National Audit Office

Health and Care Professions Council

Audit planning report on the 2021-22 financial statements audit

Report to those charged with governance

9th June 2022

Actions for the Audit and Risk Assurance Committee

Members of the Audit and Risk Assurance 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

We would also like to invite the committee to consider our fraud risk assessment on slide 8.

Gareth Roberts
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.

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Overview

Audit Risks (pages 9 to 13)

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

SR3 – Going Concern

SR2 – Risk of fraud in revenue recognition, and risk in classification of income

S4 – Valuation of Land & Buildings

We have identified the following areas of audit focus:

AF1 – Completeness of payables

AF2 – Completeness of staff costs

AF3 – Implementation of IFRS 16

Materiality (page 15)

- 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 quantative materiality threshold as approximately 2% of 2020-21 income giving a planning materiality of £554,000 (2020-21: £554,000 based on 2% of income). We will report to the Audit and Risk Assurance Committee all audit differences in excess of 5% of materiality, as well as differences below that threshold that warrant reporting on qualitative grounds.

Overall account materiality (2%)	£554,000
Error reporting threshold	£28,000

Audit team, fee and timetable

- Gareth Roberts will be responsible for the overall audit. The full engagement team is presented on page 20.
- Our audit fee for this year is £8,500. The fee has increased from that set at 2020-21 planning (£6,300) but below our final fee for 2020-21 (£8,800). Our fees have been reviewed to reflect inflation, additional work arising in 2020-21 and to meet the increasing regulatory requirements on audits. More detail can be found on page 17.
- As discussed and agreed with management, we are planning to complete the audit in autumn 2022.

Reliance on the work of Haysmacintyre

Under legislation, the Health and Care Professions Council's required to appoint its own auditors, who are qualified under the Companies Act 2006. Haysmacintyre are the appointed auditors for 2021-22. The legislation also requires the C&AG to certify and report to Parliament on the financial statements.

We have worked with Haysmacintyre to put in place arrangements to agree that the NAO can review the results of their audit work on the 2021-22 accounts. We aim to take assurance from their work to the maximum extent possible, where we consider it 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 2 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 ISA 600, 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:

- disclosures relating to areas we have identified as significant risks
- the appropriateness of accounting policies selected by management,. In particular, we will consider the Health and Care Professions Council's compliance with the Accounts Determination issued by the Privy Council, which directs the Health and Care Professions Council that the account must be prepared 'having regard to the requirements of the FReM to the extent that those requirements clarify, or build on, the requirements of the Charities' SORP'. We will do this by reviewing the Health and Care Professions Council's consideration of its accounting policies, especially those which diverge from the FReM and which have a material effect on the financial statements, 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.

Changes to our assessment of risk since 2020-21

Risks and areas of focus diminishing or superseded since 2020-21	Risks and areas of audit focus identified in 2020-21 that remain relevant for 2021-2022		New risks and areas of focus for 2021-22
	Risks that are broadly consistent with last year	Risks that have evolved and developed since last year	
Significant Risks	Significant Risks	Significant Risks	Significant Risks
	SR1 – Presumed risk of management override of controls; SR3 – Going Concern	SR2 – Risk of fraud in revenue recognition, and risk in classification of income; SR4 – Valuation of Land & Buildings	
Areas of Audit Focus	Areas of Audit Focus	Areas of Audit Focus	Areas of Audit Focus
Covid-19	AF1 – Completeness of payables; AF2 – Completeness of staff costs; AF3 – Implementation of IFRS 16		

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 and the broader context.

Health and Care Professions Council assessment of risk

The Health and Care Professions Council 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. Performance does not improve to a standard that enables achievement of PSA standards of good regulation

2. Regulatory expectations are not appropriate or not understood by registrants and other stakeholders

3. Unable to harness the benefits of the wealth of data held

4. Failure to understand stakeholder's needs and inability to be the regulator they (the wider system) need

5. Resources required to achieve strategy are not in place or are not sustainable

6. Unable to demonstrate the value of regulation due to negative experience of regulation in practice

Past assessment of audit risk

The 2020-21 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
- Going Concern
- Risk of fraud in revenue recognition

Broader context

Our risk assessment draws on the understanding of the broader environment in which the Health and Care Professions Council operates.

- Covid-19 pandemic
- Implementation of IFRS 16

We shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in our auditor's judgment, relevant to their responsibilities. It is our responsibility as auditors to report to those charged with governance:

- Any risks of material misstatement identified due to fraud
- Any matters we think are relevant to those charged with governance regarding management's process for identifying and responding to the risks of fraud in the entity

Below, we have included details of our initial assessment of the risk of fraud relevant to the Health and Care Professions Council and how this may impact on the financial statements.

Risk of material misstatement due to fraud

In our initial assessment, we have not identified additional risk of fraud other than the standard presumed risk of management override of controls and the risk of fraud in revenue recognition. We have not identified particular characteristics of management or control at the Health and Care Professions Council that indicate this risk is elevated.

We will consider the results of Haysmacintyre's work across the audit as part of our continuous risk assessment. We expect Haysmacintyre to bring any findings in relation to fraud to our attention during the course of their work.

Matters regarding management processes for identifying and responding to the risks of fraud

The risk management process sets out management's process for identifying and managing risks. We expect to be able to rely upon the work performed by Haysmacintyre in response to this risk.

Our response to the significant risks*

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

Controls

Assess the design and implementation of controls operating over the following key areas:

- Journal entries
- Accounting estimates and judgements
- Significant unusual transactions.

Substantive

- Evaluate any significant transactions that are outside of the normal course of business or otherwise appear to be unusual. Such evaluation will have as its objective to determine whether management has entered into these transactions to engage in fraudulent financial reporting or misappropriation of assets.
- Identify journal entries which demonstrate one or more characteristics of risk and test the entries identified. Conduct a review of the appropriateness of other journal adjustments made in the preparation of the accounts.
- Review current year and prior year accounting estimates and judgements for evidence of bias; and where such bias is identified evaluate the circumstances producing the bias to assess whether there is a risk of material misstatement to the accounts.

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;

b) 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*

Risk of fraud in revenue recognition, and risk in classification of income

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 Health and Care Professions Council's accounts, and Health and Care Professions Council is faced with other significant issues in relation to financial performance, and a residual Going Concern issues linked to a stalled increase in the statutory registration fee.

A further risk area that we have identified relating to revenue/income is in the classification of income between recognised income for 2021-22 and deferred income, given the changes to the CRM system and issues identified in 2020-21, as well as the impact in 2021-22.

Work we plan to undertake in response

Controls

- Assess the design and implementation of the controls operating in respect of the Health and Care Professions Council's income streams.

Substantive

- perform testing around the year end, including post year end receipts and unpaid invoices testing, to confirm whether revenue has been recognised in the correct financial year (cut off) and whether the underlying activity had occurred in the year (completeness); and
- reconciling the registration database and the finance system, as well as undertaking a sense check of membership income based on membership numbers.

We expect to be able to rely on 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*

Going concern

Why we have identified this as a risk

The Health and Care Professions Council had planned to increase its statutory fee for registration in 2019 to cover its recognised increase in annual running costs. This increase was delayed in being passed in legislation so the Health and Care Professions Council was not able to pass costs onto registrants until 2021, reducing the Health Care and Professions Council's forecast income levels. This, combined with the transfer in 2019-20 of a large proportion of registrants to Social Work England, as well as the ongoing Covid-19 pandemic and potential reductions in the level of professional registration, may put a strain on the Health and Care Professions Council's operating costs. As a result of increased budgetary pressures, and the ongoing review of regulators, there may be implications for the going concern assumption for 2021-22.

Work we plan to undertake in response

Controls

- Assess the design and implementation of the controls operating in respect of the Health and Care Professions Council's going concern assessment.

Substantive

- Consider the FReM IAS 1 interpretation which sets out the anticipated continuation of the provision of a service is sufficient evidence of going concern for non-trading entities; and
- Review the going concern disclosure made within the annual report and accounts

We expect to be able to rely on 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*

Valuation of Land & Buildings

Why we have identified this as a risk

Valuation of land and buildings is subject to high estimation uncertainty, and HCPC employ an expert valuer to provide a valuation of it's freehold property. In addition, the valuation in 2020-21 and the year prior was subject to a material uncertainty disclaimer, which resulted in an emphasis of matter paragraph in both the Haysmacintyre and NAO certificates. We will need to consider the implications for the 2021-22 audit if such a disclaimer is required again.

Work we plan to undertake in response

Controls

- Assess the design and implementation of the controls operating in respect of the Health and Care Professions Council's valuation of land and buildings

Substantive

- Review the third-party valuation of the Health and Care Professions Council's freehold property; and
- Review supporting disclosures made within the financial statements.

We expect to be able to rely on the work performed by Haysmacintyre in response to this risk.

We will also review alternative evidence of valuation trends in order to assess the reasonableness of any valuation movement.

*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	Audit Response
AF1 – Completeness of payables	Payables	Work will be undertaken to ensure completeness of liabilities with the financial statements, including completeness of any fitness to practice liabilities identified. We expect to be able to rely on the work performed by Haysmacintrye in response to this area.
AF2 – Completeness of staff costs	Staff costs, exit costs and related disclosures Remuneration report	Work will be undertaken to gain assurances that all staff costs incurred in year, including any redundancy or other related liabilities relevant to the Health and Care Professions Council, and all related disclosures are fully recorded within the financial statements with supporting disclosure in line with FReM requirements. We expect to be able to rely on the work performed by Haysmacintrye in response to this area. We will review the remuneration report to ensure that disclosures are in line with FReM requirements.
AF3 – Implementation of IFRS 16	Leases and disclosures	Following deferral by HM Treasury, IFRS 16 Leases is being applied by HM Treasury in the FReM from 1 April 2022 and we anticipate it will be come effective for the Heath and Care Professions Council from this date, with appropriate IAS 8 disclosures made within the 2020-21 accounts. Further details are included on slide 14. The impact of IFRS 16 is expected to be material in respect of financial reporting, budgeting, planning and fiscal implications for the Health and Care Professions Council. As set out in the 2020-21 financial statements, this would result in the recognition of a right of use asset value at approximately £937k as at 1st April 2021. There is a reduced impact expected due to the exit of leased office space at 405 Kennington Park Road in December 2021. We expect to be able to rely on the work performed by Haysmacintrye in response to this area.

IFRS 16: Leases

IFRS 16: Leases: has been deferred and is now effective for 2022-23 in central government

The impact of IFRS 16 is expected to be potentially significant in respect of financial reporting, budgeting, planning and fiscal implications for the Health and Care Professions Council.

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. Entities which were early adopters of IFRS 16 noted the importance of:

- Setting up a steering group involving key finance staff to discuss and agree common issues
- Establishing a key point of contact, especially in complex organisations with multiple components, so there is a clear decision-maker
- Setting out common policies, and issuing consistent templates to affected non-financial departments, e.g. procurement
- Agreeing a timeline for the whole organisation, working back from year end.

Recognition Exemptions:

Decisions on recognition exemptions should be made before the year of implementation, or earlier if possible.

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**
- **Peppercorn leases**
- **Subsequent measurement of Right of Use assets**

HM Treasury have released the application guidance to support implementation of this new standard.

Materiality

Basis for overall materiality calculation	**£27,709,000**	2020-21 Income
Overall account materiality (2%)	**£554,000**	
Error reporting threshold	**£28,000**	We report to you all misstatements, whether adjusted or unadjusted, above £28,000

For the 2021-22 audit, in line with generally accepted practice, we have set our quantitative materiality threshold as approximately 2% of prior year income which equates to £554,000.

These levels remain comparable to those used in the prior year. Our overall account materiality is based on prior year income given that this of interest of the users of the Health and Care Professions Council's accounts.

A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. The assessment of what is material is a matter of the auditor's professional judgement and includes consideration of both the amount and the nature of the misstatement.

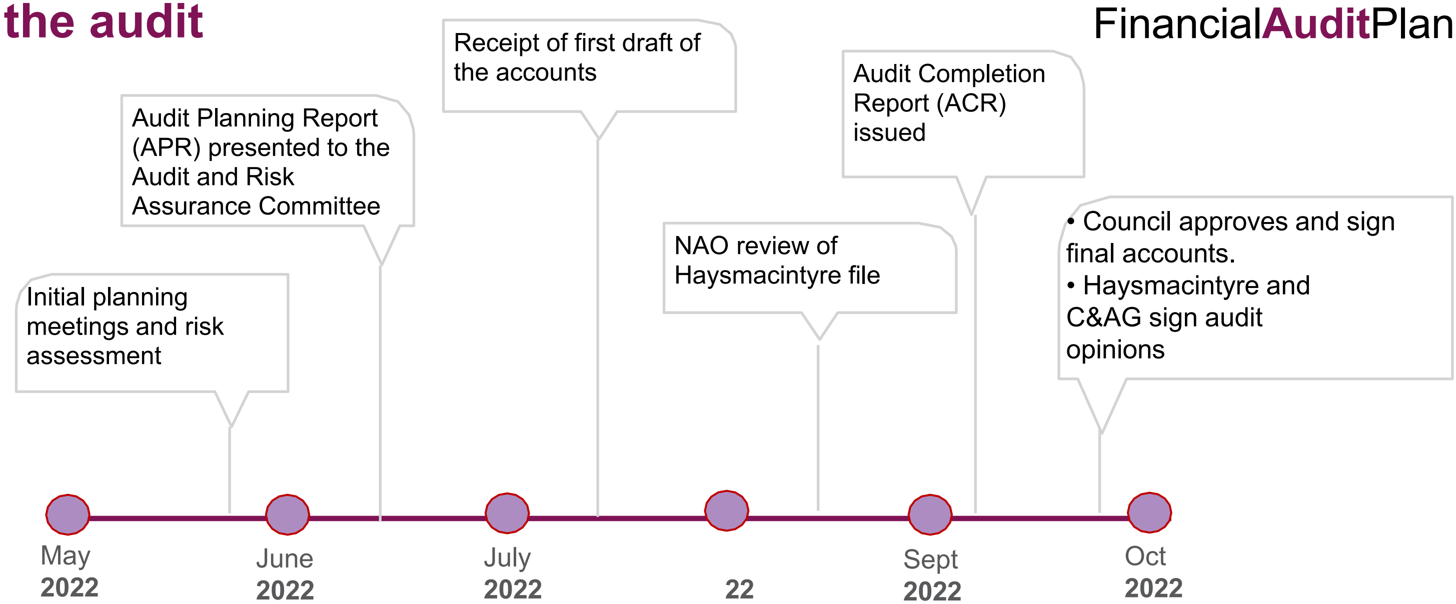
The concept of materiality recognises that absolute accuracy in Financial statements is rarely possible. An audit is therefore designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. We apply this concept in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming the audit opinion. This includes the statistical evaluation of errors found in samples which are individually below the materiality threshold but, when extrapolated, suggest material error in an overall population. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

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(s).

These areas include:

- the remuneration report;
- disclosures about losses and special payments;
- our audit fee; and
- irregular income and expenditure.

Timing of the audit



Planning

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

Determine audit strategy.

Fieldwork

As appropriate, work led by Haysmacintyre. Remaining fieldwork to test expenditure and income and significant balances and disclosures

Completion

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.

Audit fee

Fees

Our audit fee for 2021-22 is currently estimated at £8,500 (final fee in 2020-21 being £8,800).

The principle 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.

Completion of our audit in line with the timetable and fee is dependent upon the Health and Care Professions Council:

- 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 prior to undertaking any additional work.

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 the Health and Care Professions Council 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 and Risk Assurance 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. We do not intend to reply on the work of the internal auditors in forming our audit opinion.

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.

Our website holds a wealth of information from latest publications which can be searched, to pages sharing our insights on important cross-cutting issues. We also publish blogs and send email notifications to subscribers about our work on particular sectors or topics. If you would like to receive these alerts, 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 1: The NAO audit team

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Appendix 2: Scope and responsibilities

In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/The Health and Care Professions Council, 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 2nd June 2020 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 Professions Order 2001 and that give a true and fair view. • 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.
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.

Appendix 2: 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 (2020)', issued by the Financial Reporting Council. • Confirm the assurances obtained by the Health and Care Professions Council 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.
Propriety	• Ensure the propriety of financial transactions • Ensure that patterns of resource consumption should meet high expectations of public conduct, and robust governance and respect Parliament's intentions, conventions and control procedures, including any laid down by the Public Accounts Committee.	• Propriety is not readily susceptible to objective verification and, as such, is not expressly covered in the opinion on financial statements. When issues of propriety come to light in the course of the audit of financial statements, the auditor considers whether and, if so, how they may be reported.
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 and Risk Assurance 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. • Significant risks are set out on pages 9 to 11.

Accounting standard	Detail	Future direction for the Health and Care Professions Council
IFRS 17: Insurance Contracts Effective from periods starting on or after 1 January 2023 IFRS 17 implementation has been deferred from its original implementation date of 1 January 2023 by the IASB. HM Treasury are consulting on the public sector interpretation of this Standard for FReM bodies. It expects implementation to be from 2023-24, and public sector guidance is expected before December 2022.	IFRS 17: Insurance Contracts replaces IFRS 4 of the same namhe 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. 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*." HMT are considering the application of IFRS 17 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.	Entities should consider if in their normal course of business they provide any insurance contracts and consider what systems and reporting may be required to manage the change in accounting policy. Audit and Risk Assurance 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 and Risk Assurance 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. Although the implementation of IFRS 17 is not planned until 2023, the standard should not be underestimated, and preparations will be required where appropriate. Accounting for insurance contracts requires information and understanding of actuarial adjusted outcomes, risk and discounting. Clients will need to prepare different data, system and processes to implement the standard.

Appendix 4: Future changes to auditing standards

ISA (UK) 315 (Revised) : Identifying and Assessing the Risks of Material Misstatement

Effective from 2022-23

ISA 315 is the critical standard which drives the auditor's approach to the following areas:

- Risk Assessment
- Understanding the entity's internal control
- Significant risk
- Approach to addressing significant risk (in combination with ISA 330)

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent.

The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
    - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures
    - how auditors understand the entity's use of information technology relevant to financial reporting
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

The key impacts are:

- Significant increase in work on entity’s use of IT in business and system of internal control.
- Clearer workflow within the standard to highlight the importance of the auditor’s understanding of the entity and environment, the applicable financial reporting framework, and system of internal control.
- New concepts: e.g. inherent risk factors, spectrum of inherent risk
- Changed definitions: notably, the definition of ‘significant risk’
    - **Significant risk** – An identified risk of material misstatement:
        - For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or
        - That is to be treated as a significant risk in accordance with the requirements of other ISAs (UK).

Appendix 4: Future changes to auditing standards (cont'd)

ISA (UK) 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

Effective from 2022-23

Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional and involves deception or is unintentional. ISA (UK) 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.

The revision to the standard aims to clarify the obligations of auditors to identify and assess the risk of material misstatement due to fraud, as well as including supplemental requirements and guidance to enhance the auditors' procedures.

Key changes are:

- The objectives of the auditor have been revised to emphasise the requirement to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud.
- There is a greater focus on professional scepticism including that audit approaches don't show bias to looking for corroborative evidence or excluding contradictory evidence.
- There are new requirements for the auditor to determine whether the engagement team requires specialised skills or knowledge to perform their work on fraud, including their assessment of fraud risk, associated procedures and evaluation of the evidence obtained.
- There is additional guidance regarding the discussion required by ISA (UK) 315 among the audit engagement team. This is to discuss the susceptibility of the entity's financial statements to material misstatement due to fraud or error. The revised ISA (UK) 240 emphasises the need for an exchange of ideas among all engagement team members about fraud risk factors.
- The auditor shall make inquiries of management, or others within the entity who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.
- Auditors are to hold a discussion with those charged with governance regarding the risks of fraud in the entity and to consider the implications for the audit.
- The auditor must communicate with those charged with governance matters relating to fraud (unless prohibited by law or regulation) and the auditor's assessment of the risks of material misstatement due to fraud.
- Auditors must evaluate whether their assessment of the risk of material misstatement due to fraud remains appropriate at audit conclusion, that sufficient appropriate audit evidence has been obtained, and that the financial statements are not materially misstated as a result of fraud.
- The auditor's report shall explain to what extent the audit was considered capable of detecting irregularities, including fraud.

Appendix 5: Fraud matters

ISA (UK) 240 ‘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 and Risk Assurance 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 and discuss with you the risks of fraud in the entity.

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 and Risk Assurance 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.

Appendix 6: Guidance for governance

Guidance for governance

Support to Audit and Risk Assurance Committees

We have developed a range of guidance and tools to help public sector Audit and Risk Assurance Committees achieve good corporate governance. This includes specific guidance on financial reporting and management during Covid-19

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

https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/

Climate Risk: A good practice guide for Audit and Risk Assurance Committees

Audit and Risk Assurance Committees play a key role in scrutinising and advising the Board and Accounting Officer on risks arising from climate change. This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks

Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office (NAO) Report

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-2020-to-2021

Good practice in annual reports

The Building Public Trust Awards recognise outstanding corporate reporting that builds trust and transparency. The interactive PDF below illustrates a range of good practice examples across annual reports in both the public and private sector.

https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/

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 7: Good Practice in Annual Reporting

The Audit and Risk Assurance Committee plays a key role in scrutinising the Annual Report and Accounts, ensuring the quality of disclosures and its understandability for users.

To support the Audit and Risk Assurance Committee in this role, we have published our **Good Practice in Annual Reporting** guide.

The Guide, issued in January 2022, provides specific examples of best practice we identified during our review of a sample of 2020-21 annual reports. The good practice principles are grouped under the following headings: supporting accountability, transparency, accessibility and understandability (on the right) and these should be evident across the common sections of an annual report (on the left).

Operations | **Governance** | **Measures of success** | **Financial performance** | **Understandable**

Could you be a winner in 2021-22?
If you would like to nominate your organisation for the Building Public Trust Awards for your 2021-22 Annual Report and Accounts, please speak to your NAO Team or contact us at **Building.Public.Trust@nao.org.uk**.

Appendix 8: Good Practice in Annual Reporting (cont'd)

Essential features of a good annual report

Supporting Accountability

- telling the story of the organisation in a fair and balance way;
- compliance with the relevant reporting requirements; and
- clear action points to take forward.

Accessibility

- highlights key trends in the financial statements;
- concise summaries of key points; and
- consideration of how the organisation engages with key stakeholders and meets their needs.

The Covid-19 pandemic has impacted on the timely delivery of central government accounts, with 55% of Annual Reports and Accounts being published before the summer Parliamentary Recess in 2021 – which although an increase from 41% in 2020 is down from 85% before the pandemic in 2019. Audit and Risk Assurance Committees have a key role to play in supporting management in achieving timely Annual Report and Accounts publication. Below we set out some key areas Audit and Risk Assurance Committees may find it helpful to focus on.

Learning from the prior year
- Has management held debrief sessions with relevant stakeholders, including the NAO, to identify what worked well in previous accounts production and audit process and areas where enhancements can be made?

A clear project plan is in place with appropriate senior management ownership and accountability
- Has a project plan been developed and presented to the Audit and Risk Assurance Committee in advance of the year end, with appropriate oversight and accountability at a senior level, and has it been agreed with all relevant stakeholders including the NAO?

Project plans are realistic, not inappropriately optimistic and have clear milestones which are monitored to prevent slippage
- Is the project plan sufficiently granular and with clear milestones for delivery built in and, where the project plan aims for earlier Annual Report and Accounts publication than in prior years, are these plans realistic and achievable?

The Audit and Risk Assurance Committee has visibility of and has reviewed of key judgements
- Does the Audit and Risk Assurance Committee have clear visibility of the key accounting judgements and, where these judgements are historic, has management reviewed and considered whether these judgements remain appropriate before the year-end or whether any update is needed?

Plan to address key accounting judgements early – and take stock of progress before the year-end
- Has management identified new and emerging key accounting judgements and has plans in place to address these at an early stage?

Skeleton Annual Report and Accounts are prepared to facilitate early review
- Has management prepared a skeleton Annual Report and Accounts, incorporating any changes in disclosure requirements and best practice, which has been reviewed by management, the NAO and the Audit and Risk Assurance Committee in advance of the year-end? In particular, has the Governance Statement (or equivalent) been updated to reflect the latest circumstances of the organisation?

Latest reporting requirements are factored into project plans
- Where the organisation is adopting new accounting standards (eg, IFRS 16 *Leases*) or other disclosures (eg, Taskforce on Climate-Related Financial Disclosures) has the Audit and Risk Assurance Committee been provided with a project plan for implementation?

Where the delivery of Group accounts is dependent upon components (arms length bodies, agencies or others) the Group Audit and Risk Assurance Committee and management have sufficient oversight
- Have instructions been put in place with component finance teams to obtain the required information in line with the Group reporting timetable and does the Audit and Risk Assurance Committee have visibility of risks that sit at component level?

Beyond the finance team, other parts of the organisation understand their role and are brought into the year-end process.
- Where contributions to the year-end accounts production process are from outside of the finance team (for example, sections of the annual report or external valuers) have arrangements been put in place before the year-end to ensure required information is available in line with the timetable?

Ministerial approval is factored into the project plan
- Where Annual Reports and Accounts require ministerial approval, has early engagement taken place to schedule this in with the sponsor department?

Additional guidance
- HM Treasury – Guidance on Annual Reports and Accounts (for organisations that apply the Government Financial Reporting Manual) - https://www.gov.uk/government/collections/government-financial-reporting-manual-frem
- NAO - Good Practice in Annual Reporting - https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/
- NAO – Guidance for Audit & Risk Committees on Financial Reporting and Management during Covid-19 - https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/
- NAO - Climate Change Risk: a good practice guide for Audit and Risk Assurance Committees - https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/

Appendix 9: Russia – Ukraine risk considerations for Audit and Risk Assurance Committees (ARACs)

Financial and Risk Management Insights

May 2022

Introduction

The Russian invasion of Ukraine will have an impact on all public sector bodies. The impacts of the invasion are likely to vary from significant for some organisations, to minimal for others. The risk landscape is constantly changing - public bodies are dealing with emerging risks, alongside having to effectively manage increased exposures on their existing risks. Organisations need to continually reassess their risk profile and mitigations in the light of these events and carefully consider their responses. Particularly, how risks might impact the achievement of strategic objectives, delivery of outcome priorities and performance.

Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting effective governance in central government departments, their agencies and arm's-length-bodies. The role of ARACs is to support the Board and the Accounting Officer by reviewing the comprehensiveness and reliability of assurances on governance, risk management and the control environment. ARACs help organisations to focus on what is important, including how best to manage significant existing and emerging risks.

The NAO has produced a guide which provides a prompt for ARACs and public bodies more broadly to consider the significant uncertainties arising from the Russian invasion of Ukraine. The questions in this guide will help committees to support and challenge management in their approach to managing key risks arising from the conflict. There are two sections within the guide. The first section covers:

1. **Risk management, assurance and governance**
2. **Financial sanctions**
3. **Financial reporting**

The second section covers specific business risks in greater detail. ARACs should consider these specific questions to the extent they are applicable to their organisations:

4. **Cyber security and cyber resilience**
5. **Supply chain**
6. **Workforce**
7. **Programmes and projects**

The most relevant section of the guide relates to point 2 (financial sanctions) denoted above which we have included within the following slide. Please note that a full copy of the guide is available on request.

Financial sanctions

The Russian invasion of Ukraine has triggered wide-ranging economic impacts. The financial sanctions regime implemented by the UK (and other countries) is aimed at encouraging Russia to cease its actions and withdraw from Ukraine. Sanctions include restrictions on dealing with transferable securities, money market instruments and prohibiting entering arrangements to grant loans or credit.

Sanctions are not new, and procedures should already be in place to manage the risks relating to breaches and non-compliance. However, government is frequently announcing and updating its list of sanctioned individuals and entities. Given this increased activity, ARACs should seek assurance that their organisations are aware of, understand and have accurately accounted for the implications of these sanctions.

A published **list** and **guidance** for the financial sanctions on Russia provides details of those designated under regulations made under the Sanctions Act. On 17 March 2022, the UK government held a **webinar briefing** on UK sanctions relating to Russia.

Questions to consider

1. Is the organisation regularly monitoring the sanctions list and able to proactively respond to the implementation of new sanctions?
2. How has management assessed potential exposures to sanctioned parties, including suppliers and business partners?
3. How responsive are the existing systems and processes in applying new sanctions introduced as a result of the conflict?
4. Has management assessed the impact of new sanctions on existing 'Know Your Customer' controls? How effective are these controls and processes for newly exposed sanctions?
5. How effective are existing sanctions compliance processes and controls to prevent breaches / non-compliance with new sanctions introduced as a result of the conflict?
6. Has the organisation had to enhance controls to monitor for suspicious activity that may indicate an attempt to bypass sanctions, including impact of potential money laundering?
7. Does the organisation have a clear understanding of the aggregated impact of new sanctions on its arm's-length-bodies and other public bodies? How effective are the monitoring and reporting arrangements across the whole risk profile?

National Audit Office

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