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| <b>Agenda item:</b>   | <b>8</b>   |
| <b>Report title:</b>  | <b>Report of the Audit and Risk Committee</b>  |
| <b>Report by:</b>     | <b>Lindsey Mallors</b> , Assistant Director – Audit and Risk Assurance<br><a href="mailto:lmallors@gmc-uk.org">lmallors@gmc-uk.org</a> , 020 7189 5188 |
| <b>Considered by:</b> | <b>Audit and Risk Committee</b>  |
| <b>Action:</b>        | <b>To consider</b>   |

## Executive summary

This report provides an update to Council on the Audit and Risk Committee's activities to date in 2016. 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 2015 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.

## Recommendation

Council is asked to consider the report of the Audit and Risk Committee.

## Background

- 1 The Committee has met three times since its last report to Council in formal session and seminar on 27 January, 10 March and 11 May. 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.
- 2 Of particular note is that in January the Committee held an extended seminar to consider in detail the preparations and plans for implementing the Change Programme following Council's decision on 11 November 2015. This provided an opportunity to hear directly from the Executive as to the objectives for each of the five portfolios of work in the Programme and ensure the Committee had sufficient understanding to fulfil its assurance role to Council on the Programme's progress and risk management.
- 3 Areas to bring to Council's attention arising from the Committee's responsibilities and activities are outlined below.

## Risk management

- 4 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 2015, the Audit and Risk Committee regularly scrutinised the Corporate Risk Register and management arrangements to support Council in meeting this requirement.
- 5 Following the introduction of the new Charity Statement of Recommended Practice, an extended risk statement is required and this has been included in the Annual Report for 2015. The Committee has considered the statement in the Annual Report and is satisfied that it properly reflects its view of the opportunities and risks facing the GMC and that the risk management framework is operating effectively.
- 6 Since the Committee's last report to Council, a benchmarking review of the effectiveness of our Risk Management Framework has been undertaken by Moore Stephens. This was presented to Council at its February meeting and a number of areas were discussed to continue the GMC's risk maturity progress. Key to this will be a Council seminar to explore its appetite for opportunity and risk in supporting the Executive's operational decision-making as well as further strategy development for the next Corporate Strategy.
- 7 The next review of risk is scheduled to take place in June. This review will focus on risk management and mitigation in relation to the Change Programme. To maintain

independence from the responsibilities for risk which sit with the Assistant Director of Audit and Risk Assurance, this review will be reported directly to the Chair of the Committee.

### **Internal audit management arrangements**

- 8 The enhanced co-sourcing model previously described to Council is working well and the full programme of work was delivered in 2015. An evaluation of the first year of operation has been undertaken with Committee members, executive and auditees expressing high levels of satisfaction with the service they receive from the team.

### **Head of Internal Audit annual opinion**

- 9 At its meeting on 10 March 2016 the Committee received the annual opinion from the Head of Internal Audit. The opinion is given in accordance with the Institute of Internal Auditors Practice guidance in the context of a risk based audit programme which the Committee had agreed, and had been delivered with appropriate audit resources and skills.
- 10 It awarded substantial assurance indicating that the systems of governance, risk management and internal control in operation during 2015 were generally well designed and working effectively to ensure the achievement of the GMC's objectives. The report also confirmed that the GMC has not been required to report any serious incidents, as defined by the trustee guidance, to the Charity Commission.

### **Delivery of 2016 internal audit programme to date**

- 11 Since its last report, the Committee has overseen the completion of four audit reviews and one spot check (a very short, targeted piece of work designed to provide assurance on a specific area of operation) in line with the annual programme. In all cases, the Committee has scrutinised the audit findings and satisfied themselves that the management actions proposed are appropriate.
- 12 The assurance ratings awarded to reports can range from red to green with red/amber, amber and green/amber in between. The reviews and assurance ratings for completed audits are given in the following table.

| Audit review |   | Assurance   |
|--------------|---|-------------|
| 1            | Change Programme phase 1 – planning and initial implementation                  | Green-amber |
| 2            | Introduction of S60 arrangements  | Green       |
| 3            | Introduction of Recognised Professional Qualifications arrangements             | Green       |
| 4            | Anti-fraud policy and response plan   | Green       |
| 5            | Introduction of new standards in and Education Regional Quality Assurance visit | Green       |
| 6            | Project management office spot check  | Green-amber |

- 13** Of the 20 recommendations made in the above reviews, there was one high priority recommendation. This was in relation to the Change Programme. The recommendation which was to re-perform the impact assessment on the work programme regularly to identify if and where further mitigation actions are required to address deliverability of BAU and the Change Programme itself. The impact will be re-run at key stages in the Programme implementation and the first of these was reported to Council at its meeting on 19 April 2016.
- 14** The spot check, which looked at the embedding of the new Project Management Office arrangements, was part of the continuous assurance to the Committee on the Change Programme.
- 15** The Committee has also received a summary business assurance map which has taken the main functions of the GMC, overlaid the corporate risks and reflected management assertions and internal audit knowledge arising from the source of assurance that currently exists. Whilst the map will continue to develop and be validated as audit work is carried out, the first summary shows that local level quality controls, quality assurance arrangements and risk management practices are embedded across most of the organisation and that the delivery of the audit programme this year will provide further assurance in areas where there is insufficient overall external assurance coverage.
- 16** 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 to close outstanding audit actions and the audit tracker is being kept up to date.

## Significant Event Reviews

- 17** Four significant event reviews have been reported to the Committee this year along with the actions taken or proposed by management. Sadly, two of these relate to the suicide of doctors whilst under GMC processes. The Committee requested an update on progress with the work initiated following the independent review undertaken by Horsfall and published in December 2014. This was provided on 11 May 2016 and we can report that significant progress has already been made in reviewing processes and implementing changes. Following input from expert Professor Louis Appleby, the next phase of work is also in hand.

## Trustees' Annual Report and Accounts 2015

- 18** At its meeting on 11 May 2016, the Committee scrutinised the Annual Report and Accounts 2015 and received the Audit Findings report of the external auditor.
- 19** Following feedback from the Committee last year, the Annual Report has been prepared in line with statutory requirements with plans to publish a separate impact report aimed at a more public audience. The Committee noted the progress and made additional suggestions for future consideration in preparing the report, including attempting to reduce it in length. A small number of additions were suggested for this year's report for the Executive to consider, including whether or not reference should be made to the current risk relating to industrial action.
- 20** 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.
- 21** 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.

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

- 22** The Committee has already reported the outcome from its effectiveness review last November. There were two key actions arising. The first was to arrange two additional meetings in 2016 to allow more time for detailed discussion of agenda items and to smooth reporting of audit reviews across the year – both of these were scheduled, one for January and the second in July.
- 23** The second action was to continue the seminar programme, engaging with Executive colleagues and their teams on areas of particular interest and risk. As well as the extended seminar on the Change Programme noted in paragraph two, other seminar

topics have been a presentation and discussion with colleagues from the Employer Liaison Service and a facilitated discussion on risk, led by Professor Garry Honey from the Institute of Risk Management as part of the work to drive our risk maturity. Professor Honey shared insights on the theme of risk appetite and tolerance and some of the characteristics of innovative regulators developing strategy in times of uncertainty and complexity.

### **Adding value**

- 24** The Committee's role is to add value to the GMC through supporting the achievement of good governance. It believes it is achieving this through:
- a** Being clear on its role and purpose and continuing to check that this is still appropriate for the business's needs.
  - b** Developing agendas and a programme of work which are pertinent to regular business and emerging issues so that meetings are relevant and focused.
  - c** Providing scrutiny of the Corporate Risk Register, supporting the risk management framework and risk maturity journey and undertaking 'deep dive' reviews of specific risk areas.
  - d** Holding management to account by calling directors and senior staff to meetings to respond to the findings from audit reviews and following through on the implementation of audit recommendations.
  - e** Meeting internal and external auditors without management present.
  - f** Regular dialogue between the Chair and Assistant Director of Audit and Risk Assurance between meetings.
  - g** Holding regular seminar sessions to give greater depth of background knowledge to members on key topics and inviting auditors to provide broader insight from global and national risk and audit trends in the financial, political and health environments.
  - h** Providing more time on agendas for reflecting on broader opportunity/risk issues and horizon scanning.