Audit Committee Meeting

11 November 2020

National Audit Office - Audit Planning Report 2020-21

Executive Summary

This reports sets out how the NAO have built their assessment of the HCPC's risk, what they will base materiality on, those risks they expect to be significant and how they will respond to those risks. The NAO also set out in this report details of the team carrying out the audit, the expected timing of the audit and their fees.

The planned approach is similar to last year.

The external auditors are independent and it is their responsibility to determine their plans for the audit, so the Audit Committee does not approve or reject the audit plans, but the NAO will welcome the Committee's discussion and any feedback.

Previous consideration	None
Decision	The Committee is invited to discuss the report.
Next steps	The timeline for the audit is included in the paper.
Strategic priority	The strategic priorities set in 2018 are no longer current. We are developing a new strategy that we aim to confirm at the end of 2020.
Risk	Strategic Risk 5- Failure of leadership, governance or culture
Financial and resource implications	The cost of the external audit for 2020-21 is £6,300
Author	National Audit Office

Financial**Audit**Planning

National Audit Office

Health and Care Professions Council

Audit planning report on the 2020-21 **financial statement audit**

Report to those charged with governance
November 2020

This report presents details of our proposed approach for the audit of 2020-21 financial statements

We plan our audit of the financial statements to respond to the risks of material misstatement and material irregularity. This reports 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 in this report details of the team carrying out the audit, the expected timing of the audit and our fees.

Actions for the Audit Committee

Members of the Audit Committee are invited to discuss:

- Whether our assessment of the risks of material misstatement to the financial statements is complete;
- Whether management's responses 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.

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.

Amy Manning

Engagement Director

We have prepared this report for HCPC'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.

Contents

Audit Risks (pages 8 to 11)

We plan our audit of the financial statements to respond to the risks of material misstatement to transactions and balances and irregular transactions.

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

SR1 - Presumed risk of management override of controls

SR2 – Presumed risk of fraud in revenue recognition

SR3 – Going Concern

We have identified the following areas of audit focus:

AF1 – Valuation of Non-current Assets

AF2 – Completeness of Payables

AF3 – Completeness of Staff Costs

AF4 – Implementation of IFRS 16

AF5 – Covid-19

Materiality

- When setting materiality, we consider both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements.
- In line with haysmacintyre's approach, and with generally accepted practice, we will set our quantitative materiality threshold as approximately 2% of income giving a planning materiality of £500,000. We will report to the Audit Committee all audit differences in excess of 5% of materiality, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. This is comparable with the approach taken in 2019-20.
- 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. These areas include the remuneration report, disclosures about losses and special payments, external audit fees, and any irregular income and expenditure.

Audit team, fee and timetable

- Amy Manning will be responsible for the overall audit. The full engagement team is presented on page 15.
- Our audit fee for this year is £6,300. The fee has increased from 2019-2020 (£6,100).
- We are planning to complete the audit in advance of the summer 2021 Parliamentary recess.

Reliance on the work of haysmacintyre

Under legislation, HCPC is required to appoint its own auditors, who are qualified under the Companies Act 2006. haysmacintyre are the appointed auditors for 2019-20. The legislation also requires the C&AG to certify and report to Parliament on the financial statements.

Haysmacintyre has agreed that the NAO can review the results of their audit work on the 2020-21 accounts. We aim to take assurance from their work to the maximum extent possible, where we feel this meets our requirements in forming an opinion on the accounts. We will supplement this by performing audit work ourselves, where our risk assessment and audit methodology require it. In particular, we will perform additional audit procedures to obtain assurance to support our regularity opinion on the financial statements and the disclosures in the remuneration report. See Appendix B for further details of our responsibilities in relation to the audit of regularity.

Should any further work be necessary to meet our requirements, we will discuss this with management in advance.

Our review will follow the guidance in International Standards on Auditing (UK). We will apply the principles of International Standard on Auditing (UK) 600 Special considerations audits of group financial statements (including the work of component auditors) as it relates to component auditors when evaluating the sufficiency and appropriateness of the audit evidence obtained by haysmacintyre. Under ISA600, if we are not able to obtain sufficient documentation to retain on our files, we are required to perform this work ourselves. Should this occur, we will need to revisit our audit fee as this will impact the timing and cost of our work. If this is the case, we will discuss this with you in advance.

We also perform a review of the annual report and financial statements and, in particular, we will consider:

- the appropriateness of accounting policies selected by management, and we also consider HCPC's compliance with the Accounts Determination issued by the Privy Council, which directs HCPC to 'take into consideration' the accounting principles and disclosure requirements of the FReM.
- We will request that HCPC sets out its consideration of accounting policies, especially those which diverge from the FReM and which have a material effect on the financial statements, for us to consider, and the contents of the governance statement.

We have discussed with haysmacintyre the significant risks of material misstatement in the financial statements, and their proposed audit approach to them.

Changes to our assessment of risk since 2019-20

Risks and areas of focus diminishing or superseded since 2019-20	Risks and areas of audit focus identified in 2019-20 that remain relevant for 2020-21		New risks and areas of focus for 2020-21
	Risks that are broadly consistent with last year	Risks that have evolved and developed since last year	
Significant Risks	**Significant Risks**	**Significant Risks**	**Significant Risks**
Transfer to Social Work England	SR1- Presumed risk of management override of controls		
Changes at senior staff level	SR2 – Presumed risk of fraud in revenue recognition		
	SR3 – Going Concern		
Areas of Audit Focus	**Areas of Audit Focus**	**Areas of Audit Focus**	**Areas of Audit Focus**
	AF1 –Valuation of Non-current Assets		AF5 – Covid-19
	AF2 – Completeness of Payables		
	AF3 – Completeness of Staff Costs		
	AF4 – Implementation of IFRS 16		

Building our assessment of risk

We are well placed to develop an understanding of the risks to HCPC drawing on your own assessment, the historic assessment of risk and the broader context.

HCPC's assessment of risk

The HCPC 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. Failure to deliver effective regulatory functions
- 2. Failure to anticipate and respond to changes in the external environment
- 3. Failure to be a trusted regulator and meet stakeholder expectations
- 4. Failure to be an efficient regulator
- 5. Failure of leadership, governance or culture

Past assessment of audit risk

The 2019-20 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.

- Presumed risk of Management override of Controls
- Presumed risk of fraud in revenue recognition
- Transfer to Social Work England
- Going Concern
- Changes at senior staff level

Broader context

Our risk assessment draws on the understanding of the broader environment in which the HCPC operates.

- EU Exit
- Covid-19 Pandemic
- Implementation of IFRS 16

Our response to the significant risks*

SR1 - Presumed risk of management override of controls

Why we have identified this as a risk

Under International Standard on Auditing (UK) 240, there is a presumed significant risk that management may override the system of internal controls. Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and accounting estimates and prepare fraudulent financial statements by overriding internal controls that otherwise appear to be operating effectively.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

SR2 - 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. Income is a significant figure in HCPC's accounts, and HCPC is faced with other significant issues in relation to financial performance, residual Going Concern issues linked to a stalled increase in the statutory registration fee. Additionally there are planned changes to the CRM system in year, as well as a PWC lead review of deferred income.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

*The auditor shall identify and assess the risks of material misstatement at:
(a) the financial statement level;
(a) the assertion level for classes of transactions, account balances, and disclosures
to provide a basis for designing and performing further audit procedures.

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Our response to the significant risks*

SR3 – Going concern

Why we have identified this as a risk

HCPC had planned to increase it's statutory fee for registration in 2019 to cover its recognised increase in annual running costs. This increase was delayed in being passed in legislation so HCPC will not be able to pass cost onto registrants until 2021, reducing HCPC's forecast income levels. This, combined with the transfer in 2019-20 of a large proportion of registrants to Social Work England, as well as the ongoing Covid-19 pandemic and potential reductions in the level of professional registration, may put a strain on HCPC's operating costs. As a result of these increased budgetary pressures, there is a risk that the going concern assumption may not be appropriate for 2020-21.

Work we plan to undertake in response

We expect to be able to rely upon the work performed by haysmacintyre in response to this risk.

*The auditor shall identify and assess the risks of material misstatement at:
(a) the financial statement level;
(a) the assertion level for classes of transactions, account balances, and disclosures
to provide a basis for designing and performing further audit procedures.

Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions.

Areas of audit focus

The following are matters which we consider have a direct impact on the financial statements but do not represent significant risks of material misstatement as defined by ISA (UK) 315.

Title	Audit Area Affected	Description / Audit Response
AF1 –Valuation of Non-current Assets	Intangible Assets: Completeness and Accuracy of capitalised costs in year & related amortisation charge.	HCPC are continuing to develop a new CRM system, which we anticipate will be completed in year. Consideration of the nature and extent of the work undertaken on this in year will be required, along with assessment as to whether this expenditure should be capitalised, and once completed whether the useful economic life allocated is reasonable and whether there are any indications of impairment. The valuation of HCPC's freehold property for 2019-20 was subject to a material uncertainty disclaimer, which resulted in an emphasis of matter paragraph in both the haysmacintyre and NAO certificates. We will need to consider the implications for 2020-21 if such a disclaimer is required again. **We expect to be able to rely on the work performed by haysmacintyre in response to this area.**
AF2 – Completeness of Payables	Payables	Work undertaken to ensure completeness of liabilities within the financial statements, including completeness of any fitness to practice liabilities identified. **We expect to be able to rely on the work performed by haysmacintyre in response to this area.**
AF3 – Completeness of Staff Costs	Staff Costs + Exit Costs: accuracy of redundancy payments (and related liabilities). Remuneration Report	Staff costs & Exit Costs: Following work undertaken on HCPC's strategic review, and settlement of the senior management team we need to gain assurance that all staff costs incurred in year, including any redundancy or other related liabilities relevant to HCPC are fully recorded within the HCPC Financial Statements with disclosure in line with FReM requirements. **We expect to be able to rely on the work performed by haysmacintyre in response to this area and will review the remuneration report to ensure that disclosures are in line with FREM requirements.**

Areas of audit focus

The following are matters which we consider have a direct impact on the financial statements but do not represent significant risks of material misstatement as defined by ISA (UK) 315.

Title	Audit Area Affected	Description / Audit Response
AF4 – Implementation of IFRS 16	Leases, Disclosure	Following deferral by Treasury in 2019-20, we anticipate that IRFS16 will become effective for HCPC from 1 April 2021, and appropriate IAS8 disclosure will be made within the 2020-21 accounts. The impact of IFRS 16 is expected to be material in respect of financial reporting, budgeting, planning and fiscal implications for HCPC. As set out in the 2019-20 financial statements this will result in the recognition of a right of use asset valued of approx. £4.9m at 1 April 2021, which is material to the accounts. **We expect to be able to rely on the work performed by haysmacintyre in response to this area.**
AF5 – Covid-19	All	The Covid-19 pandemic has resulted in a number of impacts upon HCPC and the way it works, with a series of financial and non-financial implications. These include but are not limited to; • Ways of working, including reduced office time and virtual meeting (including FtP hearings). • Levels of income, with legislation impacting upon the level of international applications and registrations from professions who are unable to operate fully within restrictions. • Property valuations given disclaimers due to uncertain markets. We will keep a watching brief against any developments in this area and consider as part of overall audit work.

Timing of the audit and audit fee

Fees

The fee for the audit is £6,300 (2019/20; £6,100)

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 HCPC:

- 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.

Oct **2020** – Initial planning meetings and risk assessment

Nov **2020** – Audit Planning Report presented to the audit committee

Mar **2021** – Progress update to the Audit Committee.

May **2021** – NAO to receive of first draft of the accounts from HCPC

June **2021** – Audit Completion Report (ACR) issued by NAO and considered by ARC.

July **2021** –
- HCPC Council approve and sign final accounts.
- Haysmacintyre and C&AG sign accounts
- Accounts laid in Parliament

Aug **2021**

Planning

(*haysmacintyre & NAO*)

In consultation with Management, Audit Committee, Internal Audit and other Key stakeholders, review

HCPC's operations, assess risk for our audit and evaluate the control framework.

Determine audit strategy.

Interim fieldwork

(*haysmacintyre*)

Test expenditure and income.

Final field work

(*haysmacintyre*)

Test expenditure and income and significant balances and disclosures

(NAO)

Review of disclosures and testing of Remuneration Report

(haysmacintyre & NAO)

To hold wash-up completion meeting with management.

Completion

(*haysmacintyre* & NAO)

ACR: present our findings and recommendations.

Seek management representations.

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.

Our audit approach – Other Matters

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.

Our audit approach is a risk based approach, ensuring that audit work is focussed 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 HCPC 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 as applied to listed entities/public interest entities. 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 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 and where it is efficient for us to do so.

We currently have no plans to take assurance from Internal Audits work for 2020-21.

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.

Appendix A: The NAO audit team

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Appendix B: Scope and responsibilities

In line with ISAs (UK) we are required to agree the respective responsibilities of the C&AG/NAO and the Accounting Officer/HCPC, 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 Letter of Understanding of 02 June 2020 and are summarised here.

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Scope of the audit	• 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	• Conduct our audit in accordance with International Standards on Auditing (UK) (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.

Appendix B: Scope and responsibilities (cont'd)

Area	Accounting Officer/management responsibilities	Our responsibilities as auditor
Regularity	• 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.	• Conduct our audit of regularity in accordance with Practice Note 10, 'Audit of financial statements of public sector bodies in the United Kingdom (2016)', issued by the Financial Reporting Council. • Confirm the assurances obtained by the HCPC 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.
Fraud	• 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.	• Provide 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.
Governance statement	• 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.	• 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	• 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.	• 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. • We have not identified any significant risks at this stage.

IFRS 16: Leases

Effective for the FReM from 2021-22

HM Treasury have consulted on the public sector interpretation of this Standard for FReM bodies.

What is IFRS 16?

IFRS 16 eliminates the operating/finance lease distinction and imposes a single model geared towards the recognition of all but low-value or short term (<12m) leases. The proposals arise partly from the IASB's view that:

- disclosures around operating lease commitments have lacked prominence and tended towards understatement; and
- even in leases where the underlying asset is not acquired for its whole useful life, the lessee nevertheless acquires an economic right to its use, along with obligations to make good on minimum lease payments.
- These will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability. The lease liability will be measured at initial recognition as the value of future lease payments, with the asset additionally including any initial direct costs incurred by the lessee, plus an estimate of any dismantling/restoration costs. Subsequent measurement of both the asset and liability will need to respond to any changes in lease terms, and the accounting for the asset can be on a cost less depreciation and impairment model or a revaluation (fair value) model.

Changes affecting a lessor are limited, such as the revised guidance on the definition of a lease and the definition of the lease term.

HMT Letter to Finance Directors & HMT Application Guidance

HM Treasury has issued a letter to Finance Directors which outlines how Departments and their arm's length bodies are expected to progress plans to effectively implement the standard on time, a high level guide for implementing IFRS 16 and directions to application and budgetary guidance. The Application Guidance released in April 2019 can be found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/797922/IFRS_16_Application_Guidance_April_Update.pdf

Transition disclosures in the year preceding implementation

The financial reporting council

Disclosures in line with IAS 8 will be required :

(a)the fact the standard has not yet been implemented,
(b)Disclosing known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

You should also consider disclosing:

(a)the title of the new IFRS;
(b)the nature of the impending change or changes in accounting policy;
(c)the date by which application of the IFRS is required;
(d)the date as at which it plans to apply the IFRS initially; and
(e)either:
 (i)a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or
 (ii)if that impact is not known or reasonably estimable, a statement to that effect.

IFRS 17: Insurance Contracts

Effective from 2023-24

HM Treasury are consulting on the public sector interpretation of this Standard for FReM bodies. It expects public sector implementation to be from 2023-24, and to develop application guidance in due course.

IFRS 17: *Insurance Contracts* replaces IFRS 4 of the same name. The new standard will apply more standardised and rigorous requirements on accounting for insurance contracts. The new standard sets clearer expectations on the recognition, classification and measurement of assets and liabilities in relation to insurance contracts.

Scope

The scope of the standard covers insurance contracts issued and re-insurance contracts issued or held. An insurance contract is defined as:

"*A contract under which one party (the issuer) accepts significant* ***insurance risk*** *from another party (the* ***policyholder****) by agreeing to compensate the* ***policyholder*** *if a specified uncertain future event (the* ***insured event****) adversely affects the* ***policyholder***."

Indications that there is an insurance contract present include:

- Does the agreement create enforceable rights and obligations between an entity and one or more third parties OR two or more entities whose accounts are consolidated into the same group?
- Is one party required to make a payment to a second party depending on the outcome of a future event?
- Is the future event that would trigger payments uncertain?
- Does the specified uncertain future event adversely affect the second party to the contract?
- Does the payments required by the agreement amount to a transfer of risk from the second party (the policy holder) to the first party (the issuer)?
- Is the risk transferred insurance risk? (a risk other than a financial risk)

Implementation

Although the implementation of IFRS 17 is not planned until 2023, the standard should not be underestimated and preparations will be required where appropriate. Preparations will be required for the different actuarial, risk and accounting processes and could extend to different data, system and processes.

HMT are considering the application of IFRS 17 to the public sector. The standard reflects appropriate practice for the commercial insurance industry and implementation without adaptation may not be suitable for the public sector. HMT have already identified the practice of self-insurance across the public sector as an area that may adapted for government bodies. They are seeking feedback on where such self-insurance arrangements might exist, so the extent of this undertaking can be considered when the standard is adapted for the FReM.

Action for audit committees

Audit committees are asked to consider whether, through contractual arrangements or custom and practice, their enterprises insure other bodies against specific risks. Where arrangements are identified, entities should engage with HMT on the application of the standard within the public sector. Audit committees are requested to continue to monitor new transaction streams or arrangements against the criteria of IFRS 17 to ensure all liabilities are appropriately recognised across the government estate.

Changes in auditing standards: ISA 540 (Accounting Estimates)

ISA 540 (Revised) - *Auditing Accounting Estimates and Related Disclosures* applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

Appendix D: Changes to auditing standards

ISA (UK) 570: Going Concern

Effective from 2020-21

The FRC has issued significant revisions to ISA (UK) 570 - *Going Concern*. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least one year from certification as required by IAS 1.

Public sector adaptation

In the public sector, management's use of the going concern basis of accounting may be driven by the requirements of the financial reporting framework rather than the financial sustainability of the reporting entity. The Financial Reporting Manual (FReM) provides that anticipated continuation of the provision of a service in the future will be presumed to provide sufficient evidence to prepare the financial statements on a going concern basis.

Recognising these differences from a private sector situation, Practice Note 10 interprets the requirements of the new ISA 570. This allows for auditors to take the "continued provision of service approach". For bodies reporting under the FReM, this allows auditors to conduct proportionate risk assessment procedures over going concern where the activities are expected to continue in the future. There are still additional new requirements such as requirements to perform specific risk assessment procedures on going concern.

Going concern issues can still arise but these largely occur when Parliament has an intention to abolish, transfer or privatise the activities of an entity. Only in the case of dissolution without any continuation of operations would the going concern basis cease clearly to be appropriate. In the other cases the auditor considers the basis on which the activities are transferred from the viewpoint of the entity that is relinquishing the assets and liabilities at the accounting date.

Therefore, an unqualified opinion on going concern does not provide assurance over the entity's financial sustainability nor that the operations will not be transferred to another entity. There will be changes to the audit certificate including further explanations of the work done on going concern as required by the changes to ISA 570.

Action for audit committees

Audit committees are encouraged to review management's going concern assessment on an annual basis and consider whether it is appropriate for the entity's circumstances and the financial reporting framework. For entities where Parliament has an intention to abolish, transfer or privatise the activities, audit committees should scrutinise whether the accounts have been prepared on the correct basis and whether the financial statements include appropriate disclosures of material uncertainties over going concern.

Appendix E: Fraud matters

ISA 240 (UK&I) '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.

What can constitute fraud?

Fraudulent Financial Reporting: Intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Internal misappropriation of assets: Theft of an entity's assets perpetrated by management or other employees.

External misappropriation of assets: Theft of an entity's assets perpetrated by individuals or groups outside of the entity, for example grant or benefit recipients.

Fraud risk factors

Rationalisation/attitude: Culture of environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act.

Incentive/Pressure: Management or other employees have an incentive or are under pressure.

Opportunity: Circumstances exist – ineffective or absent control, or management ability to override controls – that provide opportunity

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.

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 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.

Appendix F: Guidance for 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

https://www.nao.org.uk/search/pi_area/support-for-audit-committees/

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

Cyber security and information risk guidance for Audit Committees

Audit committees should be scrutinising cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

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.

https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance-2016-to-2017

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

Disclosure Guides

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

http://www.nao.org.uk/report/nao-disclosure-guides-for- entities-who-prepare-financial-statements-in-accordance-with-the-government-financial-reporting-manual-frem/

Good practice in annual reports

The Building Public Trust Awards recognise outstanding corporate reporting that builds trust and transparency. The interactive PDF below illustrates a range of good practice examples across annual reports in both the public and private sector.

https://www.nao.org.uk/report/building-public-trust-awards-good-practice-in-annual-reports-february-2020/