

CASE STUDY - NOVEMBER 2024






Fraud involving gambling licences and grants

The Counter Fraud Centre - Tauārai Hara Tāware (CFC) is the prevention arm of the Serious Fraud Office (SFO) and leads counter fraud efforts in New Zealand's public sector. Using actual cases prosecuted by the SFO, our case studies aim to help public organisations understand, identify and prevent the impact of fraud.

Use case studies to:

Case studies are useful to increase fraud awareness, by including them in online training modules or team discussions; to identify fraud risks, by considering whether the circumstances in this scenario might happen at your organisation; and to prevent fraud, by considering the controls that could prevent this fraud from occurring and implementing similar controls in your organisation.

In this case study:

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Case information

The Gambling Group within The Department of Internal Affairs (DIA) is responsible for gambling law enforcement and licensing gambling outside casinos.

Pursuant to the Gambling Act 2003, gambling that utilises or involves a gaming machine requires a Class 4 operator's licence, and a Class 4 venue licence for the place where the gambling is conducted. The requirements for these licences include DIA being satisfied with the suitability of key persons.

Fraud in the licence application

A well-known racing personality (**the originator**) was deemed unsuitable as a key person for the relevant gambling licences and resorted to deception to stay involved.

The originator formulated a plan and orchestrated the application for a company, referred to as a trust (**the trust**), to get a class 4 operator's licence. The trust's shareholders included the originator's father.

Given his history in the industry and the involvement of his father, DIA was sceptical of the originator's non-involvement and tested this claim. In order to deceive DIA into believing that he wasn't a key person, the originator arranged with his father and a shareholder to corroborate his story that he wasn't involved. He used his father's email address and signed his father's name on documents.

The trust also claimed that the funding for the application would be mostly from a finance company loan, but the funding was really obtained by the originator from three racing clubs. The racing clubs that provided the funding were potential recipients of grants from the trust.

If DIA had known of the originator's involvement and the true source of the funding for the application, the licence would not likely have been issued.

Fraud in grant distribution

The originator had a practice of invoicing racing clubs at the start of each season, and he would lobby for them to get grants from various trusts and societies. He had some influence over the grants' processes, and this enabled these racing clubs to receive about three times the amount that they paid him for lobbying services.

The originator influenced the grants' processes by:

- Arranging terms and timings of grant applications with the racing clubs and maintaining a schedule in advance. He then recommended a schedule of grants to the payments committee of the trust, who effectively rubberstamped them.
- Adjusting timings and amounts of grants made by the trust to ensure that some racing clubs (who missed out on funds from other trusts) would receive the amount of funding that he had 'lobbied' for.
- Entering into an arrangement with another individual for them to take legal ownership of shares in companies that he effectively owned. These companies were involved in the running of licenced premises for Class 4 gambling. If the DIA had known of the originator's effective ownership of these companies, they would not have granted the venue licences.
- Forming personal connections through which to exert influence on the grant processes of other trusts. Because he effectively held the venue licences where other trusts could operate gambling machines, he formed close relationships with these trusts that allowed him to predict to the racing clubs where they would get their grants from.

Over a period of six years, the originator and related entities received \$11.5 million for lobbying.

+ For more information about this case, you can find the [SFO Media Release on our website](#).

Prosecution outcome

The Gambling Commission agreed with the DIA's decision to cancel the trust's licence after it found that the licence was obtained by providing materially false and misleading information.

Three people were found guilty of "Obtaining by deception":

- The originator on five charges and sentenced to four years and six months in prison.
- The person who took legal ownership of the originator's companies, on three charges and sentenced to 12 months' home detention.
- The shareholder who corroborated the originator's story, on one charge and sentenced to 12 months' home detention.



The impact of the offending

- Reputational damage to DIA.
- Confidence in the integrity of the gambling sector was compromised.
- Racing clubs that refused to pay the originator's fees lost out on grants from the trust that they may otherwise have received.
- Wider community interests suffered because of the concentration of grants within the racing clubs who paid the originator.
- The racing clubs that paid the lobbying fees to the originator could have used those funds in more beneficial ways.



Strengthening counter fraud capability

- Does your organisation have processes in place to verify information that you receive? Are your employees familiar with these processes? Do your employees document evidence of the verification?
- Do your employees understand how to perform quality assurance checks correctly and consistently? Are the outcomes of these checks followed up on?



Recognising common fraudster personas

In this case, there were four main personas:

- **The Deceiver** – the originator deliberately concealed his ownership of the companies that operated the gambling venues, in order to get the licences granted.
- **The Organised** – collectively, some of the parties involved planned and coordinated this fraud to get a benefit for themselves.
- **The Enabler** – the originator’s father and the shareholder enabled deception of the DIA by corroborating the originator’s story that he wasn’t involved in the trust.
- **The Impersonator** – the originator impersonated his father by sending emails that appeared to be from him but weren’t. He also forged his father’s signature on relevant documents.



For more information, you can find the [fraudster persona guide on our website](#).



Red flags to watch out for

While red flags don’t necessarily indicate fraud, they can be a sign that something is out of the ordinary and may need to be looked into.

- **Previous history:** The originator had previously been considered unsuitable by the DIA to hold operator’s licences and venue licences. Some gambling inspectors had expressed concerns about his suspected involvement with the trust.
- **Lack of verification:** A lot of reliance was placed on verbal representations made by the originator and others to DIA. The initial six months licence period granted by the DIA gave them time to revisit this and verify information beyond just the verbal statements of persons involved.
- **‘In name only’ arrangements:** The arrangement involved an unnecessarily complicated structure for funding. Loans were made from the clubs to the originator but were ultimately for the trust; this allowed the clubs to receive grants from the trust. This should have flagged to the club representatives that there was an issue.



Countermeasures to prevent and detect fraud

These are examples of countermeasures which could have been helpful in this instance:

- **Independent verification** - reviews based on independent, or at least documented information, are more reliable than verbal checks.
 - **Ethical culture** - this is about creating a culture that encourages supportive behaviour. An unethical culture can lead to incentives that encourage fraudulent or corrupt behaviour. The grants scheme operated by the originator resulted in the clubs paying him approximately one third of the grants they received from trusts. While lobbying is not illegal, the scheme meant it was not a level playing field in terms of clubs receiving grants.
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- For more information, you can find guides on our website for: [capability countermeasures](#); [prevention countermeasures](#); [detection countermeasures](#) and [response countermeasures](#).

Need help?

Wherever you are with your counter fraud efforts, we're here to help.

We offer a range of resources to help build capability across your organisation. If you are in the public sector and would like to contact us about the services we can provide, please email counterfraud@sfo.govt.nz or visit www.sfo.govt.nz/counterfraud/cfc