

Council Meeting – 20 October 2011

National Audit Office (NAO) Audit Completion Report (including Management Letter) on the 2010/11 financial statement audit

Executive summary and recommendations

Introduction

The NAO Audit Completion Report is provided to the Council for its consideration.

Decision

The Council is asked to review and approve the National Audit Office (NAO) Audit Completion Report for 2010-11.

Background information

Following the onsite NAO audit of the year end financial statements and draft 2010-11 Annual Report, their Audit Completion Report is attached – refer Appendix One.

Three observations and recommendations were identified during the audit. These were:-

- 1) Deferred Income Balance
- 2) Capitalisation of Training and Support and
- 3) Income Recognition

The details of these and the management responses can be found in the Audit findings section of the report.

Resource implications

Nil

Financial implications

NAO Audit fee for HPC.

Appendices

Appendix – NAO Audit Completion Report

Date of paper

10 October 2011



National Audit Office

**REPORT TO THOSE
CHARGED WITH GOVERNANCE
OCTOBER 2011**

HEALTH PROFESSIONS COUNCIL

**Audit Completion Report on the 2010-11
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.

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 National Audit Office which employs some 900 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 leads to savings and other efficiency gains worth many millions of pounds: £890 million in 2009-10.

Contents

Executive Summary	4
Significant Risks	6
Audit Findings	10
Identified Misstatements	16
Other Matters of Governance Interest	19
Annex A – Letter of Representation	21
Annex B – Proposed Audit Certificate	25

Executive Summary

Introduction

- 1 This report summarises the key matters arising from our audit of the 2010-11 financial statements for the benefit of those charged with governance. We would like to thank Gary Butler and his staff for their co-operation during the audit process.
- 2 The examination of the 2010-11 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 November 2010.
- 3 This report has been prepared for the sole use of the Health Professions Council (HPC) although it may also be shared with the Department of Health. 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 any unadjusted misstatements set out in the Identified Misstatements section, should be corrected. These unadjusted misstatements are set out on page 17 of our Report.

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 purposes intended by Parliament and that the transactions conform to the authorities which govern them ('regularity').
- 7 The C&AG anticipates certifying the 2010-11 financial statements with unqualified audit opinion without modification.

Status of audit

- 8 At the date of presentation of report, the following were outstanding:
- There needs to be a final review of Post Balance Sheet Events;
 - Completion of review of the final Draft Annual Report and Accounts; and
 - 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 In our Audit Planning Report we set out our expected audit fee to be £36,000. However, we have had to undertake significant work in addition to that which we originally planned for and on which the fee quote was based. We currently expect the final cost of the performing the audit to be £41,000 and so are seeking HPC's agreement to reflect this in the fee.

Significant risks

- 10 Significant risks identified at the planning stage of the audit were communicated to you in the Audit Planning Report in November 2010. 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 the 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.

Significant Risks

1.1 In our Audit Planning Report presented to those charged with governance in November 2010 our assessment of the 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

1. Risk of Fraud through Management Override of Controls

Risk

The Auditing Standard ISA 240 states that there is a risk in all entities that management override controls to perpetrate fraud. The standard requires 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 will undertake specific testing to address the risks involved in these areas and establish HPC's processes for preventing and identifying any override of management controls.

Audit Findings

Our testing of these areas did not find any indications of management override of controls.

2. Introduction of a new fixed asset module to the accounting system

Risk

HPC plans to introduce a new fixed asset module to the accounting system in December 2010. A risk exists that the information on the 'old' module is not correctly transferred to the new module which could lead to a material misstatement within the Financial Statements.

Audit response

We will inquire of management the process by which information was transferred from the old system to the new module, and establish what checks were undertaken by HPC to ensure that the transfer was successful. We will also undertake some substantive tests of detail by identifying a number of assets from the old system and ensuring that the data, including original cost; the dates the asset were first purchased and brought into use; and the useful economic life have been correctly migrated across. We will also review any control processes that have been introduced in respect of the new fixed asset module.

Audit findings

We discussed with management the verification exercise that it had performed to ensure that the integrity of the data was maintained in transferring to the new fixed asset module; and we completed our own substantive testing to gain assurance on the completeness and accuracy of the data that had been transferred. As a result of this work we are satisfied that data has been migrated across to the new system correctly.

3. Striking off of 22-26 Stannary Street Ltd

Risk

HPC has submitted an application to have 22-26 Stannary Street Ltd (a wholly owned subsidiary of HPC) struck off the Companies House register during the 2010/11 financial year. Although the assets and liabilities of Stannary Street Ltd were transferred to HPC in 2009/10, there is still a risk that the change in the basis of the financial statement from Group accounts to the accounts of a single entity this year are not correctly presented.

Audit response

We will discuss the required presentation of the accounts with HPC with specific reference to the changes and disclosures required in respect of the striking off of 22-26 Stannary Street Ltd and the move away from the production of the Group accounts that this leads to.

We will perform specific procedures to ensure that the comparative figures disclosed within the HPC's financial statements are correctly presented. In doing this we will focus particularly on the Statement of Comprehensive Net Expenditure where the prior year accounts included only a Group level statement.

Audit findings

Confirmation has been received from Companies House that 22-26 Stannary Street Ltd was dissolved on 1 March 2011. As HPC owned no subsidiaries as at 31 March

8 Significant Risks

2011 it was not necessary for it produce Group Accounts as has been required in previous years. Disclosure of this fact is included on the Statement of Comprehensive Net Expenditure and other disclosure amendments and restatements to comparatives have been made as required.

4. Misstatement of Deferred Income

Risk

Registrants pay fees in advance to HPC for a 2 year registration period. This means that some cash receipts cannot be registered in the year of receipt and an element of them must be accounted for as deferred income and released through the Statement of Comprehensive Net Expenditure in future years. A risk exists that this deferred income balance may be misstated within the financial statements because of the manual calculation of this figure from information provided by the registration system 'Net-regulate'.

During the 2009/10 audit there was a specific element of the deferred income balance (£2.7m) related to payments made by cheque or credit cards that we could not get a breakdown of from Net-regulate system. This was because we had not specifically requested this information in advance and Net-regulate does not have the functionality to produce such histories information. There is a risk that if this information is not available there may be a large deferred income misstatement.

Audit response

We will establish with HPC the controls that are in place to ensure that the deferred income calculation is correct. We will also undertake some substantive testing to ensure that the deferred income balance can be supported by data from Net-regulate.

We understand that HPC is running monthly report from Net-regulate on cheque and credit card payments and we will use these reports as the basis for our sample testing of this aspect of the deferred income balance.

Audit findings

Data on registrant fees is processed through the Net-regulate system and is transferred to the accounting system (Sage) through journals based on monthly (Crystal) reports run from Net-regulate. When we looked at one subset of the population we found that this was recorded on Net-regulate as £5.7m but on Sage as £6.2m. Our testing of the £5.7m on Net-regulate did not identify any errors. However, because the accounts reflected the Sage £6.2m amount there was a material difference between this and the audited amount. We therefore requested that HPC reconcile these amounts; our findings with respect to this issue are set out in the 'Observations and Recommendations' section below.

5. The movement of the Hearing Aid Council's (HAC) register to HPC**Risk**

From 1 April 2010 the HAC's register of dispensers was transferred to HPC. We understand that no assets, liabilities, staff or other functions have transferred from HAC to HPC. The FReM (4.2.15) states that the "transfer of functions from the responsibility of one part of the public sector to another, will be accounted for using merger accounting." We will consider whether the requirement to apply merger accounting applies with respect to the transfer of functions from HAC and discuss the implications of this with HPC.

Audit response

Where merger accounting is required in respect of the transfer of HAC's register to HPC we will need to review the restatement of the comparatives to ensure that these properly reflect HAC's results, balances and cashflow as appropriate as appropriate. We will discuss any such presentational or disclosure requirements with HPC at an early stage.

Audit Findings

As part of our interim audit we reviewed a template account produced by HPA which included adjustments made to account for the transfer of the HAC register under merger accounting rules. We agreed the figures included in the comparatives to HAC's 2009-10 accounts and reviewed the disclosure of the impact of the merger, shown in Note 2 of the Financial Statements agreeing adjustments as appropriate.

We are satisfied that merger accounting has been applied correctly and that the disclosure of the "merger" included in Note 2 is sufficient.

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 Secretary of State.

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 the 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, including the consistency of assumptions and degree of prudence reflected in the recorded amounts;
- management's assertion that it continues to be appropriate to prepare the financial statements on a going concern basis;
- 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; and
- 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.

2.4 We have no issues to raise on these matters.

Review of information in the Annual Report

2.5 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.

2.6 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.

2.7 The balance of information contained in the Annual Report was appropriate, and the clarity of the information was sufficient.

Regularity, Propriety & Losses

2.8 We found no items that raised issues of regularity or propriety. Losses have been properly reported and accounted for.

Internal Control

2.9 We did not identify any significant internal control weaknesses

Statement on Internal Control

2.10 In our opinion, the Statement on Internal Control (SIC) fairly reflects our understanding of the state of the internal control systems within the entity during the year.

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 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.

1. Deferred Income balance [SIGNIFICANT]

Observation

Our audit of the deferred income balance involved sample testing based on the records held on the Net-regulate registration system. The results of this testing were satisfactory. However, the deferred income balance as recorded in the accounts is derived from the Sage accounting system and this was £478k higher than that supported by the Net-regulate data. Because the variance between the two systems was material to the accounts we asked HPC to reconcile these amounts before the accounts could be signed off.

The accounts show a deferred income balance because registration fees are paid to HPC in advance of profession's renewal cycles. HPC identified that the Sage system included balances relating to health professionals who had lapsed from the Register. Because they had lapsed from the Register any fees that they had paid should not have been included as deferred income. These lapsed registrants accounted for around £356k of the deferred income difference between Sage and Net-regulate. HPC took legal advice to determine what element of this it could keep and what should be paid back to its' registrants. Of this £356k, £259k relates to cash which HPC had received, but for which no service was ultimately provided as the registrants did not complete a renewal form. HPC therefore owes this amount to its' registrants and so this has been accounted for as creditors. HPC has already begun the process of making these repayments. HPC is able to retain the residual amount and so this has now been accounted for as income.

Further investigation by HPC identified a couple of erroneous journals posted to Sage. The first was a £70k mis-posting which occurred during the 2010-11 financial year. This has been corrected in the final draft of the accounts and we have been able to audit this. The second related to the 2005-06 financial year. It was noted that a £105k journal had been posted to deferred income during 2005-06 but the expected release of this to income could not be found. Analysis showed that the deferred income balance for the profession to which this amount related has remained above expected levels since this date. Based on this analysis HPC concluded that the amount should have been credited to income some time ago and so have restated prior year figures to reflect this. Given the time that has elapsed since this journal was originally posted, we have not been able to audit this error and so confirm the need for the adjustment. However, in our judgement it is reasonable to make this adjustment based on the analysis that HPC has completed which looked at the deferred income balance for this profession over a number of years.

Correction of these misstatements brings the difference between the audited deferred income balance and that included in the financial statements to a level which we consider to be immaterial.

Risk

The discrepancy between the deferred income balances as recorded on Sage and Net-regulate built up over a number of years. The full reasons for why this occurred are still being investigated. There is a risk that there are further adjustments which may still be required to historic deferred income figures in the financial statements. There is also a risk that if the full reasons for why these differences arose are not identified and addressed, then further variances may continue to occur. There is also a continued risk that HPC does not make repayments of amounts owed to registrants where its management information does not identify such amounts as being owed.

Recommendation

HPC has commissioned its Internal Auditors to conduct a review. This review is focussing initially on the on-going differences that continue to arise between the two systems with the aim of identifying the causes of the differences which will lead to recommendations for change to the current systems used.

HPC have already taken certain steps as a result of this issue, for example, a revised registrant refunds policy is being developed.

It is hoped that the work going on to look at the causes of the deferred income differences arising will ultimately lead to the systems being fully reconciled. Once this has been achieved we recommend that all historical errors are corrected. Following on from this we recommend that HPC reconciles the data on Net-regulate to that on Sage on a monthly basis with differences investigated and corrected as part of that monthly process.

Some of the difference between Sage and Net-regulate occurred as a result of the manually generated transfer reports being produced in error. Additional procedures are now in place to prevent this occurring again, but we recommend that all transfer reports are reviewed by the Financial Controller prior to data on the accounting system being amended.

We also recommend that the functionality of the Net-regulate system and the programmes which have been written to extract data from the system are reviewed. Part of the problem in trying to reconcile the difference that existed between the two systems was that Net-regulate is a live system and so extracting historical data from it is not possible. Finance should use this opportunity to consider what management information it needs to extract from Net-regulate in order to have a complete view of its income and deferred income positions.

Management Response

Adjustments has been 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.

As part of the monthly management accounting process there is a reconciliation 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.

A review of the functionality has been started and actions will be taken to ensure that any future issues will be dealt with promptly.

2. Capitalisation of Training and Support [OTHER]

Observation

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.

Risk

There is a risk that where such errors occur expenditure and non-current assets will be misstated in the financial statements.

Recommendation

The process by which costs are coded to either capital or expense codes should be changed to allow the finance team to review and authorise the coding at the point at which the purchase order is raised.

Management response

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 where 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.

3. Income Recognition [OTHER]

Observation

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.

Risk

Income and deferred income could be misstated due to errors in the way that Net-regulate works. We understand that this may have arisen due to bug in the Net-regulate system. Whilst the value of this error is very low, it may indicate that other similar errors exist within the data held on Net-regulate.

Recommendation

HPC should investigate the reason why this error occurred and ensure that the Net-regulate system is fixed so that similar errors do not re-occur.

Management response

After testing a number of transactions, an issue was discovered in the transfer report and how it treats reversal charges were no cash as 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.

2.15 We reviewed management's implementation of recommendations made in our prior year Management Letter. The matters raised have been satisfactorily dealt with.

Identified Misstatements

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.

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 Statement on Internal Control.

Significant adjustments made to the financial statements

As a result of our audit, adjustments were made to the draft financial statements presented for audit. The adjustments are shown below. 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.

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 Statement of Comprehensive Net Expenditure are to be finalised as part of the ongoing review of the financial statements and will be included in the final version of this Report.

Total audit adjustments

Description of adjustment	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	Debit	Credit	Debit	Credit
	£'000	£'000	£'000	£'000
Capitalisation adjustment- training and support costs had been capitalised in error	15			15
Deferred income adjustment – overpayment of fees from de-registered applications leading to a movement from deferred income to income or trade payables		93	352	259
Deferred income adjustment – recognition of income from the chiroprapist profession in 2005-06		105	105	
Deferred income adjustment – correction to error made relating to the Art therapist profession from September to December 2010			70	70
Deferred income adjustment – correction to error made				

relating to the Practitioner psychologists and Operating Department Practitioners from September to December 2010	11	11
Depreciation adjustment – correction relating to useful economic life of IT equipment	8	8
Capitalisation adjustment relating to fees paid on potential purchase of adjacent building that should not have been capitalised	13	13

We have also made a number of other suggestions to improve narrative disclosures and to ensure completeness of the disclosures required under the FReM including:

- **Remuneration Report:** remuneration disclosures to be made in a tabular form with comparative figures included and references added to those aspects of the report which are subject to audit; and
- **Contingent Liability:** disclosures regarding the contingent liability with respect to the FlexiPlan Pension Scheme added following agreement on how this liability should be accounted for.

Unadjusted errors or uncertainties arising from the audit

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', which we have identified as below £1,700. We have identified the following unadjusted errors or uncertainties from our audit. We do not consider the impact of these unadjusted errors to be material, either individually or in aggregate.

Unadjusted errors – correcting entries

Description of error	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	Debit	Credit	Debit	Credit
	£'000	£'000	£'000	£'000
Extrapolated income error relating to automatic misposting of income	52			52
Deferred income error – unsupported balance relating to registration fees		42	42	
Deferred income error – unsupported balance relating to deferred income over 1 year		59	59	

18 Identified Misstatements

Depreciation error relating to the wrong application of useful economic life on computer assets	5	5
Re-admission fees overstatement relating to incorrect treatment of charge reversal.	29	29
Deferred income error – balances relating to applications.	21	21

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 found no such instances.

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

Going concern

4.4 Other than as disclosed, we have not identified any material uncertainties relating to events and conditions that may cast doubt on the entity's ability to continue as a going concern.

Management of information and personal data

4.5 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 Statement on Internal Control reflect this. Additionally those charged with governance should seek assurance on any data related incidents which may require disclosure. We are unaware of any data handling incidents during the year, other than those already disclosed in the Annual Report. Confirmation of this is sought within our letter of representation (Annex A).

Statement on personal data

4.6 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%20Scheme/data%20protection%20review.pdf)).

Compliance with laws and regulations

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

Disagreements with management

4.8 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

4.9 We considered the 'Financial Systems Review' and the 'Governance Review' produced by Internal Audit and can confirm that these reports informed our consideration of the Statement on Internal Control.

Independence, integrity & objectivity of auditors

4.10 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.

4.11 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 the HPC that we consider to bear on our objectivity and independence.

Annex A – 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 2011

I acknowledge as Accounting Officer of the Health Professions Council my responsibility for preparing accounts that give a true and fair view of the state of affairs, surplus, statement of reserves and cash flows of the Health Professions Council for the year ended 31 March 2011.

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;
- state whether applicable accounting standards have been followed and disclosed and explain any material departures in the accounts; and
- make an assessment that the Health Professions Council 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 2011:

- 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 the Health Professions 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 Health Professions 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 Health Professions 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;
- the information provided regarding the identification of related parties is complete, and the related party disclosures in the financial statements are adequate; and

22 Annex A – Letter of Representation

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 Health Professions 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 statement of financial position were in existence at the reporting date and owned by the Health Professions Council, 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 Health Professions Council.

Non-Current Assets

All assets over £1,000 are capitalised. They are valued at historic cost, as this is not materially different to fair value. 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 Health Professions Council's operations.

Other Current Assets

On realisation in the ordinary course of the Health Profession Council'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 the Health Profession Council 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 the Health Professions Council, and I am not aware of any action which is or may be brought against the Human Tissue Authority 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 the Health Professions Council will be determined in Court. A liability has been accrued for all of the amounts that the Health Professions Council considers it probable that it will have to pay.

Deferred Income

The deferred income recorded in the financial statements represents the balance of fees received during 2010-11, or an earlier financial year, but which have been paid in advance and which relate to periods occurring after 31 March 2011.

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 Health Professions Council, or circumstances of an exceptional or non-recurring nature.

Unadjusted Errors

I confirm that I am not aware of any unadjusted errors in the financial statements, other than as disclosed below:

Unadjusted errors

Description of error	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
	Debit	Credit	Debit	Credit
	£'000	£'000	£'000	£'000
Extrapolated income error relating to automatic mis-posting of income	52			52
Deferred income error – unsupported balance relating to registration fees		42	42	
Deferred income error – unsupported balance relating to deferred income over 1 year		59	59	

24 Annex A – Letter of Representation

Depreciation error relating to the wrong application of useful economic life on computer assets	5	5
Re-admission fees overstatement relating to incorrect treatment of charge reversal	29	29
Deferred income error – balances relating to applications.	21	21

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 2010-11 which are required to be reported.

Marc Seale
Chief Executive

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 2011 under the Health Professions Order 2001. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of 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 Council and its Chief Executive 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 the 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.

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

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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Health Profession Council's affairs as at 31 March 2011 and of its surplus 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 issued under the Health Professions Order 2001; and
- the information given in the 'Composition of the Council in 2010-11' and 'Management Commentary' sections of the Annual Report 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:

- adequate accounting records have not been kept; or
- the financial statements and part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Date

