

Council, 25 May 2023

Unconfirmed minutes of the Audit and Risk Assurance Committee meeting of 15 March 2023.

Committee Chair's summary to Council

The Audit and Risk Assurance Committee (ARAC) met on 15 March 2023, and we also had a workshop on 8 March, to self-assess our performance using the NAO checklist. We identified a few actions to further improve our performance but no significant gaps. Improvements are in the areas of making our consideration of the Unified Assurance Report more explicit in our terms of reference and formally assessing skills and training needs of members.

At the main meeting, we received three internal audit reports on Diversity, Unified Assurance and a follow up on key financial controls. All provided moderate assurance. We also agreed the Internal Audit Plan for 2023-24, with audits of international registrations, the Partners review, policy and standards consultation, the people strategy, procurement of large contracts and payroll planned.

We also heard about the arrangements for the year end external audit, with the annual report and accounts due to come to ARAC in September.

We were pleased to hear that the Strategic Risk Register and Risk Appetite is being updated to reflect the new Corporate Plan.

Sue Gallone, Chair of the Audit and Risk Assurance Committee

Audit and Risk Assurance Committee

Public minutes of the 88th meeting of the Audit and Risk Assurance Committee held on:-

Date: Wednesday 15 March 2023

Time: 2pm

Venue: MS Teams

Present: Sue Gallone (Chair)
David Stirling
Graham Masters
Lianne Patterson
Damien Baker

In attendance:

Ewan Shears, Secretary to the Committee
Claire Amor, Executive Director of Governance, Assurance and Planning
Alastair Bridges, Executive Director of Resources and Business Performance
Andrew Smith, Interim Deputy Chief Executive
Laura Coffey, Interim Executive Director of Regulation
Roy Dunn, Chief Information Security and Risk Officer
Alan Keshtmand, Head of Finance
Bill Mitchell, BDO LLP
Dan Bonner, NAO
Anna Raftery, Quality Assurance Lead
Kathryn Burton, Haysmacintyre
Oliver Evatt, National Audit Office (NAO)
Adrian Barrowdale, Equality, Diversity and Inclusion Strategic Lead (Item 8i only)

Public

Item 1. Chair's welcome and introduction

- 1.1 The Chair welcomed those present to the 88th meeting of the Audit and Risk Assurance Committee. A special welcome was extended to the two new members of the Committee, Council Member Lianne Patterson and Independent Committee member Graham Masters. Damien Baker was also welcomed as a new Council apprentice.

Item 2. Apologies for absence

- 2.1 There were no apologies for absence received.

Item 3. Approval of agenda

- 3.1 The Committee approved the agenda.

Item 4. Declarations of members' interests

- 4.1 No interests were declared.

Item 5. Minutes of the Audit and Risk Assurance Committee meeting of 9 November 2022 (report ref: ARAC 01/23)

- 5.1 The Committee approved the minutes of the meeting of 9 November 2022.

Item 6. Matters arising (report ref: ARAC 02/23)

- 6.1 In response to a question relating to actions 11.2 and 11.4 of the previous minutes, the Executive assured the Committee that cashflow was monitored as part of monthly finance reporting and referenced against the investment policy. Cashflow statements for Council would be referenced appropriately to provide ongoing assurance.
- 6.2 The Committee noted this item.

Item 7. Strategic Risk Register (report ref: ARAC 30/22)

- 7.1 The Committee received the report from the Executive which included the latest iteration of the Strategic Risk Register (SRR).
- 7.2 The Executive Director of Governance, Assurance and Planning reported the SRR had been reviewed since the previous iteration and it reflected

the current interim arrangements of ELT. The Committee noted the following changes and points:-

- SR1, there was continued improvement in compliance against services levels in Registration and progress in the development work in FtP. While many positive improvements were being made, performance was improving and progression with the PSA performance review cycle continued, there was no change in the risk level. Should the HCPC regain PSA standards, the risk score was likely to decrease;
- there were delays to the progression of the tone of voice template letter review. A secondee from the GMC joined the HCPC in late 2022 and was making progress on the higher impact templates. However, this would not be completed in FY 2022-23 as originally planned and work would continue into Q1 2023-24;
- SR2, the risk score had been reduced, reflecting the work undertaken in 2022-23 around the HCPC's standards. The Standards of Conduct, Performance and Ethics (SCPE) review was now ready for consultation. The partnership working with HEE on preceptorship principles (supporting new professionals transition to the workplace) had been approved by Council and published; and an improved outreach capability was in place;
- SR3, revised and more realistic planning for 2023-24 focussed on addressing fundamentals such as data accuracy and accuracy of reporting. External facing intelligence would continue to be published;
- SR4, the HCPC fee rise decision had impacted the risk, but significant engagement work was underway to support the continued productive relationships with stakeholders. The Executive were confident that the right mitigations were in place;
- SR5, the risk had not changed, however Council had approved a fee rise and parliamentary approval was being sought. There was increased confidence in the sustainability and affordability of ambitions due to improved corporate planning and integration with the budget and investment planning cycle. Benefits realisation expectations had been revised and a benefits and change group was being established for oversight. The impact of vacancies was also recognised although turnover levels had reduced; and
- SR6, risk reduced due to the HCPC and NMC being named as the next in line to undergo regulatory reform.

7.3 The Committee thanked the Executive Director of Governance, Assurance and Planning for the clear paper and for the verbal update.

- 7.4 The Committee noted that the increased trend in international applications had provided an opportunity for the HCPC to ring fence funds to mitigate against increased costs associated with regulatory reform activities.
- 7.5 While good progress was being made against all the planned mitigations for SR6, the Committee noted that the risk score had remained the same and additional planned mitigations were needed. A refreshed set of mitigations would be considered and reflected in the next iteration of the SRR.

The SRR will be reconsidered in light of the new corporate plan. A review of the HCPC's risk appetite was also planned for Q1-Q2 2023-24. Both of these would be presented to the Committee. **ACTION**

- 7.6 The Committee noted the significance of securing a fee increase for the HCPC and the impact that had had on the current risk score for SR5. The Executive agreed to review and challenge the scoring of SR5.
- 7.7 The Committee agreed that more mitigations in SR4 should be included along with the deliverables that were included as part of the fees consultation, and tracking those would be important for any future fee rises.
- 7.8 In response to a question the Executive assured the Committee that the scaling back of the ambitions on data, SR3, would be well managed. It would be an investment year producing less externally but would provide a good platform for the following years. The Committee welcomed the realistic approach being taken.
- 7.9 As requested by the Committee, the Executive Director of Resources and Business Performance provided a verbal presentation focussing on the HCPC's financial sustainability. The Committee noted the following points:-

- over the past five years HCPC had run at a deficit;
- the loss of responsibility for social workers in 2019 led to a significant loss of income, requiring cost reductions;
- costs were successfully reduced but a lack of flexibility in the fee-setting regime, embedded inefficiencies in some areas and the cost of addressing performance shortfalls against PSA standards contributed to the deficit;
- the 2022-23 year-end reserves had declined well below the required reserves policy figure, but was partially a result of the progressing of necessary improvement work;

- additional international income, slippage of operational caseload, some unfilled vacancies and careful financial management had improved the in-year deficit position.
- the HCPC went into 2023-24 budgeting round with an underlying deficit equivalent to 2-3% of operating expenditure and also faced other significant financial risks;
- a budget was developed with prudent assumptions and with tough prioritisation;
- the medium-term trajectory showed negative reserves without a fee increase;
- there had been up-front costs in 2022-23 of estates downsizing but there would be downstream benefits arising from 2023-24; and
- the 2023-24 balanced budget recommended to Council was an important step in moving towards a sustainable balanced position, however this would only be achievable alongside a fee increase.

7.10 The Executive further noted that there were other potential opportunities to realise that included:-

- international income remaining at current levels;
- being entrepreneurial in seeking other funding opportunities that would deliver core benefits;
- stronger governance to ensure benefits realisation; and
- regulatory reform may enable a more incremental approach to setting fees.

7.11 In response to a question the Committee noted that the Executive was able to model a set of financial scenarios factoring different assumptions from the wider economic situation. This capability would continue to be enhanced in future years.

7.12 BDO noted that it was not known how the rules about holding reserves would be affected by regulatory reform. The Executive confirmed that the ability to hold reserves was part of financial sustainability.

7.13 The Committee agreed that the Executive should take a view on likely timings of any future fee rise planning as an interim measure prior to regulatory reform.

7.14 In response to a question the Executive noted that consideration of not securing a fee rise had been given and that modelling of various scenarios had been shared with Council.

- 7.15 The Committee thanked the Executive Director of Resources and Business Performance for the insightful and helpful presentation.

Item 8.i. Papers from the HCPC's Internal Auditors, BDO LLP – Internal Audit - Diversity Review (report ref: ARAC 04/23)

- 8.i.1 The Committee received a report from the HCPC's Internal Auditors BDO LLP and noted the purpose of the report was to establish how the HCPC ensured that its regulatory activities were free from discrimination and that it could fulfil its statutory Equality Diversity and Inclusion (EDI) obligations.
- 8.i.2 BDO highlighted the following points to the Committee:-
- the HCPC had a well embedded EDI policy, sponsored at Executive level and supported by training; and
 - the overall rating of the report was moderate, with one medium and four low priority recommendations made. BDO noted they would amend the numbering of recommendations misstated in the conclusion of the executive summary.
- 8.i.3 The Committee commented that, as a sample had been tested, there would be more individuals in the organisation who had not completed the training. The Executive noted that there would be quarterly checks to monitor completion.
- 8.i.4 Further to the management responses given for both recommendations in finding 1 of the report, BDO assured the Committee that they were confident from their discussions with the Executive that the issues would be considered as a whole, as part of the EDI Steering Group meetings.

Item 8.ii. Papers from the HCPC's Internal Auditors, BDO LLP – Internal Audit - Unified Assurance Framework (report ref: ARAC 05/23)

- 8.ii.1 The Committee received a report from the HCPC's Internal Auditors BDO LLP and noted the purpose of the report was to assess the Unified Assurance Framework (UAF) and to provide an opinion on the design and effectiveness of the current process, as well as providing advice on enhancements that may be made to make the process more effective.
- 8.ii.2 BDO noted the follow points to the Committee:-
- the overall rating of the report was moderate and that largely there was an adequate model in place. The HCPC had established a UAF with systems and processes in place to maintain it as a live document;

- the report raised zero high, six medium and one low priority recommendation; and
- the report recognised that the HCPC's colleagues were keen to learn from other good practice and establish a more mature model.

8.ii.3 The Committee noted that recommendation 4 to outsource the administration of the Risk Register to individual departments was not accepted by the Executive and agreed that the rigour of the existing process had proven valuable to date. The Committee advised the Executive to ensure that quality was embedded across the organisation and not viewed as a one department's responsibility. BDO noted that they would correct the number of accepted recommendations stated in the report's summary.

8.ii.4 The Committee welcomed the report and how the Quality Assurance was developing at the HCPC.

Item 8.iii. Papers from the HCPC's Internal Auditors, BDO LLP – Internal Audit - Key Financial Controls Follow up (report ref: ARAC 06/23)

8.iii.1 The Committee received a report from the HCPC's Internal Auditors BDO LLP and noted that the purpose of the report was to follow up on the full key financial controls review undertaken as part of the 2021-22 audit plan, re-test the areas covered in that review and assess whether recommendations made had been implemented.

8.iii.2 BDO noted the following points to the Committee:-

- the overall rating of the report provided moderate assurance over the design and moderate assurance over the operational effectiveness of controls in place relating to the key financial controls;
- the HCPC had improved the controls in place relating to key financial controls, however as part of the current review there were four findings identified, of which two were assessed medium priority and two low priority; and
- the HCPC had made some key changes in their control framework to provide a more robust foundation for financial transactions and tasks to be completed, helping to minimise the risk of fraud either by error or otherwise.

8.iii.3 The Committee reflected on a previous interim follow up review of key financial controls and noted that it should also be referenced as part of this review for completeness. BDO agreed to update the report and to also amend minor typographical errors in the first paragraph of the summary of good practice and the summary of findings table.

- 8.iii.4 The Committee noted that the migration of the finance system (SAGE) to the new system Business Central was an opportunity to reduce the number of policies, that refreshed and consolidated policies should reflect the new software and that outdated practices should not be reflected in the new system.
- 8.iii.5 In response to a question, the Executive assured the Committee that approvals by email in relation to journals would be an automated process contained within the new system once implemented.

Item 8.iv. Papers from the HCPC's Internal Auditors, BDO LLP – Internal Audit - Internal Audit Plan 2022-23 progress report (report ref: ARAC 07/23)

- 8.iv.1 The Committee received and noted the Internal Audit Plan 2022-23 progress update report from BDO LLP.
- 8.iv.2 The Committee noted the following points:-
- the plan was nearly completed, with the fieldwork commenced for the Fitness to Practise end-to-end review;
 - a workshop for Business Transformation took place in January 2023. A second workshop was planned using the outputs of the initial workshop to agree good practice principles and processes to take forward. BDO agreed to provide a summary of the outcomes of the workshops as part of their next update to the Committee; **ACTION**; and
 - the Annual report and opinion would be ready for the Committee meeting in June 2023.
- 8.iv.3 BDO provided a verbal update and slides of the conclusions from the Committee's workshop held in February 2023. The workshop was a self-assessment exercise facilitated by BDO that utilised the NAO's committee effectiveness tool.
- 8.iv.4 The Committee thanked BDO for the quick turnaround and noted the outputs reflected in the presentation and requested an update at the next meeting from the Executive on how those items were being progressed. **ACTION**

Item 8.v. Papers from the HCPC's Internal Auditors, BDO LLP - Draft Internal Audit Plan 2023-24 (report ref: ARAC 08/23)

- 8.v.1 The Committee received the draft Internal Audit plan 2023-24 from the HCPC's Internal Auditors BDO LLP.

- 8.v.2 BDO noted the plan was developed with the engagement of the Executive Leadership Team, the Committee and the HCPC's internal Quality Assurance team.
- 8.v.3 BDO further noted that this was the second year of the overall three-year Internal Audit strategy and framework, that was also closely linked with the HCPC's Quality Assurance team.
- 8.v.4 The Committee noted the following 2023-24 Internal Audit plan topics included:-
- a Registration assurance review focussed on international registrations due to significant changes in processes;
 - assurance work to compliment the PwC Partners review and changes arising from that;
 - an audit of the process for regulatory Policy and Standards consultation;
 - a review of the People strategy;
 - a review of the Procurement of large contracts;
 - a Payroll and IR35 advisory review; and
 - the ongoing project management advisory work would be determined by the pace of the HCPC's change programme.
- 8.v.5 The Committee also noted the topics placed on the reserve list that could be drawn upon should circumstances change over the year.
- 8.v.6 The Committee discussed the differences between the two Policy and Standards reviews, with one being on the main list and the other on the reserve list, noting that the reserve list item was dependant on the progress of regulatory reform. The Executive noted that recent movements on regulatory reform had occurred subsequent to agreeing the Internal Audit plan but noted that timelines were still unknown. The Executive agreed that the reserve list topic of Regulatory reform relating to Policy and Standards, would be kept under close review for consideration in the year ahead. The Committee noted that the planned Policy and Standards review was for Q1 2023-24 and advised the Executive to consider the timing of this to allow for more informed considerations.
- 8.v.7 BDO noted they would remain flexible and would follow up with the Executive to explore bringing forward any of the other topics on the plan to Q1 2023-24.
- 8.v.8 The Committee were reassured that recent internal reviews had covered financial modelling, budgeting and forecasting, and key financial controls.

The Committee also welcomed the inclusion of the International Registration review on the Internal Audit plan.

- 8.v.9 In response to a question about the timing of the PwC Partners review the Executive noted that it included a snap-shot review and would output a series of options through a programme of projects. The review was limited due to cost and scale of work required; however, the Internal Audit review would complement the necessary work being undertaken and provide the assurance moving forwards.
- 8.v.10 The Interim Chief Executive confirmed they were recommending the Internal Audit Plan to the Committee subject to the consideration of the Policy and Standards reserve topic. The Committee approved the Internal Audit Plan 2023-24 subject to discussions noted above.

Item 9. External Audit 2022-2023 planning (report ref: ARAC 09/23)

- 9.i.1 The Committee received a report from the HCPC's External Auditors, haysmacintyre (HM). The report set out HM's plan for the HCPC's External Audit 2022-23, including the scope and key risks to be considered. The Committee noted the following points:-
- The plan was put together on the basis of having undertaken a week-long interim audit with the Executive. This would look at the systems and business processes, and start work relating to ISA 315 which was a new auditing regulation that required additional work, including reviewing IT general controls and how they linked to the financial data and statements; and
 - a detailed planning meeting was undertaken to agree timelines and provide confidence in meeting the September 2023 deadline for completion.
- 9.i.2 HM highlighted the following risks and areas of focus included the report:-
- fraud in revenue recognition had not been rebutted on the basis that reconciliations were only completed up until September 2022 at the time of the interim audit;
 - management override of controls was included in relation to income, deferred income and accrued income due to the large number of manual adjustments that were made in these areas of the accounts, and also the changes in key finance personnel;
 - valuation of fixed assets was included to ensure that assets were not impaired and were not materially overstated within the financial statements;
 - the implementation of IFRS16 was an area of focus and became effective for the HCPC from 1 April 2022. The impact of the

standard was expected to be material in respect of financial reporting;

- completeness of creditors was an area of focus. Substantive testing would be undertaken with a review of post year-end payments and purchase invoices to consider the completeness of liabilities; and
- completeness of staff costs, to ensure that any related disclosures and provisions were not incomplete.

9.i.3 The Committee noted the increase in HM's fees for the 2022-23 audit. HM confirmed that their fees had been determined using a bottom-up approach that included the additional work required by the new regulations and time costs to deliver the HCPC's audit.

9.i.4 The Committee thanked HM and noted their External Audit plan for 2022-23.

Item 9.ii Audit planning – verbal update

9.ii.2 The Committee noted that the NAO would rely on the work of HM. The NAO confirmed that their audit plan had commenced based on HM's interim audit work and would be completed once HM's risk assessment and planning was completed. As previously advised to the Committee the staggered approach was due to ISA 315 requirements, and also prevented any duplication of work or additional associated fees.

9.ii.3 The NAO confirmed that they were in accord with the timings reported in the HM planning report, and they would continue to liaise with HM to meet the September 2023 deadline.

Item 10. HCPC Audit planning and update of recommendations

10.1 The Executive confirmed to the Committee that they were aligned with HM and NOA in relation to the planning assumptions and timetables, noting the interim audit carried out by HM went well and should contribute to a smooth year end process. Regular senior engagement opportunities were also scheduled with HM to mitigate against any potential slippage.

Item 11. Internal audit recommendations tracker (report ref: ARAC 10/23)

11.1 The Committee received a paper from the Governance and Compliance Officer. The paper set out progress against outstanding internal and external audit recommendations.

11.2 The Committee noted the paper.

Item 12. Committee forward work plan (report ref: ARAC 11/23)

- 12.1 The Committee noted the item.
- 12.2 The Committee discussed potential future topics for a committee deep dive. The Committee agreed that a deep dive relating to IT risks, cyber-attacks, IT skills and capacity of the team, and the implementation of change controls of new systems would be timely.
- 12.3 The Committee acknowledged that there might need to be more than one deep dive to cover those topics, and the Executive agreed to consider and propose a presentation for the June 2023 meeting.

Item 13. Any other business

- 13.1 There was no further business.

Item 14. Date and time of next meeting:

- 14.1 Wednesday 14 June 2023, 1:30pm

Item 15. Resolution

- 15.1 The Committee was invited to adopt one or more of the following:

'The Committee hereby resolves that the remainder of the meeting shall be held in private, because the matters being discussed relate to one or more of the following;

- (a) information relating to a registrant, former registrant or applicant for registration;
- (b) information relating to an employee or officer holder, former employee or applicant for any post or office;
- (c) the terms of, or expenditure under, a tender or contract for the purchase or supply of goods or services or the acquisition or disposal of property;
- (d) negotiations or consultation concerning labour relations between the Council and its employees;
- (e) any issue relating to legal proceedings which were being contemplated or instituted by or against the Committee or the Council;
- (f) action being taken to prevent or detect crime or to prosecute offenders;
- (g) the source of information given to the Committee in confidence; or
- (h) any other matter which, in the opinion of the Chair, is confidential or the public disclosure of which would prejudice the effective discharge of the Committee's or Council's functions.'

Item	Reason for Exclusion
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16	H
17	H
18	H

Chair.....
Date.....