



National Audit Office

Report

by the Comptroller
and Auditor General

Cross-government

Local auditor reporting in England 2018

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.



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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

7 January 2019

This report describes the local audit landscape; summarises the issues being reported by local auditors, and how these have changed over time; and examines how local bodies, central government departments and arm's-length bodies use the information to address the weaknesses reported.

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This report can be found on the National Audit Office website at www.nao.org.uk

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Key facts

£154bn

approximate net revenue spending in 2017-18 by local government, and Department of Health & Social Care funding to local NHS bodies

£64m

fees for audit of local government and local NHS bodies in 2017-18

22%

proportion of local public bodies that received a qualified conclusion on the adequacy of arrangements to secure value for money

495	number of local authorities, local police and local fire bodies in England
442	number of local NHS bodies in England, consisting of clinical commissioning groups, NHS trusts and NHS foundation trusts
0	number of local public bodies receiving a qualified opinion on their financial statements since 2015-16
38%	local NHS bodies receiving a qualified conclusion on arrangements to secure value for money in 2017-18
18%	single-tier local authorities and county councils receiving a qualified conclusion on arrangements to secure value for money in 2017-18
39%	clinical commissioning groups receiving a qualified opinion on the regularity of their 2017-18 financial statements
50%	NHS trusts referred to the Secretary of State for failure to break even

Summary

- 1** Local public services account for a significant amount of public spending. In 2017-18, 495 local authorities, local police and local fire bodies were responsible for approximately £54 billion of net revenue spending and 442 local NHS bodies received funding from the Department of Health & Social Care of approximately £100 billion. These local bodies are also responsible for delivering many of the public services local taxpayers rely on every day.
- 2** Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.
- 3** Each year, local auditors give an opinion on whether local public bodies produce financial statements that comply with reporting requirements and are free from material errors and conclude whether local public bodies have arrangements to manage properly their business and finances (the conclusion on arrangements to secure value for money).
- 4** Taxpayers, national bodies and other stakeholders reasonably expect that the auditor will normally be able to provide assurance that the accounts have been properly prepared, are free from material error, and that the body has proper arrangements in place. However, the public also rightly expects the auditor to highlight publicly any significant concerns.
- 5** The auditor should draw the public's attention to concerns or issues that they think need to be flagged. Auditors can 'qualify' their opinion on the accounts or their conclusion on the arrangements to secure value for money.
- 6** Local auditors also have a range of additional reporting powers and duties to provide information or to prompt action in certain circumstances. These are important tools for the auditor to bring attention to issues that need to be addressed. For example, local auditors can issue Public Interest Reports to draw the public's attention to a particular issue, such as failure to manage a major project, and require the body to consider the report in public. They can also issue Statutory Recommendations that the body must report and consider in public, such as recommending that a local authority produces more detailed and realistic savings plans which take account of its key risks.
- 7** If the auditor's report contains a qualified opinion or conclusion, or is issued under the auditor's additional powers and duties, then it is a 'non-standard' report. Local and national bodies must take seriously, and act appropriately, when local auditors highlight weaknesses or concerns.

8 In 2017-18, £64 million was spent on fees to external auditors by local government (which includes local authorities, police and fire bodies) and local NHS bodies in England. For this money, local public bodies gain independent assurance that they are spending and accounting for public money properly, but the value is reduced if the work of auditors is not having enough impact.

Our report

9 Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors. This report provides an overview of the work of local auditors.

10 Our report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Key findings

11 Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18. This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors have yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18 (paragraph 2.2).

12 However, auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. Again, as at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies (paragraph 2.7).

13 Auditors qualified their conclusions at 40 (8%) of local government bodies. The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate (paragraphs 2.8 to 2.14 and Figures 4 and 5).

14 More local NHS bodies received qualified conclusions on arrangements to secure value for money than local government bodies. In 2017-18, auditors qualified 168 (38%) of 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 (paragraphs 2.9, 2.26 to 2.33 and Figures 7 and 8).

15 Local auditors are using their additional reporting powers, but infrequently. Auditors have powers to issue reports or recommendations that require local bodies to publicly consider the matters reported and publish their response. However, since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews (paragraphs 2.37 to 2.39 and Figure 10).

16 A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues. We contacted 102 local public bodies where auditors had reported concerns about their arrangements to ensure value for money. We found:

- half of the bodies (51) said that the auditor's report identified issues that they already knew about. However, the main purpose of the auditor's report is not to bring new issues to local public bodies' attention, but to provide public assurance on the adequacy of the arrangements in place during the year. We would expect local public bodies to be aware of significant weaknesses in their arrangements, and so the comments we received suggest that there is a gap between local bodies' expectations about the purpose of auditors' work in this area and the requirement in the legislation for auditors to conclude on the adequacy of arrangements overall;
- fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and
- twenty-six (25%) did not respond at all to our request (paragraphs 3.2 to 3.9 and Figure 12).

17 The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies. Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues (paragraphs 1.17 to 1.23 and 3.12 to 3.17).

18 Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting (paragraph 3.11).

Overall conclusion

19 Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) we contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

20 Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

21 Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

Recommendations

- a** **Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money.** This includes effective scrutiny and challenge by those charged with governance to hold the executive to account.
- b** **Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.** The National Audit Office will develop its guidance to auditors to support them in making the most effective use of the range of reporting powers available.
- c** **The Ministry of Housing, Communities & Local Government and the Home Office should formalise their processes for monitoring the level and nature of non-standard reports issued by local auditors** to demonstrate that they are fully aware of what local auditors are reporting and that they are taking appropriate action. All departments and associated arm's-length bodies should ensure they are challenging local bodies when necessary to demonstrate how they are responding and strengthening their arrangements.
- d** **All departments should establish processes to ensure a consistent and structured response to following up local bodies' response to Public Interest Reports or Statutory Recommendations,** when they are copied to the Secretary of State.

Part One

The local audit framework

1.1 Local public services account for a significant amount of public spending.

In 2017-18, local authorities, local police and local fire bodies had net revenue spending of approximately £54 billion and local NHS bodies received funding of approximately £100 billion from the Department of Health & Social Care. Council tax accounts for £28 billion of local government income. These local bodies deliver many of the public services local taxpayers rely on every day.

1.2 Taxpayers, national bodies and other stakeholders reasonably expect that the auditor will normally be able to provide assurance that the accounts have been properly prepared, are free from material error, and that the body has proper arrangements in place. Therefore, local and national bodies must take seriously, and act appropriately, when local auditors highlight weaknesses or concerns.

1.3 There is also a cost to audit. In 2017-18, £64 million was spent on fees to external auditors by local government (which includes local authorities, police and fire bodies) and local NHS bodies in England. For this money, local public bodies gain independent assurance that they are spending and accounting for public money properly, but the value is reduced if the work of auditors is not having enough impact.

The local audit landscape

1.4 Local audit has changed significantly since the abolition of the Audit Commission in 2015.¹ The Local Audit and Accountability Act 2014 (the 2014 Act) sets out the arrangements for local audit from 1 April 2015. The bodies to whom the Code of Audit Practice applies include:

- local authorities (county and district councils and unitary authorities);
- police and crime commissioners and chief constables;
- fire and rescue authorities;
- combined authorities;
- clinical commissioning groups;
- NHS trusts;

¹ Prior to 2015, the Audit Commission appointed local auditors to local government and local NHS bodies, excluding NHS foundation trusts, and maintained the Code of Audit Practice and associated guidance, which set out how local auditors were expected to meet their responsibilities.

- NHS foundation trusts (before 2015, the audit regime for these was set by Monitor under the Monitor Audit Code);²
- a range of other bodies, such as national park authorities or passenger transport authorities; and
- smaller authorities.³

1.5 Further information about who undertakes local audit, and how local auditors are appointed is available from the National Audit Office (NAO) website.

Local audit responsibilities

1.6 This section sets out briefly the roles and responsibilities of the Comptroller and Auditor General (C&AG), local auditors and local public bodies in relation to local audit.

The C&AG's responsibilities

1.7 Under Schedule Six of the 2014 Act, the C&AG is responsible for maintaining the Code of Audit Practice. Public audit is wider in scope than that of the private sector, and the principles set out in the Code reflect this, including the need for local auditors to maintain their independence and act proportionately and efficiently. The Code sets out what local auditors are required to do to meet their responsibilities under the 2014 Act and covers:

- the audit of financial statements;
- the auditor's conclusion on arrangements to secure value for money;
- reporting requirements; and
- the exercise of auditors' additional powers (which are explained later in this section).

1.8 The 2014 Act also allows the C&AG to issue guidance to local auditors to support them in meeting their responsibilities under the Code. Local auditors must "have regard" to this guidance, which means they must either comply with the guidance or give clear reasons within the audit documentation as to why they have not followed it.

1.9 The guidance is set out in a suite of Auditor Guidance Notes (AGNs).⁴ It is updated as necessary to account for changes in auditing standards or to highlight or set out the C&AG's expectations in particular areas. For example, the guidance on value for money arrangements work sets out issues that auditors consider as significant risks, such as major reorganisation, significant funding gaps in financial planning or persistently poor performance.

² 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 NHS foundation trusts.

³ 'Smaller authorities' such as town or parish councils and internal drainage boards are subject to a different audit regime and are not covered by this report.

⁴ The Auditor Guidance Notes are published on the National Audit Office website.

Local bodies’ and local auditors’ responsibilities

1.10 Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control. In the NHS, local bodies must publish an annual report and a report that sets out the remuneration paid to senior managers.

1.11 All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

1.12 Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.⁵ The annual governance statement and the information that supports it are key sources of evidence that local auditors use to consider whether the body has proper arrangements in place to secure value for money.

1.13 **Figure 1** sets out local auditors’ responsibilities when auditing local public bodies.

Figure 1

Local auditors’ responsibilities

Local auditors have a range of reporting responsibilities each year

Opinion on the financial statements	<p>Local auditors need to be satisfied that local bodies have prepared their financial statements properly and they give a true and fair view of the financial position. This means that the financial statements faithfully represent the financial performance and position of the body and are free from any misstatements that could affect the views or decisions of users.</p> <p>Local auditors must comply with International Standards on Auditing.</p>
Opinion on regularity	<p>Auditors of clinical commissioning groups must conclude whether or not income and expenditure is in accordance with relevant laws and regulations.</p>
Reporting on ‘going concern’	<p>Auditors must report where they have concerns about the body preparing its financial statements as a ‘going concern’. An organisation prepares accounts as a ‘going concern’ when it can reasonably expect to continue to function for the foreseeable future, usually regarded as at least the next 12 months.</p>
Emphases of matter	<p>Auditors may also decide to draw attention to an issue that they consider readers of the financial statements should be aware of.</p>
Conclusion on arrangements to secure value for money in the use of resources	<p>Local auditors must conclude whether bodies have made proper arrangements for securing value for money. This means that local auditors need to consider a wider range of issues than just the statement of accounts.</p> <p>Having proper arrangements in place means making well-informed decisions that allow them to deliver their services sustainably, and working effectively with partners and other third parties.</p> <p>The auditor’s focus is on the arrangements bodies have in place. They do not conclude on whether the body provided value for money.</p>

Source: National Audit Office

⁵ The required content of these statements is set out in guidance from the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives (CIPFA/SOLACE) for local government bodies, and from the Department of Health & Social Care (and associated national bodies) for local NHS bodies.

Local auditors' reports

1.14 Where the auditor is satisfied that the financial statements present a true and fair view,⁶ that proper arrangements are in place to secure value for money, and they have no other matters to which they wish to draw attention, they issue a 'standard' unqualified report.⁷

1.15 Where they are not satisfied, they issue a qualified or 'non-standard' report.

Figure 2 sets out the kind of non-standard reports that could be issued.

Figure 2

Types of non-standard local auditor report

Local auditors can issue the following non-standard auditor reports

Opinion on the financial statements	<p>The auditor qualifies their opinion on the financial statements when they are not satisfied that they give a true and fair view.</p> <p>This can be because the auditor either disagrees with the body over how the body has accounted for an item, or where the auditor has been unable to obtain sufficient supporting evidence.</p>
Opinion on regularity	<p>The auditor qualifies their opinion on regularity where they are not satisfied that income and expenditure is in accordance with relevant laws and regulations. For example, auditors qualify the regularity opinion when a clinical commissioning group exceeds the spending limit set by Parliament.</p>
Conclusion on arrangements to secure value for money	<p>The auditor qualifies their conclusion on arrangements to secure value for money when they are not satisfied that proper arrangements are in place. The auditor can issue either an 'except for' or an 'adverse' qualified conclusion:</p> <ul style="list-style-type: none"> • 'Except for' conclusions relate to weaknesses in arrangements in specific areas, such as poor financial planning or failure to manage a significant contract properly. • 'Adverse' conclusions relate to weaknesses that are so widespread or extensive in their impact that the auditor is not satisfied that proper arrangements are in place. Examples of adverse conclusions include financial planning failures that are so significant that the body is in severe financial difficulty, or serious weaknesses in the quality of key services. <p>It is the auditor's decision whether to issue an 'except for' or an 'adverse' conclusion.</p>

Source: National Audit Office

⁶ For clinical commissioning groups, this also includes their consideration of regularity.

⁷ For local NHS bodies, auditors only issue a conclusion on arrangements to secure value for money where they are not satisfied that proper arrangements are in place.

Auditors' additional powers

1.16 Auditors have a range of additional powers, but these vary depending on the type of local public body. **Figure 3** summarises what they are and how they apply to different sectors.

Departmental responsibilities for local audit

1.17 Three central government departments and two arm's-length bodies have responsibility for overseeing most local public bodies:⁸

- Ministry of Housing, Communities & Local Government (MHCLG) – oversight of local authorities;
- Department of Health & Social Care (DHSC) – oversight of clinical commissioning groups via NHS England, and NHS trusts and NHS foundation trusts via NHS Improvement; and
- Home Office – oversight of police and crime commissioners, chief constables and fire and rescue authorities.

1.18 Each department maintains an Accounting Officer System Statement. This sets out the accountability relationships and processes within each department, including who is accountable at each level of the system.

1.19 The MHCLG Statement states, in respect of its responsibility to maintain a “set of statutory codes and rules which require councils to act prudently in their spending,” that local external auditors inform this through their duty to “form an opinion on whether the accounts give a true and fair view, and to conclude on whether the authority has made proper arrangements for securing value for money” (paragraph 2.9 of the Statement), and to “consider making ‘a report in the public interest’ on any significant matter coming to their notice during the course of an audit which they feel should be brought to the attention of the public” (paragraph 2.12 of the Statement). Any such report must be copied to the Secretary of State.

1.20 For maintaining a “system of internal and external checks and balances including audit and whistleblowing,” the Statement notes that local auditors are ‘prescribed persons’ and can receive protected whistleblowing disclosures.

1.21 MHCLG is clear that, in the Local Government Accountability Framework, there are roles for the public, the council executive, councillors, the sector and auditors in ensuring that local bodies achieve value for money.

⁸ Other government departments are also responsible for overseeing some local bodies, such as the Department for Transport and the Department for Environment, Food & Rural Affairs, but are not covered in detail by this report.

Figure 3
Additional powers applicable to different sectors

Additional powers	Type of local public body			Description
	Local government bodies	NHS trusts and clinical commissioning groups	NHS foundation trusts	
Public Interest Report	✓	✓	✓	Local auditors must consider whether there are any matters they need to draw explicitly to the public's attention via a Public Interest Report, such as failure to manage a major project. It imposes additional requirements on the local body, including holding a public meeting to consider the report and publishing a formal response.
Statutory Recommendation	✓	✓	N/A	At all local bodies other than NHS foundation trusts, local auditors also have powers to issue 'Statutory Recommendations', such as recommending a local authority produces more detailed and realistic savings plans. These are similar to Public Interest Reports and also require formal, public consideration and response, but they are addressed to the local body rather than the public.
Application to a court	✓	N/A	N/A	Where an auditor concludes that an item of account (an item of income or expenditure) is unlawful, the auditor can apply to the court for a declaration that the item of account is unlawful. For example, an auditor might do this when they believe that a council has spent money that it did not have legal powers to spend.
Advisory Notice	✓	N/A	N/A	Where an auditor believes that a local body is about to take a decision or enter into a transaction that the auditor believes would be unlawful, the auditor has power to issue an advisory notice. This requires the body to reconsider the issue and prevents it from making any further decision or taking any action for up to 21 days. In February 2018, the auditor of Northamptonshire County Council issued an advisory notice to prevent the Council from setting what the auditor believed would be an unbalanced, and hence unlawful, budget. This was the first time that an advisory notice was issued since the 2014 Act came into force.
Judicial review	✓	N/A	N/A	Local auditors can seek a judicial review of decisions made by local public bodies, where they consider that the body may have acted unlawfully. To date, this power has never been exercised.
Section 30 referral	N/A	✓	N/A	The 2014 Act requires local auditors to make a referral to the Secretary of State where the body is about to take a decision or enter into a transaction that the auditor believes would be unlawful. Examples include a clinical commissioning group exceeding the expenditure limit set by NHS England or an NHS trust failing to break even.
Schedule 10 referral	N/A	N/A	✓	In the case of NHS foundation trusts, local auditors make a referral to the regulator where the trust is about to take a decision or enter into a transaction that the auditor believes would be unlawful.

1.22 The DHSC Statement makes no explicit reference to the role of local auditors, but from interviews with DHSC, we understand that the Department is content that its monitoring of local auditors' reports is proportionate to the level of risk posed. The Department also has other ways of gathering information on local bodies' financial performance. NHS England monitors clinical commissioning groups' financial performance on behalf of DHSC throughout the year by regional and central finance and operations teams' engagement with local bodies. Similarly, NHS Improvement monitors the financial performance of NHS trusts and NHS foundation trusts throughout the year. Both NHS England and NHS Improvement's arrangements include reviewing auditors' reports in case they reveal any issues which had not been flagged through the in-year monitoring arrangements.

1.23 The Home Office Statement is clear that the chief finance officers of police and crime commissioners are responsible for proper administration and ensuring compliance with audit requirements (paragraph 40 of the Statement). In respect of fire and rescue authorities, each fire and rescue service's chief finance officer has the same responsibility (paragraph 47).

Part Two

Local auditor reporting 2017-18

2.1 This part summarises the findings reported by local auditors in 2017-18 and provides some comparative information showing how findings reported have changed over time. More detail, including a list of all the bodies that received non-standard reports from their auditor in 2017-18, is published alongside this report and is available from our website: www.nao.org.uk.

Opinion on the financial statements

2.2 Auditors have not qualified their 'true and fair' opinions on financial statements for 2017-18. This is consistent with the position in both 2015-16 and 2016-17, and indicates that local public bodies are complying with accounting requirements. As at 17 December 2018, 16 opinions on the financial statements of local government bodies are yet to be issued, so the position for 2017-18 is not final.⁹ Opinions can be delayed because of complex or unusual accounting issues, such as valuations of property, or auditing management's estimates of future costs related to ongoing legal disputes that are yet to be resolved by the local body and the auditor. Local electors' objections to items in the financial statements, for example, where an objector believes that the award of a major contract is unlawful because the body did not follow the proper procedures, need to be resolved before the auditor can assess the impact on their opinion.

2.3 As shown in Figure 1 of this report, clinical commissioning group auditors are also required to provide an opinion on regularity. In 2017-18, 81 clinical commissioning groups (39%) received a qualified regularity opinion because they spent more than Parliament had allocated to them. The proportion has more than doubled since 2015-16, from 33 (16%) to 81 (39%) in 2017-18.

⁹ For the two previous years, the equivalent figures for the 16 opinions yet to be issued on the financial statements in 2017-18 are: 5 in relation to 2016-17, 2 in relation to 2015-16.

2.4 Emphases of matter are used when auditors need to draw attention to a particular aspect of the accounts, but which does not affect their ‘true and fair’ opinion. In local government:

- eight emphases of matter were reported to local government bodies;
- seven of these related to local government re-organisation;
- one drew attention to uncertainties about the cost of equal pay claims; and
- there were no paragraphs in relation to ‘going concern’.

2.5 In the NHS the use of emphases of matter is much greater:

- eighty-three were reported in 2017-18 (representing 19% of local NHS bodies);
- seventy-eight of these related to ‘going concern’ at NHS trusts and NHS foundation trusts, indicating that the auditor believes that there is sufficient uncertainty about these bodies’ ability to continue to operate to refer to it in their report.¹⁰ This represents one third of NHS provider trusts;
- one was in relation to ‘going concern’ at a clinical commissioning group; and
- four drew attention to the fact that the body would cease to exist the following year, due to reorganisation.

2.6 While continuing financial pressure may be a contributing factor, the Department of Health & Social Care (DHSC) and NHS Improvement no longer issues letters of comfort to NHS provider trusts regarding future funding, which means that the level of uncertainty has increased. Reporting regarding going concern has remained very low at clinical commissioning groups. This could reflect the fact that clinical commissioning groups have more certainty about future cash flows because they have already been allocated a resource limit for the following year.

Conclusion on arrangements to secure value for money

2.7 For 2017-18, 208 qualified value for money arrangements conclusions have so far been issued, representing 22% of all local public bodies. This represents an increase over the past three years, from 170 (18%) in 2015-16. This increase is not consistent, however, and varies between local government and NHS sectors and between the types of body within each sector. Of the 208 qualified conclusions in 2017-18, 75% (156) were ‘except for’ conclusions, and 25% (52) were ‘adverse’.

¹⁰ From 2017-18 auditors report any going concern issues explicitly within a separate going concern paragraph and no longer classify this as an emphasis of matter. Prior to 2017-18 these issues were reported as emphases of matter. To allow comparability between years, we have classified paragraphs on going concern as emphases of matter.

2.8 The proportion of qualified conclusions in local government has been more stable with 40 (8%) issued in 2015-16. As at 17 December 2018, auditors have also issued 40 (8.1%) qualified conclusions for 2017-18. Again, it is important to note that the number of qualified conclusions for local government bodies is not yet final, with 20 still outstanding.¹¹ It is therefore possible that as these remaining conclusions are issued, the total number of qualifications will rise.

2.9 For NHS bodies, the increase since 2015-16 is much larger, from 130 (29%) to 168 (38%) in 2017-18. Within this increase, 'adverse' conclusions in NHS foundation trusts went up from 3 (2%) to 17 (11%) between 2016-17 and 2017-18.

Qualified conclusions in local government

2.10 For local government, up to 17 December 2018, there were 40 qualified conclusions (35 'except for' and five 'adverse'), representing 8.1% of all local government bodies. However, 20 value for money arrangements conclusions have yet to be issued, so this does not yet represent the full picture for 2017-18. Value for money arrangements conclusions can be delayed where the auditor is considering complex issues, such as the approach taken to reaching a key decision and the robustness of the information supporting it, or objections made to the accounts by local electors, who have claimed that a contractor is delivering poor service and value for money. It is therefore possible that as these remaining conclusions are issued, the total number of qualifications will rise.

2.11 Analysis of the types of local government bodies receiving qualified conclusions reveals significant differences. **Figure 4** overleaf shows how qualifications vary between types of local government body:¹²

2.12 More single-tier local authorities and county councils receive qualifications than other types of local government body. This is consistent with the findings of our 2018 report *Financial sustainability of local authorities*,¹³ which found that "the greatest financial risks appear to lie currently with authorities with social care responsibilities". Single-tier local authorities and county councils have responsibility for social care in England.¹⁴ While the other types of local government body are still dealing with increasing financial pressures, these organisations are generally smaller and less complex.

¹¹ For the two previous years, the equivalent figures for the 20 conclusions on value for money arrangements yet to be issued in 2017-18 are: 8 in relation to 2016-17, 2 in relation to 2015-16.

¹² Information about types of local authority and their responsibilities can be found in the National Audit Office's *Departmental Overview: Local Authorities 2017-18*.

¹³ Comptroller and Auditor General, *Financial sustainability of local authorities 2018*, Session 2017-2019, HC 834, National Audit Office, March 2018.

¹⁴ National Audit Office, *Departmental Overview: Local Authorities 2017-18*, October 2018.

Figure 4

Types of local government, police and fire bodies receiving qualified conclusions

Single-tier local authorities and county councils have more qualifications

Type of body	Except for	Adverse	Total qualifications	Total number of bodies	Percentage of qualifications (%)
Single tier and county councils	23	4	27	152	18
District councils	9	0	9	201	4
Other (including police and fire)	3	1	4	142	3

Notes

- 1 Single-tier local authorities and county councils include unitary authorities, London boroughs, metropolitan district councils and county councils.
- 2 Other bodies include police and crime commissioners, chief constables, fire authorities and other bodies such as combined authorities.
- 3 For single-tier local authorities and county councils, the equivalent percentage as a proportion of conclusions issued up to 17 December 2018 is 19.3%. For district councils the equivalent is 4.6%.

Source: National Audit Office analysis of published qualified value for money arrangements conclusions

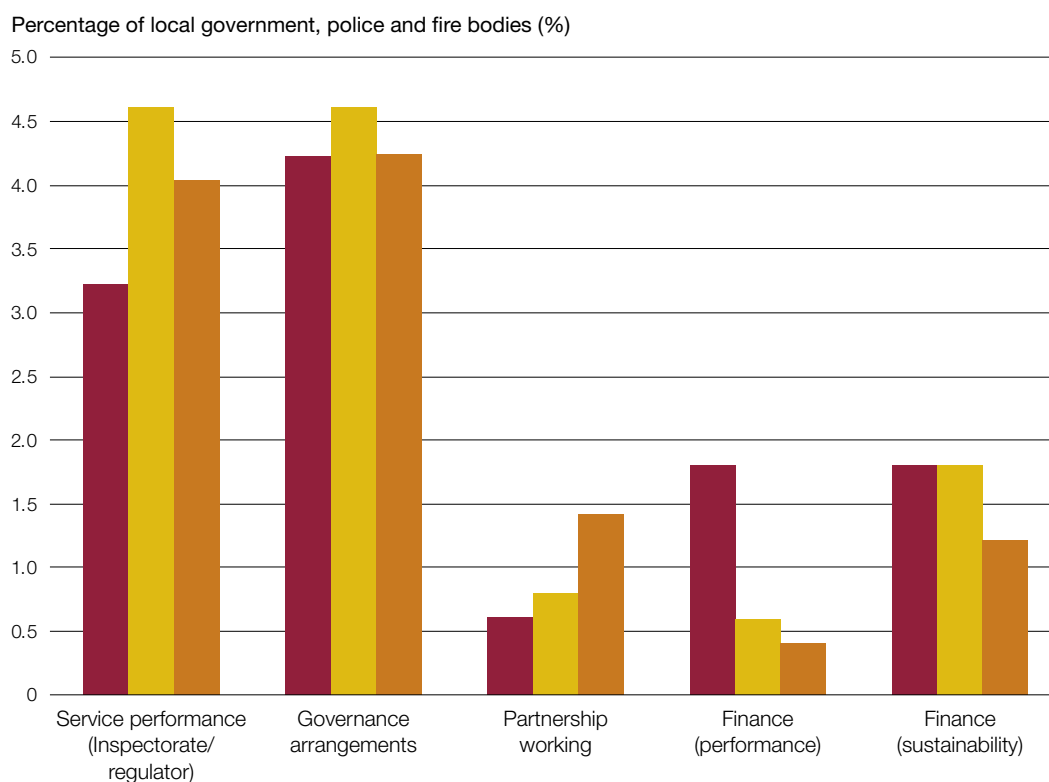
2.13 Most qualifications in local government bodies are due to weaknesses in governance arrangements or the findings of service inspectorates. The reasons for significant weaknesses in governance arrangements include bodies relying on interim staff to fill senior management posts for too long, poor management of major contracts, or lack of adequate member scrutiny of the executive's decisions.

2.14 Local auditors are expected to take account of relevant service inspectorates' findings when reaching their conclusion on arrangements to secure value for money. The inspectorates whose findings most often impact on local auditors' conclusions are the Office for Standards in Education (Ofsted), Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) and Care Quality Commission (CQC). **Figure 5** shows the percentage of local government bodies that received a qualification by type of issue.

Figure 5

Reasons provided by local auditors for qualified value for money arrangements conclusions in local government, police and fire bodies, 2015-16 to 2017-18

The largest increases in qualified value for money arrangements conclusions in local government bodies over time relate to service performance, as identified by inspectorates, and arrangements in partnership working



2015-16 (%)	3.2	4.2	0.6	1.8	1.8
2016-17 (%)	4.6	4.6	0.8	0.6	1.8
2017-18 (%)	4.0	4.2	1.4	0.4	1.2
2015-16 (number)	16	21	3	9	9
2016-17 (number)	23	23	4	3	9
2017-18 (number)	20	21	7	2	6

Notes

- 1 The number of qualified conclusions for local government bodies may yet increase, as 20 remained outstanding at 17 December 2018.
- 2 The total number of qualification issues is greater than the total number of bodies that received a qualification, because conclusions can be qualified for more than one issue.
- 3 Local auditors are expected to take account of relevant service inspectorates' findings, such as Ofsted, when reaching their conclusion.

Source: National Audit Office analysis of published qualified value for money arrangements conclusions

Partnership working and commercial activities

2.15 As local government bodies are under increasing financial pressure and work to deliver further savings, many look to enter into partnership arrangements in order to reduce risk and benefit from greater purchasing power and economies of scale, such as sharing or procuring services jointly. The increase in qualifications in this area highlights, however, that local government bodies are not always managing these arrangements well. Reasons given in auditor reports for weaknesses in partnership working include:

- failure to negotiate contracts effectively, leading to higher than anticipated proportions of gains from the contracts going to the contractor;
- failures to work effectively with partners, leading to poor-quality services; and
- weaknesses in the approach to multi-agency working.

2.16 Local government bodies need to learn from these issues and ensure that they put in place effective arrangements to manage these relationships. This will help ensure that partnership working delivers the anticipated benefits.

2.17 The level of qualifications about weaknesses in governance arrangements has remained broadly constant over the period, at around 4% of local government bodies. But, as local bodies look to generate alternative income streams, some are considering and entering into increasingly complex arrangements, for example investing in commercial properties such as shopping centres.

2.18 Making a success of these ventures means that decision-making and governance arrangements need to keep pace with the changing environment and take account of the changing risks. Local auditors' value for money arrangements conclusions are now including references to weaknesses in this area, with one qualification issued to date in 2017-18 due to failure to properly consider commercial investment options.

Repeated qualification issues in local government

2.19 There are a number of cases where local auditors are reporting the same issue as in the previous year (or in some cases even longer). For local government, repeat qualifications are due to the same failings shown in Figure 5.

2.20 These qualifications tend to be repeated because most children's services in local authorities are not inspected annually by Ofsted. Therefore, where a qualification is due to an inspectorate rating, any actions taken by the body will be unlikely to lead the auditor to lift the qualification until the inspectorate has re-inspected the provider and given it a new rating. To date, the local government sector has managed to stay broadly in financial balance, albeit through increased, and in some cases unplanned, use of reserves. Some authorities have also had to revisit the level and quality of services provided in order to deliver the savings needed. One service area under considerable pressure is social services, both for adults and children. Qualifications in single-tier local authorities and county councils often refer to weaknesses in governance arrangements, also highlighted by inspectorates' ratings of services as inadequate. Equally, it can take considerable time for changes to governance arrangements such as those highlighted in paragraph 2.13 to become established throughout the authority. This means that they are sometimes not fully effective quickly enough to allow the qualification to be lifted in the following year.

Financial sustainability in local government

2.21 Figure 5 shows a relatively low number of qualifications that refer to financial performance and sustainability. This is consistent with our report *Financial sustainability of local authorities 2018*,¹⁵ which found that local authorities have managed their position so far, but are digging into reserves, making it harder to continue on this trajectory.

2.22 In addition, local government bodies have the flexibility to raise additional income through taxation (although this is limited) and can vary the range and level of services they provide, especially where these are discretionary. This can help them keep their planned spending in line with available resources. This contrasts sharply with both NHS commissioners and providers, who have some discretion over how much elective and non-urgent activity they provide, but have no choice other than to continue to provide services such as emergency and trauma.

¹⁵ See footnote 13.

2.23 Despite this flexibility, the level of qualifications remains disappointingly high. Local auditor reports issued to 17 December 2018 show that 18% of single-tier local authorities and county councils were judged to have significant weaknesses in their arrangements to secure value for money (Figure 4). Whether this has arisen as a result of weaknesses in governance arrangements or as a result of an external inspectorate judging the level of service in a key area to be inadequate, it is clear that bodies need to be doing more to address the weaknesses being reported.

2.24 In reaching their conclusion, auditors will consider how a body's current position compares to previous performance such as a body's 'track record' in meeting efficiency targets. However, auditors are not required to report publicly on the trajectory of performance and only qualify their conclusion when the body's arrangements deteriorate to the point where they are no longer adequate. It is essential that all local government bodies consider the current level of qualifications in the context of the findings of our March 2018 report *Financial sustainability of local authorities*.¹⁶ This presents a clear warning that proceeding on the current trajectory is unsustainable and means it is possible that the number of qualifications in this area will rise in future. The findings are equally relevant to bodies that have not received qualifications and highlight the need for arrangements to be reviewed and strengthened continually, in order to address the coming challenges.

Qualified conclusions in local NHS bodies

2.25 For NHS bodies, a much higher proportion received qualifications, as set out in **Figure 6** and this has increased since 2015-16. It is clear the reasons for the increase in qualifications between 2015-16 and 2017-18 are financial performance and financial sustainability, as shown in **Figure 7**.

Figure 6

Types of local NHS bodies receiving qualified conclusions in 2017-18

The proportion of qualified conclusions in 2017-18 was highest in NHS trusts

Type of body	Except for	Adverse	Total qualifications	Total number of bodies	Percentage of qualifications (%)
Clinical commissioning group	64	12	76	207	37
NHS trust	24	18	42	80	53
NHS foundation trust	33	17	50	155	32

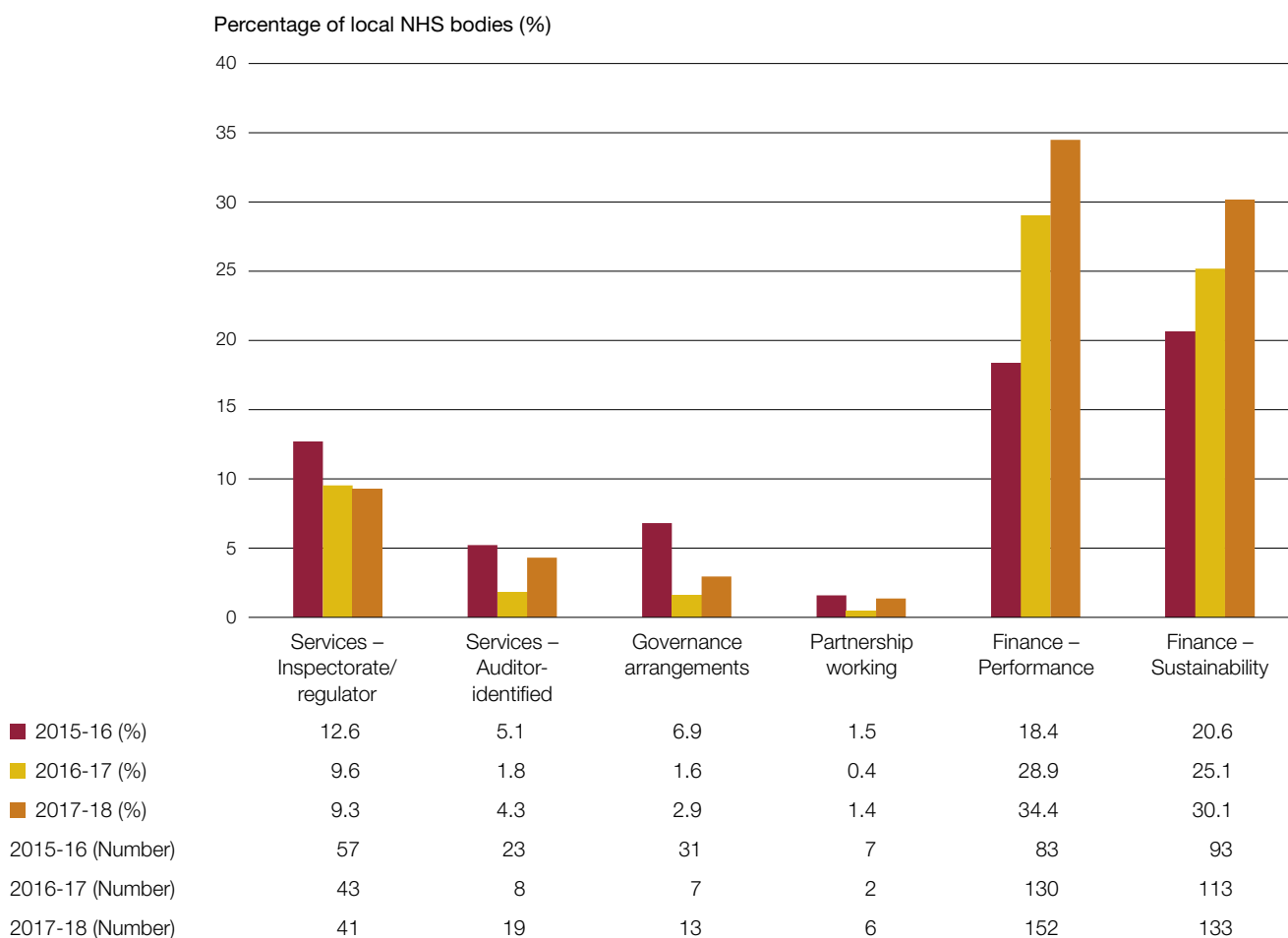
Source: National Audit Office analysis of published qualified value for money arrangements conclusions

¹⁶ See footnote 13.

Figure 7

Reasons provided by local auditors for qualified value for money arrangements conclusions in local NHS bodies, 2015-16 to 2017-18

The increase over time in the level of qualified value for money arrangements conclusions in local NHS bodies is due to financial performance and sustainability

**Note**

1 The total number of qualification issues is greater than the total number of bodies that received a qualification, because conclusions can be qualified for more than one issue.

Source: National Audit Office analysis of published qualified value for money arrangements conclusions

2.26 Financial performance issues that can lead to a qualified conclusion include failure to meet financial targets, such as annual spending limits or delivering planned savings. Financial sustainability qualifications are linked to current financial performance, but look further ahead, and indicate that the body is not likely to return to financial balance.

2.27 Failure to keep spending within annual limits or to operate in a financially sustainable way means that some local NHS bodies may have to make difficult decisions about which services they can deliver, and to whom, and so can have a direct impact on local taxpayers.

2.28 Although not all qualifications in local NHS bodies are linked to finances, the current level indicates that a significant number are failing to meet both their annual and longer-term financial targets.

2.29 Analysis of qualifications between the commissioner (clinical commissioning group) and provider (NHS trust and NHS foundation trust) sectors shows the increase is mainly due to an increase in qualifications at clinical commissioning groups, as shown in **Figure 8**. While NHS England continues to monitor and engage with clinical commissioning groups throughout the year, which has helped to manage overall spending in 2017-18, there are still issues at individual clinical commissioning groups to address.

The Sustainability and Transformation Fund

2.30 The position of the commissioning sector contrasts sharply with the situation at provider trusts (**Figure 9** on page 28). Although the overall level of qualifications regarding financial performance and sustainability was higher for trusts than for clinical commissioning groups in each year, the rate of increase was slower, with financial performance moving from 62 (26%) to 85 (36%) and financial sustainability from 78 (32%) to 82 (35%).

2.31 Our report on *Sustainability and transformation in the NHS 2018* drew attention to the impact of the additional £1.8 billion Sustainability and Transformation Fund in 2016-17.¹⁷ This fund intended to reduce financial deficits and provide some stability to improve performance and transform services. The Sustainability and Transformation Fund helped the NHS to improve its financial position between 2015-16 and 2016-17. This does appear to be having some impact on the level of qualified conclusions in the provider sector, where there has been a slower increase in relation to financial performance, and qualifications in relation to financial sustainability are levelling off.

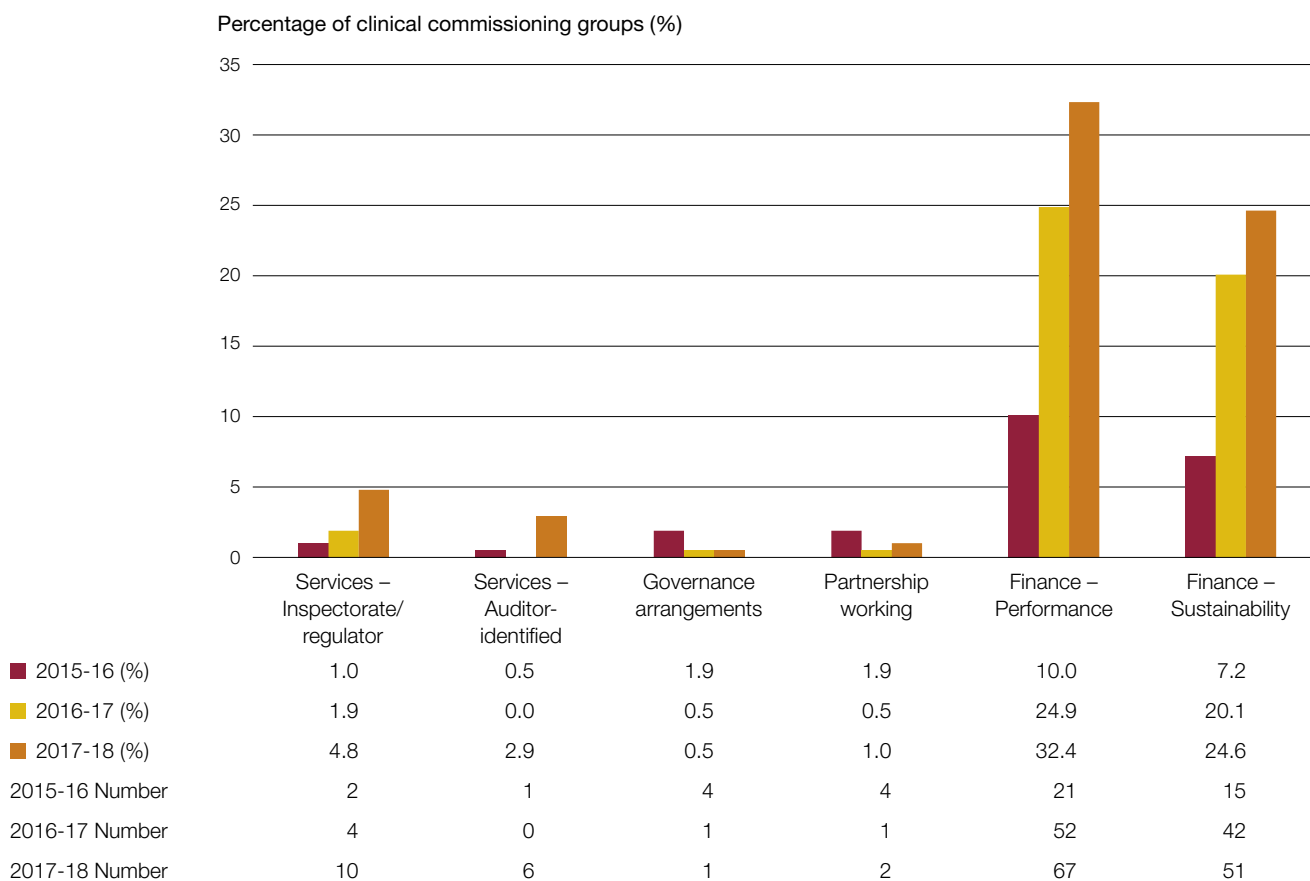
2.32 While these developments may have helped reduce the proportion of qualifications at NHS provider trusts, the reduction is not great enough to suggest that these actions alone have addressed local financial performance and sustainability issues. Local bodies therefore need to take more action to fully tackle these issues, and local auditors' reporting can provide further insight to support understanding of the issues individual local bodies are facing.

¹⁷ Comptroller and Auditor General, *Sustainability and transformation in the NHS*, Session 2017–2019, HC 719, National Audit Office, January 2018.

Figure 8

Reasons provided by local auditors for qualified value for money arrangements conclusions in clinical commissioning groups, 2015-16 to 2017-18

The largest increases in reasons for qualified value for money arrangements conclusions in the commissioning sector relate to financial performance and financial sustainability

**Note**

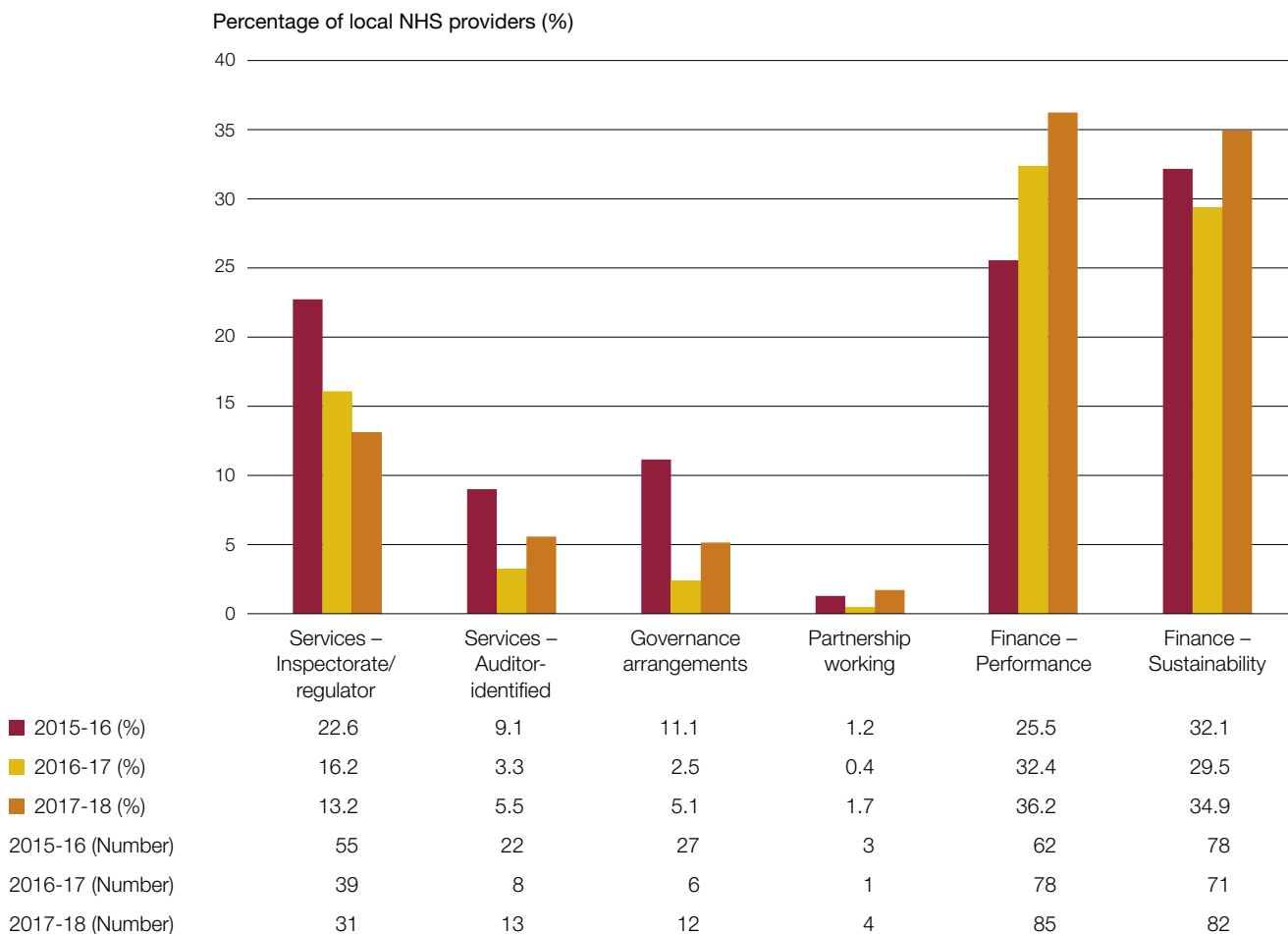
1 The total number of qualification issues is greater than the total number of bodies that received a qualification, because conclusions can be qualified for more than one issue.

Source: National Audit Office analysis of published qualified value for money arrangements conclusions

Figure 9

Reasons provided by local auditors for qualified value for money arrangements conclusions in NHS providers, 2015-16 to 2017-18

There has been an increase in the percentage of NHS providers receiving a qualified value for money arrangements conclusion regarding financial performance since 2015-16. However, financial sustainability has remained fairly static



Note

1 The total number of qualification issues is greater than the total number of bodies that received a qualification, because conclusions can be qualified for more than one issue.

Source: National Audit Office analysis of published qualified value for money arrangements conclusions

Repeated qualification in local NHS bodies

2.33 Many bodies are in deficit positions that are not likely to be recovered the following year, or for several years. In such cases, the qualification is likely to remain until the body can demonstrate not only that it is meeting its financial targets in-year, but that it is also on a trajectory that should take it back to financial balance.

2.34 Part Three of this report looks at the actions bodies tell us they are taking in response to the issues highlighted by the auditors' qualifications.

Exercise of auditors' additional powers

2.35 As explained in Part One, auditors have a range of additional powers, which are set out in Figure 3. Auditors do not exercise these powers annually, but only when they judge that additional reporting is necessary.

2.36 **Figure 10** shows that, with the exception of section 30 referrals, auditors' additional powers are used infrequently. However, three Statutory Recommendations were issued between April and December 2018. This indicates that auditors are looking to make more use of their additional reporting powers to highlight the significance of particular matters and to encourage local public bodies to take more action in response.

2.37 It is important that auditors make use of all reporting options open to them to ensure that local bodies are taking timely and effective action. There is also a role for the National Audit Office, through the guidance it issues to local auditors under the Code of Audit Practice, to support auditors as effectively as possible.

Figure 10
Use of auditors' additional reporting powers

Type of additional reporting powers	2015-16	2016-17	2017-18	2018-19
Public Interest Report	2	1	0	0
Statutory Recommendation	0	3	1	3
Advisory notice	0	0	1	0
Section 30 referral	62	92	126	0

Notes

- 1 Auditors additional powers and duties are explained in Figure 3.
- 2 Statutory Recommendations and Public Interest Reports have been recorded in the financial year in which they were issued. Figures for 2018-19 reflect the position as at 17 December 2018. This is because they can often refer to issues that took place a number of years previously but that have not yet been resolved, or they can cover a range of issues spanning more than one financial year.
- 3 All other data are categorised according to the financial year to which they relate and reflect the position as at 17 December 2018.
- 4 There were no applications to a court or judicial reviews sought.
- 5 There were no Schedule 10 referrals.

Source: National Audit Office analysis of published local auditor reports

Public Interest Reports

2.38 Auditors do not issue Public Interest Reports often, as shown in Figure 10, but when they do, it is in order to draw the public's attention to a specific issue and require the body to consider their report publicly before responding. Since 2015, three reports have been issued, relating to the following issues:

- unlawful use of parking income to spend on other council services;
- governance failings in relation to oversight of a council-owned company, including lack of transparency over payments to directors who were also council officers;
- weaknesses in arrangements to manage major projects, including failure to follow standing orders when awarding contracts; and
- members seeking to influence council activities inappropriately, such as the awarding of taxi licences.

Statutory Recommendations

2.39 Statutory Recommendations are similar to Public Interest Reports, in that they also require public consideration and response. All but one of the Statutory Recommendations issued since 2015 have been to local government bodies, and highlight lack of progress in addressing issues previously reported, including:

- failure to deliver planned cost savings, leading to a worsening financial position;
- weaknesses in arrangements for producing the annual financial statements, leading to significant delays and additional audit costs; and
- failure to address weaknesses highlighted by the Local Government Association in its Corporate Peer Review in 2017.

2.40 The issue of a Statutory Recommendation in 2018 about the financial position at one clinical commissioning group also highlights the worsening financial position of the commissioning sector. This is the first time auditors have used this power at an NHS body. The auditor drew attention to weaknesses in management capacity, capability and financial performance and set out the actions required to address them. These actions include monitoring implementation of the action plan with the governing body and developing a robust and formally agreed medium-term financial plan to bring the body back into financial balance.

Advisory Notice

2.41 There has been increased focus on the financial sustainability of the public sector, and particularly that of local authorities, following the Ministry of Housing, Communities & Local Government's (MHCLG) best value inspection of Northamptonshire County Council in 2018, which drew attention to the adverse value for money arrangements conclusions issued by the local auditor in 2015-16 and 2016-17. It noted that adverse conclusions were infrequent in local government, but that this had not led to actions being taken by the council in response.

2.42 In February 2018, the auditor of Northamptonshire County Council issued an advisory notice to prevent the Council from setting what the auditor believed would be an unbalanced, and hence unlawful, budget. This was the first time that an advisory notice was issued since the Local Audit and Accountability Act 2014 (the 2014 Act) came into force.

Referrals of local NHS bodies

2.43 In 2017-18, 86 clinical commissioning groups (42%) were referred to the Secretary of State by the local auditor because they had exceeded expenditure limits set by NHS England, up from 33 (16%) in 2015-16. Forty NHS trusts (50%) were referred for failure to break even, up from 29 (32%) in 2015-16. This means that an increasing number of these bodies are not managing their spending in line with their agreed budgets, or have not yet recovered previous deficits as required by the break-even duty definition (**Figure 11** overleaf).

2.44 There were no referrals of NHS foundation trusts to the regulator, but this is not a direct comparison, as NHS foundation trusts are not subject to the same financial target regime as clinical commissioning groups and NHS trusts. There were no referrals for unlawful expenditure.

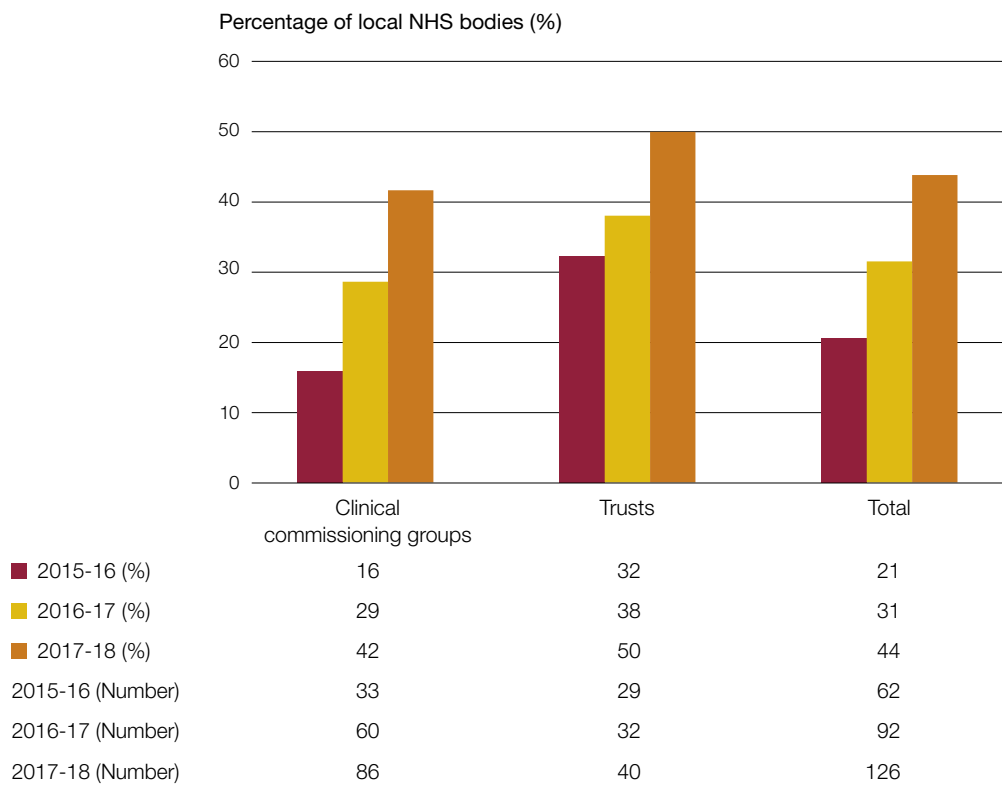
2.45 This is consistent with the findings of our 2018 report *Sustainability and transformation in the NHS*, which identified that 62 clinical commissioning groups reported a cumulative deficit in 2016-17, up from 32 in 2015-16. The report also highlights that: "Clinical commissioning groups and trusts 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."¹⁸

¹⁸ Comptroller and Auditor General, *Sustainability and transformation in the NHS 2018*, Session 2017–2019, HC 719, National Audit Office, January 2018, paragraph 11.

Figure 11

Clinical commissioning group and NHS trust section 30 referrals issued to the Secretary of State

There has been an increase in the percentage of clinical commissioning groups and NHS trusts being referred to the Secretary of State since 2015-16 due to failure to meet statutory financial targets



Source: National Audit Office analysis of section 30 referrals to the Secretary of State

Part Three

Responding to the issues

3.1 This part examines how local public bodies are responding to the issues featuring in local auditors' reporting, and also looks at how relevant central government departments respond to local auditor findings.

Local bodies' response

3.2 We contacted chief executives of all local government bodies that had received a qualified value for money arrangements conclusion in 2017-18 as at 6 September 2018, along with accountable officers of a sample of clinical commissioning groups, NHS trusts and NHS foundation trusts that had similarly received a qualified conclusion.

3.3 We asked bodies to provide us with a commentary setting out how they were addressing the issues, especially where the issue had been reported in consecutive years. The response rate we received overall was 61 (60%), with 23 local government bodies (74%) responding within our requested timeframe, and 38 local NHS bodies (54%). However, 26 bodies (25%) did not respond at all to our enquiry.

3.4 From the responses received, local bodies confirmed that they are taking action to address the areas identified. We have summarised in **Figure 12** overleaf the common themes.

3.5 The comments above provide an overview of the responses. Fifty-seven bodies (95%) responding stated that they had plans in place to address the issues reported by the auditor. Only three respondents (5%) stated that they had now addressed the issues highlighted by the auditor's report. This suggests that there is more local bodies need to do.

3.6 Comments on the value added by the auditor's conclusion on value for money arrangements indicated that respondents did not think the auditor's conclusion provided any new information. This suggests that some local bodies may not fully understand the purpose of the conclusion, which is not to bring new issues to local public bodies' attention, but to provide public assurance on the adequacy of the overall arrangements in place during the year. We would expect local public bodies to be aware of significant weaknesses in their arrangements, and so the comments we received suggest that there is a gap between local bodies' expectations about the purpose of auditors' work in this area and the requirement in the legislation for auditors to conclude on the adequacy of arrangements overall.

Figure 12

Emerging themes regarding how local bodies are responding to the issues being reported by local auditors

Issue	Comments
Action taken by local bodies	<p>Fifty-seven respondents (95%) said that they already had plans in place to address weaknesses before the auditor reported them, so action was not 'triggered' by the receipt of the auditor's report. However, only three respondents (5%) were able to confirm that they had fully implemented their plans.</p> <p>Nine NHS respondents (24%) added that wider issues affecting the local health economy meant that they felt there was little they could do to address the issue driving the qualification directly, without it being accompanied by wider change.</p>
Understanding the auditor's work	<p>Comments were generally supportive, showing an understanding of the auditor's work, but 51 respondents (85%) commented specifically that the auditor's findings did not identify any issues of which they were not previously aware.</p> <p>Responses generally indicated local bodies agree that local auditors were highlighting relevant issues. But some respondents commented adversely on the judgements expressed in the auditor's report in relation to the impact of ratings given by independent inspectorates. While 17 (28%) of those who responded had some criticism of the judgement reached by the auditor, only six (10%) explicitly disagreed with the qualification.</p>

Source: National Audit Office analysis of responses from local public bodies regarding their qualified value for money arrangements conclusion

3.7 Local bodies therefore need to focus on addressing the issues as soon as they become aware of them and draw on the local auditor's conclusion as a means of assessing their progress.

3.8 Reference to issues such as the overall financial position of the NHS is understandable, but it is important that financial pressures more generally across the sector do not divert local bodies' attention from challenging themselves to ensure that, even where wider issues are present, the body is doing all it can locally to ensure its own arrangements are as good as they can be.

3.9 We saw evidence of one NHS foundation trust which, although in a significant cumulative deficit position, was fundamentally reviewing its financial and service planning approach and aiming to return to financial balance within five years. The trust stated that the new approach had so far delivered savings for 2018 ahead of plan. Snapshots such as this suggest that, even where financial difficulties are considerable, it is still possible to take some action to improve arrangements and begin to address the underlying issues.

Impact of local auditor reporting

3.10 Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for a local public body, as it fed into other mechanisms such as Comprehensive Performance Assessment (CPA) and Auditors' Local Evaluation (ALE) in the NHS, which were published by the Audit Commission. A qualified value for money arrangements conclusion could, therefore, have made the difference between rating categories. This gave local bodies a direct incentive to ensure that their arrangements were adequate, and that any weaknesses identified were addressed as quickly as possible.

3.11 Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place other than the local audit framework that report publicly whether local bodies are addressing the issues that local auditors are reporting.

The departmental response

3.12 It is clear from our interviews that relevant departments have differing arrangements in place for gathering intelligence from local auditors' reports, some of which are informal. While some departments indicated that they work with local public bodies to support them in addressing their weaknesses, local bodies themselves still have primary responsibility for addressing the issues auditors are reporting.

3.13 While all departments indicated that, were the Secretary of State to receive any Public Interest Reports or Statutory Recommendations, they would consider the nature of the issues reported and take appropriate action, no formal processes were prompted at departmental level. NHS Improvement and NHS England added that they would work through regional teams to obtain evidence from the individual body to demonstrate that it was addressing the issue.

3.14 In discussions with the Ministry of Housing, Communities & Local Government (MHCLG), we identified that it has mechanisms in place for gathering the information it considers it needs. MHCLG added that because local auditors report after the periods to which their findings relate, they do not often identify issues of which the department was not already aware. There have been instances where the department has taken additional action in connection with issues identified by local auditors, such as undertaking the best-value inspection of Northamptonshire County Council in March 2018.

3.15 The Department of Health & Social Care (DHSC) told us that it does monitor the findings of local auditors to identify matters that may impact on its financial statements. Through engagement with NHS England and NHS Improvement, it also draws on the arrangements in place at the arm's-length bodies to ensure that it is aware of other matters reported by local auditors, such as qualified value for money arrangements conclusions, where they warrant consideration at departmental level.

3.16 Interviews with the Home Office confirmed that there are no standard processes for routinely considering the findings of local auditors. The Home Office also told us that it sees the role of the inspectorate, Her Majesty's Inspectorate of Constabulary, Fire and Rescue Services, as central to supporting the effective performance of local police and fire bodies.

3.17 Where departments lack formal processes to monitor the level and nature of non-standard reports, and therefore obtain only a broad overview of the issues local auditors are raising, it increases the risk that they may be unaware of all relevant issues. Departments and associated arm's-length bodies must be able to demonstrate that they are fully aware of the issues local auditors are reporting, especially where this includes a referral to the Secretary of State and, when necessary, take further action where there is repeated failure to improve or to gain assurance that local bodies are taking appropriate action.

Appendix One

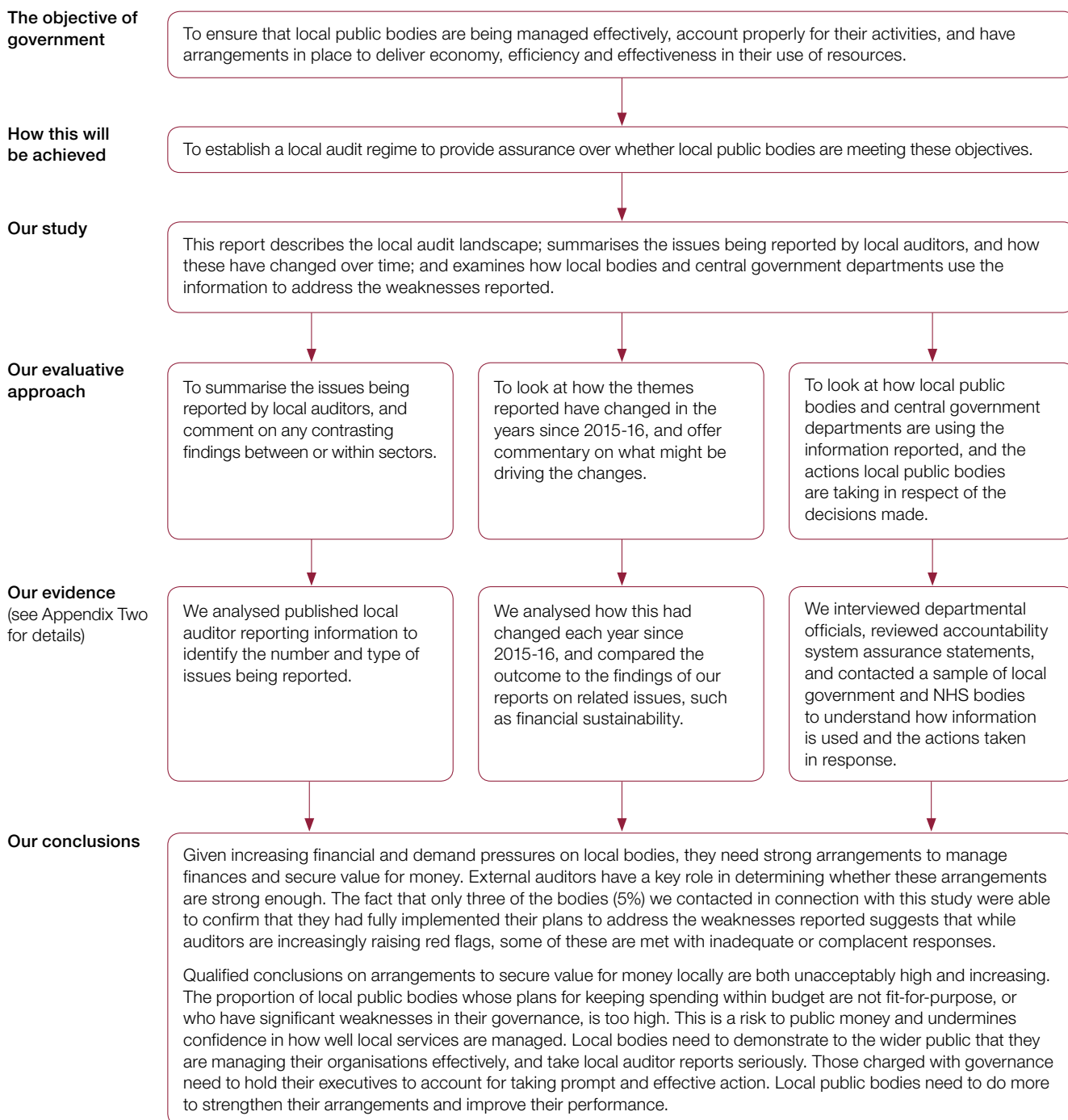
Our approach

1 This study provides insight into the findings of local auditors in 2017-18, how these have changed over time, and the actions being taken by national and local bodies in response. There were three main elements to our work:

- We gathered information from the local auditors' reports published as part of local bodies' financial statements, and analysed them in terms of the number and type of issues being reported. We examined how they differed between types of local government and local NHS body. A list of all the bodies that received non-standard reports from their auditor in 2017-18 is published alongside this report, and is available from our website: www.nao.org.uk.
- We obtained comparative information from 2015-16 and 2016-17 to see how these issues had changed over the past three years, and considered how the picture this presented related to other work we have already published, such as our studies on financial sustainability in local government, police forces and the NHS.
- We interviewed representatives of government departments to understand how central government views its responsibilities in terms of addressing issues being reported locally, and wrote to a sample of local government and local NHS bodies to understand from them directly how they used the information reported, and the actions they were taking to address the issues being reported. This enriched our understanding of the national data and provided valuable illustrations of bodies' responses to the issues being reported.

2 Our approach is summarised in **Figure 13** overleaf. Our evidence base is summarised in Appendix Two.

Figure 13
Our approach



Appendix Two

Our evidence base

- 1 We reached our conclusions on the issues being reported by local auditors, and the actions being taken in response, after analysing evidence collected between June and October 2018. Our audit approach is outlined in Appendix One.
- 2 We applied an analytical framework with evaluative criteria to group the issues being reported by local auditors when qualifying value for money arrangements conclusions, in order to provide a framework to compare findings reported across local government and NHS sectors.
- 3 We conducted interviews with relevant central government departments. These interviews sought to clarify each department's view of where the boundary lay in terms of their responsibilities in respect of local audit issues. We also sought to understand the extent to which information about the issues being reported was routinely gathered and followed up to ensure that local bodies were taking the appropriate corrective action.
- 4 We spoke with officials from the following departments:
 - Ministry of Housing, Communities & Local Government, in respect of local authorities;
 - Department of Health & Social Care (including separate interviews with NHS England in respect of clinical commissioning groups, and NHS Improvement in respect of NHS trusts and NHS foundation trusts); and
 - Home Office in respect of local police and fire and rescue bodies.
- 5 We contacted local public bodies to understand how they were using the information reported by local auditors, and the actions they were taking to address the weaknesses reported. We selected all local government bodies who received a qualified value for money arrangements conclusion in 2017-18. For local NHS bodies, we took account of the oversight arrangements NHS England and NHS Improvement have in place. We contacted all local NHS bodies that had received an 'adverse' qualified value for money arrangements conclusion, and contacted a random sample of clinical commissioning groups, NHS trusts and NHS foundation trusts that received an 'except for' value for money arrangements qualification.

- 6** We used the information from the responses to provide illustrations of how local public bodies were addressing the issues covered by the local auditors' reports.
- 7** We carried out a review of our own recent reports on financial sustainability in local public bodies, including those on local authorities, police forces and the NHS.
- 8** We analysed quantitative data from published local auditor reports, included as part of local public bodies' financial statements, and supplemented this with a review of reports to local bodies under auditing standard 'ISA260', and Annual Audit Letters, where additional clarification of the issues was necessary. We also analysed data published previously by PSAA Ltd in respect of local auditor reporting in 2015-16 and 2016-17.

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