

Audit Committee, 8 September 2015

National Audit Office (NAO) Audit Completion Report on the 2014-15  
financial statements - revised

Executive summary and recommendations

### **Introduction**

The NAO's audit completion report was discussed at the June meeting of the Committee.

The NAO have issued a revised and final version of the report, including management responses to their recommendations, and a further uncorrected error (£20k) which was identified at a late stage of their audit.

### **Decision**

The Committee is asked to note the final version of the National Audit Office's report of audit findings for 2014-15.

### **Background information**

None

### **Resource implications**

None

### **Financial implications**

NAO audit fee £39,000

### **Appendices**

NAO's Audit Completion Report

### **Date of paper**

19 August 2015

Health and Care Professions Council

# Audit completion report (including management letter) on the 2014-15 financial statement audit

**Please note:**

This report was first issued to the Audit Committee for discussion at its meeting on 17 June 2015. It has been updated and is re-issued here to include management responses (on slides 12 and 14).

REPORT TO THOSE CHARGED WITH GOVERNANCE  
19 August 2015

<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. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.*

# Introduction: status of our audit

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## **Introduction**

This report summarises the key matters from our audit of the 2014-15 HCPC financial statements which we must report to the Audit Committee, as those charged with governance.

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

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## **What work have we completed?**

We have completed our audit of the 2014-15 financial statements in accordance with International Auditing Standards (UK and Ireland) issued by the Financial Reporting Council and with the audit planning report presented to the Audit Committee in October 2014.

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

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

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

The annual report and accounts have now been signed by the Accounting Officer, and certified by the Comptroller and Auditor General. In addition, the Accounting Officer signed a letter of representation, a copy of which is included in Appendix 1.

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

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## **What is our conclusion?**

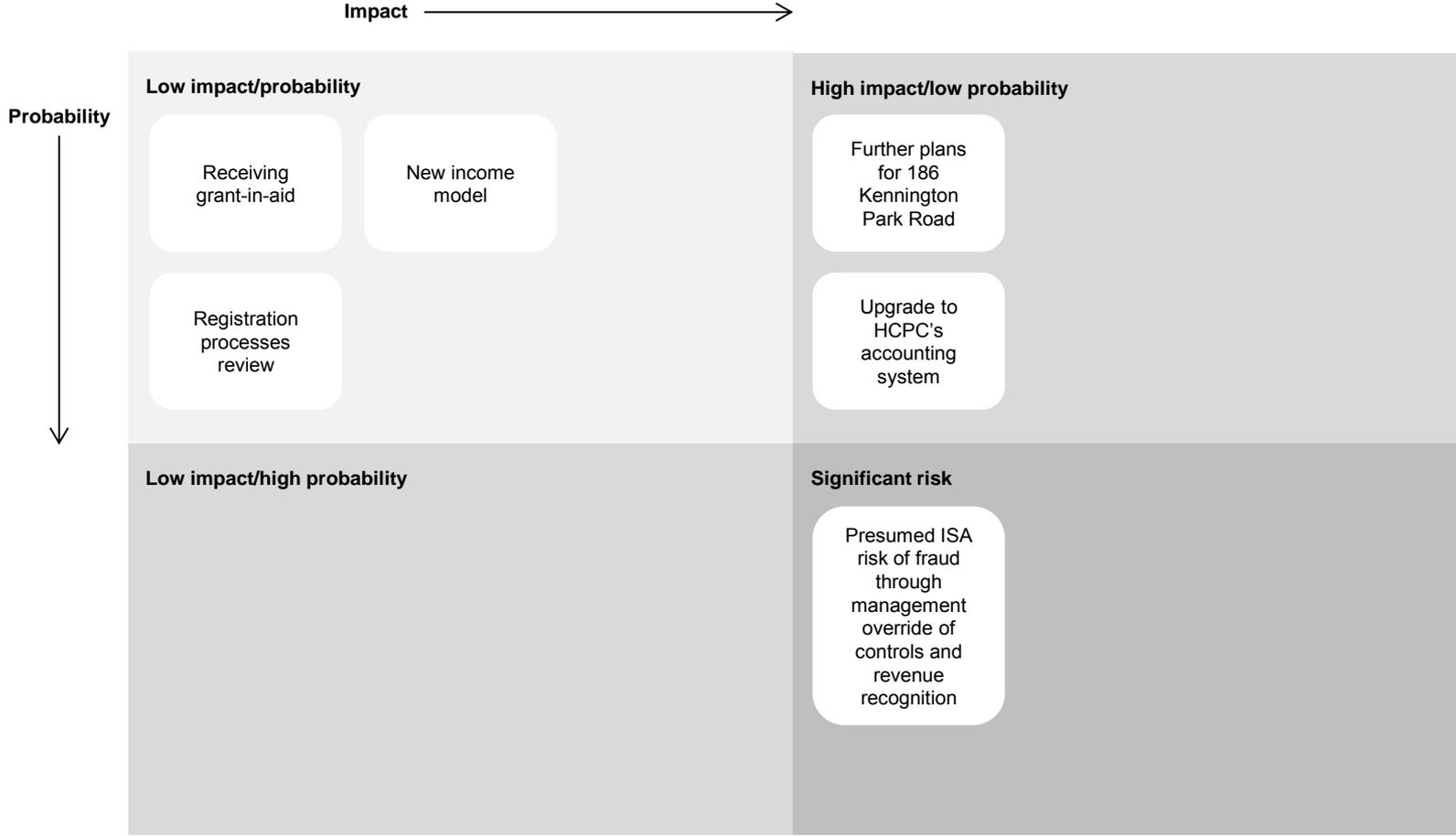
The Comptroller and Auditor General certified the 2014-15 financial statements with an unqualified audit opinion, without modification.

A copy of the audit certificate is presented in Appendix 2 – Audit Certificate.

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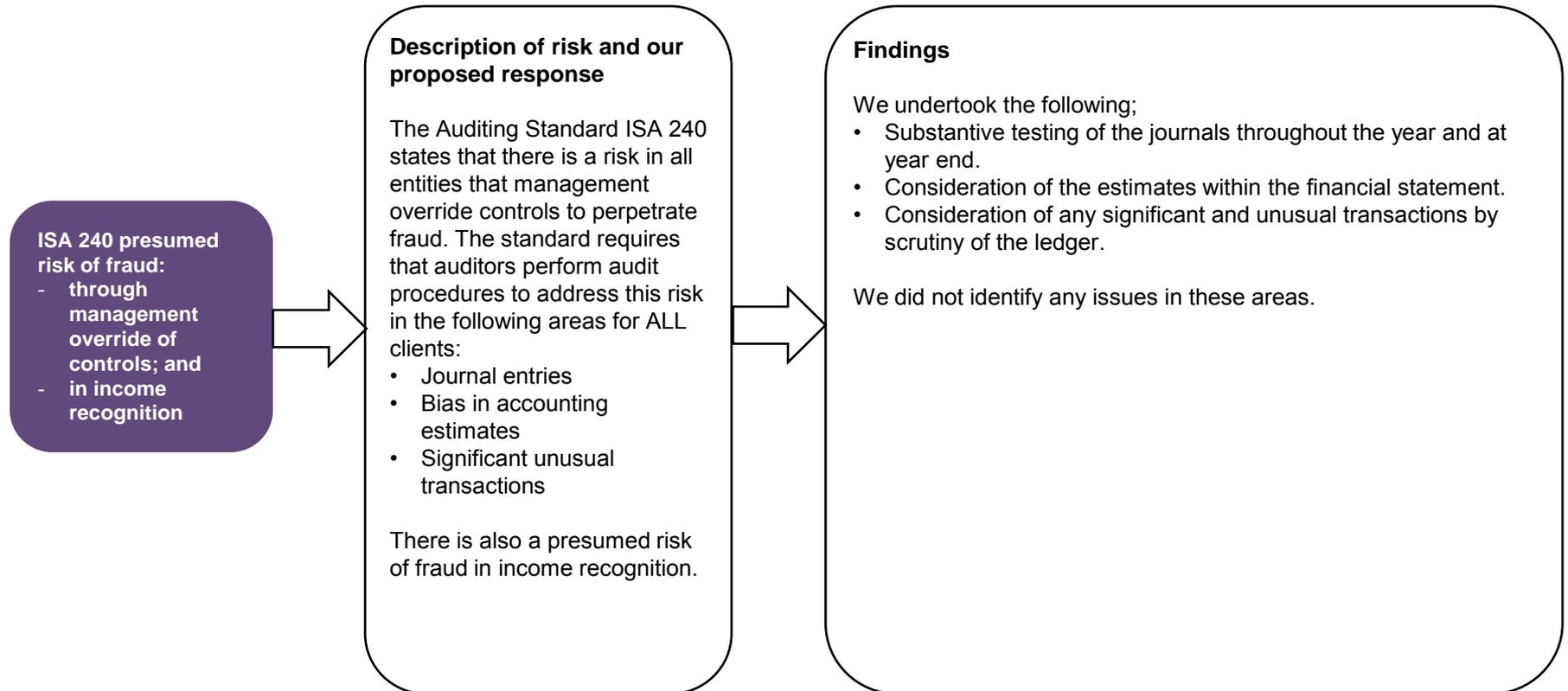
# Key audit findings: Significant financial statement risks

We identified the risks below in our Audit Planning Report presented to the Audit Committee on 08/10/2014. No additional risks have been determined in the course of our audit. Responses and findings against those risks we identified as significant risks of material misstatement to the financial statements can be seen in the next section of this report.



# Key audit findings

## Significant financial statement risks



We did not identify any issues in these areas

# Key audit findings: other key findings

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## **Identified misstatements**

Misstatements that we have identified, have been adjusted, and are above our clearly trivial threshold of £5,130 are detailed on page 8.

Uncorrected misstatements are also set out on page 9.

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## **Accounting policies**

As part of our audit, we consider the quality and acceptability of HCPC's accounting policies. There were no significant changes to the accounting policies in year, and we are satisfied that the accounting policies are complete, accurate and compliant with the Government Financial Reporting Manual (FReM).

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## **Financial reporting**

The structure of HCPC's annual report has been changed to include a Strategic Report and a Directors' Report (named 'Management Report') in line with the requirements of the FReM.

HCPC should continue to review its reporting against best practice on an ongoing basis. For instance, with regard to the split of deferred income between current and non-current liabilities, it could consider disclosures made by similar regulators, and accounting standard requirements.

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## **Regularity, propriety and losses**

We have drawn Management's attention to ambiguity in the accounts direction, which in our view gives rise to uncertainty over HCPC's framework of authorities and regularity requirements. See our recommendation on slide 11 for more details.

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# Key audit findings: list of identified adjusted misstatements

Adjusted misstatements		SoCNE	SoCNE	SoFP	SoFP
Area	Issue	Dr £000	Cr £000	Dr £000	Cr £000
Staff project costs	Some payroll costs were disclosed under 'project costs' within other expenditure rather than payroll.	156	156		

# Key audit findings: list of identified unadjusted misstatements

Unadjusted misstatements		SoCNE	SoCNE	SoFP	SoFP
Area	Issue	Dr £000	Cr £000	Dr £000	Cr £000
Accruals	An accrual on fitness to practise costs is overstated as it includes costs for cancelled hearings at their full fee rate.		66*	66*	
Receivables	Bank interest receivable has been misclassified as a (debit balance) accrual rather than a receivable.			35	35
Prior year	Prior year misstatements were identified relating to refunds and prepayments. These are not material either by value or nature, and a prior year restatement is not required.		20	20	

\*This is an estimate only, as we do not have the necessary information to fully quantify the misstatement. We are however confident that the error is beneath materiality.

# Recommendations

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



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



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



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

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# ● Recommendation: accounts direction

## Accounts direction

As set out in our interim management letter, the Privy Council Office accounts direction directs that HCPC ‘...shall act , in all circumstances associated with its financial responsibilities and obligations under the Health Professions Order, as if it were a non-Departmental Public Body (NDPB) of the Department of Health’. An NDPB of the Department of Health must comply with the provisions of HM Treasury’s Managing Public Money and its related guidance. This related guidance includes Cabinet Office spending controls.

PCO’s Accounts Direction for HCPC is non-standard, and differs to those we are aware of for other, similar regulators, that we also audit. In these cases, the form of words in the accounts direction affords the regulator more flexibility by, typically, requiring the regulator only to “...have regard to the principles of Managing Public Money”. HCPC’s view is that, in practice, this is also the standard it is required to adhere to.

We are sympathetic to HCPC’s view given that HCPC is an independent regulator and not an NDPB of the Department of Health (or any other central government body). However, given the form of words in the accounts direction, it is our view that there is uncertainty over the extent to which the Privy Council intends that HCPC must comply with Managing Public Money and its related guidance, including Cabinet Office controls. This lack of clarity means that HCPC runs the risk of inadvertently failing to comply with the Privy Council’s intentions regarding the regularity of its transactions and its financial reporting requirements.

Since the last Audit Committee, we have reviewed HCPC’s spend within the Cabinet Office controls categories and this does not breach materiality for 2014-15. We have also met with the Chief Executive, Chair of Audit Committee, and Finance Director to discuss this issue. Following these meetings, management has agreed to seek clarification from the Privy Council to resolve the uncertainty in the accounts direction. We welcome this progress and consider it particularly important given HCPC’s intention to enter into a significant new lease on 405 Kennington Road (which would likely fall within Cabinet Office controls), and continuing uncertainty over compliance with regularity requirements.

We recommend as a priority for HCPC to discuss and clarify its accounts direction with the Privy Council.

# ● Management response: accounts direction

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## **Accounts direction**

The NAO's interim management letter including the same issue was presented to the Audit Committee meeting in March 2015. The minutes of the meeting note that:

*The Committee discussed the HCPC's accounts direction. The Committee considered that the HCPC was an independent authority and that the classification by the ONS was an anomaly. The Committee agreed that clarification on the PCO's intention should be sought in the long term to remove any uncertainty.*

The Executive agreed with the Committee's view and the Chief Executive wrote to the Privy Council Office on 18 June.

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# ● Recommendation: internal control

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## **Self-certification of expenses**

Through discussion with management, we understand that HCPC's financial regulations have changed such that executive team members can self-authorise expense claims under £500. In the current context there can be significant reputational damage in cases where expenses systems are, or are perceived to have been abused. Management therefore need to consider the potential risk against expected efficiency gains, and apply proportionate controls such that they are confident they have struck the right balance.

We note in the Council meeting papers from 04/12/14 an expectation that self-certified expenses will be subject to annual audit. As set out in the letter of understanding, we plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records. Although our sample populations include expenses, our work should not be relied on to provide assurance over compliance with the expenses policy or effectiveness of internal controls.

We recommend that HCPC considers periodically testing a sample of self-certified expense claims for compliance with the expenses policy, using assistance from internal audit as necessary.

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# ● Management response: internal control

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## **Self-certification of expenses**

The NAO's concern is prompted by a paragraph in the paper proposing changes to the Financial Regulations (Council meeting 4 December 2014, enclosure 7), which stated:

*The proposed change introduces self-authorisation for domestic travel and subsistence claims and bookings under a threshold of £500. As recommended by the Audit Committee [on 9 October 2014], self-authorized claims will be subject to an annual audit.*

There was never any expectation that the NAO's external audit would provide assurance on self authorised expenses. The annual audit referred to is an internal audit. The Financial Regulations approved by Council on 4 December 2014 state:

*44.2 claims by Directors or the Chief Executive up to the domestic limit (UK travel, subsistence and allowances not exceeding £500) may be self authorised but will be subject to an annual audit process conducted by the Business Process Improvement department to ensure compliance with applicable policies.*

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# Other matters for communication

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## **Independence**

We consider that we comply with Auditing Practices Board (APB) ethical standards and that, in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between us and HCPC that we consider to bear on our objectivity and independence.

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

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

Items requiring communication cover:

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

We have not placed reliance on the work of internal audit for the purpose of our work, however we have used internal audit's work to further inform it.

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# Appendix 1 – letter of representation (1)

LETTER OF REPRESENTATION: Health and Care Professions Council, year ended 31 March 2015

I acknowledge as Accounting Officer/Chief Executive of the Health and Care Professions Council (HCPC) my responsibility for preparing accounts that give a true and fair view of the state of affairs, surplus, changes in reserves and cash flows of HCPC for the year ended 31 March 2015.

In preparing the accounts, I was required to:

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

I confirm that for the financial year ended 31 March 2015:

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

# Appendix 1 – letter of representation (2)

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

## INTERNAL CONTROL

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

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

## FRAUD

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

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

## ASSETS

### General

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

### Non-Current Assets

All assets over £1,000 are capitalised. Apart from land and buildings, all other assets are valued at historic cost, as this is not materially different to fair value. Valuations are performed on an existing use open market value basis as required with a minimum interval of five years.

Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in HCPC's operations.

# Appendix 1 – letter of representation (3)

## Other Current Assets

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

## LIABILITIES

### General

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

### Provisions

Provision is made in the financial statements for the liability related to the Flexiplan pension scheme which has been wound up. Following the resolution of a court case relating to a technical point on the scheme it has been confirmed that HCPC has a liability. However, the scheme will be subject to an actuarial valuation later in 2015 and so there is some uncertainty over the level of this liability from that date and so it was considered appropriate for the best estimate at this stage to be included as a provision.

### Contingent Liabilities

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

# Appendix 1 – letter of representation (4)

## OTHER DISCLOSURES

### Results

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

### Unadjusted Errors

I confirm that I am aware of the unadjusted error that are included on the attached schedule. I do not wish to correct these errors as I consider the effect of these unadjusted errors to be immaterial, both individually and in aggregate, to the financial statements as a whole.

### Events after the Reporting Period

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

### Management of Personal Data

Except as disclosed in the Management Commentary, there have been no personal data related incidents in 2014-15 which are required to be reported.

**Marc Seale**

**Chief Executive**

**July 2015**

# Appendix 2 – Draft audit certificate (1)

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

I certify that I have audited the financial statements of the Health and Care Professions Council for the year ended 31 March 2015 under Article 46(5) of the Health and Social Work Professions Order 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Reserves and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

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

# Appendix 2 – Draft audit certificate (2)

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

## **Opinion on regularity**

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

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Health and Care Professions Council's affairs as at 31 March 2015 and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Health and Social Work Professions Order 2001 and the Privy Council directions issued thereunder.

## **Opinion on other matters**

In my opinion:

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

# Appendix 2 – Draft audit certificate (3)

## Matters on which I report by exception

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

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

## Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

**Date**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

# Appendix 3: follow up to recommendations we made in the previous year

Title	Area	What was the recommendation?	Response/Progress	Status
Asset revaluation	Property, plant and equipment	<p>Much of HCPC's land was revalued up in 2013-14. This was netted off in the accounts against a loss on the land bought as part of 186 Kennington Park Road, which we accepted as all movements were in year and the overall effect was not material. Going forward we would expect HCPC to evaluate revaluation on an annual basis as required by IAS 16 as modified by the Government Financial Reporting Manual, the statutory framework for HCPC. The FREM requires that all tangible non-current assets shall be carried at valuation at the reporting period. The option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets.</p>	<p>Property assets were revalued in accordance with the FREM, through an independent revaluation by Stiles Harold Williams LLP.</p> <p>HCPC has clarified its accounting policy on revaluations and correctly included a revaluation reserve for Park House in its 2014-15 accounts.</p> <p>For HCPC's plant and equipment, we agree with management's judgement that depreciated historical cost is currently an appropriate proxy for fair value of plant and equipment, in accordance with the FREM.</p>	Met in full