

Audit Committee Annual Report

For Audit Committee and Board approval	
For Audit Committee and Board brief	
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For Audit Committee and Board information	

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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 2014 and is presented in connection with the Board's approval of the Annual Report and Accounts 2013 - 2014 (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 Risk Management Committee supported this activity and provided regular updates to the Board until it was integrated into the Executive Group 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 2013-14 the Committee has reviewed risk at three of its four meetings.
9. In respect of governance a review was completed of the Commission's information security arrangements.
10. No new policies were approved by the Committee during the year.

Internal controls and compliance

11. The Commission has a well developed and comprehensive set of internal controls.
12. In 2013-14 the Committee has continued to monitor the Commission's compliance with the requirements placed upon it in the area of data protection.
13. During the last year the Committee has reviewed the Commission's Governance Framework, Delegation of Authority, the Risk Framework and Risk Management Process.

Internal Audit

14. Assurance over the risk and control framework comes from a number of different sources including the work of Internal Audit. Mazars LLP was appointed internal auditors to the Commission for 2013 -14 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
15. Responsibility for these arrangements remains fully with management, who recognise that Internal Audit 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.
16. Internal Audit's 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.

17. Internal Audit 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 2013-14 Annual Internal Audit Plan which was approved by the Committee. Their 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 Internal Audit strategy ensures the periodic review of the effectiveness of all key internal control processes.
19. During 2013-14 Internal Audit has reviewed and evaluated processes in the following areas:
- **Governance:**
 - Corporate Governance
 - Merger with The National Lottery Commission
 - **Internal Controls:**
 - Workstream Financial Management
 - Payroll
 - Assessment Matrix
 - Enhanced Compliance
 - IT Strategy and Governance
 - Human Resources Core Processes
 - **Risk Management:**
 - Assessment of the Commission's Risk Management arrangements
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
Workstream Financial Management	2 significant 4 housekeeping	Adequate
Merger with The National Lottery Commission	1 significant 1 housekeeping	Substantial
Payroll	3 significant 3 housekeeping	Adequate
Corporate Governance	1 significant 2 housekeeping	Substantial
Assessment Matrix	3 significant	Adequate
Risk Management	2 housekeeping	Substantial
Enhanced Compliance	1 significant 1 housekeeping	Adequate
IT – Strategy & Governance	1 housekeeping	Substantial
Human Resources – Core Processes	1 fundamental 4 significant	Limited

22. Internal Audit 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 Internal Audit 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 2013 -14
- any fundamental or significant recommendations not accepted by management and the consequent risks (*there were none*)
- the effects of any significant changes in the organisation's objectives or systems
- matters arising from previous reports to the Audit Committee
- any limitations which may have been placed on the scope of internal audit (*there were none*)
- the extent to which resource constraints may impinge on Internal Audit's ability to meet the full audit needs of The Commission (*there were none*)
- 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. Control policies and procedures designed to address specified business objectives are subject to inherent limitations and, accordingly, errors may occur and not be detected. 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, control governance and value for money 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. 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. On taking up their appointment Internal Audit spent considerable time, at their own expense, to establish relationships with appropriate managers and to re-launch their work in a positive light. This has generally led to improved relationships, better cooperation and a belief that Internal Audit can, and does, add value.
27. Mazars have undertaken some non-audit work during the year assisting with some forensic accounting analysis and one regulatory investigation. The Committee are content that this work has no impact on their independence.

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, beyond the two presumed risks required by Auditing Standards, 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 during the year facilitated by the NAO. This identified a number of strengths and areas for development:
 - a. Strengths. The Committee is exercising appropriate oversight of the relevant areas, is comprised of suitably skilled individuals who understand the expectations of them in their role and act in an appropriately independent and robust manner. Good relationships are maintained with both Internal and External Auditors and the Chair is fulfilling the expectations of that role.
 - b. Development Areas. The key development areas identified are:
 - i. a requirement for a better understanding of developments in Government accounting and the context in Government;
 - ii. the possibility of appointing an independent member of The Committee who would have relevant current public sector financial experience and be located in Birmingham or The West Midlands; and
 - iii. a desire for feedback from the Executive and Chair of The Commission on areas of activity which The Committee should stop, ensure it continues or commence.
37. The exercise proposed in iii above was undertaken and this in turn:
 - a. Confirmed a generally high level of satisfaction with the work of The Committee, its effectiveness and membership;
 - b. A desire that it continue to work closely with the Executive where appropriate, be open and honest, robust, pragmatic and ensure focus and pressure is placed in the right areas.
 - c. A requirement to further build its understanding of both the National Lottery and remote licencing related activities of The Commission and a desire that it be slightly more proactive in its engagement with the executive and management of The Commission in respect of risk and opportunities to improve the business.
38. In line with best practice, the Committee reviewed its terms of reference during the year. The Board agreed to change the quorum for the Committee to three Commissioner members or the Chair of the Committee plus one Commissioner member.

Review of Annual Report and Accounts 2013-14

Key Accounting Policies and Disclosures

39. The Committee has reviewed the key accounting policies used in preparing the accounts and consider these to be appropriate.
40. 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

41. 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

42. The majority of work in preparing the AR&A is undertaken by the Financial Controller of the Commission and is then reviewed by the Senior Manager - Finance.
43. The quality of the preparation of the accounts is generally good however one change was required after the draft was prepared and three audit adjustments were required:
 - a. Adjustment by Finance – An accrual for £98k of legal expenses was considered necessary.
 - b. Audit Adjustments
 - i. A pre-payment adjustment in respect of an item of expenditure paid in 2013-14 which related to 2014-15 was inadvertently made twice as a duplicate invoice had been received understating expenditure by £94,323.
 - ii. An error in the deferred income split leading to a reduction in Maintenance Income recognised of £12,586 in the Statement of Comprehensive Net Expenditure.
 - iii. On completion of the merger of The National Lottery Commission that organisation's negative reserve of £373k was brought into The Commission's accounts. Initially this was incorporated as a movement on reserves but as a result of the audit the treatment was changed and the item has been treated as an expense in 2013-14.

The impact of these adjustments is to increase the excess of expenditure over income shown in The Statement of Comprehensive Net Expenditure by £579k and reduce the Reserves shown in the Statement of Financial Position by £206k compared to the draft accounts submitted for audit.

Any key judgments made in preparing the accounts

44. The Committee is satisfied that appropriate judgments have been made.

45. No disagreements between the Finance team, Senior Manager – Finance and the NAO have been raised with the Committee.

NAO Final Audit Report

46. 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.
47. The outstanding work relates to:
- Detailed review of the final version of the Annual Report, including the Governance Statement, with all financial statement values included;
 - Confirming that the requirement to complete a Strategic Report is fully met in the updated Annual Report;
 - Completion of the final KPMG and NAO review procedures, and any additional work arising from these reviews as applicable (this work is practically complete); 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.

48. As a result of their work the NAO highlighted one new observation related to the signature of reconciliations to evidence they have been checked. The two issues of a minor nature raised last year and which provide scope for improvements to processes and controls have been fully addressed.
49. There are no significant unadjusted items the NAO have drawn to the attention of the Committee or management.

Letter of Representation

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

Audit Committee recommendation

51. At the Audit Committee meeting on 19 June the Executive disclosed receipt of notification of an application for judicial review by certain Gibraltar based gambling operators. This necessitates the inclusion of a post balance sheet event note in the Annual Report. The Committee has concluded, subject to the clearance of the outstanding work specified above and the inclusion of an appropriate post balance sheet event note, 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

52. The Board is asked to:

- receive and approve this Annual Report
- agree the recommendation set out in paragraph 51.