

Health Professions Council
REPORT AND FINANCIAL STATEMENTS

Year ended 31 March 2005

 National Audit Office



Health Professions Council

ADVISERS

BANKERS

National Westminster Bank Plc
Walworth Road Branch
PO Box 3171
290 Walworth Road
London
SE17 3RQ

INVESTMENT ADVISORS

Carr Sheppards Crosthwaite Limited
2 Gresham Street
London
EC2V 7QN

CHIEF EXECUTIVE AND REGISTRAR

Marc J Seale
Park House
184 Kennington Park Road
London
SE11 4BU

AUDITORS

Baker Tilly
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

SOLICITORS

Kingsley Napley
Knight's Quarter
14 Sate John's Lane
London
EC1M 4AJ

Bircham Dyson Bell
50 Broadway
London
SW1H 0BL

Health Professions Council

FOREWORD TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

The Council submits its third annual report together with the audited financial statements for the year ended 31 March 2005.

Members during the year

All Council members served throughout the year, except as shown below:

Professor Norma Brook
Mr Colin Lea

President
Vice President

Registrant members:

Miss Mary Crawford
Dr Robert Jones
Miss Morag MacKellar
Ms Joanna Manning
Mrs Clare McGartland
Mr William Munro
Dr John Old
Miss Pam Sabine
Dr Anna Van Der Gaag
Professor Diane Waller
Mr Neil Willis
Dr Alexander Yule OBE
Mr Stephen Wordsworth (appointed 16th December 2004)

Alternate members:

Mr Michael Barham
Dr Graham Beastall
Mr David Whitmore (appointed 23rd August 2004)
Ms Helen Davis
Mr Paul Frowen
Professor Rosemary Klem
Professor Carol Lloyd
Mr Ian Massey
Mrs Jacqueline Pearce
Miss Gillian Pearson
Mr Gordon Sutehall
Miss Eileen Thornton
Mr Alan Mount (appointed 16th December 2004)

Lay members

Mr John Camp
Mrs Shaheen Chaudry
Mr Robert Clegg
Ms Christine Farrell
Mrs Mary Clark-Glass (appointed 16th December 2004)
Professor John Harper
Professor Anthony Hazell
Ms Ros Levenson
Professor Jeff Lucas
Mr Keith Ross
Mrs Jackie Stark
Mrs Barbara Stuart

PRINCIPAL OFFICE

Health Professions Council
Park House
184 Kennington Park Road
London SE11 4BU

A Register of Interests in respect of all Council members is maintained. Access is available on the Council's internet site.

Health Professions Council

FOREWORD TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

Method of appointment or election of Council members:

The Council currently comprises 40 members (the President and 13 other practitioner members, 12 lay members and 13 alternate members) appointed by the Privy Council in accordance with the transitional provisions in Schedule 2 to the Health Professions Order 2001. As of May 2005, the Council consists of 13 registrant members who are appointed on being elected under the Council's election scheme, 13 lay members who are appointed by the Privy Council and 13 alternate members appointed on being elected under the Council's election scheme. The numbers of registrant and alternate members (i.e. 13) is linked to the number of professions currently 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. There must be at least one lay and registrant member for each home country within the United Kingdom.

The objectives of the Council

The Council, a body corporate, was set up on 1 April 2002 by the Health Professions Order 2001. The principal functions of the Council are to establish from time to time 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 Council 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.

Organisational structure

Four statutory committees exist to deal with the fitness to practise of professionals registered with the Council, investigating complaints and the establishment and monitoring of training and education standards: Education and Training Committee, Investigating Committee, Conduct and Competence Committee and Health Committee. In addition, five non-statutory committees have been set up: the Finance and Resources Committee (to which an Audit and a Remuneration Committee report), the Registration Committee and the Communications Committee. All committees are chaired by a member of the Council.

The Council has the following departments under a Chief Executive and Registrar: Communications, Education and Policy, Finance, Fitness to Practise, Human Resources, Information/IT, Office Services, Registration (International and Grandparenting), Registration (UK) and Secretariat.

The Professions Supplementary to Medicine Charitable Trust

The Professions Supplementary to Medicine Charitable Trust existed as a subsidiary to the Health Professions Council and income was distributed to the Charity under covenant to enable the charity to support its objectives. The charity ceased to operate on the 31 December 2004. The results for the year of the charity were £nil (2004: £100). The results of the charity and a list of its objectives are published in full in their financial statements. Copies of the full financial statements can be obtained by writing to the Principal Office of the Health Professions Council.

Form of financial statements

In accordance with Section 46(1)(b) of the Health Professions Order 2001, the Financial Statements have been prepared in a form directed 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.

Financial results

There was an operational deficit of income over expenditure of £56,031 (2004 £597,201) for the year, which is set out in these financial statements. Total recognised losses for the year totalled £56,031 (2004 £564,455). At 31 March 2005 reserves had reduced to £743,706 (2004 £1,050,853).

Health Professions Council

FOREWORD TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

By 4 August 2004, all professions were paying an increased fee of £60 per annum, which had been progressively phased in from September 2003 (previously £22). The profession of Operating Departmental Practitioners was added to the register in December 2004 and generated income of £160,490. Investment income, including gains or losses on sale of investments, totalled £127,438 (2004 £62,505).

No grants were received from the Department of Health in the year. £251,116 was withdrawn from the capital grant reserve of £606,866 to fund the depreciation of the new computerised registration system, leaving a balance of £355,750.

The balance sheet of the organisation shows fixed assets totalling £3,959,464 (2004 £4,388,822). Of this tangible fixed assets continue to be largely the freehold land and buildings and the computerised registration system. The investment portfolio is managed by stockbrokers and was worth £1,346,804 (2004 £1,203,107) at 31 March 2005. Cash at bank and on deposit rose to £2,821,797 (2004 £2,407,980). There was deferred income of £4,860,348 (2004 £5,064,591), being registration and renewal fees received in advance.

An operational surplus is anticipated for the year ending 31 March 2006, which will increase the accumulated fund.

Since the year end the Council has acquired a new property in Stannery Street. Details of this transaction can be found in note 18 of these financial statements.

Identified Misappropriation of Funds

In May 2005, the Council identified that £133,263 had been misappropriated as a result of the misuse of corporate credit cards within its finance branch. See note 4 for more detail and the impact on these financial statements.

As a result of this occurrence, the Council engaged a firm of forensic accountants to undertake an investigation of accounting practices that resulted in the irregularities and to undertake a review of related internal systems to assess their vulnerability to fraud. The Council are addressing the identified weaknesses in financial control. See Statement on Internal Control at pages 6 and 7.

Council and committee member expenses and fees

Following a review of how the HPC reimburses Council and Committee member allowance fees and expenses, it was found that the Council would have an obligation to pay the associated PAYE and National Insurance on expenses and National Insurance contribution on Attendance allowance fees paid. On review of the expenses and fees paid in the last three years, it was noted that a total of £304,000 should have been paid as PAYE and Employer's National Insurance and hence has been provided for in the year.

Better payment practice code

It is Council policy to observe the principles of the better payment practice code by settling all undisputed invoices within 30 days. By the end of the financial year this was being attained in most cases. No interest was paid during the year under the Late Payment of Commercial Debts (Interest) Act 1998.

Disabled employees and equal opportunities

The Council is an equal opportunities employer and provides employment opportunities and advancement of all suitably qualified persons regardless of age, sex, religion, ethnic origin, marital status, dependants, disability or political beliefs. The Council does not regard disablement as a bar to recruitment or advancement; selection is based upon the ability of the individual to do the job.

Health Professions Council
FOREWORD TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005

Employee involvement

The Council places considerable reliance on the involvement of its employees. It makes every effort to ensure that all staff are kept informed of the Council's plans and developments. The main channels of communication include regular all-staff meetings, fortnightly meetings of the Executive Management Team and e-mail.

Health and safety

The Council is committed to adhering to the Health and Safety at Work Act 1974 and other related UK and European requirements to ensure that employees and visitors enjoy the benefits of a safe environment.

AUDITORS

On 19 May 2005, BDO Stoy Hayward resigned as auditors. The Council appointed Baker Tilly as auditors. A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting. The Comptroller and Auditor General also examines, certifies and reports on the annual account as laid down in the Health Professions Order 2001.

By order of the Council



Professor Norma Brook
President

[Date]

5th April 2006



Marc J Seale
Chief Executive

30th March 2006

National Audit Office

Health Professions Council

STATEMENT OF RESPONSIBILITIES OF THE COUNCIL AND ITS CHIEF EXECUTIVE IN RESPECT OF THE ACCOUNTS

The accounts are prepared in accordance with the Accounts Direction from the Privy Council which requires the accounts to be prepared in accordance with HM Treasury Guidance on the keeping and preparation of accounts for non-Departmental Public Bodies.

The Health Professions Order 2001 requires that annual accounts are prepared and audited. The Council and the Chief Executive (as Accounting Officer) are responsible for the preparation and the approval of accounts. In preparing those accounts they are required to:

- observe the application accounts direction issued by the Treasury;
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable accounting standards, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Council will continue in business.

The Council and its Chief Executive are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Council and to enable them to ensure that the financial statements comply with the provision of the Health Professions Order 2001. They are also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer for the Privy Council has appointed the Chief Executive as the Accounting Officer for the Council. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper accounting records, as set out in the non-Departmental Public Bodies' Accounting Officer Memorandum issued by the Treasury and published in Government Accounting.

Health Professions Council

ACCOUNTING OFFICER'S STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, whilst safeguarding the Council's assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Privy Council.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve, policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Capacity to handle risk

The Council vests the responsibility of its risk management process in its Executive Management Team, which is responsible for formulating methods of mitigating identified risks and for formulating a business continuity plan. The Executive Management Team are responsible for ensuring that employees are fully briefed and trained where necessary.

The risk and control framework

Current risks have been evaluated and appraised as to possibility of occurrence. This is an ongoing process and the Finance and Resources Committee reviews the risk assessment twice a year. Where risks are considered to be high or medium risks, the organisation strives to find ways of reducing the risks.

It is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of accountability. In particular, it includes:

- Consideration of the Council's strategic objectives in reacting to change brought about by UK legislation and other external pressures;
- Reviewing operating procedures particularly with regard to having the right infrastructure in place, including employees being properly briefed and trained in order to maintain and improve service standards;
- Ensuring that corporate governance best practice, as appropriate to the Council, is maintained and updated to meet changing requirements;
- Comprehensive budgeting and forecasting systems with an annual budget and an ongoing 5-year plan which is reviewed and agreed by the Council;
- Regular reviews by the Finance and Resources Committee of monthly and annual financial performance against forecasts;
- Setting targets to measure financial and other performance, including individual goals and objectives for departments and managers;
- Clearly defined procedures for the authorisation and control of revenue and expenditure;
- Operating within the dictates of the Standing Financial Instructions and Financial Procedures Manual;
- Clear documentation of all operating procedures has resulted in ISO accreditation.

Health Professions Council

ACCOUNTING OFFICER'S STATEMENT ON INTERNAL CONTROL

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal and external auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports.

Significant internal control problem

A theft of £133,200 by HPC's Finance Director, brought to my attention through the whistle-blowing procedures, has cast doubt over the adequacy of the risk and internal financial control framework operated by the Council. As a result of the occurrence, the Council and I sought the resignation of the Council's internal and company external auditors and I immediately commissioned an independent investigation into the cause of the criminal activities, together with a review of the robustness of internal financial systems. The Council and I have received two reports from the review team and we are completing the process of implementing the recommendations. I have appointed a Finance Manager to oversee the implementation of the recommendations and to update and develop financial processes.

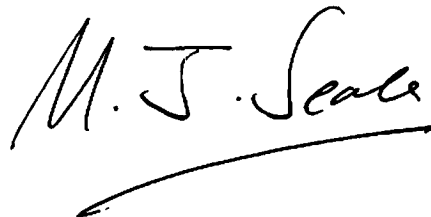
Council and committee member expenses and fees

Following a review of how the HPC reimburses Council and Committee member allowance fees and expenses, it was found that the Council would have an obligation to pay the associated PAYE and National Insurance on expenses and National Insurance contribution on Attendance allowance fees paid. On review of the expenses and fees paid in the last three years, it was noted that a total of £304,000 should have been paid as PAYE and Employer's National Insurance and hence has been provided for in the year.

To augment the skills of the Audit and Finance & Resources Committees, two senior, external accountants have been appointed, one to each Committee, to help critically review the operations of the financial employees and auditors. The Council is also appointing a new firm of Internal Auditors.

Marc J Seale
Chief Executive and Registrar
Accounting Officer

Date



30th March 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEALTH PROFESSIONS COUNCIL

We have audited the financial statements on pages 13 to 27.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

We certify that we have examined the financial statements on pages 13 to 27 in accordance with Section 46(2) of the Health Professions Order 2001. These financial statements have been prepared under the historic cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 17 and 18.

Respective responsibilities of the Council, the Chief Executive and the Auditor

As described on page 5, the Council and the Chief Executive are responsible for the preparation of the financial statements in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder, and for ensuring the regularity of financial transactions. The Council and its Chief Executive are also responsible for the preparation of the other contents of the Annual Report. Our responsibilities, as independent auditors, are established by statute and we have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Section 46(1)(b) of the Health Professions Order 2001 and Privy Council directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the statement on pages 6 and 7 reflects the Council's compliance with Treasury's guidance on the Statement on Internal Control. We report if it does not meet the requirements specified by the Treasury or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming our opinion we have also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEALTH PROFESSIONS COUNCIL

Qualified opinion because of irregular expenditure arising from the misappropriation of funds

As disclosed in Note 4 of the financial statements, the Income and Expenditure account includes the write off of cash losses to expenditure of £119,636 arising from the misuse of corporate credit cards.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Health Professions Council at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with Article 46(1)(b) of the Health Professions Order 2001 and directions made thereunder by the Privy Council; and
- except for the write off of expenditure arising from the misappropriation of funds, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Baker Tilly

BAKER TILLY
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

5 APRIL 2006

HEALTH PROFESSIONS COUNCIL

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 13 to 27 in accordance with Article 46(5) of the Health Professions Order 2001. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 17 and 18.

Respective responsibilities of the Council, the Chief Executive and the Auditor

As described on page 6, the Council and its Chief Executive are responsible for the preparation of the financial statements in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder, and for ensuring the regularity of financial transactions. The Council and the Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Article 46(1)(b) of the Health Professions Order 2001 and Privy Council directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 and 8 reflects the Council's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions

conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion because of irregular expenditure arising from the misappropriation of funds

As disclosed in Note 4 of the financial statements, the Income and Expenditure account includes the write off of cash losses to expenditure of £119,636 arising from the misuse of corporate credit cards.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Health Professions Council at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with Article 46(1)(b) of the Health Professions Order 2001 and directions made thereunder by the Privy Council; and
- except for the write off of expenditure arising from the misappropriation of funds, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Details of the irregular expenditure are set out in my Report on pages 12a to 12c.

John Bourn

John Bourn
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Date 12th April 2006.



HEALTH PROFESSIONS COUNCIL

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Introduction

1. The Health Professions Council (the Council) is an independent, United Kingdom-wide statutory health regulator, which sets standards of professional training, conduct and performance for thirteen health professions.

2. The Council's financial statements reflect the income generated from registrants' fees received from members of the thirteen professions and the Council's operating costs. In 2004-05, the Council received income of £10,037,000 and spent some £10,367,000.

Audit Opinion

3. Under Article 46(2) of the Health Professions Order 2001, the annual accounts are audited by persons appointed by the Council. In addition, under Article 46(5), I am appointed to examine, certify and report on the Council's annual accounts which are then, under Article 45(7), laid by the Privy Council before each House of Parliament.

4. I have qualified my opinion on the financial statements because of material irregular expenditure recorded in the income and expenditure account arising from the misappropriation of funds connected with the misuse of the Council's corporate credit cards.

5. This Report sets out the circumstances which have led me to qualify the Council's 2004-05 financial statements.

Financial Irregularities within the Council's Finance Department

6. As outlined in Note 4 to the accounts, the Council has written off approximately £119,700 in relation to a misappropriation of funds, which mostly occurred during 2004-05. A further £13,600 in relation to misappropriations during 2005-06 will be written off in the 2005-06 accounts.

7. On 9th May 2005, allegations of financial irregularities were brought to the attention of the Chief Executive by a member of staff. The Chief Executive immediately suspended the accused official and commissioned a firm of accountants to conduct an independent investigation into these allegations.

8. Their review identified that the Director of Finance had systematically misappropriated some £133,300 of Council funds for his personal gain between January 2003 and May 2005: £1,800 in 2002-03; £36,400 in 2003-04; £81,500 in 2004-05 and £13,600 in 2005-06. This was done through misuse of the Council's credit cards

(£129,500), cashing Council cheques made out to cash (£3,000), and private travel charged to the Council's travel account (£800).

9. Their review also highlighted a number of deficiencies in the Council's financial control environment.

The Council's Financial Control Environment

10. Most of the misappropriation was through the misuse of the Council's corporate credit card. The external review found that the Director of Finance had used his corporate credit card to make purchases for his personal benefit, and that of a junior member of staff to make regular withdrawals of cash.

11. On receipt of each monthly credit card statement, he exploited his senior position and insisted that junior staff separate out his personal expenditure from bona fide Council transactions and record these in a miscellaneous debtors account. He then concealed his growing indebtedness at the year-end by writing personal cheques to the Council to clear the debt. This had the illusory effect of reducing debtors and increasing the cash balance in the Council's ledgers at the end of the financial year. However, within the first few days of April each year, he stopped his cheques and this action reinstated the accumulating debt in the Council's accounts.

12. The Council's policy requires all corporate credit card expenditure to be authorised by the line manager. For the irregular transactions made using the junior member of staff's credit card, as the line manager, the Director of Finance was able to authorise these without the need for further review or explanation. He only submitted expense claims for bona fide business expenditure to the Chief Executive for authorisation. As the monthly credit card statements were not scrutinised by senior management, the scale of the Director of Finance's personal expenditure on his corporate credit card went undetected.

13. The Chief Executive also asked the external team to review all internal systems for their vulnerability for fraud. Their review, issued in June 2005, listed 68 control weaknesses, of which 34 were classified as 'significant' and needing immediate attention and 24 were 'important' and requiring attention within six months. The team undertook a follow-up review in September 2005 to establish the extent to which their former recommendations had been implemented. They found that a majority of 'significant' and 'important' areas of weakness had been addressed and concluded that management controls had significantly improved over the short period of time.

Action Taken by the Council

14. The Council immediately suspended the Director of Finance from his position and informed the police and the National Audit Office. The individual resigned from the Council on 19th May 2005 and, having pleaded guilty, was sentenced on 1st December to two years imprisonment.

15. The Council also received the resignation of its internal auditors and its own appointed external auditor – who were appointed by the Council from the same firm of accountants. The Council are in the process of appointing a new firm of internal auditors

and have appointed a separate firm of external auditors who, in turn, have audited the 2004-05 financial statements.

16. A new Head of Finance has been appointed and the Council have strengthened both its Finance and Resources Committee and Audit Committee by appointing persons with substantial financial experience to help them be more effective in critically reviewing and managing on behalf of the wider Council the work of the financial staff and auditors.

Conclusion

17. My staff have liaised with the Council, its committees, and the Chief Executive since the fraud occurred and have monitored subsequent developments. They have also examined the outcome of the external investigation report and systems' reviews. We are satisfied that:

- the Chief Executive took prompt and appropriate action when the misappropriation became known;
- the circumstances have been adequately investigated and we agree with the external review team's conclusion that the misappropriation is limited to the sums and circumstances outlined above;
- the Council has taken, or proposes to take, appropriate remedial action to strengthen its internal financial controls and governance processes;
- it has arrangements in place for the segregation of the roles of the internal and external auditors; and
- the Council has taken appropriate action to augment the financial skills of members of the Finance and Resources Committee and the Audit Committee.



John Bourn
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Date 12th April 2006.

Health Professions Council
INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 March 2005

	Notes	2005 £	2004 £
INCOME			
Fee income		507,598	318,479
Registration fees		103,132	86,650
Readmission fees		8,124,425	4,288,921
Renewal fees		1,051,343	889,975
Pre-registration fees			
Total fee income	1	9,786,498	5,584,025
Grant income - Department of Health		251,117	1,381,149
TOTAL INCOME		10,037,615	6,965,174
EXPENDITURE			
Payroll costs	3	2,744,387	2,323,116
Staff travelling and subsistence		131,688	91,279
Council and committee expenses		642,680	382,977
Property services		336,400	1,033,841
Office services		700,508	743,145
Computer services		1,159,260	552,236
Partners (assessors and other professionals)		1,331,062	955,016
Legal expenses		1,191,717	938,797
Communications		926,869	608,882
Consultation events		455,899	-
Other expenses		746,655	669,786
TOTAL EXPENDITURE	4	10,367,125	8,299,075
Deficit for the year after operational costs		(329,510)	(1,333,901)
Investment income	2	133,912	61,670
(Loss)/gain on disposal of investments		(6,474)	835
Write back of unrealised gains on investments	8	150,744	254,941
Write back of surplus on revaluation of freehold land and buildings	9	-	419,254
Notional costs	5	(28,328)	(39,751)
Deficit after notional costs and investment income		(79,656)	(636,952)
Reversal of notional costs		28,328	39,751
DEFICIT ON ORDINARY ACTIVITY BEFORE TAXATION	6	(51,328)	(597,201)
Taxation	7	(4,703)	-
RETAINED DEFICIT FOR THE YEAR		(56,031)	(597,201)

All amounts relate to continuing activities.

The notes on pages 17 to 27 form part of these financial statements.

Health Professions Council

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2005

	Note	2005 £	2004 £
DEFICIT FOR THE YEAR		(56,031)	(597,201)
Surplus on revaluation of freehold land and buildings	9	-	32,746
TOTAL RECOGNISED LOSSES FOR THE YEAR		<u>(56,031)</u>	<u>(564,455)</u>

Health Professions Council

BALANCE SHEET

31 March 2005

	Notes	2005 £	2004 £
FIXED ASSETS			
Tangible assets	9	2,612,660	3,185,715
Investments	8	1,346,804	1,203,107
		<u>3,959,464</u>	<u>4,388,822</u>
CURRENT ASSETS			
Debtors	10	185,113	193,013
Cash at bank and in hand		2,821,797	2,407,980
		<u>3,006,910</u>	<u>2,600,993</u>
CREDITORS: Amounts falling due within one year	11	1,362,320	874,371
DEFERRED INCOME	12	4,860,348	5,064,591
		<u>6,222,668</u>	<u>5,938,962</u>
NET CURRENT LIABILITIES		(3,215,758)	(3,337,969)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>743,706</u>	<u>1,050,853</u>
Represented by:			
Government Grant Reserve	13	355,750	606,866
Accumulated fund			
Revaluation reserves	14	32,746	32,746
General funds	14	355,210	411,241
		<u>743,706</u>	<u>1,050,853</u>

Approved on behalf of the Council on 30 MARCH 2006
and signed on its behalf:

PROFESSOR NORMA BROOK
President

MARC J SEALE
Chief Executive and Registrar
Accounting Officer

The notes on pages 17 to 27 form part of these financial statements.

Health Professions Council

CASH FLOW STATEMENT

for the year ended 31 March 2005

	Notes	2005 £	2004 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	19a	378,175	1,764,507
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received	2	79,613	3,490
Income from investments	2	54,299	58,180
		<u>133,912</u>	<u>61,670</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of tangible fixed assets	9	(98,843)	(513,618)
Sale of tangible fixed assets	9	-	8,012
Purchase of investments	8	(196,493)	(51,600)
Sale of investments	8	197,066	426,416
		<u>(98,270)</u>	<u>(130,790)</u>
NET CASH OUTFLOW FOR CAPITAL EXPENDITURE AND SERVICING OF FINANCE			
		<u>413,817</u>	<u>1,695,387</u>
INCREASE IN CASH			

The notes on pages 17 to 27 form part of these financial statements.

Health Professions Council

ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs and in accordance with applicable accounting standards.

CONSOLIDATION

Until 31 December 2004 the financial statements consolidated the financial position and result of the Council and its wholly-owned subsidiary, the Professions Supplementary to Medicine Charitable Trust. The Trust ceased to operate on 31st December 2004. The income and expenditure account provided on page 13 is for the Council alone. The financial results of the Charitable Trust are shown in note 16.

TANGIBLE ASSETS

Individual assets costing £1,000 or more are capitalised and subsequently depreciated. Items costing less than £1,000 are written off to the income and expenditure account in the year of acquisition.

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets over their expected useful lives. It is calculated at the following rates:

Freehold buildings	- 2% per annum (over 50 years)
Office furniture and equipment	- 25% per annum (over 4 years)
Computer equipment	- 25% per annum (over 4 years)
Registration system software	- 33% per annum (over 3 years)

Freehold properties are revalued in accordance with FRS 15 with a full valuation carried by professionally qualified Chartered Surveyors on an existing use open market value basis, in accordance with the Statement of Assets Valuation Practice No. 4 and the Guidance Notes of the Royal Institution of Chartered Surveyors, every five years.

GRANT INCOME AND EXPENDITURE

All revenue grants receivable are included in the income and expenditure account when they are received. All costs relating to the refurbishment of freehold buildings have been expensed in the income and expenditure account on the basis that these costs do not necessarily enhance the value of the properties. Grants received in respect of the registration system software have been taken to the Capital Grant Reserve, which is applied over the useful life of the software.

FEE INCOME

Fee income (comprising registration fees, readmission fees, renewal fees and pre-registration fees) is recognised on an accruals basis according to the period to which it relates.

INVESTMENT INCOME

Bank deposit interest is credited on a received basis. Dividends and interest on fixed interest securities are recognised when due.

INVESTMENTS

Investments are listed on a recognised stock exchange and are included on the balance sheet at market value.

Health Professions Council

ACCOUNTING POLICIES

COMPUTER SOFTWARE

Computer software, other than the registration system software, is charged to the Income and Expenditure Account in the year of acquisition.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

PENSIONS

Contributions to the FlexiPlan defined contribution pension scheme (see Note 15) are charged to the income and expenditure accounts in the year in which they become payable. The assets of the scheme are held separately from those of the Council in an independently administered fund.

NOTIONAL COSTS

In accordance with Treasury guidance, a notional charge for the cost of capital employed in the period is included in the Income and Expenditure Account along with an equivalent reversing notional income to finance the charge. The charge for the period is calculated using the Treasury's discount rate of 3.5% applied to the average value of capital employed during the period.

VALUE ADDED TAX

The Council is not registered for value added tax. All costs incurred are expensed in the income and expenditure account.

Health Professions Council
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005

1	FEE INCOME (by profession)	2005 £	2004 £
	Arts Therapists	110,553	50,212
	Biomedical Scientists	1,322,501	815,752
	Chiropodists	820,187	530,568
	Clinical Scientists	256,448	167,050
	Dieticians	329,487	168,557
	Occupational Therapists	1,625,647	1,063,266
	Operating Department Practitioners	160,490	-
	Orthoptists	74,715	56,677
	Paramedics	614,343	451,332
	Physiotherapists	2,350,156	1,105,885
	Prosthetists and Orthotists	48,049	34,299
	Radiographers	1,437,449	702,022
	Speech and Language Therapists	636,473	438,405
		<u>9,786,498</u>	<u>5,584,025</u>
2	INVESTMENT INCOME	2005 £	2004 £
	Bank deposit interest	75,564	1,998
	Investment deposit interest	4,049	1,492
	Fixed interest securities	10,237	12,852
	Quoted UK equities	44,062	45,328
		<u>133,912</u>	<u>61,670</u>
3	PAYROLL COSTS	2005 £	2004 £
	Wages and salaries	1,797,115	1,546,351
	Social security costs	199,150	169,436
	Pension costs	194,060	197,942
	Other payroll expense including recruitment and temporary staff	554,062	409,387
		<u>2,744,387</u>	<u>2,323,116</u>

Health Professions Council

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

3 PAYROLL COSTS (continued)

The average number of employees (full time equivalents) during the year was as follows:

	2005	2004
Chief Executive's Department	3	2
Communications	6	4
Education and Policy	5	4
Finance	4	4
Fitness to Practise	5	3
Human Resources	3	2
Information/IT	5	1
Office Services	4	4
Project Management	0	1
Registration (International and Grandparenting)	12	13
Registration (UK)	15	14
Secretariat	4	3
	66	55
	66	55

Council members do not receive any remuneration for their services but receive an attendance allowance. Such allowances, totalling £173,907 (2004 - £199,888), were paid to 35 (2004 - 29) members during the year.

The Chief Executive and Registrar's total remuneration was £134,480 (2004: £127,550). This includes pension contributions paid by the Council of £21,186 (2004: £20,019). The Chief Executive and Registrar is an ordinary member of the FlexiPlan 1 Pension Scheme (see note 15) and his total accrued target pension is £5,359 per annum (2004: £3,366 per annum). His total pensions capital is £62,232 (2004: £38,999) His age was 51.

No other senior staff salaries are disclosed as decision making is vested in the Council members.

4 EXPENDITURE	Staff costs	Other costs	2005	2004
	£	£	£	£
President	-	46,230	46,230	41,744
Council	-	502,627	502,627	-
Secretariat	134,013	36,225	170,238	238,373
Chief Executive and Registrar	212,221	28,585	240,806	202,125
Education and Policy	319,552	628,864	948,416	596,401
Registration	852,733	722,352	1,575,085	1,318,984
Directors	-	-	-	379,232
IT Department	256,682	1,221,327	1,478,009	817,022
Finance	170,807	336,732	637,539	331,339
Administration	145,745	1,091,421	1,237,166	1,977,516
Fitness to Practise	202,172	1,755,927	1,958,099	1,176,542
Human Resources	240,971	280,546	521,517	430,365
Communications	209,491	971,902	1,181,393	789,432
	2,744,387	7,622,738	10,367,125	8,299,075
	2,744,387	7,622,738	10,367,125	8,299,075

Health Professions Council

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

4 EXPENDITURE (continued)

Included in other finance costs is £119,636 in relation to the misappropriation of funds which occurred in the year. A further £13,627 was misappropriated post year end and will be written off in 2005/2006.

Professional fees post year incurred as a result of the fraud have amounted to £117,500 which will be expensed in 2005/2006. Details of the misappropriation are provided in the foreword to the financial statements.

Included in Council expenditure is £304,000 in relation to the provision of PAYE and National Insurance payable on council members' reimbursed expenses and Employer's National Insurance on Council members' attendance allowance fees.

5	NOTIONAL COSTS	2005 £	2004 £
	Cost of Capital	28,328	39,751

Notional cost of capital is calculated as 3.5% (2004: 3.5%) of the average capital employed by the Council in the year.

6	OPERATING DEFICIT	2005 £	2004 £
	This is stated after charging:		
	Depreciation	671,898	463,799
	Auditors' remuneration		
	- External audit	41,865	24,525
	- Internal audit	-	7,535
	Taxation	-	11,266
	Other	117,500	12,750

7	TAXATION	2005 £	2004 £
	Current tax:		
	UK corporation tax on profits of the period	4,703	-
	Total current tax	4,703	-
	Deferred taxation:		
	Origination and reversal of timing differences	-	-
	Total deferred tax	-	-
	Tax on profit on ordinary activities	4,703	-

Health Professions Council

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

7	TAXATION (continued)	2005 £	2004 £
	Factors affecting tax charge for period:		
	The tax assessed for the period is lower/(higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:		
	(Deficit) on ordinary activities before tax	(51,328)	(597,201)
	Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK 30% (2004: 30%)	(15,398)	(179,160)
	Effect of:		
	Non-taxable income	(1,914,643)	(1,331,995)
	Write back of unrealised gains on investments not taxed	(28,641)	(48,439)
	Write back of surplus on revaluation of freehold land and buildings not taxed	-	(79,658)
	Loss/(gains) on disposal of investments	1,230	(159)
	Expenses not deductible for tax purposes	1,963,114	1,581,684
	Unutilised charges on income	-	57,727
	Benefits of small companies starting rate relief	(959)	-
	Current tax charge for the period	<u>4,703</u>	<u>-</u>

8	INVESTMENTS	2005 £	2004 £
	Listed as at 1 April 2004	1,203,107	1,322,147
	Additions	196,493	51,600
	Disposals	(203,540)	(425,581)
		<u>1,196,060</u>	<u>948,166</u>
	Unrealised gains on investments	150,744	254,941
	At 31 March 2005	<u>1,346,804</u>	<u>1,203,107</u>
	Historical cost value at 31 March 2005	<u>1,277,756</u>	<u>1,287,053</u>

All listed investments are managed on a pooled basis by a professional manager on behalf of the Council and UK held investments are listed on the London Stock Exchange. No investments represent more than 5% of the total investment portfolio valuation.

Health Professions Council

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

9 TANGIBLE FIXED ASSETS

	Freehold properties £	Office furniture and equipment £	Computer equipment £	Registration system software £	Total £
Cost or valuation					
At 1 April 2004	1,700,000	326,636	508,204	1,412,195	3,947,035
Additions	-	43,104	55,739	-	98,843
At 31 March 2005	<u>1,700,000</u>	<u>369,740</u>	<u>563,943</u>	<u>1,412,195</u>	<u>4,045,878</u>
Depreciation					
At 1 April 2004	8,000	126,797	351,930	274,593	761,320
Charge for the year	24,000	85,869	91,297	470,732	671,898
At 31 March 2005	<u>32,000</u>	<u>212,666</u>	<u>443,227</u>	<u>745,325</u>	<u>1,433,218</u>
Net book value					
At 31 March 2005	<u>1,668,000</u>	<u>157,074</u>	<u>120,716</u>	<u>666,870</u>	<u>2,612,660</u>
At 31 March 2004	<u>1,692,000</u>	<u>199,839</u>	<u>156,274</u>	<u>1,137,602</u>	<u>3,185,715</u>

The freehold property at Park House, 184 Kennington Park Road, London, SE11 4BU and also comprising 20 Stannary Street was valued at 5 December 2003 on the basis of Existing Use Value as defined by the Royal Institution of Chartered Surveyors, Appraisal and Valuation Standards, at the sum of £1,700,000. The valuation was prepared by Drivers Jonas, Chartered Surveyors, of Grosvenor Street, London who acted as independent valuers.

The historic cost of the property was £1,659,254 (2004: £1,659,254) and accumulated depreciation based on cost was £278,893 (2004: £245,708).

Although it is the Council's policy to apply Modified Historic Cost Accounting in line with our Accounts Direction, full Modified Historic Cost Accounting has not been implemented again this year. This is due to the fact that the effect of revaluing assets will make no material difference to the results for the year or the financial position at the year end. This may not be the case in the longer term and this premise will be reassessed annually.

10 DEBTORS	2005 £	2004 £
Other debtors	27,182	76,083
Prepayments	157,931	116,930
	<u>185,113</u>	<u>193,013</u>

All amounts shown under debtors fall due for payment within one year.

Health Professions Council
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005

11	CREDITORS: Amounts falling due within one year	2005	2004
		£	£
	Corporation tax	4,703	-
	Other taxation and social security	363,252	53,333
	Other creditors	742,668	534,436
	Accruals	251,698	286,602
		<u>1,362,320</u>	<u>874,371</u>

During the year the overdraft facility of £1,000,000 secured on the freehold land and buildings was relinquished and the charge removed.

12	DEFERRED INCOME	2005	2004
		£	£
	Registration fees in advance	97,104	80,667
	Renewal fees in advance	4,763,244	4,983,924
		<u>4,860,348</u>	<u>5,064,591</u>

13	GOVERNMENT GRANT RESERVE	2005	2004
		£	£
	At 1 March 2004		
	Applied in the year	606,866	753,353
		(251,116)	(146,487)
	At 31 March 2005	<u>355,750</u>	<u>606,866</u>

14	ACCUMULATED FUND	Revaluation reserve	General funds	Total
		£	£	£
	At 1 March 2004	32,746	411,241	443,987
	Surplus for the year	-	(56,031)	(56,031)
	At 31 March 2005	<u>32,746</u>	<u>355,210</u>	<u>387,956</u>

National Audit Office

Health Professions Council

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

15 PENSION FUNDING ARRANGEMENTS

The Council has pension obligations to both present and former staff. These are met by the operation of The Council for Professions Supplementary to Medicine Retirement Benefits Scheme and contributions to the FlexiPlan 1 Scheme operated by FPS Trustee Company Limited ("FlexiPlan").

The first scheme was closed in June 1995 and has no active members. On 28 March 2002 all members of the Scheme were served with a statutory notice of closure. The benefits are secured by insurance policies issued by The Scottish Life Assurance Society. The last actuarial valuation as at 23 April 2001, showed that the assets of the fund were sufficient to meet the future requirements of the scheme.

FlexiPlan is a money purchase scheme which offers a targeted final salary benefit. It is a multi-employer scheme and, as such, is exempt from the full disclosure requirements of FRS 17 as each employer is unable to identify its share of the underlying assets and liabilities.

16 THE PROFESSIONS SUPPLEMENTARY TO MEDICINE CHARITABLE TRUST

The Council controlled the Professions Supplementary to Medicine Charitable Trust which is Registered Charity No. 313795 and which operated at the same premises as the Council until it ceased operating on 31 December 2004. The Trust's financial results for the period to 31 March 2005 are as follows:

STATEMENT OF FINANCIAL ACTIVITIES	2005 £	2004 £
Incoming Resources		
Resources Expended	64,655	302,171
	(64,755)	(302,171)
Net Outgoing Resources for the year		
	(100)	-
BALANCE SHEET		
Current assets	-	100
Accumulated fund	-	100

17 RELATED PARTY TRANSACTIONS

The Council's Sponsoring Department is the Privy Council, with whom no transactions took place. The main entity with which the Council has dealt during the year was the Department of Health. Grants were received from the Department of Health in 2003 for the development of the Council's registration system. The system was capitalised and depreciated over 3 years. The grant of £251,117 (£146,485) represents the amount released from the balance sheet during the year. There have been no transactions with Council members except as disclosed in note 3.

18 POST BALANCE SHEET EVENTS

On 31 May 2005, the Council acquired a new property in Stannery Street for £930,000. The property was purchased by acquiring the entire issued share capital of Purbrook & Eyres Limited. Consideration for the property was partly in cash and partly via a £500,000 loan taken out with National Westminster Bank plc. The loan is repayable over 47 equal monthly instalments. Interest on the loan is charged at 2% above the Bank's Base Rate.

Health Professions Council
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2005

19 a	RECONCILIATION OF DEFICIT OF EXPENDITURE OVER INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES	2005 £	2004 £
	Deficit of expenditure over income	(329,510)	(1,333,901)
	Depreciation of tangible fixed assets	671,898	463,799
	Grant income released from reserves	(251,116)	(146,487)
	Decrease in debtors	7,900	614,334
	Increase/(decrease) in creditors	483,246	(659,266)
	(Decrease)/increase in deferred income	(204,243)	2,826,028
	NET CASH INFLOW FROM OPERATING ACTIVITIES	378,175	1,764,507

19 b	RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	2005 £	2004 £
	Increase in cash in the year	413,817	1,695,387
	Movement in net funds in the year	413,817	1,695,387
	Opening net funds	2,407,980	712,593
	Closing net funds	2,821,797	2,407,980

19 c	ANALYSIS OF FUNDS	Opening balance £	Cash Flow £	Closing balance £
	Cash at bank and on deposit	2,407,980	413,817	2,821,797

20 FRS 13 FINANCIAL INSTRUMENTS

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which it is financed, the Health Professions Council is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies.

Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Council in undertaking its activities.

As permitted by FRS13, debtors and creditors which mature or become payable within twelve months from the balance sheet date have been omitted from the currency profile.

CURRENCY AND LIQUIDITY RISK

The Council currently has no borrowings and relies primarily on fees and Department of Health grants for its cash requirements and is therefore not exposed to liquidity risk. All material assets and liabilities are denominated in sterling, so it is not exposed to currency risk.

Health Professions Council

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

20 FRS 13 FINANCIAL INSTRUMENTS (continued)

INTEREST RATE RISK

Registrants pay fees in advance for up to two years. Surplus funds are held as follows to maximise returns:

Business reserve - all unused funds are transferred from the Council's current account to business reserve account every night to maximise interest.

Money market - surplus funds are held for fixed short-term periods earning a fixed interest rate.

Investment fund - at 31 March 2005 fixed interest investments accounted for 16% (2004: 23%) of the fund and generate a yield of 6.1% (2004: 6.5%). The remainder of the fund is invested in equities, where there is always a known risk of diminution in value.

The Finance and Resources Committee reviews interest rates on potential borrowings although during the year the Council was not exposed to significant interest rate risk.