

Audit Committee, 19 March 2015

Internal Audit Report – Corporate Governance and Risk Management

Executive summary and recommendations

Introduction

As part of the Internal Audit Plan for 2014-15 Mazars have undertaken a review of arrangements for Corporate Governance and Risk Management.

Decision

The Committee is asked to discuss the report

Resource implications

None

Financial implications

Mazars' agreed fees in 2014-15 are £24,000 including VAT and expenses.

Appendices

Internal Audit Report – Corporate Governance and Risk Management.

Date of paper

12 March 2015



Internal Audit Report

**Corporate Governance and Risk
Management
(06.14/15)**

March 2015

FINAL REPORT

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Appendix 1 – Definitions of Assurance Levels and Recommendations

AUDIT CONTROL SCHEDULE:

Client contacts	Louise Lake: Director of Council and Committee Services Claire Amor Information Governance Manager Roy Dunn: Head of Business Process Improvement	Internal Audit Team	Peter Cudlip: Partner Graeme Clarke: Director James Sherrett: Manager Adam Gould: Senior Auditor
Finish on Site \ Exit Meeting:	28 January 2015	Management responses received:	10 March 2015
Draft report issued:	17 February 2015	Final report issued:	10 March 2015

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

Status of our reports

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.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2014/15, 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 2013/14 led us to provide a 'Substantial' assurance in both areas with two Priority 3 recommendations for risk management and no recommendations for corporate governance. Progress on the implementation of these recommendations was considered as part of our Follow Up audit (report reference 02.14/15).
- 1.3 We are grateful to the Director of Council and Committee Services, Director of Operations, 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 In January 2014, HCPC restructured its Council and Committees in response to the Professional Standards Authority interim report '*Board size and effectiveness: advice to the Department of Health regarding health professional regulators*'. From January 2014 HCPC has continued to embed the redesigned structure.
- 2.2 The Department of Health has indicated that HCPC's current Chair will remain in post until 30 June 2015. We were informed that the preliminary stage of recruiting a Chair has commenced. At the time of our fieldwork an advert for the position has been designed and was due to be placed according to the advertising schedule imminently.
- 2.3 In January 2015 four new members were appointed to the Council. The Council currently consists of six registrant and six lay members.
- 2.4 The Education and Training Committee, the Audit Committee and the Remuneration Committee, form the three governance committees within HCPC. The Education and Training Committee consists of six members (three Lay and three Registrants), the Audit Committee consists of three members (two Council Members and one external, the last of these members was appointed during the year and attended their first meeting in October 2014), and the Remuneration Committee consists of three Council Members.

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".

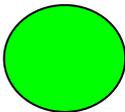
- 2.6 HCPC's Audit Committee approved a statement in November 2010 defining the organisation's risk appetite as 'risk averse'. This sets the tone for the organisation's approach to risk management.
- 2.7 Risk management processes at HCPC are embedded within the business planning cycle. For example, the 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 a defined project management process.
- 2.8 Risk registers have a consistent format and identify scoring, risk mitigation controls and responsibility 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' summary on the front of the Risk Register 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 2013/14.

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*);
 - 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:
 - Induction and training for members;
 - Processes for the appraisal and assessment of Committee members and Council;
 - Roles and responsibilities of the Council and its members;
 - Members declarations of interest/register of interests;
 - Attendance of members and quoracy of meetings – including monitoring and reporting back to Council;
 - 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 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.
- 3.4 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.
- 3.5 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
1 (Fundamental)	None
2 (Significant)	None
3 (Housekeeping)	2
Total	2

Risk Management
<p>HCPC's Risk Register contains a specific section of risks associated with corporate governance. As part of our review we specifically considered risks 4.2 and 4.3 (detailed in paragraph 3.1 above). Testing undertaken as part of this audit has confirmed that the main mitigating actions identified by HCPC on its Register for these risks 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 that the framework continues to work effectively, including the regular review and update of the Risk Register.</p> <p>We have made four Priority 3 recommendations in section 6 below designed to further improve the current 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. Developing a robust skills matrix and effectiveness review will enable the Council and Committee to act in an effective and efficient manner. The restructuring of the Council and Committees in January 2014 has sought to streamline and make more efficient reporting and decision-making.</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 5.3 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

- An induction process is in place for new members. The process is designed to provide members with a clear understanding of their responsibilities, level of authority and role. In addition, the induction provides members with an overview of the strategic objectives of the organisation, the historical and future oriented planning documentation, equality and diversity requirements, information security requirements, data protection procedures and common 'traps' which could lead to an ineffective Council;
- Members are eligible to serve a maximum of two terms. Terms can be two, three or four years as determined by the Privy Council on appointment. A member can serve a maximum of eight years in any 20 year period. A review of meeting minutes has confirmed that all members' terms were appropriate. We noted that it has been agreed that the Chair will step down in June 2015 after spending over nine years in position;
- For 2013/14, member training on the legal framework, Equality and Diversity, Induction, Audit training (for audit committee only) anti-bribery training, the Francis report, corporate governance, strategy and policy context had been completed;
- There are clear requirements 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. Our testing confirmed that the annual appraisal process for 2013/14 has been completed by the eight established Council members;
- Roles, responsibilities and levels of authority for the standing Committee and Council have been defined within terms of reference, scheme of delegation and Standing Orders;
- A register of interests is in place which requires all members to declare all conflicts of interests. In addition, declarations of conflicts of interests are a standing agenda item for all Committee and Council meetings. The register of interests is made publicly available through the profiles of each Council member; and
- Procedures for voting, the frequency of meetings and calling extraordinary meetings have been defined alongside the membership required to establish a quorum. A review of the Committee meetings identified that each Committee had met the minimum requirements for a quorum and had convened over the minimum frequency requirements.

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;
- 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 project board. Significant project risks would be escalated to the HCPC risk register;
- On a rotation basis, Risk Owners are required to present the risks to the Audit Committee for which they are responsible. Testing of the risk register confirmed that each risk had been assigned a risk owner and the pre-mitigation score had been accurately calculated;
- The Head of Business Process Improvement is undertaking specific training from the institute of internal auditors on risk assurance mapping; and
- HCPC has presented a paper in June 2014 to the Audit Committee mapping risks to its strategic objectives. The benefit to HCPC in mapping risks to strategic objective is that it enables the Council to identify any significant risks which are not in alignment with the strategic direction of HCPC and, where this is the case, Audit Committee and Council are responsible for identifying why HCPC is exposing themselves to the risk.

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 HCPC has developed a skills matrix for the Council which sets out ten key skills identified as desirable for the Council. Based on our experience with other bodies and review of skill matrices, there are some other key areas which may be of benefit to consider including within the HCPC one going forward. For example, we have seen skills matrices which include: Business Strategy in Large Organisations; Treasury; Marketing, Media and Public Relations; Pensions; Project Management; Performance and Risk Management; Information Technology; and Legal and Compliance. At present there is no skills matrix for the Education and Training Committee and Audit Committee. The current skills matrix contains eight broad skills. These are: governance, patient advocacy, tribunals and enquiries, education, HR, finance, Health and Social Care sector and UK-wide regulation. HCPC consider that these eight areas are sufficient to ensure breadth of skills and knowledge across the Council. The matrix is reviewed as part of the project planning for all recruitment rounds. In making recommendations to Council in relation to the composition of Committees, consideration is given to the skill set required. The existing skills matrix will continue to be kept under review. However, it is intended that this should not overcomplicate a process which currently works well.
- 5.5 Whilst there are appraisals of individual members, we noted that there is no formalised effectiveness review of Council or the Committees themselves. An effectiveness review is an assessment of the committees'/council's performance compared to the strategic objectives of the organisation, as well as ensuring that they have fulfilled their respective terms of reference. In our experience, we have seen effectiveness reviews completed every one to three years. We note that at

Council 'Away Days' each year, there is a specific workshop on governance and the Council are asked to reflect on how well they are doing. Furthermore, at the end of each meeting of the Council, a meeting review is conducted. These are both opportunities for Council to reflect on performance and also consider if there are any obvious training needs for the Council as a whole. HCPC consider that the existing effectiveness reviews are sufficient.

- 5.6 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. This was raised during our internal audit 2013/14 review of Corporate Governance and Risk Management (report reference 09.13/14). This has been further discussed at Audit Committee meetings and HCPC continue to review the merits of assurance mapping.

6. ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> The Risk Register contains a number of current mitigating actions to reduce risks. We identified in a number of instances where the mitigating actions did not contain sufficient detail to describe the control, i.e. 'Communications'.</p> <p><i>Risk:</i> By not effectively defining the mitigating control there is an increased risk the control does not exist or is not operating in the manner it was initially designed.</p>	<p>Risk Owners should ensure description of the mitigating actions (current controls) should contain sufficient detail to ensure the control is clearly defined and understood.</p>	3	<p>It is crucial that risk owners are responsible for the language used to define their risks and the associated mitigations (controls). It is for this reason that as part of the Risk Management process outlined HCPC's ISO 9001 Quality Management System, all risk owners are responsible for reviewing - and, if necessary, changing - their risks and mitigations at least every six months as well as when the need arises due to changes in the regulatory landscape.</p> <p>We will continue to take this approach and follow this process.</p>	Immediate

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.2	<p><i>Observation:</i> HCPC state within their Risk Strategy that risks should be mitigated to an appropriate level. This risk appetite is defined by the Executive on a four year cycle. The Audit Committee, in November 2010, approved a statement defining the organisation's risk appetite as 'risk averse'. A paper was presented in June 2014 to the Committee providing a similar statement as part of paper covering risk management strategy and associated processes. HCPC's risk appetite requires review going forward.</p> <p><i>Risk:</i> By not defining the acceptable level of risk for the organisation there is a risk that resources are being expended on mitigating risks which have inconsequential risk to the organisation.</p>	<p>HCPC should review its current statements around risk appetite to ensure these remain appropriate to the organisation.</p> <p>Once updated, these should be considered and agreed by Council.</p>	3	<p>HCPC's Risk Appetite statement was provided to the Audit Committee on 24 June 2014 as part of a paper explaining to the committee our risk management strategy and associated processes.</p> <p>For clarity we will explicitly table a separate paper on HCPC's risk appetite to the Audit Committee and the Council in March 2015.</p> <p>The risk appetite will continue to be tabled to the Council and Audit Committee after any significant business changes.</p>	March 2015

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.