

Audit Committee – 26 June 2008

National Audit Office Audit Findings and Letter of Representation
2008

Executive summary and recommendations

Introduction

The National Audit Office audit findings and letter of representation are provided to the Committee for its consideration.

Decision

The Committee is asked to review and approve the National Audit Office (NAO) report of audit findings for 2007/08 and the attached Letter of Representation.

Background information

Following the NAO audit of the year end financial statements and draft 2008 Annual Report, the NAO's "Communication of audit matters to those charged with governance" report including; audit findings, the Letter of Representation to the Comptroller and Auditor General and other annexes are attached – refer Appendix One.

In the report, in addition to the findings on the revaluation of properties, six Internal Control issues were highlighted in the report; Budgeting process (finding 17), Deferred Income (finding 18), Income Analysis model (finding 19), Investments (finding 20), Fixed Assets Register (finding 21) and Grant aided expenditure (finding 22).

Details relating to Significant Financial Adjustments are in Annex G on P17. The most significant of these included; a reduction in the Group Revaluation Reserve of £230,443, a reduction in the Council subsidiary Revaluation Reserve of £217,000 and a reduction in the 22-26 Stannary St subsidiary Revaluation Reserve of £615,969, all due to premises value impairment following revaluation in April 2008 – refer separate paper on the 2008 Annual Report.

In terms of the Annual Report (production) process, the Audit Findings presentation to the Audit Committee is Step 26 of the process.

Date	Ver.	Dept/Cmte	Doc Type	Title	Status	Int. Aud.
2008-06-12	a	ADT	PPR	NAOAuditFindings	Draft	Public
					DD: None	RD: None

Resource implications

Nil

Financial implications

NAO Audit fee for HPC and 22-26 Stannary St Ltd

Appendices

Appendix One – 2007-08 Communication of audit matters to those charged with governance

Date of paper

16 June 2008



National Audit Office

2007-08

Communication of audit matters to those charged with governance

HELPING THE NATION SPEND WISELY

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

The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 850 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

Our work saves the taxpayer millions of pounds every year, at least £9 for every £1 spent running the Office.

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Health Professions Council

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Introduction

1. The financial audit of the Health Professions Council (the Council) for the financial year ended 31 March 2008 is now nearing completion. As at the date of preparation of this report, the following stages of the final accounts and audit were outstanding:
 - We need to take into account any issues arising from consideration by the Audit Committee of the draft accounts, including the annual report, remuneration report and Statement on Internal Control;
 - There needs to be a final review of any post balance sheet events; and
 - We will also ask the Accounting Officer to sign a Letter of Representation at the same time as he signs the annual report and accounts. A draft letter is included at **Annex A**.
2. Subject to satisfactory clearance of the above, we intend to recommend that the C&AG will certify the accounts with an unqualified audit opinion. A draft certificate is included at **Annex B**.
3. International Standards on Auditing 260: Communication of Audit Matters with Those Charged with Governance requires us to report certain information prior to finalisation of the accounts. A summary of our responsibilities is provided at **Annex C**.
4. This report is prepared to inform management and the Audit Committee of high priority issues arising from the audit. It also includes our findings and recommendations for improved governance and internal control arising from the audit, as detailed in **Annex D**.
5. At **Annex E**, we have demonstrated how the audit risks which we identified at the planning stage of the audit, and included in the Audit Strategy Audit discussed with the Audit Committee in February 2008, have been addressed by our work.
6. The errors which remain unadjusted for the purposes of the audited financial statements have been summarised, as required by ISA 260, at **Annex F**. The net effect of the unadjusted errors is immaterial to the accounts. Significant audit adjustments have been summarised at **Annex G**.

7. This report is to be regarded as confidential and is intended for use by the Health Professions Council only. We accept no duty, responsibility or liability to any other person as the report has not been prepared, and is not intended, for any other purpose. In the event that a third party asks to see this report, please ask for our consent before releasing it.

Scope of audit

8. The audit of the Health Professions Council accounts for 2007-08 was carried out in accordance with auditing standards issued by the Auditing Practices Board. The audit was carried out on behalf of the C&AG by Baker Tilly UK Audit LLP and reviewed by the National Audit Office (NAO).
9. The audit includes an examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It includes an assessment of the significant estimates and judgements made in the preparation of the financial statements, and of whether the accounting policies are appropriate, consistently applied and adequately disclosed. It also evaluates the overall adequacy of the presentation of information in the financial statements.
10. The procedures we adopted were designed primarily for the purpose of providing an opinion on the accounts as a whole. They included a review of the accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings and observations therefore should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated by the Health Professions Council

Independence, Integrity and Objectivity of Auditors

11. To ensure our independence, integrity and objectivity are not compromised, the NAO has strict procedures in place. Details are at **Annex H**. All NAO staff involved in the audit have confirmed their independence in line with the requirements of ISA (UK&I) 220 'Quality control for audits of historical financial information'.

Overview of the accounts finalisation and audit process

12. Baker Tilly UK Audit LLP conducted the audit. Their approach is provided in a separate paper as part of their role as the Council's appointed auditors. The NAO establishes with Baker Tilly the audit strategy and reviews the results of their audit work, meeting with the Council's staff to discuss with them the audit findings and the format and disclosures in the annual report and accounts.

Action Required

13. The Audit Committee is invited to:
- Note the key issues reported below and the minor issues set out at **Annex D**;
 - Review and comment on the content of the Accounting Officer's letter of representation, attached to this report at **Annex A**;
 - Review the uncorrected misstatements found during the course of the audit as set out at **Annex F**, and consider whether it agrees with management's decision not to correct these items;
 - Consider all identified adjustments in the context of the effectiveness of internal controls – detailed at **Annex G**; and
 - Agree a process for notification of any further issues arising through completion of the audit.
14. The issues raised in this document should be seen in the context of the accounts, particularly the content of the Statement on Internal Control.

Key Issues and Recommendations

15. The key findings from the audit are set out in the following paragraphs. More detailed explanations are provided in papers provided by Baker Tilly UK Audit LLP as the Council's appointed auditors.

Revaluation of Properties

Findings

16. The Council's properties were revalued at the end of the year. The market value was less than the carrying value and the impairment was originally charged to the Income and

Expenditure Account incorrectly rather than reducing the revaluation reserve in line with accounting standards. The accounts were subsequently corrected.

Budgeting process

Finding

17. The Council's budgeting process could be more robust and reviewed regularly.

Deferred Income

Finding

18. The Council has no financial procedures to regularly reconcile deferred income to data held on the LISA registration system.

Income analysis

Finding

19. Spreadsheets used to analyse income were not secured against unauthorised access or amendment.

Investments

Finding

20. The ledger balances did not agree with the Investment Manager's report,

Fixed Assets

Finding

21. The useful life used in the asset register for certain equipment was not in accordance with stated policy.

Grant aided expenditure

Finding

22. The Council was granted funding from the Department of Health on the basis of claims being made in 2007-08. The Council failed to claim for all grant funded expenditure by the end of the financial year and it is unclear whether the Department will now meet the expenditure.

Treatment of personal data obtained in the course of the audit

23. Earlier this year, we wrote to advise you of the NAO's policy on the acquisition, use, storage and destruction of personal data used for

audit purposes. The NAO has not had direct access to personal data and Baker Tilly UK Audit LLP has its own arrangements for the handling of personal data.

Future Issues

24. **Annex J** highlights those matters which, whilst having had no impact on the 2007-08 financial statements are likely to have a significant impact on the preparation and audit of future accounts.

Annex A: Draft Letter of Representation

T J Burr Esq.
Comptroller and Auditor General
National Audit Office
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[*CLIENT LETTERHEAD*]

LETTER OF REPRESENTATION: Health Professions Council 2007-2008

I acknowledge as Accounting Officer of the Health Professions Council (the Council) my responsibility for preparing accounts that give a true and fair view of the state of affairs, deficit, total recognised gains and losses and cash flows of the Council for the year ended 31 March 2008.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Privy Council, including the relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis; and
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and prepare the accounts on a going concern basis on the presumption that the Council will continue in operation.

I confirm that for the financial year ended 31 March 2008:

- neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in *Government Accounting and Managing Public Money*;
- having considered and enquired as to the Council's compliance with law and regulations, I am not aware of any actual or potential non-compliance that could have a material effect on the ability of the Council to conduct its business or on the results and financial position disclosed in the accounts;
- all accounting records have been provided to you for the purpose of your audit and all transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management meetings which you have requested have been supplied to you; and
- all Related Parties and Related Party Transactions involving Board Members and other senior staff of the Council have been properly disclosed.

All material accounting policies as adopted are detailed in note 1 to the accounts.

INTERNAL CONTROL

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect error and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated.

I confirm that I have reviewed the effectiveness of the system of internal control and that the disclosures I have made are in accordance with HM Treasury guidance on the Statement on Internal Control.

FRAUD

I acknowledge as Accounting Officer my responsibility for the design and implementation of internal controls to prevent and detect fraud and I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the Council and no allegations of fraud or suspected fraud affecting the financial statements has been communicated to me by employees, former employees, analysts, regulators or others.

ASSETS

General

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

Fixed Assets

All assets over £1,000 are capitalised. They are revalued annually, where material, using indices. Freehold buildings are revalued using professionally qualified Chartered Surveyors as disclosed in Note 1 to the accounts. Depreciation is calculated to reduce the net book amount of each asset to its estimated residual value by the end of its estimated useful life in the Council operations.

Other Current Assets

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

Investments

Financial investments are included at market value.

LIABILITIES

General

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

Provisions

No provisions have been made in the financial statements. I am not aware of any obligations for which a provision is necessary.

Contingent Liabilities

I am not aware of any pending litigation which may result in significant loss to the Council, and I am not aware of any action which is or may be brought against the Council under the Insolvency Act 1986.

I am also not aware of any indemnities, guarantees or letters of comfort issues by Council which create further contingent liabilities.

OTHER DISCLOSURES

Results

Except as disclosed in the accounts, the results for the year were not materially affected by transactions of a sort not usually undertaken by the Council, or circumstances of an exceptional or non-recurring nature.

Unadjusted errors

The following unadjusted errors have been brought to my attention:

- £1,317 misstatement in the value of investments.

I consider the effect of these unadjusted errors to be immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Post Balance Sheet Events

Except as disclosed in the accounts, there have been no material changes since the date of the balance sheet affecting liabilities and commitments, and no events or transactions have occurred which, though properly excluded from the accounts, are of such importance that they should have been brought to notice.

Ex-gratia Payments

All ex-gratia payments have been disclosed in the account and have been approved as appropriate by the Treasury.

Tax Liabilities for Contractors

The Council have provided for PAYE and NI provisions relating to Council and Committee members (office holders for tax purposes) dating back to 2002. I am not aware that Council has any potential tax liabilities for contractors that HMRC have or may deem to be employees.

Privy Council and Secretary of State Directions

Expenditure incurred and income received has been consistent with Directions given by the Privy Council and Secretary of State.

Marc Seale
Chief Executive

[Date - as per Balance Sheet]

Annex B: Draft Audit Certificate

HEALTH PROFESSIONS COUNCIL

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I [certify that I]¹ have audited the financial statements of Health Professions Council for the year ended [31 March 2008 under Article 46(5) of the Health Professions Order 2001. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Council, Chief Executive and auditor

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

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

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

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

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

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

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and the Accounting Officer in the preparation of the financial statements,

¹ The words 'I certify' should only be included if the C&AG is required 'to certify' the accounts by Statute.

and of whether the accounting policies are most appropriate to the [entity's] circumstances, consistently applied and adequately disclosed.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with Health Professions Order 2001 and directions made thereunder by the Privy Council, of the state of the Health Professions Council's affairs as at 31 March 2008 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Health Professions Order 2001 and Privy Council directions made thereunder; and
- information, which comprises the management commentary and remuneration report, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

*T J Burr
Comptroller and Auditor General
Date*

*National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
Date*

Annex C: Matters specifically required to be communicated to those charged with governance

Fraud

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

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

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

Reliance on Internal Audit and Other Assurances

In our audit strategy we stated that we would liaise with Internal Audit to determine the extent of reliance that could be placed on their work. We can confirm that Baker Tilly UK Audit LLP, on behalf of the NAO, reviewed all finalised internal audit reports relating to 2007-08. The issues and recommendations from reviews informed our risk based audit approach. In particular we took assurance from their Annual Report to the Audit Committee that presented their opinion on the overall adequacy and effectiveness of the Health Professions Council's risk management, control and governance processes.

Effectiveness of Communications

ISA (UK&I) 260 requires us to review the effectiveness of communications between the auditors and those charged with governance.

Throughout our audit, we have ensured that communications have been effective. Our standard annual publications have been issued, including the Audit Strategy issued in February 2008 and the audit team held regular meetings with finance staff.

Material Weaknesses in Internal Control

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

As external auditors, our communications of matters include only those audit matters of governance interest that have come to our attention as a result of the performance of the audit.

During the audit Baker Tilly UK Audit LLP, working on behalf of the NAO, reviewed the accounting systems and management controls operated by the Council only to the extent we considered necessary for the effective performance of the audit. As a result, the review may not have detected all weaknesses that exist or all improvements that could be made. Significant issues arising from our audit are documented in the main body of this report. Further more minor issues on the accounting and control systems of the Council and recommendations for improvements are set out in Annex D below.

Other Audit Matters of Governance Interest

ISA 260 also requires us to communicate with those charged with governance any other audit matters of governance interest.

There are no such additional matters which we would wish to bring to your attention.

Qualitative aspects of accounting practices and financial reporting

Under ISA 260 (UK&I), we are required to give our views about the qualitative aspects of the entity's accounting practices and financial reporting.

Significant Accounting Policies, Practices and Financial Reporting

The accounting requirements of company law and accounting standards permit a degree of choice in some areas as to the specific accounting policies and practices that may be adopted by an entity. For the accounts of central government entities, a policy or practice may be dictated by the Financial Reporting Manual issued by HM Treasury, and other relevant accounting guidance.

The accounting policies and practices adopted by management are relevant to the significant transaction streams encountered by the Council, and, except as highlighted in this report, have been applied consistently.

Timing of Transactions

There were no issues identified with regard to the timing of transactions.

Material Uncertainties

There were no material uncertainties identified during the course of the audit.

Unusual Transactions

There were no unusual items identified during the course of the audit.

Presentational Matters

During the course of the audit, there were a number of non-financial and presentational issues identified, which were presented to the finance team separately.

Areas of Significant Estimation and Judgement

We consider the appropriateness of any significant accounting estimates and judgements throughout our audit. There were no significant accounting estimates.

Review of Information in the Annual Report

Our review of the information contained in the Annual Report did not highlight any apparent misstatements.

The Annual Report was considered to be consistent with our understanding of the business, and was in line with the other information provided in the financial statements. The balance of information was appropriate, and the clarity of the information was sufficient.

Annex D: Minor Issues

Finding	Risk (Why we are raising the issue)	Recommendation	Management Response
See separate report by Baker Tilly UK Audit LLP			

Annex E: Audit approach and response to key risks identified

Audit Approach

Our audit approach is primarily risk based.

In conjunction with Baker Tilly UK Audit LLP the Council's appointed auditors, we collect information by interviews with your staff and review key documents to improve our understanding of your business and operations. This enables us to form a preliminary view of the strengths and weaknesses of the overall control environment.

Baker Tilly UK Audit LLP, acting for the NAO, review the information systems controls and the controls operating over specific account balances, such as fixed assets, provisions and expenditure. This information is used to identify the significant risk areas. Management controls are reviewed and their design, operation and effectiveness tested in order to determine those on which we can gain assurance, and those where more audit effort needs to be directed.

We review Baker Tilly's planned approach to ensure that it is consistent with the risks identified and that it has undergone appropriate partner consideration. We review their completed audit to confirm work has been undertaken in accordance with the strategy and that their work has been reviewed internally and the conclusion is supported by the evidence obtained.

Response to Key Audit Risks

Key Audit Issue	Audit Response	Outcome
Income recognition / Deferred income Income should be recognised over the correct period.	Analytical review of income performed and deferred income calculations substantively tested.	Analytical review conformed income had been accurately recognised.
Purchase expenditure and cut-off Expenditure should be recorded in the correct accounting period and any provisions should be in accordance with financial reporting standards.	Analytical review of comparison to budgets and forecasts, substantive testing of transactions around year-end.	Expenditure was accurately recognised.
Regularity of expenditure Expenditure and income complies with the authorities which govern them	Compliance testing of internal controls and substantive testing of a sample of transactions.	Tested transactions complied with authorities
Provision for PAYE/NIC on fees A review of PAYE/NIC procedure in 2005 identified potential liabilities in respect of Council member/partner fees and existing procedures amended.	Current procedures reviewed to confirm payments in line with formal procedure. Provision for liabilities reviewed.	Procedures are being appropriately applied. The provision for earlier liabilities is unchanged. The Council has not received a request for payment from HMRC.
Stannary St property refurbishment Only relevant costs should be capitalised. Property values should be reassessed by professional valuers and revalued amounts correctly treated in the financial statements.	A sample of development costs were substantively tested to confirm correct treatment, Revaluation report checked to confirm appropriate accounting treatment	Appropriate accounting for refurbishment costs has taken place. The treatment of revaluation adjustments has been confirmed.
VAT deregulation 22/26 Stannary St Ltd to deregister for VAT purposes. Repayment of VAT claimed on refurbishment costs will need to be provided for.	Review of VAT advice and provision for repayment.	VAT provision of £197,137 confirmed as reasonable.

Annex F: Uncorrected misstatements

1. We are obliged under ISA 260 to bring to the attention of those charged with governance the errors found during the course of the audit that have not been corrected, unless they are 'clearly trivial'. We have determined that a 'clearly trivial' error is an amount less than £1,000.
2. There was one unadjusted misstatement in the accounts. This related to a £1,317 difference on investments between the ledger and the Investment Annual Report. This has not been corrected by management because it is considered immaterial.
3. Other, more significant, misstatements have been adjusted by the Council during the course of the audit (see Annex G below).

Annex G: Significant Financial Adjustments

As a result of our audit, adjustments were made to the draft accounts presented for audit. The main adjustments are discussed below, and had a net effect of £996,438 credit on the I&E account, reducing the deficit, and £87,974 credit on the Balance Sheet reducing total assets less current liabilities. The balance of the adjustments are movements on reserves. The main adjustments are set out in detail in the report of the appointed auditors Baker Tilly UK Audit LLP.

Annex H: Independence, Integrity and Objectivity of Auditors

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

During our audit of the 2007-08 financial statements, there were no threats identified to the objectivity and independence of the audits.

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

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

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

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

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

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

In addition, the NAO's procedures encompass Standards Assurance Reviews. These internal pre-certification reviews focus on key areas of professional judgement and significant risk, and are undertaken by an independent manager or director from a different audit team within the NAO. They help us to minimise our risks by ensuring that key audit judgements are subject to peer review before certification. There was no independent director review for the 2007-08 audit.

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

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

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

Annex I: Treatment of personal data obtained in the course of the audit

NAO requests for personal data are kept to the minimum necessary to complete our work. Any personal information we obtain is retained only for as long as we need it. Personal data is retained after the audit is completed only where this is required by professional auditing standards. The NAO Director is personally responsible for authorising all NAO requests for personal data in connection with the audit; maintaining records of the data held; ensuring it is securely and appropriately processed; ensuring it is securely and appropriately retained; and for certifying its destruction.

Baker Tilly LLP undertake the audit on behalf of the NAO and have their own arrangements for the collection, security and disposal of data. The NAO receive drafts of the Annual Report and Accounts which contain details of individual's remuneration. These are maintained securely and

Source: Statement on the Management of Personal Data at the NAO

Description of personal data obtained	Treatment of personal data upon completion of audit	Date actioned / intended date of destruction where data has been securely retained ²
Remuneration report	Retained – but information is in the public domain	April 2015.

² Retention of personal data may be necessary for public records purposes or other legal reasons. In such circumstances, the data will be securely retained, in accordance with the NAO's financial audit data retention and disposals policy, for 7 years after the year of account and will then be destroyed. For 2007-08 accounts, retained data will be destroyed in April 2015.

Annex J: Future issues

The following matters have had no impact on the 2007-08 financial statements. They are likely to have a significant impact on the preparation and audit of future accounts.

Issue	Impact	Recommendation	Potential date of impact
<p>Accounting Developments</p> <p>New Financial Reporting Standards for 2008-09 The reporting standards relating to financial instruments, FRS 25, 26 and 29, (which are identical to the IFRS equivalents) will be introduced to the UK GAAP based FReM for 2008-09.</p>	<p>2008-09 accounts will need to be prepared in accordance with FRS 25, 26 and 29.</p>	<p>The Council will need to undertake a thorough review of all its contracts to identify and recognise any such financial instruments in the 2008-09 UK GAAP based accounts.</p>	<p>2008-09 published UK GAAP based accounts.</p>
<p>International Financial Reporting Standards (IFRS) On 12 March 2008, the Chancellor of the Exchequer announced in the Budget that the introduction of International Financial Reporting Standards (IFRS) for the public sector has been deferred until 2009-10. Therefore published accounts produced in 2008-09 will continue to be produced on a UK GAAP basis applying FRS and in conjunction with the FReM.</p>	<p>The Council will be required to produce (unpublished) shadow accounts on an IFRS basis for 2008-09 alongside the published UK GAAP based accounts. As well as our audit of the published accounts, the shadow IFRS based accounts will be subject to review by the NAO as part of the audit cycle.</p> <p>What about opening balance sheet audit in Autumn 2008?</p>	<p>The Council should continue to prepare for the introduction of IFRS in order that the transition can be managed as smoothly as possible, and to ensure that there is sufficient time to address any significant issues.</p>	<p>2008-09 shadow IFRS based accounts.</p> <p>2009-10 published IFRS based accounts.</p>

Issue	Impact	Recommendation	Potential date of impact
<p>SIC – Information Risk Management DAO(GEN)02/08 (April 2008) introduced new guidance in <i>Managing Public Money</i> concerning the SIC, highlighting the importance of safeguarding information, including personal data,, as part of an organisation's intangible assets.</p>	<p>From 2008-09, the SIC must include wording on information risk management, considering any weaknesses identified and the steps planned to improve the organisation's systems.</p>	<p>Management and those charged with governance must ensure that an appropriate strategy is in place in 2008-09 to deliver appropriate standards of collection, use, control and access to all information, including personal data. Appropriate systems must be developed to ensure that any shortcomings in the handling of data are identified and promptly rectified.</p>	<p>2008-09 et seq.</p>

