

Audit Committee 21 June 2012

Internal audit annual report

Executive summary and recommendations

Introduction

The attached annual report from Mazars sets out its internal audit work in 2011-12. This is the first annual report from Mazars as HPC's internal auditor.

Decision

The Committee is asked to discuss the report.

Background information

See internal audit workplan for 2011-12 agreed by the Committee on 16 March 2011 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

11 June 2012.



Internal Audit Annual Report

For the year ended 31 March
2012

Presented to Audit Committee
meeting of: 21 June 2012

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Status of our reports

This report is confidential and has been prepared for the sole use of the Health Professions Council (HPC).

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1. Introduction

Background

- 1.1 The Health Professions Council (HPC), a body corporate, was set up on 1 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.
- 1.2 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.
- 1.3 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.
- 1.4 His responsibilities for internal control are therefore identical in this respect to those of an Accounting Officer as defined in Managing Public Money. This requires Accounting Officers to make provision for internal audit in accordance with Government Internal Audit standards ("GIAS").

Scope and purpose of internal audit

- 1.5 The purpose of internal audit is to provide the Council, through the Audit Committee, and the Chief Executive and Registrar (as Accounting Officer), with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving HPC's agreed objectives.
- 1.6 This opinion forms part of the framework of assurances that is received by HPC and should be used to help inform the annual Statement on Corporate Governance and Internal Control. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.
- 1.7 Our professional responsibilities as internal auditors are set out within GIAS which have also been aligned with the Institute of Internal Auditors Professional Standards.
- 1.8 Mazars LLP were appointed to provide an internal audit service to HPC from 1 April 2011. This Annual Report covers the work we have undertaken for the year ended 31 March 2012, and incorporates our audit opinion.
- 1.9 The report summarises the internal audit activity and, therefore, does not include all matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.

Acknowledgments

- 1.10 We are grateful to the Chief Executive and Register, Finance Director, and other staff throughout HPC for the assistance provided to us during the year.

2. Internal audit work undertaken in 2011/12

- 2.1 Our Internal Audit Strategy for the three years ending 31 March 2014 incorporating the Operational Plan for 2011/12 was considered and approved by the Audit Committee at its meeting on the 16 March 2011.
- 2.2 The Plan was for a total of 45 days including three days Follow Up, six days Audit Management and three days Contingency. We have completed all planned audits from the Plan during the year and it has not been necessary to use the Contingency days.
- 2.3 During the year, HPC commissioned the Forensics team within Mazars to assist in investigating differences arising in respect of deferred income between the Finance System and the Registration System. The results of this review have been reported separately.
- 2.4 The audit findings in respect of each review, together with our recommendations for action and the management response were set out in our detailed reports, a summary of which have been presented to the Audit Committee during the course of the year.
- 2.5 A summary of the reports we have issued is included at *Appendix A*. The appendix also describes the levels of assurance we have used in assessing the control environment and effectiveness of controls and the classification of our recommendations.

3. Annual Opinion

Scope of the Internal Audit Opinion

- 3.1 In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to HPC is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.
- 3.2 The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.
- 3.3 In arriving at our opinion, we have taken the following matters into account:
 - The results of all audits undertaken during the year ended 31 March 2012;
 - Whether or not any Priority 2 recommendations have not been accepted by management and the consequent risks;
 - The effects of any material changes in the organisation's objectives or activities;
 - Matters arising from previous reports to the Audit Committee and/or Council;
 - Whether or not any limitations have been placed on the scope of internal audit;
 - Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
 - What proportion of the organisation's internal audit needs have been covered to date.

Annual Opinion

On the basis of our audit work, we consider that Health Professions Council's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, none of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

3.4 In reaching this opinion the following factors were taken into particular consideration:

Corporate Governance and Risk Management

As it was our first year of appointment we undertook a high level review of HPC's arrangements for corporate governance and risk management. In each of the reviews, we provided a 'Substantial' level of assurance with only Priority 3 (Housekeeping) recommendations made in each review.

Internal Control

Of the audits undertaken in the year where we provide a formal assurance level, all were given a 'Substantial' level of assurance.

During the year, we have made no 'Priority 1' and 3 'Priority 2' recommendations. All remaining recommendations were categorised as 'Priority 3'. The 'Priority 2' recommendations were:-

- Management should complete the steps necessary by September 2011 towards removing the option for individuals to follow manual procedures when raising supplier purchase orders (Follow Up);
- The need to review User Profiles to ensure appropriate segregation of duties in the PRS system (Purchase Ordering System); and
- The need to enhance controls for changing supplier standing data in response to a growing incidence of fraud being perpetrated in this area across the wider economy (Purchase Ordering System).

Our follow up review during the year confirmed that three of the six recommendations from 2010/11 had been implemented by Management. There was also one recommendation in progress, one recommendation not implemented and one recommendation where the target date had not been reached. In each of these cases an updated management response and timescale was obtained.

All recommendations made during the year were accepted by Management.

4. Benchmarking

4.1 This section of the report will be developed in future years to provide benchmarking of assurance levels and recommendations by categorisation; however, as it is our first year of appointment and given the difference bases used by the previous internal auditors it was not felt this data would add any value at this time.

5. Performance of Internal Audit

Compliance with professional standards

- 5.1 We employed a risk-based approach to determining the audit needs of HPC at the start of the year and use a risk based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with the requirements of GIAS and the Institute of Internal Auditors – UK and Ireland.

Internal Audit Quality Assurance

- 5.2 In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- The use of satisfaction surveys for each completed assignment.
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Regular meetings of our Sector Strategy Groups, which issues technical guidance to inform staff and provide instruction with regard to technical issues; and
- The maintenance of the firm's Internal Audit Manual.

Conflicts of Interest

- 5.3 There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Performance Measures

- 5.4 We have completed our audit work in accordance with the agreed plan and each of our final reports has been reported to the Audit Committee.
- 5.5 During the year, it was agreed that the satisfaction surveys we issue alongside each final report would be collated and summarised by the Secretary to the Committees and used to inform the Audit Committee's annual assessment of the performance of internal audit. We would be happy to agree other measures of performance with the Committee should this be considered appropriate.

Appendix A – Summary of internal audit work undertaken in 2011/12

The following reviews were undertaken during the 2011/12 audit year:

Ref	Auditable Area	Level of Assurance (If appropriate)	Recommendations				Total agreed by Management
			Priority 1	Priority 2	Priority 3	Total	
01.11/12	Information Security/Data Protection	Substantial	-	-	9	9	9
02.11/12	Follow Up	Not applicable	-	1	2	3	3
03.11/12	Partners	Substantial	-	-	1	1	1
04.11/12	Payroll	Substantial	-	-	3	3	3
05.11/12	Risk Management	Substantial	-	-	2	2	2
06.11/12	Corporate Governance	Substantial	-	-	3	3	3
07.11/12	Core Financials – Purchase Ordering System	Substantial	-	2	2	4	4
08.11/12	Project Management	Substantial	-	-	8	8	8
		Totals	0	3	30	33	33
		%	0%	9%	91%	100%	100%

We use the following levels of assurance and recommendation classifications within our audit reports:

Assurance Level	Definition
Substantial Assurance:	While a basically sound system of control exists, 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.
Limited Assurance:	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, HPC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, HPC 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.