

The Health Professions Council

Chief Executive and Registrar: Mr Marc Seale

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Minutes of the 25th meeting of the Audit Committee held on **Thursday 26 February 2009** at Park House, 184 Kennington Park Road, London, SE11 4BU.

Present: Professor G Smith (Vice-Chairman)
Mr R Kennett
Professor C Lloyd
Mr J Seneviratne

In attendance:

Mr C Bendall, Secretary to the Committee
Mr D Blacher, Baker Tilly UK Audit LLP
Mr J Bracken, HPC's solicitor
Mr J Dee, PKF (UK) LLP
Mr R Dunn, Head of Business Improvement
Mr S Ecroyd, National Audit Office
Mr S Leicester, Director of Finance
Ms C Milner, Financial Controller
Mr D Ross (observer on behalf of the Finance and Resources Committee)
Mr G Ross-Sampson, Director of Operations
Mr M J Seale, Chief Executive and Registrar
Dr A van der Gaag, President

Item 1.09/1 Apologies for absence

- 1.1 Apologies for absence were received from Mr P Acres (Chairman), Mr D Parker (National Audit Office) and Mr D Proctor. The Committee noted that, in the Chairman's absence, the Vice-Chairman would chair the meeting.
- 1.2 The Vice-Chairman welcomed Mr Seneviratne to his first meeting of the Committee

Item 2.09/2 Approval of agenda

- 2.1 The Committee approved the agenda, subject to receiving a verbal report from the Chief Executive and Registrar as item 8.

Item 3.09/3 Declarations of members' interests

- 3.1 Members had no interests to declare.

Item 4.09/4 Minutes of the Audit Committee meeting held on 10 December 2009

- 4.1 It was agreed that the minutes of the 24th meeting of the Audit Committee should be confirmed as a true record and signed by the Vice-Chairman, subject to an amendment that the second sentence in paragraph 9.6 should read: 'The matter would be referred to the Finance and Resources Committee who should be provided with a copy of the report and recommendation by PKF for their information.'

Item 5.09/5 Matters arising

- 5.1 The Committee received a paper to note from the Executive.
- 5.2 The Committee noted the actions list as agreed at the last meeting.
- 5.3 The Committee noted that the draft legislation providing for restructuring of the Council and statutory regulation of practitioner psychologists was expected to be laid in the Westminster Parliament in the week beginning 2 March 2009. This could result in the opening of the register for practitioner psychologists being delayed until September 2009. This would reduce the budgeted income for the 2009-10 financial year.
- 5.4 The Committee noted that the Department of Health had begun its consultation on the restructuring of the Council. The Committee also noted that the Appointments Commission had begun the recruitment process for the Chair and members of the restructured Council. The deadline for applications had been 13 February 2009 and the Commission was undertaking the short-listing process.
- 5.5 The Committee noted that each manager responsible for risks identified on the risk register would present a review of their respective risks and mitigation plans to the Committee over the course of the year. Different managers would make presentations at each meeting of the Committee.

Item 6.09/6 Chairman's report

- 6.1 There was no Chairman's report as the Chairman was absent.

Item 7.09/7 Business Improvement report

- 7.1 The Committee received a report summarising business improvement work.
- 7.2 The Committee noted that the Executive was undertaking ongoing work on information and data security at HPC, in the light of the Poynter Review on a significant loss of data by HM Revenue and Customs in 2007.
- 7.3 The Committee noted that several internal audits under the quality management system would be undertaken over the next 2-3 months. The areas to be examined would be building security; Communications; and Information Technology.
- 7.4 The Committee noted that the Registration Department had participated in a disaster recovery test in late January 2009, which had been successful. The business continuity plan had been partly implemented on 2 February 2009, when bad weather had resulted in the postponement of two fitness to practise hearings and another meeting.

Item 8.09/8 External audit arrangements

- 8.1 The Committee received a verbal report from the Chief Executive and Registrar.
- 8.2 The Committee noted that, following discussion at its private meeting on 10 December 2008, the National Audit Office (NAO) had confirmed that it was now able to act as an auditor under the Companies Act 2006. Mr Bracken had provided legal advice that the HPC could choose to appoint the NAO as its auditor, in place of Baker Tilly. The Executive had asked the NAO to prepare a presentation to the next meeting of the Committee. The Committee would be asked to decide whether to recommend to the Council that the NAO should be appointed.
- 8.3 The Committee noted that, if the Council decided to appoint the NAO as its auditor, this would simplify the audit process and avoid a certain amount of duplicated work by Baker Tilly and the NAO under the current arrangements. The Committee agreed that the paper for the next meeting should, in particular, set out the financial benefits of the proposed change. The Committee agreed that the paper should also explain future arrangements for non-audit work and tax advice, which were currently provided by Baker Tilly.

Action: MJS (by 24 June 2009)

Item 9.09/9 Baker Tilly audit plan 2008-9

- 9.1 The Committee received a paper for discussion/approval from the Executive. The paper contained the external audit plan for the 2008-9 accounts.
- 9.2 The Committee noted that the paper excluded the additional audit work which would be required for conversion of the accounts to comply with International Financial Reporting Standards. That work would be carried out in summer 2009, after the completion of the audit under UK accounting principles.
- 9.3 The Committee noted that the plan was presented in the same format as in previous years and was the result of discussion with the Director of Finance and the NAO.
- 9.4 The Committee noted that the plan included key risks affecting the audit plan and that no new risks had been identified for the 2008-9 accounts. In connection with the risks, the Committee noted the following points:
- the provision for PAYE and National Insurance contributions on fees payable to Council members and Partners was expected to decrease in future years;
 - the plan should refer to the three employee pension schemes (the scheme formerly operated by the Council for Professions Supplementary to Medicine; the former HPC scheme provided by Capita; and the current scheme provided by Friends Provident);
 - the Executive had obtained professional advice that there would be a tax liability if the building held by 22-26 Stannary Street Ltd was transferred to HPC. There were no plans to transfer the building, but the contingent liability had been disclosed in a note to the company's accounts for 2008-9. The Committee agreed that a paper should be presented to the next meeting explaining the situation.

Action: SL (by 24 June 2009)

- 9.5 The Committee agreed to approve the external audit plan from Baker Tilly for 2008-9.

Action: Baker Tilly (ongoing to 24 June 2009)

Item 10.09/10 National Audit Office audit strategy 2008-9

- 10.1 The Committee received a paper for discussion/approval from the Executive. Mr Ecroyd gave a verbal report on the points at paragraphs 10.2 and 10.3 below.
- 10.2 The Committee noted that the NAO's audit strategy for 2008-9 would be essentially the same as Baker Tilly's audit plan.
- 10.3 The Committee noted that the NAO's fee for 2008-9 audit work would be £6,500 (the same as the previous year).
- 10.4 The Committee agreed that the NAO should write to the Chief Executive and Registrar, as the Accounting Officer, to confirm these arrangements and that the letter should be included in the papers for the next meeting.

Action: NAO / MJS (by 24 June 2009)

Item 11.09/11 PKF audit plan 2009-10

- 11.1 The Committee received a paper for discussion/approval from the Executive. The paper contained the internal audit plan for the 2009-10 financial year.
- 11.2 The Committee noted that the paper summarised the number of days allocated to particular areas of the HPC's work. The Committee noted that it was proposed that health and safety should be reviewed instead of Policy and Standards in 2009-10, due to the higher risks associated with health and safety which were indicated in the risk register.
- 11.3 The Committee noted that the fee payable for internal work in 2009-10 would be £26,000, exclusive of VAT.
- 11.4 The Committee noted that some risks were not covered in the plan for 2009-10, either because they had been addressed in previous internal audits or because other professional advisers were working in those areas.
- 11.5 The Committee approved the internal audit plan for 2009-10, subject to these amendments:
 - the review of corporate governance and risk management in the fourth quarter of 2009-10 should include a review of performance management of Partners, as the HPC was in the processing of recruiting a large number of new Partners;
 - the review of corporate governance and risk management in the fourth quarter of 2009-10 should include a review of

governance arrangements for the restructured Council and its committee structure, including governance documentation.

Action: PKF (ongoing to March 2010)

Item 12.09/12 Internal audit report – financial systems

- 12.1 The Committee received a paper for discussion/approval from the Executive.
- 12.2 The Committee noted that it had previously considered the report at its meeting on 10 December 2008. Recommendation 5 in the report had been amended in the light of the discussion at that meeting, in particular recommendation 5 had been amended to read ‘The HPC should consider the exposure of its investments and reconsider the arrangements for investments in the light of knowledge of the risk’.
- 12.3 The Committee noted that the Finance and Resources Committee on 4 February 2009 had considered the risk exposure of the HPC’s managed fund investments, including the recommendation in the internal audit report. The Finance and Resources Committee had noted the following points:
- the UK portfolio investments were contractually separate from Rensburg Sheppard’s own holdings i.e. although held in a Rensburg nominee company, they were recorded in such a manner to clearly indicate that they did not belong to the firm;
 - Rensburg Sheppards had confirmed that the remaining investments (non UK ones), while invested in overseas companies and funds, were based in the UK and held in the nominees account in the same way as for UK investments;
 - if the total investment portfolio was divided into several smaller investment portfolios, it was likely to reduce the returns to the HPC and would be less attractive to professional fund managers to manage, given the HPC fund size, commission rate and HPC ethical restrictions; and
 - the terms and conditions offered by Rensburg Sheppards were common across the investment industry. In addition, Rensburg Sheppards had a good credit rating and provided investment services to a large number of charities and pension funds. (Rensburg Sheppards had subsequently confirmed that as of September 2008 it had £11 billion of clients’ assets under management, including £1.36 billion of charities funds relating to 855 clients).
- 12.4 The Committee noted that the meeting of the Finance and Resources Committee on 16 March 2009 would include further

discussion on the investment arrangements. Rensburg Sheppards would be present at that meeting to answer any questions.

- 12.5 The Committee agreed to accept the revised internal audit report on financial systems.

Item 13.09/13 Internal audit report – online renewals

- 13.1 The Committee received a paper for discussion/approval from the Executive.
- 13.2 The Committee noted that PKF had reviewed the online renewals project as part of the approved internal audit plan for 2008-9. The report had concluded that controls over implementation of the online renewals system were sound and had been operating effectively to date. However, there remained a considerable amount of work to be undertaken before the system became operational. In view of the significance of the project, the internal audit plan for 2009-10 would include a second review of the project, focusing on system testing and implementation of the project.
- 13.3 The Committee noted that PKF had found the Executive had taken a highly methodical approach to the project which accorded with best practice. PKF had not raised any recommendations.
- 13.4 The Committee noted that, at each stage of the renewals process, the online system would give registrants confirmation that they had completed each stage. At the end of the process, an appropriate acknowledgement would be provided. The system had been designed to ensure that registrants completed all the necessary information before the renewals process could be completed.
- 13.5 The Committee noted details of the security arrangements which were in place in connection with accepting credit card payments online. The Committee noted that a large majority of registrants paid by direct debit.
- 13.6 The Committee agreed to accept the internal audit report on online renewals.

Item 14.09/14 Internal audit report progress report

- 14.1 The Committee received a paper for discussion/approval from the Executive.
- 14.2 The Committee noted that the internal audit on corporate governance was scheduled for fieldwork in March 2009, due to the recent appointment of the new Secretary to Council and allowing time for her to settle in. The Committee had been notified by email on 26 January 2009 and had been asked to comment. No objections

had been raised and members had indicated that they felt the reasons given were sensible and valid.

14.3 The Committee noted the progress report.

Item 15.09/15 Risk register update

- 15.1 The Committee received a paper for discussion/approval from the Executive.
- 15.2 The Committee noted that the risk register had been redesigned to allow information to be illustrated more easily, using the calculation of a risk score and a colour coding (traffic light) system. The Committee noted that the Executive had compiled the register based on its experience of issues since HPC had begun operations in 2002. The Committee agreed that the revised format of the register was very useful.
- 15.3 The Committee noted that all the risks and mitigations in the corporate governance section of the register dealt with aspects of the risk associated with restructuring of the Council.
- 15.4 The Committee noted that the register identified the risk of poor performance by Council members. The Committee agreed that the section of the register relating to Partners should be amended to include the risk of poor performance by Partners.

Action: RD/GRS (by 24 June 2009)

Item 16.09/16 Risks owned by the Director of Finance

- 16.1 The Committee received a verbal presentation on the risks managed by the Director of Finance and the mitigations in place.
- 16.2 The Committee noted that the Finance and Resources Committee reviewed the arrangements for investments on an annual basis at each November meeting, but could review the arrangements more frequently if it wished.

Item 17.09/17 International Financial Reporting Standards update

- 17.1 The Committee received a paper to note from the Executive.
- 17.2 The Committee noted progress towards implementation of International Financial Reporting Standards. The Committee noted Baker Tilly's audit report on restatement of the balance sheet as at 1 April 2008.

Item 18.09/18 Purchase Requisition System update

- 18.1 The Committee received a paper to note from the Executive.
- 18.2 The Committee noted that an online purchase order system had been implemented.
- 18.3 The Committee 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.

Action: PKF (by 24 June 2009)

Item 19.09/19 Any other business

- 19.1 The Vice-Chairman thanked the Executive for the high quality of the papers.

Item 20.09/20 Date and time of next meeting

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

Chairman

Date