Audit Committee 21 June 2012

Actions list

Executive summary and recommendations

Attached is an actions list as agreed at the last public meeting of this committee.

Decision

The Committee is requested to note the document. No decision is required.

Background information

Please refer to individual papers and minutes for the background to decisions.

Resource implications

None

Financial implications

None.

Appendices

None.

Date of paper

22 March 2012

Action points

Audit Committee - Public meeting

13 March 2012

	Action point (and location in the minutes)	For the attention of/ Comment on progress
1	National Audit Office (NAO) external audit strategy: Committee agreed that the NAO should write to HPC to confirm its findings from the interim audit. (7.4)	NAO. By 31 March 2012. Completed. The interim audit findings were received on 28 March 2012 and circulated by e-mail to the Committee on 29 March 2012. A copy of the interim findings is attached to this paper.
2	Annual Governance Statement and Sustainability Report for annual report: Committee agreed that these reports should be drafted by 26 April. (7.5)	Director of Finance. By 26 April 2012. NAO subsequently advised that HPC would not be required to produce a Sustainability Report. The governance statement was considered by the Council at its meeting on 10 May 2012, as part of the item on the annual report.
3	NAO external audit strategy: Committee approved the strategy. (7.7)	NAO. Ongoing to July 2012.
4	Internal audit plan: Committee noted that finalised reports would be circulated by e-mail to members. (8.2)	Secretary to the Committee. Ongoing.
5	Internal audit plan: Committee approved the internal audit plan. (8.3)	Mazars. Ongoing to March 2013.
6	Internal audit – Review of recommendations: Committee noted that the current destruction and retention policy would be updated by 1 July 2012. (11.2)	Director of Operations. By 1 July 2012.
7	Internal audit – Review of recommendations: Committee agreed that the Executive should provide a specific date for the review of the IT policy, in particular the use of USB data drives. (11.3)	Director of Information Technology/Secretary to the Committee. By 21 June 2012.

		The Director of Information Technology has indicated that his department will aim to get the USB controls in place by 27 September 2012 and the policy change in place by 29 November 2012. The policy change is due to be considered by the Finance and Resources Committee on 20 November 2012.
8	Review of the performance of the internal auditor: Committee agreed that, on an ongoing basis, the Executive should send completed customer feedback forms for each internal audit to the Secretary to the Committee. This would provide oversight of the feedback by HPC. The Secretary to Committee would forward the forms to Mazars and notify the Chair of the Committee of any significant concerns which had been identified. (13.3)	Secretary to the Council. Ongoing. The Secretary to Council has been asked by the Chief Executive and Registrar to oversee the relationship between HPC and Mazars. Therefore, the Secretary to Council will forward completed feedback forms to Mazars and the Chair of the Committee and undertake follow-up action as appropriate.
9	Committee agreed that: (1) Performance of the internal auditor over the past year should be reviewed at the meeting of the Committee to be held on 21 June 2012; and (2) The review should take the form of a paper including completed customer feedback forms from the Executive, for each internal audit completed during the year. (13.4)	Secretary to the Committee. By 21 June 2012. See further paper on agenda for today's meeting.
10	Risk register update: Committee noted that the summary of the top ten risks included references to dates in 2010-11. The Executive would review and update the document as appropriate. (16.3)	Head of Business Process Improvement. By 21 June 2012.
11	Deferred income – reconciliation of figures: Committee agreed that the Executive should report progress on this issue to the next meeting. (20.4)	Director of Operations/ Director of Finance. By 21 June 2012.

REPORT TO THE ACCOUNTING OFFICER
AND AUDIT COMMITTEE

Health Professions Council

Interim Management Letter on the 2011-12 Financial Statement Audit

Our vision is to help the nation spend wisely.

We apply our 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 880 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 led to savings and other efficiency gains worth more than £1 billion in 2010-11.

Contents

Executive Summary

Introduction

1 This interim management report summarises the key matters, including recommendations for improvement in internal financial controls, which have come to our notice during our audit to date of the Health Professions Council's (HPC) financial statements for the year ending 31 March 2012. The report provides an update on the progress of the audit including our planning and interim audits.

2 This report has been prepared for the sole use of the HPC. 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.

Significant Risks

3 We set out what we considered to be the significant risk for the audit in our Audit Planning Report presented to the Audit Committee in March 2012. An update of audit action to date is shown in Annex A. No critical issues that may impact on our overall audit opinion have been identified in our work to date on the areas identified as significant risks. In 2010-11 we encountered problems with respect to deferred income that caused significant delays in finalising the accounts. As set out in Annex A, HPC's Internal Auditors have concluded a review of this issue and made recommendations for HPC. We will review the deferred income balances as reported by Sage and Net-regulate as at 31 March 2012 during our final audit. Part of this review will involve testing the reconciliation that HPC performs to explain the difference between the two systems. We did not identify any additional matters of significant risk and our work to date has confirmed that our initial risk assessment remains appropriate. We are aware that HPC has agreed to pay an initial deposit of £1m in respect of the purchase of the Evangelical Alliance property adjacent to Park House during the 2011-12 financial year. We do not consider this to be a significant risk but will review the accounting treatment and disclosures related to this transaction as part of our final audit.

Planning and interim audit work

4 Our approach is primarily risk-based. We updated the information we had from the previous year through interviews with HPC staff. We also reviewed key documents to improve our understanding of the business and operations. This enabled us to form a preliminary view of the strengths and weaknesses of the overall control environment. We reviewed management controls and tested their operation in order to determine those on which we can place assurance and those where we need to direct more audit effort.

5 We undertook audit procedures on specific key account areas and evaluated results in order to support our audit opinion. We reviewed accounting systems and management controls operated by the HPC only to the extent we considered necessary for the effective performance of the audit. As a result, our review may not have detected all weaknesses that exist or all improvements that could be made. The responsibility for public accountability and the implementation and monitoring of internal and management controls rests with the management of the HPC.

Reporting

6 You will appreciate that, while our audit is carried out in accordance with International Standards on Auditing (UK and Ireland), it cannot, and should not, be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency, which is not material in terms of the financial statements.

7 This interim management report, which is part of the continuing dialogue between HPC and external audit, is not prepared for any other purpose than to inform the Audit Committee and management of the key audit issues and weaknesses in the systems of internal financial controls identified during our interim audit. For this reason, we consider it inappropriate for the report to be relied upon by third parties.

Audit summary

8 We carried out our interim audit in January 2012 following the approach noted in our Audit Planning Report. Our work included:

- Review of the template period 9 account
- Consideration of Internal Audit's Report to the Finance & Resources Committee on deferred income;
- Substantive testing on expenditure;
- Substantive analytical procedures on payroll and income;
- Testing on fixed asset additions and disposals; and
- Follow-up of prior year management letter points.

9 We have made one recommendations following our work. This is reported in the Audit Findings section of this report.

Other Matters of Interest

Annual Governance Statement

10 The introduction of the Annual Governance Statement provides an opportunity for the Accounting Officer and Council to review their approach to governance reporting. It is for the Accounting Officer to determine how to take account of input from within the organisation and from the Council and its committees. The Annual Governance Statement should be assembled from work through the year to gain assurance about the organisation's performance and risk profile, its responses to the identified and emerging risks and its success in tackling them. Council members, with the support of the Audit Committee where appropriate, should evaluate the quality of the systems of internal control and governance, assess the risks facing the organisation, and advise on any significant omissions from the statement which may necessitate further disclosure. We would be keen to receive a copy of the draft Statement prior to the start of our final audit so that we can feed back at an early stage on its form and content.

11 The role of the external auditor in relation to the Governance Statement will remain much the same as it was with the Statement on Internal Control. Namely, the external auditor will review the Governance Statement for consistency with the audited financial statements and may report on any inconsistency with the findings of their audit or their knowledge of the business. All bodies producing a Governance Statement (including Executive Agencies and Arm's Length Bodies) will be required to comply with (in so far as their organisational status means that it is practicable for them to do so), or explain any departures from, the new Corporate Governance Code for Departments. The external auditor may report any failure to comply with or explain any departures from the Corporate Governance Code (http://www.hm-treasury.gov.uk/d/corporate_governance_good_practice_july2011.pdf) or other authoritative guidance.

Remuneration report: additional disclosure requirement

12 As part of the Government's response to the Hutton Fair Pay Review, HM Treasury has amended the FReM to require disclosure in the Remuneration Report of banded total remuneration of the highest paid director, the median total remuneration of staff and the pay multiple between the two, with additional narrative to explain and justify this information.

13 This disclosure is in the part of the Remuneration Report that is audited and will be subject to normal audit procedures.

Sustainability Report

14 In our Audit Planning Report we made reference to the new requirement for a Sustainability Report to be included as part of the Annual Report. We have since confirmed that HPC falls below the threshold for exemption on the grounds of the number of staff that it employs. As such, HPC is not required to produce a Sustainability Report, although it may still choose to do so.

Audit Findings

15 This section outlines the findings arising from our audit, as well as management's response to these recommendations. In order to aid the Audit Committee's and management's understanding we have prioritised our findings.

16 We have included the significant and other, less significant findings arising from our audit. Each issue has been given a priority rating to assist in assessing the level of potential risk associated with the finding. The levels are:

- **Priority 1** – major issues for the attention of senior management which may have the potential to result in a material weakness in internal control;
- **Priority 2** – important issues to be addressed by management in their areas of responsibility;
- **Priority 3** – problems of a more minor nature which provide scope for improvement.

17 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.

Observations and recommendations

18 Our audit findings from the planning and interim audit visits are noted below.

1. Capitalisation of software licenses as Tangible fixed assets (Priority 3)	
Observation	We noted that a software license had been capitalised as property, plant and equipment instead of intangible assets.
Risk	There is a risk that property, plant and equipment is overstated and intangible assets are understated on the Statement of Financial Position.
Recommendation	Although the amounts involved are not material, HPC should consider reclassification of the software licenses to the correct category of non-current assets.
Management response	This item has now been included in intangible assets and will be correctly classified at 31 March.

Annex A – Significant Risks of Material Misstatement

19 We identified issues that could impact on the financial statements in our Audit Planning Report presented to the Accounting Officer and Audit Committee in March 2012. The following table describes how we addressed these matters through our audit process to date.

Significant risks of material misstatement

Risk 1 - The misstatement of deferred income

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.

Action taken to date and outcome

As outlined above, HPC commissioned its internal auditors to undertake a forensic review to identify the reasons for the discrepancy occurring between the deferred income balances as reported by Sage and Net-regulate. This work:

- Identified two further cut off issues;
- Confirmed the readmission reversal issues; and
- Identified two further isolated errors.

As part of our final audit work we will review the changes to the systems and controls the HPC has introduced in response to these recommendations. We have reviewed the Internal Auditors' Report and support the recommendations made. We will continue to monitor any discrepancy that persists between the two systems and will consider the impact of this on the audit opinion at the year-end.

The IA report recommended that monthly reconciliations are performed to monitor the movement in the differences between Net Regulate and Sage with any major movement in the differences investigated without delay. This reconciliation will need to be performed as at 31 March 2012 and will be reviewed through our audit.

Risk 2 – Liability related to Flexiplan pension Scheme

One of HPC's occupational pensions scheme 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 d not adequately disclose its liability in relation to this scheme

Action taken to date and outcome

HPC continues to await the outcome of the court case. An initial hearing is expected to be held soon, with a final hearing later in the year. We will review the available evidence at the year-end and agree the accounting treatment and disclosures required with HPC on the basis of this.

Risk 3 – Risk of Fraud through Management Override of Controls

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

Action taken to date and outcome

At final audit we will undertake specific testing to address the risk involved in these areas and establish HPC's processes for preventing any override of management controls.

Risk 4 – Revenue recognition

There is a presumption in International Standard on Auditing (UK and Irelands) 240 the auditor's responsibilities relating to fraud in an audit of financial statements that there are risks f fraud on revenue recognition, in particular where performance is measured in terms of revenue growth or profit.

HPC reliance on fee income cover costs, and the issues we identified with respect to revenue recognition in 2011-11,mean that revenue recognition is a significant risk to the income area and the related figures.

Action taken to date and outcome

At final audit we will undertake specific testing to address the risk of fraud in income recognition for income streams by reviewing HPC's processes and gaining assurance over cut-off and completeness of this income. Our audit response to Risk 1 above should also address this risk.

Areas of audit emphasis

In addition to the significant risks we have also identified the following key areas which may require special attention in our audit.

Transfer of Regulatory Function from General Social Care Council

Subject to legislative changes, the regulatory function of the General Social Care Council (GSCC) is expected to transfer to HPC (which will then become the Health and Care Professions Council HCPC). This transition is expected to occur during 2012/12 financial year. No assets or liabilities will accompany this transfer but it is expected that some staff will transfer. The major impact on HPC's financial statements will be in 2012/13. In 2011/12 HPC will receive specific grant funding from Department of Health (DH) for any expenditure required as a result of these planned changes. We review the treatment of this income to ensure that it is accounted for in accordance with the requirement of the Financial Reporting Manual (FReM).

The Health and Social Care Act 2012, which will bring these changes about, has completed its passage through Parliament. The Act confirms that the GSCC is to be abolished and that the Health Professions Order will be amended to change HPC's name to the Health and Care Professions Council (HCPC). The responsibility for registering and regulating social workers will transfer from GSCC to HCPC upon GSCC's abolition.

We will continue to discuss with HPC the timing of these changes and the plans in place to manage this transition.

Next Generation Case Management System

HPC is in the process of introducing a new case management system which will be entirely electronic. We will consider the valuation of this new system as part of our work on the Statement of Financial Position and examine which costs have been capitalised and which costs have been expensed as normal operational expenditure.

During the final audit visit specific testing will be undertaken on the costs that have been capitalised relating to the case management system.

Annex B - Implementation of Prior Year Recommendations

20 We reviewed management's implementation of recommendations made in our prior year Audit Completion Report. 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	**Deferred Income Balance** 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.	**Management Response** 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. 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. A review of the functionality has been started and actions will be taken to ensure that any future issues will be dealt with promptly **Auditor Follow-up** The report that the Internal Audit forensic team produced was reviewed and the future implementation of the recommendations discussed with HPC. We will consider any difference that remains between the two system as at year end and the impact that this may have on the audit opinion. We will also review any new controls or processes that have been introduced by the time of our final audit following Internal Audit's report.

2	**Receivables reconciliations not properly documented** Staff should be reminded of the importance of properly documenting, evidencing and filing reconciliations to demonstrate they have been properly prepared and reviewed.	**Management Response** 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. Regarding the sample testing 1: It was through a check process that staff became aware that an original fully completed and authorised reconciliation had been misfiled. A replacement reconciliation was prepared and approved immediately. 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. **Auditor Follow-up** No issues were identified with the sample of accounts receivable reconciliations tested during the planning and interim audits.
3	**Capitalisation of Training and Support** 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	**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 were 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. **Auditor Follow-up** In the testing undertaken at interim no further issues of this nature were identified.
4	**Income recognition** 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.	**Management Response** 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**.** **Auditor Follow-up** The issue was dealt with as part of the larger deferred income issue – see above. No further errors have been identified in the income testing for 2011/12 undertaken to date.