Audit Committee, 20 November 2018

External audit planning reports for the 2018-19 external audit

Executive summary and recommendations

Introduction

The external audit planning reports from Hays MacIntyre and the National Audit Office (NAO) are provided to the Committee for its consideration.

Decision

The Committee is asked to discuss the reports, which are attached at appendices 1 and 2.

Background information

Auditing standards require external auditors to explain their planned audit approach to "those charged with governance", ie the Audit Committee, on behalf of the Council. The planning report sets out the scope and timing of the audit, and the approach including the auditors' assessment of the significant risks.

The planned timetable and approach is similar to last year.

The external auditors are independent and it is their responsibility to determine their plans for the audit, so the Audit Committee does not approve or reject the audit plans, but Hays MacIntyre and the NAO will welcome the Committee's discussion and any feedback.

Resource implications

None

Financial implications

Total audit fees of £29,970 (Hays MacIntyre £24,720 incl VAT; NAO £5,250).

Appendices

Appendix 1: Hays MacIntyre planning letter
Appendix 2: National Audit Office Audit Planning Report

Date of paper

09 November 2018

haysmacintyre
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7 November 2018 KEB/AMG/H00187/AMG

Dear Council Members

Planning letter relating to the audit of Health & Care Professions Council ("HCPC")

Year ending 31 March 2019

The purpose of this letter is to confirm the annual arrangements for our audit services for the year ending 31 March 2019 and to give you an overview of the nature and scope of our audit work.

1. Scope

Our work will be carried out in accordance with the terms of our letter of engagement dated 20 February 2018 and standard terms of business. We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs"). Our audit objective is to obtain sufficient relevant and reliable audit evidence to enable us to express an audit opinion on the financial statements of HCPC for the year ending 31 March 2019.

2. Team

Our audit team will be:

Kathryn Burton	(Partner)
Alex Gillespie	(Manager)
Katie Swinburne	(Audit Senior)
Thomas Andrews	(Audit Assistant)

Registered to carry on audit work in the UK & Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England & Wales.
A list of partners' names is available for inspection at 10 Queen Street Place, London EC4R 1AG, the partners' principal place of business.

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3. Timetable

Our work is being planned to meet the following timetable:-

Date	*Event*
24 October 2018	Planning meeting with management
21 February 2019	Interim audit
1 May 2019	Draft figures provided to haysmacintyre
7 May 2019	Final audit
w/c 20 May 2019	Completion meeting with management
4 June 2019	Audit Committee meeting
4 July 2019	Council meeting – financial statements to be signed

4. Fees

Our proposed fees are as follows:

	2019	**2018**
	£	**£**
Audit fee	20,600	19,995

All fees are exclusive of VAT.

Billing Dates	**Amount**
	£
Interim audit	2,000
Final audit	15,000
Signing accounts	3,600
	20,600

Payment of our fees must be made within 30 days of the date of the fee note.

The proposed fee is on the basis that:

- Draft financial statements, supporting schedules for all figures, a trial balance together with reconciled control accounts and all books and records are available before the start of the audit on 7 May 2019;
- The financial statements are prepared by yourselves

- There are no unforeseen accounting or auditing issues of a complex nature, which involve significant input of time from senior members of the team;
- All deadlines with us are met.

We have assumed that you will prepare a year-end file and schedules that will be complete and available before the start of our audit fieldwork.

The above assumptions are designed to allow us to focus on the value added areas of the audit, to undertake a cost effective audit and to minimise the time the audit team is required to spend on administrative matters such as chasing for information or proof reading multiple drafts of the financial statements.

It is our policy to bill for overruns or scope extensions e.g. where we have incurred delays, deliverables have been late and/or of poor quality, where key personnel are not available or where we have been asked to do extra work.

5. Risk Assessment

When planning our audit work, we must seek to minimise the risk of material misstatements occurring in the financial statements. To do this, we consider both the risk inherent in the financial statements themselves and the control environment in which the entity operates. We then use this assessment to develop an effective approach to the audit.

ISAs include the following presumed significant risks:

Area	Risks	Planned audit work
Fraud in revenue recognition	The risk of incorrect treatment of income under IFRS.	We will plan and perform specific tests to ensure income has been recorded in the correct period and will test on a sample of transactions around the year-end. We will compare expected and recorded income, considering registrant data posted on the CRM system, which is external to finance. Our review will also include an assessment of the appropriateness of the recognition of deferred income.

Area	Risks	Planned audit work
Management override of controls	The risk of misappropriation of assets and the risks of misrepresentation of financial information.	We will consider and review all areas requiring judgement or estimates in order to assess the appropriateness of the judgements and estimates made by management. We will review and test journal entries made in the year, and in particular those made as part of the year-end financial reporting process. Where necessary we will make further inquiries regarding any seemingly inappropriate or unusual journal or other adjustments. We will incorporate unpredictability in our testing procedures.

Based on our knowledge of HCPC we have concluded that there are no further areas of significant risk. However, there are other audit areas where, due to materiality, we will focus a considerable amount of our audit work. These include:

- Completeness of creditors, including fitness to practice liabilities. We will review post year end invoices and payments. We will obtain third party confirmation of outstanding liabilities relating to fitness to practice cases and reconcile this information with accrued costs recognised in the financial statements.
- Ensuring that staff costs are materially correctly stated, including any redundancy costs and related liabilities.
- Ensuring fixed assets have been correctly accounted for and valued, taking into consideration the final settlement of refurbishment costs completed during the year and any initial expenditure on the new CRM system.

During the year HCPC continued to plan for the transfer of the register of social workers to another regulator. We understand that this will take place in late 2019. We will consider the impact of the transfer on HCPC's future plans, budgets and cash flow forecasts, in particular when reviewing management's assessment of going concern.

ISAs also require us to consider the susceptibility of the financial statements to material misstatement due to fraud or error that could result from related party relationships and transactions. We are required to record all identified related parties. All Members of Council and the Chief Executive are asked to declare annually all related parties and interests and we will seek to review this register as part of our audit.

A Remuneration Report will be included within the Council's financial statements. As part of our audit we will ensure that the figures disclosed within the report have been correctly extracted from the accounting and payroll records. We will liaise with the NAO to ensure that the report meets the necessary disclosure requirements.

6. Materiality

We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality both in planning our audit and in evaluating the results of our work. It is not possible for auditors to examine every transaction of the audited entity nor every balance in the financial statements. Therefore, in planning our audit work, we will give particular attention to those areas of the financial statements that we consider to be the most important in terms of materiality as defined above.

Our draft planning materiality is based in 2% of total income. Overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) will be set at 75% of materiality.

We will report to the Audit Committee all audit differences in excess of 5% of materiality, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We will also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. Internal Controls

The nature and extent of our procedures will vary according to our assessment of the accounting system and, where we wish to place reliance on it, the internal control system. Our audit is not designed to identify all significant weaknesses in the systems but, if such weaknesses come to our notice during the course of our audit which we think should be brought to your attention, we shall report them to you. Where you have informed us that you have dealt with a particular risk by the introduction of supervisory controls, if we consider it cost effective to seek to rely on these controls for audit purposes, we will test them and, if they are working effectively, we will reduce the time spent on other audit tests accordingly.

8. Reporting

At the conclusion of the audit, we shall report to the Audit Committee as follows:

- Audit report for HCPC
- Audit Findings Report (management letter) to include discussion of control issues and recommendations, significant findings from the audit and emerging developments.

- A schedule of errors that we identified during our audit work, which have not been adjusted for in the financial statements. The summary will not include errors that are 'clearly trivial'. We will require you to confirm that you have duly considered these unadjusted errors and that you have decided not to adjust for them in the financial statements; this will be included in the letter of representation.

9. Independence

Under the Ethical Standard published by the Financial Reporting Council we are obliged to consider all significant facts and matters that could bear upon our objectivity and independence.

We consider that the policies and procedures that we have adopted to comply with the Ethical Standard including where required, rotation of the partner or manager and the use of our independent internal quality review, will ensure our continued objectivity and independence.

We will be pleased to discuss these and other matters ahead of the audit and would welcome your comments and instructions as to particular areas we should focus our time on. If you require any further information or assistance, we shall be very pleased to help you.

Yours faithfully

haysmacintyre

haysmacintyre

National Audit Office

Health and Care Professions Council

Audit planning report on the 2018-19 financial statement audit

Report to those charged with governance

November 2018

Contents

This report sets out details of our proposed financial statement audit approach for the 2018-19 Health and Care Professions Council (HCPC) financial statements, for the 20 November Audit Committee.

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.

NAO engagement team

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Audit approach

Introduction	This Audit Planning Report sets out the work we plan to perform to fulfil our obligations in regard to auditing the financial statements of the Health and Care Professions Council for 2018-19.
Actions for the Audit Committee	The Audit Committee is invited to consider and discuss: • The completeness and coverage of our assessment of potential risks of material misstatement to the financial statements; • 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 (see appendix 2); • The adequacy of management responses to these risks; and • Our proposed audit plan to address these risks. The Audit Committee, in order to comply with best practice, should review the accounting policies adopted by HCPC and consider whether they remain appropriate to HCPC's circumstances, and comply with HM Treasury's *Financial Reporting Manual* (FReM).
Our reliance on the work of haysmacintyre	Under legislation, HCPC is required to appoint its own auditors, who are qualified under the Companies Act 2006. haysmacintyre has been reappointed for 2018-19. The C&AG is also required to examine, certify and report to Parliament on the financial statements. haysmacintyre has agreed that the NAO can review the results of their audit work on the 2018-19 accounts. We aim to take assurance from their work to the maximum extent possible, where we feel this 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. 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 ISA600, 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.

Audit approach (continued)

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.

Following discussion with management and haysmacintyre, we have identified the following significant risks:

- fraud through management override of controls, which is a presumed risk under International Standards on Auditing; and
- fraud in revenue recognition, which is a presumed risk under International Standards on Auditing

We will seek to place reliance on the work of haysmacintyre to address and obtain assurance over the above significant risks and the areas of audit focus identified which includes

- non current asset additions
- completeness of staff costs
- completeness of payables and
- the Social Work England transfer.

Further details on the identified risks and our audit response is included on pages 6.

Addressing the key issues

We discuss with haysmacintyre the significant risks of material misstatement in the financial statements, and their proposed audit approach to them. We will also review their completed work and conclusions, including follow-up of issues arising during the previous year's audit, to inform our opinion.

We will supplement our reliance on the work of haysmacintyre by performing additional audit procedures to obtain assurance to support our regularity opinion on the financial statements. See Appendix 1 for further details of our responsibilities in relation to the audit of regularity.

We also perform a review of the annual report and financial statements and, in particular, we will consider:

- the appropriateness of accounting policies selected by management, and we also consider HCPC's compliance with the Accounts Determination issued by the Privy Council, which directs HCPC to 'take into consideration' the accounting principles and disclosure requirements of the FReM. We will request that HCPC sets out its consideration of accounting policies, especially those which diverge from the FReM and which have a material effect on the financial statements, for us to consider, and
- the contents of the governance statement.

[1] **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.

In line with haysmacintyre's approach, and with generally accepted practice, we will set our quantitative materiality threshold as approximately 2% of income in the draft accounts. We will report to the Audit Committee all audit differences in excess of 5% of materiality, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. This is comparable with the approach taken in 2017-18.

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. These areas include the remuneration report, disclosures about losses and special payments, external audit fees, and any irregular income and expenditure.

Our understanding of the key risks

We are well placed to develop an understanding of the risks to the Health & Care Professions Council, drawing on your own assessment, the historic assessment of risk and the broader context.

HCPC's assessment of risk

The HCPC 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.

- Failure to deliver effective regulatory functions
- Failure to be an efficient regulator
- Failure of Leadership, governance or culture
- Failure to anticipate and respond to changes in the external environment
- Failure to be a trusted regulator and meet stakeholder expectations

Past assessment of audit risk

The 2017-18 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.

- **Management override of controls**
- **Fraud in revenue recognition**
- **Establishment of Social Work England**
- **Completeness and valuation of fixed assets**
- **Completeness and valuation of staff costs**
- **Completeness of Creditors**

Broader context

Our risk assessment draws on the understanding of the broader environment in which the HCPC operates.

- **Brexit**
- **Implementation of new IFRSs**

Our understanding of the key risks

The following are the key risks we have identified in the course of our planning work so far.

Title	Audit area affected	Description and audit response
Significant risk: Management override of controls	All – a significant risk at the financial statement level	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. We expect to be able to rely on the work performed by haysmacintyre in response to this risk.
Significant risk: Fraud in revenue recognition	Revenue	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 HCPC's accounts, and is also affected by the adoption of IFRS 15 – *Revenue from contracts with customers* for the first time in 2018. Related to this HCPC has new income streams in year relating to leases with GMC and European Professional Cards. We expect to be able to rely on the work performed by haysmacintyre in response to this risk.
Area of audit focus: Non Current Assets additions	Property, plant and equipment: completeness and valuation of property Intangible Assets: Completeness and Accuracy of capitalised costs in year	Following the completion of refurbishment work and subsequent costs incurred in relation to sub-letting there is a possibility that the value of work capitalised within this project is materially different to the fair value of the building and will require a significant impairment of the asset within the HCPC financial statements. Additionally HCPC are continuing to develop a new CRM system. Consideration of the nature and extent of the work undertaken on this in year will be required, along with assessment as to whether this expenditure should be capitalised. We expect to be able to rely on the work performed by haysmacintyre in response to this area.
Area of audit focus: Completeness of Staff Costs	Staff Costs + Exit Costs: accuracy of redundancy payments (and related liabilities).	Following work undertaken to restructure the HCPC EMT in year we need to gain assurance that all staff costs incurred in year, including any redundancy or other related liabilities are fully recorded within the HCPC Financial Statements (in particular the remuneration report) with disclosure in line with FReM requirements. We expect to be able to rely on the work performed by haysmacintyre in response to this area.
Area of audit focus: Completeness of payables	Payables	Work undertaken to ensure completeness of liabilities within the financial statements, including completeness of any fitness to practice liabilities identified. We expect to be able to rely on the work performed by haysmacintyre in response to this area.
Area of audit focus: Social Work England transfer	Going concern assessment	We will also continue to monitor the developments in relation to the establishment of Social Work England to ensure that any potential impact on the financial statements is adequately considered and disclosed, particularly in relation to management's going concern assessment.

Timetable and fees

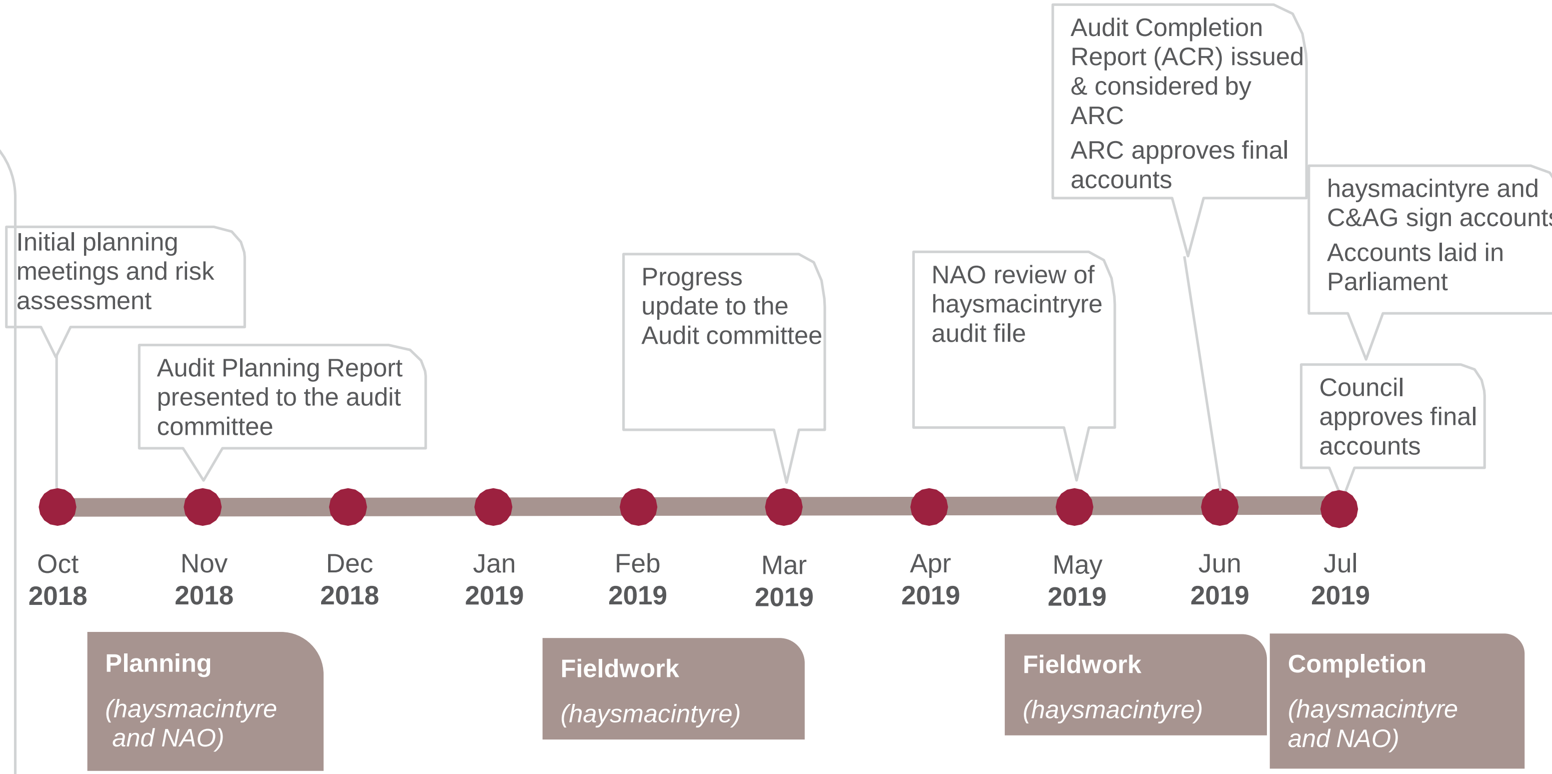
Fees

The fee for the audit is £5,250 (2017-18: £5,000).

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

- 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 before carrying out additional work.



Other matters for communication

Other Matters	
Independence	We are independent of HCPC in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council'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 Committee following the completion of the audit.
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 and where it is efficient for us to do so.

Appendix 1: Scope and responsibilities

In line with International Standards on Auditing (UK) (ISAs), we are required to agree the respective responsibilities of the C&AG / NAO and the Accounting Officer, making clear that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Scope of the audit	• Prepare financial statements in accordance with Health and Social Work Professions Order 2001 and directions made thereunder by the Privy Council, 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. • During the course of the audit of the financial statements, matters may be identified where the C&AG deems that it is in the public interest to report to the relevant authority in accordance with ISA (UK) 250A –Consideration of laws and regulations in an audit of financial statements. Any such reports which are made in good faith without malice shall not constitute a breach of any contractual or legal restriction on disclosure of information in accordance with Article 7 of Regulation (EU) No 537/2014.
Fraud	• Primary responsibility for the prevention and detection of fraud, error and non-compliance with law or regulations. • Establish a sound system of internal control designed to support achievement of organisational policies, and manage the risks facing the organisation; including the risk of fraud.	• Obtain 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 risks, knowledge and suspicion of fraud.

Appendix 1: Scope and responsibilities (continued)

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Regularity	• Ensure the regularity of financial transactions. • Obtain assurance that expenditure and income presented in the financial statements have been applied to the purposes intended by Parliament and that the financial transactions conform to the authorities which govern them.	• 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 Financial Reporting Council). • Confirm assurances obtained from the HCPC that transactions are in accordance with relevant authorities. • We will complete work to support the C&AG's regularity opinion including: discussions with management; review of Council/committee papers and minutes; consideration of the results of Internal Audit's work; consideration of the results of third party work and external events e.g. PSA review; examination of unusual or potentially sensitive transactions during the year; and review of associated financial statement and Governance Statement disclosures.
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. • Council members, with the support of the Audit and Risk 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 with regard to the principles of 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. • We have not identified any significant risks at this stage.

Appendix 2: Fraud matters

ISA 240 (UK) '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.

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.

Internal misappropriation of assets: Theft of an entity's assets perpetrated by management or other employees.

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 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.

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 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.

Guidance for governance

Support to Audit Committees

We have developed a range of guidance and tools to help public sector Audit Committees achieve good corporate governance.

http://www.nao.org.uk/search/pi_area/support-to-audit-committees/type/report/

Cyber security and information risk guidance for Audit Committees

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

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-2016-to-2017

Developments in government internal audit and assurance

The handbook released in March 2016 reflects developing best practice in governance and the increasing significance of risk management, and associated assurance needs, in the governance of government organisations.

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf

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 4: Future accounting standards

IFRS 16: Leases

Effective for accounting periods beginning on or after 1 January 2019.

N.B. HM Treasury has consulted on the public sector interpretation of this Standard for FReM bodies. It expects to update the FReM by the end of 2018.

Although the full implementation of IFRS 16 will occur in 2019, HCPC's 2018-19 financial statements may be affected by the change, under the disclosure requirements of IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors.*

We advise all bodies affected, whether lessors or lessees, to read IFRS 16 in full to understand the implications to the accounting treatment of leases.

Changes to lease accounting:

IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all but low-value or short term (<12m) leases. The proposals arise partly from the IASB's view that:

- disclosures around operating lease commitments have lacked prominence and tended towards understatement; and
- even in leases where the underlying asset is not acquired for its whole useful life, the lessee nevertheless acquires an economic right to its use, along with obligations to make good on minimum lease payments.

These will now be recognised on the balance sheet as a 'right of use' asset and lease liability. The lease liability will be measured at initial recognition as the value of future lease payments, with the asset additionally including any initial direct costs incurred by the lessee, plus an estimate of any dismantling/restoration costs. Subsequent measurement of both asset and liability will need to respond to any changes in lease terms, and the accounting for the asset can be on a cost less depreciation and impairment model or a revaluation (fair value) model.

Successful transition will depend on organisations pro-actively capturing additional information about leases – new and existing – which they expect to remain in place at 1 April 2019, especially regarding future minimum lease payments. Organisations should also ensure systems for capturing cost information are fit for purpose, 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.

Changes affecting a lessor are limited, such as the revised guidance on the definition of a lease and the definition of the lease term.

Disclosure requirements for 2018:

Disclosures in line with IAS 8 will be required in 2018-19 by bodies following IFRS or the FReM in line with IAS 8:

> *When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:*
>
> - *this fact; and*
> - *known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application. (IAS 8 para 30)*

IAS 8 para 31 provides more detail on the required disclosures.