National Audit Office – Audit Planning Report 2019-20

Executive Summary

This reports sets out how the NAO have built their assessment of the HCPC's risk, what they will base materiality on, those risks they expect to be significant and how they will respond to those risks. The NAO also set out in this report details of the team carrying out the audit, the expected timing of the audit and their fees.

The planned timetable and approach is similar to last year.

The external auditors are independent and it is their responsibility to determine their plans for the audit, so the Audit Committee does not approve or reject the audit plans, but the NAO will welcome the Committee's discussion and any feedback.

Previous consideration	None.
Decision	The Committee is invited to discuss the report.
Next steps	The timetable for the audit is included in the paper.
Strategic priority	Strategic priority 3: Ensure the organisation is fit for the future and able to anticipate and adapt to changes in the external environment
Risk	SR 5- Failure of leadership, governance or culture
Financial and resource implications	The annual cost of the NAO external audit is £6,100.
Author	National Audit Office

National Audit Office

Health and Care Professions Council

Audit planning report on the 2019-20 financial statement audit

Report to those charged with governance

November 2019

Actions for the Audit Committee

Members of the Audit Committee are invited to discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete;
- Whether management's response to these risks are adequate;
- Our proposed audit plan to address these risks;
- Whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team

Amy Manning

Engagement Director

We would also like to take this opportunity to enquire of those charged with governance about the following areas:

- Other matters those charged with governance consider may influence the audit of the financial statements
- The entity's objectives and strategies, and the related business risks that may result in material misstatements
- Possibility, knowledge of and process for identifying and responding to the risks of fraud
- Oversight of the effectiveness of internal control
- Whether any non-compliance with any laws or regulations (including regularity) have been reported to those charged with governance (e.g. from staff, service organisations or other sources)
- Policies, procedures and systems for recording non-compliance with laws, regulations and internal policies.

Contents

Audit Risks (pages 7 to 9)

We plan our audit of the financial statements to respond to the risks of material misstatement to transactions and balances and irregular transactions.

We have identified the following risks which have the most significant impact on our audit:

- **SR1 - Presumed risk of management override of controls**
- **SR2 - Presumed risk of Fraud in revenue recognition**
- **SR3 - Transfer to Social Work England**
- **SR4 - Going Concern**
- **SR5- Changes at senior staff level**

We have identified the following areas of audit focus:

- **AF1 - Non-Current Assets Additions**
- **AF2 - Completeness of Payroll**
- **AF3 - Completeness of Payables**
- **AF4 - Implementation of IFRS 16**

Materiality

- When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements.
- In line with haysmacintyre's approach, and with generally accepted practice, we will set our quantitative materiality threshold as approximately 2% of income in the draft accounts. We will report to the Audit Committee all audit differences in excess of 5% of materiality, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. This is comparable with the approach taken in 2018-19.
- We also consider materiality qualitatively. In areas where users are particularly sensitive to inaccuracy or omission, we may treat misstatements as material even below the principal threshold. These areas include the remuneration report, disclosures about losses and special payments, external audit fees, and any irregular income and expenditure.

Audit team, fee and timetable

- Amy Manning will be responsible for the overall audit. The full engagement team is presented on page 16.
- Our audit fee for this year is £6,100. The fee has increased from 2018-2019 in line with the increased level of risk identified with the audit, and changes in NAO corporate charge out rates.
- We are planning to complete the audit in advance of the summer 2020 Parliamentary recess.

Reliance on the work of haysmacintyre

Under legislation, HCPC is required to appoint its own auditors, who are qualified under the Companies Act 2006. haysmacintyre are the appointed auditors for 2019-20. The legislation also requires the C&AG to certify and report to Parliament on the financial statements.

haysmacintyre has agreed that the NAO can review the results of their audit work on the 2019-20 accounts. We aim to take assurance from their work to the maximum extent possible, where we feel this meets our requirements in forming an opinion on the accounts. We will supplement this by performing audit work ourselves, where our risk assessment and audit methodology require it. In particular, we will perform additional audit procedures to obtain assurance to support our regularity opinion on the financial statements. See Appendix B for further details of our responsibilities in relation to the audit of regularity.

Should any further work be necessary to meet our requirements, we will discuss this with management in advance.

Our review will follow the guidance in International Standards on Auditing (UK). We will apply the principles of International Standard on Auditing (UK) 600 Special considerations audits of group financial statements (including the work of component auditors) as it relates to component auditors when evaluating the sufficiency and appropriateness of the audit evidence obtained by haysmacintyre . Under ISA600, if we are not able to obtain sufficient documentation to retain on our files, we are required to perform this work ourselves. Should this occur, we will need to revisit our audit fee as this will impact the timing and cost of our work. If this is the case, we will discuss this with you in advance.

We also perform a review of the annual report and financial statements and, in particular, we will consider:

- the appropriateness of accounting policies selected by management, and we also consider HCPC's compliance with the Accounts Determination issued by the Privy Council, which directs HCPC to 'take into consideration' the accounting principles and disclosure requirements of the FReM.
- We will request that HCPC sets out its consideration of accounting policies, especially those which diverge from the FReM and which have a material effect on the financial statements, for us to consider, and the contents of the governance statement.

We have discussed with haysmacintyre the significant risks of material misstatement in the financial statements, and their proposed audit approach to them.

Building our assessment of risk

We are well placed to develop an understanding of the risks to HCPC drawing on your own assessment, the historic assessment of risk, the broader context and through discussions with haysmacintyre .

hcpc health & care professions council

HCPC's assessment of risk

The HCPC strategic risk register sets out a number of risks. We have engaged with management to understand the background to these risks, movement in impact and likelihood and have considered how these inform our assessment of audit risks.

- 1. Failure to deliver effective regulatory functions
- 2. Failure to anticipate and respond to changes in the external environment
- 3. Failure to be a trusted regulator and meet stakeholder expectations
- 4. Failure to be an efficient regulator
- 5. Failure of leadership, governance or culture

Past assessment of audit risk

The 2018-19 audit highlighted a number of areas of audit risk and focus, we have built on this historical assessment to consider whether these remain risks for the year.

- Presumed risk of Management override of Controls
- Non-Current Asset Additions
- Completeness of Payables
- Presumed risk of fraud in revenue recognition
- Completeness of Staff Costs
- Social Work England Transfer

Broader context

Our risk assessment draws on the understanding of the broader environment in which HCPC operates.

- EU Exit
- Implementation of new IFRSs

Our response to the significant risks*

SR1 - Presumed risk of management override of controls

Why we have identified this as a risk

Under International Standard on Auditing (UK) 240, there is a presumed significant risk that management may override the system of internal controls. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and accounting estimates and prepare fraudulent financial statements by overriding internal controls that otherwise appear to be operating effectively.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

SR2 - Presumed risk of revenue recognition

Why we have identified this as a risk

Under International Standard on Auditing (UK) 240, there is a presumed significant risk that management may commit fraud to achieve a particular result within income. Income is a significant figure in HCPC's accounts, and HCPC is faced with other significant issues in relation to financial performance, around the transfer to Social Work England, and also residual Going Concern issues linked to a stalled increase in the statutory registration fee.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

*The auditor shall identify and assess the risks of material misstatement at:
(a) the financial statement level;
(a) the assertion level for classes of transactions, account balances, and disclosures
to provide a basis for designing and performing further audit procedures.

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Our response to the significant risks*

SR3 – Transfer to Social Work England

Why we have identified this as a risk

On 2 December 2019 Social Work England (SWE) will take over from HCPC as the new regulator for social workers. This will result in not only a transfer of registered workers from HCPC to SWE, but also an accounting transfer covering a cash transfer of fees paid, and all prepayments and outstanding debts.

As social workers make up a significant proportion of HCPC's registrants the value of balances to transfer are anticipated to be highly material in terms of the HCPC accounts. Given historic limitations in the availability and quality of management information beneath the high level figures reported, there is a significant risk that the assets and liabilities transferred to SWE are materially incomplete, or inappropriately valued.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

SR4 – Going Concern

Why we have identified this as a risk

HCPC had planned to increase it's statutory fee for registration in 2019 to cover its recognised increase in annual running costs. However as this increase was not passed in legislation it has not been possible to pass costs onto registrants, reducing HCPC's forecast income levels. This, combined with the transfer of a large proportion of registrants to Social Work England, may put a strain on HCPC's operating costs, despite some additional funding being provided to ease the transition by the Department for Education. As a result of these increased budgetary pressures, concerns have been raised over HCPC's ability to be able to perform it's statutory duties, and as such operate as a Going Concern.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

*The auditor shall identify and assess the risks of material misstatement at:
(a) the financial statement level;
(a) the assertion level for classes of transactions, account balances, and disclosures
to provide a basis for designing and performing further audit procedures.

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Our response to the significant risks*

SR5 – Changes at senior staff level

Why we have identified this as a risk

Over the course of the 2019-20 to date there have been a number of significant changes at a senior level within HCPC. This has not only included changes to the Finance and Human Resources Directors, but also a change in Chief Executive Officer and Chief Registrar. As the CEO was appointed as Accounting Officer for HCPC, this change has necessitated the Privy Council to appoint an interim Accounting Officer for 2019-20, or until such time as a permanent appointment can be made.

There is a risk that such turnover at a senior level within the business could impact upon the operation of HCPC's key financial and operational controls, and the overarching governance of HCPC. As a consequence of the change in CEO, Chief Registrar and Accounting Office enhanced disclosures will also be required in the Remuneration Report and Governance Statements.

Additionally, following the number of changes to the HCPC EMT in year, including change of CEO and Chief Registrar, there is a risk that the Remuneration Report disclosures, which are considered material by nature, could be incomplete or inaccurate.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

Additionally, we will observe impact of changes in HCPC management structure through attendance at the audit committee.

We will also consider formal assurances provided from the Marc Seale to John Barwick following the in-year change of accounting officer, which will inform the HCPC governance statement.

Given the specific disclosure requirements of the Remuneration Report detailed testing will be undertaken by the NAO .

*The auditor shall identify and assess the risks of material misstatement at:
(a) the financial statement level;
(a) the assertion level for classes of transactions, account balances, and disclosures
to provide a basis for designing and performing further audit procedures.

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Areas of audit focus

The following are matters which we consider have a direct impact on the financial statements but do not represent significant risks of material misstatement as defined by ISA (UK) 315.

Title	Audit Area Affected	Description / Audit Response
AF1 **Non-Current Asset Valuation**	Intangible Assets: Completeness and Accuracy of capitalised costs in year & related amortisation charge.	HCPC are continuing to develop a new CRM system, which we anticipate will be completed in year. Consideration of the nature and extent of the work undertaken on this in year will be required, along with assessment as to whether this expenditure should be capitalised, and once completed whether the useful economic life allocated is reasonable and whether there are any indications of impairment. **We expect to be able to rely on the work performed by haysmacintyre in response to this area.**
AF2 **Completeness of Payroll**	Staff Costs + Exit Costs: accuracy of redundancy payments (and related liabilities). Remuneration Report.	Staff costs & Exit Costs: Following work undertaken to transfer function to Social Work England we need to gain assurance that all staff costs incurred in year, including any redundancy or other related liabilities relevant to HCPC are fully recorded within the HCPC Financial Statements with disclosure in line with FReM requirements. **We expect to be able to rely on the work performed by haysmacintyre in response to this area.**
AF3 **Completeness of Payables**	Payables	Work undertaken to ensure completeness of liabilities within the financial statements, including completeness of any fitness to practice liabilities identified. **We expect to be able to rely on the work performed by haysmacintyre in response to this area.**
AF4 **Implementation of IFRS 16**	Leases, Disclosure	We anticipate that IRFS16 will become effective for HCPC from 1 April 2020, and appropriate IAS8 disclosure will be made within the 2019-20 accounts. The impact of IFRS 16 is expected to be material in respect of financial reporting, budgeting, planning and fiscal implications for HCPC. As set out in the 2018-19 financial statements, HCPC hold operating leases for two London locations. The remaining lease commitments on these properties are eight and nine year, with a combined minimum future lease payment liability of £3.1m, which is material to the accounts. **We expect to be able to rely on the work performed by haysmacintyre in response to this area.**

Timing of the audit and audit fee

Fees

The fee for the audit is £6,100 (2018/19: £5,250).

The principal agreed with Parliament is that our fee is set to recover the full costs of the audit, rather than make a profit from or subsidise an audit. The NAO determines its fees with reference to standard hourly rates for our staff, which are reviewed annually, and updated when costs change. This includes costs associated with participation in the Civil Service pension scheme, which have increased since 1 April 2019.

Completion of our audit in line with the timetable and fee is dependent upon HCPC:

- delivering a complete Annual Report and Accounts of sufficient quality, subject to appropriate internal review, on the date agreed;
- delivering good quality supporting evidence and explanations within the agreed timetable; and
- making staff available during the audit.

If significant issues arise and we are required to perform additional work this may result in a change in our fee. We will discuss this with you before carrying out additional work.

Oct 2019 – Initial planning meetings and risk assessment

Nov 2019 – Audit Planning Report presented to the audit committee

Mar 2020 – Progress update to the Audit Committee.

May 2020 – NAO to Receive first draft of the accounts from HCPC

June 2020 – Audit Completion Report (ACR) issued and considered by ARC

July 2020 –
- HCPC Council approve and sign final accounts.
- Haysmacintyre and C&AG sign accounts
- Accounts laid in Parliament

Aug 2020

Planning

(haysmacintyre & NAO)

In consultation with Management, Audit Committee, Internal Audit and other Key stakeholders, review HCPC's operations, assess risk for our audit and evaluate the control framework.

Determine audit strategy.

Interim fieldwork

(haysmacintyre)

Test expenditure and income.

Final fieldwork

(haysmacintyre)

Test expenditure and income and significant balances and disclosures

(NAO)
Review of disclosures and testing of Remuneration Report

(haysmacintyre & NAO)
To hold wash-up completion meeting with management.

Completion

(haysmacintyre & NAO)

ACR: present our findings and recommendations.

Seek management representations.

C&AG issues opinion.

Management Letter: provide final recommendations on control matters identified.

Debrief

Meeting to discuss lessons learned and improvements for the following year.

Our audit approach – Other Matters

Other Matters

Audit scope and strategy

This audit plan covers the work we plan to perform to express an opinion on whether the financial statements are free from material misstatement and are prepared, in all material respects, in accordance with the applicable financial reporting framework. The plan is also designed to ensure the audit is performed in an effective and efficient manner.

Our audit approach is a risk based approach, ensuring that audit work is focussed on significant risks of material misstatement and irregularity.

In areas where users are particularly sensitive to inaccuracy or omission, a lower level of materiality is applied, e.g. for the audit of senior management remuneration disclosures and related party transactions.

When undertaking our risk assessment we take into account several factors including:

- Inquiries of management
- Analytical procedures
- Observation and inspection of control systems and operations
- Examining business plans and strategies

Our risk assessment will be continually updated throughout the audit.

Independence

We are independent of HCPC in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities/public interest entities. We have fulfilled our ethical responsibilities in accordance with these requirements and have developed important safeguards and procedures in order to ensure our independence and objectivity.

Information on NAO quality standards and independence can be found on the NAO website: https://www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/.

We will reconfirm our independence and objectivity to the Audit Committee following the completion of the audit.

Other Matters

Management of personal data

During the course of our audit we have access to personal data to support our audit testing.

We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We confirm that we have discharged those responsibilities communicated to you in the NAO's Statement on Management of Personal Data at the NAO.

The statement on the Management of Personal Data is available on the NAO website:

http://www.nao.org.uk/freedom-of-information/publication-scheme/how-we-make-decisions/our-policies-and-procedures/policies-and-procedures-for-conducting-our-business/

Using the work of internal audit

We liaise closely with internal audit through the audit process and seek to take assurance from their work where their objectives cover areas of joint interest and where it is efficient for us to do so.

We currently have no plans to take assurance from Internal Audits work for 2019-20.

Communication with the NAO

Organisations we audit tell us they find it helpful to know about our new publications, cross-government insight and good practice.

We share this through our e:newsletter, Round-up for Audit Committees and email notifications about to our work on particular sectors or topics. If you would like to receive any of these, please sign up at: http://bit.ly/NAOoptin. You will always have the option to amend your preferences or unsubscribe from these emails at any time.

Appendix A: The NAO audit team

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Appendix B: Scope and responsibilities

In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG and the Accounting Officer, making clear that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
These responsibilities are set out in the Letter of Understanding of 6 June 2018, and are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Scope of the audit	• Prepare financial statements in accordance with the Health and Social Work Professions Order 2001 and directions made thereunder by the Privy Council, and that give a true and fair • Process all relevant general ledger transactions and make these, and the trial balance, available for audit. • Support any amendments made to the trial balance after the close of books (discussing with us). • Agree adjustments required as a result of our audit. • Provide access to documentation supporting the figures and disclosures within the financial statements. • Subject the draft account to appropriate management review prior to presentation for audit	• Conduct our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)). • Report if the financial statements do not, in any material respect, give a true and fair view. • Review the information published with the financial statements (e.g. annual report) to confirm it is consistent with the accounts and information obtained during the course of our audit. • During the course of the audit of the financial statements, matters may be identified where the C&AG deems that it is in the public interest to report to the relevant authority in accordance with ISA (UK) 250A –Consideration of laws and regulations in an audit of financial statements. Any such reports which are made in good faith without malice shall not constitute a breach of any contractual or legal restriction on disclosure of information in accordance with Article 7 of Regulation (EU) No 537/2014.

Appendix B: Scope and responsibilities (cont'd)

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Regularity	• Ensure the regularity of financial transactions. • Obtain assurance that transactions are in accordance with appropriate authorities, including the organisation's statutory framework and other requirements of Parliament and HM Treasury.	• Conduct our audit of regularity in accordance with Practice Note 10, 'Audit of financial statements of public sector bodies in the United Kingdom (2016)', issued by the Financial Reporting Council. • Confirm the assurances obtained by HCPC that transactions are in accordance with authorities. • Have regard to the concept of propriety, i.e. Parliament's intentions as to how public business should be conducted.
Fraud	• Primary responsibility for the prevention and detection of fraud. • Establish a sound system of internal control designed to manage the risks facing the organisation; including the risk of fraud.	• Provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. • Make inquiries of those charged with governance in respect of your oversight responsibility.
Governance statement	• Review the approach to the organisation's governance reporting. • Assemble the governance statement from assurances about the organisation's performance and risk profile, its responses to risks and its success in tackling them. • Board members, with the support of the Audit Committee, evaluate the quality of internal control and governance, and advise on any significant omissions from the statement.	• Confirm whether the governance statement is consistent with our knowledge of the organisation, including its internal control. • Consider whether the statement has been prepared in accordance with HM Treasury guidance, including Managing Public Money.
Accounting estimates and related parties	• Identify when an accounting estimate, e.g. provisions, should be made. • Appropriately value and account for estimates using the best available information and without bias. • Identify related parties. • Appropriately account for and disclose related party transactions.	• Consider the risk of material misstatement in respect of accounting estimates made by management. • Perform audit procedures to identify, assess and respond to the material risks of not accounting for or disclosing related party relationships appropriately. • We have not identified any significant risks at this stage.

IFRS 16: Leases

Effective for the FReM from 2020-21

HM Treasury have consulted on the public sector interpretation of this Standard for FReM bodies. The 2019-20 FReM was released in December 2018.

What is IFRS 16?

IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all but low-value or short term (<12m) leases. The proposals arise partly from the IASB's view that:

- disclosures around operating lease commitments have lacked prominence and tended towards understatement; and
- even in leases where the underlying asset is not acquired for its whole useful life, the lessee nevertheless acquires an economic right to its use, along with obligations to make good on minimum lease payments.
- These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability. The lease liability will be measured at initial recognition as the value of future lease payments, with the asset additionally including any initial direct costs incurred by the lessee, plus an estimate of any dismantling/restoration costs. Subsequent measurement of both the asset and liability will need to respond to any changes in lease terms, and the accounting for the asset can be on a cost less depreciation and impairment model or a revaluation (fair value) model.

Changes affecting a lessor are limited, such as the revised guidance on the definition of a lease and the definition of the lease term.

HMT Letter to Finance Directors & HMT Application Guidance

HM Treasury has issued a letter to Finance Directors which outlines how Departments and their arm's length bodies are expected to progress plans to effectively implement the standard on time, a high level guide for implementing IFRS 16 and directions to application and budgetary guidance. The Application Guidance released in April 2019 can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797922/IFRS_16_Application_Guidance_April_Update.pdf

Transition disclosures in the year preceding implementation

The financial reporting council

Disclosures in line with IAS 8 will be required :

(a)the fact the standard has not yet been implemented,
(b)Disclosing known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

You should also consider disclosing:

(a)the title of the new IFRS;
(b)the nature of the impending change or changes in accounting policy;
(c)the date by which application of the IFRS is required;
(d)the date as at which it plans to apply the IFRS initially; and
(e)either:
  (i)a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or
  (ii)if that impact is not known or reasonably estimable, a statement to that effect.

Appendix C: Future accounting standards (cont'd)

IFRS 16: Leases: Effective for 2020-21 in central government

Successful transition

Successful transition will depend on pro-actively capturing a complete population of leases. Having a complete population ahead of implementation is key as the transition disclosures will require a reconciliation of the operating lease commitments note to the opening IFRS 16 position.

For each lease a series of data points will be required to perform the necessary valuations specifically focusing on future minimum lease payments. Organisations should also ensure systems for capturing cost information are fit for purpose and can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.

The implementation of IFRS 16 will involve more of the business than just the finance team, those involved are expected to include the estates, legal, business partners, and digital teams.

Recognition Exemptions:

Decisions on recognition exemptions will need to be made in 2019-20, some of these are mandated by the FReM.

Areas of key judgements are:

Lease terms

The lease term impacts the minimum lease payments that feed into the valuation of the lease liability and right of use assets.

Lease definitions

The FReM has adapted the definition of a lease to capture leases for nil consideration or those intra-government and not based in contract.

Peppercorn leases

Specific requirements for peppercorn leases have been incorporated into the FReM as these had not been covered by IFRS 16.

Subsequent measurement of Right of Use assets

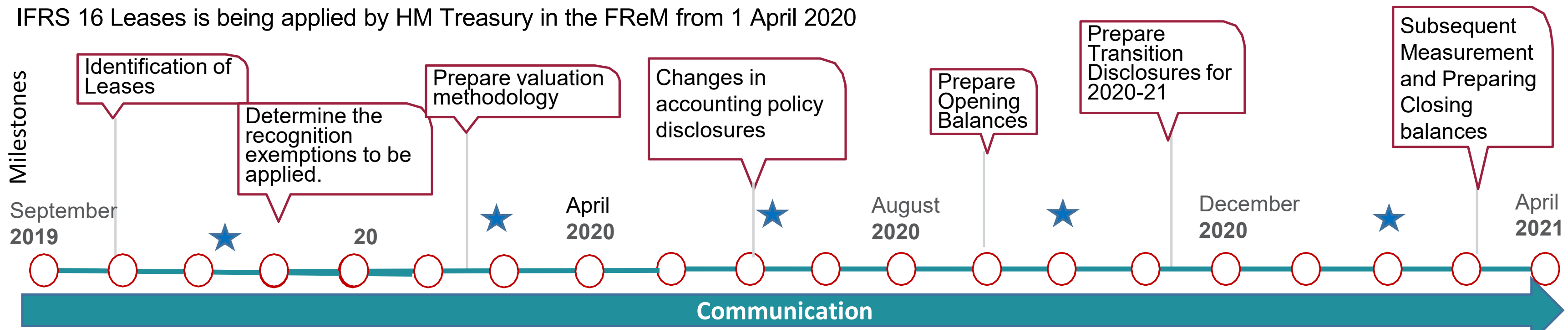
The 2019-20 FReM will be updated to reflect the guidance on subsequent measurement valuation requirements for Right of Use assets set out in the Application Guidance.

Reference information on the nature of the standard, application guidance issued by HM Treasury, requirements of transition disclosures the year before implementation and a precis of the FD Letter issued by HMT can be found in Appendix C.

Appendix C: Future accounting standards (cont'd)

IFRS 16: Leases - Timing and Expectations

IFRS 16 Leases is being applied by HM Treasury in the FReM from 1 April 2020



Identification of Leases

Management to identify and locate all lease contracts.

- Using IFRS 16 to assess contracts entered into after initial application
- Using IAS 17/ IFRIC4 for contracts already in existence (the practical expedient in IFRS 16 C3).

Management to implement a process for entering leases into their accounting system and records.

Management to determine methodologies for separating lease and service components, where appropriate.

Recognition Exemptions

Consider short-term or low value lease exemptions

Prepare valuation methodology

Prepare valuation workbooks to determine the methodological approach to valuing Right of Use assets and lease liabilities.

This could identify accounting policy or methodology judgements that need to be made ahead of opening balance preparation.

Valuation work needs to be sufficient to support 2019-20 IAS 8 disclosures

Changes in accounting policy disclosures

As part of the adoption of IFRS 16, entities will need to reassess their leases accounting policy disclosures in line with IAS 8 (28).

Prepare Opening balances 2020-21

All entities applying the FReM should

Calculate the opening balances for right of use assets and lease liabilities, taking into account:

- Lease term
- Lease payments

Determine the discount rate to be used in the calculation of the lease liability.

Communication

Consider how to communicate and educate all relevant stakeholders as to the impact of IFRS 16, including the commercial, legal and finance teams.

Prepare Transition Disclosures 2020-21

The lessee transition approach requires retrospective application of IFRS 16 with the cumulative effect recognised as an adjustment to opening balances.

Consider which disclosure requirements are material, and where necessary information is held to provide sufficient disclosures to meet the disclosure requirements.

Where material, prepare quantitative disclosures relating to right of use assets, lease liabilities and relevant items in the SoCNE.

Subsequent Measurement and Preparing Closing balances

Reassess the lease liability at year end.

Recalculate the right of use asset using either fair value or current value in existing use (in line with the measurement of owned assets in a public sector context).

★ Assessment points to report back to Management and Those Charged with Governance on preparedness. These are expected to correspond with the issue of Audit update, completion and planning reports.

IFRS 17: Insurance Contracts

Effective from 2022-23

HM Treasury are consulting on the public sector interpretation of this Standard for FReM bodies. It expects public sector implementation to be from 2022-23

IFRS 17: *Insurance Contracts* replaces IFRS 4 of the same name. The new standard will apply more standardised and rigorous requirements on accounting for insurance contracts. The new standard sets clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts.

Scope

The scope of the standard covers insurance contracts issued and re-insurance contracts issued or held. An insurance contract is defined as:

"*A contract under which one party (the issuer) accepts significant **insurance risk** from another party (the **policyholder**) by agreeing to compensate the **policyholder** if a specified uncertain future event (the **insured event**) adversely affects the **policyholder***."

Indications that there is an insurance contract present include:

- An agreement that creates enforceable rights and obligations that is between an entity and one or more third parties OR two or more entities whose accounts are consolidated into the same group?
- Is one party required to make a payment to a second party depending on the outcome of a future event?
- Is the future event that would trigger payments uncertain?
- Does the specified uncertain future event adversely affect the second party to the contract?
- Does the payments required by the agreement amount to a transfer of risk from the second party (the policy holder) to the first party (the issuer)?
- Is the risk transferred insurance risk? (a risk other than a financial risk)

Implementation

Although the implementation of IFRS 17 is not planned until 2022, the standard should not be underestimated and preparations will be required where appropriate. Preparations will required for the different actuarial, risk and accounting processes this could extend to different data, system and processes.

HMT are already considering its application to the public sector. The standard reflects appropriate practice for the commercial insurance industry and implementation without adaptation may not be suitable for the public sector. HMT have already identified the practice of self insurance across the public sector as an area that may adapted for government bodies. They are seeking feedback on where such self insurance arrangements might exist, so the extent of this undertaking can be considered when the standard is adapted for the FReM.

Action for audit committees

Audit committees are asked to consider whether, through contractual arrangements or custom and practice, their enterprises insure other bodies against specific risks. Where arrangements are identified, entities should engage with HMT on the application of the standard within the public sector. Audit committees are requested to continue to monitor new transaction streams or arrangements against the criteria of IFRS 17 to ensure all liabilities are appropriately recognised across the government estate.

Appendix D: Guidance for governance

Guidance for governance

Support to Audit Committees

We have developed a range of guidance and tools to help public sector Audit Committees achieve good corporate governance.

https://www.nao.org.uk/search/pi_area/support-for-audit-committees/

Cyber security and information risk guidance for Audit Committees

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

Corporate Governance Code for central government departments

The document was released in April 2017 and lays out the model for departmental boards, chaired by Secretaries of State and involving ministers, civil servants and non-executive board members. The principles outlined in the code will also prove useful for other parts of central government and they are encouraged to apply arrangements suitably adapted for their organisation.

https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017

Sustainability reporting

This guidance is to assist with the completion of sustainability reports in the public sector. It sets out the minimum requirements, some best practice guidance and the underlying principles to be adopted in preparing the information.

https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance-2016-to-2017

Developments in government internal audit and assurance

The handbook released in March 2016 reflects developing best practice in governance and the increasing significance of risk management, and associated assurance needs, in the governance of government organisations.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf

Disclosure Guides

Our disclosure guides for clients help audited bodies prepare an account in the appropriate form and that has complied with all relevant disclosure requirements.

http://www.nao.org.uk/report/nao-disclosure-guides-for- entities-who-prepare-financial-statements-in-accordance-with-the-government-financial-reporting-manual-frem/

Appendix E: Fraud matters

ISA 240 (UK&I) ‘The auditor’s responsibility to consider fraud in an audit of financial statements’ requires us, as your auditors, to make inquiries and obtain an understanding of the oversight exercised by those charged with governance.

What can constitute fraud?

Fraudulent Financial Reporting: Intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Internal misappropriation of assets: Theft of an entity’s assets perpetrated by management or other employees.

External misappropriation of assets: Theft of an entity’s assets perpetrated by individuals or groups outside of the entity, for example grant or benefit recipients.

Fraud risk factors

Rationalisation/attitude: Culture of environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act.

Incentive/Pressure: Management or other employees have an incentive or are under pressure.

Opportunity: Circumstances exist – ineffective or absent control, or management ability to override controls – that provide opportunity

ISA inquiries

Our inquiries relate to your oversight responsibility for

- Management’s assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;
- Management’s process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management’s communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud; and
- Management’s communication, if any, to its employees on its views about business practices and ethical behavior.

We are also required to ask whether you have any knowledge of any actual, suspected or alleged fraud.

Audit approach

We have planned our audit of the financial statements so that we have a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

We will incorporate an element of unpredictability as part of our approach to address fraud risk. This could include, for example, completing procedures at locations which have not previously been subject to audit or adjusting the timing of some procedures.

We will report to the Audit Committee where we have identified fraud, obtained any information that indicates a fraud may exist or where we consider there to be any other matters related to fraud that should be discussed with those charged with governance.

National Audit Office

NAO wider work in the health & care sector

A summary prepared for the Health and Care Professions Council Audit Committee

November 2019

RECENTLY PUBLISHED		
	Exiting the EU: supplying the health and social care sectors **(27 Sept 2019)**	**Content and scope of the report** This report examines the progress made by the Department – working with other government departments, NHS and social care providers, and with private sector suppliers – in implementing the Continuity of Supply Programme. It sets out the Department's plan and records the progress made. Given the rapid pace of the Department's work, we do not reach a final conclusion on the value for money of the Department's response. Nevertheless, we consider it important to record now where the Department has got to as it takes forward these preparations and to set out the remaining areas of risk. **Overall assessment** The Department has done a great deal of work to prepare for a no-deal exit. It identified several high-risk areas and took steps to fill gaps in the information it held, for example on the reliance of supplies on the short Channel crossings. It worked effectively with stakeholders in the medicines industry to understand the challenges they face in the event of a no-deal exit and to address them, for example by providing additional warehouse capacity. However, there remains a significant amount to do before 31 October, in particular to ensure that: • government has a full picture of preparedness across the supplier base; • sufficient cross-government freight capacity is in place; and • social care providers such as nursing homes are fully prepared. In the event of a no-deal exit, the Department would be working in a highly uncertain environment and operating all the elements of its plan would be a hugely demanding task.
	Investigation into NHS Property Services Ltd **(26 June 2019)**	**Content and scope of the report** In May 2014, we reported on the setting up of the Service and early performance. Following Parliamentary concerns about the Service, including slow progress in achieving its objectives and the level of bonuses being paid to its directors, this investigation builds on our previous work and sets out the facts about the progress the Service has made. It covers: • its main roles, the types of property and tenants in its portfolio, the issues it inherited and organisational changes (Part One); • performance of the Service against its main roles and financial objectives, and in particular acting as a landlord to manage the estate (Part Two); and • the Department's oversight (Part Three). **Concluding remarks** The Department created the Service in 2011 to manage NHS property. To a large extent the Service has, albeit slowly, succeeded in improving the professional support required, collecting data, streamlining contracts and identifying market rental rates. However, more than eight years later, it still does not have the powers it needs to work effectively, as the Department originally intended, and the accuracy of bills is still disputed. In our view, too many NHS organisations and GPs seem to regard paying for their premises as optional, with almost £700 million either written off or still unpaid. The framework for charging for NHS property is not working effectively and the Department urgently needs to address the fundamental causes of this unsatisfactory situation.

RECENTLY PUBLISHED

[Investigation into healthcare penalty charge notices]

(14 May 2019)

In this investigation, we set out the facts about PCNs (such as the numbers issued, and the amount paid), as well as the steps the NHS Business Services Authority (NHSBSA) is taking to support those who have trouble understanding the system and/or paying the penalty charge.

Our investigation focused on:

- the entitlement to free prescriptions and dental care (Part One);
- the use of penalty charge notices to recover funds for the NHS and to deter fraud (Part Two); and
- improving knowledge about eligibility for exemptions (Part Three).

Free prescriptions and dental treatment are a significant cost to the NHS, so it is important that it can reclaim funds from people who are not exempt from charges and deter fraud. However, eligibility rules under the current system are complicated and difficult for people to understand, and NHSBSA still issues a significant number of PCNs that are later successfully challenged. Since 2014, NHSBSA has significantly increased the number of checks it carries out and the number of PCNs it issues but has only recently started taking commensurate steps to improve public awareness of the rules. A simpler system or better real-time checking will be important going forward in deterring fraud but not disadvantaging vulnerable people.

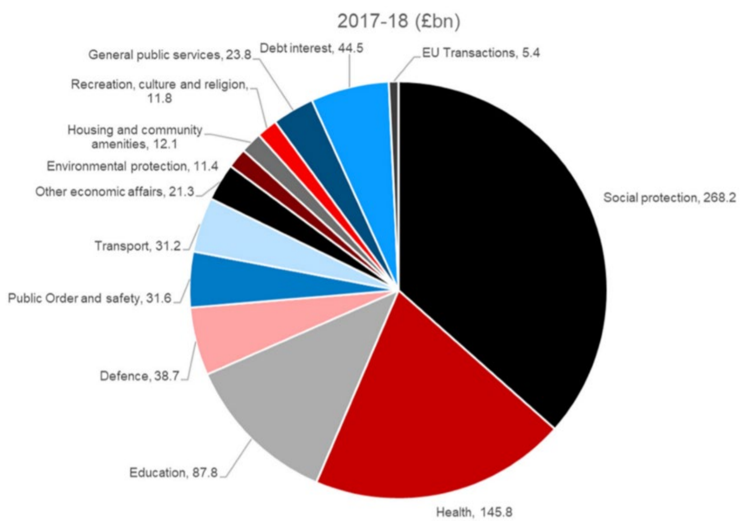
WORK IN PROGRESS		
	Review of capital expenditure in the NHS **(Late 2019)**	This study will build on our 2019 report on NHS Financial Sustainability, which described issues with capital funding and planning. The study will review: the capital funding process and how it is administered nationally; access and availability of capital investment to NHS trusts and related bodies; and, local accounting methodologies on capital expenditure. https://www.nao.org.uk/work-in-progress/review-of-capital-expenditure-in-the-nhs/
	NHS nursing workforce **(Early 2020)**	The study will examine how the NHS ensures that it has sufficient nurses with the right skills and capabilities to deliver high quality, safe and sustainable care, with key lines of enquiry around: NHS's understanding of its current and future staffing requirement for nurses, and recruitment and retention strategies and plans. It will draw from our 2016 report on clinical staff planning, as well as other workforce planning reports undertaken by the NAO. https://www.nao.org.uk/work-in-progress/nhs-and-nao/
	NHS financial sustainability 8 **(Winter 2019-2020)**	Scoping work for this study has just begun. As with previous financial sustainability reports, we will report on the NHS's financial performance in the previous year (2018-19). We are likely assess whether the reforms to financial systems and planning are progressing as planned, highlighting where the key risks to NHS service and financial sustainability remain. We are also likely to examine how well accountability arrangements are working, in the light of the re-alignment of NHS England and NHS Improvement.
	The use of digital technology in the NHS **(Spring 2020)**	The Department of Health & Social Care (the Department) and the NHS have published plans to use digital technology to help transform the way the NHS works. This study will consider whether the Department and the NHS have developed a workable strategy to deliver their ambitions on digital technology and data; whether they understand the risks and barriers that will need to be overcome to achieve their aims; whether they have appropriate governance arrangements, and; whether they have the financial and human resources in place to deliver their plans. www.nao.org.uk/work-in-progress/the-use-of-digital-technology-in-the-nhs/

Related accounts and publications

Whole of Government Accounts 2017-18
The Whole of Government Accounts consolidates the accounts of over 8,000 bodies across the public sector, including central and local government and public corporations such as the Bank of England, to produce an accounts-based picture of the UK's public finances. It sets out what the government receives, pays, owns and owes.

The Treasury is responsible for publishing the WGA. It published 2017-18 accounts on 23 May 2019.

- Whole of Government Accounts 2017-18



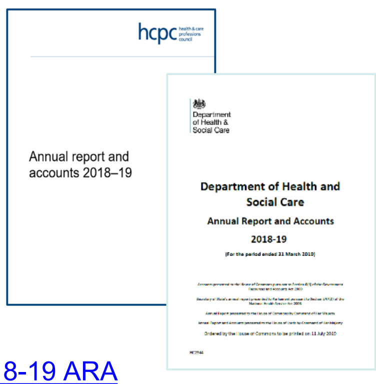
NAO website WGA Data Visualisation
On our NAO website we have created an interactive visualisation of the financial information contained within the WGAs published over the last five years up to 2016-17.

- NAO Interactive WGA

DHSC Annual Report and Account 2018-19 and HCPC Annual Report and Account 2018-19 certified and laid
The HCPC accounts 2018-19 were certified by the C&AG, Gareth Davies, on 11 July 2019 with an unmodified certificate as indicated within our Audit Completion Report.

The DHSC Group Consolidated accounts 2018-19, which included consolidated figures for the DHSC group, including all arms-length bodies (such as HCPC, HEE, NHS England, NHS Improvement, NHS Resolution, NICE, the Care Quality Commission, NHS Property Services Limited and others), alongside all NHS Foundation Trusts, NHS Trusts and Clinical Commissioning Groups in England was certified with an unmodified opinion on the 10 July 2019.

The DHSC account was subsequently laid before Parliament on 11 July 2019, with HCPC following on 18 July 2019, before the Houses rose for the summer recess



- HCPC 2018-19 ARA
- DHSC 2018-19 ARA

EU Exit Hub on the NAO website

Government is preparing for the UK's exit from the EU on 31 October. Time is short and significant work remains to be done to minimise disruption to people, businesses and public services.

Departments have achieved a lot so far, but exiting the EU is no ordinary task. Departments have had to prepare for multiple potential outcomes, with shifting timetables and ongoing uncertainty. It is a task that has little or no historical precedent and the National Audit Office's work examining departments' preparedness – spanning 24 reports since December 2016 – reflects the scale and breadth of the task.

With a challenge of this scale it is simply not possible for departments to plan for every eventuality. But lessons can still be learned from the previous period of no-deal planning, where in some cases rushed decisions meant taxpayers' money was not spent well. We will continue to play our role, keeping a close interest in how departments perform and report to Parliament on risks to preparedness.

We have created a page on the NAO's website and drawn together our work on EU exit. We will continue to update it as we publish updates.

https://www.nao.org.uk/exiting-the-eu/

Help us shape our future

We are conducting a Strategic Review to help shape the future direction of the NAO.

The NAO is running a survey to find out what people think of our role, what our priority areas of work should be, and how we can make sure that government spends public money as effectively as possible. Your answers will help us deliver real value for money for the taxpayer.

The survey is short, and should only take around 5 minutes to fill in. All your answers will be anonymous. We want to gather your views on our work, our role and how we communicate.

[Please share them with us here.](https://surveys.ipsosinteractive.com/mrIWeb/mrIWeb.dll) (https://surveys.ipsosinteractive.com/mrIWeb/mrIWeb.dll)

Further information

All reports are available at www.nao.org.uk

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If you are interested in the NAO's work and support for Parliament please contact parliament@nao.org.uk