

Audit Committee, 17 June 2015

Internal audit – annual report on governance, risk management and internal control systems

Executive summary and recommendations

**Introduction**

Mazars' annual report on the HCPC's governance, risk management and internal control systems is attached.

**Decision**

The Committee is asked to review and discuss the report.

**Background information**

The internal audit programme includes an annual report. The annual report includes the internal auditors' overall opinion on the system of governance, risk management and internal control, which is provided to the Accounting Officer and the Audit Committee and in turn supports the description of the system of internal control within the governance statement section of the Annual Report & Accounts.

The annual report also summarises the findings of internal audits during the year, with comparisons to the two previous years.

**Resource implications**

None

**Financial implications**

Mazars' agreed fees in 2014-15 are £24,000 including VAT and expenses.

**Appendices**

Mazars' internal audit report on core financial systems

**Date of paper**

2 June 2015



## **Internal Audit Annual Report**

For the year ended 31 March 2015

Presented to Audit Committee meeting of 17 June 2015

# Contents

- 01 Introduction
- 02 Internal Audit Work undertaken in 2014/15
- 03 Annual Opinion
- 04 Benchmarking
- 05 Performance of Internal Audit
- A1 Summary of internal audit work undertaken in 2014/15
- A2 Summary of Priority 2 recommendations

In the event of any questions arising from this report please contact Peter Cudlip, Partner, Mazars LLP [peter.cudlip@mazars.co.uk](mailto:peter.cudlip@mazars.co.uk) or Graeme Clarke, Director, Mazars LLP [graeme.clarke@mazars.co.uk](mailto:graeme.clarke@mazars.co.uk)

## **Status of our reports**

The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered. The report has been prepared for the sole purposes of the Health and Care Professions Council. Disclosure to third parties cannot be made without the prior written consent of Mazars LLP.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

# 01 Introduction

## *Background*

The Health Professions Council (HPC), a body corporate, was set up on 1 April 2002 by the Health Professions Order 2001 and supporting rules and guidance replacing the former Council for Professions Supplementary to Medicine (“CPSM”). From the 1 August 2012, HPC took over the regulation of social workers in England and renamed itself as the Health and Care Professions Council (HCPC). The HCPC is an independent public organisation accountable to the Privy Council.

Although the HCPC is not a non-Departmental Public Body (“NDPB”) of the Department of Health, the Accounts Direction from the Privy Council requires that its financial statements are prepared as if this were the case.

As the Accountable Officer, the Chief Executive and Registrar has responsibility for maintaining a sound system of internal control that supports the achievement of the HCPC’s policies, aims and objectives, whilst safeguarding the HCPC’s assets for which he is personally responsible, in accordance with the responsibilities assigned to him by the Privy Council.

His responsibilities for internal control are therefore identical in this respect to those of an Accounting Officer as defined in Managing Public Money. This requires Accounting Officers to make provision for internal audit in accordance with Government Internal Audit standards (“GIAS”).

## *Scope and purpose of internal audit*

The purpose of internal audit is to provide the Council, through the Audit Committee, and the Chief Executive and Registrar (as Accounting Officer), with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving HCPC’s agreed objectives.

This opinion forms part of the framework of assurances that is received by HCPC and should be used to help inform the Annual Governance Statement. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

Our professional responsibilities as internal auditors for the year ended 31 March 2015 are set out within Public Sector Internal Audit Standards (PSIAS) produced by the Internal Audit Standards Advisory Board.

Mazars LLP were appointed to provide an internal audit service to HCPC from 1 April 2011. This Annual Report covers the work we have undertaken for the year ended 31 March 2015, and incorporates our audit opinion.

The report summarises the internal audit activity and, therefore, does not include all matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.

## *Acknowledgments*

We are grateful to the Chief Executive and Registrar, Finance Director, and other staff throughout HCPC for the assistance provided to us during the year.

# 02 Internal audit work undertaken in 2014/15

Our Internal Audit Strategy Update and Operational Plan 2014/15 was considered and approved by the Audit Committee at its meeting on the 20 March 2014.

The Plan was for a total of 45 days including three days Follow Up, six days Audit Management and three days Contingency. We have completed all planned audits from the Plan during the year and the Contingency days were not used.

The audit findings in respect of each review, together with our recommendations for action and the management response were set out in our detailed reports, a summary of which have been presented to the Audit Committee during the course of the year.

A summary of the reports we have issued is included at *Appendix A*. The appendix also describes the levels of assurance we have used in assessing the control environment and effectiveness of controls and the classification of our recommendations.

## 03 Annual Opinion

### *Scope of the Internal Audit Opinion*

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to HCPC is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, we have taken the following matters into account:

- The results of all audits undertaken during the year ended 31 March 2015;
- Whether or not any Priority 2 recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Audit Committee and/or Council;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

### *Annual Opinion*

On the basis of our audit work, we consider that HCPC's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, none of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

In reaching this opinion the following factors were taken into particular consideration:

### *Corporate Governance and Risk Management*

Following the positive assurance from our work in 2013/14; we undertook a review of key controls and processes in respect of corporate governance and risk management arrangements within HCPC. This was in the context of the continued embedding of the new Council and Committees from January 2014 as well four new members being added to the Council in January 2015. Overall we provided a 'Substantial' level of assurance with two Priority 3 recommendations made.

### *Internal Control*

Of the six other audits undertaken in the year where we provide a formal assurance level, five were given a 'Substantial' level of assurance and one, Facilities Management (Report Ref. 08.14/15), given an 'Adequate' level of assurance.

During the year, we have made no 'Priority 1' and five 'Priority 2' recommendations. All remaining recommendations were categorised as 'Priority 3'.

The 'Priority 2' recommendations arose in our ICT – Disaster Recovery (DR) NetRegulate System, Follow Up, Project Management, and Facilities Management reviews. A summary of these recommendations is included in Appendix A2.

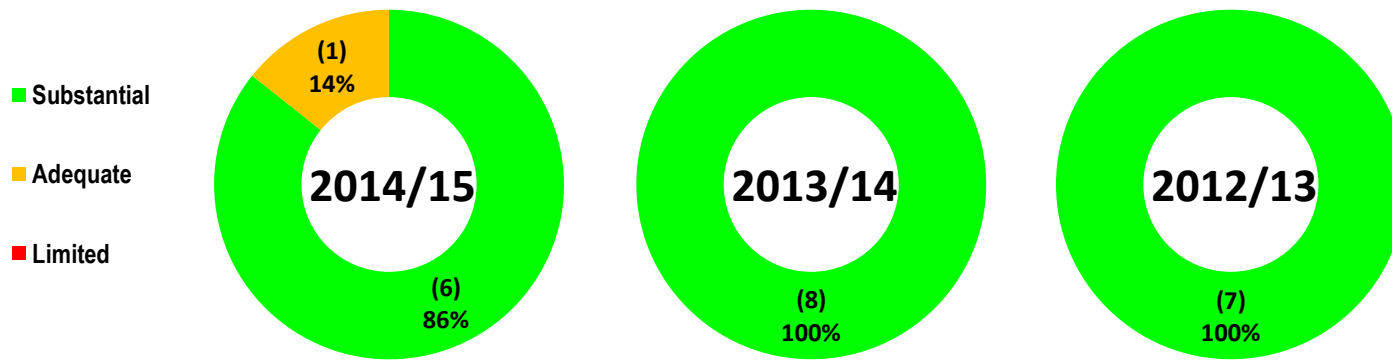
Our follow up review of thirty recommendations made during 2013/14 confirmed that seventeen had been implemented. Ten recommendations were considered to be in the process of being implemented. One of these recommendations was 'priority 2' with the remaining nine being 'priority 3' with five of these recommendations being carried forward from the previous year's Follow Up audit (report 01.13.14 refers). There were also a further two Priority 3 recommendations considered as superseded; details of which are included in the individual report.

All recommendations made during the year were accepted by Management.

## 04 Benchmarking

This section compares the Assurance Levels (where given) and categorisation of recommendations made at HCPC.

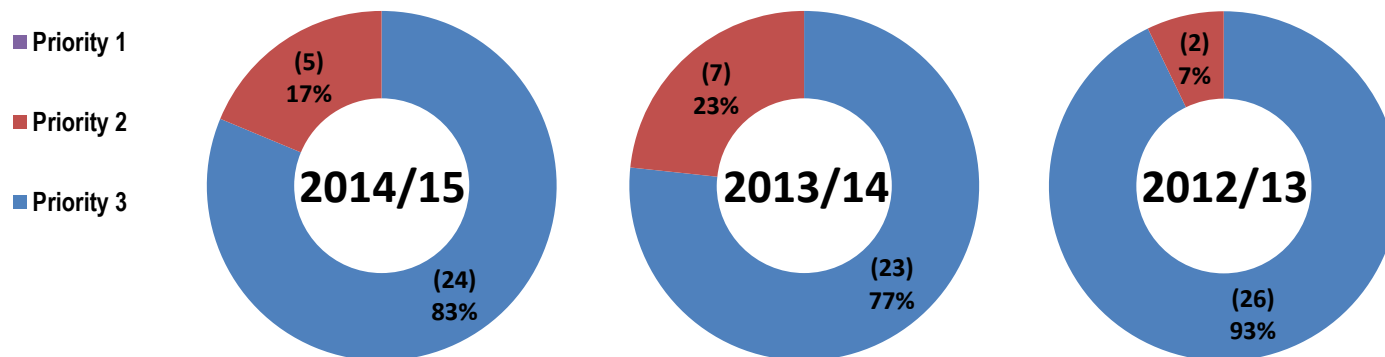
### Comparison of Assurance Levels (where given)



### Commentary

We have provided assurance on 22 reports over the last three years, providing Substantial assurance to 21 of these. The one report we have given Adequate assurance was in regards to our review of Facilities Management (08.14/15). There have been no Limited assurance reports.

### Comparison of Recommendations by categorisation



Over the past three years, we have made a total of 90 recommendations. 75 of these recommendations were Priority 3 recommendations. The remaining 15 recommendations were Priority 2. We have made no Priority 1 recommendations over the past three years.

## 05 Performance of Internal Audit

### *Compliance with professional standards*

We employed a risk-based approach to determining the audit needs of HCPC at the start of the year and use a risk-based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with PSIAS.

### *Internal Audit Quality Assurance*

In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- The use of satisfaction surveys for each completed assignment;
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Regular meetings of our Sector Strategy Groups, which issues technical guidance to inform staff and provide instruction with regard to technical issues; and
- The maintenance of the firm's Internal Audit Manual.

### *Conflicts of Interest*

There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

### *Performance Measures*

We have completed our audit work in accordance with the agreed plan and each of our final reports has been reported to the Audit Committee.

During 2011/12 it was agreed that the satisfaction surveys we issue alongside each final report would be collated and summarised by the Secretary to the Committees and used to inform the Audit Committee's annual assessment of the performance of internal audit.

## A1 Summary of internal audit work undertaken in 2014/15

The following reviews were undertaken during the 2014/15 audit year:

Ref	Auditable Area	Level of Assurance (If appropriate)	Recommendations				
			Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total	Total agreed by Management
01.14/15	ICT – Disaster Recovery (DR) NetRegulate System	Substantial	-	1	-	1	1
02.14/15	Follow Up	Not Applicable	-	1	9	10	10
03.14/15	Partners	Substantial	-	-	1	1	1
04.14/15	HR – Performance Management	Substantial	-	-	1	1	1
05.14/15	Project Management	Substantial	-	1	4	5	5
06.14/15	Corporate Governance and Risk Management	Substantial	-	-	2	2	2
07.14/15	Core Financial Systems – Procurement, Treasury Management, and Budget Setting and Control	Substantial	-	-	3	3	3
08.14/15	Facilities Management	Adequate	-	2	4	6	6
		<b>Totals</b>	-	<b>5</b>	<b>24</b>	<b>29</b>	<b>29</b>
		<b>%</b>	<b>0%</b>	<b>17%</b>	<b>83%</b>	<b>100%</b>	<b>100%</b>



We use the following levels of assurance and recommendation classifications within our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, HCPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, HCPC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

## A2 Summary of Priority 2 Internal Audit Recommendations

### ICT – Disaster Recovery (DR) NetRegulate System (01.14/15)

- HCPC should ensure that alerts that warn the ICT Team when backups fail are established.

### Follow Up (02.14/15)

- An anti-bribery control framework setting out HCPC's approach to ensure adequate procedures should be developed. This should include arrangements for emerging bribery risks.

### Project Management (05.14/15)

- Project Managers should be reminded that all risks should be scored and respective risk registers for Sage and PRS and Fees projects updated accordingly. In addition, the guidance should clearly state that only project specific risks should be included on the project risk register.

### Facilities Management (08.14/15)

- For the regular maintenance contractors such as fire checks and security, HCPC should put in place formal contractual arrangements over fixed term periods.
- HCPC and the Facilities department should ensure that, where possible, POs are raised in advance of invoices being received and payments made.