



INTERNAL AUDIT PROGRESS REPORT
FOR THE 2020/21 AUDIT PLAN
HEALTH AND CARE PROFESSIONS COUNCIL

CONFIDENTIAL
STATUS - FINAL
MARCH 2021

1. Internal Audit Progress Report

Introduction

2.1 This report summarises the progress so far regarding the delivery of the internal audit plan for 2020/21. The Audit & Risk Committee is requested to note this report.

Delivery of the plan

2.2 The following audits have been completed since the Committee's meeting in November 2020:

- Intelligence Gathering
- Registration end-to-end

2.3 With the remaining audits we continue to work closely with Management on scheduling, paying particular sensitivity to current remote working arrangements. A summary of the plan to-date is set out in the adjacent table.

Changes to the plan

2.4 Following discussions with management the audit of Culture and Ethics has been replaced with an audit of Payroll. An audit of Key Financial Controls was originally scheduled in 2020/21 as part of the original three year Audit Strategy, but was subsequently deferred. As part of our audit planning process for the 2021/22 Audit Plan an audit of Payroll was identified as a priority, and so was brought forward as a priority into 2020/21.

Assignment title	Output type	Period	Status	Proposed Audit Committee Date
Reshaping the Organisation	Advisory/ Assurance	Q1	Final Report	September 2020
PSA & Internal Reporting	Assurance	Q1	Final Report	November 2020
IT General Controls	Assurance	Q1	Final Report	September 2020
Intelligence Gathering	Advisory	Q3	Final Report	March 2021
Fitness to Practise - follow-up	Assurance	Q3	Final Report	November 2020
Registration end to end	Assurance	Q3	Final Report	March 2021
Payroll	Advisory	Q4	On-track	June 2021
Financial Modelling	Assurance	Q4	On-track	June 2021
Follow up	Assurance	Q4	On-track	June 2021

2. BDO Insights - 'Three Lines Model'

- 2.1 First published by the Institute of Internal Auditors (IIA) in 2013, the Three Lines of Defence model's aim was to provide a comprehensive framework to consider the overall arrangements for managing risk and exercising control within an organisation. Many organisations had not adopted a structured approach to this.
- 2.2 The model has been commonly adopted for modelling and clarifying control and risk management responsibilities, but some confusion occasionally persists as to its application and the development and ongoing use of associated tools, such as assurance maps. The ACCA noted in 2019, that organisations "struggle to reconcile the theoretical idea of a three lines approach with the practical realities of implementing one".
- 2.3 In July 2020, amid "rapid change, new risks and the growing complexity of organisations", the IIA updated their Three Lines of Defence model - now known as the 'Three Lines' Model.

Key changes of the model

- 2.4 The previous model assumes that there are distinct lines and that the execution of risk management and controls is vertical and linear. If the model is applied rigidly, this can create silos. The consequence of this is that those responsible for activity within each line view the management of risk and the provision of assurance solely from the perspective of their respective line, with a high potential for duplication and inefficiency.
- 2.5 In practice the first and second line functions are not clearly defined within many organisations. Therefore, operational management (considered to be a segregated first line in the model) perform compliance and risk management activities in the absence of a separate second line function.

- 2.6 The old model has also been criticised for placing too much emphasis on defence and embracing a cautious view of risk as something that needs to be mitigated, ignoring the need for organisations to take risks, seize opportunities and innovate in order to create value and succeed.
- 2.7 Moving away from the traditional three lines, the new model introduces two new categories of stakeholders who are to be considered separately, "Governing bodies and senior management" and "External auditors / regulators".
- 1) **Governing bodies and senior management** - The Board and senior management sit above the traditional three lines. As an organisation's decision makers, they collectively have responsibility for setting organisational objectives, defining strategies to achieve them and establishing the necessary governance risk management and control frameworks to manage the risks to their achievement.
 - 2) **First line** - Primary responsibility for managing organisational risks, through designing and implementing appropriate mitigating controls rests with operational management who own and manage risks.
 - 3) **Second line** - Reporting to senior management, the second line comprises risk management and compliance functions to help build and/or monitor the first line of defence controls.
 - 4) **Third line** - The principal function of the third line is to provide risk assurance. Internal audit provides assurance on the effectiveness of governance, risk management and internal controls, including first and second line controls. Internal audit is independent of management with a direct reporting line to the Governing body/ Audit Committee.
 - 5) **External auditors / regulators** - Although they sit outside the organisation, external auditors can play an important role through their considerations of the governance and control structure where this is relevant to financial reporting.

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- 2.8 The new model sets out six principles for governing bodies, management and third line assurance providers, which we set out in three key areas of focus:
- 1) **Accountability** - The Governing body is accountable to stakeholders for oversight. Principles 1 and 2, relate to the role and responsibilities of the governing body in relation to overseeing the organisation's risk management, control framework and accountability to stakeholders. This confirms that governance of an organisation requires appropriate structures and processes that enable accountability, action and assurance. It is the role of the Governing body to ensure appropriate structures and processes are in place for effective governance.
 - 2) **Actions** - Management is responsible for taking actions (including risk management) including designing and implementing the controls and procedures necessary to achieve organisational objectives. Principle 3 states that Management's responsibility to achieve organisational objectives comprises both first and second line roles.
 - 3) **Assurance** - Organisations require advice from an independent internal audit function to provide insight, confidence and encouragement of continuous improvement. Principle 4 sets out that in its third-line role, internal audit provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It may consider assurance from other internal and external providers. Principle 5 reiterates that the independence of internal audit from the responsibilities of management is critical to its objectivity, authority, and credibility.
- 2.9 Finally, Principle 6 recognises that all roles working collectively, contribute to the creation and protection of value when they are aligned with each other and with the prioritised interests of stakeholders.
- 2.10 The emphasis of the new model is upon the contribution that risk management makes to the achievement of objectives and value creation. 'Defence' has been removed from the title and the focus is upon the creation as well as the protection of value to shareholders and stakeholders. This will be welcomed by those that criticised the previous model for its over-cautious view of risk.
- 2.11 The model explicitly states that "independence does not imply isolation". There is an expectation that there will be regular interaction and communication between management (first and second lines) and internal audit, to ensure that the work of internal audit is aligned to the objectives of the organisation and that duplication, overlap and gaps in assurance are minimised. This would seem to encourage the further, tactical engagement between internal audit and the organisations they serve, without compromising independence.

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