

Audit Committee, 12 June 2018

Internal Audit Annual Report 2017 -18

Executive summary and recommendations

Introduction

Grant Thornton's annual report on the HCPC's governance, risk management and internal control systems is attached.

Decision

The Committee is asked to review and discuss the report.

Background information

The internal audit programme includes an annual report. The annual report summarises the findings of internal audits during the year, and includes the internal auditors' overall opinion on the system of governance, risk management and internal control, which is provided to the Accounting Officer and the Audit Committee.

The internal auditors' programme of work and their overall opinion supports the description of the system of internal control within the governance statement section of the Annual Report & Accounts, and also forms part of the assurance framework which the Committee and Council can draw upon in deciding whether to approve the Annual Report & Accounts.

Resource implications

None

Financial implications

Grant Thornton's agreed fees for 2017-18 were £47k including VAT.

Appendices

Grant Thornton's internal audit annual report

Date of paper

5 June 2018



The Health and Care Professions Council

Annual Internal Audit Report 2017-18

June 2018

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It is the responsibility solely of the Health and Care Professions Council's management to ensure that there are adequate arrangements in place in relation to risk management, governance and control.

1 Introduction

1.1 Introduction

Grant Thornton UK LLP was the appointed Internal Auditor to the Health and Care Professions Council (HCPC) for the period 1 April 2017 to 31 March 2018.

This report summarises our work during the year, together with our internal audit conclusion and supporting commentary.

1.2 Responsibilities

It is the responsibility of HCPC to ensure that it has adequate and effective risk management, control and governance processes.

In fulfilling its responsibilities, the HCPC is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The HCPC should maintain sound risk management and internal control systems and should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the organisation's auditors.

Our role as internal auditor to the HCPC is to provide independent assurance to the Audit Committee on risk management, control and governance processes, by undertaking a programme of work that we are directed to undertake by the Audit Committee.

1.3 Internal audit approach

Internal audit plan

The internal audit plan for 2017-18 was prepared under the direction of, and approved by, the Audit Committee and was informed through discussion with the HCPC's Chief Executive and senior management.

The internal audit plan consisted of the following reviews:

- Continuing Professional Development (CPD)
- Cyber Security
- Budgeting, Forecasting and Key Financial Controls
- Annual Follow-up

The Internal Audit plan also included a review examining the Registration Project, which has been deferred to 2018/19 due to issues encountered by management in the implementation of the project. This review is not therefore included within this annual conclusion.

It was also agreed with the Audit Committee and Management that the review of Strategic and Operational Planning would also be deferred to 2018/19, to ensure that the audit would examine the new strategic and operational planning process and outputs from the Council and Senior Management Team's (SMT) strategic away day.

Audit assignments

We have reviewed the control activities established by the HCPC in the areas included within the 2017-18 Annual Internal Audit Plan, which approved by the Audit Committee in June 2017, subject to the amendments to the Plan discussed above.

This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the HCPC. We adopted a risk based approach to our work which required us to:

- establish the controls and activities in place to address the key business risks in each area under review
- interview key staff to gain an understanding of the adequacy of controls and activities in place to manage the risks in each area under review
- review certain key documents to confirm the existence and operation of the controls and activities identified
- where applicable, perform tests to determine whether the controls and activities have operated as expected during the period.

Together these and other such procedures as we considered necessary, enabled us to evaluate whether the controls were suitably designed to meet the risk objectives and whether these controls were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that those risk management objectives were achieved during the period reviewed. Our opinion is based on the scope of work we have carried out in 2017-18. Our conclusion should not be taken to mean that all transactions have been properly authorised and processed.

In common with most organisations, the control environment at the HCPC depends on the competence of its staff and compliance with procedures. Changes in staff, staff absences and, in extreme cases, collusion and/or deliberate actions by key individuals can corrupt it. The day-to-day maintenance of the control environment, therefore, depends on management control and supervision.

Acknowledgements

We would like to take this opportunity to thank the members of the Audit Committee, the HCPC's management and staff for their assistance and support during the course of the 2017-18 financial year.

2 Annual Conclusion

2.1 Overall assurance

As the internal auditor to HCPC, our work in 2017-18 was carried out in accordance with the Internal Audit Plan directed and approved by the Audit Committee. We have carried out four reviews through our programme of work. Therefore the level of assurance we are able to provide is limited to these areas and does not cover the full operations of the HCPC.

In assessing the level of assurances to be given, we have taken into account:

- the extent to which the finally agreed internal audit plan has been completed – *this was 100% completed*
- any significant recommendations not accepted by management and the consequent risks - *there were none*
- any limitations which may have been placed on the scope of internal audit - *there were none*

Controls designed to address specified business objectives are subject to inherent limitations and, accordingly, errors may occur and not be detected.

In giving our conclusion, it should be noted that assurance can never be absolute. The most assurance that we can provide is a reasonable assurance that there are no major weaknesses in the HCPC's risk management, control and governance processes in the areas where we have carried out work in 2017-18.

2.2 Our Conclusion

We have carried out four reviews in 2017-18. None of the audits highlighted any fundamental (high priority rated) issues in respect of risk, governance or control. However our work does not cover the full operations of the HCPC.

Based specifically on the scope of reviews undertaken and specific sample testing/evaluation we performed during 2017/18, we provide '**Substantial**' assurance in respect of corporate governance, risk management and internal controls in the four areas we have reviewed. This conclusion should be read in conjunction with the table included in Appendix A of this report.

2.3 Basis of conclusion

Our conclusion is drawn from the specific reviews undertaken during the year. We have taken consideration of the nature and significance of the findings, the quality of the management action plans and progress we have seen from our work.

2.4 Other important matters

The HCPC has been through a significant corporate restructure, amongst other known changes to the business (i.e. transfer of social workers). This naturally creates uncertainties for staff members, but also can create or escalate risks over the loss of corporate knowledge, and the potential for existing internal controls in place to operate less effectively or stop operating at all during this transition phase. The restructure started in the 2017-18 financial year, with the main impact expected in the 2018/19 financial year, particularly at the Director level; due to this timing, we have not observed any immediate impact in the internal control arrangements for the purpose of the 2017-18 annual conclusion.

3 Summary of findings

3.1 Summary of our work

The internal audit plan included limited coverage across the organisation, but did examine some business and financial risks. These included:

- core areas, being CPD processes;
- key information technology risks, being cyber security;
- key financial risks, being a review specifically focused on budgeting and forecasting and selected key financial controls.

Below we have considered key aspects of governance, risk management and internal control in reaching our annual conclusion.

Governance:

Our internal audit reviews include, where considered appropriate, consideration of the governance arrangements in place within the area being reviewed. We also ensure that there is regular discussion with Management in order to understand any changes in governance arrangements within the organisation.

An example of this has been understanding the potential changes and implications to the governance arrangements arising from the internal corporate restructure which was planned during the 2017-18 financial year and will be delivered in the 2018-19 financial year.

Risk management:

In respect of Risk management activity in the year, the HCPC held a ‘white board’ strategic risk workshop focused on understanding current and future strategic risks facing the organisation and wider sector. The Audit Committee have expressed to management that the risks within the strategic risk register throughout the year needed to be articulated more concisely, and clearly, and should be presented in an easily understandable format. Management are actioning this, and have sought best practice guidance from both Grant

Thornton as the internal auditors and Hays MacIntyre, HCPC’s external auditors.

Internal control:

Our reviews included an evaluation of internal controls in terms of the adequacy of design and operational effectiveness. Table 1 below summarises the ratings for individual internal audit observations from the 2017-18 Internal Audit Programme of work. (Note this excludes the Annual Follow-Up)

Table 1: Summary of audit ratings by audit reviews

Review	Rating			
	High	Medium	Low	Info only
Continuous Professional Development (CPD)	-	-	2	2
Cyber Security	-	3	5	-
Budgeting and Forecasting and Key financial controls	-	7	2	-
Total	-	10	9	2

Below we have summarised the key medium findings from each of the reviews undertaken in 2017-18.

Continuous Professional Development (CPD)

There were no high or medium rated findings observed in this area. The CPD process is well designed and operating effectively based on our sample testing. The new online registration system is currently in progress to replace the

manual CPD process. We understand there are delays to the new online system which we understand are being closely monitored by the Audit Committee and the Council, with regular updates being provided by management.

Cyber security

HCPC's cyber security environment is well developed and managed in a risk-based manner. We noted a well-defined process to manage access to the network, and close management of the configuration of firewalls, laptops, desktops, and network servers. We also noted that anti-virus is consistently used across the environment and used to screen emails, patching is actively managed, physical and wireless connections to the network are strictly controlled. System accounts for vendors are also strictly controlled through multi-factor authentication.

Notwithstanding the areas of good practice noted above, our review identified areas where the current control framework needs to be strengthened, as weaknesses were observed. Specifically we noted that while there is a process in place to review network access to share drives on a monthly basis, there is no process in place to ensure that responses are obtained from department heads to ensure a complete review of users and associated network permissions is conducted. Additionally, we noted that management could improve both their management of removable media that is permitted on the HCPC network, and the expectations that are set with outsourced IT services such as Rackspace, on when they are required to report on outstanding security issues that may have an impact on HCPC's security environment.

Budgeting and Forecasting and Key financial controls

HCPC's budgeting process is well developed, and includes the use of policies and procedures and budgeting templates, with robust review processes in place (e.g. from EMT, Chief Executive Officer, Audit Committee and Council). We also identified through our review of a sample of EMT Meetings minutes that budget holders challenge each other's budgets, which is considered to be an area of good practice

Notwithstanding the areas of good practice noted, we identified areas for further improvements, which are detailed below:

- The budgeting policies and procedures do not provide information for budget holders regarding the need to ensure that budget line items are supported with appropriate supporting documentation
- There is no formal process in place in relation to how changes to the budget should be updated once Council has approved it
- The Communications budget template which we performed testing on did not contain full supporting documentation and audit trails detailing how the budgeted amounts were derived. We noted that approximately £335k out of £1.5m (total spend) was input into the budgeting template without supporting documentation.

The budgeting and forecasting review also included limited testing of selected key financial controls in place. This testing identified that, overall, based on our sample testing, controls are reasonably well designed and operating adequately. However there is a need for further improvement, including

- Management have agreed to carry out supplier statement reconciliations going forward.
- Retrospective purchase orders (POs) are being raised by HCPC staff and there are no formal processes or controls in place for tracking employees who consistently raise POs retrospectively.
- Further improvements are needed in the process of making changes to supplier data. Whilst we understand that segregation of duties are in place, we found there was no clear audit trail to demonstrate this in practice. Adhoc checks to supplier master data are also carried out, but inconsistently.
- Through our interviews with the Finance Team and walkthroughs conducted, we identified that there is currently no documented guidance in place detailing how journals should be prepared and reviewed, prior to being posted to the general ledger in Sage. The current process entails journals being posted by the Finance Team and reviewed subsequently. The current system does not allow approval routes through the system and therefore the process of approval is manual in nature.

A Definitions

Overall Assurance Levels

Full	Overall, we have concluded that, in the areas examined, the risk management activities and controls were suitably designed, and were operating with sufficient effectiveness, to provide reasonable assurance that the control environment was effectively managed during the period under review.
Substantial	Overall, we have concluded that, except for the specific weaknesses identified during our audits, in the areas examined, the risk management activities and controls were robustly designed, and were operating with sufficient effectiveness, to provide reasonable assurance that the control environment was robustly managed during the period under review.
Limited	Overall, we have concluded that, in the areas examined, the risk management activities and controls were not suitably designed, or were not operating with sufficient effectiveness, to provide reasonable assurance that the control environment was effectively managed during the period under review.
None	Overall, we have not been able to form an opinion on whether the internal controls examined have been robustly designed, or are operating sufficiently, to ensure that the control environment was effectively managed during the period under review.

Audit issue rating

Within each report, every audit issue is given a rating. This is summarised in the table below.

Rating	Description	Features
High	Findings that are fundamental to the management of risk in the business area, representing a weakness in control that requires the immediate attention of management	<ul style="list-style-type: none"> • Key control not designed or operating effectively • Potential for fraud identified • Non-compliance with key procedures/standards • Non-compliance with regulation
Medium	Important findings that are to be resolved by line management.	<ul style="list-style-type: none"> • Impact is contained within the department and compensating controls would detect errors • Possibility for fraud exists • Control failures identified but not in key controls • Non-compliance with procedures/standards (but not resulting in key control failure)
Low	Findings that identify non-compliance with established procedures.	<ul style="list-style-type: none"> • Minor control weakness • Minor non-compliance with procedures/standards
Improvement	Items requiring no action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> • Information for department management • Control operating but not necessarily in accordance with best practice



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