

Audit Committee, 26 September 2013

Internal Audit Report – Core Financial Systems

Executive summary and recommendations

**Introduction**

As part of the Internal Audit Plan for 2013-14, Mazars have undertaken a review of the Health and Care Professions Council's core financial systems. The areas focused on under this review were Asset Management, General Ledger and Payroll.

**Decision**

The Committee is asked to discuss and approve the report

**Resource implications**

None

**Financial implications**

Mazars' fees £27,000

**Appendices**

Internal Audit Report – Core Financial Systems

**Date of paper**

17 September 2013



Internal Audit Report

**Core Financial Systems - Asset  
Management, General Ledger and  
Payroll (02.13/14)**

**September 2013**

**FINAL REPORT**

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### Appendix 1 – Definitions of Assurance Levels and Recommendations

#### AUDIT CONTROL SCHEDULE:

<b>Client contacts</b>	Alan Carr: Interim Finance Director  Charlotte Milner: Head of Financial Accounting	<b>Internal Audit Team</b>	Peter Cudlip: Partner  Graeme Clarke: Director  James Sherrett: Assistant Manager  David Kershaw: Auditor  Matt Brookland: Auditor
<b>Finish on Site \ Exit Meeting:</b>	23 August 2013	<b>Management responses received:</b>	13 September 2013
<b>Last Information Received:</b>	30 August 2013		
<b>Draft report issued:</b>	11 September 2013	<b>Final report issued:</b>	17 September 2014

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#### **Status of our reports**

*This report has been prepared for the sole use of the Health and Care Professions Council.*

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## 1. INTRODUCTION

- 1.1 As part of the Internal Audit Plan for 2013/14, we have undertaken a review of the Health and Care Professions Council's (HCPC) core financial systems. The areas focused on under this review were Asset Management, General Ledger and Payroll.
- 1.2 The Plan had originally suggested a review of Budget Setting and Control as part of this audit, however following discussions at the detailed planning stage this was replaced with Payroll. This was due to the payroll Bureau arrangements not previously having been subject to internal audit coverage and given that a review of HCPC's financial modelling, which forms a key component of the budget setting process, was in the process of being undertaken.
- 1.3 This audit formed part of our rolling annual coverage of the HCPC's core financial systems and processes and will support the financial management objectives of HCPC, the financial statements, and inform the work of HCPC's external auditors.
- 1.4 Our review of this area in 2012/13 focused on Income Collection and Debtors (report 02.12/13 refers). Overall we provided 'Substantial' assurance and made three Priority 3 (Housekeeping) recommendations. Progress on implementing these recommendations was considered as part of our recent Follow Up review (report 01.13/14).
- 1.5 We are grateful to the Interim Finance Director, Head of Financial Accounting, members of the Finance and Human Resources teams, and other members of staff for their assistance during the course of the audit.
- 1.6 This report is for the use of the Audit Committee and senior management of HCPC. The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

## 2. BACKGROUND

- 2.1 Within HCPC, the Finance Director has overall responsibility for overseeing finance functions and is supported on a day-to-day basis by the Head of Financial Accounting and the Finance team. The team currently consists of an Assistant Financial Accountant, Assistant Treasury Accountant, Purchase Ledger Officer, Finance Administrator and Finance Officer. During August 2013, the Finance Director left HCPC and this post is currently filled by an Interim appointment.

### *Asset Management*

- 2.2 Purchase Orders for capital items are raised by staff across departments through HCPC's Purchase Requisition System (PRS). A secure login is required which is different from that required for the finance system. This means that staff with PRS access cannot automatically gain access to accounting information. Any order exceeding set authorisation limits orders is passed for higher level authority prior to completion of the purchase.
- 2.3 As at June 2013 HCPC had fixed assets with a total net book value of £5.3m, of which approximately £4m related to land and buildings. The remaining balance related mostly to IT equipment.
- 2.4 The Sage 200 accounting system has an integrated Fixed Asset Module. This is supported by a separate register maintained in an Excel spreadsheet format.

Administration of asset recording is primarily assigned to the Assistant Treasury Accountant.

- 2.5 Annual asset reviews are completed in which all assets are checked and physically verified, the most recent review was completed in March 2013.

*General Ledger*

- 2.6 A robust general ledger is important in ensuring accurate, authorised and efficient recording of financial transactions, particularly as it will form the basis for financial reporting and the annual audited accounts.

- 2.7 Functions of the general ledger include key areas such as processing of journals, control account and bank reconciliations, general account maintenance, and transaction recording which is used to populate system reports.

- 2.8 HCPC uses the Sage 200 finance system for the administration and management of its financial transactions.

*Payroll*

- 2.9 Arrangements to control and manage pay expenditure are an important area for HCPC as they represent a significant proportion of overall expenditure. HCPC's annual pay costs (salaries and associated costs) amount to approximately £5.6m.

- 2.10 There are two pay processes, for staff and Council Members. With the exception of the source of the payment to be made (that is, staff are paid based on salary or overtime whereas Council Members pay is activity-based) the processes are essentially the same.

- 2.11 HCPC has outsourced its payroll administration to a third party bureau, Actionfile Limited. Services provided by Actionfile include processing of the payroll BACS payments, production of payslips, providing HCPC with management reports on a monthly basis, and dealing with any day-to-day queries. Any changes to the payroll such as starters, leavers and amendments are processed by HCPC's Human Resources Department and passed to Finance where relevant checks are made. Payment is then processed by Actionfile. All payment runs are checked and authorised prior to being made by the bureau.

- 2.12 As at the end of July 2013, HCPC was making regular payment through its payroll to approximately 200 members of staff and Council Members.

### **3. SCOPE AND OBJECTIVES OF THE AUDIT**

- 3.1 Our audit considered the following risks relating to the area under review:

- Unauthorised removal of assets (custody issue) (*Risk Register, Ref 15.12, March 2013*);
- Payroll process delay or failure (*Risk Register, Ref 15.22, March 2013*);
- Inappropriate transactions are not identified resulting in inaccurate financial records;
- Losses due to fraud or error, inefficient processing or inappropriate activity; and
- Poor decision-making, due to poor quality or timeliness of information provided to management.

- 3.2 In reviewing the above risks, our audit considered the following areas:
-

*Asset Management*

- Fixed Asset Register, access rights, maintenance, updating and content;
- Asset acquisitions, capitalisation, procurement approval, authorisation, asset tagging;
- Asset disposals, approval, authorisation, logging, accounting for any income received, certificates of disposal/destruction (where applicable); and
- Asset security, storage, tagging, location recording and verification.

*General Ledger*

- Access rights to the system and user profiles;
- Control of cost centres and account codes, processes for setting-up, amending and deleting and authorisations required;
- Control account reconciliations, preparation and review, authorisation, timeliness, supporting documentation;
- Journals, posting, review, authorisation, supporting documentation and timeliness;
- Reconciliations between NetRegulate and the finance system;
- Month-end processes, timetables, closing down ledger at month-end; and
- Financial and management reporting including production of management accounts and timeliness.

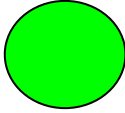
*Payroll*

- Agreement with Payroll Bureau;
- Processes for starters, leavers and amendments to payroll data;
- Payroll journals, processing and authorisation;
- Use of variance and exception reports; and
- Reporting of payroll costs to senior management and budget-holders.

3.3 The objectives of our audit were to evaluate the adequacy of controls and processes for core financial systems in the areas under review, and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

3.4 We are only able to provide an overall assessment on those aspects of the controls and processes for core financial systems that we have tested or reviewed. The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered.

#### 4. AUDIT FINDINGS: ONE PAGE SUMMARY

Assurance on effectiveness of internal controls	
	<b>Substantial Assurance</b>

Recommendations summary	
Priority	No. of recommendations
1 (Fundamental)	None
2 (Significant)	1
3 (Housekeeping)	2
<b>Total</b>	<b>3</b>

Risk management
<p>As referred to in 3.1 above, HCPC's Risk Register contains specific risks associated with core financial systems. Testing undertaken as part of this audit has confirmed the mitigating actions in respect of the areas reviewed as part of this audit are in place and operating effectively.</p> <p>The implementation of a new Payroll Bureau, approximately one year ago, had the potential to expose HCPC to risk if the implementation had not been properly managed. There are new controls in place to support the Bureau arrangement and to protect against error or fraud. We have, however, identified further opportunities to improve the control environment as identified in Section 6 of the report.</p>

Value for money
<p>Efficient administration of the HCPC's core financial systems is vital due to the importance of maintaining strong financial control, the external reporting requirements and responsibilities to a range of stakeholders.</p> <p>HCPC are benefiting from computerised systems, such as the Sage finance system used for the recording of fixed assets and maintenance of the general ledger, both operationally and from a value for money perspective. There may be some areas which could be moved from a paper to electronic format and we have made a recommendation regarding this in section 6.</p> <p>The outsourcing to a Payroll Bureau should be another way in which HCPC can achieve further efficiencies. It is often the case that a period of time is required to allow the relationship between the customer and Bureau before improved value for money is realised.</p>

## 5. SUMMARY OF FINDINGS

### Overall conclusion on effectiveness and application of internal controls

- 5.1 Taking account of the issues identified in paragraphs 5.2 to 5.4 below, in our opinion the control framework for core financial systems for the areas reviewed, as currently laid down and operated at the time of our review, provides **substantial** assurance that risks material to the achievement of HCPC's objectives are adequately managed and controlled.

### Areas where controls are operating effectively

- 5.2 The following are examples of controls which we have considered are operating effectively at the time of our review:

- During our fieldwork, we found records to be held securely and in an orderly manner;
- Responsibility for key tasks covered by this review have been clearly assigned;
- Timetables are in place to support the processing of Payroll and general routine finance processes such as month-end close down;
- Appropriate documentation is used to support and authorise financial processes and transactions including asset disposal forms, forms for variations to terms and conditions of employment and payroll variance and exception reports;
- All new starters sample tested had approved 'Recruitment of New Employees' forms and all variations to employment terms and conditions sample tested were supported by approved 'Contract Variation Authorisation' forms;
- For all leavers sample tested there was evidence of a range of checks having been carried out including on any outstanding annual leave, outstanding season ticket loans and the return of any HCPC equipment issued to the leaver;
- An annual asset verification exercise is carried out by the Finance department with the most recent exercise completed in March 2013;
- All IT assets are tagged and locations are clearly recorded;
- Control account reconciliations are undertaken regularly and subject to formal review and authorisation;
- There are monthly reconciliations between the NetRegulate registrations system and the Sage finance system; and
- There is routine financial reporting and presentation of management accounts, to the Executive Management Team (EMT) and Finance and Resources Committee.

### Areas for further improvement

- 5.3 We identified certain areas where there is scope for further improvement in the control environment. The matters arising have been discussed with management, to whom we have made a number of recommendations. The recommendations have been, or are being, addressed as detailed in the management action plan (Section 6 below).



6. ACTION PLAN

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.1	<p><i>Observation:</i> During our review we noted that current Financial Regulations being used by the Finance team are in need of updating. For example, they refer to HPC rather than HCPC and the description of the payroll functions do not reflect the outsourcing of these to a Bureau.</p> <p>We were informed that updated Regulations are due to be presented to the next meeting of the Finance and Resources Committee.</p> <p><i>Risk:</i> Staff are not aware and/or do not comply with the required processes.</p>	As planned, Financial Regulations should be reviewed and approved by the appropriate Committee and communicated to relevant Staff.	3	The financial regulations require updating and will be presented to the November 2013 F&R Committee, for approval by the Council in December.	November 2013  Interim Director of Finance
6.2	<p><i>Observation:</i> User access rights to the Sage finance system have not been reviewed since the system was set up.</p> <p>Job roles and responsibilities have changed and there may be staff with access to areas of the system to which they should not be able to view or make amendments.</p> <p><i>Risk:</i> System access is available to staff where it is not required, or incorrect/ unauthorised access rights may have been granted.</p>	<p>Sage user access rights and the rights associated with job roles should be reviewed.</p> <p>We are aware of a possible Sage upgrade in the coming months; management may consider this the best time to undertake such a review.</p>	2	<p>Sage 200 was introduced in 2009 and a number of roles have changed since then.</p> <p>HCPC will engage its Sage suppliers to review the roles and user access and ensure that the correct staff members have the correct access.</p> <p>The possible upgrade is not scheduled until early part of next year so this review will be done before the upgrade.</p>	December 2013  Head of Financial Accounting and Interim Director of Finance

	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
6.3	<p><i>Observation:</i> During our fieldwork we noted there is currently a large amount of printed documentation and it is likely little would be lost by moving further towards electronic document storage, supported by a paper based sign off sheet which could be used to collate all sign offs, such as those for Purchase Ledger, General Ledger and Cash Book.</p> <p><i>Risk:</i> Full efficiencies are not achieved through failure to minimise use of paper and printing materials, in addition to potential inefficient use of storage areas.</p>	<p>Consideration should be given to reducing the amount of hard copy documentation used and retained, subject to sufficient records and an audit trail being securely maintained. Such electronic records could be supported by a paper based physical sign off sheet.</p>	3	<p>The cashbook and purchase ledger month-end sign-off sheets are now scanned each month.</p> <p>Currently we print and sign the nominal ledger reconciliations and trail balance. These are now scanned into the system. We are currently reviewing the month-end and nominal close down process and will look at having one sign off sheet, instead of a number of sheets.</p>	<p>November 2013</p> <p>Head of Financial Accounting</p>

## Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, HCPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, HCPC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.