

Audit Committee’s Annual Report to Council 2023-2024

Action requested:	<p>Provides Audit Committee’s annual report to the Council 2023-2024</p> <p>For decision</p> <p>Recommendations at paragraph 40.</p>
Key background and decision trail:	<p>This is the Audit Committee’s annual report for the period under review, 2023-2024. The Committee met during the financial year under review, and also met in April 2024. Year-end related meetings were held in June 2024 and are also included in this report.</p> <p>The remit of the Audit Committee is to support the Council and the Executive by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report. This year, the four lines of defence are reflected in this report.</p> <p>The four lines of defence model is a well-established concept for helping to identify and understand the different contributions various sources of assurance can provide. These are:</p> <ul style="list-style-type: none"> • First line - Control frameworks and day-to-day controls: includes the overall risk management systems and control frameworks i.e. the way risks are managed and controlled day-to-day by those staff colleagues responsible for delivering specific objectives or processes • Second line - Management review: the way the organisation oversees the control framework so that it operates effectively • Third line - Internal audit: objective assurances provided independent of staff and management able to report direct to Audit Committee or Council. • Fourth line – External Audit: assurance from external independent bodies such as the external auditors and other external assurance providers.
Key questions:	<ol style="list-style-type: none"> 1. Considering the key areas of focus and outputs from Audit Committee for 2023-2024, how has the committee demonstrated it has effectively discharged its responsibilities? Is this an adequate report for the year in question?

Annexes:	None.	
Further information:	If you require clarification about any point in the paper or would like further information, please contact the author or the Audit Committee chair named below.	
	Secretary: Peter Clapp Phone: 020 7681 1289 peter.clapp@nmc-uk.org	Audit Committee Chair: Deborah Harris-Ugbomah FCA

Discussion

1. This report covers the period of 1 April 2023 to 31 March 2024 and reports on the activity and issues considered by the Audit and Committee for that financial year. The Council is asked to accept this Annual Report from the Audit Committee for the year 2023-2024.

Purpose of Audit Committee's Annual Report

2. The Council is required to maintain a sound system of internal controls to safeguard the quality and impact of its services, assets, and investments. The existence of the Audit committee, in conjunction with the other Council committees, provides an independent check on the organisation's system of governance for operational, corporate, and financial risk management. It also provides assurances to Council on the internal controls of the organisation as one of the means used to assure itself as to the quality and effectiveness of arrangements in these areas.
3. This report to the Council draws on our activities for the 2023-2024 financial year. This report's purpose is to:
 - set out how the Audit Committee satisfied both its current Terms of Reference plus any additional mandatory statutory or regulatory obligations;
 - supply all declarations and recommendations to Council as required of the Audit Committee

Introduction and overview

4. The Audit Committee is an independent source of review and reports on the NMC's attainment of effective governance, internal control systems and financial management and reporting processes. The Committee focuses on the framework for effective and appropriate quality, mitigating financial management and financial reporting risks, the robustness of corporate and operational internal controls, and other related assurances that underpin the delivery of the corporate strategy.
5. The Audit Committee's role is twofold:

- (i) to offer an independent consideration of the NMC's systems (through an evaluation of the second line of defence) and an independent consideration of in-year reporting in effect in the organisation, and
- (ii) to oversee the relevant risk and control environment in which the NMC operates including quality, systems, controls and, processes which may have an impact on the regulator's ability to meet its objectives. This includes ensuring the effectiveness of internal, operational and external audit functions, the adequacy of risk management processes and the internal control environment. The Audit Committee also seeks to satisfy itself that the Council is sufficiently informed to enable it to adequately review strategic issues of importance, and evaluate the effectiveness with which critical business risks and opportunities are addressed.

6. The Committee advises the Council as to the adequacy and effectiveness of the systems of internal controls, and its arrangements for governance processes. The Committee also offers recommendations for consideration prior to formal approval of the NMC's Annual Accounts and Financial Statements, management's Letter of Representation, and Annual Report narrative to the Financial Statements for the year.
7. In carrying out its duties the Committee draws on, but is not limited to, the work of internal and external audit, the work of management and third-party suppliers for quality, counter-fraud and cybersecurity, and other performance reports from management.

Committee conclusion on governance, risk management and control

8. Council should recognise that any assurance given is never absolute, and that assurance about the effectiveness of NMC's internal controls remains a collective responsibility of Council. The highest level of assurance that can be provided is a reasonable assurance that there are no major weaknesses in risk management, control and governance processes (i.e. system of internal control) for all its corporate and services delivery.
9. The Committee has reflected on a range of issues including the Internal Audit annual opinion and report 2023-2024, the findings of the External Auditors and National Audit Office (NAO) and the views of the Chief Executive and Registrar, in their capacity as Accounting Officer.
10. In considering the Internal Audit annual opinion and report for 2023-2024, the Committee noted that whilst further enhancements to the internal control framework need to be done to ensure that it remains adequate and effective, they note that nothing has arisen which would be considered to be a significant control issue.
11. Notwithstanding the current whistleblowing and culture reviews, or changes in leadership within executive, at the date of this report, **the opinion of the Audit Committee is that the system of internal controls and processes for the year ended 31 March 2024 are adequate and effective and may be relied upon by the Council.**
12. The Council is also asked to receive and consider the recommendations at the end of this report.

Information supporting the Committee's 2023-2024 Opinion

13. Below is a summary of the information, significant issues considered, and key sources of assurance the committee relied upon when formulating its conclusion for the year 2023-2024:

1. Management Assurances

14. In 2023-2024, the NMC has taken some important regulatory actions as well as managed some significant organisational challenges. To support this work, the Committee received assurances from management for key areas of work during the year.

Quality:

15. Fraudulent activity at a third-party computer-based test centre: The Committee received regular updates on this issue, as well as commissioning and considering an internal audit into our overseas registration processes and considering a lessons learnt report. Both reports provided information that will help the NMC to strengthen controls in both this area and in contract management.

16. Strengthening our approach to learning: Developing our approach to corporate learning will bring significant benefits to the NMC, supporting us to more effectively learn from incidents, manage risk and improve the way we work. The Committee has scrutinised and supported the development of our approach, through regular updates on progress as well as an internal audit on our serious event review process.

17. Education quality assurance: The Committee considered learning from the issues at Canterbury Christ Church University relating to their nursing and midwifery programmes, as well as updates on work to review the education quality assurance function to ensure it is fit for the future.

Culture:

18. Whistleblowing concerns about aspects of our regulatory casework and our workplace culture: The Committee received regular updates on how these concerns are being investigated, with members of the Committee also acting as whistleblowing leads. The Committee is committed to ensuring any learning from the investigations is embedded, particularly for the NMC's whistleblowing policy and process.

Internal controls and risk management

Operations:

19. Throughout the year the Committee has supported the further development of our risk management processes, including proposals to separate operational risks from strategic risks to form a new strategic register for 2024-2025 and to embed risk management within governance groups more clearly.

20. The Committee considered the annual review of risk management effectiveness in April 2024. The Committee is pleased that the review had rated three out of six of the

directorates as having substantial assurance. However, three directorates – Professional Practice, Professional Regulation and Communications and Engagement – had been rated as partial assurance. This was primarily due to low e-learning and appraisal rates. The Committee recognises that colleagues are focused on delivering key areas of work but it is important that colleagues are supported to complete training and appraisals. The Committee was pleased to note that so far appraisal rates for 2024 are higher than 2023. Overall, the Committee is content with the assurance provided by the annual review of risk management and notes that it aligns with the Internal Audit opinion.

Serious event reviews (SERs) and data breaches:

21. The Committee reviews SERs every six months. This included a full year report in June with analysis of trends and figures for incidents reported for the last 18 months.
22. Supporting the organisation to strengthen its approach to corporate learning has been a key area of focus for the Committee. The Committee is pleased that improvements have been made and looks forward to the launch of the new Log and Learn system later in the year.

Single tender actions (STAs):

23. The Committee reviews the STA log every six months as an indicator of the health of the procurement function. In 2023-2024, there were 10 STAs, against a target of no more than 12 STAs. The Committee is pleased with the strong performance in this area and congratulates the team on the improvements they have made in recent years.

2. Anti-fraud, bribery and corruption

24. The Committee received an update on anti-fraud, bribery, and corruption at each meeting. During 2023-2024, there was one instance of fraud – discussed earlier in this report at paragraph 15 - relating to fraudulent activity at a third-party computer-based test centre, Yunnik Technologies Test Centre, in Ibadan, Nigeria. No other instances of fraud, bribery or corruption were detected and there were no reported incidents or offences in the NMC's supply chain under the Modern Slavery Act 2015. The Committee reviewed and approved an updated Modern Slavery Statement in June 2024.

3. Whistleblowing

25. The Committee reviewed an update on the whistleblowing policy at each meeting and received assurances as to the overall progress from the Whistleblowing lead on Council. There had been four instances of the whistleblowing policy being used during 2023-2024:
 1. The first case was found to be a grievance and so was managed through our grievance process.

2. The second case related to concerns about aspects of our regulatory casework and our workplace culture. Independent investigations and reviews are underway. We are committed to learning from the findings and making sustainable changes.
3. The third case related to concerns about data and GDPR practices at the NMC. The investigation found that the concerns about data practices had already been recognised by the Executive and plans were in place to address these risks through the NMC's data strategy and road map. The issue raised on GDPR was reviewed by the Data Protection Officer and concluded that the areas of identified for improvement were unlikely to increase the risk to the security of personal data. The case was therefore closed.
4. The fourth case relates to an issue that is currently under investigation.

4. Internal audit

26. The programme for 2023–2024 consisted of seven internal audits. During the year it was agreed that the two of the planned audits would be re-scheduled to 2024–2025 to allow for internal audits on the following priority areas: Overseas Registration (Fraud Risk Assessment) and our Serious Event Reviews process. The Committee received the following Internal Audit opinions as set out below:

Internal Audit Assignment	Opinion	Recommendations		
		High	Med	Low
Financial Management	Substantial Assurance	0	0	2
Financial Control – Month end and Year end Finance Processes	Substantial Assurance	0	0	2
Change and Continuous Improvement	Reasonable Assurance	0	2	3
Coding and Reference Data – Approved Education Institutions	Partial Assurance	2	1	1
Serious Event Reviews	Partial Assurance	1	8	3
General Data Protection Regulations – Accountability	N/A as the assignment was advisory	0	2	0
Overseas Registration (Fraud Risk Assessment)	N/A	3	5	0
Total number of recommendations		6	18	11

27. The Committee noted that all recommendations had been accepted by management and that at year end there were only three actions from the SER audit in 2022-2023 that had not implemented. These were re-raised in the audit undertaken in 2023-2024.

28. The Committee accepted the 2023-2024 Head of Internal Audit's annual internal audit opinion which stated that: *"The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective."*
29. The Committee reviews the effectiveness of internal audit services on an annual basis and the 2023-2024 annual review was considered on 12 June 2024. The Committee and the Executive agree that internal audit is functioning well and being used effectively to respond to issues as they emerge during the year. The Committee is also pleased that the areas that were identified for improvement in the previous review – around planning and process - had received improved feedback this year.
30. The Committee has approved the Internal Audit work programme for 2024–2025. It will continue to review the work programme and will amend the plan should new priorities emerge.

5. External Audit and NAO

31. The Committee approved the arrangements proposed by the External Auditors (HW Fisher) and the National Audit Office (NAO) for the external audit and certification of the NMC's annual accounts for the year ending March 2024.
32. At its meeting in June 2024, the Committee reviewed the external auditors and NAO findings reports and letter of representation for 2023-2024. The Committee agreed to recommend these to Council for signing by the Chief Executive and Registrar as Accounting Officer.
33. Due to changes in International Standard on Accounting (ISA) 600 that will apply from 2024-2025, NMC will need to adopt a new auditing approach for 2024-2025. The Committee considered potential options at its meeting in June 2024 and its recommendation will be considered by Council on 24 September 2024.

Integrity of financial statements and Annual Report and Accounts 2023-2024

34. The Committee carried out its annual review of accounting policies and agreed no changes were necessary for 2023-2024. The Committee scrutinised the draft Annual Report and Accounts 2023–2024, including the Annual Governance Statement, in April and June 2024. The Committee agreed to recommend that the Council approves the 2023-2024 Annual Report and Accounts.

Fitness to Practise annual report 2023-2024

35. The Committee scrutinised the draft Annual Fitness to Practise Report 2023–2024 in June 2023. The Committee agreed to recommend that the Council approves the 2023-2024 Annual Fitness to Practice Report

Committee membership and attendance and evaluation

Attendance by committee members is summarised below:

Committee Membership	2023 – 2024 Related Meetings					Total Attendance	
	1 Nov 2023	28 Feb 2024	24 April 2024	12 June 2024	24 June 2024	No.	%
Derek Pretty*	P	P	P	N/A	N/A	3/3	100
Deborah Harris-Ugbomah**	N/A	N/A	N/A	P	P	2/2	100
Eileen McEaney	P	P	P	P	P	5/5	100
Sue Whelan Tracey	P	P	A	P	A	3/5	60
TOTALS	100%	100%	67%	100%	67%		

Key: P = Present, A = Apology received, X – Absent

* Derek Pretty’s term of office on Council came to an end on 30 April 2024.

** Following appointment to Council as a lay member, Deborah Harris became Chair of Audit Committee on 1 May 2024.

36. The Committee has welcomed the continued regular attendance of the Chief Executive and Registrar, as Accounting Officer, along with the Executive Director of Resources and Technology and Executive Director of People and Organisational Effectiveness. Other senior executives attend when presenting papers and when internal audit reports for their areas are being considered.

37. The Committee has also welcomed the consistent attendance of the Internal Auditors (RSM), the External Auditors (HW Fisher) and the National Audit Office (NAO) at its meetings. In keeping with good practice, the Committee has held meetings with each at appropriate junctures during the year without management being present.

38. The Committee is due to undertake its annual effectiveness review and key learnings will be reported to Council.

39. Given the information in paragraphs 13-38, the Committee believes it has complied with its terms of reference including the amendments agreed during the year and confirms it has evidenced how it discharged its responsibilities for period under review, the year ended 31 March 2024.

Committee recommendations

40. The Committee submits the following recommendations for Council consideration:

1. the Council continue to keep the Audit Committee Terms of Reference under review, noting that future regulatory reform will impact the governance structure.
2. the Council should continue to maintain conversations about risk appetite by including reference to risk profile and evidenced understanding via an 'assurance framework' as the conversation around risk continues to mature.
3. the Council should consider how to increase evidence of its impact-focused conversations within the current scrutiny and assessment of NMC's performance, ensuring grip and pace of progress continues to be measured by key performance indicators relevant to corporate objectives
4. In regards to the NMC's statutory reports, the Committee recommends:
 - a) the Council to agree that the Letters of Representation from HW Fisher and the NAO should be signed by the Chair and the Chief Executive and Registrar.
 - b) the Council to note that, subject to any findings between year end and the date of signing, the auditors, HW Fisher, have no expectation of requiring additional non-standard representations - beyond items outlined in Section 8 and 9 of the letter)
 - c) the Council to approve the 2023 – 2024 Annual Report and Accounts.
 - d) the Council to approve the 2023 – 2024 Annual Fitness to Practice Report.
41. The Committee has provided written reports to Council throughout the year and noted where recommendations have been taken forward. Assessment of progress on 2023-2024 recommendation/s to Council will be included in future annual reports.
42. The Committee and Executive Directors formally thank Derek Pretty for the considerable contribution he had made to the NMC, in particular his insight, expertise and collaborative approach to leading this committee as chair over the last year.
43. Appreciation and thanks from the committee to the outgoing CEO and Registrar, Andrea Sutcliffe, for her leadership over the last five years.
44. Finally, the committee notes with appreciation the hard work and continued focus of all senior management and staff who work to maintain our systems of internal controls.

Implications

The following were considered when preparing this paper:

Implication:		Location if in paper:	Content if not in paper:
Public protection/impact for people.	Not Applicable		
Safeguarding considerations	Not Applicable		

The four country factors and considerations.	Not Applicable		
Resource implications including information on the actual and expected costs involved.	Not Applicable		
Risk implications associated with the work and the controls proposed/ in place.	Not Applicable		The role of the Committee is to give assurance to Council that the NMC has effective governance, risk management and internal controls in place.
Legal considerations.	Not Applicable		
Midwives and/or nursing associates.	Not Applicable		
Equality, diversity, and inclusion.	Yes		Ensuring EDI is appropriately taken into account in the Committee's work remains a key focus.
Stakeholder implications and any external stakeholders consulted.	Not Applicable		
Regulatory Reform.	Not Applicable		