

Council meeting 12 April 2012

04.12/C/11

Public business

## **Audit and Risk Committee annual report to Council**

### **Purpose**

To provide the Council with the Audit and Risk Committee's annual report.

### **Recommendation**

**The Council is asked to note the annual report of the Audit and Risk Committee at Appendix 1.**

#### **1.0 Background**

1.1 The Committee's terms of reference 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, subject to changes, at its meeting on 2 February 2012.

1.2 A report on the Committee's work since February 2011 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 This 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 at Appendix 1.**

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5 March 2012

**Appendix 1****2012 report of the Audit & Risk Committee  
1<sup>st</sup> February 2011 – 31<sup>st</sup> January 2012****1. Introduction**

- 1.1 The Council 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. The first report of the Audit & Risk Committee went to the Council in April 2011. Of necessity, this report only covered only part of a year, as the GPhC became operational only in September 2010. This report covers the period Jan 2011 – Jan 2012.
- 1.3 The Committee's terms of reference and its membership are at Annex 1.
- 1.4 Members' attendance at meetings in the period to January 2012 is at Annex 2. The Committee's work during the past year is summarised in the sections below.

**2. Risk management**

- 2.1 The Committee respects the concerns of the Council and so the Committee's work on risk management continues to focus on risks to the achievement of the GPhC's strategic objectives. The Committee has reviewed the risk register at each meeting and its reviews have informed the Chief Executive & Registrar's reports on risk management to the Council. The dates of Council's strategic risk discussions have been more closely linked to the meeting dates of the Audit & Risk Committee, which provides assurance to the Council that their review of risks was informed by the Committee's recent views. The Committee has also addressed how clearer assurance could be provided to Council through the structure of risk management review papers for Council.
- 2.2 The Committee agreed that future reports on the risk register include evidence about how risk management was embedded in the organisation following a discussion seeking reassurance that the corporate risk register and the directorate risk registers were effectively linked with clear processes in place to

ensure that risks were able to be quickly placed onto the corporate register as necessary.

- 2.3 The Committee recommended to Council reviewing the governance, responsibility and accountability arrangements for the GPhC's associates. Work has subsequently been undertaken in this area and a governance framework for the associates has been agreed by the Council.
- 2.4 The Bribery Act came into force on 1 July 2011. In response, the Committee requested the development of an anti-bribery statement, bringing together the procedures the GPhC has in place to prevent bribery. This was approved by the Committee in October 2011 and agreed by Council in November 2011. It has now been incorporated in the Council's governance & assurance framework.

### 3. Internal audit

- 3.1 Deloitte, having been appointed as internal auditors for the GPhC for a period of three years, provided a 3 year draft internal audit plan, formulated with the focus on the first year. This plan was based on the risk register and would be revisited as it was acknowledged that the risk register would change. The Committee approved this internal audit plan for 2011 and will re-consider every February thereafter.
- 3.2 An internal audit progress report was considered at each meeting.
- 3.3 The Committee reviewed the reports of the completed internal audits, and the update on management actions, namely in:

Corporate Governance (GPhC 10/02)	Full
Core Financial Controls (GPhC 10/03)	Substantial
Registration Framework (GPhC 10/06)	Limited
Management of Controlled Drugs (GPhC 10/08)	Substantial
Procurement (GPhC 10/04)	Substantial
Programme Management (GPhC 10/05)	Substantial
Legacy Cases Project (GPhC 10/07)	Limited
General IT controls (GPhC 10/09)	Limited
GPhC registration assessment (GPhC 12/08)	Limited
Fitness to Practise (GPhC 12/06)	Substantial
Pharmacy School Accreditation (GPhC 12/05)	Substantial
Human Resources GPhC 12/10)	Substantial

The following audits were in progress or preparation as at January 2012:

External Communications
Data Security
Risk Management
Core Financial controls (GPhC 10/03)
Whistleblowing

3.4 The Committee has regularly monitored management actions stemming from the internal audits, with particular focus on limited gradings and higher priority actions, to ensure that the relevant changes are implemented.

3.5 The Committee agreed that whistleblowing be placed on the plan to be audited in 2011-2012 with standard setting deferred until 2012-2013. The Committee made this decision to emphasise the importance of whistleblowing in ensuring public protection. The raising concerns policy which sets out the process for raising concerns within the organisation not covered by the HR policies has been updated by the Committee and expanded to take account of associates of the GPhC. The revised policy is to be submitted to the Council for approval.

#### **4. External audit**

4.1 The annual report and annual accounts signed off by the external auditors, Grant Thornton, were reviewed by the Committee in May 2011, and recommended to the Council for approval.

4.2 The Committee approved the external audit plan.

#### **5. The Committee's ways of working**

5.1 The Committee has agreed the 2012 business cycle and schedule of meetings for 2012.

5.2 The Committee recommended to Council that the authority to sign any further engagement letters for the internal and external auditors be delegated to the Chair of the Council on the proviso that they are reported to the Committee.

5.3 The Committee looked at options for self-assessment of the Committee as a whole and undertook an assessment against a checklist, based on the Committee's remit, prior to the October 2011 meeting, where the results were discussed. The Committee noted the performance review and agreed that for the sake of transparency and the avoidance of any suggestion of conflicts of interest any non-audit services commissioned from either the internal or external auditors should be approved in advance by the Committee or by the Chair, if timescales did not allow consideration by the Committee.

- 5.4 The Committee agreed that Deloitte and Grant Thornton be requested to provide briefings on audit and risk-related topics for non-executives.

**6. Financial reporting**

- 6.1 As indicated above the Committee reviewed the GPhC's draft annual report and accounts for 2010/11,
- 6.2 The Committee considered the statement on internal control contained within the draft report, together with the assurances provided by the external and internal auditors, and recommended the approval of the annual report and accounts by the Council. . The accounts were laid in the Westminster and Scottish parliaments as a demonstration of the GPhC's public accountability.

**Annex 1****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.

**11. 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 &amp; Risk Committee Meetings and Attendance 2011

	Committee meeting 9 February 2011	Committee meeting 13 May 2011	Committee meeting 13 October 2011
John Flook (Chair)	✓	✓	✓
Cathryn Brown	✓	✓	✓
Keith Wilson	✓	✓	✓
Judy Worthington	✓	✓	X
Hilary Daniels	✓	✓	✓