Audit Committee – 27th February 2008

BAKER TILLY AUDIT PLAN 2007/08

Executive summary and recommendations

Introduction
The Baker Tilly external audit plan is provided to the Committee for its consideration.

Decision
The Committee is asked to approve the external Audit Plan from Baker Tilly for 2007/08 and provide guidance on the audit programme, as appropriate.

Background information
The Baker Tilly Audit Plan for 2006/07 was approved at the meeting of the Audit Committee on 28th February 2007 – refer minutes, item 7.07/7.

The Audit Plan in Appendix One contains details of Baker Tilly's engagement objectives, audit approach, key risks identified, governance and control, fees, financial reporting developments, engagement letter, audit team and pro-forma audit report.

Resource implications
Nil

Financial implications
External Audit fee of £42k – refer Fees section of the Audit Plan in Appendix One. Budget is £40k, including the separate Audit of 22/26 Stannary St Ltd Financial Statements.

Appendices
Appendix One – Baker Tilly Audit Plan for the Year Ending 31st March 2008.

Date of paper
15th February 2008

Health Professions Council
Audit plan

Year ended 31 March 2008

Presented to the Audit Committee

by Baker Tilly UK Audit LLP
on 27 February 2008

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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. For the avoidance of doubt, the auditor is not required to design audit procedures for the specific purpose of identifying matters of governance interest.

Throughout this document the terms partner and principal are interchangeable.

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.

We also report to you whether, in our opinion, the information given in the Annual report of the Financial Statements is consistent with the financial statements and, if not, consider the implication on our audit report.

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.

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 Council Members 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 you.

Qualitative aspects of accounting practices and financial reporting

We will discuss with you 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 Council.
- 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 Income and Expenditure account and balance sheet and the consolidation will be tested through analytical procedures and audit assurance obtained that the results of those procedures accord~~s~~ 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 and management is critical.

During the course of our audit work we will consider the qualitative aspects of the financial reporting process including the appropriateness of the accounting policies adopted, the reasonableness of any estimates and the adequacy of disclosures made by the Council to include all items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements.

Materiality

The Council Members 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 Council and understanding of its business and of the environment 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 Council's financial statements. These matters will include the adequacy of disclosures made within the 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 you all known adjusted and unadjusted errors (including those relating to disclosures within the financial statements) unless they are considered 'clearly trivial'. We will request written representation that you 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 Council to fraud, taking account of the business and control environment established and maintained by the Council Members, 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 you with regular, open and relevant feedback. All issues follow strict protocols for clearance ensuring that the issue resolution is consistent, timely and respects your lines of management reporting.

Timetable and communication plan

We have set out below the key actions to be taken by Baker Tilly UK Audit LLP and Health Professions Council each month to ensure that the reporting timetable is met:

January to March

- Confirm timetable
- Initial planning meeting with HPC and NAO (23 January 2008)
- Confirm audit scope and approach with NAO (w/c 4 February 2008)
- Prepare draft audit plan for submission to HPC (by 15 February 2008)
- Confirm audit scope approach with HPC Audit Committee (27 February 2008)
- Obtain signed and agreed engagement letter

May

- Commence onsite audit work at HPC (1 May 2008)
- Discuss audit findings with management (w/c 19 May 2008)
- NAO review of audit files (w/c 26 May 2008)

June to July

- Circulate final audit findings report (w/c 9 June 2008)
- Finance Committee meeting (19 June 2008)
- Audit Committee meeting (26 June 2008)
- Accounts finalisation (26 June 2008)
- Council Meeting to formally approve the financial statements (July 2008)

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 2008 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 the 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
Income recognition A key risk to the audit will be to ensure registrant income is correctly recognised over the appropriate period.	We plan an analytical review of the registrant income by ensuring income is consistent with number of members and membership rates. 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.
Deferred income 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.	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. 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.

Key area of audit focus/risk	Our approach
Purchase expenditure cut off and provisions There is a risk that expenditure may not be recorded in the correct accounting period. 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.	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. 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.
Appropriate expenditure 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.	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'c guidelines. We will also test a sample of expenditure items to check that amounts were spent in line with HPC's purpose.
PAYE/NIC Provision for Council members/Partners fees Following a review of PAYE/NI procedure on Council member/partner fees in 2005, a significant provision was made in relation PAYE/NI on Council Members/Partners fees and expenses to at 31 March 2005. Further provisions have been made to date where appropriate. The payment procedures for fees and expenses were amended during 20006 which brought the payment procedure in line with the tax payments requirements although the procedures were not back dated for previous payments. We understand that no enquiry has been opened into the previous payments of the Council member/partner fees in the year and therefore no payments have been made to reduce the provisions. The provision as at 31 March 2007 stood at £440,000 and is expected to increase by around £20,000 during the year to 31 March 2008.	We plan to 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 procedure. A review will be conducted to asses the provisions in relation to the Council member/partner's fees PAYE/NI as at 31 March 2008, is appropriate given the level of the accrual in prior years and fees made in the year.

Key area of audit focus/risk	Our approach
22/26 Stannary Street Limited During the year 22/26 Stannary Street has been refurbished into usable space for HPC and linked to the main building. The costs of the refurbishment are expected to be capitalised in the year. Once the refurbishment has been completed, it is planned that a external valuation of the all the properties held by HPC will be conducted and the revaluation will be reflected in the financial statements	We plan to review a sample of the costs of development to ensure that they relate to items of capital nature or are expensed . We plan to review the external valuation report along with the valuer's terms of engagement with HPC to ensure that the revaluation has been performed in accordance with FRS15, Tangible fixed assets and that the revaluation has been appropriately reflected within the financial statements.
VAT deregistration Once the refurbishment is finished 22/26 Stannary Street will need to deregister for VAT and then the VAT reclaimed on the refurbishment to date will be repayable. As the building is expected to be completed before the year end, year end provision will need to be made for the VAT repayable. On current expenditure to date a provision of around £100,000 is expected.	We understand that HPC are currently reviewing the position with regard to VAT deregistration. We plan to review the correspondence from the HMRC and advice given to ensure that at the year end the accounts include VAT provisions as appropriate.

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 principals 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 principals and staff must annually certify their compliance with these personal independence rules.

Baker Tilly UK Audit LLP 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 principal, must be a Responsible Individual as defined by Audit Regulations.

In addition, Baker Tilly UK Audit LLP has internal requirements that must be met by all principals 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.

Principals and staff (including family members) of Baker Tilly are forbidden to invest in any client that is an audit client of Baker Tilly UK Audit LLP and a restricted client list, which is regularly updated, is maintained. This is reinforced in both the Baker Tilly UK Audit LLP Members' Agreement and staff terms and conditions of employment.

Auditor independence

In accordance with International Standard on Auditing (UK and Ireland) 260 "Communication of audit matters with those charged with governance", the following are details of all the relationships between Baker Tilly UK Audit LLP and its related entities and the Health Professions council and its related entities that may reasonably be thought to bear on Baker Tilly UK Audit LLP's independence and the objectivity of the audit engagement principal, Mr David Blacher and the audit staff and the related safeguards that are in place:

1. Non-audit services provided by related entities to the Health Professions Council and its related entities:

Baker Tilly Tax and Advisory Services LLP provide tax planning and compliance services.

Prior to these services being provided Baker Tilly UK Audit LLP procedures require a conflict threat assessment to be undertaken. Only if appropriate safeguards can be and are implemented is the non audit service provided. Such safeguards include the provision of non audit services by individuals not involved in the audit of the Health Professions Council.

"Related entities" of Baker Tilly UK Audit LLP for the above purpose (and for the fees section set out below) include;

- All firms that are members of the Baker Tilly International independent network of member firms,
- Companies in which Baker Tilly UK Audit LLP members are directors, details of which are available from your audit principal,
- All entities within the Baker Tilly UK Holdings Limited group.

In our professional judgement, Baker Tilly UK Audit LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the principal, Mr David Blacher and the audit staff, is not impaired.

This confirmation has been prepared for the sole use of the Health Professions Council. It must not be disclosed to a third party, or quoted or referred to, without Baker Tilly UK Audit LLP's written consent. No responsibility is assumed by Baker Tilly UK Audit LLP to any other person.

5 Fees

United Kingdom company law requires disclosure of fees in respect of services provided by the entity's auditor and the auditors' related entities (see above for details of related entities of Baker Tilly UK Audit LLP). Where remuneration includes benefits in kind, its nature and estimated money value shall also be disclosed in the notes. Where more than one person has been appointed as auditor during the period to which the accounts relate, separate disclosure is required in respect of remuneration of each such person.

The disclosure is in effect in two parts: the audit fee and fees for other services. The other services need to be disclosed in up to ten categories.

In group accounts, the audit fee disclosed is the fee receivable by the auditor of the parent in respect of the auditing of the accounts of the parent entity including work on the consolidated accounts.

You may find the following table helpful in collating the information needed to meet the disclosure requirements in relation to other services. The amount receivable by the auditor and its associates needs to be disclosed in aggregate in respect of the entity and its subsidiaries.

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

	2007 (actual) Audit £	2007 (actual) Non-Audit £	2008 (proposed) Audit £	2008 (proposed) Non-Audit £
HPC audit	27,500		28,500	
Regulatory review	7,500		7,750	
Stannary Street audit	5,000		6,000	
Corporation taxation compliance		5,750		6,000
Tax advice (VAT advice billed up to 31 January 2008)		-		3,000
Other advice		2,850		2,850
	40,000	8,600	42,250	11,850

Baker Tilly audit fees will be billed in accordance with our standard terms and conditions dated April 2007

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) 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). The Act is being brought into effect by a series of Statutory Instruments. Originally the full Act was due to be effective in 2008. However, on 7 November 2007, the Government announced in a Written Statement that the commencement date for most of the provisions due to be commenced on 1 October 2008 would be put back to 1 October 2009. It will make a further Statement in December setting out the final commencement timetable for the Act.

The first and second Commencement Orders made changes to the requirements relating to directors' interests and notification thereof, and repealed, for reports signed on/after 6 April 2007, the requirement for such interests to be disclosed in the Directors' Report. It should be noted that the provisions of FRS 8 and IAS 24 continue to apply. Also listed companies need to comply with the provisions in the Listing Rules and there remain notification requirements, in respect of Directors dealings for companies where shares are admitted to trading on a regulated market.

The third Commencement Order brought into effect many provisions with effect from 1 October 2007. They included:

- Part 9 Exercise of members' rights
- Part 10 A company's directors (other than provisions relating to conflict of interest duties, residential addresses, underage and natural directors)
- Part 11 Derivative claims and proceedings by members
- Part 13 Resolutions and meetings, and sections 485-488 of Part 16 Audit
- Part 14 Control of political donations and expenditure
- Section 417 of Part 15 Contents of directors' report : business review
- Part 29 Fraudulent trading
- Part 30 Protection of members against unfair prejudice
- Part 32 Company investigation amendments.

The provisions relating to directors' duties and derivative claims will affect all businesses.

The provisions due to come into effect from 6 April 2008 are:

- Section 44 of Part 4 A company's capacity and related matters
- Part 12 Company secretaries, other than sections 275 -279
- Part 15 Accounts and reports , other than section 417
- Part 16 Audit, other than sections 485 – 488
- Part 19 Debentures
- Part 20 Private and public companies

- Part 21 Certification and transfer of securities
- Part 23 Distributions
- Part 26 Arrangements and reconstructions
- Part 27 Mergers and divisions of public companies
- Part 42 Statutory auditors

The remaining provisions which are now expected to come into effect from 1 October 2009 are:

- Part 1 General
- Part 2 Company formation
- Part 3 A company's constitution
- Part 4 A company's capacity and related matters, other than section 44
- Part 5 A company's name, other than sections 69 to74, and 82 to 85 – date to be announced
- Part 6 A company's registered office
- Part 7 Re-registration as a means of altering a company's status
- Part 8 A company's members
- Part 10 A company's directors, provisions relating to conflict of interest duties, residential addresses, underage and natural directors
- Part 17 A company's share capital
- Part 18 Acquisition by a limited company of its own shares
- Part 24 A company's annual return
- Part 25 Company charges
- Part 31 Dissolution and restoration to the register
- Part 33 UK companies not formed under the Companies Acts, other than section 1043 (already in force)
- Part 34 Overseas companies
- Part 35 The Registrar of Companies, save for the provisions already in force
- Part 41 Business Names

More detailed commentary on Companies Act 2006 may be found in the publications section of the Baker Tilly internet (www.bakertilly.co.uk) under Business Services.

(b) 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.

(c) Guidance on first time implementation of IFRS by UK AIM companies

On 20 June 2007 the Financial Reporting Council ("FRC") issued a press notice entitled "Guidance on first time implementation of IFRSs by UK AIM Companies."

The text of the press release is reproduced below:

> "Under the AIM Rules for Companies, all AIM parent companies incorporated in the UK are required to prepare and present their consolidated annual accounts for financial periods commencing on or after 1 January 2007 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. AIM companies must also prepare half-yearly reports and these must be prepared and presented in a form consistent with that which will be adopted in the annual accounts. Having regard to the applicable accounting standards, the 2007 half-yearly reports may be the first published IFRS information for some UK AIM companies.
>
> Drawing on the experiences of UK listed parent companies, which were required to adopt IFRSs with effect from 1 January 2005, the FRC has noted that the first time implementation of IFRSs can be challenging and is best met by early consideration by Finance Directors and Boards of the changes that are needed to meet the requirements of the international reporting framework."

It also provides cross-references to relevant information published by both the FRRP and the ASB.

Financial Reporting Exposure Drafts ("FRED")

(a) FRED 41 Related Parties

On 12 July 2007 the ASB issued FRED 41, which seeks to bring consistency between company law and FRSs by converging FRS 8 with an amended version of IAS 24 for related party disclosures. Currently FRS 8 defines a related party differently to both IFRS and relevant European Directive (2006/46/EC).

This FRED replaces FRED 25 and proposes to;

- withdraw FRS 8 and issue a revised Financial Reporting Standard based on IAS 24 (as amended following the IASB's proposals published in February 2007);
- provide disclosure exemptions for wholly owned subsidiaries in accordance with the DTI proposal for the UK implementation of Directive 2006/46/EC; and
- provide guidance on materiality, based on that set out in IAS 1 'Presentation of Financial Statements'.

The full text is available from the ASB website (www.frc.org.uk/asb). The commentary period closed on 19 October 2007.

Updated Combined Code on Corporate Governance

On 27 June 2006 the FRC published an updated version of the Combined Code on Corporate Governance ("Combined Code"). The Listing Rules will not formally apply to the revised Combined Code until a consultation exercise has been carried out by the Financial Services Authority. In accordance with the new Listing Rules, disclosure of compliance with the Combined Code is required for listed entities for reporting years commencing on or after 1 November 2006.

ASB Review of Narrative Reporting

On 15 January 2007 the ASB published its first review of narrative reporting by UK listed companies. They analysed the annual reports of 23 listed companies with a year end of March 2006 and later, and drew on surveys by other organisations and parties with an interest in narrative reporting. Their aim is to keep the spotlight on narrative reporting and the importance of encouraging continuing improvement in this area. The ASB commented that the review covered a significant number of the FTSE 350 leading quoted companies.

The press release announcing the publication of report said:

> "The review, which also draws on work by other bodies in the field, found that while most companies were good at describing their strategy and current performance, they were weaker on providing forward looking information and identifying their principal risks and how they are managed.
>
> The purpose of this review is to highlight the strengths and weaknesses of current narrative reporting, in the interests of widespread adoption of best practice. The ASB, as part of its role in promoting confidence in corporate reporting, will continue to review progress in the UK and be a leading contributor to any international developments on management commentary.
>
> The report had dual objectives of assessing:
>
> - Best practice - the degree to which companies have adopted the recommendations in the ASB's Reporting Statement on the Operating and Financial Review ("OFR"), given that it is the most complete and authoritative source of best practice guidance; and
> - Compliance - how UK companies are performing in the light of the requirement under the EU Accounts Modernisation Directive for companies to provide a business review in the Directors report in their 2006 Annual report.
>
> Whilst companies are generally complying with the legal requirements, when measured against the best practice recommendations set out in the ASB's Reporting Statement, the following were highlighted:
>
> Areas of good reporting
>
> - Companies are generally good at providing descriptions of their business and markets, together with their strategies and objectives, although some improvements could be made in providing information on their external environment;
> - All companies within the sample are providing satisfactory or better descriptions of the current development and performance of the business;
> - There has been an increase in companies reporting environmental, employee and social issues, although very few discuss their contractual arrangements and relationships in any depth;

Areas for improvement

- The greatest area of difficulty for companies when producing their narrative reports is the disclosure of forward-looking information. The proposed 'safe harbour' provisions in the Companies Act 2006 may encourage companies to provide greater detail in the future;
- Companies need to improve their descriptions of resources available to the entity, in particular intangible items such as brand strength, corporate reputation and natural resources not reflected in the balance sheet;
- Companies need to describe more carefully their principal risks and uncertainties, and set out their approach to managing and mitigating those risks, rather than simply providing a list of all their risks and uncertainties (33 risks in one case);
- Many companies are providing a good deal of information on measures and indicators, but improvements can be made in identifying their Key Performance Indicators, both financial and non-financial."

It should be noted that the ASB conclusions include the following comment in respect of Key Performance Indicators ("KPI"):

"While the requirement to disclose KPIs is a matter of judgement for the directors, the lack of inclusion of any KPIs in a Business Review in the future will provide the Financial Reporting Review Panel (FRRP) with a possible indicator that the Review may not be compliant with the law."

Their overall conclusions are:

- Companies should think carefully about the structure and placement of their narrative reporting to ensure that cross-referencing is kept as simple as possible and does not adversely impact on the flow of the narrative.
- In the absence of any guidelines on preparing a statutory Business Review, the principles outlined in the Reporting Statement are being widely adopted by quoted companies as best practice in narrative reporting when preparing their annual report.
- This acceptance is higher amongst the larger market capitalisation companies in the FTSE 100, although there are examples of good practice among companies below the FTSE 100. As the survey shows, some companies are achieving Good or Best Practice scores across nearly all the recommendations of the Reporting Statement.
- As compliance with the Reporting Statement will in general more than meet the legal content requirements for the Business Review, there is a practical benefit for companies in following the statement to achieve legal compliance as well as fulfilling best practice.
- The proposed additional reporting requirements for quoted companies contained in the Companies Act 2006 should encourage even more companies to comply with the best practice Reporting Statement. The additional disclosure requirements in the proposed Companies Act are all existing recommendations of the Reporting Statement.

Copies of the report may be downloaded from the ASB website. (www.frc.org.uk/asb)

ASB issues Interpretation of its Statement of Principles for Public Benefit Entities

On 28 June 2007, the ASB issued an Interpretation for Public Benefit Entities of its Statement of Principles for Financial Reporting.

The Interpretation sets outs the principles that the ASB believes should underlie the financial reporting of public benefit entities. The principles are consistent with those relevant to profit-orientated entities in the Statement of Principles for Financial Reporting. The main purpose of the interpretation is to provide a coherent frame of reference to be used in the development of the Statements of Recommended Practice.

Copies of the interpretation may be downloaded from the ASB website. (www.frc.org.uk/asb)

Stewardship as an objective of financial reporting

On 25 June 2007 the European Financial Reporting Advisory Group ("EFRAG"), the Accounting Standards Board ("ASB") and other European accounting standards setters, under the banner the Pro-Active Accounting Activities in Europe ("PAAinE") published a brief paper discussing the rationale for including stewardship, or directors' accountability to shareholders, as a separate objective of financial reporting.

The paper was prepared to respond to challenges arising during consultation on the Discussion Paper ("DP") Preliminary Views on an improved Conceptual Framework for Financial Reporting published in July 2006 by the IASB and the Financial Accounting Standards Board ("FASB"). The IASB/FASB proposed that the converged framework should specify only one objective of financial reporting, that of "decision-usefulness" for resource allocation and argued that this objective "encompasses providing information useful in assessing management's stewardship".

The PAAinE paper is based on comments received by the IASB /FASB following publication of their DP.

Copies of the paper may be downloaded from the ASB website (www.frc.org.uk/asb).

Appendix A - Engagement letter

ENGAGEMENT LETTER
Between BAKER TILLY UK AUDIT LLP
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 date April 2007, 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 UK AUDIT LLP Date ....
Encs. Terms and Conditions of Business dated April 2007

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
Sukhy Samra	Audit Senior	020 7413 5100	sukhy.samra@bakertilly.co.uk

Appendix C – Pro-forma audit report (unmodified)

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 and Remuneration Report 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 UK AUDIT
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST