



Gangmasters
Licensing Authority

GLA49/17 Audit and Risk Committee

20 April 2016

Board Paper Reference – GLA49/17 - Audit & Risk Committee

1. Purpose of the Report

- 1.1 To provide the Audit and Risk Committee's (ARC) assurance to the Board concerning the probity and fitness for purpose of management systems and controls as well as to oversee risk management in the organisation following its meeting on 29 February 2016.

2. Recommendation

- 2.1 The Board is asked to note this report and in particular the Committee's continuing concerns in respect of the IT and LAWS systems risks.

3. Reasons for Recommendation

- 3.1 The recommendation is made in accordance with the Committee's terms of reference.

4. Summary of Key Points

- 4.1 The Committee considered and agreed the internal audit strategy and plan for 2016/17. This included discussion of potential areas for Home Office Internal Audit to consider for cross-cutting reviews. The Committee drew attention to the issues consequent on the late notification of budget allocations. Internal Audit agreed to consider this. The Home Office observer informed the Committee that decisions on budget were now imminent and that the GLA had been given an indicative position.
- 4.2 The progress on internal audit reviews and recommendations was noted and the Committee drew internal audit's attention to the Board's interest in the current review of governance arrangements.
- 4.3 The Committee agreed its future work plan and asked for a programme for deep dives on risks to be added. The work plan is at Appendix A.
- 4.4 The Committee considered the risk update and noted:
 - The good mitigation on stakeholder management currently.
 - Discussions with the Home Office and plans to address the outstanding security risk by May 2016 and that funding for due diligence work on future requirements was in place for the new financial year. However, the Committee remained seriously concerned at the lack of action on these risks since its last meeting. The Committee asked for greater urgency and a clear timeline that would ensure timely and properly planned action to address the risks.
 - That a further position paper on fees would be prepared after the impact of the Immigration Bill had been considered.

- That the legal costs risk remains, but the period over which they might be incurred has extended and may run into 2017/18. The Committee asked that reports should continue to be made on the emerging costs of legal advice.
- The position on capacity and capability. The Committee asked for a deep dive on this risk at the next meeting to include senior staff contingency and succession planning.

4.5 The Committee noted and agreed with the Accounting Officer's nine month Assurance and Governance Statements. These are appended to this report for the Board's information.

4.5 The Committee reviewed and noted the forecast outturn position. The Accounting Officer will prepare a response to the Chair of the Home Office ARAC.

4.6 Members of the Committee attended a training event along with representatives from other Home Office arms length bodies and NDPBs on 1 March 2016.

4.7 The Committee noted the Home Office timetables for annual report and accounts and governance statements. The NAO confirmed that these were in line with their understanding of the position.

4.8 The Committee agreed the need to consider business continuity issues at the next meeting.

5. Financial Implications and Budget Provision

5.1 ARC noted the potential financial impacts of the legal challenge cases and the ICT/LAWS replacement issues.

6. Organisational Risks

6.1 The organisational risks were discussed as set out above.

7. Policy Implications and Links to Strategic Priorities

7.1 None

8. Details of Consultation/EQIA

8.1 None

9. Background Papers and Relevant Published Documents

9.1 The Governance Statement is at Appendix B and the Assurance Statement is at Appendix C

Report Author: WA Butler

Senior Responsible Officer:

Appendix A

Audit and Risk Committee – Work Plan

January	May	September	November/December
<ul style="list-style-type: none"> • Review of Annual Work Plan • Audit and Risk Committee self-assessment checklist (via NAO) • Internal Audit Strategy • Internal Audit Reports • Review ARC Membership (see table for dates) • Review of Governance Statement • Review of risk registers • Deep Dive Risks • Discuss provision of Chair's written report to the next Board 	<ul style="list-style-type: none"> • Internal Audit Annual Report/Opinion/Audit Reports • Review and approve the Annual Report and Accounts • Review of risk registers • Deep Dive Risks • External Audit Completion Report • Year-End Reconciliations • Review of Board and Senior Staff Expenses • Accounting Officer Statements • Discuss provision of the Chair's Annual written report to the next Board meeting 	<ul style="list-style-type: none"> • External Audit Oral Feedback / Management Letter • Internal Audit Reports • Review of risk registers • Deep Dive Risks • Review of ARC Terms of Reference • Business Continuity • Discuss provision of Chair's written report to the next Board 	<ul style="list-style-type: none"> • Review of Finance Manual including Anti-fraud Policy • Review Governance Statement • Review of risk registers • Deep Dive Risks • Outstanding Audit actions • Internal Audit reports • External Audit Planning Report • Discuss provision of Chair's written report to the next Board

ARC Workplan V5 – Feb 2016

Appendix B

Governance Statement as at 31 December 2015

February 2016

Governance Statement

As the designated Accounting Officer for the GLA, I have responsibility for the management and control of the resources used within the organisation. This Governance Statement explains the GLA's governance arrangements, describes how risk is managed, outlines the system of internal control and comments on the effectiveness of these arrangements.

The GLA is responsible for managing a diverse range of risks and is committed to engaging effectively with its customers and stakeholders to ensure that their views are known and taken into account in the decision making process.

Framework

The GLA's activities are controlled and monitored by the GLA's Board whose members are appointed by the Secretary of State.

During the year the Board consisted of the Chair, Margaret Beels and six Board Members. There were two vacant Board posts. Board meetings are also attended by the GLA's Executive.

The Board has two sub-committees that conduct business on its behalf. The Audit and Risk Committee (ARC) considers; strategic process for risk, control and governance, internal and external audit provision, accounting policies and the compilation of the GLA's Annual Report and Accounts. Reports are submitted to the quarterly Board meetings.

The Remuneration Committee makes recommendations with regard to the performance management and any remuneration applicable to the Chief Executive.

There are also two liaison groups (these are not sub-committees of the Board) which consist of a) labour providers and labour users and is chaired by the GLA's Chair, b) NGO/worker group which is chaired by a board member. These groups review the operation of the GLA within the regulated sector from a stakeholder perspective and seek to enhance co-operation between the GLA and its stakeholders, identifying joint areas of interest and the adoption of new policies and strategies. Reports are submitted to quarterly Board meetings. The GLA executive are also members of these groups or chair various national stakeholder groups including the Government Agency Intelligence Network, Modern Slavery Threat Group and international liaison committees.

A full list of members during 2015 -16 and their individual attendance records at Board meetings is detailed below. A public register of interests for Board members is held, and this may be accessed via the GLA's website at www.gla.gov.uk.

Meetings are held on a quarterly basis and are open to the public.

Attendance at GLA Board meetings

Representative	Number of meetings attended	Number of meetings eligible to attend
Margaret Beels (Chair)	4	4
Angela Coleshill	4	4
Marshall Evans	4	4
Paul Williams	4	4
Professor Linda Dickens	4	4
Simon Allbutt	4	4
William Butler	3	4

Attendance at Audit and Risk Committee

Board Representative	Number of meetings attended	Number of meetings eligible to attend
William Butler (Chair)	3	4
Paul Williams	4	4
Professor Linda Dickens	4	4

Attendance at Remuneration Committee

Board Representative	Number of meetings attended	Number of meetings eligible to attend
Simon Allbutt (Chair)		3
Angela Coleshill		3
Marshall Evans		3
Margaret Beels		3

No new Board member appointments were made during 2015-16. The recruitment of two vacant Board posts has been deferred to allow for the outcome of the public consultation into 'tackling labour market exploitation'.

The GLA Board, in consultation with the Secretary of State, appoint a Chief Executive who, with senior managers, ensures the operational objectives of the GLA are delivered. On a monthly basis the GLA records its performance against agreed objectives.

Internal Audit

Based on assurances that I have received from our internal auditors I am confident that the GLA is compliant with the Corporate Governance Code with no material exceptions.

Two Internal Audit reviews have been completed to date on Payroll and key Financial Controls, both have been given moderate assurance and agreed recommendations are in the process of being addressed.

For the year 2015-16 the internal audit services were provided by the Home Office.

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the GLA's aim, priorities and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

In preparing my annual Governance Statement for 2015-16 I have incorporated the guidance from the National Audit Office (NAO), HM Treasury DAO (GEN) 02/12, the new Managing Public Money annex 3.1 and have applied the principles set out in the Corporate Governance Code insofar as they are applicable to the GLA.

The system of internal control in use has been subject to regular review by the executive team. The GLA Board are presented with a full risk register annually and have delegated responsibility for monitoring risk management to the ARC. Responsibility for the setting of risk appetite for all strategic risks is the responsibility of the GLA Board. Processes are in place for risks to be escalated to the Home Office.

I am required to allow the ARC complete access to any information to enable them to report to the GLA's Board.

During the reporting period 2015-16 I was obliged to report regularly to the Home Office to satisfy them of the regularity and propriety of expenditure relating to enforcement, the responsibility for which has been delegated directly to the GLA by the Secretary of State.

In addition I ensured that the Home Office Permanent Secretary, the Principal Accounting Officer for the Home Office, was aware of the main risks managed by the GLA through regular reporting to our sponsor team.

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to an acceptable level in line with the Board's risk appetite, rather than to eliminate all risk of failure to achieve the GLA's aim, priorities and objectives; it can therefore only provide reasonable, but not absolute, assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the GLA's aim, priorities and objectives. This includes evaluation of the likelihood of those risks being realised and the impact should they be realised, to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2016 and up to the date of approval of the Annual Report and Accounts. This complies with HM Treasury guidance.

Capacity to Handle Risk

The GLA continues to evaluate on a regular basis the management of risk within the GLA. A general risk management statement has been agreed with the GLA Board to summarise the GLA's approach to risk.

GLA operates in an environment that includes criminality and GLA operations are not without risk. GLA undertakes inspections and investigations where the process and the final result cannot be predicted. Consequential court cases can be expensive and the duration uncertain. Government funding of GLA is subject to public expenditure pressures. To fulfil its basic purpose the GLA has to accept a degree of risk: its appetite cannot be universally low.

The GLA will be unrelenting in its approach to disrupt labour exploitation in all its forms by any lawful, ethical and cost effective means. Its core aim is to protect vulnerable and exploited workers hence has a low risk appetite towards safety, enforcement and compliance objectives with a marginally higher risk appetite towards its financial and legal obligations, albeit these are still low.

The risk register is reviewed by the Senior Leadership Team at each of its monthly meetings. For each risk a Risk Manager is identified and staff are given the opportunity to contribute to the identification of risks. The risk registers are presented to the regular ARC meetings with comments and proposed action, as well as being presented annually in full to the GLA Board. The risk register, management and tolerance levels are then set and reviewed in line with Home Office best practice.

During the year the main risks have been:

- The security and functionality of the public facing licence application workflow system (LAWS)
- GLA IT infrastructure including transition to the Home Office platform
- Legal challenges to GLA interpretation of the Act, Regulation and conduct
- Resourcing operational demands

The most significant risk to operational effectiveness is the public facing IT licensing system (LAWS). The purpose of this system is to ensure that licences are granted to those who meet the standards and that only those who maintain those standards can continue to trade.

LAWS is the GLA's largest and most complex IT system and is hosted by IBM/Defra. As the key public facing and core business system it is central to GLA activities. For some years, the system has required a substantial upgrade, being inflexible so restricting customer and licensing developments. IBM/Defra identified a vulnerability with the system, the risk for which was escalated through the Home Office sponsor team and mitigation put in place.

Due to the nature of GLA business and its aim to protect vulnerable and exploited workers, it is almost inevitable that its decisions to revoke or refuse a licence when serious breaches of the licensing standards occur will be the subject of challenge. This is an enduring significant risk facing the GLA and is a continuous focus of attention and scrutiny in order to mitigate risks and reduce the associated appeal costs.

The GLA's record in defending appeals has been excellent in the current year with a 100 per cent success rate. There were eight appeals received in 2015-16 (24 2014-15). The GLA has not been the subject of an adverse appeal decision since 2010, underlining its proportionate and legitimate approach based on timely and accurate intelligence.

However, the nature of the revocation and appeals process and the length of time this takes through HM Courts and Tribunal Service process means there is an inherent risk that decisions could adversely impact on the GLA and, even when successfully defended, the appeals absorb significant resource and finance.

The GLA is a small organisation and has limited resilience compared to the risk that it carries. The GLA has a number of potential single points of failure (that are known and mitigated against) and has to deal with demands that regularly exceed capacity and, on occasion, capability (e.g. Queens Counsel representation). The GLA also relies on collaborative arrangements with other organisations that face similar pressures to share cost, pool resources etc.

With a recent change in the GLA Board structure and consultation about the role and remit of the GLA, understanding stakeholders and maintaining stakeholder engagement has been a concern. The GLA relies on positive and consensual relationships with a range of stakeholders to deliver its objectives.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the GLA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

ARC, on behalf of the GLA's Board, has been diligent in reviewing the effectiveness of the system of internal control. Our external auditors have, to date, issued management letters which identify minor areas of concern only. All such issues have been addressed quickly and in detail.

Risk Environment

During 2015-16, the GLA has continued to work within the financial controls set by Government. This year has seen the delivery of projected savings under my direction, and I have critically reviewed budgets with the objective of, wherever possible, preserving front line operational services.

At the same time there have been increasing demands on the GLA, in terms of volume, complexity and increased criminality and exploitation. In response to this the GLA is increasingly reliant on a risk based approach to target resources and the threshold prior to allocating resources is under continuous review.

As of the date of this statement, the GLA is yet to receive its budget allocation for 2016-17 but austerity measures mean future years will be ever more challenging. The GLA is responding to these challenges and continues to regularly review risk with both the GLA Board and the Home Office.

As a result of the comprehensive review of the system of internal control, I conclude that there are no significant control issues where corrective action has not been taken.

Paul Broadbent
Accounting Officer
4 February 2016

Appendix C

Assurance Statement – 2015-16 Nine month Position

Director General: Home Office Crime and Policing Group
Area of responsibility (in addition, list any NDPB/agency that is sponsored by your department).

1. Gangmasters Licensing Authority

Statement

Governance, Internal Controls and Risk Management

I confirm that I have reviewed the governance, internal control and risk management arrangements in operation within my area of responsibility at the 2015-16 9 month point and have concluded that moderate assurance can be given that these arrangements are robust and maximise the likelihood of objectives being met. Risk is well managed throughout the organisation which is performing well against its objectives.

The GLA is managing a number of key significant risks which could impact on its aim, priorities and objectives:

- 1) The security and functionality of the public facing licence application workflow system (LAWS)
- 2) GLA IT infrastructure including transition to the Home Office platform
- 3) Legal challenges to the GLA interpretation of the Act, Regulation and conduct
- 4) Resourcing operational demands

As Accounting Officer, I have personal responsibility for maintaining a sound system of governance, internal control and risk management within my organisation to support the achievement of the Home Office's policies, aims and objectives, whilst safeguarding public funds and departmental assets.

The system of governance, internal control and risk management is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide high and not absolute assurance of effectiveness.

Expectations and demands on the organisation have increased and as resources remain limited, the GLA continues to actively use risk management throughout the organisation to ensure that it maximises the use of its resources against the risks and challenges it faces.

Key Issues

The role and remit of the GLA has been subject to public consultation 'tackling exploitation in the labour market', as part of the Immigration Bill 2015/16.

The GLA has escalated three risks to the Home Office through its sponsor team: IT transition to the Home Office platform; a specific IT security risk; and in relation to a

particular legal challenge (litigation). The GLA Board has also been separately briefed on these key risks.

The GLA still awaits confirmation of funding for 2016/17 and beyond, resulting in being unable to refine its strategic and business plans.

The reformed GLA Board (from April 2015) is operating effectively, discharging all of its statutory functions and has provided a seamless transition from previous arrangements whilst utilising the expansive skills and experience of six independent non-executive directors. A formal handing over through written assurances was provided by the 'old' Board to aid transition.

The GLA risk management strategy, processes and policies have been reviewed during the year by the present Board. All identified risks have been assessed against a 'tolerance' set by the board and the risk register is refreshed monthly with regular exception reporting.

Risk management processes are delegated to the GLA Audit and Risk Subcommittee with the full risk register being presented annually to the full board for oversight and scrutiny with any escalated risks managed at the Board level on an ongoing basis.

Corporate controls are reviewed as a part of all key management decisions and the GLA Board. The GLA has recently refreshed all internal 'Standard Operating Procedures' to ensure they are legitimate, proportionate, justified and necessary paying particular attention to ease the burden on the compliant. They are subject to regular review.

Delivery and Performance Management

High assurance is given on the scrutiny in this area. The operational and performance objectives are set out in its three year rolling strategic plan, being evaluated and monitored effectively through appropriate performance management and assurance arrangements. Staff, interdependent stakeholders and processes are all well managed to deliver organisational objectives against high customer service levels.

The GLA has clear three year and in-year delivery plan targets, all of which are being met, exceeded or in some cases deferred as the objective was outside the control of the organisation (e.g. transition to Home Office IT platform). Detailed performance management information is reviewed by management, the executive team, GLA Board and sponsor on a regular basis. Recent internal audits have included reviews of operational as well more administrative functions, providing positive assessment without exception.

Financial Management

A high level of assurance is given that GLA maintains strong financial management and provides excellent value for money and efficiency.

Despite a 30% increase in demand for new licensing applications, the GLA has continued to perform strongly through focus on efficiency and effectiveness of resource allocation together with the management of risk of harm to vulnerable people.

Financial information is regularly reviewed by the management team and GLA Board, with action taken to address issues at an early stage. Variance reporting on current and forecast position is completed each month.

A recently conducted audit of the GLA payroll and key financial controls gave moderate assurance, with the main issues relating to segregation of duty. This is a challenge due to the small number of staff involved in this function who are required to be omni competent, but additional safeguards are in place to mitigate the perceived risk.

Financial management is also intrinsically linked to workforce planning to support productivity, efficiency and effectiveness of service delivery. The GLA has successfully delivered an extremely challenging savings plan without an adverse effect on frontline services.

Accounting processes are performing well within the organisation and the GLA maintains both prompt and accurate payment of suppliers and staff; in line with its agreed policies and procedures.

People Management

GLA workforce planning and reengineering models ensure that correctly skilled resources are recruited in the UK locations bearing the greatest demand in pursuance of its core purpose. Systems and training exist through a learning and development strategy to reflect changes to operational and/or individual requirements to ensure business needs are met. As a small organisation the GLA has also improved resilience and reduced 'single points of failure' through succession planning. Consequently a high assurance level is provided on this area.

The GLA is focused on providing the appropriate and skilled resources in the required locations, in pursuance of its strategy, to reflect the continuous change in the nature of labour exploitation in all its forms. All learning and development is accredited. The underpinning systems to support such activity are strongly managed and subject to regular review.

Following the successful removal of incremental pay, the GLA has initiated a reward system based on performance to reflect civil service pay structures. Payroll is reviewed monthly by both HR and Finance.

Communication with staff remains a key focus, due to the challenges of managing a UK wide organisation of home based workers and continuous organisational change and evolution. Regular meetings are held with union representatives, there is an open dialogue with the CEO including spot briefings, 'Friday at four' open dial ins, intranet messaging, regular staff/team seminars the workforce improvement Group, comprising staff from all units who can raise matters by committee to the senior leadership team.

Performance appraisals for all staff are linked to the aim, priorities and objectives of the GLA with agreed outcome measures which are also linked to pay and reward.

Information Management

Recent audits conducted by third parties on the GLA's use of data and the use of the Police National Computer (HM Inspectorate of Constabulary, Interception of

Communications Commissioner, Surveillance Commissioner) have all given positive assurances in every aspect of storage, handling, security and risk management. Work has commenced with Home Office/Defra IT to address the security risk identified with the public facing GLA licensing system (LAWS) which was escalated to the Home Office in 2015/16. This will mitigate the risk of breaching the system to an acceptable level, but there remain various enduring issues which can only be resolved by overall replacement.

The LAWS is beyond shelf life and in its current form is a barrier to planned organisational developments as well as existing and future government policy objectives. Mitigating controls are in place but as these rely on manual interventions the margin for human error and reduced efficiency is high.

Following transition to the Home Office (April 2014), the GLA has remained on the Defra IT platform. This contract will come to an end by early 2018 and a sustainable migration plan has only recently been agreed with the Home Office. This is due for completion within 2016/17.

Successes/issues of concern

The GLA will achieve or exceed all of the delivery plan targets it has control over hence it is on target to meet its organisational aim, priorities and objectives for the third consecutive year.

The consultation on 'Tackling exploitation in the labour market' has concluded and significant enhancements to the GLA's capacity and capability are anticipated. This, in itself, provides positive assurance on the role and performance of the organisation.

The GLA continues to play a significant role in the delivery of the Modern Slavery Act, the National Modern Slavery Strategy, tackling labour exploitation via the Immigration Bill/Act and overall central policy on serious and organised crime and other legislation/regulation.

The GLA is working to further enhance cross-department partnership working with other labour market enforcement bodies, including throughout Europe, and to benefit from efficiencies and synergies from a co-ordinated approach. It has taken the lead in planning the first national joint operation with these bodies which will be delivered in February 2016.

The GLA continues to work with the Home Office to address the risks that it has escalated. Progress on addressing GLA IT requirements and placing these on a sustainable basis has been slower than expected. The GLA is expecting to see these issues resolved in 2016/17, as further delay in resolving these is likely to become an increasingly business critical matter.

Overall Assessment

In my opinion, I am able to provide moderate assurance that the control, risk management and governance arrangements within the GLA are sufficient to maximise the likelihood that all objectives will be met.

A handwritten signature in black ink, appearing to read 'Paul Broadbent', with a large circular flourish at the bottom.

Print Name Paul Broadbent
Date 4 February 2016