

Audit Committee 27 September 2012

National Audit Office external audit strategy 2012-2013

Executive summary and recommendations

**Introduction**

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

**Decision**

The Committee is asked to approve the external audit strategy.

**Background information**

The 2012-2013 audit will be the fifth time that the NAO have acted as HCPC's external auditor as the Comptroller and Auditor General has responsibility to 'examine, certify and report on the annual accounts'. The appendix to this document lays out the NAO's audit approach, audit risks identified, timetable and fees.

**Resource implications**

None

**Financial implications**

Quoted audit fee of £39,000.

**Appendix**

National Audit Office Audit Strategy 2012-13

**Date of paper**

18 September 2012



National Audit Office

**REPORT TO THE ACCOUNTING OFFICER  
AND AUDIT COMMITTEE**  
September 2012

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**Health and Care Professions Council**

# Audit Planning Report 2012-13

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.

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# Introduction

**1.1** The Comptroller and Auditor General (C&AG) is appointed as the external auditor of the Health and Care Professions Council (HCPC) by the Health and Social Work Professions Order 2001. The C&AG has also been appointed as the HCPC's auditor by agreement with HCPC to satisfy the requirement of the Health and Social Work Professions Order 2001 for an auditor eligible under the Companies Act to be appointed to audit the accounts. Our audit is designed to allow the Comptroller and Auditor General to give a 'True and Fair' opinion on the financial statements, and an opinion that the underlying transactions comply with the authorities which govern them (regularity). The purpose of this document is to provide HCPC's Accounting Officer and Audit Committee with a clear understanding of how the National Audit Office, on behalf of the C&AG, plans to carry out the audit of HCPC's financial statements for the year ending 31 March 2013, and our respective responsibilities.

## Independence

**1.2** The NAO complies with relevant ethical requirements regarding independence and has developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in Annex 4: NAO quality standards and independence. We will reconfirm our independence and objectivity to the Audit Committee for the year ended 31 March 2013 in our Audit Completion Report.

## Actions for the Audit Committee

**1.3** The Audit Committee are invited to consider and discuss:

- The completeness and coverage of our assessment of potential risks of material misstatement to the financial statements (Section 2.1);
- The risk that the financial statements could be materially misstated due to fraud and communicate any areas of concern to management and the audit team;
- The adequacy of management responses to these risks; and
- Our proposed audit plan to address these risks.

**1.4** The Audit Committee, in order to comply with best practice, should review the accounting policies adopted by the organisation with the Finance Director and consider whether they remain appropriate to the organisation's circumstances and comply with the Health and Social Work Professions Order 2001 and Privy Council directions issued there under.

# Significant Risks

**2.1** Our initial assessment of HCPC's operations and control environment has identified the following areas as being those which constitute significant risks and which require a specific audit response:

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## **Risk 1 – Outsourcing of payroll function**

### **Risk**

The payroll function of HCPC will be outsourced to an external provider (Action file) in November 2012. A risk exists that;

- the controls put in place by HCPC are not sufficient to prevent erroneous payments being made, or to detect such payments; and
- the new process will result in errors in the staff costs recorded in HCPC's annual accounts.

### **Audit response**

As part of our planning process we will examine in detail the processes and controls that have been introduced to ensure that the correct information is passed to and from the payroll provider, including checks on changes to standing data and to ensure that correct payments are made to staff by the new provider. At subsequent audit visits we will undertake further testing to ensure that the staff costs recorded in the annual accounts are correct.

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## **Risk 2 – Procurement**

### **Risk**

During the completion of the audit work on the 2011/12 financial statements, NAO received an anonymous letter relating to HCPC's procurement process. The additional work that we undertook following receipt of this correspondence did not identify any issues suggesting irregularity in 2011-12 or in prior years. Our review did, however, identify weaknesses in HCPC's approach to procurement and we have made a number of recommendations to HCPC management for improvement in this area.

### **Audit response**

Following our work at the end of last year's audit we will examine the procurement process to establish whether our recommendations have been introduced. We will also review the process that HCPC has operated for any significant procurement activity undertaken during the year. We will seek confirmation that HCPC has adhered to relevant legislative requirements and assess the processes in place at HCPC for ensuring that it achieves value for money through its procurement activity.

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### **Risk 3 – Liability related to Flexiplan Scheme**

#### **Risk**

One of HPC's occupational pensions scheme is in the process of being closed. There is an on-going court case to ascertain the liability to each of the employers involved. In the previous two years HCPC's accounts have included a contingent liability disclosure for this scheme. Due to changes that may occur during the year, a risk remains that HCPC's accounts do not adequately disclosed their liability in relation to this scheme.

#### **Audit response**

The further hearing of the court case is scheduled for October 2012. We will consider the need for a liability to be recognised in the financial statements, or if a contingent liability disclosure remains sufficient, once the outcome of this court case is known.

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### **Risk 4 – Risk of Fraud through Management Override of Controls**

#### **Risk**

The Auditing Standard ISA240 states that there is a risk in **all** entities that management override controls to perpetrate fraud. The standard required that auditors perform audit procedures to address this risk in the following areas;

- Journal entries
- Bias in accounting estimates

Significant unusual transactions

**Audit response**

We will undertake specific testing to address the risk involved in these areas and establish HCPC's processes for preventing any override of management controls.

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**Risk 5 – Revenue Recognition**

**Risk**

There is a presumption in International Standard on Auditing (UK and Ireland) 240 *The auditor's responsibilities to fraud in an audit of the financial statements* that there are risks of fraud recognition, in particular where performance is measured in terms of revenue growth or profit.

HPC's reliance on fee income to cover costs, and the issues we identified with respect to revenue recognition in 2011-12, mean that revenue recognition is a significant risk to the income area and the related figures.

**Audit response**

We will undertake specific testing to address the risk of fraud in income recognition for income streams by reviewing HPC's processes and gaining assurance over cut-off and completeness of this income.

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## Areas of Audit Emphasis

We have identified the following key areas which may require special attention in our audit.

### **1. Transfer of Regulatory Function from the General Social Care Council**

The regulatory function of the General Social Care Council (GSCC) transferred to HCPC on 1 August 2012. Four staff transferred from GSCC to HCPC but we understand that no assets or liabilities were transferred. As in 2011/12, HCPC will receive specific grant funding from the Department of Health this year to cover additional expenditure relating to this transfer. This will be accounted for in the same way as the previous year. The major impact on HCPC's financial statements will be the increase in income and expenditure that will result from the transfer of approximately 85,000 social workers onto the HCPC register. We will seek confirmation that this significant new area of activity is properly controlled and brought to account correctly.

### **2. Purchase of Adjacent Building**

During 2011/12 HCPC paid a deposit of £1m to the Evangelical Alliance towards the purchase of the adjacent building. Completion of this purchase is not due to take place until April 2013 and we would expect the treatment of this deposit in HCPC's financial statements to remain as it was in 2011/12.

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## Fraud

**2.2** The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. The Accounting Officer is responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

**2.3** Under International Standard on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls. Our audit is designed to provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.

**2.4** We are required to make inquiries of those charged with governance in respect of your oversight responsibility for:

- Systems for monitoring risk, financial control and compliance with the law; and
- The entity's assessment of the risks of fraud and of the internal control the entity has established to mitigate specific risks of fraud that the entity has identified.

## Further Matters of Interest

### Changes to the Financial Reporting Framework and to the Framework of Authorities

**3.1** In addition to the key risks identified, we consider any changes to financial reporting guidance issued by HM Treasury and/or the Accounting Standards Board, which will impact our audit plan. To date there are no agreed changes although a Government Financial Reporting Manual (FReM) Exposure draft (12)01 was issued in July 2012. This proposes amendments to the interpretation of merger accounting for the public sector context and, due to the transfer of the regulatory function of GSCC outlined above, would be relevant to HCPC.

**3.2** We expect that this exposure draft will be introduced prior to year end and we will continue to liaise with HCPC over this issue.

### Audit Approach

**3.3** The NAO audit approach is risk-based, informed by a good understanding of the operations of HCPC and an assessment of the risks associated with the financial statements and of the regularity of underlying transactions.

**3.4** Our audit approach will be based on a mixture of reliance of high level controls and substantive testing. At the planning stage we will confirm the details with HCPC. Any high level controls that we plan to rely on will be tested at this stage to confirm effectiveness, with any deficiencies reported to management.

**3.5** We expect HCPC to produce a template account as at period 9, including notes, for our interim visit in January (see timetable at Annex 2). This will enable us to consider the disclosure notes that support the account and provide advice as to what is required in the final draft financial statements. During our interim visits we will also examine the following;

- Deferred income
- Payroll
- Procurement
- Bank reconciliation
- Substantive testing for expenditure and income
- Comparatives

**3.6** Our final visit will be in May when we will complete our audit of the year end draft financial statements.

**3.7** We will review other accounting systems and management controls operated by HCPC only to the extent we consider necessary for the effective performance of the audit. As a result, our review may not detect all deficiencies that exist or all improvements that could be made. Where we do uncover any significant deficiencies or weaknesses we will report these to you, with our recommendations for improvements.

**3.8** Annex 2 provides further briefing on audit areas that those charged with governance should consider annually.

**3.9** Annex 3 provides a statement on the NAO's management of personal data. We will agree with management how we handle sensitive data, where appropriate.

### **Reliance on others**

**3.10** We continue to liaise closely with Internal Audit and place reliance on their work where their objectives cover areas of joint interest. We also carry out a review of the Internal Audit structure and function in accordance with International Standard on Auditing (UK and Ireland) 610.

**3.11** We will consider the tax information provided to HCPC from Mazars and carry out a review in accordance with International Standard on Auditing (UK and Ireland) 620.

### **Regularity and propriety**

**3.12** Our audit of regularity is conducted in accordance with Practice Note 10 (revised), '*Audit of financial statements of public sector bodies in the United Kingdom*', issued by the Auditing Practices Board. We test that the transactions entered into by the organisation comply with the regularity framework within which HCPC operates. This means gaining assurance that transactions are in accordance with appropriate authorities, including the statutory framework for the organisation, managing public money and other requirements of Parliament and HM Treasury.

**3.13** We will also have regard to the concept of propriety in conducting our audit, which is concerned with Parliament's intention as to the way in which public business should be conducted, and concerning the avoidance of waste and extravagance.

# Annex 1 - Timetable, Staffing & Fees

## Audit timetable & fees

1 The timetable set out in this section has been agreed in discussion with management during audit planning.

Item	Timing	Responsibility
Planning meeting with HCPC	5 September 2012	NAO and HCPC
Audit planning report to HCPC for audit committee on 27 September 2012	17 September 2012	NAO
Planning work	October/November 2012	NAO
Interim audit visit	February 2013 TBC	NAO
Interim wash up meeting	February 2013 TBC	NAO and HCPC
Further interim visit to test period 11 transactions where possible	March 2013 TBC	NAO
Annual Report and Accounts presented to NAO for audit	TBC	NAO
Final audit visit	April/May 2013 TBC	NAO
Wash up meeting	May 2013 TBC	NAO and HCPC
Final draft of Annual report and accounts including all changes required as a result of audit to NAO	TBC	HCPC
Draft Completion report to HCPC	7 June 2013	NAO
Final completion report including management responses issued to HCPC for audit committee on 25 June 2013	14 June 2013	NAO
Accounting Officer signs Annual Report and Accounts	After Council meeting on 4 July 2013	HCPC
C&AG certifies accounts	After 8 July 2013	NAO

- 2 The audit fee for HCPC account is £39,000 (2011/12 £38,500)
- 3 Completion of our audit in line with the timetable and fee is dependent upon:
- HCPC delivering on, date TBC, the sections of the Annual Report and Accounts requiring audit which is of sufficient quality that have been subject to appropriate internal review;
  - HCPC delivering good quality supporting documentation and evidence within the agreed timetable; and
  - appropriate HCPC staff are available during the audit.
- 4 If significant issues arise and we are required to perform additional work which would result in a change in our fee, we will discuss this with you as soon as possible.

## Key audit staff

Title	Name and contact information	Responsibilities
Director	Kate Mathers <a href="mailto:kate.mathers@nao.gsi.gov.uk">kate.mathers@nao.gsi.gov.uk</a> 020 7798 7918	Overall responsibility for ensuring audit work is sufficient and complies with appropriate standards and for recommending an appropriate audit certificate and report to the C&AG.
Manager	Martin Burgess <a href="mailto:martin.burgess@nao.gsi.gov.uk">martin.burgess@nao.gsi.gov.uk</a> 020 7798 7229	Responsible for detailed review of the audit plan and work undertaken to ensure that sufficient and appropriate audit evidence is obtained to support the audit opinion.
Lead	Sarah Edwards <a href="mailto:sarah.edwards@nao.gsi.gov.uk">sarah.edwards@nao.gsi.gov.uk</a> 020 7798 7849	Ensuring the work is completed to plan, on-site supervision of junior staff and completion of more complex audit areas.

# Annex 2 - Briefing on Audit Matters

## Respective Responsibilities

1 In line with Auditing Standards we are required to agree the respective responsibilities of the C&AG, HCPC's Accounting Officer, and the NAO. These responsibilities are set out in the Letter of Understanding dated 16 November 2010.

2 The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

### Preparation of the financial statements

3 The primary responsibility for the preparation of the financial statements and the regularity of financial transactions lies with HCPC.

4 The financial statements should be prepared in accordance with the Health and Social Work Professions Order 2001 and Privy Council directions issued there under.

## Supporting Records

5 All relevant general ledger transactions should be processed to allow trial balances to be made available for audit purposes with the draft financial statements. Any amendments made to the trial balances after the close of books should be discussed with NAO staff and supported by a journal voucher and any other underlying documentation. Further adjustments may be required as a result of our audit findings.

6 We will require access to schedules and documentation which support the figures and disclosures within the financial statements, and we would expect the draft account to have been subject to appropriate management review prior to submission for audit. A list summarising the key items of audit information required will be provided to the finance team prior to each audit visit.

## Scope of the Audit

7 The C&AG is required to examine, certify and report on the financial statements of HCPC. Our audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of the activities reported for the year ended 31 March 2013, and that the expenditure and income have been applied to the purposes intended by Parliament and that the transactions conform to the authorities which govern them (regularity).

**8** Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs). These standards represent best practice in auditing and aim to promote uniformity of practice throughout the world, thereby increasing public confidence in the audit process. We have a professional responsibility to report if the financial statements do not comply in any material respect with the Financial Reporting Manual (FRoM) issued by HM Treasury.

**9** As part of the audit we will review the information published with the financial statements, including information contained in the Annual Report, the Management Commentary, Remuneration Report and Governance Statement, to ensure it is consistent with the accounts and information obtained during the course of our audit. We will consider whether the Governance Statement has been prepared in accordance with HM Treasury guidance.

## Materiality

**10** The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and includes consideration of both the amount and the nature of the misstatement. In determining materiality, we consider a range of measures relevant to the account.

**11** The level of error which we have identified as clearly trivial has been set at £2000 at the planning stage. We will report to you all errors in the financial statements above this amount.

## Management of personal data

**12** 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 (Annex 3).

## Annex 3 - Statement on the Management of Personal Data at the NAO

1 The C&AG and the National Audit Office have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that the C&AG's reports to Parliament are factual, accurate and complete. This data relates both to public servants and individual citizens. We have a duty to respect this privileged access and to ensure that the personal information entrusted to us is safeguarded properly.

2 We take our obligations under the Data Protection Act 1998 seriously. We have a body of data policies and IT standards, guidelines and procedures designed to ensure compliance with the Act. We keep our requests for personal data to the minimum necessary to complete our work and retain any personal information we obtain only for as long as we need it. We take appropriate measures to safeguard the integrity and confidentiality of data we hold from unauthorised access. All of our staff and contractors have an obligation to comply with our data protection policies.

3 In addition to those items specifically identified in the Act, our definition of sensitive personal data includes data which, when held alone or in combination, could cause embarrassment, harm or financial loss to the data subject if disclosed to or tampered with by an unauthorised third party. We have separate arrangements in place for classified data.

4 To help you understand our commitment, we have developed a series of Personal Data Statements, which all our staff subscribe to:

- We will only request personal data for use in discharging our statutory and other audit functions and for lawful purposes. These requests are kept to the minimum necessary to carry out our work.
- Our requests for personal data will be authorised by a senior employee. Each of our audits is led by a Director who is personally responsible for authorising any request for personal data in connection with that audit; maintaining records of the data held; ensuring it is securely and appropriately processed; ensuring it is securely and appropriately retained; and for certifying its destruction.
- We will agree with you in advance how we will use, secure, destroy and account for the personal data you provide to us. We have a series of protocols which specify the measures for protecting personal data during transfer from the

information provider, whilst we retain the information for audit purposes, for secure destruction of the data and for long term storage where this is required by law and professional standards.

- We will notify you when we destroy personal data you have provided to us.
- We ensure our contractors operate suitable procedures for personal data protection before we pass such data to them. From time to time we contract with third parties who support us in discharging our statutory and other audit responsibilities. Access to personal information will only be given to organisations which can show that they are capable of maintaining the standards defined in these statements.
- We audit our compliance with our data protection policies, in order to be assured that protection is in accordance with the terms of this Code. These include checks on compliance carried out independently of the NAO Directors responsible for the security of data on their audits.
- Where information identifying individuals must be given up by law, it will be released only to those legally entitled to receive it following the approval of the data controller.

# Annex 4 - NAO quality standards and independence

## Audit quality

- 1 Auditing Standards require that we communicate at least annually with each body we audit on how we maintain our audit quality and our independence.
- 2 Quality is strongly embedded in the NAO culture and manifests itself through:
  - Continued Professional Development (CPD) – all staff are expected to meet a target of 40 hours CPD per year across the range of professional, management and personal effectiveness training and development, representing a significant investment for the NAO; and
  - specialist skills – our audit team can call as necessary on NAO in-house specialists, including statisticians, computer experts and economists.
- 3 We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing:
  - all planning decisions and fieldwork are reviewed by NAO management and directorate;
  - all significant matters are dealt with promptly and will be raised with HCPC management as necessary; and
  - progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing.
- 4 In addition, the NAO has additional procedures for our public interest audits which include the review of key judgements by an NAO Director who is fully independent of the audit team.
- 5 Each year the NAO executes a programme of post-certification internal Quality Control Reviews. The objective of these reviews is to establish whether sufficient and appropriate evidence has been collected and evaluated and whether the NAO's financial audits comply with professional standards and internal policies.

**6** To seek an external view, NAO has invited the Audit Inspection Unit of the Professional Oversight Board, to undertake an annual programme of post-certification audit quality reviews. The results of these reviews are regularly brought to the attention of all staff.

## Independence policies and safeguards

**7** The NAO is independent of government and differs from other professional audit bodies in that it has additional public service responsibilities.

**8** All public sector bodies are required to observe high standards of probity in the management of their affairs, and the Committee on Standards in Public Life has identified seven key principles which should be followed: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The combination of professional ethics and public sector principles therefore places the NAO in a unique position.

**9** There are three crucial values which underpin the work of the NAO:

- Accountability - everything done by those who work in the NAO must be able to stand the test of parliamentary scrutiny, public judgments on propriety, and professional codes of conduct;
- Probity - there should be an absolute standard of honesty and integrity in handling NAO work and resources; and
- Objectivity and Impartiality - The C&AG's independence is secured in statute. This underlines the need for us to be objective and impartial in all our work, including accurate, fair and balanced reporting.

**10** We need to apply these values to retain our credibility with Parliament, audited bodies and other stakeholders in our work and therefore a code of conduct is issued annually for all staff to complete a return confirming that they have complied with its provisions.

**11** The NAO assesses any threats to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagements. This would include particular focus on threats arising from self-interest, self-review, advocacy and over-familiarity.