

The Audit Findings for The General Osteopathic Council

Year ended 31 March 2014

9 July 2014

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The Audit and Risk Committee
General Osteopathic Council
176 Tower Bridge Road
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9 July 2014

Dear Committee members,

Audit Findings for The General Osteopathic Council for the year ended 31 March 2014

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with the Audit and Risk Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Grant Thornton UK LLP

Chartered Accountants

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Status of the audit and opinion

Status of our audit and audit opinion	<p>Subject to satisfactory completion of the following items, we expect to issue an unqualified audit opinion in respect of the financial statements of the General Osteopathic Council ('GOsC').</p> <ul style="list-style-type: none">• Review of the financial statements signed by the Council• Finalisation of our standard completion procedures and internal reviews• Subsequent events review to the date of signing financial statements• Receipt of signed letter of representation and financial statements
Internal controls	<ul style="list-style-type: none">• We confirm that no material weaknesses or significant deficiencies in internal controls have been identified from our audit work.
Audit adjustments	<ul style="list-style-type: none">• All misstatements identified during the course of the audit have been adjusted in the financial statements.

Overview of audit findings

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Sufficiency of controls?	Significant audit findings?
Investments	Remote	-	No	●	None
Tangible Fixed Assets	Remote	-	No	●	None
Debtors	Reasonably Possible	Debtors may not be valid	No	●	None
Cash at bank and in hand	Remote	-	No	●	None
Creditors	Reasonably Possible	Creditors are understated (completeness)	No	●	None
Share capital and reserves	Remote	-	No	●	None
Revenue	Significant	ISA 240 presumed risk: The revenue cycle includes improper recognition of income.	No	●	None
Fee Revenue	Reasonably Possible	Income is misstated (existence and valuation gross)	No	●	None
Operating Expenditure	Reasonably Possible	Expenditure is understated (completeness)	No	●	None
VAT	Remote	-	No	●	None
Corporation Tax	Remote	-	No	●	None

Changes to Audit Plan

We have not had to alter or change our Audit Plan as previously communicated to you on 12 March 2014.

Controls

For further details see Internal controls

- Significant deficiency
- Deficiency
- No findings
- Controls not evaluated under Audit Plan

Significant Risk Findings

	Significant Risks identified in our audit plan	Commentary
1.	<p>Management override of controls</p> <ul style="list-style-type: none"> Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities 	<ul style="list-style-type: none"> In responding to this assessed risk, we carried out the following <ul style="list-style-type: none"> Performing a review of accounting estimates, judgements and decisions made by management and the Council. Testing journal entries which were determined through the use of our data interrogation software (IDEA) which enabled the audit team to focus on higher risk journal postings. Identifying related parties and related party transactions to ensure related party transactions could be identified. Investigating unusual significant transactions, if we noted any, during testing. <p>Conclusion</p> <p>The results of our testing did not identify any indication of managements over-ride of controls.</p>
2.	<p>Improper revenue recognition</p> <ul style="list-style-type: none"> Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue 	<ul style="list-style-type: none"> In responding to this assessed risk, we carried out the following. <ul style="list-style-type: none"> Reviewing and test revenue recognition policies for all material revenue streams. Reviewing key controls on significant revenue streams. <p>Conclusion</p> <p>No issues have arisen with regards to the treatment of revenue.</p> <p>We did, however, note that an improvement could be made in relation to advertising income to ensure that all income due to the Council was complete. More details can be found on the 'Internal Controls' section of this report.</p>

Findings from reasonably possible risks identified

	Risks identified in our audit plan	Commentary
1.	<p>Revenue (existence and valuation - gross)</p> <ul style="list-style-type: none"> A substantial portion of revenue in the year is derived from registration fees from Osteopaths. In the year this totalled £2.7m of the Council's total income of £2.8m. These monies are received in advance of the period to which the registration relates. 	<ul style="list-style-type: none"> In responding to this assessed risk, we carried out the following <ul style="list-style-type: none"> Analytically reviewing registrants' fees received in the period against expectations and the prior year. Carrying out a proof in total of fee revenue. Selecting a statistical sample of revenue transactions during the year to trace to source documentation. Reviewing revenue in line with the revenue recognition policy to ascertain that cut off treatment had been applied such that revenue recognised in the year was appropriate and the year-end deferred revenue balance was correct. <p>Conclusion</p> <p>No issues have arisen from our testing of registration fee revenue.</p>
2.	<p>Operating Expenses (completeness)</p> <ul style="list-style-type: none"> There is a risk that costs are recognised in the incorrect period and that liabilities relating to the year could be missed in significant volumes, giving rise to a material impact on the reported results. 	<ul style="list-style-type: none"> In responding to this assessed risk, we have carried out the following <ul style="list-style-type: none"> Reviewing payment activity around the year end to identify any unrecorded liabilities through looking at post year end bank payments and accounts payable nominal ledger entries. Obtaining a report from the sage system detailing all invoices posted since the start of April 2014 and verifying the treatment of these was correct. Performing substantive testing of creditors, accrual and prepayments. Performing an analytical review of expenditure balances against prior year and expectations to understand any significant or unexpected variances. <p>Conclusion</p> <p>Two minor issues were noted. An accrual had been included for IT spend for £20k where no liability existed at the year end. A liability for a late invoice of £12k was found to be omitted in the accruals. Both were adjusted for by management.</p>

Other findings identified during the course of our audit


	Other Audit Findings	Commentary
1.	<p>Treatment of National Council for Osteopathic Research</p> <p>There have been no changes in the structure of the agreement that would affect the appropriateness of recognising NCOR as a JANE within the GOsC financial statements.</p> <p>We have noted, however, that the net contributions provided by the GOsC have reduced from £62k to £22k; showing that the GOsC are not having to provide as much support as previous years.</p> <p>A management representation has been included in the Letter of Representation to confirm that there were no cash balances or other assets held by NCOR or other stakeholders on NCOR's behalf.</p>	<p>We confirm that we have not identified anything which would suggest that NCOR should not be recognised as a JANE and agreed that the risk here is becoming more remote as the relationship changes.</p> <p>Management comment</p> <p><i>We agree with the commentary and note that as NCOR has just become a registered charity the issue will resolve itself in financial year 2014-15.</i></p>
2	<p>Depreciation of Land and Buildings</p> <p>During our audit we identified that the GOsC have not split their freehold land from their building cost for depreciation purposes.</p> <p>Financial Reporting Standard 15 'Tangible Fixed Assets' takes the view that land has an unlimited life and therefore depreciation is not necessary. The in year effect is unlikely to be material but no detailed split is currently available.</p> <p>In addition, FRS 102, which will come into effect for the GOsC in the year ending 31 March 2016, allows entities to perform a one-off valuation for its assets on its transition date which is then deemed as cost (i.e. no further valuation is required). This transition date for the GOsC is 1 April 2014 and the valuation can be done retrospectively.</p> <p>The consequence of the valuation is that the land and building of the GOsC would be stated at their market value and creating a upward depreciation reserve. Subsequent depreciation would also increase which would lower the annual surplus.</p>	<p>We have discussed this with the Chief Executive and the Head of Registration and Resources. We would be happy to discuss this with you further. They will explore the extent to which this split is available within the documentation for future years' treatment.</p> <p>Management comment</p> <p><i>We note this point and will keep it under review.</i></p>

Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Risk Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	Written representations	<ul style="list-style-type: none"> Our standard audit representations will be requested from Those Charged with Governance.
5.	Disclosures	<ul style="list-style-type: none"> Our reviews have not identified any significant deficiencies in relation to the disclosures made within the financial statements.
6.	Going concern	<ul style="list-style-type: none"> Going concern is a fundamental accounting concept that underpins the preparation of financial statements. Under the going concern concept, it is assumed that an entity will continue in operation and that there is neither the intention nor the need to liquidate the business or to cease trading. From our work performed to date we have noted no issues in relation to the management's assessment of the GOsC as a going concern.

Internal controls


- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control
- The matters being reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265
- If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported

	Assessment	Issue and risk	Recommendations
1.		<p>Advertising income reconciliation</p> <p>The GOsC's advertising income has grown from £21k to £34k, we identified that although a third party collects and provides the income to the GOsC, there is no formal process to evidence that advertising income is checked for completeness on a timely basis (i.e. checked to ensure that the third party is declaring all amounts).</p>	<p>We recommend that management perform reconciliations matching advertisements published with The Osteopath to income recorded and actual amounts received. Income should be accrued/deferred where appropriate.</p> <p>Management response</p> <p><i>We note the finding and will enhance our system of controls.</i></p>



Assessment

- Material weakness – risk of material misstatement
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Prior year internal control points

	Assessment	Issue and risk
1.		<p>Manual amendment of registrant fees</p> <p>In the prior year we noted that management had to manually amend the registrants' fee data when calculating the year end deferred income. This high amount of manual intervention posed the risk of human error and misstatement.</p> <p>Management can now produce a different report and therefore this adjustment is no longer required.</p>

Assessment

-  Not yet addressed – recommendation is repeated
-  Recommendation fully implemented

Adjusted Misstatements

In the course of the audit we identified the misstatements below, which have been adjusted in the accounts.

Journal reference	Detail	Income and expenditure account		Balance sheet		Effect on surplus
		Debit	Credit	Debit	Credit	
1	Dr Accruals Cr IT expenditure Being reversal of IT accruals as at the year end.		20,000	20,000		20,000
2	Dr Legal and professional expenses Cr Accruals Being Blake Laphorn invoice dated April 2014 in relation to advice provided in March 2014	11,792			11,792	(11,792)

Fees, Non-audit services and independence

Fees

	2014 £	2013 £
Statutory Audit	16,500	18,000

Ethical standards and ISA UK 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and teams within the Grant Thornton International network providing services to General Osteopathic Council. The table summarises all non audit services which were identified

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Council's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the Council members and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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