



# National Audit Office

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Dear Mr Seale,

## AUDIT OF THE HEALTH AND CARE PROFESSIONS COUNCIL: LETTER OF UNDERSTANDING

### 1. INTRODUCTION

1.1 The purpose of this letter is to set out the basis on which the Comptroller and Auditor General (C&AG) audits the financial statements of the Health and Care Professions Council (HCPC); and the respective responsibilities of the Chief Executive, as Accounting Officer, and the NAO, acting on behalf of the C&AG. This engagement will be conducted with the sole objective of our expressing an opinion on the financial statements of the HCPC.

### 2. SCOPE OF THE AUDIT

2.1 The financial audit will be conducted in accordance with the International Standards on Auditing (UK) and will cover the financial statements for the financial year 2017-18. These statements comprise the, Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Taxpayers' Equity, the related notes and the part of the Remuneration Report to be audited. We will also audit the consolidation schedules for the consolidated financial statements of Department of Health (see para 6.1).

2.2 Once the audit certificate is signed 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 the C&AG signs the audit certificate and that of the laying of the accounts before the Houses of Parliament.

### 3. RESPONSIBILITIES OF AUDITORS

3.1 The C&AG is required to audit the financial statements under the Health and Social Work Professions order 2001. This provides that the HCPC appoints persons to audit its accounts and that these persons must be eligible for appointment under the Companies Act. The C&AG is then required to examine, certify and report to Parliament. The C&AG is responsible for reporting whether in his opinion the financial statements give a true and fair view and whether they and the part of the Remuneration and Staff Report to



be audited have been properly prepared in accordance with the Health and Social Work Professions order 2001 and directions made thereunder by the Privy Council. He is required to report whether, in his opinion, the information which comprises the Performance Report and Accountability Report included in the Annual Report is consistent with the financial statements and the knowledge acquired by him during the course of the audit. He will also report on whether, in his opinion, in all material respects, the expenditure and income presented in the financial statements have been applied to the purposes intended by Parliament and whether the financial transactions conform to the authorities which govern them.

**3.2** In arriving at this opinion, we are required to consider the following matters, which the C&AG will report on if he is not satisfied:

- whether proper accounting records have been kept by HCPC, and proper returns adequate for the audit have been received from any third parties;
- whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit;
- whether the information given in the Annual Report is consistent with the financial statements and with information obtained during the course of the audit; and
- Whether the Governance Statement reflects HCPC's consideration of HM Treasury's guidance. We are not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of HCPC's corporate governance procedures or its risk and control procedures.

**3.3** There are certain other matters that, according to circumstances, the C&AG has a responsibility to report on. For example, where the financial statements do not adequately disclose details specifically required by HM Treasury, such as remuneration. We may include these details as an additional paragraph in the C&AG's audit certificate or in a separate report.

## **4. THE FINANCIAL AUDIT PROCESS**

**4.1** The audit will be conducted in accordance with the International Standards on Auditing (UK) and the United Kingdom Financial Reporting Council's Statement of Recommended Practice: Practice Note 10: Audit of the financial statements of public sector bodies in the United Kingdom. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance over whether the financial statements are free from material misstatement. We are also required to certify that the transactions of the entity are, in all material respects, in accordance with parliamentary intention and the authorities which govern them.

**4.2** We shall obtain an understanding of the accounting and internal control systems to assess their adequacy as a basis for the preparation of the financial statements; ensuring income and expenditure is incurred in accordance with parliamentary intention (regularity) and to establish whether proper accounting records have been maintained by the HCPC. We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom.

**4.3** The nature and extent of our procedures will vary according to our assessment of the HCPC's accounting and internal control systems and, where we wish to place reliance on it, the internal control system, and may cover any aspect of the operations that we consider appropriate.

**4.4** To assist us with the examination of your financial statements, we shall request timely sight of all documents or statements which are due to be issued with the financial statements. We shall review accompanying information for consistency with the financial statements and with our knowledge of your business. We will bring such inconsistencies to your attention so that they may be resolved prior to certification.

### **Limitations of a financial audit**

**4.5** We will 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 laws or regulations and detecting material amounts which are not in compliance with parliamentary intention), but our examination should not be relied upon to disclose all such material misstatements as may exist. Due to the test nature and other inherent limitations of a financial audit there is an unavoidable risk that some material misstatement may remain undiscovered.

**4.6** Our work on internal control will not be sufficient to enable us to express any assurance on whether or not the HCPC's internal controls are effective. Our financial statement audit cannot be relied upon to draw to your attention all matters that may be relevant to your consideration as to whether or not the system of internal control is effective.

### **Management representations**

**4.7** As part of our audit process we will request from management written representations on matters material to the financial statements or to the regularity of transactions where other sufficient appropriate evidence cannot reasonably be expected to exist, and where management may have made certain oral representations (Letter of Representation).

### **Reliance on third parties**

#### ***Another auditor***

**4.8** We will place reliance on the work of the appointed auditors in accordance with International Standard on Auditing (UK) 600: Special considerations – audits of group financial statements (including the work of component auditors). Therefore we will consider how the work of this auditor will affect the audit. We shall consider the professional competence of the appointed auditor in the context of this engagement and perform procedures to obtain sufficient evidence that their work is adequate for our purposes.

#### ***Internal Audit***

**4.9** We shall obtain an understanding of internal audit to identify and assess the risks of material misstatement of the financial statements. We will assess the internal audit function when this is relevant to the risk assessment and, where we intend to use specific audit work, we will evaluate and perform audit procedures on that work to confirm its adequacy for our purposes. Reliance on the work of internal audit may not always be appropriate for the purposes of the audit of the financial statements.

#### ***Use of management's experts***

**4.10** Where HCPC has used an expert to prepare information for inclusion within the financial statements, we may judge that it is appropriate to use the work of that expert as audit evidence. In doing so we will:

- Evaluate the competence, capabilities and objectivity of that expert;
- Obtain an understanding of the work of that expert; and
- Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion

Depending on the significance and complexity of the expert's work, we may judge it appropriate to use our own auditor's expert.

### **Communications**

**4.11** At the start of our audit each year, we will issue an audit planning report, which should be presented to the Audit Committee, containing details of identified risks and planned financial audit work on the HCPC for the coming year. This will detail where the audit team intends to make use of the work of internal audit, other auditors or experts.

**4.12** At the end of each audit we will report formally to you on:

- any significant weaknesses in, or observations on; the accounting and internal control system for presentation to the Audit Committee;
- errors and irregularities identified in the course of the audit (unless deemed clearly trivial);
- uncorrected misstatements;
- expected modifications to the audit certificate;
- matters specifically required to be reported under other International Standards on Auditing (other than that which governs the “Communications of Audit Matters With Those Charged With Governance”); and
- any other matters of interest to those charged with governance.

## **5. CLIENT RESPONSIBILITIES**

**5.1** As Accounting Officer of HCPC, you are responsible for:

- maintaining proper accounting records;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- preparing financial statements, which give a true and fair view, in accordance with the Health and Social Work Professions Order 2001 and with directions made by the Privy Council; and
- preparing the Annual Report, which includes the Remuneration Report, in accordance with the Health and Social Work Professions Order 2001 and with directions made by the Privy Council.

**5.2** As the Accounting Officer for HCPC your responsibilities extend to ensuring, in accordance with your appointment as Accounting Officer and Managing Public Money, that an appropriate system of internal control is in place to ensure that the expenditure and income presented in the financial statements have been applied to the purposes intended by Parliament and that the financial transactions conform to the authorities which govern them.

**5.3** The responsibility for safeguarding the assets of HCPC and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with you and HCPC. You must draw to our attention instances of actual or suspected fraud, error and irregularities when you become aware of them.

**5.4** You are responsible for making available to us, as and when required, all HCPC accounting records and all other relevant records and related information, including minutes of all management meetings and access to any documents held by third parties. We are entitled to require from your staff such other information and explanations as we consider necessary for the performance of our duties as auditors.

**5.5** As Accounting Officer of HCPC you are responsible for ensuring compliance with HM Treasury's Managing Public Money requirements regarding the operation of internal controls. The Financial Reporting Manual requires you to produce a Governance Statement.

## **6. AUDIT ARRANGEMENTS**

### **Department of Health and Social Care**

**6.1** HCPC has been designated for inclusion in the consolidated financial statements of Department of Health and Social Care (DHSC) in Schedule 1 of the Government Resource and Accounts Act 2000 (Estimates and Accounts) Order 2017. As such, HCPC is required to prepare information for inclusion in the consolidated financial statements in the form and to the timetable directed by DHSC .

**6.2** As part of our audit of the DHSC we will perform any necessary audit procedures on the consolidation schedules submitted by HCPC to the DHSC. The extent of our work on these schedules will be determined by the NAO engagement team responsible for the group audit of the DHSC. HCPC will not be charged for any costs we incur performing this work which are additional to the costs of performing the audit of HCPC.

#### **Handling data including personal data**

**6.3** The C&AG and the NAO both act as data controllers when using data for the purpose of audit. The C&AG leads the NAO. Where the C&AG appoints a contractor to perform an audit, that contractor will also act as a data controller of the data it uses in the course of the audit. The NAO has appointed a Data Protection Officer. The NAO's Data Protection Officer also acts as Data Protection Officer for the C&AG. The NAO has a network of Information Asset Owners (IAOs), which includes all the NAO's Directors, who ensure that personal data (and other sensitive data) used in connection with a particular project is requested, transferred, controlled, processed and destroyed in accordance with the General Data Protection Regulation, applicable national law, and the NAO's Data Protection Framework.

**6.4** As part of the NAO and C&AG's audit work the NAO and C&AG will require access to a range of data which you hold. This may include access to personal data. The NAO and C&AG will handle personal data in accordance with the Statement on the Management of Personal Data at the NAO (Annex 1). The NAO and C&AG will work with you to implement protocols for the secure sharing of the data that the NAO and C&AG require for the purposes of the audit. These protocols will be set out in the audit strategy document.

#### **Health and Safety**

**6.5** Members of the audit team will be in touch with relevant HCPC officers to discuss practical arrangements and the timing of audit visits. However, we would appreciate your co-operation in relation to the provision of support for our employees covering health, safety and emergency arrangements applicable to your premises. In particular, as our staff need to use a computer for a significant part of their time on your premises, we seek your assistance to provide a compliant workstation in accordance with the Display Screen Equipment Regulations. It is the responsibility of HCPC to ensure that NAO staff on site are advised of all relevant security protocols.

#### **Electronic Publication of Accounts**

**6.6** The HCPC may wish to publish the financial statements, including our audit certificate, on its website. It is the responsibility of HCPC to ensure that any such publication properly presents the financial information and audit certificate.

**6.7** HCPC must advise us of any intended publication and should seek our consent for the electronic presentation of our audit opinion. We reserve the right to withhold consent to the electronic publication of our certificate if the audited financial statements or audit certificate are to be published in an inappropriate manner.

**6.8** HCPC is also responsible for the controls over, and the security of their website. The examination of the controls over the maintenance and integrity of HCPC's website is beyond the scope of our audit of the financial statements.

#### **Freedom of Information Act 2000**

**6.9** The Freedom of Information Act 2000 introduced a statutory right of access to all types of "recorded" information held by most public bodies (known as "public authorities" in the Act). All individuals and organisations, regardless of citizenship or residence, have had this right of access from 1 January 2005. The Act requires public authorities to reply in writing to any request for access, stating whether they hold the

information requested, and providing a copy of the information if required, subject to certain exemptions. The Act is retrospective giving access to existing information whenever it was created. As a result, any NAO information held either by the NAO or by an audited body, including unpublished outputs such as reports to those charged with governance (as required by ISA (UK) 260), management letters, audit completion memoranda and other audit reports, are potentially disclosable, either by the NAO, or the audited body. Any requests for disclosure should be discussed with us as and when they are received. Similarly, you will be consulted about any Freedom of Information Act request received by the NAO for information that has been generated by HCPC.

### **Proceeds of Crime reporting**

**6.10** The C&AG is a relevant person within the meaning of the Money Laundering Regulations 2007. As such all NAO staff are required to report all knowledge or suspicion, or reasonable grounds to know or suspect, that a criminal offence giving rise to any direct or indirect benefit from criminal conduct has been committed, regardless of whether that offence has been committed by their client or by a third party.

**6.11** If as part of our work we have knowledge or suspicion, or have reasonable grounds to know or suspect, that such offences have been committed we are required to make a report to the National Crime Agency. In such circumstances it is not our practice to discuss such reports with you because of the restrictions imposed by the "tipping off" provisions of the anti-money laundering legislation.

**6.12** Central Government bodies are required to report frauds to HM Treasury, in line with HM Treasury's Managing Public Money. Informing the NAO, or being aware of the NAO's knowledge or suspicion of a fraud, does not absolve HCPC of this responsibility.

## **7. THE BRIBERY ACT**

**7.1** The National Audit Office has implemented procedures to ensure compliance by all staff with obligations under the Bribery Act 2010. These procedures require all staff to report any breaches of this Act which would give rise to the creation of criminal proceeds, or the suspicion of criminal proceeds being created in accordance with the Proceeds of Crime Reporting requirements at paragraph 6.6.1.

## **8. REPORTING TO THIRD PARTIES**

### **Reporting on Matters in the Public Interest**

**8.1** During the course of the audit of the financial statements, matters may be identified where the C&AG deems that it is in the public interest to report to the relevant authority in accordance with ISA (UK) 250A – Consideration of laws and regulations in an audit of financial statements. Any such reports which are made in good faith without malice shall not constitute a breach of any contractual or legal restriction on disclosure of information in accordance with Article 7 of Regulation (EU) No 537/2014.

## **9. OTHER MATTERS**

### **Use of Report & Confidentiality**

**9.1** Any formal report or other unpublished reports from us may not be provided to third parties or published 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 HCPC in mind and that we accept no duty or responsibility to any other party as concerns the reports.

### **Electronic communication**

**9.2** During the audit we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazard.

**9.3** We confirm that we each accept the risks of any authorised electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall each be responsible for protecting our own systems and interests in relation to electronic communications and (in each case including our respective employees, agents or servants) we shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information

**9.4** The exclusion of liability in the previous clause shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective employees, agents or servants.

### **Quality of service**

**9.5** It is our desire to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with me. If, for any reason, you would prefer to discuss these matters with someone other than me, please contact the Director, Financial Audit Practice and Quality at the NAO. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

## **10. FEES**

**10.1** Fees are calculated on the basis of the time we spend on HCPC affairs, and on the levels of skill and responsibility involved. At the beginning of each year's audit we shall estimate the cost of the work to be undertaken and record this in writing for HCPC.

**10.2** We may present invoices for work done at appropriate intervals during the course of the year or following the completion of the annual audit. Audit fees are intended to meet the full costs of the audit. These invoices will be payable upon presentation. The amount of work undertaken will not be increased beyond that covered by the estimated fee without our giving prior warning to the HCPC, together with the reasons for the increase.

## **11. OTHER SERVICES**

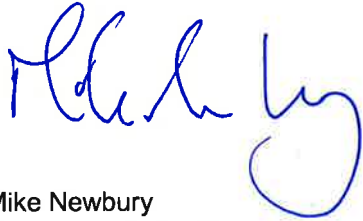
**11.1** Under the National Audit Act 1983, the C&AG may carry out Value for Money examinations into the economy, efficiency and effectiveness with which HCPC has applied its resources in discharging its functions and report the results of such examinations to the House of Commons.

**11.2** Additionally the C&AG may undertake further work outside the scope of a financial audit engagement as determined by the audit team to be of interest to those charged with governance or Parliament more generally. Such work may include, for example, investigations designed to examine key issues of propriety, governance or financial management. For the duration of this letter of understanding, each such assignment will be subject to separate terms of reference issued in advance of work commencing.

## **12. ACCEPTANCE**

**12.1** Once agreed, this arrangement will remain effective for future years unless it is terminated, amended or superseded. Should you wish to discuss any aspects of this before signing at the foot of this letter and returning a copy, please do not hesitate to contact me.

**12.2** I should be grateful if you would bring this letter to the attention of the HCPC's Audit Committee.



Mike Newbury  
Engagement Director  
For and on behalf of the Comptroller and Auditor General

Date:

Marc Seale  
Chief Executive  
Health and Care Professions Council

Date:



## **ANNEX 1: Statement on the Management of Personal Data at the NAO**

### **Introduction**

**The Comptroller and Auditor General (C&AG) and the National Audit Office (NAO) take the protection of personal data very seriously. The NAO's Code of Conduct for staff includes a statement on how we handle personal data. All staff must reaffirm on an annual basis that they understand their responsibilities under the Code of Conduct to treat personal data appropriately and in accordance with our policies and procedures.**

We have privileged and wide-ranging access to personal data and information to support our work and ensure that the C&AG's reports to Parliament are factual, accurate and complete. We have a duty to respect this privileged access and to ensure that the personal data entrusted to us is safeguarded properly.

We have robust procedures for managing personal data in accordance with the Data Protection Act 1998 and these will form the foundation of our compliance with the General Data Protection Regulation (GDPR).

GDPR provides an opportunity to review and develop our existing procedures to ensure compliance with the enhanced data protection framework and reaffirm our commitment to the proper management of personal data in line with our legal responsibilities.

We have established a dedicated project board to oversee our preparations for GDPR. The board is chaired by a member of NAO's senior management team and comprises colleagues from across the business including audit practice, digital, communications and corporate teams.

Our activities in respect of the new legislation run up to and beyond 25 May 2018 (the GDPR transition date) and include:

**Management of personal data-** comprehensive mapping of data processing activities to ensure a complete view of data held and the legal basis for processing. Reviewing existing data protection and information security frameworks to ensure consistency with GDPR requirements alongside the provision of an efficient and effective public audit function.

**Procedures and Guidance-** reviewing and, where necessary, building on our procedures and guidance for audit and corporate teams.

**Contracts-** reviewing and amending existing contracts with third parties to ensure clauses are consistent with the requirements of the new data protection regime.

**Training-** office wide training supported by targeted workshops for all audit teams. All our staff undertake mandatory annual e-learning on data protection and we plan to refresh this to encompass GDPR requirements.

**Communications & Awareness-** we have set up a dedicated intranet page to raise awareness of GDPR among all our staff. We are supporting this with a communication plan that includes blogs and FAQs to help staff understand GDPR and the expected impact on their work.

### **Statement on management of personal data**

- a We take our obligations under the General Data Protection Regulations (GDPR) seriously. We have appointed a Data Protection Officer and all our staff are required to comply with formal data protection policies, guidelines and procedures designed to keep third party data secure and support privacy by design.
- b We maintain a secure modern IT environment. We undertake regular independent security assessments and our Information Security Management Systems is aligned to ISO27001. Our systems and backups are all hosted within the European Economic Area.
- c We keep our requests for personal data to the minimum necessary to complete our work and retain any personal information we obtain only for as long as we need it. We take appropriate measures to safeguard the confidentiality, integrity and availability of data we hold according to its volume and sensitivity as laid out in our data protection policies. Where appropriate, we conduct data protection

impact assessments which may result in additional controls being applied. We keep a record of our data processing activities, as required under the GDPR.

- d To help you understand our commitment, we have developed a series of Personal Data Statements below, which all our staff subscribe to:
- We will only request personal data for use in discharging our statutory and other audit functions and for lawful purposes. We request the minimum amount of information necessary to carry out our work. We have protocols which specify the measures we use for protecting personal data during transfer for the purposes of our work.
  - Without constraining our statutory powers, we will work with you to implement our protocols for protecting personal data during transfer for the purposes of our work.
  - All personal information will be assigned an Information Asset Owner at Director level who is personally responsible for authorising requests for personal data and for ensuring that personal data is transferred, processed, stored and destroyed in accordance with our policies and procedures.
  - We will destroy, return, or store personal data as necessary on completion of our work. For financial audits this will be confirmed in our audit completion report. For other non financial work such as value for money studies or investigations the approach will be communicated at the end of the work. We have protocols for the long term storage of personal data where this is required by law or by professional standards.
  - If we become aware of a potential breach of the personal data you have provided to us, we will notify you without undue delay.
  - We ensure our contractors operate suitable procedures for personal data protection. From time to time we contract with third parties who support us in discharging our statutory and other audit responsibilities. Access to personal information will only be given under contract to organisations which can demonstrate that they are meeting their legal obligations under GDPR and capable of maintaining the standards defined in these statements. We secure their data protection commitments through contractual obligations that meet the requirements of the GDPR.
  - We audit our compliance with our data protection policies. The NAO Directors responsible for the security of data self-assess at the end of each piece of work and are required to report compliance regularly. The Data Protection Officer monitors compliance and our suite of policies and procedures that make up our data protection framework is audited by an independent third party company.
  - We will comply with the rights of data subjects in line the requirements of data protection legislation.
  - Where information identifying individuals must be given up by law, we will release it only to those legally entitled to receive it.