

**Health Professions Council
Council Meeting – 11th May 2006**

RATIFICATION OF THE APPOINTMENT OF EXTERNAL AUDITOR

Executive Summary and Recommendations

1. Introduction

2. Decision

The Council is asked to agree the following:

- That the recommendation of the Audit Committee that Baker Tilly be appointed as HPC's external auditors on an initial and ongoing basis, be accepted.

3. Background information

Following identification of the Paul Baker fraud in May 2005, the existing internal and external auditors were asked to terminate their professional relationship with HPC.

Following their fraud investigation commencing in mid May 2005, Baker Tilly forensic auditors (Jeffrey Davidson and Sabina Martin) wrote a Management Controls Review report, relating to internal controls associated with the fraud perpetrated. This was published and distributed to HPC in June 2005. Concurrently, the Audit Department of Baker Tilly (David Blacher and Helen Hudson) were invited to conduct the external audit of HPC's March 2005 Year Ending Financial Statements. The Executive took Baker Tilly's advice that the appointment of a completely separate firm of internal auditors should be made at a later date.

Baker Tilly External Auditors issued a standard audit engagement letter to HPC in July 2005, but issues arose about Baker Tilly releasing their audit work to the National Audit Office (NAO). This delayed the sign-off from HPC agreeing to the terms of the audit engagement letter. Subsequently agreement was reached between NAO and Baker Tilly about the release of audit papers.

Baker Tilly were subsequently appointed as HPC's tax agents and advisors, with a paper on this appointment presented at the Finance and Resources Committee meeting, dated 20th September 2005¹.

At the Audit Committee meeting on 24th March 2006, the Committee agreed to recommend to the Council that Baker Tilly be appointed as HPC's external auditors on an initial and ongoing basis – refer Item 6.06/23 of the Audit Committee minutes, pt 6.6.

4. Resource implications

¹ There are likely cost savings in having the same firm act as external auditor and tax advisor in that the time taken to provide tax advice can be reduced, as the firm already has an in depth understanding of HPC operations from performing the annual audit. In addition, any tax expense adjustments can more quickly be made with the concurrence of the auditors, by having one firm act in both capacities.

The external audit of the March 2006 financial accounts was scheduled in early 2006 to commence on the 2nd May and last for two weeks onsite. If Baker Tilly are not confirmed as HPC's external auditors for the March 2006 Year End audit, this will instantly delay the publication of audited financial statements and March 2006 Annual Report for an indeterminate period.

Furthermore, if Baker Tilly are not able to remain as HPC's tax advisors, this will delay closure on the current tax issues, including potential amendments to the Employment tax status of Council & Committee members and VAT de-registration of the 22-26 Stannary St company.

5. Financial implications

For 05/06, approx £32k per annum External Auditor fees plus VAT, depending on the agreed work programme. There is a further £7k plus VAT relating to a Regulatory review.

For 05/06, approx £6k plus VAT for Tax Advice, including PAYE/NI and VAT advice.

6. Background papers

Nil

7. Appendices

Nil

8. Date of paper

25th April 2006

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