

haysmacintyre



# Health and Care Professions Council

## Audit planning report

25 May 2022

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Year Ended 31 March 2022

# 1 Introduction

## Scope

The purpose of this report is to confirm the annual arrangements for our audit of the financial statements of the Health and Care Professions Council ("the Council") for the year ended 31 March 2022 and to give the audit committee an overview of our audit plan and the nature and scope of our audit work.

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 the Council for the year ended 31 March 2022.

## Audit Plan

Our audit plan, key dates, proposed fees and other matters are set out in the following pages.

We have carefully prepared this plan based on discussions with management and we are satisfied that, if all these plans are implemented, we will be able to complete high quality audit that meets your deadlines.

If you do not deliver to the agreed timetable, we cannot guarantee that we will be able to meet the audit completion deadlines set out in our audit plan. We may also need to deploy additional resources to ensure that our audit work is completed to the required quality standard which may cause a disproportionate delay to the completion of our work. In addition, it is highly likely that the audit will incur additional audit fees.

## Audit Quality

Audit quality is our highest priority and we have chosen a suitably knowledgeable, skilled and experienced team. Changes to ISAs and other regulatory pressures have significantly increased the amount of work and cost required to perform an audit. Our proposed audit fee ensures we can allocate sufficient time to enable the team to perform the audit work in accordance with the ISAs and best practice.

## Respective responsibilities in relation to the audit of the financial statements

The Council members are responsible for the preparation and approval of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council members are responsible for assessing the Council's ability to continue as a going concern, disclosing, where applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for>

Yours faithfully



**Haysmacintyre LLP**

## 2 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.

We will report back in the Audit Findings Report the work performed in relation to each risk and our findings. ISAs include the following presumed significant risks:

Area	Risk	Planned audit work
<p><b>Fraud in revenue recognition</b></p>	<p>The risk of incorrect treatment of income under IFRS</p> <p>In particular, there is a risk that fee income has been recognised in the incorrect period.</p> <p>This is especially in light of the issues identified in the prior year audit which resulted in extensive work around fee income, deferred income and accrued income.</p>	<p>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.</p> <p>We will rationalise membership income based on membership numbers as well as performing tests of detail on a sample of individual members to confirm that income has been correctly recognised. In particular, we will consider the recognition of deferred and accrued income.</p> <p>We will review and test the internal controls over the recording of member details on the CRM system and the periodic reconciliations with the finance system and any changes to these controls given the upgrades and changes to registrations and accounting systems and the difficulties we know to have been faced during the year in getting these reconciliations up-to-date.</p>
<p><b>Management override of controls</b></p>	<p>The risk of misappropriation of assets and the risks of misrepresentation of financial information.</p> <p>In particular, we note that there is a elevated risk of error in relation to journals posted in relation to income, deferred income and accrued income due to the large number of manual adjustments that are made in these areas of the accounts.</p> <p>We also highlight the changes in key finance personnel during the year being audited which increases the risk of weaknesses in the operation of controls in the year.</p>	<p>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.</p> <p>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.</p> <p>We will review manual adjustments made to income, accrued income and deferred income in conjunction with any reconciliations performed during the year to ensure that they are appropriate.</p> <p>We will discuss any updates to controls and the operation of controls in the year, in particular testing those affected before and after staff changes.</p>

## 2 Risk Assessment (continued)

We do not consider there to be any further areas of significant risk. However, due to materiality, we consider the following to be areas of additional audit focus:

Area	Risk	Planned audit work
<b>Implementation of IFRS 16 - Leases</b>	<p>IFRS 16 became effective for HCPC from 1 April 2021. The impact of the standard is expected to be material in respect of financial reporting.</p> <p>There is a risk that:</p> <ul style="list-style-type: none"> <li>not all leases have been assessed</li> <li>the lease liability and associated asset have not been valued in accordance with the standard</li> </ul>	<p>We will review management's preparations for implementing the new standard. This will include a review of:</p> <ul style="list-style-type: none"> <li>management's process for identifying and reviewing all leases</li> <li>the discount rate used – this is considered to be a key area of judgement which will be reviewed by the audit team and sensitised.</li> <li>the disclosures in the accounts to ensure they comply</li> </ul>
<b>Valuation of fixed assets</b>	<p>There is a risk that fixed assets, including the capitalised FP Case Management and Registration systems and may be impaired.</p>	<p>Tests of detail to be performed to confirm that fixed assets are not overstated and that only appropriate items have been capitalised.</p> <p>We will also review third party valuation on the Council's property assets to ensure the values are appropriately stated and that any uncertainty over values is appropriately disclosed within the financial statements and auditors' report.</p>
<b>Completeness of creditors</b>	<p>There is an inherent risk that the Council's liabilities may be incomplete.</p>	<p>Substantive testing to be carried out along with a review of post year end payments and purchase invoices to consider the completeness of liabilities.</p> <p>We will obtain third party confirmation of outstanding liabilities relating to fitness ton practice cases and reconcile this information with accrued costs recognised in the financial statements.</p>
<b>Completeness of staff costs</b>	<p>There is a risk that staff costs, including any related disclosures and provisions, may be incomplete.</p>	<p>Testing will be performed to ensure that only bona fide employees of the organisation are paid. We will also consider the accuracy of the disclosure of staff costs in the financial statements.</p> <p>A Remuneration Report will be included within the Council's financial statements. We will liaise with the NAO to ensure that the report meets the necessary disclosure requirements.</p>

### Related parties

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 and we would appreciate it if you could make available related party disclosure forms for all Council and senior management.

# 3 Developments in Reporting & Auditing

We have identified the following as having implications for the entity's financial reporting and our audit work this year in addition to those identified as significant risks in Section 2 Risk Assessment

## Changes to the applicable reporting framework: IFRS

### ***International Financial Reporting Standards ("IFRS") amendments***

There are no major new or amended standards coming into effect for accounting periods beginning in 2021. Companies are expected to apply amendments to IFRSs that became applicable this year and disclose the expected impact of revisions that have been issued but are not yet applicable, if they are material.

### ***Periods starting on or after 1 January 2021***

#### ***Interest Rate Benchmark (IBOR) Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)***

Phase 2 affects all entities with a LIBOR-referenced contract. Phase 2 amendments provide accounting relief for issues that might affect financial reporting during IBOR reform, including the effects of changes in the basis for determining contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. It also provides relief for lease modifications.

### ***Other***

There were no major regulatory changes affecting UK entities other than those arising as a direct consequence of Brexit.

UK companies with financial years beginning on or after 1 January 2021 are required to apply UK-endorsed IAS and therefore all references to IFRS within the financial statements of HCPC should now refer to 'UK-adopted international accounting standards'.

# 4 The Team and Audit Timetable

Our team for the audit will be as follows:

Team member	Role	Contact details
Kathryn Burton	Audit partner	kburton@haysmacintyre.com
Amber Clark	Audit manager	aclark@haysmacintyre.com
Alex McArthur	Audit senior	amcarthur@haysmacintyre.com
Indy Larr	Audit semi senior	ilarr@haysmacintyre.com
Mustafa Maye	Audit junior	mmaye@haysmacintyre.com

As agreed following discussions with management on 6 May 2022, our work is being planned to meet the timetable as previously agreed and set out in Appendix One.

The major phases of our audit and major elements of each phase can be summarised as follows:



- Initial information gathering
- Liaison with and review of prior year auditor’s work
- Preparation of draft audit deliverables requirements list
- Set up of file sharing system (Inflo)
- Agree detailed audit timetable
  
- Audit planning meeting with management
- Detailed information gathering
- Preliminary analytical review
- Detailed risk assessment
- Development of audit strategy
  
- Detailed audit testing lead by audit senior
- Reviews by audit manager
- Ongoing progress meetings
  
- Finalisation and final analytical reviews of the financial statements
- Final reviews of audit file
- Finalisation meeting
  
- Filing & publication of financial statements
- Issue of final audit findings report

## Remote working

Through much of 2020 and 2021 we have successfully performed audits remotely and, since September 2021, we have transitioned to hybrid working practices, including a return to on site audit visits where this is more effective and efficient than remote working, and where Covid-safe working arrangements are in place.

We continue to make use of a range of technology and data analytics solutions to assist us, including “Inflo” our integrated file sharing and analytics software. We have agreed to conduct the audit remotely again this year, with a potential on-site visit to be reviewed and agreed closer to the audit date. We are confident that the working practices we have adopted will enable us to obtain sufficient audit evidence to complete a robust, high quality audit in accordance with ISAs and best practice.

We will discuss with management how best to mitigate any specific challenges that might arise if circumstances and government guidance change during the course of the audit.



# 5 Materiality, Reporting, Internal Controls and Independence

## Materiality

We define materiality as the magnitude of misstatement that we expect would reasonably influence 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.

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.

### Draft materiality is as follows:

<b>£540,000</b>	Draft materiality has been based on 2% of prior year income. This will be revised when final figures are received.
<b>£405,000</b>	Performance materiality will be used to detect errors at a lower precision level and has been based on 75% of draft materiality.
<b>£27,000</b>	We will report all identified errors greater than 5% of draft materiality.

## Reporting

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

- Audit report for the Council audited by Haysmacintyre;
- Audit Findings Report ('AFR'), including the management letter, to include discussion of control issues and recommendations, significant findings from the audit and emerging developments; and
- 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.

## 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 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.

## 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 have provided VAT and employment tax advice to the Council in previous periods. For such work, we have ensured the following safeguard to ensure our continued independence and objectivity: the VAT and employment tax work will be completed and reviewed by teams entirely separate from the audit team.

We consider that the policies and procedures that we have adopted to comply with the Ethical Standard and guidelines 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.

# 6 Fees and Deliverables

Our proposed fees for the year ended 31 March 2022 are as follows:

	2022	2021
Audit fee - proposed	31,500	24,900
Over-run fees 2021		34,850
<b>Total</b>	<b>31,500</b>	<b>59,750</b>

All fees are exclusive of VAT. Payment of our fees must be made within 30 days of the fee note.

## Increased audit fees

We want to be open and transparent about the level of work required to perform the audit and the resulting impact on our fees. The firm is regulated by the Financial Reporting Council ("FRC") and the Institute of Chartered Accountants in England & Wales ("ICAEW") and as a leading audit practice is one of five firms in the FRC's Tier 2 of their new framework (Tier 1 being the seven largest audit firms).

## Changing regulation

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those stakeholders (including companies and their auditors) responsible for delivering them.

Therefore, in response to recent corporate failures such as BHS, Carillion and Patisserie Valerie, the FRC is carrying out an extensive programme of reform of the audit industry and wider corporate governance. For the audit industry this has led to increased expectations of audit firms in respect of the standards they must follow and the quality of their work. These increasing requirements are manifesting themselves in the outcome of regulatory reviews and new or extensively rewritten auditing standards such as:

- ISQM (UK) 1 *Quality Management for Firms*
- ISQM (UK) 2 *Engagement Quality Reviews*
- ISA (UK) 220 (Revised July 2021) *Quality Management for an Audit of Financial Statements*
- ISA (UK) 240 (Revised May 2021) *The Auditors Responsibilities Relating to Fraud in an Audit of Financial Statements*
- ISA (UK) 315 (Revised July 2020) *Identifying and Assessing the Risks of Material Misstatement*
- ISA (UK) 540 (Revised November 2018) *Auditing Accounting Estimates and Related Disclosures*
- ISA (UK) 570 (Revised September 2019) *Going Concern*
- ISA (UK) 600 (Revised November 2019) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

- ISA (UK) 700 (Revised November 2019) *Forming an opinion and reporting on financial statements*

With the exception of ISA (UK) 600 each of the audit standards above apply to all audits regardless of the size of the entity being audited and have significant impacts on the auditors work in the planning, execution and completion phases of an audit. In addition, to these new standards the FRC is pushing firms to adhere to best practice requirements and improving the quality (and often quantity) of evidence and documentation on audit files.

## Increased work requirements in response to regulation

The new requirements are leading to significantly increased hours spent on every audit. You have or will notice that our teams are:

- testing larger sample sizes than we may have done previously
- assessing more evidence and challenging management in connection with estimates and judgements
- obtaining additional audit evidence, including that which contradicts the initial evidence provided to us
- designing and performing new audit procedures
- performing more detailed analysis of going concern assessments
- undertaking more fraud related work, particular around journals
- increasing the extent of manager and partner involvement
- increasing the number of consultations and independent partner reviews
- using more specialists, including third party experts
- documenting audit work and judgements in more detail

These changes are all being introduced to improve audit quality across the industry and there are further fundamental changes expected in response to the government white paper "Restoring trust in audit and corporate governance".



# 6 Fees and Deliverables (continued)

## Our approach

We recognise that the characteristics of an efficient audit share many characteristics with a quality audit so have reviewed our audit approach to ensure that increased time costs are minimised. For example, we are increasing the extent that we use technology to further improve audit quality and automate some of the more mechanical elements of an audit.

One way we are doing that is using the Inflo software to analyse all entries posted during the year and perform various data analytics tests to identify unusual transactions that require further investigation.

The timely supply of information and documentation to the audit team also improves the efficiency and quality of an audit. We therefore require that all requests are actioned promptly, and timetables are adhered to. Delays to the audit mean that the work is completed by the senior members of the team, which results in higher costs and overrun fees.

## Fees

Taking all the above into account the total costs budgeted for this audit are expected to be £45,000. Our prior year fees, including overruns were £59,750 and our total time costs were £98,000 which represented a recovery of only 60% of our total costs. To deliver high-quality audits the FRC expects us to set audit fees commensurate with the risk and work required and in our proposed fee quote for 2022 we have considered the additional work required relating to income testing given the matters arising in 2021.

Therefore, we have increased our fee to £31,500 which represents a recovery of 70% of our total costs.

The proposed fee is on the basis that:

- Final figures, agreed audit deliverables (see audit deliverables list – to be provided to management via Inflo) and relevant, accurate, supporting schedules for all figures, a trial balance together with reconciled control accounts and all accounting records are available as set out in Section 5 and the detailed timetable (Appendix One);
- The statutory 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; and
- 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 for the start of our audit fieldwork.

As agreed, you are preparing the financial statements. Usually, we expect to review three draft versions of the financial statements; if we have to consider more draft versions we will need to reconsider our costs and if necessary issue additional fees to cover our costs.

We will charge additional fees if the scope of our work increases or if information is not supplied to us in accordance with the agreed timetable.

There are several factors that may increase the amount of work required, and hence our fees, including:

### **Additional/inefficient audit work**

- Delays to the agreed timetable (i.e. providing figures, financial statements or audit evidence late);
- Auditing amendments to the figures and/or disclosures within financial statements;
- Complicated accounting matters not identified to us at the planning stage;
- Additional audit risks/issues which have not been disclosed to us at the planning stage;
- Additional audit work on going concern; and
- Attendance requested at additional meetings.

### *Accounting services outside of scope*

- Preparation of accounting adjustments and disclosures; and
- Preparation or amending disclosures in the Trustees'/Strategic report.

## Billing schedule

We propose to bill the audit fee in the following amounts:

Stage	Date	£
Planning	June 2022	6,000
Fieldwork	July 2022	19,500
Finalisation	September 2022	6,000

Payment of our fees must be made within 30 days of the fee note and payment of our interim fees must be made before we sign the audit report.

We reserve the right to withhold signing the audit report until all overdue fees are settled.

# 7 Audit Quality

## Audit quality

The culture, policies, and procedures adopted by our firm are designed to provide efficient, effective, high quality audits and foster a continual process of quality improvement through all service lines. The pursuit of improving audit quality is central to our firm's culture and strategic objectives – we continue to improve the quality of our audit work to reflect the needs and expectations of the users of financial statements and other stakeholders.

## Audit methodologies and procedures

The firm has established policies and procedures to comply with International Standard on Quality Control (UK) 1 issued by the FRC.

We have developed our own paperless audit software, 'eAudit', and accompanying methodologies. The software and methodologies are reviewed and regularly updated to ensure that our work follows best practice and complies with auditing and financial reporting standards, changes to legislation, and reflects feedback and findings from the firm's internal quality control reviews and external regulators.

Our methodologies provide structured work flows and promote discipline and compliance with International Standards on Auditing (ISAs) and other applicable regulation while the functionality of eAudit provides inbuilt controls to ensure compliance with ISAs.

Within this framework and common methodologies, our audit approach is tailored to each client with each individual eAudit file specifically designed, planned, and tailored to reflect the nature and characteristics of our audit clients with the aim of maximising the efficiency and effectiveness of our audit work.

Partners and managers are involved at all stages of the audit and their expertise and knowledge, particularly of their specialist sectors and industries, is incorporated into our audits and included throughout the audit file.

## Audit quality improvement plan

We have accelerated the pace and expanded the scope of our audit quality improvement plan given the increasing external focus on audit quality.

The following diagram illustrates the elements of audit quality that our plan seeks to identify, monitor, and improve.



## Continuous improvement

Our aim is to ensure that the firm's culture supports and nurtures continuous improvement in audit quality. Further information about our commitment to audit quality together with our plans, policies and procedures to ensure and monitor audit quality can be found in our Transparency Report 2021 at [www.haysmacintyre.com/about/transparency-report](http://www.haysmacintyre.com/about/transparency-report)

# Appendix One: Detailed Timetable

Date	Event
6 May 2022	Planning meeting with management
9 June 2022	Audit committee meeting to present planning
(TBC) End of June 2022	Draft figures provided to haysmacintyre for audit planning
11 July 2022	Audit deliverables, including draft financial statements, provided to haysmacintyre
18 July 2022	Audit fieldwork commences
(TBC) August 2022	Completion meeting with management
14 September 2022	Audit Committee meeting
28 September 2022	Financial statements to be signed
31 December 2022	Companies House filing deadline

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