

Council, 2 July 2014

National Audit Office (NAO) Audit Completion Report on the 2013-14 financial statements

Executive summary and recommendations

Introduction

The NAO's Audit Completion Report is attached for the Council's consideration. The report will have been discussed by the Audit Committee at its meeting on 24 June.

Decision

The Council is asked to review and discuss the NAO's report, and the Executive's response to the recommendation on page 12.

The Council is asked to agree that the uncorrected error of £57,000 noted in Appendix 3 of the NAO's report should not be corrected.

Background information

There is one confirmed uncorrected error within the accounts: the provision for the closed FlexiPlan pension scheme is overstated by £57,000. The error existed in the 2012-13 accounts as well. Correcting the error would increase the surplus for 2013-14 and increase reserves at 31 March 2014 by £57,000.

Since the amount is not material and we have closed the books for 2013-14, the Executive proposes not to correct the 2013-14 accounts. Instead, the provision will be reduced to the correct value in 2014-15.

Resource implications

None

Financial implications

NAO audit fee £39,000

Appendices

NAO's Audit Completion Report

Date of paper

23 June 2014

Health and Care Professions Council

Audit completion report (including management letter) on the 2013-14 financial statement audit

REPORT TO THOSE CHARGED WITH GOVERNANCE
JUNE 2014

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

Contents

Completion of our financial audit	3	Other matters for communication	16
Significant financial statement risks	6	Appendix 1: Letter of representation	17
Audit recommendations	12	Appendix 2: Draft audit certificate	21
Follow up to key recommendations we made in the previous year	13	Appendix 3: List of identified misstatements	24
Other key findings	14		
Other areas of Audit Emphasis	15		

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

Completion of our financial audit

Introduction

This report summarises the key matters from our audit of the 2013-14 Health and Care Professions Council financial statements, which we must report to those charged with governance before we finalise our audit work and certify the accounts.

What work have we completed?

We have completed our audit of the 2013-14 financial statements in accordance with International Auditing Standards (UK and Ireland) issued by the Financial Reporting Council and with the audit planning report presented to the Audit Committee in September 2013.

We have also read the content of the draft annual report and the governance statement to confirm:

- their consistency with the financial statements and our understanding of the business;
- that the audited part of the remuneration report has been properly prepared; and
- that the governance statement has been prepared in accordance with HM Treasury guidance.

The total audit fee charged for the year is £39,000.

Completion of our financial audit

What is the status of our audit?

The audit was substantially complete at the time of drafting this document. The following were outstanding:

- NAO final review and completion procedures;
- review of the final draft Annual Report and Accounts; and
- a final review of subsequent events.

The Accounting Officer will sign the annual report and accounts together with a letter of representation which is attached at Appendix 1.

What is our conclusion?

We anticipate recommending to the Comptroller and Auditor General (C&AG) that he should certify the 2013-14 financial statements with an unqualified audit opinion, without modification. The draft audit certificate is presented in Appendix 2 – Audit Certificate.

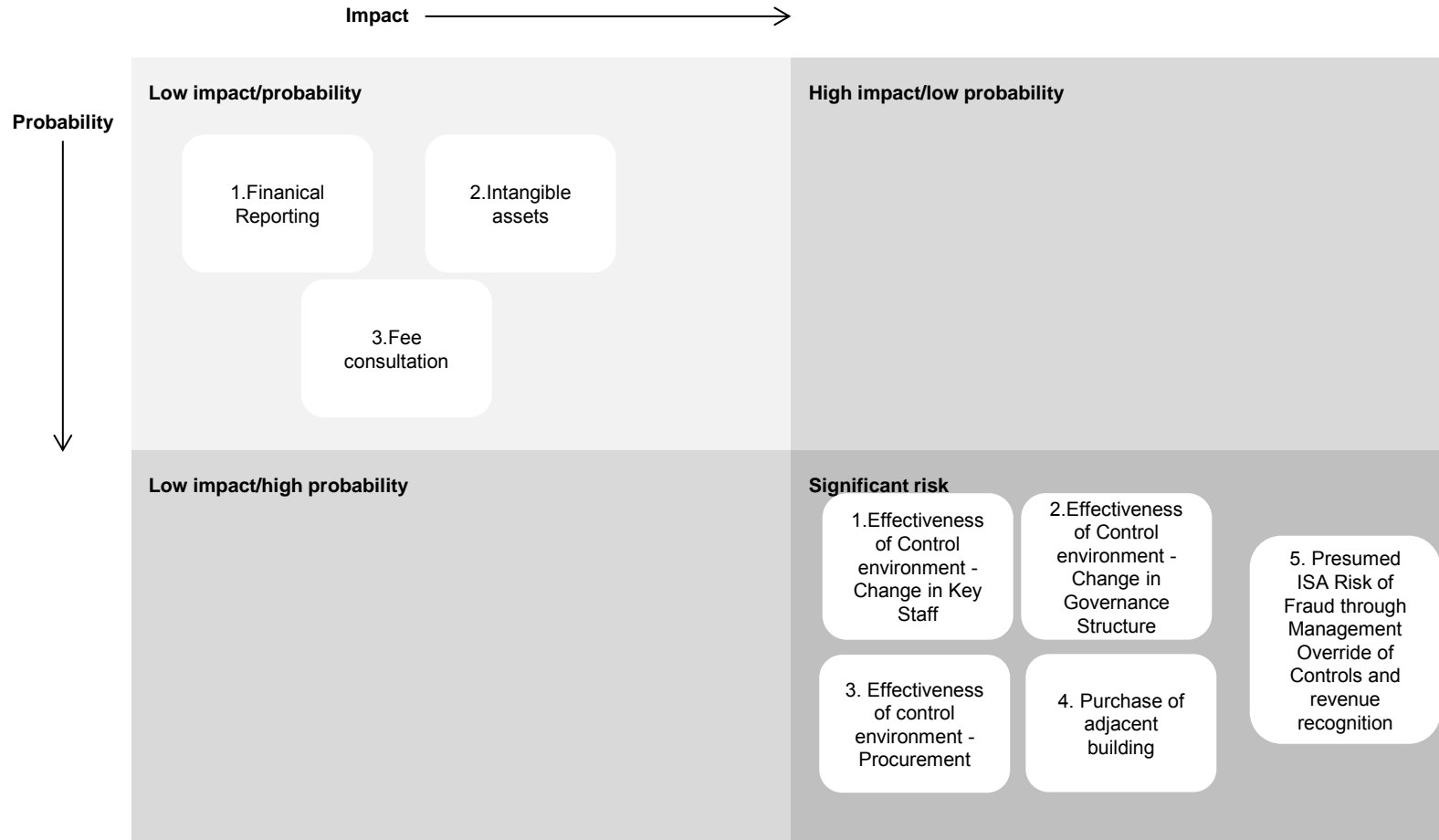
Actions for the Audit Committee

The Audit Committee should:

- Review the findings set out in this report, including the draft letter of representation and audit certificate at Appendix 1 and 2 respectively; and
- Consider whether the unadjusted misstatements, set out in appendix 3 (page 24 & 25) should be corrected. The Audit Committee minutes should provide written endorsement of management's reasons for not adjusting misstatements.

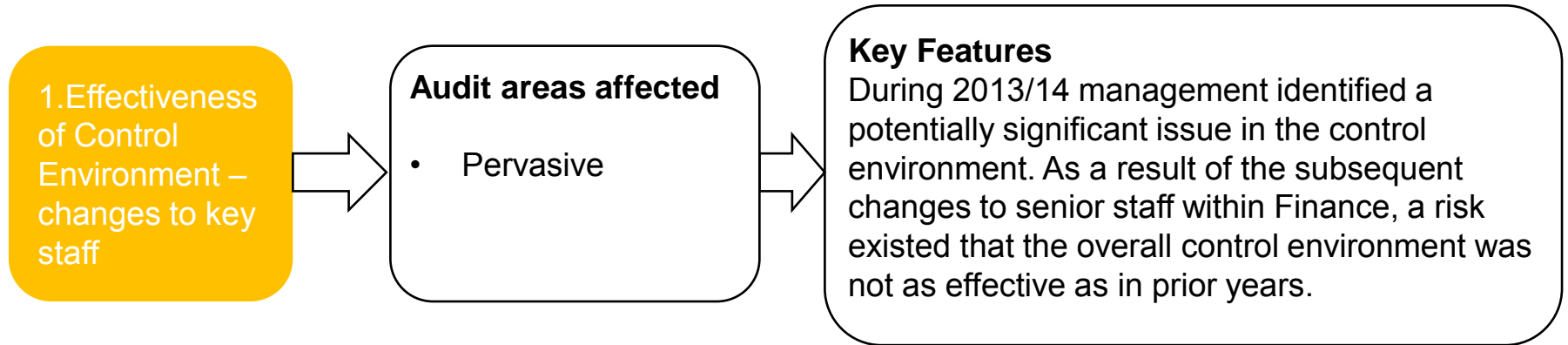
Significant financial statement risks identified at planning

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



Key findings

Significant financial statement risks



Audit Response

Controls

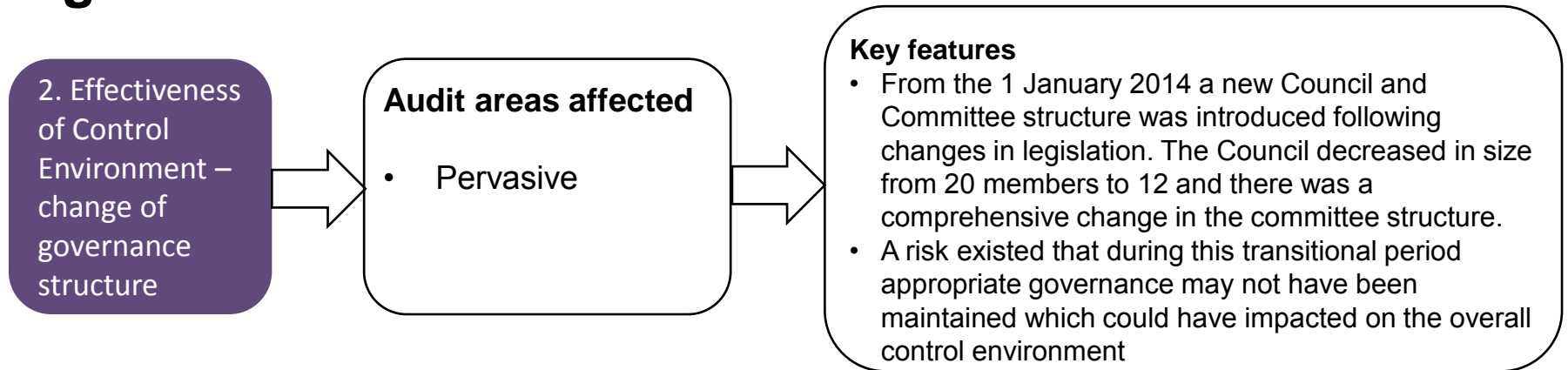
We reviewed management's response to the issues identified in the control environment including the work of internal audit.

Findings

- We conclude that the response to the significant issues identified during the year which led to the changes in key staff was adequate in the circumstances. The controls in place highlighted the issues and management reacted quickly once they became aware of the situation.
- Due to the potential impact on the control environment during the year we were not able to take assurance from management accounts. However we would look to take this assurance in future years.

Key findings

Significant financial statement risks



Audit Response

Controls

- We considered the appointment process of the new Council and how the new committee structure addresses the legislative requirements.
- We assessed the impact of these changes on the overall control environment.

Substantive

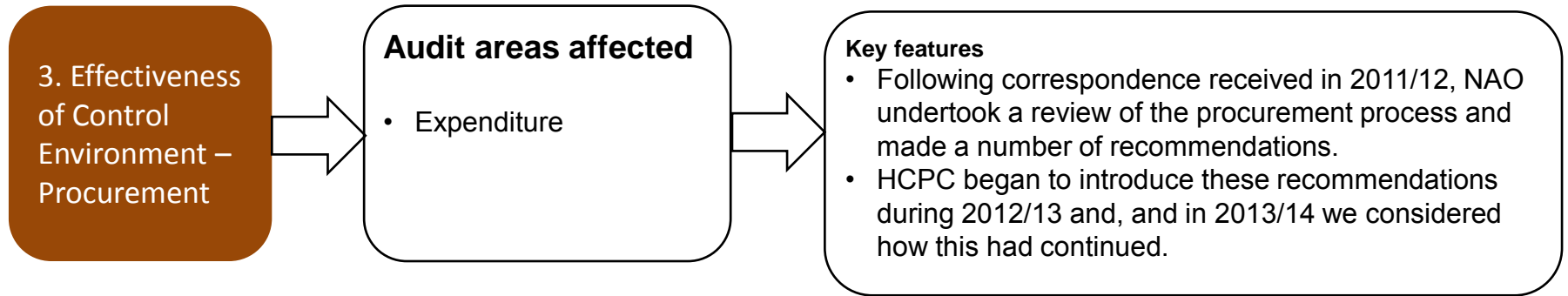
- We have reviewed the Governance statement and ensured that the change in structure and impact on governance across HCPC is adequately reflected.

Findings

- We confirmed that the smaller Council and committee structure fulfil the legislative requirement.
- We have reviewed the Governance Statement and can confirm that the change in structure is reflected in this statement.
- Our work did not identify any control weaknesses arising from this change.

Key findings

Significant financial statement risks



Audit Response

Controls

- We reviewed the procurement policy that was approved by the Council.

Substantive

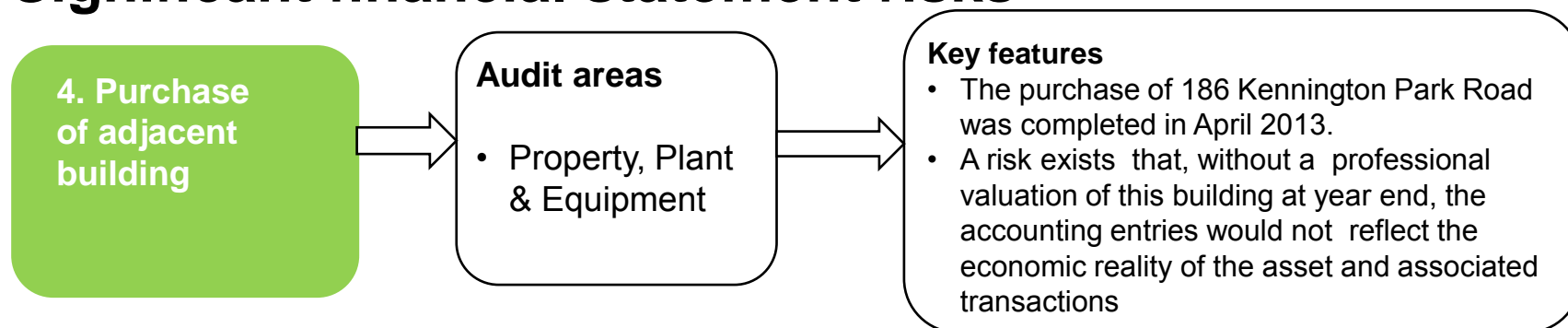
- We reviewed the processes by which new contracts were let to ensure that they adhered to the new policy.

Findings

- From our review we can confirm that an adequate procurement policy has now been agreed by the Council.
- We also confirmed that for two tenders let during the year, the processes outlined in the policy have been followed.

Key findings

Significant financial statement risks



Audit response

- **Controls**

We have reviewed management's impairment review of this building following receipt of the surveyors report that management received at year end.

- **Substantive**

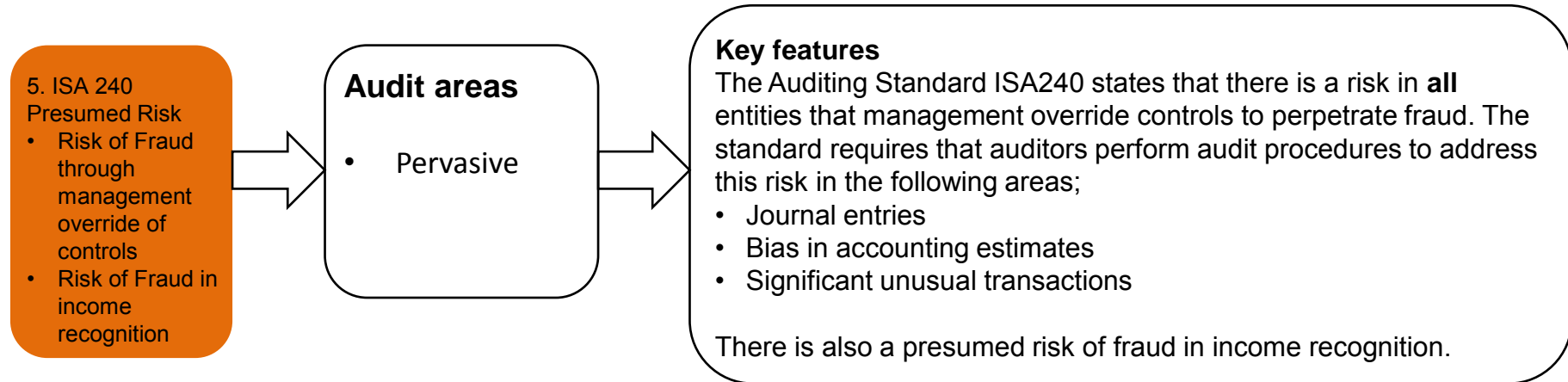
We have reviewed the basis of valuation and HCPC's accounting treatment of the purchase of the adjacent building.

Findings

- We discussed the treatment of the revaluation and are content with the recognition and disclosure of the impairment (£700k) in the Property, Plant and Equipment note in the accounts.
- We will continue to monitor decisions that are made by Council over the future development of the adjacent building. (see slide 15)

Key findings

Significant financial statement risks



Audit Response

We undertook the following;

- Substantive testing of the journals throughout the year and at year end.
- Consideration of the estimates within the financial statement.
- Consideration of any significant and unusual transactions by scrutiny of the ledger.

Findings

Observations and recommendations

We did not identify any issues in these areas.

Audit recommendations

Each issue has been given a priority rating to assist in assessing the level of potential risk associated with the finding. The levels are:

1

Major issues for the attention of senior management which may have the potential to result in a material weakness in internal control and/or impact on the ability of the C&AG to certify the accounts.

2

Important issues to be addressed by management in their areas of responsibility.

3

Problems of a more minor nature which provide scope for improvement.

Title	Issue	Priority	Recommendation	Management Response
ASSET REVALUATION	Non-current assets	2	Much of HCPC's land was revalued up in 2013/14. This was netted off in the accounts against a loss on the land bought as part of 186 Kennington Park Road, which we accepted as all movements were in year and the overall effect was not material. Going forward we would expect HCPC to evaluate revaluation on an annual basis as required by IAS 16 as modified by the Government Financial Reporting Manual, the statutory framework for HCPC. The FREM requires that all tangible non-current assets shall be carried at valuation at the reporting period. The option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets.	<p>We will continue to revalue property assets in accordance with the FREM.</p> <p>We consider that depreciated historical cost is an appropriate proxy for fair value of plant and equipment, in accordance with the FREM.</p>

Follow up to key recommendations we made in the previous year

Title	Area	What was the recommendation?	Response/Progress	Status
Remuneration report disclosures	Remuneration report	<p>We recommended that the Remuneration Report disclosures required by the FReM are reviewed annually to ensure that HCPC continues to fully comply with these. That consideration should include a review of the role of Executive Management Team to confirm whether they meet the definition of a Director as set out in the FReM.</p> <p>We also recommended that HCPC continues to review the remuneration disclosures made by broadly analogous entities so that it can consider whether its disclosures are in line with general practice.</p>	Full remuneration disclosures on the Executive Management Team are included in the 2013/14 remuneration report alongside the disclosures for the Council and the Chief Executive which have been made in previous years.	Met in full

What are our other key findings

Identified misstatements

We identified one material misstatement in the first draft of the accounts provided for audit relating to the valuation of land and buildings which HCPC has adjusted. Appendix 3 also shows two further adjusted misstatements that are above our clearly trivial threshold of £4,700.

One unadjusted misstatement relating to provisions that was above our clearly trivial threshold was also identified, details of which are also shown in Appendix 3.

Financial statement disclosures

We have also made a number of other suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the FReM and other relevant guidance. The most significant of which are:

- Inclusion of a separate Statement of Accounting Officer's Responsibility
- Inclusion of an accounting policy on significant accounting judgements and sources of estimation uncertainty
- Addition of a capital commitments note

We consider disclosures in the financial statements to be neutral, consistent and clear.

Accounting policies and financial reporting

As part of our audit, we consider the quality and acceptability of HCPC's accounting policies and financial reporting. We are pleased to note that the overall quality of the draft account submitted for audit continues to be high, and the format of the accounts was such that the disclosure of the HCPC's position and performance was clear and transparent

Regularity, propriety and losses

We found no issues of irregularity, impropriety or issues on the reporting of losses during our audit.

Internal control

During the course of our audit we did not identify any significant internal control weaknesses.

Other Areas of Audit Emphasis

Adjacent building

We identified the purchase of 186 Kennington Park Road as a significant risk in this year's audit. The development of the adjacent building will continue to be a key issue for our audit and we will continue to monitor HCPC's decision-making process with regard to the future of the building.

Annual report changes for 2014/15

The Government Financial Reporting Manual requires that separate Directors and Strategic Reports are included in the Annual Report. HCPC will need to ensure that these changes are made in 2014/15.

Other matters for communication

Independence

We consider that we comply with Auditing Practices Board (APB) ethical standards and that, in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between us and the HCPC that we consider to bear on our objectivity and independence.

International standards on Auditing (UK and Ireland)

We consider that there are no additional matters in respect of items requiring communication to you, per International Standards on Auditing, that have not been raised elsewhere in this report or our audit planning report. Items requiring communication cover:

- Fraud
- Going concern
- The HCPC's compliance with laws and regulations
- Significant difficulties completing the audit
- Disagreements or other significant matters discussed with management

Cooperation with other auditors

We have not placed reliance on the work of internal audit for the purpose of our work, however we have used internal audit's work to further inform it.

Appendix 1 – Letter of representation(1)

LETTER OF REPRESENTATION: HEALTH AND CARE PROFESSIONS COUNCIL YEAR ENDED 31 MARCH 2014

I acknowledge as Accounting Officer of the Health and Care Professions Council (HCPC) my responsibility for preparing accounts that give a true and fair view of the state of affairs, surplus, changes in reserves and cash flows of the HCPC for the year ended 31 March 2014.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Privy Council, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- make an assessment that the HCPC is a going concern and will continue to be in operation throughout the next year; and ensure that this has been appropriately disclosed in the financial statements.

I confirm that for the financial year ended 31 March 2014:

- neither I nor the employees of the HCPC authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money;
- having considered and enquired as to the HCPC's compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the HCPC to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by HCPC have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- the information provided regarding the identification of related parties is complete; and the related party disclosures in the financial statements are adequate.

All material accounting policies as adopted are detailed in note 1 to the accounts.

Appendix 1 – Letter of representation(2)

INTERNAL CONTROL

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with HM Treasury guidance on the Governance Statement.

FRAUD

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting HCPC and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, regulators or others.

ASSETS

General

All assets included in the statement of financial position were in existence at the reporting date and owned by HCPC, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The statement of financial position includes all tangible assets owned by HCPC.

Non-Current Assets

All assets over £1000 are capitalised. Apart from land and buildings, all other assets are valued at historic cost, as this is not materially different to fair value. Valuations are performed on an existing use open market value basis as required with a minimum interval of five years. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in HCPC's operations.

Other Current Assets

On realisation in the ordinary course of HCPC's operations the other current assets in the statement of financial position are expected to produce at least the amounts at which they are stated. Adequate provision has been made against all amounts owing to HCPC which are known, or may be expected, to be irrecoverable.

Appendix 1 – Letter of representation(3)

LIABILITIES

General

All liabilities have been recorded in the statement of financial position. There were no significant losses in the year and no provisions for losses were required at the year-end.

Deferred Income

The deferred income recorded in the financial statements represents the balance of fees received during 2013-14 or an earlier financial year, but which have been paid in advance and which relate to period occurring after March 2014.

Provisions

Provision is made in the financial statements for the liability related to the Flexiplan pension scheme which has been wound up. Following the resolution of a court case relating to a technical point on the scheme it has been confirmed that HCPC has a liability. However, the scheme will be subject to an actuarial valuation in 2015 and so there is some uncertainty over the level of this liability from that date and so it was considered appropriate for the best estimate at this stage to be included as a provision.

Contingent Liabilities

I am not aware of any pending litigation which may result in significant loss to the HCPC, and I am not aware of any action which is or may be brought against HCPC under the Insolvency Act 1986.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by HCPC, or circumstances of an exceptional or non-recurring nature.

Appendix 1 – Letter of representation(4)

Unadjusted Errors

I confirm that I am aware of the unadjusted errors that are included on the attached schedule. I do not wish to correct these errors as I consider the effect of these unadjusted errors to be immaterial, both individually and in aggregate, to the financial statements as a whole.

Events after the Reporting Period

Except as disclosed in the accounts, there have been no material changes since the reporting date affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

Management of Personal Data

Except as disclosed in the Management Commentary, there have been no personal data related incidents in 2013-14 which are required to be reported.

Marc Seale
Chief Executive
July 2014

Appendix 2 – Draft audit certificate (1)

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the Health and Care Professions Council for the year ended 31 March 2014 under Article 46(5) of the Health and Social Work Professions Order 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Reserves and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Council, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with Article 46(5) of the Health Professions Order 2001. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Health and Care Professions Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Health and Care Professions Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

Appendix 2 – Draft audit certificate (2)

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Health and Care Professions Council's affairs as at 31 March 2014 and of the surplus for the year then ended; and
- the financial statements have been properly prepared in accordance with the Health Professions Order 2001 and the Privy Council direction directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Privy Council directions made under the Health and Care Professions Order 2001.; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Appendix 2 – Draft audit certificate (3)

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury’s guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

Date

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Appendix 3 – List of identified misstatements (adjusted)

Adjusted misstatements		SoCNE	SoCNE	SoFP	SoFP
Area	Issue	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Property, plant and equipment	The split between land and buildings in the first draft of the PPE note was not correct to the Chartered Surveyors' valuation. This meant that land was understated and buildings overstated, though the total between them was correct.			618	618
Property, plant and equipment	A decision over the treatment of costs related to work on the adjacent building (which affected the 'assets under construction' and 'buildings' part of the note was made after the submission of draft 1 of the accounts for audit			182	182
Staff costs	Recruitment costs for permanent members of staff were included under the column for 'other staff'. This meant that 'other payroll costs' were understated for permanent staff and overstated for other staff, though total staff costs were correct.	183	183		
Total		183	183	800	800

Appendix 3 continued – List of identified misstatements (unadjusted)

Unadjusted misstatements		SoCNE	SoCNE	SoFP	SoFP
Area	Issue	Dr £000	Cr £000	Dr £000	Cr £000
Provisions	HCPC provided for an extra year of contributions to the Federated Flexiplan pension scheme. This was also an issue in the 12/13 accounts.		57	57	
Total			57	57	