

Audit Committee Meeting

11 November 2020

Haysmacintyre External Audit Planning Report 2020-21

Executive Summary

In this report haysmacintyre LLP set out their proposed approach to the 2020-21 external audit. This includes the indicative timetable, fees and audit team.

The planned approach is similar to last year.

The external auditors are independent and it is their responsibility to determine their plans for the audit, so the Audit Committee does not approve or reject the audit plans, but haysmacintyre will welcome the Committee's discussion and any feedback.

| | |
|-------------------------------------|---|
| Previous consideration | None |
| Decision | The Committee is invited to discuss the report. |
| Next steps | The timeline for the audit is included in the paper. |
| Strategic priority | The strategic priorities set in 2018 are no longer current. We are developing a new strategy that we aim to confirm at the end of 2020. |
| Risk | Strategic Risk 5- Failure of leadership, governance or culture |
| Financial and resource implications | The cost of the external audit for 2020-21 is £29,880 (inclusive of VAT) |
| Author | Haysmacintyre LLP |

haysmacintyre

Health & Care Professions Council

Audit Planning Report

Partner: Kathryn Burton; kburton@haysmacintyre.com
Manager: Jonny Broadley; jbroadley@haysmacintyre.com

Year Ending 31 March 2021



1 INTRODUCTION

The Council
Health & Care Professions Council
Park House
184 Kennington Park Road
London
SE11 4BU

Haysmacintyre LLP
10 Queen Street Place
London
EC4R 1AG

T: 020 7969 5500

23 October 2020

Dear Council Members

Planning letter relating to the audit of Health & Care Professions Council (the Council)

Year ending 31 March 2021

The purpose of this letter is to confirm the annual arrangements for our audit services for the year ending 31 March 2021 and to give you an overview of the nature and scope of our audit work.

Scope

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 ending 31 March 2021.

Plan

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

We have prepared this plan based on initial discussions with management and will be happy to include any audit work if you have any specific areas of concern.

Yours faithfully

Haysmacintyre LLP

2 AUDIT STRATEGY OVERVIEW

Risk Assessment – Section 3

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 consider the following to be areas of significant risk:

- Fraud in revenue recognition
- Management override of controls
- Going concern

Based on materiality, we consider the following to be additional areas of audit focus:

- Completeness of creditors
- Completeness of staff costs
- Valuation of fixed assets
- Implementation of IFRS 16 – leases

The impact of the ongoing Covid-19 pandemic, including measures imposed as part of the government's response to the pandemic on the HCPC's operations is likely to lead to an increased level of audit work in respect of post year end event disclosures and going concern, and it may have an impact on other audit areas. Please see our significant risk on going concern.

Audit team – Section 4

Partner: Kathryn Burton

Manager: Jonny Broadley

Audit staff:

- To be confirmed

Reporting – Section 5

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

- Audit report for the Council
- Audit Findings Report ('AFR')
- A schedule of unadjusted misstatements

Fees – Section 6

Total fee: £24,900

- All fees are exclusive of VAT.
- The fee schedule is set out in Section 6. Payment of our fees must be made within 30 days of the fee note.

Draft materiality – Section 5

Draft materiality
£500,000
(2% of expected income)

Performance materiality
£375,000
(75% of materiality)

Trivial threshold
£25,000
(5% of materiality – errors above this level will be reported to the Audit Committee)

3 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. We consider the following to be areas of significant risk:

| Area | Risk | Planned audit work |
|---|---|--|
| <p>Fraud in revenue recognition</p> | <p>The risk of incorrect treatment of income under IFRS</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. We will perform tests of detail on a sample in individual members to confirm that income has been correctly recognised. In particular, we will consider the recognition deferred income and any changes to the methodology in recognising income and related deferrals to ensure the treatment remains compliant with standards.</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.</p> |
| <p>Management override of controls</p> | <p>The risk of misappropriation of assets and the risks of misrepresentation of financial information.</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>Going concern</p> | <p>There is a risk that the going concern assumption may be inappropriate, following a challenging period for the Council and the ongoing impact of Covid-19.</p> | <p>We will review budgets and cash flow forecasts and consider the appropriateness of key assumptions and consider the key sensitivities. We will consider that the impact on registrant numbers, future fee increases, international income and potential FtP backlogs have been appropriately factored into budgets and forecasts. We will consider to what extent the organisation may be able to raise alternative debt finance to cover any short-term cash flow issues.</p> |

3 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 |
|---|---|---|
| Completeness of creditors | There is an inherent risk that the Council's liabilities may be incomplete. | <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> |
| Completeness of staff costs | There is a risk that staff costs, including any related disclosures and provisions, may be incomplete. | <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> |
| Valuation of fixed assets | There is a risk that fixed assets, including the capitalised FP Case Management and Registration systems and , may be impaired. | <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> |
| Implementation of IFRS 16 - Leases | <p>IFRS 16 will become 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"> not all leases have been assessed the lease liability and associated asset have not been valued in accordance with the standard | <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"> management's process for identifying and reviewing all leases the disclosures in the accounts to ensure they comply with accounting standard IAS 8 |

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.

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 |
| Jonny Broadley | Senior audit manager | jbroadley@haysmacintyre.com |

Due to the ongoing global pandemic and allocation of working bubbles, our fieldwork team will be allocated in due course.

As agreed following discussions with management on 12 October 2020, our work is being planned to meet the timetable as previously agreed and set out in Appendix 1.

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



- Initial information gathering
- Preparation of draft audit deliverables requirements list
- Agree detailed audit timetable
- Audit planning meeting with management
- Detailed information gathering
- Preliminary analytical review and risk assessment
- Development of audit strategy
- On site detailed audit testing lead by audit senior
- On site reviews by audit manager
- Ongoing progress meetings
- Finalisation and final analytical review of the financial statements
- Final reviews of audit file
- Finalisation meeting
- Filing & publication of financial statements
- Issue of final audit findings report

5 MATERIALITY, REPORTING, INTERNAL CONTROLS AND INDEPENDENCE

Materiality

We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and 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.

It is not possible for auditors to examine every transaction of the audited entity nor every balance in the financial statements. Therefore, 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:

£500,000

Draft materiality has been based on 2% of prior year income. This will be revised when final figures are received.

£375,000

Performance materiality will be used to detect errors at a lower precision level, and has been based on 75% of draft materiality.

£25,000

We will report all identified errors greater than £25,000 (being 5% of draft materiality) to the Audit Committee.

Reporting

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

- Audit report for the Council
- Audit Findings Report ('AFR'), including the management letter, to include discussion of control issues and recommendations, significant findings from the audit and emerging developments.
- 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 perform VAT compliance work for the Council, and we have recently been engaged to undertake a review of the Council's employment tax, in particular the status of IR35 workers. We have introduced 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 fees for the year ending 31 March 2021 are as follows:

| | 2021 £ | 2020 £ |
|-----------|--------|--------|
| Audit fee | 24,900 | 22,900 |

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

The proposed fee is on the basis that:

- Final figures, agreed audit deliverables (to be confirmed during the interim audit) 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 4 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.

The above assumptions are designed to allow us to focus on the value-added areas of the audit, to undertake a cost-effective audit and to minimise the time the audit team is required to spend on administrative matters.

Billing schedule

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

| Stage | £ |
|-----------------|--------|
| Interim audit | 4,000 |
| Audit fieldwork | 16,900 |
| Completion | 4,000 |

It is our policy to bill for overruns or scope extensions e.g. where we have incurred delays, deliverables have been late and/or of poor quality, where key personnel are not available or where we have been asked to do extra work.

APPENDIX ONE: DETAILED TIMETABLE

| Date | Event |
|----------------------|---|
| 12 October 2020 | Planning meeting with management. |
| 11 November 2020 | Audit plan presented to Audit Committee. |
| January 2021 (TBC) | Interim audit. |
| Early May 2021 (TBC) | Audit deliverables, including draft financial statements, provided to haysmacintyre. |
| May 2021 (TBC) | Audit fieldwork commences. |
| TBC | NAO to review haysmacintyre audit file. NAO and haysmacintyre to provide combined feedback on financial statements. |
| TBC | Completion meeting with management. |
| June (TBC) | Audit Committee meeting to present audit findings. |
| July (TBC) | Council meeting to approve and sign accounts. |

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Haysmacintyre LLP

10 Queen Street Place
London

EC4R 1AG

T 020 7969 5500 F 020 7969
5600

www.haysmacintyre.com
[@haysmacintyre](https://twitter.com/haysmacintyre)