

Agenda item:	8
Report title:	Report of the Audit and Risk Committee
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Considered by:	Audit and Risk Committee
Action:	To consider

Executive Summary

This report provides an update on the Audit and Risk Committee's activities in 2015. It notes:

- From its review of the Annual Report and Accounts, including the statement on risk, the Committee is satisfied that the accounts have been properly prepared and are in accordance with applicable accounting standards.
- Substantial assurance was given by the Head of Internal Audit in her annual opinion indicating that the systems of governance, risk management and internal control in operation during 2014 were generally well designed and working effectively to ensure the achievement of the GMC's objectives.
- There have been no serious incidents to report to the Charity Commission.
- The term of office for co-opted member John Morley ends on 31 August 2015. The Committee would like to extend this for a further four years.

Recommendations

Council is asked to:

- a Consider the report.
- b Approve the reappointment of John Morley as a co-opted member of the Audit and Risk Committee for a further period of four years, effective from 1 September 2015.

Issue

- 1 This is the first of two reports by the Audit and Risk Committee to Council for 2015, as required by the Committee's Statement of Purpose. The Committee last reported to Council at its meeting on 10 December 2014.
- 2 The Committee is a governance committee of Council comprising six Council members and two co-opted external members. The Chair is Jim McKillop. 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.
- 3 The term of office for one of the co-opted members, John Morley, expires on 31 August 2015 and the Committee is recommending that Council reappoint him for a further four year period, commencing on 1 September 2015, subject to the satisfactory outcome of pre engagement checks.
- 4 The Committee has met on two occasions so far in 2015, on 12 March and 7 May. In addition two seminar style discussions have been held. The first was an update on financial changes and accounting matters and the second focused on risks relating to the recognition of professional qualifications.
- 5 Committee meetings have been fully supported by the Executive Team and have included the attendance of relevant directors and assistant directors when audit reports relating to their area of business have been presented.

Risk management

- 6 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. During 2014, the Audit and Risk Committee regularly scrutinised the Corporate Risk Register and management arrangements to support Council in meeting this requirement.
- 7 The Committee has considered the statement in the Annual Report and is satisfied that it properly reflects its view of the risks facing the GMC and that the risk management framework is operating effectively.
- 8 Internal audit work has also been undertaken in 2015 to provide continued assurance that risk management arrangements are operating effectively. This work is focusing on arrangements supporting and underpinning the management of risk by the Performance and Resources Board and disclosure of risks in the Corporate Risk Register. To maintain independence from the responsibilities for risk which sit with

the Assistant Director of Audit and Risk Assurance, this review is being reported directly to the Chair of the Committee and will be discussed at the next meeting.

Internal audit – management arrangements

- 9** The enhanced co-sourcing model previously described to Council is now fully operational. An in-house strategic lead for audit and risk assurance has been permanently appointed and the new internal audit team from Moore Stephens LLP is in place.

Head of Internal Audit annual opinion

- 10** At its meeting on 12 March 2015, the Committee received the annual opinion from the Head of Internal Audit. The opinion reflects that the planned audit programme in 2014 was risk based, discussed with management, agreed by the Audit and Risk Committee, sufficiently resourced with the appropriate skills and delivered in full during the year.
- 11** The Committee is pleased to inform Council that substantial assurance was awarded indicating that the systems of governance, risk management and internal control in operation during 2014 were generally well designed and working effectively to ensure the achievement of the GMC's objectives.
- 12** The Head of Internal Audit report also confirmed that the GMC has not been required to report serious incidents, as defined by the trustee guidance, to the Charity Commission.

Internal audit – delivery of 2015 audit programme

- 13** Since its last report, the Committee has overseen the completion of audit review delivery for quarter one of the 2015 annual programme. In all cases, the Committee has scrutinised the audit findings and satisfied themselves that the management actions proposed are appropriate. At its meeting on 7 May 2015, the Committee reviewed the remaining work programme and confirmed that it remained appropriate to the assurance sought with respect to the risks facing the organisation.
- 14** The assurance ratings by the internal audit service awarded to reports can range from red to green with red/amber, amber and green/amber in between. The reviews and assurance ratings are given in the following table.

Audit review		Assurance
1	Integrity and accuracy of Human Resources management information	Green
2	Medical Practitioners Tribunal Service compliance	Green
3	Procurement compliance	Green
4	Data strategy programme phase 1	Green/amber
5	Public interest disclosure policy and arrangements	Green/amber

- 15** Of the 15 recommendations made in the quarter one audit reviews, there were two high priority recommendations. These were both in relation to the review of the arrangements for phase one of the data strategy programme. Phase one concluded at the end of March 2015 and provides a natural point to take stock of progress before continuing and agreeing the next phase of the programme.
- 16** The first recommendation was to consider a data 'vision' for the future which supports achievement of the GMC's corporate strategy, underpinned by a clear articulation of aims and objectives which will need medium and long term goals and activities. Future projects should then be selected and prioritised based on how important they are in achieving the overall vision and corporate objectives.
- 17** The second recommendation was to ensure the experience and knowledge gained from phase one is properly captured and used to the benefit of future work.
- 18** As such, the high priority ratings of these recommendations do not reflect a failing of any control or work associated with phase one of the programme and the Committee was satisfied with the arrangements and proposals the executive have in place to address these issues.
- 19** In addition the audit programme to date has included two spot check reviews, which are very short, targeted pieces of work designed to provide assurance on a specific area of operation. The spot checks have covered:
- a** Follow up of the implementation and effectiveness of actions arising from significant event reviews.

b A review of gifts and hospitality.

- 20** Appropriate action is being taken in respect of the latter spot check which identified that our policy requires refreshing and consistency of approach across the business in recording gifts and hospitality will be enhanced through the introduction of a single register format.
- 21** At each meeting, the Committee received a progress report, including an update on the status of actions arising from internal audit work. The Committee is pleased to report that there is continuing effort by management to close outstanding audit actions and the audit tracker is being kept up to date.

Significant Event Reviews

- 22** Since the Committee last reported to Council, it has noted the outcomes of 11 significant event reviews and the actions taken or proposed by management. Follow up work by internal audit has indicated that actions are being implemented appropriately, preventing repeat occurrences of the events. The Committee has not detected themes or notable patterns of occurrence for concern.

Trustees' Annual Report and Accounts 2015

- 23** At its meeting on 7 May 2015, the Committee scrutinised the Annual Report and Accounts 2014 and received the Audit Findings report of the external auditor. The Committee considers the document to be well written and presented with the use of case studies providing helpful examples of the GMC's work in practice.
- 24** Through discussion with the external auditors, the Assistant Director of Finance and Procurement and the Director of Resources and Quality Assurance, the Committee satisfied itself that the accounts were properly prepared and were in accordance with applicable accounting standards. The Committee requested further explanatory text be added to the pension fund note to the accounts to aid readers in their understanding of this technical accounting area and to draw the distinction between the role of the pension fund trustees and the employer.
- 25** There were no weaknesses to report by the external auditor regarding financial systems, controls or accounting practices and the Committee recommends the Annual Report and Accounts and letter of representation to Council for approval.
- 26** The current contract with the external auditor was extended by one year at the end of 2014. A procurement exercise will now be undertaken to appoint external auditors for a new three year period.

Follow up of the Committee's annual review of its effectiveness

27 The outcome of the Committee's review of its effectiveness was reported in the last report to Council on 10 December 2014. An update on the actions the Committee has taken to address the issues it raised is shown in the following table.

Action agreed	Progress
Use the Corporate Risk Register as a basis to invite directors and assistant directors to informal sessions after each meeting on a rotating basis to share and discuss issues relating to risks and their areas of operation	The first of these considered the recognition of professional qualifications. The Committee has agreed areas for discussion in its forward work programme for the rest of the year
Invite the external auditors to provide insight sessions twice a year	Included in the Committee's forward work programme
Clarify and document the role of independent members	Completed and circulated to ARC members in November 2014
Ask the Finance Team and external auditors to provide a seminar on accounting policies and updates on financial and auditing requirements before the financial statements are presented for recommendation to approve to Council	This took place in seminar after the 12 March ARC meeting
Meet with the Head of Internal Audit and internal audit team and the external auditor at alternate meetings without management present	Included in the Committee's forward work programme on a rotating basis