

Audit Committee 26 June 2008

Internal audit annual report

Executive summary and recommendations

Introduction

PKF has prepared the attached annual report on its internal audit work in 2007-8.

Decision

The Committee is asked to discuss the report.

Background information

See internal audit workplan for 2007-8 agreed by the Committee on 28 February 2007 and individual internal audit reports received by the Committee during the past year.

Resource implications

None.

Financial implications

None.

Appendices

Internal audit annual report.

Date of paper

16 June 2008.



Internal Audit Annual Report

May 2008

Confidential



Accountants &
business advisers

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1 Overall conclusion on internal control

- 1.1 We are pleased to report that we have completed our agreed programme of internal audit work for the Health Professions Council (“HPC”) for the year ended 31 March 2008. Our programme took into account the challenges facing the HPC during the year, the key risks identified by the organisation and our assessment of the coverage required to meet Government Internal Audit Standards (“GIAS”).

Conclusion

- 1.2 **Based on our audit work, we concluded that the overall system of internal control was satisfactory and operating effectively during 2007/08 for the purposes of the HPC.**

Principal findings

- 1.3 The work of the Council and its Committees was undertaken in accordance with an agreed timetable with a clear agenda and a commitment to provide the necessary detailed reports to enable members to take informed and timely decisions.
- 1.4 Risk management is also taken seriously by the organisation and the key risks are set out in a strategic risk register, which is reviewed regularly by the Executive Management Team (“EMT”) and the Audit Committee in the first instance before being approved by Council.
- 1.5 Core business processes such as registration and fitness to practise operated effectively, although management is enhancing these by introducing additional quality assurance checks in accordance with our recommendations.
- 1.6 The HPC has established a process of in-house quality compliance audits in accordance with the ISO 9001:2000 standard. The British Standards Institute (“BSI”) also conducts 2 audits a year. The results of the quality process are reported to the Audit Committee.
- 1.7 Detailed management accounts and a commentary on the key variances were prepared every month and action was taken by management to address any issues arising. Compliance with the HPC’s reserves policy was also monitored closely throughout the year. There was some scope for improving financial processing and we raised two low priority recommendations accordingly. However, the key month end routines and checks were all undertaken and completed on a timely basis.
- 1.8 Project reporting was enhanced during 2007/08. Financial and operational reports are now regularly produced for all key projects. The refurbishment of 22-26 Stannary Street was the project with the highest financial value undertaken by the HPC during 2007/08.

- 1.9 In accordance with the Audit Committee's wishes we undertook two reviews of this project as it progressed. We understand that in spite of some difficulties relating to the completion of works, the project is now largely finished and has remained with budget.
- 1.10 During 2007/08, the Department of Health published a consultation paper on the Health Care and Associated Professions (Miscellaneous Amendments) No 2 Order 2008. This draft legislation follows the White Paper *Trust Assurance and Safety. The Regulation of Health Professionals in the 21st Century* and includes provisions for the regulation of practitioner psychologists by the HPC and changes to the composition of the Council. As details emerged regarding the likely impact of the legislation, management provided Council with regular updates and sought its approval for any decisions where necessary.
- 1.11 Following a spate of highly publicised incidents involving the loss of sensitive data by other organisations, the HPC responded by undertaking a detailed review of its own data security. The Audit Committee received a report from management on this subject, including some proposed enhancements to the HPC's processes. We also undertook a review of this area and raised several best practice recommendations which have also been implemented.
- 1.12 The detailed findings and recommendations from our work are contained in the individual audit project reports, which have previously been provided to management and the Audit Committee during the year. The key recommendations from our review work during the current year are included, for ease of reference, in Section 4 of this report.
- 1.13 We were pleased to note that the recommendations arising from our programme of work for 2006/07 had been implemented during the year. These are included in Section 5 of this report.
- 1.14 We would like to take this opportunity to thank the members of staff and management at the HPC for their co-operation and availability during our audit reviews.
- 1.15 This report has been prepared as part of the internal audit of the HPC under the terms of our letter of engagement for the provision of 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

May 2008

2 Context of our audit

- 2.1 The HPC, a body corporate, was set up on 1st April 2002 by the Health Professions Order 2001 and supporting rules and guidance replacing the former Council for Professions Supplementary to Medicine (“CPSM”). The HPC is an independent public organisation accountable to the Privy Council.
- 2.2 Although the HPC is not a non-Departmental Public Body (“NDPB”) of the Department of Health the Accounts Direction from the Privy Council requires that its financial statements are prepared as if this were the case.
- 2.3 As the Accountable Officer, the Chief Executive and Registrar has responsibility for maintaining a sound system of internal control that supports the achievement of the HPC’s policies, aims and objectives, whilst safeguarding the HPC’s assets for which he is personally responsible, in accordance with the responsibilities assigned to him by the Privy Council.
- 2.4 His responsibilities for internal control are therefore identical in this respect to those of an Accounting Officer as defined in *Government Accounting*.
- 2.5 *Government Accounting* requires Accounting Officers to make provision for internal audit in accordance with Government Internal Audit standards (“GIAS”). Since we were appointed as internal auditors to the HPC in March 2006, we have therefore provided a service to the HPC that complies with these standards. The terms of reference for our appointment are set out in our engagement letter with the HPC.
- 2.6 At the time of our appointment, an Audit Needs Assessment was carried out and a three-year strategic work programme developed and agreed by the Audit Committee.
- 2.7 For 2007/08, we revisited our strategic programme and updated it to reflect discussions with management and the Audit Committee and any changes in the HPC’s risk profile as noted in the organisation’s risk register.
- 2.8 A detailed Audit Plan for 2007/08 showing the specific areas that we proposed to review and the planned timetable was presented to and approved by the Audit Committee in March 2007.
- 2.9 The areas that we reviewed and the assurances provided by our detailed work are set out in the following section of this report.

3 Assurances from our detailed work 2007/08

Review Area	Number of Recommendations	Final Report Date	Rating at Date of Audit Report		Year end Control Design Rating
			Control Design	Control Operation	
Business Continuity Planning	1	June 2007	Satisfactory	Effective	Satisfactory
External Communications	3	August 2007	Satisfactory	Effective	Satisfactory
Fitness to Practise	1	August 2007	Satisfactory	Effective	Satisfactory
Financial Systems	3	November 2007	Satisfactory	Effective	Satisfactory
New Building Project (including follow up)	1	October 2007/ February 2008	Satisfactory	Effective	Satisfactory
Laptop controls	-	October 2007	Sound	Effective	Sound
Registrations	1	January 2008	Satisfactory	Effective	Satisfactory

Review Area	Number of Recommendations	Final Report Date	Rating at Date of Audit Report		Year end Control Design Rating
			Control Design	Control Operation	
Corporate Governance	-	January 2008	Sound	Effective	Sound
Data security	4	January 2008	Satisfactory	Effective	Sound

KEY TO CONTROL RATINGS

Sound = *Satisfactory design of internal control that addresses risk and meets best practice and is operating as intended.*

Satisfactory = *Satisfactory design of internal control that addresses the main risks but falls short of best practice and is operating as intended.*

Satisfactory in most respects = *Generally satisfactory design of internal control that addresses the main risks and is operating as intended but either has control weaknesses or is not operating fully in some significant respect.*

Satisfactory except for = *Satisfactory design of internal control that addresses the main risks and is operating as intended in most respects but with a major failure in design or operation in the specified area.*

Inadequate = *Major flaws in design of internal control or significant non operation of controls that leaves significant exposure to risk.*

4 Key recommendations from our 2007/08 programme

System	Recommendation	Responsible Officer	Due Date
22-26 Street follow up Stannary project	<p>Back up plans</p> <p>The revised programme submitted by the main contractor should continue to be scrutinised closely and any additional risks of slippage highlighted. These risks should inform the contingency plans that the HPC is putting into place to meet its space requirements from January 2008 until the building can be occupied.</p>	<i>Facilities Manager</i>	Implemented
Fitness to Practise follow up	<p>APU implementation</p> <p>The findings of the ongoing quality assurance check of the APU database and casework files should be reported to the next meeting of the Conduct and Competence Committee. The HPC should undertake a similar annual review of the data in the future.</p>	<i>Director of Fitness to Practise</i>	Implemented

System	Recommendation	Responsible Officer	Due Date
Registrations	<p>Processing controls</p> <p>Management should continue to conduct, review and improve the quality checks process of a sample of registrations for each Registration Advisor to confirm the accuracy of the data that they have recorded on the Register. The findings of these checks should be recorded and reviewed to identify trends.</p>	<i>Head of Registration</i>	June 2008
Data security	<p>Electronic and paper based data</p> <p>The contractual undertakings and assurances received regarding electronic and paper based data security arrangements from Star Internet and Recall should be double checked.</p> <p>DSL should be asked to confirm the controls that they have in place to ensure the security of access to the link to the HPC's VPN.</p>	<p><i>Director of Operations</i></p> <p><i>Director of Operations</i></p>	<p>Implemented</p> <p>Implemented</p>

5 Follow up of our key recommendations from 2006/07

System	Recommendation	Responsible Officer	Status
Governance	<p>Departmental work plans</p> <p>Work plans should be produced for the Secretariat and the Finance departments and Performance indicators should be developed for these areas.</p>	<i>Director of Finance / Secretary to Council</i>	Implemented
Financial systems	<p>Fixed assets</p> <p>A formal record of the fixed asset reconciliation should be made and retained and authorised by management.</p>	<i>Director of Finance</i>	Implemented
	<p>Management should ensure that the verification of assets is undertaken on an annual basis, during the physical verification exercise all capitalised assets should be tagged and asset register updated to reflect all movements.</p>	<i>Director of Finance</i>	Implemented