

Audit Committee, 15 June 2016

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

Executive summary and recommendations

### **Introduction**

Grant Thornton's 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 summarises the findings of internal audits during the year, and 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.

The internal auditors' programme of work and their overall opinion supports the description of the system of internal control within the governance statement section of the Annual Report & Accounts, and also forms part of the assurance framework which the Committee and Council can draw upon in deciding whether to approve the Annual Report & Accounts.

### **Resource implications**

None

### **Financial implications**

Grant Thornton's agreed fees for 2015-16 were £46k including VAT.

### **Appendices**

Grant Thornton's internal audit annual report

### **Date of paper**

6 June 2016



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## **The Health and Care Professions Council**

Annual Internal Audit Report 2015-16

June 2016

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# 1 Introduction

## Overview

Our role as internal auditor is to provide an independent, objective assurance and consulting activity designed to add value and improve The Health and Care Professions Council (HCPC's) operations.

## Coverage of the Plan

The 2015-16 plan was approved by the Audit Committee and consisted of five reviews. We have delivered this plan as set out, with the following exceptions:

- review of complaints handling was removed from the audit plan as HCPC decided to work towards ISO accreditation and therefore was subject to a separate external review (which the internal audit would have potentially duplicated).

Details of completed reviews have been reported to the Audit Committee and have been discussed with consideration and scrutiny of management responses and timescales proposed.

## Responsibilities

It is the responsibility of the HCPC to ensure there are adequate risk management and internal control arrangements in place to support its activities and operations. Our role as your internal auditor provides you with an objective assessment as to whether there are adequate and effective corporate governance, risk management and internal controls processes based solely on the scope of work and testing undertaken as part of the Annual Internal Audit Plan agreed by the AC.

## Acknowledgements

We would like to take this opportunity to thank HCPC's management and staff for their assistance during the course of the year.

## 2 Summary of our work

### Overall assurance

This report provides our view on the adequacy and effectiveness of corporate governance, risk management and internal controls to mitigate business risks within the HCPC, based upon the areas reviewed as part of the audit plan.

In determining the level of assurance to be given, we have taken the following points into consideration:

- extent to which the agreed internal audit plan has been completed (as outlined in Section 1)
- conclusions from individual audit reports – *there were no critical high priority findings raised during the year. In addition, management agreed action plans in relation to all medium priority recommendations raised through internal audit work*
- number of recommendations made during the year
- whether there were any limitations placed upon the scope of our internal audits (*there were none*).

### Our opinion

Based specifically on the scope of reviews undertaken and specific testing/evaluation we performed, we provide '**Substantial**' assurance in respect of corporate governance, risk management and internal controls.

Our opinion is drawn from the work we have performed. In giving our opinion it should be noted that assurance can never be absolute. The most we can provide to the HCPC is reasonable assurance that there are no major weaknesses in the Council's internal control processes and systems.

### Basis of our opinion – overview

Our opinion is drawn from the specific reviews undertaken during the year. We have taken out of the nature and significance of the findings, the quality of the management action plans and progress we have seen from our follow up work (for example in respect of the findings from the modelling review).

Audit Area	Recommendations				Informs opinion on		
	High	Medium	Low	Improv	Governance	Risk Management	Internal Control
Registration system project review	-	4	4	-	✓	✓	
Review of 5 Year Plan Model functionality and controls	-	3	1	-			✓
Consultation arrangements	-	3	2	-			✓
Core financial controls (payroll and partners)	-	3	5	-			✓
Totals	-	13	12	-			

### Key themes and insights from our work

The internal audit plan had good coverage across a range of strategic, core business and financial risks. This included:

- key strategic risk areas such as management of registration project
- operating risk coverage included the review of consultation processes
- financial systems reviewed through core financial controls review and review of key financial model design and control within HCPC.

Given the deep dive coverage of selected risk areas (as opposed to coverage of a larger number of areas at more higher level), there are no obvious read across from the findings from this year's internal audit plan. We will keep this under review and report any common themes to management and Audit Committee.

We comment further specifically on the three areas our opinion relates to:

#### **Governance and risk management**

We undertook a significant scope review of the registration project as part of the internal audit plan (the scope of the review was expanded, in consultation and agreement with management and Audit Committee).

We found that the Registrations project team was conscious of the environment within which HCPC operates, both in terms of its fiscal responsibility to ensure value protection for the Council and its Registrants, and the importance of a stable technology environment to support the continued, unhindered operations of the Council.

The project appears to have taken in to account the scale and complexity of the change in context to the organisation in order to establish an appropriate project structure, governance and delivery approach. The project team's approach appears indicative of a structured, controlled and

well governed project which has taken on board learning from previous projects.

The organisational context led to the adoption of a risk sensitive approach in the shaping and delivery of the project while having to make trade-offs in the conception of the project to ensure a pragmatic and reasonable approach, for example, consciously mitigating the additional project costs associated with a more comprehensive market test of solution options in the business case stage. A further risk versus reward trade-off in accepting a risk sensitive approach is the potential opportunity cost to the Council (from postponed realisation of benefits) and the potential for Registrant expectations to be underserved in the coming years.

The budget forecast and business case, at the time of our audit, was reliant on an estimate from a single supplier on the basis of a requirement specification that, in our opinion, would benefit from further scrutiny to ensure appropriateness of need in order to avoid over-customisation and build cost disproportionate to benefit.

Management had confirmed that this will be a key focus in the detailed design phase. In our opinion, appropriate consideration has been given to the nature of costs and risks expected from a project of this kind, and the planned procurement exercise would provide a comparative set of implementation costs from alternative vendors on which to make a more comprehensive investment decision.

#### **Internal Control** *Consultation review*

Our review found that HCPC is clear about the reasons before consultation and why and how it should take place, and has a clear process in place to support it. Stakeholders are given the opportunity to respond via a number of methods, principally an online Survey Monkey tool which is easy for respondents to use. HCPC also recently took the opportunity

to gather feedback on its consultation methodology, which was largely positive. Consultation responses are thoroughly analysed and HCPC's Council is involved at all stages of the consultation launch and recommendation approval process.

While the process itself is working well, we identified a number of ways in which consultation could be made more efficient and effective, principally around producing management information on the costs and benefits of consultation, and on how many of the potential respondents actually provide feedback. We also identified a need to consider, in some cases, how best to give fair weight to the responses received from individuals and those received from organisations.

### ***Payroll***

Overall, from our review of core financial controls (payroll and partner payments), it was evident during our review that the policies, procedures and controls surrounding the payroll and partner payment processes at HCPC were in the main well designed.

HCPC are in the early stages of defining their relationship with Core, their new payroll outsourced provider from November 2016. As a result, we were only able to conduct a high level assessment of how HCPC are anticipating the split of payroll responsibilities between themselves and Core, along with the transition plan from Access to Core.

Our **review of payroll** identified a number of areas where the design of payroll processing controls could be improved under the new HR system and payroll provider, particularly around:

- Commencement of HR team led periodic reviews of payroll deductions to assess whether deductions from individual employees payroll are accurately calculated

- Ensuring that all pension and payroll control account reconciliations are independently reviewed, with evidence of preparer and approver review captured by the Finance team
- Formalisation of whether the HR or Finance team will hold the relationship with the new outsourced provider, and how this contract will be effectively managed e.g. via regular meetings and reporting
- Review of payroll reports provided by the outsourced payroll provider with the objective of simplifying how payroll information is presented to enable efficient and effective review by HCPC.

### ***Partner payments***

Our **review of partner payments process** identified the following areas where partner payment controls should be improved:

- Ensuring that HCPC commissioning department conduct a quality control check of actual work completed by partners before this list is sent to Finance for processing and payment. Furthermore, individuals collating this list of actual work completed should not also be responsible for authorising payments
- Sage system functionality to combine payment runs in the system before a payment file extract is run, in order to prevent manual manipulation of payment files.

### ***Review of 5 Year Plan Model functionality and controls***

#### Original review

While our original review identifies a number of issues and actions to improve the functionality of the model, our overarching view was that the individuals involved are generally comfortable with the model and how it operates.

However, there were a number of concerns identified in respect of the model size and the flexibility of the model to be adapted for different assumptions as the business changes – for example in forecasting Fitness to Purposes tests and alternative direct debit arrangements. We commented upon these within our report and note that models are at their most useful when they enable sensitivities to be run to test key assumptions. It is good practice for the base case results to be the subject of sense checks to ensure that the outputs are in line with expectations as this process can help identify where any errors have occurred in either model assumptions and/or calculations.

We noted that the finance team involved is clearly familiar with the detail of the model assumptions and broadly comfortable with the outputs. One area to consider is how the sense checks undertaken are documented both to support and audit trail of changes and to reduce the reliance on key individuals who have a working knowledge of the model.

We note that several structural changes have been implemented within the model in order to increase the functionality and at this stage they have not all been implemented in a manner which is consistent with the FAST standard. We recommend that this is addressed to ensure the model continues to comply with the FAST standard where practicable (e.g. row consistency), and that the rationale for derogations is documented (e.g. to reduce file size referencing inputs outside the "calculation block" where this does not adversely impact on the readability of the model) .

#### Follow up review

Our previous report concluded that the individuals involved were generally comfortable with the model and how it operates. However there were a number of concerns identified in respect of the model size and the flexibility of the model to be adapted for different assumptions as the business changes – for example in forecasting Fitness to Purposes tests

and alternative direct debit arrangements. In addition several structural changes had been implemented within the model in order to increase the functionality but were not implemented in a manner which was fully consistent with the FAST standard – primarily this related to income calculations to reflect different direct debit timings.

The revised workings for the revenue calculations provided for the Arts Therapists address the issues raised in our previous report. We note that in order to reduce the file size and length of worksheets a number of derogations have been made to the FAST standard. Specifically FAST standard 2.02-01 "All ingredients must be presented as links immediately above the calculation with consistent calculation order and appearance in the formula." The 5 Year Plan Model and FTP workings frequently refer to "ingredients" further up the worksheet to minimise filesize.

We recommended that this derogation is clearly documented in the model and accompanying user guides, noting that the potential impact of reduced filesize is considered to outweigh the reduced ease of reading the model calculations.

## A Basis of our opinion

### Approach

We have conducted our programme of audits in accordance with Public Sector Internal Audit Standards and the standards and guidance provided by the Chartered Institute of Internal Auditors - UK and Ireland.

During the course of the year we have undertaken our reviews using a risk based approach. Our audits evaluate whether risks identified by the HCPC, which could affect the achievement of business aims and objectives, were managed with suitably designed control policies and procedures, and whether those control policies and procedures were operating effectively.

The risk based approach includes the following key elements:

- Interviewing senior management to gain an understanding of the system objectives and the risks to the achievement of the objectives;
- Interviewing staff and reviewing documentation to gain an understanding of the operation of the system and the controls in place to manage the risks;
- Performing tests to determine whether the controls are effective and are operating in practice; and
- Evaluating the adequacy of the controls in place to manage the risks identified by management.

The views reached in Section 2 are based on historical information and the projection of any information or conclusions, contained in our views, to any future periods is subject to the risk that changes may alter their validity.

### Control Environment

The control environment at the HCPC depends upon the competence of its staff and compliance with procedures. Changes in staff, staff absences and, in extreme cases, collusion and/or deliberate actions by key individuals can corrupt the control environment. The day-to-day maintenance of the control environment depends on management control and supervision and also the active interest of The Board and the Audit Risk and Assurance Committee.

Our procedures are designed to identify the existence and operation of key controls and cannot be relied upon to identify all weaknesses or inefficiencies in your systems and working practices. Our conclusions on the systems examined are based on samples selected from the transactions primarily occurring in the period from 1 April 2015 to 30 April 2016.

### 'Small print'

This report is confidential and is intended for use by the management and Members of the HCPC only. It forms part of our continuing dialogue with you. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused. It is the responsibility solely of the HCPC's management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

## B Definition of report and recommendation ratings

### Assurance Level

<b>Full</b>	Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed, and were operating with sufficient effectiveness, to provide reasonable assurance that the control environment was effectively managed during the period under review.
<b>Substantial</b>	Overall, we have concluded that, except for the specific weaknesses identified by our audit, in the areas examined, the risk management activities and controls are suitably designed, and were operating with sufficient effectiveness, to provide reasonable assurance that the control environment was effectively managed during the period under review.
<b>Limited</b>	Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed, or were not operating with sufficient effectiveness, to provide reasonable assurance that the control environment was effectively managed during the period under review.
<b>None</b>	Overall, we have not been able to form an opinion on whether the internal controls examined have been designed, or are operating sufficiently, to ensure that the control environment was effectively managed during the period under review.

*Our audit approach involves identification and assessment of key risk areas and associated management activities and controls. Therefore, in arriving at our overall opinion on the area examined, we have not sought to identify all risks which could impact on the HCPC. Our overall opinion is provided to the HCPC on the understanding that we may not therefore have identified all weaknesses that may exist in the management control framework and that there are inherent limitations within internal control systems. As such, our opinion can only provide reasonable rather than absolute assurance.*

*Additionally, our opinion is based on risks and controls identified and assessed at a particular point of time (the dates of the fieldwork) and the projection of any information or conclusions contained in our opinion to any future periods should therefore not be inferred.*



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