



National Audit Office

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National Audit Office

# HFMA – Audit Committee Conference

Robert White, Director – Health value for money audit  
Suzy Smith and Andrew Kendrick, Audit Managers

[Robert.White@nao.org.uk](mailto:Robert.White@nao.org.uk)

[Suzy.Smith@nao.org.uk](mailto:Suzy.Smith@nao.org.uk)

[Andrew.Kendrick@nao.org.uk](mailto:Andrew.Kendrick@nao.org.uk)

4 March 2021

# Financial performance | The Department

**Table 35: Resource DEL**

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
RDEL Budget	114,523	117,594	121,342	125,924	134,628
<b>RDEL Spending Outturn</b>	<b>114,730</b>	<b>117,031</b>	<b>120,650</b>	<b>125,278</b>	<b>134,183</b>
<i>Underspends / (Overspends) (£m)</i>	<i>(207)</i>	<i>563</i>	<i>692</i>	<i>646</i>	<i>444</i>
<i>Underspends / (Overspends) (%)</i>	<i>-0.181%</i>	<i>0.479%</i>	<i>0.570%</i>	<i>0.513%</i>	<i>0.330%</i>

**Table 42: Capital DEL Outturn<sup>1</sup>**

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Opening CDEL Budget	3,690	3,618	4,535	4,905	5,894
R&D Adjustment	1,020	998	1,063	1,078	1,231
CDEL Budget	4,710	4,616	5,598	5,983	7,125
<b>CDEL Spending Outturn</b>	<b>4,652</b>	<b>4,556</b>	<b>5,238</b>	<b>5,941</b>	<b>7,015</b>
<i>CDEL Underspend</i>	<i>58</i>	<i>60</i>	<i>360</i>	<i>42</i>	<i>110</i>
<i>CDEL Underspend %</i>	<i>1.23%</i>	<i>1.30%</i>	<i>6.43%</i>	<i>0.70%</i>	<i>1.54%</i>

1. All years have been adjusted to take account of the reclassification of research & development expenditure to capital under ESA 10.

2. Totals in the table may not sum due to rounding.

# Financial performance | The Department annual report and accounts

## Issues highlighted in 2019-20:

- C&AG qualified his opinion on the DHSC's 'Core Department and Agencies' Statement of Financial Position
  - Reflected NAO valuation of DHSC loans to local NHS trusts
  - Qualification applied to Core Department and Agencies only, not overall DHSC group.
- Financial reporting / governance at University of Leicester Hospitals NHS Trust
- Ministerial Directions in operation during 2019-20:
  - Clinicians' pensions
  - COVID-19 spend
- Absence of authorisation from HM Treasury for certain special payments.

C&AG also flagged challenges for the **2020-21 audit**, arising from COVID-19-related expenditure incurred on new areas that exhibit new and significant risk:

- For example, NHS Test and Trace, PPE and the vaccination roll-out

<https://www.nao.org.uk/report/the-department-of-health-and-social-care-annual-report-and-accounts-2019-20/>

# Financial performance | NHSE and NHSI

	Underspend / overspend 2018-19 Reported	Underspend / overspend 2019-20 Reported
NHSE central programme costs and centrally-commissioned services	£1,065m Underspend (surplus)	£1,503m Underspend (surplus)
Clinical commissioning groups	£150m Overspend (deficit)	£507m Overspend (deficit)
NHS trusts and NHS foundation trusts	£827m Overspend (deficit)	£669m Overspend (deficit)
Net overspend / underspend by NHS commissioners and providers	£89m Underspend (surplus)	£73m Underspend (surplus)

- 46 CCGs reported overspends in 2019-20 (compared with 33 in 2018-19).
- NHSE noted context of £100m reduction in Commissioner Support Fund, and cost pressures outside CCG control eg drug prices.

Large overspends by local NHS bodies are effectively met by an underspend in NHS England's central budget

Source: [DH&SC Annual Report and Accounts 2019-20](#); [NHSE Annual Report and Accounts 2019-20](#)

# COVID-19 programme | National Audit Office work on COVID-19 June-December 2020 (selected)



**Readying the NHS and adult social care in England for COVID-19**

Jun  
20



**Investigation into how government increased the number of ventilators available to the NHS in response to COVID-19**

Sep  
20



**The supply of personal protective equipment (PPE) during the COVID-19 pandemic**

Nov  
20



**Investigation into government procurement during the COVID-19 pandemic**

Nov  
20



**Investigation into preparations for potential COVID-19 vaccines**

Dec  
20



**The government's approach to test and trace in England – interim report**

Dec  
20



## Example 1: Readyng the NHS and adult social care in England for COVID-19

### Headline findings

- **Kickstart** for NHS preparations was 17 March
- **NHS increased bed, ventilator and oxygen capacity to meet demand**
- **Data on the impact of COVID-19 on care providers are limited.**
- Between 17 March and 15 April, 25,000 people discharged from hospitals into care homes, compared to 35,000 over this period in 2019. **It is not known how many had COVID-19 at the point of discharge;**
- **Absence rates in health and social care rose** due to COVID-19.
- **The central PPE stockpile was designed for a flu pandemic and a range of stakeholders have expressed concern about PPE supply.**

### Observations

1. **Onset of emergency doesn't remove long-standing problems.**
2. **Speed of effective crisis response significantly affected by matters beyond government control.**
3. **Already financial pressure on NHS and local government with past funding used for immediate needs rather than increase long-term sustainability.**
4. **Pace and intensity of pandemic response means important information about cost and performance is yet to emerge.**



## Example 2: The supply of personal protective equipment (PPE) during the COVID-19 pandemic

### Headline findings

- Pre-pandemic, **multiple public/private sector bodies had responsibility** for managing PPE supply and stockpiles.
- Government **faced distribution problems and a lack of information on local requirements.**
- The Department set up a Parallel Supply Chain in late-March.
- The Department's PPE **spend has been enormous**, due to higher prices and increased volumes.
- Many front-line health and social care workers reported **not having access to the PPE they needed**. Adult social care providers said they were not adequately supported by government in obtaining PPE.
- **32bn items of PPE were procured centrally** between February and July.

[Link to PPE published report](#)

### Lessons to be learned

1. Undertake **lessons learned exercise** for all stakeholders
2. Balancing **normal efficiency with longer-term resilience**
3. Emergency plans must provide **appropriate stockpiles plus rapid procurement / distribution**
4. Developing **effective governance** for an emergency situation.
5. Ensuring **clear, timely, two-way information and communication**
6. Health and social care continue to be separate systems, and government must understand why **national bodies provided more support to hospitals than to social care and how to prevent that happening again.**



## Example 3: Investigation into how government increased the number of ventilators available to the NHS in response to COVID-19

### Headline findings

- Early on the NHS believed **it needed far more mechanical ventilators (MVs) than were available**. Demand in April was **considerably lower than the reasonable worst-case scenario**. Government missed target for 18,000 MVs by the end of April, but surpassed end of June target of 30,000 in August. **Most new MVs now held in reserve**.
- DHSC experienced increasing global competition and made **purchases primarily on credibility of offer, not price**.
- Cabinet Office needed to find MV designs that worked and could be made at scale. Its approach was in effect a competition **prioritising speed and maximising chances of success over cost**.
- In total, DHSC and Cabinet Office spent £569m on ventilator programmes. The **cost of the MVs acquired varied significantly**.

### Observations

1. Both Cabinet Office and DHSC ventilator programmes **based on securing as many MVs as possible, as quickly as possible, to safeguard public health**.
2. **Anticipated demand for ventilators in mid-April did not materialise**.
3. Overall **cost of programmes was higher than expected in normal times, but there was an adequate record of programmes' rationale and key spending decisions**.

# Managing future risks | COVID-19 and **beyond**

**Addressing  
backlogs in  
demand/waiting  
lists arising from  
COVID-19**

Managing ongoing  
disease burden  
and trends in  
demand

Achieving the NHS  
Long Term Plan  
ambitions

Expanding the  
workforce  
(manifesto  
pledges)

**Supporting the  
workforce post-  
COVID-19  
(frontline and  
managerial)**

Making necessary  
long-term capital  
investments

# Managing future risks | The White Paper

Area	Removing barriers to integration	Removing 'transactional bureaucracy'	More accountable and responsive system
Examples of proposals	New local statutory bodies - ICS NHS and ICS health and care partnerships New duty for NHSs and LAs to collaborate	Changes to competition requirements, and how staff can work together and use technology to deliver 'joined up' care	Creation of single NHS England body, with stronger government powers of direction Assurance frameworks for social care
Risks to manage?	System accountability, governance and decision-making Funding flows and service sustainability	Ensuring value for money in service provision Inclusion in framework agreements Joint working across bodies	Balancing national priorities with local needs, demands and challenges

# Audit Committee support | National Audit Office resources



## Good practice in annual reporting February 2021

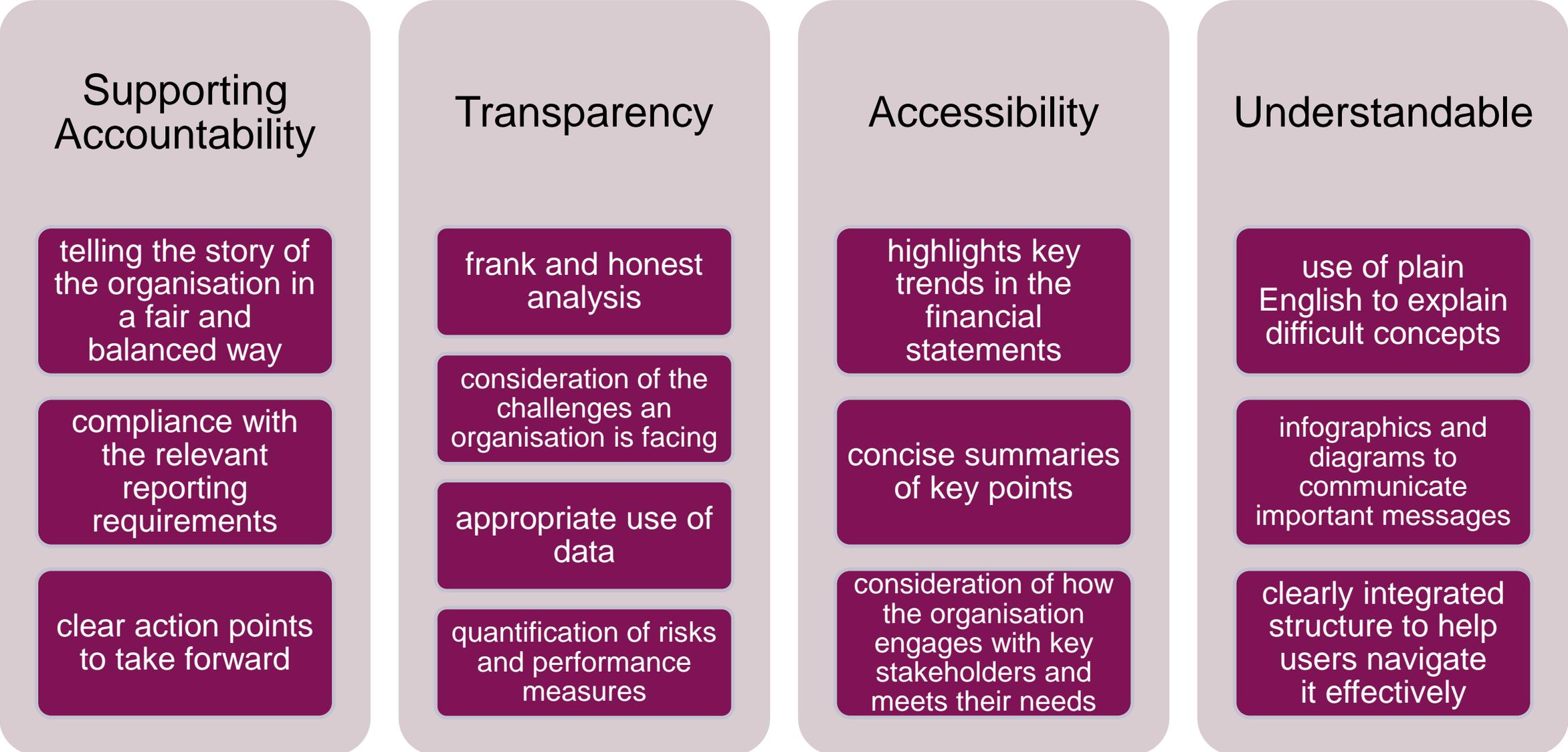
<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021>



## Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 (June 2020)

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

# Good practice in annual reporting – good practice principles



# Guide on Financial Reporting and Management during COVID-19 – main areas and example questions

Has COVID-19 caused **new risks** to achieving the organisation’s stated objectives?  
 Does the corporate governance report consider whether expenditure in response to COVID-19 was **in line with parliamentary authority (regular)** and in accordance with the principles of Managing Public Money?  
 Does the corporate governance report detail how the **control environment has changed** due to COVID-19 and the risks associated with these changes?

How has COVID-19 impacted **inventory usage**?  
 How has management **valued inventory** held in the context of COVID-19?

Annual reports

Valuations

Property valuations

Pension schemes valuations

Is management’s strategy or business plan from a period **pre-COVID-19**?  
 Is its forward plan **robust** in the context of COVID-19?

Inventory valuations

Completeness of liabilities

Events after the reporting period

Going concern

Are **liabilities complete** based on your knowledge of the business and the impact of COVID-19?

Control environment

Regularity of expenditure

Fraud and error

What **exposure to fraud and error** does the organisation have in its responses to COVID-19?

Were any changes needed to the **design and implementation of internal controls** to respond to COVID-19?

Have there been any **significant changes to the organisation’s activities** during the outbreak?  
 Has the accounting officer assessed the **reasonableness of increased expenditure or new activities** in the context of Managing Public Money?  
 Is there any new expenditure that could be deemed **novel and contentious**?



National Audit Office

# Thank you

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National Audit Office

**HFMA:**

# **Auditors' work on VFM arrangements under the new Code of Audit Practice**

**Suzy Smith and Andrew Kendrick**

4<sup>th</sup> March 2021

# Today we will be considering

- The changes to the new focus on a commentary on arrangements to secure VFM instead of a single, binary conclusion
- What the new approach involves
- What these changes mean for you

# Changing the focus

- Two stage consultation in 2019 on the new Code of Audit Practice
- Feedback from a wide range of stakeholders stated that, in general, the current approach seen as not adding value:
  - Reporting/repeating issues already known
  - Not always accessible
  - Often not linked to clear recommendations
  - Sometimes late or hard to find

# The new commentary

- To address these issues, the new Code introduces from 2020-21 a commentary on arrangements. The commentary will:
- Explain work undertaken during the year
- Highlight any significant weaknesses in arrangements; and
- Include clear recommendations for improvement where significant weaknesses are found

# Old approach to VFM arrangements

## Requirement to be satisfied proper arrangements in place

- **CCGs and NHS trusts:**
  - Local Audit and Accountability Act 2014 Section 20(1).
  - Section 21 (5) requires exception reporting for CCGs. Paragraph 4 of Schedule 13 of the Act extends the definition of 'health service body' to include NHS trusts.
- **NHS FTs:**
  - Paragraph 1 of Schedule 10 of the NHS Act 2006.
  - Local Audit and Accountability Act 2014 Paragraph 74 of Schedule 12: Amends the NHS Act 2006 to require auditors to "a) comply with the code of audit practice applicable to the accounts that is for the time being in force....and b) have regard to guidance issued by the Comptroller and Auditor General under paragraph 9 of that Schedule (as it has effect by virtue of paragraph 10(6) of that Schedule)".

Primary  
legislation

## Code of Audit Practice 2015 Paragraph 3.14

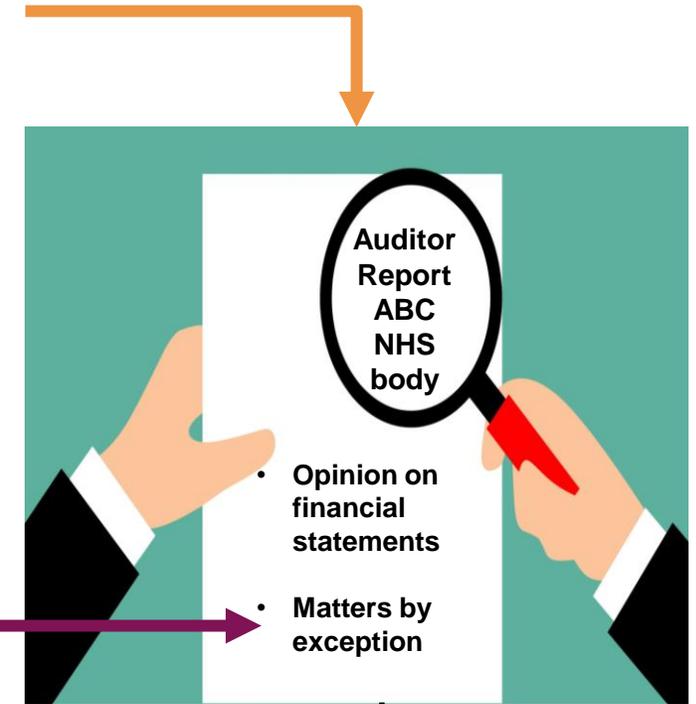
*"Health service bodies, including NHS foundation trusts – reporting by exception if the auditor concludes that they are not satisfied that the audited body has put in place proper arrangements to secure value for money in the use of its resources for the relevant period".*

Secondary  
legislation

## Previous Auditor Guidance Note 03:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".*

Statutory  
guidance



**Conclusion - No proper arrangements:  
Adverse or Except for**

# New approach to VFM arrangements – same for all bodies

## Requirement to be satisfied proper arrangements in place

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Primary  
legislation

## Code of Audit Practice 2020 Paragraph 3.10 and 3.14

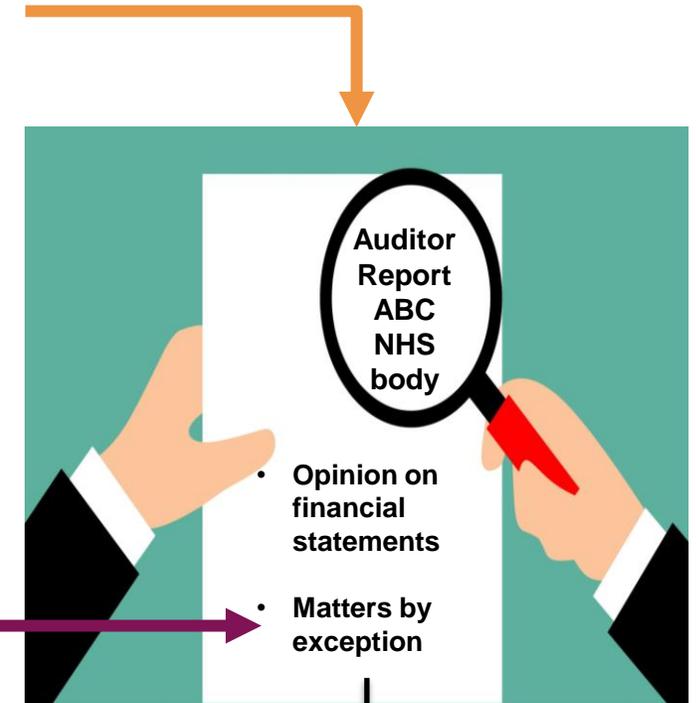
Commentary on VFM arrangements in Auditor's Annual Report against reporting criteria: Financial sustainability, governance and 3e's and requirement to raise a recommendation where significant weaknesses identified.

Secondary  
legislation

## New Auditor Guidance Note 03:

Commentary on VFM arrangements against reporting criteria: Financial sustainability, governance and 3e's and requirement to raise a recommendation where significant weaknesses identified. The statutory duty to report where the auditor is not satisfied with arrangements is discharged through compliance with the exception reporting section of this AGN.

Statutory  
guidance



Recommendations raised in relation to significant weaknesses in VFM arrangements + Auditor's Annual Report: Commentary on arrangements



# Nature of the commentary – what's it about/not about?

- Arrangements at the corporate level - arrangements that the body itself should be reporting on.
- Arrangements for ensuring compliance e.g. with CIPFA codes, **not** testing compliance.
- Arrangements for ensuring key corporate plans link and are consistent but **not** testing the underlying plans.
- Arrangements for assurance and challenge but **not** detailed assessment of internal audit/audit committee.
- Also **not** about re-introducing self-assessments!

# Reporting Criteria

The new commentary will include cover the following areas:

**Financial sustainability:** How the body plans and manages its resources to ensure it can continue to deliver its services

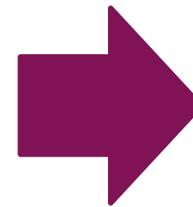
**Governance:** How the body ensures that it makes informed decisions and properly manages its risks

**Improving economy, efficiency and effectiveness:** How the body uses information about its costs and performance to improve the way it manages and delivers its services

# Other changes: The Auditors' Annual Report

Replacing the current Annual Audit Letter and includes:

- Summary of work on the accounts opinion
- Commentary on VFM arrangements work
- Recommendations and follow-up
- Details of any other powers exercised, e.g. Public Interest Report



# Key changes to what you will see

- Commentary **every year** in the three key reporting areas
- More **context**:
  - Allowing auditors to put their reporting into context more easily by reflecting local circumstances
  - Flagging issues for attention (the ‘critical friend’)
- Commentary issued even where an item might be outstanding (generally this is more applicable to local government due to consideration of objections)
- Significant weaknesses always accompanied with a clear recommendation
- Prior year recommendations formally followed up and reported on

# Emerging issues

## COVID-19

- Opportunity for the commentary to provide context on the arrangements that would otherwise have been distilled into a VFM conclusion.
- Opportunity to consider in the commentary the body's arrangements such as:
  - Governance over decision-making moving at pace
  - Managing the financial impact of the pandemic

## Other

- Governance and oversight of wider, integrated partnership working e.g NHS and local government working as an integrated care system.

# NAO's interaction with the firms

- Providing a point of contact to address significant issues raised by auditors and other stakeholders that may require us to update the Code of Audit Practice or issue guidance to auditors.
- Facilitating timely engagement with and advice to auditors and other stakeholders to facilitate consistency of approach on significant issues – for example, through the NHS and VFM technical networks and the Local Auditors Advisory Group.

## Finding the Code and Guidance

The 2020 Code was approved in January and applies from 1 April to 2020-21 audits and onwards and can be found here:

[About the Code - Code of Audit Practice \(nao.org.uk\)](https://www.nao.org.uk/about-the-code-code-of-audit-practice)

The statutory guidance (*Auditor Guidance Note (AGN) 03 - Auditors' Work on Value for Money Arrangements*) was published on 15<sup>th</sup> October and can be found here:

[Guidance and information for auditors - Code of Audit Practice \(nao.org.uk\)](https://www.nao.org.uk/guidance-and-information-for-auditors-code-of-audit-practice)

# Thank you



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Contact:  
Suzy Smith  
Audit Manager  
[Suzy.smith@nao.org.uk](mailto:Suzy.smith@nao.org.uk)



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