National Institute for Health and Care Excellence

Audit and risk committee annual report 2021/22

The purpose of this paper is to provide the board with an annual review of the audit and risk committee’s work and to provide assurance on the effectiveness of NICE’s governance, risk management, financial and internal control arrangements. It also presents the outcome of the committee’s review of its terms of reference.

The board is asked to receive the report and approve the amendments to the committee's terms of reference.

Alina Lourie

Chair, audit and risk committee

May 2022

Introduction

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.

Background

Committee membership

Three members of the NICE board joined the committee at the start of 2021/22 – Mark Chakravarty, Alina Lourie and Justin Whatling, plus an additional external member, Amanda Gibbon who was appointed to strengthen the financial expertise on the committee. During the year the committee chair Rima Makarem left the committee at the end of her board tenure on 31 July 2021. Rima was replaced by Tom Wright who took over as the committee chair from August 2021 until his board tenure ended on 31 March 2022. Alina Lourie was appointed as the committee chair from 1 April 2022.

In line with best practice, the Accounting Officer (the chief executive) and the Finance, strategy and transformation 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, from the National Audit Office. 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.

The new non-executive director members attended a one day training event in July 2021 entitled ‘introduction to the audit and risk committee’ facilitated by the Civil Service College.

Audit and 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 is able to provide the board with reasonable assurance that no major weaknesses have been identified in NICE’s risk management arrangements, internal and financial controls and governance processes during the year.

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. It was necessary to amend the plan during the year as the changed focus of the planned organisational design work meant an audit in this area would not deliver the originally intended benefits. The committee therefore agreed to replace this with an audit of recruitment systems and processes. NHS Digital also funded an audit of NICE’s Data Security and Protection Toolkit (DPST) submission by KPMG which meant it was not necessary for GIAA to audit this area as originally planned. GIAA agreed to take account of the KPMG audit in their annual audit opinion.

The head of internal audit will issue her annual opinion in June when the committee reviews the final version of the annual report and accounts for 2021/22.

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

|  |  |  |
| --- | --- | --- |
| Assignment | Final report issued | Opinion |
| Risk management | September 2021 | Moderate |
| Business continuity planning | December 2021 | Limited |
| Key financial controls | January 2022 | Moderate |
| Recruitment systems and processes | March 2022 | Moderate |
| Real World Data management | [TBC] | [TBC] |

(see Table 4 on page 15 for explanation of assurance opinion levels)

External audit

The National Audit Office (NAO) are NICE’s external auditors. This year 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 2022, and a clean unqualified opinion is again anticipated following a positive interim audit at the end of month 9. The NAO’s Engagement Director and Engagement Manager continue to support the committee and attend each meeting, in addition to a Partner and senior audit manager from KPMG.

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 policy was updated in response to recommendations in an internal audit report, and the committee’s recommendation to move to a 5x5 risk scoring matrix. It was also reviewed against the government’s Orange book ‘risk management – principles and concepts’ to ensure it is aligned with best practice. The revised policy was agreed by the committee in January 2022 and approved by the board in March 2022.

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

Declarations of interest

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

There was one breach of the policy identified and recorded during the year. It related to two expert panel members (on the COVID-19 rapid guidelines) who had been involved in a paper that had been included as a reference paper giving background information to the guideline (one as a reviewer and the other as an author). As the paper was not included in the evidence base, it was agreed that the panel members were not conflicted in their assessment of the evidence used to draft the committee’s recommendations. Following investigation, it was concluded that this had not been a deliberate attempt to not disclose the information. The learning from this breach was that the respective technical team implements additional checks to ensure that if expert panel members names are included as authors of any studies that have either been referenced or are included in the evidence base, these will be flagged to the project team to check if this has been declared. If not, the project team will contact the panel members involved and ensure a revised declaration is submitted.

Government functional standards

The Cabinet Office wrote to all Accounting Officers in May and September 2021 informing them of the requirement for all government departments and their ALBs to comply with the suite of government functional standards by 31 March 2022. In line with subsequent correspondence issued to Accounting Officers from the Cabinet Office, the initial priority was to ensure that NICE could at least meet the mandatory (‘shall’) elements of each standard by the end of 2021/22.

NICE’s operational management committee was tasked with overseeing progress to meet the standards.  A senior lead was nominated for each standard and tasked with undertaking a self-assessment against the mandatory requirements.  The audit and risk committee received a progress report in May 2022 and noted the outcome of the completed self-assessments. This indicated compliance with the mandatory elements of a number of the standards and that further work is required to develop a plan for compliance in some areas.

Counter fraud, bribery and corruption

NICE has been working towards full compliance with the counter fraud functional standard since 2019. During 2021 the Cabinet Office decided that government departments should undertake peer reviews of their respective ALB’s compliance with the standard as there was insufficient resources centrally to complete the work. NICE had its informal assessment carried out by the DHSC’s Anti-Fraud Unit (AFU) in October 2021. The result was that 8 of the 12 standards were fully met, 3 were partially met and one not met.

One ‘partially met’ assessment related to minor required updates to the counter-fraud, bribery and corruption strategy, policy and response plan, which is aligned to the functional standard. The policy was revised in response to the DHSC’s feedback. The remaining areas for improvement are in progress and relate to putting in place outcome based metrics for the counter fraud work programme and undertaking proactive fraud detection activity.

The DHSC AFU facilitates a Counter Fraud Liaison Network for the health group ALBs. These meetings are held quarterly and have been attended by the corporate governance and risk manager. They have been helpful in sharing good practice and highlighting fraud incidents that can be used to raise awareness at NICE.

There were no incidents of fraud, bribery or corruption detected during the 2021/22 financial year.

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 |
| 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 2021/22 the total value of these was £19,684 (£13,575 in 2020/21).  Of this amount, £4,313 relates to train cancellation or amendment fees, £15,297 relates to a contract renewed in error.  Of the remaining value, £38 was settled in a claim relating to the NICE helpline. |
| Contract waiver report | The committee received 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 2021/22 there were a total of 163 contracts awarded of which 30 were subject to waivers, with a total value of £15,643,921 (£535,966 in 2020/21). The significant increase related to the BNF contract. 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. The implementation of IFRS 16 relating to leases was notified in May 2021 and is reported in the 2021/22 accounts. It specifies how to recognise, measure, present and disclose transactions arising from a lease. |

|  |  |
| --- | --- |
| 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 one data breach reported to the committee in September 2021 relating to the confidential discounted price of a technology being published on the NICE website without being sufficiently redacted. The committee received a full report of the incident, the steps taken to resolve the matter with the company involved, and the plans to explore the scope for process changes (supported by technology) to mitigate the risk of future incidents. |
| Annual assurance reports | There are a range of reports that the committee receives to provide additional assurance. During 2021/22 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 counter fraud functional standard. |

Key messages from the year’s work

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

* 1. We were pleased to receive in June 2021, a clean set of accounts for the financial year 2020/21 and a positive audit opinion. The work was done to a tight timetable but continues to present a positive picture of the accuracy and control of the core financial systems. This continues to be reinforced by internal audit assessments.
  2. We continue to focus part of our meetings 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 risks facing NICE.
  3. We also invited a senior manager to present to us at each committee meeting to hear their perspective on the challenges and risks in a specific area of responsibility. We looked at the following areas in detail:
     1. The risks associated with managing data and analytics and how NICE is responding to the challenges by working with external partners including NHS Digital and the Data Alliance Partnership to ensure there is relevant and timely access to NHS data to meet the needs of NICE, and also building analytical and data science capability within NICE.
     2. The workforce challenges in a competitive recruitment market where NICE struggles to compete for some skills including digital expertise, data scientists, health economists and change management, alongside concerns about workload pressures. The presentation outlined the engagement, culture and wellbeing issues to provide solutions that supported staff and managers.
     3. The key risks associated with the transfer of staff from the two guideline collaborating centres into NICE including the consultation process, the potential impact on business continuity of the guideline programme and the overall cost of supporting the additional staff.
  4. There have been four internal audit reports published (listed in table 1 above). In total there were 30 recommendations for improvement (2 high, 15 medium and 13 low priority). The real world data management audit is still awaited. 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 previous year’s audit plan.
  5. In January 2022 we received a report from management on the security and resilience of the IT infrastructure at NICE. We were updated on the on-premises network and infrastructure, the Amazon Web Services (AWS) infrastructure, supply chain security, staff support and awareness activities, business continuity and assurance processes in place. The committee noted that the external environment continued to put pressure on NICE’s digital and IT estate but there had been no successful cyber security attacks on NICE in the year, indicating that the cyber security arrangements have continued to be robust. External audits and penetration testing exercises carried out during 2021/22 indicated that the infrastructure was robust and well protected although opportunities for improvements are being addressed.
  6. The committee reviewed an annual information governance (IG) and records management (RM) report in November 2021 which advised of the arrangements to ensure that NICE has effective controls in place to safeguard personal and confidential information and manage records appropriately. The key areas of activity in the last year had been completion of the Data Security and Protection Toolkit, delivering mandatory IG training to all staff, ensuring NICE complies with key legislation, preparing to transfer public records to the National Archive, responding to data breaches and generally supporting the network of internal Information Asset Owners to effectively manage and protect information that NICE holds. A total of 24 data breaches were recorded, 4 being rated as moderate and 20 minor. The report provided assurance that each breach was investigated and reported to the Information Governance Steering Group to identify lessons learned.
  7. We were advised that there have been no whistleblowing cases reported during the year, but we are reassured that NICE has appointed three new Freedom to Speak Up Guardians who provide staff with an additional safe and confidential route to raise any concerns, replacing the previous longstanding appointees. The Guardians hold regular ‘drop-in’ sessions which are communicated to all staff via the NICE Space intranet.
  8. We reviewed the committee’s terms of reference and recommended minor amendments for approval by the board (at appendix A).
  9. The committee was able to review an early draft of the annual report and accounts for 2021/22 in May 2022 to provide an opportunity to comment on its content ahead of the required approvals in June 2022.

Review of the committee's effectiveness in 2021/22

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 2022 using the NAO’s audit and risk committee effectiveness checklist.

The committee considered a summary report of the feedback and agreed to schedule a cyber security training session, explore ways to improve communications with the DHSC’s audit and risk committee, as well as inviting members of the executive team and other senior managers to present to the committee at further meetings on issues of strategic risk.

Challenges and risks for 2022/23

In the coming year we will continue to review the strategic risks facing NICE, consider the controls in place, and assess their effective management. In terms of our focus, we will ensure that we consider the risks around:

* Influence and impact – ensuring NICE is able to actively draw in the most cutting edge improvements in care, rapidly and robustly translating these into useful and usable advice and influencing the system to adopt the best possible care for people and patients
* Transformation – successfully transforming the way NICE works across the areas of technology, processes and behaviours
* Cyber security – which remains a continuing risk for all organisations as cyber criminals become more sophisticated in their attempts to attack businesses.

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 in the finance, strategy and transformation; people and place; and digital, information and technology directorates 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.

I am delighted to be taking over as chair of the audit and risk committee - having been a member of the committee since April 2021. My focus will be to build on the good work achieved in 2020/21. In particular we will retain a keen focus on strategic risks and the actions to be taken to mitigate these risks. Equally through simplification of paperwork and an agenda focused on decision-making and discussion, the committee will focus on items that drive assurances for the board on key areas of work at NICE.

The role and operation of the Audit and Risk Committee

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

Rima Makarem from 01/01/2017 to 31/07/2020 (as chair)

Tom Wright from 01/04/2019 to 31/03/2022

(chair from 01/08/2020 to 31/03/2022)

Elaine Inglesby-Burke from 16/11/2016

Mark Chakravarty from 01/04/2021

Alina Lourie from 01/04/2021

Justin Whatling from 01/04/2021

Amanda Gibbon from 01/04/2021

No members declared any conflicts of interests in any of the agenda items during the year. In November 2021, Mark Chakravarty confirmed that whilst he was acting vice chair of NICE and covering for the chairman in her absence, he would recuse himself from any discussions at that meeting which related specifically to the role of NICE chairman or would otherwise be inappropriate for him to participate in. There were no items that required him not to participate.

The following managers attend the committee meetings regularly to support it, present reports, respond to audit reports and answer queries from the committee:

Gillian Leng Chief executive (until 31/01/2022)

Sam Roberts Chief executive (from 01/02/2022)

Jennifer Howells Finance, strategy and transformation director

Boryana Stambolova Deputy director, finance, strategy and commercial

Martin Davison Associate director, finance

Barney Wilkinson Associate director, procurement

David Coombs Associate director, corporate office

Elaine Repton Corporate governance and risk manager (committee secretary)

Other senior officers attend as and when required for specific items

Representatives also attend from:

Internal audit Government Internal Audit Agency

External audit National Audit Office and KPMG

DHSC NICE Sponsor team lead

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.

The committee is required to meet at least 4 times a year. Meetings took place during the period and were attended as set out in table 3 below:

Table 3 - Attendance at meetings in 2021/22

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Member | 12 May 2021 | 16 June 2021 | 8 Sept 2021 | 24 Nov 2021 | 26 Jan 2022 |
| Mark Chakravarty | P | P | P | P | P |
| Elaine Inglesby-Burke | A | P | A | P | A |
| Amanda Gibbon | P | P | P | P | P |
| Alina Lourie | P | P | P | P | P |
| Rima Makarem | P | P | - | - | - |
| Justin Whatling | P | P | P | A | A |
| Tom Wright | P | P | P | P | P |

Key: P = Present A = Apologies given

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

Issues for decision

The Board is asked to:

* receive the report and note in particular the committee’s assessment of the work undertaken in 2021/22 and the anticipated challenges for the coming year; and
* approve the amendments to the committee’s terms of reference.

Appendix 1: Audit and risk committee terms of reference (draft) May 2022

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. |

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May 2022