

Audit Committee 25 September 2007

Internal Audit Annual Report

Executive summary and recommendations

Introduction

At its last meeting, the Committee discussed PKF's annual report on its internal audit work in 2006-7. The Committee agreed that certain changes should be made and that the President should review the report.

The changes have been incorporated into the report and the revised version is attached.

Decision

The Committee is asked to note the document. No decision is required.

Background information

See internal audit workplan for 2006-7 agreed by the Committee in June 2006 and the discussion at item 12 in the minutes of the meeting held on 26 June 2007.

Resource implications

None.

Financial implications

None.

Appendices

Internal audit annual report.

Date of paper

11 September 2007.



Accountants &
business advisers

Health Professions Council
Internal Audit Annual Report

June 2007

Confidential

1 Introduction

- 1.1 This annual report provides an account of our internal audit for 2006/7 and summarises the assurance provided to the Health Professions Council (HPC). The detailed findings and recommendations from our work are contained in the individual audit project reports, which have been provided to management and the Audit Committee during the year.

2 Context and Scope of Audit

- 2.1 PKF was appointed as internal auditors to the HPC in March 2006 to provide a full outsourced internal audit service. As part of that appointment, an Audit Needs Assessment was carried out and a three-year strategic work programme developed and agreed by the Audit Committee. This has formed the basis of the audit work carried out.
- 2.2 A detailed Audit Plan showing the specific areas subject to review and the proposed timetable was presented to and approved by the Audit Committee in June 2006. This sought to cover the highest priority areas where assurance is required including in respect of governance, the organisational infrastructure, critical processes, areas subject to change and key risks. Our approach to providing audit assurance is controls based, with different levels of coverage dependent on the assessed risk of the system or process involved. Where recommendations are made actions are agreed with management and follow up reviews carried out to ascertain whether the action has been taken.

3 Overall Conclusion on Internal Control

- 3.1 We have carried out the internal audit for the year ended 31 March 2007 in accordance with the internal audit programme set out in the Audit Plan. Our programme met the requirements of the Government Internal Audit Standards.
- 3.2 HPC has set demanding expectations for its internal control framework, seeking it to be best practice in all key areas in order to enable the high performance that the HPC seeks to achieve. This has been taken into account in the assessments made during our audit.
- 3.3 **Based on the audit work carried out we have concluded that overall the system of internal control is Satisfactory for the purposes of HPC and that it was found to be operating effectively in all key areas.** A number of the areas reviewed indicated an ongoing development of internal control with, for example, a strengthening of arrangements within Fitness to Practice and the IT infrastructure.

- 3.4 No control weaknesses or control operation failures have been identified that we consider represent a breakdown in internal control that require disclosure in the annual governance statement.

4 Summary of Key Findings

Corporate Governance

- 4.1 The governance structures are generally clear and sensible in terms of spans of responsibility, reporting lines and accountability. Our audit work showed:

- Governance structures were appropriate and properly administered, although one committee did not have a documented terms of reference;
- Appropriate arrangements were in place to manage the conduct and performance of Council members including self evaluation and review by the President;
- In addition, Council members were given mechanisms for giving performance feedback to the President;
- The Committees were currently piloting a process for annual self evaluation;
- Appropriate training was available to members of Council;
- The objectives and strategy of HPC were clear with detailed strategies approved for all key areas;
- Delegation arrangements were in place and appropriate;
- Performance indicators and measures have been developed for most areas of activity and were regularly monitored, although these did not cover Finance nor the Secretariat;
- Financial approvals and monitoring were in place;
- Risk management was at a relatively early stage of development. Whilst risks were identified at a high level these were not cascaded through the departments nor was their management embedded.

- 4.2 We made a number of recommendations to improve the control environment including:

- Establishing and documenting terms of reference for the Communication Committee;
- Developing work plans for the Secretariat and Finance; and
- Developing risk management and creating a strategic risk register.

- 4.3 Actions were agreed with management to address these. In particular the terms of referenced for the Communications Committee have been formalised, the departmental risks have been incorporated into departmental work plans and departmental work plans have been developed for Finance and the Secretariat. Therefore we now consider these arrangements to be Satisfactory.

Infrastructure to Support Management

- 4.4 The main aspects of the infrastructure to support the management of HPC assessed by the audit during the year were the IT systems, HR arrangements and financial management information. In each case the arrangements were shown to be appropriate for the purposes of HPC and to be operating as intended. It was noted that for both IT and HR the arrangements had been recently strengthened.

- 4.5 The only significant concern identified was that the main operational system for HPC, LISA, had got to a point early in 2006 where it was no longer supported by the software provider. However, this has now been addressed.

Financial Processing and Control

- 4.6 All of the key financial processes were reviewed during the year in order to determine the adequacy of internal control and confirm the correct operation of those controls. Generally the controls were found to be designed appropriately and to be operating effectively. However, we have made a number of recommendations to strengthen arrangements further and actions have been agreed in each case.

Operational Activity

- 4.7 The area of operational activity assessed during the year was Fitness to Practice. Our review included testing of detailed controls and comparison to other fitness to practice and regulatory functions. We concluded that the HPC's arrangements compared favourably with others and had appropriate arrangements for managing the key risks and ensuring accuracy of processing.

Change Management

- 4.8 Change management was assessed through review of the new building project in Stannery Street. Our review considered risk management, project management financial management and project governance. This has shown that the project has been set up appropriately in terms of spans of control, authorisation levels, project management arrangements and has sufficient control over spend. Reporting arrangements were found to be appropriate and operating as intended.

5 Assurance From Audit Reviews

5.1 Each system or area reviewed has been given a rating for control design and control operation. The control design ratings are as follows:

Sound Effective internal control that is operating and meets best practice.

Satisfactory Adequate internal control to manage the risk but falls short of best practice. Some minor weaknesses in control design or operation.

Satisfactory in most respects Satisfactory internal control in most respects but one or more aspects where there is a significant control shortfall.

Inadequate Unacceptable level of control for a public body. A number of significant weaknesses spanning the activity under review.

5.2 The control operation ratings are:

Effective – key controls in place were found to be working as designed.

Part effective – most key controls in place were found to be operating as designed.

Ineffective – a substantial proportion of the relevant key controls were found to not be operating as intended.

5.3 The assurance ratings given to the areas either reviewed for the first time or subject to follow up reviews are summarised below.

Review Area	Timing of Fieldwork Completion	Rating at Time of Audit		Current Control Design Rating
		Control Design	Control Operation	
Governance				
Corporate Governance	Dec 06	Satisfactory in most respects	Effective	Satisfactory
Core Processes & Functions				
Human Resource Management	Sept 06	Satisfactory	Effective	Satisfactory
Payroll	Feb 07	Satisfactory	Effective	Satisfactory
Travel & Subsistence	Feb 07	Satisfactory	Effective	Satisfactory
Asset Management	Feb 07	Satisfactory	Effective	Satisfactory
Budgetary Control	Feb 07	Satisfactory	Effective	Satisfactory
Ledger Management	Feb 07	Satisfactory	Effective	Satisfactory
Cash, Bank & Treasury	Feb 07	Sound	Effective	Sound
Income & Debtors	Feb 07	Satisfactory	Effective	Satisfactory
Purchasing & Payments	Feb 07	Satisfactory in most respects	Effective	Satisfactory
Fitness To Practice	Feb 07	Satisfactory	Effective	Satisfactory
IT Strategy	May 07	Satisfactory	Effective	Satisfactory
IT Systems	Jan 07	Satisfactory in most respects	Effective	Satisfactory

Business Continuity Planning and Disaster Recovery Planning (part of 2007-08 internal audit programme)	June 07	Satisfactory	Effective	Satisfactory
Change Projects				
New Building Project	May 07	Satisfactory	Effective	Satisfactory

6 Key Matters for Attention

- 6.1 In all cases where issues have emerged from the audit we are satisfied that management is taking appropriate action. There are no matters that we wish to raise with the Audit Committee
- 6.2 This report has been prepared as part of the internal audit of HPC under the terms of the contract for internal audit services. It has been prepared for the HPC and we neither accept nor assume any responsibility or duty of care to any third party in relation to it. The conclusions and recommendations are based on the results of the audit work carried out and are reported in good faith. However, our methodology relies upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

PKF (UK) LLP
June 2007