




ALDERNEY GAMBLING CONTROL COMMISSION

Annual Report & Accounts 2002



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ALDERNEY GAMBLING CONTROL COMMISSION

27 March 2003

Chairman
Policy and Finance Committee
States of Alderney
Queen Elizabeth II Street
Alderney
GY9 3AA

Dear Col. Walter

I have pleasure in presenting the Report of the Alderney Gambling Control Commission for the period 1 January to 31 December 2002.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Godfrey'.

John Godfrey
Chairman

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Chairman's Statement

The Alderney Gambling Control Commission was appointed in May 2000. One of our first actions was to set in train the introduction of legislation to permit internet gaming, which seemed to us to be the most likely area of expansion in offshore gambling. The necessary legislation was approved by The States of Alderney in 2001 and further developed in November 2002.

Three electronic betting centre licences had been issued before we were appointed. International Sports Betting Limited never operated and surrendered its licence in February 2000. Bonne Terre Limited moved to the UK in October 2001, when a more favourable tax regime was introduced there, and the other, Sportingbet (Alderney) Limited, was required to stop taking bets on Alderney in July 2002, after failing to submit an internal control system that was acceptable to the Commission. The past year has therefore marked a transition between the departure of the initial licence holders and the arrival of the first of a new generation of internet gaming businesses. The first three internet gaming licences were issued in April and a fourth licence was issued in September 2002.

In addition to the legislation, a considerable amount of preparatory work was needed before we could issue these new licences. Potential applicants naturally wish to know what is expected of them before they present a formal application. We have therefore developed a brief for interested parties which provides an introductory outline, and which is available on our website. We also provide a detailed description of operating requirements. To give some idea of the scale of what is involved, the technical and internal control guidelines for applicants run to some 200 pages.

In addition, we have recruited suitably qualified staff and equipped a small but modern office. We have tested and approved a 'state of the art' hosting facility on Alderney, which follows a £2 million investment by Cable and Wireless, and we have appointed three independent testing authorities to evaluate and report on the software systems of our licensees.

We have established strong links with other regulators. In particular, the Gaming Board for Great Britain gave us invaluable assistance with investigations carried out before our own staff were in place. We have also met with regulators in Nevada and New Jersey, the two leading regulators in the United States, so that they know of our standards and approach to regulation. We wish to offer a suitable regulatory environment for American companies while internet gaming remains a politically sensitive issue in the United States.

We have also established valuable contacts with regulatory bodies in the Bailiwick of Guernsey, including the Guernsey Financial Services Commission, the Guernsey Police, the Guernsey Financial Intelligence Services, the Guernsey Gambling Control Commission and the Law Officers of the Crown.

It is a commonplace of reports of this sort for the Chairman to say that the institution concerned has an outstanding reputation in its field. However, in this case it really is true to say that Alderney is now regarded as being at the forefront of the regulation of internet gambling worldwide. This is reflected in the quality of the applicants for licences during 2002. These are Ritz Interactive Limited, a subsidiary of the Ritz Club, a leading London casino; Littlewoods Alderney

Limited, a subsidiary of Littlewoods Promotions Limited, best known for its football pool but also a prominent internet gaming and betting company in the UK; Bonne Terre Limited, part of the B SkyB group; and WagerWorks Alderney Limited, part of a Nevada based system provider. Current applicants are of a similar quality and include VI Limited, a wholly owned subsidiary of Las Vegas Sands Inc, the owner of one of the largest casino hotel resorts on the Las Vegas Strip, The Venetian.

Much of the success of what has been achieved is attributable to the work of our Chief Executive, Andre Wilsenach, who joined us in January 2002.

I am glad to note that all of these developments, which have involved a considerable investment, have cost less than the licence revenues over the period. Licence fees for 2002 have been £410,650, while expenditure was £363,513.

I expect the financial surplus to increase in the next year. However, this expectation is subject to the numerous uncertainties that currently affect the world economies.

The Commission has a statutory obligation to take account of 'the economic and social policies for Alderney and does so when we

consider new licence applications. However, it is important to remember that the financial benefits, or otherwise, of internet gambling for Alderney are essentially issues for the States and not for the Commission.

The function of the Commission is to ensure that internet gambling is conducted honestly and in a way that is consistent with the reputation of Alderney.

That said, there is a reasonable expectation that the new interactive gaming licensees will absorb some of the labour that has become available as a result of the decline of electronic betting and that, as they become active, the new licences will generate indirect benefits to Island businesses and communications.

I wish to thank everyone who has contributed to the success of the Commission. In particular, our staff; Dixon Wilson; The Gaming Board for Great Britain; the testing authorities who have assisted us; the States of Alderney, who approved the necessary legislation; Richard McMahon of the Law Officers of the Crown, who drafted it; and the Policy and Finance Committee of the States of Alderney for their support and encouragement.

I also wish to express special thanks to Sir Graham Dorey, who retired in April 2002, and made a generous and enthusiastic contribution to the activities of the Commission during his term of office. In his place, I welcome Mr. John Buggy, who joined the Commission in October 2002.

at the forefront of the regulation of internet gambling worldwide.

The Commission

The Commission is independent and non-political. It includes people with experience of gaming, regulation and licensing.



The Commission is chaired by **John Godfrey**, who is a specialist in gambling regulation. He was consulting accountant to the Gaming Board for Great Britain for almost 30 years. He was also an adviser to the Government of The Bahamas and an expert witness for the Metropolitan Police for much of the same period.



Raymond Birdseye was President of Barclays Bank Corporate Division in North America for a number years before joining the Board of the Civil Aviation Authority (CAA), where he was the financial regulator for United Kingdom Airline Companies and Air Travel Organisers Licences. Additionally, he was Chairman of the CAA Audit Committee and several other committees.

John Buggy has recently joined the Commission. He is a qualified engineer and Chief Executive Officer of Alderney Electricity Ltd. In addition to his general business experience, he was closely involved in the early legislation to permit electronic betting on Alderney and understands the economic and social needs of the Island.



John Clitheroe was senior partner of Kingsley Napley, a prominent firm of solicitors in London where, in addition to a distinguished career in litigation, he was an expert on licensing law. He is now an international consultant and lecturer on gambling.

In January of this year, the Commission appointed **André Wilsenach** as its Chief Executive Officer. André had been engaged in the regulation of gaming in South Africa for ten years, initially as a management consultant establishing the regulations and methods of operation of regulatory boards. He then served on both national and provincial boards, and was Chief Executive of a company set up to electronically monitor gaming in South Africa.



At 31st December the Inspectorate was staffed by Phil Newman (Technical Inspector), who has twenty years of experience in the networking and systems administration field, while the position of Regulatory Inspector was vacant, following the resignation of Julie De Garis at the end of September. The administrative staff includes Carole Langton, the secretary and Nicky Burland, the financial officer.

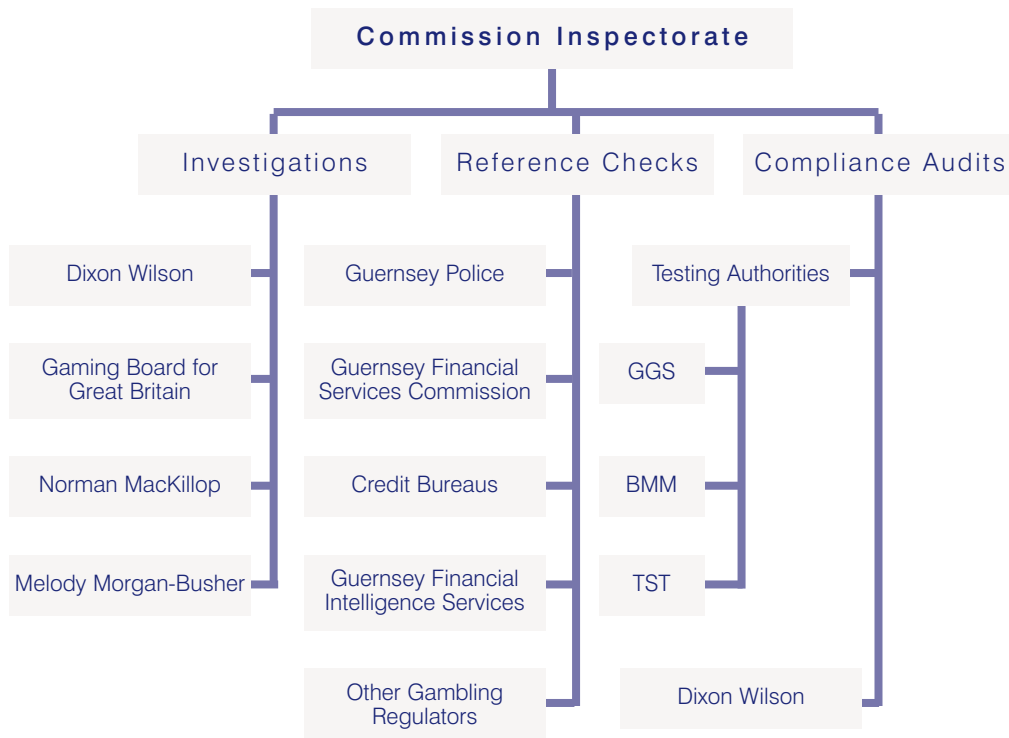


The Commission makes use of a number of external resources when conducting licensing and compliance investigations. For probity investigations, the Commission works with other regulatory and law enforcement bodies, including those mentioned in the table below. In addition, the Commission has

approved three independent testing authorities to conduct testing of gaming equipment and software. These are Global Gaming Systems (GGS), Bellamy, Monypenny and Millar (BMM International) and Technical Systems Testing (TST). All three testing houses are specialist companies in the field of testing

gambling equipment and specifically gaming systems and software.

The work conducted by these consultants, agents and authorities is managed and coordinated by the Inspectorate.



Approach to the regulation of electronic gaming and betting

The single most important policy of the Commission is to provide a regulatory environment that meets 'world-class' standards and thereby both protects the reputation of Alderney and attracts 'world-class' operations. This is not what is typically offered elsewhere. There are currently about two thousand internet gambling businesses operating from jurisdictions other than Alderney, of which only a handful are regulated in any meaningful way.

The Commission has therefore positioned itself to offer a regulatory environment that is likely to attract the relatively small number of operators who seek a comprehensive and tightly controlled regime. These are for the most part the major gambling operators who have brands that they wish to protect and who wish to be able to demonstrate to the regulators of their immensely valuable terrestrial casinos that they observe similar high standards when operating outside their normal jurisdiction. In the longer term, it is these substantial and high quality companies that are likely to dominate the world wide internet gambling business. They are also the companies likely to conduct their businesses in a way that is consistent with the standing of Alderney and Guernsey as financial centres.

Such companies will not seek a licence in a jurisdiction that does not have real substance. In particular, they will wish to know of the detailed commitments and regulations required before they consider an application. The Commission has therefore appointed suitably experienced staff and engaged financial and technical consultants who have developed the detailed specifications of the internal controls and system standards required. It is particularly important that potential licensees know what is required of them from the outset and the laws, regulations and guidelines have to be comprehensive and detailed.

Following from this broad policy of the Commission, its main objectives are to ensure that:

- all gaming and betting is conducted honestly and fairly;
- the funding, management and operation of online gambling on Alderney remains free from criminal influence and exploitation; and
- gaming and betting activities are regulated and monitored so as to protect the interests of the public, in particular, ensuring that players understand what they are being offered when they take part in gambling.

These objectives are reflected in the process leading to approval for the conduct of gambling from Alderney, which are:

Licensing

Licensing is the first step. The main objective is to ensure that the applicant company is 'fit and proper'.

The owners, managers, system providers and sources of finance are all subjected to probity investigation. It is a rigorous process that will typically involve examination of financial records, including personal financial records, and the business history of the applicant company and its associates, in addition to the usual checks through police and financial intelligence records.

Typically, an applicant for a licence would take the following steps:

- Incorporate a local company on whose behalf the application will be made;
- Submit a formal application to the Commission, consisting of a licence application form, a corporate declaration form, and key personnel declaration forms;
- Lodge the investigation deposit with the Commission;
- Supply a copy of the application to the Chief Officer of Police in Guernsey; and

- Cause a notice, containing the particulars of the applicant and premises to be published in the Alderney Official Gazette, to be displayed at their premises and on the notice board outside the Court of Alderney.

If the outcome is satisfactory, and the Commission makes a finding of suitability, the applicant company and its key personnel are awarded licences conditional on approval of both their operating and gambling systems as well as their internal controls. These further approvals are required before the licensee can commence business.

Technical compliance

Alderney was one of the first, and is still one of only a few, online gambling jurisdictions to have developed a set of technical standards against which the software system of the prospective operator is tested. This enables the operator to know what is required in advance and ensures that the tests are comprehensive and objective.

The tests may be carried out by any one of the testing authorities approved by the Commission. A Commission inspector is present during the negotiation of the contract for testing to ensure that the scope of the testing required to be undertaken is realistic. Once the system has been approved and certified it can only be altered with the approval of the Commission.

In approving changes to the system, the Commission is conscious of the commercial realities of an online business and aims to deal with any changes quickly and pragmatically.

Internal controls

The Commission also provides detailed guidelines for the submission of a suitable internal control system. It states what is required regarding such matters as:

- management structure and staffing;
- accounting systems;
- players accounts;
- the precise nature of the games offered; and
- computer controls.

Again, in approving the submission or any amendments to it, the Commission has regard to the commercial considerations of each online betting or gaming licensee.

Regulatory Framework

The regulatory framework in terms of which the Commission regulates online gambling is contained in Appendix 1.

companies will not seek a licence in a jurisdiction that does not have real substance.

Activities during 2002

Investigations and licensing

Interactive Gaming

During the year under review, the Commission conducted investigations into the affairs of the following six applicants for interactive gaming licences:

- Ritz Interactive Limited;
- Littlewoods Alderney Limited;
- WagerWorks Alderney Limited;
- Bonne Terre Limited;
- CryptoLogic Alderney Limited; and
- VI Limited.

Interactive gaming licences were issued to the first four applicants listed. Investigations into the affairs of the other two applicants were continuing as at 31 December 2002. The findings of these investigations will be submitted to the Commission during the first quarter of 2003. (Licences have subsequently been issued to these companies in February 2003).

Electronic Betting

Investigations were also conducted into the affairs of the following four applicants for electronic betting centre licences:

- CryptoLogic Alderney Limited;
- Betsson Limited;
- Toto Sport Limited; and
- VI Limited.

The applications of the first three companies listed were withdrawn prior to being considered by the Commission. Investigations into the affairs of VI Limited was continuing as at 31 December 2002. (A licence has subsequently been issued to VI Limited in February 2003).



James Kidgell & Anne Coley (Dixon Wilson); Norman MacKillop; André Wilsenach (AGCC) and Richard McMahon (Law Officers of Crown)

Key Personnel

The Commission also issued 20 licences to applicants for key personnel licences. These applicants included non-executive and executive directors as well as the nominees for the above mentioned licensees.

In conducting these investigations, the Commission made use of the services of Dixon Wilson, Chartered Accountants, to assist with the financial investigations and the Gaming Board for Great Britain for the probity investigations. Towards the end of the year, the Commission also used the services of Melody Morgan-Busher and Norman MacKillop, whom the Commission have contracted on a consultancy basis, to assist with probity investigations.

Comprehensive reports were prepared on each of the applicants to assist the Commission in determining whether they were 'fit and proper' to be granted a licence. Consideration of the 'fit and proper' test is essentially a question of personal and corporate character. The issue is whether or not the applicant is likely to run a highly regulated business within both the spirit and letter of the

restrictions imposed upon it. An investigation of the business history and relevant experience of the applicant, associated principals and businesses associates involved is an essential feature of this aspect of the Commission's enquiries, together with an assessment of the comments and opinions of independent third parties who have had dealings with them.

These reports normally deal with the following matters:

- The history and general suitability of the applicant;
- The financial stability of the applicant;
- The source and adequacy of funding for the Alderney project;
- The executive associates of the applicant, as to whether they are 'fit and proper' persons to be associated with the licensee's operations;
- The key personnel, as to whether they are 'fit and proper' persons to occupy or act in their stated positions and to be granted key personnel licences; and
- The nominee, as to whether he is a 'fit and proper' person to carry out the functions and duties required by the Ordinance.

Following the issuing of the first interactive licences in April 2002, the Commission promoted the establishment of an industry forum, called the Alderney Gambling Licensees Forum, consisting of all licensees. The Forum has met twice during the year, and will in future meet once every quarter. The purpose of the Forum is to enable the industry to discuss matters of common interest and to facilitate communication between the industry and the Commission.

The Commission met with each of the new licensees, following the issue of their licences, and intend to hold similar meetings with the directors and management of each licensee once a year, in future. These meetings enable the Commission to gain a better understanding of the business plans of the licensees, and to explain the regulatory approach.



Alderney Gambling Licensees Forum

the forum enables the industry to discuss matters of common interest and to facilitate communication between the industry and the Commission.

Compliance

Electronic Betting

Although both Sportingbet and Bonne Terre held electronic betting centre licences during the year, only Sportingbet was accepting bets on Alderney. Both these licences expire during the first part of 2003.

Since the appointment of the Commission in 2000, considerable effort was made to improve the level of corporate governance and financial reporting by these licensees. Although Bonne Terre decided to relocate their business to the UK during 2001, as a result of changes in betting taxes there, the Commission was satisfied that, before they left the Island, they operated in accordance with the requirements of the Commission.

However, despite several discussions as to what was required, the Commission was unable to approve Sportingbet's control system submission. The Commission was particularly dissatisfied with various aspects of Sportingbet's financial reporting and corporate governance.

The shortcomings in the submission were, in the opinion of the Commission, capable of being rectified easily. Accordingly, the Commission invited Sportingbet to resubmit its control system submission after making the necessary changes. Sportingbet chose not to resubmit and was therefore prohibited from further exercising its electronic betting centre licence.

At the same time, the Commission resolved to amend the general conditions of electronic betting centre licences to apply conditions attaching to interactive gaming licences.

The substance of the conditions previously applying has been retained, but the wording has been modified. Additional conditions have been introduced to formalise the arrangements that have applied for some time regarding the provision of financial information and the maintenance of funds to cover liabilities. The provisions relating to money laundering have been modified to make it clear that licensees bear the responsibility for monitoring and notification of

suspicious transactions. Licensees are required to nominate a senior member of staff to be responsible for compliance.



Robin Le Prevost inside the C&W Data Centre

A new condition was introduced as a result of the decision during June 2002 of the Supreme Court in the United States of America not to review the conviction of Jay Cohen for offences in relation to the Wire Act. The Commission was awaiting developments in this case before determining its position in relation to activities of Alderney licensees that could potentially be regarded as violating the provisions of the Wire Act. Legal opinions and other articles reviewed by the Commission indicated that offences under the Wire Act can be established when a bookmaker located outside the United States engages in certain activities in relation to sports betting with persons within the United States. The Commission therefore resolved to prohibit such potentially unlawful activity by specific amendment of the terms of the Alderney electronic betting centre licences.

Interactive Gaming

Although none of the interactive gaming licensees are yet operational, the Commission has worked closely with both Bonne Terre and Ritz Interactive in preparing their control system submissions as well as determining the scope of testing for their gaming software. These two licensees intend to become operational during the first six months of 2003. The Commission has also worked closely with the approved testing authorities who are involved in the testing of the gaming software for these companies. In addition, TST has started the testing of WagerWorks' software to be used for the Bonne Terre casino.

The Commission is particularly pleased to report that at its December meeting, approval was granted for the use of the data centre developed by Cable and Wireless as premises where interactive gaming may be conducted. The approval followed a report from GGS, who tested and certified the premises with regard to the location of the building, security and safety, disaster recovery and hosting services. This approval confirms that a state of the art facility is now available and approved for the hosting of interactive gaming systems in Alderney.

The Commission

The Commission held a total of ten meetings during the year. Most of these meetings were held over a period of two days in order

to deal with the routine business as well as licensing and compliance matters. Apart from licensing and compliance matters, the Commission considered such matters as:

- Amendments to the legislation;
- Staffing ;
- Funding;
- Jurisdictional border controls;
- Assistance to other islands within the Bailiwick;
- Data protection measures; and
- Sharing of intelligence with other agencies.



André Wilsenach (CEO); Melody Morgan-Busher (Inspector); Carole Langton (Secretary); Nicky Burland (Financial Officer); Phil Newman (Inspector).

The Commission has met twice during the year with the Policy and Finance Committee in Alderney to report on its activities and has also held meetings with all new licensees.

Individual members of the Commission and the CEO have participated in eight international meetings, where presentations were made to describe the Alderney licensing process.

The term of one of the Commissioners, Sir Graham Dorey, expired in April 2002. His position on the Commission was vacant until October 2002, when John Buggy, a resident of Alderney, was appointed.

Staffing

A formal staff structure was approved in March, and all positions were filled by July. The CEO had been appointed in January, while the rest of the staff were appointed between March and July. A vacancy existed in the inspectorate for a period of three months since October. (This position has subsequently been filled by Melody Morgan-Busher in March 2003). All staff, except for the Finance Officer, who is employed part-time, are employed on a full-time basis.

A pension scheme, together with life assurance cover, was established during May of this year. Key performance requirements for each staff position have been defined and the performance of staff has been assessed against these specifications.

Finances

All revenue received from licensees is paid directly to the States of Alderney, who in turn fund the budget of the Commission. This revenue consists mainly of licence fees for interactive gaming, electronic betting centre and bookmakers licences and, until recently, when the legislation was amended, application fees for electronic betting centre licences.

The income generated in the form of licence fees for the year under review amounts to £410,650.

The main items of expenditure for the year to 31 December 2002 were:

Staff	160,536
Commissioners' remuneration	38,500
Travel & Conferences	65,044
Consultancy	37,216
Premises, furniture and equipment	31,104
Communication	10,960

Activities during 2002

Publications and subscriptions	2,490
Audit and management accounts	1,728
Depreciation	3,847
Sundry and contingencies	282
	351,707

In addition, capital expenses of £11,806 were incurred. This brings the total expenditure for the year to £363,513.

More than 70% of the budget is spent in Alderney. This represents a contribution to the local economy of some £255,000.

The substantial expenditure on travel and attendance at conferences reflects the unavoidable costs of running a regulatory agency in Alderney while most of the people it deals with, including most of the members of the Commission, are based off the Island. Involvement in conferences has proved to be the best way to publicise what Alderney has to offer and to dispel some negative myths. Quite apart from the need for this sort of representation, a number of licence applications and expressions of interest have resulted directly from the contacts made. It is the nature of a world-wide business that many such meetings take place far from Alderney.



Financial Statements for 2002

Statement of the Commissions responsibilities

The Alderney Gambling Control Commission ('the Commission') acknowledges that it is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Commission and of the profit or loss of the Commission for that period.

In preparing those financial statements the Commission is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material;
- departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commission is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission. They are also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and the detection of fraud and other irregularities.

The following persons served on the Commission during the year under review:

- Mr John Godfrey (Chairman);
- Mr Raymond Birdseye;
- Mr John Buggy;
- Mr John Clitheroe; and
- Sir Graham Dorey.

Sir Graham Dorey's term on the Commission expired on 30 April and Mr. John Buggy was appointed on 1 October.

Independent auditors' report to the Commission

We have audited the financial statements on pages 13 to 19

Respective responsibilities of commissioner's and auditors

The Commissioners are responsible for preparing the Commission's report and, as described on page 13 the financial statements in accordance with UK accounting standards. Our responsibilities, as independent auditors, are established in Guernsey by Law, the UK Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the accounting policies set out in page 13. We also report to you if, in our opinion, the Commission has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the

implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with UK Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by

fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Commission's affairs as at 31 December 2002 and of its surplus for the year then ended and have been properly prepared in accordance with the accounting policies set out on page 17.

KPMG

Chartered Accountants
13 March 2003

Balance Sheet as at 31st December 2002

	Notes	2002		2003	
		£	£	£	£
Fixed Assets	1&4				
Computer Equipment		5,928		3,994	
Office Furnishings		6,965		940	
			12,894		4,934
Current Assets					
Debtors		5,418			
Cash at bank	2	131,706		19,192	
Petty cash		35			
		<u>137,159</u>		<u>19,192</u>	
Current Liabilities					
Refundable deposits	3	1,111		38,526	
Refund to the States of Alderney		79,000			
Creditors		27,313		5,136	
		<u>107,424</u>		<u>43,662</u>	
Net Current Assets			29,735		-24,470
Total Assets less Current Liabilities			<u>42,629</u>		<u>-19,536</u>
Capital and Reserves					
Revenue Account			42,629		-19,536
			<u>42,629</u>		<u>-19,536</u>

The financial statements on pages 13 to 19 were approved by the Alderney Gambling Control Commission on 27 March 2003 and signed on its behalf by:



J Godfrey
Chairman

Revenue Account Year Ended 31st December 2002

	Notes	2002		2001	
		£	£	£	£
Income					
Key Personnel Application Fees		3,900		2,110	
States Grant	5 & 6	395,169		165,000	
Bank Interest		92		-	
Investigation receipts	7	11,682		-	
GGCC Consultancy	8	4,277		-	
			415,120		167,110
Expenditure - Revenue Account					
Staff Costs		160,536		38,066	
Premises, Furniture & Equipment		31,104		7,864	
Consultancy		37,216		91,684	
Conferences and General Travel		65,044		35,685	
Postage, Stationery & Telephone		10,960		4,476	
Audit Fees		2,500		2,550	
Management Accounting		477		-	
Members - Sundry Expenses		-		2,426	
Publications & Subscriptions		2,490		633	
Sundrie Supplies & Services		281		3,114	
Commission Fees	9	38,500		-	
Depreciation	1 & 4	3,847		148	
			352,955		186,646
Surplus/(Deficit)			62,165		-19,536
Deficit brought forward			-19,536		-
			42,629		-19,536

1. Principle Accounting Policies.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Alderney Gambling Control Commission's financial statements:

• **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

• **Income and Expenditure**

All income and expenses are accounted for on an accrual basis.

• **Fixed Assets**

On the establishment of the Commission's operations on the 1st May 2000, the existing office equipment was transferred from the States of Alderney at no cost. Fixed Assets acquired subsequent to this date are stated at cost less depreciation.

• **Depreciation**

Depreciation is calculated at the following annual rates so as to write off the cost of fixed assets over their anticipated useful lives using the straight line method.

- Office furniture 25.00%
- Computers and related equipment 33.33%

• **Cash Flow Statement**

Under financial reporting standard no.1 the Commission is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

2. Cash at bank

The Commission's funds are held in three separate accounts, namely:

- High interest business reserve account 4,552
- Current account 80,371
- Applicant deposit account 45,671
 - Applicant deposits 1,111

3. Refundable deposits

Deposits to cover the costs of investigating applicants, which may be refundable in whole or in part, are shown as liabilities in these financial statements.

4. Fixed Assets

	At 1st January 2002	Additions	At 31st December 2002
COST			
Computer Equipment	4,142	4,296	8,438
Office Furnishings	940	7,510	8,450
	<u>5,082</u>	<u>11,806</u>	<u>16,888</u>
DEPRECIATION			
Computer Equipment	148	2,362	2,510
Office Furnishings	-	1,484	1,484
	<u>148</u>	<u>3,847</u>	<u>3,994</u>
NET BOOK AMOUNT			12,894

5. Licence Fees

Income from licence fees are payable directly to the States of Alderney and therefore are not shown in these financial statements. However, the States of Alderney confirmed an income of £410,650 (£100,650 in 2001) from licence fees.

6. States Grant

Funding to cover the expenses of the Commission is provided by the States of Alderney . This funding is shown in the Revenue Account as a States Grant.

7. Investigation receipts

Receipts in respect of services rendered by the staff of the Commission during the course of licensing investigations.

8. Consultancy to GGCC

Receipts in respect of consultancy services rendered by the Commission to the Guernsey Gambling Control Commission.

9. Commission members fees.

In accordance with the Gambling (Alderney) Law 1999, as amended, the States of Alderney meets the cost of the Chairman and other members of the Commission. The Commission reimbursed the States for these costs in the year ended 31 December 2002. In the previous year the States met the costs directly and that is therefore no charge in the Revenue Account.

10. Pension scheme and life assurance

A defined contributions pension scheme together with life assurance cover is provided for employees. The scheme is administered by Anthony Le Blanc and Partners Limited in Alderney and was started in May 2002. The scheme requires employees to contribute 6 per cent of salary to the scheme, while the Commission contributes 7.5 per cent to the scheme. The total annual contribution of the Commission of £6,426 is included in the staff costs.

Regulatory Framework

Significant new legislation was introduced by the States of Alderney during 2002, in consultation with the Commission. The legislation is now embodied in three ordinances, namely the Interactive Gaming Ordinance, allowing for online casino gaming, the Electronic Betting Ordinance allowing for electronic betting centres and the Bookmakers Ordinance, allowing for the licensing of bookmakers in Alderney. Both the Interactive Gaming and Electronic Betting ordinances set out the legal framework for:

- Applications for licences, including the application process, costs of investigation, grounds for refusal, requirements to be “fit and proper” to hold a licence or to be an associate of a licensee, annual fees and the period of validity of the licence;
- Conditions to licences, providing for varying or adding conditions, the modification or changes to the licensed premises and the return of the licence for the endorsement of changed conditions;
- Suspension of licences, including the grounds for suspension, directions to rectify, cancellation of suspension, sanctions short of suspension and revocation of licences;
- Nominees, including the requirements for a nominee, their functions and duties;
- Key personnel; including the requirements to hold a key personnel licence, the application and investigation process, conditions of a key employee licence, the lapsing and surrendering of key employee licences; and
- Compliance controls, which include matters such as the approval of gaming equipment, control systems, monitoring and investigations, financial accounts and audits.

In addition, the Interactive Gaming Ordinance provides for the issuing of a Certificate of Prior Approval to gaming system vendors. This enables a distinction to be drawn between two categories of suppliers of interactive gaming equipment, namely:

- A person who both supplies the gaming software and who offers a turnkey solution, where the casino owner is responsible for the marketing of

the casino, but the day to day operation of the games is performed by the supplier on the owner’s behalf. The Ordinance permits only the holder of an interactive gaming licence to play interactive games. A system supplier in this category will therefore be required to obtain an interactive gaming licence; and

- A person who acts as a system vendor only and takes no active part in the operation of the games. This type of supplier is considered to be a business associate of an interactive gaming licensee (or applicant for an interactive gaming licence) and, as such, is required to pass probity checks to ensure that the company is fit and proper to be associated with the operations conducted by the licensee. Such a supplier may apply for a Certificate of Prior Approval.

In addition to the legislative framework, the Commission has compiled extensive documentation to assist applicants, licensees and the public in understanding the regulatory approach and other requirements of the Commission. These comprise:

- Brief to interested parties for:
 - An electronic betting centre licence;
 - An interactive gaming licence; or
 - Certificate of prior approval.
- Application forms for:
 - An electronic betting centre licence;
 - An interactive gaming licence; or
 - Certificate of prior approval.
- Schedule of licence fees;
- General conditions of licence;
- Control system guidelines for:
 - An electronic betting centre licence; and
 - An interactive gaming licence.
- Procedures for objections to licensees; and
- Procedures for submitting player complaints.

These documents are all available on the Commission’s website, and can be accessed at www.gamblingcontrol.org