



National Audit Office

November 2019

 Interactive

# Round-up for Audit Committees

This interactive round-up comes out in spring and autumn, providing an overview of the NAO reports and communications most relevant to the needs of Audit Committees.





## C&AG introduction

Dear colleagues,

I'm delighted to introduce my first round-up for Audit Committees since taking up post in June as the new Comptroller and Auditor General. I couldn't have joined at a busier time for the office and, although I had to hit the ground running to certify over two hundred accounts during my first weeks, it was good to have an early opportunity to understand the current state of financial reporting across government.

I am keen that the NAO plays its full part in supporting improvements in financial reporting, working closely with finance teams and Audit and Risk Assurance Committees. In the (relatively) calmer days that followed final audit, I initiated a full strategic review of our organisation which remains ongoing. This will, of course, address how we can best serve parliamentarians and taxpayers, but will also consider how we should engage and support all stakeholders that help secure effective governance and transparency. I want to ensure that you are well supported by our local audit teams and that our work is helpful to you in strengthening governance in your organisations.

Our round-ups, which are currently published twice every year, are a key communication to highlight our recent work and to promote guidance that may be of practical use to you in challenging the performance of management. We will also use these to update you on the outcome of our strategic review.

If you have any feedback you would like to share, or if you would like to contribute to our strategic review, then I would be delighted to hear your views.

I am looking forward to working with you to meet the challenges ahead.

**Gareth Davies**

Comptroller & Auditor General



# Risk management

## Transforming courts and tribunals: a progress update



This follow up report highlights the importance of understanding the impact of reforms, including how they are affecting service users in order to mitigate against risks. HM Courts and

Tribunals Service (HMCTS) should do this by publishing its data on the effects of court closures and using feedback on how new services are being received to inform the development of future reforms. As it enters the third stage of its reforms it must move from designing new services to ramping up their implementation.

## Ensuring food safety and standards



The government does not have a clear view on what a financially sustainable food regulation system should look like. It is considering making businesses bear more of the costs of regulation, but there are concerns that this could burden businesses and local economies.

We have not seen evidence of joined-up strategic thinking about the level of funding needed for a sustainable system that protects UK consumers from future food risks, and how much Local Authorities and businesses should contribute.

## Completing Crossrail



There are a number of features in the way the Crossrail programme has been delivered that have driven unnecessary cost. The compressed schedule, the contractual model, the loss of downward pressure on costs, and the absence of a realistic plan were set against an atmosphere where 'can do' became unrealistic. All these factors and many more set out in this report have contributed to underachievement in terms of cost and progress so far.

### **A reminder**

Highly complicated and risky, transformation programmes can present great challenges. Our guide [Transformation guidance for Audit Committees](#) sets out questions and the evidence and indicators to look out for, both at each stage of the process, and regarding the role and management of data.

Emma Wilson, Audit Manager, touches on some of these reports in her latest blog – [Getting contracts right and responding if they go wrong](#). She discusses the huge importance of getting contracts right, and what organisations need to do if they go wrong.



# Cyber security

## Guidance for audit committees on cloud services



Outlining cloud services and their use in government, [this guide](#) suggests questions to ask at planning, implementation and management stages.

Public and private sector organisations are increasingly adopting cloud services with the aims of reducing costs, increasing efficiency and transforming their operations. Government policy supports this move but recognises that accessing systems through the internet can bring new contracting models and new challenges. Some organisations may lack the capacity or expertise to select the right product for their needs, implement it securely and manage it effectively.

[Our guidance](#) provides an overview of cloud services and outlines government policy on their use. It then sets out specific questions for Audit Committees to consider asking when engaging with their management at three stages:

- **Assessment of cloud services** – looking at cloud services as part of organisational and digital strategies; the business case process; and due diligence.
- **Implementation of cloud services** – considering system configuration; data migration; and service risk and security.
- **Management of cloud services** – covering operational considerations; the need for assurance from third parties; and the capability needed to manage live running.

See also our earlier [Cyber security and information risk guidance for Audit Committees](#).

This guidance is supported by a blog post, [Cloud services: asking the right questions](#), by Yvonne Gallagher, Audit Manager.

## Challenges in using data across government



This report sets out our experience of data across government, including initial efforts to start to address the issues. From our past work we have identified three areas where government needs to establish the pre-conditions for success: clear strategy and leadership; a coherent infrastructure for managing data; and broader enablers to safeguard and support the better use of data.

Our digital transformation expert Yvonne Gallagher has penned a blog, [right data, right place, right time](#) drawing from this report. She highlights some of the difficulties these challenges can bring, their implications and ways they can be addressed.

# Financial audit

Through our work of financial audits of 2018/19 accounts we identified some common areas of improvement in a number of departments and developed a range of solutions appropriate for all.

## Improving financial controls and financial management

### What we saw



#### Bank and balance sheet reconciliations

Were incomplete, inaccurate or absent in a number of departments. Failure to produce balance sheet reconciliations led to high error counts in departments' financial statements.



#### Shared service centres and HR self-service systems

Seven ministerial departments identified insufficient controls in shared services.

Some IT Auditors reported management had not implemented controls to provide assurance that third party systems were operating effectively.

Four departments that use HR self-service functions had overpaid those leaving or on breaks from the organisation.



#### Journal processes

Weaknesses were identified in journal approval and review processes in some cases this required multiple journals to correct the errors generated.

### What could be different?

#### Bank and balance sheet reconciliations

Should be undertaken and reviewed as standard each month. Aged reconciling items should be investigated and cleared.

#### Shared service centres and HR self-service systems

Finance teams should review and challenge data provided by sources outside the finance team.

Where responsibilities are devolved there should be business partners in place to support effective functioning of the processes with guidance issued.

With third party involvement – management should take the lead setting the controls they require over their systems and data and monitor the third parties.

#### Journal processes

These should be reviewed, review evidenced, journals clearly labelled and a 'what the journal has been processed for' documented.



## Annual report and financial reporting quality control

### What we saw



#### Annual Report and Accounts (ARA)

Where elements of the ARA were produced outside the finance team there is a higher rate of non-compliance with the government financial reporting manual (FReM).

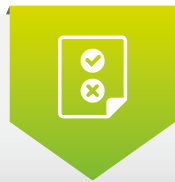
In only around half of cases did ministerial departments issue complete ARA to Audit Committees for review.



#### Signed Annual Report and Accounts

On average 19 amendments were required to the ARA signed by Accounting Officers ahead of certification.

May arise due to the variations in accounts directions issued by HM Treasury (HMT) and sponsor departments which are not considered as closely as the FReM.



#### Requests to alter accounts post certification

We have received an increased number of requests to change accounts post certification, an activity which is not permitted.

### What could be different?

#### Annual Report and Accounts (ARA)

When working with teams from other disciplines to support the development of the ARA, they should be briefed on the requirements on the FReM. Finance teams should also review all information provided externally to the finance team.

Firm project plans set for the ARA, factoring in review time ahead of the Audit Committee.

#### Signed Annual Report and Accounts

Reflection on the consistency of the Accounts Directions issued by HMT and sponsor departments and where relevant reissuing these to ensure the requirements remain relevant.

Ensure Accounts Directors are clear which Managing Public Money or FReM disclosures are required or what level of assurance is anticipated.

#### Requests to alter accounts post certification

It is the Accounting Officer's responsibility that the ARA they sign are fair, balanced and understandable, there should be procedures in place outside the audit to provide assurances that this is the case.



## New standard implementation

### What we saw

Most audit teams for ministerial departments noted difficulties in the implementation in International Financial Reporting Standards (IFRS) 9 and 15.



#### Varying success

Most significant difficulties were generally on lower profile bodies where there was less capacity to explore the new accounting standards and consider the implications.



#### IFRS 15 or IFRS 9

We identified more significant issues on the implementation of IFRS 15 than IFRS 9, either as it was more commonly deemed immaterial or where there were challenges in interpreting how legislation should be interpreted as a contract.



#### Earlier consideration required

We identified many clients looking at these standards for the first time in 2019, which resulted in rushed non-compliant or poor-quality accounting policies and disclosures often using the language of the previous standards.

### What could be different?

IFRS 9 and 15 implementation has now happened, but there are still areas that could be learned from ahead of IFRS 16 implementation.

#### Varying success

We support the Government Finance Academy's work in providing professional training on the new financial reporting standards. We would support HM Treasury (HMT) increasing the number of these sessions run and ensuring different departments and arms length bodies (ALBs) have representatives at these.

#### IFRS 15 or IFRS 9

The implementation of the newer financial reporting standard, IFRS 16 requires greater engagement with the wider business and buy in from teams outside finance. This will be required to identify all the leases present within the organisation and to continue to monitor the data points in each of the leases over the lease term.

#### Earlier consideration required

We support HMT's Finance Director communications already issued on IFRS 16 setting out readiness and milestone expectations.

We agree, for implementation of IFRS 16 to be successful there needs to be a clear project plan.



# Local and health services

## Code of Audit Practice – consultation

We are consulting on the draft text of the new Code of Audit Practice. [The consultation](#) is open to everyone and information about how to respond can be found in the [consultation document](#). The consultation will close on **22 November 2019**.

## Help to Buy: Equity Loan scheme – progress review



Help to Buy has increased home ownership and housing supply, particularly for first-time buyers. However, a proportion of participants could have afforded to buy a home without the government's help. The scheme has also exposed the government to significant market risk if property values fall, as well as tying up a significant public financial capacity.

The government's greatest challenge now is to wean the property market off the scheme with as little impact as possible on its ambition of creating 300,000 homes a year from the mid-2020s.

## Investigation into the government's land disposal strategy and programmes



The government is unlikely to meet by 2020 its target to release sufficient public sector land to build 160,000 homes, but it does expect to achieve its target to raise £5 billion in proceeds by selling land and property.

Sales proceeds from land and property sales are expected to make up departmental income during the 2015 Spending Review period. If disposal proceeds are less than expected, departments face a shortfall in their budget and they may need to amend or defer their spending plans.

Departments told us that any shortfalls have so far been manageable. HM Treasury said that it has discretion to provide additional funding in these cases, although it would take into account how well a department had managed its resources, and any factors outside the department's control.





### Investigation into penalty charge notices (PCNs) in healthcare



Free prescriptions and dental treatment are a significant cost to the NHS, so it is important that it can reclaim funds from people who are not exempt from charges and deter fraud. However, eligibility rules under the current system are complicated and difficult for people to understand, and NHS Business Services Authority (NHSBSA) still issues a significant number of PCNs that are later successfully challenged.

Since 2014, NHSBSA has significantly increased the number of checks it carries out and the number of PCNs it issues but has only recently started taking commensurate steps to improve public awareness of the rules. A simpler system or better real-time checking will be important going forward in deterring fraud but not disadvantaging vulnerable people.

### Investigation into NHS Property Services Limited



NHS Property Services Limited lacks the powers it needs to make its tenants sign lease agreements and pay their rent, which has contributed to increasing levels of outstanding debt.

We recommend that the Service and all of its tenants agree tenancy details and amounts by the end of March 2020; and put in place a process to ensure that all billing disputes are settled within 90 days. The Service should develop quality metrics for the accuracy of billing.



## Other NAO resources

### Preparations for EU Exit

Since December 2016, we have published around 25 reports on how government is preparing for EU Exit. These can be found on our [Exiting the EU webpage](#).

Our recent reports include:

#### The UK border: preparedness for EU exit



Our recent report outlines the most significant risks to the operation of the border and the new challenges departments face in monitoring and responding to any disruption that may ensue post-exit.

### Exiting the EU: supplying the health and social care sectors



The Department of Health & Social Care (DHSC) has done a great deal of work to prepare for a no-deal exit. However, there remains a significant amount to do before 31 October, in particular to ensure that:

- government has a full picture of preparedness across the supplier base;
- sufficient cross-government freight capacity is in place; and
- social care providers such as nursing homes are fully prepared.

In the event of a no-deal exit, the Department would be working in a highly uncertain environment and operating all the elements of its plan would be a hugely demanding task.

### Preparing for trade negotiations



This briefing sets out government's plans and progress to date in opening up overseas markets to UK businesses. It focuses in particular on preparations for negotiating free trade agreements.

The publication is intended to assist Parliament in its understanding and scrutiny of government's future trade deals.



## Departments' use of consultants to support preparations for EU Exit



Preparing for the UK's exit from the EU has been a significant challenge for departments and has required skills such as project delivery and commercial skills that are in short supply. In summer

2016, following the EU referendum, 12 of the then 17 main departments had identified a 'considerable' or 'significant' impact to their capability in policy, operational and specialist skill areas.

We found that departments have not met the standards of transparency expected by government when publishing details of contracts for EU Exit consultancy. In December 2017, the Crown Commercial Service issued guidance to encourage greater transparency in government procurement. It recommended that departments publish basic information about the award of contracts within 90 calendar days.

However, we found that it has taken on average 119 days for basic details of EU Exit consultancy contracts to be published, compared to 82 days for all consultancy contracts. The NAO also found that in its review of contracts for EU Exit consultancy that some had not been published as recommended, and all that had been published were significantly redacted.

### **Departmental Overviews**

Our [suite of Departmental Overviews](#) provides a quick and accessible overview of the major government departments, how they spend their money and their major areas of work.

### **A reminder**

For more about our own work and how we maintain and improve quality in our audits, see our [Transparency Report](#) for 2018-19. We publish this report each year alongside our [Annual Report](#). It contains detail about our audit practice, which helps Audit Committees to understand more about our own governance and commitment to audit quality.

## Further information

### Find your way around our website

[Support and guidance](#) provides easy access to financial technical guidance resources such as:

- [Support for Audit Committees](#)
- [Support for Boards](#)
- [Self-Assessment Resources](#)

[Publications on key issues](#) links to the publications most useful for issues such as Financial Management, Oversight of Service Delivery, and [Exiting the EU](#).

### NAO Blog

Use the '[tags](#)' to search for posts by category, such as [Risk management](#).

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