

Audit Committee 13 March 2012

Internal audit report – Corporate governance

Executive summary and recommendations

Introduction

Mazars has undertaken a review of corporate governance, in accordance with the internal audit plan agreed by the Committee in March 2011. The report is attached as an appendix to this paper.

Decision

The Committee is asked to discuss the report.

Background information

At its meeting in March 2011, the Committee approved the Internal Audit Plan for 2011-12.

Resource implications

None.

Financial implications

None.

Appendices

Internal audit report – Corporate governance.

Date of paper

17 February 2012.



Internal Audit Report

**Corporate Governance
(06.11/12)**

February 2012

FINAL REPORT

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AUDIT CONTROL SCHEDULE:

Client contacts	Louise Hart: Secretary to the Council Marc Seale: Chief Executive and Registrar	Internal Audit Team	Peter Cudlip: Partner Graeme Clarke: Director Peter Williamson: Assistant Manager Chris Wingrove: Auditor
Finish on Site \ Exit Meeting:	27 January 2012	Management responses received:	23 February 2012
Draft report issued:	13 February 2012 22 February 2012	Final report issued:	24 February 2012

If you should wish to discuss any aspect of this report, please contact, Graeme Clarke, Director, graeme.clarke@mazars.co.uk.

Status of our reports

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1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2011/12, we have undertaken a review of the Health Professions Council's (HPC) Corporate Governance arrangements. This area was included in the Plan due to the risks associated with this activity in HPC's Risk Register and in order to fulfil our professional obligations as Internal Auditors as per the requirements set out by the Institute of Internal Auditors.
- 1.2 We are grateful to the Secretary to the Council, Secretaries to Committees and other employees across HPC for the assistance provided to us during the course of the audit.
- 1.3 This report is confidential and for the use of the Audit Committee and senior management of HPC. 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

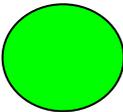
- 2.1 HPC is a regulator and were set up to protect the public. To do this HPC keeps a register of professionals who meet the standards for the professional skills and behaviour. Individuals on the Register are called 'registrants'.
- 2.2 The Council consists of 20 members, for whom 10 are registrant and 10 are lay members. Of the 10 registrants, members include professionals from across the 15 professions it regulates, such as Occupational Therapists, Paramedics and Practitioner Psychologists. The 10 lay members, are recruited from a wide selection of different professions. This consistency ensures a broad knowledge base and diverse input into strategy implementation and monitoring.
- 2.3 The Council is supported by four statutory committees, these are:
- Education and Training;
 - Conduct and Competence;
 - Health; and,
 - Investigating.
- There are also five non statutory committees which the Council have decided will assist in discharging its duties, these include;
- Audit;
 - Finance and Resources, which also sits as the Remuneration Committee;
 - Communications; and,
 - Fitness to Practise.
- 2.5 The Council is currently considering the recommendations raised by the Council for Healthcare Regulatory Excellence (CHRE) in their interim report '*Board size and effectiveness: advice to the Department of Health regarding health professional regulators*', which has suggested that Councils reduce their membership from 20 - 12.

3. SCOPE AND OBJECTIVES OF THE AUDIT

- 3.1 Our audit considered the following risks relating to the area under review:
- Council members conflict of interest (Risk 4.2, Risk Register);
 - Failure to meet Council/Committee quorums (Risk 4.4, Risk Register);
 - Improper financial incentives offered to Council members/employees (Risk 4.8, Risk Register);
 - Failure to insure the Health & Safety of Council Members (Risk 4.9, Risk Register);
 - Member recruitment problem (with the requisite skills) (Risk 4.10, Risk Register);
 - Expense claim abuse by members (Risk 4.11, Risk Register); and
 - Operationalise Section 60 legislation (Risk 4.12, Risk Register).
- 3.2 In reviewing the above risks, our audit considered the following areas:
- Key Governance Documentation and any associated policies and procedures – Code of conduct/Standing Orders;
 - Code of Conduct;
 - Council and Committee terms of reference and structure;
 - Role and responsibilities of the Council and its members;
 - Code of Corporate Governance;
 - Calendar of meetings;
 - Recruitment/Appointment of Council Members;
 - Communication of agendas, papers and minutes including timeliness, e-governance considerations;
 - Attendance of Members – including monitoring and reporting back to Council;
 - Members expenses;
 - Declarations of Interest;
 - Gifts and Hospitality;
 - Induction training;
 - Skills and training; and
 - Processes for the assessment of the Council and Committee effectiveness.
- 3.3 The objectives of our audit were to evaluate the adequacy and effectiveness of HPC's corporate governance arrangements, and the extent to which controls have been applied, 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.
- 3.4 We are only able to provide an overall assessment on those aspects of the corporate governance arrangements 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.
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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	
	Substantial Assurance

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

Risk management
<p>HPC's Risk Register contains a specific section of risks associated with Corporate Governance. These are detailed in 3.1 above.</p> <p>Testing undertaken as part of this audit has confirmed the main mitigating actions identified by HPC on its Risk Register are in place and operating effectively. We have, however, made a best practice recommendation in Section 6 concerning the monitoring of Council member skills and training.</p>

Value for money
<p>The recommendations arising out of CHRE's interim report on '<i>Board size and effectiveness: advice to the Department of Health regarding health professional regulators</i>' are designed to streamline the Council membership to increase the effectiveness of its decision making. Whilst we have seen this happen in a number of our clients, any changes have to be carefully managed to ensure that loss of expertise is minimised.</p> <p>Our review identified that whilst there is a contractual arrangement with Co-op for the administration of air and train travel expenses for members, we could not see any evidence that this had recently been market tested to ensure that the Council is achieving value for money. With increasing scrutiny being placed on the public sector to reduce costs; it is important that organisations can demonstrate that costs are being effectively managed.</p> <p>We were pleased to see that the Council has adopted an open and transparent approach to its governance information and there is a great deal of documents available through its website, which is not only easily accessible but provides an effective reference point for professions as well as Council members.</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 and 5.3 below, in our opinion the control framework for Corporate Governance, as currently laid down and operated at the time of our review, provides **substantial** assurance that risks material to the achievement of HPC's objectives in respect of this area 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:

- Comprehensive governance documentation is in place and is accessible by interested parties via HPC's website;
- A clear structure is in place which is supported by terms of reference for the Council and its Statutory and Non Statutory Committees;
- Council Members are provided with annual update reminders to check and update their register of interests on the website. There are also declarations of interests raised as part of each Council and Committee meeting;
- Attendance of meetings is well controlled and monitored through the Secretariat, and all meetings reviewed were confirmed as quorate. There are also clear expectations relayed to Members in terms of attendance;
- Appropriate member incentives are moderated through the Council's Gifts and Inducements policy; member Code of Conduct; and training and induction procedures;
- A training programme for Members is in place with specific courses raised through the annual appraisal process with the Chair;
- The Health and Safety of Council members is catered for with readily available Health and Safety information provided to members through the HPC website;
- An Expenses policy is in place which explicitly details the responsibilities of Members. All expenses incurred are checked against the policy and monitored through the use of a spreadsheet within the Secretariat; and
- HPC effectively discharges its responsibilities in respect of Section 60 legislation through such identified controls as an established Management Information System; Scheme of delegation process; and the component Executive Management Team and Cross Directorate Teams respectively.

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 recommendation. The recommendations have been, or are being, addressed as detailed in the management action plan (Section 6 below).

6. ACTION PLAN

Risk 5: Member recruitment problem (with the requisite skills) (Risk 4.10, Risk Register)					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> An annual review and appraisal process is carried out for each Council Member by the Chair.</p> <p>The outcomes of this review helps to determine the future training requirements for Members. Through discussion with the Secretary of the Council we were informed that a log of the skills for each of the Members is maintained by the Chair of the Council, but this tends to be more informally set up and they are not aware of any formal log.</p> <p>In our experience with other organisations we have seen the use of a skills matrix to help record members skills, show potential gaps and help in identifying prerequisite skills needed for future appointments.</p> <p><i>Risk:</i> Skill-set requirements for the Council is either limited or not recorded resulting in key subject areas not represented at Council level, expertise/knowledge gaps and inappropriate future recruitment.</p>	<p>Consideration be given to setting up a central log detailing each Members skills and training undertaken.</p> <p>This could then be used to help identify any potential gaps in required skills and further training requirements.</p>	3	<p>Full consideration will be given to the skill set of Council members as part of the restructuring of Council scheduled to take place in July 2013.</p> <p>Post restructure, Secretariat will take forward this recommendation and maintain a central log.</p>	

Risk 5: Member recruitment problem (with the requisite skills) (Risk 4.10, Risk Register)					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.2	<p><i>Observation:</i> The Council undertakes a self assessment of the effectiveness of its Governance arrangements.</p> <p>Whilst we feel this probably provides an accurate assessment of the Council's effectiveness, there is always a risk that some members might be less willing to provide an open and honest appraisal.</p> <p>In our experience with other organisations, we have seen the use of a simple anonymous survey process, which is circulated to Members for completion and is then collated and the results reported anonymously by the equivalent to the Secretary to the Council.</p> <p><i>Risk:</i> Council fails to adequately assess its effectiveness, leading to complacency in its operation.</p>	<p>Consideration is given to enhancing the current annual self assessment of effectiveness of governance through the use of an anonymous survey/questionnaire of Members (perhaps using free survey facilities such as Survey Monkey).</p> <p>The results should be collated and reported on by the Secretary to the Council with a view to future improvements in governance.</p>	3	<p>We are anticipating major change in terms of the governance structures as a result of the restructuring of Council which is due to take place in July 2013.</p> <p>Full consideration will be given to introducing an enhanced self-assessment of effectiveness of governance once the restructuring has taken place.</p>	

Risk 6: Expense claim abuse by members (Risk 4.11, Risk Register)					
	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.3	<p><i>Observation:</i> The Council has an Expenses Policy which explicitly details the responsibilities of the Members in respect of all travel claims.</p> <p>The Council has a preferred supplier agreement with Co-Operative Travel for providing train and air travel arrangements for Partners and Members.</p> <p>A review of a sample of expense claims noted that some had been arranged very close to the actual travel date, and not the two weeks in advance as stipulated in the Policy. It was also noted that some of the actual travel costs charged by Co-Op appeared to be quite excessive. During our review, it was not clear when these arrangements were last subject to market testing.</p> <p><i>Risk:</i> Failure to achieve value for money in travel expenses.</p>	<p>HPC should ensure that where possible all travel bookings are made well in advance of the travel date to ensure best rates are achieved.</p> <p>In addition, consideration to market testing its arrangements with Co-Op travel agents to ensure they provide value for money to the organisation.</p>	3	<p>The Secretary to Council will write to Council members reminding them of the expenses policy in relation to travel.</p> <p>A review of the contract with co-operative travel will take place during the financial year 2012-2013.</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
Full Assurance:	There is a sound system of control designed to achieve the system objectives.	All controls operate effectively promoting the achievement of system objectives.
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.
No Assurance:	No controls are in place	Controls are ineffective or it is not possible to assess their effectiveness.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose HPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose HPC 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.