

Health and Care Professions Council

Audit planning report on the 2024-2025 financial statements audit

Report to those charged with governance
March 2025

This report presents details of our proposed approach for the audit of the 2024-25 financial statements

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. This report sets out how we have built our assessment of risk, what we base materiality on, those risks we expect to be significant and how we will respond to those risks. We also set out details of the team carrying out the audit, the expected timing of the audit and our fees.

Actions for the Audit & Risk Assurance Committee

We would like to invite Committee members to discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete (including any matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken);
- Whether management's response to these risks are adequate;
- Our proposed audit plan to address these risks;
- Whether the financial statements could be materially misstated due to fraud, and communicate any areas of concern to management and the audit team;

Our fraud risk assessment is set out on page 10.

We would also like to take this opportunity to enquire of those charged with governance about the following areas:

- Other matters those charged with governance consider may influence the audit of the financial statements
- The entity's objectives and strategies, and the related business risks that may result in material misstatements
- Possibility, knowledge of and process for identifying and responding to the risks of fraud
- Oversight of the effectiveness of internal control
- Whether any non-compliance with any laws or regulations (including regularity) have been reported to those charged with governance (e.g. from staff, service organisations or other sources)
- Policies, procedures and systems for recording non-compliance with laws, regulations and internal policies.
- Whether members have knowledge of any actual, suspected or alleged fraud affecting the entity.

We have prepared this report for Health and Care Professions Council's sole use although you may also share it with the Privy Council and the Department of Health and Social Care. You must not disclose it to any other third party, quote or refer to it, without our written consent and we assume no responsibility to any other person.

Overview	4	Appendices	
Building our assessment of risk	5	Appendix 1: New Engagement Acceptance	18
Our response to the significant risks	6-9	Appendix 2: The NAO audit team	19
Our initial assessment of the risk of fraud (ISA 240)	10	Appendix 3: Scope and responsibilities	20-21
Materiality	11	Appendix 4: Fraud matters	22
Timing of the audit	12	Appendix 5: Guidance for governance	23
The quality of the NAO's financial audit work	13	Appendix 6: Good Practice in Annual Reporting	24-25
How the Audit Committee can support the audit	14	Appendix 7: Audit and Risk Assurance Committee Effectiveness Tool	26
Our audit fee	15		
Our audit approach	16-17		

Audit Risks (pages 6 to 9)

We plan our audit of the financial statements to respond to the risks of material misstatement, or irregularity, within transactions and balances.

We have identified the following risks which have the most significant impact on our audit:



Materiality (page 11)

- When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements.
- We will set our quantitative materiality threshold as approximately 2% of prior year income giving a planning materiality of £800,000 (2023: £741,000 based on 2% of income).
- We will report to the Audit & Risk Committee all audit differences in excess of 2% of materiality, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.



Audit team, fee and timetable

- Darren Stewart will be responsible for the overall audit. The full engagement team is presented on page 19.
- The proposed audit fee for this year is £75,500 and remains unchanged from the fee we quoted prior to appointment as first-tier auditor. The fee is subject to finalisation of our planning procedures. It does not include non-recurring costs associated with taking on the first-tier audit responsibility for the first time, which we do not pass on through the fee.
- As discussed and agreed with management, we are planning to complete to a post-recess timetable, the precise timing of which is to be determined.

We are well placed to develop an understanding of the risks to the Health & Care Professions Council drawing on your own assessment, the historic assessment of risk and the broader context



The Health and Care Professions Council's assessment of risk

The Health and Care Professions Council's strategic risk register sets out a number of risks. We have engaged with management to understand the background to these risks, movement in impact and likelihood and have considered how these inform our assessment of audit risks.

1. The HCPC is unable to deliver its regulatory requirements effectively in a changing landscape, affecting its ability to protect the public

2. The HCPC's standards do not reflect current practice and/or they are not understood by registrants and stakeholders.

3. (a) The Quality of data leads to assumptions or gaps in understanding, and therefore inadequate or uninformed decision-making.

3. (b) The HCPC is unable to maximise the use of the data it holds to share insights to protect, promote and maintain the health, safety and wellbeing of the public.

4. The HCPC is unable to effectively build trust, engage with and influence its stakeholders reducing the ability to understand their perspectives and regulate effectively.

5. (a) The resources required to achieve the strategy are not in place or are not sustainable.

5. (b) Organisational values are not reflected at all levels of the organisation, leading to staff not feeling supported/trusted/listened to.

6. The HCPC does not effectively promote its role, leading to missed regulatory opportunities and unrealised reform benefits. This occurs in two key ways:

6 (a) The public, registrants, students, and employers underestimate regulation's role in high-quality care
6 (b) Policy makers and key stakeholders under-recognise the HCPC's public protection efforts.



Our audit Risk Assessment

The 2023-2024 audit highlighted a number of areas of audit risk and focus. We have built on this historical assessment to consider whether these remain risks for the year. We have made inquiries of management (and other appropriate individuals within the entity), performed analytical procedures, and carried out observations and inspections to inform our assessment of risk.

Presumed risk of management override of controls

Risk of fraud in revenue recognition

Valuation of land & buildings

Completeness of creditors

Completeness of staff costs



Wider Factors

We have drawn upon our wider assurance work and our understanding of the broader environment in which the Health and Care Professions Council operates to inform our risk assessment.

Regulatory reform

Presumed risk of management override of controls

Why we have identified this as a risk

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by using its position to override controls that otherwise appear to be operating effectively.

This is a presumed risk for all audited bodies under International Standards on Auditing (ISA 240) (UK).

Work we plan to undertake in response

Controls:

Review of controls relevant to the audit including those over:

- Manual accounting journals;
- Segregation of duties;
- Year-end controls such as preparation of financial statements which includes review by senior management and the Audit & Risk Assurance Committee.
- Monthly management accounts;
- Changes in accounting policies, in particular those around significant estimates.

Substantive:

- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- Using data analytic tools, we will risk assess the impact of manual journals on the financial statements to identify higher risk journal transactions for detailed audit examination.
- We will examine significant or unusual transactions and review errors collectively for patterns in adjustments.
- Apply professional scepticism to the audit of key estimates and judgements and perform a retrospective review of significant estimates used in the prior year.
- Consider the need to test other adjustments throughout the period.

*Significant Risks are an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or that is to be treated as a significant risk in accordance with the requirements of other ISAs (UK) . Significant risks can relate to classes of transactions, account balances or disclosures, or be pervasive across the financial statements.

Presumed risk of fraud in revenue recognition

Why we have identified this as a risk

Under International Standard on Auditing (UK) 240, there is a presumed significant risk that management may commit fraud to achieve a particular result within income. We have rebutted this risk in relation to rental income and grant income on the basis that the amounts are non-complex, require limited judgement and are not expected to be material.

We have assessed the following income streams to fall within the scope of the risk: membership fee income and scrutiny fee income. Given the highly material values and the judgement and relative complexity in calculating the deferred income balance, we consider they give rise to a risk of material misstatement.

Work we plan to undertake in response

Controls

- Assess the design and implementation of the controls operating in respect of the Health and Care Professions Council's fee income streams

Substantive – membership fee income

- Perform a substantive analytical procedure to gain assurance over the revenue recognised during the reporting period; and
- Perform tests of detail to gain assurance over the deferred income balance.

Substantive – scrutiny fee income

- Perform tests of detail over income recognised during the year, to confirm whether the recognition criteria has been met (occurrence), and that the correct amount has been recognised (accuracy); and
- Perform additional testing around the year end, including post year-end receipts testing, to confirm whether revenue has been recognised in the correct financial year (cut-off) and whether the underlying activity had occurred in the year (completeness).

Valuation of land and buildings

Why we have identified this as a risk

Valuation of land and buildings is subject to judgement and estimation uncertainty, and the Health and Care Professions Council employs an expert valuer to provide a valuation of its freehold property. Given the judgement and relative complexity involved, we consider this represents a risk of material misstatement to the accounts.

Work we plan to undertake in response

Controls

- Assess the design and implementation of the controls operating in respect of the Health and Care Professions Council's valuation of land and buildings.

Substantive

- Review the third-party valuation by management's expert for the freehold property;
- Assess the valuer as a management expert in accordance with ISA 500;
- Test the validity of the key inputs to the third-party valuation (e.g. floor areas) and the assumptions therein;
- Consult with our internal property specialists, as required, on relevant matters such as benchmarking of the valuation; and
- Review supporting disclosures made within the financial statements.

Major IT change – Implementation of Business Central

Why we have identified this as a risk

At the start of the financial year (on 1 April 2024) HCPC changed its accounting system from Sage to Business Central. As a major IT change, we have identified a significant risk that the financial statements are misstated due to:

- Inaccurate or incomplete data transfer; or
- Inaccurate or inappropriate specification, design or configuration as part of an IT change.

Work we plan to undertake in response

We have liaised with our internal IT audit experts to plan our response to the significant risk.

As part of our work, we will assess the design and implementation of controls relating to the implementation of Business Central, including consideration of:

- Programme and project governance processes;
- Functional and technical specification;
- Solution and user acceptance testing;
- Data conversion and migration;
- Go/no-go decision;
- Post implementation review;
- Privileged users.

We will also substantively test the completeness and accuracy of migrated data, through reconciliation of the closing and opening trial balances from the respective systems.

We shall communicate, unless prohibited by law or regulation, with those charged with governance any other matters related to fraud that are, in our auditor's judgment, relevant to their responsibilities. Under ISA (UK) 240, it is our responsibility as auditors to report to those charged with governance:

- Any risks of material misstatement identified due to fraud
- Any matters we think are relevant to those charged with governance regarding management's process for identifying and responding to the risks of fraud at Health and Care Professions Council.

Below, we have summarised our initial assessment of the risk of fraud relevant to Health and Care Professions Council and how this may impact on the financial statements.

Risk of material misstatement due to fraud

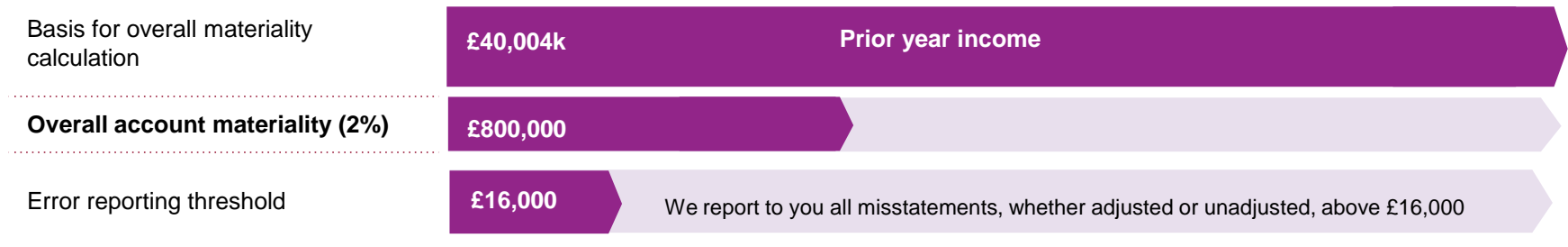
ISA 240 (UK) states there is a presumed significant risk of material misstatement owing to fraud arising from the unpredictable way in which management can override controls, applicable for all audited bodies, that cannot be rebutted and has been present in previous audit years.

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by using its position to override controls that otherwise appear to be operating effectively.

Based on our initial assessment, we have not identified any additional risks of fraud other than the presumed risk of management override of controls and the risk of fraud in revenue recognition. We have not identified particular characteristics of management or controls at the HCPC that indicate that this risk is elevated.

Matters regarding management processes for identifying and responding to the risks of fraud

The risk management process sets out management's process for identifying and managing risks. We have not identified any specific concerns during our planning procedures to date. Should any further concerns arise as the audit progresses, we will communicate these to you at the earliest opportunity.



In line with generally accepted practice, we have set our quantitative materiality threshold for as approximately 2% of income, which equates to £800,000.

These levels remain comparable to those used in the prior year.

Our overall account materiality is based on total income in the prior year, given that this is the main driver of the accounts, arising from the registration fees charged to health and care professionals and is therefore of most interest to the users of the accounts. We will update our materiality at the final fieldwork stage to reflect actual 2024-25 outturn upon receipt of the first set of draft accounts.

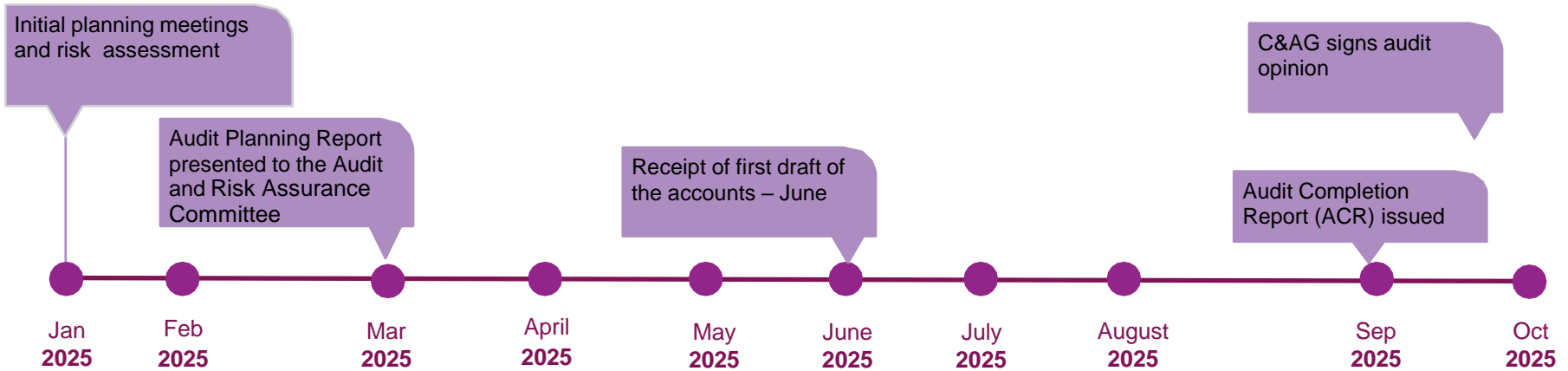
A matter is material if its omission or misstatement would reasonably influence the decisions of users of the financial statements. The assessment of what is material is a matter of the auditor's professional judgement and includes consideration of both the amount and the nature of the misstatement.

The concept of materiality recognises that absolute accuracy in financial statements is rarely possible. An audit is therefore designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. We apply this concept in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and of uncorrected misstatements, if any, on the financial statements and in forming the audit opinion. This includes the statistical evaluation of errors found in samples which are individually below the materiality threshold but, when extrapolated, suggest material error in an overall population. As the audit progresses our assessment of both quantitative and qualitative materiality may change.

We also consider materiality qualitatively. In areas where users are particularly sensitive to inaccuracy or omission, we may treat misstatements as material even below the principal threshold(s).

Indicative timing of the audit

We understand management’s preference to commence final audit fieldwork as soon as possible after the Parliamentary summer recess begins at the end of July (22nd), and are working to accommodate that. We will discuss and agree precise timings with management as soon as possible, acknowledging the need to balance the NAO resourcing position across all audits which are working to similar timetables across the summer/ autumn, including HCPC.



Planning

In consultation with Management, Audit and Risk Assurance Committee, Internal Audit and other Key stakeholders, review the Health and Care Professions Council’s operations, assess risk for our audit and evaluate the control framework.

Determine audit strategy

IT audit work

Carry out work to address the major IT change significant risk, looking at the governance and project management around the implementation of Business Central and associated migration of balances from Sage.

Final fieldwork

Test expenditure and income and significant balances and disclosures

Completion

ACR: present our findings and recommendations.

Seek management balances and disclosures.

C&AG issues opinion.

Management Letter: provide final recommendations on control matters identified.

Debrief

Meeting to discuss lessons learned and improvements for the following year.

Interim fieldwork

Test expenditure, income and payroll.

Audit quality is core to the NAO's purpose. It supports effective accountability, better financial reporting and stronger financial management. We want our audit insights to be valued, and to be a leading voice in public sector financial reporting and financial management.

For our work to have the impact and influence required, and for Parliament and the wider public to have confidence in the quality of our work, we must uphold high standards of ethics and integrity and work within a framework of values that preserve audit independence.

The quality of our financial audit work is fundamental to delivering on our purpose and is the top priority of the NAO Board and Executive Team.

On our audit of financial statements, **we measure the quality of our financial audits through an annual programme of internal and external inspections.** These inspections review a sample of our audits. Our target is that all our financial audits meet our quality standards.

These standards are that, should an audit be inspected by an independent reviewer, the reviewer finds that the audit requires no more than limited improvement is required. Each audit is graded from 1 to 4 where 1 is good or best practice and 2 is limited improvements required – ratings meeting our quality standard; with a grade of 3 where improvements are required and 4 where significant improvements are required – ratings below our quality standard.

The results of our internal and external inspections show that we can and do deliver quality audits but that we need to do more to meet the required standard consistently. Following disappointing results from the external inspection of a sample of our 2021-22 audits, the results of the inspection of 2022-23 audits show some improvement but also that, as for other audit firms of our size, there is more work for us to do.

We are fully focused on meeting and keeping pace with rising regulatory expectations for financial audit and we are working hard to address the underlying causes of the issues found and we are confident in the improvement actions we are taking. **Our annual [Transparency Report](#) for 2023-24 sets out these issues and our response in more detail.**

Our Audit Transformation Programme has been running since 2021 and we have already seen positive impact from the investments we have made.

In late 2023, we reached a significant milestone of our Audit Transformation Programme, with the rollout of our new financial audit software platform, Apex, on time and on budget. Apex helps support quality and efficiency through guided workflows, automation, and standardisation. All our audit teams are using Apex for the first time – combined with our new audit and sampling methodologies which we implemented over the last two years - for our audits of government's 2023-24 accounts which will be inspected during 2024-25.

We are continuing to work on realising fully the benefits of the substantial investment we have made in our new methodology and audit platform through the launch of our Quality First Plan in April 2024, covering 6 key pillars:

Learning & culture	Nurturing a quality first culture and improving capability – more and better L&D, refreshed approach to engagement and comms, a greater understanding of our culture and a focus on behaviours
Resources	Improving capacity, capability and resilience – more resources, increased productivity, improved planning and management, better recruitment processes, a new contracting out model.
Methodology and Support	Supporting colleagues with best practice methodology, policies and practice – a new support model with Quality Directors and business partners; clarified and enhanced audit procedures; new sampling approach; more investment in centres of expertise; and an enhanced quality support framework for high-risk audits
Technology	Taking opportunities to use technology to improve audit – delivering enhancements to Apex, a new engagement portal, increasingly adopting IT controls, data analytics, new AI technologies; and improved sampling, journals and AIMS applications.
Assurance	Robust monitoring and assurance – accelerated “cold” and “in flight” review models; enhanced audit quality indicators and dashboards; improved root cause analysis; and better dissemination of lessons learnt.
Our context	Influencing our external auditing environment and stakeholders – enhanced engagement with stakeholders and audited entities to support improved audit quality.

You will have already seen the impacts of our audit quality agenda in how we perform our audits, for example through enhanced focus on harder to value assets and greater emphasis on obtaining documented management judgements in areas of risk.

As set out in our [guide](#) for Audit Committees, we are committed to working with you to deliver highly quality, timely audits. **Your Engagement Director would be delighted to discuss these issues further with you and how they might apply on your particular audit.**



Working together to achieve a high-quality, timely and efficient audit – how the Audit Committee can support

We consider that management and Audit Committees are a critical element in supporting us to deliver consistent, high-quality audit work. This is supported by the Financial Reporting Council, which has identified the way in which management approaches the preparation of financial statements and provision of audit evidence as a key attribute for a good audit¹. The Audit Committee Chairs' Independent Forum has similarly highlighted the importance of effective working between the auditor, management and Audit Committees to support good quality audit work².

Our guide, [Working together to achieve high-quality, timely and efficient audits](#), provides an overview of the significant changes over the last ten years to accounting and auditing standards, and regulatory expectations around audit quality. We set out how the NAO is responding to these changes and how both management and Audit Committees can support in achieving high-quality, timely and efficient audit work.

Your NAO audit team looks forward to closely engaging with you on how we can work together to achieve high quality work.



The NAO audit fee quote is based on the anticipated cost of delivering our audit work. The level of audit work is dependent upon a number of factors, including the nature and extent of significant risks of material misstatement within the financial statements and ensuring quality audit procedures are undertaken to meet the requirements of International Standards on Auditing (ISAs) (UK).

Drivers behind changes in audit fees over the last few years include:

- **The Financial Reporting Council (FRC) has increased its expectations around the quality of audit work in light of a number of high-profile corporate failings.** This has resulted in the level of audit work increasing, particularly into the application of judgement and scepticism in relation to complex accounting estimates, revenue recognition, going concern, and the audit of groups.
- **Financial reporting changes.** In the past few years, new accounting standards for example IFRS 16: *Leases* and IFRS 17: *Insurance Contracts* have resulted in significantly more complex financial reporting requirements.
- **Auditing standard changes.** Changes to auditing standards have increased the complexity and volume of work required to carry out audits in line with these standards, partly as a response to questions over the sufficiency of audit in light corporate failings. In recent years, revised standards on risk assessment (ISA (UK) 315) and audit of estimates (ISA (UK) 540) have had a significant impact. In 2024-25, a new standard on group audits (ISA (UK) 600) has come into effect which increases the requirements for quality management on a group audit and introduces a new top-down approach to risk assessment on the audit of group financial statements.
- **Investment in technology.** We are investing in our technology to enhance auditing techniques, such as data analytics and testing of controls, to improve both the quality of the audit we provide and the insight we can offer into common financial reporting and management challenges.

Fees

The fee for the audit is £75,500.

The principle agreed with Parliament is that our fee is set to recover the full costs of the audit, rather than make a profit from or subsidise an audit. The NAO determines its fees with reference to standard hourly rates for our staff, which are reviewed annually, and updated when costs change.

Completion of our audit in line with the timetable and fee is dependent upon Health Care Professions Council:

- delivering a complete Annual Report and Accounts of sufficient quality, subject to appropriate internal review, on the date agreed;
- delivering good quality supporting evidence and explanations within the agreed timetable; and
- making staff available during the audit.

If significant issues arise and we are required to perform additional work this may result in a change in our fee. We will discuss this with you before carrying out additional work.

The NAO is committed to delivering high-quality audit work and to meeting the expectations of our audited bodies, Parliament, the public, and other stakeholders. As a result of this commitment and the drivers outlined above, we have set our audit fee quote accordingly.

Other Matters

Audit scope and strategy

This audit plan covers the work we plan to perform to express an opinion on whether the financial statements are free from material misstatement and are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The plan is also designed to ensure the audit is performed in an effective and efficient manner. Where relevant queries arise, we have the option of using the support of NAO centres of expertise such as for the land and buildings valuation significant risk.

Our audit approach is a risk-based approach, ensuring that audit work is focused on significant risks of material misstatement and irregularity.

In areas where users are particularly sensitive to inaccuracy or omission, a lower level of materiality is applied, e.g. for the audit of senior management remuneration disclosures and related party transactions.

When undertaking our risk assessment we take into account several factors including:

- Inquiries of management
- Analytical procedures
- Observation and inspection of control systems and operations
- Examining business plans and strategies

Our risk assessment will be continually updated throughout the audit.

Independence

We are independent of Health Care Professions Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard. We have fulfilled our ethical responsibilities in accordance with these requirements and have developed important safeguards and procedures in order to ensure our independence and objectivity.

Information on NAO quality standards and independence can be found on the NAO website: <https://www.nao.org.uk/about-us/our-work/governance-of-the-nao/transparency/>.

We will reconfirm our independence and objectivity to the Audit & Risk Assurance Committee following the completion of the audit.

Other Matters

Management of personal data

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 confirm that we have discharged those responsibilities communicated to you in the NAO's Statement on Management of Personal Data at the NAO.

The statement on the Management of Personal Data is available on the NAO website:

<http://www.nao.org.uk/freedom-of-information/publication-scheme/how-we-make-decisions/our-policies-and-procedures/policies-and-procedures-for-conducting-our-business/>

Using the work of internal audit

We liaise closely with internal audit through the audit process and seek to take assurance from their work where their objectives cover areas of joint interest. We do not intend to rely on the work of the internal auditors in forming our audit opinion.

Communication with the NAO

Organisations we audit tell us they find it helpful to know about our new publications, cross-government insight and good practice.

Our [website](#) holds a wealth of information from latest publications which can be searched, to pages sharing our insights on important [cross-cutting issues](#). We also publish blogs and send email notifications to subscribers about our work on particular sectors or topics. If you would like to receive these alerts, please sign up at: <http://bit.ly/NAOoptin>. You will always have the option to amend your preferences or unsubscribe from these emails at any time.

NAO's Transparency Report

The NAO's annually published [Transparency Report](#) documents how we support Parliament in holding government to account through our statutory public audits.

The report includes details of our quality plan and the whole system approach we are taking to ensure consistently high-quality audit work including our adoption of the *International Standard on Quality Management (UK) 1 – Quality Management for firms that perform audits or reviews of financial statements, or other assurance or related services engagements*.

Background

For HCPC, in addition to the requirement for the C&AG to certify the accounts, legislation permits appointment of a first tier auditor under terms analogous to the appointment of Companies Act auditors. This has created the 'two-tier' arrangement.

Prior to the 2024-25 audit cycle, the audit was conducted under this two-tier arrangement. HCPC tendered for a first-tier auditor who completed the audit work, and the NAO (on behalf of the C&AG for certification) reviewed the first-tier auditor's work and working papers to ensure NAO assurance requirements were met.

In addition to the C&AG's reliance on the first-tier auditors work, additional work was performed on audit areas (such as remuneration report and regularity) by the NAO audit team on a standalone basis. Reliance on the first-tier firm occurred under the previous version of ISA 600, which was intended for group assurance purposes.

New approach for the 2024-25 Financial Year Audit

ISA 600 was revised in September 2022 effective for periods beginning on or after 15 December 2023. Consultation with the NAO Quality team determined the existing arrangement of NAO review of first-tier audit files is no longer permitted and a full audit is required.

HCPC has appointed the NAO to conduct the work required to deliver the responsibilities of the first-tier auditor and the C&AG continues as the second-tier auditor.

Abdool Kara
Executive Director

Darren Stewart
Engagement Director

T: 0191 269 8883
E: darren.stewart@nao.org.uk

Daniel Reay
Engagement Manager

T: 0191 269 0386
E: daniel.reay@nao.org.uk

Haider Ali
Engagement Lead

T: 020 7798 7958
E: haider.ali@nao.org.uk

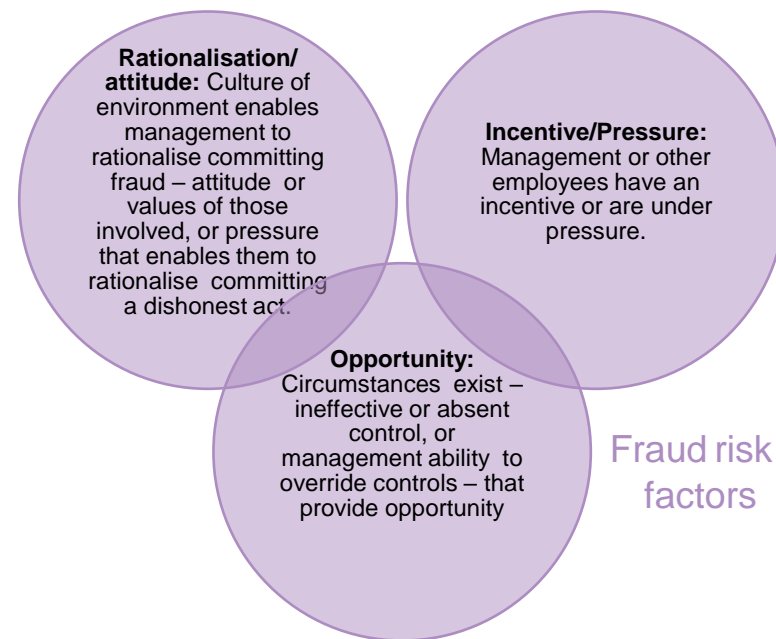
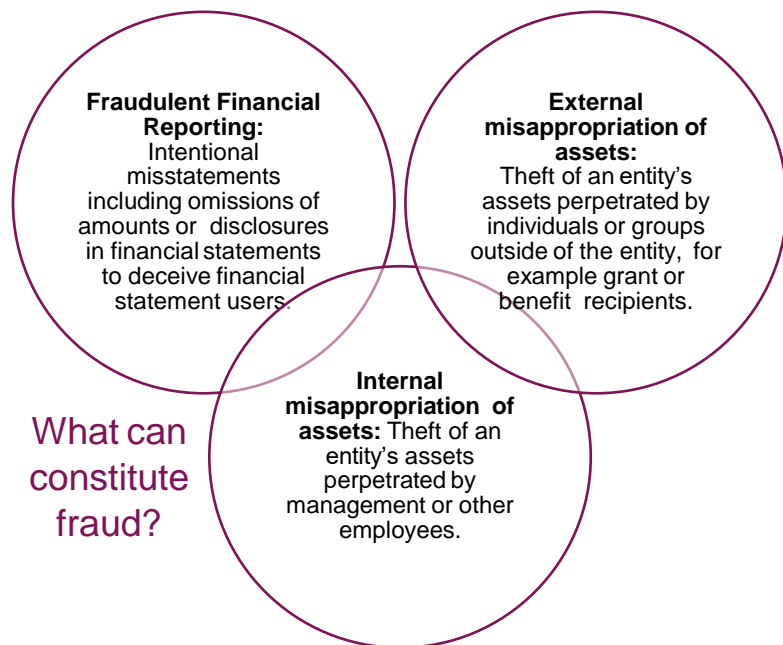
In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/audited entity, making clear that the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

These responsibilities are set out in the Letters of Engagement/Understanding and are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Scope of the audit	<ul style="list-style-type: none"> • Prepare financial statements in accordance with the Health Professions Order 2001 and directions made thereunder by the Privy Council and that give a true and fair view. • Process all relevant general ledger transactions and make these, and the trial balance, available for audit. • Support any amendments made to the trial balance after the close of books (discussing with us). • Agree adjustments required as a result of our audit. • Provide access to documentation supporting the figures and disclosures within the financial statements. • Subject the draft account to appropriate management review prior to presentation for audit 	<ul style="list-style-type: none"> • Conduct our audit in accordance with International Standards on Auditing (ISAs) (UK). • Report if the financial statements do not, in any material respect, give a true and fair view. • Review the information published with the financial statements (e.g. annual report) to confirm it is consistent with the accounts and information obtained during the course of our audit.
Fraud	<ul style="list-style-type: none"> • Primary responsibility for the prevention and detection of fraud. • Establish a sound system of internal control designed to manage the risks facing the organisation; including the risk of fraud. 	<ul style="list-style-type: none"> • Obtain reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. • Make inquiries of those charged with governance in respect of your oversight responsibility. • Discuss fraud risks associated with the entity with those charged with governance.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Regularity	<ul style="list-style-type: none"> • Ensure the regularity of financial transactions. • Obtain assurance that transactions are in accordance with appropriate authorities, including the organisation’s statutory framework and other requirements of Parliament and HM Treasury. 	<ul style="list-style-type: none"> • Conduct our audit of regularity in accordance with Practice Note 10, 'Audit of financial statements and regularity of public sector bodies in the United Kingdom (revised 2022)', issued by the Financial Reporting Council. • Confirm the assurances obtained by the Health Care Professions Council that transactions are in accordance with authorities. • Have regard to the concept of propriety, i.e. Parliament’s intentions as to how public business should be conducted.
Propriety	<ul style="list-style-type: none"> • Ensure the propriety of financial transactions • Ensure that patterns of resource consumption should meet high expectations of public conduct, and robust governance and respect Parliament’s intentions, conventions and control procedures, including any laid down by the Public Accounts Committee. 	<ul style="list-style-type: none"> • Propriety is not readily susceptible to objective verification and, as such, is not expressly covered in the opinion on financial statements. When issues of propriety come to light in the course of the audit of financial statements, the auditor considers whether and, if so, how they may be reported.
Governance statement	<ul style="list-style-type: none"> • Review the approach to the organisation’s governance reporting. • Assemble the governance statement from assurances about the organisation’s performance and risk profile, its responses to risks and its success in tackling them. • Board members, with the support of the Audit Committee, evaluate the quality of internal control and governance, and advise on any significant omissions from the statement. 	<ul style="list-style-type: none"> • Confirm whether the governance statement is consistent with our knowledge of the organisation, including its internal control. • Consider whether the statement has been prepared in accordance with HM Treasury guidance, including Managing Public Money.
Accounting estimates and related parties	<ul style="list-style-type: none"> • Identify when an accounting estimate, e.g. provisions, should be made. • Appropriately value and account for estimates using the best available information and without bias. • Identify related parties. • Appropriately account for and disclose related party transactions. 	<ul style="list-style-type: none"> • Consider the risk of material misstatement in respect of accounting estimates made by management. • Perform audit procedures to identify, assess and respond to the material risks of not accounting for or disclosing related party relationships appropriately.

ISA (UK) 240 'The auditor's responsibility to consider fraud in an audit of financial statements' requires us, as your auditors, to make inquiries and obtain an understanding of the oversight exercised by those charged with governance.



ISA inquiries

Our inquiries relate to your oversight responsibility for

- Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;
- Management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
- Management's communication to the [Audit Committee] (and others charged with governance) on its processes for identifying and responding to the risks of fraud; and
- Management's communication, if any, to its employees on its views about business practices and ethical behavior.

We are also required to ask whether you have any knowledge of any actual, suspected or alleged fraud and discuss with you the risks of fraud in the entity.

Audit approach

We have planned our audit of the financial statements so that we have a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

We will incorporate an element of unpredictability as part of our approach to address fraud risk. This could include, for example, completing procedures at locations which have not previously been subject to audit or adjusting the timing of some procedures.

We will report to the Audit and Risk Assurance Committee where we have identified fraud, obtained any information that indicates a fraud may exist or where we consider there to be any other matters related to fraud that should be discussed with those charged with governance.

Support to Audit Committees

We have developed a range of guidance and tools to help public sector Audit Committees achieve good corporate governance. This includes specific guidance on financial reporting and management during Covid-19

[Insights - National Audit Office \(NAO\)](#)

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

Climate Risk: A good practice guide for Audit and Risk Assurance Committees

Audit Committees play a key role in scrutinising and advising the Board and Accounting Officer on risks arising from climate change. This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)

Corporate Governance Code for central government departments

The document was released in April 2017 and lays out the model for departmental boards, chaired by Secretaries of State and involving ministers, civil servants and non-executive board members. The principles outlined in the code will also prove useful for other parts of central government and they are encouraged to apply arrangements suitably adapted for their organisation.

<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

Guidance for governance

Sustainability reporting

This guidance is to assist with the completion of sustainability reports in the public sector. It sets out the minimum requirements, some best practice guidance and the underlying principles to be adopted in preparing the information.

[2023-24 Sustainability Reporting Guidance.docx \(publishing.service.gov.uk\)](#)

Disclosure Guides

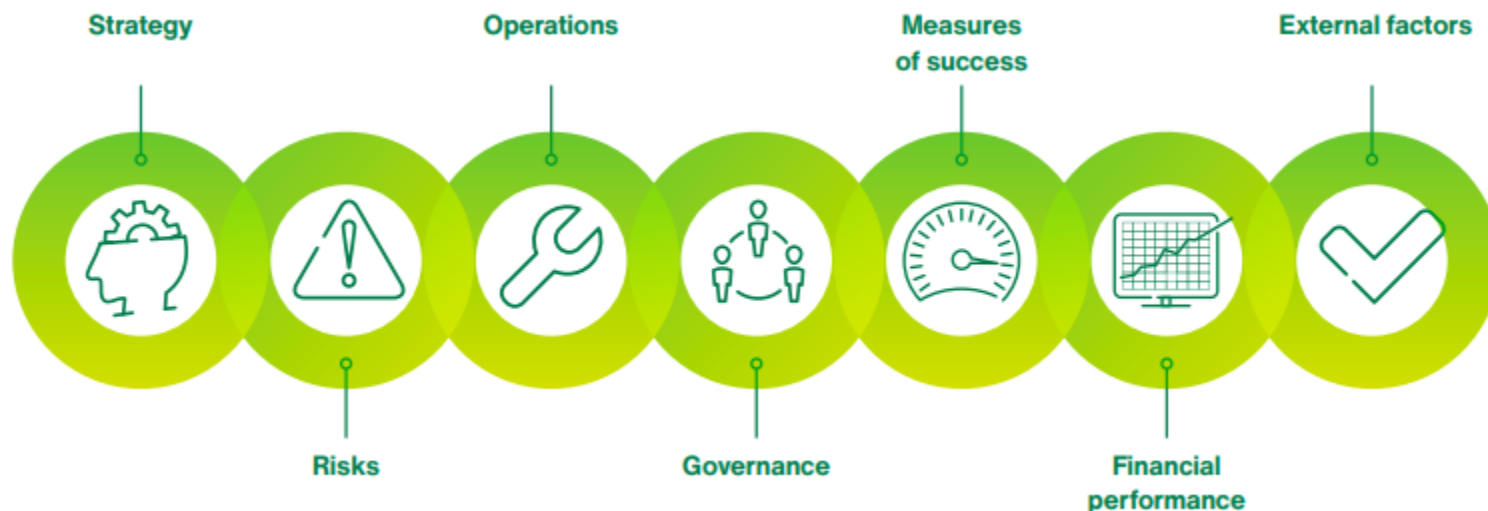
Our disclosure guides for audited entities help audited bodies prepare an account in the appropriate form and that has complied with all relevant disclosure requirements.

[Disclosure guide for entities who prepare financial statements in accordance with the Government Financial Reporting Manual \(FRoM\) - National Audit Office \(NAO\) insight](#)

The Audit Committee plays a key role in scrutinising the Annual Report and Accounts on behalf of their Board and Accounting Officer, ensuring the quality of disclosures, its understandability for users, and that the body’s performance is presented in a fair and balanced way.

To support the Audit Committee in this role, we have published our [Good Practice in Annual Reporting](#) guide.

The Guide, which we update annually, provides specific examples of best practice we identified during our review of a sample of annual reports. The good practice principles are grouped under the following headings: supporting accountability, transparency, accessibility and understandability (see next slide for further details). These principles should be evident across the common sections of an annual report (below).



Could you be a winner?

If you consider you meet these best practice principles and would like to nominate your organisation for the Building Public Trust Awards for your most recent Annual Report and Accounts, please speak to your NAO Team or contact us at Building.Public.Trust@nao.org.uk.

Essential features of a good annual report



Supporting accountability

- telling the story of the organisation in a fair and balanced way;
- compliance with the relevant reporting requirements; and
- clear action points to take forward.



Transparency

- frank and honest analysis;
- consideration of the challenges an organisation is facing;
- appropriate use of data; and
- quantification of risks and performance measures.



Accessibility

- highlights key trends in the financial statements;
- concise summaries of key points; and
- consideration of how the organisation engages with key stakeholders and meets their needs.



Understandable

Use of:

- plain English to explain difficult concepts;
- infographics and diagrams to communicate important messages; and
- clearly integrated structure to help users navigate it effectively.

Our **effectiveness tool** is a comprehensive way for ARACs in central government to assess their effectiveness on a regular basis.

The tool should be used in a way that is proportionate to the risks and complexity of each organisation.



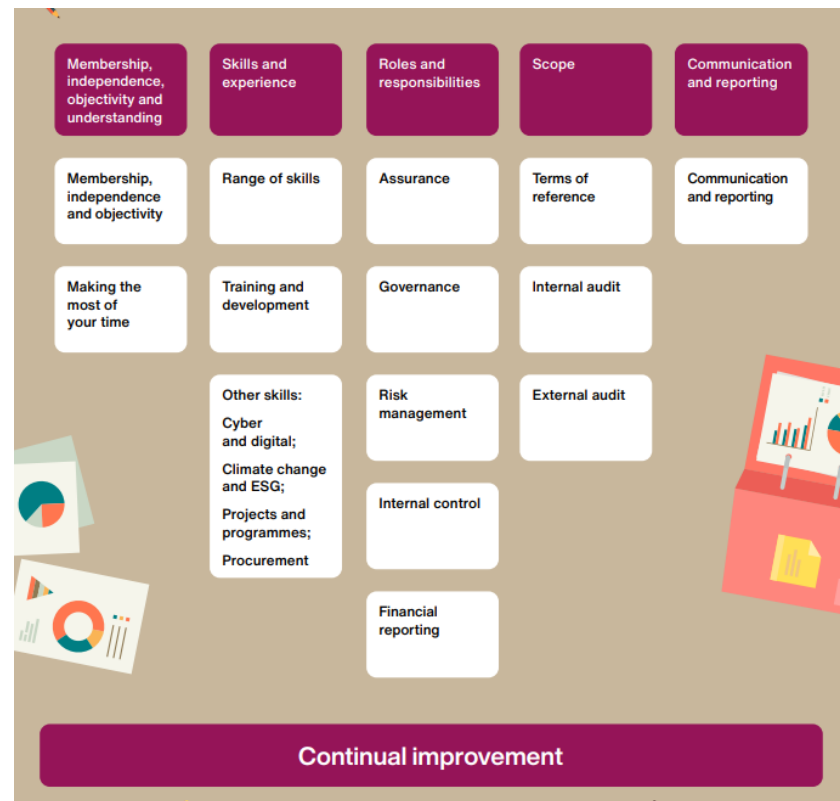
Our effectiveness tool outlines six areas for self-assessment:

- **membership, independence, objectivity and understanding**
- **skills and experience**
- **roles and responsibilities**
- **scope**
- **communication and reporting**
- **continual improvement**

There are two types of questions:

Essentials – these reflect the core expectations of ARACs in line with HM Treasury’s *ARAC Handbook (2016)*. All organisations should answer these questions.

Good practice – these are drawn from wider guidance and allow ARACs to go beyond basic requirements and demonstrate best practice. If you have fewer resources and your organisation has a lower risk profile you may decide to address these areas on a cyclical basis.



Outcome Analyser



To gain an overall view of ARAC effectiveness, it is important that the individual views of all members are Therefore, we have created an accompanying **outcome analyser** which allows you to:

- generate an overall view of ARAC effectiveness; and
- drill down and analyse specific areas of strength or improvement on a section, sub-section and individual question level.