

Audit Committee 12 June 2018

Internal audit report – budget, forecasting and key financial controls

Executive summary and recommendations

**Introduction**

As part of the Internal Audit Plan for 2017-18, Grant Thornton have undertaken a review of the budget and forecasting process, and key financial controls.

**Decision**

The Committee is asked to review and discuss the report.

**Background information**

See Grant Thornton's report, attached

**Resource implications**

None

**Financial implications**

Grant Thornton's agreed fees for 2017-18 were £47k including VAT.

**Appendices**

Internal Audit Report – Budgeting, Forecasting and extended Key Financial Controls Review

**Date of paper**

1 June 2018



**Grant Thornton**

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## The Health and Care Professions Council

### Budgeting, Forecasting and extended Key Financial Controls Review

May 2018

Distribution		Timetable	
For action	Andy Gillies, Finance Director	Fieldwork completed	6 April 2018
	Tian Tian, Head of Finance	Draft report issued	14 May 2018
	Andy Gillies, Finance Director	Management comments	16 May 2018
For information	Marc Seale	Final report issued	31 May 2018
	Audit Committee		

# Contents

## Sections

<b>1</b>	<b>Executive Summary</b>	<b>1</b>
<b>2</b>	<b>Detailed Findings – Section A: Budgeting and Forecasting</b>	<b>5</b>
<b>3</b>	<b>Detailed Findings – Section B: Key Financial Controls</b>	<b>12</b>

## Appendices

<b>A</b>	<b>Internal Audit Approach</b>	<b>19</b>
<b>B</b>	<b>Definition of audit issue ratings</b>	<b>20</b>

## Glossary

The following terms are used in this report:

HCPC – Health and Care Professions Council

EMT – Executive Management Team

PO – Purchase Order

Sage – HCPC’s Accounting System

WAP – HCPC’s Procurement System

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It is the responsibility solely of the Health and Care Professions Council's management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

# 1 Executive Summary

## 1.1 Background

It was agreed with the Audit Committee and Management that Internal Audit would perform a review of the budgeting, forecasting and selected key financial controls in place within HCPC.

## 1.2 Objective and risk areas

The objectives of this review are:

a) A high level review, based primarily on the design of the processes in place, of the budgeting and forecasting processes in place within HCPC. We independently assessed whether the processes are robustly designed and whether departments are providing appropriate levels of challenge to budgets and forecasts prepared.

b) Review the design effectiveness, with limited sample testing, of selected key financial controls in place, which are detailed below.

The key risk areas we examined are:

### **Budgeting and forecasting:**

- The budgeting and forecasting processes may not be supported by relevant policies and procedures, resulting in inconsistent application by staff members.
- Forecasting and budget setting processes, monitoring and review/sign-off processes may not be robust.
- Amendments to the original budget may not be appropriately updated and disseminated to budget holders.

- Budget holders may not monitor and review their budgets through variance analysis or other mechanisms, resulting in potential under or over spend.

### **Key Financial Controls**

In respect of the key financial controls element of the review, we reviewed the design effectiveness of the following areas, supported by limited sample testing:

#### Foundation controls:

- Whether a Delegation of Authority is in place and appropriately communicated
- Whether appropriate policies and procedures are in place for the areas reviewed
- Whether there is segregation of duties in operation in the areas examined.

#### General Ledger:

- Whether journals posted to the ledger are appropriately authorised and supported
- Whether access to update the general ledger is appropriately restricted
- Whether key account / ledger reconciliations are performed on a regular basis (including reconciliation to the management accounts).

#### Expenditure:

- Whether purchase orders raised are appropriately authorised
- Whether controls are robust in relation to setting up new suppliers
- Whether invoices are accurately recorded in the relevant ledgers
- Whether only authorised invoices are paid
- Whether three-way matching is undertaken for invoices received, where appropriate, with anomalies investigated and resolved.

### **1.3 Scope**

Our approach to the review was as follows:

- Meet with members of the Executive Management Team (EMT) and department heads to understand the budget setting and forecasting processes in place, including Management's approach to challenging the budget
- Meet with the respective chairs of the Council and Audit Committee to understand their views on the process of setting the budget, but also the adequacy of budget reporting and where improvements can be made
- Select, in conjunction with Management, three departmental budgets and a number of key assumptions to test whether the assumptions are supported, and if there is evidence of challenge by Management
- Obtain an understanding of how departments monitor and update the agreed budget during the year.

### **1.4 Overall assessment**

#### Budgeting and forecasting

HCPC's budgeting process is well developed, and includes the use of policies and procedures and budgeting templates, with robust review processes in place (e.g. from EMT, Chief Executive Officer, Audit Committee and Council). Two out of the three departmental budgets we reviewed during this audit contained audit trails/supporting documentation, which provided details regarding how the budgeted amounts were derived. The third departmental budget we tested did not have supporting documentation to validate the budget line items amounting to approximately £335k (refer to Recommendation 4).

We also identified through our review of EMT Meetings minutes that budget holders challenge each other's budgets, which is considered to be an area of good practice.

Notwithstanding the areas of good practice noted, our review identified areas where the current control framework requires strengthening. Specifically, we noted **three medium rated finding and two low rated finding.**

Our findings in relation to the budgeting and forecasting element of this audit concern the need to update policies and procedures in place and provide further clarity for budget holders regarding the change management process after budgets have been signed-off by Council. HCPC should also consider introducing formalised processes (through the budgeting policy/procedures) regarding requirements for audit trails/supporting documentation for the various budget templates submitted to the Finance Director. These are discussed in greater detail below.

### Key Financial Controls

Our review of key financial controls primarily focussed on the design of selected foundation, general ledger and expenditure controls in place.

We identified **four medium rated findings and one low rated findings** in relation to the key financial controls reviewed.

The key financial controls testing performed highlighted the need to perform supplier reconciliations, additional controls regarding retrospective purchase orders being raised. We also identified the need to document the journal preparation, review, approval and posting processes since there is limited guidance in place.

We identified improvements were required in respect of controls in place to monitor changes made to supplier master data. Through discussions with management, we understand that there is the ability to run a report on changes to supplier master data from Sage however, this does not currently take place. We understand through discussions with the Head of Finance that spot checks are performed however, this is on an ad-hoc basis.

Although outside of the scope for this review, we understand that HCPC will lose revenue from its social worker registrants, amounting to £9m (nearly 30% of HCPC's revenue). We understand through interviews with the CEO and Finance Director that this loss of revenue has been factored into the forecasting process, HCPC are currently in progress of re-modelling their 5 year plan to take into account the loss of income from social workers.

The table on the right, summarises the key findings from our review and the individual ratings awarded.

### **1.5 Key findings**

Risk / Process	High	Medium	Low	Info.
<b>Budgeting and Forecasting</b>				
Budgeting Policies and Procedures	-	1	-	-
Budget Setting Process	-	-	1	-
Changes to Budget Post Approval from the Council	-	1	-	-
Budgets: Audit Trails to support the accuracy of the financial figures	-	1	-	-
Management Accounts	-	-	1	-
<b>Key Financial Controls</b>				
Accounts Payables - Supplier Reconciliations	-	1	-	-
Staff Expense Policy	-	-	1	-
Retrospective Purchase Order Raising	-	1	-	-
Changes to Supplier Master Data	-	1	-	-
Journal Posting Policies and Procedures	-	1	-	-
<b>Total</b>	<b>-</b>	<b>7</b>	<b>3</b>	<b>-</b>

#### **Budgeting and Forecasting**

We identified **three medium** rated findings for the budgeting and forecasting elements of this review, which are detailed below:

- The budgeting policies and procedures do not provide information for budget holders regarding the need to ensure that

budget line items are supported with appropriate supporting documentation

- There is no formal process in place in relation to how changes to the budget should be managed once Council has approved it
- The Communications budget template which we performed testing on did not contain full supporting documentation and audit trails detailing how the budgeted amounts were derived. We noted that approximately £335k out of £1.5m (total spend) was input into the budgeting template without supporting documentation.

### **Key Financial Controls**

Through our key financial controls testing, we identified **four medium** rated findings, which are detailed below:

#### **Medium Priority findings**

- Through our discussions with the Finance Team, we understand that there are segregation of duties in place so the same individual is not able to create and approve the set-up of new suppliers. There are also spot-checks performed by the Head of Finance however, this is on an inconsistent basis and can be further improved to strengthen the internal controls in place.
- We identified through that there are currently no supplier reconciliations performed on a regular basis, in order to validate the accuracy and completeness of supplier payable balances. We observed on an adhoc basis that the finance team carry out an informal check to confirm supplier balances. This is carried out through an exchange of emails between the finance team and the suppliers. The evidence of the supplier confirmations are then retained on a shared finance mailbox. We observed there was no

systematic filing of supplier statements and therefore the shared mailbox is just being used as a repository. The current supplier reconciliation process is not adequate, for example any differences in values arising between Sage and the suppliers' statement of account (confirmation) are not captured in the current process, and therefore there is a risk that these differences are not readily known or resolved in a timely manner. In addition, based on our sample testing of the current supplier reconciliations process, we identified one instance where the supplier statement of account was not obtained to confirm the supplier balance back to Sage.

- Through discussions with the Finance Team, we noted that retrospective purchase orders are being raised by HCPC staff and there are no formal processes or controls in place for tracking employees who consistently raise POs retrospectively.
- Through our interviews with the Finance Team, we identified that there is currently no documented guidance in place detailing how journals should be prepared and reviewed, prior to being posted to the general ledger in Sage. The current process entails journals being posted by the Finance Team and an informal review of the postings taking place from the Finance Director.

Further details of our findings and recommendations are provided in Section 2 of this report.

### **1.6 Acknowledgement**

We would like to take this opportunity to thank the staff involved for their co-operation during this internal audit. Their details can be found at Appendix A.

## 2 Detailed Findings – Section A: Budgeting and Forecasting

1.	Medium	Budgeting Policies and Procedures	
Finding and Implication		Proposed action(s)	Agreed action (Date / Ownership)
<p><u>Good Practice</u> Budgeting policies and procedures should be in place, outlining the end-to-end process, roles and responsibilities (for budget holders and reviewers) and review and sign-off procedures. There should be a clearly defined policy owner and reviewer as well as a periodic review of policies and procedures, to ensure that they remain fit for purpose.</p> <p><u>Finding</u> We reviewed HCPC’s Financial Operating Guidelines for new Budget Holders and noted that there was guidance relating to the budgeting process, key stakeholders’ roles and responsibilities, and the wider end-to-end process.</p> <p>It was however identified that there is no requirement within the budgeting policies and procedures to submit supporting documentation in order to ascertain how the budget lines have been calculated. Refer to recommendation four, also, where it was observed for one department that supporting documentation was not provided for all expenditure included in the budget.</p>		<p><b>R1:</b> The Financial Operating Guidelines for New Budget Holders should include guidance regarding when supporting documentation is required to be submitted in the budget templates (i.e. where the budget line item represents 5% of the total budget value in line with HCPC expectations).</p> <p>Management should ensure that all policies and procedures relating to the budgeting process have clearly defined policy owners and reviewers. There should be a mandatory requirement to review relevant policies and procedures, as a minimum on an annual basis, with version control in place to ensure that budget holders are using the latest version.</p>	<p><b>A1:</b> Updated Guidelines for New Budget Holders to be reviewed by SMT before end of Q3. Document to be communicated out to all budget holders after approval by SMT.</p> <p><b>Owner: Director of Finance</b></p> <p><b>Agreed date of implementation:</b> <i>From December 2018</i></p>



<b>1.</b>	<b>Medium</b>	<b>Budgeting Policies and Procedures</b>
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<b>Finding and Implication</b>	<b>Proposed action(s)</b>	<b>Agreed action (<i>Date / Ownership</i>)</b>
<p>Further, we were unable to ascertain as to who the policy owner and reviewer were in regards to the Financial Operating Guidelines for New Budget Holders. In line with generally accepted good practice, this information should clearly visible within the Financial Operating Guidelines document.</p> <p><u>Implication</u> Lack of the requirement to provide supporting documentation for budgeted expenditure may lead to inaccurate budgets and less opportunity to challenge the budgets presented.</p> <p>Without a clearly defined policy owner and reviewer, policies may not be regularly reviewed, leading to outdated documentation, and a heightened risk that the appropriate policies and procedures will not be adhered to and key tasks omitted.</p>		

2.	Low	Budget Setting Process
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p><u>Good Practice</u> The budget setting process should encourage budget holders to manage budgets efficiently and where appropriate recognise synergies and cost savings that can be achieved, prior to initial submission to the Finance Director or equivalent. Budget holders should be challenged by Executive Management, CEO and Council for the amounts being proposed to ensure the costs are achievable and in line with expectations.</p> <p><u>Finding</u> As part of our testing, we reviewed the IT and Communications Departments' Budget Templates for 2017/2018 and identified that there were three and four iterations created and submitted, respectively. Based on our discussion with the Finance Director, a similar number of iterations also existed for other departments within HCPC. For the IT Department's budget, we noted a difference of £47k between the first submission and the approved amount by Council. Additionally, the Communications department budget differed by £76k from the initial iteration versus the amount approved by Council.</p> <p>The 2018/2019 budget template iterations have increased to approximately four iterations on average. Management consider that opportunities exist to reduce the number of budget template iterations created and subsequently the overall time taken to complete the budgeting process, which we understand is currently in the region of five months. We understand this was the first time</p>	<p><b>R2:</b> Budget holders, EMT and the CEO should consider, for example through an informal lessons learned review, whether the budgeting process can be streamlined.</p> <p><b>R3:</b> Executive management through consultation with the Audit Committee and Council, should quickly decide on the level of input required by both Committees to ensure that the length of time taken to produce next year's budget (and future budgets) is carried out within a timelier manner.</p>	<p><b>A2:</b> <i>The 2018-19 budgeting process took longer and more iterations needed to enable Audit Committee and Council to review earlier versions of the budget and ensure alignment with the Corporate Plan. Any changes to the budget process will go through review at the September Audit Committee meeting – see point A.3.</i></p> <p><b>Owner: Director of Finance</b></p> <p><b>Agreed date of implementation:</b> <i>September 2018 Audit Committee meeting</i></p> <p><b>A3:</b> <i>Suggested budgeting process for 2019-20 to be brought to the September Audit Committee meeting</i></p> <p><b>Owner: Director of Finance</b></p> <p><b>Agreed date of implementation:</b> <i>September 2018 Audit Committee meeting</i></p>

that both the Audit Committee and the Council were involved in the 2018/19 budget setting process, which has been likely to increase the length of time taken to finalise the budget. We understand management are in discussions with the Audit Committee and the Council regarding the level of input required by both Committees as part of next year's budget setting process including limiting the number of iterations of the budget to a maximum of three. This should reduce the overall time taken to finalise the budget for 2019/20.

Implication.

A lengthy budgeting process may result in budgets taking too long to sign-off and inappropriate and inaccurate reporting (management accounts) being prepared for Executive Management.

<b>3.</b>	<b>Medium</b>	<b>Changes to budget post approval from the Council.</b>
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<b>Finding and Implication</b>	<b>Proposed action</b>	<b>Agreed action (Date / Ownership)</b>
<p><u>Good Practice</u> Appropriate guidance and controls should be in place for changes to the budget post Council approval. For example, additional spend on Capex. The approval process should be documented in the Financial Operating Guidelines and HCPC’s Delegation of Authority (or equivalent).</p> <p><u>Finding</u> There is no formal guidance in place detailing how changes to the budget should be managed post approval from the Council. The only relevant guidelines observed during the audit fieldwork related to the need for budget holders to achieve their budget to within +/- 5%.</p> <p>We also identified that there is no process in place regarding approval thresholds in instances where budget holders require additional spend due to unplanned events.</p> <p><u>Implication</u> Without appropriate change management controls in relation to amendments to the approved budget, additional expenditure may be incurred by HCPC which is not communicated to key stakeholders such as EMT, CEO, Council and the Audit Committee.</p>	<p><b>R4:</b> Management should include a change management section within the Financial Regulations detailing the change management process, and in particular relevant review and sign-off procedures.</p> <p><b>R5:</b> Approval thresholds (in percentage terms or absolute values) should be clearly documented in the Financial Operating Guidelines. In instances where budgets need to be amended, this should be formally captured and appropriately reviewed in line with the agreed thresholds.</p>	<p><b>A4:</b> <i>We will review the processes for virement in the Financial Regulations and the Financial Operating Procedures that are made under the Financial Regulations. Any changes will be proposed to the November Audit Committee meeting.</i></p> <p><b>Owner: Director of Finance</b></p> <p><b>Agreed date of implementation:</b> <i>From December 2018</i></p> <p><b>A5:</b> <i>As above</i></p> <p><b>Owner: Director of Finance</b></p> <p><b>Agreed date of implementation:</b> <i>As above</i></p>

4.	Medium	Budgets: Audit Trails to support the accuracy of the financial figures
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p><u>Good Practice</u> All amounts included with budget template spreadsheets are linked to supporting documentation to ensure that the correct amounts are being recorded, and are appropriately supported with clear evidence. Budget holders should be able to clearly justify costs through supporting documentation or through adequate justification for each budget line item.</p> <p><u>Finding</u> Through our testing of the IT and Fitness To Practice divisions' budget templates, we identified good practice in terms of supporting documentation and audit trails being available for review. For both divisions, each line item populated in the budget template was linked to supporting workings, in order to justify the costs included. However, we reviewed the Communications budget template and noted that certain amounts had been populated without a reference to supporting documentation/relevant worksheets. For example, values were manually entered into cells for the 2017/2018 budget templates totalling approximately £335k without any supporting documentation. As a result, we were unable to comment on the accuracy of budget line items against supporting information.</p> <p><u>Implication</u> Inputting amounts into spreadsheets without reference to supporting worksheets, or other supporting information, may result in inaccurate or inappropriate budgets being produced.</p>	<p><b>R6:</b> The Finance Team should ensure that, going forward, all budget template submissions and supporting evidence has been provided to validate the expenditure lines. In instances where this has not been adhered to, the Finance Team should seek further justification and evidence.</p>	<p><b>A6:</b> <i>As per point R1, a threshold will be set out in the "Guidelines for New budget holders" and once approved; we will distribute this out to each budget holder. Finance will ensure that supporting documents are obtained for all expenditure lines above the threshold.</i></p> <p><b>Owner: Head of Financial Accounting</b> <b>Agreed date of implementation:</b>  <i>By December 2018</i></p>

5.	Low	Management Accounts
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p><u>Good Practice</u> Management accounts are prepared by the Finance Team on a monthly basis, and are sent to budget holders for their review and comment. The management accounts will be compared against budgets and forecasts to provide insight to budget holders regarding over/underspend.</p> <p><u>Finding</u> We reviewed the management accounts for the IT and Communication departments and identified that although comparisons are made between year to date actual vs. year to date budget. Feedback from stakeholders interviewed indicated that whilst the above comparison has been useful, most stakeholders we spoke to wanted to have the comparison of spend for the year to date actual vs. the total budget (i.e. that was approved by Council) and this would enhance decision-making regarding potential re-allocation of budget or requests for additional spend.</p> <p><u>Implication</u> Without appropriate analysis against the approved annual budget, there is a loss of accountability for the original budget.</p>	<p><b>R7:</b> Finance should consider the feedback from other executives and discuss and agree at the next SMT what level of reporting (i.e. year to date actual vs year to date budget or any other form) is most appropriate for their needs.</p>	<p><b>A7:</b> <i>We agree that monthly reports should be comparing YTD actuals against YTD budget. The mid-year forecasting process will be used to redistribute resources in response to changes in circumstances, and where that occurs; those circumstances will be part of the explanation for variances between actual costs and budgeted costs.</i></p> <p><i>Following the EMT restructure, new budget holders are in place. We will hold meetings with the new budget holders and executive directors to discuss other management report requirements.</i></p> <p><b>Owner: Director of Finance / Head of Finance</b></p> <p><b>Agreed date of implementation:</b></p> <p><i>A paper was submit and reviewed by SMT at end of May. Meetings with budget holders to commence in June 2018.</i></p>

### 3 Detailed Findings – Section B: Key Financial Controls

6.	Medium	Accounts Payables - Supplier Statement Reconciliations
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p><u>Good Practice</u> The Finance Team should perform supplier statement reconciliations on a monthly/quarterly basis to ensure that the accounts payable balance is accurate and complete. This is typically performed through reconciling the creditor balance per HCPC’s records to an external statement from the supplier; investigating any differences identified.</p> <p><u>Finding</u> We observed on an adhoc basis that the finance team carry out an informal check to confirm supplier balances. This is carried out through an exchange of emails between the finance team and the suppliers. The evidence of the supplier confirmations are then retained on a shared finance mailbox. We observed there was no systematic filing of supplier statements and therefore the shared mailbox is just being used as a repository. The current supplier reconciliation process is not adequate, for example any differences in values arising between Sage and the suppliers’ statement of account (confirmation) are not captured in the current process, and therefore there is a risk that these differences are not readily known or resolved in a timely manner. In addition, based on our sample testing of the current supplier</p>	<p><b>R8:</b> The Finance Team should perform supplier reconciliations on a frequent basis, to ensure that the correct amounts are recorded in Sage.</p> <p><b>R9:</b> Month-end close procedure documentation should be updated to ensure that there is a mandatory requirement to perform supplier statement reconciliations, which are then reviewed by the Head of Financial Accounting.</p>	<p><b>A8:</b> <i>We will continue to request supplier statement and reconcile while we review Purchase Order listing and in preparation for month end Accounts Payable closing process. We will ensure better documentation (electronically) of the supplier balances we have reconciled and regular review are taking place by the financial account.</i></p> <p><i>During month end, Head of Financial Accounting will review the top 10 supplier to ensure supplier reconciliation took place and that they have been reviewed. We will record all approval electronically.</i></p> <p><b>Owner: Head of Financial Accounting</b></p> <p><b>Agreed date of implementation:</b> <i>To start from July 18 as part of June’s month end process.</i></p>

reconciliations process, we identified one instance where the supplier statement of account was not obtained to confirm the supplier balance back to Sage.

Implication

Without supplier reconciliations being performed between the suppliers' statement of account and the accounts payable ledger, there is a risk that the amount owed by HCPC is not accurately recorded in Sage.

***A9:** Head of Financial Accounting will review and document review for the top 10 suppliers electronically.*

***Owner:** Head of Financial Accounting*

***Agreed date of implementation:***

*To start from July 18 as part of June's month end process.*



<b>7.</b>	<b>Low</b>	<b>Staff Expense Policy</b>
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<b>Finding and Implication</b>	<b>Proposed action</b>	<b>Agreed action (Date / Ownership)</b>
<p><u>Good Practice</u> There should be a Staff Expenses Policy in place, which details guidance in relation travel, subsistence, accommodation and other expense claim areas. The policy should be reviewed and approved at least annually to ensure that it remains fit for purpose.</p> <p><u>Finding</u> Based our review of the Staff Expenses Policy in place and also reviewing the process by which staff expenses are claimed. We found the currently staff expense policy does not detail the financial limit by which line managers can approve staff expenses. It is therefore assumed in the policy all expenses, except for international travel which requires the Chief Executive’s approval, can be approved by a line manager. During our testing of staff expenses we did not find any exceptions, however it is good practice for line managers based on their seniority of position, to have delegated approval limits to approve staff expenses as the first line of control. This ensures that any significant business related expenses are visible and approved by the most appropriate senior member of the management team before being sent to the finance department for secondary approval and payment.</p> <p><u>Implication</u> Without appropriate approval thresholds in place, inappropriate staff expense claims could be approved without the appropriate visibility by senior management.</p>	<p><b>R10:</b> There should be clearly defined approval thresholds for different grades of line managers, within the Policy.</p>	<p><b>A10:</b> We will explore into the possibility of submit staff expenses through W/AP approval. We will update expense policy to state the threshold levels.</p> <p><b>Owner: Director of Finance</b></p> <p><b>Agreed date of implementation:</b> Expense policy will be submitted for review for November Audit Committee meeting.</p>

8.	Medium	Retrospective Purchase Orders
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p><u>Good Practice</u> We would expect purchase orders to be raise in timely manner, and not raised retrospectively. Furthermore, we would expect approved purchase orders to be closed once the invoice(s) has been received and processed.</p> <p><u>Finding</u> Through our discussions with the Finance Team, and subsequent and fieldwork, we identified that there are no formal processes or controls in place for tracking employees who consistently raise POs in an untimely fashion or through the use of old POs, in order to identify and provide training for the individuals involved. Whilst our sample testing did not find any retrospective POs, management are aware of late POs being raised. This further suggests that the current process for raising purchase orders cannot be relied on as staff could raise purchase orders once invoices are sent by relevant suppliers.</p> <p>We understand since our fieldwork that Management have taken action to communicate with staff to prohibit the use of existing purchase orders.</p> <p><u>Implication</u> Without appropriate controls for identifying staff who consistently create POs in an untimely fashion, HCPC may be committing to expenditure, without appropriate purchase orders being raised.</p>	<p><b>R11:</b> POs should be raised in a timely manner, but more importantly the budget holder/approver should not approve any intent to purchase goods/services without a valid PO. This will prevent the majority of retrospective POs being raised.</p> <p><b>R12:</b> Management should also track retrospective POs and report these at an appropriate committee, for example SMT for oversight.</p>	<p><b>A11:</b> <i>Meetings to be held with budget holders and performance of regular review to start before end of Q2</i></p> <p><b>Owner: Head of Financial Accounting</b></p> <p><b>Agreed date of implementation:</b> <i>September 2018</i></p> <p><b>A12:</b> <i>Performance of regular review to start before end of Q2 (as part of A12). We will address inappropriate use of retrospective POs through informal communication with the budget holders concerned and their line managers if appropriate. Reporting to a Committee is not required.</i></p> <p><b>Owner: Head of Financial Accounting</b></p> <p><b>Agreed date of implementation:</b> <i>Process to be implemented before end of Q2 – September 2018</i></p>

9.	Medium	Changes to Supplier Master Data
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p><u>Good Practice</u> Changes to supplier master data should be reviewed on a regular basis, for example monthly, in order to validate the completeness and accuracy of such changes. Where supplier bank details are required to be changed/amended. We would expect to see:</p> <ul style="list-style-type: none"> <li>• segregation of duties internally within HCPC for approval of any changes to bank details</li> <li>• HCPC to carry out a check with the company (typically fraud occurs through trusted and known individuals)</li> <li>• management to review and approve (i.e. monthly) changes supplier master data.</li> </ul> <p><u>Finding</u> Based on our audit work, we carried out checks to understand the whether changes to supplier master data including bank details are reviewed and approved in a timely manner. We found through our fieldwork and discussions that the HCPC have the ability to run an audit log report from Sage, which picks up changes to supplier master data (including bank details, business address, and contact details). However, we found that the report has not been run on a regular basis, if at all. We were provided with the audit log during our field work, and noted from our review of the report, that the ‘approved on’ date fields were blank, and we were therefore unable to ascertain whether approvals were provided for relevant amendments through the right process/system. Discussions with the Head of Finance identified that HCPC are working with Sage</p>	<p><b>R13:</b> Given that the organisation has a system in place that allows it to capture changes to supplier information, we would strongly recommend that the system is used to capture the approval (through the new Sage plug-in or equivalent) of changes by an appropriate and authorised individual(s).</p> <p><b>R14:</b> Management should introduce a formal control, which requires a periodic (monthly) review and approval of changes to supplier master data, including agreement to supporting documentation, and confirmation through discussion with the supplier.</p> <p><b>R15:</b> Management should evaluate whether Sage is able to provide the relevant reports/data extracts to be able to compare supplier and employee bank account details; for example through exporting data into Microsoft Excel and running a ‘V look up’ query.</p>	<p><b>A13:</b> <i>We have obtained the license string for this function; this will be apply to the system in June 18.</i></p> <p><b>Owner:</b> <i>Head of Financial Accounting</i></p> <p><b>Agreed date of implementation:</b> <i>June 2018</i></p> <p><b>A14:</b> <i>We will include a new step in the weekly payment run, to ensure a report has been run to show that all changes made to the supplier database are approved.</i></p> <p><b>Owner:</b> <i>Head of Financial Accounting</i></p> <p><b>Agreed date of implementation:</b> <i>June 18</i></p> <p><b>A15:</b> <i>We will investigate this with Sage and investigate any risks associated or unintended consequences associated with carrying out this action.</i></p>

to create a plug-in, where appropriate approval can be obtained, prior to making any changes to the supplier master data.

Furthermore, based on our fieldwork, we were able to validate that appropriate segregation of duty controls are in place as the Transactions Team and IT super-users are the only individuals who have access in Sage 200, to make changes to supplier master data. Through our discussions with the Head of Finance, we noted that IT super-users do not have Sage installed on their computers and therefore, are currently unable to make changes to supplier master data. Finally, we reviewed a sample of spot checks performed regarding changes to supplier master data through validating the bank account details on the BACs run to the supplier invoice however, this is currently being performed on an ad-hoc basis by the Head of Finance.

Implication

There is a risk that inappropriate or fraudulent changes could be made to supplier master data, such as bank details, and this would not be identified as the change report is not reviewed, and amendments are not agreed to supporting documentation and approved prior to changes being made.

***Owner: Head of Financial Accounting***

***Agreed date of implementation:***

*To be evaluated before end of Q2.*

<b>10.</b>	<b>Medium</b>	<b>Journal Posting Policies and Procedures</b>
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Finding and Implication	Proposed action	Agreed action (Date / Ownership)
<p><u>Good Practice</u> There should be guidance available to the Finance Team detailing how journals should be prepared, reviewed and subsequently posted into the accounting system, Sage.</p> <p><u>Finding</u> During our discussions with the Finance Team, supported by testing performed, it was identified that there is currently no documented procedural guidance detailing how journals should be prepared and reviewed, prior to being posted. Based on our discussions with the Finance Director, journals are reviewed by the Head of Finance on a monthly basis, however, this review takes place after journals have been posted, as opposed to before posting in the Sage finance system in line with good practice.</p> <p><u>Implication</u> Without appropriate procedures in place for journal postings, audit trail requirements and review processes, incorrect or inappropriate amounts may be posted to the general ledger. This could also lead to the need for journals to be corrected, increasing the administrative requirements of the Finance Team.</p>	<p><b>R16:</b> Management should create a formalised journal posting procedure which includes, but is not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Journal preparation procedures</li> <li>• Journal review processes</li> <li>• The process for recording the journal within the Sage finance system.</li> </ul>	<p><b>A16:</b> <i>We will create a guidance to show the journal posting procedure.</i> <i>We have ensured that segregation of duty exists between reviewer and submitter of journals.</i> <i>All journals are showing in the transaction listing and reviewed by budget holder as part of month-end review process.</i></p> <p><i>To avoid creating a bottleneck and delay month end processes, journals are reviewed after they are posted, but before we finalise the month end account. The current financial system does not support approval routes for journals. We will have to keep the current process until a new system is in place.</i></p> <p><b>Owner: Head of Financial Accounting</b></p> <p><b>Agreed date of implementation:</b> <i>We will create a guidance by September 2018</i></p>

# A Internal Audit Approach

## **Approach**

Our outline approach to this internal audit review was as follows:

- Meeting with key staff to gain an understanding of the arrangements in place, building upon the information we have already gained through our audit planning process;
- Reviewing key documents that support the processes in place and confirming that the risk management activities and controls perform as discussed;
- Where appropriate and relevant, carry out testing to confirm the on-going operation of the risk management activities and controls identified; and
- Comparing existing arrangements with established best practice

## **Additional information**

### **Client staff**

The following staff were consulted as part of this review:

- Guy Gaskins, Director of IT
- Andy Gillies, Finance Director
- Marc Seale, Chief Executive Officer
- Jacqueline Ladds, Director of Communications
- Tian Tian, Head of Finance
- John Barwick, Acting Director, Fitness to Practice.

## **Documents received / examined**

The following documents were received or looked at during the course of this audit:

- Finance Operating Procedures – New Budget Holders
- Financial Regulations
- IT Budget Templates (2017/2018)
- Communications Budget
- Budget Pack for Council
- Management Accounts 2017
- Consolidated Forecast
- HCPC Employee Expenses Policy
- Approving-payments, supplier payment request
- 2018 Ad-hoc journal postings
- 2018 Recurring journals
- January PO accrual
- PO accrual journal
- Bank reconciliation – January 2018.

## **Locations**

The following location was visited during the course of this review:

- Health and Care Professions Council  
Park House, 184 Kennington Park Road  
London SE11 4BU.

## B Definition of audit issue ratings

### Audit issue rating

Within each report, every audit issue is given a rating. This is summarised in the table below.

Rating	Description	Features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"><li>• Key control not designed or operating effectively</li><li>• Potential for fraud identified</li><li>• Non-compliance with key procedures / standards</li><li>• Non-compliance with regulation</li></ul>
Medium	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"><li>• Impact is contained within the department and compensating controls would detect errors</li><li>• Possibility for fraud exists</li><li>• Control failures identified but not in key controls</li><li>• Non-compliance with procedures / standards (but not resulting in key control failure)</li></ul>
Low	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"><li>• Minor control weakness</li><li>• Minor non-compliance with procedures / standards</li></ul>
Improvement	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"><li>• Information for department management</li><li>• Control operating but not necessarily in accordance with best practice</li></ul>



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