

**REPORT TO THOSE  
CHARGED WITH GOVERNANCE  
JUNE 2012**

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**Health Professions Council**

**Audit Completion Report (including  
management letter) on the 2011-12 financial  
statement audit**

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

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The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons.

He is the head of the NAO, which employs some 880 staff. He and the NAO 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 led to savings and other efficiency gains worth more than £1 billion in 2010-11.

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# Executive Summary

## Introduction

- 1 This report summarises the key matters arising from our audit of the 2011-12 financial statements for the benefit of those charged with governance<sup>1</sup>. We would like to thank Tim Moore and his staff for their co-operation during the audit process.
- 2 The examination of the 2011-12 financial statements was undertaken in accordance with auditing standards issued by the Auditing Practice Board, taking into account the UK Auditing Practices Board's Practice Note 10: *Audit of Financial Statements of Public Sector Bodies in the United Kingdom*. Our approach to the audit was planned and executed in accordance with the Audit Planning Report presented to the Audit Committee in January 2012.
- 3 This report has been prepared for the sole use of Health Professions Council (HPC) although it may also be shared with the Privy Council. It must not be disclosed to any other third party, or quoted or referred to, without the written consent of the National Audit Office (NAO) and no responsibility is assumed by the NAO to any other person.

## Actions for those charged with governance

- 4 Those charged with governance are invited to review the findings set out in this report, including the draft letter of representation and audit certificate included at Annex A and Annex B, respectively.
- 5 Those charged with governance should consider whether the unadjusted misstatements set out in the Identified Misstatements section, should be corrected. Where non-adjustment is confirmed, the Audit Committee minutes should provide written endorsement of management's reasons for not correcting the misstatements.

## Overall conclusion and opinion

- 6 The Comptroller and Auditor General (C&AG) will report his opinion to Parliament in the format set out in Annex B – Proposed Audit Certificate. The C&AG's certificate includes an opinion as to the truth and fairness of the financial statements and that the expenditure and income have been applied to the

<sup>1</sup> In accordance with ISA 260, those charged with governance are those individuals accountable for ensuring that the entity achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

purposes intended by Parliament and that the transactions conform to the authorities which govern them ('regularity').

- 7 Subject to the satisfactory clearance of the matters set out below, the C&AG anticipates certifying the 2011-12 financial statements with an unqualified audit opinion, without modification.

## Status of audit

- 8 At the date of presentation of report, the following were outstanding:
- Completion of review of the final Draft Annual Report and Accounts
  - Review of Post Balance Sheet Events
  - Completion of NAO internal review process
  - Completion of final enquiries with respect to the risk of fraud and propriety
  - The Letter of Representation should be signed by the Accounting Officer at the same time as the annual report and accounts. A draft letter is included at Annex A.
- 9 We expect our audit fee to be £38,500 as set out in our Audit Planning Report.

## Significant risks

- 10 Significant risks identified at the planning stage of the audit were communicated to you in the Audit Planning Report in January 2012. Our audit response to these risks and the findings are discussed in detail in the Significant Risks section.
- 11 We have not identified any additional Significant Risks during the course of the work which we have performed as part of our audit of HPC.

## Audit findings

- 12 We discuss the quality, effectiveness and transparency of HPC's financial reporting and its accounting policy selection, and our audit findings with regards to regularity and the internal control environment in the Audit Findings section.

### Financial reporting and accounting

- 13 We did not identify any significant concerns in relation to the quality effectiveness and transparency of financial reporting and accounting.

### Regularity, propriety and losses

- 14 We have not yet completed our final enquiries in respect of these matters.

## **6 Executive Summary**

### **Internal Control**

- 15** We have not identified any significant internal control weaknesses.
- 16** Other matters of governance interest are set out in the Other Matters of Governance Interest section.

### **Identified misstatements**

- 17** In the course of the audit we identified misstatements which have been adjusted in the financial statements, as detailed in the Identified Misstatements section. The net effect of these adjustments on the Statement of Comprehensive Net Expenditure (SoCNE) and the Statement of Financial Position (SoFP) was £43,000.
- 18** There are no further misstatements for which adjustment has not been made which are not clearly trivial.

# Significant Risks

**1.1** In our Audit Planning Report presented to those charged with governance in January 2012, our assessment of HPC's operations and control environment identified a number of significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. The table below describes how we addressed these matters through our audit process.

## Significant risks of material misstatement

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### (1) The Misstatement of deferred income

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#### Risk

During the audit work on the 2010/11 financial statements a discrepancy between the deferred income balances as recorded on Sage and Net-regulate was identified. Additional work was undertaken by HPC to reconcile this difference which led to material adjustments being made that reduced the discrepancy between the two systems as at 31 March 2011 to a level which we considered to be immaterial to the accounts. The financial statements were subsequently certified with an unqualified opinion, although the following unadjusted errors remained:

- £42k unsupported balance relating to registration fees;
- £59k unsupported balances relating to deferred income over 1 year; and
- £21k error relating to applications.

The full explanation of why Net-regulate and Sage report different levels of deferred income is still being sought and we are aware that some Internal Audit work currently in progress is looking at this issue. There remains a risk that the two systems continue to report different amounts and that the deferred income balance as at 31 March 2012 is materially misstated.

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#### Audit Response

In the normal course of our audit work we tested the deferred income balance in the light of the work that HPC had undertaken on the differences highlighted above. This included consideration of the work that HPC's internal auditors (Mazars) had completed in order to understand how these differences arose.

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## 8 Significant Risks

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### Findings

Although the majority of the differences that we had identified in last year's work have been resolved and/or written off, some historic differences still existed between Net-regulate and SAGE. Following evidence provided by HPC it was agreed that these differences were historic and could be written back to income.

Some small differences between the two systems continued to arise during the course of the year. These have been reviewed by HPC and a journal has been put through to correct these. As a result no differences existed at year end between the SAGE balance and the Net-regulate balance.

Management have advised us of their intention that the Net-Regulate and SAGE systems will be reconciled on a monthly basis in 2012-13.

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### (2) Liability related to Flexiplan Pension Scheme

#### Risk

One of HPC's occupational pension schemes is in the process of being closed. There is an on-going court case to ascertain the liability to each of the employers involved. In HPC's 2010-11 accounts a contingent liability disclosure was made. Due to the changes that may occur during the year a risk remains that HPC's accounts do not adequately disclose its liability in relation to this scheme.

#### Audit Response

We considered the situation with regard to the court case as it stood at our final audit visit

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### Findings

A final Court hearing has yet to be held and so there is still no certainty about the value of any liability that HPC has with respect to this pension scheme. HPC has received correspondence which states that the payments that HPC have been making on a monthly basis should continue until the judgement has been made. As a result of this, an accrual has been made for these monthly payments for the rest of the financial year which we agree is the correct accounting treatment. Disclosure of the potential liability has been included in the Contingent Liability note in the financial statements.

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### (3) Risk of Fraud through Management Override of Controls

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#### Risk

International Standards on Auditing (UK and Ireland 240 *The auditor's responsibilities relating to fraud in an audit of financial statements* states that there is a risk in all entities that management overrides controls to perpetrate fraud. The standard required that auditors perform audit procedures to address this risk in the following areas:

- Journal entries
- Bias in accounting estimates
- Significant unusual transactions

#### Audit Response

We undertook specific testing to address the risks involved in these areas and established HPC's processes for preventing and identifying any override of management controls.

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#### Findings

We have performed audit procedures to consider journal entries, bias in accounting estimates and significant unusual transactions. The findings from this work do not suggest management override of controls to perpetrate fraud.

We are currently making our final enquiries in respect of this risk.

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### (4) Revenue Recognition

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#### Risk

There is a presumption in International Standard on Auditing (UK and Ireland) 240 *The auditors responsibilities relating to fraud in an audit of financial statements* that there are risks of fraud in revenue recognition, in particular where performance is measured in terms of revenue growth or profit.

HPC's reliance on fee income to cover costs, and issues we identified with respect to revenue recognition in 2010-11, means that revenue recognition is a significant risk to the income area and the related figures.

#### Audit Response

Our testing on income including completeness and cut-off, plus our work on deferred

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## 10 Significant Risks

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income addressed this risk.

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### **Findings**

Our findings with respect to the risk regarding deferred income are outlined above.

We have not identified any indications of fraud in income recognition.

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# Audit Findings

## Financial Reporting and Accounting Policies

- 2.1** The Annual Report and Accounts are required to comply with the Government Financial Reporting Manual (FReM) and the Accounts Direction issued by the Privy Council.
- 2.2** In this section we draw to your attention our review of qualitative aspects of the accounting practices and financial reporting. This includes any significant changes or issues in respect of the accounting policies; estimates; judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period. We also review the overall balance and clarity of information contained in the Annual Report.
- 2.3** We considered:
- The appropriateness of the accounting policies to the particular circumstances of HPC, judged against the objectives of relevance, reliability, comparability and understandability
  - The timing of transactions and the period in which they are recorded
  - The appropriateness of accounting estimates and judgments, for example in relation to provisions, including the consistency of assumptions and degree of prudence reflected in the recorded amounts
  - The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements
  - The extent to which the financial statements are affected by any unusual transactions including non-recurring profits and losses recognised during the period and the extent to which such transactions are separately disclosed in the financial statements.
  - Apparent misstatements in the other information in the document containing the audited financial statements or material inconsistencies between it and the audited financial statements.

We have no issues to raise on these matters.

## 12 Audit Findings

### Review of information in the Annual Report

- 2.4 We review information in the Annual Report only to the extent that we confirm it is consistent with the financial statements and our understanding of the business. Except as noted in the audit opinion, the Annual Report is not subject to our audit opinion.
- 2.5 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.
- 2.6 The balance of information contained in the Annual Report was appropriate, and the clarity of the information was sufficient.

### Regularity, Propriety & Losses

- 2.7 We have not yet completed our final enquiries in respect of these matters.

### Internal Control

- 2.8 We did not identify any significant internal control weaknesses.

### Governance Statement

- 2.9 All central government bodies covered by the FReM are required to produce a Governance Statement from 2011-12 instead of a Statement on Internal Control. Although there is no standard template for the Governance Statement, it should cover the governance framework, the Board's performance, highlights of the board and committee reports (the Audit Committee and the Remuneration Committee in particular), an account of corporate governance, and risk assessment.
- 2.10 The Governance Statement fairly reflects our understanding of the state of the internal control systems within the entity during the year and has been prepared in accordance with HM Treasury Guidance.

### Remuneration Report

- 2.11 In our opinion, the Remuneration Report has been properly prepared in accordance with Privy Council directions issued under the Health Professions Order 2001.

### Observations & Recommendations

- 2.12 This section outlines the findings arising from our audit, as well as management's response to these recommendations.
- 2.13 We have included the significant and other, less significant findings arising from our audit which are defined as:
- **Significant** - major issues for the attention of those charged with governance and senior management which may have the potential to result in a material weakness

in internal control;

- **Other** - weaknesses identified in our audit where action will offer the potential for improvements to the efficiency and effectiveness of internal controls.

**2.14** Any other minor issues, that are not considered significant enough to be reported to the Audit Committee, have been discussed and agreed with the Finance Team.

**2.15** As outlined in our Audit Planning Report our procedures included a review of the internal controls and 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.

### Findings from the Interim Audit

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#### 1. Capitalisation of software licenses as Tangible fixed assets - OTHER

<b>Observation</b>	We noted that a software license had been capitalised as property, plant and equipment instead of intangible assets.
<b>Risk</b>	There is a risk that property, plant and equipment is overstated and intangible assets are understated on the Statement of Financial Position.
<b>Recommendation</b>	Although the amounts involved are not material, HPC should consider reclassification of the software licenses to the correct category of non-current assets.
<b>Management response</b>	This item has now been included in intangible assets and will be correctly classified at 31 March.

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## 14 Audit Findings

### Findings from the Final Audit

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#### 1. Fixed Asset Register (FAR) - OTHER

<b>Observation</b>	During our testing on fixed assets we identified that the fixed asset register included items that have been disposed of that were still showing on the register, albeit at a net book value.
<b>Risk</b>	There is a risk that the fixed asset register does not provide an accurate reflection of the assets that HPC holds and that the gross cost and accumulated depreciation disclosed in the Non-Current Assets notes are misstated, although we note that the impact of this on the net book value of assets carried in the SOFP is nil.
<b>Recommendation</b>	We recommend that HPC review the fixed asset register regular to ensure that it is accurate and that a process is introduced to ensure that the Finance team is notified of disposals as they occur so that the FAR can be updated accordingly.
<b>Management response</b>	The Finance team will remind department managers to complete asset disposal reports on a monthly basis.

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**2.16** We reviewed management's implementation of recommendations made in our prior year Management Letter. Our findings are set out in Annex C – Implementation of Prior Year Recommendations.

## Identified Misstatements

**3.1** This section contains details of adjustments made to the financial statements during the course of the audit, as well as unadjusted errors which are not considered material in the context of the financial statements as a whole.

**3.2** We do not consider that the adjusted or unadjusted errors indicate a significant weakness in accounting or control which needs to be reflected in the Governance Statement.

### Significant adjustments made to the financial statements

**3.3** As a result of our audit, adjustments were made to the draft financial statements presented for audit. The adjustments are shown below. The corporation tax adjustment was due to the production of the tax computation taking place after the draft financial statements were presented for audit. The presentation of this information enables those charged with governance to assess the extent to which the draft financial statements presented for audit have been subject to change as a result of the audit process.

**3.4** The final audit adjustments made to the initial draft financial statements presented for audit are noted in the table below. The net effect of the adjustments on the SoCNE was to increase HPC's net operating cost by £43k and to decrease net assets in the SoFP by £43k.

#### Total audit adjustments

Description of adjustment	[SoCNE]		[SoFP]	
	Debit £'000	Credit £'000	Debit £'000	Credit £'000
Deferred income write off		23	43	20
Pension accrual	54			54
Corporation tax	12			12

**3.5** We have also made a number of other suggestions to improve narrative disclosures, such as in respect of the disclosure in the Governance Report and to ensure completeness of the disclosures required under the FReM.

## Unadjusted errors or uncertainties arising from the audit

**3.6** We are obliged to bring to your attention the errors found during the course of the audit that have not been corrected, unless they are 'clearly trivial'. There are no further misstatements for which adjustment has not been made which are not clearly trivial.



# Other Matters of Governance Interest

**4.1** International Standard on Auditing 260 requires us to communicate with those charged with governance any other audit matters of governance interest. These include matters which have come to our attention which may present future risks, enhance overall governance or where those charged with governance might wish to seek assurance on controls and processes.

## Fraud

**4.2** We are required by Auditing Standards to report to you if we identify a fraud or obtain information that indicates that a fraud may exist. We are in the process of completing our final enquiries with respect to the risk of fraud.

**4.3** In addition, we are not aware of material weaknesses in the design or implementation of internal control to prevent and detect fraud.

## Management of information and personal data

**4.4** HM Treasury and Cabinet Office issued guidance in 2008 regarding the management of information and personal data, and government entities were required to review their compliance arrangements and to disclose any specific data incidents. Those charged with governance should ensure they have made sufficient enquiries of management to form a view on HPC's progress in implementing Cabinet Office recommendations, and that the disclosures in the Governance Statement reflect this. Additionally those charged with governance should seek assurance on any data related incidents which may require disclosure. Details of data handling incidents which occurred during the year are included in the Management Commentary part of the Annual Report.

## Statement on personal data

**4.5** During the course of our audit we have access to personal data to support our audit testing. We have established processes to hold this data securely within encrypted files and to destroy it where relevant at the conclusion of our audit. We can confirm that we have discharged those responsibilities communicated to you in the NAO's Statement on Management of Personal Data at the NAO ([http://www.nao.org.uk/Publication\\_Scheme/data\\_protection\\_review.pdf](http://www.nao.org.uk/Publication_Scheme/data_protection_review.pdf)).

## Compliance with laws and regulations

**4.6** In the course of our audit, we have not identified any suspected or non-compliance with laws and regulations.

## Disagreements with management

**4.7** There are no audit disagreements with management about matters that, individually or in aggregate, could be significant to the financial statements to report.

## Co-operation with other auditors

### Internal Audit

**4.8** We review the work undertaken by Internal Audit use the findings of these report where relevant to informed our consideration of the Governance Statement.

## Independence, integrity & objectivity of auditors

**4.9** The NAO's policy to ensure independence, integrity and objectivity of our auditors was set out in our Audit Planning Report. 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.

**4.10** We have complied with APB Ethical Standards and, in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the NAO and HPC that we consider to bear on our objectivity and independence.

# Annex A – DRAFT Letter of Representation

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

## **LETTER OF REPRESENTATION: Health Professions Council – YEAR ENDED 31 MARCH 2012**

I acknowledge as Accounting Officer of the Health Professions Council (HPC) my responsibility for preparing accounts that give a true and fair view of the state of affairs, deficit, changes in reserves and cash flows of HPC for the year ended 31 March 2012.

In preparing the accounts, I was required to:

- observe the accounts direction issued by the Privy Council, including relevant accounting and disclosure requirements and apply appropriate accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- make an assessment that HPC is a going concern and will continue to be in operation throughout the next year; and ensure that this has been appropriately disclosed in the financial statements.

I confirm that for the financial year ended 31 March 2012:

- 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 Managing Public Money;

- having considered and enquired as to HPC'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 HPC 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 HPC 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
- the information provided regarding the identification of related parties is complete; and the related party disclosures in the financial statements are adequate.

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 Governance Statement.

### **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 HPC 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, other than those of which you have been made aware.

### **ASSETS**

## **General**

All assets included in the Statement of Financial Position were in existence at the reporting date and owned by HPC, and free from any lien, encumbrance or charge, except as disclosed in the accounts. The Statement of Financial Position includes all tangible assets owned by the HPC.

## **Non-Current Assets**

All assets over £1,000 are capitalised. Apart from land and buildings, all other assets are valued at historic cost, as this is not materially different to fair value. Valuations are performed on an existing use open market value basis as required with a minimum interval of five years. 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 HPC's operations.

## **Other Current Assets**

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

## **LIABILITIES**

### **General**

All liabilities have been recorded in the statement of financial position. There were no significant losses in the year and no provisions for losses were required at the year-end.

### **Provisions**

There are no provisions to be made in the financial statements.

### **Contingent Liabilities**

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

A contingent liability has been recognised in respect of possible liabilities in relation to the Capita Flexiplan Pension Scheme. The liability due to be paid by HPC will be determined in Court. A liability has been accrued for all of the amounts that the HPC considers it probable that it will have to pay.

### **Deferred Income**

The deferred income recorded in the financial statements represent the balance of fees received during 2011-12, or an earlier financial year, but which have been paid in advance and which relate to periods occurring after 31 March 2012.

### **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 HPC, or circumstances of an exceptional or non-recurring nature.

#### **Unadjusted Errors**

There are no further misstatements for which adjustment has not been made which are not clearly trivial.

#### **Events after the Reporting Period**

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

#### **Management of Personal Data**

Except as disclosed in the Management Commentary, there have been no personal data related incidents in 2011-12 which are required to be reported.

**Marc Seale**  
**Chief Executive**  
**July 2012**



# Annex B – Proposed Audit Certificate

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

I certify that I have audited the financial statements of the Health Professions Council for the year ended 31 March 2012 under the Health Professions Order 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Reserves; 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 Board, Accounting Officer and auditor**

As explained more fully in the Statement of Responsibilities of the Council and its Chief Executive, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Health Professions Order 2001. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Health Professions Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Health Professions Council; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial



statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

**Opinion on regularity**

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

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Health Professions Council's affairs as at 31 March 2012 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Health Professions Order 2001 and the Privy Council directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Privy Council directions made under the Health Professions Order 2001; and
- the information given in Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

## 26 Annex B – Proposed Audit Certificate

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**

**Date**

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

# Annex C - Implementation of Prior Year Recommendations

**3.7** We reviewed management's implementation of recommendations made in our prior year Management Letter. We have summarised the response and provided our evaluation, based on the audit work we have undertaken in respect of internal controls.

No.	Recommendation	Management's Implementation
1	<p><b>Deferred Income Balance</b></p> <p>A discrepancy between the deferred income balance on net regulate and Sage was identified which led to a delay in the accounts being signed while the discrepancy was investigated and adjustments made. Full details are shown in the 2010/11 Audit Completion Report.</p>	<p><b>Management Response</b></p> <p>Adjustments were made to the Accounts for 2010-11 in relation to the £356k difference by crediting income or creditor accounts where due. Where a refund has been due to a former registrant this has been done.</p> <p>As part of the monthly management accounting process a reconciliation is carried out between Sage and NetRegulate reports. Where there are identified differences these will be investigated by the Internal Audit Forensic accounting team over the coming months. The review is expected to be completed before the end of December 2011.</p> <p>A review of the functionality has been started and actions will be taken to ensure that any future issues will be dealt with promptly</p> <p><b>Auditor Follow-up</b></p> <p>The report that the Internal Audit forensic team produced was reviewed and the future implementation of the recommendations discussed with HPC. The differences between the two systems were reconciled as at 31 March 2012 and the appropriate adjustments have been correctly reflected in the financial statements.</p>
2	<p><b>Receivables reconciliations not properly documented</b></p> <p>Staff should be reminded of the importance of properly documenting, evidencing and filing reconciliations to demonstrate they have been properly prepared and reviewed.</p>	<p><b>Management Response</b></p> <p>Staff are aware of the importance of demonstrating that timely and properly prepared and reviewed reconciliations have taken place. The two samples brought to management attention had already been addressed prior to the audit activity.</p> <p>Regarding the sample testing 1: It was through a check process that staff became aware that an original fully completed and authorised</p>

	<p>reconciliation had been misfiled. A replacement reconciliation was prepared and approved immediately.</p> <p>Regarding sample testing 2: In the month after the SFAM responsible for AR reconciliations became aware of the impact of a GL posting post month end timetable close but pre GL FARM close, action was taken to reschedule the timing of receivables reconciliations. These now take place only once both AR and GL ledgers are FARM system closed.</p> <p><b>Auditor Follow-up</b></p> <p>No issues were identified with the sample of accounts receivable reconciliations tested during our 2011-12 audit.</p>
<p>3 <b>Capitalisation of Training and Support</b></p> <p>Our testing on non-current assets additions completed during our interim audit identified that invoices (£7,743 and £17,500) which related to training and support costs had been capitalised, rather than expensed in year. We understand that these errors may have occurred because costs are coded to capital or expense codes by departments when purchase orders are raised and that this coding is not approved by finance at this stage</p>	<p><b>Management Response</b></p> <p>The two invoices which were found to be training costs are now shown in the final accounts as expenditure items and have not been capitalised. We have now introduced a system where all purchase orders raised by departments to the capital expenditure codes, are approved by the Financial Controller before they are approved by the relevant signatories. Any invoices for capital items, which are received by the finance department were an electronic purchase order has not been raised (i.e. one off payment) will need to be signed off by the financial controller before it is processed and capitalised.</p> <p><b>Auditor Follow-up</b></p> <p>Our audit testing found no further issues of this nature.</p>
<p>4 <b>Income recognition</b></p> <p>As part of our income testing (General ledger to Net-regulate) completed at the interim audit it was noted that one item of £50 was recognised incorrectly because the customers account had been erroneously put in credit on Net-regulate.</p>	<p><b>Management Response</b></p> <p>After testing a number of transactions, an issue was discovered in the transfer report and how it treats reversal charges where no cash has been allocated to the original charge. We have obtained reports which show all these transactions going back to when Net Regulate was introduced. This will be reviewed in conjunction with the working being done on the deferred income differences.</p> <p><b>Auditor Follow-up</b></p> <p>The issue was dealt with as part of the larger deferred income issue – see above. During our final audit testing we found that two of the Arts Therapists samples we tested (of four) contained error. We are currently whether the identification of these errors indicates further error in the accounts.</p>

