

Audit Committee, 24 June 2014

Internal audit report - Corporate Governance and Risk Management

Executive summary and recommendations

**Introduction**

Mazars have undertaken a review of the HCPC's arrangements for corporate governance and risk management

**Decision**

The Committee is asked to discuss the report

**Resource implications**

None

**Financial implications**

This audit was undertaken as part of the internal audit plan for 2013-14. Mazars' annual fee is £27,000.

**Appendices**

Internal Audit Report – Corporate Governance and Risk Management.

**Date of paper**

16 June 2014



Internal Audit Report

**Corporate Governance and Risk  
Management  
(09.13/14)**

**June 2014**

**FINAL REPORT**

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### AUDIT CONTROL SCHEDULE:

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<b>Finish on Site \ Exit Meeting:</b>	21 March 2014	<b>Management responses received:</b>	10 June 2014
<b>Last Information Received:</b>	24 March 2014		
<b>Draft report issued:</b>	15 April 2014	<b>Final report issued:</b>	16 June 2014

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#### **Status of our reports**

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## 1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2013/14, 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 Global 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 2012/13 led us to provide a 'Substantial' assurance in both areas with two Priority 3 recommendations for corporate governance and no recommendations for risk management (report 07.12/13 refers). Progress on the implementation of these recommendations was considered as part of this review.
- 1.3 As part of this review we have also followed-up on progress against recommendations made for our review on the Bribery Act last year (report reference 08.12/13).
- 1.4 We are grateful to the Council Chair, Secretary of the Council, Director of Operations, Head of Business Process Improvement and other members of staff for their assistance during the course of the audit.
- 1.5 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 has seen a number of changes to its governance arrangements since our last review of this area in 2012/13 following the Council for Healthcare Regulatory Excellence (CHRE) (now known as the Professional Standards Authority) interim report, published in September 2011, '*Board size and effectiveness: advice to the Department of Health regarding health professional regulators*', which suggested that Regulators (such as HCPC) reduce their Council membership from 20 to between 8 and 12. In light of this the HCPC has reviewed its structure and restructured its Council and Committees effective from January 2014.
- 2.2 The Department of Health has indicated that HCPC's current Chair will remain in post until 30<sup>th</sup> June 2015 the organisation has sought to appoint six lay members and five registrant members. As part of our review we were able to confirm that advice was sought from the Solicitor to the Council and recommendations on the approach to follow for the appointments process was presented and approved by the Council in May 2013.
- 2.3 In December 2013, the Professional Standards Agency (PSA) confirmed to the Privy Council that they have considered evidence provided by the HCPC on the process used to identify the recommended candidates and that they considered the Privy Council could have confidence in the process used to identify the candidates. The HCPC successfully appointed 11 members with a start date from January 2014.

- 2.4 In respect of Committees, the Education and Training Committee has been retained (since it is a statutory Committee) along with the Audit Committee and the Remuneration Committee. The Fitness to Practise and Finance and Resources Committees have been disbanded. As part of the restructure, the Code of Corporate Governance, Standing Orders, Scheme of Delegation and other key documents have also been revised.

#### *Risk Management*

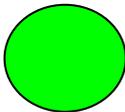
- 2.5 HM Treasury guidance states that “Risk management covers all the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress. Good risk management helps reduce hazard, and builds confidence to innovate”.
- 2.6 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.
- 2.7 Risk management processes at HCPC are embedded within the business planning cycle. For example, the risk register groups risks under headings which align to the directorates or departments and therefore are aligned to the Annual Work Plans and objectives for those directorates and departments. Significant projects undertaken by HCPC also have their own risk registers as part of the usual project management processes.
- 2.8 Risk registers have a consistent format and clearly identify scoring, risk mitigation controls and responsibility for, and ownership of, risks and associated mitigation actions.
- 2.9 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.
- 2.10 There have been no significant changes to HCPC’s risk management framework since our last review of the area in 2012/13.

### **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*);
  - Member recruitment problem (with the requisite skills) (*HCPC Risk Register, Ref 4.10*);
  - 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:
- Review of new member recruitment processes;
  - Processes for the appraisal and assessment of Committee members and Council;
  - Roles and responsibilities of the Council and its members;
  - Attendance of members and quoracy of meetings – including monitoring and reporting back to Council;
  - Induction and training for members;
  - Risk management framework including administration and maintenance of HCPC's Risk Register and its review and update during the year; and
  - Identification of sources of assurance over key risks and processes.
- 3.3 In conducting our review we have also followed up on recommendations made as part of our Bribery Act review in 2012/13.
- 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	
	<b>Substantial Assurance</b>

Recommendations summary			
Priority	No. of recommendations		
	Corporate Governance & Risk Management		Bribery Act Review Follow Up
	This review	2012/13	2012/13
1 (Fundamental)	None	None	None
2 (Significant)	None	None	1
3 (Housekeeping)	2	None	1
<b>Total</b>	<b>2</b>	<b>0</b>	<b>2</b>

Risk management
<p>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.</p> <p>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. However, we have made two recommendations in section 6 below, the implementation which will further improve HCPC's control environment.</p>

Value for money
<p>In respect of corporate governance, value for money 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. The reduction in Council membership and review of the governance framework has sought to ensure the governance framework operates more effectively.</p> <p>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.</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 to 5.4 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.
- 5.2 Both recommendations made in our review of this area in 2012/13 were confirmed to have been implemented. In respect of our review of the recommendations regarding the Bribery Act, five of the seven recommendations were considered as implemented with two recommendations (one Priority 2 and one Priority 3) in progress. Further details are provided within section 7 of this report.

### Areas where controls are operating effectively

- 5.3 The following are examples of controls which we have considered are operating effectively at the time of our review:

#### *Corporate Governance*

- The process followed for the recruitment and selection of new Council members was clear, with an appropriate audit trail in place;
- Documentation defining the corporate governance framework and structures has been appropriately reviewed and updated as part of the reconstitution of the Council;
- 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; and
- Reports and papers are provided to Council and Committee in a timely manner, which together with support provided by the Secretariat, help to enable effective decision-making;

#### *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 EMT 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. Updates on projects, including the risks associated with them, have been provided to the Finance & Resources Committee as part of the Operations Report. These are expected to be reviewed by the Council following the restructure of Committees; 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**

- 5.4 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).

#### **Sector Comparison**

- 5.5 Given the advocacy of assurance mapping exercises and assurance frameworks by HM Treasury, there is increasing use of these tools within the public and not-for-profit sectors. In addition to the benefits set out by HM Treasury, there are benefits to ensuring the co-ordination of sources of assurance and work of assurance providers including internal management assurance, corporate oversight and external and third party sources of assurance such as External Audit, Internal Audit., BSI and the PSA. Key to these are the provision of streamlined and synchronised information on organisational performance and the management of associated risks, helping the organisation to operate efficiently and effectively and to enable reporting to be accurate, meaningful and not misleading. We have made a recommendation in relation to assurance mapping and assurance frameworks in the action plan in Section 6 below.
- 5.6 HM Treasury's guidance 'Assurance frameworks' is available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/270485/assurance\\_frameworks\\_191212.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/270485/assurance_frameworks_191212.pdf). HM Treasury's 'Audit and Risk Committee Handbook' also makes references to assurance frameworks and is available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/206978/audit\\_and\\_risk\\_assurance\\_committee\\_handbook.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206978/audit_and_risk_assurance_committee_handbook.pdf).

6. ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> Review of the mitigation actions identified in the risk register indicated that they were linked and related to the risks noted.</p> <p>However, the sources of assurance over the controls and mitigating actions against risks have not been formally documented identified.</p> <p>‘Assurance Mapping’ is a process involving identifying the various sources of assurance against identified risks and/or key processes and work streams. This can then be used to present the assurance framework, in particular to Council, and to identify potential areas where there are gaps in assurance, as well as areas with duplication.</p> <p>This has previously been highlighted as an area of good practice and briefly discussed at the HCPC Audit Committee in March 2014. Mazars has offered to further discuss the concept and practical implementation of this with EMT.</p> <p><i>Risk:</i> Potential weaknesses in controls due to sources of assurance not being identified, assurance being of poor quality and/or duplication or gaps in the assurance framework.</p>	<p>HCPC should consider further development of the documentation of the existing internal control and risk management system into an overall assurance framework for the Council and the key risks within the Corporate Risk Register.</p> <p>This could be a separate exercise or an addition of the source of assurance within the existing mitigation columns on the risk register. In terms of frequency, this could be made part of risk owner presentations to the Audit Committee.</p>	3	<p>The use of an assurance map does not add any tangible value to the risk management process at HCPC. HCPC take a top down and bottom up approach to locating risks, and applying appropriate mitigations. Risks are reviewed on a six monthly basis, with any new risks being added as they are determined, after consultation with the EMT. An assurance map would not aid this process.</p> <p>Assurance around controls can be gained from the rolling presentations by risk owners, to Audit Committee.</p>	<p>On going risk presentations by risk owners will continue.</p>

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.2	<p><i>Observation:</i> The HCPC has identified six strategic objectives within its strategic intent document for 2012 to 2015. The strategic objectives outlined in the document are to be embedded and 'operationalised' in the work plans produced by each department or directorate.</p> <p>The Corporate Risk Register groups risks under headings which align to the directorates or departments. However, there is no explicit link between the Register and the six strategic objectives.</p> <p><i>Risk:</i> Due to lack of an explicit link between the risk register and the six strategic objectives it is not clear whether all risks related to such objectives have been identified and controlled.</p>	<p>HCPC should periodically formally consider the extent to which the strategic objectives link with existing risks on the Corporate Risk Register. This could be in the form of a brief cover paper each year with a brief narrative as to each strategic objective and related risks.</p> <p>Alternatively we have seen this expressed through explicit reference of each risk to the relevant objectives or grouping risks by strategic objectives as opposed to department/functions.</p>	3	<p>A draft list of risks in strategic objective order has been produced by the Business Process Improvement department.</p> <p>Risk owners will validate the draft mapping, during the next iteration of the Risk Register taking place over the summer, for publication in September 2014.</p>	Immediate

7. RECOMMENDATIONS FOLLOW UP – BRIBERY ACT (08.12/13)

Orig Ref	Original Recommendation	Original Category	Original Management Response and Updated Response	Impl'n Date	Manager Responsible	Status	Comments/ Implication	New Recommendation
5.2	As well as general completion of this action plan, arrangements made for emerging bribery risks to be considered going forward and captured, where appropriate, on the Corporate Risk Register.	2	We will prepare an action plan to set out adequate procedures in the anti- bribery control framework.  Resultant risks will be added to the risk register.	September 2013	Head of BPI (risk register aspects only)  Director of Finance	In progress	Overall risk associated with Bribery has been added to the Corporate Risk Register. However the added risk and mitigations do not include arrangements for emerging bribery risks to be considered going forward.  The anti- bribery control framework remains under development.	An anti-bribery control framework setting out HCPC's approach to ensure adequate procedures should be developed. This should include arrangements for emerging bribery risks. (Priority 2).  <b>Updated Management Comment/ Implementation Date/Manager Responsible</b>  Our anti-bribery policy is set out within the employee handbook. We gave a presentation on the policy and fraud and bribery risks at the June 2014 all employee meeting, and we will develop our procedures for ongoing communication of the policy and identification of emerging bribery risks. We have purchased an anti-bribery toolkit and parts of this may be used within HCPC if appropriate. This risk is now owned by the Finance department.

Orig Ref	Original Recommendation	Original Category	Original Management Response and Updated Response	Impl'n Date	Manager Responsible	Status	Comments/ Implication	New Recommendation
5.5	Based on expenditure (both in terms of value and number of transactions), the sector/services they are involved in, and the country in which they are based, an assessment should be made on the current and future supplier list to identify any that could be considered higher risk. For any such suppliers due diligence should be extended as appropriate, for example conducting a search of directors with disqualifications, news searches for court cases involving bribery etc.	3	<p>All our suppliers are based in the UK. We undertake due diligence on new suppliers and tendering via the OJEU imposes controls through prescribed requirements and involvement of different people in the process.</p> <p>A review of our suppliers' database will be one of the tasks assigned to our procurement manager when recruited.</p>	N/A		In progress	The review of the suppliers' database is now planned to be undertaken in the first quarter of 2014-15.	<p>Recommendation carried forward. (Priority 3).</p>
								<b>Updated Management Comment/ Implementation Date/Manager Responsible</b>
								<p>We are developing procedures for the review of the financial health and the integrity of our suppliers to address this risk and risk 15.21 on the risk register, using credit reference agencies. Our view is that suppliers in our sector are relatively low risk in relation to bribery.</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
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.