To consider

Report of the Audit and Risk Committee

Issue

1 A summary of the Audit and Risk Committee's activities since it reported to Council on 22 May 2013.

Recommendations

2 Council is asked to:

a Consider the report of the Audit and Risk Committee.

b Approve the suggested amendments to the Committee's Statement of Purpose.

c Note the additional meeting of the Committee to be held on 25 February 2014.

Report of the Audit and Risk Committee

Issue

3 The Audit and Risk Committee is required by its Statement of Purpose to report to Council at least twice a year; it last reported on 22 May 2013.

Purpose and membership

4 The Audit and Risk Committee is a governance committee of Council. It comprises six Council members and two co-opted external members. The Chair is Hamish Wilson.

5 Elizabeth Butler, the recently appointed co-opted member, attended her first Committee meeting on 5 September 2013, following two induction sessions.

6 On 6 November 2013, the Committee reviewed its Statement of Purpose, and suggested the following amendments for Council's approval:

a Purpose (paragraph 1): Re-statement of the Committee's role, setting it within the context of the responsibilities of Council and the executive management.

b Clarification of the Committee's responsibilities in relation to fraud.

7 The recommended changes are indicated at paragraphs 1 and 9 of the Statement of Purpose at Annex A.

8 As set out in its Statement of Purpose, the Committee is responsible for ensuring the integrity of our financial statements; reviewing the systems of internal control, governance and risk management; and monitoring and reviewing both the internal and external audit services.

Meetings and training

9 Since its last report to Council, the Committee met on 25 June, 5 September and 6 November 2013. On each occasion, the Committee held a short private session. In addition, the Committee met privately with the internal and external auditors on 25 June and 6 November, and separately with the internal auditors on 5 September 2013.

10 A short training seminar was held on 25 June 2013 ahead of the Committee meeting. The session was entitled "The Key Opportunities and Challenges for an Effective Audit and Risk Committee", and was delivered by an external consultant.

11 On 6 November, the Committee considered its calendar of work for 2014 and agreed that, in addition to the four meetings already scheduled, a further

meeting should be arranged to take place on the afternoon of 25 February 2014.

Risk Management

12 As the trustees of a registered charity, Council is required to make a positive statement in the annual report, confirming that the major risks to which the charity is exposed, as identified by the trustees, have been reviewed, and that systems have been established to mitigate those risks. The Audit and Risk Committee reviews the risk management arrangements and the Corporate Risk Register periodically to support Council in meeting this requirement. The Committee last reviewed the Corporate Risk Register on 5 September 2013.

Outcome of the fundamental review of risk management

13 Following a review of our Risk Management Framework, which was requested by Council at its meeting on 7 February 2013, the Committee considered a revised Framework at its meeting on 6 November 2013.

14 The Framework communicates our risk policy, roles and responsibilities, including those of Council, and methodology to embed the consideration of risk in both strategic and operational decision-making. This review was supported by an external consultancy and featured expert operational input from business champions from each directorate. The review also facilitated a specially arranged seminar for Council members held on 5 September 2013, which provided the opportunity to view exemplar risk practice from other UK regulators, and also to give Council members the opportunity to discuss their key role in challenging our risk management practice. The revised Framework, already considered by the Performance and Resources Board at its meeting on 4 November 2013, is due to be considered by Council at its meeting on 25 February 2014. If agreed the new Framework will be rolled out in 2014 using a detailed Implementation Plan.

Internal Audit

15 Internal audit is resourced by an in-house head of the service, and Grant Thornton, an external service provider. The three year contract with Grant Thornton is due to expire on 4 January 2014. On 5 September 2013, the Committee considered the options of either allowing the contract to expire and beginning a tendering process promptly; or agreeing a one year extension, as permitted under the terms of the contract. The Committee decided on the latter, with a view to commencing a tendering process in the second Quarter of 2014.

16 At the private meeting on 5 September 2013, the Committee discussed with the Grant Thornton director who had recently replaced the contact partner the nature and quality of the service which was being provided and the implications for the work of the in-house head of service. It stressed the importance of

delivering work which was not only of a high standard but added value to the organisation.

17 Internal audit delivers an annual programme of reviews in order to provide independent assurance on the adequacy and effectiveness of the systems of risk management, governance, and internal control. The Committee reviewed the approved 2013 internal audit plan on 25 June 2013 and on 5 September 2013, and approved the following adjustments:

a Operation of Quality Assurance Arrangements for Medical Education: The audit was designed to evaluate the extent to which the outcomes of the Education quality assurance consultation are used in implementing feasible and fit for purpose quality assurance arrangements. It has been deferred due to a delay in conducting the consultation. A substitute audit has been conducted in relation to the risk of failure to monitor the implementation of required and recommended actions arising from Education quality assurance visits.

b Revalidation Post-launch Review- Phase 2: The Committee considered the outcome of the first phase of the review on 5 September 2013 and approved a proposal to defer further work until 2014. This was in order to increase the value of the work, particularly as the quality assurance processes that would have been covered in the second phase were still being developed.

18 Since its last report, the Committee has rigorously scrutinised the nine scheduled reviews and two spot checks which have been presented by the internal audit service. It has probed in detail and on occasions challenged findings from individual reports, and sought and received assurances from management regarding the actions proposed to address the issues identified.

19 The reviews reported to the Committee are: Communication with doctors; Integrity of Registration Performance Information; Registration Projects; Compliance with information systems standards ISO 27001 and BS 10008; Transfer of Activities to Manchester – Benefits Realisation; Revalidation Post Launch Review – Phase 1; Medical Practitioners Tribunal Service – Post Launch Review; Medical Education - Post Visit Monitoring and Use of Checks; and Enhancing Engagement. The spot checks were conducted on the following areas of activity: MPTS Panel Selection – Equality and Diversity Considerations; and Authorisation of Cheques. In discussing the report arising from the spot check 'MPTS Panel Selection – Equality and Diversity Considerations', the Committee suggested that consideration be given to regular reporting of the diversity statistics to Council.

20 Each review has been awarded one of the top two GMC internal audit levels of assurance (Sound or Substantial). The lower levels of assurance - Limited and Minimal - were not awarded to any of the reviews. Audit findings have been

ranked “Medium or “Low” priority, except for one issue arising from the review, “Medical Education - Post Visit Monitoring and Use of Checks” that has been ranked as ‘High Priority’. The audit finding relates to inconsistencies in the assessment of whether required and recommended actions arising from Education quality assurance visits have been implemented. Management have agreed actions to address the audit finding.

21 At each meeting, the Committee received a progress update, including information in respect of the status of actions arising from internal audit work. The Committee was pleased to note that a significant majority of actions had been completed by management in accordance with agreed timescales. It looked carefully at those actions which were still outstanding and reinforced the importance of managers both identifying realistic timescales for implementation and delivering according to the agreed timetable, unless there were clear and appropriate reasons for any delay.

2014 programme of internal audit work

22 On 25 June 2013, the Committee approved a risk based process for developing the programme of internal audit work for 2014, and indicative programmes for two or three further years. In its discussion, the Committee agreed that internal audit work should focus on impact as well as on process.

23 The Committee received a schedule of possible audit areas for discussion on 5 September 2013, but agreed to defer the discussion and further development of the plan, pending the outcome of the fundamental review of risk management and the development of the Corporate Strategy, Business Plan and associated risk registers. To ensure continuation of audit work in early 2014, the Committee approved at its meeting on 6 November 2013, an interim programme of work. The schedule of work is presented at Annex B, and comprises two audits deferred from the current year, one area suggested by the Committee, and three recurrent reviews.

External audit

24 The annual assessment of the performance of the external auditors (Crowe Clark Whitehill) is normally conducted in two parts, by the Assistant Director of Finance and Procurement, and members of the Committee, respectively. The Committee considered that it did not have sufficient insight to the external auditors’ performance in respect of the statutory audit of the accounts for the year ended 31 December 2012, as a basis for conducting its own assessment. On 5 September 2013, the Committee considered the Assistant Director’s assessment. It endorsed the assessment and requested that consideration be given to including in the criteria for next year, a measure of how knowledgeable the external audit team is in relation to ‘independent regulation in the public sector’.

25 At its meeting on 6 November 2013, the Committee considered the external audit planning report for the year ending 31 December 2013, and approved the audit fees. The Committee discussed key aspects of the report such as the audit scope and approach; the control and operating environment – including the prior year management letter points; and the key areas of audit focus.

Significant Event Reviews

26 Since the Committee last reported to Council, it has noted the outcomes of six Significant Event Reviews and the actions taken or proposed by management.

Supporting information

How this issue relates to the corporate strategy and business plan

27 The Audit and Risk Committee is responsible for ensuring the integrity of our financial statements; reviewing our systems of internal control, governance and risk management; and for monitoring and reviewing both the internal and external audit services. As such, it plays a vital role in our governance framework and relates to all areas of our Corporate Strategy and Business Plan.

If you have any questions about this paper please contact: Ellen Wright, Head of Consultancy and Review, ewright@gmc-uk.org, 020 7189 5023.

General Medical Council

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Annex A

Statement of Purpose of the Audit and Risk Committee

Purpose

1 The Audit and Risk Committee is responsible for exercising the authority delegated by Council to monitor and review arrangements established by the Executive in order to ensure the integrity of the financial statements; the effectiveness of the systems of internal control, governance and risk management; and the adequacy of both the internal and external audit services.

2 The Committee is specifically authorised by Council to:

a Investigate any activity within its terms of reference. Any investigation will normally be initiated in consultation with the Chief Executive.

b Seek any information it may reasonably require from any member, employee or associate. All members, employees and associates are directed to cooperate with any reasonable request made by the Committee.

c Obtain outside legal or other independent professional advice and to secure the attendance of people with relevant experience and expertise if it considers this necessary. The Committee may not incur direct expenditure in this respect in excess of its allocated budget without prior approval of the Chair of Council, in consultation with the Chief Executive.

Duties and activities

Financial Reporting

3 Review the annual financial statements taking into account advice from the external auditors and ensure they are a fair and accurate reflection of the activities of the GMC. If necessary, this should involve challenging the actions and judgements behind the preparation of the annual financial statements and related documents, before submission to and approval by Council.

4 Review the organisation's accounting policies.

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5 Consider any other topics, as directed by Council.

Internal Control and Risk Management

6 Monitor the integrity of internal controls. In particular, review management and the internal audit reports on the effectiveness of the system of internal control.

7 Assess the scope and effectiveness of the systems designed to identify, assess, manage and monitor significant risks.

8 Review statements in the annual report and accounts relating to audit and risk management.

9 Monitor anti-fraud policies and procedures and review arrangements for raising concerns.

Deleted: Ensure appropriate arrangements for staff to raise concerns about possible improprieties.

10 Review all delegated authorities at least once in every four-year Council term.

Internal Audit

11 The appointment or dismissal of the head of internal audit and the external provider of internal audit services is the responsibility of the Chief Operating Officer in consultation with the Chief Executive, but should be ratified by the chair of the Audit and Risk Committee. In the event of any unresolved disagreement between the Chief Executive and the chair of the Committee, the matter will be referred to the Chair of Council.

12 Ensure that the head of internal audit has direct access to the Chair of Council and the Committee and is accountable to the Committee.

13 Review the internal audit programme and ensure that the function is adequately resourced and has appropriate standing within the organisation.

14 Consider and monitor the organisation's response to any major internal audit recommendations.

15 Monitor and assess the role and effectiveness of the internal audit function.

16 Ensure the provision of any non-audit services does not impair the internal auditors' independence or objectivity.

External Audit

17 Consider and make recommendations to Council on the appointment, reappointment and removal of the external auditors.

18 Approve the terms of engagement and fee to be paid to the external auditor in respect of audit services provided.

19 Assess the qualification, expertise, resources, effectiveness and independence of the external auditors annually.

20 Discuss in advance with the external auditor the nature and scope of the audit.

21 Review with the external auditors their findings, the content of the management letter and management's responses and the audit representation letter.

22 Ensure the provision of any non-audit services does not impair the external auditors' independence or objectivity.

Working arrangements

23 Meetings will be held at least four times a year. At the discretion of the chair of the Committee, additional meetings can be convened.

24 The Committee should review its statement of purpose at least once a year and suggest any necessary amendments to Council.

25 The external auditors or internal auditors may request a meeting of the Committee.

26 At least once a year the Audit and Risk Committee should meet the external auditors and internal auditors without management.

27 Members of the Committee (including the co-opted members) may meet alone at any time. Normally, senior staff will be in attendance including the Chief Executive, the Chief Operating Officer, the Director of Resources and Quality Assurance, the Assistant Director Finance and Procurement, and the Head of Consultancy and Review Service (head of internal audit). Others may attend meetings at the invitation of the Committee.

28 Draft minutes should be cleared by the chair and circulated to members for comment within two weeks of the meeting. Minutes are circulated to all Council members.

29 Where the Committee is not satisfied with any aspects of the organisation's performance in relation to audit and risk or other systems of internal control it will report its views to Council.

30 The Committee prepares a report, for inclusion in the annual report and accounts, on its role and responsibilities and the actions it has taken to discharge those responsibilities. The report includes any unresolved disagreements between Council and the Committee.

31 The chair or another designated member of the Committee, if the chair is not available, presents a report and answers questions on the Committee's activities for Council at least twice a year.

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Annex B

Interim programme of Internal Audit Work 2014

Reviews brought forward from 2013

A. New Governance Arrangements (in conjunction with the Governance Team, with a view to reporting the outcome to Council).

Strategic/ Directorate objective	Risk source, and description	Summary of scope	Excec. sponsor
SP2: 'Ensuring effective transition to reconstituted Council with associated changes to governance framework, decision-making processes and ways of working'	Corporate Risk Register: 'The role of the reconstituted Council with a reduced size means Moderate changes need to be made to the overall governance framework. The new arrangements may not be effective because: - transition arrangements are not in place or not workable; - there is insufficient change from current ways of working that are not suited to the requirements of a smaller Council; - there is insufficient clarity about roles, decision making arrangements and agreed delegations to ensure that the new arrangements are effective and support good governance.'	Key aspects of the arrangements for ensuring that the Council is appropriately positioned and is supported in order to ensure that it operates effectively and efficiently; and particularly that it has a clear understanding of how statutory responsibilities are being delivered. The review covers induction; governance structures, roles and responsibilities; and operations, particularly the quality of information presented to Council and the implementation of action arising from Council decisions.	Ben Jones

B. Medical Education - Quality Assurance Arrangements

Strategic/ Dir. objective	Risk source and description	Summary of scope	Excec. sponsor
3.1: 'To deliver quality assurance activities to assure that standards and outcomes in medical education and training are being met.'	Corporate Risk Register: 'An institution fails to comply with the requirements for education and training and we do not detect their non-compliance resulting in damage to the reputation of the GMC and compromised quality of education and training.'	Extent to which the outcomes of the quality assurance consultation are reflected in implementing feasible and fit for purpose quality assurance arrangements.	Paul Buckley

Specific topics identified by Committee members

C. Information System Penetration Testing

Strategic /Directorate objective	Risk source and description	Summary of scope	Excec. sponsor
Not specified	Information Security Risk Register (Asset nos. 52 & 104): 'System hacking. External facing portals may expose system to attacks.'	Commission a specialist audit to apply penetration testing to evaluate the security of key information systems and networks against cyber attack	Neil Roberts

Recurrent audits

D. Compliance with Information Security Standards – ISO 27001 & BS 10008

Strategic/ Directorate objective	**Risk source and description**	**Summary of scope**	**Excec. sponsor**
'Maintain compliance with Information Security standards.' Linked to Strategic Aim 7: 'to continue to use our resources efficiently and effectively'.	Resources & Quality Risk Register: 'GMC does not make sufficient changes to minimise risk of mistakes in releasing personal data.'	Assessing compliance with selected aspects of the ISO27001:2005 -International information security standard, and BS 10008:2008 - British standard relating to the evidential weight and legal admissibility of electronic information.	Neil Roberts

E. Core Finance System – Purchasing and Payment

Strategic/ Directorate objective	**Risk source and description**	**Summary of scope**	**Excec. sponsor**
'Delivery of high standards of performance across key finance activities'. Linked to Strategic Aim 7: 'to continue to use our resources efficiently and effectively'.	Resources & Quality Risk Register: 'Ineffective and inefficient processes, leading to poor service delivery'.	The effectiveness and efficiency of, and compliance with, purchasing and payment controls. The review will cover purchase ledger transactions, including those relating to agency staff.	Neil Roberts

F. Integrity of Fitness to Practise Performance Information

Strategic/ Directorate objective	**Risk source and description**	**Summary of scope**	**Excec. sponsor**
2.1: 'Ensure we take appropriate and timely action when a doctor's fitness to practise is questioned."	'A sustained rise in the number of complaints being received during 2011 and 2012 (an 18% increase year on year) may result in slower processing times and an increased error rate. • Slower processing times could lead to a failure to meet our published service targets/a rise in the average length of cases (a measure of performance that is published by the PSA annually). • The increased workload could also lead to an increase in processing errors as work volumes per member of staff increase.'	We will conduct significant levels of testing to check the accuracy of Fitness to Practice performance information reported to senior management, Council and its committees, and external organisations. We will check the validity of the underlying data, the integrity of automated algorithms, and any manual manipulation of the data.	Anthony Omo