Board meeting

17 May 2023

Audit and risk committee annual report

to the board 2022/23

Purpose of paper

For assurance.

Board action required

The Board is asked to:

* 1. Receive the report and take assurance from the committee’s assessment of its work undertaken in 2022/23
  2. Approve the amendments to the committee’s terms of reference

Brief summary

In addition to the updates provided after each committee meeting, the audit and risk committee formally reports to the board annually to provide assurance on the effectiveness of NICE’s governance, risk management, financial and internal control arrangements.

Board sponsor

Alina Lourie, Chair of the audit and risk committee

Introduction

1. The committee’s primary function is to provide the board with an independent view of the adequacy and effectiveness of NICE’s governance arrangements, including the system of internal controls, risk management, and use of resources.

In order to discharge this function, the audit and risk committee prepares an annual report for the board and Accounting Officer. This report includes information provided by internal audit, external audit and other sources of assurance, such as reports from management.

Key issues

## Committee membership

One new member, Michael Borowitz joined the committee in January 2023.

Dame Elaine Inglesby-Burke retired from the NICE board and the committee in March 2023, after seven years as a non-executive director. Elaine’s contribution to the committee was invaluable and the members record their thanks for her contributions and support.

In line with best practice, the Accounting Officer (the chief executive) and the finance director routinely attended the committee’s meetings, as well as the Head of internal audit from the Government Internal Audit Agency and representatives of the external auditor, the National Audit Office and KPMG. The committee also continued to have close links with the Department of Health & Social Care (DHSC), with the head of the NICE sponsor team regularly attending its meetings.

## Audit & risk committee’s assessment

The assessment of the committee, based on the totality of the work presented to it, including but not exclusively the internal and external audit work, is that financial reporting, internal control and governance processes are generally well designed, well managed and effective.

The committee can advise the board that no major weaknesses have been identified in NICE’s risk management arrangements, internal and financial controls and governance processes during the year. One internal control breach was reported in October 2022, which the committee reviewed and subsequently approved an improvement action plan to strengthen contract management controls.

## Information supporting the committee’s opinion

Summarised below are the key sources of assurance that the committee has relied upon when formulating this opinion.

Internal Audit

NICE’s internal audit service is provided by the Government Internal Audit Agency (GIAA), with the ability to commission additional specialist work if required for specific audits. NICE’s head of internal audit during the year was Niki Parker. The committee agreed an annual work programme for internal audit at the start of the year which included six business areas to be reviewed. In addition, GIAA were engaged to undertake an audit of NICE’s Data Security and Protection Toolkit (DPST) submission in line with NHS Digital requirements.

The head of internal audit will issue her annual opinion of assurance in June when the committee reviews the final version of the annual report and accounts for 2022/23.

The table below sets out the range of audit work in the year, with conclusions discussed later in the report:

**Table 1 – Internal audit reviews**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Business area** | **Assurance rating** | **Recommendations made** | | |
|  |  | **High** | **Med** | **Low** |
| Functional Standards | Moderate |  | 2 | 4 |
| Collaborating Centres integration | Moderate |  | 3 | 2 |
| Contract management | Limited | 5 | 4 | 1 |
| Cyber security | Moderate |  | 2 | 3 |
| Business planning and performance | Moderate |  | 3 | 1 |
| Equality, diversity and inclusion | Moderate | 1 | 5 | 3 |
| **Total recommendations = 39** | | **6** | **19** | **14** |
| (Total in 2021/22 = 33) | | 3 | 18 | 12 |

### External audit

The National Audit Office (NAO) are NICE’s external auditors. The NAO contracted KPMG to undertake the financial audit of NICE’s annual report and accounts but retain responsibility for recommending the audit opinion to the Comptroller and Auditor General (C&AG). The NAO gives an opinion on whether the accounts are a true and fair view of the financial affairs of NICE and also whether its funds have been applied to the purposes intended by Parliament. This opinion will follow their audit starting on 9 May 2023, and a clean unqualified opinion is again anticipated following a positive interim audit at month 9.

The NAO’s Engagement Director Andrew Jackson and Engagement Manager Andrew Ferguson, continued to support the committee and attended each meeting during the year, in addition to a Partner and senior audit manager from KPMG. At the January 2023 meeting, Stephen Ferris took over as the NAO’s Engagement Director and Laura Wright as the Engagement Manager. The committee formally thanked Andrew Jackson and Andrew Ferguson for their contributions to the committee’s work over the last three years.

### Risk management

The risk management policy sets out NICE’s approach to risk management and defines risk, risk appetite, roles and responsibilities and explains how risks are categorised, assessed and escalated.

The audit and risk committee reviews the strategic risks at each of its quarterly meetings and ensures it sets aside sufficient time to discuss the highest scoring risks and to consider any new emerging risks.

The board and this committee discussed the strategic risks at length in 2022/23, concluding that the risks needed to be more externally focussed and aligned to NICE’s strategy and ambitions to meet the needs of the health and care system.

In March 2023, board members attended a risk management training session facilitated by the Chief Risk Officer at the MoJ. The purpose of the session was to review how NICE’s strategic risks were assessed and scored, and whether the mitigating controls were effective. The outcome was a decision to begin a process of undertaking a ‘bow tie’ analysis of the highest risks to better understand the causes and consequences of the risk, and the controls to mitigate the risk. Following this work, consideration will be given to whether to amend the risk scoring to include the controls.

### Declarations of interest

NICE has two policies regarding declaring and managing interests. One for board members and employees, and one for the advisory committees. Both are reviewed every 3 years, with the scope for earlier reviews if necessary.

There was one breach of the committee member policy identified and recorded during the year. As this related to the declarations from organisations making written submissions to a technology appraisal committee, rather than the committee members who develop NICE’s guidance, the impact on guidance was deemed to be low. Process improvements were identified following the breach.

### Government functional standards

All Accounting Officers were advised in September 2021 in a letter from HM Treasury that all government departments and their ALBs should at least meet the mandatory (‘shall’) elements of each functional standard (FS) by the end of the 2021/22 financial year. NICE has a nominated director and senior lead responsible for ensuring compliance with the standards, and that this is proportionate to NICE’s size and remit, and used to drive continuous improvement over time. Self-assessments have been completed against most of the applicable standards. As of 31 March 2023, 10 of the 14 standards had been assessed, 2 have yet to be assessed (finance and debt) and 2 are not applicable (HR and grants).

Formal, external assessments of NICE’s compliance with standards took place in 2022/23 against the commercial and counter fraud standards. The next stage is to ask the internal FS leads within NICE to develop action plans to work towards compliance with all the mandatory standards as a minimum, and thereafter the advisory standards. The audit and risk committee will continue to monitor performance against the functional standards.

### Counter fraud, bribery and corruption

NICE has a counter fraud, bribery and corruption strategy and response plan which is aligned to the counter fraud functional standard and a mandatory fraud awareness staff training course. There were no incidents of fraud, bribery or corruption detected during the 2022/23 financial year.

Following a DHSC peer review of NICE’s self assessment of compliance with the functional standard, the review concluded that NICE fully met 11 of the 12 standards and partially met 1 standard. This was a positive outcome. Further work is planned to improve the outcome based metrics to measure the impact of the counter fraud work.

In 2022/23, NICE took part of the Government’s National Fraud Initiative as part of the action plan to improve the detection and reporting of fraud. The data matching exercise identifed almost 200 matches. These are being worked through by the finance team; they appear to be primarily staff and committee members who have more than one role with a public body. When the data matches have all been investigated, a report will be made to the audit and risk committee.

### Management reporting

The committee received a range of assurance reports from management throughout the year. These are summarised in the following table:

**Table 2 – summary of sources of management assurance**

|  |  |
| --- | --- |
| **Management assurance** | **Description** |
| **Specific incident reports** | Where there is an incident particularly relating to a loss suffered by NICE, the committee receives a report as part of its risk management duties.  There was a financial control breach reported to the committee in June 2022, relating to a contract payment. An independent investigation was commissioned, and a full report provided to the committee, along with an improvement action plan.  In March 2023, the committee reviewed a report on the suspected theft of laptops from the IT storeroom in the Manchester office and noted the actions taken in response to strengthen safeguards. |
| **Losses and compensation register** | As required by HM Treasury (and within the SFIs), NICE maintains a register of losses and special payments which is reported at each audit and risk committee. For 2022/23 the total value of these was £13,633 (£19,684 in 2021/22).  This relates to £10,594 in train cancellation or amendment fees, £2,124 relates to cancelled meetings and events.  Of the remaining value, £446 relates to flight cancellations and £469 to write-offs on invoices. |
| **Contract waiver report** | The committee receives a report at every meeting of the tender waivers that have been authorised since the last meeting. Details are provided of the reason for the waiver, the value and the person that authorised it. The committee also receives an annual summary of all waivers granted during the year.  In 2022/23 there were a total of 166 contracts awarded of which 38 were subject to waivers, with a total value of £3,243,388 (£15,643,921 in 2021/22). The committee reviews waivers granted and requests specific assurance from management if it has any concern. |
| **Technical accounting issues** | The committee receives reports where there are significant changes to existing accounting policies or practices. There have been minimal changes in accounting standards in 2022/23. The IFRS 17 – Insurance Contracts has not yet been incorporated into the FReM. Given the nature of NICE’s business, IFRS 17 is unlikely to impact. |
| **Annual assurance reports** | A range of annual reports provide the committee with additional assurance. During 2022/23 the committee received reports on information governance and compliance with the Data Security & Protection toolkit, cyber security and resilience, the management of complaints and compliance with the functional standards. |

## Key messages from this year’s work

From our work we wish to highlight the following to the board:

1. We were pleased to receive in June 2022, a clean set of accounts for the financial year 2021/22 and a positive audit opinion.
2. We continue to focus on risk management. We received at each meeting the strategic risk register that presents the main risks facing NICE and the mitigating actions in place and planned. The Chief Executive also provides each meeting with their insight into the highest rated, and any emerging risks facing NICE.
3. We also invited a senior manager to present to us to hear their perspective on the challenges and risks in a specific area of responsibility. We looked at the following areas:

* Contract management and performance following the control breach. The committee was advised of the background to the breach and approved an action plan of recommendations for substantial improvements to the “Procure-to-Pay” (P2P) processes at NICE, aimed at strengthening the commercial and financial controls framework and transforming the current manual P2P process to make it compliant with best practice.
* Information governance and records management annual review. The committee received a comprehensive summary which provided assurance of the information governance and records management arrangements in place.
* Cyber security. The annual report covered the key areas of on-premise IT, cloud based (AWS) infrastructure, supply chain management, staff support and cyber awareness activities and business continuity arrangements. The committee also recevied updates on phishing campaigns designed to raise staff awareness of cyber threats. There was a significant increase in staff being caught out which actually related to a problem with the software. This was addressed by the IT team, and the campaigns were re-run.

1. There have been six internal audit reports published (listed in table 1 above). In total there were 39 recommendations for improvement (6 high, 19 medium and 14 low), this compared to 33 recommendations in 2022/23. The internal auditor’s annual opinion was moderate (as it was in 2021/22). The committee noted the management action plans following each review and was satisfied that good progress was being made to implement recommendations from this year and the previous year’s audit plan.
2. As chair of the committee, I was invited to attend the DHSC’s audit and risk (ARC) committee meeting in February 2023 along with the chief executive and director of finance. We were asked to provide an overview of the key risks and challenges facing NICE, our organisational transformation, and structure. The meeting was very positive.
3. We were advised that there have been no whistleblowing cases reported during the year. The Freedom to Speak Up Guardians hold regular ‘drop-in’ sessions which are communicated to all staff via the NICE Space intranet, and they provide the executive team with updates on their work.
4. We reviewed the committee’s terms of reference and recommended minor amendments (appendix B).
5. The committee was able to review an early draft of the annual report and accounts for 2022/23 in May to provide an opportunity to comment on its content ahead of the approval in June 2023.

Review of the committee’s effectiveness in 2022/23

The committee’s terms of reference require that periodically, the committee shall review its own effectiveness and report the results to the board. This exercise took place in May 2023 using one of the NAO’s audit and risk committee effectiveness checklists.

1. The review identified a number of improvements which the committee will introduce during 2023/24, subject to agenda planning. We will be inviting executive team members to attend our meetings in rotation, to talk about their areas of the business, specifically their key risks. We will also be looking at additional training for the committee, notably cyber security training. Consideration will be given to the current agenda and report format, to explore the scope for shorter summary/dashboard reports that could consolidate existing multiple reports.

# Challenges and risks for 2023/24

In the coming year we will continue to review the strategic risks facing NICE, and analyse them using the ‘bow tie’ approach to better understand the controls in place and assess their effectiveness. We also intend to undertake more risk deep dive sessions.

In terms of our focus, we are conscious of the following key issues facing NICE which will guide our work:

* **Topic selection** – ensuring NICE’s guidance and advice helps the health and care system deliver its priorities by focusing on topics that matter most to the system.
* **Digital living guidelines** – delivering NICE’s ambition of digital living guidelines which respond rapidly to the latest evidence meaning NICE’s recommendations remain relevant and are used to help get the best care to patients fast
* **Recruitment and retention of staff** – being able to attract and retain staff with the required specialist skills in the current competitive jobs market

### Conclusion

Considering all of the above, the committee concludes that NICE is well managed with effective processes and controls, strong financial, procurement, HR, information governance, and digital service management, and a skilled and committed workforce. All of these facets provide a resilient and strong base for the challenges ahead.

We record our appreciation of the excellent work and support from those teams whose work we most scrutinise and rely on. We also note with satisfaction the effective working relationships that continue to operate with our external auditors and internal auditors.

As chair of the committee, my focus for 2023/24 will be to build on last year’s good work, in particular to retain a keen focus on strategic risks and the actions to be taken to mitigate these risks. The committee will focus on issues that drive assurances for the board, linked to the priorities that enable NICE to best support the health and care system.

Board action required

The Board is asked to:

* 1. Receive the report and take assurance from the committee’s assessment of its work undertaken in 2022/23
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May 2023

# Appendix A

# The role and operation of the Audit and Risk Committee

1. The members of the committee during the period of the report were as follows:

Alina Lourie from 01/04/2021

Michael Borowitz from 01/01/2023

Mark Chakravarty from 01/04/2021

Elaine Inglesby-Burke from 16/11/2016 to 31/03/2023

Justin Whatling from 01/04/2021

Amanda Gibbon from 01/03/2021 (independent member)

1. No members declared any conflicts of interests in any of the agenda items during the year.
2. The following managers attend the committee meetings regularly to support it, present reports, respond to audit reports and answer queries from the committee:

Sam Roberts Chief executive

Jennifer Howells Finance, strategy & transformation director (until November 2022)

Boryana Stambolova Interim finance director from November 2022 (previously Deputy director, finance)

Martin Davison Associate director - finance

Barney Wilkinson Associate director – procurement

David Coombs Associate director – corporate office

Ehtisham Ramzan Head of financial accounting (from Nov 2022)

Elaine Repton Corporate governance & risk manager (committee secretary)

Other senior managers attend as and when for specific items as required.

1. Representatives also attended from:

Internal audit The Government Internal Audit Agency

External audit The National Audit Office & KPMG

DHSC NICE Sponsor Team

1. It has been the committee’s normal practice to hold a private discussion at the start of each meeting between the auditors and members of the committee without the management present. This is to give the auditors an opportunity to raise any matters of concern without management present. No issues of concern were raised which required management action to be taken.
2. The committee is required to meet at least 4 times a year. Meetings took place during the period and were attended as follows:

**Table 3 – Attendance at meetings in 2022/23**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Member** | **11 May 2022** | **16 June 2022** | **19 Oct**  **2022** | **30 Nov 2022** | **19 Jan 2023** |
| Alina Lourie | P | P | P | P | P |
| Michael Borowitz | - | - | - | - | P |
| Mark Chakravarty | P | P | P | P | P |
| Elaine Inglesby-Burke | A | A | P | P | P |
| Amanda Gibbon | P | P | P | P | P |
| Justin Whatling | A | A | P | A | P |

**Key:** P= Present for meeting A= Absent from meeting

1. The quorum for meetings of the committee is two, as the table above shows all meetings of the committee during the period were quorate.

**Table 4 - Explanation of internal audit assurance levels**

|  |  |
| --- | --- |
| **Substantial** | The framework of governance, risk management and control is adequate and effective. |
| **Moderate** | Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. |
| **Limited** | There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective. |
| **Unsatisfactory** | There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail, |