
Internal Audit report – Registration Payment Process

Executive Summary

As part of the 2021-22 Internal Audit Plan as approved by the Committee, BDO LLP have undertaken a review of the HCPC’s registration payment process.

The objective of the audit was to provide assurance over the processes and controls intended to respond to the issues relating to accounting for registrations fee deferred income; controls introduced aimed at preventing similar issues occurring for the 2021/22 financial year; and governance processes more generally relating to business transformation, and whether lessons learned from the deferred income issue have been adopted for other change projects.

Previous consideration	None.
Decision	The Committee is invited to discuss the report.
Next steps	Recommended actions agreed with the Executive will be tracked for progress in the Committee’s standing recommendation tracker report.
Strategic priority	All
Risk	<ul style="list-style-type: none">• Governance arrangements relating to addressing deferred income issues are not sufficient to enable HCPC identify, manage and/or correct errors relating to deferred income calculations;• Systematic issues from the 2020/21 financial reporting exercise persist as root causes of issues are not identified, and processes are not improved/embedded, resulting in similar difficulties in preparing the 2021/22 financial accounts; and• Governance processes around systems and business transformation have not been improved more generally increasing the risk that business transformation projects inadvertently disrupt key financial or operational processes.

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- Discrepancies and/or errors are identified and addressed in a timely manner as periodic key account /ledger.

Financial and
resource
implications

The cost of the audit is included in the Internal Audit annual fee.

Author BDO LLP



HEALTH & CARE PROFESSIONS COUNCIL

INTERNAL AUDIT REPORT - FINAL REPORT

REGISTRATIONS PAYMENT PROCESS
MAY 2022



Contents

	Page
1 Executive Summary	3
2 Key Findings	6
A Audit objectives, Risks & Scope	11
B Audit definitions	12
C Staff consulted during review	13

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Auditor: Raminta Suliauskaite, William Jennings
Reviewed by: Bill Mitchell

1 Executive Summary

Introduction

- 1.1 As part of the Health & Care Professions Council (HCPC) internal audit plan for 2021/22, as approved by the Audit and Risk Assurance Committee, we completed an audit of HCPC's Registrations payment process.
- 1.2 HCPC is a UK-wide regulator of 15 health and care professions with a statutory responsibility of regulating these professions so that the registered professionals meet required standards, including setting the standards for professionals' education, training and conduct. The primary purpose of doing so is in order to protect members of the public who receive care. HCPC primarily meets the costs of carrying out its functions through receipt of registration income, which is paid by registrants (prospective and re-registering) up-front and in cash. As registration fees are ordinarily for a 24-month period, deferred income (that is income received but not relating to the current annual accounting period) issues arise as not all of that cash relates to income in the financial year in which it receives. This represents a significant balance within HCPC's financial accounts, and requires specific calculations to be performed.
- 1.3 HCPC has been carrying out a registrations systems transformation project to migrate the registration process from NetRegulate to Microsoft Dynamics 365, and has also changed its finance system from Sage to Business Central. During the course of HCPC's external audit for the 2020/21 financial year it was identified that there were issues relating to the way existing accounting processes at the time (pre systems changes) were not carried forward into the new operating environment. As a result a material uncertainty around the accounting for income within the year, and income attributable to future years occurred.
- 1.4 These issues were noted prior to the go-live date for Dynamics 365, and in October 2020 consultants PwC were engaged to review the proposed Dynamics 365 deferred income processes and provide an analysis of options for alternative approaches to accurately report on deferred income, taking into account the status of the business systems transformation project at that time.
- 1.5 The PwC report identified that the previous registrations system NetRegulate interfaced with the previous accounting system Sage and performed deferred income calculations, but Dynamics 365 did not. Likewise, the Sage accounting system was not configured to perform these calculations either.
- 1.6 HCPC has been implementing changes to the structure of its finance function for the last 6 months following the departure of the previous Director of Finance. In the interim, there has been a reliance on temporary members of staff, and where experienced members of staff have remained within the team they have been taking on multiple operational responsibilities. HCPC has recently reformed its Executive team structure and has appointed both an Executive Director of Resources and Business Performance, and a new Head of Finance. The initial completion of fieldwork for this audit (conducted in January 2022) pre-dated the appointment of the new Executive Director, and took place one month following the appointment of the new Head of Finance.

Review objectives and approach

- 1.7 The objective of the audit was to provide assurance over:
 - the processes and controls intended to respond to the issues relating to accounting for registrations fees deferred income;
 - controls introduced aimed at preventing similar issues occurring for the 2021/22 financial year; and
 - governance processes more generally relating to business transformation, and whether lessons learned from the deferred income issue have been adopted for other change projects.

Internal Audit Report – Registrations payment process

- 1.8 The key risks with this area of activity assessed were whether adequate steps have been taken to identify and control risks relating to how registrant income is treated within HCPC’s financial statements:
- Governance arrangements relating to addressing deferred income issues are not sufficient to enable HCPC identify, manage and/or correct errors relating to deferred income calculations;
 - Systematic issues from the 2020/21 financial reporting exercise persist as root causes of issues are not identified, and processes are not improved/embedded, resulting in similar difficulties in preparing the 2021/22 financial accounts; and
 - Governance processes around systems and business transformation have not been improved more generally increasing the risk that business transformation projects inadvertently disrupt key financial or operational processes.
- 1.9 The audit was focused on how HCPC managed risks relating to the accurate accounting of its deferred income from registrations payments, and learned the lessons from the implementation of Dynamics 365 for future business transformation projects, building on previous lessons learnt work done internally.
- 1.10 We assessed what steps had been taken to identify, manage and correct issues relating to deferred income treatments for the 2020/21 financial accounting period. We also considered governance arrangements in place to investigate the issue, and whether staff seniority, skills and resource were appropriate to address the main causes of any issues.
- 1.11 As part of HCPC’s steps to identify and correct the existing 2020/21 issue, we assessed to what extent the root causes of the issues have been identified and determined whether these were formally monitored and addressed to prevent similar issues arising in future accounting periods. We specifically explored to what extent recommendations made within the Options Appraisal exercise by PwC were formally addressed and monitored.
- 1.12 We reviewed HCPC’s approach to project management and business transformation more generally to assess whether governance best practice steps are being followed for existing transformation projects (e.g. ensuring the right mix of skills at a project board level).
- 1.13 While the overall governance of activities and controls to investigate and correct issues with deferred income were the subject of this review, we are not providing assurance over the accuracy of specific calculations, or suitability of steps taken for HCPC management to provide a true and fair view of the organisation’s financial performance in any given accounting period.

Key conclusions

■ (Amber)

Weaknesses have been identified in the control framework or non-compliance which put achievement of system objectives at risk. Some remedial action will be required.

- 1.14 Our initial audit work identified several issues relating to the recognition of income from the registration payment process. However, several of these have now either been addressed in full, or are in the process of being addressed, following the strengthening of HCPC’s finance function. Nonetheless, there remains a need for a long-term solution relating to the systems implementation issues caused by the new registrations and finance systems and so an overall “Amber” rating has been provided.
- 1.15 Staff interviewed had a good understanding of the issues with the registration payment process which gave rise to the deferred income errors. This demonstrated organisational clarity of the issues and what steps were being taken to address them. In addition, a previous HCPC employee who sat on the Microsoft Dynamics 365 (D365) Project Board was re-engaged as a Finance Consultant to form part of the team to correct the issue with the 2020/21 financial accounts. During the exercise to recalculate deferred income there was

regular communication with the external auditors, which helped ensure that the approach adopted would be satisfactory for the purposes of the external auditor’s assessment of the accounts.

- 1.16 The issue with the Registration Payment Process was first identified at around July/August 2020, before Business Central went live in October 2020. This was not a failure in project governance relating to the implementation of Business Central, as the relevant project boards were constituted and made up of relevant HCPC colleagues. Following the identification of the potential issue, a PwC report was commissioned which looked into possible solutions to address the compatibility problems before Business Central’s go-live date. PwC found that opportunities were missed to escalate this issue early enough to avoid impacting on the financial accounts for 2020/21. This was evidenced from our review of SMT / ELT meeting minutes from that time, which indicated that HCPC’s leadership team did not have this escalated to them. As highlighted above, HCPC has taken steps to strengthen its finance team at both executive and operational levels.
- 1.17 Early in our fieldwork, we confirmed with both the Head of Financial Planning & Analysis and the Finance Consultant that there have been no steps taken to bring this year’s finance figures to a correct position ahead of the 2021/22 external audit. However, since then, steps have been taken to rectify the causes of previous issues. It will be important that HCPC continues to receive ongoing assurance over these improvement steps. While current processes now rely upon significant manual reconciliations with spreadsheets, the risk of error and unnecessary workload for finance colleagues remains. A long-term solution should be sought which automates key financial calculations.

Recommendations summary table

- 1.18 The following table summarises the recommendations made across the key risks audited, grouped by priority ratings:

Key risk area	Rating	Recommendation Priority rating		
		1	2	3
1 Governance arrangements relating to addressing deferred income issues	Green Amber	-	-	-
2 Systematic issues from the 2020/21 financial reporting exercise persist resulting in difficulties in preparing the 2021/22 financial accounts	Amber	-	2	-
3 Governance processes around systems and business transformation have not been improved	Green	-	-	-
Total recommendations made		-	2	-

- 1.19 The following tables in Section 2 Key Findings show the results of our analysis by each key risk area. Areas for improvement are highlighted with the key recommendations in the right-hand columns.

2 Key Findings

Key Risk Area 1: Governance arrangements relating to addressing deferred income issues

Assessment:

Green Amber

Background

When addressing an organisational issue it is important to have effective governance arrangements in place so that any response is appropriately considered and resourced, with regular updates provided to senior leadership. We assessed the steps taken by HCPC to address the deferred income issues with the 2020/21 accounts by holding interviews with key personnel and reviewing relevant documentation.

Findings & implication

Positive findings

- We interviewed finance personnel, including the Systems Accountant, Financial Accounting Officer, Financial Account and Financial Controls Manager and we concluded that they had a good understanding of the issue with the registration payment process which gave rise to the deferred income errors. This demonstrated organisational clarity of the issues and what steps were being taken to address them.
- A previous HCPC employee who sat on the Microsoft Dynamics 365 (D365) Project Board was re-engaged as a Finance Consultant to form part of the team to correct the issue with the 2020/21 financial accounts. The process adopted was to use the source data from the registration system to manually recalculate finance transactions and deferred income. The difference between the manually calculated figures was then posted as a journal into the finance system. HCPC therefore assessed whether it had the capabilities in-house to meet the challenges of the 2020/21 accounts and took action where skills gaps were identified.
- During the course of the exercise to recalculate deferred income there was regular communication with the external auditors on the issue, this helped ensure that the approach adopted would be satisfactory for the purposes of the external auditor’s assessment of the accounts.

Areas for improvement and implication

- We found that the income recognition issue with the Registration Payment Process was first identified at around July/August 2020, before Business Central (BC) went live in October 2020. As a result, a PwC report was commissioned which looked into possible solutions to address the problem before its go-live date. The final report was issued in October 2020. At the time it was agreed by the then Finance Director that the system would be sufficient in completing the required finance processes, and so no further action was taken. From our review of SMT / ELT meeting minutes from that time we noted that HCPC’s leadership team did not discuss the

Recommendation

None



Management response

n/a

Findings & implication	Recommendation
<p>possibility that the annual accounts could be disrupted due to a potential issue with deferred income. The root cause relating to this issue has been addressed due to the structural changes within HCPC's finance team as set out in Risk Area 2 below, and so no recommendation has been made.</p>	

Key Risk Area 2: Systematic issues from the 2020/21 financial reporting exercise have been cleared

Assessment:

Amber

Background

Systems implementation issues caused problems with HCPC's finance and registration data for the purposes of the 2020/21 financial statements. If steps taken to address issues with the 2020/21 accounts do not address the root causes of the problems, similar issues could be encountered with the 2021/22 accounts.

Findings & implication

Positive findings

- One of the identified root cause issues with the deferred income element of the financial statements was a lack of appropriate strategic finance expertise as part of the Business Central change project and HCPC's executive structure more generally. This has been rectified with the strengthening of HCPC's finance team and structural changes made to HCPC's senior leadership in the appointment of the Executive Director of Resources and Business Performance, and a new Head of Finance.
- Since HCPC's new finance appointments regular progress has been made to put in place processes aimed at achieving a smoother audit for the 2021/22 accounts with regards to deferred income calculations. Regular updates have been provided to HCPC's leadership team and to Council. Key elements of issues identified are being separately monitored and reported against including Systems Implementation, Income Recognition and Reconciliations. Detailed reconciliations have been being conducted prior to the year-end, and the team is being strengthened with a Systems Accountant to aid in conducting these reconciliations.

Areas for improvement & implication

- At the time of initially conducting fieldwork, we confirmed with both the Head of Financial Planning and Analysis and the Finance Consultant that there have been no steps taken to bring this year's finance figures to a correct position ahead of the 2021/22 external audit. While this was the case at the time of our initial fieldwork, steps continue to be taken to rectify the causes of previous issues. It will be important that HCPC continues to receive ongoing assurance over these steps.
- Current reconciliations processes rely on a lot of manual workings with data and spreadsheets. This creates risks of errors and increases the workload on finance colleagues. A long-term solution is desirable which would automate key financial calculations.

Recommendation

1. HCPC should continue to provide regular updates to its leadership team and Council on addressing identified finance issues.
2. A long-term solution systems-based solution should be introduced which eliminates, as much as reasonably practicable, the requirement for complex monthly reconciliations and manual journal postings to HCPC's finance system.

Both Priority 2



Management response

Agreed

Management Response: We are continuing to provide frequent progress updates via monthly directorate reports, project board meetings and also as part of ELT/Council meetings, both formal and informal.

Action: N/A

Action Owner: Alan Keshtmand (Head of Finance)

Completion date: N/A

Agreed

Management Response: Paper submitted to Exec Team stating that a retender will be undertaken to ensure we are covered by the correct CCS Framework agreement and a staggered project implementation approach, as we have an existing platform and partial implementation from which to build on. In the interim, we are close to completing our manual income reconciliations with a level of automation introduced within our files to produce expected revenue, based on our fee structure, which is dependent on the specific renewal cycle and also the type of applicant/registrant (UK or International). This is then compared against the amounts in Business Central and any differences are investigated and, thereafter, corrected within Business Central and/or Customer Engagement (CRM system). Once all corrections and adjustments are made, a final summary check will be carried out to ensure total amounts in BC versus total amounts for expected revenue match. Our reconciliation files will hold data on an individual basis, which will enable us to provide detailed backing of our recognised income and deferred income to audit.

Action: We have set a deadline for potential suppliers to submit their bids to undertake the Business Central Reimplementation Project by Friday 10th June.

Action Owner: Trevor Corbitt (Systems Accountant and Project Lead)

Completion date: 10 June for receipt of bids, timescales and next steps to be agreed following this.

Key Risk Area 3: Governance processes around systems and business transformation

Assessment:

Green

Background

Organisations require robust controls over its business transformation projects to ensure that these are appropriately governed. Key to ensuring appropriate governance over any given project is ensuring that individuals from the organisation are suitably senior to identify potential issues which may exist at a strategic level which may not be identifiable to more operationally focussed colleagues. HCPC’s approach to managing transformational change will also be the subject of Internal Audit reviews during the 2022/23 plan.

Findings & implication

Recommendation

Positive findings

- During interviews with individuals involved in the planning and implementation phases of the project (Registration Operations Manager, Head of Registration, Head of Business Change and Director of Digital Transformation), it was noted that there was continuous finance representation on the Project Board. In the initial planning stage, user stories were produced, which aimed to get input from those that the new registration system would impact the most (including finance). These intend to get a list of priorities/requirements from different departments and teams that the new system should have. Similarly, during the testing phase of the new D365 system, there were finance individuals involved, most notably the then Finance Director, who approved of the system as it was. In this way, it appears the 'right' individuals were present on the Project Board during the selection and implementation of the D365 system.
- We also reviewed HCPC's Project Management Guide. This was last updated in February 2021. This document provides guidance on the project management cycle, including project initiation, managing project build and closing the project. From pages 20-27 the role and responsibilities of individuals within the Project Board are defined. The Project Lead should be a senior member of the department or directorate that will be most affected by the project and as an essential criteria they should have expertise in the area of the project. Similarly, the Project User should be an individual who is most likely to use the end product and an essential criteria is that they must have sufficient knowledge of the department's processes to determine both requirements and appropriateness.

None



Management response

n/a

A Audit objectives, Risks & Scope

Terms of reference	
Objectives	The objective of the audit is to provide assurance over the processes and controls relating to cash and banking, and ensuring the accuracy of the General Ledger, for a selection of key control accounts.
Key risk areas	<ul style="list-style-type: none"> • Appropriate policy and procedural guidance has been developed and communicated to relevant personnel to ensure they have a clear understanding of associated processes and requirements • Access to create or amend bank account details within finance systems can be achieved only with appropriate approvals • Banking mandates are current, complete, and in line with HCPC's delegated financial authority limits • Adequate segregation of duties is maintained between payment processing and payment authorisation functions • Discrepancies and/or errors are identified and addressed in a timely manner as periodic key account / ledger reconciliations are performed and reviewed independently.
Scope	<p>The audit was focused on financial controls risks encountered by HCPC in carrying out its cash, banking and BACS payments activities. We reviewed policy and procedural guidance relevant to the audit area and assessed whether roles and responsibilities had been set out clearly and were consistently followed in practice.</p> <p>We reviewed system access rights to create or amend bank account details within the finance system to determine whether these were restricted to appropriate individuals, and determine whether controls were in place requiring a separate user to approach the changes prior to changes being made within systems.</p> <p>We assessed whether appropriate controls were in place to maintain the accuracy of HCPC's bank mandates in light of changes in finance personnel, and steps to ensure these were consistent with delegated authority limits.</p> <p>We conducted testing over the preparation, review, approval and actioning of a sample of BACS payment runs.</p> <p>We also conducted sample testing of monthly key control account reconciliations, including bank reconciliations, to determine whether these were being appropriately performed and were subject to independent review.</p>
Methodology	We interviewed key staff responsible for the processes above and assessed the design of the control frameworks. The effectiveness of the operation of the controls was tested through a detailed review of a sample of instances for each control.

B Audit definitions

Opinion/conclusion	
 (Green)	Overall, there is a sound control framework in place to achieve system objectives and the controls to manage the risks audited are being consistently applied. There may be some weaknesses but these are relatively small or relate to attaining higher or best practice standards.
 (Green-Amber)	Generally a good control framework is in place. However, some minor weaknesses have been identified in the control framework or areas of non-compliance which may put achievement of system or business objectives at risk.
 (Amber)	Weaknesses have been identified in the control framework or non-compliance which put achievement of system objectives at risk. Some remedial action will be required.
 (Amber-Red)	Significant weaknesses have been identified in the control framework or non-compliance with controls which put achievement of system objectives at risk. Remedial action should be taken promptly.
 (Red)	Fundamental weaknesses have been identified in the control framework or non-compliance with controls leaving the systems open to error or abuse. Remedial action is required as a priority.

Any areas for improvement are highlighted with the key recommendations in the right-hand columns. The symbols summarise our conclusions and are shown in the far right column of the table:

Good or reasonable practice	
An issue needing improvement	
A key issue needing improvement	

Recommendation rating	
Priority ranking 1:	There is potential for financial loss, damage to the organisation's reputation or loss of information. This may have implications for the achievement of business objectives and the recommendation should be actioned immediately.
Priority ranking 2:	There is a need to strengthen internal control or enhance business efficiency.
Priority ranking 3:	Internal control should be strengthened, but there is little risk of material loss or recommendation is of a housekeeping nature.

C Staff consulted during review

Name	Job title
Richard Houghton	Head of Registration
Claire Harkin	Registration Operations Manager
Alice Warr	Registration Test Manager
Margaret Osibowale	Head of Financial Planning and Analysis
Doyin Adeleye	Financial Controls Manager
Prashanthi Kumaraswamy	Financial Accountant
Jagana Abubacarr	Financial Accounting Officer
Raymond Cayenne	Systems Accountant
Gordon Dixon	Finance Consultant
Paul Cooper	Head of Business Change
Neil Cuthbertson	Director of Digital Transformation

We would like to thank these staff for the assistance provided during the completion of this review.

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