous years. The Payroll audit took approximately 45 days to complete compared to a budget of 15 days and the Accounts Payable audit took approximately 25 days to complete compared to a budget of 15.

Internal Audit Report Ratings were as follows:

Type of Activity	Number of Audit Reports Issued	REPORT RATING ¹				
		Excellent	Good	Satisfactory	Improvement Required	Seriously Adverse
Melbourne Internal Audits	2	-	1	1	-	-
Group Internal Audits	1	1	-	-	-	-

Detail of Internal Audits completed during the period are as follows:

Audit	Risk Rating	Scope Overview	Report Rating	No. of Issues Raised ²
Melbourne Internal Audits				
Contracts – ICS	High	Review compliance with VCGLR approved Internal Control Statement, ensuring adherence to approved minimum standards and controls.	Satisfactory	2 Moderate 1 Low
Payroll	Moderate	Review the adequacy and effectiveness of controls covering Crown Melbourne's Payroll function.	Good	2 Low
Group Internal Audits				
Telegraphic Transfers	High	Assess the general control environment of the telegraphic transfer system and test the application controls applied by approved employees. Also, assess controls over the early release of funds.	Excellent	1 PIO

*PIO = Process improvement opportunity

1.2 Key Internal Audit Findings

There were no key Internal Audit findings (Critical and High) identified during the reporting period.

¹ Refer to Appendix 1 for overall report rating definitions

² Refer to Appendix 2 for classification of Internal Audit Findings



2. Strategic Internal Audit Plan

2.1 Summary of Progress against Plan

A summary of FY19 Internal Audit Plan progress is as follows:

Type of Activity	Audits Planned*	Audits Completed	Audit in Progress	Audits Scheduled	Audits Deferred	Audits Consolidated to Group
Internal Audits	40	11	5	0	21	3
Group Internal Audits	11	3	4	0	4	N/A

*Full year Plan

No additional Crown Melbourne audits were deferred or consolidated since the last report. However, the Customs Duties Group Internal Audit has been deferred until FY22 as it was completed during FY19 as part of the FY18 Strategic Audit Plan.

Of the 21 deferred Melbourne audits, which only represent 28% of total audit days of work, the following is noted:

- 9 audits deferred are to be completed in FY20;
- 5 audits deferred are to be completed in FY21 or F22; and
- 7 audits have been removed from the Strategic Audit Plan. These audits have been removed due to their low risk and low audit priority.

The updated timing of the deferred audits has been determined in accordance with the FY20 Strategic Audit Plan, a copy of which has been previously circulated.

2.2 Detailed Status of the FY19 Plan

With Internal Audit team resources settled during the last period of FY19, no further changes to the Internal Audit Plan have been made, with fieldwork for all remaining audits completed and at the Draft Report phase.

The table below details the original FY19 Internal Audit Plan and each audit's updated status.

F19 Internal Audit Plan	Risk Rating	Audit Status	Overall Report Rating	Prior Report Rating	Change	No. Of Issues Raised
Melbourne Internal Audits						
Security Operations (ICS)	Critical	Deferred FY20	-	FY12 Satisfactory	-	-
Surveillance and Security Communications (ICS)	Critical	Complete	Good	FY14 Good		3 PIO



F19 Internal Audit Plan	Risk Rating	Audit Status	Overall Report Rating	Prior Report Rating	Change	No. Of Issues Raised
Gaming Machine Operations (ICS)	Critical	Complete	Excellent	FY16 Satisfactory	↑	1 PIO
Revenue Audit & Reporting (ICS)	Critical	In progress (Draft Report)		FY15 Satisfactory		
Gaming Equipment (ICS)	Critical	Deferred FY20	-	FY15 Satisfactory	-	-
Count Rooms & Drop Box, Drop Bucket, Note Stacker Collection (ICS)	Critical	In progress (Draft Report)	-	FY15 Good	-	-
Contracts (ICS)	Critical	Complete	Satisfactory	FY14 Good	↓	2 Mod 1 Low
Junket and Premium Player Programs (Including VIP Telephone Betting and the Introduction of Players) (ICS)	Critical	Consolidated into the Group VIP Operations audit	-	FY16 Satisfactory	-	-
Compliance Framework Review	Critical	Deferred FY20. To become Group audit	-	-	-	-
VIP International Operations	Critical	Consolidated into the Group VIP Operations audit	-	-	-	-
Gaming Audit Function	Critical	Deferred (as required)	-	FY17 Good	-	-
Responsible Service of Gambling	Critical	Complete	Excellent	FY17 Good	↑	-
Contractor management (iTrack)	High	Deferred FY21	-	-	-	-
Access to Sensitive Areas	High	Complete	Excellent	-	N/A	1 PIO
Security Removals	High	Deferred. Consolidated in Security Operations ICS audit FY20	-	FY17 Satisfactory	-	-
IT Systems Security	High	Deferred (as required)	-	FY18 Excellent	-	-
Mobiles Devices	High	Complete	Improvement Required	FY17 Satisfactory	↓	1 High 1 Low 1 PIO
Whistleblower Hotline	High	Deferred. Consolidated into Group audit FY21	-	FY17 Excellent	-	-



F19 Internal Audit Plan	Risk Rating	Audit Status	Overall Report Rating	Prior Report Rating	Change	No. Of Issues Raised
Gaming Integrity	High	Deferred (as required)	-	FY17 Good	-	-
Cage & Count Operations	High	Complete	Excellent	FY18 Good		-
Accounts Payable	High	Complete	Excellent	FY18 Excellent		Nil
Food & Beverage Outlets	High	Deferred (as required)	-	FY17 Good	-	-
Capital Expenditure	High	Deferred. Large Group audit to combine with Fixed Assets to be conducted in FY21	-	FY16 Good	-	-
Revenue Audit	High	Deferred (as required)	-	FY16 Good	-	-
Carpark Operations (Valet)	High	Deferred FY21. Consolidated with all Carpark Operations.	-	FY17 Improvement Required	-	-
Credit Card Fraud / Misuse	High	Deferred. Group audit to be conducted in FY20	-	-	-	-
Crown Gifts	High	Deferred (as required)	-	FY16 Good	-	-
Hotel Operations (Front Desk Operations)	High	Deferred. Group audit to be conducted in FY20	-	FY16 Satisfactory	-	-
Hotel Operations (Complimentary Accommodation)	High	Deferred. Consolidated with Front Desk Operations Group audit FY20	-	FY17 Satisfactory	-	-
Payroll	High	Complete	Good	FY18 Excellent		2 Low
Carbon Offset Program	N/A	Deferred. Consolidated into Environmental Reporting Group audit FY20	-	FY17 Excellent	-	-
Privacy Legislation	N/A	Complete	Excellent	FY17 Good		2 PIO



F19 Internal Audit Plan	Risk Rating	Audit Status	Overall Report Rating	Prior Report Rating	Change	No. Of Issues Raised
Workforce Planning	N/A	Consolidated. Coverage obtained through Group audit of Visa Management (Complete)	-	FY17 Good	-	-
Infectious Disease	N/A	Deferred FY20	-	FY16 Good	-	-
Employee Training	N/A	Deferred. Consolidated into Group audit FY22	-	FY17 Excellent	-	-
Crown College International	N/A	Deferred (as required)	-	-	-	-
Indoor Air Quality Management Plan – Property Services	N/A	In progress (Draft Report)	-	FY17 Good	-	-
Transport – Aircraft Operations	N/A	Complete	Excellent	FY18 Excellent	↔	Nil
Betfair	N/A	In progress (Draft Report)		FY18 Satisfactory		
Crown Resorts – Foundation	N/A	In progress (Draft Report)		-		
Group Internal Audits						
VIP Operations	Critical	Consolidated with the Junket Premium Player and VIP Operations audits. Currently in progress (Draft Report)		FY18 Good		
Marketing	Critical	In progress (Draft Report)		-		
Social Media	Critical	In progress (Draft Report)		-		
Crown Rewards Loyalty Program	High	In progress (Draft Report)		F17 Satisfactory		
Patron & Staff Complimentaries	High	Complete	Satisfactory	FY17 Good	↓	2 Mod 7 Low 1 PIO



F19 Internal Audit Plan	Risk Rating	Audit Status	Overall Report Rating	Prior Report Rating	Change	No. Of Issues Raised
Anti-Money Laundering Legislation (AML) & Counter Terrorism Financing	High	Deferred FY20	-	FY18 Good	-	-
Telegraphic Transfers	High	Complete	Excellent	FY15 Good	↑	1 PIO
Outsourced Services	Moderate	Deferred FY21	-	-	-	-
Procurement and Contract Management	Moderate	Deferred FY20	-	FY17 Satisfactory	-	-
Customs Duties	N/A	Deferred FY22	-	FY18 Satisfactory	-	-
Visa Management	High	Complete	Improvement Required	-	-	7 Mod 1 PIO

2.3 Additional Audit Activities

No additional Internal Audits have been completed or planned during the reporting period. However, other related activities are being undertaken as detailed in Section 5 below.

3. Status of Crown Melbourne Outstanding Internal Audit Findings

The table below represents the number of outstanding audit findings as at 22 July 2019 and the time lag since the due date. The total number of these outstanding audit findings has decreased from 6 to 3, with two new findings added and five being implemented. Please note that outstanding findings from the Contracts ICS audit completed during this period are not included in these numbers due to the CURA system changeover, discussed further in Section 5 below.

	Not Yet Due	< 1 Month	1 – 3 Months	4 – 6 Months	7 - 12 Months	13 – 24 Months	> 24 Months	Total
Critical	-	-	-	-	-	-	-	-
High	-	-	-	-	-	-	-	-
Moderate	-	-	-	-	-	1	-	1
Low	-	-	-	2	-	-	-	2
Total	-	-	-	2	-	1	-	3

The overdue Moderate finding relates to the transition from Dropbox to ShareFile. IT continues to monitor Dropbox usage rates and will continue to encourage all employees to utilise ShareFile. Ongoing monitoring will be completed by IT who have stated Dropbox will not be fully disabled until all employees have transitioned to ShareFile.



The table below represents the number of outstanding Process Improvement Opportunities (**PIOs**) findings as at 22 July 2019 and the time lag since the original due date. The total number of these outstanding PIOs has decreased from 6 to 3.

	Not Yet Due	< 1 Month	1 – 3 Months	4 – 6 Months	7 – 12 Months	13 – 24 Months	> 24 Months	Total
PIO	-	-	-	2	1	-	-	3

4. Strategic Internal Audit Plan

The FY20 Strategic Internal Audit Plan (**Plan**) was presented as part of the May Internal Audit Activity Report. As fieldwork for all FY19 audits is now complete we have commenced working on FY20 audits.

During the past year the completion of the FY19 Plan was hindered due to Departmental resourcing issues. These issues are now resolved and it is expected the FY20 Plan will be delivered in full. However, should resourcing issues or prioritisation of other audit activities impact, a careful review of the scheduled audits will be undertaken to defer or adjust the Plan.

5. Additional Matters

5.1 Internal Audit Framework

A key area of focus for Internal Audit in FY19 was the development and implementation of an Internal Audit framework that can be utilised across all Crown entities. This will ensure audits are conducted following the same methodology and all deliverables are consistent. All components of this project have now been completed and include:

- Development of a new Internal Audit finding ratings matrix (Appendix 2) in accordance with the new risk framework. This has been utilised on all audits since October 2018;
- Development of a new Group Internal Audit methodology, aligned across all properties, ensuring a consistent approach to the way audits are conducted and results reported;
- Development of a new framework to give each Internal Audit report an overall rating;
- Development of a new Internal Audit report format that will be utilised for all audits;
- Development of standard deliverables (such as this Activity Report) across all sites;
- Development of more Group audits covering all sites;
- Development of an Internal Audit Plan monitoring and scheduling tool;
- Internal Quality Assurance Program;
- Reviewing all outstanding audit recommendations and the management of the follow-up process;
- Review of the internal audit planning methodology, including consideration for Group audits, and low risk ongoing monitoring activities; and
- Building of the new methodology in CURA (a system based recording and reporting tool). All outstanding audit findings are currently being input into CURA which will allow for a more streamlined follow-up process.



With the Framework now in place a number of new initiatives/projects will be completed by Internal Audit Management, including:

- Creation of an Assurance Map;
- Investigation into ongoing monitoring of Low risk areas; and
- Development of Crown Sydney Internal Audit structure and Plan.



Appendix 1 – Overall Report Rating Definitions

Excellent	Processes and controls are adequate and operating effectively to mitigate key risks. There are no opportunities for improvement.
Good	Processes and controls are adequate and operating effectively to mitigate key risks. There are minor opportunities for improvement in some areas.
Satisfactory	An adequate control framework exists to effectively mitigate key risks. There are opportunities for improvement in some areas.
Improvement Required	Although a control framework exists, a number of issues have been identified which require management attention.
Seriously Adverse	Key control issues have been identified which require immediate senior management attention.



Appendix 2 – Classification of Internal Audit Findings

The following framework for rating Internal Audit findings has been developed according to their likelihood of occurrence and impact on the business. For further detail refer to the Risk Management Framework (Risk Matrix).

Almost Certain No controls in place or controls in place not operating	Moderate (8)	High (15)	High (18)	Critical (22)	Critical (25)
Likely Significant systemic control issues impacting risk mitigation	Low (4)	Moderate (10)	High (17)	High (20)	Critical (24)
Possible Minor systemic control issues	Low (3)	Moderate (9)	High (16)	High (19)	Critical (23)
Unlikely Non-systemic control efficiency and effectiveness issues	Low (2)	Low (6)	Moderate (11)	Moderate (13)	High (21)
Rare One-off and minor control issues	Low (1)	Low (5)	Low (7)	Moderate (12)	Moderate (14)
Likelihood Consequence	Insignificant <ul style="list-style-type: none"> Financial loss <\$1m. Issue of individual/Departmental significance. No adverse external reputational damage. Non-compliance requiring internal reporting only. Minor injury. No impact on culture and staff performance. No loss of staff. No or minimal impact to patrons, <1% segment, <1,000 or <\$4m revenue. No FOH damage. BOH issue managed within existing resources. Loss of key system <2 hours. Event managed through normal activity. Delay to short term strategic objectives. 	Minor <ul style="list-style-type: none"> Financial loss \$1m-5m. Isolated impact on investor confidence. Issue of company/property significance, reported on local radio or localised social media. Perceived or actual non-compliance that may require external reporting. No regulator action. Significant injury requiring medical assistance. Minimal impact of culture and loss of staff. Negative event impacting 1% to 5% or 1,000 to 5,000 patrons of a segment or \$20m revenue. FOH damage isolated, not impacting services. Loss of key system <8 hours Minimal management effort required in single business area. Short term strategy delivery impacted. 	Moderate <ul style="list-style-type: none"> Financial loss \$5m-10m. Some impact on investor confidence. Reported on local media or isolated national media. Temporary impact on integrity of Crown. Breach triggering external reporting or individual civil action. Potential regulatory monitoring. Serious injury requiring hospitalisation. Isolated impact on productivity, turnover and culture. Negative event impacting 5% to 20% or 5,000 to 20,000 patrons of a segment or \$40m revenue. Loss of <3 F&B outlets, <50% one hotel, <10% gaming floor for <24 hours. Loss of critical infrastructure, multiple systems, core infrastructure or key system for <24 hours. Significant management effort required, impacting multiple areas of the business. Short to medium term strategy delivery impacted. 	Major <ul style="list-style-type: none"> Financial loss \$10m-20m. General impact on investor confidence. Sustained reporting by national media. Reduced public perception on Crown integrity. Breach triggering regulator monitoring or intervention or corporate civil action. Relationship with regulator damaged. ASX disclosure made. Permanent disability. Sustained staff turnover. Cultural and performance impact at property. Negative event impacting 20% to 50% or 20,000 to 50,000 patrons of a segment or \$100m revenue. Loss of up to 1 hotel or 50% F&B; or up to 25% of the gaming floor for <48 hours. Loss of critical infrastructure, multiple systems, core infrastructure or key system for <48 hours. CMT/EMT activated. Significant management intervention required, impacting widespread areas of the business. Inability to deliver medium to long term strategy. Ownership change. 	Severe <ul style="list-style-type: none"> Financial loss >\$20m Widespread impact on investor confidence. Sustained reporting by international media. Loss of public confidence in Crown. Breach triggering restriction or loss of gaming/liquor licenses, class action or criminal sanctions. Permanent damage to relationship with regulator. ASX disclosure made. Fatality. Sustained high level of turnover. Cultural and performance impact across properties. Negative event impacting over 50% or 50,000 of a segment type or \$100m revenue Loss of >25% of the gaming floor; or >50% F&B or 1 hotel for >48 hours. Irrecoverable data loss. Loss of key/multiple systems or core infrastructure for >48 hours. Event with potential to lead to the collapse of the business. Threatens long term viability of the business. Change in ownership.



AGENDA ITEM 5:
Material Risk Update: May – July 2019



Crown Melbourne Limited

Material Risk Update: 30 July 2019

This Material Risk Update reports on the 'critical' and selected 'high' risks in the updated Crown Melbourne risk profile (depicted as "material risks" in the Crown Melbourne Risk Map set out on page 4 of this report).

Executive Summary

Since the last report in May 2019, a number of key internal and external events have materialised which have the potential to impact the overall risk profile of the organisation, and particularly its material risk exposures. At this stage, none of these events require changes to Crown's Risk Profile.

The key events that have taken place over the period include:

- On 30 May 2019 Crown was informed that CPH Crown Holdings Pty Limited, a wholly-owned subsidiary of Consolidated Press Holdings Pty Limited, had entered into an agreement in relation to the sale of 19.99% of the issued capital of Crown to Melco Resorts & Entertainment Limited (Melco). Subject to obtaining requisite regulatory approvals, Melco may seek to increase its ownership in Crown Melco and intends to pursue board representation on Crown's board of directors commensurate with its ownership position. Discussions have been had with the New South Wales, Victorian and Western Australian gaming regulators regarding next steps who propose to work collaboratively on the matter.
- The Government, on 26 July 2019, released the exposure draft legislation and explanatory material for the introduction of an economy-wide cash payment limited of \$10,000 for payments made or accepted by businesses for goods and services (Black Economy Taskforce). Transactions equal to or in excess of this amount will need to be made using the electronic payment system or by cheque.










The cash payment limited will commence from 1 January 2020 and for certain AUSTRAC reporting entities from 1 January 2021, which include casinos.

Submissions to the consultation are open until Monday, 12 August 2019. Responses to this consultation will inform the final Bill to implement the economy-wide cash payment limit.

- Channel 9's *60 Minutes* programme ran a story featuring Crown on Sunday 28 July focusing on the China detentions and the VIP business. Nine/Fairfax have also run various articles with a range of related allegations both prior to the 60 Minutes programme and subsequently. These media reports continue. Crown has responded through an ASX/Media Release. As a result of the media reporting, the Federal Government has announced that it has referred allegations over Crown and government agencies to the Australian Commission for Law Enforcement Integrity. Further, the Victorian Gaming Minister has instructed the VCGLR to "re-examine the allegations raised as a matter of priority" and that the DOJ and the VCGLR will "examine the regulatory arrangements concerning junkets".

- Mr Wilkie has made fresh allegations of corruption in relation to the Victorian Police, the VCGLR and Crown, which have been sent to IBAC for investigation which received media attention.
- The VCGLR's s 25 Report contains 20 Recommendations, which Crown has accepted and is currently working through internally (and with some external experts providing input on select recommendations) and is engaging with the VCGLR on. To date, 12 of the 20 Recommendations have been responded to by Crown by the relevant due dates.
- There is a termination clause in the contractual documentation regarding Dinner by Heston Blumenthal. Crown has formally written to Topsy Cake notifying them of the termination right, however has also presented an option for a revised contractual relationship which Topsy Cake is currently considering (see **Other Matters** section for further details).
- Approximately ██████ of fully provisioned international gaming debts were written off at 30 June 2019 from an accounting and tax perspective (the debts were not written off from a regulatory perspective meaning they can still be recovered at a later stage should the patrons return to Crown). This brings Crown Melbourne's gross and net debt balances to historically low levels with doubtful debt amounts having materially reduced over the past 2 years.
- Crown Melbourne conducted its ML/TF risk assessments under its AML/CTF Programs during the period. The overall assessment of AML/CTF risk for Crown Melbourne on an inherent basis as "Critical" remains unchanged (albeit the definition has changed in line with the update to the Risk Management Strategy). The overall residual risk, taking account of the controls in place, remains unchanged at "Low".
- Crown Melbourne and Crown Perth have responded to a formal AUSTRAC s 167 notice requesting detailed information (including funds flow and customer due diligence information) about Junket Operators, Junket Representatives and Junket Players for Junket Programs for the period 1 April 2018 to 31 March 2019. These notices were issued casino industry wide, with AUSTRAC indicating in its notice that its aim is to provide our sector with insights into the potential threats and vulnerabilities we (the casino industry) might face with respect to junkets.
- The new Crown Melbourne Limited (CML) Table Games and Cage Area Managers Enterprise Agreement (EA) was recently finalised. The main CML United Voice EA 2016 and the CML Property Services and Technicians EA 2015, which nominally expired on 1/7/19 and 30/6/19 respectively, are currently under negotiation. There has been no adverse action to date.
- No further update has been received regarding the VCGLR's investigation into an electronic gaming machine which the VCGLR alleges was operating in 'Unrestricted Mode', without Your Play functionality activated.
- Regarding the VCGLR's China investigation, it is expected that the investigation will be completed shortly with a draft report to be provided to Crown for comment prior to it being finalised. It is expected that the report will possibly be provided to the Minister for Gaming in due course.

Below is a table summarising trends for each material risk. Please note that the change in trends as detailed below have not resulted in any variation to the Risk Map rating.

MATERIAL RISKS	CURRENT TREND
1. Legislative / Regulatory Changes	<i>Increased</i> 
2. Volatility of Premium Gaming	<i>Unchanged</i> 
3. Act of Terrorism on Property	<i>Unchanged</i> 
4. Major Reputational Damage	<i>Increased</i> 
5. Litigation	<i>Unchanged</i> 
6. Poor Credit and Investment Decision	<i>Reduced</i> 
7. Material Breaches of Gaming and other Relevant Legislation/ Regulations	<i>Unchanged</i> 
8. Data Misuse	<i>Increased</i> 
9. Breakdown in relationships with key government, legislative or regulatory bodies	<i>Increased</i> 

Risk Appetite Dashboard

Category	Quantitative Metrics – RMC Reporting Triggers		New reportable Events	Ref
Financial	Outside normal trading EBITDA losses (per event), and/or adverse to the current (normalised) forecast	>\$10M	No	
Brand / Reputation	Internal event creating a sustained share price loss	>5%	Yes	Page 1: 60 Minutes
	Sustained negative national or international media coverage	Any event	Yes	Page 1: 60 Minutes
Regulatory/ Legal	Significant breaches that may have a financial or reputational impact	Any event	No	
	Material legal action or class action	Any event	No	
	Significant breach or event that has the potential to damage the relationship	Any event	No	
	Material RSG issues including adverse media	Any event	No	
	Integrity of liquor licences	Any loss of licence and/or points	No	
People	Significant notifiable incidents under the Workplace Health and Safety Act	Any event	No	
	Sustained staff turnover and/or unplanned absences above average	Any event	No	
	Loss or potential loss of key management personnel	Any event	No	
	Imminent industrial action	Any event	No	
Customer/ Patrons	Negative event affecting segment of patrons (e.g. VIP, F&B, Hotel)	Over 20% or 20,000 patrons of segment type, or \$100M revenue	No	
Infrastructure	Security incident that threatens people or property	Any event	No	
	Loss of other core IT infrastructure or multiple key systems	>24hrs	No	
	External or internal security breaches resulting in unauthorised access to, or loss of, customer data likely to result in serious harm	Any event	Yes	Page 1: 60 Minutes leaked documents
	Loss of critical physical infrastructure	>24hrs	No	
	Unplanned loss of gaming floor in one property	>10% for up to 24 hrs	No	
	Unplanned loss of non-gaming front of house facilities in one property	> 1 hotel or 50% F&B > 24hrs	No	
Strategy / Business Sustainability	Critical event requiring mobilisation of resources and CMT/EMT activation	Any event	No	
	Key strategic project delayed by 12 months or more	Any event	No	
	Change in ownership share of related or third party entity	Any Event	Yes	Page 1: Melco

Crown Melbourne Corporate Risk Map - July 2019

		<i>Material Risks</i>				
		Insignificant	Minor	Moderate	Major	Severe
Likelihood	Almost certain					
	Likely		16- Harm to persons on property		14 - Major reputational damage	
	Possible		9 - Loss of key management 15 - Poor people management practices	6 - External disruption to demand for our services 7 - Physical Business Disruption 8 - IT business disruption 11 - Litigation 12 - Major criminal activities 13 - Ineffective responsible service of gaming (RSG) 18 - Industrial action 23 - Failure in responsible service of alcohol (RSA)	1 - Material breach of gaming and other relevant legislation /regulation 2 - Changes in key legislation or regulatory requirements 5 - Poor credit or investment decision 21 - Data misuse 22 - Breakdown in relationship with key government, legislative or regulatory body	3 - Act of terrorism on Crown property 4 - Volatility of gaming revenue
	Unlikely		17 - Breakdown in strategic partnership with third party 19 - Unsustainable environmental management and ethical standards	10 - Reduction in property standards		
	Rare					20 - Aviation accident
		Insignificant	Minor	Moderate	Major	Severe
Consequence						

Legend:

Critical Risk	Oversight by the RMC/Board
High Risk	Managed by CEO and relevant EGMs
Moderate Risk	Managed by BOT members
Low Risk	Managed as part of BAU

5

1. LEGISLATIVE / REGULATORY CHANGES


Changes to legislation, regulation or Government policy covering the conduct of, and access to, gaming or broader operational and compliance processes in any jurisdiction in which Crown operates

Examples of changes include, but are not limited to:

- *Increases in tax or additional levies and taxes*
- *Changes to restrictions (where applicable) on the number, type, speed and location of gaming machines*
- *Changes to mandatory minimum "return to player" on gaming machines*
- *Changes to approved table games and approved rules of the games (where applicable)*
- *Changes to restrictions on advertising and marketing, including online advertising (where applicable)*
- *Changes in laws or changes in interpretation of laws dealing with promotion of gambling in foreign countries*
- *Visa restrictions (where applicable)*
- *Changes to online wagering regulations, affecting product offering (including exchange betting)*
- *Changes to pre-commitment system*
- *Changes to smoking exemptions*

CROWN MELBOURNE

Black Economy Taskforce – \$10,000 cash transaction limit

TREND: Increased 

The Federal Treasury Department issued a paper titled "Introducing an Economy-Wide Cash Payment Limit; Government Response to the Black Economy Taskforce Final Report" dated 23 May 2018 inviting submissions from the public.

Included in the resulting report was a proposal to restrict cash transactions for goods and services to under \$10,000, to address its concerns around the black economy. All transactions over \$10,000 are proposed to be by electronic transfer only.

Crown prepared a joint submission with The Star Group and Sky City to the Treasury Department seeking an exemption to the \$10,000 proposal on the basis they are already major reporters (with the banks and payment providers who are to be exempt) to AUSTRAC.

The Government, on 26 July 2019, released the exposure draft legislation and explanatory material for the introduction of an economy-wide cash payment limited of \$10,000 for payments made or accepted by businesses for goods and services. Transactions equal to or in excess of this amount will need to be made using the electronic payment system or by cheque.

The cash payment limited will commence from 1 January 2020 and for certain AUSTRAC reporting entities from 1 January 2021, which include casinos.

Submissions to the consultation are open until Monday, 12 August 2019. Responses to this consultation will inform the final Bill to implement the economy-wide cash payment limit.

Crown is considering its position.


POTENTIAL IMPACT TO CROWN:

The gaming regulations in Victoria only allow the Casino to accept cash as a form of payment for gambling by patrons. Many Junkets and most VIP/premium players at times bring materially larger amounts of cash to play at Crown. This will no longer be possible.

CURRENT ACTION PLAN:

Provide response to draft exposure legislation and continue engagement with Federal Government and other stakeholders to reach an acceptable compromise.

Anti-Money Laundering / Counter-Terrorism Financing (AML / CTF)

TREND: Unchanged 

We understand from discussions with AUSTRAC that the Financial Action Task Force (FATF) will visit Australia at the end of Q1, beginning of Q2 FY20 to complete an assessment of Australia's compliance with international AML standards (as well as, we expect, Australia's progress on the matters raised by FATF in its 2015 report). We should expect that FATF's review will have flow on effects.

Crown Melbourne and Crown Perth have received and responded to formal AUSTRAC s 167 notices requesting detailed information (including funds flow and customer due diligence information) about Junket Operators, Junket Representatives and Junket Players for Junket Programs during the period 1 April 2018 to 31 March 2019. These notices were issued casino industry wide, with AUSTRAC indicating in its notice that its aim is to provide our sector with insights into the potential threats and vulnerabilities we (the casino industry) might face with respect to junkets.

Section 25 Licence and Operator ReviewTREND: *Unchanged* 

Crown is working with the VCGLR to address each of the 20 recommendations. Twelve recommendations had deadlines on or before 30 June 2019 which have been actioned and responded to by Crown within the agreed timeframes. We are awaiting the VCGLR's feedback to Crown's responses.

POTENTIAL IMPACT TO CROWN:


Reputational damage and media coverage of any new issues arising from the resolution of the matters.

CURRENT ACTION PLAN:

Crown is working through the recommendations internally and engaging with the VCGLR on the progress of the recommendations.

2. VOLATILITY OF PREMIUM GAMING

Sustained unfavourable variations from theoretical win rates applicable to the gaming business (local and international). Whilst short term fluctuations are expected to occur, due to 'luck', reporting of theoretical over actual has normalised results over time. Sustained deviations, particularly negative, challenges the financial reporting model and the ongoing performance of the business.

CROWN MELBOURNE**Premium Gaming Volumes**TREND: *Unchanged* 

As previously reported, Premium Gaming volumes must be maintained to mitigate the risk of prolonged negative deviations from theoretical win rates. Overall turnover is lower than the same period last year.

Turnover in other jurisdiction has also been impacted. Macau saw a 15.6% VIP baccarat gross gaming revenue drop in Q2, year on year, compensated by an increase in general gaming revenue. The Las Vegas strip saw a 2.49% decline in the first 11 months of F19 (11.07% decline in May - year on year).

Year on year variations in turnover volumes and win rates are recorded as follows:

CROWN MELBOURNE	June 2017	December 2017	June 2018	December 2018	June 2019
YTD International and Interstate Turnover (\$b)	25.2	19.5	43.8	15.4	32.7 (Budget 42.1)
Win Rate (%)	1.59	1.21	1.29	0.99	1.39 (Budget 1.40)

POTENTIAL IMPACT TO CROWN:

Increased deviation between theoretical and actual win rates has the potential to impact overall business performance. Turnover for Melbourne is 22% under budget (or \$9.4b), and win rate is currently almost at budget.

The win rate for Melbourne has materially improved in the second half, and the overall negative trend has flattened.

CURRENT ACTION PLAN:

Management is to continue to monitor trends, and action as appropriate.

3. ACT OF TERRORISM ON PROPERTY

The calculated use of violence (or the threat of violence) against employees and / or customers in order to attain goals of a political, religious or ideological nature.

CROWN MELBOURNETREND: *Unchanged* 

In Melbourne, Victoria Police Executive Command has advised that the PSO proposal for Crown Melbourne has been raised with the Police Minister by the Chief Commissioner of Police as part of a broader proposal for PSO's and currently rests with her for consideration and decision.

There has been no further development since the last report.

4. MAJOR REPUTATIONAL DAMAGE

Negative publicity / image of Crown and/or its affiliate businesses which may adversely impact Crown's reputation and/or performance and potentially jeopardise gaming licences, including:

- *inappropriate associations*
- *inappropriate conduct*
- *breach of confidentiality*
- *adverse media attention*

CROWN MELBOURNE

LEGALLY PRIVILEGED - April and May 2018 Allegations by Mr Andrew Wilkie MP

TREND: *Increased* ↑

On Wednesday 24 July 2019, Mr Wilkie made additional claims including sending a letter to IBAC alleging corruption between the Victorian Police, the VCGLR and Crown, particularly noting the delays and outcomes of the VCGLR's investigation into his previous claims.

POTENTIAL IMPACT TO CROWN:

Reputational impact as well as increased regulatory pressure from the VCGLR to reinforce their strength as an independent regulator of Crown.

CURRENT ACTION PLAN:

Crown Melbourne to monitor the report and the fall-out, and respond to any related inquiries where appropriate.

60 Minutes Report

TREND: *NEW* ↑

60 Minutes programme ran a segment on Crown on Sunday 28 July related to the China detentions and Crown's VIP business. Nine/Fairfax have also run various articles with a range of related allegations both prior to the 60 Minutes programme and subsequently. These media reports continue. Crown has responded through an ASX/Media Release.

As a result of the media reporting, the Federal Government has announced that it has referred allegations over Crown and government agencies to the Australian Commission for Law Enforcement Integrity. Further, the Victorian Gaming Minister has instructed the VCGLR to "re-examine the allegations raised as a matter of priority" and that the DOJ and the VCGLR will "examine the regulatory arrangements concerning junkets".

The full Board has been briefed into the matter.

POTENTIAL IMPACT TO CROWN:

Reputational impact as well as increased regulatory inquiries from the VCGLR and other regulatory and enforcement agencies.

CURRENT ACTION PLAN:

Crown Melbourne to continue to monitor the report and the fall-out, and respond to any related inquiries where appropriate.

5. LITIGATION

Crown is exposed to potential material litigation by:

- *Employees*
- *Customers*
- *Regulators*
- *Shareholders including potential class action as a result of not properly correcting the market regarding consensus forecast performance*
- *Other third parties particularly gaming related litigation.*

To the extent that material litigation is not covered by insurance, an adverse outcome or cost of responding to potential or actual litigation may have an adverse impact on the performance of Crown.

CROWN MELBOURNE

TREND: *Unchanged* →

Significant legal matters have been reported to the Crown Melbourne Board throughout the reporting period via litigation updates in the CEO's Report.

6. POOR CREDIT AND INVESTMENT DECISION

Crown is exposed to the risk of default by customers across its affiliate businesses, resulting in financial loss.

CROWN MELBOURNE

TREND: *Reduced*



At end of year, approximately [REDACTED] of older debts were written off. This was reviewed by E&Y as part of the end of year sign-off. Both Crown Melbourne and Crown Perth have continued to suspend the extension of credit to Chinese domiciled players with credit granted to remaining players on a selected basis only.

The debt positions over the past 24 months for Crown Melbourne is tabled below:

CROWN MELBOURNE	31 Dec 16 \$m	30 Jun 17 \$m	31 Dec 17 \$m	30 Jun 18 \$m	31 Dec 18 \$m	30 Jun 19 \$m
Gross debtors balance (net of safekeeping)	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Provision for doubtful debts	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Provision as a % of gaming debtors	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Net debtors balance	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

POTENTIAL IMPACT TO CROWN

All bad debts were over 12 months old, with 59% over 5 years old and 98% pre-China. The write off, for accounting purposes only, has led to a 30% tax deduction benefit.

CURRENT ACTION PLAN

The appetite for credit risk has materially decreased across the Australian Businesses, and measures have been taken to reduce high exposure areas. Challenges with regards to processing of overseas transactions remain an issue.

7. MATERIAL BREACHES OF GAMING AND OTHER RELEVANT LEGISLATION/REGULATIONS

Crown and its affiliate businesses operate in a highly regulated industry. Systemic and/or serious breaches of regulatory requirements (including gaming, anti-money laundering, liquor, promotion of gaming and liquor, taxation or other regulatory/mandatory reporting requirements) may adversely impact Crown's reputation and performance via the imposition of financial and non-financial penalties including the potential loss of operating licences, prosecution, litigation, and arrest/detention of employees and contractors.

CROWN MELBOURNE

EGM Continuous Play

TREND: *Unchanged*



No further updates since last report.

POTENTIAL IMPACT TO CROWN:

It is possible that the VCGLR may take disciplinary action against Crown under s 62AB of the *Casino Control Act (Vic)* [EGM continuous play matter].

CURRENT ACTION PLAN:

As a result of this issue, a range of audits and reviews of similar machines were undertaken and enhanced checking processes have been implemented.

8. DATA MISUSE

Sensitive information may be leaked or sold to external parties adversely impacting Crown's reputation. In the case of sensitive customer information visitation may be affected, adversely impacting Crown's performance. Loss of confidential customer or commercially sensitive data is a growing risk as the online businesses expand and the use of 3rd parties and data volume increases. Unauthorised and inappropriate disclosure of sensitive information can result in adverse reputational, financial and regulatory implications.

CROWN MELBOURNE

TREND: NEW



The 60 Minutes report mentioned as a source of their information over 10,000 internal Crown documents. Crown is investigating the matter and its options. The source and all of the content are yet to be confirmed.

9. BREAKDOWN IN RELATIONSHIPS WITH KEY GOVERNMENT, LEGISLATIVE OR REGULATORY BODIES

Crown operates in many jurisdictions, and has to engage with a large number of government, legislative and regulatory bodies. A breakdown in these relationships could lead to targeted reviews, investigations, or actions by these bodies that could materially affect Crown's operations and reputation.

CROWN MELBOURNE

TREND: Increased



Crown Melbourne's key government, legislative and regulatory bodies include the VCGLR, AUSTRAC, ATO, and Law Enforcement agencies.

Crown's work stream with the VCGLR is considerable taking into account the recommendations from the s 25 Review and other matters that the VCGLR is formalising which is a shift in how such matters have historically been dealt with which is presenting some challenges internally.

Recent allegations reported in the media have unfairly attempted to damage Crown's reputation and in the process, the integrity of the relationships between Crown and its state and federal regulators.

Further, Crown is aware that the Auditor General has re-engaged with the VCGLR to measure its progress against the matters identified in its 2017 Report. The Auditor General's Report triggered the significant change in the VCGLR's approach when dealing with Crown.

Crown continues to focus on engagement with the VCGLR in a positive manner. Crown also remains in close contact with its other key stakeholders to continue to develop and enhance those relationships.

Other Matters

(Legally Privileged and Commercial in Confidence)

Crown entered into an agreement with entities associated with Heston Blumenthal, to secure his restaurants, first The Fat Duck (TFD), then **Dinner by Heston Blumenthal (DBH)** at Crown Melbourne. TFD/DBH has been in operations for the past 4.5 years.

A number of events have recently materialised or escalated:

- DBH orders its goods via the Crown systems, and Crown charges back the costs to DBH monthly. DBH has not paid its invoices since January 2019. The outstanding receivables amount as at 30 June is approximately [REDACTED]
- This is in part mitigated by [REDACTED] in DBH revenue currently held in Crown accounts (as at 30 June). Crown does not have the express contractual right to hold these funds, however has retained them as part of the commercial negotiation/strategy. These funds are therefore not considered in this summary.
- As part of the initial arrangement, Crown paid for the refurbishment of the restaurant. The costs have been amortised over the life of the assets, for a total initial value of [REDACTED]. Outstanding value as at 30 June is [REDACTED] but the assets are owned by Crown and can mostly be re-utilised for any future tenancy. Financial exposure would be limited to minimal DBH branded items.
- As part of the arrangement, Crown pays one of Blumenthal's entities an annual [REDACTED] licensing fee, which is amortised over the following 12 months. The fee was invoiced in March 2019, and is still mostly unamortised as at 30 June.
- In addition, an initial [REDACTED] licensing fee was paid at the beginning of the contract, and amortised over the 10 year contract period. Over [REDACTED] remains unamortised as at 30 June. Both this amount and the above annual licensing fee amount to A [REDACTED] in Crown's accounts as at 30 June.
- DBH has an additional outstanding loan amount of [REDACTED] owed to Crown.
- For the past 2 years, DBH has made a loss, which has triggered a breach of a contractual clause allowing Crown to terminate the contract. Crown has officially written to DBH reserving the rights to exercise the termination right, seeking an altered arrangement between the parties for ongoing operations.

Summary of financial exposure as at 30 June 2019:

Outstanding Receivables	[REDACTED]
Outstanding Loan	[REDACTED]
Unamortised License Fees:	[REDACTED]
<i>Of which less than 12 months old:</i>	[REDACTED]
Total Crown Exposure from DBH	[REDACTED]
	[REDACTED]
Capitalised assets (NPV)	[REDACTED]

In parallel, DBH is under FairWork investigation for underpayment of staff. We understand that the outstanding amount is in the vicinity of \$4.5M which is a legal liability of DBH, however will no doubt attract media attention and potentially result in reputational damage for Crown.

Overall, there is potentially a material financial exposure associated with this contract for Crown should an amenable arrangement not be reached between the parties.

Discussions are continuing.

This is an emerging issue, which will be further communicated to the Crown Melbourne Limited Board as it unfolds.



AGENDA ITEM 6:
Financial Results: Full Year Ending 30 June 2019



AGENDA ITEM 7:
Ernst & Young Closing Report

Crown Melbourne Limited

Audit Status Report for the year ended
30 June 2019



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Crown Melbourne Limited

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Executive Summary Areas of Audit Focus Audit Differences Control Environment Focused on Your Future Appendices

Welcome

Dear Audit Committee Members



Michael Collins
EY Assurance
Partner

EY has been engaged as the statutory auditor of Crown Resorts Limited. Our procedures in relation to the audit of Crown Resorts Limited ('Crown' or the 'Group') for the year ended 30 June 2019 are in progress. In carrying out our audit procedures, we consider matters relating to Crown Melbourne Limited ('Crown Melbourne'). An extract of our overall observations to date, as relevant to Crown Melbourne, is provided in this update report.

We expect to complete our audit procedures on the Crown Melbourne financial report for the year ended 30 June 2019 upon receiving the Crown Melbourne statutory financial statements. We will provide the committee with an update on the findings of our audit procedures in advance of the signing of the Crown Melbourne Limited financial statements, scheduled for September 2019.

This report is intended solely for the use of the Audit Committee, other members of the Board of Directors and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the engagement.

I look forward to the opportunity of discussing with you any aspects of this report or any other issues arising from our work.

If you have any queries in the meantime, please feel free to contact Alison Parker on [REDACTED] or myself on [REDACTED].

Yours faithfully

Michael Collins
Partner
2 August 2019



Alison Parker
EY Assurance
Partner



Crown Melbourne Limited

For the year ended 30 June 2019

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Executive Summary Areas of Audit Focus Audit Differences Control Environment Focused on Your Future Appendices

Executive Summary

<p>STATUS OF AUDIT</p> <p>Our audit procedures are ongoing and are incomplete at the date of this report.</p> <p>We will provide the committee with an update on the findings of our audit procedures in advance of the signing of the Crown Melbourne Limited financial statements, scheduled for September 2019.</p>	<p>AREAS OF AUDIT FOCUS</p> <p>3</p> <p>key areas of focus where there are potential risks and exposure</p> <p>The areas of audit focus and level of complexity or management judgement applied are:</p> <ul style="list-style-type: none"> HIGH Gaming debtors MEDIUM Restructuring and legal provisions MEDIUM Revenue recognition <p>See Areas of Audit Focus section for more details.</p> <p>Note that the impairment assessment of Crown Melbourne's intangible assets and other non-current assets is performed as part of the Crown Resorts Limited audit.</p>	<p>SCOPE & MATERIALITY</p> <p>\$31m</p> <p>Materiality for Crown Melbourne's statutory financial statements has been set at 8% of the actual profit before tax, being an amount of \$31 million.</p> <p>The threshold for reporting audit differences which impact the income statement is \$1.5 million.</p>
<p>AUDIT DIFFERENCES</p> <p>We have not identified any audit difference during the course of our audit procedures to date.</p> <p>See Audit Differences section for more details</p>	<p>INDEPENDENCE</p>  <p>We confirm that we have complied with the Corporations Act 2001, and in our professional judgement, the engagement team and the Firm are independent.</p>	



Crown Melbourne Limited

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Executive Summary **Areas of Audit Focus** Audit Differences Control Environment Focused on your Future Appendices

Gaming debtors

Key judgements: Provision for doubtful debts

Relevant accounting standards: [AASB 9 Financial Instruments](#)

HIGH

Our Understanding

- The following table summarises Crown Melbourne's gaming receivables at 30 June 2019:

(\$ million)	30 June 2019	30 June 2018

The ageing profile of outstanding debts at 30 June 2019 is included in the Appendices.

Write-off of receivable balances

In the year ended 30 June 2019, management wrote off [REDACTED] of gross debtor balances. These amounts had previously been provided for entirely. The matching provisions against these debtors have also been released, meaning the impact on net debtors was \$nil.

Provision for doubtful debts

- In accordance with AASB 9, the measurement of expected credit loss must reflect:
 - An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;
 - The time value of money; and
 - Reasonable and supportable information about past events, current conditions and forecasts of future conditions.
- Due to the subjective nature and significant level of judgement associated with the estimate of expected credit loss, VIP debtor provisioning remains a key area of audit focus.

EY Perspective

Our audit procedures included, but were not limited to the following procedures:

- Evaluated the design and operating effectiveness of relevant controls in relation to the granting of credit facilities, including credit checks;
- Examined management's assessment of the patrons' financial circumstances and ability to repay the amounts owing, including the assumptions and calculations used in the determination of the VIP debtor provisioning and whether this was in accordance with Crown's policy; and
- Assessed the recognition of VIP gaming revenue at year end, including observing Crown's 30 June 2019 cash count procedures and any gaming activity towards the end of the gaming day at balance date.

Write-off of receivable balances

- In respect of the gaming debtors amount written off in the current year, this treatment is consistent with the requirements of AASB 9, which states that write-offs should be recognised when the entity has no reasonable expectation of recovering the contractual cash flows.
- We note that to the extent that amounts are recovered that were previously written off, these recoveries are required to be recognised as a recovery of doubtful debts expense in the income statement, together with disclosure within the provision for doubtful debts note in the financial statements.
- We recommend management include an accounting policy note in the financial statements, in respect of debts written off.

Provision for doubtful debts

- We note that Crown's provisioning policy has been applied in a manner consistent with the prior year and that there are no changes to internal controls relating to the provision of



Crown Melbourne Limited

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Executive Summary **Areas of Audit Focus** Audit Differences Control Environment Focused on your Future Appendices

- ▶ The table below shows the provisioning rates determined and used by management in calculating the expected credit loss:

Age of Debt	< 6 months	6 - 12 months	12 - 24 months	24 - 36 months	>36 months
% Provided	5%	25%	50%	75%	100%

Corporate debtors provisions

- ▶ At the Crown Resorts level, there is an additional provision of \$20 million relating to a collective assessment of debtors based on current and forward-looking information, not captured in the provision for doubtful debts held in the operating entities (i.e. Crown Melbourne, Crown Perth and Aspinalls). This is consistent with the provision raised at 30 June 2018.
- ▶ Consistent with the prior year, no portion of the corporate debtors provision relevant to Crown Melbourne has been recorded in Crown Melbourne's ledger as at 30 June 2019.
- ▶ We note that Crown Melbourne's accounting policies are consistent with those applied by Crown Resorts Limited.

credit to patrons. Management updated their calculation of the provisioning rates and concluded that the rates applied previously continue to be appropriate.

- ▶ Management has applied their provisioning policy at 30 June 2019 against all outstanding debtors. Based on our testing of management's determination of the expected credit loss no exceptions were identified.

Corporate debtors provision

- ▶ Group management continues to recognise an additional provision of \$20 million (2018: \$20 million) at the Crown Resorts level.
- ▶ We note that we are currently assessing the adequacy of this provision at the Crown Resorts level. Should any audit adjustment arise in relation to these procedures we will update the Committee in advance of the scheduled signing of the 30 June 2019 financial statements.
- ▶ Consistent with the prior year, we recommended that management should assess the relevant portion of the corporate provision to be recognised in the Crown Melbourne financial statements. We will review management's assessment on the allocation of corporate provision to Crown Melbourne upon receipt of the calculation.
- ▶ We note that unadjusted audit differences were identified in FY18 in relation to the provision for doubtful debts. Prior to completing our audit, we will consider the turnaround effect on the current year's profit or loss. Refer 'Audit Differences' section for details.



Crown Melbourne Limited

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Executive Summary **Areas of Audit Focus** Audit Differences Control Environment Focused on your Future Appendices

Restructuring and legal provisions

Key judgements: Recognition and measurement

Relevant accounting standards: [AASB 137 Provisions, Contingent Liabilities and Contingent Assets](#)

MEDIUM



Our Understanding

- As at 30 June 2019, Crown Melbourne held \$4.3 million provisions relating to both restructuring and legal matters.

(\$ million)	Internal restructuring	China matter	Legal	Total
Provision at 30 June 2018	0.6	10.6	2.8	14.0
Released in period	-	-	(1.6)	(1.6)
Utilised in period	(0.6)	(10.1)	-	(10.7)
Re-measured in period	-	2.5	0.1	2.6
Provision at 30 June 2019	-	3.0	1.3	4.3

- During FY19, most of the matters relating to both the restructuring and legal provisions were settled, including the K&L Gates matter, planned redundancies and settlement payments in respect of the China matter.
- As at 30 June 2019, the remaining legal provision of \$1.3 million relates to a number of small public liability claims. We understand that the K&L Gates matter has been settled and the settlement was utilised against a provision held by CRL. The provision maintained by CM (\$1.6 million) relating to this matter was released to the income statement.

Class Action

- At 30 June 2019, Crown Melbourne held a \$0.4 million provision for legal and consulting services in relation to the Class Action.
- In addition, management has recognised a receivable in respect of recoverable legal costs for the Class Action of \$3.5 million. This receivable relates to amounts recoverable under the Group's insurance policies. The insurer has confirmed to Crown in writing, the existence of cover for the Class Action legal costs, being 90% of relevant costs over the \$1 million deductible up to a maximum of \$15 million.

EY Perspective

- Our audit procedures included, but were not limited to the following procedures:
 - assessed the methods and assumptions adopted by management to determine whether provisions were adequately made;
 - examined the provision schedule prepared by management and inspected the underlying documents for material provisions;
 - enquired with management and Crown legal counsel on the status of outstanding settlement; and
 - assessed the recognition of the insurance claim receivable; and
 - obtained legal confirmation letters for legal matters.
- Management has re-assessed its estimate of the provision required for the remaining unsettled redundancies and related claims.
- In respect of the recoverable legal costs for the Class Action for which Crown Melbourne has recorded a receivable, we have reviewed relevant written correspondences with Crown's solicitors and the insurer, AIG. We agree that the basis used by management in calculating the \$3.5 million insurance claim receivable is appropriate. Subsequent to 30 June 2019, management received a portion of its insurance claim from AIG of \$0.5 million.
- We concur with management's conclusion that the insurance claim is 'virtually certain' and its recognition of a current asset is appropriate as at 30 June 2019.
- At the date of writing this Report, there are a number of outstanding legal confirmations which we are following up. We have listed this as an outstanding matter.



Crown Melbourne Limited

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Executive Summary **Areas of Audit Focus** Audit Differences Control Environment Focused on your Future Appendices

Revenue recognition

Key judgements: Revenue recognition, measurement and disclosure

Relevant accounting standards: [AASB 15 Revenue from Contracts with Customers](#)

MEDIUM



Our Understanding

- ▶ In FY19, Crown adopted the new revenue standard, AASB 15, which became effective for the first time from 1 July 2018.
- ▶ Based on management's assessment of the adoption of AASB 15, the key changes for Crown's revenue recognition are as follows:
 - Commission payments made to VIP players and junket operators will be recorded as a reduction to gaming revenue; and
 - Complimentary benefits are recognised as a separate component of revenue (i.e. hotel, food and beverages, parking) with a corresponding reduction in gaming revenue.
- ▶ We will assess Crown Melbourne's disclosure including an updated accounting policy upon receiving the 30 June 2019 statutory financial statements. We understand this will be consistent with the Crown Resorts accounting policy which we reviewed at the half year.

EY Perspective

- ▶ Our audit procedures included, but were not limited to the following procedures:
 - evaluated the internal controls over key revenue to cash processes (table games, gaming machines, hotel and F&B);
 - substantively tested revenue for other revenue processes, including tenancy, parking and miscellaneous/ sundry revenue.
 - performed cut off testing over revenue at balance sheet date, including observing the cash count at 30 June 2019; and
 - assessing management's calculation of commission expenses and complimentary benefits recorded as reductions to gaming revenue at both the Crown Resorts consolidated level and Crown Melbourne statutory level.
- ▶ Upon receipt of Crown Melbourne's statutory financial statements, we will assess management's adjustment to reduce commission expenses and complimentary benefits against gaming revenue. We will also assess the adequacy and appropriateness of the disclosures in relation to revenue included in the statutory financial statements.



Crown Melbourne Limited

For the year ended 30 June 2019

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Executive Summary Areas of Audit Focus **Audit Differences** Control Environment Focused on Your Future Appendices

Audit Differences

Summary of unadjusted differences

Throughout our audit of the Crown Resorts Limited financial statements we accumulate audit adjustments as identified during our procedures.

Whilst our audit procedures remain in progress, no audit difference has been identified in our procedures to date. However we note the outstanding in relation to allocation of corporate debtor provision to Crown Melbourne, for which an adjustment was raised in the prior year. We have considered the turnaround impact of the audit differences identified in the FY18 audit. Further analysis of the unadjusted differences will be provided prior to approval of the 30 June 2019 financial statements.

Account 30 June 2019 (\$m)	Profit Impacts - FY19 (Increase)/Decrease	Profit Impacts - FY18 (Increase)/Decrease	Profit Impacts - (After turnaround effect) - FY19 (Increase)/Decrease
Adjustment for understatement of doubtful debts provision identified in FY18 audit	-	4.7 ▼	(4.7) ▲
Adjustment for allocation (understatement) of Corporate debtor provision identified in FY18	TBC	11.6 ▼	(11.6) ▲
Adjustment for overstatement of restructuring provision identified in FY18	-	(1.6) ▲	1.6 ▼
Adjustment for understatement of employee provisions identified in FY18	-	2.2 ▼	(2.2) ▲
Adjustment for understatement of legal provision identified in FY18	-	2.0 ▼	(2.0) ▲
Total audit differences before tax	-	18.9 ▼	(18.9) ▲
Tax impact (30%)	-	(5.7) ▲	5.7 ▼
Total audit differences after tax	-	13.2 ▼	(13.2) ▲
Percentage of profit after tax	-	5.3%	5.0%

Key:

- ▲ Increase to profit
- ▼ Decrease to profit



Assessment of Control Environment

As part of our audit of the Crown Resorts, we obtained an understanding of internal control sufficient to plan our audit and determined the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant findings or deficiencies in internal control. Our procedures included a review of the IT environment as well as manual controls.

IT Controls

EY performed an assessment of Crown's IT environment associated with the PeopleSoft HR, PeopleSoft Finance and SYCO applications in FY19. We assessed and tested the adequacy of processes and controls for the applications in relation to:

- ▶ IT change management
- ▶ IT access management
- ▶ IT operations (disaster recovery and backups)

PeopleSoft HR and People Soft Finance

The PeopleSoft applications were tested for design and operational effectiveness in FY19, due to most of the previous observations being remediated. Where necessary we have identified adequate compensating controls and performed additional audit procedures to achieve reliance on the PeopleSoft HR and PeopleSoft Finance for the purposes of our audit.

SYCO

The SYCO system was tested for design effectiveness in FY19. Whilst work has continued to improve IT general controls, we noted during the design effectiveness phase that testing the operating effectiveness would not be the most efficient audit strategy. We conducted alternate audit procedures to be able to rely on the relevant reports generated from SYCO as well as system-based controls, for the purposes of our audit.

For both applications, EY identified a number of areas for control improvement which predominantly relate to user access management and IT operations. We will issue our management letter points, and obtain their responses to our observations at the completion of our audit which will also detail the process improvement opportunities identified.

IT Controls - Next Steps

Going forward, EY's ability to adopt an IT systems controls reliance approach will continue to be dependent on the progress made in relation to the areas for improvement noted above.

Crown management is aware of the areas for control improvement and are in the process of implementing a strategic solution. We understand that design and implementation was the key focus for FY19, as it relates to identity user access management for PeopleSoft. For FY20, the focus shifts to expanding solutions and sustaining current state. This includes implementation of user access management controls (through the Identity Access Management project) for SYCO and other critical applications.

Manual and IT-dependent Controls

For FY19 we have relied on internal audit testing for payroll and purchase to pay processes.

There are no High risk control observations at the date of writing this report.



Crown Melbourne Limited

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Executive Summary Areas of Audit Focus Audit Differences Control Environment **Focused on Your Future** Appendices

Focused on Your Future

New Leases Standard AASB 16

Background

AASB 16 Leases will be effective for the first time for Crown, beginning on 1 July 2019, i.e. for the financial year ending 30 June 2020. The start of the comparative period for Crown has already commenced 1 July 2018. All existing and new contracts entered into on or before 1 July 2019 and not expiring before 30 June 2020 will be subject to the new standard on the date of initial application.

Crown management has substantially completed an assessment of the impact of AASB 16 at the Group level, which includes Crown Melbourne's leases. As part of our audit procedures performed in relation to the assessment to date, we have put our focus primarily on Crown Melbourne's main site lease (the 'Site').

The Site has a 99 years lease term which commenced in 1993 with nominal rent (\$1 per annum) for the first 40 years and market rent for years 41 onwards. Crown will surrender and yield up the Site together with all improvements on the Site to the Minister of Finance at the expiry of the lease.

Historically, the Site lease has been determined as a non-monetary government grant. For any costs incurred to date for the improvement on the Site, management has capitalised these costs in Crown Melbourne's Property, Plant and Equipment ('PPE') balance.

On application of AASB 16, when measuring the lease liability, the variable lease payments for years 41-99 that depend on a future market rent review should be based on the market rental rate of the (remediated) Site at commencement of the lease (i.e. 1993).

Management has engaged an external valuer to estimate the market rental rate of the Site in 1993, being the commencement date of the lease.

The lease liability will be re-measured at the beginning of year 41 when the lease payments change following the first market rent review, with an associated adjustment being made to the right of use asset at that time.

EY's Perspective

We are in the process of reviewing management's assessment, including the key assumptions used in estimating the market rental rate of the Site, as well as the incremental borrowing rate (discount rate) used in determining the lease payable and right of use asset as at 1 July 2019. We will finalise our procedures as part of the audit of Crown Resorts and Crown Melbourne financial statements.

Given Crown Melbourne contractually received the right to use the Site and is obligated to surrender the Site together with its improvements, management is also required to factor non-cash considerations into the lease payments when determining the lease liability associated to the Site.

These non-cash considerations include activities performed to remediate the Site and to make permanent improvements on the Site which currently management has capitalised as PPE. Management has reviewed all available books and records and determined that the non-cash consideration amount to be reclassified from PPE to the right of use asset upon application of AASB 16 is immaterial.

Considering the difference between the remaining useful life of the Site and its lease term, management is required to assess the impact to the amortisation expenses associated with the Site.

At 30 June 2019, management is required to include disclosure on the expected impact upon application of AASB 16 in Crown Melbourne's statutory financial statements. We will assess the adequacy of the disclosure upon receipt of the financial statements.

Our audit procedures in relation to the work management have completed on the implementation of AASB 16 is still ongoing at the date of this report.



Crown Melbourne Limited

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Executive Summary Areas of Audit Focus Audit Differences Control Environment Focused on Your Future **Appendices**

Appendix A - Other Required Audit Committee Communications

Auditing Standards require us to report to you certain matters that are not otherwise detailed in this report.

Matter	How matter was addressed
Compliance with laws and regulations	We have not identified any material instances of non-compliance with laws and regulations.
Material uncertainties and going concern	<p>We noted that in Crown Melbourne's reporting pack, it has a net current asset deficiency position of \$37.5 million as at 30 June 2019. We noted that:</p> <ul style="list-style-type: none"> ▶ Crown Melbourne has a net related party receivable balance of \$582.7 million due from entities within the Crown Resorts Limited group. Further Crown Melbourne has the ability to call on the net balance due from Crown Resorts Limited. This receivable is currently classified as non-current and does not therefore mitigate the current asset deficiency; ▶ Crown Melbourne continues to operate profitably with positive operating cash flows in FY19 of \$600.6 million, generating significant operating cash flows. FY20 budgets demonstrate continued performance at these levels; and ▶ Crown Melbourne is party to a Deed of Cross Guarantee with Crown Resorts Limited, under which each company in the Closed Group guarantees payment in full of all debts of the other entities in the event of their winding up. <p>We will consider going concern when completing our work over the Crown Melbourne Limited financial statements, including the disclosures in relation to going concern assumption. Consistent with prior reporting periods, we expect to obtain a copy of the letter from Crown Resorts Limited confirming their provision of financial support to Crown Melbourne Limited and that they will not call any amounts owing to Crown Resorts Limited if this would cause financial duress to the company, for a period at least 12 months from the signing date of Crown Melbourne financial statements.</p>
Fraud and illegal acts	<p>We have made enquiries of management regarding:</p> <ul style="list-style-type: none"> ▶ Knowledge of any fraud or suspected fraud affecting the entity involving Management, employees who have significant roles in internal control; or others where fraud could have a material effect on the financial report of Crown Melbourne Limited ▶ Knowledge of any allegations of fraud, or suspected fraud, affecting Crown Melbourne Limited's financial information <p>Based on our enquiries and audit procedures, we did not become aware of any fraud or illegal acts during our audit.</p>



Crown Melbourne Limited

For the year ended 30 June 2019

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Executive Summary Areas of Audit Focus Audit Differences Control Environment Focused on Your Future **Appendices**


Appendix B - Outstanding Matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Legal confirmations	Receipt of legal confirmation from solicitors (including Minter Ellison)	EY
Financial support letter	Receipt of letter from Crown Resorts Limited confirming their provision of financial support to Crown Melbourne Limited and that they will not call any amounts owing to Crown Resorts Limited if this would cause financial duress to the company, for a period at least 12 months from the signing date of Crown Melbourne financial statements.	EY
Draft financial statements	Receipt of the draft Crown Melbourne financial statements	(M)
Allocation of corporate provision	Receipt of management's assessment on the allocation of corporate provision to Crown Melbourne	(M)
AASB 16 Leases	Finalisation of the audit procedures over AASB 16 Leases	EY
Signed financial report	Receipt of the signed financial report, including directors report	(M)
Management representation letter	Receipt of signed Management representation letter	(M)
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY

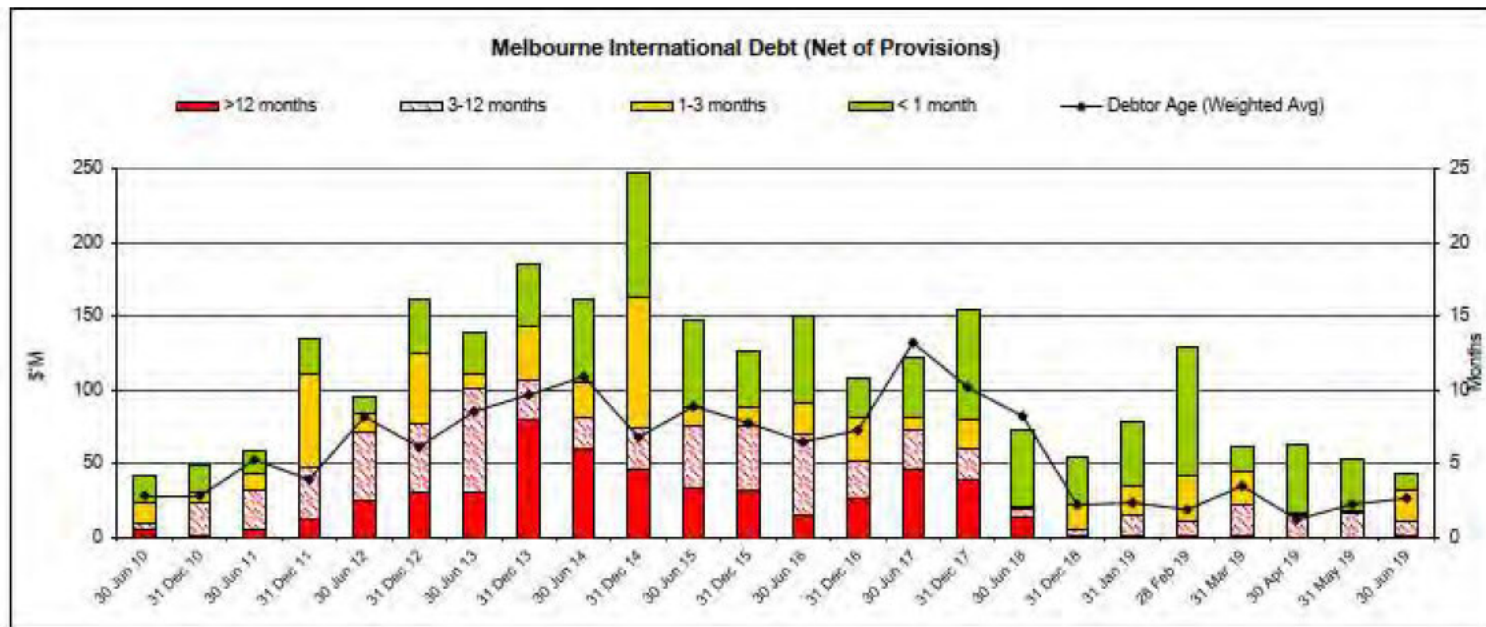
Key:

 EY responsibility

 Management responsibility



Appendix C - Crown Melbourne's VIP Gaming Debts Ageing Profile





Crown Melbourne Limited

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[Executive Summary](#) [Areas of Audit Focus](#) [Audit Differences](#) [Control Environment](#) [Focused on Your Future](#) [Appendices](#)

Appendix D - Draft Auditor Independence Declaration

Auditor's Independence Declaration to the Directors of Crown Melbourne Limited

As lead auditor for the audit of the financial report of Crown Melbourne Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Crown Melbourne Limited and the entities it controlled during the financial year.

Ernst & Young

Michael Collins
Partner
XX September 2019



Crown Melbourne Limited

For the year ended 30 June 2019

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Executive Summary Areas of Audit Focus Audit Differences Control Environment Focused on Your Future **Appendices**

Appendix E - Draft Audit Report

Independent Auditor's Report to the Members of Crown Melbourne Limited

Opinion

We have audited the financial report of Crown Melbourne Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

Ernst & Young
Michael Collins
Partner
Melbourne
XX September 2019



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