Audit Committee, 13 March 2013

Internal Audit Report – Corporate Governance and Risk Management

Executive summary and recommendations

Introduction

Mazars has undertaken a review of the arrangements for corporate governance and risk Management in accordance with the internal audit plan agreed by the Committee in March 2012. The audit considered the following risks:

- Council members conflict of interest.
- Failure to meet Council/Committee quorums.
- Expenses claim abuse by members.
- Weak or non-existent controls to mitigate against the risks associated with HCPC's objectives.
- Failure to review/monitor risks in a regular structured manner.

The report is attached as an appendix to this paper.

Decision

The Committee is asked to discuss and approve the report

Background information

At its meeting in March 2012 the Committee approved the Internal Audit Plan for 2012/13

Resource implications

None

Financial implications

None

Appendices

Internal Audit Report – Corporate Governance and Risk Management

Date of paper

1 March 2013

hcpc health & care
professions
council

Internal Audit Report

**Corporate Governance and Risk
Management (07.12/13)**

February 2013

FINAL REPORT

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Appendix 1 – Definitions of Assurance Levels and Recommendations

AUDIT CONTROL SCHEDULE:

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	Greg Ross-Sampson: Director of Operations		Graeme Clarke: Director
	Roy Dunn: Head of Business Process Improvement		James Sherrett: Assistant Manager
Finish on Site \ Exit Meeting: **Last information received:**	31 January 2013 5 February 2013	**Management responses received:**	11 February 2013 12 February 2013
Draft report issued:	7 February 2013	**Final report issued:**	12 February 2013

In the event of any questions arising from this report please contact Graeme Clarke, Director, Mazars LLP graeme.clarke@mazars.co.uk

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Status of our reports

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1. INTRODUCTION

1.1 As part of the Internal Audit Plan for 2012/13, we have undertaken a review of the Health and Care Professions Council's (HCPC) arrangements for corporate governance and risk management. These areas were included in the Plan in order to fulfil our professional obligations as Internal Auditors according to the requirements set by the Institute of Internal Auditors. In addition, HCPC has identified a number of risks associated with corporate governance within its Risk Register.

1.2 Our review of these areas in 2011/12 led us to provide a 'Substantial' assurance in both areas with three Priority 3 recommendations for corporate governance (report 06.11/12 refers) and two Priority 3 recommendations for risk management (05.11/12). Progress on the implementation of these recommendations was reviewed as part of our Follow Up visit (01.12/13), with only one recommendation in respect of corporate governance considered to be outstanding, although in the process of being implemented at the time of our visit in September 2012.

1.3 We are grateful to the Council Chair, Secretary of the Council, Head of Business Process Improvement and other members of staff for their assistance during the course of the audit.

1.4 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

Corporate Governance

2.1 HCPC is a regulator and was established to protect the public. To do this HCPC maintains 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 currently consists of 20 members, of whom 10 are registrant and 10 are lay members. Of the 10 registrants, members include professionals from across the professions it regulates. The 10 lay members are recruited from a wide range of different professions and backgrounds. This seeks to ensure a broad knowledge base and diverse input into strategy development, implementation and monitoring.

2.3 The Council is currently supported by four statutory committees: 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: Audit; Finance and Resources, which also sits as the Remuneration Committee; Communications; and Fitness to Practise.

2.4 The Council for Healthcare Regulatory Excellence (CHRE) in their interim report, published in September 2011, '*Board size and effectiveness: advice to the Department of Health regarding health professional regulators*', suggested that Councils reduce their membership from 20 to between 8 and 12. The HCPC is currently reviewing how best to carry out the process of restructuring its Council and Committees. It is anticipated that the restructure will be complete by January 2014.

2.5   In November 2012, the Centre for Health Service Economics and Organisation (CHSEO) published its report '*Cost-efficiency review of the health professional regulators*' reporting on the cost effectiveness of health regulators against a range of metrics. In terms of the 'Governance' metric the report states that "…the HPC's low scale-adjusted unit costs are notable since there are other regulators…that have significantly higher scale-adjusted unit costs." It should be noted that this report uses data available prior to the on-boarding of social workers and the transition from HPC to HCPC.

2.6   In July 2011, HM Treasury and the Cabinet Office jointly issued 'Corporate governance in central government departments: Code of good practice' together with a related Guidance document. The Code recognises that government departments need to be business-like and operate according to recognised precepts of good governance in business:

- Leadership – articulating a clear vision for the department and giving clarity about how policy activities contribute to achieving this vision, including setting risk appetite and managing risk;

- Effectiveness – bringing a wide range of relevant experience to bear, including through offering rigorous challenge and scrutinising performance;

- Accountability – promoting the government's goal of transparency through clear and fair reporting; and

- Sustainability – taking a sensible, long-term view about what the department is trying to achieve and what it is doing to get there.

While the Code of good practice is focussed on ministerial departments and smaller departments, Non-Departmental Public Bodies and other bodies are encouraged to adopt the practices set out in the Code wherever this is relevant and practical. The Code recognises that there is scope to develop a Code of Good Practice for non-ministerial departments and for arm's-length bodies in the near future and that such a Code would need to be commensurate with the size, status and legal framework of the organisation. Nevertheless, the principles on which the Code is based are broadly applicable to HCPC.

Risk Management

2.7   HM Treasury guidance states that "Risk management covers all the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress. Good risk management helps reduce hazard, and builds confidence to innovate".

2.8   HCPC's Audit Committee approved a statement in November 2010 defining the organisation's risk appetite as 'risk averse'. This sets the tone for the organisation's approach to risk management.

2.9   Risk management processes at HCPC are embedded within the business planning cycle. For example, risks identified in the risk register include strategic risks which relate to HCPC's Strategic Intentions and Directorate/Department and risks which are aligned to the Annual Work Plans and objectives for those Directorates/ Departments. Significant projects undertaken by HCPC also have their own risk registers as part of the usual project management processes.
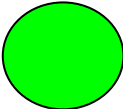
2.10   Risk registers have a consistent format and clearly identify scoring, risk mitigation controls and responsibility for, and ownership of, risks and associated mitigation actions.

2.11   The Risk Register is subject to regular review and monitoring by senior management within HCPC and formal review by all Risk Owners and the Executive Management Team (EMT) on a six-monthly basis. The Audit Committee also receives assurances on the adequacy and effectiveness of risk management arrangements on a regular basis through a variety of means. These include formal presentations by Risk Owners, on a rotation basis, to the Audit Committee covering the risks for which they are responsible. The Audit Committee also receives a 'Top Risks' paper at six monthly intervals.

2.12   There have been no significant changes to HCPC's risk management framework since our last review of the area in 2011/12.

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 *(HCPC Risk Register, Ref 4.2)*;

- Failure to meet Council/Committee quorums *(HCPC Risk Register, Ref 4.4)*;

- Expenses claim abuse by members *(HCPC Risk Register, Ref 4.11)*;

- Weak or non-existent controls to mitigate against the risks associated with HCPC's objectives, leading to non-achievement of objectives, financial loss or reputational damage; and

- Failure to review/monitor risks in a regular structured manner, leading to non-achievement of the HCPC's objectives.

3.2   In reviewing the above risks, our audit considered the following areas:

- Roles and responsibilities of the Council and its members;

- Attendance of members and quoracy of meetings – including monitoring and reporting back to Council;

- Members' expenses;

- Induction and training for members;

- Processes for the appraisal and assessment of Council and Committee members;

- Administration and maintenance of HCPC's Risk Register including its review and update during the year; and

- Processes for the identification, scoring and recording of risks.

3.3   The audit did not consider policies and procedures covering Anti-Bribery, Fraud, Gifts and Hospitality, Declarations of Interest as a separate internal audit advisory review of HCPC's arrangements for ensuring compliance with the Bribery Act was being undertaken alongside this review.

3.4   Our review of risk management represents a high level review of HCPC's risk management framework only, with consideration of individual risks within the Risk Registers and identified controls being undertaken as part of individual assignments in accordance with the Internal Audit Strategy.

3.5   The objectives of our audit were to evaluate the adequacy and effectiveness of HCPC's arrangements for corporate governance and risk management, 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.

3.6   We are only able to provide an overall assessment on those aspects of the controls and arrangements for corporate governance and risk management 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	
	Substantial Assurance

Recommendations summary		
Priority	**No. of recommendations**	
	Corporate Governance	**Risk Management**
1 (Fundamental)	None	None
2 (Significant)	None	None
3 (Housekeeping)	2	None
Total	**2**	**0**

Risk management
HCPC's Risk Register contains a specific section of risks associated with corporate governance. Some of these are detailed in 3.1 above. Testing undertaken as part of this audit has confirmed that the main mitigating actions identified by HCPC on its Register are in place and operating effectively.

There have been no significant changes to HCPC's risk management framework since the last review of this area and testing undertaken as part of this review has confirmed the framework continues to work effectively including the regular review and update of the Risk Register.

Value for money
In respect of corporate governance, implications can arise in the extent of Council Members and management time spent at meetings, as well as resources involved in the administration of the meetings and wider framework. As detailed in Section 2, CHSEO's report '*Cost-efficiency review of the health professional regulators*', indicates that for the Governance metric, HCPC has performed well in terms of cost effectiveness in comparison to other health regulators. One area highlighted for further attention (and through our work in 2011/12 and 2012/13 Follow Up) is market testing of the contractual arrangement with Co-operative Travel for the administration of air and train travel expenses for members. Additionally, as part of this review, we identified in a number of cases that Co-Operative Travel are not being used and arrangements are often not made sufficiently early to ensure that advance bookings savings are gained. Value for money implications in risk management arise through the extent of arrangements put in place and the on-going administration of the framework. HCPC has sought to embed risk management throughout its operational processes, for example, the business planning cycle and Directorate/Department work plans and the framework appears to meet HCPC's needs.

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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 control framework for corporate governance and risk management, as currently laid down and 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:

Corporate Governance

- Comprehensive governance documentation is in place and is accessible by interested parties via HCPC's website;

- There are clear expectations relayed to Members in terms of attendance, with on-going monitoring by the Secretariat and review as part of the annual appraisal process for Members;

- A formal induction programme for Members is in place. In addition, training and learning opportunities for Members are identified through the annual appraisal process with the Chair;

- Reports and papers are provided to Council and Committee in a timely manner, together with support provided by the Secretariat, help to enable effective decision-making; and

- 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 spread sheet within the Secretariat. We have, however, made a further recommendation in respect of travel expenses for Members as part of this review and in addition to the one made during our review in 2011/12;

Risk Management

- The Risk Register continues to be subject to formal review by the Chief Executive and Registrar, Director of Operations and Head of Business Process Improvement on a regular basis and by the whole Executive Management Team on a six-monthly basis;

- Risk management processes are embedded within the business planning cycle and Directorate and Department Annual Work Plans recognise potential risks to the achievement of objectives and identify risk mitigation controls and arrangements;

- Significant projects undertaken by HCPC have their own risks and issues logs as part of the usual project management processes. An update on projects, including the risks associated with them, is provided to the Finance & Resources Committee as part of the Operations Report; and

- On a rotation basis, Risk Owners are required to present the risks to the Audit Committee for which they are responsible.

Areas for further improvement

5.3   We identified certain areas where there is scope for further improvement in the control environment. The matter arising has been discussed with management and has been, or is being, addressed as detailed in the management action plan (Section 6 below).

5.4   At the Audit Committee meeting in September 2012 a discussion took place on the Risk Register and the 'Top Risks' paper which were presented. This included that it would be helpful if the description of the top risks included a statement on whether each risk had crystallised since the previous iteration of the Risk Register. The next presentation of the 'Top Risks' paper, as part of the six-monthly presentation cycle, is due at the March 2013 meeting and hence we have not made a formal recommendation in relation to this matter.

6.   ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	*Observation:* In the context of the CHRE interim report, published in September 2011*, 'Board size and effectiveness: advice to the Department of Health regarding health professional regulators',* the Council will be restructured with the number of members reducing from January 2014. This is also anticipated to result in a reduction in the number of Committees with more business being dealt with by the full Council .

Therefore HCPC will need to establish a clear plan in order to achieve this, whilst ensuring that its governance arrangements continue to operate effectively.

Risk: Governance arrangements are made less effective | As planned, the Secretariat should, in conjunction with the Chair and other Members, determine a plan for the implementation of a new governance structure. As part of this plan consideration should be given to the following areas:-

-    ensuring that the Council is able to maintain its strategic oversight and horizon-scanning roles without becoming overloaded by operational matters;

-    skills-sets, experience and knowledge required of Council members and whether there are any gaps, through the use of a skills matrix;

-    time commitments required of Members;

-    the independence of the Chair of the Audit Committee;

-    ensuring that the risk oversight functions which were carried out, at least implicitly, by Committees is transferred to either the Council or Audit Committee; and

-    quoracy requirements of the Council and remaining Committees. | 3 | During 2013, the governance arrangements including the Code of Corporate Governance will be reviewed. Furthermore, detailed planning will be undertaken in relation to the appointments process for members of council and this will include reviewing the competencies required and ensuring the breadth of skill mix across the newly recruited council members. | Secretary to the Council |

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	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.2	*Observation:* As part of our review in 2011/12, we made a recommendation around market testing of the preferred supplier arrangements for providing train and air travel arrangements for Partners and Members with Co-Operative Travel. At the time of our Follow Up in September 2012 this was in the process of being undertaken. Review of a sample of Council and Committee Members' expense claims found that in several cases rail travel and flight bookings were made on the same day or only very slightly before the travel was to take place. This means that potential savings for advance bookings are not being achieved. In three cases the bookings were not at least two weeks in advance, as required by the Expenses Policy for Council and Committee members. *Risk:* Failure to ensure value for money on travel expenses.	Members should be reminded of the need to make travel bookings sufficiently in advance to enable advance bookings savings to be made and at least two weeks in advance as per the Expenses Policy for Council and Committee members.	3	Once consideration has been given to this report by the Audit Committee, the Secretary to Council will write out to all members to remind them of the Expenses policy in place and the need to book travel as far in advance as possible.	March 2013 Secretary to the Council

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.

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