The Star Gold Coast

Treasury Brisbane

Special Manager’s Report to the Office of Liquor and Gaming Regulation

3 October 2023

Contents

1 Executive Summary

Introduction (section 2)

The Bell and Gotterson Inquiries into TSEG's casinos in 2022 made findings of illegal activity, misconduct and a range of serious governance, risk and compliance failings. As a result, on 17 October 2022 the NICC appointed a Manager to Star Sydney pursuant to section 28 of the NSW CCA and on 9 December 2022 the OLGR appointed a Special Manager to Queensland Licensees pursuant to section 90C of the Qld CCA. This was in addition to the suspension and deferred suspension of TSEG's casino licences in NSW and Queensland respectively, and a fine of $100m in each state.

We have been asked by the OLGR and the NICC to produce a report that documents the main aspects of our work, our observations, and our advice in relation to TSEG's remediation plan.

Initial observations (section 3)

At the commencement of the appointments, TSEG was an organisation in many ways that resembled the organisation that was examined in the Inquiries. While some directors and executives had departed, it had made little progress to quickly address adverse findings from the Inquiries. TSEG did not appear to have an appreciation for the gravity of the conduct highlighted in the Inquiries and the risks to which the casinos were exposed as a result. TSEG was not proactive and displayed an absence of urgency in its approach.

Several senior individuals had departed from the organisation and their roles were vacant on our arrival. At lower levels, TSEG was materially under resourced, reflecting years of under investment in key risk and integrity related functions. An absence of leadership, capability and resourcing meant the business was without effective oversight in its operations and without leadership in its attempts to deliver rapid uplift. This exposed operations to a high level of risk and stifled TSEG's ability to commence its uplift in a meaningful and structured way. While activity levels were high and a range of worthwhile, discrete tasks were being pursued in various areas, this work lacked cogency, structure and leadership.

On commencement of the appointments, TSEG were cooperative and engaged constructively with us.

Oversight and stabilisation (section 4)

Having regard to our role and the nature of the appointments, we put in place protocols by which TSEG should engage with us.

In light of the risks we observed, we required TSEG to implement additional controls on casino operations, focused on the use of cash and other matters relevant to financial crime. In the absence of an appropriately designed and structured program of uplift, we reset TSEG's priorities, requiring it to focus on implementing new ICMs and controls, addressing high risk conduct in the casino, completing a root cause analysis, accelerating executive appointments and developing a roadmap for cultural reform.

Remediation plan (section 5)

Once the priorities we set had been advanced, we directed TSEG to commence the development of a remediation plan that could be approved under section 91AC of the Qld CCA.

This process has taken six months. It has involved several drafts and several rounds of detailed written feedback. During the process, external expertise has been engaged to supplement capability gaps. TSEG has engaged with historical reports to inform the content of the plan and has forecast a material investment to deliver the plan over several years. We have observed the Board and executives engage with the remediation plan.

There are however a range of risks facing the implementation of the remediation plan. Executives and the Board must stay closely involved in each stage of the plan's execution. Delivery must be supported by an adequate budget and resources. TSEG must consistently deliver high quality work in a timely manner, which is not part of TSEG's culture that we have observed to date. We have concerns as to TSEG's ability to identify and manage these risks adequately without supervision. While TSEG has taken some steps to address risks, material execution risk remains.

On balance however our assessment is that the remediation plan presents a basis on which TSEG can commence delivery of the remediation program. If it is implemented, it is likely to achieve the remediation of the management and operations of TSEG.

Deferred licence suspension (section 6)

We have met with the Queensland Attorney-General to discuss a range of matters including TSEG's progress, the remediation plan and options available in light of the deferred suspension set to commence on 1 December 2023.

We consider that changing the date on which the suspension would take effect would be a prudent option as it will provide more time to assess TSEG's capacity to implement its remediation plan and to otherwise assess TSEG's continuing approach to rebuilding trust and confidence with its stakeholders.

Risks and impediments to reform (section 7)

TSEG has made progress since the Inquiries and its risk profile has improved. However, there is a significant amount of work facing the organisation over the next few years. There are several risks and potential impediments to TSEG's reform that it must address to successfully return to suitability.

Governance: The renewal of the TSEG Board has been completed. We have observed the Board being more inquisitive, demonstrating more effective oversight and starting the process of setting an appropriate tone from the top, which are all positive developments. However, the timing, quality and content of Board reporting remains deficient. The Board have tolerated this for too long and effective oversight has been compromised as a result. Subsidiary governance arrangements are not yet operational, and the establishment of Compliance Committees is incomplete.

Leadership: TSEG has recruited new executives and is establishing its leadership structure. The time taken to complete this work however has slowed the pace of reform. Nine of 12 direct reports to the CEO were senior leaders in an organisation that enabled a culture which cultivated and tolerated widespread misconduct. TSEG's leadership team is not yet acting as a collective and has not authentically and clearly communicated a strong tone from the top in a unified way that will ignite enterprise-wide cultural change. Such communication must be underpinned by a new organisational strategy and grounded in a revised organisational purpose, values and principles. These fundamental protocols are not yet settled. The success of the remediation plan will depend on the GLT role modelling and communicating a new vision of organisational success and overseeing the effectiveness of the execution phases of the plan.

Capability: TSEG has underinvested in its capability in key supporting functions, including risk and integrity roles, for years. TSEG has taken steps to address this historical underinvestment. Important senior positions have been filled in several integrity related functions, and capability is being developed at middle and lower levels of work. The organisation is stronger because of this investment. Capability has improved from a low base, but it remains inconsistent, impeding TSEG's ability to build an influential and valued strategic risk function. At times, capability uplift has required our intervention, which does not reflect positively on TSEG's capacity to operate without supervision.

Organisational structure: TSEG has progressed the implementation of its organisational structure. This was however progressed slowly, is incomplete and was another matter that required our intervention. This has increased risks to operations and delayed reform. TSEG's accountability framework is still developing, exposing risks and contributing to instances of regulatory non-compliance.

People and culture: While some people management practices have improved, shortcomings continue to exist, and recruitment practices remain a source of frustration in the business and a barrier to capability uplift. Internal capacity in this function is low, which creates risk to execution of the remediation plan. TSEG's culture is deeply entrenched. Its staff have long tenures and have been socialised into legacy behaviours. Changing existing mindsets will require discipline and a carefully executed program of work. Policy uplift is progressing, but alone will be insufficient to drive the comprehensive change that is required. Reform of mindsets and attitudes at middle management is essential and will take several years. The work required to do this is only just beginning.

Financial crime: The new operating environment, new ICMs and company-led uplift have all reduced the financial crime risks posed by TSEG's casino operations and increased TSEG's knowledge of the customers with whom it does business. TSEG is beginning its strategic uplift in this area and risks remain. TSEG has recruited effectively in its second line financial crime team, but we hold some concerns as to the capability of the first line financial crime operations team. The tolerance for patron risk remains unclear and governance processes continue to lack transparency and rigour. The quality of patron data and TSEG's ability to report accurately on this to enable high-quality decisions remains low.

Harm minimisation: This function has improved through new leadership, increased resourcing and implementation of ICMs. However, the harm minimisation function remains compliance focused and continues to suffer from years of underinvestment. The remediation plan in this area contemplates a shift to a public health approach to harm minimisation and will require TSEG to confront and resolve the historical imbalance that has prioritised revenue over TSEG's obligation to protect its patrons from gambling-related harm. The prospects of successfully implementing the cultural transformation required in harm minimisation will rely to a large degree on TSEG instilling a culture of collective accountability for safer gambling among its leaders and throughout the organisation. We have not yet observed evidence of this collective accountability.

Risk, compliance, controls, regulatory affairs and internal audit: Material uplift in the risk function was not possible prior to the arrival of the Group CRO in February 2023. Since then, resourcing has faced challenges and progressed slowly. There has been limited improvement in the quality of risk reporting and risk governance at property level. There remains much to do to design and embed a well-functioning 3LoA model, supported by an effective risk culture. Both the compliance and internal audit functions experienced some increases to resourcing but require a long-term solution to leadership. The control environment has been improved, but a heavy reliance on manual processes and a lack of reporting on the control environment continue to create risks for TSEG.

Conclusion

These matters highlight a business that has made progress since the Inquiries and throughout 2023. With a remediation plan now established to guide future reform, it is likely that this progress will continue beyond the date of this report. These matters also highlight, however, a business that can attribute a material portion of its progress to requirements imposed on it by regulators and the supervision of the Special Manager and Manager.

While TSEG has had good intentions and has worked hard since the commencement of the appointments, it has not always met expectations. We have issued directions to ensure important matters are progressed quickly. We have also provided scrutiny on important decisions where TSEG has lacked appropriate capability, judgement or rigour. In some places, we have been required to persuade TSEG to address risks it has failed to detect and manage adequately.

In this context and in the context of the significant, complex, multi-year remediation program that TSEG will imminently commence, our view is that continued oversight, scrutiny, guidance and reporting to casino regulators is required from an independent party. This will be required in our view until TSEG can demonstrate a consistent ability to detect and manage risk to its operations in a timely, rigorous way, and a capacity to deliver high quality, self-driven uplift.

2 Background

2.1 Inquiries and regulatory responses

Inquiries

The Gotterson Report was released on 30 September 2022 following an inquiry under section 91 of the *Casino Control Act 1982 (Qld)* (**Qld CCA**). It left open findings of unsuitability in relation to The Star Entertainment Qld Limited and The Star Entertainment Qld Custodian Pty Ltd (**Queensland Licensees**) as well as The Star Entertainment Group Limited (**TSEG**).

The Bell Report was released on 31 August 2022 following public hearings under sections 143 and 143A of the *Casino Control Act 1992 (NSW)* (**NSW CCA**) that commenced in November 2021. It ultimately made findings of unsuitability in relation to The Star Pty Ltd (**Star Sydney**) and TSEG, which was accepted by TSEG.

The Bell and Gotterson Reports (**Inquiry Reports**) made a range of findings in relation to illegal activity, serious misconduct and failings in areas including risk management, compliance, governance, financial crime, culture, internal audit and capability.

Regulatory responses

On 9 December 2022 the Office of Liquor and Gaming Regulation (**OLGR**) issued correspondence that suspended the Queensland licences on a suspended basis for 90 days from 1 December 2023, imposed a $100m penalty, and notified of the appointment of a Special Manager pursuant to section 31 of the Qld CCA.

Following the announcement of disciplinary action and the appointment of a Special Manager in Queensland, Attorney-General and Minister for Justice, Shannon Fentiman said:

> *"Should The Star make satisfactory progress towards rectifying these issues, the Special Manager and I may determine to postpone or rescind the suspension of licences."*[1]

On 17 October 2022, after receiving submissions from Star Sydney, the NSW Independent Casino Commission (**NICC**) issued correspondence that suspended TSEG's NSW casino licence indefinitely from 21 October 2022, imposed a $100m penalty, and notified Star Sydney of the appointment of a Manager pursuant to section 28 of the NSW CCA.

In a public statement following the announcement of disciplinary action and the appointment of a Manager in NSW, the NICC said the Manager was appointed *"until it can determine whether the matters identified during the Bell Review can be rectified and whether the NICC believes it is likely that The Star can achieve suitability."*[2]

2.2 Appointments: nature, scope, structure and resources

Queensland

Division 3 of the Qld CCA contains provisions relevant to the appointment of a Special Manager. Section 90D of the Qld CCA provides that the Special Manager has the function of monitoring the affairs of the casinos and consulting on and advising in relation to the content and preparation of a remediation plan. Section 90E of the Qld CCA provides that the Special Manager has the powers necessary to perform

[1] Disciplinary action taken against The Star - Ministerial Media Statements.

[2] Star casino licence suspended | NSW Government.

the function, including entrance to properties, access to documents, attendance at meetings and the engagement of other services to perform the role.

In addition, the instrument of appointment, which sets out the terms and conditions of the appointment of the Special Manager, also directs the Special Manager to provide advice to the Minister that will assist in the preparation of, determining the adequacy of, and approving, a remediation plan for the casino entities under section 91AC of the Qld CCA.

The Special Manager's appointment is for a period of 12 months from the date of the appointment, 9 December 2022, unless terminated earlier by the Governor in Council.

New South Wales

The Deed of Appointment confers on the Manager full control of, and responsibility for the business of Star Sydney in respect of the casino with the power to conduct operations in accordance with the NSW CCA.

The Deed of Appointment notes the Manager's intention that the casino be operated in a manner that is *"broadly consistent"*[3] with the manner in which Star Sydney operated the casino, subject to the NSW CCA and departures as considered necessary by the Manager to address applicable laws, regulatory requirements, matters identified in the Bell Inquiry or other integrity risks.

A letter from the NICC to Star Sydney on 17 October 2022 also set out expectations for Star Sydney's engagement with the Manager. It noted that Star Sydney is expected to cooperate, comply with requests, keep the Manager informed about relevant casino matters, comply with obligations under agreements and take reasonable steps to enable the Manager to perform the role. It noted that the NICC will seek the Manager's views in relation to whether Star Sydney is capable of demonstrating suitability.

The Manager's appointment was originally for a period of 90 days[4] from 21 October 2022 but was subsequently extended by regulation for up to 12 months until 19 January 2024, unless terminated earlier by the NICC[5].

Resourcing

The Special Manager and Manager is supported by a small team across TSEG's three casinos, with experience in areas including risk management, governance, culture, financial services, casino operations and regulatory engagement.

There has been a degree of overlap in our work, noting that several of Star's functions are shared across states (e.g., financial crime) and that all three casinos are ultimately owned by TSEG. We have therefore included matters relevant to NSW in this report.

2.3 This report

This report documents the main aspects of our work and our observations from the commencement of the appointments. It also provides advice in relation to the remediation plan, as contemplated in the Qld CCA and Queensland instrument of appointment, and as requested by the NICC.

The report is set out in the following sections:

1) **Executive summary** – A summary of key aspects of the report.

[3] Deed of appointment of manager clause 3.2, dated 17 October 2022.
4 Section 28(4) of the NSW CCA.
[5] Regulation 48A of the Casino Control Regulations 2019 made under the NSW CCA.

2) **Background** – A brief description of the context to the appointments, their nature and scope, the Manager's structure and resources and the structure of the report.

3) **Phase 1: Commencement** – Observations based on the initial phase of the appointments and key risks facing operations at that time.

4) **Phase 2: Oversight, controls and priorities** – An overview of key protocols and focus areas established for TSEG, including directions and operational protocols (approvals, regular reporting and access to regular meetings), additional controls and initial priorities.

5) **Phase 3: Remediation** – An overview of the process undertaken in relation to the development of TSEG's remediation plan and our assessment of it.

6) **Deferred licence suspension** – Our observations in relation to the deferred suspension of the Queensland licences presently due to commence on 1 December 2023.

7) **Potential impediments to reform** – An assessment of the risks facing TSEG and the potential impediments to reform.

3 Phase 1: Commencement

In the early days and weeks of the appointments, we met with a range of stakeholders including regulators, advisors and staff from several parts of the business, particularly those with roles relevant to casino operations. The objective of these discussions was to familiarise ourselves with the business, understand the broader regulatory and operating environment, understand priorities and major projects underway and listen to the concerns and perspectives of stakeholders.

Our initial observations and assessment of these matters is described in this section.

3.1 General observations

The Bell and Gotterson Inquiries (**Inquiries**) concluded on 30 May 2022 and 29 August 2022 respectively, several months prior to the commencement of the appointments. A requirement for immediate and rapid uplift to address ongoing risks to casino operations was a clear implication of the evidence heard in the Inquiries, while a broader long-term program of uplift was being established. We therefore sought to assess the progress TSEG had made since the Inquiries.

In our view, TSEG had taken some positive steps since the Inquiries by the time the appointments commenced, but TSEG could have and should have moved more rapidly to address risks and deliver uplift. Many initiatives to deliver uplift did not commence until after the Inquiry Reports were received, or until after disciplinary action had been determined. Much of this work could have and should have begun at least as soon as serious evidence began to emerge in the Inquiries. We also did not observe that TSEG had reflected on the findings of other casino inquiries.

In taking this reactive approach, TSEG displayed an absence of urgency in addressing clear risks which is difficult to understand in the circumstances.

Described in this section are key observations from this initial phase of the appointments.

TSEG's "immediate actions"

We observed a high level of activity within the corporate function in the early weeks of the appointments. A range of discrete tasks were being advanced as part of an initial remediation plan that had been developed rapidly by TSEG around the time it received show cause notices from the NICC and the OLGR. These tasks included ceasing junkets, pausing rebate play, appointing Non-Executive Directors (**NEDs**) and senior executives following a range of departures during and after the Inquiries, securing short-term resourcing in key areas such as financial crime, risk and compliance, and seeking to action some recommendations from the Inquiry Reports.

These were important initiatives that needed to be pursued. By our observation however, several of these initiatives were designed with a view to achieving a basic level of compliance with legal obligations, rather than delivering carefully planned and sustainable reform. At this time, uplift was progressing in the absence of a regulator-approved remediation plan. Uplift was not structured, and it was not being led by senior individuals who would be responsible for key areas of TSEG's business going forward.

Leadership

In the early part of the appointments, several Board and executive changes occurred, following departures that took place during and after the Inquiries. This included the appointment of five new NEDs, a new Chief Executive Officer and Managing Director, Chief Risk Officer (**CRO**), Chief Legal Officer (**CLO**) and Company Secretary. These were all external appointments. Other executive appointments made around this time occurred internally. This included the Chief Financial Officer (**CFO**) and the Chief People and Performance Officer. Some executives remained in place throughout. This included the Chief Information Officer and the Chief Marketing Officer[6]. Further executive changes occurred during 2023. These are dealt with in later sections of this report.

Challenges were encountered by TSEG during this period of leadership change. TSEG moved slowly to appoint key executive roles. For example, the CRO commenced in February 2023 and the CLO commenced in May 2023. Other positions continued as vacant during this period, including the Gold Coast and Brisbane property CEO positions, which both remain vacant at the date of this report. Overall, this meant that the properties and key areas within the business were without capable leadership for several months. This presented challenges to key decisions and strategic planning and continued the legacy of central control within the CEO's office.

We continued to advance our views in this area throughout 2023. As such, this matter is dealt with further in later sections of this report.

Culture

It was too early to form views about TSEG's culture in the early part of the appointments, beyond our observation that key representatives appeared willing to cooperate and engage with the form of supervision imposed by the NICC and OLGR. Dr Attracta Lagan was engaged in January 2023 to assist with an assessment of TSEG's culture and its journey to cultural reform. We comment on this area in later sections of this report.

Resourcing

We observed material deficiencies in the resourcing of key integrity-related functions. TSEG's existing organisational structure in risk, compliance, regulatory affairs, financial crime and safer gambling were inadequate as a starting point, as noted in the Inquiries and several other reports commissioned by TSEG. In addition to that, the existing organisational structure contained many vacancies at all levels, heightening these inadequacies.

Many roles needed to be filled on an interim basis by external consultants. Individuals from PwC and Deloitte primarily were engaged for this purpose. This mitigated the risks to some extent, however the absence of specific expertise and leadership meant oversight of these resources was inadequate. This resourcing model also meant there were a limited number of people that could make important decisions quickly.

The process to replace departed executives and managers was protracted. Several leaders have advised us throughout the appointments of difficulties they have faced when a vacancy has needed to be filled quickly. We have been advised that the recruitment process is bureaucratic with several approvals required to progress recruitment regardless of the level of the role.

This was a period that required decisive action to address resourcing deficiencies and respond to the increased workload on the business. TSEG was not decisive, and it moved slowly in this period to build resourcing.

Financial crime

There were a range of findings in relation to TSEG's financial crime function both through the Inquiries and in several external reports commissioned by TSEG. Further, AUSTRAC served a Statement of Claim (**AUSTRAC SoC**) on certain TSEG entities which identified *"a multitude of issues"*[7] and *"widespread and serious non-compliance over a number of years"*[8]. AUSTRAC's Concise Statement

[6] Now the Chief Technology & Innovation Officer and the Chief Customer & Product Officer.
[7] AUSTRAC Media Release 30 November 2022.
[8] AUSTRAC Media Release 30 November 2022.

alleged TSEG's breaches of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (**AML/CTF Act**) were *"too numerous to quantify and ongoing"*[9].

Despite these findings, disciplinary action by casino regulators and the breadth of allegations in the AUSTRAC SoC, we observed continuing high-risk practices in the discharge of TSEG's financial crime obligations. An example was TSEG's practices in accepting and dealing in large volumes of cash while holding limited information about the customers with whom it was dealing. We identified several instances where individuals made substantial deposits of cash to TSEG's casinos. In many cases, individual cash transactions exceeded $50,000 (with some individuals making several deposits of this size across days and weeks) and in some cases, individual cash deposits exceeded $100,000.

Our early observations highlighted a range of continuing issues and risks in TSEG's financial crime function. Such matters included:

- **Resourcing:** It was clear that the financial crime team was poorly led and had been materially under-resourced for an extended period of time. This was evident by the existence of several processing backlogs, where key alerts and diligence triggers had remained without action for months. This included the processing of transaction monitoring alerts and the completion of ECDD for customers, both of which had known backlogs in the thousands. In relation to leadership, we were required to persuade TSEG that a leadership change was required in this function.
- **Technology limitations and issues:** Several issues and limitations emerged in respect of the technology systems TSEG uses for its operations and the management of risk, including inaccuracies, inconsistencies and incompleteness in information, system glitches and malfunctions, a heavy reliance on manual processes and controls and poor management reporting and functionality. The effectiveness of key processes and decision making was and remains compromised by these issues.
- **Processes and governance:** Issues in relation to financial crime processes and governance were explored in detail in the Inquiries and in the AUSTRAC SoC. By our assessment there had been little to no improvement in key processes and governance since these failures were highlighted during the inquiry hearings.
- **High risk customers and behaviours:** Several high risk customers and specific instances of high risk behaviour were identified by us in the early phase of our engagement. It was evident that TSEG had very little capacity to identify these customers and limited understanding of how that risk should be assessed once identified. This is discussed further in other sections of this report.

Overall, our assessment was that TSEG had very little knowledge of and intelligence on its customer base. It was not adequately resourced to address the financial crime risks facing the casino operations and had poor processes, accountability, governance structures and sub-standard information systems required for effective decision making. TSEG displayed a lack of urgency to deal with these issues, evident by the range of issues present and still emerging by the time the appointments commenced, months after the Inquiries had concluded.

Around this time, TSEG began implementing a *"Financial Crime Immediate Priorities Plan"*, a plan devised by the then Sydney Chief Risk Officer and the then NSW Chief Controls and Enablement Officer. This plan aimed to deliver rapid, tactical uplift to the financial crime program at TSEG in anticipation of a longer-term program of work through the remediation plan. Our assessment was that

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[9] AUSTRAC Concise Statement [10].

this was a program of work worth pursuing and made some progress to address the key risks and issues at the time.

Board oversight

During this phase we observed continuing deficiencies in management reporting to the Board. This issue featured prominently in the Bell Inquiry. Specifically, we observed instances where important issues were not escalated to the Board in sufficient detail and cases where important issues would not have been escalated to the Board at all, but for the Manager's office encouraging management to do so. We also observed during this period a Board that was passive in setting expectations with TSEG's management team in respect to the quality and timeliness of Board reporting. The quality of Board reporting has improved modestly since this time and the Board has maintained a passive approach with TSEG's management team.

Operational and control environment generally

TSEG made a range of changes to its operations around the time of the Inquiries. Such changes included:

- ceasing junket operations;
- pausing rebate operations;
- shutting down foreign operations (e.g., offices and bank accounts);
- closing Sydney's Marquee nightclub; and
- ceasing to provide free alcoholic drinks in Sydney's private gaming rooms in NSW.

There were other changes that similarly had the effect of reducing risk in the casinos. Many of these changes arose as a response to the adverse findings of the Inquiries. Some other changes arose from amendments to legislation in both jurisdictions, following matters that arose from public inquiries across Australia in connection with the casino industry.

By our assessment however, TSEG's control environment was weak and material risks to TSEG's operations persisted. Since the Inquiries and by the time the appointments commenced, no material changes had occurred to uplift TSEG's internal controls. TSEG did not have in place a three Lines of Accountability (**3LoA**) model. Governance and oversight structures continued to demonstrate deficiencies highlighted in the Inquiries. There were several gaps in TSEG's organisational structure owing to a range of staff departures. Policies, procedures and frameworks remained outdated, poorly understood and ineffective, as highlighted in the Inquiries.

3.2 Remediation

A material aspect of TSEG's responses to the show cause notices issued separately by the NICC and OLGR was the submission of a remediation plan. The development of a comprehensive remediation plan was a clear implication of the Inquiries and legislative settings with respect to casinos, particularly in Queensland, where the remediation plan is to be approved[10]. TSEG engaged advisors to assist with the preparation of the remediation plan and to act as an independent monitor. The NICC and the OLGR did not approve TSEG's remediation plan as submitted as part of its show cause response.

Notwithstanding the commencement of the appointment of the Manager in NSW on 21 October 2022, TSEG sought to continue with delivery of a remediation plan. It made an ASX release on 24 October 2022, attaching a report from Allen & Overy Consulting on the progress of the remediation

[10] Section 91AC of the Qld CCA.

plan. TSEG continued to commence delivery of its plan based on this report, without reference to the Manager.

Once the Manager was appointed, the development of and delivery on the remediation plan should have had regard to the Manager. TSEG should have consulted with the Manager prior to issuing its ASX release in relation to the remediation plan.

In any case, our assessment of the remediation plan was that it did not respond adequately to the issues facing the business, including those raised in the Inquiries. In particular:

- the development of the plan appeared to be heavily reliant on TSEG's advisors, rather than being developed by the business with Board engagement and oversight;
- several key executives and leaders who would ultimately take carriage of key aspects of the plan had not yet commenced in their roles (or had not yet been appointed);
- the plan was prepared without having conducted a comprehensive root cause analysis or cultural diagnostic and without having engaged deeply with the inquiry reports;
- a range of other key inputs to a plan of this nature had not been considered, such as TSEG's broader business strategy, its cultural context and its purpose, values and principles; and
- TSEG had not yet established within the business a stable operational base on which to commence delivery of a plan of this nature.

At this time, we were not satisfied that TSEG was focusing on the right priorities, so we directed it to change those priorities in November 2022. This is dealt with in section 4.3.

4 Phase 2: Oversight, controls and priorities

In November 2022, having gained an understanding of the various parts of TSEG's business in the early part of the appointments, we implemented a range of initiatives to stabilise operations, establish protocols to govern engagement between TSEG and our team, and address key risks. These initiatives are described in this section.

4.1 Delegations, reporting and access protocols

It was important to establish protocols by which the Special Manager and Manager could:

- receive reporting in relation to operations and other important matters relevant to the casinos;
- obtain an appropriate level of access to key management, executive and Board forums; and
- (in NSW) exercise approvals on certain matters, based on their subject matter and materiality.

Such protocols in our view were necessary in consideration of the responsibilities and functions of the appointments, as summarised in section 2.2.

We developed an instrument to implement these protocols and provided it to TSEG on 3 November 2022. Ultimately once the Queensland appointment commenced, a similar approach was taken in relation to the sharing of information as in NSW that reflected the differences in the nature of the Queensland appointment.

In both states the working relationship has evolved. TSEG generally provides information requested under the protocol, and has complied with the intent of our delegations, reporting and forums protocols.

4.2 Enhanced controls

We made observations in section 3 in relation to our assessment of TSEG's control environment and its management of financial crime risk. In that context, on 1 November 2022 we instructed TSEG to implement a series of interim controls, initially to the Sydney casino. The controls were focused on AML/CTF matters, and resembled controls that were ultimately implemented in all three casinos from Internal Control Manuals (**ICMs**) 3 and 12 in NSW and ICMs M and Q in Queensland.

The enhanced controls in NSW (and subsequently in Queensland) were designed to be implemented quickly and in response to risks that were evident. We communicated to TSEG that we were content that interim and manual measures be used to comply with these controls.

TSEG moved slowly to implement these controls. Many of the controls by our assessment could have been implemented more quickly than they were. This approach had the impact of delaying the implementation of important controls and exposed the casinos to higher risks for a longer period. This exercise was one of several occasions where we have observed TSEG exhibit a complacency to the risks that its business faces, including ongoing regulatory risks.

Ultimately, because of TSEG's inability or reluctance to introduce the new controls in a timely manner, we directed TSEG to implement new controls in NSW in a staggered fashion from December 2022 to February 2023. In Queensland, we encouraged TSEG to implement the controls, unless there was a good reason not to do so. Many of the enhanced controls were implemented in Queensland also, through either this process or the broader Queensland ICM process. The control environment across the three casinos was improved by virtue of the implementation of these controls (noting that the uplift of Queensland ICMs is ongoing).

4.3 Resetting TSEG's priorities

We made observations in section 3 in relation to the remediation plan that was submitted to regulators around the time the appointments commenced in late 2022. We noted that it was not developed in a way and in circumstances that would promote the prospect of the program adequately responding to the issues facing the business, including those raised in the Inquiries.

As such, we wrote to TSEG on 10 November 2022 to communicate the priorities on which we intended to focus in relation to the Sydney casino. These priorities were to:

- implement NSW ICMs and enhanced controls;
- take immediate steps to mitigate risks to the integrity of the casino, including in respect of financial crime;
- complete a root cause analysis;
- accelerate key executive appointments; and
- develop a culture reform roadmap.

The letter noted our intention to defer consideration of the remediation program that was underway, on the basis that it was premature at least until a root cause analysis was completed and results embedded in the program and until the executives responsible for delivering the program had commenced their employment. These priorities were equally relevant to Queensland once that appointment commenced. For Queensland, the priority relevant to controls was to advance the development and settling of Queensland ICMs in accordance with the program established by the OLGR.

4.4 Directions issued

We have issued several formal directions that have required action from TSEG. Some of these are detailed in this report. TSEG has generally complied with these directions. In many cases the requirements or deadlines of the directions have been amended by agreement.

It should be noted however that many of the directions issued were done because of TSEG's failure to act appropriately and/or with sufficient speed. While TSEG may have complied with these directions, our approach has been to issue them as a last resort to seek a resolution on matters of concern. In circumstances where it is important for TSEG to demonstrate that it is capable of acting proactively, it is unfortunate that we felt obligated to issue these directions.

5 Phase 3: Remediation

5.1 Background and context

Considering the issues raised in the Inquiries, as well as the range of other third-party reviews commissioned by TSEG in recent times, there was a clear need for a comprehensive plan to document and govern the manner in which TSEG would address historical failings.

Noting our view as expressed above that the first draft remediation plan from late 2022 was not appropriately formulated, it was important that the initial priorities we communicated to TSEG in November 2022 were completed, or at least materially advanced prior to commencing remediation planning. It was also important to consider other factors, including the term of the Special Manager and Manager appointments and the desire to ensure TSEG’s progress was maximised within this period.

By around March 2023, TSEG had made progress towards completing these priorities. We set out below our observations in relation to the status of each priority:

- **ICMs and controls:** In NSW, enhanced controls from the Manager had been largely implemented by this point and TSEG had a program in place to implement new ICMs by 30 June 2023. In Queensland, a staggered process to review and enhance controls had commenced.
- **Mitigation of integrity risks:** Activities in this area were predominantly focused on financial crime. In that respect, a range of initiatves were progressed, including in resourcing, leadership recruitment, conducting high-level desktop reviews of key processes and functions, clearing backlogs and responding to emerging risks. Progress in this area was slow and difficult because TSEG lacked the capability and expertise to address these matters quickly. This element of reform required close oversight from our team. A range of risks still persisted at this time.
- **Root cause analysis:** Deloitte were engaged in late 2022 to conduct a root cause analysis. By March 2023, Deloitte had received and reviewed documents, conducted a range of interviews and presented their preliminary findings on one of the incidents reviewed. The draft report was expected by mid-April 2023, following which the QWB addendum and final report were due to be delivered in May and early June respectively.
- **Key executive appointments:** By March 2023, the CRO had commenced, the CLO had been announced and several other appointments were imminent, including the new General Manager Financial Crime and General Manager Safer Gambling Compliance. A broader organisational structure had not been communicated by this point, which operated as an impediment to reform and continues to slow TSEG’s progress.
- **Culture reform roadmap:** The Ethics Centre (**TEC**) were engaged in late 2022 to conduct an *“Everest Culture Review”*, which was intended to be a detailed and comprehensive diagnostic, and roadmap to reform TSEG’s culture. This work involved the review of documents, staff surveys and interviews with stakeholders. By this time, TEC were progressing their work and were to deliver a draft report by the end of May and a final report by June.

Work continued on each of these priorities for some time after March 2023. Ultimately, the remediation plan now includes aspects of these priorities that were unfinished.

5.2 Memo and direction

It was important that TSEG could move into a phase of planned, strategic, integrated, long-term uplift. As such, we wrote to TSEG on 24 March 2023 to commence the process of TSEG developing a remediation plan for approval by 19 May 2023. The memo set out our expectations for the plan, including the areas we anticipated would be captured by the plan, the way plans in each area should be articulated, structures that should support the plans (such as assurance, governance structures and budgets) and the nature of oversight we expected from the Board.

TSEG communicated that it could not meet the original 19 May 2023 deadline for submission and an additional month was provided to 16 June 2023.

On 24 April 2023, the OLGR issued a notice under section 91AC(1) of the Qld CCA, requiring TSEG to submit a remediation plan for consideration by 16 June 2023. The substance of the direction resembled and built on the concepts included in the memo described above.

5.3 Drafts and feedback

Version 1

TSEG provided its first draft of the plan on 16 June 2023. The submission included a range of documents that set out the plan (in detail and summarised form) and ancillary information in relation to the broader remediation program.

We responded to TSEG on 19 July 2023, having provided our proposed feedback to regulators on 7 July 2023 for comment. We concluded the draft was a *"reasonable starting point"*[11]. We provided thematic and detailed feedback on each workstream. Key thematic observations included the following:

- the plan was not integrated with an organisational strategy, business plan, cultural plan or purpose, values and principles guidelines;
- a material portion of the plan was a plan to develop a plan as TSEG did not have a strong understanding of its current state in many areas relevant to the plan;
- more work was required to demonstrate a deep engagement with key inputs (including the Inquiry Reports);
- more work was required on presentation and planning, including consideration of interdependencies, sequencing and closure criteria;
- while capabiltiy in relevant areas had improved, it was not yet at a level sufficient for us to be confident the plan could be executed with current capability levels; and
- more work was required to ensure that funding and resourcing arrangements were detailed, robust and adequate to support a program of this nature.

We attended several meetings requested by TSEG to discuss our written feedback and the plan generally. During those meetings, we also highlighted the need for TSEG to develop a robust assurance plan for the remediation program.

Version 2

TSEG provided a second draft of a remediation plan on 17 August 2024. We provided feedback to TSEG on this draft on 4 September 2023, having provided it to regulators for comment on 29 August 2023. This was an improved version that responded to many aspects of our feedback. In addition to providing detailed feedback on each workstream, we highlighted concerns at a program level in relation to:

- inadequate capability, particularly in risk, internal audit and culture design;
- evidence requirements lacking consistency and rigour;

[11] Manager's written feedback to Star on version 1 of the remediation plan dated 19 July 2023.

- absence of a comprehenisve assurance plan;
- lack of careful sequencing of the integrated plan;
- the extent of incomplete plans; and
- budget and resourcing, which contained errors and used an inconsistent approach to calculations.

While some workstreams had developed well and were moving toward a standard to which we could recommend their approval to regulators, other workstreams were at risk, including the people and culture related workstreams, risk and internal audit workstreams. In our view the quality of workstreams generally followed the capability available to TSEG in those areas. We communicated this to TSEG at that time.

Version 3

TSEG's third draft of a remediation plan was provided to us on 19 September 2023. In many areas, TSEG had generally incorporated our feedback, particularly in relation to a need to supplement capability gaps with external expertise for the purposes of quickly uplifting specific plans. For example, Deloitte were engaged to assist with workstreams relevant to culture and PwC were engaged to assist with elements of the risk plan. The plans in all areas but for internal audit and assurance were nearing a standard capable of a form of approval.

Some issues remained at a program level. Most were superficial in nature and by our assessment could be fixed without difficulty. A key challenge remained in relation to assurance, however. TSEG had not delivered a clear and cogent assurance plan for the program that would commence in a timely manner.

We provided written feedback to TSEG on 22 September 2023.

5.4 Assessment of the remediation plan

One of the functions of the Special Manager is to *"consult on and advise in relation to the content and preparation of the casino entity's remediation plan"*[12]. The NICC have also sought our view on the remediation plan.

TSEG provided a fourth draft of the remediation plan to us on 29 September 2023. This version included the following documents:

- Document #1 – (a) Executive Synopsis, (b) Executive Certifications and (c) Detailed Workstream Remediation Plan
- Document #2 – TSEG Dependency Register
- Document #3 – TSEG Response to SMT Rem Plan v3 Feedback
- Document #4 – TSEG Resource Profiles and Costs Summary
- Document #5 – TSEG Change Control Spreadsheet

The process to develop the plan has extended over six months. In that time, four drafts have been produced and we have provided three rounds of comprehensive feedback, in addition to attending a range of other workshops and meetings.

The plan has been developed by the business. TSEG has been assisted by external expertise in areas where internal capability has not been adequate.

[12] Section 90D(1)(b) Qld CCA.

We have observed TSEG engage with historical reports to inform the content of the plan. Such reports have included the Inquiry Reports, other casino inquiry reports, Deloitte's Root Cause Analysis Report (**RCA Report**), TEC's Culture Review Report (**TEC's Report**), other reports commissioned by TSEG in key areas and reports from related industries. It is important that TSEG continue to revisit these inputs as it delivers on the plan to ensure that historical failings and recommendations are being addressed. Outcomes from any ongoing or new inquiries should also be incorporated into the remediation plan once available. This includes, for example, the AUSTRAC proceedings.

TSEG has produced a budget and resourcing model to accompany the plan. This contemplates a material investment in the remediation program over several years. Such investment is warranted and essential in our view to support high quality delivery and sustainable embedment of uplift. Other supporting structures, including governance and assurance structures have been put forward. As the program commences, it is important that these mechanisms adapt and evolve to maximise the prospect that the plan is designed, implemented and embedded successfully.

We have also observed executive and Board engagement with the plan. Each executive accountable for an aspect of the plan, as well as the Board have provided certifications in support of the plan that has been submitted. In essence, the certifications go to ownership of planning, accountability for delivery, responsiveness to key inputs, adequacy of budget and resourcing and continuing Board oversight.

These matters trend positively for the plan. However, we consider there are still a range of risks and issues facing the plan.

It is important that senior executives and the Board remain close to the delivery of the plan. This has been a hallmark of similar successful programs delivered in the casino and related industries in recent times.

It is also important that delivery of the program continues to be supported by an adequate budget and sufficient resourcing. The integrity of the budget must be maintained, and the business must respond appropriately to inevitable requests for resourcing and budgetary support along the way. Continued investment in the context of industry conditions and competing priorities may be challenging for TSEG.

The most significant risk, in our view, is the risk that the plan will not be delivered in a timely manner and to a standard that achieves the target state for each initiative and workstream. We make this observation based on our experience with TSEG to date in its ability to produce high quality work within agreed timeframes, without assistance and without multiple attempts and feedback from regulators or ourselves.

There are other risks facing the plan. These risks will continue to evolve. Based on our experience with TSEG to date, we have not yet observed a strong, reliable internal capacity to identify, assess and manage risks without supervision.

On balance, in our view the plan presents a basis on which TSEG can commence delivery of the remediation plan. We consider that if the plan is implemented, it is likely to achieve the remediation of the management and operations of TSEG.

In light of the risks facing the plan, our view is that delivery of the plan should occur under close supervision, at least initially. Noting the status of the licences at present and the relevance of the remediation plan to a consideration of suitability to hold a casino licence, our view is that regulators should maintain a structure that:

- promotes regular reporting from TSEG on progress;
- provides opportunities for regulator input on milestones and deliverables;

- includes a robust assurance framework with appropriate independent verification; and
- allows for appropriate action to be taken when expectations are not met.

There are modest refinements of an inconsequential nature required to the documents submitted on 29 September 2023. We will work with TSEG to have these addressed prior to submission on Friday 6 October 2023.

6 Deferred licence suspension

As part of disciplinary action taken against TSEG's Queensland Licensees, the licences of Treasury Brisbane and The Star Gold Coast were both suspended for a period of 90 days, the commencement of which was deferred until 1 December 2023.

We met with the Queensland Attorney-General on 26 September 2023 to provide an update on the status of the Special Manager's appointment and the progress of TSEG's reform program, including its remediation plan preparation. At that meeting, we noted that the Special Manager's report was in the final stages of completion and that we considered that TSEG's remediation plan was approaching the stage where it could be provided to the Minister for consideration in accordance with the Qld CCA.

As noted in section 5.4, we have formed a view that the remediation plan is now in a form where, if successfully implemented, it is likely to achieve the remediation of the management and operations of TSEG's relevant casino entities. On that basis, we consider it to be in a form that it may be assessed for approval by the Queensland Attorney-General.

At the 26 September 2023 meeting, we discussed with the Attorney-General the status of TSEG's reform work in the context of the licence suspension that will come into force on 1 December 2023. At that meeting, the Attorney-General discussed potential options with respect to the treatment of the deferred suspension and asked for the Special Manager's assessment of those options. During the discussion, the Attorney-General expressed a preliminary view that she was considering changing the date that the suspension would take effect until a date that was approximately six months after the current date of 1 December 2023.

Based on the work we have undertaken, and our observations of TSEG since the Special Manager appointment commenced, we consider that changing the date on which the suspension would take effect in this manner would be a prudent option as it will provide more time to assess TSEG's capacity to implement its remediation plan and to otherwise assess TSEG's continuing approach to rebuilding trust and confidence with its stakeholders.

If the option of deferring the suspension date is selected, we believe it would be appropriate to couple that approach with continuing close regulatory oversight.

7 Potential impediments to reform

By TSEG's own admission, there is a significant amount of work ahead of it to achieve the objective of its remediation plan *"to earn back the trust of regulators, governments, shareholders, team members, guests and the community"*[13]. In that context, there are a range of ongoing risks that may impede TSEG's reform work if they are not promptly and effectively mitigated. This section provides our observations in relation to these key risks.

7.1 Governance

The renewal of TSEG's Board is substantially complete. Since the formation of the new Board, we have observed examples of the Board challenging management and demonstrating more effective oversight than has historically been the case. The Board has demonstrated signs of being inquisitive and has started the process of setting a tone from the top that more effectively balances TSEG's compliance and revenue generation objectives. The Board and its committees have demonstrated more effective leadership in relation to matters such as safer gambling, setting risk appetite, a more realistic view of community expectations and accepting and remediating past issues.

While progress has been made there remains key governance related activities still to be addressed. Board reporting requires material improvement, both in terms of the quality of reporting and the timeliness of papers. Since the commencement of the appointments, we have observed a practice where Board papers are rarely submitted with sufficient time to review, and the quality of insights in those papers is poor. It is only since August 2023 that Board papers have included a report from the CFO. The CEO's report template is still a work in progress, and Board papers still do not include written reports from property COOs. Whilst this is an issue that management must address, the Board shares culpability in relation to the quality of reporting as it has not improved materially since December 2022, and the low quality of reporting is seemingly tolerated by the Board. The integrity of Board decision-making will continue to be compromised for as long as poor-quality reporting continues.

Substantive work has not commenced in delivering a core recommendation from the Bell Report in relation to subsidiary oversight. The Bell Report noted:

> "*The Board of Star Entertainment was governing a business which operated three casinos in two states involving a myriad of issues beyond those directly relevant to The Star Casino Sydney. A lesson from the evidence presented to this review is that whilst the ultimate owner of The Star Casino may be a holding company conducting businesses in a number of jurisdictions, the casino operator in NSW must have close and direct supervision and governance."*[14]

The Boards of TSEG's three casino-operators have not met since our appointment. The Queensland entity Boards last met on 30 September 2022 and the Star Sydney Board last met on 16 October 2022. Although initiatives exist in the remediation plan to enhance casino-operator Board governance, this process should have commenced earlier and be substantially advanced by this time.

The Bell Report recommended the establishment of a separate Compliance Committee comprising a majority of independent members to monitor and assess the casino operator's compliance with its statutory obligations and the terms of its licence. It is intended that this requirement is mirrored in TSEG's Queensland properties.

The appointment of the independent members of the Compliance Committees is incomplete. Charters for each of the Compliance Committees are not fit for purpose and work is required to integrate and

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[13] TSEG's Remediation Plan Executive Synopsis dated 29 September 2023, page 4.
[14] Bell Report, chapter 26 paragraph 142.

define scope, reporting and obligations for each of the Board Committees, the Compliance Committees, and the various related Management Committees. This work is included in the remediation plan for completion by 28 February 2024.

Overall, TSEG has been slow to advance reforms in its governance structures, deferring this work in favour of alternative priorities. The pace of reform in this area will need to increase if TSEG is to comply with the deadlines described in its remediation plan.

7.2 Leadership

The Inquiries identified multiple material failures in leadership at the Board and management level. Some of those failures are the subject of litigation commenced by ASIC against former NEDs and officers of TSEG.

The case for Board and management renewal became clear during the 2022 casino inquiries. Directors of TSEG's Board resigned, and many members of TSEG's previous senior management team resigned or were exited. In that context, TSEG was forced to rebuild its Board and executive leadership team.

Board leadership

TSEG's Group Board has been refreshed with recently appointed NEDs, the longest serving NED being Mr. Michael Issenberg who was nominated in February 2022 and commenced as a NED on 11 July 2022. TSEG's decision to entirely renew its Group Board enables it to pursue its reform agenda with a lower risk of NEDs adopting a defensive posture to historical misconduct or criticism of past business practices.

Rebuilding TSEG's Board has been difficult. TSEG has found that the regulatory and financial pressure facing the business has deterred many good quality candidates from joining the Board. These pressures, together with broader issues affecting the suitability of candidates with domestic casino industry experience, has made it difficult for TSEG to identify appropriate candidates with deep casino-industry experience. While TSEG's new Board has a range of valuable skills and experience, including some non-executive casino experience, the absence of deep casino industry operational experience is a shortcoming that should be addressed as soon as reasonably practicable.

In broad terms, we have observed a Board that accepts the failings identified in the Inquiries and has expressed a commitment to addressing those failures. While the Board exhibits a positive intent and is committed to reform, we have observed some continuing governance deficiencies at Board level that were described above in section 7.1.

Executive leadership

The role of TSEG's Group Leadership Team (**GLT**) is critical to the success of its remediation work. The role of this team in an organisation that requires material and complex change was recognised by the Australian Prudential Regulation Authority (**APRA**) in its 2018 "*Prudential Inquiry Final Report"* into the Commonwealth Bank of Australia (**APRA's 2018 CBA Report**), which observed:

> *"…the cornerstone of culture is the actions and behaviours of the CEO and the Group Executive, and the standard to which they are held by the Board. An embedded culture and framework for accountability starts with leadership and cascades down through an institution. It requires a clear understanding of roles and responsibilities, appropriate skills and resources and mechanisms for monitoring outcomes, and it can lay a positive role in highlighting good behaviours"*[15]

[15] APRA's 2018 CBA Report, page 58.

The GLT is TSEG's most senior management forum. Its members are the CEO & Managing Director and 12 of his direct reports, representing the three most senior executive leaders from each of TSEG's casinos and leaders of central support functions. TSEG needed to rebuild its GLT after the departure of executives following the Inquiries. This rebuild has progressed slowly and is unfinished. TSEG has given several reasons why it has moved slowly to recruit and rebuild its executive, but none of those reasons adequately explains the slow pace of this work given the serious ongoing risks to TSEG's operations and the need to quickly retain expertise to develop and deliver a complex remediation program.

TSEG has elected to rebuild its senior executive team primarily by appointing or promoting long-term TSEG executives with nine of twelve direct reports to the CEO having considerable work history with the organisation. Those executives are:

Name	Current title	[redacted]
Ms. Christina Katsibouba	Group Chief Financial Officer	[redacted]
Mr. Kelvin Dodt	Chief Operating Officer, The Star Brisbane	[redacted]
Ms. Jess Mellor	Chief Operating Officer, The Star Gold Coast	[redacted]
Mr. Peter Humphreys	Interim Chief Operating Officer, The Star Sydney	[redacted]
Ms. Paula Hammond	Group Chief People Officer	[redacted]
Mr. George Hughes	Group Chief Customer & Product Officer	[redacted]
Ms. Nicola Burke	Chief Transformation Officer	[redacted]
Mr. Peter Jenkins	Chief of Staff	[redacted]
Mr. Laurent Fresnel	Group Chief Technology & Innovation Officer	[redacted]

The balance of TSEG's executive team has been filled with executives who are new to the business.

Name	Current title	[redacted]
Mr. Robbie Cooke	Group CEO and Managing Director	[redacted]
Mr. Scott Saunders	Group Chief Risk Officer	[redacted]
Ms. Betty Ivanoff	Group Chief Legal Officer	[redacted]
Ms. Rav Townsend	Group Chief Controls Officer	[redacted]

A significant majority of the GLT held senior executive roles during the period examined by the Inquiries. That is not to say that those executives were involved in misconduct during that period, it is simply the case that the majority of TSEG's current senior executive team were senior leaders in an organisation that enabled a culture that cultivated and tolerated widespread misconduct. In our assessment, TSEG's decision to retain this number of executives with long-term history with the organisation will make the task of culture reform and remediation more difficult and deprives the organisation of more diverse business experience.

The work ahead of the GLT to authentically communicate a new tone from the top is very challenging. It is made more challenging because the broader TSEG organisation may perceive those GLT members who have been at the organisation for a long time to be complicit in the development of the culture that enabled historical misconduct. To address this challenge, the restructured GLT team must be consistent, clear, and unified in their collective rejection of TSEG's legacy mindsets and historical culture, and they must embrace and be forceful in support of the imperative to drive a reformed culture and new organisational strategy.

At this stage, the GLT has not forcefully and clearly communicated a consistent, unified and strong message in support of TSEG's transformation. Instead of a collective vision of a future organisation, the properties continue to operate in silos and without a clear and unified strategy. There are several

[redacted]

reasons why TSEG has made limited progress in this area. First, the GLT was only announced in July 2023, and it is still establishing itself as a collective and cohesive leadership force. Second, TSEG has not yet finalised a new organisational purpose or values, making it challenging for this new team to role model and communicate a new way of leading. Third, TSEG's Group organisational strategy has not been finalised so the new GLT awaits an overarching strategy to guide TSEG back to suitability.

The success of the remediation plan will depend on the GLT role modelling and communicating a new vision of organisational success and overseeing the effectiveness of the execution phases of the plan. The failures of TSEG in the past were predominantly leadership failures, and nothing less than the emergence of a new and unified leadership culture will be required to realise TSEG's aspirations for reform. We are yet to see consistent signs of the emergence of this new leadership culture.

7.3 Capability

It was a consistent finding through the Inquiries and subsequent reviews that TSEG's culture prioritised and rewarded revenue over compliance. This aspect of TSEG's culture resulted in years of underinvestment in capability and resourcing in important integrity related functions as well as professional management expertise throughout TSEG's business.

TSEG has taken steps to address this historical underinvestment. Important senior positions have been filled in several integrity related functions, and capability is being developed at middle-and-lower levels of work. The organisation is stronger because of this investment.

While TSEG has retained additional capability and expertise it has moved slowly to make these appointments. This is illustrated most clearly in TSEG's failure to have in place a permanent CEO for any of its three casinos. In other important integrity-related functions such as compliance and risk, senior positions remain unfilled, including the General Manager Compliance and heads of risk for Brisbane and the Gold Coast. In both these areas, TSEG's capability remains inconsistent and weak, which will continue to impede its ability to build its risk and compliance functional teams into an influential and valued strategic function. If this does not occur, there is a risk that these functions will continue to be viewed by the business as an administrative function with low capability and remediation efforts will be likely to fail.

In some instances, TSEG has acted to improve resourcing only after being directed to do so by the Special Manager and Manager. This was the case in relation to key risk roles, the process to appoint property CEOs and with respect to external expertise required to develop sections of the remediation plan. Throughout our engagement, TSEG has demonstrated a hesitancy to invest at the right levels in quality executives across the Group. This may be influenced by financial considerations; it also may indicate a complacency around the extent of reform required; it may suggest that legacy mindsets continue to operate at TSEG and the organisation retains elements of its historical reactive posture to risk. It may also point to the continued strength of its shadow value of *"doing more with less"*[18] that was identified by TEC's Report. Whatever the cause of this hesitancy to properly resource the organisation, if TSEG is unable to strengthen the organisation with qualified and capable people, its prospects of sustainably implementing its reform program will be compromised.

7.4 Organisational structure and accountability

TSEG has been very slow to implement its new organisational structure. It was not until 26 July 2023 that TSEG announced a revised organisational structure and the GLT. This announcement did not identify the CEOs of each of those business units. As at the date of this report, the CEOs of those

[18] TEC's Report, various.

business units remain unfilled, and the work required to implement the new structure has not commenced in a meaningful sense.

Because of the slow pace of this work, and after several discussions and repeated delays, a direction was issued to TSEG on 11 August 2023 to require it to move more quickly with key appointments. The need to issue a direction on this subject does not reflect positively on TSEG's capacity to progress reform at the pace expected by regulators. Nor does it instil confidence that TSEG is ready to operate without close supervision.

TSEG's failure to design and implement a new organisational structure in a timely manner has impeded the progress of reform and exposes TSEG to heightened risks. Clear accountabilities in an organisation are a fundamental enabler of sound corporate governance. TSEG's accountability framework is opaque and TSEG's capacity to progress reform at pace will be frustrated until this is resolved. TSEG will also be exposed to a heightened risk of regulatory non-compliance while the accountability framework is unclear. The absence of clear accountabilities has been evidenced recently by the work undertaken following the TICO fraud matter and the Product and Channel Risk Assessments carried out by TSEG's second line financial crime team.

TSEG's accountability framework must address the interaction between the casino properties and central group functions. TEC's Report identified the detrimental impact of siloed behaviour across the Group. The continued absence of a clear organisational vision of its reformed end state and clear accountabilities for its senior leaders and managers, will compound this siloed behaviour. The revised organisational structure and accountability framework must clearly articulate how TSEG's properties will operate as part of a Group structure. This revised structure and framework must also describe clear roles and responsibilities for issues that span the new organisation business units, including in relation to individual and collective end-to-end accountabilities.

7.5 People management

TSEG's internal processes for giving effect to appropriate workplace behaviours and people management were reviewed in detail by TEC. It was also an area considered in the RCA Report. TEC's Report described widespread historical weaknesses in relation to executive recruitment, consequence management, incentives, and speak-up channels. They also identified:

- insufficient people and performance fundamentals;
- inconsistent application of people and performance policies;
- problematic resource management and workforce planning;
- inconsistent recruitment and internal talent management;
- ineffective learning and development; and
- inconsistent performance management.

A strategic review of the people and performance operating model was recommended by TEC and TSEG has committed to undertaking this work as part of the remediation plan.

It is clear from multiple sources that TSEG's people management function requires significant reform and improvement. Some of this work has commenced. For example, improved speak-up channels and whistleblowing procedures have been introduced. TSEG has also made progress on revising its remuneration arrangements to incorporate a balanced scorecard with greater weighting for risk and compliance objectives.

While changes have been made to improve TSEG's people management practices, many shortcomings continue to exist. For example, TSEG's recruitment practices remain a source of frustration in the business and an impediment to quickly recruiting and onboarding the talent needed to implement TSEG's reform agenda. TSEG also continues to apply uneven practices in its recruitment of important executives, as demonstrated through the way TSEG has sought to appoint a CEO for its Sydney casino. Presently, role descriptions and staff day-to-day routines and accountabilities are not aligned, and training is largely pushed down to employees as a compliance requirement rather than an opportunity for individual development. TSEG plans to address these shortcomings through initiatives included in the remediation plan, but the pace of change will need to increase as there is much work to do in this area.

A strong people management function is an important enabler to the execution of the remediation plan and the effectiveness of TSEG's broader operations. TSEG's internal capacity in this part of the business is low, particularly in relation to senior leaders with experience delivering complex transformations of the type required at TSEG. [redacted] It is our assessment that without additional expertise in this team, there is a high execution risk with respect to reforms in this area.

7.6 Culture

TSEG has adopted the ASX Corporate Governance Principles and Recommendations. This guidance provides that a *"listed entity should instil and continually reinforce a culture across the organisation of acting lawfully, ethically and responsibly"*[19].

The Inquiries, TEC's Report and the RCA Report have all documented TSEG's failure to adhere to this recommendation. The resulting cultural failure was a systemic source of illegal and unethical behaviour. TSEG is required to completely change its culture if it is to meet the standard expected by these principles and recommendations, casino regulators and the community.

To change TSEG's culture, it must confront and dismantle a range of legacy mindsets and shadow values. TEC's Report identified several shadow values through extensive surveys at TSEG. Those values included:

- profit matters most;
- just get it done;
- play politics to stay alive and thrive;
- stay in your swim lane; and
- do more with less.

These shadow values have developed over many years and are deeply entrenched. It will take a disciplined and carefully executed plan to change them. Such significant change will not be achieved simply by enhancing policies and systems. This compliance-focused work is an enabler of broader cultural change, but it alone will not reform employee mindsets and attitudes. To be successful, TSEG will need to progress reform through channels that most influence its culture – the behaviour and

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[19] Principle 3, ASX Corporate Governance Principles and Recommendations 4th Edition, February 2019, page 16.

approach of leaders, the model of rewards and recognition and TSEG's supporting systems and processes, including the management of its people.

Impediments to cultural change

TEC identified a range of cultural themes and made recommendations that TSEG has accepted and plans to address in its remediation plan. In addition to those themes, we have observed a tendency for TSEG to rely too heavily on the good intent of its senior people to lead cultural reform. We have also observed a senior leadership team (Board and management) that is inclined to accept this good intent as an excuse for poor execution, and by default, permission to continue with a low standard of execution.

While a pre-requisite to cultural reform, good intentions alone are insufficient to deliver the cultural change needed, and an over-reliance on good intent will detract from the imperative to build capability, embed effective consequence management and address a range of structural weaknesses. It is important for regulators to see evidence that TSEG is developing systems, capability and discipline required to translate its good intentions into effective execution, and to operate a casino that meets the standard expected of regulators and the community.

TSEG's success in implementing and embedding its culture reform plan will largely rely on the ability of the GLT to win middle management and employee engagement and support. The GLT must role model new behaviours and win the confidence and support of the broader organisation. In our view, TSEG's decision to populate its executive ranks with a majority of long-standing TSEG personnel will make the job of winning middle management and employee engagement more difficult.

TSEG's capacity to effectively implement its culture reform plans will also rely heavily on the ability and expertise of the GLT to maintain focus on the execution of the plan. The current program of work designed to deliver TSEG's target state culture will evolve over time. Impediments will need to be quickly identified, progress will need to be measured, and revised plans will be necessary to maintain progress. We have expressed concerns with TSEG about the low level of experience available to it in executing complex cultural reform. This lack of in-house experience and expertise has resulted in only modest progress to date on cultural reform. It has also made it difficult for TSEG to develop culture reform initiatives in its remediation plan that were of an appropriate standard. TSEG needs to improve its internal capability to provide greater confidence about the delivery of these plans.

TEC's Report identified an absence of an organisational strategy that allowed a series of shadow values to flourish.

> *"Direction has tended to focus on short-term remediation, merely 'staying alive', reacting to immediate needs and reactive decision-making rather than rallying the organisation around a strategic direction for the future. Many people questioned whether strategy was valued at The Star and whether senior leaders could operate strategically. This has had a negative impact on overall confidence in The Star's leadership"*[20]

This observation was drawn from interviews conducted between January and March 2023. The sentiment is consistent with our own observations and this absence of overall strategy represents a significant barrier to reform. While TSEG developed a draft strategy statement in August 2023 it does not plan to complete a comprehensive strategic review until October 2024.

TEC's Report also *"found almost no mention of the broader competitive landscape, international practices and issues, or curiosity about what The Star could learn from its industry peers, including*

[20] TEC's Report, page 77.

those involved in entertainment, F&B, hotels, pubs/clubs or other forms of gaming."[21] It is important for TSEG to expedite the development of a clear organisational strategy with the benefit of appropriately skilled executives, and with reference to the broader competitive landscape referenced above. This work should be closely monitored and benchmarked against best practices.

The absence of a clear organisational strategy is compounded by the fact that TSEG also does not have a settled purpose, vision statement or values. The development of this work is underway, but it is progressing slowly. The remediation plan describes initiatives to develop this work, but it remains incomplete.

The result of TSEG's inability to move quickly to develop a revised organisational strategy and settle its purpose vision and values is that the TSEG's 8,000+ employees do not have clarity on the organisation's strategic direction or the new values that should guide them in their work and daily decision-making. This impedes the process of changing legacy mindsets and behaviour patterns and impedes organisational-wide cultural reform.

7.7 Harm minimisation

TSEG's safer gambling function has historically been viewed as a compliance function and suffered from many years of underinvestment. Responsibility for TSEG's safer gambling program rested with an under resourced safer gambling team that had little organisational power to direct outcomes. Although we have observed positive intentions from TSEG's Board and several individual executives, we have not yet observed evidence to indicate a genuine individual or collective accountability for safer gambling at the group executive level. If TSEG cannot develop this sense of collective accountability there is a high risk that it will be unable to effectively embed a new approach to harm minimisation across its three casinos.

TSEG has historically failed to deliver an effective approach to harm minimisation at each of its three properties. The RCA Report identified a number of drivers that led to TSEG's failure in this area of the business. They included:

- a leadership philosophy that prioritised patron freedom and informed choice;
- a business strategy that relied on revenue from patrons at risk of gambling-related harm;
- the risk of gambling harm was not appropriately considered in strategic decision-making.
- a failure to consider the gravity of the potential loss of social licences due to causing gambling harm; and
- underinvestment in safer gambling capability, inadequate controls with piecemeal implementation

TSEG is in the early stage of addressing each of these drivers. Its initial focus has been to take steps to address underinvestment in this area by increasing the resourcing available to its safer gambling team. A General Manager for Safer Gambling has joined, and staffing levels have materially increased, which was necessary to respond to new ICM obligations in relation to staffing levels and time-play management. TSEG has also improved its Board focus on safer gambling through the establishment of the Safer Gambling, Governance and Ethics Committee.

TSEG has committed in its remediation plan to abandon its informed choice model in favour of a harm minimisation model that supports a public health approach to addressing known gambling-related harms and their indicators. This approach is supported by regulators and consistent with the *Gambling*

[21] TEC's Report, page 77.

Harm Minimisation Plan for Queensland 2021-2025. TSEG's task of transitioning this aspect of its business will be challenging because the informed choice model is deeply entrenched in TSEG's culture.

Moving to a public health approach to harm minimisation requires a fundamental change in TSEG's culture from a reactive to a proactive approach to patron oversight. It will take time, focus from senior executives and investment in skilling and resourcing staff to enable an enterprise-wide behaviour and mindset shift to emerge. The strategy to enable this transition has not been developed and it is too early to form a view on TSEG's capacity to successfully achieve the reforms required.

We have described the incomplete status of TSEG's organisational strategy elsewhere in this report. A revised strategy that will be championed by the organisation's leaders will be critical to TSEG's ability to build an effective harm minimisation capability. The new strategy will need to confront the fundamental tension between Star's for-profit purpose and its responsibility to protect patrons from gambling-related harm. It requires a fundamental shift in TSEG's historical strategy of prioritising revenue over all other considerations. Once developed, this strategy will need to include initiatives to equip TSEG's employees with the tools needed to support a harm minimisation orientation.

TSEG's safer gambling team is well intended and is working hard to improve the organisation's capacity to effectively minimise harm to patrons. What we have not observed at this point is a sense of collective accountability for safer gambling among TSEG's senior leaders. There is a risk that TSEG's leadership team delegates responsibility to dedicated safer gambling team members and does not effectively and authentically engage in the transformation required across the leadership, sales and marketing functions to support harm minimisation goals. Without this level of collective accountability, it will be difficult to embed the consideration of gambling harm into important strategic decisions that TSEG makes, and TSEG will struggle to successfully execute this element of its reform program.

It will be an important part of ongoing scrutiny of TSEG's remediation plan that its ability to drive collective accountability for safer gambling is carefully monitored.

7.8 Financial crime

Between the inquiry reports and the AUSTRAC SoC among other sources, TSEG's historical failings in financial crime are well documented.

Bell noted that many ML/TF risks associated with casinos arise from the use of cash. Bell's findings in relation to TSEG's financial crime program in more recent years related to:

- the high risks associated with payment channels historically used by TSEG;
- shortcomings in transaction monitoring;
- issues in relation to data integrity;
- a lack of curiosity and rigour in identifying and assessing KYC information including source of wealth information;
- a preparedness to maintain relationships with individuals notwithstanding the availability of information indicating that doing so puts TSEG at risk of failing to mitigate ML/TF risk and failing to keep the casino free from criminal influence; and
- the absence of a culture of compliance and cultural settings to inform decision making and reporting and ensure policies, processes and procedures can be effective.

The Gotterson Inquiry found TSEG's AML/CTF program to be seriously deficient until recent times. It raised issues in relation to risk assessments but noted that the program had improved in recent times.

AUSTRAC has also made widespread allegations around serious and systemic non-compliance with AML/CTF laws. Section 3.1 of this report also deals with risks we observed relevant to financial crime in the early part of the appointments.

Since the Inquiries, the AUSTRAC SoC and the early part of the appointments, we have observed a reduction in the financial crime risks posed by TSEG's casino operations. This is in part due to TSEG's operating conditions, and in part due to uplift it has delivered since 2022.

The extent to which TSEG deals with cash has been materially restricted by way of new ICMs in both NSW and Queensland. Historically TSEG had a practice of regularly accepting and paying out large volumes of cash from customers (in excess of hundreds of thousands of dollars) without regard for the risks associated with such behaviour. New ICMs restrict cash deposits to $50,000 per customer per day and will ultimately restrict cash withdrawals to $5,000 per customer per day. New ICMs contain a range of other controls in relation to cash, that have the effect of increasing the circumstances in which customers must identify themselves when transacting in this way with the casino. These controls have reduced the volume of cash in the casinos and in doing so have reduced the financial crime risk presented to casino operations. This will continue with the commencement of cashless gaming from August 2024 (in NSW).

The range of products and channels through which gaming occurs and is delivered to customers by TSEG has also changed since the Inquiries. Junkets have ceased, rebate play has been paused, the use of CUP cards for gambling has ceased, the use of money remitters has been heavily restricted, the use of CCFs have been paused, the nature of customer deposit accounts have been restricted and international offices that historically received patron deposits have been closed. A range of additional controls have been placed on rebate play (when operational), CCFs (when operational) and customer deposit accounts by way of the new ICMs. These changes have all had the impact of reducing financial crime risk presented to casino operations.

TSEG has also begun to deliver uplift in its financial crime function. In particular, resourcing has increased materially (from a low base) to around 100 individuals. Capability has also improved, with the commencement of Scott Saunders as CRO, Ritu Bhandari as General Manager Financial Crime and AML Compliance Officer, and other second line resources in this area. New ICMs in this area have been implemented in NSW and are being finalised in Queensland, including a customer risk assessment tool, in contrast to TSEG's historical approach of applying a low-risk rating to all customers by default.

Overall, TSEG has an improved knowledge of the customers with whom it does business and as a result, a range of customer exclusions have been processed for financial crime reasons, many of which should have been excluded some time ago. There are many other examples of improvement in TSEG's financial crime function, some of those have been detailed in this report.

In our view however TSEG is at the beginning of its uplift journey in financial crime, and material uplift is still required. TSEG has developed a plan to deliver this uplift as part of the remediation plan. It is a broad plan that will take a significant amount of work over several years to complete and embed.

A risk to uplift in this area is TSEG's ability to consistently execute on this work in a high quality and rigorous manner. We hold this concern based on the quality of other submissions TSEG has put in this area, such as submissions in relation to AUSTRAC SoC customers and submissions in relation to financial crime aspects of ICMs. We acknowledge however that the team and circumstances have changed since this time. We also note that TSEG is proposing to engage external assistance for aspects of the financial crime uplift program, which will further mitigate this risk.

There are still a range of concerns we have in relation to TSEG's financial crime function, based on our observations to date. We have particular concerns in relation to:

- **Governance:** While in our view the second line financial crime function is beginning to build capability and deliver uplift in financial crime, we hold concerns as to the quality of decisions and judgement being exercised within the first line financial crime team. We make this observation based on regular management reporting we receive on patron decisions as well as governance forums we attend regularly, such as the Patron Risk Assessment Task Force.

  The Bell Report accepted expert findings that TSEG's tolerance for patron risk was unclear and that decision-making processes lacked transparency (referring to what was then PAMM and JRAM)[22]. By our assessment, this remains the case.

  There is a poor understanding amongst key decision makers as to what triggers result in certain types of action, be it regulatory reporting, forms of exclusion and/or steps to mitigate risks and patron risk assessment forums do not yet appear effective at quickly, accurately and consistently arriving at appropriate decisions for high risk customers.

- **KYC, rigour and curiosity:** We have observed a continuing lack of rigour and curiosity in TSEG's practices and decisions in relation to KYC information and source of wealth. TSEG has demonstrated a tendency to accept statements from customers as to their circumstances without conducting an appropriate level of independent verification.

  Similarly to the points made above in respect of financial crime governance, TSEG does not have a well documented or well understood approach to making consistent decisions about customer relationships once it does receive information. This presents a risk that customer retention decisions are not aligned to TSEG's risk appetite. It also exposes the potential of TSEG failing to mitigate ML/TF risk and failing to keep the casino free from criminal influence.

- **Data, reporting and system functionality:** The quality of patron data held by TSEG, the ability to report accurately on important patron information and the capacity of key systems to enable high quality decisions is low. We have observed a number of instances where important information on customers has not been able to be extracted quickly and easily, causing decisions to be made with incomplete or inaccurate information.

- **Culture:** TSEG's progress in relation to creating a culture of compliance and cultural settings in the financial crime function that inform appropriate decision making and reporting has lagged its progress in other areas of the financial crime program. This has manifested in the prioritisation of merely completing tasks, rather than a prioritisation of risk management and compliance, as well as the quality of decision-making and judgement being exercised. TSEG's approach to the customer risk assessment remediation project has been an example of this. This presents a risk to the effectiveness of uplift of policies, processes and procedures.

Another example that illustrates these concerns is the process TSEG undertook to process the AUSTRAC SoC customers. The AUSTRAC SoC listed the names of approximately 1,300 of TSEG's customers that were used by AUSTRAC to demonstrate the high ML/TF risks facing TSEG by virtue of the customers with whom it dealt, and to allege that TSEG failed to adequately identify and assess the ML/TF risks posed by these customers. These were customers that, among other things, operated or funded junkets, used the CUP channel, the Kuan Koi channel, cash deposits at BOC Macau, remittance services and otherwise displayed high risk characteristics.

[22] Bell Report, chapter 20 paragraph 70.

We considered it important that TSEG urgently undertook a process to review the customers, understand their status within the casino (including their exclusions status and risk rating) and take appropriate action. We communicated to TSEG our view that this matter be immediately prioritised.

We did not receive a meaningful update on this work until 24 January 2023, almost two months after the SoC was received. That update validated many of the risks articulated in the AUSTRAC SoC and highlighted several risks to the casino, by virtue of the fact that only a small number of the customers had been subject to due diligence or had been excluded.

Ultimately, we were required to issue a direction requiring TSEG to address these risks. It was disappointing that this was required, and that TSEG was not able to complete and oversee this work without supervision. In our view, this matter is emblematic of the issues we have observed in financial crime as described above.

7.9 Risk, compliance, regulatory affairs and internal audit

The RCA Report said this of TSEG's risk and compliance functions:

> "*TSEG's approach to risk and compliance was inadequate, lacking effective processes, influence and resourcing."*[23]
>
> *"The Board and executive management were not effective in setting the right risk culture, embedding the three lines of accountability (3LOA), or ensuring adequate accountability for, and oversight of, risk and compliance."*[24]

TSEG has made progress to address these findings, but it has been slow to act and considerable work is required to materially improve TSEG's risk management capability.

Group risk resourcing

Scott Saunders commenced as Group CRO on 13 February 2023. This was a delayed appointment, noting Mr Saunders commenced nine months after the conclusion of the Bell Inquiry. This delay has slowed the pace of reform, including the implementation of TSEG's 3LoA model. It has also delayed the recruitment of risk subject-matter-experts at the casino-operator level.

In relation to property specific risk resourcing, the Bell Report recommended that:

> *"…senior management of the operator of The Star Casino [Sydney] includes a risk officer (whatever the title which is used), whose role and responsibility is focused exclusively on risk management for The Star Casino."*[25]

As of 11 August 2023, almost 12 months after the release of the Bell Report, Star Sydney still did not have a permanent leader appointed to this role. The role had been filled by a succession of temporary resources and at various times during this period, the person notionally filling this role was not focused exclusively on risk management for Star Sydney. As a result of this and other prolonged delays in senior appointments, we issued a direction requiring, among other things, that TSEG make a permanent appointment to this role in Sydney (as well as a Risk Advisor role). The direction also included a requirement for The Star Gold Coast and Treasury Brisbane to appoint dedicated Heads of Risk and Risk Advisor roles, and for each of the three properties to appoint a dedicated Head of Controls. These roles are in various stages of being filled. This work should have been advanced by TSEG without the need for the Special Manager and Manager to issue a direction to force the pace.

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[23] RCA Report, 1.2.1, root cause 4.
[24] RCA Report, 1.2.1, root cause 3.
[25] Bell Report, chapter 1, paragraph 29.

Risk culture

There are parallels between TSEG's current risk culture and the findings of APRA's 2018 CBA Report. We have observed:

- A reactive culture in relation to risk. This is visible in TSEG's culture of complying with instructions issued by the Manager or regulators rather than proactively addressing risk related matters. The direction described above in relation to appointments of risk roles is an example of this.
- A level of complacency about risks brought about by the breadth of external pressure TSEG faces. We have observed the Board and management consistently accepting low quality work product, on the basis that the TSEG's executives are overloaded by external demands.
- A lack of ownership of outcomes, including the abence of a collective responsiblity for risk management. This is evident in a range of areas including an absence of genuine first line engagement in key risk governance forums.
- A self-perceived but incomplete focus on the customer which manifests in a reluctance to truly embrace and embed harm minimisation processes and controls, and an opaque and misunderstood risk appetite for indications of potential financial crime risks which remain inconsistently applied.

In relation to the development of an effective risk culture, APRA's 2018 CBA Report referred to lessons from industries that have developed effective safety cultures as an analogy for the work required to develop a sound risk culture. This work identified a common evolution in industries such as oil and gas, and aviation, that have undergone similar reforms, typically taking more than 10 years. Those studies identified three common phases:

- **Phase 1:** Organisations set an aspiration that safety was to be taken seriously at both a personal and institutional level. This phase involved uplifting policies, standards, and operating models.
- **Phase 2:** Initiatives were undertaken to build a culture of *"chronic unease"*[26]. Organisations focussed on developing authentic leadership, building open and trusting cultures and building a concern for safety in the DNA of the organisation.
- **Phase 3:** As Phase 2 became embedded, organisations began to address all aspects of risk from physical safety to wellbeing and health with a moral dimension.

These phases are relevant to the work TSEG needs to do to embed an effective risk culture. We have not observed a culture of chronic unease within TSEG's leadership team, let alone in the broader organisation. Using the phases identified by APRA, it is our assessment that TSEG is at the beginning of Phase 1 of the development of an effective risk culture.

Risk management reporting and property risk committees

TSEG has made modest progress improving the quality of risk reporting. The Bell Report comments below continue to apply.

> *"In terms of risk processes, the Risk Registers compiled by Star to identify risks identified by the business were not provided to the Board's Risk and Compliance Committee prior to March 2020. It is difficult to see how the Board could have fulfilled its obligations to identify and manage risk without being provided with these Risk*

[26] APRA's 2018 CBA Report, page 4.

Registers. It did not have direct access to reports from the first line of defence business units about the risks which were actually being identified."[27]

During the period of the appointments, risk registers and a complete and up-to-date risk profile for TSEG have not been provided to the Board Risk Committee. The remediation plan includes initiatives designed to improve risk reporting, but until those initiatives are delivered the quality of risk reporting will remain inconsistent and weak.

The Star Sydney risk committee (a management committee) was established on 18 October 2022. The reporting to this committee has been variable in both quality of analysis and completeness of risk-related information provided. Improvements to the maturity of this committee have been challenged due to the ongoing absence of a Sydney CEO and lack of a permanent Sydney Head of Risk. In making this point, TSEG's acting Sydney COO has taken an active leadership role in this committee and has taken steps to improve its operation.

The Star Gold Coast and the Treasury, Brisbane do not yet have property specific risk committees, although a Queensland risk committee has been established, and first met on 31 October 2022. The property specific risk committees for the Queensland properties are scheduled to commence on 11 October 2023 for The Star Gold Coast and 12 October 2023 for Treasury Brisbane. The Queensland risk committee that is presently in operation has displayed similar deficiencies to that of the Sydney risk committee.

The improvements required to quality, consistency and completeness of risk reporting for all of the property specific risk committees has not been addressed by TSEG with the level of urgency we would expect. The remediation plan includes initiatives to improve this, but this will need to be closely monitored to ensure the quality of implementation is of an appropriate standard.

3LoA

TSEG has plans to develop and embed a 3LoA model of risk management. This will be an important stream of work under the remediation plan and one that will take long-term commitment, work and resourcing to effectively implement.

The RCA Report identified material deficiencies in the operation of each of TSEG's existing lines of accountability, and TSEG has begun the process of addressing those deficiencies. In 2022 TSEG separated the legal and risk departments and changed the reporting line of the IAA function. TSEG has also appointed a Group Chief Controls Officer. Below these executive roles, TSEG has begun to separate and build out its teams. The remediation plan contemplates further work to design and embed an uplifted 3LoA model across the Group led by the Group CRO with support from external experts.

TSEG's plans to implement and embed the 3LoA model will require close scrutiny and will take several years to establish this model as a fundamental component of TSEG's risk culture.

Compliance and regulatory affairs

The role of General Manager Compliance is currently being undertaken by a temporary resource. It is important that TSEG secures permanent leadership in this area, but its efforts to date have been unsuccessful. The failure to have secured permanent leadership in this key compliance function is an example of the complacency we have observed at TSEG. It has been over a year since the Inquiries concluded and a key role such as this should have been resolved some time ago.

[27] Bell Report, chapter 1 paragraph 154.

The role of General Manager Regulatory Affairs was filled on 1 August 2023. This is a newly created position and reflects TSEG's acknowledgement of the importance of establishing an improved and more disciplined and transparent relationship with regulators.

The Bell Report documents a risk and compliance culture where business needs were prioritised over compliance and describes a cultural norm that emerged focusing on *how* something could be done as opposed to whether it *should* be done. The Inquiries found that TSEG was insufficiently transparent with regulators and other stakeholders, citing many examples. The remediation plan incorporates cultural change initiatives aimed at ensuring these practices do not continue.

The compliance and regulatory affairs workstream of the remediation plan also incorporates appropriate initiatives to inform improved reporting, a consistent framework to improve the quality and uniformity of compliance policies, procedures and SOPs, and a plan to design and embed a clear accountability framework for ownership of all compliance obligations. Importantly it incorporates initiatives for uplift in incident and breach reporting including reporting of near misses, and refinement of the whistleblower process to provide and promote a safe, confidential and secure method of capturing reports of wrongdoing and matters of concern.

Internal audit and assurance (IAA)

The independence, capability, methodology, governance, quality and completeness of reporting of the IAA function was found to be weak by the Inquiries. The RCA Report details instances where planned audits of high-risk areas were rescoped, deferred and then never took place. There are further instances in which IAA should have played a more proactive role in incidents detailed in the external reviews such as the misuse of free bet vouchers, the underpayment of rebate tax and the CUP incident among others.

We have observed a lack of discipline for executive ownership of IAA report findings. The follow-up of late and outstanding audit findings lacks rigour, and extensions of deadlines routinely occur. In some cases, actions from IAA reports are not supported by due dates.

The remediation plan incorporates initiatives to review the target operating model of the IAA function and to uplift the audit methodology. Cultural changes required across TSEG are critical to the future success of this function, in particular those centred around the influence of IAA and treatment of findings, an improved, more disciplined audit methodology that ensures risk-based coverage of all areas of the organisation, and an uplifted 3LoA model to facilitate the third LOA discharging their accountabilities.

[redacted]

7.10 Control environment

New controls under the revised NSW ICMs were implemented on 30 June 2023 and Queensland ICMs are in the process of being reviewed and enhanced. The control environment required by TSEG's revised ICMs imposes a more prescriptive regulatory environment on TSEG, and this will require greater vigilance by TSEG to satisfy itself that it complies. TSEG is better equipped to adhere to the enhanced control environment following the recruitment of additional resources and improved management focus, but the control environment remains largely manual, which exposes TSEG to a higher risk of breach than alternative automated solutions. Compounding this weakness, we have observed that controls in important parts of TSEG's operations are poorly documented and not well understood. The TICO fraud matter illustrates this point.

The reporting on TSEG's overall control environment to management committees and the Board is immature due to a control assurance regime which is not yet operational. While aspects of TSEG's risk profile have improved, the effectiveness of any enhanced or newly created controls remain untested. As TSEG moves into execution phase of remediating its past mistakes and forming a more forensic understanding of all aspects of its business it would be reasonable to expect more issues will crystallise. On balance, although this continues to reveal inadequacies in the control environment, this should be viewed as a constructive step forward in risk management maturity. The appointment of the Group Chief Controls Officer will assist with rectifying remaining poorly designed and documented controls.

The remediation plan includes a controls management workstream with a target state to have a controls management framework that details responsibilities across the 3LoA for controls ownership, documentation, testing monitoring, assurance and audit. It is envisaged that these initiatives, if properly implemented, will address the shortcomings noted above.

We have observed that TSEG had a tendency toward sequential approaches to addressing control related issues, rather than applying a combination of approaches to address risks and issues rapidly. A combined approach of tactical and strategic solutions should be employed by TSEG going forward if it is to achieve the outcomes required under the remediation plan.

7.11 Effective prioritisation

Since the appointments, TSEG has been required to respond to a range of material issues. This has included dealing with the impacts of the Inquiries, addressing a range of regulatory and legal actions (e.g., AUSTRAC enforcement action, class actions), responding to proposed tax changes, learning to engage with a Special Manager and Manager, building a new Board and executive team, and a series of actions associated with TSEG's financial challenges.

We have observed TSEG experience difficulties in progressing multiple priorities at once. The choices TSEG has made to prioritise these issues has resulted in it being unable to meet our expectations in relation to the pace of reform. An example of this has been the NSW tax negotiations and capital structure activities. We accept that these were significant issues for TSEG that had implications on its viability. We also accept that they were issues that required time and attention from senior people within the business. TSEG however struggled to balance the need to deal with these issues with the requirements of casino regulators, and the need to maintain momentum with its reform program.

The priorities of casino regulators were relegated while these issues were being addressed. While TSEG was addressing its financial issues, the NSW ICM project was ongoing and by our assessment lacked senior attention and oversight. Similarly, attention to the appointment of senior executive roles in TSEG's two Queensland casinos have been subordinate to the TSEG's focus on NSW tax issues and other financial challenges.

Other priorities will inevitably continue to emerge. Unless TSEG can build deeper executive capabilities and the capacity to effectively delegate to capable executives, TSEG will continue to face the risk that it will be distracted from its priority to deliver a remediation plan.

7.12 Conduct under supervision

When describing culture, the Bell Report quotes Commissioner Hayne from the Financial Services Royal Commission, who wrote:

> *"The culture of an entity can be described as 'the shared values and norms that shape behaviours and mindsets' within the entity. It is 'what people do when no-one is watching'. Culture can drive or discourage misconduct."*[28]

In relation to the concept of the behaviour of staff unsupervised, Bell wrote:

> *"…at least in relation to the matters investigated in this Review, the Board had little or no understanding of what people do at Star Entertainment 'when no one is watching'."*[29]

What has happened historically at TSEG when no one is watching has been well documented.

The appointments have provided an opportunity for TSEG to demonstrate how it will act when no one is watching, and ultimately to demonstrate a capability to return to suitability. A letter from the NICC to Star Sydney on 17 October 2022, stated:

> *"It can also be anticipated that the period during which the manager has control will enable the exploration between the NICC and the operator and TSEG of the possibility that the former operator may be capable of demonstrating to the NICC it may become suitable to hold a casino licence."*

A Statement from the Honourable Shannon Fentiman also said:

> *"This is an opportunity for The Star to return to suitability…"*[30]

Broadly, and where it has been appropriate, the approach we have taken to the appointments has been to supervise, monitor and report on TSEG's actions and omissions and to permit it to operate in a manner that is broadly consistent with operations prior to the commencement of the appointments. This approach has allowed us to consider views in relation to how TSEG might operate without close scrutiny and supervision, noting the fixed terms of the appointments, and TSEG's capability to return to suitability.

One approach to considering how TSEG might conduct its business without supervision is to consider how it has conducted its business while it has been under the supervision of a Special Manager and Manager.

During the appointments, TSEG has expressed a desire to improve from the findings of the Inquiries. TSEG has also expressed an intention to do whatever it takes to return to suitability, which it has expressed to be its number one priority. Several public statements to this effect have also been issued by TSEG.

While TSEG has had good intentions and has worked hard since the commencement of the appointments, it has not always met expectations. We have been required to issue directions to ensure important matters are progressed quickly. We have also been required to provide scrutiny on important decisions where TSEG has lacked appropriate capability, judgement or rigour, and we have been required to persuade TSEG to address risks it has failed to detect and manage adequately. Overall, we have observed TSEG demonstrate:

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[28] Bell Report, chapter 26 paragraph 5.
[29] Bell Report, chapter 26 paragraph 118.
[30] Disciplinary action taken against The Star - Ministerial Media Statements.

- a tendency to underestimate the work involved in radicaly transforming the way it does business and how its organisation is designed and resourced to deliver this transformation;
- poor capability and receptiveness to risks, causing an absence of urgency to address risks and poor strategic decision making;
- a lack of rigour and care in the work produced to the Special Manager and Manager;
- a relegation of the priorities of casino regulators in favour of other priorities;
- a reactive culture with a reluctance to implement change unless directed to do so; and
- continuing deficiencies in the quality of reporting and decision making.

TSEG will need to address and improve each of these areas if it is to effectively execute the initiatives in its remediation plan. Our view is that continued oversight, scrutiny, guidance and reporting to casino regulators is required from an independent party. This will be required in our view until TSEG can demonstrate a consistent and reliable ability to detect and manage risk to its operations in a timely, rigorous way, and to deliver and embed high quality, self-driven uplift.