

Audit Committee Annual Report

For Audit Committee review and Board approval	
For Audit Committee review and Board brief	
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Date: 16 June 2016

Executive Summary

1. This paper sets out the Annual Report of the Audit Committee (the Committee) to the Board of Commissioners (the Board) of the Gambling Commission (the Commission) for the year ended 31 March 2016 and is presented in connection with the Board's approval of the Annual Report and Accounts 2015 - 2016 (the AR&A). The AR&A must be signed by the Chief Executive who is the Commission's Accounting Officer.
2. The Board is asked to receive and approve this report and on the basis of this report and its consideration of the AR&A to approve that document for signature and publication.

Background

3. In line with the requirements of the Treasury Handbook this report summarises the Committee's work for the year and presents its opinion on:
 - The comprehensiveness of assurances in meeting the Board and Accounting Officer's needs:
 - the reliability and integrity of these assurances;
 - whether the assurance available is sufficient to support the Board and Accounting Officer in their decision taking and their accountability obligations;
 - the implication of these assurances for the overall management of risk;
 - Any issues the Committee considers pertinent to the Governance Statement and any long term issues the Committee thinks the Board and/or Accounting Officer should give attention to;
 - The quality of both Internal and External Audit and their approach to their responsibilities; and
 - The Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.
4. Additionally, as required, it sets out the Committee's review of the AR&A and in particular its consideration of:
 - the key accounting policies and disclosures
 - assurances about the financial systems which provide the figures for the accounts
 - the quality of the control arrangements over the preparation of the accounts by the Senior Manager - Finance
 - any key judgments made in preparing the accounts; and
 - any disputes arising between those responsible for preparing the accounts and the auditors.

Issues

Assurance framework

5. The overall assurance framework principally comprises of the risk management, governance and internal control processes in place in the organisation.

Risk management and governance

6. The Chief Executive, as Accounting Officer, is responsible for identification and agreement of the key corporate risks. The Commission's approach to risk management was reviewed during the year and risk reporting enhanced. Executive Group regularly reviews risk at its meetings.
7. The Annual Risk Management Review was completed in a thorough manner and reviewed by the Committee prior to approval by the Board. Key risks are documented and managed through a corporate risk register that summarises progress in identifying, allocating ownership of, evaluating, responding to and reviewing risks. Risk continues to be given due prominence and addressed appropriately.
8. During 2015-16 the Committee has reviewed risk at its four meetings.
9. The Committee reviewed the Commission's Governance Framework, Delegation of Authority, the Risk Framework and Risk Management Process during the year.

Internal controls and compliance

10. The Commission has a well developed and comprehensive set of internal controls.
11. In 2015-16 the Committee has continued to monitor the Commission's compliance with the requirements placed upon it in the area of data protection.
12. During the last year the Committee has reviewed the Fee Collection & Credit Control, Treasury Management, Procurement, Delegated Authority and Financial Accounting policies recommending all to the Accounting Officer and/or Board as appropriate for the Commission. No new policies were approved by the Committee during the year.

Internal Audit

13. Assurance over the risk and control framework comes from a number of different sources including the work of Internal Audit ("IA"). Mazars LLP have continued to serve as internal auditors to the Commission for 2015 -16 providing the Board (via the Committee), the Chief Executive and other managers with assurance on the adequacy of the following arrangements:
 - Risk management
 - Corporate governance
 - Internal control
14. Responsibility for these arrangements remains fully with management, who recognise that IA can only provide reasonable assurance and cannot provide any guarantee against material errors, loss or fraud. Their role is also aimed at helping management to improve risk management, governance and internal control, so reducing the effects of any significant risks facing the Commission.
15. IAs risk evaluations and compliance tests are designed to ensure that controls are sound in design and effective in operation. Their conclusions are based on samples selected from the year's transactions to the date of their fieldwork. However, their conclusions cannot be taken to mean that all transactions have been properly authorised and processed.

16. IA has reviewed the control policies and procedures employed by the Commission to manage risks in business areas identified by management and set out in the 2015-16 Annual Internal Audit Plan which was approved by the Committee and picked up a number of reviews originally planned for 2014-15. A number of the reviews initially planned for 2015-16 were deferred (i.e. Maintaining Data Quality, Reactive Compliance and Corporate Evaluation) reflecting changes in circumstances at The Commission. The planned review of Corporate Governance and Risk Management remains work in progress, however, governance and risk management arrangements have been considered and reported within the reviews undertaken during the year with no significant matters of concern identified.
17. IA's report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the Commission. Their approach complies with best professional practice, in particular, Government Internal Audit Standards (July 2001) and the Institute of Internal Auditors Position Statement on Risk Based Internal Auditing (2005). Additionally, their approach is based upon the principles underlying Turnbull's work on corporate governance.

Reviews undertaken

18. The IA strategy ensures the periodic review of the effectiveness of all key internal control processes.
19. During 2014-15 all of IA's has reviews have related to internal controls. Processes were evaluated in the following areas:
 - Programme Office
 - Performance Management
 - Stakeholder Engagement
 - Core Financial Controls
 - Fees Review
 - Income Model
20. For each review Internal Audit followed the process set out below:
 - Establish the controls and activities in place to address the key business risks in each area under review;
 - Interview key staff to gain an understanding of the adequacy of controls and activities in place to manage the risks in each area under review;
 - Review certain key documents to confirm the existence and operation of the controls and activities identified; and
 - Where applicable perform tests to determine whether the controls and activities have operated as expected during the period.
21. The outcome of these reviews are summarised in the table overleaf:

Review	Recommendations			Level of Assurance
	Fundamental	Significant	Housekeeping	
Programme Office	-	2	3	Adequate
Performance management	-	4	2	Adequate
Stakeholder Engagement	-	-	-	Substantial
Core Financial Controls	-	-	1	Substantial
Fees review	-	-	2	Substantial
Income Model	-	4	2	Adequate

22. IA reports regularly to the Committee on the completion of agreed management actions to address findings arising from their reports and have concluded that recommendations are being diligently completed on appropriate timescales. Overall the Committee is satisfied with the extent and speed of progress in addressing IA findings.

Overall assurance

23. Internal Audit is required to provide the Board and the Accounting Officer with an opinion on the adequacy and effectiveness of the Commission's risk management, control and governance processes. In assessing the level of assurance to be given, they have based their opinion on:

- all audits undertaken during the year to 31st March 2016;
- whether or not any Priority 1 or Priority 2 recommendations have not been accepted by management and the consequent risk;
- the effects of any material changes in the organisation's objectives or activities;
- matters arising from previous reports to the Audit Committee and/or Board;
- whether or not any limitations have been placed on the scope of internal audit;
- whether there have been any resource constraints imposed on IA which may have impinged on their ability to meet the full audit needs of The Commission; and
- what proportion of the Commission's audit requirement has been covered to date (*the Annual Internal Audit Plan, as approved by the AC has been completed in full*).

24. In giving their opinion, Internal Audit has asked that it be noted that assurance can never be absolute. The most that Internal Audit can provide to the Commission is a reasonable assurance that there are no major weaknesses in the Commission's risk management, governance and control processes.

25. Internal Audit has provided the following Annual Opinion:

"On the basis of our audit work, we consider The Commission's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted in our audit work none of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being, addressed as detailed in our individual reports."

Effectiveness

26. Committee considers IA to have operated with reasonable effectiveness during the year.
27. Mazars have undertaken some further work for the Commission during the year in addition to internal audit services. These have been:
 - a review of the Commission's guidance on anti-money laundering;
 - a review of Board effectiveness
 - a technical review of the licence fee income model
 - an IT governance review at Camelot

External Audit

28. The Commission does not have the jurisdiction to choose its external auditors as the National Audit Office (NAO) hold this appointment. The NAO delegate all field work to KPMG.
29. The NAO works in compliance with Auditing Standards issued by the Auditing Practices Board. Its procedures are designed primarily to provide confirmation whether or not the financial statements give a true and fair view and whether the financial statements and the relevant sections of the Remuneration Report to be audited have been properly prepared in line with HM Treasury directions and that in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament. The audit approach adopted is based on the NAO's assessment of risk to the financial statements based on their understanding of the Commission's operations. NAO is able to place reliance on the work completed by Internal Audit.

Work completed

Final audit

30. The NAO audit strategy did not identify any issues that constituted significant risks likely to result in a material misstatement and that require a specific audit response.
31. Further information on the final audit is provided below.

Overall assurance

32. The NAO has not identified any material weaknesses in the accounting and internal control systems in place.

Effectiveness

33. The Committee has reviewed the performance the NAO team and believe they have performed reasonably effectively and efficiently in conducting the interim and final audit work.

Governance Statement

34. The Committee has reviewed The Governance Statement included in the AR&A, regards it as appropriate, and does not have any pertinent matters it wishes to draw to the attention of the Board.
35. There are no longer term issues the Committee would draw to the Board's attention.

Audit Committee effectiveness

36. The Committee undertook a review of its effectiveness in 2013-14 and during the year implemented one of the key recommendations with the appointment of an independent member of the Committee. A further review of effectiveness will be considered in 2016-17.
37. In line with best practice, the Committee reviewed its terms of reference during the year. No changes were identified as being required.

Review of Annual Report and Accounts 2015-16

Key Accounting Policies and Disclosures

38. The Committee has reviewed the key accounting policies used in preparing the accounts and consider these to be appropriate.
39. The extent and nature of disclosures made in the AR&A have been reviewed and are considered appropriate.

Assurances about the financial systems which provide the figures for the accounts

40. The work completed by both Internal and External Audit have enabled both to conclude that there are no material weaknesses in the financial systems which generate the figures used in preparing the accounts, though a number of areas for improvement have been identified. Additionally, any material adjustments considered necessary as a result of the completion of the year-end audit have been incorporated in the AR&A.

The quality of the control arrangements over the preparation of the accounts by the Senior Manager Finance

41. The majority of work in preparing the AR&A is undertaken by the finance staff of the Commission and is then reviewed by the Senior Manager - Finance. There was a particular challenge in the current year as a result of illness and changes in personnel. Despite the challenges the AR&A was produced to a high standard and in line with the agreed timescales.
42. The quality of the preparation of the accounts is generally good. As a result of the audit two adjustments were required to the draft accounts submitted for audit. These were both identified by the Commission's Finance team and communicated to the auditors during the audit.

Any key judgments made in preparing the accounts

43. The Committee is satisfied that appropriate judgments have been made.
44. No disagreements between the Finance team, Senior Manager – Finance and the NAO have been raised with the Committee.

NAO Final Audit Report

45. The NAO has completed its audit and presented its Audit Completion Report which concluded that, based on the work undertaken, and subject to the clearance of outstanding items and the receipt of additional representations, they have not identified anything which they anticipate would prevent the Comptroller and Auditor General from giving a clean audit opinions in respect of the AR&A.
46. The outstanding work relates to:
 - Detailed review of the final version of the Annual Report, including the Governance Statement, with all financial statements values included;
 - Completion of final KPMG and NAO review procedures, and completion of any additional work arising from these reviews as applicable;
 - Consideration of any issues arising from the Audit Committee's review of the draft accounts, including the Annual Report, Remuneration Report and Governance Statement
 - Receipt of the signed management representation letter; and
 - A final review of post balance sheet events, up to the date of the Comptroller and Auditor General's certification.

An update will be provided to the Board in the unlikely event that this outstanding work gives rise to any issues.

47. As a result of their work the NAO highlighted four minor control observations. This relate to:
 - Timely review of bank control account reconciliations. This issue had been identified during the interim audit fieldwork, and audit confirmed that the issue had been resolved during the year end visit;
 - Timely follow up of reconciling items. Audit acknowledge that this arose due to resource pressures within the team, and measures have now been put in place to ensure reconciling items are reviewed promptly.
 - Management review and authorisation of journals. This issue had been identified during the interim audit fieldwork, and audit confirmed that the issue had been resolved during the year end visit;
 - Authorisation of starters and leavers. Whilst this observation is mitigatged to a degree by subsequent checks and reconciliations, the review and approval of instructions to our outsourced payroll provider was raised last year, and still applies. This will be addressed as part of ongoing improvements in HR business processes.
48. There are no significant unadjusted items the NAO have drawn to the attention of the Committee or management.

Letter of Representation

49. The Committee has reviewed the Letter of Representation requested from the Accounting Officer to NAO which is in the standard terms.

Audit Committee recommendation

50. The Committee has concluded, subject to the clearance of the outstanding work specified above, that it is appropriate for it to recommend to the Board and the Accounting Officer that they approve the AR&A and, on behalf of the Board, sign the letter of representation to the NAO.

Recommendation

51. The Board is asked to:
- receive and approve this Annual Report
 - agree the recommendation set out in paragraph 50.