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## Audit Committee

**Public minutes of the 33rd meeting of the Audit Committee held as follows:-**

**Date:** Thursday 23 June 2011

**Time:** 10:30 am

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

**Present:** Jeff Lucas (Chair)  
Morag MacKellar  
Deep Sagar  
Joy Tweed

**In attendance:**

Mr C Bendall, Secretary to the Committee  
Mr M Burgess, National Audit Office  
Mr G Butler, Director of Finance  
Mr P Cudlip, Mazars LLP  
Mr J Dee, PKF (UK) LLP  
Mr R Dunn, Head of Business Process Improvement  
Mr S Hall, Facilities Manager  
Ms C Milner, Financial Controller (items 1-9)  
Mr R Kennett, Chair, Finance and Resources Committee (observer)  
Mr S Rayner, Secretary to Committees  
Mr G Ross-Sampson, Director of Operations  
Mr M J Seale, Chief Executive and Registrar (items 9-23)  
Dr A van der Gaag, Council Chair

### **Item 1.11/28 Apologies for absence**

- 1.1 Apologies for absence were received from Mr G Clarke of Mazars LLP and Mr T Drew of PKF (UK) LLP. The Committee noted that the Chief Executive and Registrar was giving evidence that morning to the Social Policies and Consumer Protection Sub-Committee at the House of Lords.

### **Item 2.11/29 Approval of agenda**

- 2.1 The Committee approved the agenda, subject to considering the National Audit Office audit completion report as item 8 and the draft annual report and accounts as item 9.

### **Item 3.11/30 Declarations of members' interests**

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

### **Item 4.11/31 Minutes of the Audit Committee meeting of 16 March 2011 (report ref: AUD 20/11)**

- 4.1 It was agreed that the minutes of the 32nd meeting of the Audit Committee should be confirmed as a true record and signed by the Chair.

### **Item 5.11/32 Matters arising (report ref: AUD 21/11)**

- 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.

### **Item 6.11/33 Business Process Improvement report (report ref: AUD 22/11)**

- 6.1 The Committee received a report summarising business improvement work.
- 6.2 The Committee noted that HPC had been audited by the British Standards Institute on 5 April 2011 to ensure that the organisation continued to meet the ISO 9001:2008 quality management standard. The new auditor had taken a different approach to the previous auditor, including making suggestions on aspects of record-keeping and document control. The report was discussed under item 10.
- 6.3 The Committee noted that a business continuity exercise had taken place on 27 May 2011 at Uxbridge and Sevenoaks, with a scenario around a hypothetical information theft. The Executive would provide a report on the exercise to the Finance and Resources Committee.

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- 6.4 The Committee agreed that future Business Process Improvement reports should give examples of how the quality management system had helped to improve customer service at HPC.

**Action: RD (ongoing)**

**Item 7.11/34 Internal audit annual report (report ref: AUD 23/11)**

- 7.1 The Committee received a paper for discussion/approval from the Executive.
- 7.2 The Committee noted that PKF had prepared the annual report on its internal audit work in 2010-11. This was the final report from PKF as HPC's internal auditor. The Committee noted that PKF had been appointed as internal auditor in 2006 and that Mr Dee had worked on internal audits at HPC since 2007.
- 7.3 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 during 2010-11. The Committee noted that all of the areas reviewed during the year had been rated sound or satisfactory. The Committee agreed that the findings were reassuring and would help to support the statement of internal control in the draft annual report.
- 7.4 The Committee thanked PKF and Mr Dee for their work at HPC. Mr Dee thanked the Committee and the Executive for their help in delivering the internal audit programme.

**Item 8.11/35 National Audit Office audit completion report (report ref: AUD 25/11)**

- 8.1 The Committee received a paper for discussion/approval from the Executive. A paper was tabled, giving a briefing note on the difference in deferred income which had been identified during the audit.
- 8.2 The Committee noted that the National Audit Office (NAO) was in the process of finalising the annual report and accounts, but there were several outstanding tasks before a clear audit opinion could be issued. These included a final review of post balance sheet events; completion of the NAO's internal review procedures; and obtaining an explanation and reconciliation of the differences between the amounts recorded as deferred income in the Net Regulate registration system and the Sage accounting system.
- 8.3 The Committee noted details of significant risks which had been identified in the audit planning report approved by the Committee on 25 November 2010. The Committee noted the audit response and the findings for each risk.

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- 8.4 The Committee noted that 22-26 Stannary Street Ltd (the wholly-owned subsidiary of HPC, purchased in 2005 to obtain the land and buildings at that address) had been struck off the register of companies during 2010-11. As a result, it had not been necessary to produce group accounts for the financial year.
- 8.5 The Committee noted that the Hearing Aid Council's regulatory functions had been transferred to HPC on 1 April 2010. The Government Financial Reporting Manual required that the transfer of functions from one part of the public sector to another part had to be accounted for using merging accounting. Merging accounting had therefore been applied to the financial statements.
- 8.6 The Committee noted that the NAO's testing on additions to non-current assets had identified invoices which related to training and support costs. These costs had been capitalised rather than being treated as expenses. In future, the Financial Controller would approve all purchase orders raised by departments to capital expenditure codes, before the orders were approved by relevant signatories.
- 8.7 The Committee noted that, as part of the NAO's testing of income, it had been discovered that income reported from the Sage accounting system was £478,000 higher than income reported from the Net Regulate registration system. The report from Net Regulate only included current registrant balances. The report from Sage also included the current value of funds from de-registered registrants and the current value of funds from applicants who had paid fees but were not yet registered. The Committee noted that it was not possible to run reports retrospectively so it was not possible to know the amounts as of 31 March 2011.
- 8.8 The Committee noted that the Finance Department would prepare reports at the end of June 2011 and then reconcile the reports. The National Audit Office would need to review the reconciliation. Any remaining difference would require the Finance Department, working with Digital Steps (the external company which supported the Net Regulate system), to investigate the possible cause of the remaining difference. The Committee noted that, because of the time needed to complete this work, it might not be possible for the annual report and accounts to be finalised and submitted to Parliament until autumn 2011.
- 8.9 The Committee noted that the income reports had not been requested at year-end date by the auditors during previous external audits and therefore the difference between the two systems had not been discovered until the audit of the 2010-11 accounts.
- 8.10 The Committee noted that the Executive would need to review policies on how to deal with funds from de-registered registrants. The Finance

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Department would, in future, reconcile the income reports on a monthly basis.

- 8.11 The Committee agreed to recommend the accounts to the Council, pending satisfactory resolution of the issue. If the issue was not resolved satisfactorily before the Annual Report was submitted to the Council at its meeting on 7 July, the Committee recommended that the approval of the accounts should be delayed until such time as it was resolved.

**Action: GB/NAO (ongoing to July 2011)**

**Item 9.11/36 Draft annual report 2010-11 (report ref: AUD 24/11)**

- 9.1 The Committee received a paper for discussion/approval from the Executive.
- 9.2 The Committee noted that the draft annual report and accounts had been considered by the Finance and Resources Committee on 21 June 2011. The Committee noted that the report was in draft form and was subject to amendment in the light of the outstanding work on the audit which had been discussed at item 8.
- 9.3 The Committee noted that, because of the reasons given in paragraph 8.5, the draft accounts had been prepared using merger accounting principles.
- 9.4 The Committee noted that the accounts gave details of the liability which might be incurred by HPC in relation to the Capita Flexiplan scheme, a multi-employer pension scheme. The scheme was in deficit and was in the process of being wound up. The amount of the deficit was unknown as there was a technical point in the scheme would need to be clarified by application to the court. The case was due to be held in late 2011 or early 2012. The accounts stated the minimum liability of £30,815, which was the expected liability for HPC in the 'best case' scenario.
- 9.5 The Committee noted that a recent valuation of HPC's offices had resulted in value which was approximately £100,000 less than the previous valuation. This had been recognised in the accounts.
- 9.6 The Committee noted that, following decisions made by the Council earlier in 2011, HPC had sold its investment portfolio and held these amounts of cash across three different banks - Barclays, Lloyds TSB and NatWest. The Committee noted that it was unlikely that major UK banks would be allowed to fail. The Committee noted that it was intended that most of the released funds would be used to purchase additional office accommodation.

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9.7 In discussion, the Committee agreed to the following amendments:

- the section on risks and key relationships referred to uncertainty over ‘forecasting the number of new professional groups applying to join the Health Professions Council Register’. The Committee agreed that, in the light of policy decisions on regulation, this should be amended to read ‘forecasting the number of professional and occupational groups applying to join...’
- the note on ‘other operating expenditure’ should include an explanation of the increase in Council and Committee expenses. The Committee noted that the increase was due to a tax provision for previous financial years being released in 2010-11;
- in the Statement of Internal Control, the section on the internal auditors’ work should be amended to summarise PKF’s conclusion on the overall system of internal control, which had been discussed at item 7. This section should summarise the Council for Healthcare Regulatory Excellence’s review of HPC’s fitness to practise work.

9.8 The Committee agreed to recommend the draft annual report to the Council, subject to the amendments in paragraph 9.7 and pending satisfactory resolution of the issues around income recognition. If the issue was not resolved satisfactorily before the annual report was due to be submitted to the Council, the accounts should be delayed.

**Action: GB/NAO (ongoing to July 2011)**

**Item 10.11/37 British Standards Institute audit report April 2011 (report ref: AUD 26/11)**

- 10.1 The Committee received a paper for discussion/approval from the Executive. The paper included the British Standards Institute’s report on the audit of the quality management system, which had taken place on 5 April 2011.
- 10.2 Following the discussion at item 6, the Committee noted that the auditor had taken a different approach, for example requesting a short summary of HPC’s work. The Executive believed that the audit had been useful.

**Item 11.11/38 Risks owned by the Director of Finance**

11.1 A paper was tabled, giving extracts from the risk register of the risks owned by the Director of Finance, the Facilities Manager and the Secretary to Council.

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- 11.2 The Committee received a presentation on the risks owned by the Director of Finance and changes to the risks which were planned for the next iteration of the register in September 2011. For example, the references relating to HPC's investment portfolio would be deleted, as the Council had agreed to sell the portfolio and hold funds in cash accounts.
- 11.3 The Committee discussed whether the register should include a risk relating to the HPC holding large amounts of cash in major UK banks. The Committee noted that there was a remote possibility that one or more of the major banks could fail. The Committee noted that the Executive felt that this was recorded in risk 15.20 (money market provider insolvency or fraud).
- 11.4 The Committee noted that the register included a new risk relating to the proposed funding model for the Council for Healthcare Regulatory Excellence (to be renamed the Professional Standards Authority for Health and Social Care). The Committee noted that it was expected that the funding levy would be imposed on regulators with effect from April 2013 and therefore the costs would be included in HPC's budget for 2012-13.

#### **Item 12.11/39 Risks owned by the Facilities Manager**

- 12.1 The Committee received a presentation on the risks owned by the Facilities Manager and the mitigations in place.
- 12.2 The Committee noted that interruption to electricity supply was one of the most significant risks. Mitigations included relocating to other parts of HPC's office which were not affected by a power cut, or invoking the disaster recovery plan if there was a site-wide power cut lasting longer than 24 hours. The possibility of installing a standby generator had been considered by the Executive, but a generator would be expensive (approximately £100,000); there was a lack of space for the generator, associated equipment and diesel oil; it was unlikely that the local authority would give permission for a generator to be installed in a residential area; and licenses would be needed to store diesel oil on site.
- 12.3 The Committee noted that the most recent power cut had affected the whole of HPC's office at a weekend. The incident had been caused by a problem at a sub-station.
- 12.4 The Committee noted that the risk of interruption to postal services was mitigated through the use of other media, including the online renewals system, use of e-mail and courier services where necessary.
- 12.5 The Committee noted that the risk of flooding in the basement was mitigated through a floor barrier to prevent water coming into the building.

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### **Item 13.11/40 Risks owned by the Secretary to Council**

- 13.1 The Committee received a presentation on the risks owned by the Secretary to Council and the mitigations in place.
- 13.2 The Committee noted that the risks in this area were not expected to change significantly, although the wording of some risks would be clarified in the next iteration of the risk register. The Committee noted that risk 4.9 should read 'failure to ensure the health and safety of Council members.'
- 13.3 The Committee noted that one risk related to the risk of abuse of expenses claims. Further discussion took place under item 23.

### **Item 14.11/41 Transfer of regulatory functions from General Social Care Council to HPC (report ref: AUD 27/11)**

- 14.1 The Committee received a paper for discussion/approval from the Executive.
- 14.2 The Committee noted that the Health and Social Care Bill had resumed its passage through the House of Commons. Some sections of the Bill would be reviewed by the Bill Committee, but the provisions relating to HPC would not be reviewed. It was expected that the Bill would proceed to the House of Lords in late 2011, be enacted in spring 2012 and the transfer of regulatory functions from the General Social Care Council to HPC would take place in July 2012.
- 14.3 The Committee noted that the Education and Training Committee had considered the draft standards of proficiency and the threshold level of qualification for social workers. These items were due to be considered by the Council on 7 July 2011 and, subject to the Council's decision, would then be issued for consultation.
- 14.4 The Committee noted that a joint meeting of the councils of GSCC and HPC was due to take place on the afternoon of 7 July 2011. The aim of the meeting would be to identify key messages for communication with the public, registrants and employers and to discuss the key risks. The Committee noted that HPC and GSCC had prepared a joint communications plan for the project.
- 14.5 The Committee noted that the Fitness to Practise Department continued to develop its understanding of GSCC's fitness to practise work. The Executive would shortly conduct a test-run to transfer data from GSCC's register to HPC.
- 14.6 The Committee noted that HPC continued to attend meetings of the Social Work Regulation Oversight Group, the Social Work Reform Board

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and continued to meet with stakeholders. Issues currently under discussion included student registration and the assessed first year of practice for new social workers.

The Committee noted the following paper:

**Item 15.11/42 Annual review of actions taken in 2010-11: Public meetings (report ref: AUD 28/11)**

**Item 16.11/43 Any other business**

16.1 There was no other business.

**Item 17.11/44 Date and time of next meeting**

17.1 The next meeting of the Committee would be held at 10.30 am on Thursday 29 September 2011 (followed by a presentation from Mazars on their approach to internal audit work).

17.2 Subsequent meetings would be held at 10.30 am on:

Tuesday 13 March 2012  
Thursday 21 June 2012  
Thursday 27 September 2012  
Wednesday 28 November 2012

**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

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(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 18.11/45 Minutes of the private part of the Audit Committee of 16 March 2011 (report ref: AUD 29/11)**

The Committee considered and approved the minutes of the private part of the Audit Committee meeting held on 16 March 2011.

#### **Item 19.11/46 Matters arising (report ref: AUD 30/11)**

The Committee noted matters arising from the minutes.

#### **Item 20.11/47 Transfer of regulatory functions from General Social Care Council (GSCC) to HPC – Risk register (report ref: AUD 31/11)**

The Committee discussed the risk register relating to the project to transfer regulatory functions from the GSCC to HPC.

#### **Item 21.11/48 Transfer of regulatory functions from General Social Care Council to HPC – Project plan (report ref: AUD 32/11)**

The Committee noted the project plan to transfer regulatory functions from the GSCC to HPC.

#### **Item 22.11/49 Annual review of actions taken in 2010-11: Private meetings (report ref: AUD 33/11)**

The Committee noted actions arising from private meetings of the Committee in 2010-11.

#### **Item 23.11/50 Any other business**

The Committee discussed whether the Executive should review the probability of one of the risks in the corporate governance section of the risk register.

**Chair**

**Date**

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