
Audit Committee

Public minutes of the 30th meeting of the Audit Committee held as follows:-

Date: Thursday 24 June 2010

Time: 10:30 am

Venue: Room K, Health Professions Council, Park House, 184 Kennington Park Road, London SE11 4BU

Present: Professor J Lucas (Chair)
Mr D Sagar
Mrs J Tweed

In attendance:

Mr C Bendall, Secretary to the Committee
Mr M Burgess, National Audit Office
Mr G Butler, Director of Finance
Mr J Dee, PKF (UK) LLP (items 1-9 and 11-21 inclusive)
Mr R Dunn, Head of Business Process Improvement
Mr R Kennett, Chair, Finance and Resources Committee (observer)
Ms C Milner, Financial Controller (items 1-13 inclusive)
Mr G Ross-Sampson, Director of Operations (items 1-12 inclusive)
Mr M J Seale, Chief Executive and Registrar
Dr A van der Gaag, Council Chair

Item 1.10/23 Apologies for absence

- 1.1 Apologies for absence were received from Mrs P Blackburn, Mr D Parker of the National Audit Office and Mr R Weighell of PKF (UK) LLP.

Item 2.10/24 Approval of agenda

- 2.1 The Committee approved the agenda.

Item 3.10/25 Declarations of members' interests

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

Item 4.10/26 Minutes of the Audit Committee meeting of 24 February 2010 (report ref: AUD 16/10)

- 4.1 It was agreed that the minutes of the 29th meeting of the Audit Committee should be confirmed as a true record and signed by the Chair.

Item 5.10/27 Minutes of the private part of the Audit Committee meeting of 24 February 2010 (report ref: AUD 17/10)

- 5.1 It was agreed that the minutes of the private part of the 29th meeting of the Audit Committee should be confirmed as a true record and signed by the Chair.

Item 6.10/28 Matters arising (report ref: AUD 18/10)

- 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.

Item 7.10/29 Business Process Improvement report (report ref: AUD 19/10)

- 7.1 The Committee received a report summarising business improvement work.
- 7.2 The Committee noted that the British Standards Institute (BSI) had audited HPC on 8 June 2010 and had completed the three-year audit cycle, with HPC retaining certification against the ISO 9001:2008 standard for quality management systems. The Committee noted that Lisa Clarke had been the BSI auditor since 2004 and that a new auditor would start a new three-year cycle of audits.
- 7.3 The Committee noted that some members felt that the report prepared by BSI was in a small size font and was poorly written. The Committee noted

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that the report followed a template produced by BSI, but the Executive would attempt to ensure that these concerns were addressed.

- 7.4 The Committee noted that using the quality management system had a number of benefits for HPC, including reviews of processes in response to feedback; facilitating employee training; and improving HPC's reputation. The Committee agreed that future Business Process Improvement reports should briefly summarise how BSI audits helped HPC to continuously improve.

Action: RD (ongoing)

- 7.5 The Committee noted that HPC's combined photocopier/printers had had their internal settings changed, to prevent long-term storage of documents on the internal hard drives. The hard drivers of old photocopiers had been electronically wiped and then shredded.

Item 8.10/30 Draft annual report and accounts (report ref: AUD 20/10)

- 8.1 The Committee received a paper for discussion/approval from the Executive.
- 8.2 The Committee noted that the draft annual report and accounts had been considered by the Finance and Resources Committee on 17 June 2010. The Committee noted that the report was in draft form and a number of points would be addressed, including:
- a number of dates had been left blank and would be completed as the accounts were finalised;
 - a Council cash flow schedule would be added to the consolidated cash flow statement; and
 - the values of the freehold properties shown on pages 60-62 would be updated to show the values in 2009-10.
- 8.3 The Committee noted that in 2009-10 total operating income had been £14.873 m and total operating expenditure had been £15.004 m, resulting in an operating deficit of £131,000.
- 8.4 The Committee noted that, during 2009-10, 22-26 Stannary Street Ltd had transferred the property at 22-26 Stannary Street to HPC. After this transfer, the company held no assets and therefore HPC's investment of £750,000 in the company had been impaired and written down to nil net book value. The Committee noted that the creditor inter-company balance in the HPC accounts had been written off to the income and expenditure account during the year. The Committee noted that this had been done purely for accounting purposes and did not represent an

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actual cost. In the 2010-11 financial year, the company was due to be struck off the register of companies.

- 8.5 The Committee noted that the management commentary in the draft report described several areas of uncertainty. These included forecasting the costs impact of recommendations made in the White Paper 'Trust, Assurance and Safety: The regulation of health professionals in the 21st century'; forecasting the increase in the number of fitness to practise allegations and the total cost of hearings; and forecasting the cost impacts of capital infrastructure projects. The Committee noted that this was not intended to be an exhaustive list and agreed that the report should be amended to make this clear.
- 8.6 Subject to the amendment agreed at paragraph 8.5, the Committee agreed to approve the draft annual report and accounts.

Action: GB (by 7 July 2010)

Item 9.10/31 National Audit Office audit findings and letter of representation (report ref: AUD 21/10)

- 9.1 The Committee received a tabled paper for discussion/approval from the Executive.
- 9.2 The Committee noted that the National Audit Office (NAO) was in the process of finalising the annual report and accounts, but before certifying the accounts the NAO would need to ensure that procedures were in place to correctly record deferred income and there were no significant developments affecting HPC.
- 9.3 The Committee noted details of the significant risks of material misstatement which had been identified in the audit strategy approved by the Committee on 24 February 2010. The Committee noted the audit response and the findings for each risk. It was suggested that the risk about 'closure' of the previous pension schemes should be amended, to clarify that this was a winding-up process and that HPC was only one of the organisations which were members of the scheme.
- 9.4 The Committee noted that the NetRegulate registration system was intended mainly for use by the Registration Department and did not have the function to obtain a report on deferred income for a previous period. NAO had agreed that HPC would run a report at 30 June 2010, from which NAO would select a sample for testing in order to obtain audit assurance over the £2.7 m deferred income balance.
- 9.5 The Committee noted that the draft letter of representation from the Chief Executive to the Comptroller and Auditor General would include a

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paragraph on deferred income and a paragraph on the amounts written-off in respect of 22-26 Stannary Street Ltd (see paragraph 8.4 above).

9.6 The Committee noted that the NAO had made two observations:

- the draft accounts presented for audit had contained a number of errors and omissions and internal inconsistencies. This had required a number of changes to the original draft and significant changes to subsequent drafts. The Committee noted that the management response had made the following points: layout and reporting requirements had been more onerous due to the adoption of International Financial Reporting Standards; the first time use of NAO as external auditors, with significantly different working practices; and the late decision to postpone striking off of 22-26 Stannary Street Ltd and the requirement to provide consolidated and Council accounts. The Executive and the NAO would meet to review the audit process, to focus on areas which could be improved as well as those which had gone well;
- during interim audit work on expenditure, two invoices out of a sample of 89 had been identified as authorised for payment by employees outside their delegated authorisation limits. NAO was content that, in both cases, it had been appropriate to make the payment but was concerned that the payments had been processed without appropriate authorisation being obtained. The Executive had noted this point and had taken preventative action. In the medium term, it was intended that all purchasing would be carried out through the electronic Purchase Requisition System, which would require the correct level of authorisation for each requisition.
- The Committee noted that the Executive would meet the National Audit Office to review learning points from the audit of the 2009-10 accounts.

Action: GB (by 23 September 2010)

9.7 The Committee noted that, in the audit of the 2008-9 accounts, Baker Tilly had recommended that the fixed asset register should be reviewed on a regular basis to ensure that all assets which were no longer physically held were removed from the register. The NAO had found that there were still items on the fixed asset register with nil net book values and had recommended that these should be given a new economic life if necessary. The Committee noted that most of these items were old computers which were used for spare parts. The Committee noted that the NAO's recommendation was a slightly different issue than the recommendation made by Baker Tilly.

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9.8 The Committee approved the report of audit findings for 2009-10 and the management letter.

Action: GB (by 7 July 2010)

Item 10.10/32 Tendering process for internal auditor (report ref: AUD 22/10)

- 10.1 The Committee received a paper for discussion/approval from the Executive. Mr Dee left the room for this item.
- 10.2 The Committee noted that PKF (UK) LLP had been appointed as internal auditors in 2006 and had held the appointment since then, subject to an annual review of their performance by the Audit Committee and the Committee's decision on whether to recommend PKF's reappointment to the Council. In accordance with the tendering policy, it was proposed that as PKF had held the appointment for four years, it should now be put out to tender.
- 10.3 In discussion, the Committee agreed the following amendments to the process:
- in addition to sending the invitation to tender to the internal audit firms listed in the paper, the invitation to tender should also be published on the HPC website;
 - the first criterion for awarding the contract should be amended to read 'empathy for HPC and statutory regulation of professions'; and
 - firms which were invited to tender should also be asked to indicate audit improvements and value added in other organisations; and anything of special value which the audit firm could offer to HPC.
- 10.4 The Committee agreed that the panel to short-list the firms should consist of the Chair of Council, the Chair of the Audit Committee, the Chair of the Finance and Resources Committee, the Chief Executive and the Director of Finance.
- 10.5 The Committee noted that any approaches from firms to individual members should be referred back to the tendering process.
- 10.6 Subject to the amendments above, the Committee agreed:
- (1) the proposed approach to tendering described in appendix 1 of the paper;
 - (2) the timetable in appendix 2 of the paper; and
 - (3) that, subject to members' availability, an additional meeting of the Committee should be held on 25 November 2010 or 2 December 2010, to

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receive presentations from shortlisted firms and agree a recommendation to Council on appointing an internal auditor.

Action: CB (ongoing to December 2010)

Item 11.10/33 Internal audit annual report (report ref: AUD 23/10)

- 11.1 The Committee received a paper for discussion/approval from the Executive.
- 11.2 The Committee noted that the report summarised the programme of internal audit work for 2009-10. 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 report also gave ratings of the control design in each area at the end of the financial year and details of progress on key recommendations.
- 11.3 The Committee noted that, as discussed in item 9, the Executive would take steps to remove the usage of manual purchase orders in 2010-11, in favour of the electronic Purchase Requisition System.
- 11.4 The Committee agreed that the report was a good reflection on HPC and congratulated the Executive.

Item 12.10/34 Risk register update (report ref: AUD 24/10)

- 12.1 The Committee received a paper for discussion/approval from the Executive.
- 12.2 The Committee noted that, at its meeting on 24 February 2010, it had agreed that at each meeting it should receive a paper identifying the top ten risks after mitigation and identifying any changes to the risk register.
- 12.3 The Committee noted that some members had experience of other risk registers that tended to be more dynamic documents, while risks on the HPC register tended to be rated at the same level over time and the description of mitigations tended not to change. The Committee noted that, for example, the insurance against exceptional High Court and judicial review costs had recently been reviewed, but the paper did not indicate this change or the level of cover which was in place.
- 12.4 The Committee suggested that the Executive should consider whether the register should include risks relating to a change in government policy and public perception and the costs associated with any judicial review of HPC relating to regulation of psychotherapists and counsellors.

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- 12.5 The Committee discussed whether it was appropriate for the risk register to include low-level risks. The Committee noted that the Executive felt that it was necessary to record all risks which had been identified and the mitigations in place.

Item 13.10/35 Risks owned by the Chief Executive and Registrar

- 13.1 The Committee received a verbal report on risks owned by the Chief Executive and Registrar and the mitigations in place.
- 13.2 The Committee noted that some risks were only recorded in one part of the register but would affect several sections of the register (for example, risk 2.2 – rapid increase in registrant numbers, was only recorded in the Operations section).

Item 14.10/36 Risks owned by the Chair of Council

- 14.1 The Committee received a verbal report on risks owned by the Chair of Council and the mitigations in place.
- 14.2 The Committee noted, in addition to the specific mitigations in place, the Chair felt that risks were generally addressed through a transparent approach to HPC’s work; good internal and external working relationships; and monitoring of the external environment.

The Committee noted the following papers:

Item 15.10/37 Annual review of actions taken in 2009-10: Public meetings (report ref: AUD 25/10)

Item 16.10/38 Timetable of Committee business (report ref: AUD 26/10)

Item 17.10/39 Any other business

- 17.1 There was no other business.

Item 18.10/40 Date and time of next meeting

- 18.1 The next meeting of the Committee would be held at 10.30 am on Thursday 23 September 2010.
- 18.2 Subsequent meetings would be held at 10.30 am on:

Wednesday 16 March 2011
 Thursday 23 June 2011
 Thursday 29 September 2011

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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;

- (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 Chair, 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 19.10/41 Meeting with the internal and external auditors (report ref: AUD 27/10)

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

Item 20.10/42 Annual review of actions taken in 2009-10: Private meetings (report ref: AUD 28/10)

The Committee received a review of actions arising from private meetings in 2009-10.

Item 21.10/43 Any other business

There was no other business.

Chair

Date

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