

Council – 17 September 2013

Audit Committee Composition

Introduction

1. The Council has previously noted that a reduction in its size would have an impact on the governance structures that support Council.
2. The Audit Committee currently comprises four members appointed by the Council, together with the Chair of the Finance and Resources Committee, who is appointed as an ‘observer’ to the Committee. Of these members, at least one member must have recent, significant and relevant financial experience and at least two members shall be members of Council. In addition no member shall also be a member of the Finance and Resources Committee.

Background

3. The UK Corporate Governance Code sets out in its *Guidance on Audit Committees*, that audit committee arrangements must be proportionate and best suited to an organisation’s needs. These arrangements will depend on the size, complexity and risk profile of the organisation. The *Guidance* sets out three essential requirements for an audit committee, that it should be a small committee (no more than three members), which is independent of the ‘board’ and has at least one member with relevant financial expertise.
4. HM Treasury’s *Audit Committee Handbook* which sets out good practice principles for audit committees in central government echoes the requirement for independence, recommending, as a principle, that audit committee should be “independent and objective” and that members “should have a good understanding of the objectives and priorities of the organisation”.
5. Whilst it is clear that the best practice recommendation being made in both the corporate sector and central government is that the ‘board’ should appoint independent, non-executive members to the audit committee. However, in both cases it is on the assumption that the organisation’s governance model is an executive board.
6. The governance structure of the HCPC is that executive functions are performed by the Chief Executive and Directors, but oversight is exercised by an entirely non-executive Council. Therefore the Council is already independent of those making operational and day to day management

decisions and, unlike a board-led organisation, is not scrutinising the decisions of its own members.

7. Given this structure it is proposed that the Chair of the Audit Committee is not required to be an independent member as this would not be proportionate and best suited to the HCPC's particular circumstances. The required element of independence could be achieved through recruiting a member (but not the Chair) of the Audit Committee from outside of the Council.

Decision

Council is asked to discuss the paper and agree the following:-

- (a) That with effect from when the restructured Council takes office, the Audit Committee shall comprise two members appointed by the Council and one independent member;
- (b) at least one member shall have recent, significant and relevant financial and audit experience;
- (c) the Chair shall be a member of the Council;
- (d) that the Executive be requested to undertake a recruitment exercise to appoint an independent member of the Audit Committee (in line with previous exercises carried out to appoint members to the Education and Training committee) and to make a recommendation to a future meeting of Council;
- (e) that the Council appoint two members to the Audit Committee at their meeting in February 2014; and
- (f) the Audit Committee shall meet 3 times a year.

Resource implications

The impact of changes to the Committee structure would be absorbed within existing resource.

Financial implications

None.

Appendices

None.

Date of paper

27 August 2013