

Audit Committee, 26 September 2013

National Audit Office Audit planning report on the 2013-14 financial statement audit

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 2013-2014 audit will be the sixth 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 2013-14

Date of paper

17 September 2013

Health and Care Professions Council

Audit planning report on the 2013-14 financial statement audit

REPORT TO THOSE CHARGED WITH GOVERNANCE
September 2013

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

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We have pleasure in setting out details of our proposed financial statement audit approach for HCPC for the 2013-14 ending 31 March 2014.

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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 as your sponsoring department. 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.

Financial statement audit plan

What work are we to complete?

Our audit, which will be conducted in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)), will enable the C&AG to give an opinion on the financial statements.

Further details of the scope of the audit, as well as our respective responsibilities in relation to this engagement, have been set out in our Letter of Understanding which has previously been provided to the audit committee.

How are we going to conduct the audit?

Risk based approach

We plan our audit of the financial statements to respond to the risks of material⁽¹⁾:

- misstatement to transactions and balances; and
- irregular transactions.

The significant financial statement risks, which we have identified, are:

- Effectiveness of the control environment
 - Change in key staff
 - Change of Governance Structure
 - Procurement
- Purchase of the adjacent building
- ISA240 Presumed Fraud risks
 - Management override of controls
 - Income recognition

^[1] 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.

In addition to these significant risks we have also identified some 'risk factors' i.e. risks that are not expected to represent a material misstatement in year but we would like to keep in view in our audit work;

- Financial reporting and transparency of disclosures
- Intangible assets
- The fee consultation exercise

Further details of these risks and our response are set out at Appendix A

Our team

The details of the key audit staff and their roles:

- Kate Mathers; Portfolio Director
- Catherine Hepburn; overall responsibility for the audit
- Sarah Edwards; responsibility for management of the audit
- Emily Hopkinson; will lead the on site work

When do we plan to complete this work?

Timetable

The timetable comprises;

- a week's interim visit prior to Christmas, a further week's interim visit late January/Early February , and a brief 2 day visit during March to complete transaction testing for periods 10 and 11.
- final visit in mid to late May 2014 with certification planned for early July 2014.

Fees

We aim to hold our audit fee at £39,000 .

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

- The extent to which we are able to place reliance on HCPC's control environment;
- delivering a complete Annual Report and Accounts of sufficient quality that have been subject to appropriate internal review on the date agreed;
- delivering good quality supporting evidence and explanations within the agreed timetable; and
- making appropriate staff available during the audit.

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.

Our audit approach

Other matters

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.

Following our review of internal audit's plans we will aim to consider the outcome of the following audit assignments to support our assurance

- Review of HCPC's Corporate Governance arrangements
- Review of Core Financial systems and key controls

Materiality

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 or irregularity.

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. In determining materiality, we consider a range of measures relevant to the account.

Our audit approach

Other matters

Independence

We comply with relevant ethical requirements regarding independence 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:
http://www.nao.org.uk/about_us/what_we_do/audit_quality/quality_and_independence.aspx

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

Error reporting threshold

For reporting purposes, we will treat any misstatements below £4700 as “trivial” and therefore not requiring consideration by the Audit Committee.

Please note that this is a separate threshold to our consideration of materiality by value, which is used in forming the audit opinion.

Management of personal data

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

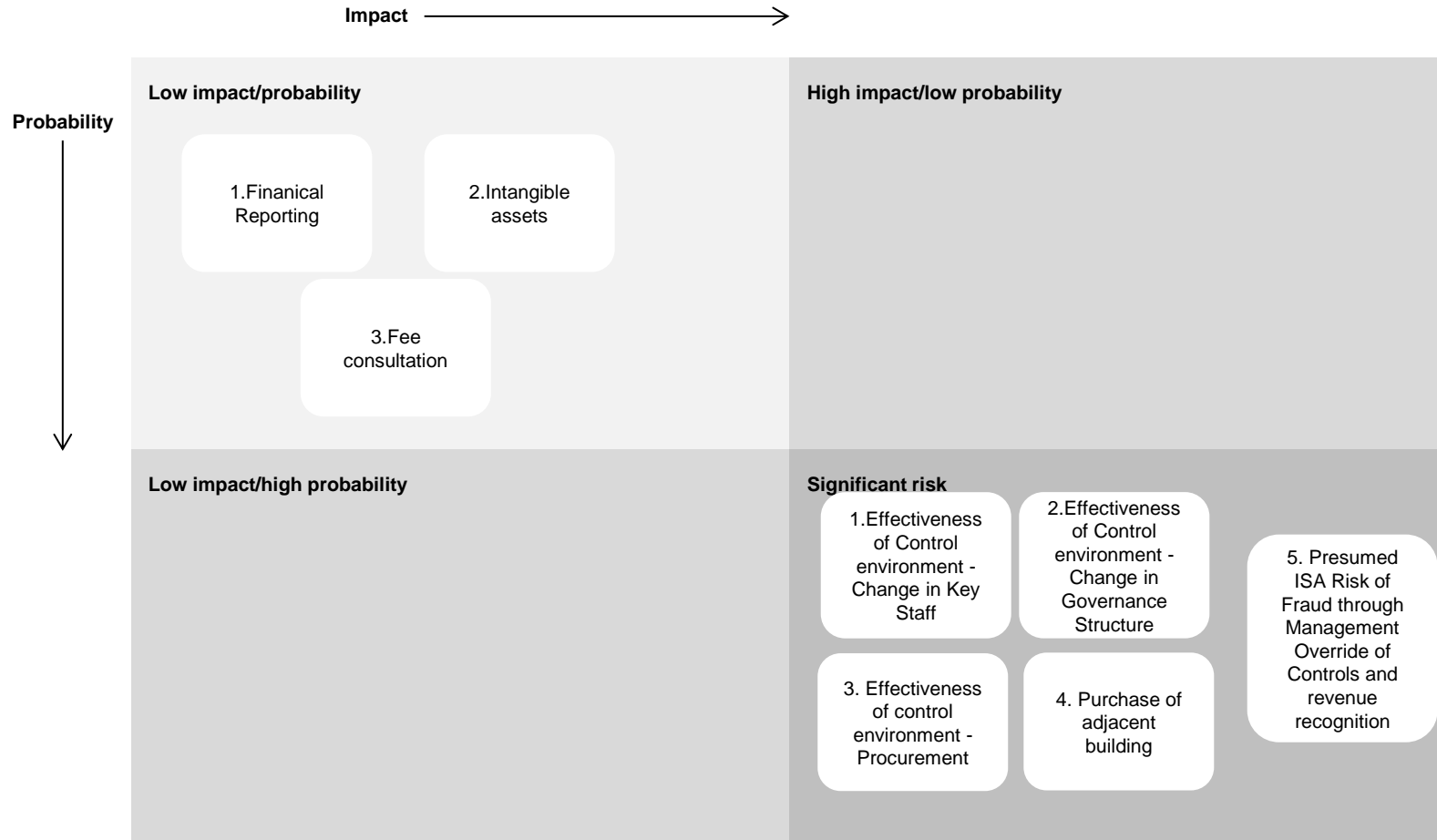
We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit.

We confirm that we have discharged those responsibilities communicated to you in the NAO’s Statement on Management of Personal Data at the NAO.

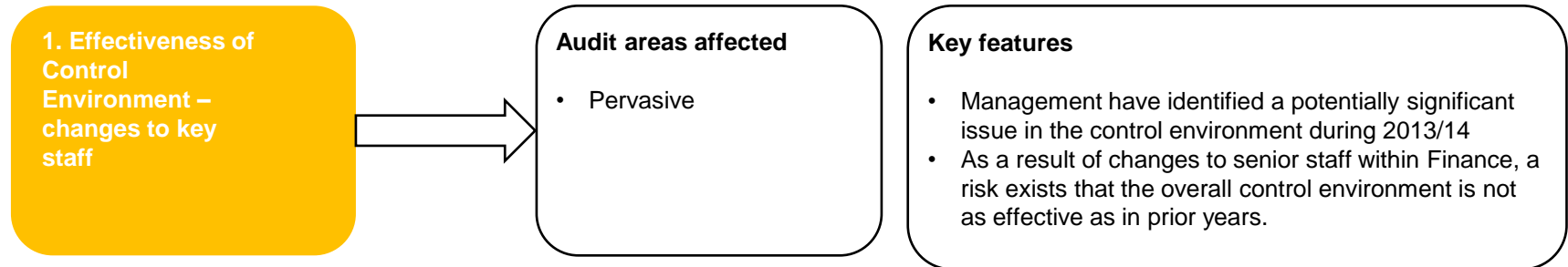
The statement on the Management of Personal Data is on the NAO website:
http://www.nao.org.uk/publications/0708/statement_personal_data.aspx

Appendix A Significant financial statement risks

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. We are required to perform additional audit work for the most significant risks. Our assessment of the level of risk for the particular issues we consider relevant to the financial statements is shown below.



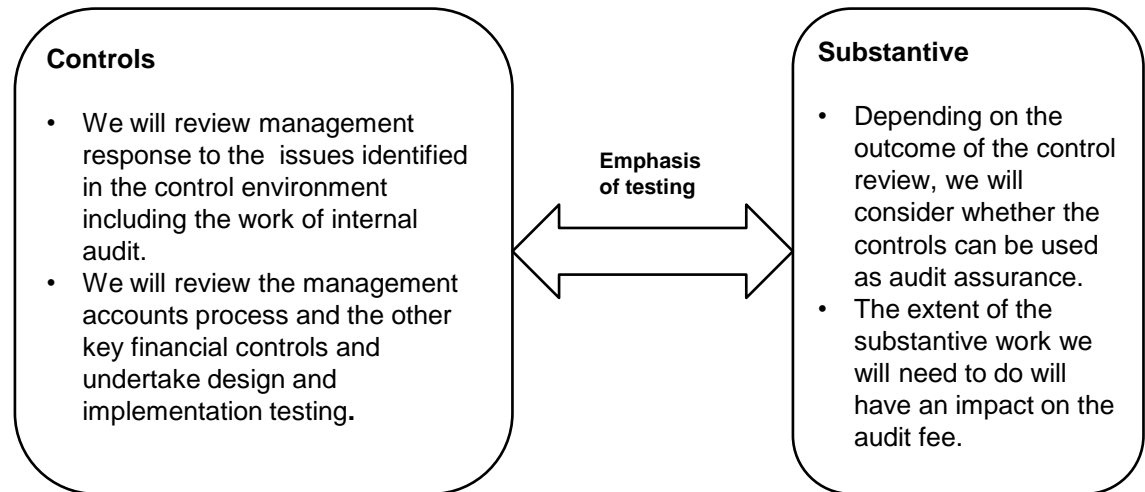
Appendix A Significant financial statement risks



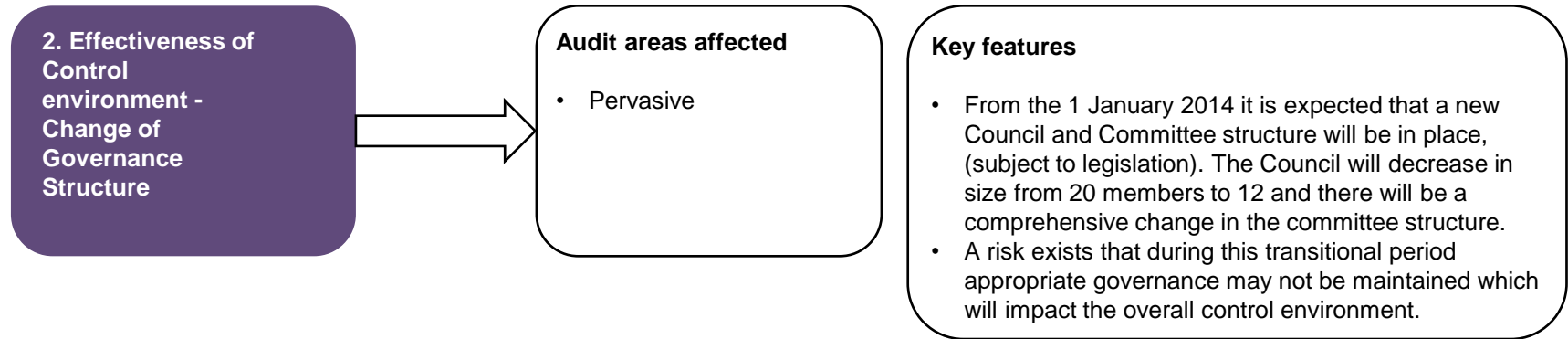
Risk change from prior year

Audit response

Changes to Key Finance Staff may have impacted the overall effectiveness of the Control environment during the year.




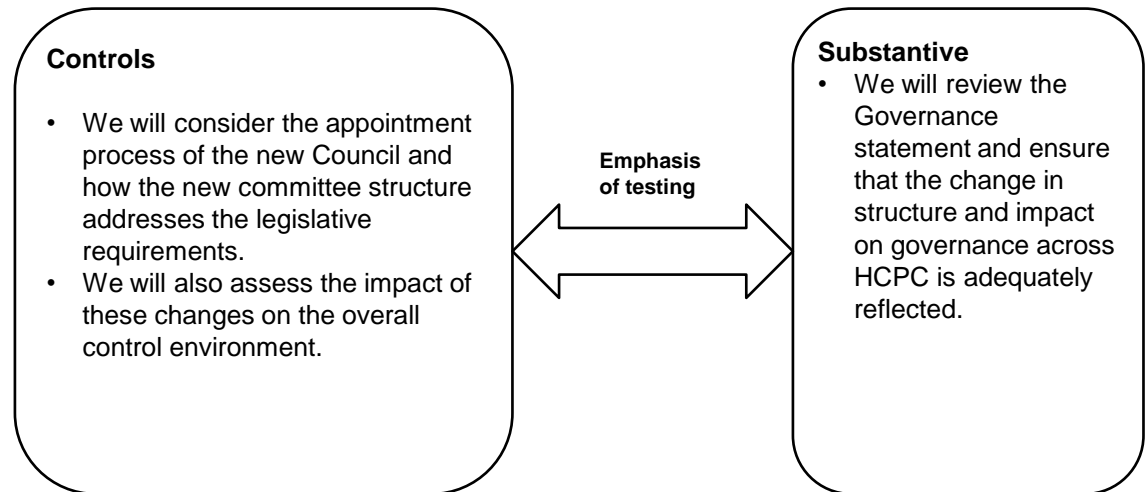
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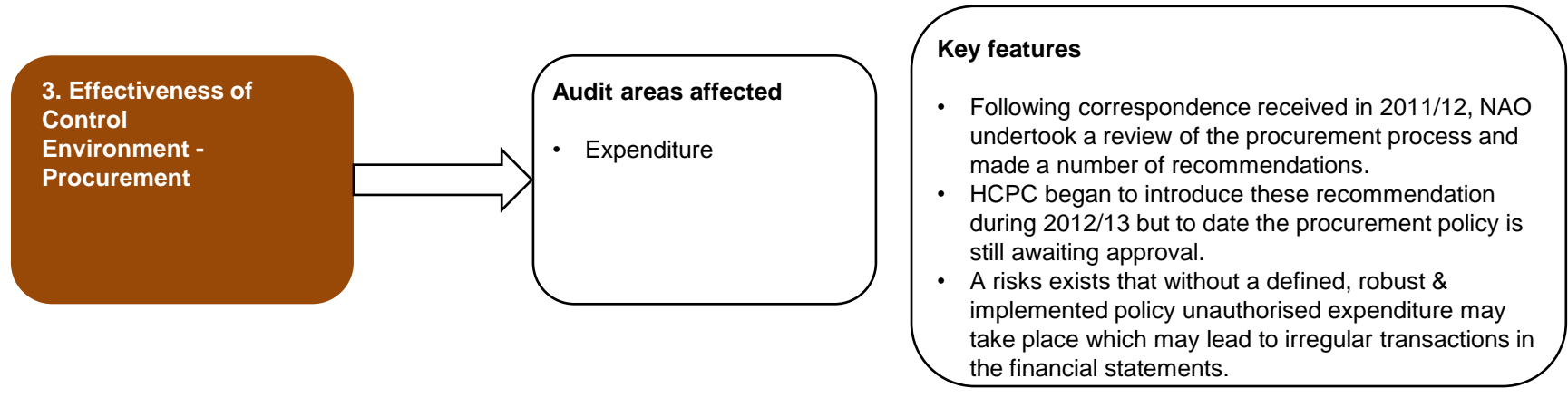
Risk change from prior year

Audit response

 **The Governance structure for HCPC will change in year**



Appendix A Significant financial statement risks



Risk change from prior year

Audit response



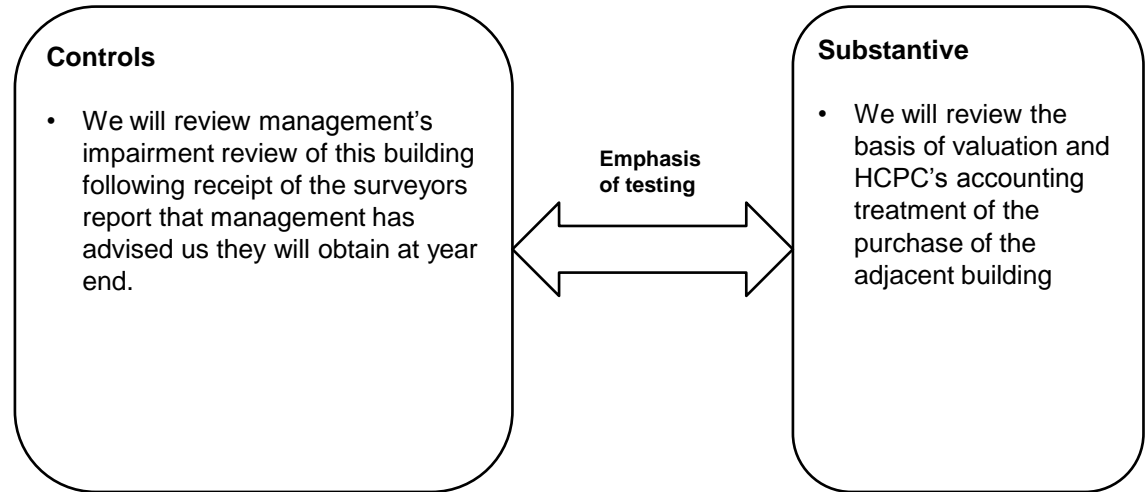
Appendix A Significant financial statement risks



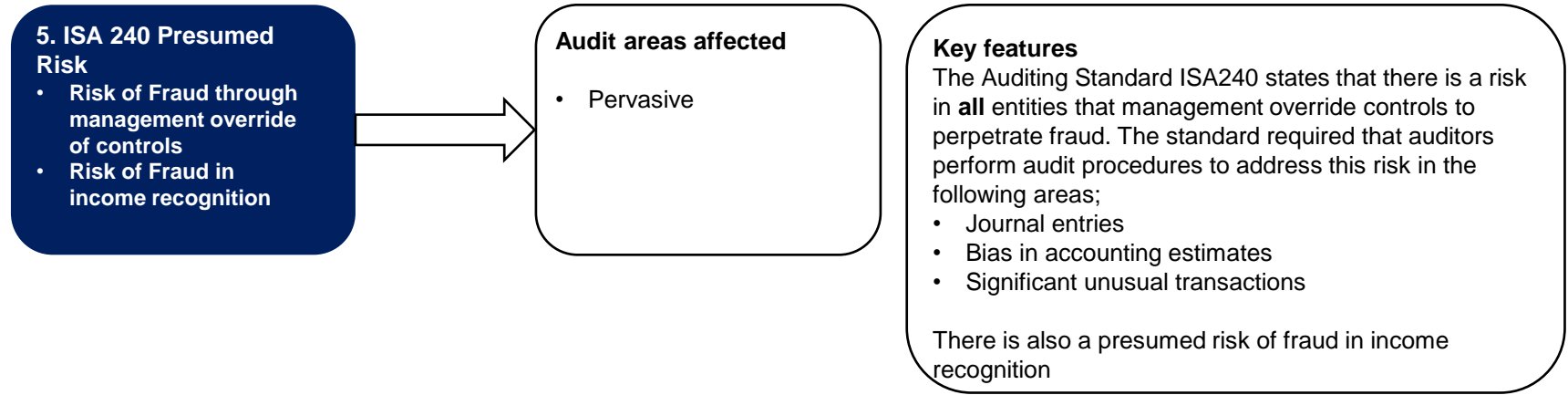
Risk change from prior year

Audit response

↑ HCPC completed the purchase of this building in 2013/14.

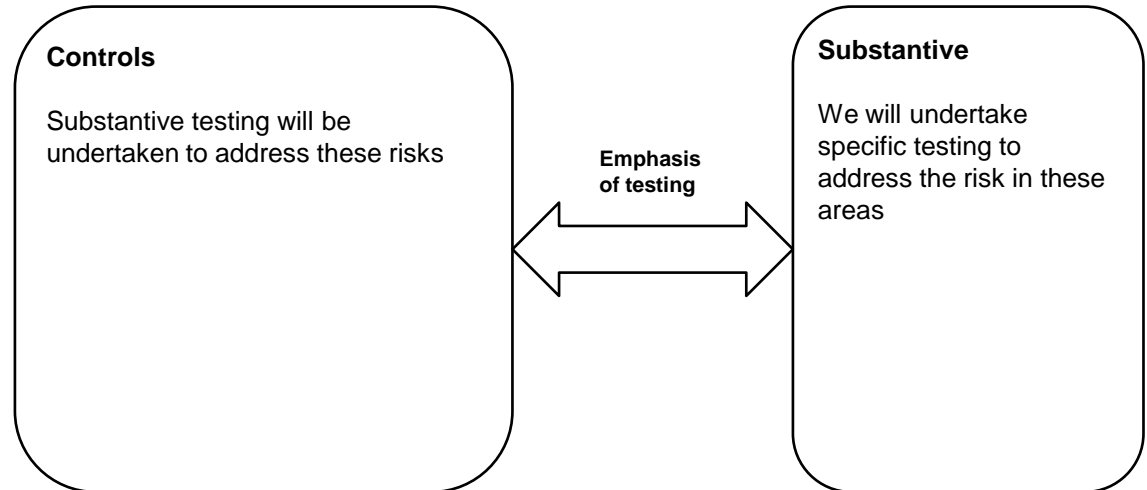
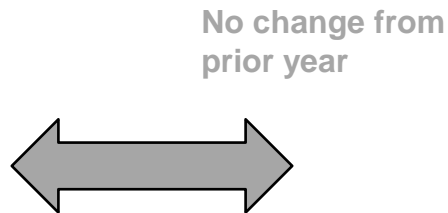


Appendix A Significant financial statement risks



Risk change from prior year

Audit response



Appendix A Risk Factors

- **Financial Reporting** – HCPC need to ensure that they consider the transparency agenda and how their financial reporting fulfils the requirements of their accounts direction. In 2012/13 HCPC agreed that they would review the disclosures within the remuneration report for 2013/14.
- **Intangible assets** – We understand that improvements continue to be made to the various systems that HCPC capitalised within their intangible assets. There is no information to make us consider that this is a significant risk but the business changes that could occur mean that we should consider this to be a risk factor for 2013/14.
- **Fee Consultation** – We are aware that HCPC's is undergoing fee consultation exercise. Although the introduction of any new fee increase is not due to take place until April 2014, and therefore the impact on the 2013/14 financial statement is low, we will remain aware of the process of the consultation and decision made thereafter.

Appendix B Scope and responsibilities

In line with ISAs (UK and Ireland) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/Client, 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 November 2010, but are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Scope of the audit	<ul style="list-style-type: none"> • Prepare financial statements in accordance with Health and Social Work 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. 	<ul style="list-style-type: none"> • Conduct our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)). • 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.

Appendix B Scope and responsibilities

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Regularity	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Conduct our audit of regularity 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 (Financial Reporting Council). • Confirm the assurances obtained by the HCPC that transactions are in accordance with authorities. • Have regard to the concept of propriety, i.e. Parliament's intentions as to how public business should be conducted.
Fraud	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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 B Scope and responsibilities

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Governance statement	<ul style="list-style-type: none"> Review the approach to the organisation's governance reporting. Assemble the governance statement from assurances about the organisation's performance and risk profile, its responses to risks and its success in tackling them. Board members, with the support of the Audit Committee, evaluate the quality of internal control and governance, and advise on any significant omissions from the statement. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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.

Appendix C- Timing of audit work

