

Audit Committee

Public minutes of the 26th meeting of the Finance and Resources Committee held as follows:-

Date: Wednesday 24 June 2009

Time: 10:30am

Venue: The Council Chamber, Health Professions Council, Park House, 184 Kennington Park Road, London SE11 4BU

Present: Mr D Proctor (Chairman)
Professor C Lloyd
Mr J Seneviratne

In attendance:

Mr C Bendall, Secretary to the Committee
Mr D Blacher, Baker Tilly (UK) LLP
Mr G Butler, Director of Finance
Ms D Clarke, Baker Tilly (UK) LLP
Mr J Dee, PKF (UK) LLP
Mr R Dunn, Head of Business Process Improvement
Mr S Ecroyd, National Audit Office
Mr G Gaskins, Director of Information Technology
Mr S Hall, Facilities Manager
Mr M Harris, Baker Tilly (UK) LLP
Ms L Hart, Secretary to Council (items 1-17 inclusive)
Ms K Johnson, Director of Fitness to Practise (items 9-15 inclusive)
Mr S Leicester, Director of Finance
Ms C Milner, Financial Controller
Mr D Parker, National Audit Office
Mr M J Seale, Chief Executive and Registrar
Dr A van der Gaag, President
Mr R Weighell, PKF (UK) LLP

Item 1.09/27 Apologies for absence

- 1.1 Apologies for absence were received from Mr P Acres (Chairman), Mr R Kennett, Mr D Ross (observer on behalf of the Finance and Resources Committee) and Professor G Smith (Vice-Chairman).
- 1.2 As the Chairman and Vice-Chairman were both absent and in accordance with its standing orders, the Committee agreed to elect Mr Proctor as Chairman for the duration of the meeting.
- 1.3 The Chairman thanked Mr Leicester for his work as Director of Finance and wished him well for the future. The Chairman welcomed Mr Butler as the newly appointed Director of Finance. The Chairman noted that the members of the Committee who were present would be stepping down from the Council due to the restructuring of the Council.

Item 2.09/28 Approval of agenda

- 2.1 The Committee approved the agenda, subject the item on the 2009-10 year end audit being deferred to the meeting of the Committee to be held on 29 September 2009.

Item 3.09/29 Declarations of members' interests

- 3.1 Members had no interests to declare in connection with the items on the agenda.

Item 4.09/30 Minutes of the Audit Committee meeting of 26 February 2009 (report ref: AUD 14/09)

- 4.1 It was agreed that the minutes of the 25th meeting of the Audit Committee should be confirmed as a true record and signed by the Chairman.

Item 5.09/31 Minutes of the private part of the Audit Committee meeting of 26 February 2009 (report ref: AUD 15/09)

- 5.1 It was agreed that the minutes of the private part of the 25th meeting of the Audit Committee should be confirmed as a true record and signed by the Chairman.

Item 6.09/32 Matters arising (report ref: AUD 16/09)

- 6.1 The Committee received a paper to note from the Executive.
- 6.2 The Committee noted the actions list as agreed at the last meeting. The Committee noted that the risk register had been amended as agreed at

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the last meeting. The amended register had approved by the Council at its meeting on 26 March 2009.

Item 7.09/33 Chairman's report

- 7.1 There were no matters to report.

Item 8.09/34 Business Improvement report (report ref: AUD 17/09)

- 8.1 The Committee received a report summarising business improvement work.
- 8.2 The Committee noted that an internal audit schedule under the Quality Management System had started for 2009-10. A number of processes had been updated.
- 8.3 The Committee noted that the British Standards Institute (BSI) had conducted an audit of Fitness to Practise and Quality Management Systems on 28 April 2009. BSI had recommended that the HPC's management system should approved to the ISO 9001:2008 standard and a new certificate had been issued.
- 8.4 The Committee noted that the Executive was working to finalise its response to the Poynter Review, which had made a number of recommendations following a high-profile loss of data in transit between HM Revenue and Customs and the National Audit Office (NAO).

Item 9.09/35 Draft annual report 2009 (report ref: AUD 18/09)

- 9.1 The Committee received a paper for discussion/approval from the Executive. A paper was tabled, summarising amendments to the draft annual report agreed by the Finance and Resources Committee on 23 June 2009.
- 9.2 The Committee noted that there was an error in note 1 to the 22-26 Stannary Street Ltd accounts, which should read that £1.84 m was owed to the HPC by 22-26 Stannary Street Ltd. The Committee noted that typographical errors would be corrected before the report was presented to the Council for consideration.
- 9.3 The Committee approved the draft annual report for 2008-9.

Action: GB (by 6 July 2009)

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Item 10.09/36 Baker Tilly (UK) LLP audit findings and letter of representation (report ref: AUD 19/09)

- 10.1 The Committee received a paper for discussion/approval from the Executive.
- 10.2 The Committee noted that the report outlined four significant items which had affected the reported results for the year:
- impairment of freehold land and buildings, following a revaluation which showed the value had decreased since 2008, as a result of the general decline of the UK property market;
 - release of a provision for taxation and National Insurance contributions relating to fees and expenses payable to Council members and partners in 2002-3;
 - a provision for Microsoft software licences to be purchased that pre-dated the 2008-9 year; and
 - an unrealised loss on investments as a result of unfavourable market movements.
- 10.3 The Committee noted details of audit and accounting issues which had been identified at the planning stage for the audit and how these had been approached and resolved.
- 10.4 The Committee noted details of audit and accounting issues which had been identified during the audit and how these had been resolved. The Committee noted that an accrual had been made for a payment in respect of legacy software licences which the Executive believed would be needed. A separate provision had been made for business rates for the 2006-7 and 2007-8 financial years.
- 10.5 The Committee noted details of internal control issues, including those identified in the 2007-8 audit, and how these had been addressed. The Committee noted that emerging variances in operating expenditure were identified through six month and nine month forecasts of the year end position.
- 10.6 The Committee noted that Baker Tilly advised that fixed assets which were fully depreciated should be removed from the register of fixed assets, if they were no longer physically held.
- 10.7 The Committee thanked Baker Tilly for their work and agreed that the audit findings were a positive reflection on the governance of HPC.
- 10.8 The Committee approved the Baker Tilly (UK) LLP audit findings report for the year ending 31 March 2009 and the letter of representation to Baker Tilly (UK) LLP.

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Item 11.09/37 National Audit Office audit findings and letter of representation (report ref: AUD 20/09)

- 11.1 The Committee received a paper for discussion/approval from the Executive.
- 11.2 The Committee noted that the NAO intended to recommend to the Comptroller and Auditor General that he should certify the accounts with an unqualified audit opinion.
- 11.3 The Committee approved the NAO report of audit findings for 2008-9 and the letter of representation to the NAO.

Action: GB (by 6 July 2009)

Item 12.09/38 International Financial Reporting Standards (IFRS) timetable and audit plans (report ref: AUD 21/09)

- 12.1 The Committee received a paper for discussion/approval from the Executive.
- 12.2 The Committee noted that, following requirements published by HM Treasury, the public sector would be moving to adopt IFRS, which would change the format of the accounts in future years. For the 2008-9 financial year, a shadow (unpublished) version of the accounts would need to comply with IFRS, alongside the published accounts which complied with UK generally accepted accounting principles.
- 12.3 The timetable in the paper provided for Baker Tilly to conduct the audit of the 2008-9 financial statements under IFRS in the week beginning 10 August 2009. The timetable also provided that the draft financial statements would be circulated to members of the restructured Audit Committee on 20 August 2009, for comments by 25 August 2009. The Executive intended to send the 2008-9 shadow accounts to the NAO by 10 September 2009, in order to meet the timetable set out by HM Treasury. The Committee noted that the timetable beyond 10 September was still subject to change and would be dependent on how quickly the NAO completed the audit under IFRS.
- 12.4 The Committee noted the timetable for preparation of the financial statements under IFRS.

Item 13.09/39 Internal audit report – Corporate governance and risk management (report ref: AUD 22/09)

- 13.1 The Committee received a paper for discussion/approval from the Executive.

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- 13.2 The Committee noted that, as part of the internal audit plan for 2008-9, PKF had reviewed governance and risk management arrangements. The area had been rated as sound and the report had not made any recommendations. The Committee noted that the review had included the plans for the transition to the restructured Council and the revised format of the risk register.
- 13.3 The Committee noted that HPC was now able to amend the rules for the constitution of the Education and Training Committee. As the restructured Education and Training Committee would be larger than the Council, HPC would need to recruit a number of members to the Education and Training Committee.
- 13.4 The Committee congratulated the Executive on the outcome of the review and agreed that the result was a credit to the Executive. The Committee agreed to accept the internal audit report.

Item 14.09/30 Internal audit report – Purchase requisition system (report ref: AUD 23/09)

- 14.1 The Committee received a paper for discussion/approval from the Executive.
- 14.2 The Committee noted that, at its last meeting, it had agreed that PKF should use the two contingency days in the 2008-9 internal audit plan to complete a follow-up review of the online purchase order system. The report had concluded that management had now addressed the key issues arising from initial implementation of the electronic purchase requisition system. Testing had indicated that the system had the necessary controls to prevent unauthorised purchase orders being raised.
- 14.3 The Committee noted that further enhancements would be made to the system over the next few months. PKF would perform more detailed compliance testing of purchase processing as part the planned review of financial systems later in 2009. As part of this work, PKF would consider the impact of any further enhancements to the system on the financial controls.
- 14.4 The Committee agreed to accept the internal audit report.

Item 15.09/31 Internal audit report – Fitness to Practise (report ref: AUD 24/09)

- 15.1 The Committee received a paper for discussion/approval from the Executive.

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- 15.2 The Committee noted that PKF was scheduled to undertake a review of the risks associated with the work of the Fitness to Practise Department as part of the internal audit workplan for 2009-10. In order to develop the scope of the planned work, the Chief Executive and Registrar and the Director of Fitness to Practise had met PKF to consider the most appropriate approach to meeting the assurance requirements of HPC. The paper contained proposals for the work to be covered by PKF.
- 15.3 The Committee noted that two specific areas for assurance had been identified:
- fitness to practise procedures from the receipt of a complaint to its consideration by a panel. It was proposed that this work would include a review of a sample of up to five recent appeals (including appeals by registrants or the Council for Healthcare Regulatory Excellence that did not reach the High Court and tribunal cases) to consider whether legal advice had been sought at all appropriate points, legal costs were effectively controlled and adequate legal insurance was in place; and
 - quality assurance regarding cases which had been closed without referral to a full hearing.
- 15.4 The Committee noted that, to date, there had been a relatively small number of appeals from the several hundred cases considered by HPC. The Committee felt that the proposed sample size might not be appropriate to give sufficient assurance.
- 15.5 The Committee agreed the audit proposals set out in the paper, with the exception that the review of the sample of up to five recent appeals should be deferred.

Action: PKF (ongoing to September 2009)

Item 16.09/32 Internal audit report – Health and safety (report ref: AUD 25/09)

- 16.1 The Committee received a paper for discussion/approval from the Executive.
- 16.2 The Committee noted that, as part of the internal audit plan for 2009-10, PKF had reviewed management arrangements over employees' health and safety. The area had been rated as satisfactory and two recommendations had been made:
- as the Council had overall responsibility for health and safety, the Council should be provided at least once annually with details of the number and type of health and safety incidents that had arisen at the HPC; and

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- the HPC should undertake a formal review of its health and safety risk assessment each year, in order to meet best practise recommended by the Health and Safety Executive.
- 16.3 The Committee noted that the Executive intended to report on health and safety incidents to the Council in the last quarter of each calendar year. The Executive intended to undertake the formal review of the health and safety risk assessment once phase 2 of the building work to 22-26 Stannary Street had been completed.
- 16.4 The Committee noted that HPC was responsible for the health and safety of any visitors to HPC's office.
- 16.5 The Committee agreed to accept the internal audit report.

Item 17.09/33 Internal audit progress report (report ref: AUD 26/09)

- 17.1 The Committee received a paper for discussion/approval from the Executive.
- 17.2 The Committee noted that internal audit work was currently running ahead of the planned timetable.

Item 18.09/34 Internal audit annual report (report ref: AUD 27/09)

- 18.1 The Committee received a paper for discussion/approval from the Executive.
- 18.2 The Committee noted that the report summarised the programme of internal audit work for 2008-9. The Committee noted that, based on the internal audit work, PKF had concluded that the overall system of internal control was satisfactory and operating effectively. The Committee noted that the Executive had implemented all of the recommendations made by PKF and there were no significant issues to be addressed.
- 18.3 The Committee noted that each area reviewed in 2008-9 had been rated as satisfactory or sound. The Committee noted that an organisation could, if it wished, work towards achieving a sound rating in every area, but this might require the commitment of significant resources.
- 18.4 The Committee agreed that PKF's conclusions were reassuring. The Committee thanked PKF for their work and thanked the Executive for ensuring a positive outcome.

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Item 19.09/35 Information Technology risk register (report ref: AUD 28/09)

- 19.1 The Committee received a paper for discussion/approval from the Executive.
- 19.2 The Committee received a presentation on the risks owned or co-owned by the Director of Information Technology and the mitigations in place. The presentation included new risks to be highlighted in the next revision of the risk register (a failure of IT continuity provision and malicious damage from unauthorised access).
- 19.3 The Committee thanked the Director of Information Technology for his presentation and agreed that it was useful and reassuring.

Item 20.09/36 Asset transfer to HPC (report ref: AUD 29/09)

- 20.1 The Committee received a paper to note from the Executive.
- 20.2 The Committee noted that, at its last meeting, it had agreed that the Executive should prepare a paper to explain the implications of winding up 22-26 Stannary Street Ltd and transferring its assets into the rest of the HPC. The paper outlined the tax implications associated with winding up 22-26 Stannary Street Ltd.
- 20.3 The Committee noted that the Executive felt that the advantages of winding up the company (e.g. simplifying statutory reporting and eliminating the need for company directors and filing company returns) would outweigh the disadvantages (losing the remaining value of capital allowance tax benefits).
- 20.4 The Committee agreed that the Executive should investigate winding up the company, including seeking reassurance (getting transaction clearance) from HM Revenue and Customs on the tax implications.

Action: GB (ongoing to 29 September 2009)

Item 21.09/37 HM Treasury report on government departments (report ref: AUD 30/09)

- 21.1 The Committee received a paper to note from the Executive.
- 21.2 The Committee noted the report by HM Treasury on significant reported fraud in government departments in 2007-8.

Item 22.09/38 National Audit Office audit plan 2008-9 (report ref: AUD 31/09)

- 22.1 The Committee received a paper to note from the Executive.

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- 22.2 The Committee noted a letter dated 30 March 2009 from the NAO to the Chief Executive and Registrar, as the Accounting Officer, confirming the NAO audit strategy for the 2008-9 accounts.

Item 23.09/39 Annual review of actions taken in 2008-9: Public meetings (report ref: AUD 32/09)

- 23.1 The Committee received a paper to note from the Executive.
- 23.2 The Committee noted the actions which had been taken in 2008-9.
- 23.3 The Committee noted that Committee members who had attended a training seminar earlier in the year could feed back their experience of the seminar to the Executive.

Item 24.09/40 Any other business

- 24.1 The President thanked Professor Lloyd, Mr Proctor and Mr Seneviratne for their work during their time on the Council and wished them well for the future.
- 24.2 The Chief Executive and Registrar thanked Committee members for their contribution to the Committee's work.
- 24.3 Professor Lloyd, Mr Proctor and Mr Seneviratne thanked the President and the Chief Executive and Registrar. They thanked the Executive for their support and wished HPC well for the future.

Item 25.09/41 Date and time of next meeting

- 25.1 The next meeting of the Committee would be held at 10.30 am on Tuesday 29 September 2009
- 25.2 Subsequent meetings would be held at 10.30 am on
- Wednesday 9 December 2009
Wednesday 24 February 2010
Thursday 24 June 2010

Resolution

The Committee agreed to adopt the following resolution:

'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;

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- (1) information relating to a registrant, former registrant or applicant for registration;
- (2) information relating to an employee or officer holder, former employee or applicant for any post or office;
- (3) 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;
- (4) negotiations or consultation concerning labour relations between the Council and its employees;
- (5) any issue relating to legal proceedings which are being contemplated or instituted by or against the Committee or the Council;
- (6) action being taken to prevent or detect crime or to prosecute offenders;
- (7) the source of information given to the Committee in confidence; or
- (8) any other matter which, in the opinion of the Chairman, is confidential or the public disclosure of which would prejudice the effective discharge of the Committee's or Council's functions.'

Summary of those matters considered whilst the public were excluded

Item 26.09/42 Meeting of the Committee with the internal and external auditors (report ref: AUD 34/09)

The Committee met with the internal and external auditors to discuss issues arising from the internal and external audits.

Item 27.09/43 Annual review of actions taken in 2008-9: Private meetings (report ref: AUD 35/09)

The Committee noted a progress report on actions agreed in private meetings held in 2008-9.

Chairman

Date

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