

Council

Audit Committee Annual Report to Council 2022-2023

Action: For discussion.

Issue: Provides the Audit Committee's annual report to the Council 2022-2023.

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: Derek Pretty

Context:

- 1 This is the Audit Committee's annual report for 2022-2023. The Committee met five times during 2022-2023 and has since met in April 2023 and June 2023 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:
 - 3.1 The Committee's membership and effectiveness
 - 3.2 Internal Audit work programme 2022-2023 and annual opinion.
 - 3.3 Internal controls and risk management.
 - 3.4 The Annual Report and Accounts 2022-2023 and the Fitness to Practise Annual Report 2022-2023.

Committee membership and attendance

- 4 Marta Phillips' term came to an end on 30 April 2023. The Committee expressed their considerable thanks to Marta for her commitment and invaluable contributions as Chair of Audit Committee, in particular, how she has strengthened the Committee's ability to provide constructive, supportive challenge to key areas of the organisation.
- 5 As agreed by the Chair of Council, Derek Pretty became Chair of Audit Committee on 1 May 2023. Ahead of Derek stepping down on 30 April 2024, a new Chair of Audit Committee will be appointed. The new Chair will be recruited with sufficient time for an effective handover period and, as with all new members, receive a comprehensive induction.
- 6 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.

- 7 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 private meetings with each at appropriate junctures during the year.

Committee effectiveness review

- 8 The Committee undertakes an annual review of its effectiveness taking account of NAO good practice. The Committee has taken forward actions identified in the 2022-2023 review, including taking a more strategic approach to oversight of risk management and more streamlined regular reporting.
- 9 The Committee considered the 2022-2023 review outcomes on 7 June 2023 and identified some actions that could improve its effectiveness, including:
- 9.1 Areas of focus for future recruitment
 - 9.2 Further information that could be shared with the Committee to strengthen its knowledge of processes
 - 9.3 Further strengthening how oversight of personnel matters is undertaken between Audit Committee and Remuneration Committee
 - 9.4 Further streamlining reporting.

- Four country factors:** 10 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

- 11 In February 2022 the Committee approved the Internal Audit work programme for 2022–2023.
- 12 During the year, the Committee monitored progress against the Internal Audit work programme and against audit recommendations at each meeting. The planned Internal Audit programme was completed on schedule and a total of nine assignments were carried out:

Assignment	Assessment
Consultations	Substantial Assurance
Council and Executive Board Information	Reasonable Assurance
Core Financial Systems	
Projects and Programmes – Outcome and Realisation	
Appraisals	
Procurement	
Complaints and Serious Events Review	Partial Assurance
Direct Procurement Award – Embedding the actions	N/A as the assignment was advisory
Risk Maturity Review	

- 13 The Committee was pleased to note the strong Executive engagement with internal audit activity. In particular, the Committee was pleased to note that there had been significant progress in completing management actions identified by the audits. In 2021-2022 there had been challenges in completing actions, particularly within People and Organisational Effectiveness, and the Committee was pleased to note the improvement in this area.
- 14 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.”*
- 15 The Committee discussed the opinion and report and was satisfied that this was a true and fair reflection of the current level of assurance.
- 16 The Committee reviews the effectiveness of internal audit services on an annual basis and the 2022-2023 annual review was considered on 7 June 2023. The review identified some areas for further strengthening which will be taken forward. Overall the findings were positive and the Committee was pleased to note the effective relationship between the Executive and internal audit.

- 17 The Committee has approved the Internal Audit work programme for 2022–2023. It will continue to review the work programme and will amend the plan should new priorities emerge.

Internal controls and risk management

- 18 Since March 2022, the Committee has considered two comprehensive assurance reviews (CAR): on International Registrations in October 2022 and Complaint and Enquiries in April 2023. These reviews provide an opportunity to discuss how risks are being managed and gain a deeper overview of a particular area of delivery.
- 19 The Committee considered the annual review of risk management effectiveness in April 2023. 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 strengthen our approach to risk management within People and Organisational Effectiveness and Professional Regulation. The Committee was pleased to note improvements in the appraisal response rate for 2022-2023 and looks forward to further improvement in this area.

Whistleblowing

- 20 The Committee reviewed an update on the whistleblowing policy at each meeting. During 2022–2023, there was one invocation of the whistleblowing policy (2021–2022: three). This is currently under investigation.
- 21 So far one concern has been raised during 2023-2024, which is also under investigation.

Serious event reviews (SERs) and data breaches

- 22 The Committee now reviews SERs every six months. This included a full year report in June with analysis of trends and figures for incidents reported during the financial year 2022-2023.
- 23 Throughout the year the Committee has made suggestions for improving the SER reporting and processes, and welcomed the work of the Change and Continuous Improvement function which is strengthening our ability to identify thematic trends and mitigate root causes of recurring SERs. The Committee looks forward to considering the outcome of the SER process review at its meeting in November 2023.

Anti-fraud, bribery, and corruption

- 24 The Committee received an update on anti-fraud, bribery, and corruption at each meeting. During 2022-2023, 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 in June 2023.
- 25 So far in 2023-2024, one instance of potential fraud has been detected, this relates to anomalous data at one of our third-party CBT test centers in Ibadan, Nigeria. The Council and Audit Committee are being kept informed of the investigation and will consider a lessons learnt report in due course.

Single tender actions (STAs)

- 26 The Committee reviews STA logs every six months as an indicator of the health of the procurement function. In 2022-2023, there were five 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.

Committee's views on governance, risk management and control

- 27 The Committee has reflected on a range of issues including the Internal Audit annual opinion and report 2022-2023, the findings of the External Auditors and NAO and the views of the Chief Executive and Registrar, in her capacity as Accounting Officer.
- 28 In considering the Internal Audit annual opinion and report for 2022-2023, 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.
- 29 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.
- 30 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

- 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 2023.
- 32 At its meeting on 26 June 2023, the Committee reviewed the external auditors and NAO findings reports and letter of representation for 2022-2023. The Committee 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 2022-2023

- 33 The Committee carried out its annual review of accounting policies and agreed a number of small changes in relation to the depreciation policy for fixed assets.
- 34 The Committee scrutinised the draft Annual Report and Accounts 2022–2023, including the Annual Governance Statement, in April and June 2023.
- 35 The Committee agreed that no provision was required for the computer-based test issue that had been identified, for the following reasons:
 - 35.1 In order to make a provision the NMC would need to provide a reliable estimate of costs. The NMC is not yet in a position to do that as it is still analysing the situation, the data and policy options.
 - 35.2 While the NMC cannot yet make a reliable estimate, the Executive's current view is that the cost is unlikely to meet the FRS 102 requirement for materiality and therefore a provision would not need to be declared in the accounts.
 - 35.3 The NMC does not make provisions for the cost of investigating fitness to practise cases that are open at year end. Most of the costs associated with the CBT incident are likely to be of a similar nature to an fitness to practise investigation. The NMC should therefore approach how it accounts for the costs in the same way.
- 36 The Committee endorsed the Annual Report and Accounts for approval by the Council at its meeting on 5 July 2023.

Draft Fitness to Practise annual report 2022-2023

37 The Committee scrutinised the draft Annual Fitness to Practise Report 2022–2023 in June 2023. The Committee endorsed the draft for approval by the Council at its meeting on 5 July 2023.

Midwifery implications:

38 No midwifery implications arising directly from this report.

Public protection implications:

39 No public protection implications arising directly from this report.

Resource implications:

40 No resource implications arising directly from this report.

Equality diversity and inclusion implications:

41 Ensuring EDI is appropriately taken into account in the Committee's work remains a key focus.

Stakeholder engagement:

42 No stakeholder engagement implications arising directly from this report.

Risk implications:

43 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.

Regulatory reform

44 The implications of regulatory reform will become an increasing area of focus for the Committee in 2023-2024.

Legal implications:

45 None.