



Audit Committee

Minutes of the 25th meeting of the Audit Committee (AC) held on
Thursday 27 March 2014

Unconfirmed

Chair: Jane Hern

Present: Mark Eames
Kenneth McLean

In Attendance: Chris Shapcott, member designate of Audit Committee
Tim Walker, Chief Executive and Registrar
Matthew Redford, Head of Registration and Resources
Marcia Scott, Council and Executive Support Officer
Jenny Brown, Audit Director, and Vivien Ma, Audit Manager, Grant
Thornton LLP (Items 3 and 6)

Apologies: David Prince

Item 1: Welcome and apologies

1. The chair welcomed all participants to the meeting. A special welcome was extended to Chris Shapcott, recently appointed as the external lay member of the Audit Committee, who would formally commence in his role on 1 April. The Chair indicated that Mr Shapcott would be welcome to contribute to this meeting.
2. The Grant Thornton auditors, Jenny Brown and Vivien Ma were also welcomed to the meeting. The Committee was informed that Gabrielle Cust, Audit Manager, who would have normally attended the meeting with Jenny Brown, was currently on maternity leave. The Chair asked that the best wishes of the Committee be conveyed to Ms Cust.
3. Apologies were received from David Prince, along with comments which were copied to all Members. He requested that his thanks be conveyed to colleagues for their support during his term of office and also how much he enjoyed working with them. He wished the GOC continuing success for the future.

Item 2: Minutes of the previous meeting and matters arising

4. The minutes for the meeting, 12 November 2013, were agreed subject to the following amendments being made:

Page 2, paragraph 7: the first sentence be corrected to read:

Jenny Brown, Audit Director, thanked the Chair and Committee for the re-appointment and welcomed the opportunity to continue to work with the GOsC.

Matters arising

5. Item 4. Risk Register and Risk Tolerance – Page 3: The Chief Executive advised the Committee that the Risk Tolerance Statement had been approved by Council at the meeting of 29 January 2014.
6. Item 7. Monitoring Report – Page 7, Para 20c: The Chair confirmed that she had reviewed the GOsC Gifts and Hospitality Register.
7. Item 10. Any other business – Page 8, Para 25: PSA Commission on Data Sharing: The Chief Executive advised that the PSA project on implied consent was underway.

Members asked if the reference to GPs selling patient records was correct. It was confirmed that the information was correct based on a report relating to this issue and it had been discussed at a previous meeting in relation to osteopaths and the sale of patient records and data.

Item 3: Financial audit preparation and Audit Plan

8. The Chair introduced the item informing the Committee that in preparation for the discussions about the Audit Plan a private conversation had taken place with the Audit Director, Jenny Brown.
9. The Chair invited the auditors, Jenny Brown and Vivien Ma, to outline the preparations for the financial audit and the audit plan for the year ending March 2014. The auditors highlighted the key areas for attention in the financial audit for year ended 31 March 2014.
10. The keys points of the audit are:
 - a. The audit approach would use a risk-based model which ensures perceived key risks are prioritised and subjected to more in-depth testing.

- b. The risk-based audit approach builds on work completed in previous years ensuring that control points are revisited and re-tested.
 - c. The auditor gave assurances that the 'significant' risk highlighted in the 'Audit focused on risk' table under Account – Revenues, was in compliance with the international standard of accounting for presumed risks in a revenue cycle and was an area which was required to be presented as a high risk.
 - d. The auditor would be reviewing management override of controls adding that good improvements had been made since the previous audit.
 - e. The level of materiality was confirmed to remain at 5%.
 - f. Audit planning work commences 17-19 March 2014 and informs the audit fieldwork which begins on site from 1 May 2014.
 - g. The Auditor suggested that with the change in the UK accounting framework, it would be expected that the GOsC move to FRS102. The auditors also advised it would be useful for the GOsC to consider the wording to better describe its financial provisions under the statutory rules.
 - h. In considering the transition it was advised that if the GOsC sought charitable status then FRS102 might not apply as financial provision would be covered by SORP (Statement of Recommended Practice). It was agreed that care should be taken in how this activity was managed to ensure the GOsC did not move in a direction which might over-complicate financial reporting systems.
 - i. It was advised that GOsC should complete the move across to FRS102 by 31 March 2016 which would mean a transitional starting date of 1 April 2014. Members advised that it would prudent to continue investigating the possibility of the GOsC acquiring charitable status in tangent with the changes to the UK accounting framework and be mindful of any implications which might arise.
11. In discussion the following points were made and responded to:
- a. Overall Members were content with the approach and agreed that the emphasis on risk was correct.
 - b. Members commented it would be useful for there to be some input from the Auditors relating to the internal IT audit. The auditors responded that they did not audit the IT systems in detail but would identify elements of the IT controls and these would be tested.

- c. Members asked for clarification relating to the cash balance sheet. The Auditor explained that cash is a default risk with a grading of low. It was confirmed that checks and reconciliation are not only sought from the banks but also from companies which act on behalf of the GOsC managing the organisation's investment portfolio.
- d. The Head of Registration and Resources added that the GOsC held cash balances of £500K in investments and £500K in a 120-day bond outside of normal banking arrangements and generating a 2.35 % return on the investment. He also advised that the reserves were not only kept as a draw down for any unforeseen circumstances but also to support activities such as the osteopathic development programme and the outcome resulting from the Law Commission review.
- e. It was confirmed that responsibilities and assurances for the audit fell to the members of the Audit Committee who reported to Council. It was also confirmed that although the Audit Plan was not submitted to Council the findings are included in the Key Issues Memorandum (KIM) which is submitted to Council for discussion as it has overall responsibility for scrutiny of process.
- f. The Chair presented questions submitted by David Prince which were responded to as follows:
 - i. There does not appear to be any sampling/check of starters/leavers and payroll generally?

The auditors confirmed that they would be looking at the processes for staff starters, leavers and payroll. The Chief Executive confirmed that controls had been introduced following the advice of the auditors in 2012.
 - ii. What would be the sample size and degree of escalation if initial samples fail?

The auditors responded making the distinction between two types of testing, a systems check and accuracy check. A systems check would take place following a set number of testing failures. If there was a third test failure a red flag indicator would be raised. The second test reviews the validity and accuracy of a sample reviewing possible discrepancies within a sample.

The Chair thanked the auditors on behalf of the Committee for their presentation and outline of the audit plan.

Agreed: The Audit Committee agreed the audit proposal outlined in the Grant Thornton Audit Plan.

Item 4: Auditor Evaluation

12. The Chair introduced the item reminding the Committee that following the appointment of the Grant Thornton for a period of two years, subject to performance, the contract could be extended for a further three years. The Audit Committee was asked to consider the draft framework for evaluating the external financial auditors based on the following criteria and questions:

Criteria:

- a. Qualification and expertise
- b. Effectiveness
- c. Independence
- d. Quantitative information

Questions for consideration:

- a. Does the framework appear usable?
 - b. Does the framework strike the right balance between qualitative and quantitative information?
 - c. Is the framework proportionate to the size of the GOsC and the nature of the financial audit?
 - d. Is the framework asking the right questions of the right areas?
 - e. Are there areas which are not covered which the Audit Committee think should be?
 - f. Does Audit Committee think the framework would help it make a recommendation to Council as to the re-appointment, or not, of the external auditors?
13. In discussion the following points were raised and responded to:
- a. Members agreed that alignment in timescales should be ensured.

- b. Members sought confirmation of the evaluation process – whether the auditors would manage the review and self-completion of the evaluation documentation. It was confirmed that at present the plan was based on self-completion. Members cautioned that the evaluation should be completed by the GOsC and in addition there should be scope for discussion between the Audit Committee and the auditors as part of the review process.
- c. Members asked whether the framework could be used for other providers of services to the GOsC such as the Quality Assurance Agency (QAA). For the record the Chair declared an interest as a Board Member of the QAA.
- d. The Chair presented the comments submitted by David Prince: In summary – he was of the view that these tools should be used to inform a judgement but not become too mechanistic. He hoped that the relationship between the Chief Executive and the audit partner was such that recommendations would be proportionate and practical and not made for the sake of it. He suggested that the evaluation criteria should include a 'general overall judgement box' and something which invited an assessment of the relationship established between the auditors and the GOsC team (a view which the Chairman endorsed).

Noted: The draft framework was noted and agreed to be taken forward for implementation.

Item 5: Annual Report Review

- 14. The Head of Registration and Resources introduced the item highlighting the areas which Council had advised should be taken into account in reviewing the Annual Report:
 - a. Audience: for what purpose is the Annual Report being used? Who is the target audience?
 - b. Impact: the Annual Report should be more clearly focused on impact rather than what has been done by the GOsC in year.
 - c. Jargon: where possible the Annual Report should be jargon free.
- 15. Based on the Grant Thornton's charity governance review a number of points were highlighted for the GOsC to consider on how its own Annual Report could be improved.
- 16. In discussion the following points were made and responded to:

- a. The Committee agreed that the Annual Review was an opportunity to allow the GOsC to promote its message not only to the osteopathic profession but also to patients and the public.
- b. The question of the purpose of the Annual Report was raised and who exactly are its readers. The Chief Executive responded that the primary purpose of the Annual Report was for reporting to the Privy Council and to Parliament. He also advised that the report is a statutory requirement.
- c. The Committee asked what would be the value of undertaking either less or more in compiling the Annual Report. The Chief Executive responded that the Report should reflect the work of the GOsC's achievements in line with the Corporate and Business Plans.
- d. It was suggested that high level achievements and how the outcomes were arrived at should be included. The Chief Executive agreed that the report could be more outcome focussed but it should be acknowledged there is a need to work within financial constraints and budgets.
- e. It was suggested that the Report could be used more pro-actively as a communication tool, perhaps adopting a format similar to that of the GOsC e-bulletin, with the main achievements set out in outline so that practitioners, patients and other stakeholders can get an indication of what the organisation is doing. It was accepted that using some social media tools, such as video clips, might be expensive.
- f. It was agreed that there were clear audiences to consider as recipients for the report including osteopaths, Parliament, the media, the health sector, patients and the public. The Committee was agreed to the approach set out in the paper, accepting that the document needed to meet the statutory requirement of a report to Parliament.
- g. The Chair presented the comments submitted by David Prince: In summary he was interested to read the Grant Thornton analysis; suggested that it might be worth looking at what other conduct regulators produce and was generally supportive of this way forward.

Noted: the Committee noted the improvements to the Annual Report as set out in the annex.

Item 6: Revised risk register

17. The Chair advised that the risk register had been discussed with the auditors and commented that she thought it to be an excellent document.

18. The Chief Executive then introduced the item explaining that following discussions by the Audit Committee the Risk Register had been revised to make it more relevant to the Corporate and Business Plans, by making the main areas of activity to starting point of the analysis. The Chief Executive also reported that the following discussion at the private session of Council the Risk Tolerance Statement had been adopted and used to inform the development of the Risk Register. The Audit Committee was asked to review and consider the revised register.
19. In discussion the following points were made and responded to:
 - a. Overall the Audit Committee endorsed the revised Risk Register and agreed it was a good step towards clarifying accountability. It was agreed that the format was much easier to read but it was suggested that some adjustments to the formatting were required.
 - b. A concern was raised relating to work-stream 1.4. Continuing Fitness to Practice (revalidation), and whether the GOsC should be more risk averse and treat this more like a statutory requirement. The Chief Executive responded that he believed the GOsC was generally risk averse but that all areas would always be kept under review. He added that in the current absence of any specific requirement in this particular area, it was in effect still an area of innovation and development. It was also added that this was not a situation where the organisation was blind to risk and that the register was a new approach in looking at and managing risk issues.
 - c. It was agreed that the statutory committees must be aware of their duties and be able to provide assurances in line with their terms of reference in their annual reports. The Committee asked if the GOsC could be certain that the register achieves its primary purpose – the protection of patients and the public.
 - d. The Chief Executive responded that the GOsC has improved its processes and that the key was how to build from GOsC's statutory duties. He noted that the management of risk was not clearly illustrated in the Corporate Plan but that from 2016 this would be reviewed. He also advised that the envisaged changes in GOsC's statutory duties would also impact on risk issues.
 - e. The Auditors also agreed that the revised register was a positive development and not an unduly complicated document. The auditors suggested that mapping assurances was an appropriate action. They also asked how the adequacy of the assurances could be tested. They advised that it would be wise to record assurances of IT and security as this area posed the highest

risk to the organisation. The Chief Executive responded that IT/security were covered at 3.1 of the table but agreed this could be better highlighted.

- f. The Chief Executive also explained that a training day for members of Council was being planned in order to review and discuss the areas of assurances and assurance mechanisms. He added that because Council had ultimate oversight it was a discussion which was required.
- g. The auditors suggested that they would like to see updates and the impact on risk factors incorporated as this would make the register more user friendly. It was also suggested that advice arrows could also be included along with evidence of active reporting to Council.
- h. The Chair presented the following comments from David Prince: He liked the new approach with the emphasis on assurances and review of mitigation and on clear accountability.

Noted: the revised Risk Register was noted

Item 7: Internal audit progress report

- 20. The Chief Executive introduced the report giving an update on the progress of internal audit activity of the areas agreed by the Audit Committee:
 - a. Information security
 - b. Public website/zone information quality

In addition audit activity has also been undertaken by the Regulation Department.

- 21. The Chief Executive added that the work on information security was taking longer than had been scheduled due to the amount of data which had been collected and was not a case of data security issues. The Committee was assured that the outcome of the information security audit would be brought to the next meeting in July.
- 22. The Chief Executive also advised the Committee that the delay on the Website audit was due to technical problems for which work was being conducted to resolve as quickly as possible.
- 23. The Committee was informed that a lot of work had been conducted under the Quality Assurance Framework which included internal and external peer review with input from the General Optical Council who the GOsC were working in partnership with as reviewers.

24. In discussion the following points were made and responded to:
- a. There was consensus that it was preferred that the internal audits be thorough and delayed and rather than rushed.
 - b. It was confirmed there had been some discussion between the Head of Registration and members of the Audit Committee about the work being conducted on the internal audit and that members were happy with the approach which was been taken.

Noted: the report was noted.

Item 8: Scrutiny and governance of major contracts

25. The Chief Executive introduced the item which had been developed following discussions with the Chair about the management and oversight of the web 're-platforming' project. The Chair suggested it would be useful to seek the advice of the Audit Committee on the scrutiny and governance of major procurement projects.
26. The Chief Executive highlighted the gateway and governance processes that were envisaged to improve oversight and the management process for different levels of procurement. Although the GOsC were not regularly involved in large scale procurement it was good practice to have a system of scrutiny in place.
27. In discussion the following points were made:
- a. The Committee agreed that the suggested process was the correct way forward. It was agreed there should be a clear segregation of duties and relevant financial authority must be clear.
 - b. The Committee advised that cost, scheduling and timing of procurement projects were of critical importance and that the 10% contingency was sensible.
 - c. It was suggested that a legal review should be conducted by someone who was a specialist in this area if the GOsC in-house lawyer did not have the requisite specialist knowledge. The Chief Executive agreed saying that when and where required specialist advice is sought.
 - d. The Committee asked how the Executive would mitigate against procurement 'mission creep'? It was advised that the GOsC should ensure a robust Procurement Information Document (PID). It was also suggested that it

would be useful to revisit compliance policies relating to suppliers (compliance with Equality and Diversity requirements for example.).

- e. In response to the Committee's query about the publication of details relating to GOsC contractors the Chief Executive confirmed that a schedule of contracts will be published in due course. It is becoming a requirement for the information to be publically available and there are limited exemptions under the Freedom of Information Act.
- f. The Chair presented the comments made by David Prince: His view was that clear evidencing and transparency of the reasons for variation are the key thing and that practicality and proportionality are important for a small organisation. He suggested that >5% variations should be open to scrutiny by the Audit Committee and >10% reported in detail to Council.

Noted: the approach to procurement was noted.

Item 9: Monitoring Report

- 28. The Head of Registration and Resources introduced the report which sets out notifications of fraud, critical incidents, data breaches and corporate complaints.
- 29. In particular the Committee's attention was drawn to a significant incident on 7 February when staff were unable to access the hosted IT environment. The Committee was advised that the contingency plan put in place over 8/9 February, worked well ensuring staff who were able to work from home could do so on Monday 10 February.
- 30. It was also made clear to the Committee that at the resulting meeting with the GOsC Cloud Account Manager it was emphasised that the service received in finding a solution to the problems experienced was not satisfactory and assurances were received that a full investigation would be conducted including the grading of reporting.
- 31. Members' attention was also drawn to a number of data breaches involving emails being sent to the incorrect recipient. Although no sensitive data was involved on this occasion Senior Managers were concerned about continued data breaches and staff have been reminded about the importance of taking care when communicating by email and methods to help avoid pitfalls.
- 32. In discussion the following points were made:
 - a. GOsC Hosted IT Environment: Members were pleased that the continuity plan worked but thought it would be useful to know what had gone wrong.

Members also asked whether there was documentation in place to support any agreements subsequent to the meeting with the Cloud Account Manager. Both the Chief Executive and Head of Registration Resources responded that business continuity arrangements would be reviewed and any agreements supported by documentation.

- b. The Chief Executive added that although the incident was not helpful it showed a good degree of resilience to difficulties and that these could be resolved. He agreed there was still some risk but mitigation of the risk had improved.
- c. Members asked if the incident had any financial implications. The Head of Registration and Resources responded that overall there had been no expenses incurred and the cost in staff 'downtime' was minimal. It was agreed that suppliers of goods and services to the GOsC should be aware that any negative financial impact to the organisation could incur penalties.
- d. Data Breaches: Members' asked how much tolerance there was relating to data breaches. The Chief Executive responded that the key concern relating to data breaches was in communications involving to Fitness to Practice issues but the protocols and processes in place were much more robust making the risk of a breach less likely.

Noted: The Monitoring Report was noted

Item 10: Any other business

33. There was no other business

Item 11: Date of next meeting

34. The date of the next meeting will be Tuesday 1 July 2014 at 11.00 a.m.