

Health Professions Council
Audit Committee -28 February 2007

**INTERNAL AUDIT REPORT – CORPORATE GOVERNANCE
AND RISK MANAGEMENT**

Executive Summary and Recommendations

Introduction

As part of the internal audit programme for 2006/7 PKF undertook a review of the corporate governance and risk management procedures at HPC. The attached report which includes a management response was agreed with the Executive in February 2007.

Decision

The Committee is asked to discuss the report.

Background information

At its meeting on 28 June, the Committee approved the Internal Audit Needs Assessment and Internal Audit Plan for 2006-7. (See paper AUD 43/06).

Resource implications

None

Financial implications

None

Appendices

None

Date of paper

15 February 2007

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Accountants &
business advisers



Corporate Governance and Risk Management

December 2006

Final - Confidential

Assurance Level:

Satisfactory in Most Respects – Generally satisfactory design of internal control that addresses the main risks and is operating as intended but either has control weaknesses or is not operating fully in some significant respect

Staff Interviewed – Niamh O'Sullivan / Simon Leicester

Audit Team – Mark Wonnacott / Panyin Blankson

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1 Introduction

- 1.1 This review forms part of our 2006/2007 internal audit, which has been carried out in accordance with the programme which has been agreed with the Audit Committee in June 2006.
- 1.2 The purpose of our review was to assess the corporate governance arrangements for HPC taking account the best practice set out by H.M. Treasury in terms of both risk management and governance.
- 1.3 In particular our review considered the following areas:
- Council structure and membership;
 - Committees structure, role and conduct;
 - Executive management structure, role and conduct;
 - Conduct and ethics;
 - Corporate and Business Planning;
 - Performance Management;
 - Financial governance;
 - Policies & procedures;
 - Council and Committee Member Training; and
 - Risk management.
- 1.3 The work was carried out primarily by holding discussions with relevant staff, reviewing any available documentation and testing controls in place to determine their effectiveness. The audit fieldwork was completed in September 2006 with a follow up meeting in December 2006.
- 1.4 This report has been prepared as part of the internal audit of the Health Professions Council under the terms of the contract for internal audit services. It has been prepared for the Health Professions Council and we neither accept nor assume any responsibility or duty of care to any third party in relation to it. The conclusions and recommendations are based on the results of audit work carried out and are reported in good faith. However, our methodology is dependent upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

2 Executive Summary

2.1 This report summarises the work undertaken by PKF and our conclusions on the corporate governance structure and risk management arrangements in place at the HPC. The work was performed as part of our internal audit plan for 2006/07.

Overall Conclusion

2.2 We have carried out the audit in accordance with the programme agreed with the Audit Committee. Based on the audit work carried out we have concluded that the level of control over corporate governance and risk management is **Satisfactory in Most Respects**.

2.3 The Health Professions Council is responsible for Corporate Governance. It is committed to:

- Protect the health and wellbeing of those using or needing the services of registrants;
- Ensure that the organisation discharges its functions as set out in the Health Professions Order 2001,
- Set, review and update if necessary the strategic intent and guiding principles;
- Encourage open accountability to the public and the professions;
- Appoint a Chief Executive and Registrar;
- Undertake strategic planning, policy making and development;
- Approve the HPC budget;
- Ensure and monitor financial probity;
- Delegate any functions except rules, as it sees fit, to its committees or the Executive;
- Review how the HPC Executive are carrying out the Council's policy, and
- Measure this against the policies, the budget and strategic intent.

2.4 It is essential that the structure and constitution of the organisation, its council, committees and non - statutory committees, are in accordance with relevant legislation, regulations and guidance and are appropriate for the discharge of their duties.

2.5 Our audit work has shown that:

- Governance structures are appropriate and properly administered, although not all committees have documented terms of reference;
- Arrangements are in place to manage conduct, to the extent that is feasible;
- Appropriate training is available to members;
- The objectives and strategy of HPC are clear with detailed strategies approved for all key areas;

- Delegation arrangements are in place and appropriate although testing of the website record showed one example of this which had not been kept up to date;
- Performance indicators and measures have been developed for most areas of activity and are regularly monitored. However, these do not cover Finance or the Secretariat;
- Financial approvals and monitoring are in place;
- Risk management is at a relatively early stage of development. Whilst risks are identified at a high level these are not cascaded through the departments nor is their management embedded.

2.6 We have made a number of recommendations to improve the control environment including:

- Establishing and documenting terms of reference for the Communication Committee;
- Developing work plans for the Secretariat and Finance; and
- Developing risk management and creating a strategic risk register.

2.7 Finally, we wish to thank all members of staff for their availability, co-operation and assistance during the course of our review.

PKF (UK) LLP
December 2006

3 Detailed Findings

Council structure and membership

Our assessment

- 3.1 From the testing carried out we have concluded that the Council structure and membership agrees with the requirements of the Health Professions Order. We have concluded there is a sufficient amount of information that goes to the Council to enable it to make appropriate decisions. The information reported to the Council includes financial and performance related information, as well as detailed reports and minutes of the committee meetings. We identified that the Council structure matches best practice in terms of appropriate range of skills and knowledge.

Our findings

- 3.2 The Health Professions Council consists of 40 members; the President, one registrant member from the 13 professions who are voted onto the council, 13 lay members (open appointments through the Appointments Commission) and 13 alternate professional members who attend council in the absence of the 13 registrants. The term of office for each Council member is normally four years. The most recent elections were completed in 2006.
- 3.3 Approximately 25% of council members stand down annually to ensure that changes in the membership is a gradual process. Council members can serve on the Council for a maximum of three terms. No Council or committee member can be an employee of HPC.
- 3.4 The President is elected by the Council members and the job description is maintained on the HPC web-site. A Vice President is also elected, who deputises for the President when the President is absent. We understand that the Council agreed to abolish the role of the Vice-President at its meeting on 14 December 2006.
- 3.5 Councils meeting are held seven times a year. They are predominantly held in public, with minutes being taken and posted on the HPC's web-site. There are specific circumstances when the meeting can go into private session. The Executive Management Team (EMT) may attend the Council meetings. The meeting minutes include an ongoing action plan, showing the action taken and date of completion. At the end of each financial year a list of all the actions taken are reported and presented to the Council.
- 3.6 The principal functions of the Council, as set down in Article 3(2) of the Health Professions Order 2001, are to establish standards of education, training, conduct and performance for members of the relevant professions and to ensure the maintenance of those standards.

- 3.7 We have considered the make-up of the Council and are satisfied that the relevant skills and experiences are represented within it in order to allow it to function effectively. However, these skill levels have not been tested.

Committees

Our assessment

- 3.8 Four statutory committees have been set up in accordance with the Health Professions Order:

- Education and Training Committee;
- Investigating Committee;
- Conduct and Competence Committee; and
- Health Committee.

- 3.9 In addition, four non-statutory committees have been set up by the Council: the Finance and Resources Committee, the Audit Committee, the Approvals Committee and the Communications Committee. We understand that the Approvals Committee has been disbanded as of 31st December 2006.

Our findings

- 3.10 Each committee has a defined role, membership and reporting line.
- 3.11 Terms of reference for the non-statutory committees are approved by the Council, included in the standing orders and accessible to all through the HPC web site. Where these were in place they were found to be clear and appear to fit in with the overall purposes of the HPC. However, the Communications Committee did not have an agreed terms of reference.
- 3.12 Committee meeting minutes are maintained and submitted to Council for either approval or noting.

R1 Terms of reference for the Communications Committee should be established, documented and approved by the Council.

Executive Management Team

Our assessment

- 3.13 The EMT appears to be administered effectively and the minutes indicate that it is carrying out its role. However, formal terms of reference have not been set for it.

Our findings

- 3.14 The EMT meets formally on a weekly basis and the meetings are minuted. An agenda for all meetings is documented with suggestions by the executive on what should be discussed at the meetings. All EMT members are head of departments. The agenda, meeting minutes and mini minutes are complied by the Chief Executives PA and distributed to members. The mini-minutes are also maintained on the HPC web-site.
- 3.15 The workings of the EMT have been set out in a document that is available on the HPC Intranet.

Conduct and Ethics

Our assessment

- 3.16 A system has been established to identify and record members' interests and a Code of Conduct is in place. However, whilst Members are obliged to comply with the Code of Conduct under the Health Professions Order 2001, currently HPC has no mechanism to ensure that members have understood the Code and agree to comply with it. We understand that this is due to a legal restriction.

Our findings

- 3.17 It is the responsibility of the Council to establish and maintain a system for the declaration and registration of private interests of its members and of other members of its committees. A conflict of interest declaration form has been established and completed by all council and committee members annually. The completed declaration forms are filed in each member's personal file which is maintained in the Secretariat.
- 3.18 We compared the list of Council members as at September 2006 with the register of interest forms returned by the members noting that all members had returned the signed register form. We examined the Council member's information on the HPC web-site and found one case where the information did not correspond to the Council members file as maintained by the organisation. In practice the cross check on interests is through members raising them in meetings or by reference to the web-site. We understand that it has been reviewed and is now up to date.

R2 The Council member's information on the HPC web site should be reviewed on a regular basis to reflect all current Council members.

- 3.19 The Health Professions Order 2001 and the Council standing orders require Council members to comply with the code of conduct. We understand that HPC's Solicitor and Parliamentary Agent has advised that HPC that they can not oblige members' to sign the Code of Conduct. HPC advises candidates who stand for election by letter from the Chief

Executive that they must abide by the agreed Code of Conduct and that they will be invited to take part in the annual performance review.

Corporate Planning / Business Planning

Our assessment

- 3.20 A corporate plan is in place which currently looks at three years and this is currently in the process of being updated. This is underpinned by departmental work plans for some departments. This should be extended to also include Finance and Secretariat.

Our findings

- 3.21 The corporate strategy 2006 - 2009 considers the external factors, the following were provided with regards to information on external factors: the recommendation of the Department of Health's reviews on medical and non-medical regulation (the Foster & Donaldson reviews). The strategies for Operations, Information Technology, Human Resources, Fitness to Practise, Communications and Policy and Standards have been documented and approved by the Council or one of the committees.
- 3.22 There is a Human Resources Strategy and a Annual HR work plan. The work plan for Fitness to Practise department have been documented and approved the Fitness to Practice Committee. A work plan is also in place for the Policy and Standards department
- 3.23 However, the planning framework has not been devised for the Secretariat and the Finance departments. This means that the plan does not translate the organisations corporate objectives to operational action plans (work plans) with clearly defined action managers, goals and deadlines.

R3 Work plans should be produced for the Secretariat and the Finance departments and Performance indicators should be developed for these areas.

Performance Management

Our assessment

- 3.24 The reporting on performance is through the Management Information Pack, which is presented at each Council Meeting. This is a comprehensive report detailing the performance of all of the core areas of the business.
- 3.25 In addition monthly management accounts are also presented to the Finance and Resources Committee. These consist of a commentary and monthly consolidated accounts. A summary of the consolidated accounts are also submitted to the Council for review. The HPC Annual Report and Accounts and a Fitness to Practice Annual Report is produced to highlight the extent of achievement or non achievement of the corporate plan's objectives.

Our findings

- 3.26 The Annual Report and Accounts was produced and submitted to the Council for review and following discussion approved by the Council and then laid in Parliament for 2005/06.
- 3.27 We confirmed that the Chief Executive & Registrar presents a management information report to the Council. The report details updates on each of the departments and financial reports (income/expenditure, monthly variances, balance sheet, and cash flow). We have confirmed that the Finance and Resources Committee receives the monthly management accounts information and that the Council receives management accounts.

Financial Governance

Our assessment

- 3.28 At the executive level there are monthly management reports prepared and distributed to all budget holders. The management report includes departmental reports from the budget holders and explanation of the variances. At Council level an executive report (summary of operational and financial statistics) is presented to the Council. The Chief Executive presents this report to the Council.
- 3.29 A summary financial report is submitted to the Finance and Resources committee for review as well as Departmental reports. The standing financial instructions are currently being updated. This should be reviewed by the Council and a timetable for completion of this process is in place.
- 3.30 The appropriate delegated authorities have been established and are in place and a bank mandate is in place.
- 3.31 Each year an annual corporate budget and departmental budgets is prepared and approved by the Council which is then reported against throughout the year.

Our findings

- 3.32 A formal scheme of delegated or reserve powers has been developed and maintained which sets out the type of decision that are reserved for the Council and that which are delegated further. Bank mandate arrangements have been documented and a list of authorising signatories is maintained. Budgets are prepared on a yearly basis and approved by the Council. The budget for 2006-2007 was approved by the Council on 11 May 2006 on the recommendation of the Finance and Resources Committee.
- 3.33 Financial reports are produced on a regular basis and submitted to the Finance and Resources Committee and the Council for review. A scheme of delegation is in place for the Council and also for the Education and Training Committee. We confirmed that a scheme of delegation is in place which detailed the following:
- Matters reserved for Council;
 - Delegated to Education and Training Committee;
 - Delegated to Chief Executive;
 - Matters delegated to Chief Executive and any officer nominated by Chief Executive;
 - Matters delegated to the Director of Operations; and
 - Matters delegated to the Director of Fitness to Practice.
 - Matters delegated to the Director of Finance.
- 3.34 However, the Scheme of Delegation for the Council has not been reviewed for some time and is in need of review.

R4 The Scheme of Delegation for the Council should be reviewed and approved every three years.

- 3.35 Bank mandate arrangements have been documented and updated with effect from the 11th July 2006. An authorising signatory listing for invoice & purchase order has been documented detailing the departments, delegated authority, financial limits and specimen signatures.
- 3.36 A detailed monthly management accounts is maintained on a shared drive by the Management Accountant and is accessible to the budget holder for review. The management accounts provide actual, budget and variance for the current month and for the year to date.
- 3.37 Monthly management accounts are submitted to the Finance and Resources Committee to review. The management accounts consist of commentary and monthly consolidated

accounts. A summary of the consolidated accounts is also submitted to the council for reviews.

- 3.38 The Financial systems will be subject to detailed audit in January 2007. This review will include an examination of the progress made in addressing weaknesses identified in the system as a result of the work undertaken by Baker Tilly last year.

Policies and Procedures

Our assessment

- 3.39 All important policies and procedures are documented and maintained on the HPC intranet. Whilst we have not reviewed the policies in depth, we are satisfied that they cover the most relevant matters.

Findings

- 3.40 The following policies and procedures are in existence:

- Human resources policies which includes:
 - Whistle blowing policy;
 - Equality and diversity;
 - Health and safety;
- Finance policies which includes:
 - Reserves policy;
 - Investment policy;
 - Financial procedures;
- Standing financial instructions are in place and currently being updated. A timetable for the revision of the standing financial instructions has been documented detailing the completion and approval dates; and
- Freedom of Information policy.

Member Training

Our assessment

- 3.41 Training for new Council and Committee Members is detailed and comprehensive and meets best practice.

- 3.42 Council member inductions are provided upon joining the Council and a program has been established and utilised for council members training. Members are also informed of update training at the start of each year. At the training each of the department heads present information on their departments. One of the HPC's solicitors also presents training to the

council members about the Health Professions Order. Each Member is invited to participate in a performance and development review on an annual basis performed by the President.

- 3.43 A comprehensive information pack has been documented and distributed to Members. The current information pack was updated in February 2006. All up to date policies are included on the Extranet which all Members have access to.

Findings

- 3.44 We confirmed that adequate training is provided to Council members during induction and update training. An induction pack is provided to the Council members during the induction training. The induction pack details information on the Council, committees, council workings and practical issues. The Council members attend an annual away day which covers the current relevant strategic issues.
- 3.45 One of the HPC Solicitors provides Health Professions Order 2001 training to all new Council members and new members of staff. The most recent session was arranged for October 2006. There is a documented timetable of HPO 2001 training and a list of attendees is maintained.
- 3.46 Audit Committee training on roles, financial responsibilities, risk management and internal control, fraud and whistle blowing was provided by the external auditors in April 2006 and this is ongoing with annual training sessions planned.

Risk Management

Our assessment

- 3.47 The HPC risk register includes risks from each of the departments from within the HPC. The risk register needs to be reviewed and revised to ensure that it is a strategic risk register that can be used by management as a business driver.
- 3.48 The format of the risk register meets a number of areas of best practice as all risks have been assigned owners and detail the historic gradings of each risk included within the register.

Our findings

- 3.49 The HPC has a risk register that details the risks for each of the departments within the organisation. Within each of these categories a number of risks has been identified and ranked for likelihood and impact. The mitigating actions for each of the risks has been listed against each of the risks also. The risk register includes the historic gradings to show how the risk has changed over time. Each of the risks has been assigned a risk owner.

3.50 There is not a risk register in place for each of the departments within the organisation. All of the departments' risks are included within the HPC risk register.

R5 Departmental risk registers should be created and included as part of the departmental work plans to ensure that risk management is an integral part of business planning within the organisation.

The HPC risk register should be reviewed by the EMT and revised to form a strategic risk register detailing the strategic risks that are facing the organisation.

The risk management policy and procedure should be documented and formally approved.

4 Action Plan

Ref.	Findings <i>Implications</i>	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R1	<p><i>The roles and responsibility for the Communications Committee has not been detailed within the standing orders.</i></p> <p><i>These committees may not be performing the duties that were intended.</i></p>	<p><i>Terms of reference for the Communications Committee should be established, documented and approved by the Council.</i></p>	Medium	<p><i>The HPC Communications Committee does have a Term of Reference but it was not reviewed by the Council and was not included in the Standing Orders.</i></p> <p><i>The HPC Council approved a paper amending the Communications Committee's Standing Orders on the 14th December 2006.</i></p> <p><i>No further work is therefore required.</i></p>	

Ref.	Findings <i>Implications</i>	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R2	<p>We compared the list of Council members as at September 2005 with the register of interest forms returned by the members noting that all members except for one had returned the signed register form.</p> <p><i>The register of interests is out of date.</i></p>	<p>The council member's information on the web site should be updated and reviewed on a regular basis to reflect all current council members.</p>	Low	<p>(1) The single unsigned form was immediately signed by the member of Council.</p> <p>(2) We understand that PKF were unable to open an external computer link to the HPC web site when they tested the system and therefore drew the conclusion that the Register of Interests was "Out of date".</p> <p>The register of Council and Committees Register of Interest was, and is not, "Out of date". It is periodically reviewed and kept up to date.</p> <p>The EMT therefore plans no further work.</p>	

Ref.	Findings <i>Implications</i>	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R3	<p>The corporate plan considers the recommendation of the Department of health's reviews on medical and non-medical regulation (the Foster & Donaldson reviews).</p> <p>It also considers the strategies for Operations, Information Technology, Human Resources, Fitness to Practise, Communications</p> <p>The plan does not translate the organisations corporate objectives to operational action plans (work plans) with clearly defined action managers, goals and deadlines.</p> <p><i>The organisation needs to ensure that corporate objectives are used to form the basis of operational department objectives for each year and that these can be used to monitor performance of the organisation.</i></p>	<p>Work plans should be produced for the Secretariat and the Finance departments and Performance indicators should be developed for these areas.</p>	High	<p><u>Goals and Objectives</u></p> <p>The Goals and Objectives of the EMT and the rest of the organisation are linked to HPC's Objective, Strategic Intent, Department Strategy, Annual Plan and Work Plans.</p> <p><u>Secretariat and Finance Departments work plans</u></p> <p>We were pleased to note that PKF supports the use of work plans, which have recently been introduced by the Executive to HPC's planning system. We agree that they should be extended to the two additional departments and this will be completed by April 2007.</p>	

Ref.	Findings <i>Implications</i>	Recommendations	Priority	Management Response <i>Responsible Officer</i>	Due Date
R4	<p>The scheme of delegation for the Council has not been reviewed for some time and is in need of review.</p> <p><i>The organisation needs to ensure that the scheme of delegation is accurate and that Council is complying with the scheme of delegation in place.</i></p>	<p>The Scheme of delegation for the Council should be reviewed and approved every three years.</p>	Medium	<p>The Scheme of Delegation was established by the Council on 7th December 2004.</p> <p>We recommend that rather than referring to the “accuracy” of the Scheme of Delegation, a better term could be “accurate and appropriate” and that the review should be no more than once every three years.</p>	
R5	<p>There is not a risk register in place for each of the departments within the organisation. The departments risks are included within the HPC risk register.</p> <p><i>Risk Management is not being used at an operational level as a business driver.</i></p>	<p>Departmental risk registers should be created and included as part of the departmental work plans to ensure that risk management is an integral part of business planning within the organisation.</p> <p>The HPC risk register should be reviewed by the EMT and revised to form a strategic risk register detailing the strategic risks that are facing the organisation.</p>	High	<p>We recommend that the PKF recommendations are made clearer.</p> <p>We note that PKF does not make any comments on:</p> <ul style="list-style-type: none"> • Any additional risk • that should be included in the register • That any risks should be removed from the risk register 	

	<p>The Risk Management policy and procedure should be documented and formally approved.</p>		<ul style="list-style-type: none">• The appropriateness of the number of risks• The appropriateness of the mitigation methods used to reduce the risks. <p>Department risks will be incorporated in the respective work plans for the financial year starting April 2007. However, we believe a single risk register should be maintained by the HPC, because creating separate risk registers for each department is inappropriate for an organisation the size of HPC.</p> <p>We disagree with the assertion that:</p> <p>“Risk management is not being used at an operational level as a business driver”</p> <p>We are unclear what is meant when PKF states:</p> <p>“The HPC risk register should be reviewed by the EMT and revised to form a strategic risk register detailing the strategic risks that are facing the organisation”</p>	
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				We are unclear what is meant when PKF state: “The risk Management policy and procedures should be documented and formally approved”.	
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5 Assurance Definitions

Assurance Level	Definition
Sound	<i>Satisfactory design of internal control that addresses risk and meets best practice and is operating as intended.</i>
Satisfactory	<i>Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.</i>
Satisfactory in Most Respects	<i>Generally satisfactory design of internal control that addresses the main risks and is operating as intended but either has control weaknesses or is not operating fully in some significant respect.</i>
Satisfactory Except For.....	<i>Satisfactory design of internal control that addresses the main risks and is operating as intended in most respects but with a major failure in design or operation in the specified area.</i>
Inadequate	<i>Major flaws in design of internal control or significant non operation of controls that leaves significant exposure to risk.</i>