

PRIZE CLAIM CONTROL FAILINGS

Background

The Commission commenced an investigation following an allegation that a fraudulent National Lottery prize claim had been made and paid out in 2009.

Relevant Conditions

The Section 5 Licence to operate the National Lottery (“the Licence”) requires the Licensee to comply with various conditions which seek to ensure that the National Lottery is run with propriety, that players’ interests are protected and, subject to those provisos, that returns to good causes are as great as possible.

The licence conditions of particular relevance to this case are:

- Condition 5.1 requires the Licensee to ensure that at all times its running of the National Lottery is Fit for Purpose, as that phrase is defined in the Licence.
- Condition 5.15(a) requires that the Licensee shall ensure the security of all equipment, systems, data, ticket materials and other consumables used in connection with the National Lottery and any Constituent Lottery and all proceeds arising from any Constituent Lottery and Ancillary activity, so as to minimise opportunities for theft, fraud or misuse.
- Condition 5.17 requires the Licensee to ensure that any data and other information relating to any Constituent Lottery cannot be accessed, read, added to, removed or altered by unauthorised persons.
- Condition 5.10A(b) requires the Licensee to ensure that all Processes and Procedures are Fit for Purpose.
- Condition 14.8 requires that the Licensee shall demonstrate that it:
 - (d) has satisfactory segregation of duties for all lottery processes and procedures;
 - (e) has a reliable audit trail for all processes and procedures relating to the running of the National Lottery.

Regulatory action

Following a detailed investigation of Camelot’s control environment and processes for mitigating the risk of a fraudulent prize claim being paid, the Commission concluded there had been breaches of the Licence in the following respects:

- Failings in relation to controls amounted to a breach of conditions 5.10A(b), 14.8(d), 14.8(e), 5.15(a) and 5.17 of the licence
- Failings in relation to the prize claim investigation amounted to a breach of conditions 14.8(e) and 5.10A(b) of the licence
- Failings in relation to the decision to pay the prize claim, amounted to a breach of conditions 14.8(e) and 5.10A(b) of the licence.

The Commission also concluded that cumulatively these failings amounted to a breach of condition 5.1 of the licence.

Outcome

The Commission concluded that a financial penalty of £3m was appropriate.

In determining the amount of the financial penalty the Commission took account of its Enforcement Policy, the Directions and section 10A(2) of the National Lottery etc. Act 1993. Having done so the Commission concluded that was a proportionate penalty given the seriousness of the breaches of licence condition, the duration of the breaches and the fact that, whilst it could not be certain a fraud had taken place, the Commission considered it more likely than not that there had been a loss to good causes of approximately £2.5m that was attributable to the breaches found.

A licence breach and financial penalty was recorded on 16 December 2016.

Camelot's response

Camelot has accepted the Commission's conclusions.

Furthermore, when this matter came to light Camelot immediately took action to ensure a similar issue could not occur and commissioned external assurance of its controls and processes around prize payouts. Key changes to strengthen these processes have now been implemented.