



<b>MEETING</b>	<b>PUBLIC BOARD 15 July 2020</b>
<b>Agenda item Paper Number</b>	<b>Item 7b CM/07/20/07b</b>
<b>Agenda Title</b>	<b>Audit and Corporate Governance Committee (ACGC): Annual report to the Board</b>
<b>Author</b>	<b>Paul Rew, Chair, Audit and Corporate Governance Committee</b>

**PURPOSE OF PAPER:**

The annual report of the Audit and Corporate Governance Committee to the Board on its work in 2019-20
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**Summary**

1. This is the annual report of the Audit and Corporate Governance Committee (ACGC) to the Board on its work in 2019/20.
2. ACGC supports the Board in its responsibilities for risk, control and governance by reviewing the comprehensiveness of assurances that meet the needs of the Board and Accounting Officer and by reviewing the reliability and integrity of these assurances. The Committee does this by scrutiny of: the strategic processes for management of corporate risk, controls and corporate governance; the CQC annual report and accounts; planned activity and results of both internal and external audit; the adequacy of the management response to issues identified by audit activity; and procedures for detecting fraud.
3. Last year, a sub-group of ACGC was established to focus on the change programme. This is a significant, challenging and multi-year piece of work for CQC and accordingly, required a significant amount of time to give proper scrutiny. The sub-group, consisting of Non-executive Board members of ACGC, facilitates and seeks assurance that the three main facets of the change programme – digital, people and quality improvement – progress in a rapid and co-ordinated manner that delivers real results to the organisation. Seven meetings of the sub-group have been held in the last year, with Minutes provided and discussed at the ACGC meetings.

4. In considering the general state of governance, risk management and internal control of CQC, the committee was assured by the results of the management assurance programme and the predominantly positive assessments from internal audit activities, where most of the fieldwork was completed before the impact in Mid-March of the Covid-19 crisis on normal activities. The crisis has resulted in considerable changes to CQC's activities and ways of working. The Board has been closely involved in monitoring developments with weekly Board meetings. Generally, CQC has responded very positively to the challenges and governance and control processes have continued, largely unchanged.

### **Recommendation**

5. The Board is asked to **NOTE** the annual report of the Audit and Corporate Governance Committee.

### **Discussion and Implications**

#### **Introduction**

6. This is the ninth annual report from ACGC, summarising the Committee's oversight of CQC governance, risk management, internal control, management assurance, internal audit and external audit responsibilities.
7. The last annual report from the Audit and Corporate Governance Committee was submitted to the Board in June 2019. This report therefore covers four formal ACGC business meetings that have been held during the period of this review. Following each ACGC meeting, a summary report is provided to the public session of the Board and full minutes are presented to the private session of the Board.
8. ACGC terms of reference explicitly acknowledge the role played by the Regulatory Governance Committee (RGC) in its provision of assurance to the Board on risks associated with delivering the regulatory programme. While ACGC retains oversight of the full internal audit programme, RGC retain the option to consider those audits that focus specifically on regulatory decision making. During the year, there has been clearer definition of which risks can better be addressed by RGC and it was agreed that RGC would lead on scrutiny of Risks R2 (Adapting to the pace of change) and R3 (Financial pressures in Adult Social Care), and, in collaboration with ACGC, would regularly consider Risks R1 (Effective regulator) , R6 (Effectively implementing our regulation) and R9 (Our Strategy).
9. On membership, two new independent members, Jeremy Boss and David Corner, were appointed during the year. The current Committee membership is as follows:
  - Paul Rew (Chair of ACGC and CQC non-executive Board member)

- Jeremy Boss (independent external member)
- David Corner (independent external member)
- Jora Gill (CQC non-executive Board member)
- John Oldham (CQC non-executive Board member)
- Mark Saxton (CQC non-executive Board member)

10. The Committee is supported by the Head of Internal Audit and the shared Health Group Internal Audit Service and also regularly benefits from the attendance of the Chief Executive, the Chief Operating Officer and the Director of Finance, Commercial and Infrastructure. Representatives from the National Audit Office also regularly attend. The agenda, papers and minutes of all meetings are routinely supplied to the Department of Health & Social Care.

### **Our work**

11. During the year, the Committee provided advice and assurance to the Board through:

- Regular review of strategic and high-level operational risks that face CQC;
- Oversight of CQC activity on management assurance through ensuring that robust systems, frameworks and processes are in place to manage the business and drive improvement (this is distinct from the process of CQC performance reporting);
- Scrutiny and approval of the annual programme of risk based internal audits and monitoring the effectiveness and timeliness of completion of management actions;
- Review and oversight of CQC counter-fraud and information security arrangements;
- Scrutiny of the range of activity taking place across the Change programme, including digital, people and quality improvement;
- Oversight of Healthwatch England's governance and risk assurance arrangements;
- Review and oversight of preparation of the CQC Annual Report and Accounts for approval by the Board, including the Accountability Report, the Performance Report and the Financial Statements;
- A full list of topics covered is included in Appendix 1.

### **Main themes**

12. **Transformation and change programme.** Considerable progress has been made in this multi-year programme during the last twelve months. Through ACGC and sub-group meetings, we have monitored and challenged the developments. In particular we have been pleased to see a strengthening of the Programme Management Office capabilities and activities as well as the related governance structures. There is a clearer and firmer handle on the range of programmes and projects, regular reporting on risks and progress

(including to the Board) and regular reviews of the portfolio's constituent parts to reassess priorities. Interdependencies between projects and programmes will become more important and we will be keeping that under review. Business cases are now better formulated and benefits better identified. Control over benefits realisation will be increasingly important.

13. We note ongoing work on Digital aspects of the programme which will give CQC a more modern and flexible infrastructure. Further transitions are planned over the coming months to migrate services and complete the exit from the legacy technology infrastructure and contracts. We will continue to consider and review this activity and the related cyber security and business continuity arrangements.
14. Becoming intelligence driven – The way CQC uses intelligence in its regulatory activity continues to be of key importance, particularly in light of the Covid-19 crisis. As work develops, we will continue to look closely at the relationship of Intelligence to digital enablers and wider links with the change programme. We have previously emphasised the importance of related cultural change in the way that colleagues use data and this will be an integral part of developing the way CQC works.
15. Much positive work has taken place as part of the Quality Improvement programme, A good structure is now place and this has started to bring benefits to the organisation and we expect to see this grow in the coming year.
16. On **the impact of Covid-19**, we were assured that business continuity plans together with rapid and effective management action were implemented to address the unique circumstances of the crisis. Equipment and technology updates that had been rolled out in the last year or so enabled a swift move to home working and effective communication channels. Enhanced monitoring processes have been implemented to help assess risk in providers while inspection activities are reduced. Following further consideration, we were assured that there was effective mitigation in place to address possible risk to CQC colleagues as a result of the crisis. In addition, we note the careful and continuous monitoring of both income and expenditure and activity to mitigate potential impacts on the financial position of CQC as a result of Covid-19 and the monitoring of cyber risks. We will continue to keep this under close review.

### **Strategic risk management**

17. The Committee is assured that the strategic risk management process effectively identifies risk and appropriate mitigating actions are planned. There have been regular updates to the corporate risk register of the significant Strategic and High-Level risks to delivery of the strategy and business plan, which have been monitored and discussed by ACGC. We are content that the register is treated as a dynamic document, retaining sufficient flexibility to accommodate new and different risks that may emerge through the year. Following on from last year, an internal audit of Risk Culture focusing on the experience and behaviours of CQC staff resulted in a moderate assurance rating.

## Management Assurance

18. The Management Assurance Assessments in CQC provide a wide-ranging self-assessment by each directorate of the operation of processes and controls across the organisation. We continue to acknowledge the honesty and openness with which the assessments are completed. Internal audit colleagues have reviewed the assessment process and found it to be positive, with evidence being peer reviewed and a firm commitment to the process within CQC.

## Audit

19. ACGC is charged with agreeing the programme of work of the external and internal auditors and reviewing their findings. During the year we have engaged with the NAO as our external auditors. A clean audit outcome is expected on the annual report and accounts. As in prior years, some staff continue to be members of Local Government Pension Schemes (LGPS) and CQC's financial statements include its share of certain balances of those schemes and related information. This year, the local auditors of the LGPS's are delayed in completing their work for the NAO and this will delay finalisation of the accounts. This is outside of the control of CQC and NAO colleagues are working with the local auditors to identify when the necessary assurances can be obtained. The timetable for laying of the Annual Report and Accounts will be amended accordingly. We have considered the results of NAO's work so far, enquired about their planned approach and the way they have co-operated with Internal Audit to maximise overall audit efficiency, capture opportunities to derive a greater level of assurance and minimise unnecessary duplication of work. We thank them for their work.
20. In relation to Internal Audit, we have considered and advised on: the annual Internal Audit plan; how well this has supported the Head of Internal Audit's responsibility to provide her annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes; the results of Internal Audit work; and tracking management response to recommendations made by that work. We acknowledge the changed emphasis of Internal Audit in carrying out its work around CQC programmes. This has allowed the Internal Audit programme for the year to be flexed in a targeted way to address key areas in the transformation programme as they develop and therefore provide the assurances that we need when we need them.
21. Work in 2019-20 covered a number of areas of governance, including a review of Programme Governance, a review of Quality Improvement and a review of CQC's framework for management of regulatory risk. 17 audit reviews have been completed during 2019-20 (2018/19: 18). Of these there were 14 reports (2018/19: 12) for which formal ratings were issued; none was rated substantial (2018/19: 1), 13 were rated moderate (2018/19: 10), 1 was limited (2018/19: 1). The Limited Assurance finding was in respect of the report on Inspection Quality and Consistency Assurance. We considered this report in detail. There is an agreed action plan to address the audit findings and we will keep this under close review. Generally, progress continues to be made and lessons learned across the organisation. More details can be found in the Head of Internal Audit opinion which is included in the Annual Report and Accounts

22. ACGC will again formally review the quality of internal and external audit in the coming months.

### **Other areas**

23. *Fraud update* – We receive regular update on fraud cases and investigations. Over the year, we were assured that the small number of alleged cases that were reported were robustly investigated and none of the alleged cases reported were supported by any evidence.
24. *Expenses for home workers and employees with more than one place of work* - Following the outcome of an HMRC compliance review, there is a liability for CQC to pay income tax on certain expenses for those employees deemed as having more than one place of work. CQC practice complied with previously issued HMRC guidance. Discussion with HMRC have not yet concluded, however, an estimate of the potential liability has been accounted for in the 2019-20 accounts.

### **Conclusion**

25. Based upon our work over the year, the Committee is content that the assurances provided by management, Internal Audit and External Audit are sufficiently reliable and comprehensive in meeting the needs of the Board and the Accounting Officer and that significant findings have been included in the Annual Report and Accounts considered by ACGC (including the Governance Statement).

### **Attachments**

Appendix 1 – Committee business during the year and summary of attendance

Paul Rew  
Chair, Audit and Corporate Governance Committee  
9 July 2020

## Appendix 1

### Committee and sub-committee business 2019/20

ACGC annual report to the Board 2019/20
Approval of internal audit arrangements for 2020/21
Approval of Internal Audit plan for 2020/21 and tracking the implementation of audit recommendations
Business continuity
Counter fraud, bribery and corruption: twice yearly report
Covid-19 operational and business risks
CQC 2019/20 Annual report and accounts: proposed structure and timetable
CQC 2019/20 Annual report and accounts: draft narrative and financial statements
Cyber security and information security incidents
Digital Foundations Programme
Draft Annual Assurance report from the Head of Internal Audit
External audit: audit completion report and audited accounts
External audit: Interim progress report on the financial statement audit
Finance Management – Risks and Medium-term planning for transformation programme.
Future Regulatory Framework
Future Regulatory Platform Business case
Governance - Change management; digital transformation
Healthwatch England update
Intelligence driven: enablers
Internal Audit baseline review of Transformation programme governance
Internal audit reports: Regular progress updates, including CQC response and detailed consideration of some reports where appropriate
Management assurance assessments
National Audit Office / Public Accounts Committee: Action plan to address recommendations
People planning and organisational culture
People risks and mitigation
Strategic risk report
Strategic and high-level operational risk registers 2019/20 and 2020/21
Quality Improvement
Transformation engagement strategy

Registration Programme
Timeliness of Hospital report production

## Summary of attendance at ACGC meetings

	Oct 19	Jan 20	Apr 20	Jun 20
Paul Rew (Chair)	✓	✓	✓	✓
Sir John Oldham	✓	✓	✓	✓
Mark Saxton	x	✓	✓	✓
Jora Gill	x	x	x	x
Jeremy Boss		✓	✓	✓
David Corner		✓	✓	✓

## Summary of attendance at ACGC sub-group meetings

	Jul 19	Sep 19	Oct 19	Nov 19	Jan 20	Feb 20	May 20
Paul Rew	✓	✓	✓	✓	x	x	✓
Sir John Oldham	✓	✓	✓	✓	✓	✓	✓
Mark Saxton	✓	✓	✓	✓	✓	✓	✓
Jora Gill	✓	x	✓	✓	x	✓	✓