



NAO's Code of Audit Practice Consultation Response

Who are we

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff working in healthcare. For 70 years it has provided independent support and guidance to its members and the wider healthcare community.

It is a charitable organisation that promotes the highest professional standards and innovation in financial management and governance across the UK health economy through its local and national networks. The association analyses and responds to national policy and aims to exert influence in shaping the healthcare agenda. It also works with other organisations with shared aims in order to promote financial management and governance approaches that really are 'fit for purpose' and effective.

The HFMA is the biggest provider of healthcare finance and business education and training in the UK. It offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The association is also an accredited provider of continuing professional development, delivered through a range of events, e-learning and training. In 2019 the HFMA was approved as a main training provider on the Register of Apprenticeship Training Providers and will be offering and developing a range of apprenticeships aimed at healthcare staff from 2020.

Our comments

Chapter One: Status of the Code, application and general principles

We welcome the continued application of a single principles-based approach across local government and the NHS, particularly as we see an increase in working across system transformation partnerships and integrated care systems.

In July 2019, the HFMA surveyed its members about the year-end process to see whether there were any lessons that could be learned. This included specific questions about the audit process and around a third of respondents indicated that the process in 2018/19 was worse than in previous years. The main issues identified were late sign off of audits and a lack of experience and NHS knowledge of audit teams. We therefore welcome the clarified expectation that the auditor should ensure they have ‘the necessary skills and knowledge to discharge their functions effectively and have arrangements in place to ensure that audit teams have sufficient knowledge of the relevant public sector financial reporting, regulatory and legislative frameworks’ (paragraph 1.20).

Chapter Two: Audit of the financial statements

As set out above, the HFMA year-end survey confirmed that the 2018/19 accounts process was challenging for NHS bodies, exposing a lack of audit capacity, exacerbated by the bringing forward of local government audit deadlines. NHS bodies raised their concerns about consistency between auditors, where different local bodies were getting different messages, even from the same audit firm. This was particularly the case on technical issues such as valuation and accounting policies. Others reported that they are now finding that auditors are slow to respond to questions, as more issues have to be escalated internally within audit firms.

We welcome that the accounts opinion remains aligned to auditing standards. Consistency in approach with previous years will allow auditors and NHS bodies to focus on continued engagement with a familiar approach, avoiding the challenges and time needed to understand changes if these had been made.

Chapter Three: The auditor’s work on economy, efficiency and effectiveness of corporate arrangements (value-for-money arrangements)

The HFMA welcomes the proposed new audit approach to assessing and reporting on value for money (VFM) and maximising the impact of local audit work. In the past we have had concerns that NHS organisations may not fully understand the auditor’s conclusion on the arrangements to secure VFM and the action they need to take as a result. The new proposed commentaries on financial sustainability, governance and improving economy, efficiency and effectiveness, which will be tailored to local circumstances, should be easier to understand and help focus NHS organisations’ attention on the areas that need improving.

In the NHS, a large proportion of qualified conclusions have been issued in recent years, many relating to failures to meet financial targets or problems with financial sustainability. In these circumstances the audit process, including internal discussions within firms and those with NHS bodies, to agree a binary conclusion about whether or not proper arrangements were in place during the previous financial year can be particularly time-consuming. Although many of the recent VFM conclusions have been ‘adverse’ or ‘except for’, they are largely met with acknowledgement and do not necessarily result in action. We therefore welcome the move to a commentary-based approach,

which should be more meaningful for readers of the accounts and provide a clear focus for discussions and identifying what action is required.

We also recognise that a commentary approach is particularly helpful for those organisations that received unqualified opinions in the past and little feedback on how VFM could be further improved.

However, we do have concerns about the potential impact of any extra work on audit fees, which would be an additional financial pressure on NHS resources. We are also concerned about the potential impact on the capacity of auditors, who are already struggling to meet audit deadlines.

It would be helpful to provide further clarification on how the auditor's work on economy, efficiency and effectiveness of corporate arrangements links to other assessments, such as the NHS Improvement and Care Quality Commission use of resources assessment and well-led framework. Where different reports, by different bodies, cover the same area this can undermine the credibility of work and cause confusion. There should be one clear test undertaken by all regulators. Although recognising each organisation undertakes these reviews for different purposes, there is concern that it leads to duplication of work and confusion if different conclusions are being reported. Paragraph 3.9 clarifies that the auditor's work should be informed by the work of inspectorates and other bodies and this could be expanded, within the Code or in further guidance, to provide further clarity to the specific linkages between the assessments.

Chapter Four: Reporting the results of the auditor's work

We welcome the Code's more detailed expectations about what effective reporting should look like. We agree that by focusing on reporting clearly to organisations and the public what actions need to be taken is important to ensure the best use is made of the work being undertaken.

For NHS bodies, financial sustainability issues are past, present and future and the auditor's report will now be able to reflect the NHS context. With the commentary on the VFM arrangements being more forward looking, it will be able to reflect organisations' direction of travel and allow the agreement of meaningful recommendations.

Chapter Five: The auditor's additional powers and duties

The use of auditor's additional powers and duties is rare in the NHS, we therefore have no comments to add.

Chapter Six: Smaller authority assurance engagements

This chapter is not applicable to NHS bodies, we therefore have no comments to add.

Contact

If you would like to discuss any of our comments in more detail please contact Lisa Robertson, policy and research manager, lisa.robertson@hfma.org.uk.