

Audit committee 27 February 2008

Internal audit report – governance and risk management review

Executive summary and recommendations

Introduction

PKF has undertaken a review of governance and risk management arrangements, in accordance with the internal audit plan agreed by the committee in March 2007. The report is attached as an appendix to this paper.

The report rated this area as sound and did not make any recommendations.

Decision

The Committee is asked to discuss the report.

Background information

At its meeting in March 2007, the Committee approved the Internal Audit Needs Assessment and Internal Audit Plan for 2007-8. (See paper AUD 22/07).

Resource implications

None.

Financial implications

None.

Appendices

Governance and risk management review – report.

Date of paper

4 February 2008.

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Governance and Risk Management Review

January 2008

Confidential

Assurance Level: Sound

Staff Interviewed: Secretary to the Council, Niamh O'Sullivan,
Chief Executive, Marc Seale, Director of Finance, Simon
Leicester

Audit Team: Director, Jon Dee



Accountants &
business advisers

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Project timescales

Date project commenced	17/12/07
Date field work completed	15/01/08
Date draft report issued	21/01/08
Date final management comments received	01/02/08
Date final report issued	01/02/08

1 Introduction

1.1 In accordance with the 2007/2008 internal programme for the Health Professions Council (“HPC”) that was agreed with the Audit Committee in March 2007, we have undertaken a review of the governance and risk management arrangements in operation at the HPC.

Scope of our work

1.2 As specified in our audit programme the aim of this project was to provide assurance to the HPC regarding its governance and risk management arrangements.

1.3 We therefore reviewed the HPC’s arrangements for the managing the organisation’s key governance risks and risk management in general.

1.4 During the course of our work during 2007/08, we noted that the Department of Health published a consultation paper on 21st December 2007 on the Health Care and Associated Professions (Miscellaneous Amendments) No 2 Order 2008. We therefore also considered any progress that has been made with this matter as part of our work.

1.5 We also followed up the recommendations that were raised in our previous report on Corporate Governance and Risk Management (December 2006).

1.6 The work was carried out primarily by holding discussions with relevant staff and management, reviewing any available documentation and undertaking detailed testing on a sample basis, where required. The audit fieldwork was completed in January 2008.

1.7 This report has been prepared as part of the internal audit of the Health Professions Council under the terms of the contract for internal audit services. It has been prepared for the Health Professions Council and we neither accept nor assume any responsibility or duty of care to any third party in relation to it.

1.8 The conclusions and recommendations are based on the results of audit work carried out and are reported in good faith. However, our methodology is dependent upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

2 Executive Summary

- 2.1 This report summarises the work undertaken by PKF within the agreed scope of our review of the governance and risk management arrangements in operation at the HPC. The work was performed as part of our agreed internal audit plan for 2007/08.

Background

- 2.2 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 old Council for Professions Supplementary to Medicine (“CPSM”). It is not part of the Department of Health or the NHS and is an independent public organisation accountable to the Privy Council. As an organisation with a high public profile the HPC is committed to maintaining the highest standards of governance.

Our assessment

- 2.3 Based on the audit work carried out we concluded that the HPC’s governance and risk management arrangements were **sound**, although these arrangements will inevitably need to be amended should the proposed legislative changes included in the consultation on the Health Care and Associated Professions (Miscellaneous Amendments) No 2 Order 2008 take effect.
- 2.4 The most immediate impact of this upon the HPC’s governance has related to the election arrangements for Council members for 2008, which would not be required if the new Order comes into force. The HPC has taken (and is following) legal advice regarding the most appropriate way of addressing this matter.
- 2.5 Further steps, including a reduction in the number of Council members will also need to be taken during 2008/09 to respond to the new Order. We note that the HPC has already begun to make the necessary plans to address this matter too.

Principal findings

- 2.6 We noted that robust policies and procedures covering the conduct of Council and Committee members are in place at the HPC. The Secretariat ensures that members are provided with the necessary support to be able to follow these and we noted that action is taken where departures from procedures arise.
- 2.7 Members’ expense claims are scrutinised carefully in accordance with the HPC’s financial procedures. The President, the Chief Executive, Council members and employees are appraised on an annual basis.

- 2.8 Members are provided with training and an information pack covering their roles and responsibilities and the Health Professions Order as part of their induction. Further training and away days are provided throughout the year for topical and technical matters. For example, equality and diversity was included in the members' training programme for 2007/08.
- 2.9 Our review indicated that the workload of the Council and its Committees is 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. The committee timetable and preparation of the agenda papers is co-ordinated by the Secretariat. Reminders to the responsible employees and advisors to prepare the necessary papers and invitations to attend are sent out in advance of each meeting.
- 2.10 We noted that the HPC has also established a Chairs' Committee. This is an informal group without decision making powers, which aims to share best practice and to discuss matters arising from the activities of the various committees throughout the year.
- 2.11 The HPC has had established risk management arrangements in place for some time now. The key risks of the organisation 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.
- 2.12 We did not therefore raise any recommendations in relation to this area.
- 2.13 Finally, we are pleased to note that the matters raised in our previous report on this area have now been addressed.
- 2.14 We wish to thank all members of staff for their availability, co-operation and assistance during the course of our review.

PKF (UK) LLP
January 2008

3 Detailed Findings

Background

- 3.1 The principal functions of the HPC are to establish standards of education, training, conduct and performance for members of the relevant health professions and to ensure the maintenance of those standards. As part of its functions the HPC also maintains the Register of members of the relevant health professions and its main objective in the exercise of its functions is to safeguard the health and well-being of persons using or needing the services of registrants.
- 3.2 The Council's membership currently comprises thirteen registrant members and thirteen alternate members who are appointed on being elected under the Council's election scheme. Thirteen lay members are also appointed by the Privy Council. The President is elected by Council.
- 3.3 The numbers of registrant and alternate members is linked to the number of professions regulated by the Council. There is an alternate member for every registrant member, alternate members having the same functions as registrant members but are only able to vote if registrant members are not present at Council meetings. There must be at least one lay and registrant or alternate member for each home country within the United Kingdom.
- 3.4 There are also currently four non Council Committee members, bringing additional professional skills and expertise to committee decision-making. The Scheme of Delegation sets out the powers reserved to Council and its various committees.
- 3.5 The HPC is required by statute to maintain the following four committees:
- **Conduct and Competence Committee** advises the Council on what constitutes appropriate conduct, performance and ethics of all registrants. If HPC receives a complaint about a registrant's conduct, or their competence, then the Committee may assemble a panel to hear the evidence at a hearing;
 - **Health Committee** sets the strategy and policy which determine how Council will deal with allegations of ill health. If the HPC receives a complaint where the registrant's health appears to be relevant, the Committee may assemble a panel to hear the evidence at a hearing;
 - **Investigating Committee** sets the strategy and policy which determine how Council deals with complaints and/or fraudulent or incorrect entry onto the Register. If the HPC receives a complaint about a registrant, the Investigating Committee will assemble a panel to determine whether there is a case to answer; and

- **Education and Training Committee** advises the Council in relation to the establishing of standards of proficiency (and) the establishing of standards and requirements in respect of education and training or continuing professional development.
- 3.6 In addition, there are three non-statutory committees; the Finance and Resources Committee, Audit Committee and Communications Committee. All committees are chaired by a member of the Council. The Finance and Resources Committee also reviews payroll recommendations when it sits as the Remuneration Committee.
- 3.7 The Council has a number of Executive departments operating under the leadership of the Chief Executive who is also the Registrar. These departments are as follows:
- Approvals and Monitoring;
 - Information Technology;
 - Communications;
 - Policy and Standards;
 - Finance and Facilities Management;
 - Operations Office;
 - Fitness to Practise;
 - Registration; and
 - Human Resources;
 - Secretariat.
- 3.8 The EMT meets weekly and the meetings are minuted. EMT membership comprises the Chief Executive and Registrar's direct reports.
- 3.9 The HPC has a wholly owned subsidiary company- 22/26 Stannary Street Limited. The directors of the company are the President, the Chief Executive and the Chair of the Finance & Resources Committee. The Secretary to Council acts as Company Secretary.
- 3.10 The HPC's financial statements need to be prepared in accordance with Section 46(1)(b) of the Health Professions Order 2001 in a form determined by the Privy Council in its Accounts Direction, which complies with the HM Treasury Guidance on the preparation of accounts for non-Departmental Public Bodies, as if the Council was a non-Departmental Public Body ("NDPB") of the Department of Health. External auditors Baker Tilley have been appointed to report on the HPC's financial statements and those of its subsidiary. Internal auditors PKF have also been appointed. The Audit Committee receives regular reports from the auditors at its meetings throughout the year.
- 3.11 The HPC's strategic objectives are set out in its strategy document. The strategy is reviewed regularly, when required by EMT and the Council and is underpinned by the HPC's five year plan, annual budget and departmental work plans.

- 3.12 During 2007/08 departmental work plans were extended to include the Secretariat and the Finance and Facilities Management Department in accordance with a recommendation raised in our previous report on Corporate Governance and Risk Management (December 2006).
- 3.13 Performance reporting is undertaken through the Management Information Pack, which is presented by the Chief Executive and Registrar to each Council Meeting detailing the performance of all of the core areas of the business. The Finance & Resources Committee and Council receive a Finance Report, which is reviewed at each meeting. The management accounts are reviewed in detail by EMT each month.

Governance risks

- 3.14 The principal risks associated with governance and risk management have already been identified and are included in the HPC's strategic risk register, which has been reviewed and approved by Council. These are as follows:
- Council inability to make decisions;
 - Council members conflict of interest;
 - Poor decision-making e.g. conflicting advice or conflicting advice and decisions;
 - Failure to meet Council/Committee quorums;
 - Member recruitment problem (with the requisite skills);
 - Improper financial incentives offered to Council members/employees;
 - Health & Safety of Council members;
 - Expense claim abuse by members;
 - Poor performance by Chief Executive;
 - Poor performance by the President; and
 - Members' poor performance.
- 3.15 In addition to these issues, we noted that the Department of Health published a consultation paper on 21st December 2007 on the Health Care and Associated Professions (Miscellaneous Amendments) No 2 Order 2008.
- 3.16 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 related governance changes including the make up and size of the Council.

- 3.17 The principal management controls that are in place to mitigate the risks noted above are as follows:
- Council and EMT responses to the proposed legislative changes;
 - Policies and procedures on matters such as declarations of interests and gifts;
 - The work of the Secretariat and associated management of committee workload; and
 - Members, President, Chief Executive and employees' performance management and appraisal.
- 3.18 The findings of our review of these controls and risk management in general are set out below.

Findings

Response to the proposed legislative changes

- 3.19 From our review work we noted that the Department of Health consultation paper includes provisions for the regulation of practitioner psychologists by the HPC and governance changes including the make up and size of the Council. We noted that these matters have been considered during the year to date by EMT and Council and plans are already being made to deal with the consequences of the likely changes.
- 3.20 The most immediate impact of these matters upon the HPC's governance has related to the election arrangements for Council members. We understand that under current legislation, the HPC is required to hold elections for the registrant members for Dietitians, Speech and Language Therapists and Operating Department Practitioners in July 2008. Under the proposed new Section 60 Order the make up and size of the Council will change and appointments will no longer be made by election process and the July elections will not be required if the new Order is enacted before 8th July 2008.
- 3.21 The HPC has taken (and is following) legal advice regarding the most appropriate way of addressing this matter. Council agreed in December that the HPC still needed to begin the process of conducting the elections noted above by nominating a returning officer and agreeing the arrangements for publishing election expenses. However, the costs of the election process are to be kept to a minimum and the option to cancel the elections is to be kept under review.
- 3.22 Further steps, including a reduction in the number of Council members will also need to be taken during 2008/09 to respond to the new Order. We note that the HPC has already begun to make the necessary plans to address this matter too
- 3.23 We concur with the approach adopted by the HPC in relation to these matters to date and have not therefore raised any recommendations.

Policies and procedures

- 3.24 All Council members are required to abide by the HPC's Code of Conduct and to act in accordance with the Seven Principles of Public Life as set out by the Committee on Standards in Public Life.
- 3.25 The Code of Conduct also includes members' specific responsibilities in relation to confidentiality and attending meetings. Members must also complete a declaration of interests and have personal responsibility for ensuring that it is kept up to date. The interests of each member are published on the HPC website.
- 3.26 If members are participating in Council business where they might have (or be seen to have) an interest in the outcome, or any interest which could prejudice their decision, they should declare this. Council members should remove themselves from the discussion or even from the room in certain circumstances if items on the agenda may raise a serious conflict of interest. Members must not accept gifts, hospitality or benefits which might be seen to compromise their role or influence the decisions that they take. Gifts offered as a consequence of HPC business must be registered with the Secretariat within a reasonable time, usually one month.
- 3.27 Minor breaches of the Code of Conduct are to be dealt with informally in the first instance for example by the Chairman or another Council member drawing the matter to the member's attention. Serious or continued breaches are to be addressed by the President and may result in the member's removal from office.
- 3.28 The HPC's insurance arrangements provide travel and personal injury cover for members when they are conducting HPC business. The ongoing works to refurbish Stannary Street premises are subject to access restrictions to protect the health & safety of members, staff and visitors.
- 3.29 In our view these governance policies and procedures meet best practice and should ensure that the HPC is able to manage the risks of conflicts of interest, receipt of improper incentives by Council members/ employees and the health & safety of Council members.
- 3.30 The HPC's various governance policy documents are kept under review by the Secretariat, the President, the Council and the Executive to ensure that they remain update to date and fit for purpose.

Secretariat

- 3.31 The HPC's Secretariat comprises four members of staff to provide support to the Council, committees and the Executive. Two members of the team are at various stages of membership of the Institute of Chartered Secretaries and Administrators.

- 3.32 Our review indicated that the workload of the Council and its Committees is 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.
- 3.33 The committee timetable and preparation of the agenda papers is co-ordinated by the Secretariat. Reminders to the responsible employees and advisors to prepare the necessary papers and invitations to attend are sent out in advance of each meeting.
- 3.34 Members are provided with training and an information pack covering their roles and responsibilities and the Health Professions Order as part of their induction. Further training and away days are provided throughout the year for topical and technical matters. For example, equality and diversity was included in the members' training programme for 2007/08.
- 3.35 We understand that only one meeting relating to the Education and Training Committee during the year was not quorate and we are advised that all other meetings have been quorate. The meeting in question went ahead and decisions were ratified electronically by the Committee. Standing Orders were subsequently amended and the requirement for a minimum number of lay members to be present at the meeting was deleted, thus bringing the standing orders into line with other committees. Guidance was also issued to Committee Chairmen and Committee Secretaries specifying that inquorate meetings should be postponed or cancelled. We have not therefore raised a recommendation in relation to this matter.
- 3.36 Members' expense claims are scrutinised carefully in accordance with the HPC's financial procedures. We reviewed the controls over this area as part of our work on the HPC's financial systems (November 2007) and reported that they were satisfactory. The Secretariat also maintains a log of members' expense claims that is reviewed periodically. Any unusual claims are followed up.
- 3.37 During the year we noted that one member resigned following a review of their actual expenses incurred for attendance at some meetings for which claims had been made. This matter was discussed in some detail by the Audit Committee and we concur with the approach taken by the HPC.
- 3.38 Member recruitment is co-ordinated by the President with the support of the Secretariat. We note that there are currently two elected member vacancies and two vacancies for lay members. We are advised that this has not caused any disruption to the ability of the Council and committees to perform their duties to date and is not expected to do so for the remainder of the financial year.

- 3.39 The arrangements for appointing members will change considerably once the proposed new Section 60 Order comes into force. This will result in a Council with fewer members and the abolition of the Council election processes with membership recruitment being undertaken through the Appointments Commission.
- 3.40 The HPC President has held preliminary discussions with the Appointments Commission regarding the appointments process for members of the Council which will be appointed should the proposed governance changes arise.
- 3.41 The President reported to Council in December that the discussions involved the potential process by which the HPC would work with the Appointments Commission to recruit the members of the new Council.
- 3.42 It has been emphasised that to date the Council has made no final decision about the numbers of members or the skills, knowledge or experience which new members will require. However the outcome of the recruitment exercise will aim at a Council characterised by experience, quality and continuity and diversity.
- 3.43 In our view the arrangements relating to the effectiveness of Council and Committee meetings and member expense claims meet best practice and should ensure that the HPC is able to manage the specific governance risks that it has identified. We concur with the approach that has been adopted towards member recruitment in the short term until the proposed new Section 60 Order takes effect. We also note the plans that are being made to establish appropriate member recruitment arrangements with the Appointments Commission to ensure that the HPC is well placed to respond should the legislative changes arise.

Performance management and appraisal

- 3.44 Members are required to complete and sign an annual self-assessment of their performance against preset criteria using a standard form. This is then followed up by a face to face meeting or a telephone appraisal with the President. A log of the members' performance assessments is maintained by the Secretariat. Our review indicated that all the required appraisals for members had been completed for 2007.
- 3.45 The President is elected by the Council members. Members are asked to complete an assessment on the performance of the President against preset criteria each year. Ultimately the Council could exercise its powers under the Health Professions Order to remove the President in the event of poor performance.
- 3.46 The Chief Executive and Registrar is appointed by the Council. The performance of the Chief Executive against his objectives for the year is appraised through a face to face meeting with the President.

3.47 In our view these arrangements meet best practice and enable the HPC to manage the risks associated with the potential poor performance of its members, the President and the Chief Executive and Registrar. We have not therefore raised a recommendation in relation to this area.

Risk management

3.48 The HPC has had established risk management arrangements in place for some time now. The key risks of the organisation are set out in a strategic risk register, which is reviewed regularly by the EMT, the HPC's auditors and the Audit Committee in the first instance before being approved by Council. In accordance with a recommendation included in our previous report on Corporate Governance and Risk Management, departmental work plans now also include a summary of their key risks.

3.49 The Risk Register is updated twice yearly (in February and September). The latest copy was noted by the Audit Committee at their meeting on 25th September and their comments updated in the Register. This was then approved by Council at its December 2007 meeting. In our view, the risk register and the arrangements for its approval meet best practice. We have not therefore raised any recommendations in relation to this area.

4 Assurance Definitions

Assurance Level	Definition
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.