

Annual Report and Financial Statements

2017



ALDERNEY
GAMBLING CONTROL COMMISSION



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ALDERNEY
GAMBLING CONTROL COMMISSION

8 June, 2018

The Chairman
Policy and Finance Committee
States of Alderney
PO Box 1001
Alderney
GY9 3AA

Dear Sir,

I have pleasure in presenting the Report of the Alderney Gambling Control Commission for the period 1 January to 31 December 2017.

Yours faithfully

Lord Faulkner of Worcester
Chairman

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Mission Statement



To ensure and maintain the integrity of electronic gambling activities regulated by the Commission.

Objectives

The primary objective is to protect and enhance the reputation of Alderney as a first tier regulatory jurisdiction by seeking to ensure that:

- All electronic gambling is conducted honestly and fairly and in compliance with good governance;
- The funding, management and operation of electronic gambling remains free from criminal influence;
- Electronic gambling is regulated and monitored so as to protect the interests of the young and the vulnerable

and without compromising this primary objective, to work with other agencies in the development of eGambling activities regulated by the Commission.

Chairman's Statement

A year ago I noted that 2016 had been a year of turmoil. Most people would agree that 2017 was equally unsettling. Despite that, the eGambling industry on Alderney had another successful year, with the Commission increasing its portfolio of licensees and certificate holders.

These new arrivals, along with our established operators, are a clear demonstration of faith in Alderney's place as a leading jurisdiction for online gambling. Their decision to base operations on Alderney shows faith in the Alderney Gambling Control Commission's (AGCC) regime with our emphasis on providing a stable environment for operations demonstrating the highest levels of social responsibility and Anti-money laundering and countering the financing of terrorism (AML/CFT) awareness. Whilst these turbulent times continue, Alderney and the Commission strive to offer a safe harbour for operations by maintaining good relationships with our stakeholders within the Bailiwick as well as those further afield.

I am appreciative of the way in which our fellow regulators engage in co-operation. It is through co-operation that high standards of social responsibility and AML/CFT compliance can be maintained in a cross-border industry. Throughout 2017 the Commission worked with fellow authorities and regulators across a number of areas. As the United Kingdom government prepares to leave the European Union (EU) we are working with the UK's Channel Islands all-party parliamentary group (on which I serve as a vice-chairman) to ensure that we are alert to any relevant issues. In addition we work

closely with the International Association of Gaming Regulators (IAGR) and the Gaming Regulators European Forum (GREF). With GREF's composition extending to members of the EU and those outside the EU alike, it is well placed to facilitate the orderly and ethical growth of the eGambling Industry.

Alderney is represented on the GREF board by our Executive Director Jorn Starck, who succeeded me as a member after I completed my term of office.

In 2017 it was the Commission's pleasure to welcome a delegation from the Financial Services Authority (FSA) of the Seychelles who were seeking to increase their understanding of this growing sector. It was during their visit to Alderney that the Seychellois FSA entered into a Memorandum of Understanding with the Commission to facilitate future information sharing.

Since its inception the Commission has worked hard to develop eGambling on the global stage, recognising the benefits that come from ensuring operators, wherever they may be located, adopting world class standards through the use of a risk based approach. The Commission has worked with many operators to allow them to flourish through the adoption of the sound business practices required to meet the obligations of the Internal Control System (ICS) required by Alderney's regulations. With this template operators are well placed to expand their operations into new markets and, through the preparation of an ICS, those operators coming from emerging markets can align themselves with best practice. The States of Alderney, through Alderney eGambling, has developed an extensive network of



Chairman's Statement (continued)

contacts throughout the world and is well placed to promote growth coming from new markets in India, Asia and Africa. The introduction of the Category 1 Associate Certificate, available to local and overseas operators, will help the sector to grow. The Commission is aware of and understands the challenges faced by the sector and seeks to ensure that the range of licences and certificates available covers the broadest spectrum of activity.

Those of us who have been involved in this sector for some time have seen significant changes. This is still a relatively young industry and these continue apace. The Commission is working with Bailiwick partners on the preparation of a National Risk Assessment (NRA) for the Bailiwick. The importance of the NRA in identifying the threats to and vulnerabilities of the Bailiwick cannot be overstated. The Commission's holistic approach to regulation pays dividends as well run operators applying cutting edge techniques

in vital areas such as AML/CFT and social responsibility find that when they expand into new markets these operators are already meeting, if not exceeding, the obligations that are placed on them.

I am deeply grateful for the support I receive from my fellow Commissioners and we are grateful for all the support we receive from Jorn Starck, the Commission's Executive Director, his dedicated colleagues on the Executive, and our brilliant staff. Without their hard work and professionalism our role as Commissioners would be impossible. It remains a privilege and a pleasure to continue to serve as the Chairman of an organisation at the forefront of the sector, and one that continues to make such a significant financial contribution to the States of Alderney.

A handwritten signature in black ink, appearing to be 'Lord Faulkner of Worcester'.

Lord Faulkner of Worcester
Chairman

Approach to Regulation

The Commission's key objective is to provide a regulatory environment which offers robust, enlightened, active regulation while also being responsive to the needs of a changing industry. In this way, the Commission aims to protect players, to ensure the continuing high reputation of Alderney as a jurisdiction and to establish a regulatory environment which attracts operators who seek a comprehensive, pragmatic and well-respected regime supportive of operator needs. The controlled gambling environment engenders good business practice throughout the operator's organisation.

The dynamic nature of the eGambling industry means that the Commission frequently needs to review regulations and legislation. Where changes to the regulations or the legislative framework are required, the Commission will advise the States of Alderney's Policy and Finance Committee on the introduction or amendment of legislation.

REGULATORY CHANGES

In 2017 there were no changes made to the regulatory framework governing eGambling in Alderney.

WORKING WITH A GLOBAL INDUSTRY

The Commission is aware that developments in eGambling legislation elsewhere in the world may impact on the ability of Alderney licensees to access other markets and so expand and develop their businesses. The Commission is therefore in communication with regulators in various other jurisdictions so as to be kept informed of legislative developments. The Commission also makes use of specialist consultants to keep the Commission informed of relevant legislative proposals.

During the year the Executive Director worked towards developing more formalised working relationships with other regulators and government departments.



Approach to Regulation (continued)

REGULATORY AND LEGISLATIVE COOPERATION

The Commission liaises with other international regulatory bodies and can sometimes act as an advisor to regulators and law-making entities in other jurisdictions. In the past year, the Commission has worked with the British Gambling Commission as well as gaming regulatory bodies around the world in connection with probity, due diligence investigations and international best practice. The Commission also works closely with non-gaming regulators such as the Guernsey Financial Services Commission and Guernsey's Financial Intelligence Service, part of the Guernsey Border Agency Cross Border Crime Division.

Alderney has proven experience in establishing and maintaining a robust, business-friendly online gaming jurisdiction and plays an active role in international regulatory bodies such as the Gaming Regulators European Forum (GREF) and the International Association of Gaming Regulators (IAGR). The Commission also shares this expertise with others through participation in the major industry conferences.

During the course of the year, members of the Commission participated in various regulatory and industry conferences:

- In February members of the Commission and its staff attended the International Casino Exhibition in London and the Executive Director attended the European Online Gaming Forum.
- In March the Executive Director attended the iGaming Asia Conference in Macau.
- In May the Chairman and Executive Director attended the Gaming Regulators European Forum in London.
- In June the Deputy Director of Licensing attended the World Regulatory Briefing, Africa conference in Nairobi.
- In July the Executive Director attended the World Gaming Executive Summit in Barcelona.
- In September the Executive Director attended the Sports Betting Integrity Forum in London.
- In October the Executive Director attended the Westminster Media Forum Priorities for Integrity and Duty of Care in Sport in London and the International Association of Gaming Regulators Conference in Johannesburg. The General Counsel and Deputy Director of Licensing attended the European iGaming Expo in Berlin. In addition, the Director of Operations attended the Responsible Gambling Week Parliamentary reception in London.
- In November the In-house Counsel attended the Law Society's AML/CFT symposium in London.

Anti-Money Laundering/Combating the Financing of Terrorism



The Commission takes seriously all issues relating to anti-money laundering and combating the financing of terrorism. The Commission is keen to ensure that internationally agreed standards are maintained and that the AML/CFT framework for eGambling remains harmonised with other sectors in the Bailiwick.



Anti-Money Laundering/Combating the Financing of Terrorism (continued)

The Commission follows closely the guidance of the Financial Action Task Force (FATF), an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. In order to meet FATF objectives, organisations are required to maintain comprehensive statistics regarding the effectiveness and efficiency of systems for combating money laundering and terrorist financing. The Commission particularly notes and takes record of suspicious transaction reports by the Commission or its licensees and certificate holders, the details of onsite inspections, as well as any formal requests for assistance relating to AML/CFT issues. During the year 320 suspicious transaction reports were submitted by eGambling licensees and certificate holders.

The Commission continues to be involved in a number of initiatives aimed at raising awareness of these issues with licensees and the public. During 2017 these included briefing and training sessions for staff and licensees, as well as consultation with other regulatory bodies. The Commission's annual AML/CFT event remains popular with licensees. It covers thematic AML/CFT topics and features an external subject matter expert who facilitates discussion and debate on global AML/CFT, bribery and trafficking issues. In addition, the Commission is represented at meetings of the Bailiwick's AML/CFT working groups. The focus of activity in 2017 has been the work necessary to prepare a National Risk Assessment for the Bailiwick.

All active licensees are inspected within one year of the approved start of their live operations and annually thereafter. All inspections incorporate a careful examination of a licensee's AML/CFT procedures using a dedicated AML/CFT inspection template to ensure that they are robust. Each

inspection is preceded by a mystery shopping exercise testing the site from the perspective of a player. The on-site inspection will include reviews of player registration, payment systems, player due diligence and other controls used to prevent money laundering and to combat terrorist financing.

THE COMMITTEE OF EXPERTS ON THE EVALUATION OF ANTI-MONEY LAUNDERING MEASURES AND THE FINANCING OF TERRORISM (MONEYVAL)

In 2010 the Bailiwick of Guernsey was the subject of an assessment of its AML/CFT regime and its compliance with the FATF Recommendations which was conducted by the International Monetary Fund (IMF). Following a request made by the United Kingdom, the Bailiwick of Guernsey (along with the other Crown Dependencies) joined MONEYVAL, a body of the Council of Europe, in 2012. Future assessments of the Bailiwick's AML/CFT regime will be undertaken by MONEYVAL. In 2013, MONEYVAL performed a Follow Up Review to examine progress made in relation to the implementation of the IMF's 2010 Core Recommendations. A further review took place in 2014 which was reported back to MONEYVAL at its 48th Plenary in Strasbourg in September, 2015. The findings of this were made public in January, 2016. MONEYVAL's findings that the Bailiwick's eGambling sector is highly compliant and that the Commission's regime is both effective and robust reflects our continuing commitment to meeting international standards and preventing money laundering and the funding of terrorism. The Commission is currently part of the Bailiwick wide working group tasked with implementing the new FATF recommendations and during 2017 participated in the work necessary for the Bailiwick to prepare its National Risk Assessment (NRA). Work on the Bailiwick's NRA is continuing into 2018.

Licensing and Compliance Activity

It is a vital part of the Commission's licensing regime that holders of eGambling licences and associate certificates, as well as key individuals, are approved as being fit and proper. All applicants – organisations, their owners and key personnel - are therefore carefully and rigorously scrutinised to confirm that the individual or organisation applying for approval is likely to operate effectively and within both the spirit and the letter of the Commission's regulations.

After an application has been received, an initial investigation meeting will discuss in some detail the background to the application, the nature of the proposed eGambling activities and how the eGambling will be conducted. The discussion will also incorporate issues such as the financing, the individuals involved, and the software being used. This is to ensure that the Commission has a full and clear understanding of the proposition. The Licensing Directorate will then investigate each corporate and individual applicant looking at their business history and relevant experience, associated principals and business associates. The Commission may outsource

certain elements of the investigation to suitable third parties where geographical or language constraints make it difficult to obtain the necessary confirmation of an applicant's fitness and propriety.

A Category 1 eGambling licence allows the holder to organise and promote gambling with customers (effectively a B2C relationship). A Category 2 eGambling licence or Category 2 Associate Certificate effects the gambling transaction (effectively a B2B relationship). Core Service Associate Certificates are issued to those closely involved in eGambling but not undertaking the primary activity; holders might be software suppliers or providers of certain prescribed functions.

As at 31 December 2017, there were 44 registered licensees consisting of 9 Category 1 licence holders, 14 Category 2 licence holders and 21 holders of both Category 1 and 2 licences. There were 12 Category 2 Associate Certificates (C2AC) in issue, 3 of which were approved in 2017. There were 6 new approved licensees.

Details of the licences and certificates issued in 2017 are as follows:

(1) Category 1 eGambling Licences;

180 Group Limited
Betway Alderney Limited
Pariplay Networks Limited
Willowdale Group Limited
Ellipse Entertainment Limited

(2) Category 2 eGambling Licences;

Pariplay Networks Limited
Willowdale Group Limited
Ellipse Entertainment Limited
ISQ Alderney Limited

(C2AC) Category 2 Associate Certificates;

Inspired Gaming (Gibraltar) Limited
Ormston Limited
Gameworx Limited



Licensing and Compliance Activity (continued)

The following allowed their licences and certificates to lapse in 2017:

Category 1 eGambling Licence;
Hectyc Alderney Limited
PKR Limited

Category 2 Associate Certificate;
Gamecode Limited
Marathon Alderney Limited

Category 1 & 2 eGambling Licence;
Gamblit Gaming (Alderney) Limited
Samvo International Limited

Whilst Marathon Alderney Limited allowed its
Category 2 Associate Certificate to lapse, it still holds
Category 1 and 2 eGambling licences.

Four Core Services Associate Certificates were issued to the following:

Live 5 Limited
Greentube UK Limited
PTR Live Technologies SRL
UMA Entertainment Limited

Four holders of Core Services Associate Certificates allowed their certificates to lapse. The number of Core Services Associate Certificates in issue at the end of the year was 33.

A complete list of licensees and certificate holders can be found on the Commission's website

www.gamblingcontrol.org

Alongside licence applications, the Commission also approved 19 key individual applications. Key individuals are those who are deemed to be "in a position to control or exercise significant influence over the business operations conducted under an eGambling licence, whether or not within the corporate entity exercising the licence". In order to be approved, key individuals are subject to a rigorous probity investigation involving the examination of professional and personal histories, financial records, as well as appropriate checks through financial intelligence records.



Licensing and Compliance Activity (continued)

HOSTING CERTIFICATES

Holders of eGambling licences are required to house their gambling equipment in approved premises. Where gambling equipment is housed in the Bailiwick of Guernsey, it must be accommodated by a company which holds a hosting certificate. The first hosting certificates were issued in 2006 to Cable & Wireless (now trading as Sure (Guernsey) Limited), Itex and Newtel (now trading as JT (Guernsey) Limited). Currently 11 hosting certificates have been issued.

Under the 2009 Regulations, foreign hosting premises used by an Alderney licensee must be approved, although they need not hold a hosting certificate. The Commission believes that this regulatory structure more adequately serves the operational needs of an increasingly multi-jurisdictional gaming industry.

TEMPORARY LICENCES

A temporary licence allows a company to run eGambling operations from Alderney for a strictly limited period of time: no more than 30 days continuously or for an aggregate of 60 days in any six month period. This type of licence is designed to serve the needs of operators requiring short term use of Alderney based gambling equipment, whether for disaster recovery periods or perhaps for a period of transition from one location to another. One temporary licence was in place at the end of 2017.

REGULATORY ACTIVITY – COMPLAINTS

The Commission has in place a complaints procedure to address player issues that have not been satisfactorily resolved by a licensee. During 2017, 33 complaints were received (2016, 40) and dealt with by the Commission, a small decrease on the previous year. As a result of the European Union's Directive on consumer Alternative Dispute Resolution the Commission no longer processes complaints for players based within the United Kingdom at first instance.

Complaints arose for various reasons, including:

- claims of unfair, fixed or biased gaming;
- bet disputes;
- ID requirement concerns;
- technical malfunctions;
- poor customer service;
- unfair game rules, terms and conditions or bonus requirements;
- unfair account closures;
- balance withdrawal issues;
- problem gambling;
- voided bets.

No Commission Hearings took place in 2017 which reflects the fact that all player complaints were dealt with without the need for a hearing.

The Commission aims to work closely with licensees on resolving issues related to customer complaints, and also liaises with relevant industry bodies.



Licensing and Compliance Activity (continued)

FURTHER APPROVAL

Following the Commission's approval of a licence, the licensee will then be required to obtain full approval of their gambling equipment and their internal control system (ICS). All gambling equipment – including random number generators and all relevant software and hardware – will be rigorously tested by an independent testing house to ensure compliance with the Commission's published technical standards. Five initial gambling equipment approvals were made in 2017.

An ICS is a system of administrative controls and procedures used by a licensee when operating eGambling. Each ICS should be designed to provide:

- administrative control;
- accounting and financial control;
- controls over the operation of customer accounts and player funds;
- safeguards in relation to the security of the licensees systems;
- comprehensive and appropriate AML/CFT procedures;
- procedures for identifying fraudulent, problem or underage gambling.

Six initial ICS approvals were made in 2017 of which two were full approvals and four were conditional.

INSPECTIONS

It is an important element of the regulatory regime that active licensees are inspected on a regular basis to ensure that they are operating in full compliance with the Commission's regulations and guidelines, and that they adhere to the procedures set out in their internal control systems. Licensees can generally expect to be inspected once a year, however an inspection can be instigated at any time where the Commission has concerns regarding a licensee's ownership or operations.

The inspection team will closely examine a broad range of the licensee's operations, including:

- corporate structures, staffing and staff training;
- financial reporting;
- player registration, verification and associated banking procedures;
- anti-money laundering / combating financing of terrorism (AML/CFT) procedures;
- game fairness and player protection;
- security policies and procedures;
- operation of approved games and gaming equipment.

Following an inspection, a full report is prepared which will address any issues arising which need attention. Where serious issues arise, a further inspection or a formal sanction may be required.

During 2017, the compliance team carried out 36 inspections. In the main these demonstrated a high level of regulatory compliance by licensees and reaffirmed the importance of active operational controls.



Licensing and Compliance Activity (continued)

SPECIAL INVESTIGATIONS

The Commission has the power to conduct a special investigation of a licensee at any time. This may be deemed necessary to confirm or review a licensee's operation, or where there are concerns regarding operational issues. While some of these may be conducted by visiting the licensee's premises, they can also be carried out remotely. The findings from a special investigation may lead to a speedy resolution of any underlying causes for concern, or in some instances the issuance of further sanctions. One special investigation was instigated in 2017.

SANCTIONS

The Commission has a range of sanctions at its disposal including financial penalties and, for the most serious regulatory breach, suspension or revocation of a licence or certificate. The Commission can also issue a "proposal to rectify" which can then be followed by a "direction to rectify" – in other words, instructions that the regulatory breach must be rectified within a specified time.

Where a breach of the regulations continues or becomes more serious, a regulatory hearing may be called as an opportunity for the licence or certificate holder to make representations and present their case to the Commission. There were no sanctions issued or regulatory hearings called during 2017 although one licence was automatically suspended for the non-payment of the licence fee prior to it lapsing.

SEGREGATION OF PLAYER FUNDS

The implementation of the Alderney eGambling (Amendment) Regulations, 2012 impacted upon licensee financial reporting when it took full effect in 2013. Reporting requirements were revised to obtain information necessary to monitor compliance.

The amendment to the Regulations requires Category 1 eGambling licensees to segregate funds standing to the credit of customers in a separate bank account held solely for that purpose. In certain circumstances the licensee may be required to provide a binding guarantee from their parent company.

Licensees are required to submit quarterly financial reports and monthly operational reports covering matters such as player activity, suspicious transactions, reversed transactions, and manual adjustments to customer funds. These are closely reviewed by the Commission, with any potentially contentious issues being flagged for further consideration. Licensees are also required to carry out a fully independent financial audit each year and to submit their audited accounts to the Commission. This requirement provides general assurance that operators have sufficient resources to continue operations for at least three months, in addition to segregating all customer funds. The Commission must be satisfied that acceptable arrangements to satisfy this requirement are in place before the licensee can gain approval for full activation of their operations.

Licensing and Compliance Activity (continued)



TRAINING AND INFORMATION SESSIONS

In October 2017 an AML/CFT training and information session was held for licensees. This was the tenth such session organised by the Commission and is now a regular fixture in the Commission's calendar. Representatives from newly operational licensees are required to attend; representatives from all other licensees are invited to attend on a voluntary basis. The meeting was attended by 66 delegates from 36 licensees. The Commission welcomes the importance licensees place upon this subject. The day provides a valuable opportunity for licensees' Money Laundering Reporting Officers (MLRO) to meet with their peers and representatives of the Guernsey Financial Intelligence Service.

Technical Activity

One of the ways by which the Commission seeks to ensure that all eGambling is conducted fairly is by requiring full approval of each licensee's gambling equipment, both hardware and software. The licensee's gambling equipment including random number generators and all relevant software and hardware will be rigorously tested by an independent testing house to ensure operational worth and game fairness.

Following such approval, the Commission then aims to control any significant subsequent changes using an automated change control system which allows licensees to enter and upload relevant information using a secure online portal. This system stores detailed information on licensees' approved games and is easier for licensees to use. The greater clarity of the information processed also ensures a significant increase in operational efficiency. There were 8,106 new games and gambling equipment approvals processed in 2017 (2016, 6,932).

A Multi-Jurisdiction Testing Framework was formed in 2015 under the auspices of the International Association of Gaming Regulators Working Group with the Isle of Man, Denmark and the United Kingdom. Within this the Commission continues to work towards harmonising testing requirements. This increases the speed at which games can be approved for release as well as minimising costs and regulatory duplication.

Alderney Gambling Control Commission Financial Statements as at 31 December 2017

Statement of the Commission's 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;
- assess the Commission's ability to continue as a going concern disclosing as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Commission or to cease operations, or have no realistic alternative but to do so.

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 and up to the date of this report:

- Lord Richard Faulkner (Chairman);
- Mr Christopher Moger QC;
- Dr Isabel Picornell;
- Mr Jeremy Thompson;

The Commissioners are responsible for the maintenance and integrity of the corporate and financial information included on the Commission's website, and for the preparation and dissemination of financial statements.

Independent Auditor's Report to the Commissioners of Alderney Gambling Control Commission

OUR OPINION IS UNMODIFIED

We have audited the financial statements (the "Financial Statements") of Alderney Gambling Control Commission (the "Commission"), which comprise the statement of financial position as at 31 December 2017, statement of comprehensive income for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Commission as at 31 December 2017, and of the Commission's financial performance for the year then ended; and
- are prepared in accordance with Section 1A of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Commission in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the

use of that basis for a period of at least twelve months from the date of approval of the Financial Statements. We have nothing to report in these respects.

WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE STATEMENT OF COMMISSIONER'S RESPONSIBILITIES

The Commissioners are responsible for the statement of Commissioner's responsibilities. Our opinion on the Financial Statements does not cover that report and we do not express an audit opinion thereon or any form of assurance conclusion thereon.

Our responsibility is to read the statement of Commissioner's responsibilities and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the information presented in the statement of Commissioner's responsibilities.

RESPECTIVE RESPONSIBILITIES

COMMISSIONERS' RESPONSIBILITIES

As explained more fully in their statement set out on page 17, the Commissioners are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Commission or to cease operations, or have no realistic alternative but to do so.



Independent Auditor's Report to the Commissioners of Alderney Gambling Control Commission (continued)

AUDITOR'S RESPONSIBILITIES

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

THE PURPOSE OF THIS REPORT AND RESTRICTIONS ON ITS USE BY PERSONS OTHER THAN THE COMMISSIONERS AS A BODY

This report is made solely to the Commissioners, as a body, in accordance with Schedule 1 of The Gambling (Alderney) Law, 1999. Our audit work has been undertaken so that we might state to the Commissioners those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission and the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Channel Islands Limited
Chartered Accountants
Guernsey

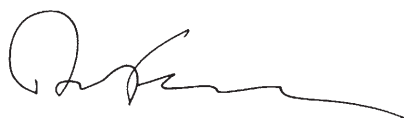
3 April 2018

Statement of Financial Position as at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Computer, office equipment & furniture		54,392	32,183
Leasehold		120,782	183,744
Web hosting		44,829	63,315
	3&4	220,003	279,242
Current assets			
Cash at bank and in hand	5	2,398,041	2,376,366
Prepayments		16,826	5,288
		2,414,867	2,381,654
Creditors: amounts falling due within one year	6	(733,913)	(722,748)
Net current assets		1,680,954	1,658,906
Total assets less current liabilities		1,900,957	1,938,148
Capital and reserves			
Retained surplus brought forward		1,938,148	1,903,237
Net (deficit)/surplus for the year		(37,191)	34,911
Retained surplus		1,900,957	1,938,148

The notes on pages 22 to 26 are an integral part of these accounts.

The financial statements on pages 20 to 26 were approved by Alderney Gambling Control Commission on 27 March 2018 and signed on its behalf by:



Lord Richard Faulkner
Chairman

Statement of Comprehensive Income for the year ended 31 December 2017

	Note	2017 £	2016 £
Income			
Licence fees	3	4,432,500	4,365,500
Fees charged to clients		556,385	525,821
Bank interest		7,161	5,972
		<u>4,996,046</u>	<u>4,897,293</u>
Expenditure			
Staff costs	8	1,719,794	1,803,338
Commissioners' fees	7	117,952	116,668
Premises, furniture and equipment		83,560	92,081
Web hosting		77,685	97,965
Consultancy		7,480	25,836
Conferences and general travel		110,170	137,990
Postage, stationery and telephone		28,084	35,773
Administrative expenses		173,975	171,149
Depreciation	4	126,309	104,586
		<u>2,445,009</u>	<u>2,585,386</u>
Distributions in the year	10	2,588,228	2,276,996
Total comprehensive income for the year		<u>(37,191)</u>	<u>34,911</u>

All activities are derived from continuing activities. The Commission has no components of 'other comprehensive income'.

Notes to the Financial Statements for the year ended 31 December 2017

1. Reporting Entity

The Alderney Gambling Control Commission (AGCC) is a regulatory body established in 2000 and governed by The Gambling (Alderney) Law, 1999. The principle activity of the Alderney Gambling Control Commission is to regulate eGambling activities in line with The Gambling (Alderney) Law, 1999, (the "Gambling law").

2. Basis of Preparation

These financial statements give a true and fair view and were prepared in accordance with Section 1A of Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015 and are in line with the Gambling law.

The income in the financial statements is collected by the Commission on behalf of the States of Alderney. After deduction of the expenses incurred and working capital required to fund the Commission the surplus is transferred to the States of Alderney.

The financial statements are prepared on the historical cost basis.

The financial statements are prepared in sterling which is the functional currency of the Commission. The Commission consider sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3. Significant Accounting Policies

Licence and certificate fees

Under the terms of The Alderney e-Gambling Ordinance, 2009, licences and certificates granted by the Commission are valid for an indefinite period. A non-refundable licence or certificate fee

is payable on issue of the licence or certificate and in advance of each anniversary of the issue of the licence or certificate. The licence and certificate fees are recognised in the Statement of Comprehensive Income on an annual basis on the anniversary on which the licence was granted.

Fees charged to clients

Fees charged to clients are incurred on an accruals basis as services are delivered such as investigation/inspection. As at the year end, there are no outstanding fees (2016: £nil).

Expenses

Expenses are accounted for on an accruals basis.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price including transaction costs and trade discounts and rebates. It also includes costs directly attributable to bringing it to the location and condition necessary for it to operate as intended. The Commission assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the Statement of Comprehensive Income on a straight line basis over the estimated useful lives of each part of a tangible asset. The estimated useful lives are as follows:

• Furniture and equipment	4 years
• Computer hardware and operating systems	3 years
• Web hosting hardware and operating systems	3 years
• Leasehold refurbishment (2008)	10 years
• Leasehold refurbishment (2012)	11 years

Notes to the Financial Statements for the year ended 31 December 2017 (continued)



The depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting in the pattern by which the AGCC expects to consume an asset's future economic benefits. During the prior year the useful life of the refurbishment that took place in 2012 was reviewed and the lease term was extended until March 2023.

The basis for choosing the useful life of the leasehold is the length of the operating lease on the office premises.

Judgements and Estimates

In preparing these financial statements, the Commission has made judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

a) Judgements

Leases entered into have been classified as operating leases due to the leases being for only a limited part of the properties useful economic life and do not transfer ownership or significant risk to the lessee.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to estimates are recognised prospectively.

Financial instruments

a) Basic financial instruments

i) Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits and petty cash.

b) Derecognition

The Commission derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Commission neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Statement of Comprehensive Income. Any interest in such transferred financial assets that is created or retained by the Commission is recognised as a separate asset or liability. The Commission derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.



Notes to the Financial Statements for the year ended 31 December 2017 (continued)

4. Fixed assets

	Equipment & Furniture £	Leasehold £	Web Hosting £	Total £
Cost				
At 1 January 2017	353,593	645,936	394,018	1,393,547
Additions	43,010	0	24,058	67,068
At 31 December 2017	396,603	645,936	418,076	1,460,615
Depreciation				
At 1 January 2017	321,410	462,192	330,703	1,114,305
Charge for year	20,801	62,963	42,545	126,309
At 31 December 2017	342,211	525,155	373,248	1,240,614
Net book value				
At 31 December 2017	54,392	120,781	44,829	220,003
At 31 December 2016	32,183	183,744	63,315	279,242

5. Cash at bank and in hand

	2017 £	2016 £
Cash at bank:		
Business reserve account	545,459	282,098
Applicant and Licensee deposit account	653,906	672,622
Treasury accounts	1,000,017	1,000,017
Current account	198,520	421,421
Petty cash	140	208
	2,398,042	2,376,366

The Commission employs the use of a NatWest credit card facility for £50,000. Any use of this facility is paid off in full on a monthly basis. There was no amount owed at the year end (2016: £nil).



Notes to the Financial Statements for the year ended 31 December 2017 (continued)

6. Creditors: amounts falling due within one year

	2017	2016
	£	£
Refundable deposits	525,877	477,912
Creditors and accruals	208,036	244,836
	<u>733,913</u>	<u>722,748</u>

Refundable deposits are held against the costs of investigating applicants and inspecting licensees and may be refunded in whole or in part.

7. Commissioners' fees

In accordance with the Gambling Law, the States of Alderney ultimately meets the fees and expenses of the Commissioners, including the Chairman.

8. Staff costs

Included in the staff costs are pension contributions. A defined contributions pension scheme, together with life assurance cover, is provided for employees. The scheme is administered by Gower Limited in Guernsey and was started in May 2002. The scheme requires employees to contribute 6% of gross salary to the scheme and the Commission contributes a minimum 7.5% of gross salary to the scheme on the employees' behalf. The annual pension contribution of £155,119 (2016: £162,459) is included in staff costs. At the year-end there were no prepaid or outstanding contributions (2016: £nil).

During the year the average number of employees was 18 (2016: 19).

9. Operating lease

The Commission entered into a ten year operational lease on the office property in Alderney, commencing in April 2008, on 21 February 2014 the lease was extended to March 2023. The property remains in the ownership of the States of Alderney.

The rental amounts for 2017 charged to the Income statement and included in premises, furniture and equipment expenditure were £48,239 (2016: £47,490).

The Commission is committed under the lease to make payments of £36,000 per year plus any RPI increase, subject to review in the fifth year, until the end of the lease (March 2023).

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
Less than 1 year	£48,239	£47,490
Between 1 and 5 years	£241,195	£237,450
More than 5 years	£12,027	£59,330

Future minimum lease payments are based on the actual rental expense in the year. There will be additional costs for RPI increases.



Notes to the Financial Statements for the year ended 31 December 2017 (continued)

10. Transfers to the States of Alderney

During 2017 the States of Alderney received transfers from the retained surplus of £2,588,228 (2016 - £2,276,996).

11. Guernsey Income Tax

The Commission is not subject to Guernsey Income Tax.

12. Subsequent events

The Commission concluded that there were no subsequent events that require disclosure in the financial statements.

Statistics



	2017	2016	2015	2014	2013	2012
Number of licensees	56	57	54	53	52	57
New licences issued	Cat 1 5 Cat 2 4 C2AC 3 Total new 9	Cat 1 3 Cat 2 3 C2AC 3 Total new 5	Cat 1 2 Cat 2 2 C2AC 3 Total new 7	Cat 1 8 Cat 2 8 C2AC 4 Total new 9	Cat 1 4 Cat 2 4 C2AC 1 Total new 6	Cat 1 10 Cat 2 10 FGAC 4 Total new 19
No. licence apps refused	0	0	0	0	0	0
ICS Initial approvals	6	5	5	8	11	6
Inspections	36	38	39	51	45	38
Licensee/Compliance staff ratio	6:1	6:1	5:1	5:1	6:1	6:1
Special investigations	1	1	0	4	2	5
Sanctions and AML/CFT remedial measures	35	50	47	90	78	84
Revocations	0	0	0	1	0	0
STR's copied	320 in total 288 eCasino 32 eGambling	213 in total 165 eCasino 48 eGambling	122 in total 77 eCasino 45 eGambling	87 in total 78 eCasino 9 eGambling	94 in total 81 eCasino 13 eGambling	38
STR's submitted	0	1	1	4	1	6 of which 3 were linked
Training events	1	1	1	1	1	1

NOTE

Following the introduction of a new website in 2015 information regarding the composition of the Commission and staff at the Commission will be updated in real time.

Accordingly this information is no longer published in the Commission's annual report and financial statements. In addition a full list of licensees and certificate holders can be found on the Commission's website.

The Commission's website can be found at www.gamblingcontrol.org

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