

**Health Professions Council
Council Meeting – 11th May 2006**

INTERNAL AUDITOR APPOINTMENT - PUBLIC PAPER

Executive Summary and Recommendations

1. Introduction

2. Decision

The Council is asked to agree the following:

- That the recommendation of the Audit Committee that PKF (UK) LLP be appointed as HPC's internal auditors on an initial and ongoing basis, be accepted.

3. Background information

Following identification of the Paul Baker fraud in May 2005, the existing internal and external auditors were asked to terminate their professional relationship with HPC.

Following their fraud investigation commencing in mid May 2005, Baker Tilly forensic auditors (Jeffrey Davidson and Sabina Martin) wrote a Management Controls Review report, relating to internal controls associated with the fraud perpetrated. This was published and distributed to HPC in June 2005. Concurrently, the Audit Department of Baker Tilly (David Blacher and Helen Hudson) were invited to conduct the external audit of HPC's March 2005 Year Ending Financial Statements. The Executive took Baker Tilly's advice that the appointment of a completely separate firm of internal auditors should be made at a later date.

Since the previous firm of internal auditors were asked to terminate their professional relationship with HPC, effectively the only internal auditing done at HPC has been by Baker Tilly forensic auditors with a major emphasis on fraud and associated internal controls, as part of their fraud investigation. Not having a firm of internal auditors appointed makes the external audit of year end financial statements more risky and delays HPC adopting improved risk management and internal control practices that would typically be identified by internal auditors, based on best practice encountered elsewhere.

At the recruitment panel meeting on 24th March 2006 to select a firm of internal auditors for HPC, the panel interviewed a short list of three internal audit firms, following the request for tender. The interview panel solely comprised members of the Audit Committee, although the HPC Finance Manager and Baker Tilly audit partner were in attendance. The panel unanimously agreed to recommend to the Council that PKF (UK) LLP be appointed as HPC's internal auditors on an initial and ongoing basis.

According to literature provided by PKF, PKF (UK) LLP are an international accounting firm with over 7,700 partners in 300 offices worldwide. They have been trading for over 140 years. They are the ninth largest firm of accountants in the UK with 23 offices, including a London office based in Farringdon. The types of potential review they are able to perform include; Governance, Financial systems, IT, Corporate systems and Operations (Registrations, Fitness to Practise and Education).

4. Resource implications

Nil

5. Financial implications

Approx £20-25k plus VAT per annum Internal Auditor fees, depending on the agreed work programme.

6. Background papers

Nil

7. Appendices

Nil

8. Date of paper

25th April 2006

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