

Audit Committee, 15 June 2016

National Audit Office (NAO) Audit Completion Report on the 2015-16  
financial statements

Executive summary and recommendations

### **Introduction**

The NAO's audit completion report is attached for the Committee's consideration.

### **Decision**

The Committee is asked to review and discuss the NAO's audit completion report for 2015-16.

The Committee is asked to agree that the uncorrected errors noted on pages 9 and 10 of the NAO's report should **not** be corrected.

### **Background information**

The NAO have raised a medium priority recommendation on internal control on page 14 concerning the management accounts. The Executive will consider the recommendation and a formal response will be provided to the next Audit Committee meeting in September.

The audit completion report also includes as an appendix the draft "letter of representation" that the NAO ask the Accounting Officer to sign. This is a standard audit procedure which provides the auditors with explicit confirmation of various points which are implicit in the draft accounts.

### **Resource implications**

None

### **Financial implications**

NAO audit fee £39,000

### **Appendices**

NAO's Audit Completion Report

### **Date of paper**

6 June 2016

Health and Care Professions Council

# Audit completion report on the 2015-16 financial statement audit

REPORT TO THOSE CHARGED WITH GOVERNANCE  
June 2016

<http://www.nao.org.uk/>

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*We have prepared this report for the Health and Care Professions Council's sole use although you may also share it with the Privy Council Office. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.*

# Introduction: status of our audit

## Introduction

This report summarises the key matters from our audit of the 2015-16 Health and Care Professions Council financial statements which we must report to those charged with governance, before we finalise our audit work and certify the accounts.

We would like to thank Andy Gillies and his team for their assistance during the audit process.

## What work have we performed?

We have performed our audit of the 2015-16 financial statements in accordance with International Auditing Standards (UK and Ireland) issued by the Financial Reporting Council and with the audit planning report presented to the Audit Committee in November 2015.

We have also read the content of the draft annual report including the governance statement to confirm:

- their consistency with the financial statements and our understanding of the business;
- that the audited part of the remuneration report has been properly prepared; and
- that the governance statement has been prepared in accordance with HM Treasury guidance.

## Actions for the Audit Committee

The Audit Committee should:

- Review the findings set out in this report, including the draft letters of representation and audit certificates at Appendix 1 and 2 respectively; and
- Consider whether the unadjusted misstatements, set out in the identified misstatements section (pages 9 to 10), should be corrected. The Audit Committee minutes should provide written endorsement of management's reasons for not adjusting misstatements.

# Introduction: status of our audit

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## **What is the status of our audit?**

We are currently awaiting a final draft of the accounts. Once received and tested against our list of issues we will be able to complete our internal review of the audit work and issue a final version of this report to the Audit Committee.

We will also perform testing on post balance sheet events in July before recommending the accounts for certification by the Comptroller and Auditor General. In light of the Department of Education's announcement on social worker regulation, this will include a review of HCPC's 5 year plan when it becomes available. We will need to confirm that this was discussed and agreed at the July Council meeting to support the going concern assessment.

The total audit fee charged for the year is in line with that set out in our Audit Planning Report, £39,000.

Following completion of the work listed above, the Accounting Officer is expected to sign the annual report and accounts together with a letter of representation, the proposed wording of which is included in Appendix 1.

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## **What is our conclusion?**

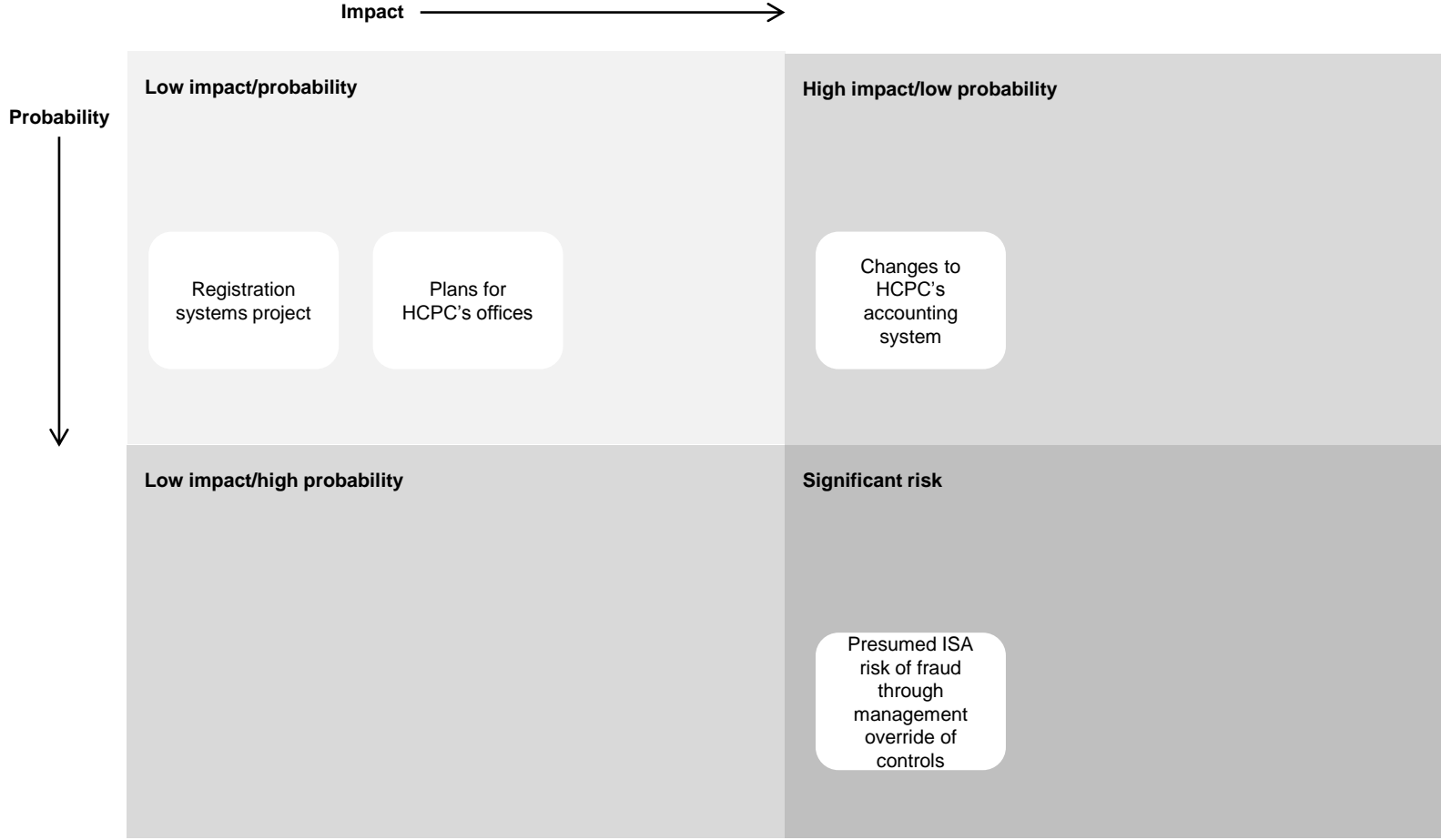
We anticipate recommending to the Comptroller and Auditor General (C&AG) that he should certify the 2015-16 financial statements with an unqualified audit opinion, without modification.

The draft audit certificate is presented in Appendix 2 – Audit Certificate.

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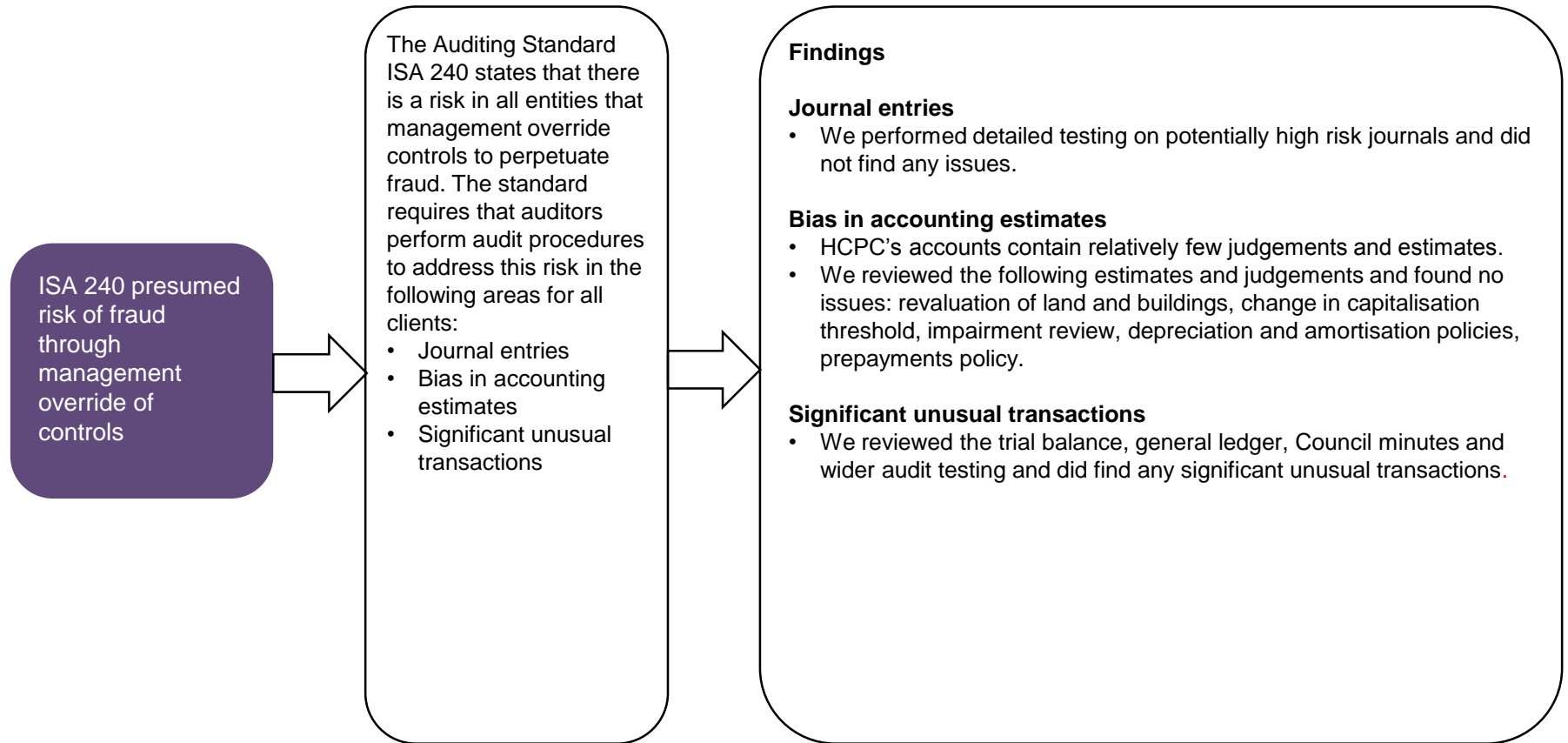
# Key audit findings: Significant financial statement risks

We identified the risks below in our Audit Planning Report presented to the Audit Committee on 26/11/2015. No additional risks have been determined in the course of our audit. Responses and findings against those risks we identified as significant risks of material misstatement to the financial statements can be seen in the next section of this report.



# Key audit findings

## Significant financial statement risks



no issues have been found

# Appendix 1: Financial statement risks: Matters of audit emphasis

We set out below the latest position on the matters of emphasis discussed in the 2015-16 Audit Planning Report. During the year we tracked these 'matters of audit emphasis', to assessing any potential impact on our audit work and the accounts. As expected these did not crystallise into significant risks to the audit.

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## **New lease and further plans for 186 Kennington Park Road**

The Council entered into a £713k per annum lease on a 405 Kennington Road in December 2015, and spent £780k of leasehold improvements in year. The Council has agreed certain work to be done on 186 Kennington Park Road, but this is not scheduled to commence until sometime after 2015/16.

We tested transactions relating to the lease as high value items in our sample testing and did not find any issues.

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## **Changes to HCPC's accounting system**

HCPC upgraded Sage in March 2015, as the previous operating system was no longer supported. Management indicated that this was a straightforward upgrade and hence the impact on the financial statements was considered minimal. In 2015-16 they introduced additional enhancements including electronic recoding and approval of purchase invoices. They also intended to change the partner payment system such that partners are paid proactively based on HCPC work records, rather than having to invoice. This change was rolled out across the Education, Registrations and Partners departments towards the end of 2015-16, but has not yet been applied to Fitness to Practise.

Our audit work does not indicate that either the changes to Sage or the partner payment system had a significant impact on the accounts production process and accuracy of the financial statements.

We will consider the roll out of the new partner payments system to FTP as a risk factor for the 2016-17 audit. Hearing cancellations (which can change the rate of the fee due), the large number of payments and variation in fee rates make the new system more difficult to implement with FTP than with the other departments. HCPC will need to maintain a robust record for the new system to work effectively.

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## **Registration processes review**

HCPC commenced a project to review its registration processes in 2014-15, and work continued into 2015-16. Our expenditure and fixed asset testing did not indicate any issues with the recognition and treatment of costs relating to this project.



# Key audit findings: other key findings

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## Identified misstatements

Unadjusted misstatements below our materiality threshold but above our clearly trivial threshold of £5k are detailed on pages 9 and 10. Adjusted misstatements on page 11, and prior year errors identified over the course of the audit are detailed on page 12.

## Financial statement disclosures

We have also made a number of suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the FReM and other relevant guidance. The most significant of these was in recommending that HCPC quantify the amount of deferred income it has on its balance sheet that it will recognise after the end of the next financial year.

The financial statement disclosures are made in line with the requirements of the FReM, and are consistent and clear.

## Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of HCPC's accounting policies and financial reporting. The main change to HCPC's accounting policies was in increasing its capitalisation threshold from £1k to £5k, which does not have a material impact on the accounts, but required some disclosure changes within the PPE note.

HCPC has included in its Annual Report all of the sections set out in the FReM, and within these all of the required content. The sections of HCPC's accountability report are set out in a different order to that recommended by the FReM, and only the report only needs to be signed once, rather than at each section. We do not consider this to be a significant issue given that HCPC is required to 'take into consideration' rather than comply with the requirements of the FReM. We have suggested a number of minor changes to the Annual Report to ensure its consistency with the financial statements.

## Regularity, propriety and losses

We found no issues of irregularity or impropriety during our audit.

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# Key audit findings: list of identified unadjusted misstatements

Unadjusted misstatements					
Area	Issue	SoCNE	SoCNE	SoFP	SoFP
		Dr £000	Cr £000	Dr £000	Cr £000
Revaluation reserve: historic issue where HCPC did not use a revaluation reserve in previous years, and put gains on Park House through to the general reserve. This affects the 2015-16 balance sheet.	Revaluation reserve understated			182	
	General reserve overstated				182
Overtime costs on small projects are classified as 'other expenditure' rather than staff costs	Other expenditure overstated		5		
	Staff costs understated	5			
Accruals: bank interest receivable currently maps to accruals	Accruals overstated			61	
	Receivables understated				61

# Key audit findings: list of identified unadjusted misstatements

Unadjusted misstatements					
Area	Issue	SoCNE	SoCNE	SoFP	SoFP
		Dr £000	Cr £000	Dr £000	Cr £000
Accruals: a number of accruals have been rolled over from previous years (such as a bank charge from 2012), and are unlikely to still be relevant in 2015-16	Expenditure overstated		9		
	Accruals overstated			9	
Accruals: We picked up two errors in our completeness testing of accruals where costs were incurred in 2015-16, but not invoiced or accrued for. The errors had a total value of £2,592. Extrapolating this error across HCPC's full expenditure, we expect the total error on the completeness of accruals may be around £173k.	Expenditure understated	172			
	Accruals understated				172

## PPE additions under the £5k capitalisation threshold

HCPC has changed its capitalisation threshold for PPE, and should now expense additions that are below £5k. £50k of new purchases in year (which were below the £5k threshold) have gone through note 8 as additions, then been written off and included in the cash flow statement as 'non-cash charges on fixed assets'. This line should be removed from the cash flow statement, and the purchases should go straight through to expenditure.

# Key audit findings: list of adjusted misstatements

Adjusted misstatements					
Area	Issue	SoCNE	SoCNE	SoFP	SoFP
		Dr £000	Cr £000	Dr £000	Cr £000
Cash equivalents: fixed term bank deposits were classified in the accounts as cash equivalents, but meet the IAS definition of investments rather than cash equivalents. HCPC has since separated the bank deposits out from cash and cash equivalents and included them as a new line on the statement of financial position.	Cash and cash equivalents overstated (due to misclassification of bank deposits)			9,520	
	Investments understated				9,520
Staff costs: a mapping issue meant that overtime pay was originally classified as 'other payroll costs' rather than 'wages and salaries'. There was no issue with the underlying transaction data, and the mapping has been corrected in the version of the accounts that went to the Audit Committee.	Note 4: other payroll costs overstated		117		
	Note 4: wages and salaries understated	117			

# Key audit findings: list of identified unadjusted misstatements (prior year)

Unadjusted misstatements					
Area	Issue	SoCNE	SoCNE	SoFP	SoFP
		Dr £000	Cr £000	Dr £000	Cr £000
Prior year error picked up in 15-16 expenditure testing  (From 4 sample items: total error may be larger)	Expenditure understated in 14-15	17			
	Accruals understated in 14-15				17
Prior year error picked up in 15-16 fixed asset testing	Expenditure overstated in 14-15		88		
	Accruals overstated in 14-15			88	

There have been and continue to be issues with the completeness of accruals in HCPC's accounts. As well as the prior year errors listed above, we found issues in our testing of 2015-16 accruals which are detailed on pages 9 and 10. We have extrapolated the errors and do not assess that there is a material issue in either year.

# Recommendations on internal controls

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Each issue has been given a priority rating to assist in assessing the level of potential risk associated with the finding. The levels are:



*High risk* – major issues for the attention of senior management which may have the potential to result in a material weakness in internal control



*Medium risk* - important issues to be addressed by management in their areas of responsibility.



*Low risk* – problems of a more minor nature which provide scope for improvement

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# Internal control: management accounts

## Management accounts

In line with our audit plan, we sought to take assurance from the monthly management accounts as a high level control. We looked for evidence of a robust budgeting process, that HCPC was explaining all significant variances both above and below budget/forecast to senior management/the Council as appropriate, and that any errors were being identified and corrected. HCPC produces management accounts at two levels: firstly at a detailed level for budget holders, and secondly at a more strategic level to enable the Council to carry out its oversight role. We found that:

- Variance analysis was carried out at a granular level, but explanations did not sufficiently explain the underlying causes of the variances. High-level analysis, for instance comparing the financial data to non-financial data on activity levels in the different departments, would help give a more strategic perspective.
- There was variable evidence of budget-holder review. While we could see that variance analysis was being undertaken and misstatements corrected for the Finance and FTP departments, evidence of this from other departments was more limited. Active budget-holder review helps HCPC identify errors in the underlying financial records, and better explain any variances.
- Budgets are prudent, which makes underspends more likely. In some cases this will undermine the variance analysis process, particularly as finance explained to us that only significant adverse changes are investigated fully.

These weaknesses meant we were unable to rely on this control for audit assurance, and had to increase our sample sizes. More significantly these issues have wider implications for HCPC and relatively minor changes could significantly improve the quality of information provided to the Council.

HCPC should reflect on the level of granularity and type of detail needed in its management accounts for budget holders and for Council. At the budget-holder level we would expect to see underspends as well as overspends investigated and to see that all departments are actively involved in the management accounts process. At the Council level we would expect to see high-level strategic analysis that puts the finances into a wider context. From an audit perspective (to gain assurance in future years), we are chiefly concerned with the budget-holder level accounts.

# Follow up to recommendations we made in 2014-15

Area	What was the recommendation?	Response/Progress	Status
<b>Accounts direction</b>	The wording of HCPC's accounts direction from the Privy Council Office implied that it needed to comply with the provisions of HM Treasury's Managing Public Money and its related guidance, including Cabinet Office spending controls. We recommended as a priority for HCPC to discuss and clarify its accounts direction with the Privy Council.	The Privy Council Office issued a new accounts direction to HCPC in November 2015, which clarified that HCPC should 'take into consideration' the guidance in Managing Public Money, and did not have to comply with Cabinet Office spending controls.	Recommendation met in full
<b>Self-certification of expenses</b>	HCPC changed its financial regulations in 2014-15 such that EMT members could self-certify expenses up to the value of £500. We noted in the Council meeting papers from 04/12/14 an expectation that self-certified expenses would be subject to annual audit. We wanted to clarify that external audit work should not be relied on to provide assurance over compliance with the expenses policy or effectiveness of internal controls, and recommended that HCPC consider periodically testing a sample of self-certified expense claims for compliance with the expenses policy, using assistance from internal audit as necessary.	Management clarified that the annual audit would be carried out by the Business Process Improvement department to ensure compliance with applicable policies.	Recommendation met in full



# Other matters for communication

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## **Independence**

We consider that we comply with Auditing Practices Board (APB) ethical standards and that, in our professional judgment, we are independent and our objectivity is not compromised. Julie Parker, an independent member of the Audit Committee, has carried out a small amount of paid contract work for the NAO's Communities and Local Government Value for Money team. This work was not related to financial audit of the Health and Care Professions Council, and we do not consider it poses a significant familiarity threat. There are no other relationships between us and the Health and Care Professions Council that we consider to bear on our objectivity and independence.

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## **International standards on Auditing (UK and Ireland)**

We consider that there are no additional matters in respect of items requiring communication to you, per International Standards on Auditing (UK and Ireland), that have not been raised elsewhere in this report or our audit planning report. Items requiring communication cover:

- Fraud
  - Going concern
  - HCPC's compliance with laws and regulations
  - Significant difficulties completing the audit
  - Disagreements or other significant matters discussed with management
- 

## **Cooperation with internal audit**

We met with Grant Thornton during our audit and reviewed their internal audit reports.

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# Appendix 1 – Proposed letter of representation (i)

## LETTER OF REPRESENTATION: HEALTH AND CARE PROFESSIONS COUNCIL 2015-16

I acknowledge as Accounting Officer of the Health and Care Professions Council my responsibility for preparing accounts that give a true and fair view of the state of affairs, surplus or deficit, changes in reserves and cash flows of the Health and Care Professions Council for the year ended 31 March 2016.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Privy Council Office, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- make an assessment that the Health and Care Professions Council is a going concern and will continue to be in operation throughout the next year; and ensure that this has been appropriately disclosed in the financial statements.

I confirm that for the financial year ended 31 March 2016:

- neither I nor my staff authorised a course of action, the financial impact of which is contrary to Parliament's intentions or our registrants' expectations;
- having considered and enquired as to the Health and Care Professions Council's compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Health and Care Professions Council to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Health and Care Professions Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- the information provided regarding the identification of related parties is complete; and the related party disclosures in the financial statements are adequate.

All material accounting policies as adopted are detailed in note 1 to the accounts.

# Appendix 1 – Proposed letter of representation (ii)

## INTERNAL CONTROL

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with HM Treasury guidance on the Governance Statement .

## FRAUD

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the Health and Care Professions Council and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

## ASSETS

### General

All assets included in the statement of financial position were in existence at the reporting date and owned by the Health and Care Professions Council, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The statement of financial position includes all tangible assets owned by the Health and Care Professions Council.

### Non-Current Assets

All assets over £5,000 are capitalised. Land and buildings were revalued in 2015-16 with a full valuation carried out by professionally qualified Chartered Surveyors. Plant and equipment are relatively low value items with relatively short useful lives, and are stated at historic cost of acquisition less accumulated depreciation and impairment losses as a proxy for fair value. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Health and Care Professions Council's operations.

# Appendix 1 – Proposed letter of representation (iii)

## Other Current Assets

On realisation in the ordinary course of the Health and Care Professions Council's operations the other current assets in the statement of financial position are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to the Health and Care Professions Council which are known, or may be expected, to be irrecoverable.

## LIABILITIES

### General

All liabilities have been recorded in the statement of financial position. There were no significant losses in the year and no provisions for losses were required at the year-end.

### Provisions

No provisions are made in the financial statements.

### Contingent Liabilities

I am not aware of any pending litigation which may result in significant loss to the Health and Care Professions Council, and I am not aware of any action which is or may be brought against the Health and Care Professions Council under the Insolvency Act 1986.

## OTHER DISCLOSURES

### Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Health and Care Professions Council, or circumstances of an exceptional or non-recurring nature.

# Appendix 1 – Proposed letter of representation (iv)

## Unadjusted Errors

The following unadjusted errors have been brought to my attention:

- [TBC - details of any unadjusted errors and rationale for not correcting misstatement ]

I consider the effect of these unadjusted errors to be immaterial, both individually and in aggregate, to the financial statements taken as a whole.

## Events after the Reporting Period

Except as disclosed in the accounts, there have been no material changes since the reporting date affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

## Management of Personal Data

Except as disclosed in the Management Commentary, there have been no personal data related incidents in 2015-16 which are required to be reported.

Marc Seale  
Accounting Officer and Chief Executive  
[Date]

# Appendix 2 – Draft audit certificate (i)

## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the Health and Care Professions Council for the year ended 31 March 2016 under Article 46(5) of the Health and Social Work Professions Order 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Reserves; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report that is described in that report as having been audited.

### **Respective responsibilities of the Council, Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Council and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Article 46(5) of the Health and Social Work Professions Order 2001. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Health and Care Professions Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Health and Care Professions Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

# Appendix 2 – Draft audit certificate (ii)

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Health and Care Professions Council's affairs as at 31 March 2016 and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Health and Social Work Professions Order 2001 and the Privy Council directions issued thereunder..

## Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with Privy Council directions made under the Health and Social Work Professions Order 2001; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse  
Comptroller and Auditor General  
Date