

Health and Care Professions Council

# **Audit planning report on the 2023-24 financial statements audit**

Report to those charged with governance  
10 May 2024

# This report presents details of our proposed approach for the audit of the 2023-24 financial statements

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. This report sets out how we have built our assessment of risk, what we base materiality on, those risks we expect to be significant and how we will respond to those risks. We also set out in this report details of the team carrying out the audit, the expected timing of the audit and our fees.

## Actions for the Audit and Risk Assurance Committee

We would like to invite Audit and Risk Assurance Committee members to discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete (including any matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken);
- Whether management's response to these risks are adequate;
- Our proposed audit plan to address these risks; and
- Whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team.

We would also like to invite the committee to consider our fraud risk assessment on page 12.

**Gareth Roberts**

**Engagement Director**

We have prepared this report for the Health and Care Professions Council's sole use although you may also share it with the Privy Council and the Department of Health and Social Care. 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.

We would also like to take this opportunity to enquire of those charged with governance about the following areas:

- Other matters those charged with governance consider may influence the audit of the financial statements.
- The entity's objectives and strategies, and the related business risks that may result in material misstatements.
- Possibility, knowledge of and process for identifying and responding to the risks of fraud.
- Oversight of the effectiveness of internal control.
- Whether any non-compliance with any laws or regulations (including regularity) have been reported to those charged with governance (e.g. from staff, service organisations or other sources).
- Policies, procedures and systems for recording non-compliance with laws, regulations and internal policies.
- Whether members have knowledge of any actual, suspected or alleged fraud affecting the entity.

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## Audit Risks (pages 6 to 13)

We plan our audit of the financial statements to respond to the risks of material misstatement, or irregularity, within transactions and balances.

We have identified the following risks which have the most significant impact on our audit:

**SR1 - Presumed risk of management override of controls**

**SR2 – Risk of fraud in revenue recognition**

**SR3 – Valuation of land and buildings**

We have identified the following areas of audit focus:

**AF1 – Completeness of creditors**

**AF2 – Completeness of staff costs**

## Materiality (page 14)

- When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements.
- In line with Haysmacintyre’s approach, and with generally accepted practice, we will set our quantitative materiality threshold as approximately 2% of 2022-23 income, giving a planning materiality of £741,000 (2022-23 £720,000 based on 2% of income).
- We will report to the Audit and Risk Assurance Committee all audit differences below that threshold that warrant reporting on qualitative grounds



## Audit team, fee and timetable

- Gareth Roberts will be responsible for the overall audit. The full engagement team is presented on page 20.
- Our audit fee for this year is £13,000. The fee proposed is consistent with 2022-23 (£13,000). The fee reflects a reduction in the number of significant risks since 2022-23, which is offset by an adjustment for inflation.
- As discussed and agreed with management, we are planning to complete the audit by September 2024.

Under legislation, the Health and Care Professions Council is required to appoint its own auditors, who are qualified under the Companies Act 2006. Haysmacintyre are the appointed auditors for 2023-24. The legislation also requires the C&AG to certify and report to Parliament on the financial statements.

We have worked with Haysmacintyre to put in place arrangements to agree that the NAO can review the results of their audit work on the 2023-24 accounts. We aim to take assurance from their work to the maximum extent possible, where we consider it 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. In particular, we will perform additional audit procedures to obtain assurance to support our regularity opinion on the financial statements. See Appendix 2 for further details of our responsibilities in relation to the audit of regularity.

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 ISA 600, 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.

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

- disclosures relating to areas we have identified as significant risks,
- the appropriateness of accounting policies selected by management. In particular, we will consider the Health and Care Professions Council's compliance with the Accounts Determination issued by the Privy Council, which directs that when preparing the account, the Health and Care Professions Council 'takes into consideration the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FRoM)' and that the Accounting Officer 'take into consideration the principles set out in Chapter 3 of "Managing Public Money", which sets out the responsibilities and principles of Accounting Officers, and wider MPM guidance'. We will do this by reviewing the Health and Care Professions Council's consideration of its accounting policies, especially those which diverge from the FRoM and which have a material effect on the financial statements, and
- the contents of the governance statement.

We have discussed with Haysmacintyre the significant risks of material misstatement in the financial statements and their proposed audit approach to them.

Risks and areas of focus diminishing or superseded since 2022-23	Risks and areas of audit focus identified in 2022-23 that remain relevant for 2023-2024		New risks and areas of focus for 2023-24
	Risks that are broadly consistent with last year	Risks that have evolved and developed since last year	
<p><b>Significant Risks</b></p> <ul style="list-style-type: none"> <li>Implementation of IFRS 16</li> <li>Provision relating to NMC case</li> </ul>	<p><b>Significant Risks</b></p> <ul style="list-style-type: none"> <li>SR1 – Presumed risk of management override of controls</li> <li>SR3 – Valuation of Land &amp; Buildings</li> </ul>	<p><b>Significant Risks</b></p> <ul style="list-style-type: none"> <li>SR2 – Risk of fraud in revenue recognition</li> </ul>	<p><b>Significant Risks</b></p>
<p><b>Areas of Audit Focus</b></p>	<p><b>Areas of Audit Focus</b></p> <ul style="list-style-type: none"> <li>AF1 – Completeness of creditors</li> <li>AF2 – Completeness of staff costs</li> </ul>	<p><b>Areas of Audit Focus</b></p>	<p><b>Areas of Audit Focus</b></p>

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



## The Health and Care Professions Council's assessment of risk

The Health and Care Professions Council's 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.

1. HCPC regulatory performance does not meet the expectations of stakeholders and as a result stakeholders have negative experiences of regulation

2. HCPC's regulatory expectations are not appropriate or not understood by registrants and other stakeholders

3. HCPC are unable to harness the benefits of the wealth of data they hold

4. HCPC do not understand stakeholders' needs and so are unable to be as effective a regulator as they could be

5. The resources HCPC require to achieve their strategy are not in place or are not sustainable

6. HCPC is unable to realise the benefits of regulatory reform, or these benefits are significantly delayed

## Our audit Risk Assessment



The 2022-23 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. We have made inquiries of management (and other appropriate individuals within the entity), performed analytical procedures, and carried out observations and inspections to inform our assessment of risk.

Presumed risk of management override of controls

Risk of fraud in revenue recognition

Valuation of land & buildings

Implementation of IFRS 16

Provision relating to NMC case

## Wider Factors



We have drawn upon our wider assurance work and our understanding of the broader environment in which the Health and Care Professions Council operates to inform our risk assessment.

Regulatory reform

The table shows how the key business process and operational risks identified by the Health and Care Professions Council may impact on the Annual Report and Accounts and give rise to significant risks and areas of focus for our audit.

These are areas where we will perform additional audit work as outlined in the following pages and report our findings to you.

Health and Care Professions Council's assessment of risk		1. HCPC regulatory performance does not meet the expectations of stakeholders and as a result stakeholders have negative experiences of regulation	2. HCPC's regulatory expectations are not appropriate or not understood by registrants and other stakeholders	3. HCPC are unable to harness the benefits of the wealth of data they hold	4. HCPC do not understand stakeholders' needs and so are unable to be as effective a regulator as they could be	5. The resources HCPC require to achieve their strategy are not in place or are not sustainable	6. HCPC is unable to realise the benefits of regulatory reform, or these benefits are significantly delayed
Our assessment of audit risk and areas of focus							
Significant risks	SR1 – Presumed risk of management override of controls	●	●	●	●	●	●
	SR2 – Risk of fraud in revenue recognition	●				●	
	SR3 – Valuation of land and buildings					●	
Other areas of focus	AF1 – Completeness of creditors					●	
	AF2 – Completeness of staff costs					●	



## SR1: Presumed risk of management override of controls

### Why we have identified this as a risk

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by using its position to override controls that otherwise appear to be operating effectively.

This is a presumed risk for all audited bodies under International Standards on Auditing (ISA 240) (UK).

This risk was reported as part of the 2022-23 audit.

### Work we plan to undertake in response

#### Controls:

Review of controls relevant to the audit including those over:

- Manual accounting journals;
- Segregation of duties;
- Year-end controls such as preparation of financial statements which includes review by senior management and the Audit and Risk Assurance Committee.
- Monthly management accounts;
- Changes in accounting policies, in particular those around significant estimates.

#### Substantive:

- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- Using data analytic tools, we will risk appraise and visualise the impact of manual journals on the financial statements to identify higher risk journal transactions for detailed audit examination.
- We will examine significant or unusual transactions and review errors collectively for patterns in adjustments.
- Apply professional scepticism to the audit of key estimates and judgements and perform a retrospective review of significant estimates used in the prior year.
- Consider the need to test other adjustments throughout the period.

**We expect to be able to rely on the work performed by Haysmacintyre in response to this risk.**

\*Significant Risks are an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or that is to be treated as a significant risk in accordance with the requirements of other ISAs (UK). Significant risks can relate to classes of transactions, account balances or disclosures, or be pervasive across the financial statements.

## SR2: Presumed risk of fraud in revenue recognition

### Why we have identified this as a risk

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 the Health and Care Professions Council's accounts, and we consider that this presumed risk cannot be rebutted.

This risk was reported as part of the 2022-23 audit.

### Work we plan to undertake in response

#### Controls:

- Assess the design and implementation of the controls operating in respect of the Health and Care Professions Council's income streams

#### Substantive:

- Perform substantive testing around the year end, including post year end receipts and unpaid invoices testing, to confirm whether revenue has been recognised in the correct financial year (cut off), whether the underlying activity had occurred in the year (completeness) and whether the income has been correctly deferred where relevant; and
- Reconcile the registration database and the finance system, as well as undertaking a sense check of membership income based on membership numbers.

**We expect to be able to rely on the work performed by Haysmacintyre in response to this risk.**

## SR3: Valuation of land and buildings

### Why we have identified this as a risk

Valuation of land and buildings is subject to high estimation uncertainty, and the Health and Care Professions Council employ an expert valuer to provide a valuation of its freehold property. We consider that this risk is present due to the estimation uncertainty that warrants the Health and Care Professions Council appointing an expert valuer.

This risk was reported as part of the 2022-23 audit.

### Work we plan to undertake in response

#### Controls:

- Assess the design and implementation of the controls operating in respect of the Health and Care Professions Council's valuation of land and buildings.

#### Substantive:

- Review the third-party valuation by management's expert of the Health and Care Professions Council's freehold property;
- Test the validity of the key inputs to the third-party valuation (e.g. floor areas); and
- Review supporting disclosures made within the financial statements.

**We expect to be able to rely on the work performed by Haysmacintyre in response to this risk.**

We will also review alternative evidence of valuation trends in order to assess the reasonableness of any valuation movement.

We shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in our auditor's judgment, relevant to their responsibilities. Under ISA (UK) 240, it is our responsibility as auditors to report to those charged with governance:

- Any risks of material misstatement identified due to fraud
- Any matters we think are relevant to those charged with governance regarding management's process for identifying and responding to the risks of fraud at the Health and Care Professions Council.

Below, we have summarised our initial assessment of the risk of fraud relevant to the Health and Care Professions Council, and how this may impact on the financial statements.

### Risk of material misstatement due to fraud

In our initial assessment, we have not identified additional risk of fraud other than the standard presumed risk of management override of controls and the risk of fraud in revenue recognition. We have not identified particular characteristics of management or control at the Health and Care Professions Council that indicate this risk is elevated.

We will consider the results of Haysmacintyre's work across the audit as part of our continuous risk assessment. We expect Haysmacintyre to bring any findings in relation to fraud to our attention during the course of their work.

### Fraud risk factors relevant to the Health and Care Professions Council

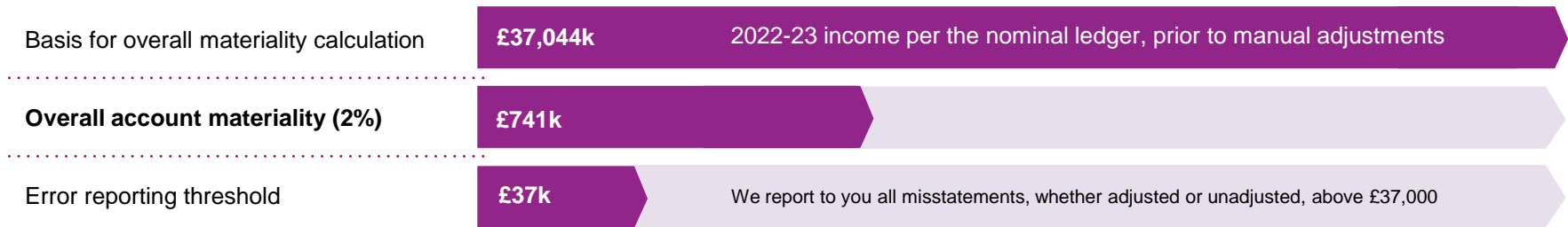
We have not identified any specific fraud risk factors for the Health and Care Professions Council, other than the standard risks relevant to management override of controls as set out on page 9.

### Matters regarding management processes for identifying and responding to the risks of fraud

In our initial assessment, based on our knowledge from our previous audits and our risk-based planning, we have not identified any specific matters regarding management processes for identifying and responding to the risks of fraud that we need to report. We expect to be able to rely upon the work performed by Haysmacintyre in response to this risk.

The following are other matters which we wish to bring to the attention of those charged with governance in relation to the audit of the financial statements. We have included these areas of audit focus in alignment with Haysmacintyre and expect to be able to rely on their work performed.

Title	Area Affected	Response (where required)
<p><b>AF1 – Completeness of creditors</b></p>	<p>Payables</p>	<p>Work will be undertaken to ensure completeness of liabilities within the financial statements, including completeness of any fitness to practise liabilities identified.</p>
<p><b>AF2 – Completeness of staff costs</b></p>	<p>Staff costs, exit costs and related disclosures Remuneration Report</p>	<p>Work will be undertaken to gain assurances that all staff costs incurred in year, including any redundancy or other related liabilities relevant to the Health and Care Professions Council, and all related disclosures are fully recorded within the financial statements with supporting disclosure in line with FReM requirements.</p> <p>We expect to be able to rely on the work performed by Haysmacintyre in response to this area. We will review the Remuneration Report to ensure that disclosures are in line with FReM requirements.</p>



In line with generally accepted practice, we have set our quantitative materiality threshold as approximately 2% of prior year income which equates to £741,000.

These levels remain comparable to those used in the prior year.

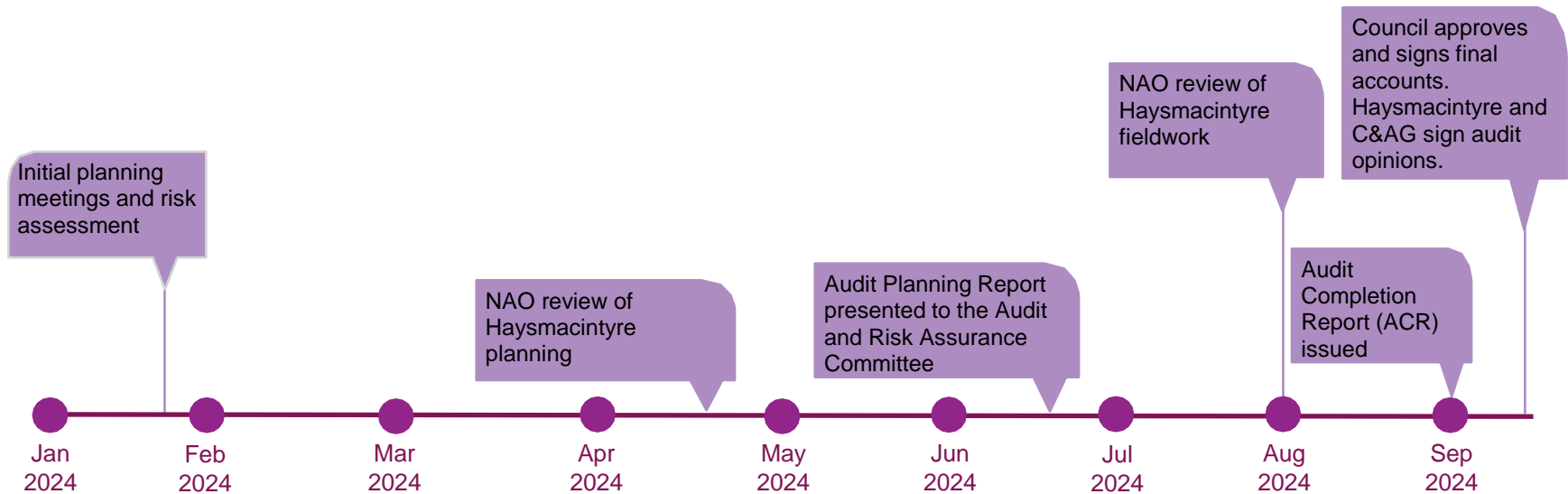
Our overall account materiality is based on the figure for total income in the prior year ledger before manual adjustments, given that this is the main driver of the accounts, arising from the registration fees charged to health and care professionals and is therefore of interest to the users of the accounts. This is in line with the proposed approach adopted by Haysmacintyre.

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.

The concept of materiality recognises that absolute accuracy in financial statements is rarely possible. An audit is therefore designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. We apply this concept in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming the audit opinion. This includes the statistical evaluation of errors found in samples which are individually below the materiality threshold but, when extrapolated, suggest material error in an overall population. As the audit progresses our assessment of both quantitative

and qualitative materiality may change.

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(s).



## Planning

In consultation with Management, Audit and Risk Assurance Committee, Internal Audit and other Key stakeholders, review the Health and Care Professions Council's operations, assess risk for our audit and evaluate the control framework.

Determine audit strategy.

## Fieldwork

As appropriate, work led by Haysmacintyre. Fieldwork includes testing of the expenditure and income figures, as well as the significant balances and disclosures.

NAO review and testing of Remuneration Report disclosures.

## Completion

ACR: present our findings and recommendations.

Seek management representations.

C&AG issues opinion.

Management Letter: provide final recommendations on control matters identified.

### Debrief

Meeting to discuss lessons learned and improvements for the following year.

The NAO audit fee quote is based on the anticipated cost of delivering our audit work. The level of audit work is dependent upon a number of factors, including the nature and extent of significant risks of material misstatement within the financial statements and ensuring quality audit procedures are undertaken to meet the requirements of International Standards on Auditing (ISAs) (UK).

Drivers behind changes in audit fees over the last few years include:

- **The Financial Reporting Council (FRC) has increased its expectations around the quality of audit work in light of a number of high-profile corporate failings.** This has resulted in the level of audit work increasing, particularly into the application of judgement and scepticism in relation to complex accounting estimates, revenue recognition, going concern, and the audit of groups.
- **Financial reporting changes.** In the past few years, new accounting standards IFRS 9: *Financial Instruments*, IFRS 15: *Revenue*, and IFRS 16: *Leases*, have resulted in significantly more complex financial reporting requirements.
- **Auditing standard changes.** Recent and upcoming changes to auditing standards have increased the complexity and volume of audit work required to carry out audits in line with these standards, partly as a response to questions over the sufficiency of audit in light of corporate failings. In 2022-23, new auditing standards (ISA 240 and ISA 315) relating to risk assessment came into effect which substantially changed the approach auditors take to risk assessment and the resultant audit procedures.
- **Investment in technology.** We are investing in our technology to enhance auditing techniques, such as data analytics and testing of controls, to improve both the quality of the audit we provide and the insight we can offer into common financial reporting and management challenges.

## Fees

The fee for the audit is £13,000.

The principle agreed with Parliament is that our fee is set to recover the full costs of the audit, rather than make a profit from or subsidise an audit. The NAO determines its fees with reference to standard hourly rates for our staff, which are reviewed annually, and updated when costs change.

Completion of our audit in line with the timetable and fee is dependent upon the Health and Care Professions Council:

- 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.

The NAO is committed to delivering high-quality audit work and to meeting the expectations of our audited bodies, Parliament, the public, and other stakeholders. As a result of this commitment and the drivers outlined above, we have set our audit fee quote accordingly.



## Other Matters

### Audit scope and strategy

This audit plan covers the work we plan to perform to express an opinion on whether the financial statements are free from material misstatement and are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The plan is also designed to ensure the audit is performed in an effective and efficient manner. Where relevant queries arise, we have the option of using the support of NAO centres of expertise such as for the land and buildings valuation significant risk.

Our audit approach is a risk-based approach, ensuring that audit work is focused on significant risks of material misstatement and irregularity.

In areas where users are particularly sensitive to inaccuracy or omission, a lower level of materiality is applied, e.g. for the audit of senior management remuneration disclosures and related party transactions.

When undertaking our risk assessment we take into account several factors including:

- Inquiries of management
- Analytical procedures
- Observation and inspection of control systems and operations
- Examining business plans and strategies

Our risk assessment will be continually updated throughout the audit.

### Independence

We are independent of the Health and Care Professions Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard. 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 and Risk Assurance Committee following the completion of the audit.

### Other Matters

#### 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. We do not intend to rely on the work of the internal auditors in forming our audit opinion.

#### Communication with the NAO

Organisations we audit tell us they find it helpful to know about our new publications, cross-government insight and good practice.

Our [website](#) holds a wealth of information from latest publications which can be searched, to pages sharing our insights on important [cross-cutting issues](#). We also publish blogs and send email notifications to subscribers about our work on particular sectors or topics. If you would like to receive these alerts, please sign up at: <http://bit.ly/NAOoptin>. You will always have the option to amend your preferences or unsubscribe from these emails at any time.

#### NAO's Transparency Report

The NAO's annually published [Transparency Report](#) documents how we support Parliament in holding government to account through our statutory public audits.

The report includes details of our quality plan and the whole system approach we are taking to ensure consistently high-quality audit work including our adoption of the *International Standard on Quality Management (UK) 1 – Quality Management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements*.

**Audit quality is core to the NAO's purpose.** It supports effective accountability, better financial reporting and stronger financial management. We want our audit insights to be valued, and to be a leading voice in public sector financial reporting and financial management.

For our work to have the impact and influence required, and for Parliament and the wider public to have confidence in the quality of our work, we must uphold high standards of ethics and integrity and work within a framework of values that preserve audit independence.

The quality of our financial audit work is a key corporate priority and features within our corporate risk register.

On our audit of financial statements, **we measure the quality of our financial audits through an annual programme of internal and external inspections.** These inspections review a sample of our audits. Our target is that all our financial audits meet our quality standards.

**These standards are that, should an audit be inspected by an independent reviewer, the reviewer finds that the audit requires no more than limited improvement is required.** Each audit is graded from 1 to 4 where 1 is good or best practice and 2 is limited improvements required – ratings meeting our quality standard; with a grade of 3 where improvements are required and 4 where significant improvements are required – ratings below our quality standard.

We are implementing our **Audit Transformation Programme (ATP)**. This responds to the rapid developments in auditing standards and profession-wide practice following audit failures in the private sector in recent years. Our **updated audit methodology**, which we first applied to our 2022-23 audits, complies with the revised international auditing standard 315 (identifying and assessing the risks of material misstatement).

We have also introduced **extended auditor reports** for all government departments (in addition to those reports we already publish as part of our Companies Act audit portfolio where required) from 2022-23, providing significantly more information about our audit approach for the users of those accounts.

From 2023-24, we will implement our **new technology platform** to replace our previous audit software. The new platform, which we call "Apex", is designed to guide audit teams to deliver high-quality audits and make optimum use of data analytics and other new audit tools as they become available.

We are already seeing **positive impact from these investments**, but we know we have more to do to realise fully the benefits. This is underlined by some **disappointing results from our inspection programmes of a sample of our 2021-22 financial audits**. We consider that the underlying findings do not indicate fundamental problems with our audit quality or the reliability of government accounts. They tell us that we are making good progress against our ambitions to ensure that all our audit work is judged to be of a high standard, and to do this consistently, whilst recognising that the regulatory quality bar continues to rise.

These inspections point to areas where our quality improvement initiatives have already had a positive impact, such as the audit of harder-to-value assets and our use of auditor's experts. We need to do more to:

- Challenge and consistently evidence on our audit file our thorough assessment of the assumptions and judgements applied by management in complex estimates and valuations;
- Critically audit the cash flow statement prepared by audited entities and its reconciling items;
- Evidence fully our assessment of the use of journals where there is a risk of management override of control;
- Enhance our processes which support the accuracy of our audit reports; and
- Evidence the safeguards we put in place where we extend an engagement director's time on an audit beyond five years.

Our focus in the coming year is on delivering the quality benefits of our Audit Transformation Programme, continuing to support an open culture building on our values, and implementing the actions identified by our root cause analysis.

**Our annual [Transparency Report](#) sets out these issues in more detail.** Our latest version, covering 2022-23, outlines how we support Parliament in holding government to account through our statutory public audits. It explains how we embed quality through our values. It details the actions we are taking through our Single Financial Audit Quality Plan and the whole system approach we are adopting to ensure consistently high-quality audit work.

**Your Engagement Director would be delighted to discuss these issues further with you and how they might apply on your particular audit.**

Abdool Kara  
**Executive Leader**

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In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/audited entity, 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 September 2023 and are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
<b>Scope of the audit</b>	<ul style="list-style-type: none"> <li>• Prepare financial statements in accordance with the Health Professions Order 2001 and directions made thereunder by the Privy Council and that give a true and fair view.</li> <li>• Process all relevant general ledger transactions and make these, and the trial balance, available for audit.</li> <li>• Support any amendments made to the trial balance after the close of books (discussing with us).</li> <li>• Agree adjustments required as a result of our audit.</li> <li>• Provide access to documentation supporting the figures and disclosures within the financial statements.</li> <li>• Subject the draft account to appropriate management review prior to presentation for audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct our audit in accordance with International Standards on Auditing (ISAs) (UK).</li> <li>• Report if the financial statements do not, in any material respect, give a true and fair view.</li> <li>• 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.</li> </ul>
<b>Fraud</b>	<ul style="list-style-type: none"> <li>• Primary responsibility for the prevention and detection of fraud.</li> <li>• Establish a sound system of internal control designed to manage the risks facing the organisation; including the risk of fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error.</li> <li>• Make inquiries of those charged with governance in respect of your oversight responsibility.</li> <li>• Discuss fraud risks associated with the entity with those charged with governance.</li> </ul>

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
<b>Regularity</b>	<ul style="list-style-type: none"> <li>• Ensure the regularity of financial transactions.</li> <li>• Obtain assurance that transactions are in accordance with appropriate authorities, including the organisation's statutory framework and other requirements of Parliament and HM Treasury.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct our audit of regularity in accordance with Practice Note 10, 'Audit of financial statements and regularity of public sector bodies in the United Kingdom (revised 2022)', issued by the Financial Reporting Council.</li> <li>• Confirm the assurances obtained by the Health and Care Professions Council that transactions are in accordance with authorities.</li> <li>• Have regard to the concept of propriety, i.e. Parliament's intentions as to how public business should be conducted.</li> </ul>
<b>Propriety</b>	<ul style="list-style-type: none"> <li>• Ensure the propriety of financial transactions</li> <li>• Ensure that patterns of resource consumption should meet high expectations of public conduct, and robust governance and respect Parliament's intentions, conventions and control procedures, including any laid down by the Public Accounts Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• Propriety is not readily susceptible to objective verification and, as such, is not expressly covered in the opinion on financial statements. When issues of propriety come to light in the course of the audit of financial statements, the auditor considers whether and, if so, how they may be reported.</li> </ul>
<b>Governance statement</b>	<ul style="list-style-type: none"> <li>• Review the approach to the organisation's governance reporting.</li> <li>• Assemble the governance statement from assurances about the organisation's performance and risk profile, its responses to risks and its success in tackling them.</li> <li>• Council members, with the support of the Audit and Risk Assurance Committee, evaluate the quality of internal control and governance, and advise on any significant omissions from the statement.</li> </ul>	<ul style="list-style-type: none"> <li>• Confirm whether the governance statement is consistent with our knowledge of the organisation, including its internal control.</li> <li>• Consider whether the statement has been prepared in accordance with HM Treasury guidance, including Managing Public Money.</li> </ul>
<b>Accounting estimates and related parties</b>	<ul style="list-style-type: none"> <li>• Identify when an accounting estimate, e.g. provisions, should be made.</li> <li>• Appropriately value and account for estimates using the best available information and without bias.</li> <li>• Identify related parties.</li> <li>• Appropriately account for and disclose related party transactions.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider the risk of material misstatement in respect of accounting estimates made by management.</li> <li>• Perform audit procedures to identify, assess and respond to the material risks of not accounting for or disclosing related party relationships appropriately.</li> <li>• Significant risks are set out from</li> </ul>

## Appendix 3: Changes to the valuation for FReM non-investment assets

In 2022-23 HM Treasury conducted a review on the valuation approach in place for all non-investment assets. HM Treasury expect to make changes to the valuation basis for non-investment assets in 2025-26. The current asset classes under the FReM are set out below alongside the current and proposed valuation approaches.

Asset Category under the FReM	Current Measurement	Proposed measurements
Networked assets	Depreciated replacement cost	These three asset categories will be merged into a new category 'operational assets'. Operational assets are proposed to be measured at Existing Use Value, the methodology for calculating this value will often be Depreciated Replacement Cost.
Specialised assets	Depreciated replacement cost	The proposed new guidance is designed to ensure full revaluations are not required more frequently than quinquennially. The frequency and type of valuations should follow one of the three following options: <ul style="list-style-type: none"> <li>• A quinquennial revaluation supplemented by annual indexation in intervening years.</li> <li>• A rolling programme of revaluations over a 5-year cycle, with indexation applied to assets not revalued in a given financial year.</li> <li>• For non-property assets, revaluation by indexation only.</li> </ul>
Non-specialised assets	Market value in existing use assets	HMT have proposed Depreciated Replacement Cost valuations should be altered going forward to be valued based on current locations and not based on alternative locations.
Heritage assets	Current value in line with other IAS 16 assets, but where not practicable to value, non-operational heritage assets reported at historical cost	Current value in line with other IAS 16 assets, but where not practicable to value, non-operational heritage assets reported at historical cost
Surplus assets	Fair value	Fair Value
Intangible assets	Market value in existing use or historical cost for low value assets or assets with short useful lives	Historical (deemed) cost

The proposals are subject to further consultation in winter 2023/24, including judgements on how any transition will occur. Therefore, the proposals set out above are not final and may be subject to further feedback and change.

# Appendix 4: Task Force on Climate related Financial Disclosure

HM Treasury have confirmed central government will be aligning to the [TCFD recommended disclosures](#) as set out by the Financial Stability Board. These are being implemented as a framework to understand and disclose climate-related financial information in the public sector.

HM Treasury have developed [application guidance](#) to support the **phase 1** implementation in central government. This implementation of TCFD-aligned disclosure will be from 2023-24 phased over a 3 year period. The requirements of each phase are set out below and are required for:

- Ministerial and non ministerial departments
- Arms length bodies meeting any of the following criteria: more than 500 employees, total operating income exceeding £500m or where they have been directed to by sponsor department

	Phase 1 - Governance Focus	Phase 2 – Risk Management and Metrics and Targets	Phase 3 – Strategy
<b>Target Period</b>	2023-24	2024-25	2025-26
<b>Focus</b>	High-level overview	Qualitative disclosures and quantitative disclosure with less technical requirements	Quantitative disclosures with more technical requirements. TCFD-aligned disclosure is fully implemented
<b>Requirements</b>	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> <li>• Governance</li> <li>• Metrics and Targets (b), only where available from existing reporting processes.</li> </ul> Comply or explain basis	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> <li>• Governance</li> <li>• Risk Management</li> <li>• Metrics and Targets</li> </ul> Comply or explain basis	Reporting entities shall provide a TCFD Compliance Statement and the recommended disclosures for: <ul style="list-style-type: none"> <li>• Governance</li> <li>• Risk Management</li> <li>• Metrics and Targets, considering wider reporting.</li> <li>• Strategy</li> </ul> Comply or explain basis
<b>Interaction with Greening Government Commitments</b>	Continue to apply GGC21-25 for emissions for Metrics and targets., in line with SRG	Continue to apply GGC21-25 emissions for Metrics and Targets, in line with SRG	Consider new GGC period for 25-30 (GGC21-25 runs until 31 March 2025 with the next commitment period for GGC25-30 starting on 1 April 2025)

For 2023-24 the Governance disclosures should include a description of the board's oversight of climate-related issues and a description of management's role in assessing and managing climate-related issues. In respect of Metrics & Targets, where available as part of an entity's existing reporting processes, the TCFD Metrics and Targets recommended disclosure (adapted): (b) Scope 1, Scope 2, and, Scope 3 - business travel only greenhouse gas (GHG) emissions. This aligns with existing requirements in the Sustainability Reporting Guidance (SRG)

The disclosure requirements for 2024-26 require a greater level of data and consideration. HM Treasury have designed a lead time on these for a reason to allow time to preparation. We recommend putting a plan in place to be able to meet these requirements.



In line with the audit profession as a whole, the NAO has adopted a suite of new quality management standards which have been issued by our regulator, the Financial Reporting Council. International Standard on Quality Management (ISQM) (UK) 2 and a revised version of International Standard on Auditing (ISA) (UK) 220 take effect from the 2023-24 audit cycle.

### ISQM (UK) 2

#### *Engagement quality reviews*

This standard sets out the process for appointing engagement quality reviewers, the eligibility criteria for appointment and the process of performing, documenting and concluding engagement quality reviews.

An engagement quality review is an evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, which is carried out during the audit by an independent Director.

Engagement quality reviews are performed on certain audits where required by standards or as a discretionary quality response.

### ISA (UK) 220 (Revised July 2021)

#### *Quality management for an audit of financial statements*

This standard:

- embeds the concept of quality management at the engagement level;
- contains requirements relating to professional scepticism; and
- strengthens the role of the Engagement Director and their responsibilities for direction, supervision and review of the audit.

### What do the new quality management arrangements mean for audited entities?

Under the revised ISA (UK) 220, engagement teams are now required to consider explicitly what actions are required to be taken as part of the audit engagement in response to quality risks that are identified by the NAO's system of quality management and findings from the NAO's ongoing programme of quality monitoring. This may result in changes to audit procedures which have been carried out in previous years, reflecting the responses the engagement team considers necessary to address the quality risks.

The aim is that these changes will enable you to have greater confidence in the quality of our audit.

### Feedback on the quality of audit work

Where relevant, our quality responses are informed by feedback received from audited entities. As set out in the terms of our engagement with you, it is our desire to provide you at all times with a high quality service to meet your needs.

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the Engagement Director. If, for any reason, you would prefer to discuss these matters with someone outside the engagement team, please contact the NAO's Director, Financial Audit Practice and Quality ([james.osborne@nao.org.uk](mailto:james.osborne@nao.org.uk)). We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

### **ISA (UK) 600 (Revised September 2022): *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)***

Effective for audits of group financial statements for periods beginning on or after 15 December 2023 (the 2024-25 audit cycle)

**ISA 600** is the critical standard which drives the auditor's approach to auditing the group financial statements, with a particular focus on the following areas:

- Risk Assessment
- Quality management in an audit of group financial statements
- Understanding the group and its environment, the applicable reporting framework and the Group's System of Internal Control
- Using the work of component auditors

ISA 600 is the key source of guidance for auditors in performing a group audit and fulfilling the requirements of other ISAs (UK) in the context of an audit of group financial statements

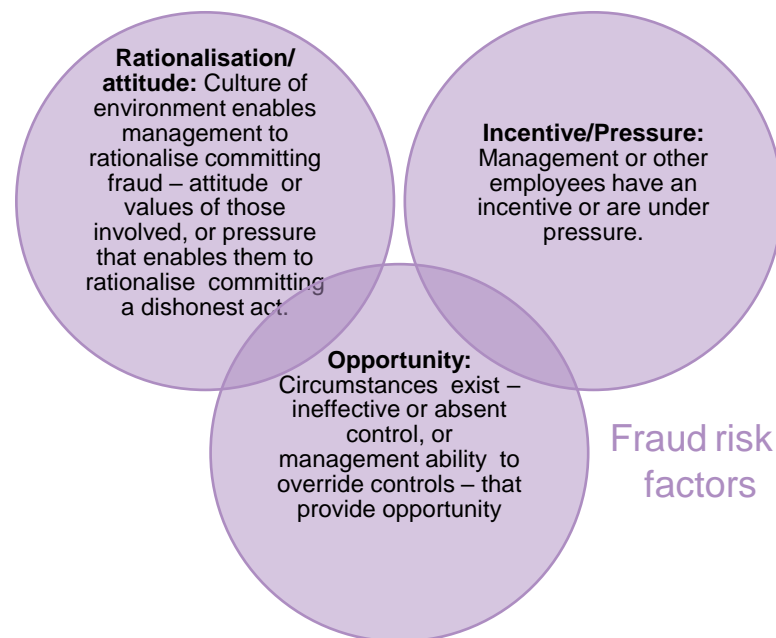
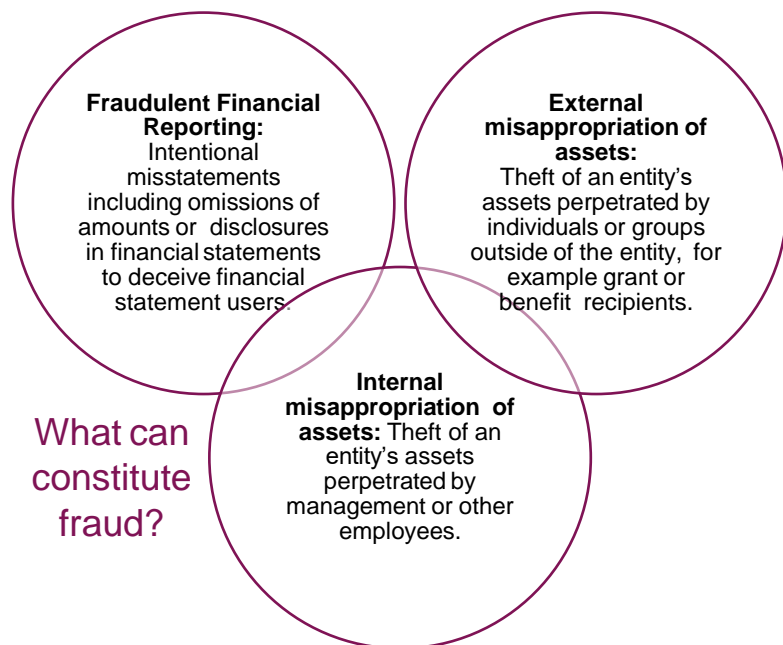
The aims of the revised standard is to:

- Clarifying the scope and applicability of ISA 600
- Embedded the principles of the revised quality management standards into the delivery of the audit of group financial statements
- Focusing the group engagement team's attention on the identification and assessment of risk of at the group financial statement level and emphasising the importance of designing and performing appropriate procedures to respond to those risks.
- Increased requirements for robust communications between the group engagement team, the group engagement partner and component auditors.

The key impacts are:

- A revised top-down approach to group risk assessment, which may mean assurance being required of a different profile of components.
- Greater involvement from the group engagement team in component auditors, taking a quality management perspective on the work of the component auditor.
- A clearer workflow employed by the auditor when performing a group audit.

ISA (UK) 240 '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.



### 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 and Risk Assurance 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 and discuss with you the risks of fraud in the entity.**

### 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 and Risk Assurance 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.

## Support to Audit Committees

We have developed a range of guidance and tools to help public sector Audit Committees achieve good corporate governance. This includes specific guidance on financial reporting and management during Covid-19

[Insights - National Audit Office \(NAO\)](#)

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

## Climate Risk: A good practice guide for Audit and Risk Assurance Committees

Audit Committees play a key role in scrutinising and advising the Board and Accounting Officer on risks arising from climate change. This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

## 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>

## Guidance for governance

## 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.

[2023-24 Sustainability Reporting Guidance.docx \(publishing.service.gov.uk\)](#)

## Disclosure Guides

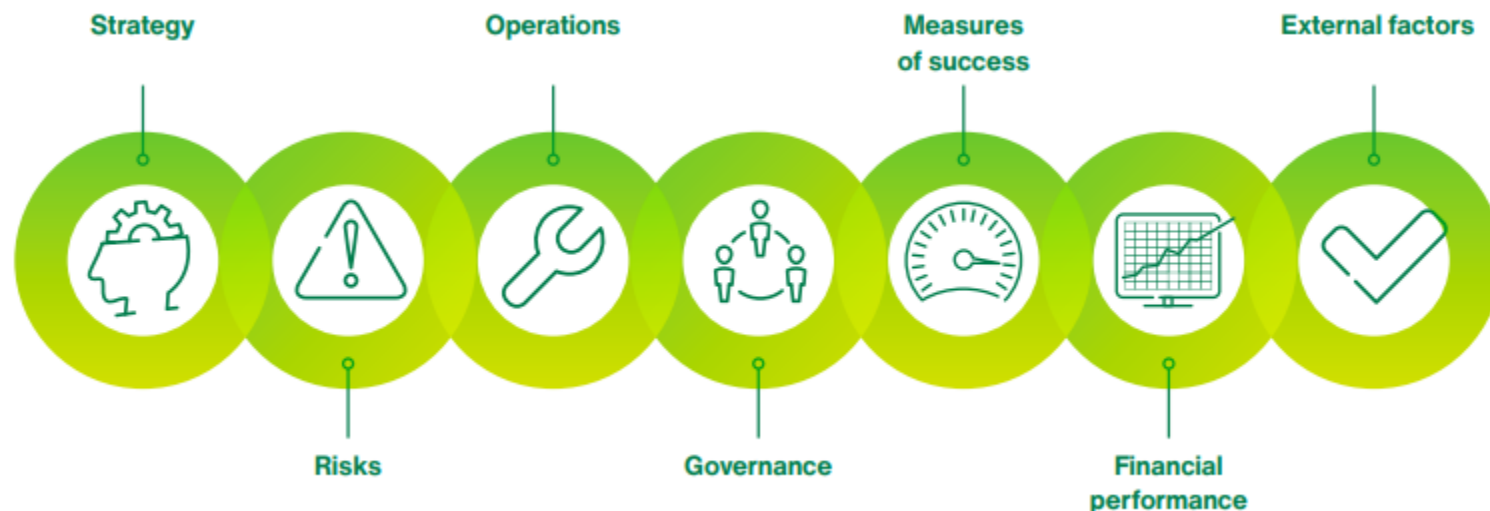
Our disclosure guides for audited entities help audited bodies prepare an account in the appropriate form and that has complied with all relevant disclosure requirements.

[Disclosure guide for entities who prepare financial statements in accordance with the Government Financial Reporting Manual \(FRoM\) - National Audit Office \(NAO\) insight](#)

The Audit and Risk Assurance Committee plays a key role in scrutinising the Annual Report and Accounts on behalf of their Board and Accounting Officer, ensuring the quality of disclosures, its understandability for users, and that the body's performance is presented in a fair and balanced way.

To support the Audit and Risk Assurance Committee in this role, we have published our [Good Practice in Annual Reporting](#) guide.

The Guide, which we update annually, provides specific examples of best practice we identified during our review of a sample of annual reports. The good practice principles are grouped under the following headings: supporting accountability, transparency, accessibility and understandability (see next slide for further details). These principles should be evident across the common sections of an annual report (below).



### Could you be a winner?

If you consider you meet these best practice principles and would like to nominate your organisation for the Building Public Trust Awards for your most recent Annual Report and Accounts, please speak to your NAO Team or contact us at [Building.Public.Trust@nao.org.uk](mailto:Building.Public.Trust@nao.org.uk).

### Essential features of a good annual report



#### Supporting accountability

- telling the story of the organisation in a fair and balanced way;
- compliance with the relevant reporting requirements; and
- clear action points to take forward.



#### Transparency

- frank and honest analysis;
- consideration of the challenges an organisation is facing;
- appropriate use of data; and
- quantification of risks and performance measures.



#### Accessibility

- highlights key trends in the financial statements;
- concise summaries of key points; and
- consideration of how the organisation engages with key stakeholders and meets their needs.



#### Understandable

Use of:

- plain English to explain difficult concepts;
- infographics and diagrams to communicate important messages; and
- clearly integrated structure to help users navigate it effectively.

The Covid-19 pandemic has impacted on the timely delivery of central government accounts, with 60% of Annual Reports and Accounts being published before the summer Parliamentary Recess in 2023 – which although an increase from 53% in 2022 is down from 80% before the pandemic in 2019. Audit and Risk Assurance Committees have a key role to play in supporting management in achieving timely Annual Report and Accounts publication. Below we set out some key areas Audit and Risk Assurance Committees may find it helpful to focus on.

### Learning from the prior year

- Has management held debrief sessions with relevant stakeholders, including the NAO, to identify what worked well in previous accounts production and audit process and areas where enhancements can be made?

### A clear project plan is in place with appropriate senior management ownership and accountability

- Has a project plan been developed and presented to the Audit and Risk Assurance Committee in advance of the year end, with appropriate oversight and accountability at a senior level, and has it been agreed with all relevant stakeholders including the NAO?

### Project plans are realistic, not inappropriately optimistic and have clear milestones which are monitored to prevent slippage

- Is the project plan sufficiently granular and with clear milestones for delivery built in and, where the project plan aims for earlier Annual Report and Accounts publication than in prior years, are these plans realistic and achievable?

### The Audit and Risk Assurance Committee has visibility of, and has reviewed, key judgements

- Does the Audit and Risk Assurance Committee have clear visibility of the key accounting judgements and, where these judgements are historic, has management reviewed and considered whether these judgements remain appropriate before the year-end or whether any update is needed?

### Plan to address key accounting judgements early – and take stock of progress before the year-end

- Has management identified new and emerging key accounting judgements and has plans in place to address these at an early stage?

### Skeleton Annual Report and Accounts are prepared to facilitate early review

- Has management prepared a skeleton Annual Report and Accounts, incorporating any changes in disclosure requirements and best practice, which has been reviewed by management, the NAO and the Audit and Risk Assurance Committee in advance of the year-end? In particular, has the Governance Statement (or equivalent) been updated to reflect the latest circumstances of the organisation?

### Latest reporting requirements are factored into project plans

- Where the organisation is adopting new accounting standards or other disclosures (eg, Taskforce on Climate-Related Financial Disclosures), has the Audit and Risk Assurance Committee been provided with a project plan for implementation?

### Where the delivery of Group accounts is dependent upon components (arms length bodies, agencies or others) the Group Audit Committee and management have sufficient oversight

- Have instructions been put in place with component finance teams to obtain the required information in line with the Group reporting timetable and does the Audit and Risk Assurance Committee have visibility of risks that sit at component level?

### Beyond the finance team, other parts of the organisation understand their role and are brought into the year-end process.

- Where contributions to the year-end accounts production process are from outside of the finance team (for example, sections of the annual report or external valuers) have arrangements been put in place before the year-end to ensure required information is available in line with the timetable?

### Ministerial approval is factored into the project plan

- Where Annual Reports and Accounts require ministerial approval, has early engagement taken place to schedule this in with the sponsor department?

### Additional guidance

- HM Treasury – Guidance on Annual Reports and Accounts (for organisations that apply the Government Financial Reporting Manual) - <https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>
- NAO - Good Practice in Annual Reporting - <https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>
- NAO – Guidance for Audit & Risk Committees on Financial Reporting and Management during Covid-19 - <https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>
- NAO - Climate Change Risk: a good practice guide for Audit Committees - <https://www.nao.org.uk/report/climate-change-risk-a-good-practice-guide-for-audit-and-risk-assurance-committees/>

Our **effectiveness tool** is a comprehensive way for ARACs in central government to assess their effectiveness on a regular basis.

The tool should be used in a way that is proportionate to the risks and complexity of each organisation.



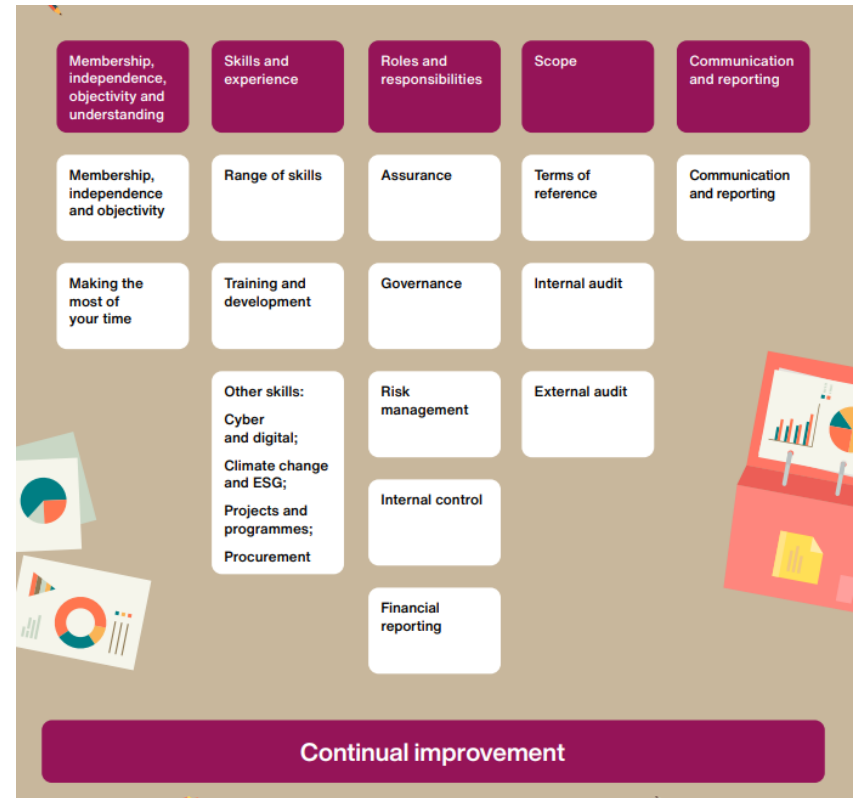
Our effectiveness tool outlines six areas for self-assessment:

- **membership, independence, objectivity and understanding**
- **skills and experience**
- **roles and responsibilities**
- **scope**
- **communication and reporting**
- **continual improvement**

There are two types of questions:

**Essentials** – these reflect the core expectations of ARACs in line with HM Treasury’s *ARAC Handbook (2016)*. All organisations should answer these questions.

**Good practice** – these are drawn from wider guidance and allow ARACs to go beyond basic requirements and demonstrate best practice. If you have fewer resources and your organisation has a lower risk profile you may decide to address these areas on a cyclical basis.



## Outcome Analyser



To gain an overall view of ARAC effectiveness, it is important that the individual views of all members are considered as a whole. Therefore we have created an accompanying **outcome analyser** which allows you to:

- generate an overall view of ARAC effectiveness; and
- drill down and analyse specific areas of strength or improvement on a section, sub-section and individual question level.