



The HFMA's response to the Public Audit Forum's consultation on Practice Note 10 (revised 2020) exposure draft

Who we are

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For 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.

Overall

Overall, we agree with the updates made to Practice Note 10 to take account of recent changes to International Standards on Auditing (ISAs). A small number of specific comments are made in response to the questions below.

Question 1: This version of Practice Note 10 includes extensive changes to the section on ISA 570 Going Concern. Do you consider the revised draft provides appropriate and useful guidance on applying the revised standard? What changes should be made, if any?

In July 2020, the HFMA surveyed its members about the year-end process to see whether there were any lessons that could be learned. The survey included specific questions about the issues faced in 2019/20, as well as a question on the areas where future guidance was most needed. Going concern was a key issue consistently identified, along with accounting estimates and judgements. We therefore welcome the revisions made to the section on ISA 570, particularly on planning the approach to going concern and the references in the auditor's report to going concern.

A significant amount of work is being undertaken by auditors on going concern and a number of our members have raised specific concerns on the auditors' assessment of it. In many cases NHS bodies view the auditors' focus on the plans and contracts in place for future periods as unnecessary on the basis that the service will continue to be provided. The continued provision of service approach is therefore welcomed. However, it would be more useful if there was some example or explanation of the type and extent of evidence auditors should seek to be reassured that the services the entity provides can reasonably be expected to continue. The arrangements for the NHS 2020/21 financial regime meant that there were no contracts in place between NHS providers and commissioners which resulted in additional audit work that the audited bodies felt was of little benefit. Consideration could be given to taking a different approach and in the absence of any evidence that indicates that services will cease to be provided, the assumption of going concern would be appropriate. In the NHS, that evidence would be some indication from government that they were considering changing the scope of NHS services as legislation would be required to make this happen.

It is important to recognise, particularly in the current financial climate, that a large number of NHS organisations do have financial sustainability issues and this could then become the focus of the auditors' work on going concern. Significant financial sustainability issues are also likely to lead to an increased level of work on value for money. It is worth emphasising the importance of focusing on cash when reviewing this area. There are cases, for example, in Barking, Having and Redbridge University Hospitals NHS Trust where the focus on reporting of income and expenditure metrics and cost improvement plans did not flag cash flow and financial sustainability issues. It may therefore be better value for money if the auditor focus, both in relation to going concern and use of resources, could be on the importance of monitoring both the income and expenditure position and the balance sheet position throughout the year.

Question 2: Guidance is included for the case where the reporting framework requires the other information to be “fair, balanced and understandable” (ISA 720). Does this paragraph set out an appropriate audit response for this circumstance?

We agree that the section on ISA 720 sets out appropriate guidance.

Question 3: The guidance in the section on ISA 560 Subsequent Events has been re-ordered and clarified. Do you consider the revised draft provides appropriate and useful guidance on applying the revised standard? What changes should be made, if any?

We agree that the section of ISA 560 provides appropriate guidance.

Question 4: The section on the audit of regularity reflects existing practice in the public sector. Do you consider that the guidance in Part 2: The audit of regularity is appropriate, sufficient and applicable to all parts of the public sector? If not, what changes would you like to see made and why?

We agree that the section on regularity provides appropriate guidance.

It is worth highlighting that the increased system working in the NHS has caused difficulties for auditors in 2019/20. In particular, where funding elements are linked to system performance (such as the provider sustainability fund), auditors may feel they do not have sufficient sight of, and evidence for, financial and performance information across the system that will impact on regularity. This is complicated further with organisations within a system working under different frameworks (for example, local authorities, NHS bodies and voluntary organisations). With the expectations set out in the *NHS long term plan* that integrated care systems will be in place across the country by April 2021, the challenges of auditing the regularity position of individual entities, working on a system basis, are likely to remain.

Question 5: This version of Practice Note 10 has been drafted with the intention that further iterations be issued over the coming years to take account of further standards and guidance that will be released, as well as the result of wider developments in the auditing profession. Do you consider that this approach is appropriate? What aspects, if any, of current developments not yet included should be incorporated into this version of the Practice Note?

We agree that it will be particularly helpful to have regular iterations of PN10 to reflect changes and issues as they arise.

Question 6: Are there any other changes you believe would be appropriate? If so, what changes would you like to see made and why?

As noted above, the relevant key issues for our members are going concern, judgements and estimates and system working.

Question 7: The Auditor General for Wales and the Wales Audit Office are required to comply with Welsh Language Standards that provide for the Welsh language not to be treated less favourably to the English language in Wales and for individuals to be able to access public services in Wales through the Welsh or English languages. Do you consider there to be anything in this consultation draft that undermines these requirements? Do you consider there is any revision that could be made to support the use of the Welsh language?

We have not identified any specific issues.

Contact

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