



COUNCIL

External audit work plan and fees

Meeting: 11 May 2016

Status: for decision

Lead responsibility and paper author: Josie Lloyd (Director of Resources)

Purpose

1. This paper presents the external auditors draft audit plan for approval.

Recommendations

2. Council is asked to:
 - 2.1 **note** the planning letter (attached at annex one) and that Audit and Risk Committee (ARC) have approved the terms, content and scope of the audit;
 - 2.2 **note** that ARC is satisfied of the processes and procedures that the external auditors have in place to ensure its independence; and
 - 2.3 **agree** the fee of £14,880 as proposed by Haysmacintyre for the 2015/16 audit, as recommended by ARC.

Strategic objective

3. The work to prepare the annual report and accounts for the year end sits within the Governance and Finance work programmes in the 2016/17 business plan, specifically:
 - 3.1 (in governance) accountability – managing the production of our annual report to openly and transparently account for our performance; and
 - 3.2 (in finance) budget and accounts – preparing the annual budget and financial accounts, to ensure we account for our financial performance in a transparent and accurate manner.
4. These work programmes supports two of our strategic objectives:
 - 4.1 increasing trust and awareness – promoting public trust in the professions, and enabling the public to make informed decisions about optical care and raise concerns; and
 - 4.2 organisational change – building a sustainable and modern organisation.
5. The Head of Governance is responsible for the governance work programme and the Director of Resources is responsible for the Finance work programme.

6. In addition, the GOC is required to have an independent external audit of its financial statements for each reporting period. In order to comply with the Opticians Act 1985; the financial statements once audited, must be laid before Parliament.
7. As a charity our financial statement must be reported in accordance with Statement of Recommended Practice for charities 2015 (SORP 2015), and then filed with the Charity Commission.
8. The terms of reference for the ARC require the Committee to:
 - 8.1 “*make recommendations to Council on their [the external auditors] remuneration*”;
 - 8.2 “*approve their [the external auditors] terms of engagement, including the content of any engagement letter issued at the start of each audit and the scope of the audit*”;
 - 8.3 “*review and approve the annual audit plan and ensure consistency with the scope of the audit engagement*”;
 - 8.4 “*satisfy itself that there are no relationships (family, employment, investment, financial or business) between the auditor and the General Optical Council (other than in the ordinary course of business)*”; and
 - 8.5 “*meet with the external auditor at the planning stage before the audit and once after the audit at the reporting stage*”.

Risks

9. There are no significant risks inherent in this piece of work.

Background

10. General Optical Council is required to undertake an audit of its financial statements each year. In February 2014 Council agreed to appoint Haysmacintyre as new external auditors to GOC for three years subject to annual reappointment.
11. Haysmacintyre were reappointed by Council in February 2016 for the 2015/16 audit following a review carried out by ARC in January 2016 and their recommendation to Council.
12. The Executive advises that a provision of £15k for the external audit has been made in the year ended 31 March 2016 for Haysmacintyre.
13. In addition, £2,400 has been paid or provided in respect of Haysmacintyre for non-audit services. These relate to tax advice on the sale of 41 Harley Street and the tax return related to the sale.

Analysis

Work plan & scope of the engagement

14. The Executive has worked with Haysmacintyre to develop the workplan and timetable attached at annex one. We believe the plan is feasible although the timetable is challenging. A planning meeting took place with Adam Halsey and Varsha Patel on 23 March 2016.
15. In addition, Haysmacintyre have indicated their willingness to discuss the plan with the Chair of the ARC at a mutually convenient time.
16. Work is already well underway to provide a comprehensive set of working papers for the main fieldwork part of the audit which begins 13 June 2016. An interim 'systems' visit is not planned for this year.
17. The scheduling of the audit and subsequent sign off processes have been designed to make sure that the timeframes between ARC in July 2016 (for a full examination) and Council on 26 July 2016 (for sign off) are sufficient to allow any changes to be attended to, and to allow a formal post balance sheet review as required at that time. However this timeline will be challenging so a contingency timeline will meet ARC in October 2016 and Council in November 2016 if required.
18. The letter attached at annex one advises on the independence of the external auditors and the processes and procedures they have in place. The Executive believes that this is sufficient for the Committee to fulfil their remit in their terms of reference to "*satisfy itself that there are no relationships (family, employment, investment, financial or business) between the auditor and the General Optical Council (other than in the ordinary course of business)*".

Audit fee

19. The proposed fee for the audit for 2015/16 is £14,880 + VAT (2014/15 £12,930 + VAT).
20. Council approved the reappointment of the external auditors in February 2016 but were not able to approve the fee at that time. Council are therefore being asked to formally agree the fee now, upon the recommendation of ARC.

Impacts

21. The following implications have been identified:
 - 21.1 Reserves – as detailed in the paper
 - 21.2 Budget – as detailed in the paper
 - 21.3 Legislation – as detailed in the paper
 - 21.4 Resources – none in addition to normal
 - 21.5 Equality, diversity and inclusion (EDI) – none

21.6 Human Rights Act – none

21.7 Sustainability – none

Devolved nations

22. There are no implications/differences in relation to this paper and the devolved nations.
23. This report does not need to be published in Welsh. The annual report and accounts will be published in Welsh on the GOC website once approved by Parliament.

Communications

24. The annual report and financial statements for the year ending 31 March 2016 will be published on the GOC website once approved by Parliament.

Timeline for future work

25. The timelines for the work Haysmacintyre will undertake is provided in their plan. ARC will receive draft final financial statements at their meeting on 12 July 2016 and Council is expected to approve them at its meeting on 26 July 2016.

Attachments

Annex one – External Audit planning letter

26 Red Lion Square, London WC1R 4AG

T 020 7969 5500 F 020 7969 5600

C29(16) - ANNEX ONE

The Trustees
General Optical Council
10 Old Bailey
London
EC4M 7NG

4 April 2016

AMH/VP/G71021/TAJ

Dear Trustees

**Planning letter relating to the audit of General Optical Council ("the Charity")
Year Ended 31 March 2016**

The purpose of this letter is to confirm the annual arrangements for our audit services for the year ended 31 March 2016 and to give you an overview of the nature and scope of our audit work.

1. Scope

Our work will be carried out in accordance with the terms of our letter of engagement dated 11 April 2014 and standard terms of business. We conduct our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs"). Our audit objective is to obtain sufficient relevant and reliable audit evidence to enable us to express an audit opinion on the financial statements of the Charity for the year ended 31 March 2016.

New 'UK GAAP' applies for accounting periods beginning on or after 1 January 2015 for non-small entities. Consequently, the charity is required to prepare its financial statements in accordance with FRS 102 for the year ended 31 March 2016 and re-state comparatives (if required).

In addition as a registered charity your financial statements for the year ended 31 March 2016 will also be required to comply with the revised Charities Statement of Recommended Practice (SORP) which is applicable for accounting periods beginning on or after 1 January 2015.

As part of our review we will check that the financial statements comply with the requirements of FRS 102 and the revised SORP. We will work with management to ensure that all changes are identified, including the reformatting of accounts where applicable.

Additional work performed assisting you with the adoption of FRS 102 and the revised SORP will be covered by a separate engagement letter.

2. Team

Our audit team will be:

Adam Halsey (Partner)
 Varsha Patel (Manager)
 Ben Radvan (Senior)
 James Thomas (Assistant)

3. Timetable

Our work is being planned to meet the following timetable:-

<i>Date</i>	<i>Event</i>
23 March 2016	Planning meeting with management
6 June 2016	Draft figures and Trustees (annual) report provided to haysmacintyre
13 June 2016	Final audit
TBC	Completion meeting with management
July – TBC	Audit and Risk Committee meeting
26 July 2016	Statutory accounts to be signed

4. Fees

Our proposed fees are as follows:

	2016	2015
	£	£
Audit	13,380	12,930
Additional audit fee re. FRS 102*	1,500	-
	<u>14,880</u>	<u>12,930</u>
	<u><u>14,880</u></u>	<u><u>12,930</u></u>

All fees are exclusive of VAT.

Billing Dates	Amount
	£
Interim fee – on completion of our onsite fieldwork	12,000
Final fee – on completion	2,880
	<u>14,880</u>
	<u><u>14,880</u></u>

Payment of our fees must be made within 30 days of the date of the fee note.

The additional audit fee in respect of FRS102 transition is a one-off amount which reflects the additional audit work that will be required this year including reviewing the:

- application of the transitional requirements;
- restatement of comparative information
- disclosure of reconciliation from old to new framework;
- treatment of financing transactions leases;
- valuation of financial instruments;
- the use of fair value accounting estimates;
- disclosures, using a financial statements disclosure checklist.

This does not include additional work that you may require to assist in the preparation of the report and accounts in accordance with FRS 102. Such work is covered by a separate engagement letter and fee quote.

The proposed fee is on the basis that:

- Draft statutory accounts, supporting schedules for all figures, a trial balance together with reconciled control accounts and all books and records are available at the start of the audit on 13 June 2016;
- The statutory accounts are prepared by yourselves;
- There are no accounting or auditing issues of a complex nature, which involve significant input of time from senior members of the team;
- All deadlines with us are met.

We have assumed that you will prepare a year-end file and schedules that will be complete and available for the start of our audit fieldwork.

As agreed, you are preparing the financial statements. Usually we expect to review three draft versions of the accounts; if we have to consider more draft versions we will need to reconsider our costs and if necessary issue additional fees to cover our costs.

The above assumptions are designed to allow us to focus on the value added areas of the audit, to undertake a cost effective audit and to minimise the time the audit team is required to spend on administrative matters such as chasing for information or proof reading multiple drafts of the financial statements.

It is our policy to bill for overruns or scope extensions e.g. where we have incurred delays, deliverables have been late and/or of poor quality, where key personnel are not available or where we have been asked to do extra work.

5. Risk Assessment

When planning our audit work, we must seek to minimise the risk of material misstatements occurring in the financial statements. To do this, we consider both the risk inherent in the accounts themselves and the control environment in which the entity operates. We then use this assessment to develop an effective approach to the audit.

ISAs include the following presumed significant risks:

Area	Risks	Planned audit work
Fraud in revenue recognition	Incorrect treatment of income under UK GAAP	Specific tests to ensure income has been recorded in the correct period and testing on a sample of transactions around the year-end
Management override of controls	Misappropriation of assets and/or misrepresentation of financial information	We will consider all areas requiring judgement, test journal entries and incorporate unpredictability in our testing procedures

Based on our knowledge we have concluded that there are the following additional significant risk areas:-

Area	Risks	Planned audit work
Transition to FRS 102 and compliance with the new SORP	<p>Transitional adjustments may not be correctly processed, transitional disclosures may be inaccurate and revised accounting policies may not be appropriate or have been applied incorrectly.</p> <p>Presentational changes and additional disclosure requirements to the Trustees' Report and financial statements may not have been made.</p>	<p>Assessment of accounting policies;</p> <p>Specific testing of restated amounts;</p> <p>Review of transitional disclosures, including a disclosure checklist to ensure that changes to narrative reporting have been completely addressed.</p>

Based on our knowledge of the General Optical Council, we have concluded that there are no additional significant areas.

- (i) Accounting and disclosure of disposed assets held at 41 Harley Street and the capitalisation of assets at 10 Old Bailey, in line with the charity's accounting policy;
- (ii) Liabilities - Completeness of creditors (including deferred income) - Substantive testing to be carried out along with review of post year end payments and post year end invoices;
- (iii) Ensuring staff costs are not materially overstated, that only contracted employees are paid and such costs are appropriately disclosed in the financial statements; and
- (iv) Post balance sheet events.

Internal audit – During the 2015-16 period the following reports were issued:

- Data integrity of the Register
- Hearings Process
- Information governance
- Spot checks – project management
- Budget surplus 14/15

We will liaise with internal auditors and consider the impact of their work on our audit strategy.

ISAs also require us to consider the susceptibility of the financial statement to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions. We are required to record all identified related parties. All Members of the Council and senior management are asked to declare annually all related parties and interests. We will seek to review this register and the declarations as part of our audit as this is considered a significant area due to the complex and sensitive nature of the disclosures made within the financial statements.

We would be grateful if you could provide us with any comments that you may have and inform of us of any other areas you would consider to be of higher risk.

6. Materiality

We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality both in planning our audit and in evaluating the results of our work. It is not possible for auditors to examine every transaction of the audited entity nor every balance in the financial statements. Therefore, in planning our audit work, we will give particular attention to those areas of the financial statements that we consider to be the most important in terms of materiality as defined above.

Our draft planning materiality based on the data provided at the planning meeting is £150,000, which is based on 2% of income. Overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) will be set at 75% of materiality, namely £112,000.

We will report to the Trustees all audit differences in excess of £7,500, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We will also report to the Trustees on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. Internal Controls

The nature and extent of our procedures will vary according to our assessment of the accounting system and, where we wish to place reliance on it, the internal control system. Our audit is not designed to identify all significant weaknesses in the systems but, if such weaknesses come to our notice during the course of our audit which we think should be brought to your attention, we shall report them to you. Where you have informed us that you have dealt with a particular risk by the introduction of supervisory controls, if we consider it cost effective to seek to rely on these controls for audit purposes, we will test them and, if they are working effectively, we will reduce the time spent on other audit tests accordingly.

8. Reporting

At the conclusion of the audit, we shall report to the Audit and Risk Committee as follows:

- Audit report for the Charity
- Audit Findings Report (management letter) to include discussion of control issues and recommendations, significant findings from the audit and emerging developments.
- A schedule of errors that we identified during our audit work, which have not been adjusted for in the accounts. The summary will not include errors that are 'clearly trivial'. We will require you to confirm that you have duly considered these unadjusted errors and that you have decided not to adjust for them in the accounts; this will be included in the letter of representation.

We will be pleased to discuss these and other matters ahead of the audit and would welcome your comments and instructions as to particular areas we should focus our time on. If you require any further information or assistance, we shall be very pleased to help you.

Yours sincerely



Adam Halsey
Charities Partner