

Audit Committee 25 November 2010

National Audit Office Letter of Understanding

Executive summary and recommendations

Introduction

On 18 November 2010, a Letter of Understanding was received from the National Audit Office (NAO). It sets out the relationship between HPC and the NAO as the HPC's sole external auditor.

Decision

The Committee is asked to note the document. No decision is required.

Background information

None.

Resource implications

None.

Financial implications

None directly, but please see separate paper on today's agenda which includes details of external audit fees for the audit of the 2010-11 accounts.

Appendices

Letter from National Audit Office dated 16 November 2010.

Date of paper

18 November 2010.



National Audit Office

16 November 2010

Helping the nation spend wisely

Marc Seale
Chief Executive
Health Professions Council
Park House
184 Kennington Park Road
London
SE11 8BU

GTN 3935
Switchboard +44 (0)20 7798 7000
Facsimile +44 (0)20 7798 7070

Direct Line +44 (0)20 7798 7074
Email dean.parker
@nao.gsi.gov.uk
Room Blue 1
Reference C10116
Date 16 November 2010

Dear Marc,

LETTER OF UNDERSTANDING

As you may be aware, it is normal practice to have in place a Letter of Understanding between auditors and the audited body. The current Letter of Understanding between HPC and NAO dates back to March 2006 and relates to the period when NAO acted only as HPC's second tier auditors. As the C&AG is now appointed as HPC's auditor, both by statute and by agreement with HPC, I have drafted a new Letter of Understanding to properly reflect this relationship.

I am therefore enclosing two copies of the new Letter of Understanding, which I have signed. I would be grateful if you could sign and date them both, and return one copy to me, keeping the other for your records.

If you have any queries on this, please do not hesitate to contact me.

Yours sincerely,
Dean

Dean Parker
Director, Financial Audit





National Audit Office

Marc Seale
Chief Executive
Health Professions Council
Park House
184 Kennington Park Road
London
SE11 8BU

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GTN 3935
Switchboard +44 (0)20 7798 7000
Facsimile +44 (0)20 7798 7070

Direct Line +44 (0)20 7798 7074
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Date 16 November 2010

Dear Marc,

AUDIT OF THE HEALTH PROFESSIONS COUNCIL: LETTER OF UNDERSTANDING

1. INTRODUCTION

- 1.1 The purpose of this letter is to set out the basis on which the Comptroller and Auditor General (C&AG) audits the accounts of the Health Professions Council (HPC); and the respective responsibilities of the Chief Executive, as Accounting Officer, and the NAO, acting on behalf of the C&AG. This engagement will be conducted with the sole objective of our expressing an opinion on the financial statements.

2. SCOPE OF THE AUDIT

- 2.1 The financial audit will be conducted in accordance with the International Standards on Auditing (UK & Ireland) and will cover the financial statements for the financial year 2010-11. These statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Reserves, the related notes and the part of the Remuneration Report to be audited.
- 2.2 Once the account is certified we have no further direct responsibility in relation to the financial statements for that financial year. However, we expect that you will inform us of any material event occurring between the date the C&AG signs the audit certificate and that of the laying of the accounts before the Houses of Parliament.

3. RESPONSIBILITIES OF AUDITORS

- 3.1 The C&AG is the appointed statutory auditor of the financial statements under the Health Professions Order 2001. The Order also requires that HPC appoints persons to audit its accounts and that these persons must be eligible for appointment under the Companies Act. The HPC has appointed the C&AG to audit its accounts in accordance with this requirement of the Order. He is responsible for reporting whether in his opinion the financial statements give a true and fair view and whether they and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Health Professions Order 2001 and directions made thereunder. He is required to report whether, in his opinion, the information which comprises the management commentary included in the Annual Report is consistent with the financial statements. He will also report on whether, in his opinion, in all material respects, the expenditure and income presented in



the financial statements have been applied to the purposes intended by Parliament and whether the financial transactions conform to the authorities which govern them.

3.2 In arriving at this opinion, we are required to consider the following matters, which the C&AG will report on if he is not satisfied:

- whether proper accounting records have been kept by the HPC, and proper returns adequate for the audit have been received from any third parties;
- whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit;
- whether the information given in the Chief Executive's Statement and Annual Report is consistent with the financial statements;
- whether the information given in the Management Commentary is consistent with the financial statements and with information obtained during the course of the audit; and
- whether the Statement on Internal Control reflects HPC's compliance with HM Treasury's guidance. We are not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of HPC's corporate governance procedures or its risk and control procedures.

3.3 There are certain other matters that, according to circumstances, the C&AG has a responsibility to report on. For example, where the financial statements do not adequately disclose details specifically required by HM Treasury, such as remuneration. We may include these details as an additional paragraph in the C&AG's audit certificate or in a separate report.

4. THE FINANCIAL AUDIT PROCESS

4.1 The audit will be conducted in accordance with the International Standards on Auditing (UK and Ireland) and the United Kingdom Auditing Practices Board's Practice Note 10 for the audit of financial statements of public sector bodies. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance over whether the financial statements are free from material misstatement.

4.2 We shall obtain an understanding of the accounting and internal control systems to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained by HPC. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom.

4.3 The nature and extent of our procedures will vary according to our assessment of HPC's accounting system and, where we wish to place reliance on it, the internal control system, and may cover any aspect of the operations that we consider appropriate.

4.4 To assist us with the examination of your financial statements, we shall request timely sight of all documents or statements which are due to be issued with the financial statements. We shall review accompanying information for consistency with the financial statements and with our knowledge of your business. We will bring such inconsistencies to your attention so that they may be resolved prior to certification.

4.5 Limitations of a financial audit

4.5.1 We will plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including those resulting from fraud, error or non-compliance with laws or regulations), but our examination should not be relied upon to disclose all such material misstatements as may exist. Due to the test nature and other inherent limitations of a financial audit there is an unavoidable risk that some material misstatement may remain undiscovered.

4.5.2 Our work on internal control will not be sufficient to enable us to express any assurance on whether or not HPC's internal controls are effective. Our financial statement audit cannot

be relied upon to draw to your attention all matters that may be relevant to your consideration as to whether or not the system of internal control is effective.

4.6 Management representations

As part of our audit process we will request from management written representations on matters material to the financial statements where other sufficient appropriate evidence cannot reasonably be expected to exist, and where management may have made certain oral representations (Letter of Representation).

4.7 Reliance on third parties

4.7.1 Internal Audit

We shall obtain an understanding of internal audit to identify and assess the risks of material misstatement of the financial statements. We will assess the internal audit function when this is relevant to the risk assessment and, where we intend to use specific audit work, we will evaluate and perform audit procedures on that work to confirm its adequacy for our purposes. Reliance on the work of internal audit may not always be appropriate for the purposes of the audit of the financial statements.

4.7.2 Another auditor

Where we place reliance on another auditor, we will consider how the work of the other auditor will affect the audit. We shall consider the professional competence of the other auditor in the context of this engagement and perform procedures to obtain sufficient evidence that the work of the other auditor is adequate for our purposes.

4.7.3 Use of Experts

Where we judge that it is appropriate to use the work of an expert we will:

- obtain sufficient appropriate audit evidence that such work is adequate for the purposes of the audit;
- evaluate the professional competence of the expert;
- evaluate the objectivity of the expert;
- ensure that the scope of the work of the expert is adequate for our purposes; and
- evaluate the appropriateness of the expert's work as audit evidence regarding the assertions being considered.

4.8 Communications

4.8.1 At the start of our audit each year, we will issue an audit strategy, which should be presented to the Audit Committee, containing details of identified risks and planned financial audit work on HPC for the coming year. This will detail where the audit team intends to make use of the work of internal audit, other auditors or experts.

4.8.2 At the end of each audit we will report formally to you on:

- any significant weaknesses in, or observations on, the accounting and internal control system for presentation to the Audit Committee;
- errors identified in the course of the audit (unless deemed clearly trivial);
- uncorrected misstatements;
- expected modifications to the audit report;
- matters specifically required to be reported under other International Standards on Auditing (other than that which governs the "Communications of Audit Matters With Those Charged With Governance"); and
- any other matters of interest to those charged with governance.

5. CLIENT RESPONSIBILITIES

5.1 As Chief Executive of HPC, you are responsible for:

- maintaining proper accounting records;
- preparing financial statements, which give a true and fair view, in accordance with the Health Professions Order 2001 and with directions made thereunder; and

- preparing the Annual Report, which includes the Remuneration Report, in accordance with the Health Professions Order 2001 and with directions made thereunder.
- 5.2 As the Chief Executive for HPC your responsibilities extend to ensuring that the expenditure and income presented in the financial statements have been applied to the purposes intended by Parliament and that the financial transactions conform to the authorities which govern them.
- 5.3 The responsibility for safeguarding the assets of HPC and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you and HPC. You must draw to our attention instances of actual or suspected fraud, error and irregularities when you become aware of them.
- 5.4 You are responsible for making available to us, as and when required, all HPC accounting records and all other relevant records and related information, including minutes of all management meetings and access to any documents held by third parties. We are entitled to require from your staff such other information and explanations as we consider necessary for the performance of our duties as auditors.
- 5.5 As Chief Executive of HPC you are responsible for ensuring compliance with HM Treasury's Managing Public Money requirements regarding the operation of internal controls. The Financial Reporting Manual requires you to produce a Statement on Internal Control.

6. AUDIT ARRANGEMENTS

6.1 Access to Data and Personal Data

As part of our audit work we may need access to personal data which you hold. We will manage any personal data in accordance with the Statement on the Management of Personal Data at the NAO (Annex 1). Specifically, we will agree with you the personal data which we require access to, and how we will request it from you and include these arrangements within our formal audit strategy document.

6.2 Health and Safety

Members of the audit team will be in touch with relevant HPC officers to discuss practical arrangements and the timing of audit visits. However, we would appreciate your co-operation in relation to the provision of support for our employees covering health, safety and emergency arrangements applicable to your premises. In particular, as our staff need to use a computer for a significant part of their time on your premises, we seek your assistance to provide a compliant workstation in accordance with the Display Screen Equipment Regulations.

6.3 Electronic Publication of Accounts

6.3.1 HPC may wish to publish the financial statements, including our audit opinion, on its website. It is the responsibility of HPC to ensure that any such publication properly presents the financial information and audit opinion.

6.3.2 HPC must advise us of any intended publication and should seek our consent for the electronic presentation of our audit opinion. We reserve the right to withhold consent to the electronic publication of our opinion if the audited financial statements or audit opinion are to be published in an inappropriate manner.

6.3.3 HPC is also responsible for the controls over, and the security of its website. The examination of the controls over the maintenance and integrity of HPC's website is beyond the scope of our audit of the financial statements.

6.4 Freedom of Information Act 2000

The Freedom of Information Act 2000 introduced a statutory right of access to all types of "recorded" information held by most public bodies (known as "public authorities" in the Act).

All individuals and organisations, regardless of citizenship or residence, have had this right of access from 1 January 2005. The Act requires public authorities to reply in writing to any request for access, stating whether they hold the information requested, and providing a copy of the information if required, subject to certain exemptions. The Act is retrospective giving access to existing information whenever it was created. As a result, any NAO information held either by the NAO or by an audited body, including unpublished outputs such as reports to those charged with governance (as required by ISA (UK and Ireland) 260), management letters, audit completion memoranda and other audit reports, are potentially disclosable, either by the NAO, or the audited body. Any requests for disclosure should be discussed with us as and when they are received. Similarly, you will be consulted about any Freedom of Information Act request received by the NAO for information that has been generated by HPC.

6.5 Proceeds of Crime reporting

6.5.1 The C&AG is a relevant person within the meaning of the Money Laundering Regulations 2007. As such all NAO staff are required to report all knowledge or suspicion, or reasonable grounds to know or suspect, that a criminal offence giving rise to any direct or indirect benefit from criminal conduct has been committed, regardless of whether that offence has been committed by their client or by a third party.

6.5.2 If as part of our work we have knowledge or suspicion, or have reasonable grounds to know or suspect, that such offences have been committed we are required to make a report to the Serious and Organised Crime Agency (SOCA). In such circumstances it is not our practice to discuss such reports with you because of the restrictions imposed by the "tipping off" provisions of the anti-money laundering legislation.

6.5.3 Central Government bodies are required to report frauds to HM Treasury, in line with HM Treasury's Managing Public Money. Informing the NAO, or being aware of the NAO's knowledge or suspicion of a fraud, does not absolve HPC of this responsibility.

7. OTHER MATTERS

7.1 Use of Report & Confidentiality

Any formal report or other unpublished reports from us may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the HPC in mind and that we accept no duty or responsibility to any other party as concerns the reports.

7.2 Electronic communication

7.2.1 During the audit we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazards.

7.2.2 We confirm that we each accept the risks of any authorised electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall each be responsible for protecting our own systems and interests in relation to electronic communications and (in each case including our respective employees, agents or servants) we shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information

7.2.3 The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective employees, agents or servants.

7.3 Quality of service

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 me. If, for any reason, you would prefer to discuss these matters with someone other than me, please contact the Director General, Financial Audit at the NAO. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

8. FEES

8.1 Fees are calculated on the basis of the time we spend on HPC affairs, and on the levels of skill and responsibility involved. At the beginning of each year's audit we shall estimate the cost of the work to be undertaken and record this in writing for HPC.

8.2 We may present invoices for work done at appropriate intervals during the course of the year or following the completion of the annual audit. These invoices will be payable upon presentation. The amount of work undertaken will not be increased beyond that covered by the estimated fee without our giving prior warning to HPC, together with the reasons for the increase.

9. OTHER SERVICES

9.1 Under the National Audit Act 1983, the C&AG may carry out Value for Money examinations into the economy, efficiency and effectiveness with which HPC has applied its resources in discharging its functions and report the results of such examinations to the House of Commons.

9.2 Additionally the C&AG may undertake further work outside the scope of a financial audit engagement either by request or as determined by the audit team to be of interest to those charged with governance or Parliament more generally. Such services may include, for example, Good Governance investigations designed to examine key issues of propriety, governance or financial management. For the duration of this letter of understanding, each such assignment will be subject to separate terms of reference issued in advance of work commencing.

10. ACCEPTANCE

10.1 Once agreed, this arrangement will remain effective for future years unless it is terminated, amended or superceded. Should you wish to discuss any aspects of this before signing at the foot of this letter and returning a copy, please do not hesitate to contact me.

10.2 I should be grateful if you would bring this letter to the attention of HPC's Audit Committee.

Dean Parker

16 November 2010.

**Dean Parker
Assignment Director
For and on behalf of the Comptroller and Auditor General**

**Marc Seale
Chief Executive
Health Professions Council**

ANNEX 1: Statement on the Management of Personal Data at the NAO

- 1. The C&AG and the National Audit Office have privileged and wide-ranging access to data and information to support the discharge of the audit function and ensure that the C&AG's reports to Parliament are factual, accurate and complete. This data relates both to public servants and individual citizens. We have a duty to respect this privileged access and to ensure that the personal information entrusted to us is safeguarded properly.**
- 2. We take our obligations under the Data Protection Act 1998 seriously. We have a body of data policies and IT standards, guidelines and procedures designed to ensure compliance with the Act. We keep our requests for personal data to the minimum necessary to complete our work and retain any personal information we obtain only for as long as we need it. We take appropriate measures to safeguard the integrity and confidentiality of data we hold from unauthorised access. All of our staff and contractors have an obligation to comply with our data protection policies.**
- 3. In addition to those items specifically identified in the Act, our definition of sensitive personal data includes data which, when held alone or in combination, could cause embarrassment, harm or financial loss to the data subject if disclosed to or tampered with by an unauthorised third party. We have separate arrangements in place for classified data.**
- 4. To help you understand our commitment, we have developed a series of Personal Data Statements, which all our staff subscribe to:**
 - We will only request personal data for use in discharging our statutory and other audit functions and for lawful purposes. These requests are kept to the minimum necessary to carry out our work.**
 - Our requests for personal data will be authorised by a senior employee. Each of our audits is led by a Director who is personally responsible for authorising any request for personal data in connection with that audit; maintaining records of the data held; ensuring it is securely and appropriately processed; ensuring it is securely and appropriately retained; and for certifying its destruction.**
 - We will agree with you in advance how we will use, secure, destroy and account for the personal data you provide to us. We have a series of protocols which specify the measures for protecting personal data during transfer from the information provider, whilst we retain the information for audit purposes, for secure destruction of the data and for long term storage where this is required by law and professional standards.**
 - We will notify you when we destroy personal data you have provided to us.**
 - We ensure our contractors operate suitable procedures for personal data protection before we pass such data to them. From time to time we contract with third parties who support us in discharging our statutory and other audit responsibilities. Access to personal information will only be given to organisations which can show that they are capable of maintaining the standards defined in these statements.**
 - We audit our compliance with our data protection policies, in order to be assured that protection is in accordance with the terms of this Code. These include checks on compliance carried out independently of the NAO Directors responsible for the security of data on their audits.**
 - Where information identifying individuals must be given up by law, it will be released only to those legally entitled to receive it following the approval of the data controller.**