

## Council

### Audit Committee Annual Report to Council 2018–2019

**Action:** For discussion.

**Issue:** Report on the work of the Audit Committee during 2018–2019 and meetings in May and June 2019.

**Core regulatory function:** Supporting functions.

**Strategic priority:** Strategic priority 4: An effective organisation.

**Decision required:** None.

**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 director named below.

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Chair: Marta Phillips

- Context:**
- 1 This report covers the work of the Audit Committee during the 2018–2019 financial year and meetings in May and June 2019. The Committee met four times during 2018–2019 and has since met in May and June of the current financial year.
  - 2 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.

### **Committee membership**

- 3 On 30 April 2018, one member of the Committee completed their second and final term of office with the Council, and therefore also ceased to be a member of the Committee. It was agreed that the Committee membership would remain at three for the present.
- 4 The Committee was pleased to note that comprehensive assurance handovers had taken place during the year from the former Chief Executive and Registrar (CER) and Accounting Officer in July 2018 and the Interim CER and Accounting Officer in January 2019 to the new holders of this position. The statements of assurance provided included an overall assessment of governance, risk management and controls and were supported by a range of evidence.
- 5 The Committee has welcomed the regular attendance at its meetings of the Chair of Council and the Chief Executive and Registrar, as Accounting Officer, along with the Interim Director of Resources and the Director of Registration and Revalidation. Other senior executives attend when presenting papers and when internal audit reports for their areas are being considered.
- 6 The Committee has also welcomed the consistent attendance of the Internal Auditors (RSM), the External Auditors (haysmacintyre) and the National Audit Office (NAO) at its meetings and in keeping with good practice, has held private meetings with each at appropriate junctures during the year.

### **Committee effectiveness review**

- 7 The Committee undertook reviews of its effectiveness on 25 April 2018 and on 1 May 2019, assessing itself against the NAO checklist for Audit Committee effectiveness. The Committee had positive and constructive discussions and a number of actions are being taken forward, including providing appropriate training and development opportunities for Committee members.

- Four country factors:**
- 8 The Committee is mindful of the need to ensure that the NMC is compliant with relevant legislation in all four countries, for example

charity law.

## **Discussion: Integrity of financial statements**

### **Review of accounting policies**

- 9 The Committee carried out its annual review of accounting policies and agreed the accounting policies subject to some amendments proposed in relation to: going concern; contract income; and investments and financial instruments.

### **External audit**

- 10 The Committee approved the arrangements proposed by the External Auditors (haysmacintyre) and the National Audit Office (NAO) for the external audit and certification of the NMC's annual accounts for the year ending March 2019.
- 11 The Committee reviewed the external auditors 2017–2018 letters of representation and audit findings reports in June 2018, and the 2018–2019 letters of representation and audit findings reports in June 2019. The Committee noted that, subject to post-balance sheet reviews, these reports were expected to be unqualified.

### **Internal audit**

- 12 RSM replaced Moore Stephens as the NMC's internal auditors with effect from 1 April 2018. In April 2018 the Committee approved the Internal Audit work programme for 2018–2019 and in February 2019 the Committee approved the draft Internal Audit work programme for 2019–2020.
- 13 During the year the Committee monitored progress against the Internal Audit work programme at each meeting. The planned Internal Audit programme was completed on schedule and a total of ten audit reviews were carried out – this included reviews of the Wisser IT system, Benefits Realisation, Procurement and Cyber Security.
- 14 The Committee welcomed the progress of the Executive in implementing outstanding recommendations from previous Internal Audits. The Committee agreed a proposal from the Executive that Directors take responsibility for internal audit activity in their area including implementation of recommendations. Going forward, the Internal Audit outsourced service will therefore follow up on internal audit recommendations with Directors, rather than this being managed through the Resources directorate. The effectiveness of this new approach will be kept under review.
- 15 The Committee considered the 2018 annual review of the effectiveness of the Internal Audit service in April 2018 and the 2019

annual review in June 2019 and noted that this outsourced service was working well.

### **Committee's views on governance, risk management and control**

- 16 The Committee has reflected on a range of issues including the Internal Audit annual opinion and report, the findings of the External Auditors and NAO and the views of the Accounting Officer.
- 17 In considering the Internal Audit annual opinion and report for 2018–2019, the Committee accepted the annual opinion of the Internal Auditors that the NMC has an adequate and effective framework for risk management, governance and internal controls. The Internal Auditors have identified further enhancements to the framework to ensure that it remains adequate and effective, but have confirmed that nothing has arisen which they would consider to be a significant control issue.
- 18 The Committee has also considered the view of the Executive, which is that the Audit Committee can take reasonable assurance that the NMC is adequately managing risk both corporately and operationally, and that the internal control environment remains strong. The Committee welcomed the renewed focus of the Executive on risk management, which is now considered at each Executive Board meeting.
- 19 Overall, the Committee's view is that the Council can have confidence that arrangements for governance, risk management and controls are satisfactory, notwithstanding the fact that there is further work to be done. Going forward, the Committee will continue to closely monitor progress on the proposed improvements.

#### **Draft Annual Report and Accounts 2018–2019**

- 20 The Committee scrutinised the draft Annual Report and Accounts 2018–2019, including the Annual Governance Statement, in June 2019. The Committee endorsed the Annual Report and Accounts for approval by the Council at its meeting on 3 July 2019.

#### **Draft Fitness to Practise annual report 2018–2019**

- 21 The Committee scrutinised the draft Annual Fitness to Practise Report 2018–2019 in June 2019. The Committee endorsed the draft for approval by the Council at its meeting on 3 July 2019.

### **Internal controls and risk management**

#### **Risk management**

- 22 During the year the Committee reviewed an update on risk management at each meeting and considered comprehensive

assurance reviews on:

22.1 Resources directorate;

22.2 External Affairs directorate; and

22.3 Office Move planning and related People issues, in light of the fact that all our London-based Fitness to Practise teams are due to move to new offices in Stratford during 2019.

23 The Committee considered the annual review of risk management effectiveness in May 2019. Under the current risk management arrangements, the Council reviews the corporate risk register at each open meeting, the Executive Board reviews the register at its monthly meeting, and Directorate teams manage their own risk registers and can escalate risks to the Executive Board.

24 An Internal Audit of risk management carried out during September 2018 concluded that there was reasonable assurance in how the NMC's risk management operated. Where gaps were identified, enhancements will be delivered as part of the Risk Management Improvement Plan being taken forward. The Committee will be monitoring progress against the plan.

### **Assurance maps**

25 In October 2018 and May 2019 the Committee considered work undertaken by the Fitness to Practise (FtP) directorate on assurance mapping against both the Professional Standards Authority's Standards of Good Regulation and the recommendations of the Lessons Learned Review. The approach taken by FtP has been to target improvements based on an assessment of assurance, and the directorate has used the assurance map to prioritise action based on areas most at risk.

26 The Committee has noted the challenges in developing a corporate approach to risk assurance mapping, and has discussed the purpose and usage of risk assurance maps and the development of an assurance framework going forward.

### **Whistleblowing**

27 During the year the Committee reviewed an update on the whistleblowing policy at each meeting. The Committee was pleased to note action taken to raise staff awareness of the policy and that training by Public Concern at Work has been delivered to staff. During 2018–2019 there were no invocations of the internal whistleblowing policy.

28 There are a number of mechanisms in place which staff may use to raise issues, including meetings / lunches with senior management, the employee forum, and exit interviews. In light of this, invocation of

the whistleblowing policy is expected only to be as a last resort, following failure of the other mechanisms.

### **Anti-fraud, bribery and corruption**

- 29 During the year the Committee reviewed an update on anti-fraud, bribery and corruption at each meeting. During 2018–2019 no instances of fraud, bribery or corruption were detected and there were no reported incidents of offences under the Modern Slavery Act 2015 in the NMC's supply chain. The Committee was pleased to note that our Modern Slavery Statement was updated and published in March 2019.

### **Serious event reviews (SERs) and data breaches**

- 30 During the year the Committee considered a report on SERs and data breaches at each meeting. The Committee noted the main cross organisational themes identified from the reported incidents and received assurance from the Executive that shortcomings were being addressed through process change and staff training as appropriate.
- 31 In June 2019 the Committee reviewed a full year report on SERs with further analysis on trends and figures for incidents reported during the financial year 2018–2019. The Committee welcomed the reduction in SERs reported during the year and agreed that efforts should continue to address the risk of under-reporting by some directorates.

### **Single tender actions (STAs)**

- 32 During the year the Committee reviewed the STAs cumulative register at each meeting. In May 2019 the Committee considered an analysis of STAs for the financial year 2018–2019.
- 33 A new Procurement Policy was considered by the Committee in February 2019 and subsequently implemented. The Policy clarifies the NMC's approach to procurements activities and who is responsible for each part of the process, in particular that budget holders are responsible for ensuring compliance. Under the Policy, exceptions may be progressed as STAs, and the Committee received assurance from the Executive that the procurement team will challenge any requests for STAs and work with budget holders to look for alternative competitive procurement solutions wherever appropriate. The Committee welcomed the categorisation of STAs in the log and the reduction in the number of STAs occurring.

### **Cyber security**

- 34 In April 2018 the Committee received an update on the mitigation of cyber security risks with reference to the National Audit Office (NAO) cyber security guidance and the government's Cyber Essentials scheme. The Committee reviewed the findings of an Internal Audit

review of cyber security in February 2019 and is monitoring the implementation of the recommendations arising from this review.

- 35 In October 2018 the Committee considered an update on compliance with the GDPR which took effect on 25 May 2018. In May 2019 the Committee discussed the findings of an Internal Audit advisory review on GDPR post-implementation - this followed up on progress against the agreed management actions from the GDPR readiness review performed in April 2018. The Committee will continue to monitor progress on GDPR compliance.

### **Business resilience**

- 36 The Committee agreed in June 2018 that an update on business resilience be added to the Audit Committee agenda as a regular item until the Committee received sufficient assurance regarding the stability of the NMC's IT infrastructure. The Committee has subsequently received an update on business resilience and the stability of the IT infrastructure at each Committee meeting and continues to monitor progress. The Committee welcomed the successful disaster recovery test carried out in May 2019 and the plans to repeat this.

### **Public protection implications:**

- 37 No public protection issues arising directly from this report.

### **Resource implications:**

- 38 No resource implications arising directly from this report.

### **Equality and diversity implications:**

- 39 No equality and diversity implications arising directly from this report.

### **Stakeholder engagement:**

- 40 None.

### **Risk implications:**

- 41 The role of the Audit Committee is to give assurance to Council that the NMC has effective governance, risk management and internal controls in place.

### **Legal implications:**

- 42 None.