



Response to National Audit Office's *Code of audit practice* consultation

Introduction

The National Audit Office (NAO) is consulting¹ on proposed changes to the *Code of audit practice*, as part of a package of cross-system measures² to clear the audit backlog and put the system on a sustainable footing.

The consultation sets out a number of proposed changes. The key changes affecting NHS bodies are those made to chapter four, reporting the results of the auditor's work as follows:

- 'For local NHS bodies, proposals are that auditors should aim to issue their auditor's annual report no later than one month after the date on which they have issued their audit report. Where the auditor is unable to issue their audit report in accordance with the requirements set out in the NHS timetable, the auditor should consider whether it is in the public interest to issue their auditor's annual report to reflect the work completed to date.' (paragraph 19)
- 'In order to encourage more timely reporting, the comptroller and auditor general proposes to remove the 'special reporting provisions' relating to value for money (VFM) arrangements work and again require auditors to report on significant weaknesses in arrangements by exception in the opinion on the financial statements. This means that where auditors have not been able to complete their work to satisfy themselves as to whether there are significant weaknesses in VFM arrangements, they will not be able to issue their opinion on the financial statements until they have completed their work.' (Paragraph 21 and 22)¹

¹ National Audit Office, [Code of audit consultation](#), February 2024

² DLUHC, [Joint statement on update to proposals to clear the backlog and embed timely audit](#), February 2024



The HFMA agrees that that delays in audit opinions undermine the effectiveness of local audit. We recognise there are a number of complex and intertwined factors leading to the issues in the audit market for local authorities and the NHS³.

As reported in the Department of Health and Social Care's *Annual report and accounts 2022-23*⁴, 'Timeliness of financial reporting across the NHS continued to be a challenge in 2022-23, undermining oversight and accountability across the group: 23% of NHS providers and 20% of NHS commissioners missed NHS England's certification deadline of 30 June 2023...A significant number of NHS provider and NHS commissioner audits were ongoing at 30 November 2023, the date the Department originally committed to Parliament that its accounts would be certified by. This has prevented timely reporting which is a key part of effective management of public money and public trust in how taxpayers' money is spent'

The report goes on to comment that 'delays to local government audit opinions adversely impacted on NHS bodies. NHS bodies reported growing concerns about the capacity of their external auditors, resulting in auditors carrying out fewer interim audits and increasing pressure on the audit of the final accounts.'

We welcome the joint approach to introduce a package of measure that reset, recover and reform local audit. Although most of the proposed changes in the consultation do not change the requirements for NHS bodies, changes included in chapter four do have implications for the NHS. HFMA's Governance and Audit Committee is responding to this consultation with a specific focus on areas of the consultation that will impact on NHS bodies.

The HFMA has also responded separately to the Department of Levelling Up, Housing and Communities (DLUHC) consultation⁵ being run in parallel to this consultation, relating to changes to the *Accounts and Audit Regulations 2015*.

In summary, the HFMA supports the proposed changes as part of the package of measures to address the local audit backlog in England.

Question 1: Do you agree with the principles of effective co-operation during the handover period where there is a change in the appointed auditor? (The handover period is defined as the period from the date from which the new auditor's appointment takes effect to the date on which the outgoing auditor certifies completion of their audit).

As set out in paragraph 1.15, 'where there is a change in the appointed auditor, auditors should also ensure that they co-operate effectively during the handover period, having regard to any guidance issued by the C&AG to support the efficient and effective discharge of responsibilities.'

As each individual NHS body appoints its audit through a tender process, with varying contract dates and lengths, this will apply to all NHS bodies in circumstances where there is a change of auditor. Although it is not expected that an extended handover period should be needed in the NHS, we welcome the clarification of the importance of effective handover.

Question 2: Do you think that the proposed Code requirements in respect of the 'backstop' dates are sufficient to require and enable auditors to report their opinion at the backstop date, apart from in the exceptional circumstances set out? If not, what needs to be added or strengthened?

We do not have any comments on this question.

Question 3: Do you agree that the Code should require auditors to perform a reduced scope of work on proper arrangements to secure VFM on a temporary basis for incomplete audits up to and including 2022-23?

We do not have any comments on this question.

³ HFMA, [The NHS external audit market: an update on current issues](#), August 2022

⁴ DHSC, [Annual report and accounts 2022-23](#), January 2024

⁵ DLUHC, [Addressing the local audit backlog in England: consultation](#), February 2024

Question 4: Do you have any comments on the proposals for the reduced scope of proper arrangements set out under the reporting criteria that auditors are required to report for incomplete audits up to and including 2022-23?

We do not have any comments on this question.

Question 5: Do you agree with the approach to enable the auditor to issue a combined commentary as part of a single auditor's annual report for incomplete audits up to and including 2022-23?

We do not have any comments on this question.

Question 6: Do you agree that auditors should be required to return to the full scope of VFM arrangements work under the three reporting criteria set out under paragraph 3.11 of Chapter Three of the Code from audit year 2023-24 (the year of which the new audit appointments contracts under PSAA's national scheme start)?

We do not have any comments on this question.

NB. There is no question 7 in the consultation.

Question 8: Do you agree that the Code should specify the 30 November as the date by which auditors should issue their auditor's annual report based on the work they have completed so far rather than wait for the audit to be fully completed?

We do not have any comments on this question.

Question 9: Are there any other comments you wish to make?

The proposals set out in the joint statement² will clearly lead to an increased level of work in the coming years, requiring a significant effort on the part of both preparers of the accounts and auditors. Undoubtedly, this will constraint the capacity of public sector auditors during the catch up period and this will impact the interim and year-end audits of NHS bodies, as well as decisions as to whether an auditor chooses to tender for an NHS audit or not.

We agree that delays to auditors work on VFM arrangements work reduces the added value of this work. Timely commentary and recommendations on financial sustainability, governance and the use of resources are particularly important as the NHS experiences high levels of financial and operational challenge. We therefore welcome the changes set out in chapter four (paragraph 47-48), requiring NHS auditors to issue their auditor's annual report no later than on month after the date on which they have issued their audit report and, where this is not possible, that the auditor should consider whether it is in the public interest to issue their auditor's annual report to reflect the work completed to date.

We also agree that the removal of the 'special reporting provisions' relating to VFM arrangements work, requiring auditors to report on significant weaknesses in arrangements by exception in the opinion on the financial statements, will encourage timely completion of this work. However, we do note this does remove some flexibility auditors have on managing their capacity issues, particularly as they work to address the local authority backlog.

Question 10: Do you have any comments on whether any of the proposals outlined above could have disproportionate impact, either positively or negatively, on people with protected characteristics or wish to highlight any other potential equality impacts?

We do not have any comments on this question.

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

The HFMA 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 qualifications are delivered through HFMA's Academy which was launched in 2017 and has already established strong learner and alumni networks.

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