

Audit Committee, 20 March 2014

National Audit Office Interim Audit Report

Executive summary and recommendations

Introduction

As part of their audit of the HCPC's 2013-14 Annual Report and Accounts, the NAO carried out an interim visit in late January/early February, and have provided an Interim Report for the Audit Committee.

The Executive has discussed the Report with the NAO. The Executive's response is as follows;

- In relation to point 2 on page 4, we have agreed with the NAO that we will use the DECA toolkit to evaluate the risks of the 186 Kennington Park Road project, and that we will undertake a full options appraisal as part of the project, which will be used to inform the final decision whether and to what extent to proceed with redevelopment.
- We agree the point on page 5 and the assets valued at £44k will be written down to nil.
- In relation to the point raised on page 6 about remuneration disclosures, we are working with the NAO to agree appropriate disclosures.

Decision

The Committee is asked to discuss the NAO's Interim Report and note its contents.

Background information

The NAO's plan for the 2013-14 audit was presented to the September 2013 Audit Committee meeting. Their Audit Completion Report will be presented at the June Audit Committee meeting.

Resource implications

Nil

Financial implications

Accounted for within the 2013-14 NAO audit fee, £39,000.

Appendices

Appendix 1: NAO Interim Audit Report

Date of paper
7 March 2014

Health and Care Professions Council

Interim Audit report on the 2013-14 financial statement audit

REPORT TO THOSE CHARGED WITH GOVERNANCE

March 2014

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

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

Results of our interim audit visit

Introduction

This report summarises the key matters from our 2013-14 interim audit visit. A further completion report will be produced following our final visit in May and issued to those charged with governance before we finalise our audit work and certify the accounts.

What work have we completed?

To date we have undertaken the following work;

- Consideration and testing of the significant risks identified at planning;
 1. Effectiveness of controls
 2. Purchase of adjacent building
 3. Presumed risk of fraud through Management override of controls and revenue recognition
- Consideration and testing of appropriate high level controls that can be used to obtain assurance over specific account areas
- Review of the template account produced by Finance to confirm consistency with required disclosures and prior year financial statements
- Consideration of the introduction of the new procurement policy
- Sample expenditure testing for the 9 months from April 2013 to December 2013
- Payroll testing for the 9 months from April 2013 to December 2013, including starters and leavers testing
- Additions, disposals and existence testing on non-current assets
- Income testing on renewal and graduate fees for the 9 months from April 2013 to December 2013

Results of our interim audit visit

No major findings identified from this visit

Our findings – significant risks

1. Effectiveness of controls

- Change to key staff – due to the issues identified and the key staff changes in year we have not relied on the management accounts as a high level control to provide audit assurance for 2013/14. We would hope that, with the appointment of a new FD prior to the start of the next financial year, and from our observations of the management accounts production process that we would be able to place reliance on this control for 2014/15.
- Change in governance structure – the new Council was appointed from January 2014 and the first meeting took place on 6 February, which was after our audit visit.
- Procurement – we acknowledge that the policy has now been ratified by the Council. One tender (Legal services) has been let under the new policy. The process was reviewed and no issues were identified. We will review any further significant contracts let prior to the year end.

2. **Purchase of adjacent building** – HCPC have agreed that they will obtain a professional valuation of the building prior to the preparation of the financial statements. We will continue to discuss with HCPC any expenditure made with regard to the building and how this should be disclosed in the accounts in the future.

With regard to the refurbishment/replacement of the adjacent building, we have provided management with a toolkit (DECA (Delivery Environment Complexity Analytic)) that has been developed by the NAO, which considers the challenge of delivering major projects. For such a significant project it is important that decisions are robustly evaluated and documented, including use of options appraisals. We would encourage HCPC to use this toolkit (or a similar project evaluation tool), and to undertake a detailed costs benefit analysis before the options are presented to Council for a decision as to the way forward.

3. **Presumed risk of fraud** - no issues were identified from the work undertaken at interim audit.

Results of our interim audit visit

No major findings identified from this visit

**Other audit findings -
Minor**

1. Asset write off

Costs relating to work on an online renewals and online applications projects were capitalised under intangible fixed assets. Since this took place there has been a change of focus with regard to these projects and they have been superseded by online registration and consideration of a new registration system. The total value currently capitalised is £43,649.

We recommend that HCPC considers the true carrying value of these assets and evaluates these under IAS 36 as it appears these assets are impaired and should be written off

Other matters

1. Remuneration disclosures

In our 2012/13 audit completion report we recommend that the Remuneration Report disclosures required by the Financial Reporting Manual (FRoM) are reviewed annually to ensure that HCPC continues to fully comply with these. That consideration should include a review of the role of Executive Management Team Directors to confirm whether they meet the definition of a Director as set out in the FRoM.

We also recommend that HCPC continues to review the remuneration disclosures made by broadly analogous entities so that it can consider whether its disclosures are in line with general practice.

We understand that HCPC has proposed that an expanded but anonymised disclosure of senior salaries will be included in the Remuneration Report from 2013-14. We welcome this enhanced disclosure, but suggest further improvements could be made in line with the FRoM to show named individuals. This is considered best practice. Given the transparency agenda and HCPC's role as a regulator and desire to be an exemplar of good practice, we recommend that HCPC consider that this disclosure is further improved ; we will provide the disclosures from a relevant body as a guide.

Final audit visit

As outlined in our planning report we will complete our work on HCPC annual report and accounts in our final audit visit in May.

Actions for the Audit Committee

The Audit Committee should:

- Review the findings set out in this report

Appendix – List of identified misstatements

Area	Issue	SoCNE Dr £000	SoCNE Cr £000	SoFP Dr £000	SoFP Cr £000
Intangible non-current assets	Software projects from 2006 There has been a change of focus with regard to the software projects from 2006 and they have been superseded by online registration and consideration of a new registration system. Costs previously capitalised should be written off.	44			44