

**Health Professions Council  
Audit Committee Meeting – 28<sup>th</sup> February 2007**

**BAKER TILLY AUDIT STRATEGY - PUBLIC PAPER**

**Executive Summary and Recommendations**

**1. Introduction**

In advance of the forthcoming audit of the March 31<sup>st</sup> 2007 Year End Financial Statements and Annual Report, the Audit Strategy is provided to the Committee for its consideration.

**2. Decision**

**The Committee is requested to approve the details of the Baker Tilly Audit Plan as submitted.**

**3. Background information**

Electronic approval for the reappointment of Baker Tilly as HPC's external auditors was obtained from the Committee on 11<sup>th</sup> December 2006.

The Appendix document contains details of Baker Tilly's engagement objectives, audit approach, key risks identified, fees, financial reporting developments, Engagement letter, audit team, pro-forma audit report and agreed timetable.

**4. Resource implications**

Nil

**5. Financial implications**

See Fees section of the Audit Plan document.

**6. Background papers**

Nil

**7. Appendices**

Baker Tilly Audit Plan for Year ended 31 March 2007

**8. Date of paper**

16<sup>th</sup> February 2007

**Health Professions Council**  
**Audit plan**

**Year ended 31 March 2007**

**Presented to the Audit Committee**  
**on 28 February 2007**

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# 1 Introduction and engagement objectives

## Introduction

The purpose of this document is to explain the scope of the audit, our proposed audit approach, and to highlight the key risks that we will be focusing our audit work upon. This forms part of the ongoing communications we are required to make under International Standard on Auditing (UK and Ireland) 260.

## Engagement objectives

Our primary responsibility as your auditor is to form an opinion as to whether the consolidated financial statements of Health Professions Council prepared under UK GAAP show a true and fair view and comply with the Article 46(1)(b) of the Health Professions Order 2001 and directions made hereunder by the Privy Council and 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.

Our other responsibilities comprise:

- consideration of whether other information contained in the Forward to the Financial Statements is consistent with the financial statements.

We will plan our work with a view to ensuring:

- minimum disruption to your staff and operations
- that reports submitted to you are constructive and clear, focusing on the issues that matter
- that surprises are avoided and that good communications are maintained with you throughout the assignment

Our engagement letter covering the above responsibilities is set out in **Appendix A**.

## 2 Audit approach, scope and timetable

Our audit approach will focus on those areas of the business that are considered significant to the consolidated results for the period and the position at the balance sheet date.

### Liaison with internal audit

PKF LLP were appointed as internal auditors in May 2006. To date reports on IT Health Check and Human Resources have been finalised and issued. We currently understand that PKF are reviewing the systems of Finance Department, Fitness to Practise and the 22-26 Stannary Street Building Project. The reports of the three systems which are currently in progress are expected to be available in draft while we plan our audit work and are expected to be finalised before the financial statements are finalised.

From informal discussions with PKF, we understand that no fundamental problems or errors have been found relating to the finance department systems review. Should these findings alter when their draft report is issued, this will have a bearing on our audit approach.

We will review the reports to ensure that where appropriate we can minimise testing additional control testing during our onsite audit work. Where areas of weakness have been identified which could have a potential impact on the financial statements additional audit work will be performed to ensure sufficient audit evidence in these areas has been obtained.

### Reliance on internal controls

During the planning phase of our audit we will re-confirm our understanding of the business environment, including internal controls, established by the directors where these are relevant to the audit. Where we plan to place reliance on internal controls, we will test the operation of those controls. If our examination of internal controls leads us to believe there may be significant weaknesses therein, we will report our findings to the Audit Committee.

### Qualitative aspects of accounting practices and financial reporting

We will discuss with management and will report to the Audit Committee any areas where our experience as auditors leads us to believe that accounting practices and financial reporting could be improved.

## Audit scope

### *Scoping objective*

The audit is scoped to ensure that we will obtain sufficient and appropriate audit evidence in respect of:

- the significant business operations of the group.
- other operations which, irrespective of size, are perceived as carrying a significant level of audit risk, whether through susceptibility to fraud, or for other reasons.

It is anticipated that the profit and loss account and balance sheet and the consolidation will be tested through analytical procedures, and audit assurance obtained that the results of those procedures accords with our audit expectations and underlying audit evidence. We may carry out detailed testing of transactions and period end balances where our risk analysis or the results of our analytical procedures indicate that additional audit assurance is required. Alternatively, we may seek to place reliance on the controls operating within the group if other audit procedures prove inappropriate or inadequate.

During the course of our audit we will maintain sufficient awareness of the group to ensure that our audit risk assessments remain valid. In achieving a soundly based risk assessment, the information provided by internal audit, management is critical.

## Materiality

The directors have primary responsibility for ensuring that annual financial statements are free from material misstatement or error. In accounting terms, a material error is one that, if it were unadjusted, would cause a user of the financial statements to alter his view of those statements or the results or the financial position of the entity being reported on. Materiality, therefore, is incapable of monetary definition, since it has both quantitative and qualitative elements. It is necessary to consider not only the impact of an error on the financial statements as a whole, but also on the individual accounting items affected. Additionally, the cumulative impact of all unadjusted errors must be considered.

Auditors examine financial statements on a test basis. The level of testing we will carry out is based on our assessment of the risk that an item in the financial statements may be materially misstated (see below). As such, as well as for the reasons stated in the preceding paragraph, it is neither practical nor appropriate to give an indication of the value of an item we would consider to be material although, clearly, we do relatively more work in areas where the risk of misstatement is considered to be high.

A key element of our annual audit planning is to make an assessment of the risk that the financial statements might contain material errors. We base this assessment on our knowledge of the group and understanding of its business and of the industry in which it operates. We assess risk both at the overall financial statement and at the individual item levels. Risk assessments may be amended as the audit progresses. The nature and volume of audit work we will conduct are directly related to the outcome of our risk assessments.

### *Dealing with errors*

We will record and investigate all potential errors that we discover during our work and, except for matters which we judge to be clearly trivial, communicate our findings to management directly responsible for the preparation of the company's financial statements. Management must decide which errors are material and therefore require adjustment if the financial statements are to show a true and fair view. We will ask management to provide us with written explanations supporting any decision not to make adjustments, which we will discuss with them. If we cannot agree with management's decisions, we will consider the implications for our audit opinion.

In accordance with the requirements of ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', we are required to report to the Audit Committee all known adjusted and unadjusted errors, unless they are considered 'clearly trivial'. We will request written representation that the Audit Committee are comfortable with any unadjusted errors and the reasons for adjustment not being made.

### *Fraud*

In accordance with the requirements of ISA (UK and Ireland) 240, we will consider the susceptibility of the group to fraud, taking account of the business and control environment established and maintained by the directors, as well as the nature of transactions, assets and liabilities recorded in the accounting records. However, the principal responsibility for the prevention and detection of fraud rests with management, who should not rely on the audit to discharge those functions.

We will report, as soon as practicable, any suspected or discovered fraud which comes to our attention, even if the potential effect on the financial statements is immaterial, unless there is a legal or regulatory requirement to report direct to a third party.

### *Compliance with law and regulations*

We will report, as soon as practicable, any suspected or actual non-compliance with law or regulations which comes to our attention, unless there is a legal or regulatory requirement to report direct to a third party.

### *Audit scope limitations*

We do not anticipate, at the time of writing, any limitations to the scope of our audit. Should any factors arise during the course of our audit that may limit our scope, we will inform you immediately and seek to have the limitation removed.

## Audit timetable and deliverables

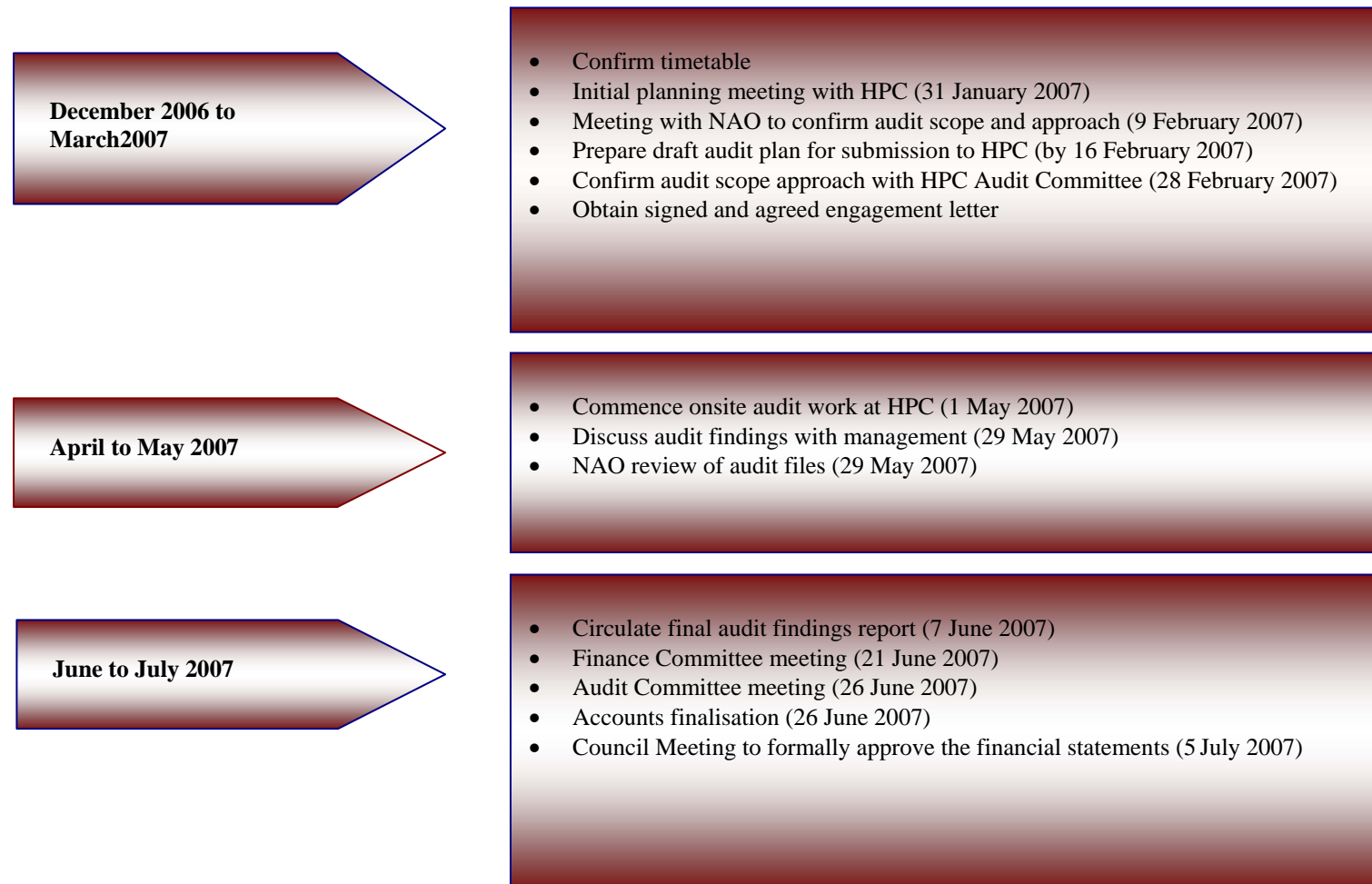
### *Objective*

The objective of all our communications is to provide management and the Audit Committee with regular, open and relevant feedback. All issues follow strict protocols for clearance at the management level, ensuring that the issue resolution is consistent, timely and respects your lines of management reporting.



## Timetable

We have set out below the key actions to be taken by Baker Tilly and Health Professions Council each month to ensure the reporting timetable is met. A full copy of the agreed timetable is included in Appendix D.



### 3 Key risks affecting our audit plan

#### Overview of key business and audit risks affecting our audit plan

Set out on the following pages is an overview of those matters that we consider to be the key business and audit risks arising from our preliminary risk assessment for the 31 March 2007 audit, together with our proposed audit approach to these risks. The risk assessment process is designed to ensure that we focus our audit effort on the areas of highest audit risk to Health Professions Council financial statements. This risk assessment and our responses will be updated throughout the engagement to ensure that all areas of material risk to the financial statements are addressed by our audit.

Key area of audit focus/risk	Our approach
<p><b>Income recognition</b> A key risk to the audit will be to ensure registrant income is correctly recognised over the appropriate period.</p>	<p>We plan an analytical review of the registrant income by ensuring income is consistent with number of members and membership rates</p> <p>For the other elements of income, we plan to compare the income to budgets, our expectations obtained through our planning meeting, management accounts and our knowledge gained from prior years' audits. We will obtain explanations and corroboratory evidence of any significant variance with our expectations.</p> <p>We plan to review the internal audit report on the registrant system, LISA to ensure that the controls in place can be relied upon. 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. Income in the accounting system will be proved in total back to the data held on.</p>
<p><b>Deferred income</b> As the registrant fee is for two years and that there are a variety of ways which a registrant can pay (full two years up front, quarterly direct debits etc.) there is a significant deferred income balance at the year end which we will have to ensure is correctly stated.</p>	<p>We plan to analytically review 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.</p> <p>We will substantively test a sample of deferred income back to source documentation to ensure that the appropriate amount of income is being deferred correctly.</p>

Key area of audit focus/risk	Our approach
<p><b>PAYE/NIC deductions</b></p> <p>A number of PAYE/NI questions were raised during the 2004/05 audit which lead to a significant provision at 31 March 2005 and 2006 in relation to PAYE/NI on Council Members/Partners fees and expenses.</p> <p>We understand that a new system for deducting PAYE/NI where appropriate was introduced in July 2006.</p>	<p>We will review the process for how the Council members/Partners fees and expenses are now paid to ensure that PAYE/NI is being paid as appropriate, and in line with formal procedures introduced at the beginning of the financial year.</p> <p>The provision for additional PAYE/NI as at 31 March 2006, is expected to still be outstanding as at 31 March 2007.</p>
<p><b>Authorisation of expenses and cut off</b></p> <p>There is a risk that some items of expenditure have not been correctly authorised and appropriate procedures have been applied.</p> <p>There is also a risk that expenditure may not be recorded in the correct 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>We plan to analytically review 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><b>Appropriate expenditure</b></p> <p>We are required to provide a regularity opinion in regard to HPC's income and expenditure, which require us to consider whether transactions have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.</p>	<p>We are planning to conduct compliance testing of the internal controls relating to expenditure to ensure that all items in our sample have been correctly approved in line with HPC's guidelines.</p> <p>We will also test a sample of expenditure items to check that amounts were spent in line with HPC's purpose.</p>

Key area of audit focus/risk	Our approach
<p><b>BDO Settlement</b>            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 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>We are expecting minimal disclosure of this transaction with the settlement amount recorded as other income.</p>
<p><b>22/26 Stannary Street Limited</b>            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 accounted for correctly as either capital or expenditure. We expect the majority of these costs to be of capital nature and recorded as assets under construction.</p> <p>We will ensure that costs tested have been correctly recorded within 22/26 Stannary Street Limited as appropriate. We will also ensure that for our sample, the VAT has been accounted for correctly in both entities.</p> <p>We also plan to review the year end carrying value of 22/26 Stannary Street Limited to ensure that there is no indication that an impairment in value is required.</p>
<p><b>IT Systems Expenditure</b>            HPC have spent significant amounts during the year in the continuing development their computer systems and databases. This raised the issues as to whether they have been appropriate treated as capital or expenditure items? If treated as capital have appropriate depreciation policies and rates been applied.</p>	<p>We plan to review of a sample of costs incurred on development of the systems and will ensure they had been correctly treated as capital or expenditure items.</p> <p>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>

Key area of audit focus/risk	Our approach
<p><b>Pension Scheme</b></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.</p> <p>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 (including a report from the scheme trustees) 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 can not be separately identified the correct current accounting treatment adopted will be appropriate. We have requested HPC confirm this in writing from the actuary.</p> <p>The scheme is currently in deficit which will now need to be disclosed in the accounts along with the implications of the deficit on HPC.</p>

## 4 Governance and control

### Quality reviews

Independent quality reviews are carried out by our Quality Assurance Department on a rotational basis agreed by our Risk Board. The reviews are undertaken by experienced partners and managers not connected with the audit. The inspection includes testing of the effectiveness and quality of our audits and a continuous improvement programme exists to ensure that standards are maintained and improved.

### Personal independence

All Baker Tilly personnel must adhere to strict regulatory, professional and internal independence requirements related to investments or business relationships with clients. All partners and staff must annually certify their compliance with these personal independence rules.

Baker Tilly is authorised by the Institute of Chartered Accountants of Scotland ("ICAS") to carry out statutory audits. Members of this Institute and other Accounting Bodies are bound by their relevant Ethical Code, which covers, inter alia, objectivity, independence, confidentiality and integrity.

David Blacher is a member of the Institute of Chartered Accountants in England and Wales ("ICAEW") and is required to maintain relevant Continuing Professional Development via training courses and seminars and, as an audit partner, must be a Responsible Individual as defined by Audit Regulations.

In addition, Baker Tilly has internal requirements that must be met by all partners undertaking audit work. These include internal authorisation to undertake audit work and hot and cold reviews of working files for listed and other selected clients. These are in addition to external reviews carried out by the ICAS Quality Assurance Department and, where appropriate, the Audit Inspection Unit of the Financial Reporting Council.

Partners and staff (including family members) of Baker Tilly are forbidden to invest in any client that is an audit client of the firm and a restricted client list, which is regularly updated, is maintained. This is reinforced in both our Partnership Deed and staff terms and conditions of employment.

Partner remuneration is based on the overall profits of the firm and profits are shared nationally. A partners remuneration is based on a fixed element, a "lock step" element and a performance based element that encompasses a wide range of contributions made by that partner during the period. An independent body reviews proposed remuneration levels independently of management.

## 5 Fees

We set out below the audit and non-audit fees for Health Professions Council:

	2007 (proposed)	2007 (proposed)	2006 (actual)	2006 (actual)
	Audit	Non-Audit	Audit	Non-Audit
	£	£	£	£
HPC audit	27,500		28,250	
Regulatory review	7,500		7,000	
Stannary Street audit	5,000		4,500	
Corporation taxation compliance		5,750		5,500
Tax advice (31 March 2005 accounts relating to PAYE/NIC review and VAT advice)		-		9,700
Other advice		2,850		2,850
	40,000	8,600	39,750	18,050

Baker Tilly audit fees will be billed in accordance with our standard terms and conditions.

Prior to any non-audit services being provided, the firm's procedures require a conflict threat assessment to be undertaken. Only if appropriate safeguards can be, and are, implemented is the non-audit service provided. Confirmation of our independence is contained in Appendix B.

## 6 Financial reporting developments

### Financial Reporting and Company Law

#### (a) *Disclosure of Auditors' Remuneration*

The Companies (Disclosure of Auditor Remuneration) Regulations 2005 (SI 2005/2417) provide for companies to disclose fees receivable by their auditors and their auditors' associates. Small and medium-sized companies must disclose the fee paid to their auditors for the audit itself. Every other company must disclose both the audit fee and all other fees paid to the auditors for services provided by them and their associates to the company, its subsidiaries (except where its control over a subsidiary is subject to severe long-term restrictions) and associated pension schemes. Auditors must supply to company directors the information needed to enable the company to comply with the disclosure requirements.

Effective date: Periods commencing on or after 1 October 2005

#### (b) *Companies Act 2006*

The Companies Bill received Royal Assent on 8 November 2006 and the approved text of the Act is available to download from the Office of Public Sector Information website ([www.opsi.gov.uk/acts](http://www.opsi.gov.uk/acts)). A series of Statutory Instruments will be issued to bring the Act into effect, with the full Act being in force in 2008.

#### (c) *The Companies (Registrar, Languages and Trading Disclosures) Regulations 2006*

New provisions, which took effect from 1 January 2007, were enacted under The Companies (Registrar, Languages and Trading Disclosures) Regulations 2006 (SI 2006/3429). The new disclosure requirements apply to all companies (including LLPs), and includes communication via websites and e-communication.

In summary companies must disclose the following:

- Their name on business letters, notices, official documents, cheques, promissory notes, bills of exchange, invoices, letters of credit, order forms.
- Their name, place of registration (i.e. England and Wales), Company number and registered office details\*\* on their website, order forms and business letters.
- If business letters and order forms are sent in by e-mail or fax then the email and fax must include the Company name, place of registration (i.e. England and Wales), Company number and registered office details.

*\*\*If the Company is an Investment company this must be clearly stated.*

*If the company is exempt from using the word 'limited', it must be clearly stated that the company is limited.*

*If the share capital of the Company is shown, this is unusual, it should be the issued share capital that is shown.*



(d) *FRS28 Corresponding Amounts*

FRS 28 'Corresponding Amounts' builds on the recent changes to company law, and largely replicates the previous legal requirements on corresponding amounts. In summary the FRS requires:

- corresponding amounts to be shown for items in the primary financial statements and the notes to the financial statements;
- the requirements of the FRS apply unless an accounting standard or Urgent Issues Task Force Abstract permits or requires an alternative treatment;
- where corresponding amounts are not directly comparable with the amount to be shown in respect of the current financial year, they shall be adjusted;
- most of the exemptions from showing corresponding amounts given in the Companies Act 1985 are maintained; and
- it does not require corresponding amounts for the earliest period presented where financial statements for two or more consecutive periods are presented together.

Effective date: Periods which commence on or after 1 January 2005 and which end on or after 1 October 2005.

Appendix A - Engagement letter

# Engagement letter

ENGAGEMENT LETTER  
Between BAKER TILLY  
and HEALTH PROFESSIONS COUNCIL (HPC)

To the Council Members of Health Professions Council (HPC)

## INTRODUCTION

The purpose of this letter is to set out the basis on which we act as auditors of the Council and the respective areas of responsibility of the Council Members and ourselves. Our services are provided in accordance with the attached Terms and Conditions of Business dated 1 November 2006, which form part of this Engagement Letter.

## AUDIT

### Responsibilities of Council Members and auditors

As Council Members of the HPC, you are responsible for ensuring that the Council maintains proper accounting records and for preparing financial statements which give a true and fair view and have been prepared in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder. You are also responsible for making available to us, as and when required, all the Council's accounting records and all other *relevant* records and related information, including minutes of all management and Council's meetings.

We have a statutory responsibility to report to the members whether in our opinion the financial statements give a true and fair view and whether they have been properly prepared in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder, and whether in our opinion the information given in the Council Management Commentary is consistent with the financial statements. In arriving at our opinion, we are required to consider the following matters, and to report on any in respect of which we are not satisfied:

- a) whether proper accounting records have been kept by the Council and proper returns adequate for our audit have been received from branches not visited by us;
- b) whether the Council's balance sheet and profit and loss account are in agreement with the accounting records and returns; and
- c) whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In addition, there are certain other matters which, according to the circumstances, may need to be dealt with in our report. For example, where the financial statements do not give details of Council Members' remuneration or of other transactions, the Health Professions Order 2001 and Privy Council directions made thereunder requires us to disclose such matters in our report.

We have a professional responsibility to report if the financial statements do not comply in any material respect with applicable accounting standards, unless in our opinion the non-compliance is justified in the circumstances. In determining whether or not the departure is justified we consider:

- a) whether the departure is required in order for the financial statements to give a true and fair view; and
- b) whether adequate disclosure has been made concerning the departure.

Our professional responsibilities also include:

- including in our report a description of the Council Members' responsibilities for the financial statements where the financial statements or accompanying information do not include such a description; and
- considering whether other information in documents containing audited financial statements is consistent with those financial statements.

### **Scope of audit**

Our audit will be conducted in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary. We shall obtain an understanding of the accounting and internal control systems in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained by the Council. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom.

The nature and extent of our procedures will vary according to our assessment of the Council's accounting system and, where we wish to place reliance on it, the system of internal control, and may cover any aspect of the business's operations that we consider appropriate. Our audit is not designed to identify all significant weaknesses in the Council's systems but if such weaknesses come to our notice during the course of our audit which we think should be brought to your attention we shall report them to you. Any such report may not be provided to third parties without our prior written consent. Such consent will be granted only on the basis that such reports are not prepared with the interests of anyone other than the Council in mind and that we accept no duty or responsibility to any other party as concerns the reports.

As part of our normal audit procedures, we may request you to provide written confirmation of oral representations which we have received from you during the course of our audit on matters having a material effect on the financial statements. In connection with the representations and the supply of information to us generally, we draw your attention to section 389A of the Companies Act 1985 under which it is an offence for an officer of the Council to mislead the auditors.

In order to assist us with the examination of your financial statements, we shall request sight of all documents or statements, including the chairman's statement, operating and financial review remuneration committee's report and the Council Members' report, which are due to be issued with the financial statements. We are also entitled to attend any general meetings of the Council and to receive notice of any such meetings.

The responsibility for safeguarding the assets of the Council and for the prevention and detection of fraud error and non-compliance with law or regulations rests with yourselves. However, we shall endeavour to plan our audit so that we have a reasonable expectation of detecting material misstatements in the financial statements or accounting records (including those resulting from fraud, error or non-compliance with law or regulations) but our examination should not be relied upon to disclose all such material misstatements or frauds, errors or instances of non-compliance as may exist. If at any time the Council Members wish us to undertake detailed checking with the specific objective of investigating possible irregularities, we shall be pleased to receive your instructions.

Once we have issued our report we have no further direct responsibility in relation to the financial statements for that financial year. However, we expect that you will inform us of any material event occurring between the date of our report and that of the Annual General Meeting which may affect the financial statements.

### **Communication of audit matters to those charged with governance**

We will agree with those within the Council charged with governance, the timing and form of communication between ourselves.

### **TERMS AND CONDITIONS OF BUSINESS AND ADDITIONAL TERMS**

Our Terms and Conditions of Business form part of this Engagement Letter. They include certain of the definitions used in this letter. Please read carefully these Terms and Conditions of Business, which apply to all our work, as they include various exclusions and limitations on our liability, save where excluded below.

It is agreed that Clauses 5.1 to 5.4 (Limitation of Liability), 14 (Other Professional Advisers) and 16 (Nature of Work) shall not apply in relation to this audit assignment.

### **JURISDICTION**

This engagement letter shall be governed by, and construed in accordance with, English law. The Courts of England shall have exclusive jurisdiction in relation to any claim, dispute or difference concerning the Engagement Letter and any matter arising from it. Each party irrevocably waives any right it may have to object to an action being brought in those Courts, to claim that the action has been brought in an inconvenient forum, or to claim that those Courts do not have jurisdiction.

**AGREEMENT OF TERMS**

We shall be grateful if you will confirm in writing your agreement to these terms by signing and returning the enclosed copy of this letter, in the prepaid envelope provided, or let us know if the services covered are not in accordance with your understanding of the assignment to be carried out under the terms of this engagement.

For the avoidance of doubt, the terms covered by the Engagement Letter shall take effect upon your written agreement to them, or upon commencement of the work to which they relate, whichever is the sooner.

Yours faithfully

BAKER TILLY Date .....  
Encs. Terms and Conditions of Business dated 1 November 2006

Contents noted and agreed  
For and on behalf of the Council  
of Health Professions Council

Signed ..... Date .....  
CHIEF EXECUTIVE

## Appendix B – Audit engagement team

## Audit engagement team

Staff contact	Role	Telephone number	E-mail address
David Blacher	Audit Partner	020 7413 5107	david.blacher@bakertilly.co.uk
Mark Harris	Audit Manager	020 7413 5187	mark.harris@bakertilly.co.uk
John Bole	Audit Senior	020 7413 5100	john.bole@bakertilly.co.uk
Stephen Brown	Corporation Tax Manager	020 7314 6975	stephen.brown@bakertilly.co.uk
Martin Benson	Employer Consulting Group Partner	020 7314 6813	martin.benson@bakertilly.co.uk
Anna McLaren	VAT Partner	020 7413 6814	anna.mcLaren@bakertilly.co.uk



## Appendix C – Pro-forma audit report

# Pro-forma audit report

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HEALTH PROFESSIONS COUNCIL

We have audited the financial statements on pages X to X.

This report is made solely to the Council's members, as a body. Our audit work has been undertaken so that we might state to the Council's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

We certify that we have examined the financial statements on pages X to X in accordance with Section 46(2) of the Health Professions Order 2001. These financial statements have been prepared under the historic cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages X and X.

### **Respective responsibilities of the Council, the Chief Executive and the Auditor**

As described on page X, the Council and the Chief Executive are responsible for the preparation of 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. The Council and its Chief Executive are also responsible for the preparation of the other contents of the Annual Report. Our responsibilities, as independent auditors, are established by statute and we have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with Section 46(1)(b) of the Health Professions Order 2001 and Privy Council directions made thereunder, and 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. We also report if, in our opinion the Management Commentary is not consistent with the financial statements, if the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the statement on pages X and X reflects the Council's compliance with Treasury's guidance on the Statement on Internal Control. We report if it does not meet the requirements specified by the Treasury or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only, the Presidents Statement, the Chief Executive and Registrar's report and the reports on pages X to X. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 our opinion we have also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Health Professions Council at 31 March 2007 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with Article 46(1)(b) of the Health Professions Order 2001 and directions made thereunder by the Privy Council; and
- 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.

BAKER TILLY  
Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

## Appendix D – Agreed Timetable for Stages for completion of Annual report and Accounts

**Stages for completion of annual report and accounts**

<b>Step number and description</b>	<b>Parties Responsible</b>	<b>Target date</b>	<b>Actual date</b>	<b>Comment</b>
1. Agree year end timetable with auditors	Finance department  Baker Tilly  NAO	Thursday 1 February 2007		
2. Communications to meet annual report designers to do basic page layouts and word limits for Committee reports	Communications	By Thursday 1 February 2007		
3. Secretariat to begin drafting Committee reports, Council members' biographies, Council governance page and attendance tables.	Secretariat	Thursday 1 February 2007 - Monday 2 April 2007  (all reports to be with Comms by 2 April)		Word limit per Committee report: 450 words (to be confirmed)
4. Baker Tilly's external audit strategy and NAO's external audit strategy sent to Secretariat for February Audit Committee	Baker Tilly  NAO  Finance department  Secretariat	Friday 16 February 2007		Finance department to liaise with Baker Tilly and NAO
5. Audit Committee reviews and approves external audit strategy from Baker Tilly and external audit strategy from NAO.	Audit Committee  Finance department  Secretariat	Wednesday 28 February 2007		
6. Communications to produce Chief Executive's and President's statements. Communications begin to proof, collate and edit front part contributions and begin to liaise with Purbrooks re design and printing costs.	Philippa Richardson, Communications	Monday 2 April 2007 - Friday 27 April 2007		
7. Verification of front page of annual report.	Secretariat  Philippa Richardson, Communications  Jonathan Bracken	Monday 23 April 2007		

8. Finance department completes all year end financial files, supporting working papers and draft financial statements (HPC consolidated accounts and 22-26 Stannary Street Limited), ready for audit.	Finance department	By Friday 27 April 2007		
9. Communications complete liaison with Purbrooks re front part design.	Philippa Richardson, Communications	By Friday 27 April 2007		
10. Copy of draft front part and draft accounts (Word version) sent to NAO for review of format and general content.	Finance department	By Friday 27 April 2007		
11. Onsite audit commences	Baker Tilly Finance department	Tuesday 1 May 2007		
12. Onsite audit completed	Baker Tilly Finance department	Monday 14 May 2007		
13. Draft annual report (both parts, including audited statements) (Word version) sent to Baker Tilly for review - no facsimile signatures included	Communications department Finance department Baker Tilly	Monday 21 May 2007		
14. Draft front part of annual report (Word version) sent to Secretariat for May Council	Communications Secretariat	Monday 21 May 2007		
15. Baker Tilly audit completed, including first draft audit findings as discussed with HPC management (Simon Leicester and Marc Seale)	Mark Harris and David Blacher, Baker Tilly Simon Leicester, Finance department Marc Seale, Chief Executive	Tuesday 29 May 2007		
16. Results of audit, audit findings and audit files forwarded by Baker Tilly to NAO	Baker Tilly (Finance department to ensure this happens)	Tuesday 29 May 2007		All queries by Baker Tilly must be raised by this date. None to be raised afterwards.

<p>17. Council review draft front part of annual report (excluding financial statements) (Word format).</p> <p>Council to be asked to agree that the Audit Committee and the Finance and Resources Committee should be jointly responsible for reviewing the annual report and accounts and agreeing any amendments.</p>	<p>Council Communications  Secretariat</p>	<p>Thursday 31 May 2007</p>		
<p>18. NAO review of Baker Tilly files complete. Feedback by NAO to HPC management (Simon Leicester and Marc Seale).</p>	<p>Steve Ecroyd, NAO  Simon Leicester, Finance department  Marc Seale, Chief Executive</p>	<p>Thursday 7 June 2007</p>		
<p>19. Draft annual report and financial statements (Word version) emailed by Finance department to Audit Committee members for feedback (copied to Audit Committee Secretary)</p>	<p>Simon Leicester, Finance department  Audit Committee</p>	<p>Thursday 7 June 2007</p>		<p>Feedback by Committee members to be made directly to Finance Department (Simon Leicester).</p>
<p>20. Incorporate Audit Committee feedback into draft report and financial statements. Draft report and statements (Word version) sent to Secretariat for June Finance Committee and June Audit Committee</p>	<p>Finance department  Communications  Secretariat</p>	<p>Monday 11 June 2007</p>		<p>Finance department to notify Communications of any changes which are requested to front part of report</p>
<p>21. Finance and Resources Committee review draft report and financial statements (Word version)</p>	<p>Finance and Resources Committee  Finance department  Philippa Richardson, Communications  Secretariat</p>	<p>Thursday 21 June 2007</p>		<p>Baker Tilly and NAO to be present at meeting</p>
<p>22. Audit Committee review draft report and financial statements (Word version), external auditors findings, letters of representation, annual internal audit report</p>	<p>Audit Committee  Finance department  Communications  Secretariat</p>	<p>Tuesday 26 June 2007</p>		<p>Baker Tilly and NAO to be present at meeting</p>

23. Draft report and statements (Word version) sent to Secretariat for July Council papers.	Finance department Secretariat	Tuesday 26 June 2007		Finance to include any amendments asap and to send amended document to Secretariat by 5pm.
24. Cut-off date for designed version of full report with financial statements. Communications to edit, proof and liaise with Purbrooks.	Communications	Wednesday 27 June 2007		
25. Council presented with annual report and financial statements (Word version).	Council Finance department Communications Secretariat	Thursday 5 July 2007		
26. Annual report and accounts (designed version, laser printed) signed by President and Chief Executive and sent to Baker Tilly	President Marc Seale, Chief Executive  Simon Leicester, Finance department  Baker Tilly	Friday 6 July 2007		
27. David Blacher, Baker Tilly signs audit certificate and accounts and sends annual report and accounts to Comptroller and Auditor General, NAO	From David Blacher, Baker Tilly to Comptroller and Auditor General, NAO	Friday 6 July 2007		
28. Comptroller and Auditor General signs annual report and returns it to Secretary to Council at HPC	From Comptroller and Auditor General, NAO to Niamh O'Sullivan, HPC	Friday 13 July 2007		
29. Niamh O'Sullivan informs Philippa Richardson that report has been signed off and can now be printed.	Niamh O'Sullivan  Philippa Richardson, Communications	Friday 13 July 2007		Printed copy to include the dates of all signatures.
30. HPC asks printers to insert dates of Baker Tilly signature and Comptroller and Auditor General signature	Communications	Friday 13 July 2007		
31. Send annual report and accounts to Privy Council for laying in Parliament	From Niamh O'Sullivan to Privy Council Office	Wednesday 18 July 2007		



32. Before the final print run, Baker Tilly and NAO provided with the final printer's draft, with both Baker Tilly and NAO to give final response by Friday 27 July 2007.	From Niamh O'Sullivan to Baker Tilly and NAO	Wednesday 18 July 2007 - Friday 27 July 2007		Printer's draft provided for information only. No amendments to be made at this stage.
33. Printing and publishing of annual report	Communications	By Friday 31 August 2007		
34. Finance Manager to send final document to Companies House, Baker Tilly and NAO. Communications to send copies to stakeholders.	Finance department Communications	Early - mid September 2007		
35. Annual meeting - distribute copies of annual report at meeting.	Secretariat Communications	Mid September 2007		