

Council

Audit Committee Annual Report 2020-2021

Action: For discussion.

Issue: Provides the Audit Committee's annual report 2020-2021 to the Council.

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 author or the Audit Committee Chair named below.

Author: Peter Clapp
Phone: 020 7681 5551
peter.clapp@nmc-uk.org

Chair: Marta Phillips

Context:

- 1 This is the Audit Committee's annual report for 2020-2021. The Committee met four times during 2020-2021 and has since met in April 2021 and June 2021 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 2020-2021 and annual opinion.
 - 3.3 Internal controls and risk management.
 - 3.4 External audit and National Audit Office audit report findings.
 - 3.5 The Annual Report and Accounts 2020-2021, and the Fitness to Practise (FtP) Annual Report 2020-2021.

Committee membership

- 4 Robert Parry's term came to an end on 30 April 2021. The Committee expressed their considerable thanks to Robert for his commitment and invaluable contributions during his time on the Committee, including the role he had played in relation to oversight of whistleblowing incidents.
- 5 During the year, the Committee was pleased to welcome two new members. Sue Whelan Tracy joined the Committee in June 2020, initially as an ex officio member, due to being a designate Council member until her appointment to Council on 1 October 2020. Eileen McEaney joined the Committee on 1 October 2020.
- 6 The Committee has welcomed the regular attendance at its meetings of the Chief Executive and Registrar, as Accounting Officer, along with the Executive Director of Resources and Technology Services. Following the organisational restructure some of the roles of the Executive Directors changed, leading to the new Executive Director, People and Organisational Effectiveness attending regularly from November 2020, in place of 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. In April 2021, the NAO informed the Committee that in line with normal portfolio re-arrangement policies, Amy Manning, the Engagement Director for the NMC would pass her responsibilities to Gareth Roberts. The Committee thanked Amy for her contributions and welcomed Gareth.

Committee effectiveness review

- 8 The Committee undertook reviews of its effectiveness on 9 June 2021, using a survey based on the NAO checklist for Audit Committee effectiveness with a particular focus on skills. The Committee had positive and constructive discussions and identified some actions that could be taken forward to improve its effectiveness, in particular:

- 8.1 Reviewing upcoming agendas to ensure sufficient time was provided for strategic discussions.
- 8.2 Ensuring that papers are more strategically focused and do not stray into detail more appropriate to the Executive.
- 8.3 Reinforcing the importance of ensuring that equality, diversity and inclusion (EDI) implications are appropriately developed and reflected on for all reports.

- 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 In April 2020 the Committee approved the Internal Audit work programme for 2020–2021.
- 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
IT Service Budget Planning and Budget Management – Part 1 Review of Financial Modelling for Business Case “Accommodation strategy – 23 Portland Place”	Substantial Assurance
Budget Planning and Budget Management – Part 2 (focused on FtP budget) Professional Regulation Strategy Communications and Engagement	Reasonable Assurance
People – Learning and Development People - Retention	Partial Assurance
Investment Committee – review of terms of reference	N/A – advisory review which noted the Committee was robustly established with a terms of reference that meets internal audit expectations.

- 12 The Committee was pleased to note the strong Executive engagement with internal audit activity and recommendations, particularly within the areas of partial assurance (People – Learning and Development and People – Retention).
- 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 2020-2021 annual review was considered on 9 June 2021. The Committee noted that the internal Audit effectiveness review was positive with some useful points for development, particularly around potential improvements to communication and ways to ensure the audits provided as much value as possible to audited areas.
- 16 The Committee has approved the Internal Audit work programme for 2021–2022. It will continue to review the work programme and will amend the plan should new priorities emerge.
- 17 RSM have been the NMCs internal auditors since 1 April 2018. In February 2020 the Committee agreed to extend RSM’s contract to June 2022. This extension is the final extension reasonably allowed within public procurement rules and a new contract will need to be awarded in time for the internal auditors to plan for the 2022-2023 audit. In February 2021, the Committee considered procurement options for the tender and endorsed the use of a framework approach.

Internal controls and risk management

- 18 During the year, the Committee reviewed an update on risk management at each meeting, including monitoring progress on the risk improvement plan which was informed by the risk management internal audit report from the 2019-2020 audit. Some elements of the plan were delayed, primarily due to resource issues and employee sickness in Q3 and Q4. Assurance has been given that the remaining items will be delivered on time.
- 19 The Committee considered the annual review of risk management effectiveness in April 2021. 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 continue strengthening our internal controls and risk assurance, including ensuring directorate alignment to our updated risk management framework.

- 20 During the year, the Committee considered one comprehensive assurance review (CAR): a review of General Counsel in November 2020. Further reviews were deferred, initially as a result of the impact of the Covid-19 pandemic and other priorities, and then because the Executive wished to review its approach. The Committee suggested a revised approach at its June 2021 meeting which would encourage a candid discussion about key and emerging risks, but also address the cultural impact of risk management.

Whistleblowing

- 21 During the year, the Committee reviewed an update on the whistleblowing policy at each meeting. During 2020–2021 there were no invocations of the internal whistleblowing policy (2019-2020: five). 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.
- 22 Of the five concerns raised during 2019-2020, all were dealt with and closed by November 2020, and actions arising (from three of the concerns) were taken forward as part of the wider work.
- 23 So far one concern has been raised during 2021-2022, this is being handled in line with normal practice. As the concern, which relates to a number of issues, was raised by a Fitness to Practise Panel member, the Appointments Board has also been informed.
- 24 An updated whistleblowing policy was approved by the Committee in November 2020 and shared with staff.
- 25 Eileen McEneaney replaced Robert Parry as a Council lead for whistleblowing when his term came to an end on 30 April 2021.

Serious event reviews (SERs) and data breaches

- 26 Following the organisational re-structure, responsibility for SERs and data breaches moved to the People and Organisational Effectiveness directorate. Following her appointment, the Committee welcomed Francesca Okosi, Executive Director of People and Organisational Effectiveness as a regular attendee to the meetings from November 2020 onwards.
- 27 During the year, the Committee reviewed reports on SERs and data breaches at most meetings and at the June 2021 meeting received a full year report with analysis of trends and figures for incidents reported during the financial year 2020-2021.

- 28 Throughout the year, the Committee has made suggestions for improving the SER reporting and processes, and welcomed the formation of a SER working group, comprised of NMC officers, to help drive forward and embed improvements. The Committee considered a report from the working group in June 2021, which provided an update on their work and approach to resolving root causes of recurring SERs.

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

- 29 During the year, one serious incident arising from a safeguarding concern was reported to the Charity Commission, who was satisfied that the Council was dealing with the matter appropriately and responsibly.

Anti-fraud, bribery, and corruption

- 30 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 May 2021.

Single tender actions (STAs)

- 31 During the year, the Committee reviewed the STAs cumulative register at each meeting. As in 2019-2020, the Committee welcomed the reduction in the number of STAs during the year and noted that significant progress had been made over the last few years.

IT infrastructure and Modernisation of Technology (MOTS) programme

- 32 At the Council's request, the Committee maintained close scrutiny until February 2021 on progress of work to stabilise the IT infrastructure and the MOTS programme.
- 33 In June 2020, the Committee considered an independent external review of the MOTS programme by Avanade. Recommendations from that review were brought to the Council in July 2020 and the Committee monitored progress against the resulting action plan. The Committee welcomed the Executive's transparency in issues encountered and efforts to address weaknesses in programme governance and management.

- 34 Given the importance of the MOTS programme and the challenges it faced, it was agreed that the Council would retain oversight of the programme from February 2021.

Committee's views on governance, risk management and control

- 35 The Committee has reflected on a range of issues including the Internal Audit annual opinion and report 2020-2021, the findings of the External Auditors and NAO and the views of the Chief Executive and Registrar, in her capacity as Accounting Officer.
- 36 In considering the Internal Audit annual opinion and report for 2020-2021, 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.
- 37 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.
- 38 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. The Committee will continue to closely monitor progress on the proposed improvements.

External audit and NAO

- 39 The Committee approved the arrangements proposed by the External Auditors (haysmacintyre) and the NAO for the external audit and certification of the NMC's annual accounts for the year ending March 2021.
- 40 At its meeting in June 2021, the Committee reviewed the external auditors and NAO audit findings reports and letters of representation for 2020-2021. 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.

- 41 Haysmacintyre have been the NMC’s external auditors since 2003-2004, albeit that the firm has rotated the partners having responsibility for the account within that period. In line with good practice, the decision was taken to re-tender external audit services, with haysmacintyre agreeing not to submit a bid. Initially the tender was due to take place for 2020-2021 but, due to the operational pressures caused by Covid-19, in February 2020 the Committee endorsed extending the contract by one year. Following discussions in February 2021 and April 2021, the Committee endorsed the proposed arrangements for procurement. Two members of the Committee will sit on the selection panel and the panel’s recommendation will be considered by the Council in September 2021.

Integrity of financial statements and draft Annual Report and Accounts 2020-2021

- 42 The Committee carried out its annual review of accounting policies and agreed a number of small changes in relation to Covid-19 and the going concern, accounting for government grants, depreciation policy and investment policy.
- 43 The Committee scrutinised the draft Annual Report and Accounts 2020–2021, including the Annual Governance Statement, in April and June 2021. The Committee endorsed the Annual Report and Accounts, subject to the Committee’s amends, for approval by the Council at its meeting on 7 July 2021.

Draft Fitness to Practise annual report 2020-2021

- 44 The Committee scrutinised the draft Annual Fitness to Practise Report 2020–2021 in June 2021. The Committee endorsed the Annual Report and Accounts, subject to the Committee’s amends, for approval by the Council at its meeting on 7 July 2021.

Midwifery implications:

- 45 No midwifery implications arising directly from this report.

Public protection implications:

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

Resource implications:

- 47 No resource implications arising directly from this report.

Equality diversity and inclusion implications:	48	The Committee considered how it can best develop its approach to EDI as part of its effectiveness review (paragraph 8).
Stakeholder engagement:	49	No stakeholder engagement implications arising directly from this report.
Risk implications:	50	The role of the Audit Committee is to give assurance to the Council that the NMC has effective governance, risk management and internal controls in place.
Legal implications:	51	None.