Council meeting 14 April 2011

Public business

**Annual report of the Audit & Risk Committee to the Council**

**Purpose**
To provide the Audit & Risk Committee’s annual report to the Council.

**Recommendation**
The Council is asked to note the annual report of the Audit & Risk Committee.

**1.0 Background**

1.1 The terms of reference for the Council’s Audit & Risk Committee require it to report to the Council annually on its work. The business cycle agreed for the Committee and the Council provides for the Committee to consider its annual report in February and for the report to be submitted to the Council in April. The Committee approved its annual report at its meeting on 9 February 2011.

1.2 The Committee is, of course, at an early stage in its work but it is appropriate to begin the agreed reporting cycle. A report on the Committee’s work to date is at Appendix 1.

**2.0 Equality and diversity implications**

2.1 There are no specific equality and diversity implications.
3.0 Communications implications

3.1 The report is intended to assist the Council in holding the Committee to account for the fulfilment of its remit. It is published on the GPhC’s website as part of the Council papers.

4.0 Resource implications

4.1 The Committee’s work has been covered within agreed budgets.

5.0 Risk implications

5.1 The Audit & Risk Committee plays a key role in the GPhC’s risk management. The Committee supports the Council by reviewing the comprehensiveness and reliability of assurances and internal controls in meeting the Council’s oversight responsibilities. The Committee’s annual report is one of the means by which the Council is assured that the Committee is carrying out this role.

Recommendation

The Council is asked to note the annual report of the Audit & Risk Committee.

John Flook, Chair of the Audit & Risk Committee, General Pharmaceutical Council

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25 March 2011
1. **Introduction**

1.1 The Council has established the Audit & Risk Committee to support the Council by reviewing the comprehensiveness and reliability of assurances and internal controls in meeting the Council’s oversight responsibilities. The Committee has delegated authority to:

- Monitor the Council’s risk management arrangements
- Approve the internal audit programme
- Advise the Council on the comprehensiveness and reliability of assurances and internal controls, including internal and external audit arrangements, and on the implications of assurances provided in respect of risk and control.

1.2 The Committee is accountable to the Council and reports to the Council annually on its work. This is the first report of the Audit & Risk Committee to the Council. Of necessity, it covers only part of a year, as the GPhC became operational only in September 2010 and the Committee has held only one formal meeting in this reporting period. The Committee’s next report will be submitted to the Council in April 2012 and will cover the period Feb 2011 – Jan 2012.

1.3 The Committee reviewed its initial remit at its first formal meeting and proposed new terms of reference to the Council, which were agreed. The Committee’s terms of reference and its membership are at Annex 1.

1.4 The Committee held an informal preparatory meeting in July 2010, before commencing its formal work in October 2010. Members’ attendance at meetings in the period to January 2011 is at Annex 2. The Committee’s work to date is summarised in the sections below.

2. **Risk management**

2.1 The Committee’s initial work has focussed particularly on risk management. It has considered both the approach to risk management in the GPhC and the risk register itself. The focus of risk management is on risks to the achievement of the GPhC’s strategic objectives. The Committee will review the risk register at each meeting.
2.2 Members of the Committee also took part in an Audit & Risk workshop with staff, aimed at promoting a shared understanding of the roles of the Council, Committee and staff in risk management.

2.3 Following the Committee’s consideration of the risk register in October 2010, the register was revised accordingly and a paper on the strategic review of risks was submitted to the Council. A Risk Management Guide was agreed by the Committee as part of the assurance framework and published on the GPhC website.

2.4 The Committee has also reviewed the GPhC’s Standing Financial Instructions: one of the key mechanisms for managing financial risks and ensuring efficient working.

3. **Internal audit**
   
   3.1 Deloitte have been appointed as internal auditors for the GPhC for a period of three years.

   3.2 An internal audit plan has been developed for the initial period to 31 March 2011 and for two years thereafter. The internal audit plan for the year ahead will be considered by the Committee each February. An internal audit progress report will be considered at each meeting.

4. **External audit**
   
   4.1 Grant Thornton have been appointed as the GPhC’s external auditors for a period of three years. The Committee will consider the external audit programme in February each year. The annual accounts and the external auditors’ report will be considered by the Committee in May and by the Council in June.

5. **The Committee's ways of working**
   
   5.1 In addition to reviewing its remit, the Committee has agreed a business cycle and schedule of meetings for its future work, including an annual assessment of the Committee’s own performance. The first of these self-assessments will be in October 2011. The Committee’s regular business cycle is at Annex 3, which also indicates when papers relating to the Committee’s work will be considered by the Council.
Audit & Risk Committee Terms of Reference

1. Constitution
1.1 The Council has established the Audit & Risk Committee to support the Council by reviewing the comprehensiveness and reliability of assurances and internal controls in meeting the Council's oversight responsibilities. The Committee is a non-executive committee and has no executive powers except as set out in these Terms of Reference.

1.2 Under the Council's Scheme of Delegation, the Committee has delegated authority to:
   - Monitor the Council’s risk management arrangements
   - Approve the internal audit programme
   - Advise the Council on the comprehensiveness and reliability of assurances and internal controls, including internal and external audit arrangements, and on the implications of assurances provided in respect of risk and control.

1.3 The Committee may request the attendance of any employee or member, as set out in section 6 of these Terms of Reference, and may incur expenditure for the purpose of obtaining advice in terms of section 8 below.

2. Accountability and Reporting
2.1 The Committee is accountable to the Council. The minutes of each Audit & Risk Committee meeting shall be circulated to the Council. The Committee shall report to the Council annually on its work.

2.2 The Committee may also submit separately to the Council its advice on issues where it considers that the Council should take action. Where the Committee considers there is evidence of ultra vires transactions or evidence of improper acts, the Chair of the Committee should raise the matter at a formal Council meeting.

3. Membership
3.1 The Committee, including its Chair, is appointed through arrangements agreed by the Council. The Committee shall have five members, but may operate with fewer while a vacancy exists, provided the quorum is maintained. The Committee members shall include Council members, excluding the GPhC Chair and including at least one lay member and one registrant member, and may include up to two external members with appropriate audit and risk management experience.
3.2 The Council will appoint one of the Council members serving on the Committee as Chair, based on relevant background and skills. In the absence of the Chair, the Committee shall elect another of its members to chair the meeting.

3.3 The following members have been appointed to the Audit & Risk Committee until 16 March 2012: Cathryn Brown, Hilary Daniels (external member), John Flook (Chair), Keith Wilson, Judy Worthington.

4. Remit
4.1 The duties of the Committee are as follows:

**Governance, Risk Management and Internal Control**

4.2 The Council is the governing body of the GPhC and determines the governance policy and framework for the organisation. The Committee supports the Council by reviewing and advising the Council on the operation and effectiveness of the arrangements which are in place across the whole of the Council’s activities that support the achievement of the Council’s objectives. In particular, the Committee will review the adequacy of:

- All risk and control related disclosure statements, together with any accompanying internal audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Council;
- The underlying assurance processes that indicate the degree of the achievement of corporate objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements;
- The policies for ensuring compliance with relevant regulatory, legal, governance and code of conduct requirements;
- The policies and procedures for all work related to fraud and corruption.

4.3 In carrying out this work the Committee will primarily utilise the work of internal audit, external audit and other assurance functions. It will also seek reports and assurances from directors and managers as appropriate, concentrating on the over-arching systems of governance, risk management and internal control together with indicators of their effectiveness.

4.4 In reviewing risk management arrangements, the Committee should draw attention to areas where:

- risk is being appropriately managed and controls are adequate (no action needed)
- risk is inadequately controlled (action needed to improve control)
- risk is over-controlled (resource being wasted which could be diverted to another use)
• there is a lack of evidence to support a conclusion (if this concerns areas which are material to the organisation’s functions, more audit &/or assurance work will be required).

**Internal Audit**

4.5 The Committee shall:

• Ensure that there is an effective internal audit function that complies with any applicable standards and provides appropriate independent assurance to the Council, Audit & Risk Committee, and Chief Executive & Registrar;
• Consider the appointment of the internal auditors, the cost of the service and any questions of resignation or dismissal and make appropriate recommendations to the Council;
• Ensure that the Director of Resources makes adequate resource available to the internal audit function;
• Review the internal audit strategy, operational plan and work programme proposed by the Director of Resources;
• Consider the major findings of internal audit work, and management’s response;
• Ensure co-ordination between the internal and external auditors;
• Annually review of the effectiveness of internal audit.

**External Audit**

4.6 The Committee shall:

• Consider the appointment and performance of the external auditor, the audit fee and any questions of resignation or dismissal and make appropriate recommendations to the Council;
• Discuss and agree with the external auditor, before the audit commences, the nature and scope of the audit as set out in the external audit plan and their local evaluation of audit risks;
• Review the work and findings of the external auditor, consider the implications and management’s responses to their work;
• Review all external audit reports, including agreement of the annual audit letter before submission to the Council and any work undertaken outside the annual audit plan, together with the appropriateness of management responses.

**Financial Reporting**

4.7 The Committee shall:

• Review the statutory annual report and financial statements before submission to the Council, focusing particularly on:
  • The statement on internal control and other disclosures relevant to the Terms of Reference of the Committee;
  • Changes in, and compliance with, accounting policies and practices;
• Unadjusted mis-statements in the financial statements;
• Major judgmental areas;
• Significant adjustments resulting from the audit.

• Ensure that the systems for financial reporting to the Council, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Council.

5. **Quorum**
5.1 A quorum shall be three members of the Committee.

6. **Attendance**
6.1 Only Committee members shall be entitled to attend meetings of the Committee. The Chief Executive & Registrar, Director of Resources and representatives from the internal auditors shall normally attend meetings. Representatives from the external auditors shall attend meetings as required for relevant items. The Council Chair and other Council members may attend meetings at the invitation of, or with the agreement of, the Chair of the Committee.

6.2 The Committee may request any employee or member to attend a meeting to assist with its discussions on any particular matter or to provide any information it may reasonably require in order to fulfil its remit. All employees and members are directed to co-operate with any reasonable request made by the Committee.

6.3 The Committee may ask any or all non-members to withdraw for all or part of a meeting if it so decides. In such an instance, the Chair shall ensure that a proper record is made of the meeting.

7. **Access**
7.1 The senior representatives of internal audit and external audit shall have free and confidential access to the Chair of the Committee. At least once a year, the Committee should provide an opportunity to meet privately with the external and internal auditors.

8. **Authority**
8.1 The Committee is authorised by the Council to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

8.2 The Committee may obtain legal or other independent professional advice and secure the attendance of external advisers with relevant experience and expertise if it considers this necessary, within the budget approved by the Council.
9. **Secretariat**
9.1 The Director of Resources shall ensure that appropriate secretariat support is provided to the Chair and Committee.

10. **Dealing with concerns**
10.1 Processes have been agreed for raising and dealing with concerns about staff or Council members that fall outside the remit of the GPhC human resources function (Council paper 02.10/C/11).

10.2 Within these processes, the GPhC Chair or the Chair of the Audit & Risk Committee may seek to resolve a concern raised by one Council member about another. If the concern is not resolved and is not referred to the Privy Council at this stage (as provided for in the GPhC Constitution Order), it should be referred to the Council or the Audit & Risk Committee. The Committee should seek to address any such concern referred to it or refer it to Privy Council if it believes there may be grounds for suspension or removal of a Council member.

4. **Frequency of Meetings**
11.1 The Committee shall meet not less than three times a year. The external or internal auditors may request a meeting if they consider that one is necessary.
Annex 2

Audit & Risk Committee Meetings and Attendance

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<thead>
<tr>
<th></th>
<th>Informal preparatory meeting 22 July 2010</th>
<th>Committee meeting 29 October 2010</th>
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<tbody>
<tr>
<td>John Flook (Chair)</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Cathryn Brown</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Keith Wilson</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Judy Worthington</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Hilary Daniels</td>
<td>N/A (appointed from Nov 2010)</td>
<td>N/A (appointed from Nov 2010)</td>
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## Audit & Risk Committee meeting schedule and business cycle

<table>
<thead>
<tr>
<th>Committee meeting</th>
<th>Cyclical items</th>
<th>Submissions to the Council</th>
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<tbody>
<tr>
<td>February</td>
<td>Review of risk management strategy and framework</td>
<td>Strategic review of risks – April Council meeting</td>
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<td></td>
<td>Review of risk register</td>
<td>For April Council meeting</td>
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<td></td>
<td>Committee’s annual report to the Council</td>
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<td></td>
<td>Approval of internal audit programme (plus internal audit progress report in subsequent years)</td>
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<tr>
<td></td>
<td>Approval of external audit programme</td>
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<tr>
<td>May</td>
<td>Review of risk register</td>
<td>Strategic review of risks – September Council meeting</td>
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<td></td>
<td>Internal audit progress report</td>
<td>For June Council meeting</td>
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<td></td>
<td>Review of effectiveness of internal audit</td>
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<td></td>
<td>Review of annual accounts and external auditors’ report</td>
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<tr>
<td>October</td>
<td>Review of risk register</td>
<td>Strategic review of risks – January Council meeting</td>
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<td>Internal audit progress report</td>
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<td></td>
<td>Committee’s performance review</td>
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<tr>
<td></td>
<td>[Review of Standing Financial Instructions – in Oct 2012 and every two years thereafter]</td>
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