Auditor Guidance Note 5 (AGN 05)

NHS Audit Planning

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About Auditor Guidance Notes

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the Code of Audit Practice published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

AGNs are numbered sequentially and published on the NAO’s website. Any new or revised AGNs are brought to the attention of local auditors through the WACs.

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The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO’s guidance or when providing explanations as to why guidance has not been followed.

Local auditors should not assume that AGNs are comprehensive or that they will provide a definitive answer in every case.
AGN 05 is relevant to all local auditors of health bodies covered by the Local Audit and Accountability Act 2014 and the Code of Audit Practice including auditors of NHS foundation trusts. Guidance on auditors’ work on value for money arrangements and on reporting is published in AGN 03 and AGN 07 respectively.

Introduction and context

The guidance within this document is prepared to assist auditors in meeting their responsibilities as the statutory auditor of local health bodies, under the Code of Audit Practice (the Code). This AGN sets out guidance for auditors to support planning work on audits of financial statements of local health bodies.

As part of their planning process, audit teams identify changes to accounting requirements drawing on any relevant technical briefings prepared by their firms. This guidance is not intended to replace auditors’ own procedures.

Local auditors are also component auditors. The NAO group audit teams issue group instructions which local auditors need to follow. The group instructions set out requirements for local auditors to assist the NAO group audit teams in meeting their responsibilities supporting the C&AG as the statutory auditor of the bodies of which local health bodies are components.

The continuing financial pressures within the NHS provider and commissioning sectors have been widely publicised, including in our 2018 report ‘Sustainability and transformation in the NHS’. This was brought to the attention of local auditors through the WAC in January 2018. The NAO’s report finds that additional funding, which was intended by government to help the NHS get on a financially sustainable footing, has instead been spent on coping with existing pressures. The NHS is struggling to manage increased activity and demand within its budget and has not met NHS access targets, meaning less money is available to support longer-term transformation.

The report also highlights that "Clinical commissioning groups and trusts are increasingly reliant on one-off measures to deliver savings, posing a significant risk to financial sustainability in the future. Financial sustainability relies on local bodies making recurrent savings; otherwise, they will need to make additional savings the following year to replace any non-recurrent savings made in the current year”.

Auditors will be aware that in recent years, the number of local NHS bodies receiving non-standard auditor reports has increased. In 2017-18, auditors qualified 168 (38%) local NHS bodies’ conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament, not delivering
savings to balance the body's budget, or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18. Similarly, there have been increases in section 30 referrals (from 62 referrals in 2015-16 to 126 in 2017-18) and, at CCGs, increases in the number of qualified regularity opinions, mainly due to breaches of revenue resource limits.

When considering the planning issues highlighted in this AGN, auditors should be mindful that audits under the Code of Audit Practice are integrated. Auditors should therefore consider the extent to which any issues highlighting risks to the opinion on the financial statements, or which suggest that non-standard reporting may be necessary, impact on their risk assessment and any additional work required to inform their conclusion on arrangements to secure value for money under AGN 03.

Auditors should also consider whether it is appropriate to draw particular attention to any issues arising from their work under AGN 03 or AGN 05 by exercising their additional public reporting powers, such as making statutory recommendations or issuing public interest reports. Further guidance on relevant considerations when exercising additional powers can be found in AGN 04.
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Section 1: Accounting Manuals and Financial Reporting

Accounts Directions

What are the issues?

1. The Department of Health and Social Care (DHSC) is required to issue accounts directions to NHS trusts. The accounts directions are included in Chapter 2, Annex 4 of the 2018-19 Group Accounting Manual (GAM).

2. NHS England is required to issue directions to clinical commissioning groups (CCGs) in respect of their annual report and accounts. The accounts directions will be published on NHS England’s SharePoint site. Each of the audit firms has access to this site. Additionally, the NAO will highlight relevant guidance published on SharePoint via weekly communications.

3. NHS Improvement issues the directions to foundation trusts, which will be issued with the Annual Reporting Manual for foundation trusts (FT ARM).

Why is this important?

4. The accounts directions set out instructions, in accordance with legislation, that health service bodies must comply with. The directions cover:
   - the method and principles for the preparation of accounts including compliance with HM Treasury's Financial Reporting Manual (FReM) and the GAM;
   - submission of the draft accounts; and
   - submission of the audited accounts.

What should auditors do?

5. Auditors should be aware of the accounts directions for the audited body, to support their audit planning work under ISA (UK) 300 (Revised June 2016) Planning an Audit of Financial Statements, and ISA (UK) 250 (Revised December 2017) Section A – Consideration of Laws and Regulations in an Audit of Financial Statements.
Group Accounting Manual 2018-19

What are the issues?

6. DHSC issued the 2018-19 Group Accounting Manual (GAM) on 27 April 2018, following a consultation exercise. The GAM provides a single mandatory accounting document for the whole of the departmental group. The main areas of change and the responses received in response to DHSC’s consultation on the GAM are set out here.

7. The GAM includes guidance on the completion of annual reports for NHS trusts and CCGs. The Annual Reporting Manual for foundation trusts provides guidance for the completion of foundation trusts’ annual reports only.

8. Additional appendices are included within the GAM where there are additional sector specific reporting requirements. Additional appendices provide supplementary guidance for CCGs, NHS trusts and foundation trusts in the relevant chapters of the GAM.

9. The GAM will be supplemented as necessary by numbered ‘frequently asked questions’ (FAQ) updates over the course of the year. These updates will be posted to the DHSC GAM area of gov.uk. All content issued in this way should be treated as having the same status as the manual.

10. Guidance relevant to CCG accounts completion in the NHS England Group ‘Integrated Single Financial Environment’ (ISFE) will be issued on the NHS England SharePoint. Each of the audit firms has access to this site. Additionally, the NAO will highlight relevant guidance published on SharePoint via weekly communications.

11. A detailed accounts submission process, showing deadlines and procedures for handling statutory accounts and summarisation schedules is available on DHSC’s website.

Why is this important?

12. NHS trusts, foundation trusts and CCGs are required to produce their annual accounts in line with the GAM issued by DHSC and in accordance with the submissions timetable.
What should auditors do?

13. Auditors should familiarise themselves with the content of, and changes to, the 2018-19 GAM to support their audit planning work under ISA (UK) 300 (Revised June 2016) Planning an Audit of Financial Statements, and ISA (UK) 315 (Revised June 2016) Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment.

14. Auditors should note the submission dates within the DHSC timetable for audited NHS trust, foundation trust and CCG accounts and consider the impact on their resource planning for the audit of the financial statements.

15. Auditors of CCGs, NHS trusts and foundation trusts do not make submissions but are required to ensure that all relevant documents and signed statements are provided to bodies in reasonable time to enable them to meet submission deadlines.

16. Although the NAO will bring auditors’ attention to other relevant guidance and the submissions timetable when it is received, auditors may also wish to establish arrangements to obtain copies locally.

New Accounting Standards

What is the issue?

17. **IFRS 9 Financial instruments** replaces IAS 39 Financial Instruments: Recognition and Measurement reclassifies financial assets and aims to simplify financial instrument accounting and more closely align accounting with how instruments are used in the business.

18. **IFRS 15 Revenue from Contracts with Customers** introduces a step-by-step process for identifying contractual performance obligations, allocating the transaction price to those obligations, and recognising revenue only when those obligations are satisfied.

19. The effective date for both standards is for reporting periods commencing on or after 1 January 2018. The transitional reporting requirements for IFRS 9 and IFRS 15 have been adopted such that the preceding year is not restated.

Why is this important?

20. These changes to accounting standards may have material implications for NHS bodies. Entities will need to recognise the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period in
accordance with Chapter 4, Annex 1 of the GAM. This is the first year of adoption of the accounting standards and so there is inherently greater risk of mis-statement.

What should auditors do?

21. Auditors should be aware of these issues and their impact on NHS bodies to support their audit planning work under ISA (UK) 300 (Revised June 2016) Planning an Audit of Financial Statements, and ISA (UK) 315 (Revised June 2016) Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment.

22. Auditors should discuss with their bodies the implications for their financial reporting and consider the early review of balances including familiarising themselves with the process the body has followed to make any required adjustments.

Future Accounting Standards

What is the issue?

23. IFRS 16 Leases will replace IAS 17 Leases. Implementation has been deferred to the 2020-21 financial year for entities that follow HM Treasury’s FReM and the GAM.

24. The new standard eliminates the distinction between operating and finance leases for lessees and brings in a single approach under which all but low-value or short term (less than 12 months) leases are recognised. The distinction between operating and finance leases for lessors is maintained.

25. Successful implementation of the new standard will depend on organisations collating and reviewing relevant information about their new and existing leases. This will require a significant exercise to collect and analyse relevant information and organisations will need to have an effective project plan and timetable to prepare for implementation on a timely basis.

26. Organisations will need to:
   
   • have arrangements for capturing information on leases and contracts; and
   • recalculate lease liabilities for arrangements that have variable elements such as index-linked increases (which is likely to include most PFI contracts).
Why is this important?

27. The standard is likely to lead to significant changes to lessees with all major leases coming onto the Statement of Financial Position as well as additional disclosures. This includes a disclosure objective which gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee and lessor. There are additional disclosures for the right-of-use asset, depreciation charges and interest expense on the lease liabilities and disclosures on the exemptions for recognition (i.e. low value and short-term leases).

28. NHS bodies will need to consider the implications for their own financial reporting and supporting arrangements as they prepare for the standard to be adopted.

What should auditors do?

29. Auditors should discuss with their bodies the implications of the introduction of IFRS 16 for their financial reporting, and consider the requirement for early planning and reviewing of balances and disclosures and any required adjustments.

Going Concern

What is the issue?

30. Paragraphs 4.11-4.16 of the GAM draw attention to the FReM and the interpretation of going concern for the public sector, which should be considered by management when applying paragraphs 25-26 of IAS 1 Presentation of Financial Statements. The FReM, paragraph 6.2, interprets IAS 1 by emphasising that the continuation of the provision of the service is the important determinant of the basis of preparation of the financial statements.

31. Continuation of the provision of services, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence for producing accounts on a going concern basis.

32. Paragraph 3.15 of the GAM requires NHS trusts and CCGs to include in the overview section of the performance report of the annual report ‘an explanation of the adoption of the going concern basis where this might be called into doubt (e.g. by the issue of a report under Section 30 of the Local Audit and Accountability Act 2014)’. Paragraph 4.15 of the GAM also requires disclosure of material events or uncertainties that cast significant doubt upon the going concern ability of the entity. The example given is where continuing operational stability depends on finance or income that has
not yet been approved. With a number of NHS bodies producing group accounts, management will also need to consider the whole group not just the entity.

33. Paragraph 2.12 of the FT ARM 2018-19 states: ‘there is no presumption of going concern status for NHS foundation trusts. Directors must decide each year whether or not it is appropriate for the NHS foundation trust to prepare its accounts on the going concern basis, taking into account best estimates of future activity and cash flows.’ Paragraphs 2.13-2.14 of the FT ARM 2018-19 and paragraphs 4.11-4.16 of the GAM provide further information for foundation trusts on the application and reporting requirements.

34. Paragraph 2.16 of the FT ARM 2018-19 requires ‘where there is fundamental uncertainty over the going concern basis (for instance, continuing operational stability depends on finance or income that has not yet been approved), or where the going concern basis is not appropriate, the directors will need to disclose the relevant circumstances and should discuss the basis of accounting and the disclosures to be made with their auditors.’

Why is this important?

35. There are continuing financial pressures within the provider and commissioning sectors. It is important that the NHS body’s management and the auditor are aware of the requirements for assessing going concern in the public sector context.

36. While public sector bodies, including NHS providers and CCGs, are generally considered to be a going concern for the purposes of preparing financial statements, the NHS body’s management need to consider the requirements of IAS 1, the FReM and the GAM in determining whether additional disclosures are required.

What should auditors do?

37. Auditors should consider management’s assessment of going concern as part of their work under ISA (UK) 570 (Revised June 2016) Going Concern, and whether any required disclosures are included within the annual report in accordance with:
  
  • paragraphs 3.15 and 4.15 of the GAM for NHS trusts and CCGs; and
  • paragraphs 2.12-2.16 of the FT ARM 2018-19 for foundation trusts.

38. Auditors should consider the requirements of ISA (UK) 570 (Revised June 2016) Going Concern and obtain evidence that management has considered going concern in preparing the accounts, that management’s assumptions are appropriate and any material uncertainties have been disclosed.
39. Auditors should also be aware of the requirements of *ISA (UK) 700 (Revised June 2016) Forming an Opinion and Reporting on Financial Statements* for the auditor’s report to include a description of management’s responsibility for reporting on going concern. This includes assessing the entity’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management’s responsibility for this assessment should include a description of when the use of the going concern basis of accounting is appropriate.

40. The *Auditor’s Responsibilities for the Audit of the Financial Statements* section of the auditor’s report must also conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion in accordance with *ISA (UK) 570 (Revised June 2016) Going Concern*. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report.

41. Where a report by exception on matters relating to going concern is required, auditors should note the options for reporting set out in paragraph A50 of *ISA (UK) 700 (Revised June 2016) Forming an Opinion and Reporting on Financial Statements*.

**Annual Report**

**What is the issue?**

42. NHS bodies are required to publish a single document containing the annual report and accounts.

43. Guidance for the preparation of the annual report for CCGs and NHS trusts is included in Chapter 3 of the DHSC GAM. Guidance for foundation trusts is included in the 2018-19 FT ARM.

**Why is this important?**

44. Certain elements of the annual report are subject to audit as set out in paragraph 3.20 of the GAM and corresponding paragraphs of the FT ARM. These comprise:

- single total figure of remuneration for each director;
- CETV disclosures for each director;
• payments to past directors, if relevant;
• payments for loss of office, if relevant;
• ‘fair pay’ (pay multiples) disclosures;
• exit packages, if relevant; and
• analysis of staff numbers and costs.

45. Auditors are also required to review the information within the annual report for consistency with other information in the financial statements. Paragraph 3.13 of the DHSC GAM requires that auditors are required to read the information in the annual report and refer to this in their audit report. NHS bodies should submit the draft annual report to auditors to allow them sufficient time to undertake their review.

46. Paragraph 3.58 of the DHSC GAM requires that NHS bodies include the audit report within the Accountability Report.

47. Paragraph 3.61 of the GAM sets out a number of disclosures that are required to be included in the Parliamentary Accountability Report. NHS providers and CCGs are not required to produce a Parliamentary Accountability Report, but have the option to include these disclosures in the Annual Report. Where the NHS body elects not to do this, it must include the disclosures on remote contingent liabilities, losses and special payments, gifts, and fees and charges as notes within its financial statements. These disclosures are subject to audit.

What should auditors do?

48. Auditors should familiarise themselves with the guidance for the annual report in the DHSC GAM or FT ARM as appropriate.

49. Auditors should engage in early discussions with their NHS bodies to ensure the body includes and publishes the required information in accordance with relevant guidance.

NHS Foundation Trust Annual Reporting Manual 2018-19

What is the issue?

50. NHS Improvement\(^1\) issued the FT ARM 2018-19 on 6 November 2018, which there are very few changes. The FT ARM provides guidance to foundation trusts on the

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\(^1\) From 1 April 2016, NHS Improvement is the operational name for an organisation that brings together several NHS organisations including Monitor and the NHS Trust Development Authority. However, both organisations continue to exist as legal entities. NHS Improvement now carries out the statutory functions of both organisations and NHS Improvement continues to refer to Monitor when issuing accounts directions to foundation trusts.
completion of the annual report. Foundation trusts are required to complete their accounts in accordance with the GAM.

Why is this important?

51. The FT ARM outlines the process foundation trusts should follow when producing and submitting their annual report.

What should auditors do?

52. Auditors should familiarise themselves with the content of, and any changes to, the 2018-19 FT ARM to support their audit planning work under ISA (UK) 300 (Revised June 2016) Planning an Audit of Financial Statements, and ISA (UK) 250 (Revised December 2017) Section A – Consideration of Laws and Regulations in an Audit of Financial Statements.

Agreement of Balances

What is the issue?

53. DHSC is required to consolidate the accounts of all organisations falling within the accounting boundary. The agreement of balances process aims to identify all income and expenditure transactions, and payable and receivable balances that arise from the provision of goods and services between component bodies in order to eliminate these transactions and balances on consolidation.

54. NHS Improvement and NHS England also eliminate transactions and balances between their component bodies in preparing their sector-specific consolidated accounts.

Why is this important?

55. The exercise completed at the year-end (month 12) contributes directly to the year-end production of the NHS provider sector, NHS England and DHSC consolidated final accounts.

56. There are a number of arrangements between bodies that can cause complications for this process, including lead commissioning arrangements and the treatment of disputed balances. Joint working arrangements, including those arising from Sustainability and Transformation Partnership (STP) arrangements and integrated care systems (ICS) may also give rise to different accounting treatments between participating bodies.
57. Auditors also complete work on agreement of balances as part of their work on the financial statements audit and as part of the work under the NAO group instructions.

What should auditors do?

58. Auditors should work with health bodies to help ensure that bodies engage with the process and understand its purpose. Auditors should discuss at an early stage the level of evidence required to substantiate balances.

59. The increasing use of pooled budgets and lead commissioning arrangements, including with local government bodies, can provide additional complexity to the agreement of balances process. Auditors should discuss the accounting treatment of such arrangements to ensure they are satisfied with the accounting treatment for the body in which they are auditing.

Summarisation Schedules / Consolidation Template

What is the issue?

60. In addition to the statutory annual report and accounts produced by each entity, NHS bodies need to communicate the same data, with further analysis to permit consolidation, to NHS England or NHS Improvement in a standard format that can be automatically processed.

61. The Code of Audit Practice requires auditors to report on the consistency of the schedules or returns with the audited body’s financial statements for the relevant reporting period. This should be done using the final audited accounts and final schedules, making sure that all audit adjustments are appropriately reflected, and where relevant, disclosure notes are consistent. Auditors should note that this is a requirement for all local NHS bodies and is in addition and separate to any work required of component auditors by the NAO group audit teams.

62. Auditors are also required to submit the final audited summarisation schedules to the NAO group audit teams as required by the group audit instructions.

63. The Consolidated NHS Provider Accounts (CPA) consolidates the accounts of both foundation trusts and NHS trusts which together make up the NHS provider sector. The CPA is required to be consolidated into the DHSC Group Accounts.

64. In accordance with directions issued by the Secretary of State for Health and Social Care dated 29 June 2018, under the National Health Service Act 2006, NHS Improvement prepares the CPA on a basis consistent with the individual NHS providers’ accounts. These are consolidated in accordance with International
Financial Reporting Standards, as amended for NHS providers by the FReM, the FT ARM and the GAM.

65. The Secretary of State’s directions require NHS Improvement to prepare consolidated NHS provider accounts so as to:

- give a true and fair view of the state of affairs of NHS trusts and foundation trusts collectively as at the end of the financial year and the comprehensive income and expenditure, changes in taxpayers’ equity and cash flows for the financial year then ended; and

- disclose any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.

66. The C&AG is responsible for examining, certifying and reporting on the CPA pursuant to powers under section 16 of the Budget Responsibility and National Audit Act 2011 (“the 2011 Act”).

Why is this important?

67. The consolidation templates and summarisation schedules form the basis of the group consolidation process. Differences are time-consuming to resolve and delay consolidation at the group level. It is important that differences between the accounts and consolidation schedules are highlighted to the audited body on a timely basis.

What should auditors do?

68. The Code of Audit Practice requires auditors to report on the consistency of the schedules or returns with the audited body’s financial statements for the relevant reporting period. This should be done using the final audited accounts and final schedules, making sure that all audit adjustments are appropriately reflected, and where relevant, disclosure notes are consistent.

69. It is important that auditors ensure that the summarisation schedules submitted to the NAO group audit teams are the final version and consistent with those submitted to the national bodies.
Section 2: Other matters 2018-19

Commissioner Sustainability Fund

What are the issues?

70. The Commissioner Sustainability Fund (CSF) has been established by NHS England as a targeted fund totalling up to £400 million to support those CCGs that would otherwise be unable to live within their means for 2018-19. Guidance to CSF was published by NHS England in February 2018.

71. All CCGs will be expected to plan against fixed pre-CSF control totals communicated at the outset of the planning process. Any CCG that has been set a deficit control total will be eligible for the CSF, the value of which will be set to bring the CCG back to a position of in-year financial balance as long as the in-year control total is delivered. CSF funding will not be available for any other CCGs, including a CCG whose financial position deteriorates from plan during 2018-19.

72. CCGs must have evidenced a commitment to deliver their control totals by quarter 1 2018-19 through the submission of a financial plan to NHS England. CCGs that have not signed up to the control total and associated conditions by quarter 1 2018-19 but do so at a later date will forfeit eligibility to receive earlier quarters of the CSF in 2018-19.

73. The CSF will be payable based solely on the CCG’s achievement of the following financial performance measures:
   - Deliver a financial plan consistent with the financial control total for 2018-19.
   - Agree a milestone-based recovery plan with NHS England by the end of quarter 1 (if not already in place) for the repayment of cumulative debt.
   - Meet the year to date financial control total for each quarter across 2018-19 and provide a credible and well-evidenced forecast in line with the plan at the end of quarters 1, 2 and 3.

Why is this important?

74. An eligible CCG that achieves its pre-CSF control total, and hence earns its CSF bonuses, will deliver a balanced in year position for 2018-19 and will therefore carry forward a lower level of cumulative deficit than would otherwise have been the case. This in turn will require a lower level of repayment in future years.

75. The CSF allocation for each CCG will be confirmed when NHS England receives a financial and an operational plan from the CCG setting out how the control total will be achieved. The CSF will then be paid quarterly in arrears as long as the CCG has
achieved its financial control total for the quarter and the other conditions. The payment of CSF monies will be weighted towards the latter part of the year, thus CCGs will be eligible for 10% of the total CSF allocation for quarter 1, 25% for quarter 2, 30% for quarter 3 and the balance of 35% for the final quarter.

76. A CCG’s achievement of its year-to-date control total in each quarter and maintaining a forecast in line with plan throughout is a prerequisite to secure its allocation of CSF for that quarter. If a CCG fails on its financial performance target it will not be eligible for any CSF funding in that quarter, even if it meets other eligibility criteria. However, if it achieves its control total in subsequent quarters it will become entitled to previous missed quarters of CSF.

77. Where a CCG’s risk adjusted forecast outturn for 2017-18 deteriorates after month 9, NHS England may adjust the CCG’s 2018-19 control total to recoup some or all of the further deterioration.

78. Where a CCG earns its CSF allocation in one quarter, but then goes off-plan in subsequent quarters either for financial or operational performance, the funds it has previously received will not be clawed back, as long as the phasing of the plan has been agreed by NHS England. If the plan phasing has not been agreed by NHS England then the payments already made will be clawed back.

What should auditors do?


Co-commissioning

What are the issues?

80. Primary care co-commissioning is one of a series of changes set out in the NHS Five Year Forward View. It allows CCGs to take on greater responsibility for general practice commissioning. Its introduction was intended to support the development of integrated out-of-hospital services, based around the needs of local people.

81. In 2014-15, NHS England invited CCGs to participate through one of three models:
• greater involvement – an invitation to CCGs to work more closely with their local NHS England teams in decisions about primary care services;
• joint commissioning – enables one or more CCGs to jointly commission general practice services with NHS England through a joint committee; or
• delegated commissioning – an opportunity for CCGs to take on full responsibility for the commissioning of general practice services.

82. Guidance for CCGs on the operation of co-commissioning was published in November 2014 in Next steps towards primary care co-commissioning.

83. As of 1 April 2018, all 195 CCGs have some form of co-commissioning agreement with NHS England. Of these, 178 CCGs have delegated commissioning arrangements for primary medical services, ten CCGs have joint commissioning arrangements with NHS England, and seven CCGs are operating under the greater involvement model. The NHS England website includes a list of participating CCGs.

84. From 2016-17 onwards CCGs have received direct funding for the commissioning of general practice services, and have primary responsibility for obtaining assurance for these transactions. Auditors should be aware that NHS England has contracted Capita to deliver primary care support services at all NHS sites and that there are regional differences in the method of operation and controls, with some elements being undertaken by NHS England local regional teams.

85. In 2017-18 NHS England commissioned an ISAE 3402 report for Capita-provided primary care support services which identified a number of control failures.

86. An ISAE 3402 Type II report on the Exeter/NHAIS system is commissioned annually by NHS Digital.

Why is this important?

87. Primary care expenditure is significant and is likely to be material for those CCGs with full delegation.

88. In 2017-18 the ISAE 3402 report for Capita-provided primary care support services identified a number of issues that resulted in 7 of the 16 control objectives not being met. The service auditor issued a qualified opinion. NHS England is working with Capita to address the deficiencies identified.

What should auditors do?

89. Auditors should engage in discussions with CCGs to establish what, if any, co-commissioning agreements have been entered into. The nature of the arrangements
may present a number of audit risks which auditors will need to consider as part of their planning process.

90. Auditors should note that the systems which support these costs are complex and should consider early discussions with the CCG to understand the processes in place.

91. Auditors will need to consider the findings of the ISAE 3402 reports and the work being undertaken by NHS England and Capita to support their audit planning work under *ISA (UK) 300 (Revised June 2016) Planning an Audit of Financial Statements*, and *ISA (UK) 315 (Revised June 2016) Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment.* Copies of these reports will be made available on the LACG extranet.

92. Where auditors wish to undertake substantive procedures, evidence requests should be submitted to CCGs. NHS England will facilitate the process of obtaining the evidence from PCSE where applicable. Auditors should note that, due to the number of CCGs undertaking fully-delegated co-commissioning, NHS England has asked that sample requests are provided as early as possible and that all fields on the standard request form are completed.

**Provider Sustainability Fund**

**What are the issues?**

93. In December 2015, the joint planning guidance, *Delivering the forward view: NHS Planning Guidance 2016-17 to 2020-21*, introduced the Sustainability and Transformation Fund (STF). For 2018-19, STF has been has been renamed the Provider Sustainability Fund (PSF), focused explicitly on sustainability. This combines the existing 2018-19 STF of £1.8 billion with £650 million funding from the Autumn 2017 budget making the total fund size £2.45 billion. Thirty per cent of the fund remains contingent on performance linked to delivering the A&E performance trajectory. The distribution of this funding is calculated on a trust-by-trust basis by NHS Improvement.

94. Further details of the terms and conditions of access to the PSF in 2018-19 are set out in *The Sustainability and Transformation Fund and financial control totals for 2017-18 and 2018-19: guidance* published in September 2017. Payments to local bodies from the PSF will again be linked to the achievement of financial control totals. Part of the value of each payment will be dependent on providers with type 1 Accident and Emergency departments also meeting a trust-specific agreed operational performance trajectory. As in 2017-18, PSF funding will be made available to providers as income in addition to normal contractual payments. Access to the fund will be unlocked as providers meet their financial control totals.
Why is this important?

95. Access to the allocated PSF funding will be made available upon achievement of financial control totals at each quarter. The staged nature of access to this funding may create an incentive for trusts to agree a control total and meet targets early in the year giving rise to a potential risk of manipulation of the financial position in order to meet targets to secure funding.

What should auditors do?


97. Auditors will also need to be aware that, whilst PSF guidance is expected to be similar to that in 2017-18, it may be subject to revision during the year.
Use of Management’s Expert – Valuations of Property, Plant and Equipment

What are the issues?

98. NHS providers hold a significant quantity of property, plant and equipment. Chapter 4, Annex 4 of the GAM states that:

‘Assets which are held for their service potential (i.e. operational assets used to deliver either front line services or back office functions) must be measured at their current value in existing use. For “in use” non-specialised property assets current value in existing use should be interpreted as market value for existing use. In the Royal Institution of Chartered Surveyors; (RICS) “Red Book” (RICS Appraisal and Valuation Standards), this is defined as Existing Use Value (EUV).’

‘For specialised properties (i.e. those for which no active market exists), depreciated replacement cost is considered to be a satisfactory approximation of current value in existing use. Within that methodology, the MEA [modern equivalent asset] concept is applied: the “replacement cost” is based on the cost of a modern replacement asset that has the same productive capacity as the property being valued.’

99. Many of the property assets held by NHS providers are of a specialised nature and a valuer is usually engaged as management’s expert to carry out a valuation of these assets. The auditor may also engage an auditor’s expert to evaluate and challenge the work of management’s expert.

Why is this important?

100. The valuation of land and buildings included in the NHS provider’s financial statements is complex and often includes a number of assumptions and judgements. The valuations are also likely to have a high degree of materiality.

What should auditors do?

101. Auditors should consider the requirements of ISA (UK) 500 (Revised July 2017) Audit Evidence, which states that ‘if information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes:

a) Evaluate the competence, capabilities and objectivity of that expert;

b) Obtain an understanding of the work of that expert; and
c) Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion.’

102. Where the auditor engages an auditor’s expert, the auditor should consider the requirements set out in ISA (UK) 620 (Revised June 2016) Using the Work of an Auditor’s Expert.

103. Auditors should ensure that the consideration of the work of management’s expert and any auditor’s expert engaged is adequately documented, including evidence obtained of work undertaken to challenge and evaluate key assumptions.

104. The Royal Institute of Chartered Surveyors (RICS) Valuation – Professional Standards (Red Book) highlights the increased level of reliance placed by valuers on their clients in respect of depreciated replacement cost (DRC) valuations: ‘with specialised assets the valuer may have to place greater reliance on information provided by the client, or its other advisers, than would be the case with more conventional assets’. Auditors should have regard to this point when seeking such assurances under ISA (UK) 500 (Revised July 2017) Audit Evidence, e.g. by requesting details of any assumptions made by the valuer based on discussions with the audited body.
Other Support and Raising Technical Issues or Queries on this AGN

105. Auditors in firms should raise queries within the firm, in the first instance, so that the relevant technical support service can consider whether to refer queries to the NAO’s Local Audit Code and Guidance (LACG) team by e-mailing LACG.queries@nao.org.uk.

106. Information supporting auditors is available on the LACG extranet. This includes details of third party reports and information. Copies of referenced third party information and service auditor reports will also be available on the LACG extranet following issue. Updates will be communicated through the Weekly Auditor Communication (WAC). If there is a need for further statutory guidance during the year, the NAO may issue an addendum to this AGN.

107. The NAO also engages with the firms through its Local Auditors’ Advisory Group (LAAG) and supporting technical networks to consider any emerging regime-wide technical issues on a timely basis. Auditors should follow their in-house arrangements for bringing significant emerging issues to the attention of their supplier’s representative on LAAG or the relevant technical network.