

The Health Professions Council

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Minutes of the 24th meeting of the Audit Committee held on **Wednesday 10 December 2008** at Park House, 184 Kennington Park Road, London, SE11 4BU.

Present: Mr P Acres (Chairman)
Mr R Kennett
Professor C Lloyd
Mr D Proctor
Professor G Smith

In attendance:

Mr C Bendall, Secretary to the Committee
Mr D Blacher, Baker Tilly UK Audit 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
Mr R Weighell, PKF (UK) LLP

Item 1.08/76 Apologies for absence

- 1.1 Apologies for absence were received from Mr J Dee of PKF (UK) LLP, Professor T Hazell and Mr D Parker (National Audit Office).

Item 2.08/77 Approval of agenda

- 2.1 The Committee approved the agenda.

Item 3.08/78 Election of Vice-Chairman

- 3.1 The Committee was asked to nominate a person to be appointed by the Council as Vice-Chairman, with the appointment to take effect from 1 January 2009.
- 3.2 Professor Lloyd proposed that Professor Smith should be nominated as Vice-Chairman. There were no other nominations and the Committee agreed to nominate Professor Smith to be appointed by the Council as Vice-Chairman.

Item 4.08/79 Minutes of the Audit Committee meeting held on 26 September 2008

- 4.1 It was agreed that the minutes of the 23rd meeting of the Audit Committee should be confirmed as a true record and signed by the Chairman.

Item 5.08/80 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.

Item 6.08/81 Chairman's report

- 6.1 The Chairman had no matters to report.
- 6.2 The Committee noted that it was now expected that the draft legislation providing for restructuring of the Council and statutory regulation of psychologists would be laid in the Westminster and Scottish Parliaments in January 2009. It was intended that the Council elections due to be held in 2009 would not take place, subject to progress of the legislation and agreement by the Council. This was because it was likely that any elected members would only hold office for a short time before the Council was restructured.
- 6.3 The Committee noted that Mr Jeff Seneviratne had been nominated to become a member of the Audit Committee and the nomination would be considered by the Council on 11 December 2008.

Item 7.08/82 Quality report

- 7.1 The Committee received a report summarising quality audit work.
- 7.2 The Committee noted that the audit of HPC's quality management system by the British Standards Institute had been completed on 23 October 2008. HPC had successfully maintained its certification under the ISO 9001:2000 quality management standard.

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2008-12-08	a	ADT	MIN	Minutes Audit Committee 27 February 2008 public meeting	Final DD: None	Public RD: None

- 7.3 The Committee noted that the disaster recovery/business continuity plan had been revised and re-issued.

Item 8.08/83 International Financial Reporting Standards (IFRS) reporting timetable

- 8.1 The Committee received a paper for discussion/approval from the Executive. An audit plan prepared by Baker Tilly UK Audit LLP on the IFRS conversion of the balance sheet was tabled.
- 8.2 The Committee noted that, at its meeting on 26 June 2008, it had been reported that IFRS would be introduced for HPC's accounts. HM Treasury had provided a series of milestones ('trigger points') for adoption of IFRS. Following discussion with Baker Tilly, the Executive had engaged an experienced IFRS contractor to restate the 2008 balance sheet, policies and notes. Baker Tilly would audit the results in December 2008. The audit results would then be reported to the Chief Executive, HM Treasury would be notified and the audit results would be presented to the Committee meeting on 26 February 2009.
- 8.3 The Committee noted that the Executive would ensure that relevant colleagues were notified of the developments.
- 8.4 The Committee agreed that it would be useful for the adoption of IFRS to be included in the risk register.
- 8.5 The Committee noted that trigger point 1 (restatement of 31 March 2008 balances and identifying reliable estimates of the impact of the reporting standard on financial instruments) had been due to be met by 30 September 2008. The HPC had met the objective after that date but was due to meet the second trigger point (completion of the audit of the balances) by 31 December 2008. The Committee noted that, in Baker Tilly's opinion, the second trigger point was more important and HPC was on course for adoption of IFRS standards.
- 8.6 The Committee noted that HM Treasury would monitor organisations' compliance with the conversion to IFRS and would raise concerns with any organisations which did not meet the timetable.
- 8.7 The Committee agreed to approve the audit plan prepared by Baker Tilly UK Audit LLP on the IFRS conversion of the balance sheet as at 1 April 2008.

Action: Baker Tilly (ongoing to 26 February 2009)

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Item 9.08/84 Internal audit report – financial systems

- 9.1 The Committee received a paper for discussion/approval from the Executive.
- 9.2 The Committee noted that, as part of the agreed internal audit plan for 2008-9, PKF had reviewed controls in operation over financial systems. PKF had concluded that the systems were satisfactory, but there were some areas where there remained scope for improvement to controls and meeting best practice. PKF had also advised that HPC should be alert to potential shifts in the organisation's financial risk profile, in light of recent external events.
- 9.3 The Committee noted that recommendation 5 read that 'The HPC should reconsider its approach to placing funds under management. Specific consideration should be given to diversification of investment across a number of fund managers and the credit-worthiness of each fund manager selected.' The Committee noted that the Executive had agreed to the recommendation but wished to amend the due date from December 2008 to March 2009 (diversification of money market providers) and June 2009 (diversification of funds management firms).
- 9.4 The Committee noted that the proposed amendment to the due date was to allow time for the Finance and Resources Committee to meet and agree changes to the HPC's investment policy. That Committee was next due to meet on 4 February 2009. The Committee noted that it would take time to move any investments to another investment manager and that, if any shares were sold, it would realise any loss in value. The Committee noted that any decisions on investments would be reported to the Council through the minutes of the Finance and Resources Committee.
- 9.5 The Committee noted that the Finance and Resources Committee on 17 November 2008 had reviewed the performance of HPC's investments and had agreed that Rensburg Sheppards should continue as the investment manager. The Committee noted that there was minimal risk to HPC's investments if Rensburg Sheppards was to become insolvent, since client assets held by Rensburg Sheppards in a nominee company were recorded in such a manner to clearly indicate that they did not belong to the firm. Therefore, in the event of the insolvency of Rensburg Sheppards, a liquidator would be legally prevented from using client's assets to settle the firm's liabilities.
- 9.6 After discussion, the Committee agreed that it would be appropriate for PKF to amend the wording of recommendation 5 to read 'The HPC should be asked to consider the exposure of its investments and reconsider the arrangements for investments in the light of

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knowledge of the risk. The HPC should then decide how to proceed'. The matter would be referred to the Finance and Resources Committee who should be provided with a report of the report and recommendation by PKF for their information. The Committee agreed that the due date for action should be amended to March 2009. The Committee agreed that the amended report should be presented to its meeting on 26 February 2009.

Action: PKF and SL (by 26 February 2009)

- 9.7 The Committee noted that progress in response to recommendation 3 (a £1 rounding difference on the trial balance to be investigated and corrected) would be reported to its meeting on 26 February 2009.

Action: CM (by 26 February 2009)

- 9.8 The Committee noted that Baker Tilly felt that the outcome of the internal audit gave Baker Tilly reassurance in its preparation for external audit of the 2008-9 accounts.

Item 10.08/85 Internal audit progress report

- 10.1 The Committee received a paper for discussion/approval from the Executive.
- 10.2 The Committee noted the progress report, which covered the internal audit report discussed above and summarised the internal audits planned for the remainder of 2008-9.

Item 11.08/86 Training for the Audit Committee 2009

- 11.1 The Committee received a paper for discussion/approval from the Executive.
- 11.2 The Committee noted that, on 12 June 2006, it had agreed that it should receive annual training on aspects of its work. With the Committee's agreement, in 2007 and 2008 this had taken the form of a training session held after the February meeting of the Committee.
- 11.3 The Committee noted that the National School of Government held an induction seminar for audit committee members. At its meeting on 26 September 2008, the Committee had agreed that Mr Kennett would review the content of the seminar and recommend whether it would be suitable for members. Mr Kennett had reviewed the content of the seminar and had recommended that it would be of benefit to new Audit Committee members. He had also suggested that it would be of benefit to existing members as a refresher course.

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- 11.4 The Committee agreed that it should attend the induction seminar for audit committee members on 16 March 2009, as its annual training for 2009. The Committee noted that Professor Lloyd would be unable to attend on that date.

Action: CB (by 26 February 2009)

- 11.5 The Committee noted that three members (Mr Kennett, Professor Lloyd and Professor Smith) had attended a conference on best practice for audit committees on 27 November 2008, organised by the National School of Government. The Committee noted that members had found it useful and had raised individual members' awareness of governance issues.

Item 12.08/87 Risk register

- 12.1 The Committee received a paper to note from the Executive.
- 12.2 The Committee noted that, at its meeting on 26 September 2008, it had agreed that managers responsible for risks identified on the risk register should present a review of their respective risks and mitigation plans to the Committee once each financial year.
- 12.3 The Committee received a detailed presentation on the risks owned by the President, the Chief Executive, Executive Management Team and the Council. The Committee noted explanations of the risks and the mitigations in place. The Committee agreed that the risk register should be amended to include columns indicating the significance and probability of each risk, before any mitigation. The Committee agreed that this would help to show the impact of the mitigation.

Action: Secretary to Council (by 26 February 2009)

- 12.4 In connection with particular risks, the Committee noted the following points:
- risk 4.5 (members' poor performance): the constitution order for the HPC included provision for the Council to remove a member if necessary;
 - risk 13.2 (legal challenge to HPC operations): the Committee noted that the HPC was insured for legal costs;
 - risk 15.9 (mismatch between Council goals and approved financial budgets): the Chief Executive was the risk owner as he was the HPC's accounting officer, but the Council was responsible for setting goals and budgets;
 - risks were addressed by the Executive in the annual departmental workplans and new risks were incorporated into the risk register in the light of developments (such as the

- Poynter Review into the loss of data in transit between HM Revenue and Customs and the National Audit Office); and
- the risk relating to the restructuring of the Council was being managed, but it should be articulated in the risk register for clarity.

Action: Secretary to Council (by 26 February 2009)

- 12.5 The Committee agreed that the presentations had been useful. The Committee agreed that future papers should include all the risks managed by the individual risk owners making presentations, but the presentations should focus on the most significant risks.

Item 13.08/88 Finance System Upgrade

- 13.1 The Committee received a paper to note from the Executive.
- 13.2 The Committee noted that a major project scheduled for 2008-9 was the Finance Systems Upgrade project. The goals of the project had been to deliver an upgrade to the SAGE financial system, introduce online purchase ordering and enable automated activity cost reporting/budget tracking by activity. The Committee noted that the introduction of online requisition ordering had been recommended made by Baker Tilly in their management controls review in 2005 and also by PKF (UK) LLP in 2007.
- 13.3 The Committee noted that the SAGE system had been successfully upgraded. The adoption of online purchase ordering with automated activity reporting (event costs, hearing costs, visit costs, etc) had proven more challenging. A number of system and process issues had been raised and it had become apparent that scarce internal resources (employees) would be required to commit further time to the project, at a time when there were other high profile and high priority projects to complete in the remaining part of the current budget year. These had included the fees project and the online renewals project. In October 2008, the Executive Management Team had decided to retain the existing paper-based purchase ordering process and the existing spreadsheet approach to activity reporting. A business case on online purchasing would be prepared and considered in the future round of major project evaluations.
- 13.4 The Committee noted that the matter had been discussed by the Finance and Resources Committee on 17 November 2008 and that Committee had accepted the situation. The Committee noted that the Executive would shortly hold a meeting to review lessons learned about the project.
- 13.5 Members of the Committee expressed concern that the recommendations made by Baker Tilly and PKF remained

outstanding. The Committee asked that a further report be provided to the next Committee meeting, containing details of what had been spent to date on the online purchasing aspect of the project, an update on the lessons learned and next steps.

Action: SL (by 26 February 2009)

Item 14.08/89 Year end reporting timetable 2008-9

- 14.1 The Committee received a paper to note from the Executive.
- 14.2 The Committee noted that members of the Committee would be asked to comment on the draft annual report and accounts between 4 June 2009 and 9 June 2009. The comments would be incorporated into the draft report and accounts and then discussed at the meeting of the Committee due to be held on 24 June 2009.
- 14.3 The Committee noted that the annual report and accounts was due to be sent to the Privy Council Office on 13 July 2009 so that it could be laid in Parliament.

Item 15.08/90 Any other business

- 15.1 There was no other business.

Item 16.08/91 Date and time of next meeting

- 16.1 The next meeting of the Committee would be held at 10.30 am on Thursday 26 February 2009.
- 16.2 Subsequent meetings would be held at 10.30 am on:
 - Wednesday 24 June 2009
 - Tuesday 29 September 2009
 - Wednesday 9 December 2009
 - Wednesday 24 February 2010
 - Thursday 24 June 2010

Chairman

Date