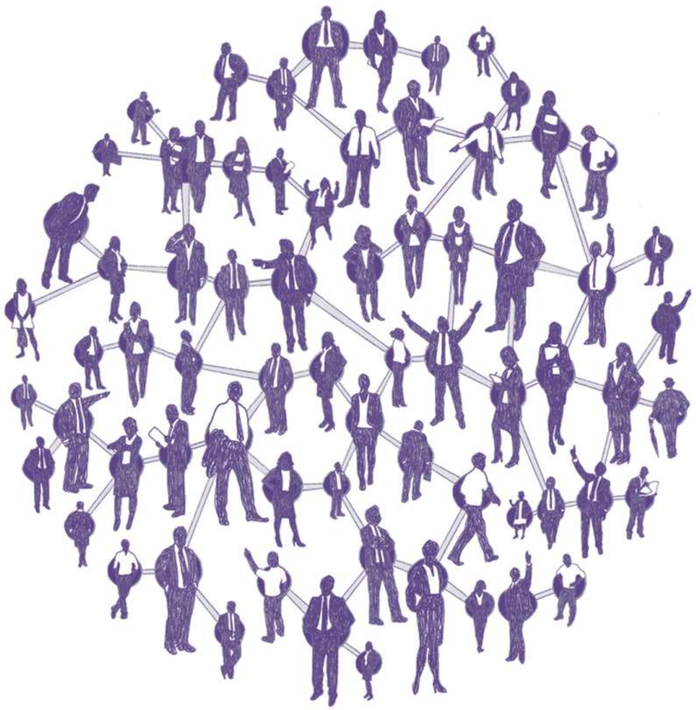
The Audit Findings for The General Osteopathic Council

Year ended 31 March 2016

20 June 2016



Jenny M Brown
Engagement Lead
T 020 7728 2316
E jenny.m.brown@uk.gt.com

Heather Boden
Audit Manager
T 020 7728 2453
E heather.c.boden@uk.gt.com

Mairead Williams
Audit In-Charge
T 020 7728 3168
E mairead.j.williams@uk.gt.com

Private and Confidential

The Audit and Risk Committee
General Osteopathic Council
176 Tower Bridge Road
London
SE1 3LU

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London
NW1 2EP

T +44 (0)20 7383 5100
F +44 (0)20 7383 4715
www.grant-thornton.co.uk

20 June 2016

Dear Committee members,

Audit Findings for The General Osteopathic Council for the year ended 31 March 2016

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

Jenny Brown, Director, Grant Thornton UK LLP

Contents

Section	Page
Status of the audit and audit opinion	4
Significant risk findings	5
Findings from reasonably possible risks	6
Other findings identified during the course of our audit	7
Other communication requirements	8
Internal controls – review of issues raised in prior year	9
Internal controls for the current year	10
Adjusted misstatements	12
Fees, non-audit services and independence	15
Communication of audit matters	16

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware which would require modification of our audit opinion, subject to the outstanding matters detailed below.

The following items will be required prior to sign off:
- Review of the financial statements
- Subsequent events review to the date of signing financial statements
- Receipt of signed letter of representation and signed financial statements

Our anticipated audit report will be unmodified

Status
- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Significant risk findings

	Significant Risks identified in our audit plan	Commentary
1.	**The revenue cycle includes fraudulent transactions** • Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	• In responding to this assessed risk, we carried out the following: – Reviewing and test revenue recognition policies for all material revenue streams. – Reviewing key controls on significant revenue streams. – See details under "Fee Revenue and Debtors" for further testing **Conclusion** No significant issues have arisen with regards to the treatment of revenue.
2.	**Management override of controls** • Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities	• In responding to this assessed risk, we carried out the following: – 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. – Investigating unusual significant transactions. **Conclusion** The results of our testing did not identify any indication of managements override of controls.
3.	**FRS 102** • In accordance with ISA 315.28(b) FRS 102 has been assessed as a significant risk as it is a significant accounting development with increased risk of accounting error. A number of items within the financial statements will be subject to different methods of presentation or calculation and therefore there is an increased risk of misstatement.	In responding to this assessed risk, we carried out the following: – Reviewing and challenging management's analysis of the areas impacted by FRS 102 – Performing a review of the reconciliations and adjustments prepared by management as a result of FRS 102 accounting developments and; – Reviewing the sufficiency of disclosures in the annual report for compliance with FRS 102 For GOsC, the key changes under FRS 102 are the inclusion of investments at fair value and disclosing the split between land and buildings. See page 7 for further details of the impact. **Conclusion** No significant issues have arisen with regards to the treatment of FRS 102. We conclude that GOsC fully comply with FRS 102. This would make any future change to charitable status more straight forward.

Findings from reasonably possible risks identified

	Risks identified in our audit plan	Commentary
1.	**Fee Revenue and Debtors (Existence and Completeness)** • A substantial portion of revenue in the year is derived from registration fees. These monies are received in advance of the period to which the registration relates. We need to ensure that recognition is appropriate and in accordance with UK GAAP.	• In responding to this assessed risk, we: – Analytically reviewed registrants' fees received in the period against expectations and the prior year. – Performed a proof in total test on fee income by estimating total fees due for the year using information from the CRM system and comparing them to those recorded in the accounting system – Traced a sample of registrants through the revenue cycle including date of registration, standard or reduced fee and cash receipt. – Reviewed 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. – Traced a sample of year end debtors to cash received post year end to ensure the recoverability of debtors **Conclusion** No issues have arisen from our testing of registration fee revenue.
2.	**Creditors, deferred income and operating expenses (completeness)** • There is an inherent risk that expenditure and liabilities may not be identified and recorded on a timely basis	• In responding to this assessed risk, we: – Updated our understanding of procedures and controls in place via walkthroughs – Reviewed post year end bank statements for any potential unrecorded liabilities – Selected an attribute sample of expenditure transaction and vouched back to source documentation – Reviewed all invoices posted since the start of April 2016 and verifying the treatment of these was correct – Performed substantive testing of creditors, accrual and prepayments – Performed an analytical review of expenditure balances against prior year and expectations to understand any significant or unexpected variances. – Reviewed legal and professional expenses in the year for any contingent liabilities **Conclusion** We have noted an internal control point regarding deferred income. Please see 'Internal controls' section on page 10 for details. No other issue were noted from testing of overheads and creditors.

Other findings identified during the course of our audit

	Other Audit Findings	Commentary
1.	**Depreciation of land and buildings** In the prior year freehold land had not been separated from the cost of the building for the purposes of calculating depreciation. Financial Reporting Standard 15 'Tangible Fixed Assets' took the view that land has an unlimited life and therefore depreciation is not necessary. The rules have not changed under FRS 102. There was no detailed split available in the prior year and management took the view that the difference was unlikely to be significant and the information was not available. They also noted that GOsC does not need to formally comply with Financial Reporting Standards. As part of preparation for FRS 102, management have obtained a valuation. This included an estimate of the split between land and buildings. Whilst the valuation itself has not been used, the proportion of the split has been used to estimate the split of cost between land and buildings. This has been adopted as part of a move to fully comply with FRS 102 and has therefore been processed as a prior year adjustment.	**Management comment** We agree with the audit finding.
2.	**Current asset investment** In previous years, no interest or movement in the value of the investment had been accounted for. This was an accounting policy choice, based on the way in which the investment was managed and acknowledging that the entity was not required to comply with accounting standards. Under FRS 102, investments should be measured at fair value and management have now decided to fully follow the FRS. Therefore, prior year and current year adjustments have been processed to account for the fair value of the investment. See 'Adjusted misstatements' section.	**Management comment** We agree with the audit finding.

Other communication requirements

	Issue	Commentary
1.	**Matters in relation to fraud**	• 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**	• We are not aware of any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	**Written representations**	• Our standard audit representations will be requested from the Council.
5.	**Confirmation requests from third parties**	• We requested confirmation of bank balances as of 31 March 2016 with management authority. • We requested confirmation of the value of the Standard Life investment as of 31 March 2016 directly from Standard Life with management authority.
6.	**Accounting policies**	• We have reviewed the accounting policies adopted by GOsC. We have not noted any accounting policy which does not comply with the relevant financial reporting framework.
7.	**Disclosures**	• Our reviews have not identified any significant deficiencies in relation to the disclosures made within the financial statements.
8.	**Going Concern**	• 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 management's assessment of the GOsC as a going concern.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	**Opening reserves** In 2015 we noted that the opening reserves on the accounts system did not agree fully to the prior year signed accounts with a difference of £11k. The discrepancy arose due to the audit adjustment identified in the 2013/14 audit which audit committee requested be processed. The opening reserves were correctly stated in the annual accounts but were not corrected in the accounting system. Potentially, expenditure for the year had been overstated in the management accounts during the year.	This has been resolved in the current year with opening reserves agreeing fully to the prior year signed accounts.
2.	✓	**Unrecorded liabilities** In the prior year, we noted that the cut-off of expenditure had not been accurately applied for the preparation of the annual accounts. This led to expenditure in the financial statements not being fully recorded in the draft accounts. We recommended that as part of the preparation of annual accounts, invoices dated post year end are reviewed to identify those relating to expenditure incurred in the year and record these as accruals in the financial statements.	This process has been performed for the current year. As a result of this process, the client identified 19 post year end invoices that related to the financial year which were processed as a client adjustment. We identified no additional significant items from our testing. See 'Adjusted misstatements' section.
3.	✓	**Journals segregation of duties** We note that only the Head of Registration and Resources (HORR) processes journal entries and these are reviewed by the Chief Executive. In previous years it was noted that due to the small finance team this level of control was appropriate. However in the current year additional segregation of duties is possible due to the merger of the registration and finance teams.	Segregation of duties has improved in the current year. However, we still believe journal posting duties can be segregated further. See 'Internal controls for the current year' section.

Assessment
✓ Action completed
X Not yet addressed

Internal controls for the current year

- 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.	● (green)	**Journals segregation of duties** In the prior year the Head of Registration and Resources (HORR) was responsible for posting the majority of journal entries (91%). These were reviewed by the Chief Executive. In the current year, the Registration and Resources Administrator has taken on more responsibility for posting journal entries (62% with 38% posted by the HORR). This has helped to increase segregation of duties. However, we believe this process can be expanded further.	We recommend that the Administrator is provided with training to process routine journal entries which are then reviewed by the HORR. These could include year end adjustments including prepayments and accruals, depreciation charge and corrections of mispostings. Other non-routine journals can continue to be posted by the HORR, which are then reviewed and approved by the Chief Executive. The pace of change makes good sense as it means the transfer of responsibility is real and based on knowledge rather than being purely to meet a recommendation. **Management comment** We are pleased that the audit finding acknowledges that we are making progress towards enhancing segregation of duties at a pace which is proportionate and sensible. We agree that we can do more and work is already underway to meet the audit recommendation.

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

Internal controls for the current year (continued)

	Assessment	Issue and risk	Recommendations
2.	●	**Holiday pay accrual** Due to the conversion to FRS 102, a holiday pay accrual has been accounted for. It was noted that only the employees' gross salary was accounted for. Under FRS 102 guidance, the full cost to the employer should be accrued for. This includes any employer's national insurance due. The value of this for the current and prior year is not significant and therefore no adjustment has been proposed.	We recommend that , going forward, GOsC ensures all relevant costs, including employers' national insurance, is accrued for. **Management comment** This was an oversight and we accept the audit finding and recommendation.
3.	●	**Year end manual adjustments to debtors and deferred income** We noted that there is a manual process performed at the year end for any adjustments that need to be posted to debtors and deferred income such as, if a registrant's status changes. There is a risk that changes are not captured correctly which may lead to misstated debtor and deferred income balances.	We recommend that, where possible, any adjustments are processed when they occur. A final review should also be performed at the year end to ensure all adjustments have been captured. **Management comment** We note and accept the audit finding.
4.	●	**Administration fee for direct debit payers** We noted that the administration fee (£10-£20) is not initially recorded as a debtor and within deferred income. Manual adjustments are performed at the year end to bring the deferred income and debtors balance in line. There is a risk that debtor and deferred income balances could be misstated.	We recommend that the full balance due from the registrant should be accounted for, including the administration fee, once the registrant starts paying via direct debit. This would remove the manual process at the year end. **Management comment** We note and accept the audit finding and have actioned this from April 2016.

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

Adjusted misstatements

Management adjustments

		Profit and loss account		Balance sheet		
Journal reference	Detail	Debit	Credit	Debit	Credit	Profit effect
	Draft Profit					**76,097**
1	Accumulated depreciation			113,926		
	Brought forward reserves				113,926	
	Being the prior year adjustment to account for the split of land & buildings & the depreciation therefore affected					
2	Other debtors					
	NCOR			14,256		
	Being the removal of invoice to be paid by NCOR		14,256			14,256
3	Depreciation					
	Brought forward accumulated depreciation	480				(480)
	Being the adjustment to correct a miscalculation to computer hardware				480	
4	Assessors - training, appraisals	1,563				(1,563)
	Regional Societies	406				(406)
	ERSC / OPC	122				(122)
	Council meetings	219				(219)
	Professional Conduct Committee	346				(346)
	Professional Standards Authority (PSA)	3				(3)
	Staff development	72				(72)
	Investigating Committee	433				(433)
	Health Committee	800				(800)
	Regional Societies	358				(358)
	Council	1,846				(1,846)
	Remuneration Committee	454				(454)
	Trade creditors				6,622	
	Being the recognition of expenses not processed until post year end					

Adjusted misstatements (continued)

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
5	Staff development & training	250				(250)
	The Osteopath	131				(131)
	Professional Conduct Committee	5,292				(5,292)
	Photocopying	750				(750)
	Audit Committee	668				(668)
	Regional Societies	3,088				(3,088)
	Public Affairs/Lobbying	6,728				(6,728)
	Accruals				16,907	
	Being the recognition of professional conduct invoice received post year end					

Auditor adjustments

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
6	Current asset investment			559,840		
	Cash				500,000	
	Accrued income				59,840	
	Being the adjustment to account for bond balance (including interest) as a current asset investment.					
7	Intangible asset cost			259,856		
	Accumulated depreciation - computer equipment			232,655		
	Computer equipmment cost				259,856	
	Accumulated amortisation				232,655	
	Being the adjustment to disclose intangible assets separately due to transition to FRS 102					

Adjusted misstatements (continued)

Journal reference	Detail	Profit and loss account Debit	Profit and loss account Credit	Balance sheet Debit	Balance sheet Credit	Profit effect
8	Investment income	68,524				(68,524)
	Accrued Income				68,524	
	Investment loss	7,875				(7,875)
	Investment asset				359	
	Other comprehensive income		7,517			7,517
	Being the removal of incorrectly accrued income & adjustment for movements in investments					
9	Investment asset			68,883		
	Opening reserves				55,178	
	CT creditor				13,705	
	Being prior year adjustment to recognise the movement in investment and associated corporation tax.					
	Adjusted Profit					**(2,538)**

Fees, Non-audit services and independence

Fees

	2016 £	2015 £
Statutory Audit	17,300	16,800
FRS 102 (one off)	2,500	-
Additional work on investments and other FRS 102 adjustments	TBC	-

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. There were no non audit services 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.