Key Issues Memorandum

General Pharmaceutical Council

For the year ended 31 March 2012
11th May 2012

To the Audit Committee of the General Pharmaceutical Council ("GPhC")

The purpose of this memorandum is to highlight the key issues affecting the results of GPhC and the preparation of the GPhC’s financial statements for the year ended 31 March 2012. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 5).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
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1  Key audit issues

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and we provide details of additional matters that arose during the course of our work.

1.1  Status of audit
Our audit is substantially complete although we are finalising our procedures in the following areas:

- bank confirmation letter for Investec;
- review of final financial statements.

1.2  Matters identified at the planning stage
In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum dated 11 January 2012.
1.3 Matters identified at the planning stage

<table>
<thead>
<tr>
<th>Issue</th>
<th>Auditor commentary</th>
</tr>
</thead>
</table>
| 1 Risk that revenue is overstated               | We performed proof in total testing by recalculating the expected income from each revenue stream. We used prices from the GPhC website and monthly downloads from "concept" (the registrants' database) to calculate the amount of registrants who registered each month; from this data we recalculated the expected income.  
For registrants who spanned the financial year end we recalculated the deferred income and compared it to management's calculation.  
No significant issues were found – we identified a minor error in relation to Practicing Technician fees deferred income calculation which has been further discussed in Section 1.4 below. |
| 2 Risk that grant income is overstated          | A breakdown of any movement relating to the grant during the year was obtained. We selected a sample of items and agreed them back to invoice.  
We then assessed whether these expenditure amounts fell in line with the grant terms. No issues were noted.                                                                                                           |
| 3 Risk that costs are recognised in the incorrect period | We obtained a breakdown of the year end accruals and prepayments. A sample was selected and verified to supporting documentation to determine if they had been recognised in the correct period.  
We are finalising our work in this area. No issues have been noted to date.                                                                                                                                         |
4 **Transfer of accounting function**
From 1 April 2012 GPhC took over the full transactional accounting function from the Royal Pharmaceutical Society (RPS). The accounting function contract with RPS ceased on 1 May.

In our Audit Approach Memorandum we recommended GPhC agree with RPS that full access to the underlying RPS accounting data would be available to them if required after 1 May in the event that GPhC needed to review underlying accounts transactions, either for audit or for their own internal purposes.

We understand that all historic data was transferred over on 1 April, thus mitigating any risk of GPhC being unable to obtain data prior to that date.

### 1.4 Matters identified during the course of the audit

<table>
<thead>
<tr>
<th>Issue</th>
<th>Auditor commentary</th>
</tr>
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</table>
| 1 | **Risk that deferred income is understated**  
At the financial year end GPhC recognised deferred income of £15.3m. |

The registrants' spreadsheet was obtained detailing how the deferred registrant income (which makes up £13.1m of the £15.3m balance) had been calculated. We picked a sample and recalculated what we expected the deferred income to be using prices from GPhC's website and registrant data from concept downloads.

Our audit work identified that there had been some errors made whilst data had been manually input into the deferred income spreadsheet. The spreadsheet has now been amended and a £15k adjustment has been processed through the financial statements to correct the error.

**Management comment:**  
The issue arose as we started deferring the income of 1,500 technicians a month later than we should have done, this is due to the amount being entered in the incorrect column of the worksheet we use to calculate the release of income each month. This has now been corrected and a monthly check will now be carried out on the worksheet to ensure it is accurate each month.
2 Audit adjustments

2.1 Misstatements
We are required to communicate all uncorrected misstatements to you, other than those considered to be clearly trivial.

At present there are no uncorrected misstatements to report.

2.2 Impact of misstatements
All adjusted misstatements are set out in detail in section 2.3 below. In summary, the impact of adjustments is:

<table>
<thead>
<tr>
<th>Profit and loss account</th>
<th>Increase/ (Decrease) in profit £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit/(loss) for year ended 31 March 2012</td>
<td>7,408</td>
</tr>
<tr>
<td>Management adjustments posted (see 2.3.2 below)</td>
<td>(43)</td>
</tr>
<tr>
<td>Auditor proposed adjustments posted (see 2.3.1 below)</td>
<td>15</td>
</tr>
<tr>
<td>Final profit/(loss) per financial statements</td>
<td>7,380</td>
</tr>
</tbody>
</table>
### 2.3 Adjusted misstatements

<table>
<thead>
<tr>
<th>Journal reference</th>
<th>Detail</th>
<th>Balance sheet</th>
<th>Profit and loss</th>
<th>Profit effect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Draft profit / (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Deferred income</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Revenue</td>
<td></td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Being audit adjustment to deferred income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Expenditure</td>
<td></td>
<td>43</td>
<td>(43)</td>
</tr>
<tr>
<td></td>
<td>Creditors due under one year</td>
<td></td>
<td>43</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Being client adjustment for tax and NI on accommodation costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit / (loss) per final accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3 Design effectiveness of internal controls

3.1 Accounting system and internal control
Our audit is not designed to identify all significant weaknesses in GPhC's internal controls but is designed primarily for the purpose of expressing our opinion on the financial statements of GPhC. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work did not encompass a detailed review of all aspects of the internal controls and cannot be relied upon necessarily to disclose all defalcations or other irregularities or to include all possible improvements in internal control.

See 'The small print' for further details of our approach in respect of internal controls.

3.2 Key findings
IT security
We have identified some areas of weakness in relation to IT security, which are detailed below.
**Key to assessment of internal control deficiencies**

- **Material weakness** - risk of material misstatement
- **Significant deficiency** - risk of significant misstatement
- **Deficiency** - risk of inconsequential misstatement

### Assessment | Issue and risk | Recommendation
--- | --- | ---
1 | **IT Security** We understand that at present IT security is not tested to assess its vulnerability (e.g. unauthorised access to membership data). The main in this area is that personal data may be accessible. | We recommend that a programme is put in place to periodically test IT security, both from internal and external sources. **Management response:** We agree with the recommendation, and is something that will be addressed as we move to a new outsourced supplier. |
2 | **Access masterfiles** We understand that at present there are no approved lists of individuals in relation to masterfile access rights. | Access to and use of masterfiles (such as supplier masterfiles, HR data, membership data) should be restricted to a limited number of individuals. This approved list should be reviewed and re-approved at least annually, or when there is a change of staff within GPhC. **Management response:** In all systems we have a list of authorised users, however some of the systems access is not optimal, we are looking at how to improve access without risking security. |
4 Independence

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

<table>
<thead>
<tr>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit 20,040</td>
</tr>
</tbody>
</table>
Purpose of memorandum
This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee of the General Pharmaceutical Council (“GPhC”) and the Council Members.

The purpose of this memorandum is to highlight the key issues affecting the results of GPhC and the preparation of GPhC's financial statements for the year ended 31 March 2012.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of GPhC.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the GPhC arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

Responsibilities of the Council Members and auditors
The Council Members are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls
GPhC’s management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Audit Committee that it has done so.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Audit Committee.

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit