Council Meeting

Thursday, 6 July 2012 after the President’s Address at RCVS Day 2012

Held at the Royal College of Physicians, 11 St Andrews Place, Regent’s Park, London NW1 4LE

Agenda

1. Apologies for Absence

2. Declarations of Interests

3. Matters for Decision by Council
   a. Composition of the RCVS Audit & Risk Committee. Unclassified
      To receive the recommendations of the Interview Panel
      for the appointment of an external Chairman and member/s

   b. To approve the appointment of Officers for 2012/13
      President: Jacqui Molyneux
      Vice President: Jerry Davies
      Vice President: Neil Smith
      Treasurer: Bradley Viner

4. Date of Next Meeting
   Thursday, 1 November 2012 at 10:00 am

Mrs Gabriella Braun, Secretary to RCVS Council
executiveoffice@rcvs.org.uk – 0207 202 0761
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<th>Meeting</th>
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<tr>
<td>Date</td>
<td>6 July 2012</td>
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<tr>
<td>Title</td>
<td>Composition of the Audit and Risk Committee</td>
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<tr>
<td>Classification</td>
<td>Unclassified</td>
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<tr>
<td>Summary</td>
<td>To re-consider the composition of the RCVS Audit and Risk Committee and receive the recommendations for external members of the Committee.</td>
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| Decisions required | 1. To make a final decision on the composition of the RCVS audit and Risk Committee.  
2. To appoint an external Chairman and one or two additional external members of the RCVS Audit and Risk Committee. |
| Attachments | Annex A: March 2012 Council paper on the Audit and Risk Committee  
Annex B: Confidential recommendations of the Independent selection panel – to be circulated prior to the meeting. |
| Author    | Gordon Hockey  
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g.hockey@rcvs.org.uk |
Reason for the Paper

1. At the June 2012 Council meeting, Council decided to reconsider the composition of the RCVS Audit and Risk Committee.

Background

2. In March 2012, Council considered a paper on audit and risk attached as Annex A. The relevant minutes of the March 2012 Council meeting record:

   RCVS ‘Overspend’ Review and Audit & Risk Committee

24. The Treasurer introduced the report and reminded the meeting that Council had already agreed in principle to the establishment of an ‘Audit and Risk’ Committee [ARC] and he highlighted the decisions to be made regarding terms of reference, composition and reporting.

25. Referring to the two other main recommendations in the ‘overspend’ review, he reported that a project management protocol had been considered by PRC and that notes are made of the RCVS Management Team Meetings and passed to Officers. Other recommendations would be looked at once an ARC is in place.

26. There was a lengthy discussion of the various issues.

27. The Acting Registrar indicated that there was provision for it to meet more than 3 or 4 times a year if required.

28. There were several suggestions for amending the proposed composition including altering the balance variously between Council and external members; Officers to be excluded from sitting on it; no Council members to sit on it; the majority of members to be external; all members to be external; the Chairman to be external. Members largely agreed that there should be a mix of those who had an understanding of how the College works, i.e. Council members, and external members to challenge and scrutinise.

29. There was concern that the proposal at section 3.1 of the ‘Draft RCVS Terms of Reference for the ARC’ for ‘up to’ a number of external members might be interpreted as meaning there could be no external members. It was agreed to remove the words ‘up to’.

30. The President clarified that ‘external’ meant that the individual was not on Council and thus could be a veterinary surgeon.
31. Council approved, by a majority, a proposed amendment to the composition: the Chairman to be an external appointee; the majority of members to be externally appointed; Officers to be excluded from membership.

32. The Treasurer drew attention to the current proposal that Nominations Committee should appoint the designated number of Council members to the ARC and that the external members would be appointed independently. Following a suggestion that it should be Council rather than Nominations Committee that appointed the former, Council was reminded that Nominations Committee reports to Council and its recommendations are subject to Council approval. Members agreed to the proposals as set out for appointing members of the ARC.

33. It was agreed that the Audit and Risk Committee should report directly to Council with minutes circulated to all members of Council and that for the time being it should operate alongside the Governance Review Group.

34. Answering concerns about the costs involved in setting up and supporting an ARC, the President said that an organisation such as the College has to be seen to be conducting its business in a proper manner and added that internal processes are always looking at ways of minimising costs.

35. Council recommended that:

   a) The RCVS Audit and Risk Committee is introduced on an ad hoc basis with the terms of reference at Annex 4 [of the paper attached as Annex A] to be formalised in the RCVS General Administration Byelaws as soon as appropriate;

   b) The composition of the RCVS Audit and Risk Committee to be as agreed in the amendment approved above;

   c) The RCVS Audit and Risk Committee is to report directly to Council and as described in the terms of reference, and minutes of meetings to be circulated to all Council members and

   d) That for the time being the Audit and Risk Committee runs alongside the Governance Review Group.

Action: Acting Registrar
3. At the June 2012 Council meeting, during the confidential session, the composition of the RCVS Audit and Risk Committee was raised again and the relevant draft minutes (which are not confidential) record:

    During consideration of the nominations for the Audit and Risk Committee, it was suggested that there should be three members of Council and two external appointments; rather than two Council members and three external appointments; the Chairman to be an external appointment.

    There was discussion of the issue and it was suggested that there should be more Council members on the committee to ensure an adequate level of knowledge of the RCVS and its workings; and of the profession and veterinary issues. It was commented that if, as constituted, the veterinary surgeon Council member missed a meeting, it was possible that the committee could include no veterinary surgeons and this could be a weakness. It was noted that the proposed external appointments were not yet known and it was agreed external members should not be appointed until Council had discussed the issue fully and in public (although the appointments process already ongoing should continue).

    It was noted that the original paper before Council in March 2012 had proposed three Council appointments and two external appointments.

    It was agreed the issue should be reconsidered at the July meeting of Council.

4. An independent selection panel is meeting to recommend the appointment of an external Chairman for the RCVS Audit and Risk Committee and one or two external members of the Committee, depending on Council’s review of the Committee’s membership. The panel’s recommendations will be circulated by e-mail prior to the meeting, as a confidential Annex B.

Conclusion

5. Council is asked to appoint an external Chairman to the RCVS Audit and Risk Committee, as recommended by the independent selection panel.

6. Council is asked to decide whether there should be a majority of external members of the RCVS Audit and Risk Committee (3 external and 2 Council members) or a majority of Council members (3 Council members and 2 external members).

7. Depending on the decision for external membership, to appoint one or two additional external members of the RCVS Audit and Risk Committee, as recommended by the independent selection panel.

8. If relevant, Council may need to consider the appointment of another Council member to the RCVS Audit and Risk Committee.
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<td>Date</td>
<td>1 March 2012</td>
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<tr>
<td>Title</td>
<td>RCVS ‘Overspend’ Review and Audit and Risk Committee</td>
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<td>Classification</td>
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<tr>
<td>Summary</td>
<td>To report on the RCVS response to the recommendations of the ‘Overspend’ Review, with detailed consideration of an audit and risk committee, a recommendation that RCVS has accepted in principle; and to consider the future of the Governance Review Group.</td>
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<td>Decisions required</td>
<td>To introduce an RCVS Audit and Risk Committee, with approval of its:</td>
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<td>• Terms of Reference</td>
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<td>Also, to consider disbanding the Governance Review Group</td>
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<td>Attachments</td>
<td>Annex 1: Recommendations of the RCVS ‘Overspend’ Review</td>
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<td>Annex 2: Summary of the RCVS ‘Overspend’ Review</td>
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<td>Annex 4: Draft terms of reference for an RCVS audit and risk committee</td>
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<td>Annex 5: Extract from a Council paper in June 2009 to consider RCVS Corporate Governance</td>
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<td>Annex 6: Membership of the audit and risk committees of certain other regulators</td>
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<td>Annex 7: Initial estimate of costs and financial observations</td>
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<td>Author</td>
<td>Gordon Hockey</td>
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<td>Acting Registrar</td>
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<td><a href="mailto:g.hockey@rcvs.org.uk">g.hockey@rcvs.org.uk</a></td>
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Background

1. In November 2011, in closed session, RCVS Council considered the RCVS ‘Overspend’ Review (‘the Review’), with one sentence redacted; the Review is otherwise known as the McKelvey Report. On external legal advice from solicitors, RCVS has published only the recommendations from the Review.

2. Freedom of Information Act (FOIA) requests have been made for the RCVS ‘Overspend’ Review and refused, again on the basis of external legal advice, this time from counsel. The RCVS decision is the subject of an appeal to the Information Commissioner.

3. The Review recommendations are attached as annex 1 and include the recommendation that the RCVS should have an audit and risk committee.

4. As regards audit and risk, the Review concluded that the Planning and Resources Committee currently acts as a ‘Finance and General Purposes Committee’ as well as a quasi audit and risk committee, which is not best practice.

5. In November 2011, RCVS Council decided that an audit and risk committee should be introduced as a priority.

Current Position as regards the RCVS ‘Overspend’ Review

6. The RCVS has indicated publicly that the Past President’s group, which includes two Privy Council appointed lay members (PP+2), will consider the Review recommendations. The PP+2 Report is the subject of discussion at this Council meeting (pm open session).

7. Attached as annex 2, is a summary of the RCVS ‘Overspend’ Review, which breaks down the Review’s recommendations into three main areas. These are being addressed by the RCVS as follows.

Projects

a) A Project Management Protocol had been developed and on 9 February 2012 was approved by P&RC. P&RC accepted the protocol, subject to its ongoing development with use and decided that it should be reviewed in a year. The report at this meeting by the Governance Review Group (GRG) comments on the protocol and the protocol will be revised to take into account the views of the GRG.

RCVS Management Team

b) The RCVS management team (MTM) generally meets every two weeks and currently includes the Acting Registrar and the ten Heads of Departments. MTM is an informal meeting for RCVS Heads of Department to share information and liaise with each other; the meetings are chaired by the Acting Registrar. From 6 December 2011, notes of the meetings have been kept and passed to Officers, as recommended in the
Review. Management reports are made to the Registrar and Officers on a regular basis and, annually, each department’s work is reviewed; reports are also made to RCVS committees and Council, as appropriate.

**Audit and Risk Committee and associated work**

c) On 9 February 2012, P&RC agreed to recommend to Council the introduction of an audit and risk committee, in particular:

a) the terms of reference for the committee, as set out in annex 4;
b) composition of the committee to be: one veterinary surgeon Council member, one lay Council member, and another Council member and up to two external, independently appointed members; with the members collectively to have an appropriate skills mix of financial and audit experience and the Chairman’s role to be set out in writing;
c) the committee to report direct to Council.

P&RC also recommended that the Governance Review Group is disbanded once the audit and risk committee is in place and the byelaws have been changed.

d) Once established an audit and risk committee could consider the associated work by RCVS, in relation to paragraphs b, c, i, j, k, l and m of annex 2.

**Governance and the audit and risk committee**

8. ‘The Good Governance Standard for Public Services’ published in 2004 by the Independent Commission on Good Governance in Public Services sets out the wider picture of good governance and is described briefly in annex 3. The report advises that an audit and risk committee is good practice and makes clear that an audit and risk committee is only a part of the good governance of the organisation.

9. The HM Treasury and the Cabinet Office’s ‘Code of good practice 2011’ on ‘Corporate governance to central government departments’ gives advice to the department board, which forms the collective strategic and operational leadership of a department or equivalent. The Code advises that boards should be supported by ‘an audit and risk assurance committee, chaired by a suitably experienced non-executive board member’ (principle 5.1).

10. While ‘The Good Governance Standard for Public Services’ and ‘the HM Treasury and the Cabinet Office’s ‘Code of good practice 2011’ are not directly applicable to the RCVS they provide a good framework for the RCVS to consider its governance requirements. Many other regulators similar to the RCVS have audit and risk committees, for example, the General Medical Council, General Dental Council, General Osteopathic Council, General Pharmaceutical Council and the Council for Healthcare Regulatory Excellence, the overarching regulator for health care regulators.

11. Linked to ‘the HM Treasury and the Cabinet Office’s ‘Code of good practice 2011’ is the HM Treasury ‘Audit Committee Handbook’, which provides guidance on the make up of an audit and
risk committees and is described briefly in annex 3. The paper before P&RC also considered a number of audit and risk committees of other regulators.

The role of an audit and risk committee

12. The role of an audit and risk committee is to support the governing body, in this case RCVS Council, by providing assurances on governance, risk management and internal control framework. These assurances take into account such issues as risk assessment and management, internal and external audit, and financial reporting. The level of assurances sought will determine the measures required and the resources necessary to deliver them. An audit and risk committee should have no executive responsibilities and should not make or endorse any decisions, although it may comment on the strengths or weaknesses of controls and how any weaknesses may be dealt with. The terms of reference for an audit and risk committee should be determined by the governing body, and should include, for example, appropriate powers, information requirements, funding and training for members. The proposed terms of reference for an RCVS audit and risk committee are set out in annex 4.

Membership, independence, objectivity and understanding

13. Members of the RCVS Audit and Risk Committee may be drawn from the governing body, in this case RCVS Council, but it is essential that such committees include those with appropriate qualifications and experience. Appointments are made from outside the governing body, where such experience does not exist amongst governing body members and to provide greater independence for the committee. Audit and risk committees should not include any executive/staff members, although appropriate members of staff will usually attend its meetings and support its work. The independence and objectivity of members is important and the ‘Nolan principles’ (the seven principles identified by the Nolan Committee in its first report on the standards in public life in May 1995) of selflessness, integrity, objectivity, accountability, openness, honesty and leadership may be quoted. The numbers on such committees tend to be small: General Osteopathic Council, currently 4 members; Council for healthcare Regulatory Excellence, a minimum of 4 members; General Pharmaceutical Council, 5 members, with a quorum of 3. Also, generally the leader of the governing body is not a member of the audit and risk committee. The independence of the committee is emphasised by its separate budget with which it can seek advice external to the RCVS and it is suggested that a figure of £20,000 is provided for the committee.

14. The Governance Review Group’s report welcomes the introduction of an audit and risk committee, but advises that Council should appoint only those external to RCVS Council. The GRG refer to the Council minutes that established the group (annex 5) and the Overspend Review or McKelvey Report (annex 1). However, the practice of other regulators, where the Council or Board members are non-executives and may be external to the profession, has been to appoint those Council or Board members to the audit and risk committee (three examples are set out in annex 6). In addition, HM Treasury ‘Audit Committee Handbook’ (there is a link to this in paragraph 3 annex 7) describes the membership of audit and risk committees as:
The members of the Audit Committee are:

- non-executive Board members: List those who are appointed to the Audit Committee;
- independent External members: List those who are appointed to the Audit Committee; (in all cases indicate the date of appointment and when the appointment is due to end / become eligible for renewal).
- The Audit Committee will be Chaired by ............
- The Audit Committee will be provided with a secretariat function by........

Risk

15. An audit and risk committee usually considers an organisation’s risk register and together with an organisation’s risk manager will assist with the mitigation of risks once identified. A traffic light system may be used to assist with the process. This can be particularly helpful in complex structures such as the RCVS where responsibilities are often blurred or shared. An example of the system might be a report from the Professional Conduct Department warning that the listing times for Disciplinary Hearings is increasing. These steps are recorded in the risk register, which is usually updated before each audit and risk committee meeting. The risk manager might give this an amber risk and agree or note the steps to be undertaken to decrease the listing times. The audit and risk committee will advise on the proposed mitigation, for example, whether it is sufficient and timely. The audit and risk committee might agree or disagree with the assigned risk level of amber and might suggest additional mitigation, for example, by communicating to the Officers, the Chief Executive or the Registrar that additional resources should be allocated to this work. If the mitigation is unsuccessful and the delays increase, the audit and risk committee could invite Council to consider the position, although the Officers, the Chief Executive or the Registrar might have decided already that it was necessary to involve Council, which as the governing body is ultimately responsible for the RCVS fulfilling its statutory functions.

Communication

16. Communication is essential from the audit and risk committee to the governing body, in this case RCVS Council, and also between the committee and the executive/staff, to ensure that assurances are received by the governing body and, for example, any weakness identified by the audit and risk committee are acted on by the executive and staff. For the healthcare regulators this usually means the minutes of meetings are circulated to the governing body and an annual report to the governing body on its work; as well as separate reports as and when necessary. P&RC decided that an audit and risk committee should report to Council. It is suggested the minutes of each meeting are circulated to all Council members.

Establishing the audit and risk committee and disbanding the Governance Review Group

17. It is suggested that the committee is established on an ad hoc basis initially and that the General Administration Byelaws are changed at the soonest appropriate time, possibly if and when the RCVS committee structure is revised prior to the introduction of the Legislative Reform Order (LRO). On 9 March 2012, P&RC recommended to Council that the GRG is disbanded once an
audit and risk committee has been established and following the introduction of new Byelaws (the GRG is provided for in the Byelaws, so must remain until the Byelaws are revised). However, Council may wish to seek the views of the GRG before making a final decision.

PR issues

18. The PR issues relate more to a failure to introduce an audit and risk committee, rather than its introduction: following the RCVS ‘Overspend’ Review, PR is likely to be negative if there is any failure to introduce the committee.

Financial implications

19. There will be significant financial implications arising from the introduction of an audit and risk committee, particularly one that has greater autonomy and can seek external advice as appropriate. In addition, costs are likely to be incurred in providing the additional relevant information on RCVS activities, with the cost dependent on the level of assurances sought by RCVS Council as the governing body. Attached as annex 6 are some initial costs.

Conclusions / Recommendations

20. Council has decided already that there is a need for an audit and risk committee and is asked to accept the recommendations of P&RC that:

   e) The RCVS Audit and Risk Committee is introduced on an ad hoc basis with the terms of Reference at annex 4, to be formalised in the RCVS General Administration Byelaws as soon as appropriate;

   f) The composition of the RCVS Audit and Risk Committee to be as described in paragraph 7(c) of this paper and the terms of reference; and,

   g) The RCVS Audit and Risk Committee is to report direct to Council and as described in the terms of reference, and minutes of meetings to be circulated to all Council members.

21. P&RC have also recommended that the Governance Review Group is disbanded. Council may wish to decide this now or may wish to give the GRG an opportunity to respond to this proposal before making a final decision.
Recommendations from the McKelvey Report, presented to RCVS Council on 3 November 2011

The Group’s remit was “to look at all aspects that relate to the RCVS budgeting and expenditure processes and to propose lessons that should be learned”.

Recommendations for future Capital Building Projects
We would make the following recommendations with regard to the future management of capital building projects and the authorisation of expenditure:

The College should urgently review its protocols for the agreement of business plans and project specifications, the processes for sign-off of those plans, the procedures for tendering and agreement of contracts, and the methodology for timeous reporting of progress, against agreed milestones, to Officers and to Council. This should include a review of written authorisation limits for expenditure at all levels. These limits should be approved by Council, and regularly reviewed.

The RCVS General Administration Bye Laws indicate that the Treasurer is ultimately responsible, on behalf of Council, for the oversight of capital projects and for their delivery on budget. Day-to-day responsibility should be formally devolved to the Chief Executive, Project Manager or Facilities Manager, according to their limits of authority. They should be required to provide regular and timeous reports in an agreed format, against project milestones, to the Treasurer, and thereby to Council, throughout the project. We suggest that a standard Red/Amar/Orange (RAG) reporting system would be a useful start.

The Treasurer should be set clear guidelines, with respect to his/her devolved level of authority from the Council, to amend plans, alter budgets or agree contractual changes on behalf of the College once initial contracts have been signed.

The College should consider the skills sets available within the current College staffing compliment with regard to the management of major capital building projects. As the management of major capital building projects is not a regular requirement of the College staff, the College may wish to consider the appointment of professional Project Managers to oversee major capital building projects in future. The College should carefully consider the pivotal role of the Treasurer in ensuring not only financial accountability, but also in ensuring that best practice standards are regularly reviewed across all College operations through internal audit and external benchmarking of business processes. The skills set required for the Treasurer should be formally reviewed and the appointment process should take due consideration of these skills requirements.

Recommendations regarding future IT projects
The Treasurer should have the overall responsibility for the delivery of IT projects on budget on behalf of the Council, with day-to-day authority devolved for project delivery to the Chief Executive and the Head of Corporate Services.

The Planning and Resources Committee (PRC) and the Council should clarify the limits of authority that the Treasurer has to change project specifications, alter an existing contract, or increase expenditure, without formal reference to the PRC and to the Council.

Improved routes of communication require to be established for consultation with members of PRC regarding project expenditure outwith normal PRC meeting schedules.

We would recommend that lines of communication are formalised and strengthened with written project milestones and regular written progress reports, against agreed milestones, provided by the Executive staff for Officers. Variances from plan should be easily identifiable.

The College should review the skills available within the core College staff compliment and consider the appointment of an independent Project Manager to oversee the specification, evaluation, tendering and delivery of major IT investments.
Implications for Governance – general observations
During the course of our discussions with staff and with Officers we have made a series of observations with regard to procedures and governance within the College. In terms of the prevention of future “overspend” we have a number of recommendations to make which we would hope will be given due consideration by the Governance Review Group and by the RCVS Council.

Audit and Risk
During the course of our investigations of the “overspend”, it became clear to us that the Planning and Resources Committee is, de facto, acting as both a Finance and General Purposes Committee, and as a quasi Audit Committee. In our view this is entirely inappropriate and does not reflect best governance practice. It became clear to us that the PRC did not interrogate projects in detail, received post-hoc information, and at times exhibited a ‘them and us’ culture which was not conducive to open, challenging, and transparent governance.

We were unable to determine the current criteria for the appointment of the “independent auditor” who is an ex officio member of the PRC, nor were we able to establish the exact remit for that role. However, it is clear to us that the role is not as fully independent as might properly be expected, and the skills requirements of the post are ill defined.

We are very concerned that a formal internal audit function does not exist in the College, and therefore appropriate benchmarking of procedures and practices is not regularly undertaken through independent external assessment. Without such assessment we are unclear as to how members of the Council can satisfy themselves with regard to ensuring best practice across the College’s various statutory and business functions.

We are firmly of the view that an Audit and Risk Committee, fully independent of the Finance and Planning portfolio, should be formed. The Audit and Risk Committee should take oversight of both external and internal audit procedures and maintain the Risk Register.

We understand (from anecdotal accounts) that a similar recommendation was made some years ago following a similar investigation of an overspend on a buildings project, and that the Registrar and Head of Finance supported this recommendation. However the Council has failed, for whatever reasons, to act on that recommendation.

Reporting mechanisms
During the course of our investigations we have been unable to determine exactly how Executive staff report to Officers. Current mechanisms appear to be somewhat ad hoc in relation to management reports. We would recommend that these routes of communication are formalised and that Minutes of Management Team meetings, with action points, are made available to Officers.

Project Planning and Management
As noted above, we were unable to determine, for the Lower Ground Floor project, where ultimate responsibility lay for agreement of plans, contracts and budgets. We would recommend that in future this is formally set down and recorded and that one person takes overall responsibility for these matters. In this respect the paper which was presented to PRC on 12 May 2011, from the Facilities Manager, on “Management of major projects” forms the rudimentary basis of such a project management framework. We recommend that this is further developed by the PRC, benchmarked externally, and implemented as soon as possible.

Commitment and Authorisation of Expenditure
During the course of our investigations we were unable to clearly determine the limits for commitment and authorisation of expenditure that is currently held by Officers or staff. We strongly recommend that clear limits for both the commitment, and for the authorisation of the expenditure, are formally recorded and implemented as a matter of urgency, and that these are reviewed annually by the Audit and Risk Committee.

Council Skills Matrix
Whilst we fully understand and appreciate that the skills portfolio inherent in the Council is essentially
determined through an electoral process, we would recommend that the College gives due consideration to the co-option and appointment of non-elected members of Council through a defined skills matrix approach. This is particularly relevant with regard to the role of the Treasurer and our proposal to form an Audit and Risk Committee so that there is independent external assessment with regard to best practice in management and governance processes.

External Auditors
The current external auditors have been contracted for the provision of audit services for a significant period of time (apparently more than ten years). In our view this is inappropriate and is a significant failing on behalf of the Council to ensure proper governance. We were unable to determine the criteria for tendering for the reappointment of auditors. We would recommend that this matter requires urgent attention by the Council and the Audit and Risk Committee in order to comply with acceptable governance practice. An Internal Audit process should also be put in place as soon as possible.

Overall Conclusions
Weaknesses exist in the governance of the RCVS which pose significant risks to the proper conduct of its business. Executive staff have not been provided with a robust governance framework by the Council, and this has led to a number of unnecessary misunderstandings between Executive staff and Non Executive members of Council. These matters should be urgently addressed by Council in order to ensure that the confidence of ordinary members of the profession in their College can be restored.
Summary of the RCVS ‘Overspend’ Review

Major Projects

a) RCVS should review its protocols for the agreement, management and reporting of major projects (including business plans and project specifications).

b) RCVS should clarify the authority devolved by Council to the Planning and Resources Committee, Treasurer, Chief Executive and other persons responsible for major projects, particularly any authority to alter plans or budgets for major projects.

c) RCVS should review the skill sets available within current RCVS staff before undertaking any major project and consider the appointment of an independent project manager to oversee a major project.

d) RCVS should improve the routes of communication between those with responsibility for a major project and the Planning and Resources Committee, to ensure decisions can be made more often than the three scheduled meetings a year.

e) RCVS should nominate one person to take responsibility for agreement of the plans, contracts and budgets for a major project.

RCVS Management Team

f) RCVS should have formal minutes of senior executive staff or management team meetings.

Audit and Risk Committee

g) RCVS should have an audit and risk committee so that Council can satisfy itself that RCVS carries out its statutory and business functions properly.

h) RCVS should consider the skills set required for the Treasurer and take this into account when appointing the Treasurer.

i) RCVS should set clear limits for commitment and authorisation of expenditure for RCVS Officers and staff and these should be recorded and reviewed annually by the audit and risk committee.

j) RCVS set a skills matrix approach to the appointment or co-option of non-elected members to RCVS Council, particularly with regard to the role of Treasurer and the audit and risk committee so that there is independent external assessment with regard to best practice in the management and governance processes.

k) RCVS should have a protocol for the appointment of external auditors, which should be applied.

l) RCVS should put into place an internal audit process.
Good Governance

1 Guidance on the good governance of organisations such as the RCVS, which act in the public interest, is found in ‘The Good Governance Standard for Public Services’ by the Independent Commission on Good Governance in Public Services, which was issued in 2004 and is available at http://www.cipfa.org.uk/pt/download/governance_standard.pdf.

2 The Good Governance Standard for Public Services sets out six principles of good governance as follows:

   i. Good governance means focusing on the organisation’s purpose and on outcomes for citizens and service users
   ii. Good governance means performing effectively in clearly defined functions and roles
   iii. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour
   iv. Good governance means taking informed, transparent decisions and managing risk
   v. Good governance means developing the capacity and capability of the governing body to be effective
   vi. Good governance means engaging stakeholders and making accountability real.

3 The full governance framework for any organisation includes the legal framework in which it carries out its work as well as its any rules or Byelaws, codes of conduct for members of the governing body, codes for the declaration of interests and the matters reserved to Council and delegated to others, in particular the Chief Executive. This is set out by the General Dental Council http://www.gdc-uk.org/Governanceandcorporate/Governancemanual/Pages/default.aspx which uses the ‘Governance Framework’ in ‘Good Governance in Public Services’. This is attached as annex 2.

4 ‘Good Governance in Public Services’ advises on effective risk management (pages 15-16) as follows:

   A risk management system should consider the full range of the organisation’s activities and responsibilities, and continuously check that various good management disciplines are in place, including:
   a. strategies and policies are put into practice in all relevant parts of the organisation
   b. strategies and policies are well designed and regularly reviewed
   c. high quality services are delivered efficiently and effectively
   d. performance is regularly and rigorously monitored and effective
e. measures are put in place to tackle poor performance laws and regulations are complied with information used by the organisation is relevant, accurate, up-to-date, timely and reliable

f. financial statements and other information published by the organisation are accurate and reliable

g. financial resources are managed efficiently and effectively and are safeguarded

h. human and other resources are appropriately managed and safeguarded.

A risk management system also supports the annual statement on internal control that many public service organisations now have to produce. Appropriate responses to risk will include implementing internal controls, insuring against the risk, terminating the activity that is causing the risk, modifying the risk or, in some circumstances, accepting the risk.

5 There are also examples of good practice (page 18) which include the following: Gaining assurance that risk management arrangements are working effectively can be delegated to an audit committee or equivalent body, where the size of the organisation makes this practical. (my emphasis)

6 The HM Treasury and the Cabinet Office’s ‘Code of good practice 2011’ on ‘Corporate governance to central government departments’ provides (principle 5) that

“Principle 5: The board should ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. In this respect, the board should be independently advised by:

a) an audit committee chaired by an independent non-executive member;

b) an internal audit service operating in accordance with Government Internal Audit Standards.”

7 The HM Treasury Audit Committee Handbook (http://www.hm-treasury.gov.uk/d/auditcommitteehandbook140307.pdf) provides more detail on audit and risk committees and includes the observation that ‘An effective Audit Committee must have members who are both independent and objective. It is good practice, so far as possible, for audit committee members to be independent non-executive Board members.’
1. Constitution

1.1 The Council has established the Audit and 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:

   a) Monitor the Council’s risk management arrangements
   b) Approve the internal audit programme
   c) 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 and 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 RCVS President 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 and Risk Committee XXXXXX

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 RCVS 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:

a) 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;

b) 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;

c) The policies for ensuring compliance with relevant regulatory, legal, governance and code of conduct requirements;

d) 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 Department 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:

a) risk is being appropriately managed and controls are adequate (no action needed)

b) risk is inadequately controlled (action needed to improve control)
c) risk is over-controlled (resource being wasted which could be diverted to another use)

d) 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:

a) Ensure that there is an effective internal audit function that complies with any applicable standards and provides appropriate independent assurance to the Council, Audit and Risk Committee, and Chief Executive & Registrar;

b) 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;

c) Ensure that the Manager of Human Resources makes adequate resource available to the internal audit function;

d) Review the internal audit strategy, operational plan and work programme;

e) Consider the major findings of internal audit work, and management’s response;

f) Ensure co-ordination between the internal and external auditors;

g) Annually review of the effectiveness of internal audit.

**External Audit**

4.6 The Committee shall:

a) 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;

b) 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;
c) Review the work and findings of the external auditor, consider the implications and management's responses to their work;

d) 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:

a) review the annual financial statements, focusing particularly on:

i. The statement on internal control and other disclosures relevant to the Terms of Reference of the Committee;

ii. Changes in, and compliance with, accounting policies and practices;

iii. Unadjusted mis-statements in the financial statements;

iv. Major judgmental areas;

v. Significant adjustments resulting from the audit.

b) 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 and/or the Registrar, Head of Finance and representatives from the internal auditors shall normally attend meetings. Representatives from the external auditors shall attend meetings as required for relevant items. The President 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 Chief Executive and/or Registrar shall ensure that appropriate secretariat support is provided to the Chair and Committee.

10. Frequency of Meetings

11.1.1 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.

Terms of Reference agreed by the RCVS Council XXXXX
Composition

22. The original suggestion was that the new Committee be comprised of three members. The Chairman should not be a current Council member (and if they had been a Council Member they should have retired from Council at least eight years ago), but could be a past president and should be a veterinary surgeon. The other members to be selected from Council Members by the Chairman, so that Council itself is not involved in appointing or nominating. Officers had a suggestion for the first Chairman (to serve for three years); thereafter it was suggested that the Group should select its own in order that it has some independence from Council. The other members would be appointed for different terms in order to avoid all three positions becoming vacant at the same time. Once that stagger is in place the normal term of appointment would be for three years, renewable once.

23. The concerns of Council Members were that the committee should be more independent; that Council Members should not be involved; that the Chairman should be appointed from outside the veterinary profession and have some expertise in scrutiny. It was also questioned whether it was necessary to stipulate the involvement of a Past President. There was no specific comment about the proposed size of the committee.

24. The rationale for including a Past President and/or recent or current Council Members was to ensure that the committee had some familiarity with the structure and workings of the College, not such as to constitute a bias or predisposition, but simply to be able to assist in navigating any review. In making their original proposals Officers were also aware of the recommendation of the Corporate Governance group (quoted at paragraph 2 above) which implies that Council should assume responsibility for its own governance. This chimes with the comment of one Council member who was concerned that the College might be losing confidence in its ability to self govern.

25. A ‘third way’ may be to restrict the involvement of current or former Council Members to the ‘lay’ appointments; to look for a Chairman from outside the profession and include a veterinary surgeon/member of the College who has never sat on Council.

26. The proposed wording for inclusion in the General Administration Bye-Laws, Schedule 2, is as follows:

   The [name to be determined] Committee shall consist of three members, a Chairman who not a veterinary surgeon, a current or former member of Council who is not a veterinary surgeon and a veterinary surgeon who has not at any time sat on Council.

   The two members shall be selected by the Chairman and future Chairmen shall be identified by the Committee itself, to ensure independence from Council.

   The term of office for both Chairman and members shall be three years, renewable once, although initial appointments may be for varying periods in order to provide continuity.

27. The proposed profile for the Committee, for inclusion in the Nominations Policy, is as follows:

   Chairman: Should not be a veterinary surgeon

   Members: One current or former ‘lay’ Council Member and one veterinary surgeon who has never sat on Council

   Quorum: The Chairman and one other
Sub-Committees: external panel for investigating and adjudicating on alleged breaches of the Code of Conduct and to hear certain cases under the Staff Grievance Procedures where a complaint involves a Council Member.

28. The final forms of words will need to be incorporated into the General Administration Bye-Laws, along with consequential amendments and a power to suspend from Committee membership for breach of the Code of Conduct, as recommended by the Corporate Governance Group and accepted by Council. As the Bye-Laws need some general updating it is proposed to consolidate all the changes into a revised set of Bye-Laws before submitting them to Council for approval. The new Committee will also need to be reflected in the Nominations Policy and a proposed amendment to that will be brought forward at the same time, hopefully at the next round of meetings.

Name

29. Council Members made the point that the original name: ‘Corporate Governance Committee’ did not communicate anything of the review or scrutiny functions which are intended. The alternative proposal of ‘Scrutiny Committee’ was narrowly defeated on a vote. Council Members were invited to suggest alternative names and in the absence of any response to that request a compromise suggestion of Governance Review Group is offered for consideration and found favour with the Planning & Resources Committee.

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Extracts from Audit and Risk Committee Terms of Reference from other Regulators

Council for Healthcare Regulatory Excellence
Audit & Risk Committee Terms of Reference, 2012-2013

2. Membership
2.1 Membership of the Audit and Risk Committee will consist of a minimum of three Council members, none of whom may be the Chair of the Council.

2.2 The Chair of the Committee is appointed by the Appointments Commission for a designated term of office.

2.3 Other members of the Committee are appointed by the Council on the recommendation of the Chair of Council for a defined period or periods.

Available at www.chre.org.uk

General Pharmaceutical Council
Audit and Risk Committee Terms of Reference, 12 January 2012

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.

Available at: www.pharmacyregulation.org/about-us/who-we-are/gphc-committees/audit-and-risk-committee

General Osteopathic Council
Audit Committee (Non-statutory), Undated

The Audit Committee is a non-statutory committee that provides assurance that the necessary internal and external systems and processes are in place for effectively assessing and managing the risks relating to the discharge of the Council’s statutory duties, and makes recommendations for any actions to the Council and executive, as appropriate.

It consists of two Council members, one lay and one osteopath, and three external members, of whom one is the lay Chair.

Available at: www.osteopathy.org.uk/about/the-organisation/committees/
Annex 7

Initial costing of an audit and risk committee

appointments
2 people £  £  
(cost of advert to be added) 9,600  9,600

training 5 days  12,500  12,500
+ad hoc meetings 5 members
  external training facilitator 1,500

meetings 4 per annum
  5 members  10,000

staff support
meetings 4 per annum
  8 days per meeting  4,578
                             38,178

professional advice budget  20,000
                             58,178

Excludes staff time preparing other papers
impact on workload of each department providing relevant information
Internal audit costs by an external body £20,000
External review of risk register £12,000?

GDC gov costs includes Foi strategic planning 5% of budget
Budget surplus 2012 £25K
figures above in total about 1% of total expenditure.