

Audit Committee 24 June 2010

Internal audit annual report

Executive summary and recommendations

### **Introduction**

PKF has prepared the attached annual report on its internal audit work in 2008-9.

### **Decision**

The Committee is asked to discuss the report.

### **Background information**

See internal audit workplan for 2009-10 agreed by the Committee on 26 February 2009 and individual internal audit reports received by the Committee during the past year.

### **Resource implications**

None.

### **Financial implications**

None.

### **Appendices**

Internal audit annual report.

### **Date of paper**

21 May 2010.



**Health Professions Council**

**Internal Audit Annual Report**

**2009/10**

Final May 2010

Confidential



Accountants &  
business advisers

## Contents

1	Overall conclusion on internal control.....	1
2	Context of our audit .....	4
3	Assurances from our detailed work 2009/10 .....	5
4	Key recommendations from our 2009/10 audit programme.....	7
5	Follow up of our key recommendations from 2008/09 .....	8

# 1 Overall conclusion on internal control

- 1.1 We are pleased to report that we have completed our agreed programme of internal audit work for the Health Professions Council ("HPC") for the year ended 31 March 2010.
- 1.2 Our programme took into account the challenges facing the HPC during the year, the key risks identified by the organisation and our assessment of the coverage required to meet Government Internal Audit Standards ("GIAS").

## Conclusion

- 1.3 Based on our audit work, we concluded that the overall system of internal control was satisfactory and operating effectively during 2009/10 for the purposes of the HPC.**

## Principal findings

### Governance

- 1.4 The work of the Council and its Committees was undertaken in accordance with an agreed timetable with a clear agenda and a commitment to provide the necessary detailed reports to enable members to take informed and timely decisions.
- 1.5 In accordance with Section 60 Orders the new Council was successfully appointed and new governance arrangements in relation to fitness to practise began to be established from October 2009. This appears to have been achieved without any significant disruption to the HPC's activities.
- 1.6 As a wholly restructured Council was appointed for 2009/10, a two day event was organised in July 2009 around the first meeting of the Council. This was followed up by presentations and discussions on their functions and strategy at each of the various committees. Further training and away days were provided throughout the year focused upon strategy and also covered topical and technical matters.
- 1.7 We noted that robust policies and procedures covering the conduct of Council and Committee members are in place at the HPC. The Secretariat ensures that members are provided with the necessary support to be able to follow these and we have noted in our previous reports that action is taken where departures from procedures arise.
- 1.8 As part of its consideration of various changes to the governance documents the HPC reviewed all of these and brought them together into a Code of Corporate Governance, which was reviewed and approved by the Council in May 2009.

- 1.9 Enhancements have been made to the Risk Register during 2009/10 following discussions at the new Audit Committee including refinements to the definitions of impact and likelihood scoring and the introduction of a summary of new risks and those risks that have changed in priority. These discussions are continuing.

#### **Business processes**

- 1.10 Core business processes such as fitness to practise operated effectively and further enhancements to procedures were introduced throughout the financial year. Some of these improvements were in response to our recommendations.
- 1.11 Arrangements for ensuring the health & safety of employees were also operating effectively, although we raised two recommendations in relation to this area to assist the HPC in meeting best practice.

#### **Other sources of assurance**

- 1.12 The HPC has established a process of in-house quality compliance audits in accordance with the ISO 9001:2000 standard. The British Standards Institute ("BSI") also conducts two audits a year. The results of the quality process are reported to the Audit Committee.

#### **Financial systems**

- 1.13 Detailed management accounts and a commentary on the key variances were prepared every month and action was taken by management to address any issues arising. Compliance with the HPC's reserves policy was also monitored closely throughout the year.
- 1.14 Our sample testing indicated that financial processing controls were operating effectively, although the continuing use of the manual procedures alongside the automated purchase ordering processes indicates that the anticipated benefits of the PRS system are not at present being delivered in full.
- 1.15 We understand that management will be taking the steps necessary towards removing the option for individuals to follow manual procedures when raising supplier purchase orders during 2010/11 now that the PRS system appears to be operating effectively and the initial difficulties have been overcome.

#### **Projects**

- 1.16 The HPC is seeking to improve the service it provides to its registrants when they renew by giving them the opportunity to make their declaration and payment via the Internet. The on-line renewals project was formed to develop this new service offering to the HPC's registrants.

- 1.17 We undertook a follow up review of the implementation phase of this project during 2009/10 building upon the assurance that we were able to provide in relation to the design phase in 2008/09.
- 1.18 Based on our review work on this project we concluded that the HPC's controls over the implementation of the new on-line renewals system were sound and were operating effectively at the time of our review. We understand that the system is now operational.
- 1.19 The detailed findings and recommendations from our work are contained in the individual audit project reports, which have previously been provided to management and the Audit Committee during the year. The key recommendations from our review work during the current year are included, for ease of reference, in Section 4 of this report.

#### **Action on recommendations**

- 1.20 We were pleased to note that the recommendations arising from our programme of work for 2008/09 had been implemented during the year. These are included in Section 5 of this report.
- 1.21 We would like to take this opportunity to thank the members of staff and management at the HPC for their co-operation and availability during our audit reviews.
- 1.22 This report has been prepared as part of the internal audit of the HPC under the terms of our letter of engagement for the provision of internal audit services. It has been prepared for the HPC and we neither accept nor assume any responsibility or duty of care to any third party in relation to it.
- 1.23 The conclusions and recommendations are based on the results of the audit work carried out and are reported in good faith. However, our methodology relies upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

**PKF (UK) LLP**  
**May 2010**

## 2 Context of our audit

- 2.1 The HPC, a body corporate, was set up on 1<sup>st</sup> April 2002 by the Health Professions Order 2001 and supporting rules and guidance replacing the former Council for Professions Supplementary to Medicine (“CPSM”). The HPC is an independent public organisation accountable to the Privy Council.
- 2.2 Although the HPC is not a non-Departmental Public Body (“NDPB”) of the Department of Health the Accounts Direction from the Privy Council requires that its financial statements are prepared as if this were the case.
- 2.3 As the Accountable Officer, the Chief Executive and Registrar has responsibility for maintaining a sound system of internal control that supports the achievement of the HPC’s policies, aims and objectives, whilst safeguarding the HPC’s assets for which he is personally responsible, in accordance with the responsibilities assigned to him by the Privy Council.
- 2.4 His responsibilities for internal control are therefore identical in this respect to those of an Accounting Officer as defined in *Government Accounting*.
- 2.5 *Government Accounting* requires Accounting Officers to make provision for internal audit in accordance with Government Internal Audit standards (“GIAS”). Since we were appointed as internal auditors to the HPC in March 2006, we have therefore provided a service to the HPC that complies with these standards. The terms of reference for our appointment are set out in our engagement letter with the HPC.
- 2.6 At the time of our appointment, an Audit Needs Assessment was carried out and a three-year strategic work programme developed and agreed by the Audit Committee. For 2009/10, we revisited our strategic programme and updated it to reflect discussions with management and the Audit Committee and any changes in the HPC’s risk profile as noted in the organisation’s risk register.
- 2.7 A detailed Audit Plan for 2009/10 showing the specific areas that we proposed to review and the planned timetable was presented to and approved by the Audit Committee in February 2009. We undertook a detailed review of personal data security during 2007/08 and we noted that these matters have been kept under regular review by the HPC since that time. For this reason we did not undertake any further review work in relation to this area ourselves. We have however undertaken reviews in both years of the implementation of the HPC’s on-line renewals system, which has data security implications.
- 2.8 The areas that we reviewed and the assurances provided by our detailed work are set out in the following section of this report.

### 3 Assurances from our detailed work 2009/10

Review Area	Number of Recommendations	Final Report Date	Rating at Date of Audit Report		Year end Control Design Rating
			Control Design	Control Operation	
Employees health & safety	2	June 2009	Satisfactory	Effective	Satisfactory
Fitness to practise key risk management	-	September 2009	Satisfactory	Effective	Satisfactory
Fitness to practise closed cases quality assurance	1	November 2009	Satisfactory	Effective	Sound*
Fitness to practise procedural compliance	1	November 2009	Satisfactory	Effective	Sound*
Follow up	2	November 2009	Satisfactory	Effective	Satisfactory
On line renewals project	-	November 2009	Sound to date	Effective	Sound to date

\*procedural enhancements introduced and reported to FTP Committee in February 2010



Review Area	Number of Recommendations	Final Report Date	Rating at Date of Audit Report		Year end Control Design Rating
			Control Design	Control Operation	
Financial systems	1	November 2009	Satisfactory	Effective	Satisfactory
Governance and risk management	-	February 2010	Sound	Effective	Sound

#### **KEY TO CONTROL RATINGS**

**Sound** = *Satisfactory design of internal control that addresses risk and meets best practice and is operating as intended.*

**Satisfactory** = *Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.*

**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.*

**Satisfactory except for** = *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.*

**Inadequate** = *Major flaws in design of internal control or significant non operation of controls that leaves significant exposure to risk.*

## 4 Key recommendations from our 2009/10 audit programme

System	Recommendation	Responsible Officer	Due Date
<b>Employees health &amp; safety</b>	<p><b>Risk assessments</b></p> <p>The HPC should undertake a formal review of its health &amp; safety risk assessment each year in order to meet HSE best practice.</p>	Facilities Manager	<b>July 2009</b>
<b>Financial systems</b>	<p><b>Expenditure systems</b></p> <p>Management should begin to take the steps necessary towards removing the option for individuals to follow manual procedures when raising supplier purchase orders.</p>	Director of Finance	<b>June 2010</b>
<b>Fitness to practise procedural compliance</b>	<p><b>Fitness to practise procedures</b></p> <p>A report should be provided to the Fitness to Practise Committee explaining the reasons why the date set for a review of a supervision order fell after the date that the order expired. The report should also set out the actions that have already been taken by management to address this matter.</p>	Director of Fitness to Practise	<b>Implemented</b>

## 5 Follow up of our key recommendations from 2008/09

System	Recommendation	Responsible Officer	Due Date
<b>Financial systems</b>	<b>Main accounting / balance sheet systems</b> The HPC should consider the exposure of its investments and reconsider the arrangements for investments in the light of knowledge of the risk.	Director of Finance	<b>Implemented</b>
<b>Follow up</b>	<b>Baker Tilley financial recommendations</b> The Finance team should reconcile the figures to NetRegulate on a monthly basis, with differences investigated as they arise. Deferred income should be fully reconciled prior to onsite external audit work commencing.	Director of Finance	<b>Implemented</b>