

# **TRANSFER OF AUDIT RESPONSIBILITY FOR THE SPECIAL HEALTH AUTHORITIES FROM THE AUDIT COMMISSION TO THE COMPTROLLER AND AUDITOR GENERAL**

## **CONSULTATION PAPER**

### **Introduction**

1. The Government is proposing to modernise the audit arrangements for the Special Health Authorities (SHAs). The aim is to ease the audit burden on the SHAs and the Department of Health, whilst maintaining full Parliamentary accountability.
2. There are currently 18 SHAs performing a range of functions for the Department and the NHS. A list of the SHAs falling within the scope of this proposal is at Annex A of this consultation paper.
3. Individual SHAs prepare their own annual accounts, which are currently subject to audit by Audit Commission appointed auditors. They submit these accounts to the Department of Health, who prepare separate NHS Summarised Accounts for each of the SHAs from these underlying accounts. The C&AG examines and certifies the Summarised Accounts and lays them before Parliament together with his report on the accounts. This arrangement thus requires two sets of accounts to be prepared for each SHA, and in effect for each SHA to be audited twice.
4. The arrangements in this paper are proposed to take effect for the 2003-2004 and subsequent financial years, and will apply to both existing and future SHAs.
5. The Government has announced its intention to introduce legislation to create a Commission for Healthcare Audit and Inspection (CHAI), to take over part of the existing responsibilities of the Audit Commission for the audit of NHS bodies. The effect of the Order proposed in this consultation would be that, if it is brought into effect, the Audit Commission's existing responsibilities for financial audit of SHAs would move to the C&AG. It is thus intended that the responsibilities taken over by CHAI would not include any relating to the financial audit of SHAs.

## **Intention to transfer responsibility for the audit to the Comptroller and Auditor General**

6. This consultation paper confirms that the Government is preparing an Order under the Government Resources and Accounts Act 2000 (GRAA) and provides a vehicle for consulting interested parties on the content of that Order.
7. The intention of the Order is to remove the dual audit burden noted in paragraph 3 above by providing for the Comptroller and Auditor General (C&AG) to become the statutory auditor of the individual SHAs, and for these accounts to be laid before Parliament, together with his report on those accounts, thereby removing the need for separate Summarised Accounts to be prepared by the Department of Health for the SHAs.

## **Impact of the Order**

8. Under the Order the Comptroller and Auditor General will become the statutory auditor for each of the Special Health Authorities, and the Audit Commission will cease to appoint the auditors. Transitional arrangements will be put into place for existing auditors.
9. The individual audited accounts will be addressed to, and laid before, Parliament, and there will be no continuing requirement for the Department of Health to prepare Summarised Accounts for the SHAs. The SHAs will therefore no longer be subject to dual audit or accounting requirements.
10. The Government has drafted a Regularity Impact Assessment (RIA) which sets out the impact that the Order is expected to have on the bodies affected by the Order. A copy of the draft RIA is at Annex B of this consultation paper.
11. The main purpose of this consultation exercise is to take the views of those bodies that may be affected on how the provisions will impact on them. Accordingly, the Government are asking for views on the following questions:
  - A The Government believe that the impact of this change will be positive since the current duplication in audit arrangements will be removed. Do interested parties agree?

- B The C&AG will become the auditor of SHAs. He intends to contract out the majority of these audits to private sector auditors, with the rest to be undertaken by the National Audit Office. Private sector firms are invited to raise any issues that might arise from this arrangement.

### **Responding**

12. The deadline for responses is Tuesday 4 February. The criteria for the consultation process are set out at Annex C of this consultation paper. Recipients will note that the consultation period is less than the usual twelve weeks. A reduced consultation period is judged to be appropriate in this case because the proposal has already been raised in principle with SHAs, and most other affected parties have been involved in discussions with the Department of Health.

13. Please e-mail or post responses to this consultation paper to:

Email: [nick.towers@hm-treasury.gsi.gov.uk](mailto:nick.towers@hm-treasury.gsi.gov.uk)

Address: Nick Towers  
Treasury Officer of Accounts Team  
1 Horse Guards Road  
LONDON SW1A 2HQ

14. Enquiries can be sent by email to the above address or can be dealt with by telephoning Nick Towers on 020 7270 5477.

15. Responses will be regarded as being on the public record and may be disclosed unless you ask us to regard your response as confidential. This consultation document is available on the Treasury website ([www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)). The document is being sent to a range of bodies expected to have an interest in the consultation as listed in Annex D of this consultation paper. The final Regulatory Impact Assessment and text of the Order will be posted to the Treasury website in due course.

**SPECIAL HEALTH AUTHORITIES TO BE INCLUDED IN THE ORDER  
UNDER SECTION 25(6) OF THE GRAA THAT WILL PROVIDE FOR THE  
C&AG TO BECOME THEIR STATUTORY AUDITOR**

National Blood Authority  
NHS Logistics Authority  
Health Development Agency  
Dental Practices Board<sup>\*</sup>  
Prescription Pricing Authority  
UK Transplant  
Dental Vocational Training Authority  
  
Mental Health Act Commission  
Microbiological Research Authority  
Family Health Services Appeal Authority  
  
NHS Litigation Authority  
National Institute for Clinical Excellence  
NHS Information Authority  
NHS Appointments Commission  
National Patient Safety Agency  
Retained Organs Commission  
National Treatment Agency  
National Clinical Assessment Authority

<sup>\*</sup>The establishment of the Dental Practice Board (DPB) predates the NHS Act 1977 which established the Special Health Authorities. The DPB existed prior to this time, but its functions and audit arrangements were consolidated into this Act, and for the purposes of this paper it is included within the generic SHA term.

**ORDER TO BE MADE IN SUPPORT OF THE TRANSFER OF AUDIT  
RESPONSIBILITY FOR THE STRATEGIC HEALTH AUTHORITIES FROM  
THE AUDIT COMMISSION TO THE COMPTROLLER AND AUDITOR  
GENERAL**

**DRAFT REGULATORY IMPACT ASSESSMENT**

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## **DRAFT REGULATORY IMPACT ASSESSMENT**

### **Order to be made in support of the transfer of audit responsibility for the Strategic Health Authorities from the Audit Commission to the Comptroller and Auditor General**

1. The intention is to make the Order under section 25(6) of the Government Resources and Accounts Act 2000.
2. The Order will provide for the C&AG to be appointed as statutory auditor for existing Special Health Authorities (SHAs) and for those established in the future. There are currently 18 SHAs performing a range of functions for the Department and the NHS (the current SHAs are listed in Annex A of the Consultation Paper). With the exception of the Dental Practices Board (DPB), they were established under the NHS Act 1977. The DPB existed prior to this time, but its functions and audit arrangements were consolidated into this Act, and for the purposes of this paper it is included within the generic SHA term.
3. The Order will also provide for the individual audited accounts of the SHAs to be laid before Parliament together with the C&AG's report on the accounts, and will end the requirement for the Department of Health to prepare Summarised Accounts for those bodies.
4. The Order will supersede the accounting and audit arrangements for SHAs that are currently set out in Section 98 of the NHS Act 1977. It will also amend the Audit Commission Act 1998 to remove these organisations from the list of audits falling within the audit responsibility of the Audit Commission.

#### **Current audit arrangements**

5. Section 98(1)(b) of the NHS Act 1977 requires each Special Health Authority to prepare annual accounts. These accounts are audited by auditors appointed by the Audit Commission, who report to the SHAs themselves.

6. These accounts are then submitted to the Department of Health, who produce Summarised Accounts<sup>1</sup> for each SHA, based on these underlying accounts. The Department makes changes to ensure consistency of presentation across all NHS organisations, and also to reflect events which come to light affecting the accounts after the underlying accounts have been completed.
7. Section 98(4) of the NHS Act 1977 requires the C&AG to examine and certify the Summarised SHA Accounts, and lay copies of them, together with his report on them, before the Houses of Parliament. Since these summarised accounts are reproductions of the underlying accounts the Special Health Authorities' activities are effectively subject to two separate audits.

### **Objectives of the Order**

8. The intention is to reduce the audit burden while maintaining Parliamentary accountability for the SHAs as follows:
  - a) The C&AG will be appointed as statutory auditor for each of the SHAs for the 2003-2004 and subsequent financial years;
  - b) The audited accounts of each SHA will be laid before Parliament annually, together with the C&AG's report on those accounts;
  - c) There will no longer be a requirement for the Department to prepare Summarised Accounts for the Special Health Authorities.

### **Scale of the issue**

9. This is a relatively small modification of current arrangements designed to tidy up an obvious area of audit duplication.

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<sup>1</sup> Summarised Accounts are the term applied to the accounts prepared by the Department in accordance with S98(4) of the NHS Act 1977.

### **Identification of who is affected and any issues of equity**

10. The bodies affected are the SHAs themselves, the Audit Commission, and the auditors that the Commission currently appoints to undertake the audits. There are no equity issues involved.

### **Risks, costs and benefits**

- 11 A modest potential **risk** is the loss of continuity of audit experience. However, the C&AG currently undertakes the audit of the Summarised Accounts of SHAs and has conducted selective VFM studies on SHAs, and therefore has experience of the sector. In addition, the C&AG is required, like any other auditor of central government, to perform all audits in accordance with the statements of auditing standards as set out in Practice Note 10: *Audit of Central Government Financial Statements in the UK*. The quality and nature of the SHA audits will therefore be maintained.
- 12 Moreover, on issues that cut across the NHS the C&AG will continue to liaise other auditors and inspectors in the NHS and seek to rely on their work in accordance with the statement of auditing standards as set out in Practice Note 10.
- 13 Another potential modest risk could arise from the termination of the statutory requirement<sup>2</sup> for the auditors to satisfy themselves that each audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. However, the C&AG has stated that his intention is to offer the same level of service to the SHAs after the transfer as they currently receive. Non-audit work will be undertaken where requested and will be a matter for agreement between the individual SHAs and the C&AG. In addition, the C&AG will continue to undertake value for money studies in the NHS, which may include the SHAs, at his own initiative and at no cost to the SHAs themselves.
- 14 The main **benefit** of the change will be a reduction in the overall audit burden, as the Department will no longer be required to prepare Summarised Accounts.

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<sup>2</sup> S5(1)(e) Audit Commission Act 1988

15 The change should be **cost** neutral or lead to a reduction in costs. First, the transfer of responsibility should not adversely affect the level of audit fees charged to the Special Health Authorities, as there will be no increase in the audit burden on SHAs. Secondly, there will be a reduction in costs for the Department for Health as the Summarised Accounts will no longer need to be prepared.

### **Transitional arrangements for existing auditors**

16 The Audit Commission currently appoint the auditors of the SHAs, of which two are currently contracted out to the private sector and the rest undertaken by District Audit. The C&AG intends to contract out the majority of SHA audits to the private sector, with a small number being undertaken by the NAO. However, interim arrangements will apply to allow District Audit to adequately prepare for the loss of this work, and to allow proper hand-over of the assignments to the new auditors. The C&AG has agreed a timetable with District Audit for this hand-over. PricewaterhouseCoopers currently perform the audits of Dental Practices Board and the Dental Vocational Training Authority, and, subject to negotiation, the intention is that they will continue in place for the remaining length of their existing contract.

### **Other issues**

17 **Effect on internal audit arrangements and VFM access:** This Order is concerned only with the external financial audit arrangements for the SHAs. These revised arrangements will have no impact on the internal audit services currently received by the SHAs, and will not affect the existing access rights afforded to the C&AG by the NHS Act 1977 for value for money or other investigations.

18 **Consistency of presentation:** the Department currently ensure consistency of presentation of the accounts by preparing the Summarised Accounts. Although this element of direct control will no longer be retained, the C&AG will ensure compliance with the Resource Accounting Manual and Accounting Standards, as appropriate, and thereby maintain consistency across all SHA accounts.

**19 Cross-cutting NHS issues:** although there will no longer be a requirement for the Department to prepare Summarised Accounts for the SHAs the Department will continue to prepare Summarised Accounts for the Strategic Health Authorities, Primary Care Trusts and the NHS Trusts. The C&AG will continue to publish a report with these NHS Summarised Accounts, and this report will continue to comment on issues cutting across the NHS, and such reports may, as now, include reference to individual Special Health Authorities.

## **Conclusion**

20 In the Government's view, the impacts outlined above will result in clear and continuing benefits to the stakeholders in terms of a simplified auditing framework and reduced audit burdens coupled with the continuation of full accountability to Parliament.

**CONSULTATION CRITERIA**

The Code of Practice on Written Consultation issued by the Cabinet Office in November 2000 sets out the criteria to apply to all UK national public consultations on the basis of a document in electronic or printed form.

The criteria in the Code apply to this consultation exercise and will be followed throughout the consultation process. The criteria are reproduced below.

1. Timing of consultation should be built into the planning process for a policy (including legislation) or service from the start, so that the best prospect of improving the proposals concerned, and so that sufficient time is left for it at each stage.
2. It should be clear who is being consulted, about what questions, in what timescale and for what purpose.
3. A consultation document should be as simply and concise as possible. It should include a summary, in two pages at most, of the main questions it seeks views on. It should make it as easy as possible for readers to respond, make contact or complain.
4. Documents should be made widely available, with the fullest use of electronic means (though not to the exclusion of others), and effectively drawn to the attention of all interested groups and individuals.
5. Sufficient time should be allowed for considered responses from all groups with an interest. Twelve weeks should be the standard minimum period for a consultation.
6. Responses should be carefully and open-mindedly analysed, and the results made widely available, with an account of the views expressed, and reasons for decisions finally taken.
7. Departments should monitor and evaluate consultations, designating a consultation co-ordinator who will ensure the lessons are disseminated.

**BODIES TO BE CONSULTED BY LETTER**

**Special Health Authorities**

National Blood Authority  
NHS Logistics Authority  
Health Development Agency  
Dental Practices Board  
Prescription Pricing Authority  
UK Transplant  
Dental Vocational Training Authority  
Mental Health Act Commission  
Microbiological Research Authority  
Family Health Services Appeal Authority  
NHS Litigation Authority  
National Institute for Clinical Excellence  
NHS Information Authority  
NHS Appointments Commission  
National Patient Safety Agency  
Retained Organs Commission  
National Treatment Agency  
National Clinical Assessment Authority

**Other stakeholders**

Department of Health  
Audit Commission  
National Audit Office