

Audit Committee, 20 March 2014

Internal Audit Report – Partners’ Expenses

Executive summary and recommendations

### **Introduction**

Mazars have undertaken a review of the HCPC’s controls and processes for ensuring partners’ expenses are incurred, processed and paid in accordance with HCPC policy. This review was undertaken using the three days contingency allocation in the 2013/14 Internal Audit Plan.

### **Decision**

The Committee is asked to discuss the report

### **Resource implications**

None

### **Financial implications**

This audit was undertaken as part of the internal audit plan for 2013-14. Mazars’ annual fee is £27,000.

### **Appendices**

Internal Audit Report – Partners’ Expenses

### **Date of paper**

10 March 2014



Internal Audit Report

**Partners' Expenses  
(07.13/14)**

**March 2014**

**FINAL REPORT**

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#### AUDIT CONTROL SCHEDULE:

<b>Client contacts</b>	Alan Carr: Interim Director of Finance  Charlotte Milner: Head of Financial Accounting	<b>Internal Audit Team</b>	Peter Cudlip: Partner  Graeme Clarke: Director  James Sherrett: Assistant Manager  David Kershaw: Auditor
<b>Finish on Site \ Exit Meeting:</b>	17 January 2014	<b>Management responses received:</b>	24 February 2014  5 March 2014
<b>Draft report issued:</b>	12 February 2014	<b>Final report issued:</b>	27 February 2014  6 March 2014

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#### **Status of our reports**

*This report has been prepared for the sole use of the Health and Care Professions Council.*

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## 1. INTRODUCTION

- 1.1 At the request of the Audit Committee we have undertaken a review of the Health and Care Professions Council's (HCPC) controls and processes for ensuring partners' expenses are incurred, processed and paid in accordance with HCPC policy. This review was undertaken using the three days contingency allocation in the 2013/14 Internal Audit Plan.
- 1.2 We are grateful to the Interim Director of Finance, Head of Financial Accounting and other members of staff for their assistance during the course of the audit.
- 1.3 This report is for the use of the Audit Committee and senior management of HCPC. The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

## 2. BACKGROUND

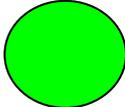
- 2.1 Partners is the term used to describe individuals who work for the HCPC as agents providing expertise required to ensure robust decision making and to have a general input into the work of HCPC. Partners come from a range of backgrounds and have different types of experience and qualifications. There are six different types of Partner: CPD Assessors; Legal Assessors; Panel Members; Panel Chairs; Registration Assessors; and Visitors.
- 2.2 Partners are entitled to claim a daily or half-daily fee for the work they carry out along with other expenses such as travel. Claims are recorded on a standard form and then submitted to HCPC along with any associated receipts. The dates and times of claims are checked by the finance department and the relevant departments (e.g. Education, Fitness to Practise, Registrations) as part of the authorisation process, and the Finance Department are closely involved in processing and monitoring of claims. Payments of authorised partners' expenses are made through the purchase ledger.
- 2.3 Partners are encouraged to utilise an agreement which HCPC has with Co-operative Travel Management, however, there are a significant number of Partners who do not use this service. For claims made via this route the Partner makes a booking directly with Co-operative Travel Management and payment is made directly by HCPC and therefore there is no direct payment made to the Partner.
- 2.4 Details of allowances and fees rates are defined within the Expenses Policy for HCPC Partners which has recently been reviewed and minor changes made. The updated Policy which is effective from January 2014 was presented to the Finance and Resources Committee in November 2013 and the Council in December 2013. In addition, there has also been some revision to the expense claim forms designed to aid the electronic submission of such forms.
- 2.5 Total spend on partners' expenses for the 2012/13 financial year was approximately £2.2m inclusive of fees claims, expenses through Co-operative Travel Management and individual expenses claims.

## 3. SCOPE AND OBJECTIVES OF THE AUDIT

- 3.1 As part of our review, the audit considered the following areas:
  - Expenses Policy for HCPC Partners;
  - Authorisation/approval of expenses claim forms;

- Availability of supporting documentation/receipts/invoices;
  - Use of Co-operative Travel Management by partners to book travel and accommodation;
  - Timeliness of submission of expenses claims and processing/payment; and
  - Demonstration/achievement of value for money in the claiming and payment of expenses.
- 3.2 The objectives of our audit were to evaluate the compliance with controls regarding HCPC's Policy for payment of partners' expenses, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.
- 3.3 We are only able to provide an overall assessment on those aspects of the controls and processes for Partners' Expenses that we have tested or reviewed. 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.

#### 4. AUDIT FINDINGS: ONE PAGE SUMMARY

Assurance on effectiveness of internal controls	
	<b>Substantial Assurance</b>

Recommendations summary	
Priority	No. of recommendations
1 (Fundamental)	None
2 (Significant)	1
3 (Housekeeping)	1
<b>Total</b>	<b>2</b>

Risk management
<p>HCPC's Risk Register does not currently contain a risk specific to Partners' Expenses; however, we did note some similar risks around expenses for members and personnel where the same or similar controls operate, for example, risk 4.11 "Expense claim abuse by members". Two of the mitigating controls identified are "Clear and comprehensive Council agreed policies posted on the Council member Extranet and made clear during induction" and "Budget holder review and authorisation procedures". Risk 15.11 covers "Unauthorised payments to personnel". One of the mitigating controls attached is "Effective expense claim and payroll authorisation processes. Segregation of duties".</p> <p>Sample testing undertaken as part of our review has confirmed similar controls are in place for partner expenses to the above risks and that these controls are generally operating effectively with the exception of those areas identified in Section 6 below.</p>

Value for money
<p>Value for money (VfM) implications arise in this area through the level of fees/expenses claimed by partners as well as the administrative systems and resources required for processing and payment within HCPC. We have previously highlighted the need to market test the travel management service and this is commented on further in Section 5 below. Currently, HCPC pay a transaction fee for this service rather than an overall management fee. A reference to VfM is made in the Expenses Policy for HCPC Partners as partners are requested to book online when using the current service where possible, due to the fees incurred by HCPC being lower for online bookings rather than by telephone or email</p> <p>During testing, we noted a significant number of expenses are incurred directly and not through this service. In addition, we noted examples where the preferred hotels as set out by HCPC's Policy had not been used. Encouraging all expenses to be processed through the travel management service should help to reduce the risk of failing to achieve value for money in this area. This should also mean reduced administrative and processing for HCPC. . HCPC is gradually moving towards all records of Partners' Expense claims being stored electronically, although it is accepted that use and retention of some paper records continues to be necessary.</p>

## 5. SUMMARY OF FINDINGS

### Overall conclusion on effectiveness and application of internal controls

- 5.1 Taking account of the issues identified in paragraphs 5.2 to 5.3 below, in our opinion the compliance with controls operating for Partners' Expenses, as operated at the time of our review, provides **substantial** assurance that risks material to the achievement of HCPC's objectives are adequately managed and controlled.

### Areas where controls are operating effectively

- 5.2 The following are examples of controls which we have considered are operating effectively at the time of our review:
- A suite of documentation is in place for Partner use including Fitness to Practise Partner Invoice, Partner Expenses Only Form, Registration Assessor Partner Invoice, and Visitor Partner Invoice. The forms have recently been subject to review;
  - Information on HCPC and its Partners is easily accessible via the public-facing website, this includes general background to the role of a Partner, details on Partner recruitment the Partner Handbook, and Partner Expense Claim Forms;
  - Clear segregation of duties is in place for expense claims, through the involvement of relevant departments and the Finance Team;
  - Claims forms are subject to authorisation and approval, this will be the signatory of the department the partner is working with;
  - Specimen signatures of authorisers were made available to assist with sample testing. A separate spread sheet record of approval limits is maintained; and
  - We undertook sample testing on 30 claims and found there to be a good level of supporting documentation retained.

### Areas for further improvement

- 5.3 We identified certain areas where there is scope for further improvement in the control environment. The matters arising have been discussed with management, to whom we have made a number of recommendations. The recommendations have been, or are being, addressed as detailed in the management action plan (Section 6 below).
- 5.4 During our review we noted issues with the use of the preferred travel agent Co-operative Travel Management. We have previously made a recommendation regarding the use of the service by Council Members in an internal audit review of Corporate Governance in 2011/12. This related to compliance with the Policy in respect of advance bookings as well as market testing the arrangement to ensure it provides HCPC with value for money. This recommendation has since been subject to follow up and the recommendation carried forward. HCPC have not yet tendered the contract although we understand this will go through OJEU and this process will commence in May 2014.
- 5.5 In tendering the new service, additional areas to consider in any new arrangements would be:-
- additional wording within any updated HCPC Policy on the requirement to use the preferred provider including any actions taken if not used; and
  - Requesting the new supplier to provide HCPC with specific VfM/cost indicators/savings gained by using the service which can be used to demonstrate VfM and further promote the service to Partners.

6. ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> The Expenses Policy for Partners states "Travel and accommodation should be booked through the HCPC's preferred travel agent Co-operative Travel Management". However, this is not mandatory and there are no specific consequences for not doing so other than if abused.</p> <p>Up to period 9 of the current financial year, 42% (by value - £390k of £930k) of partners' expenses authorised and paid by HCPC have been claimed by direct reimbursement rather than using the services of Co-operative Travel Management.</p> <p>In addition to the value for money implications, limited usage of the travel bureau means that management information on expenditure is restricted.</p> <p>HCPC is currently planning to market test its travel management arrangements and forms redesigned to obtain additional detail regarding the reasons for direct bookings.</p> <p><i>Risk:</i> Failure to achieve value for money.</p>	<p>(i) HCPC should remind partners of its preference for them to book travel requirements through the appointed travel service in preference to the direct bookings which are currently made in the significant number of cases noted.</p> <p>(ii) Further to (i) above, consideration should be given to developing further management information regarding partners' expenses for analysis and to inform future policy.</p>	<p>2</p> <p>3</p>	<p>Agreed. Partners will be reminded of the current policy. Through the travel tender, we intend to address partners' concerns about the current system (including usability &amp; price) and review their comments as to why they are not using the travel company.</p> <p>We will also explain to partners the benefits to HCPC of routing all bookings through the travel provider (simplified transactions, duty of care, better value for money, better management information).</p> <p>As part of the new travel management contract, the Executive proposes that it should become mandatory to book all travel and related services such as hotel accommodation through the service provider except in exceptional circumstances. The policy would apply to Council members, Partners and Executive.</p> <p>The partner expense codes in the nominal ledger are currently being reviewed. More codes will be introduced to help with the analysis of the expenses.</p> <p>A full requirement of the management information will be included within the travel tender documents, which will allow for greater analysis.</p>	<p>December 2014</p> <p>Head of Financial Accounting</p> <p>April 2014</p> <p>Head of Financial Accounting</p> <p>December 2014</p> <p>Head of Financial Accounting</p>

### Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in 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.