

Audit Committee – 27th February 2008

NATIONAL AUDIT OFFICE AUDIT STRATEGY 2007/08

Executive summary and recommendations

Introduction

The National Audit Office (NAO) audit strategy is provided to the Committee for its consideration.

Decision

The Committee is asked to approve the Audit Strategy from NAO for 2007/08.

Background information

The NAO Audit Strategy for 2006/07 was approved at the meeting of the Audit Committee on 28th February 2007 – refer minutes, item 8.07/8.

Appendix One contains details of NAO's responsibility for the preparation of accounts, audit approach, consideration of fraud, internal control, liaison with internal audit, materiality, consideration of fraud, timetable, International Financial Reporting Standards, electronic publication and annex on audit staffing details.

Regarding IFRS and iFReM, the Council's Accounting Officer is responsible for ensuring that the 2008-09 accounts are prepared in accordance with IFRS, including 2007-08 comparatives. The NAO have issued an IFRS Readiness Toolkit to HPC to consider issues arising. On initial review of the toolkit, there are no significant items identified for HPC likely to affect 2007-08 comparatives (for the 2008-09 accounts).

Regarding the timetable, the date indicated in section 30 of NAO's Audit Strategy (see Appendix One) is consistent with the current Annual Report timetable.

Regarding the legislative background, under Section 46 (4) of the Health Professions Order 2001 "As soon as is reasonably practicable after the end of the financial year to which the annual accounts relate, the Council shall (b) send a copy of the annual accounts and of any such report to the Privy Council and to the Comptroller and Auditor General."

Under Section 46 (5) of the Health Professions Order 2001, "The Comptroller and Auditor General shall examine, certify and report on the annual accounts."

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2008-02-01	a	ADT	PPR	NAOAuditPlan	Draft	Public
					DD: None	RD: None

Under Section 46 (8), of the Health Professions Order 2001, "In this article, "financial year" means (b) each successive period of 12 months ending with 31st March."

Resource implications

Nil

Financial implications

Budget is £8.5k for audit fees. NAO's estimate (see Appendix One) is £6.5k.

Appendices

Appendix One – NAO Audit Strategy for 2007/08.

Date of paper

15th February 2008



National Audit Office

2007-08

AUDIT STRATEGY

HELPING THE NATION SPEND WISELY

The National Audit Office scrutinises public spending on behalf of Parliament.

The Comptroller and Auditor General, Sir John Bourn, is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 850 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

Our work saves the taxpayer millions of pounds every year, at least £9 for every £1 spent running the Office.

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The Health Professions Council

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Introduction

1. The purpose of this memorandum is to provide the Health Professions Council (“the Council”) with an understanding of how we plan to carry out the audit of the financial statements for the year ending 31st March 2008. In addition to clarifying roles and responsibilities for preparing and auditing the financial statements, this strategy also indicates the planned timetable of events and the documents required in order to ensure a timely and efficient audit.

Format of the Accounts

2. The Health Professions Order 2001 (the Order) requires the accounts of the Council to be prepared in a form determined by the Privy Council.
3. The financial statements should be prepared in accordance with guidance relevant to Non-Departmental Public Bodies (NDPBs), including but not limited to, the *Financial Reporting Manual 2007-08*, issued by HM Treasury, and guidance and directions issued by the Privy Council,

Responsibility for the Preparation of Accounts

4. The primary responsibility for the preparation of the financial statements and the regularity of financial transactions lies with the Council. The Accounting Officer of the Council is responsible for maintaining proper accounting records and for preparing financial statements which give a true and fair view of the state of affairs of the Council at 31 March 2008 and have been properly prepared in accordance with the above regulations.
5. The financial statements presented for audit should be of a high quality. This means that the Council should have reviewed the draft account to ensure that not only are the figures correct, but also that the general format and disclosure requirements have been met. Without good quality financial statements from the outset, completion of the audit could be delayed.
6. The Chief Executive is required to include in the financial statements a Statement on

Internal Control to confirm that he has satisfied his responsibilities set out in the Accounting Officer’s Memorandum to ensure that effective systems of internal control, including financial monitoring and control systems have been put in place. This statement should be prepared in accordance with relevant Treasury guidance.

Our responsibilities

Scope of the audit

7. The Comptroller and Auditor General (C&AG) is the appointed auditor under the Order. He is required to examine, certify and report on each of the statements comprising the financial statements of the Council. The order also requires the Council to appoint an auditor eligible for appointment under the Companies Act. The Council have appointed Baker Tilly UK Audit LLP (Baker Tilly) in this capacity.
8. The audit of the Council is performed by the National Audit Office (NAO), acting on behalf of the C&AG. In line with Auditing Standards, we are required to agree the respective responsibilities of the C&AG, the Council’s Chief Executive, appointed as Accounting Officer, and the NAO. These are set out in the Letter of Understanding issued in March 2006.
9. To reduce the audit burden on the Council, the National Audit Office has contracted with Baker Tilly to undertake the audit on its behalf, so that Baker Tilly’s audit plans and findings can be shared with the NAO. Baker Tilly have separately presented their audit plan to the Council and planned their audit in conjunction with the NAO.
10. We have a professional responsibility to report if the financial statements do not comply in any material respect with the standards issued by the Accounting Standards Board and relevant guidance issued by HM Treasury.
11. Our audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of the activities reported for the year ended 31 March 2008 and that the expenditure and income have been applied to the purposes intended by Parliament and that the transactions conform to the authorities which govern them (‘regularity’).

12. As part of our audit we will also review any financial information contained in the Annual Report to ensure that it is consistent with the financial statements. We will also review the Statement on Internal Control to ensure it has been prepared in accordance with Treasury guidance and that the statement is consistent with the financial statements and other information gained during the course of the audit.

International Standards on Auditing

13. We conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISA (UK&I)") as issued by the UK Auditing Practices Board ("APB").

Communication of Audit Matters

14. ISA (UK&I) 260 provides guidance for communication during the audit cycle. These principles are embodied in the NAO approach - namely the timely communication of matters arising from our work. This includes this Audit Strategy, discussions on emerging findings with executives during the audit and reporting our audit findings.
15. At the completion of the audit – in conjunction with Baker Tilly, we will provide the Council with a Management Letter containing observations and recommendations on significant matters which have arisen in the course of the audit. In accordance with ISA 260, we will also provide a schedule of unadjusted errors found in the accounts, other than those which are clearly trivial.

Audit Approach

16. Our objective in planning and carrying out an audit is to adopt an audit approach that will ensure sufficient appropriate evidence is gathered to support the audit opinion in the most cost-effective manner. The approach agreed with Baker Tilly is based on an assessment of risk to the financial statements from our understanding of the Council's business. We will review Baker Tilly's audit work to the extent necessary to confirm their recommended opinion.
17. Our audit is not designed to provide assurance as to the overall effectiveness of the controls operating within the Council, although we will report to management any recommendations to enhance controls that we

may have identified during the course of our audit work.

Understanding the Business

18. Our planning work for the 2007-08 audit has enabled us to build an understanding of the Council's business. This has included consideration of the entity level risks which may impact on the financial statements. This understanding is broken down into two key areas:
- The External Environment: for example, the political environment, Parliamentary authorities, the business environment, future events, and financial and reporting requirements; and
 - The Control Environment: for example, the roles and responsibilities of the Accounting Officer and Board, the Council's organisational structure, management's risk assessment process, the reliability of financial reporting and budgetary controls, and the effectiveness of the Audit Committee and Internal Audit.

Assessment of Key Risks

19. From our understanding of the Council's business, in conjunction with Baker Tilly, we have identified the following risks of potential material misstatement arising from factors inherent to the Council:
- Income recognition, including deferred income;
 - Expenditure cut-off and assessment of provisions, particularly in respect of PAYE/VAT on fees and expenses;
 - Compliance with authorities;
 - Costs to develop the Stannary St building and valuation; and
 - VAT deregistration.

These are detailed in the audit plan provided to the Council by Baker Tilly, together with the audit response.

Reliance on Others

20. As previously noted, we will rely on the work of Baker Tilly – subject to our review of their work. If necessary we may undertake

additional work to ensure there is sufficient evidence to support the C&AG's opinion.

Materiality

21. The audit is planned and performed so as to obtain all the information and explanations considered necessary in order to provide us with sufficient evidence to give reasonable but not absolute assurance that the financial statements are free from material misstatement. A matter is considered material to the auditor if its omission or misstatement would reasonably influence the decision of an addressee of the C&AG's report.
22. The C&AG reports on the "truth and fairness" of the financial statements and figures therein. In giving his opinion, he has regard to the relative significance of particular matters in the context of the financial statements as a whole. Materiality is not mathematically definable, as consideration is given to both quantitative and qualitative factors. Items may be material by value, nature and context.
23. The amount we consider material at the end of the audit may differ from our assessment of materiality at planning stage. It is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality.
24. At the end of the audit, we will form our final audit opinion on the financial statements by reference to all matters that could be significant to users of the accounts, including the total effect of any unadjusted errors we identify, and our evaluation of materiality at that time.

Consideration of fraud

25. The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance. This includes establishing and maintaining internal controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Corporate Governance and fraud

26. Under ISA 240 – *'The auditor's responsibility to consider fraud in an audit of financial statements'*, auditors are required to consider the risk of fraud affecting financial statements and recognise the possibility that a material misstatement due to fraud could exist. It requires us to document an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the Council and the internal controls that management have established to mitigate these risks.
27. Baker Tilly will carry out a range of procedures to consider the possibility of fraud and management override of controls during the audit, as outlined in their audit plan.

Records to be provided for inspection

28. Audit information should be made available to Baker Tilly in accordance with the requirements set out in their plan. Further requests may be made by the NAO or Baker Tilly on our behalf as the audit progresses. Appropriate management and finance staff should be available to discuss matters arising during the audit. It is the Council's responsibility to ensure that all information is made available and is delivered according to the agreed timetable.
29. The draft account and all schedules provided to the NAO in support of the financial statements should first have been reviewed critically at an appropriate level of management within the Council.

Timetable

30. The Council's financial statements for 2007-08 should be prepared so as to allow audit and certification before the Parliamentary summer recess which is expected to begin on 22 July 2008.
31. Baker Tilly have set out in their audit plan, a timetable to allow the Council to formally agree the accounts in July 2008. This includes NAO review of Baker Tilly's work to commence from the 26 May 2008.

Audit fee and Staffing

32. Our fee does not include an element for profit but, at the same time, the National Audit Office is expected to cover its full costs. We plan to charge an audit fee of £6,500 (our 2006-07 fee was £7,200).
33. A list of the key NAO staff for this audit is given at Annex 1.

International Financial Reporting Standards

34. The 2007 Budget announced the application of International Financial Reporting Standards (IFRS) to public sector accounts from 2008-09. The move to the new international standards represents a major change to financial reporting requirements. The areas of potential significant impact are expected to be fixed assets, leases and financial instruments.
35. The accounts for 2007-08 will continue to be prepared using existing UK GAAP based accounting policies. However, the first time adoption rules for the new international standards require that the 2008-09 accounts will include prior year comparative figures for 2007-08 re-stated on an IFRS-basis, in order that the 2008-09 accounts can be certified as fully compliant with IFRS.
36. Treasury guidance on the application of IFRS in central government bodies will be provided in an IFRS-based Financial Reporting Manual. The Department of Health may issue additional guidance.
37. The Council's Accounting Officer is responsible for ensuring that the 2008-09 accounts are prepared in accordance with IFRS. A key lesson from their adoption in the private sector is to start preparations as early as possible. We also recommend that arrangements are made for the Governance and Audit Committee to receive regular updates on the timetable and progress towards adoption of the revised standards.
38. We will support the Council's management in their preparations to implement IFRS. The NAO has developed an IFRS Readiness Toolkit, which we will issue to Finance Directors to be used by client staff to assess the issues in implementing IFRS. NAO staff will also be available, as required, to discuss with the Council's management the process of

transition and timetable, and to provide advice on key issues as they emerge.

39. We will review the 2007-08 figures as restated on an IFRS basis, once the Council have made these available for review. This review is likely to take place in the autumn of 2008. The additional work required to audit the restated 2007-08 figures will be reflected in a one-off additional audit fee for 2008-09.

Electronic Publication of financial statements

40. The Council may wish to publish the financial statements, including our audit report, on their web site. It is the responsibility of the Council to ensure that any such publication properly presents the financial information and any auditor's report. The Council must advise us of any intended electronic publication before it occurs, and should seek our consent to the electronic representation of our audit report. We reserve the right to withhold consent to the electronic publication of our report if the audited financial statements or the auditor's report are to be published in an inappropriate manner.
41. The Council is also responsible for the controls over, and the security of their website. The examination of the controls over the maintenance and integrity of the Council's website is beyond the scope of our audit of the financial statements.

Annex 1: NAO Staffing

TITLE	NAME	RESPONSIBILITIES
Assignment Director	Dean Parker 020 7798 7383	Overall responsibility for client relations, final review and Management Letter.
Assignment Manager	Steve Ecroyd 020 7798 7356	Management of the audit, identifying key issues for the client and review of audit papers and liaison with Baker Tilly.

All personnel are located at the National Audit Office, 151 Buckingham Palace Road, London, SW1W 9SS.

Health, safety and emergency arrangements

We would appreciate your co-operation in relation to the provision of support for our employees covering health, safety and emergency arrangements applicable to your premises.

If any of our staff who need to visit your premises are disabled and need reasonable adjustments under the Disability Discrimination Acts we will endeavour to advise you accordingly and, progressively, we hope to be able to provide you with a detailed risk assessment and proposed controls.