

## Council

### Audit Committee Annual Report 2019-2020

**Action:** For discussion.

**Issue:** Provides the Audit Committee's annual report to the Council 2019-2020.

**Core regulatory function:** Supporting functions.

**Strategic priority:** Strategic aim 5: Insight and influence  
Strategic aim 6: Fit for the future organisation

**Decision required:** None.

**Annexe:** None.

**Further information:** If you require clarification about any point in the paper or would like further information, please contact the authors or the Audit Committee Chair named below.

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Chair: Marta Phillips

**Context:**

- 1 This is the Audit Committee's annual report for 2019–2020. The Committee met four times during 2019–2020 and has since met in April 2020 and June 2020 of the current financial year and matters addressed in these meetings are also included.
- 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.
- 3 The key issues covered in this report are as follows:
  - 3.1 The Committee's membership and effectiveness.
  - 3.2 Internal Audit work programme 2019-2020 and annual opinion.
  - 3.3 Internal controls and risk management.
  - 3.4 IT infrastructure and the Modernisation of Technology (MOTs) programme.
  - 3.5 External audit and National Audit Office audit report findings.
  - 3.6 The Annual Report and Accounts 2019-2020, and the Fitness to Practise (FtP) Annual Report 2020.

**Committee membership**

- 4 Committee membership remained the same for the 2019-2020 financial year, with three members. However, the Committee was pleased to welcome Sue Whelan Tracy as an ex officio member for the 10 June 2020 meeting. Sue Whelan Tracy is a designate Council member, who has been appointed by the Privy Council to take office from 1 October 2020.
- 5 The Committee is pleased that the Executive team has enjoyed a period of stability during the year. It noted that the roles of some Executive Directors had changed as a consequence of the organisational re-structure.
- 6 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 Executive Director of Resources and Technology Services and the Executive Director of Professional Regulation. Other senior executives attend when presenting papers and when internal audit reports for their areas are being considered.

- 7 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. In keeping with good practice, the Committee has held private meetings with each at appropriate junctures during the year.

#### **Committee effectiveness review**

- 8 The Committee undertook reviews of its effectiveness on 1 May 2019 and 10 June 2020, assessing itself against the NAO checklist for Audit Committee effectiveness. The Committee had positive and constructive discussions and identified some actions that could be taken forward to improve its effectiveness. The Committee reviewed its remit and was satisfied that this remained appropriate. The Committee noted that in relation to IT infrastructure and the MOTs programme, it was important to reinforce that responsibility for managing the MOTs programme and other IT matters was the responsibility of the Executive and the Committee's role was about oversight and providing assurance to Council.

#### **Four country factors:**

- 9 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: Internal audit**

- 10 RSM has been the NMCs internal auditor since 1 April 2018. In April 2019 the Committee approved the Internal Audit work programme for 2019–2020.
- 11 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 10 assignments were carried out:

Assignment	Assessment
Finance (Income) and Data Quality	Substantial Assurance
Fitness to Practise Procurement and Contract Management follow up People (follow up) Education and Standards	Reasonable Assurance
Programme and Project Management People (recruitment)	Partial Assurance
Risk Management	'Developing' maturity
Cyber Security follow up	17 of 21 recommendations implemented

- 12 The Committee was pleased to note increased Executive engagement with internal audit activity and welcomed progress of implementing outstanding recommendations from previous Internal Audits. A new process has been implemented this year where the Internal Audit service followed up on internal audit recommendations and the Committee was satisfied that this appeared to be working effectively.
- 13 The Head of Internal Audit's annual internal audit opinion and report concluded 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."*
- 14 The Committee discussed the opinion and report and was satisfied that this was a true and fair reflection of the current level of assurance.
- 15 The Committee reviews the effectiveness of internal audit services on an annual basis and the 2019-2020 annual review was considered on 10 June 2020. The Committee noted that the internal Audit effectiveness review was positive with some useful points for development. The Committee welcomed the Head of Internal Audit's feedback that the real improvement over the year had been the increased engagement in audit work by the wider Executive team.

- 16 The Committee has approved the Internal Audit work programme for 2020–2021. However, it plans to review this in the autumn to consider whether any changes might be needed to take account of the impact of the Covid-19 emergency.

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

- 17 During the year the Committee reviewed an update on risk management at each meeting and considered comprehensive assurance reviews on:
- People and Organisational Effectiveness;
  - External Affairs directorate; and
  - Office move planning and related people issues.
- 18 As a result of the Covid-19 pandemic and other priorities, comprehensive assurance reviews due to take place at the April and June 2020 meetings have been deferred until later in the year.
- 19 The Committee considered the annual review of risk management effectiveness in April 2020. The Committee endorsed the overall conclusion that there can be reasonable assurance that our internal control environment operates adequately at corporate and directorate level. The Committee noted plans to ensure that new directorates resulting from the organisational design put in place appropriate control environments.
- 20 As indicated earlier, an Internal Audit review of risk management resulted in an assessment of ‘developing’ maturity. The Committee has encouraged the Executive to ensure resources are available to progress the Risk Management Improvement Plan to address the internal audit recommendations. The Committee noted that risk management should be an integral part of how the organisation does business and welcomed the objective of moving from an assessment of ‘developing maturity’ to ‘mature’ over the next financial year.

- 21 The Covid-19 pandemic represents a major issue which crystallised during the year. While it had not featured on the corporate risk register, business continuity, which covered most of the process and procedures needed to manage this issue, was already a part of our risk management strategy. This issue has now been added to the Risk Register. The Executive and senior leaders discuss risks, issues and actions associated with Covid-19 through Gold and Silver command meetings, which were held daily at the start of the pandemic and have since move to bi-weekly. The Committee is assured that the risks arising from Covid-19 on our work will remain on the risk register to ensure oversight and transparency. The Committee encouraged the Executive to ensure that external risks outside of our control, such as the Covid-19 pandemic, be captured and appropriate scenario and response planning be undertaken to ensure that mitigations were in place to limit the impact of such risks.

### **Whistleblowing**

- 22 During the year the Committee reviewed an update on the whistleblowing policy at each meeting. During 2019–2019 there were five invocations of the internal whistleblowing policy (2018-2019: none). Although colleagues referenced the whistleblowing policy on these five occasions, the majority of issues raised were not whistleblowing within the strict definition of the Public Interest Disclosure Act 1998, but were HR or workplace related issues. The Committee is satisfied that all concerns have been handled well and with appropriate care, and views it as positive that the individuals felt able to use the process.
- 23 The Committee received assurance from the Executive that there are a number of mechanisms in place, other than whistleblowing, which staff may use to raise issues, including meetings with senior management, the employee forum, and exit interviews.

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

- 24 During the year the Committee reviewed reports on SERs and data breaches at most meetings. At the June meeting, the Committee received a full year report with analysis of trends and figures for incidents reported during the financial year 2019–2020.
- 25 The Committee welcomed the establishment of an officer working group to looks at root causes of SERs and identify ways of addressing the resultant learning, aligned to the new 2020-2025 Strategy.

### **Reporting Serious Incidents to the Charity Commission/Office of the Scottish Charity Regulator (OSCR)**

- 26 The Committee reviewed processes for reporting incidents to the Charity Commission and OSCR and provided assurance to the Council that they remain appropriate. In accordance with Charity Commission/OSCR guidance, where we identify an issue that should be reported, this is reported to the Council, as trustees, and permission sought to report to the Charity Commission/OSCR.
- 27 During the year, one serious incident arising from a safeguarding concern was reported to the Charity Commission, who were satisfied that the Council was dealing with the matter appropriately and responsibly.

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

- 28 The Committee received an update on anti-fraud, bribery, and corruption at each meeting. No 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 an updated Modern Slavery Statement which was then published in March 2020.

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

- 29 During the year the Committee reviewed the STAs cumulative register at each meeting. In April 2020, the Committee considered an analysis of STAs for the financial year 2019–2020.
- 30 A new Procurement Policy was introduced in February 2019. The Policy clarifies the NMC's approach to procurement 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.
- 31 The Committee welcomed the reduction in the number of STAs during the year, and the continuing progress of the organisation in ensuring that competitive processes are undertaken to secure best value for money, other than in exceptional and justified circumstances. The Committee noted that as a result of the Covid-19 pandemic various tenders may be deferred as operational resources are diverted elsewhere.

## **Cyber security**

- 32 The Committee reviewed the findings of the Internal Audit review of cyber security in April 2020, and was pleased to note that management demonstrated good progress in implementing the agreed actions. Of the 21 actions followed up by Internal Audit, 17 had been completed. The Committee will continue monitoring the implementation of the remaining recommendations.

## **IT infrastructure and Modernisation of Technology programme**

- 33 At the Council's request, the Committee has maintained close oversight throughout the year on progress of work to stabilise the IT infrastructure and the MOTs programme. As reported to the Council previously there has been significant slippage and overspend on the MOTS programme. The Committee welcomed the Executive's transparency in presenting the issues encountered, the efforts to learn lessons and the steps taken to address weaknesses in programme governance and management.
- 34 The Committee considered an independent external review of the MOTs programme at its June 2020 meeting. The Committee welcomed the report's recognition that good progress had been made since resetting the programme in autumn 2019 and the commitment of the team to the programme. However, the report did identify a number of issues which need attention if the NMC is to stabilise and improve its change programme going forward.
- 35 The Committee was assured by the candid and open response to the review by the Executive and team, which was indicative of a positive cultural shift in the organisation. The Committee noted the importance of recognising what has been achieved whilst also acknowledging that there is a need to do better to deliver the programme successfully.
- 36 The Committee discussed a number of the significant issues raised in the report and identified a number of key issues for the Executive to consider in developing the way forward in the light of the review findings. It asked that clear recommendations be brought to the Council meeting at the end of July 2020 for full discussion.

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

- 37 The Committee has reflected on a range of issues including the Internal Audit annual opinion and report 2019-2020, the findings of the External Auditors and NAO and the views of the Chief Executive and Registrar, in her capacity as Accounting Officer.



- 38 In considering the Internal Audit annual opinion and report for 2019–2020, 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 Auditor has identified further enhancements to the framework to ensure that it remains adequate and effective, but has confirmed that nothing has arisen which could be considered to be a significant control issue.
- 39 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 and each Audit Committee meeting.
- 40 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.

#### **External audit and NAO**

- 41 In April 2020, the Committee recommended to Council the extension of the external auditors (haysmactytre) for a further year. This was approved by Council at the May meeting (NMC/20/43).
- 42 The Committee approved the arrangements proposed by the External Auditor (haysmacintyre) and the National Audit Office (NAO) for the external audit and certification of the NMC’s annual accounts for the year ending March 2020.
- 43 At the June 2020 meeting, the Committee reviewed the external auditors and NAO audit findings reports and letters of representation for 2019–2020. The Committee was advised that, as for all organisations, an assessment of ‘going concern’ would need to be added to the accounting policies in light of the covid-19 pandemic. The Committee was pleased to note that, subject to post-balance sheet reviews, both haysmacintyre and the NAO anticipated unqualified audit opinions. The Committee considered the letters of representation and noted that these were standard provisions. It was content to recommend these to Council for signing by the Chair of Trustees and Chief Executive and Registrar as Accounting Officer.

## **Integrity of financial statements and draft Annual Report and Accounts 2019–2020**

- 44 The Committee carried out its annual review of accounting policies and agreed that no changes were needed to the accounting policies for the current year.
- 45 The Committee scrutinised the draft Annual Report and Accounts 2019–2020, including the Annual Governance Statement, in April and June 2020. The Committee endorsed the Annual Report and Accounts, subject to the Committee’s comments, for approval by the Council at its meeting on 2 July 2020.

## **Draft Fitness to Practise annual report 2019–2020**

- 46 The Committee scrutinised the draft Annual Fitness to Practise Report 2019–2020 in June 2020. The Committee endorsed the draft, subject to the Committee’s comments, for approval by the Council at its meeting on 2 July 2020.
- 47 The Committee commended the work by haysmacintyre, the NAO, the Governance, Resources and Professional Regulation teams for all the hard work that had gone into both annual reports. It thanked them for delivering these on time, despite the challenges of remote working.

### **Midwifery implications:**

- 48 No midwifery implications arising directly from this report.

### **Public protection implications:**

- 49 No public protection implications arising directly from this report.

### **Resource implications:**

- 50 No resource implications arising directly from this report.

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

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

### **Stakeholder engagement:**

- 52 No stakeholder engagement implications arising directly from this report.

### **Risk implications:**

- 53 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:** 54 None.