

Agenda Item 10 (iii)

Enclosure 8

**Health and Care Professions Council
04 July 2019**

**Haysmacintyre final report to those charged
with governance**

To note

**From Jameela Khan, Interim Director of
Finance**

Haysmacintyre Audit Findings Report on the 2018-19 financial statements

Executive Summary

In December 2017, the Council appointed Haysmacintyre (HM) to audit the accounts and reporting to the Council, alongside the NAO. Haysmacintyre (HM) audit completion report for 2018-19 is attached.

Appended to the report is the draft 'letter of representation' that HM ask the Accounting Officer to sign. This is a standard audit procedure which provides the auditors with explicit confirmation of various points which are implicit in the draft accounts.

Previous consideration	The report was considered by the Audit Committee at its meeting of 4 June 2019.
Decision	Council is asked to note the report.
Next steps	Parliamentary laying of the Annual Report and Accounts is anticipated on the 18 July 2019.
Strategic priority	Strategic priority 3: Ensure the organisation is fit for the future and is agile in anticipating and adapting to changes in the external environment
Risk	Strategic risk 5. Failure of leadership, governance or culture. The Council takes a minimal approach to compliance and regulatory risk.
Financial and resource implications	HM audit fee £24,725 including VAT
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haysmacintyre

Health and Care Professionals Council

Draft Audit Findings Report

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Year Ended 31 March 2019

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1. Introduction and Executive Summary

This report summarises our key findings in connection with the audit of the financial statements of the Health and Care Professionals Council for the year ended 31 March 2019.

Our audit approach

Our work was planned and performed in order to issue an audit opinion on the financial statements in accordance with International Standards on Auditing (UK) (“ISAs”) and the terms of our letter of engagement.

Limitations

Our audit procedures, which have been designed to enable us to express an opinion on the financial statements, have included an examination of the transactions and the controls thereon.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures and, consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Overall conclusion and opinion

At the time of issuing this report we anticipate issuing an unqualified opinion, without modification on the financial statements, subject to the satisfactory completion of outstanding matters as agreed with management:

- Review of the final Annual Report and updated Financial Statements, including the wording for the accounting policies arising from amendments to IFRS
- Completion of outstanding audit review queries and the NAO review of our audit file
- Receipt of third-party bank confirmations from NatWest and Nationwide
- Receipt of third-party confirmations from the Council’s lawyers in relation to on-going fitness-to-practice cases
- Review of the updated remuneration report, to include exit payments in the period
- Completion of reviews of post balance sheet events up to the date the accounts are signed
- Receipt of signed letter of representation (at the time the accounts are signed)
- Completion of audit work on the adjustment made to the financial statements, reallocating cost capitalised to revenue

2. Audit risks and key judgement areas identified during planning

We set out below the key areas of focus for our audit identified at the planning stage and the conclusions of our audit work:

Significant risk/key area of focus	How we addressed this	Commentary
<p>Presumed risk in revenue recognition (significant risk)</p> <p>We are required to consider and respond to the risks of improper revenue recognition.</p>	<p>We have undertaken the following procedures to verify the appropriateness and completeness of income recognised in the period:</p> <ul style="list-style-type: none"> • Tests of detail were performed on a sample of registrants. We confirmed that income had been correctly recognised in the finance system, based on the confirmed registrant date posted to NetRegulate • We assessed the appropriateness of the recognition of deferred income • We performed tests of detail on other income 	<p>Our audit work on revenue did not identify any material issues.</p>
<p>Presumed risk of management override (significant risk)</p> <p>We are required to consider and respond to the risks arising from management override of controls.</p>	<p>We reviewed the appropriateness of general journal entries posted throughout the year and at the year-end for the preparation of the financial statements. Accounting estimates were reviewed for potential bias. The business rationale for unusual or significant transactions outside the normal course of business for the Council were evaluated.</p>	<p>Planned audit work considered to be satisfactory in this area. We identified one internal control matter relating to the journals. Please refer to Section 4 below.</p>

<p>Completeness of liabilities (area of focus)</p> <p>Completeness of creditors – risk of creditors (including fitness to practice liabilities) being materially understated.</p>	<p>Post year end invoices and payments were reviewed for evidence of understated liabilities. We requested and obtained third party confirmation form the Council’s lawyers in relation to outstanding fitness to practice cases.</p>	<p>Our audit work in this area did not identify any significant issues, subject to the satisfactory completion of the outstanding matters noted in Section 1.</p>
<p>Completeness of staff costs (area of focus)</p> <p>Risk of material misstatement of staff costs due to payments to non-contracted employees being disclosed as staff costs in the accounts and misstatement for redundancy and other related costs</p>	<p>We tested staff costs substantively (including redundancy costs and related liabilities), tracing a sample of payments to contract to ensure that only genuine employees have been paid.</p> <p>We reviewed the staff costs disclosures in the financial statements and agreed they were appropriate.</p>	<p>Our audit work in this area did not identify any significant issues, subject to the satisfactory completion of the outstanding matters noted in Section 1.</p>
<p>Valuation of fixed assets (area of focus)</p> <p>Risk that fixed assets may be misstated due to the incorrect treatment of additions in the year, including the final settlement of refurbishment costs and the initial expenditure on the new CRM system.</p>	<p>Test of detail were performed on fixed asset additions. Consideration was given as to the nature of expenditure capitalised in the period and we confirmed that expenditure had been capitalised in line with the requirements of IFRS.</p>	<p>Our audit work in this area did not identify any significant issues, subject to the satisfactory completion of the outstanding matters noted in Section 1.</p>

3. Accounting and Audit Matters

3.1 Qualitative aspects of accounting practices and financial reporting

i. Reserves and going concern

As in prior years, we report on going concern by exception within our audit report. This includes our conclusion as to whether management's use of the going concern basis of accounting is appropriate and whether a material uncertainty has been identified. Two significant strategic matters were identified and factored into management's going concern assessment: the transfer of the Social Workers register from HCPC; and the uncertainty regarding potential future fee increases.

At the time of writing this report, agreements have been signed for the transfer of the responsibility for the upkeep of the Social Workers register from HCPC. Whilst it is expected that this will formally take place later in 2019, a specific date has not been agreed.

The transfer will have significant financial implications over the forthcoming years, where HCPC will be required to adjust its business model and treasury management to reduce costs in accordance with the expected fall in income after the transfer. Whilst there is some certainty about the timing and impact of the income reduction, planning for a cost reduction where certain central functions, including fitness-to-practice have been allocated across functions, including Social Workers, will prove challenging. We have obtained and reviewed management's 5-year strategic plan which maps out a number of scenarios. We have requested further information on key sensitivities to assess the potential impact on cash flow in 2019/20 and beyond, including the historic level of fitness-to-practice costs for Social Workers, to greater understand the potential impact of the transfer on the organisation's central costs.

Management are also in the process of proposing fee increases, following a number of years where fees have not risen. Management have identified a potential cash-flow challenge in 2020 if a fee increase is not agreed next year. The proposals are currently being discussed with the Scottish Parliament and will then be taken to Westminster. If a fee increase is not agreed, management will be required to re-assess potential cost reduction measures in 2019/20 and beyond.

However, management's view of the above scenarios is that, due to their nature, they are unlikely to impact HCPC's ability to meet its liabilities as they fall due in the forthcoming year, from the date the accounts are signed. But they are significant matters on the horizon that are being addressed. Therefore they consider that it remains appropriate for HCPC to prepare its accounts on a going concern basis, a view that we concur with.

We look forward to discussing this issue further with the Committee as further information and clarity is obtained in the forthcoming weeks, regarding fee increases and the timing and impact of the transfer of the register of Social Workers, along with the status of the additional grant of £1.5m from the Department of Education, that is being considered to assist with managing the budgeted deficit in 2019/20.

As further information comes to light, Council may wish to consider further disclosure in the financial statements on going concern than has been included at present.

ii. Financial reporting efficiencies

Last year we reported two internal control issues relating to the reconciliations and review of data processed in the CRM system, NetRegulate, and the finance system. We are pleased to report that the internal control issues identified last year had been addressed as far as practicable in the current year.

However, when reviewing income recognised in the period, along with the appropriate deferral of income, it appeared that the level of review and reconciliation between the two systems was cumbersome and time consuming for management. We discussed this issue with management in the context of their plans for the potential future upgrade of the finance system.

The key challenge at present is the ability of the finance system to drill down, on an individual registrant level, to assess the level of income and deferred income recognised in a period. In order to do this, it is necessary to extract further journal and supplementary reports from NetRegulate.

An automated and centralised system would link the CRM database and the finance system so that the financial and registrant information can be clearly linked up and reported. Management are currently assessing the potential improvements to the finance system that might be required, should they decide to proceed with an upgrade, and we recommend that the above is factored into their considerations, to improve the immediacy and efficiency of the reporting.

iii. Accounting policies

IFRS 15 – Revenue from Contracts with Customers effective from 1st January 2018

IFRS 15 was implemented for the first time in the year ended 31 March 2019. Management reviewed the requirements of the new standard and confirmed that there was no change required to the way revenue is recognised and reported in the financial statements, and therefore no restatement of prior year figures was required. We concur with this view.

IFRS 16 –Leases effective from 1st January 2019

HCPC currently charges expenditure on operating leases to the Income and Expenditure Statement on a straight-line basis over the term of the lease, taking account of any lease incentives in accordance with IAS17. However as of 1 January 2019, IAS17 will be superseded with IFRS 16. IFRS 16 estimates the classification of leases as either operating leases or finance leases for the lessee. Under the new standard all leases are treated in a similar way to finance leases.

This will require the Council to recognise the fixed assets to which the leases relate either as lease assets (right-of-use assets) or together with Property, plant and equipment and a lease liability, initially measured at the present value of the lease payments payable over the lease term, within their Statement of Financial Position. Management have prepared an initial estimate of the impact of this change to the 2020 financial statements, which is required to be disclosed in the 2019 accounts. We are currently finalising our review of their work.

IFRS 9 – Financial Instruments

IFRS 9 has been implemented for the first time in the year ended 31 March 2019. This resulted in no change in the valuation of HCPC's assets or liabilities.

iv. Impairment of intangible assets

The financial statements include an impairment charge of £185,000 on HCPC's intangible assets, being aborted costs on the CRM upgrade that were irrecoverable following the decision of Microsoft to discontinue its support of the proposed CRM platform.

We highlight this both as a significant unusual item in the financial statements, and also to consider whether there were any preventative controls that could have been in place to reduce the risk of HCPC being committed to such a significant financial and time cost on an aborted project, with limited recourse to recover the element of the project that was aborted due to factors outside of management's control.

We have requested that management obtain further information on the original contractual situation. We will review once this work is complete and provide a verbal update to the Committee when we meet.

v. Disclosure of post balance sheet events

It is a requirement of accounting standards to include significant adjusting and non-adjusting post balance sheet events in the financial statements. One area that required disclosure is the imminent transfer out of the register of Social Workers. We are in the process of agreeing a suitable wording with management to reflect the current understanding of the situation. This will remain under review until the point that the accounts are signed.

3.2 Other audit matters

i. Unadjusted misstatements

There are no unadjusted misstatements to bring to your attention, other than those that would be considered clearly trivial.

ii. Letter of representation

International Standards on Auditing require us to obtain written representations from Council Members when you approve the accounts. The letter contains only standard matters with no additional items specific to HCPC.

4. Detailed control points

During the course of our audit we identified the following detailed control points that we feel need to be brought to the attention of the Trustees and certain recommendations for improvements and/or corrective action. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation. The matters and detailed control points that we have identified are graded within the follow framework to assist the Trustees in assessing their impact.

Grade	Grade type	Grade characteristics
Significant	These findings are considered to be significant to the management of risk in the business, representing a serious weakness in systems and controls currently in place or a potentially fundamental control that has been omitted from the risk management systems as currently in operation.	<ul style="list-style-type: none"> • Key control omitted • Key control not designed or operating effectively, for example as indicated by numerous exceptions found during our review work • Evidence of override of controls in place with significant or potentially fraudulent outcomes • Non-compliance with laws and regulations
Important	Important findings that should be reviewed by management, pending corrective action and or updates to systems and controls.	<ul style="list-style-type: none"> • Errors and exceptions noted during our testing that had corrected retrospectively during the year by management. • Potential improvement to existing control noted • Possibility for override of controls exists • Our review noted numerous exceptions but not in key controls
Limited	Findings that identify non-compliance with established systems and controls.	<ul style="list-style-type: none"> • Minor control weakness, for example limited exceptions noted during our review work
Advisory	Items requiring no immediate action but which may be of interest to management or best practice advice	<ul style="list-style-type: none"> • Information for department management • Control operating but scope for efficiency and/or effectiveness improvements exist • Control operating but not necessarily in accordance with best practice • Recent or anticipated developments may necessitate new controls.

We wish to bring the following matters to your attention which arise from the current year audit as well as the latest status of outstanding issues arising from the prior year audit:

Current year

Issue:	Fixed asset register		Control point grade:	Important
Risk	Our comments & proposals		Management response	
<p>We reviewed the fixed asset register and noted that the register was somewhat challenging to use, as journal and other adjusting entries had been included within additions for the year.</p> <p>A cleaner register will assist management in their review of costs incurred to date on capital items which, operationally, could assist them in their decision making and review of capital costs against those contracted and budgeted.</p>	<p>We recommend that the fixed asset register is consolidated, so that the register includes only the pertinent information of capital costs.</p>		<p>Agreed and to be implemented by Head of Financial Accounts by or before October 2019.</p>	

Issue:	Review of journal entries		Control point grade:	Important
Risk	Our comments & proposals		Management response	
<p>In all entities, there is scope for journals to be used to conceal fraudulent activities.</p> <p>HCPC address this risk through performing spot checks of journals during their month end procedures. We observed two issues relating to this process:</p> <p>Firstly, at the time of audit the review of journals posted in March had yet to be carried out. We will review this work once complete.</p> <p>Secondly, we understand that the starting point for the check was a journal sheet, rather than the finance system.</p>	<p>We recommend that journals are reviewed on a timely basis, to reduce the risk of any unusual journals going undetected.</p> <p>We also recommend that the starting point for the checks should be the finance system, rather than an external print out of journals, to reduce the risk of any unusual journals being outside the scope of review.</p> <p>In due course, and in conjunction with the point raised above on financial reporting efficiencies, a new finance system may have greater scope for a more immediate electronic review of journals at the time they are posted throughout the year, rather than being a retrospective process.</p>		<p>All journals, including adhoc and recurring are reviewed by the Head of Financial Accounts before any accounting period is closed. This is done by generating a system driven report and comparing the same against our manual listing. Any technical journals are approved by the Head of Financial Accountant or in their absence the Finance Director. The ledger for March remains open to enable us to journal any adjustments if so required by the auditors. Our current financial ledger system does not have the online facility to approve journals to prior to being posted. Although it is not operationally feasible to manually review all journals prior to posting, the requirement will be taken into the future project to replace the Sage financial system.</p>	

Issue:	Overpayment to HMRC of employment tax		Control point grade:	Important
Risk	Our comments & proposals	Management response		
<p>After the year-end, an overpayment was made to HMRC in relation to the balance on the PAYE/NIC control account as at 31 March 2019. Whilst this does not impact the 2019 financial statements (and the overpayment has subsequently been recovered), we understand the error occurred due to an oversight in the normal review of the payroll report and agreement with the control accounts, due to changes in personnel during the period.</p>	<p>We recommend that the control account continues to be reviewed as part of the month-end procedures.</p>	<p>We have modified the reconciliation and review process to reduce the risk of a reoccurrence.</p>		

Prior year

Issue:		Control point grade: Advisory	
Risk	Our comments & proposals	Current year update	
Last year we reported that the fixed asset register contained a number of items that had been fully written down and were no longer in use, out not removed from the register.	We recommended that the register was kept under review, as carrying a large number of older items on the register can create challenges when it comes to monitoring the on-going true asset position.	This remained an issue in the current year. STATUS: OUTSTANDING Management response: Agreed and to be implemented by Head of Financial Accounts by or before October 2019.	

Issue:		Control point grade: Important	
Risk	Our comments & proposals	Current year update	
Last year, we identified two internal control issues relating to NetRegulate. Firstly, the review of the full reconciliation behind the monthly income journal posted from NetRegulate to the finance system was not evidenced as reviewed. Secondly, there was no overall reconciliation between NetRegulate and the finance system on a quarterly or annual basis. A reconciliation and review of the two systems on a periodic basis would help identify any processing or other discrepancies on a global level.	We recommended that the monthly income journal is reviewed, including the supporting evidence the detailed breakdown of income included in the journals agreed to the figures extracted from NetRegulate.	In section 3 above, we acknowledged that this recommendation has been implemented as far as practicable, taking into consideration the inherent limitations of the existing systems. Therefore we consider this point to be partially resolved, and we will continue to liaise with management as they consider improvements and upgrade to the finance system over the next year. STATUS: IN PROGRESS	

Issue:			Control point grade:	Important
Risk	Our comments & proposals	Current year update		
Last year, we observed one instance where fees were approved and paid prior to receipt of confirmation of the number of days attended by the member. This resulted in an overpayment that was subsequently repaid.	We recommended that supporting documentation, receipts and evidence is received and reviewed prior to approving an expense for payment.	No issues were noted in the current year. STATUS: COMPLETE		

5. Emerging issues

The following items are raised for information to the members of the Audit Committee.

1. Financial reporting

International Financial Reporting Standards

Following the introduction of IFRS 9 and IFRS 15 for periods beginning on or after 1 January 2018, IFRS 16 is the third of three fundamentally new IFRS standards to be introduced in a short space of time.

IFRS 16 Leases - Effective for annual periods beginning on or after 1 January 2019

The scope of IFRS 16 includes leases of all assets, with limited exceptions. The key impact is that IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17, i.e. the operating or finance lease distinction has been removed and with two exceptions, all leased assets and their associated liabilities are included in the balance sheet.

There are two limited exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

For all leases not covered by these exemptions, at inception date the lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the asset.

For lessors, lease accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The changes required by this standard will be significant. For instance:

- Management will need to identify all existing leases in place to assess the impact at the date of transition to the new standard and ensure that reporting processes are implemented to recognise and report on these and any new arrangements.

- Covenants with existing and potential lenders should be reviewed to consider the impact of the expected changes in earnings and net debt. This review should consider earnings, net liabilities, gearing ratios and cash cover covenants.
- Consideration should be given to cash flow covenants as while the change has no impact on net cash flows, the presentation of cash flow statements will change with higher interest charges.

2. Off-payroll working arrangements in the private sector

HM Revenue & Customs has now published its Policy paper and consultation document regarding the changes to the IR35 legislation which are due to come into effect from 6 April 2020. These off-payroll working rules determine who is responsible for determining the employment status for tax and National Insurance purposes of off-payroll worker.

The document indicates a clear intention as to how the Government proposes to introduce the new legislation and the purpose of the consultation is to help ensure its implementation. We provide a summary of the proposed changes together with the key points businesses will need to think about ahead of 6 April 2020.

Proposals

Under the proposals it is intended that medium and large sized businesses will be responsible for implementing the legislation. Consequently, smaller businesses will not be affected by the changes.

Operating the legislation

The responsibility for operating the legislation will fall to the engager, or client, who will be required to determine the employment status of the worker. There will also be a requirement to share the outcome of the determination with the worker and any entity within the worker supply-chain who may be responsible for paying the worker. HMRC have recommended that its Check Employment Status for Tax tool (CEST) is used to help determine the status of the worker. However, the CEST has been heavily criticised about its level of accuracy, as has HMRC regarding their opinions relating to mutuality of obligation. CEST is undergoing further redevelopment and it is hoped that a more accurate and realistic tool will be available for businesses to use ahead of April 2020.

The Government is not proposing to include any 'appeals' procedure within the legislation, it is their opinion that sharing the results of the engager's determination with all relevant parties will help to address any concerns which may arise concerning the employment status of the worker.

Worker supply-chain

Where there is a lengthy supply-chain between the engager and the worker, it will be the responsibility of the entity closest to the worker to apply the legislation and deduct PAYE and National Insurance. Furthermore, where the supply-chain includes any offshore entity, the obligation to apply the legislation will sit with the UK agency closest to the offshore entity. This approach is similar to that apply within the 'Agency' legislation which was revised in 2014.

Small businesses

One key point to bear in mind is that where the engager is small, the responsibility to consider the IR35 legislation will sit with the worker, not the engager.

Where an agency sources workers for small businesses, they will not receive employment status determinations from that business and will not be required to operate PAYE or Class 1 National Insurance. However, we fully expect additional anti-avoidance provisions be included within the legislation to prevent any abusive practices being operated.

Transfer of liability

Furthermore, the legislation will include provisions which will enable the PAYE and National Insurance liabilities to be transferred from one party to another where an engager fails to provide a determination. The provisions will be extended to include agencies who fail to provide this information, they will be responsible for paying the PAYE and National Insurance due. Ultimately, it is proposed that the legislation will include provisions to transfer the liabilities back to the first party within the supply-chain.

Additional costs for the engager

Where payments to a worker fall within the scope of the proposed legislation, the PAYE and National Insurance due will be paid across to HMRC through the payroll, in accordance with 'real time' reporting. The amount upon which PAYE and National Insurance will be calculated will be based upon the net value of the invoice, being the amount before any VAT is charges. The worker will remain responsible for its VAT obligations.

The engager will also be liable for Secondary Class 1 National Insurance, together with the Apprenticeship Levy on the invoice values included in the payroll.

It is not proposed that any employment rights will be transferred to the engager.

One fundamental change for the worker is that they will no longer be able to claim a 5% 'overheads' deduction as part of calculating their final tax and National Insurance liabilities.

Other legislation

The off-payroll legislation is only part of the armoury available to HMRC. Other areas which businesses may need to consider separately include:

- The agency legislation
- Umbrella companies
- Managed service company legislation
- Construction industry scheme.

Determining a Business’s Size

It is proposed that the definition within the Companies Act will be applied to determine who is a medium and large business, and will apply where two or more of the following tests are met:

Condition	Test
Annual turnover	£10.2m or more
Balance sheet total	£5.1m or more
Number of employees	50 or more

The Government believes this is the most appropriate test to adopt given that the majority of companies are already familiar with the definition and how it already applies to their operations. It is proposed that anti-avoidance provisions will be included within the draft legislation to ensure connected and controlling parties cannot exclude any part of their business from ensuring it is fully implemented.

The government recognises that the Companies Act definition may not apply to non-corporate entities, so two options are being proposed which will look at the turnover and the number of employees of the organisation.

The first option is to apply the legislation to unincorporated entities with 50 or more employees and to entities with turnover exceeding £10.2m.

The second option, is to apply the legislation only to unincorporated entities that have both 50 or more employees and turnover exceeding £10.2m.

Interestingly, the government is proposing that within the public sector, for whom the changes were introduced from 6 April 2017, small businesses will not be required to operate the legislation. This is a sensible proposal and will ensure the legislation is being applied uniformly in both the Public and Private sectors.

Action points

The period for consultation will remain open until **28 May 2019**, with draft legislation expected to be published later this year, probably at the time of the Autumn Budget. It is not expected that the proposals included in the consultation document will change considerably. This is obvious from the lack of any invitation for alternative proposals to be put forward.

However, we do recommend that you consider the following:

1. Do you engage any workers who are not paid through the payroll?
2. Are you a medium or large business?
3. Are you an agency supplying workers who are medium or large businesses?
4. What processes do you have in place to be able to determine the employment status of a worker?
5. Do you know who in your business has details of the workers you engage?
6. Will you be ready by 6 April 2020 to manage the expectations of the proposed legislation?

3. Corporate offence of failure to prevent tax evasion

The Criminal Finances Act 2017 introduced two new strict liability corporate criminal offences, aimed at preventing businesses “turning a blind eye” to the tax evasion actions of their staff and other associates. The offences came into effect from 30 September 2017, tying in with the first disclosures under the Common Reporting Standard, and will apply to both corporates (including charities) and partnerships.

The Offences

- The first offence will apply to all businesses, wherever located, in respect of UK tax evasion; and
- A second will apply to all businesses with a UK connection, in respect of the facilitation of non-UK tax evasion.

For the offences to apply:

- Criminal tax evasion must have taken place; and
- A person or entity associated with the business must have criminally facilitated the tax evasion, whilst performing services for that business.

“Associated persons” are employees, agents, contactors and other persons who perform services for on behalf of the business and can include subsidiaries and joint ventures.

Criminal Tax Evasion

The common law offence of cheating the public revenue and statutory offences of fraudulently evading taxes, constitute tax evasion. Evasion occurs where there is a dishonest intention not to declare/pay a tax liability, not through carelessness or a mistake.

Penalties

A business found guilty of one or both of the offences face:

- Unlimited fines;
- Ancillary confiscation orders;
- Serious crime prevention orders; and
- Damage to reputation and commercial position.

Reasonable Prevention Procedures

A business will have a defence if it can prove that it has reasonable prevention procedures in place. HMRC’s draft guidance provides six guiding principles which should be taken into account when establishing those procedures:

- Risk assessment;
- Proportionality;
- Top level commitment within the business;
- Due diligence;
- Communication and training; and

- Monitoring and review.

Action Plan

All businesses, not just financial institutions and professional advisers, must act now, to carry out their risk reviews of the facilitation of tax evasion and then implement any required compliance procedures and policies. As a first stage, corporates should carry out risk reviews by considering their processes, work flows and transactions (for example supplier contract negotiation procedures) to identify any areas where the corporate's employees/management might (whether intentionally or inadvertently), facilitate tax evasion by any person (including clients, customers and suppliers). All such risk reviews and their conclusions should be documented. Where risks having been identified reasonable prevention procedures will need to be implemented, committed to and actively monitored by the corporate.

Further Information

For further information HMRC have provided useful guidance notes on the Criminal Finances Act 2017 which can be located here:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/642714/Tackling-tax-evasion-corporate-offences.pdf

4. Exemption for travel expenses

New legislation has been introduced which removes the requirement for employers to check receipts when making payments to employees for subsistence using benchmark scale rates. This will apply to standard meal allowances paid in respect of qualifying travel and overseas scale rates. Employers will only be asked to ensure that employees are undertaking qualifying travel. This will have effect from April 2019. The legislation also allows HMRC to put the existing concessionary accommodation and subsistence overseas scale rates on a statutory basis from 6 April 2019. Like benchmark rates, employers will only be asked to ensure that employees are undertaking qualifying travel.

5. Data Analytics

Haysmacintyre has introduced the use of data analytics into our audit approach for selected clients.

These new auditing techniques make use of advances in computing power and the increased flexibility of software packages to allow audit teams to quickly review and analyse much larger sets of transactions than under traditional auditing approaches.

This approach has many benefits and allow our audit teams to provide our clients with new insights and conclusions as we are able to review and analyse many more transactions.

If you would like us to introduce Data Analytics in to your audit please contact your audit manager or engagement partner.



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Letter of representation from council to auditors

(Council letterhead)

Haysmacintyre LLP
10 Queen Street Place
London
EC4R 1AG

Date: **(Same date accounts are signed)**

Dear Sirs

During the course of your audit of our financial statements for the year ended 31 March 2019 the following representations were made to you by management and Council Members.

- 1 We acknowledge as Council members our responsibilities for preparing financial statements that give a true and fair view and for making accurate representations to you as auditors.
- 2 We confirm that all accounting records have been made available to you for the purpose of your audit, in accordance with your terms of engagement, and that all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and shareholders' meetings, have been made available to you. We have given you unrestricted access to persons within the Council in order to obtain audit evidence and have provided any additional information that you have requested for the purposes of your audit.
- 3 We confirm that significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 4 We confirm that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework (IFRS).
- 5 We confirm that there have been no events since the balance sheet date which require disclosure within the financial statements or which would materially affect the amounts in the financial statements, other than those already disclosed or included in the financial statements.
- 6 We confirm that the related party relationships and transactions set out below are a complete list of such relationships and transactions and that we are not aware of any further related parties or transactions.
- 7 We confirm that all related party relationships and transactions have been accounted for and disclosed in accordance with the applicable financial reporting framework (IFRS).
- 8 We confirm that the Council has had, at no time during the year, any arrangement, transaction or agreement to provide credit facilities (including advances and credits granted by the Council) for Council Members, nor to provide guarantees of any kind on behalf of the Council Members, except as disclosed in the financial statements.
- 9 We confirm that the Council has not contracted for any capital expenditure other than as disclosed in the financial statements.

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- 10 We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the Council conducts its business.
- 11 We acknowledge our responsibility for the design and implementation of controls to prevent and detect fraud. We confirm that we have disclosed to you the results of our risk assessment of the risk of fraud in the business.
- 12 We confirm that there have been no actual or suspected instances of fraud involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements. We also confirm that we are not aware of any allegations of fraud by former employees, regulators or others.
- 13 We confirm that, in our opinion, the Council is a going concern.
- 14 The effects of unadjusted misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.
- 15 We confirm there were no specific representations made to you during the course of the audit.
- 16 We confirm that there are no companies associated with this Council for tax purposes
- We understand that companies are associated for tax purposes if they are under the control of the same person or persons. We also understand that for this purpose a person might be treated as one and the same person as: a close relative; a business partner; a trustee of a settlement of which the person or a relative was the settlor; and any Council in which any of these is also a shareholder.
- 17 We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that:
- so far as each Council Member is aware, there is no relevant audit information of which you as auditors are unaware; and
 - each Council Member has taken all the steps that they ought to have taken as a designated member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and expertise (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make these representations to you and that to the best of our knowledge and belief they accurately reflect the representations made to you by the Council Members during the course of your audit.

Yours faithfully,

Signed on behalf of the Council by:

Member of Council