

Audit Committee, 19 March 2015

National Audit Office (NAO) interim audit report on the 2014-15 financial statements

Executive summary and recommendations

Introduction

The NAO's interim audit report is attached for the Committee's consideration.

Decision

The Committee is asked to review and discuss the National Audit Office's report.

Background information

The audit report raises two issues.

1. Accounts Direction

In May 2010, the Cabinet Office introduced new spending controls¹ over central government bodies as part of its deficit reduction programme. The controls include restrictions on the recruitment of new staff, spending on IT and consultancy.

In October 2014, the NAO began a discussion with the Executive about the controls, noting that HCPC is classified by the Office of National Statistics as a central government body². Taking that together with our Accounts Direction issued by the Privy Council Office in 2003, the NAO observes that there is uncertainty as to whether HCPC should be subject to the Cabinet Office spending controls.

The Executive's view is that application of the Cabinet Office controls would be fundamentally at odds with the HCPC's status as an independent, self-financing body. The Department of Health has not suggested that we or the other eight regulators should be subject to the controls. None of the other eight health sector regulators are classified as central government bodies by the ONS, so we think HCPC's ONS classification is an anomaly.

The NAO is sympathetic to our view but they indicate in the last paragraph of page 3 of their report that the uncertainty could, under some circumstances, lead to a qualification of their audit opinion.

We will continue to discuss this with the NAO to seek a resolution.

¹ See <https://www.gov.uk/government/publications/cabinet-office-controls>

² See <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-391109>

2. Annual report structure

The new requirements will mean some reordering of the content of the narrative sections of the annual report and accounts. We will work with the NAO to achieve a structure that is compliant while preserving the readability and flow of the document as far as possible.

Resource implications

None

Financial implications

NAO audit fee £39,000

Appendices

NAO's interim audit report

Date of paper

6 March 2015

Health and Care Professions Council

Interim audit report on the 2014-15 financial statement audit

REPORT TO THOSE CHARGED WITH GOVERNANCE
March 2015

This report summarises the key issues from our audit visits to date. A further completion report will be produced following our final visit in May and issued to those charged with governance before we finalise our audit work and certify the accounts.

Audit testing

Work completed to date Over two short audit visits in November and January, we have:

- Carried out transactional testing on income and expenditure for the 9 months from April 2014 to December 2014.
- Reviewed HCPC's management accounts, which we plan to use for controls assurance.

There are no major findings from this testing.

Future work

We have our next visit planned for March to carry out testing on fixed assets, payroll, and the presumed risk of fraud through management override of controls.

We will complete our testing over a two-week final audit visit in May.

Other matters

These matters have been raised and discussed with HCPC.

1. Accounts Direction The Privy Council Office (PCO) is the relevant authority for determining HCPC's financial regularity and reporting framework. The PCO sets out its determination in the formal Accounts Direction it issues to the HCPC. The PCO Accounts Direction directs that HCPC '...shall act, in all circumstances associated with its financial responsibilities and obligations under the Health Professions Order, as if it were a non-Departmental Public Body (NDPB) of the Department of Health'. An NDPB of the Department of Health must comply with the provisions of HM Treasury's Managing Public Money and its related guidance. This related guidance includes Cabinet Office spending controls.

PCO's Accounts Direction for HCPC is non-standard, and differs to those we are aware of for other, similar regulators, that we also audit. In these cases, the form of words in the Accounts Direction affords the regulator more flexibility by, typically, requiring the regulator only to "...have regard to the principles of Managing Public Money". HCPC's view is that, in practice, this is also the standard it is required to adhere to.

We are sympathetic to HCPC's view given that HCPC is an independent regulator and not an NDPB of the Department of Health (or any other central government body), however, given the form of words in the Accounts Direction, it is our view that there is uncertainty over the extent to which the PCO intends that HCPC must comply with Managing Public Money and its related guidance, including Cabinet Office spending controls. There is also uncertainty as to what form any required compliance might take.

This lack of clarity means that HCPC runs the risk of, inadvertently, failing to comply with the PCO's intentions regarding the regularity of its transactions and its financial reporting requirements. If, during the course of our audit, we were to become aware of a potential non-compliance, and it was not clear as to the framework of authorities in place, then we would need to consider the materiality of the uncertainty and any consequent impact on our audit opinion. We have, therefore, recommended that HCPC seeks clarification from the PCO on this matter

Other matters

2. Annual report structure

On 1 October 2013, the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 came into force. Sections 5.2.2 to 5.2.20 of the FReM describe how these requirements have been interpreted for bodies covered by the FReM. HCPC will need to produce two separately signed reports, the Strategic Report and the Directors' Report. These reports will contain the information which has previously been covered by the Management Commentary.

As part of the NAO role in the Building Public Trust awards which recognise trust and transparency in corporate reporting, the NAO has produced a [good practice guide](#) which we have shared with HCPC. We have also provided guidance to HCPC on the expected content of each of these reports based on their annual report from 2014/15.
