Rt Hon. Meg Hillier MP
Chair of Public Accounts Committee
House of Commons
London
SW1A 9NA

Sent via email to: pubaccom@parliament.uk

Deer Chair

RE: Treasury Minute response – auditing local Government

I am writing to provide further clarification as requested in your letter of 27 June 2019
in relation to the Treasury Minute response concerning auditing of local government.

Recommendation 2

The Department has been asked to provide further information to give the
Committee assurance as to how it intends to improve the use of information
gathered through monitoring arrangements.

Response

We recognise that information gathered from local audit reports is a valuable source
of information and that it is important that local bodies take corrective action and that
learning is shared with other bodies.

Since the introduction of the Consolidated Provider Account (CPA) in 2018, NHS
Improvement has specifically reviewed local audit reports for all NHS providers and
publishes this information by individual body in the CPA, correlating local audit
conclusions to internal monitoring findings, and intends to continue this exercise in
the future.

For NHS provider trusts, NHS Improvement carefully reviews the use of resources
conclusions issued by local auditors and examines the explanation for adverse or
qualified conclusions in audit reports. This is correlated with the wider work that NHS
Improvement does to oversee and help drive improvement at individual bodies. NHSI
consider triggers for potential support (of which adverse local audit reports may be
one factor) over 5 categories; Quality, Finance and Use of Resources, Operational
Performance, Strategic Change and Leadership. Local bodies are offered targeted
support to address their improvement needs, or in more severe cases support may
be mandated and for those with the most serious needs they may be placed in special measures. Where a provider receives mandated support, undertakings will be agreed with the provider which set out specific actions to be taken to drive improvement in the specific matters. Even where there is not ‘mandated support’, NHS Improvement’s regional teams share intelligence and understanding of the issues affecting providers and keep in close contact with all providers. This helps ensure that learning and understanding is shared between bodies.

Examples of support provided are shown below:

<table>
<thead>
<tr>
<th>Universal Support</th>
<th>Tools providers can draw on to improve specific aspects of performance</th>
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<tbody>
<tr>
<td>Targeted support</td>
<td>Support to help providers with specific areas e.g. intensive support teams to help in emergency care</td>
</tr>
<tr>
<td>Mandated Support</td>
<td>For providers with complex issues may require mandated series of improvement actions e.g. appoint an improvement director. Providers required to comply with NHSI actions/expectations. May use powers under Health and Social Care Act 2012 or National Health Service Act 2006.</td>
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Support may be through NHS Improvement, resources from other organisations and support from other parts of the sector. Examples include focused service improvement initiatives such as maternal and neonatal safety collaboration and practical help for providers such as Emergency Care Improvement Programme, leadership development, coaching and mentoring.

For the NHS England Group, information gathered during monitoring for the financial year 2018/19 is used as follows:

National and regional intervention may be triggered due to routine financial reporting and/or receipt of qualified audit opinions that identify CCGs with financial issues to address. The following interventions will be instituted, where required:

- A detailed review of the financial position initiated by the Regional finance team
- The development of a financial recovery plan
- An external capability and capacity review being conducted
- An external financial review being conducted
- The appointment of a turnaround director
- Inclusion in National QIPP Delivery Programmes
CCG auditor reports and other key information for 2018/19 is assessed as part of the CCG “Improvement and Assessment” framework. Each CCG has a published performance rating under the framework. The rating is indicative of the level of intervention required.

A financial resilience website exists to support CCGs to address the causes of financial distress and includes examples of learning from other organisations.

It should be noted the financial year 2018/19 has seen a reduction in the number of qualified CCG regularity opinions (34 in 2018/19 compared to 79 in 2017/18) and also a reduction in CCGs with qualified value for money conclusions (59 in 2018/19 compared to 76 in 2017/18) as issues are addressed within the Group.

The processes for utilising local audit information gained through monitoring is continually being improved. An example of a recent improvement initiative is the implementation of the ‘Financial Control, Planning and Governance Self-Assessment Questionnaire’ which is now completed by CCGs and considered by regional teams and includes questions to capture any adverse local audit findings and recommendations and to confirm all internal audit findings and recommendations have been fully addressed to the required timescale.

**Recommendation 3**

The Department has been requested to provide further information to the Committee to give it assurance as to how it has assessed that pre-existing arrangements relating to the expectations set out to local bodies as to what information should be made publicly available are fit for purpose and ensure that expectations are clear to all local NHS bodies.

**Response**

The NAO Code of Practice (published pursuant to Schedule 6 Para 2 of the Local Audit and Accountability Act 2014) prescribes the way local auditors are to carry out their functions. As part of this code (Chapter 4) auditors are required to produce an annual audit letter\(^1\), which ‘should provide a clear, readily understandable commentary on the results of the auditor’s work and highlight any issues that the auditor wishes to draw to the attention of the public’ and per paragraph 4.3, ‘if the auditor issues a report in the public interest, this should be referred to in the auditor’s report and, where one is required, the annual audit letter’.

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\(^1\) Unless, in the case of an NHS foundation trust, the auditor addresses these requirements by issuing an ‘enhanced audit report’ instead – this will then automatically be available to the public by virtue of its inclusion within the annual report and accounts.
The Department’s Group Accounting Manual (Chapter 2 Annex 6) states that ‘An annual audit letter is intended to be a public document, and CCGs and NHS Trusts must ensure the document is made available to members of the public free of charge’ and that ‘DHSC expects publication on the individual CCG / NHS Trust website to be the easiest way to ensure the annual audit letter is made available’. In terms of NHS foundation trusts, the NHS Foundation Trust Annual Reporting Manual (paragraph 1.23) states ‘The National Audit Office’s guidance to auditors gives foundation trust auditors the option of issuing an annual audit letter. An annual audit letter is intended to be a public document and, if issued, foundation trusts must ensure that the document is made available to members of the public free of charge’. It is suggested by NHS Improvement that ‘publication on the foundation trust’s website is the easiest way to ensure the annual audit letter is made available’.

Given the NAO Code of Practice is clear on the local audit reports local auditors must produce, and the Department’s mandatory Annual Report and Accounts guidelines for DHSC Group bodies sets clear expectations as to what information should be made freely publicly available and the easiest way to achieve this, the Department is satisfied expectations are clear and that pre-existing arrangements are fit for purpose. However, to further enhance this level of understanding, as part of the response to Recommendation 1 in the original Treasury Minute, working in conjunction with NHS England and NHS Improvement we will issue guidance to health bodies on local audit arrangements, which will include the reinforcement of the requirements above. In order to gain further assurance that the requirements have been met, the Department will undertake sample checks to ensure compliance across the Provider and Commissioner sectors.

**Recommendation 5**

The Department has been asked to address the concerns of the Committee relating to joint working in non-statutory relationships which are not covered by local audit. The Department is requested to provide further information as to how it will assess this gap and plan to ensure it has complete assurance.

**Response**

The NAO Code of Practice (published pursuant to Schedule 6 Para 2 of the Local Audit and Accountability Act 2014) prescribes the way local auditors are to carry out their functions and offers specific guidance in relation to the increasing occurrence of partnership working in non-statutory arrangements:
'1.13 Local public bodies increasingly operate, commission and deliver services in a range of partnerships and other forms of joint working or contracts with other public, private or third sector bodies. In meeting their statutory duties, therefore, the auditor should consider how best to obtain assurance over such arrangements, working effectively with other auditors where appropriate.

1.14 The auditor should, likewise, be mindful of the activities of inspectorates and other bodies and take account of them where relevant to prevent duplication and ensure that the demands on audited bodies are managed effectively. In so doing, the auditor should be informed by the reported results of inspectorates and other bodies in relation to corporate or service performance. The auditor is not required to carry out procedures to assess the quality of, or re-perform, the work of inspectorates and other bodies, except where it would be unreasonable not to do so, for example, to provide assurance in accordance with auditing standards issued by the Financial Reporting Council in support of the audit opinion on the financial statements.'

The Code of Practice is supplemented by regular Auditor Guidance Notes (AGNs), which ensure local auditors are kept up to date with developments and best practice. These notes can be sector specific – as was the case in February 2019, when AGN (03) was issued, providing guidance on developments in the NHS provider sector, signposting the potential impact on audit risk assessment and scope. This AGN specifically details developments in partnership working across the NHS, such as Vanguards, Sustainability and Transformation Partnerships, Integrated Care Systems and Better Care Fund arrangements. This supporting information is issued to assist the auditor in performing the risk assessment to inform their work on the conclusion on VFM arrangements and as such will influence audit approach and coverage. The guide explicitly highlights that accountability for services cannot be transferred to third parties.

It is not therefore correct to say that partnership working in non-statutory arrangements falls outside the scope/coverage of local audit.

From the NAO report on which the PAC hearing was based, the percentage of local NHS bodies with a qualified value for money conclusion relating to partnership working was only 1.4% in 2017/18, compared to 34.4% relating to Finance – performance and 30.1% for Finance – sustainability (from the NAO report Local auditor reporting in England 2018). This low percentage is both encouraging and further demonstrates that partnership working is considered by local auditors when making value for money conclusions.

The number of substantive issues raised by local auditors in respect of partnership working in recent years is also low. For CCGs, for instance, there were 2 VFM qualifications in 2017/18 as a result of partnership working concerns. Of these, 1 has
been resolved in 2018/19. Hence we conclude partnerships and other forms of joint working are actively considered by local auditors and that the increase in the new type of partnership working arrangement does not seem to have substantively impacted on audit conclusions.

Additionally, the NHS England/NHS Improvement response to the recent NAO consultation on the Code of Audit Practice was supportive of the possibility of further assurance being provided in future via local audits on local bodies’ partnerships and joint arrangements.

I hope this is helpful.

Yours sincerely,

SIR CHRIS WORMALD
PERMANENT SECRETARY