

**Health Professions Council
Council Meeting – 5th July 2007**

**NATIONAL AUDIT OFFICE (NAO) AUDIT FINDINGS AND LETTER OF
REPRESENTATION - PUBLIC PAPER**

Executive Summary and Recommendations

1. Introduction

2. Decision

The Council is requested to review and approve the document.

3. Background information

Following the onsite audit of the year end financial statements and Annual Report in May and June, NAO's Audit Findings and Letter of Representation documents are attached. These papers went to the June Audit Committee for review and approval.

4. Resource implications

Various

5. Financial implications

NAO Audit Fees

6. Background papers

Audit Findings (Report to those charged with governance) and Draft Letter of Representation (Annex B, page 10 of the document) from the NAO, for the financial year ending 31 March 2007.

7. Appendices

Nil

8. Date of paper

25th June 2007

Report to those charged with governance

HELPING THE NATION SPEND WISELY

The National Audit Office scrutinises public spending on behalf of Parliament.

The Comptroller and Auditor General, Sir John Bourn, is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 800 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Introduction

1. This report summarises, for the benefit of the Health Professions Council (the Council) and the Audit Committee, the key matters arising from our audit of the Council's financial statements for the year ended 31 March 2007.

Status of the Audit

2. The audit of the Council's financial statements is performed by Baker Tilly UK Audit llp (Baker Tilly), who are also the appointed auditors of the Council, on behalf of the National Audit Office. This report draws on matters that Baker Tilly will separately report to the Council in their capacity as independent auditors of the Council.
3. Our audit work is now substantially complete. We need to review the latest version of the account, which includes the adjustments identified by Baker Tilly's audit. Following this, we will need to complete our formal internal review of audit working papers.
4. We expect to receive the signed accounts together with the Letter of Representation shortly, the accounts having first been certified by your appointed auditors. Once received, the accounts will be checked in advance of certification by the Comptroller and Auditor General (C&AG).

Conclusion

5. The Comptroller and Auditor General is expected to certify the accounts with an unqualified audit opinion.

Purpose

6. The International Standard on Auditing (ISA) (UK and Ireland) 260 - *Communication of Audit Matters with Those Charged with Governance*, sets standards and provides guidance on the communication of relevant matters relating to the audit of financial statements, by the auditors, to those charged with governance. The requirements are set out in Annex A to this report.
7. This report includes only those audit matters of governance that have come to our attention as a result of the performance of the audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly

our audit does not necessarily identify all such matters. The report combines our audit findings into two sections:

- **Section 1** – our formal reporting, as required by ISA 260, highlighting the significant matters arising from our audit;
 - **Section 2** – our recommendations to improve control and to enhance procedures.
8. This report is confidential and is intended for use by the Health Professions Council and its sponsor, the Privy Council, only. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. In the event a third party asks to see this report, please ask for our consent before releasing it.

Actions for the Audit Committee

9. The Audit Committee is invited to:
 - Note the recommendations arising from the audit – Section 2;
 - Consider all identified audit adjustments in the context of the effectiveness of internal control – Annex F;
 - Note unadjusted misstatements arising from the audit and management's reasons for not adjusting for them;
 - Review and comment on the content of the Accounting Officer's letter of representation, Annex B.
 - Draw this report to the attention of the Council, its Chair and the Accounting Officer.
10. The issues raised in this report should be seen in the context of the accounts and the content of the Statement on Internal Control.

Section 1 – ISA260 Report

Audit process

Scope of the audit

11. Our audit of the 31 March 2007 accounts was carried out in accordance with International Standards on Auditing (UK & Ireland) and our

approach followed the Audit Strategy which was presented to the Audit Committee earlier in the year.

12. Our audit, which was conducted primarily by Baker Tilly on our behalf, includes an examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It includes an assessment of the significant estimates and judgements made in the preparation of the financial statements, and of whether the accounting policies are appropriate, consistently applied and adequately disclosed. It also evaluates the overall adequacy of the presentation of information in the financial statements.
13. The procedures adopted were designed primarily for the purpose of providing an opinion on the accounts as a whole. They included a review of the accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings and observations therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the operation of systems and procedures.

Accounting policies, practices and financial reporting

14. The Council is required to comply with the Government Financial Reporting Manual (FReM) and the Accounts Direction issued by the Privy Council when compiling financial statements. Accounting Standards do permit a degree of choice in some areas as to the specific accounting policies and practices that may be adopted. Our audit opinion confirms that the following matters were satisfactory:
 - Accounting policies were considered appropriate to your particular circumstances judged against the objectives of relevance, reliability, comparability and intelligibility.
 - The timing of transactions and the period in which they were recorded;
 - Significant accounting estimates and judgements; and
 - The disclosure of any material uncertainties or the impact of any unusual

or non-recurring transactions recognised during the period.

Integrity, objectivity and independence of auditors

15. No relationships exist between the Council and the National Audit Office audit team that could threaten their integrity, objectivity and independence. Relationships between the Council and Baker Tilly are set out in Baker Tilly's report. Annex C outlines all significant matters that bear on our integrity, objectivity and independence.

Co-operation with other auditors

16. The Council's appointed auditors – We place reliance on the work undertaken by your appointed auditors, Baker Tilly to complete their audit of the Council's financial statements.
17. Internal Audit - We take account of work performed by internal audit where this was appropriate to our view of the financial statements and the implementation and operation of internal controls.

Issues arising from our audit

18. In our Audit Strategy, we identified the key audit risks and outlined our audit approach. Annex E provides an overview of the outcome against these risks. The audit addressed the risks identified at planning and other risks and issues emerging during the course of the audit:
 - The Government Financial Reporting Manual (FReM) amended the treatment of Government Grants. Under FReM Grant-in-aid (i.e. grants for the purchase of fixed assets in general) should now be credited direct to the income and expenditure reserve and it is not be necessary to release amounts of income and expenditure account offsetting the depreciation charge. This change resulted in a change of accounting policy and a prior year adjustment. Government Grant has been credited to the income and expenditure reserve rather than been shown separately. No income is now recognised in the income and expenditure.

Significant findings arising from the audit

19. Our significant findings from the audit relate to the adjusted misstatements (per Annex F) and other major issues for the attention of the Audit Committee and senior management which are designated as “significant” priority 1 findings. These reflect the findings of Baker Tilly reported separately.
20. These significant findings are outlined in Section 2 and include the following issues:
 - Lack of “cover” arrangements within the finance department; and
 - The absence of separate control accounts for VAT and Corporation Tax.

Adjustments made during the course of the audit

21. A schedule of significant adjustments made during the audit is attached at Annex F. In our opinion the nature of the adjustments does not indicate any significant weaknesses in internal control, which would merit specific reference in the Statement on Internal Control.

Unadjusted misstatements

22. One minor misstatement of £875 is referred to in paragraphs 31 and 32 below.

C&AG’s audit certificate - no modification

23. No changes are required to the Auditor’s report. We will recommend an unqualified audit opinion to the C&AG.

Matters Specifically Required by Other ISAs (UK and Ireland) to be Communicated to Those Charged with Governance

24. The following matters are specifically required by Auditing Standards other than ISA 260 to be communicated to those charged with governance:

Fraud

25. We require management to acknowledge in writing its responsibility for internal control to prevent and detect fraud.

26. We also require management to disclose to us:

- the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- their knowledge of fraud or suspected fraud affecting the entity involving management, employees or others; and
- their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.

27. A possible fraudulent claim for expenses, amounting to approximately £300 was brought to our notice during the course of our audit

Law and Regulations

28. We require management to acknowledge in writing that they have disclosed to us all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

29. These matters are included within the letter of representation signed by the accounting officer.

Compliance with Legislative and Regularity Requirements

30. The financial statements have been properly prepared in accordance with the Health Professions Order 2001 and the directions made thereunder by the Privy Council with the approval of the Treasury.

31. Expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Material Risks and Exposures

32. We did not identify any material risks or exposures that required disclosure in the financial statements.

Going Concern

33. We confirm that it is still appropriate to prepare the Council’s 2006-07 accounts on a going concern basis.

Significant Accounting Policies, Practices and Financial Reporting

34. The accounting requirements of company law and accounting standards permit a degree of choice in some areas as to the specific accounting policies and practices that may be adopted by an entity. For the accounts of central government entities, a policy or practice may be dictated by the Government Financial Reporting Manual (FReM) issued by HM Treasury, and other relevant accounting guidance.
35. The Council has prepared its accounts in accordance with the Financial Reporting Manual (FReM). We have considered the appropriateness of the accounting policies and practices adopted and found them to be appropriate to the Council.

Other audit matters of governance interest

36. ISA260 also requires us to communicate with those charged with governance any other audit matters of governance interest. There are no other matters of governance interest other than those mentioned in the audit findings and recommendations.
37. The audit opinion provided by the C&AG is in four parts, covering:
- the truth and fairness of the financial statements;
 - confirmation that they have been prepared in accordance with the governing legislation;
 - confirmation that information given within the Annual Report, comprising the Management Commentary and Remuneration Report, is consistent with the financial statements: and
 - confirmation that the expenditure and income has been applied to the purposes intended by Parliament and that the financial transactions conform to the authorities which govern them.
38. A draft C&AG's certificate and report, showing the proposed unqualified opinion, is attached at Annex D.

Section 2 – Audit findings and recommendations

Adjusted and Unadjusted Misstatements

Material Misstatements

39. At the year end, provision was made for a 5% discount which was expected to materialise on legal expenses for £74k. This materialised after year end as a discount of £4k, which is considerably less than the original value expected by management. An asset dependant on future events should not be recognised until its expected value can be determined with a high degree of certainty. The following accounting entry was necessary to correct this error: Cr Accruals (P&L) £70,133; Dr Legal expenses £70,133
40. Our audit identified several other material instances of incorrect accounting treatment; the original draft account had to be adjusted to reflect:
- the correct treatment of the residual government grant of £104,633 in accordance with the revised version of FReM; this required the Profit and Loss A/c (Grant Income) to be debited by £104,633 with a commensurate prior year credit adjustment to the General Reserve;
41. reclassification of PAYE expenditure from Other Creditors to Other Taxes and Social Security in line with the prior year's presentation. Corrective action was Dr Other creditors £56,311 Cr Other taxes and social security £56,311;
42. netting of Vodafone shares received as part of a bonus issue to bring accounts in line with the investment report, leading to the following correcting accounting entry: Cr Investments – additions £90,473 Dr Investment – proceeds £90,473;

Non-Material Misstatements

Adjusted Errors

43. There were several errors arising from incorrect accounting treatments. These are detailed in Annex F.

Unadjusted Errors

44. There was one immaterial error that was not adjusted in the financial statements because of its size.
45. A mistake in the posting of March 2007 depreciation for Stannary Street amounting to £875 was not adjusted as it was an administration expense reclassification and insignificant by value.
46. The financial effect of this error is that the depreciation of fixed assets is understated by £875 and building refurbishment is overstated by the same amount.

Weaknesses in internal control

47. This section highlights weaknesses of internal control that have come to our attention during the course of our audit.
48. While our recommendations are made in a constructive spirit, it is management's responsibility for deciding whether to implement them and in assessing the impact of their introduction. We will review whether actions proposed in response to our recommendations are implemented in a timely and appropriate way.
49. This section outlines the significant (priority 1) and less significant (priority 2) findings arising from our audit and are defined as:
- Priority 1 (P1) - major issues for the attention of the Audit Committee and senior management which may have the potential to result in a significant weakness in internal control; and
 - Priority 2 (P2) - less significant weaknesses identified in our audit where action will offer the potential for improvements to the efficiency and effectiveness of internal controls.
50. Management's responses to our recommendations are provided in Annex H. We will report our follow-up of the implementation of our recommendations at a future Audit Committee meeting.

Audit Observations

Legal Charge on 184 Kennington Park Rd and 20 Stannary Street.

PRIORITY 2

Observation

51. A legal charge is still being held by NatWest over the Freehold Property of 184 Kennington Park Road and 20 Stannary Street after the loan taken out in 2005/06 was repaid in full.

Implication

52. By having a charge outstanding over the property it will make taking out any new loan or any potential sale of the property difficult. Disclosure of the charge is also required within the statutory accounts of HPC.

Recommendation

- R1. The charge should be cancelled with NatWest.

Refunds due to former registrants

PRIORITY 2

Observation

53. Included in other creditors is £16,227 relating to refunds due to former registrants. In all cases, HPC had made attempts to refund the balances. The supporting schedule showed that some of the constituent balances dated to 2001. The Financial Resources Committee examined this system in September 2006 and agreed that HPC would attempt to contact creditors at least once should they fail to cash their refund cheque. According to the Management Accountant, since January 2007, former registrants have been sent a reminder letter informing them that a refund is due to them once 6 months have expired since their initial cheque was dispatched. If no response has been received within 10 days of issue of this reminder, the creditor is written back.

Implication

54. HPC have a responsibility to ensure that, where entitlement exists, refunds are made. A waiting period of only 10 days for a response to the reminder before writing back the creditor appears too short.

Recommendation

R2. It is suggested that the waiting period is extended to at least one month. A written record should be kept to evidence that HPC have taken follow-up action with registrants who are still owed refunds. These records should be reviewed every 6 months.

“Cover” for Finance Department staff.

PRIORITY 1

Observation

55. During our onsite audit, it appeared that many of the finance department were unable to carry out the responsibilities of others within that department.
56. For example, during the audit, it was observed that, because no one else in the department could afford appropriate cover, it was necessary for the Financial Accountant to attend work specifically to “run” the payroll, despite being officially on annual leave.

Implication

57. If there is no appropriate cover for staff then some functions may not be undertaken when necessary.

Recommendation

R3. Appropriate training is required for staff members to assume others roles if and when necessary.

Combined VAT/Corporation Tax Control Account.

PRIORITY 1

Observation

58. There is a combined corporation tax and VAT control account.

Implication

59. This complicates the splitting of these two balances and may lead to error or difficulties in reconciling and monitoring outstanding balances to the relevant returns

Recommendation

R4. Separate control accounts for corporation tax and VAT should be set up and used.

Acknowledgements

58. We wish to express our thanks for the assistance and support we have received from the Council's staff during the course of the audit.

ANNEX A - MATTERS SPECIFICALLY REQUIRED TO BE COMMUNICATED TO THOSE CHARGED WITH GOVERNANCE

Fraud

We require management to acknowledge in writing its responsibility for internal control to prevent and detect fraud. We also require management to disclose to us:

- The results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- Their knowledge of fraud or suspected fraud affecting the entity involving management, employees or others; and
- Their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Our audit has concluded that the risk of material misstatement arising from fraud is relatively low.

Reliance on Internal Audit and Other Assurances

As indicated in our audit strategy we planned to take reliance from Internal Audit work performed on key controls and other areas of joint interest.

A review of their detailed audit files was undertaken, which allowed us to obtain assurance over key financial systems, use of management consultants and outsourcing, and independent healthcare sector fees.

Modifications to the Auditor's Report

No changes are required to the Auditor's Report. We will propose that a standard NAO audit certificate is signed by the C&AG.

Effectiveness of Communications

ISA 260 requires us to review the effectiveness of communications between the auditors and those charged with governance.

Throughout our audit, we have ensured effective communication. Our standard annual publications have been issued, including the Audit Strategy (January 2007), and the Audit Committee has received interim reports on the progress of the audit. The audit team held regular meetings with the finance staff.

Material Weaknesses in Internal Control

A material weakness in the accounting and internal control systems is a deficiency in design or operation which could adversely affect the audited entity's ability to record, process, summarise and report financial and other relevant data and which might result in a material misstatement in the financial statements.

As external auditors, our communications of matters include only those audit matters of governance interest that have come to our attention as a result of the performance of the audit. During our audit, we reviewed the accounting systems and management controls operated by the Commission only to the extent we considered necessary for the effective performance of the audit. As a result, our review may not have detected all weaknesses that exist or all improvements that could be made.

Significant issues are reported within this document.

Other Audit Matters of Governance Interest

ISA260 also requires us to communicate with those charged with governance any other audit matters of governance interest.

All issues which we wish to bring to your attention have been documented in Annex G.

ANNEX B - DRAFT LETTER OF REPRESENTATION

Throughout the audit process occasions arise where the NAO, as external auditors, have to rely upon assertions made by management as there are no processes we can reasonably follow to independently validate the assertions made. At the completion of each audit we therefore seek through the Letter of Representation written confirmation from the Accounting Officer of those assertions. The draft Letter of Representation is given below.

<<HPC letterhead>>

The Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
LONDON
SW1W 9SP
FAO: SID SIDHU

LETTER OF REPRESENTATION: THE HEALTH PROFESSIONS COUNCIL 2006-07

I acknowledge, as Accounting Officer of the Health Professions Council (the Council), my responsibility for preparing accounts that give a true and fair view of the state of affairs, surplus for the year, total recognised gains and losses and cash flows of the Council for the year ended 31 March 2007.

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; and
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis on the presumption that the Council will continue in operation.

I confirm that for the financial year ended 31 March 2007:

- neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Government Accounting;
- having considered and enquired as to the Council'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 Council 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 the Council 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
- all Related Parties and Related Party Transactions involving Board Members and other senior staff of the Council have been properly disclosed.

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

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 Corporate Governance as set out in *Corporate Governance: Statement on internal control*.

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.

Having made appropriate enquiries of, amongst others, senior management and internal audit, I have disclosed to you my knowledge of fraud and suspected fraud affecting the Council involving management, employees who have significant roles in internal control and others where the fraud could have a material effect on the financial statements. I have also disclosed to you my knowledge of any allegations of fraud or suspected fraud affecting the financial statements communicated to me by employees, former employees, analysts, regulators or others.

ASSETS

General

All assets included in the balance sheet were in existence at the balance sheet date and owned by the Health Professions Council, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The balance sheet includes all tangible assets owned by the Council.

Fixed Assets

All assets over £1,000 are capitalised. They are revalued annually and modified historic accounting applied where this results in material adjustments to the accounts. 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 the Council's operations. I believe all fixed assets to be valued fairly and that no significant impairments are required on capitalised assets other than as disclosed in the financial statements and notes.

Other Current Assets

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

LIABILITIES

General

All liabilities have been recorded in the balance sheet. There were no significant losses in the year and no provisions for losses were required at the year-end.

Provisions

No provision was required in the financial statements.

Contingent Liabilities

I am not aware of any pending litigation which may result in significant loss to the Council, and I am not aware of any action which is or may be brought against the Council 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 the Council, or circumstances of an exceptional or non-recurring nature.

Unadjusted errors

The following unadjusted error has been brought to my attention:

- the March 2007 depreciation amount for Stannary Street was incorrectly posted and consequently depreciation is understated by £875 and building refurbishment overstated by the same amount.

I consider the effect of this unadjusted error to be immaterial to the financial statements taken as a whole.

Post Balance Sheet Events

Except as disclosed in the accounts, there have been no material changes since the date of the balance sheet 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.

Publication of the Financial Statements

I confirm that the Health Professions Council has systems in place to ensure that electronic and printed versions of the financial statements are the same as the certified version.

Directions made by the Privy Council

All income and expenditure in the year is in accordance with directions made by the Privy Council.

Completeness of Expenditure

I am not aware of any omissions from expenditure which would materially affect reported results for the period or financial position at 31 March 2007.

Letting of Contracts

I am also not aware of any contracts entered into by, or on behalf of, the Council during the year ended 31 March 2007 that were let in contravention of procurement law.

Ex-gratia and non-contractual payments

Where necessary, HM Treasury and Privy Council approval has been obtained for all ex-gratia payments and non-contractual payments made to current or former staff of the Council during the year. All such payments have been notified to the National Audit Office.

Marc J Seale
Chief Executive
[Date]

ANNEX C - INDEPENDENCE, INTEGRITY AND OBJECTIVITY OF AUDITORS

APB Ethical Standard 1, 'Integrity, objectivity and independence' requires the audit engagement director to ensure that those charged with the governance of the audit client are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor's objectivity and independence.

During our audit of the 2006-07 financial statements, there were no threats identified to the objectivity and independence of the audits.

Quality is strongly embedded in the NAO culture and manifests itself through:

- Continued Professional Development (CPD): all staff are expected to meet a target of 10 days CPD per year across the range of professional, management and personal effectiveness training. Training activities represent a significant investment for the NAO, typically being between 6 and 7 per cent of NAO's gross costs; and
- multi-disciplinary skills: our audit team can call as necessary on NAO in-house specialists, including IT auditors and experts in different sectors.

To ensure our independence, integrity and objectivity are not compromised, the NAO has strict procedures in place. We follow the guidelines set out by the APB, and ensure that all Directors and Audit Managers are rotated at least every 5 years. Team Leaders and below are usually rotated every 3 years.

All NAO staff sign a Code of Conduct every year, which confirms that no staff have relationships with any client bodies. Signature of the Code also confirms that all staff sign up to the APB Ethical Standards.

As a further safeguard, staffing for audits are reviewed annually to ensure there are no threats arising. We have well-established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing:

- all planning decisions and fieldwork are reviewed by NAO management and directorate;
- all significant matters are dealt with promptly and are raised with client management as necessary; and
- progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget.

In addition, the NAO's procedures encompass Standards Assurance Reviews. These internal pre-certification reviews focus on key areas of professional judgement and significant risk, and are undertaken by an independent manager or director from a different audit team within the NAO. They help us to minimise our risks by ensuring that key audit judgements are subject to peer review before certification. There was no independent director review for the 2006-07 audit.

Each year, the NAO executes a programme of post-certification internal Quality Control Reviews. The objective of these reviews is to establish whether sufficient and appropriate evidence has been collected and evaluated and whether the NAO's financial audits comply with professional standards and internal policies.

In order to seek an external view, NAO has invited the Quality Assurance Directorate from the Institute of Chartered Accountants in England and Wales (ICAEW), to undertake an annual programme of post-certification reviews. The results of these reviews are regularly brought to the attention of all our staff.

Overall, the threat to the audit arising from issues affecting our independence, integrity and objectivity is low, and the safeguards in place ensure that the likelihood of any impact is low.

ANNEX D - DRAFT AUDIT CERTIFICATE

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 Professions Council for the year ended 31 March 2007 under the Article 46(5) of the Health Professions Order 2001. These comprise the Consolidated Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses 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 being audited.

Respective responsibilities of the Council, the Chief Executive and auditor

The Council and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Responsibilities of the Council and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises Parts 1 to 3, the Management Commentary and Remuneration Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Health Professions Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Health Professions Council's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Health Professions Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Chief Executive and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Health Professions Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions**Audit Opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Health Professions Order 2001 and directions made thereunder by the Privy Council, of the state of the Health Professions Council's affairs as at 31 March 2007 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder; and
- information given within the Annual Report, which comprises Parts 1 to 3, the Management Commentary and Remuneration Report, is consistent with the financial statements.

Audit Opinion on Regularity

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

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

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

[Date]

Risk	Audit Approach
<p>1. Income recognition</p> <p>Ensuring registrant income is correctly recognised over the appropriate period, as there are a variety of ways a registrant can pay.</p> <p>The registrant fee is for two years creating a significant deferred income balance at the year end.</p>	<p>Analytical review of the registrant income by ensuring it is consistent with the number of members and membership rates. A review of PKF's recent internal audit report on the registrant system will provide an indication of whether assurance can be taken on the controls.</p> <p>Analytically review of year end deferred income to ensure that it is in line with expectations of registrant numbers, the period of the renewal dates and payment plans. This will be supported by substantively testing a sample of deferred income to source documentation.</p> <p>Resolution</p> <p>Analytical review was carried out on the registrant figures on an overall and profession-by-profession basis and turnover was proved in total through reference to current Registrant numbers and rates.</p> <p>Other income consisted of two main elements, the release of the Department of Health grant to help fund the initial set up of the LISA system and the settlement income received from BDO. The grant was reviewed in relation to source documentation and was later adjusted and a prior adjustment made due to changes in the relevant FReM – see Section 4 <i>Audit and accounting issues identified during the audit</i>. The settlement monies were agreed to supporting documentation.</p> <p>The PKF internal audit report on controls was reviewed and no significant weaknesses which would have an impact on our audit noted.</p> <p>Income was proved in total against the LISA registration system. We gained further assurance from the results of our calculations and testing of deferred income, that income recognised in the year to 31 March 2007 was free from material misstatement.</p>
<p>2. PAYE/NIC deductions</p> <p>A significant provision was required at 31 March 2005 and 2006 following issues with PAYE/NIC on Council Members/Partners fees and expenses. A new system for deducting PAYE/NI was introduced in July 2006, to help mitigate the previous issues.</p>	<p>Review of the process for the payment and calculation of the Council members'/Partners' fees and expenses. This may involve the testing of the new system to ensure that PAYE/NIC are paid as appropriate, and in line with formal procedures introduced at the beginning of the financial year.</p> <p>Resolution</p> <p>The new procedures for accounting for PAYE/NI on fees and expenses came into affect on 1 July 2006.</p> <p>The documented procedures were reviewed and compared to actual procedures used to process payroll and PAYE/NI deductions. We found no evidence to suggest procedures were not being appropriately applied.</p> <p>The provision for prior years PAYE/NI brought forward from 31 March 2006 was unchanged at 31 March 2007.</p> <p>The new payment system was implemented in July and the HPC are planning to pay the PAYE/NI to June 2006 when requested by HM Revenue and Customs. Additional accruals for PAYE and NI to 30 June had therefore been made in line with expectations.</p>

Risk	Audit Approach
<p>3. Authorisation of expenses and cut off</p> <p>There is a risk that some items of expenditure have not been correctly authorised and may be classified in an incorrect accounting period.</p> <p>Where provisions have been made in relation to expenses in the accounts consideration will be given as to whether these are general or specific in accordance with FRS12.</p>	<p>Analytical review of expenditure to ensure it is in line with our expectations based on the year's HPC budgets and forecasts, information obtained during our planning process and our knowledge gained from prior years.</p> <p>We will review the PKF internal audit report on controls over expenditure. Assuming there are no control issues which have been identified by PKF, we plan to perform a walk through test to ensure our understanding of the system is correct.</p> <p>We will review purchase cut off to ensure costs are treated in the correct accounting period, and we will consider all material provision to ensure they comply with FRS 12.</p> <p>Resolution</p> <p>The analytical review showed expenditure to be in line with expectations.</p> <p>The PKF internal audit report on controls of expenditure was reviewed along with Council and Financial Resources Committee meeting minutes, employee comments and intranet policy notes, These confirmed acceptance and adoption of PKF's recommendations in their report. No significant weaknesses were noted which would impact on our audit work.</p> <p>Invoices and postings around the year end date were reviewed for accuracy and all material accruals considered for compliance with FRS12. No errors were found in our test sample.</p>
<p>4. Regularity of expenditure</p> <p>We are required to provide an opinion on the regularity of HPC's expenditure: income must have been used for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.</p>	<p>We will conduct compliance testing of the internal controls relating to expenditure and substantively test a sample of expenditure items to ensure they been correctly approved in line with HPC's guidelines.</p> <p>Resolution</p> <p>We sampled key nominal ledger accounts including Council fees and legal expenses and agreed items back to original documentation to ensure correct accounting in accordance with HPC's governing documents. These items were also reviewed for compliance with HPC's practices and procedures. No errors were found in our test sample.</p>
<p>5. BDO Settlement</p> <p>During the year, we understand that a settlement has been agreed with the former auditors, BDO Stoy Hayward LLP with regard to the fraud relating to the former finance director, Paul Baker.</p>	<p>We plan to review the settlement agreement to ensure that the disclosure of the transaction in the accounts does not breach the terms of the agreement. If a potential conflict arises between the disclosure requirements in the financial statements and the settlement agreement we will draw this to the attention of management as soon as practicable</p> <p>Resolution</p> <p>The settlement agreement was reviewed and disclosure in the accounts assessed for compliance with the terms of agreement. Disclosure in the statutory accounts was considered appropriate.</p> <p>This transaction has been disclosed in the final accounts with £100k included within "Other Income" and £17k netted off against legal expenses to which they relate.</p>

Risk	Audit Approach
<p>6. 22/26 Stannary Street Limited</p> <p>Following the purchase of 22/26 Stannary Street via the acquisition of the corporate entity in 2005/06, we understand that preliminary work has been carried out in the year in advance of the full development of the building.</p>	<p>We plan to review a sample of the costs incurred in the year which relate to 22/26 Stannary Street to ensure they have been correctly accounted for as either capital or expenditure. We expect the majority of these costs to be of capital nature and recorded as assets under construction. We will ensure the VAT has been accounted for correctly in both entities for our sample of expenditure.</p> <p>We plan to review the year end carrying value of 22/26 Stannary Street Limited to ensure that there is no indication that impairment in value is required.</p> <p>Resolution</p> <p>A sample of costs relating to Stannary Street was reviewed in conjunction with source documentation for appropriate accounting treatment in accordance with FRS 15 <i>Tangible Fixed Assets</i>. The treatment of the VAT on this element of expenditure was also examined and no problems were noted.</p> <p>There were no significant events in the period which have indicated that an impairment review should be conducted. Once the refurbishment work is completed, an external valuation is expected to be commissioned to ensure that the updated property is carried forward at an appropriate market value.</p>
<p>7. IT Systems Expenditure</p> <p>There have been significant levels of expenditure, by the HPC, to develop their computer systems and databases, which increases the risk of inappropriate treatment for capital or expenditure items. For capitalised items have appropriate depreciation policies and rates been applied.</p>	<p>We plan to review a sample of costs incurred on the development of the systems and confirm the correct accounting treatment has been applied. We will also consider the depreciation policies for each capitalised project and verify that adequate disclosure has been made in accordance with UK GAAP.</p> <p>Resolution</p> <p>Expenditure on IT systems in the year was reviewed on a project by project basis to confirm appropriate accounting treatment. Of the IT system costs capitalised in the year, the basis of capitalisation was considered in accordance with UK Generally Accepted Accounting Principles.</p> <p>The depreciation rate of IT systems was also deemed to be in line with the expected useful life of the systems.</p>
<p>8. Pension Scheme</p> <p>The Trustees of the Federated Flexiplan No 1 Pension Scheme (the Scheme), to which HPC are a sponsoring employer, issued an update following a recent actuarial valuation of the scheme. They have confirmed through legal advice that the scheme is a defined benefit scheme and therefore subject to FRS17 "Retirement Benefits" accounting standards, which would require HPC to recognise the full extent of any pension deficit on the balance sheet. There is a risk of inappropriate disclosure of the Scheme in the financial statements.</p> <p>The HPC have previously accounted for the scheme as a money purchase scheme which offers targeted final salary benefit.</p>	<p>We understood from discussions with HPC and review of associated documents that the pension scheme is a multi employer scheme with many organisations participating in the fund. On the basis that individual employers share of the scheme cannot be separately identified the current accounting treatment adopted will be appropriate. We have asked HPC to obtain written confirmation of this from the actuary.</p> <p>It will now be necessary to disclose in the accounts that the scheme is currently in deficit along with the implications of the deficit for the HPC.</p> <p>Resolution</p> <p>Correspondence with the pension scheme actuary, Capita, was reviewed and it was confirmed that the scheme was indeed a multi employer scheme.</p> <p>The financial statements were reviewed for appropriate disclosure which appeared to be correct.</p>

ANNEX F - SCHEDULE OF AUDIT ADJUSTMENTS

As a result of our audit, adjustments were made to the draft accounts presented for audit. The main adjustments are discussed below.

Explanation	Impact of correction on financial statements
A presentational adjustment for the grossing up of a VAT debtor included with the OTSS creditor	Cr Other taxation and social security creditor £18,906 Dr Other debtors £18,906
Reclassification of PAYE expense from Other Creditors to OTSS in line with the prior year's presentation.	Dr Other creditors £56,311 Cr Other taxes and social security £56,311
Adjustment of a refund debtor offset against legal expense accruals which did not materialise.	Cr Accruals (P&L) £70,133 Dr Legal expenses £70,133
Adjustment of the Council and Committee PAYE/NI provision in line with current estimates.	Dr Accruals £25,334 Cr C&C admin expenses (P&L) £25,334
Postings to the rejected payment control which should be reclassified to the refund control account for consistency with 2006.	Dr Other debtors £5,067 Cr Other creditors £5,067
Netting of Vodafone shares received as part of a bonus issue to bring accounts in line with investment report.	Cr Investments – additions £90,473 Dr Investment – proceeds £90,473
Purchase of 30,000 shares in Psigma Unit Trust at 95.24p included on the investment manager's report but not included in the accounts	Dr Investments – additions £28,572 Cr Investments – unrealised gain £28,572 Dr Unrealised gain (P&L) £28,572 Cr Cash at bank and in hand £28,572
Write-back of cheques issues over six months old.	Cr Cash at bank and in hand £7,714 Dr Other creditors £7,714
Prior year adjustment for the implementation of the updated FReM	Dr Grant income (P&L) £104,633 Cr General reserve – Prior year adjustment £104,633
Reserves transfer in line with depreciation on revalued property in 2006.	Dr Stannary St Revaluation Reserve £8,333 Cr Stannary St Profit and Loss Reserve £8,333

ANNEX G - MATTERS ARISING FROM OUR AUDIT

1. Provision for discount on Legal expenses	
Observation	At the year end, provision was made for a 5% discount which was expected to materialise on legal expenses for £74k. This manifested post year end as a discount of £4k, which is considerably different to the original value expected by management.
Priority	Medium
Risk	There is the potential for expenditure to be misstated.
Recommendation	An asset dependant on future events should not be recognised unless there is a very high degree of certainty as to the value of that asset.
Management Response	

ANNEX H – MANAGEMENT’S RESPONSE TO AUDIT RECOMMENDATIONS

Rec. Target No. Date	Recommendation	P1/P2	Management Response	Responsible Person
1	R1: Legal Charge on 184 Kennington Park Rd and 20 Stannary Street.	P2	NatWest advise that they are happy to release the charge when instructed by HPC, but that by leaving the legal charge over the property, it would save administration costs on retaking it at some future stage (if a further loan is required from NatWest). Management propose to leave it in place in the interim. The Statutory Accounts have been updated to disclose the charge.	S Leicester
2	R2: Refunds due to former registrants	P2	<p>The Registrations Creditors Policy, approved by the Finance & Resources Committee in September 2006, s3, states “finally, if no contact has been made to the Finance Dept within one month of sending the second reminder, the relevant monies will be posted back as miscellaneous HPC income.”</p> <p>To date, HPC has been slow to write back most long outstanding refunds and will ensure full compliance with the policy (one month’s grace) in future.</p> <p>An ongoing written record is kept on which registrants are still owed refunds.</p>	S Leicester
3	R3: “Cover” for Finance Department staff.	P1	<p>The Financial Officer (the other person trained to do Payroll processing) was also off sick on the 15th of May (for 2 weeks). The Finance Director discussed the issue of Payroll processing with the Financial Accountant before she went on annual leave. The Finance Director and Financial Accountant agreed she would take the 11th of May off instead of the 15th, in order to process payroll on the due date.</p> <p>A member of the IT Dept can access the SAGE Payroll system and the FD also has copies of the system passwords. The Financial Procedures Manual, Payroll section is documented to a level whereby a suitable trained and supervised temporary person can do the Payroll processing if required.</p> <p>Regarding person risk in the department more generally, a further junior Finance person is scheduled to be hired in the next few months to support the</p>	S Leicester

			Transaction Manager and Purchase Ledger Officer.		
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Rec. Target No. Date	Recommendation	P1/P2	Management Response	Responsible Person
4	R4: Combined VAT/Corporation Tax Control Account	P1	Separate nominal codes were set up from 1 April 2007 for these accounts.	S Leicester