

From the Permanent Secretary
Sir Chris Wormald



Department of Health & Social Care

Dame Meg Hillier MP
Chair of the Public Accounts Committee
House of Commons
London
SW1A 9NA

39 Victoria Street
London
SW1H 0EU
permanent.secretary@dhsc.gov.uk

Sent by email to: pubaccom@parliament.uk

25 January 2023

Dear Chair

DEPARTMENT OF HEALTH AND SOCIAL CARE ANNUAL REPORT AND ACCOUNTS 2021-22

The Department of Health and Social Care's Annual Report and Accounts 2021-22 is due to be laid before Parliament on 26 January 2023. I am writing to inform you of the Comptroller and Auditor General's conclusions on those accounts. Firstly, the Comptroller and Auditor General has lifted three prior year qualifications included in the 2020-21 Annual Report and Accounts, namely:

- A regularity qualification relating to specific areas of irregular spending (predominantly COVID related), which as a result of the finance reset programme within the Department has not recurred in 2021-22;
- a limitation of scope opinion in relation to departmental group accruals; and
- a limitation of scope opinion in relation to possible fraud losses, which principally stemmed from the volumes of Personal Protective Equipment held in sealed shipping containers at 31 March 2021.

Whilst three previous qualifications have been lifted, the Comptroller and Auditor General has concluded that two new audit matters have arisen during the audit period that will result in a qualified audit opinion. These are:

- A **limitation of scope** relating to the lack of high-level governance and financial control at the **UK Health and Security Agency**. The UK Health and Security Agency has received a disclaimer opinion in relation to the audit of their annual report and accounts. Further details are provided below; and
- An **Excess Vote qualification** in relation to the clinical negligence provision. This is a technical breach of a control total resulting from a prior period correction to the



Department of Health & Social Care

estimation techniques applied, which was not identified in time to seek estimate cover from Parliament. Further details are provided below.

Finally, the limitation of scope qualification over inventory has remained as at 31 March 2022. This arises from the Comptroller and Auditor General being unable to obtain sufficient, appropriate audit evidence in respect of inventory and associated transactions. The Department's account was qualified in the previous year due to incomplete stock take records in respect of Personal Protective Equipment (PPE) and Test and Trace Inventory. In 2021-22 stock was still unable to be physically counted at 31 March 2022 included 5 billion items of stock held in stacked sealed containers due to accessibility issues.

The Department intends to capitalise on the reduction in the PPE storage footprint which should allow greater levels of inventory to be subject to stock count. The NHS Test and Trace programme spend is being significantly ramped down as a result of the Living with Covid strategy as announced in February 2022. This will lead to a natural reduction in the NHS Test and Trace inventory held. The UK Health Security Agency are also committed to improving the control environment over inventory as part of an improvement action plan. The Department is committed to lifting the current qualification at the earliest opportunity.

Limitation of scope relating to the lack of high-level governance and financial control at the UK Health Security Agency and lack of supporting evidence to form an audit judgement.

I have attached the letter from Jenny Harries to you (Annex A) setting out the background to the disclaimer opinion relating to the UK Health and Security Agency 2021-22 Annual Report and Accounts, which includes the commitment made by the UK Health and Security Agency to enable this qualification to be lifted as soon as possible.

The Comptroller and Auditor General has concluded that at Departmental Group level, this leads to a limitation of scope opinion (covering both his true and fair and regularity opinions) over the UK Health and Security Agency transactions and balances which are incorporated into the Department's Annual Report and Accounts. The Comptroller and Auditor General was unable to obtain sufficient, appropriate audit evidence over the UK Health and Security Agency total net expenditure of £9 billion and UK Health and Security Agency total assets less liabilities of £0.4 billion. The Annual Report and Accounts of the Department contain full disclosure of the transactions and balances concerned and their impact on the Primary Statements in the accounts.

Excess Vote regularity qualification in relation to the clinical negligence provision

The Department has breached the Resource Non-Budget parliamentary control total as a result of a prior period adjustment relating to the clinical negligence provision. This has consequently led the Comptroller and Auditor General to qualify his regularity opinion in this regard.

During the 2021-22 audit and accounts preparation process for NHS Resolution, a prior period adjustment was made to the estimate technique used for calculating the known claims element



of the clinical negligence provision. This addressed a significant divergence between expected claims settlement timing when calculated on an actuarial basis as compared to a case-by-case basis.

This restatement is wholly due to changes in the estimated timing of future payments rather than changes in the underlying expected payment amounts. As part of this reassessment, it was concluded that this approach should have been applied to prior periods, drawing on the information that was available at the time, as it results in a better estimate of the known claims provision. The prior period financial statements have therefore been restated as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The Department is required to record the budgetary impact of this restatement as non-budget voted expenditure. This prior period adjustment was not identified in time to enable the Department to seek parliamentary approval through the supplementary estimate process. As a result, the Department has incurred a technical breach of this Parliamentary control total and requires an Excess Vote. NHS Resolution are identifying potential improvements to the process to estimate the expected timing of cash-flows.

I would also like to draw your attention to some minor differences between the contingent liabilities reported in the Annual Report and Accounts and those previously communicated in our letter to the Public Accounts Committee on 24 October 2022.

Contingent Liabilities in the Annual Report and Account 2021-22

The contingent liabilities disclosed in the Annual Report and Accounts may differ slightly from those described in the briefing provided to the Public Accounts Committee on 24 October 2022. The contingent liabilities listing reported to PAC in October was based on a data collection exercise involving all Group bodies in April/ May 2022. Policy teams were asked to report all contingent liabilities including historic liabilities and those they judged did not require reporting to parliament (as defined in Managing Public Money). The purpose of the exercise was for assurance that parliamentary notification had been completed where necessary.

There are a number of reasons why the contingent liabilities reported to PAC are different from those disclosed in the Annual Report and Accounts, including:

- During the accounts production process, some liabilities were assessed as provisions rather than contingent liabilities, the difference between the two being a judgement on the likelihood of future outflow of economic benefit that may change over time;
- Due to timing differences, some contingent liabilities reported in October 2022 were not required to be disclosed in the 2021-22 annual report and accounts as they had either been resolved prior to finalisation of the account or had related to the 2022-23 financial year;
- In some cases, further work carried out has identified immaterial differences between what was reported in October 2022 in relation to contingent liabilities held within

From the Permanent Secretary
Sir Chris Wormald



Department of Health & Social Care

group bodies, and what has been disclosed in the underlying audited annual reports and accounts of these entities. Contingent liabilities disclosed in DHSC's group annual report and accounts replicate the disclosures within the accounts of the relevant entities to the extent they are significant in the context of the group annual report and account.

- In some cases, further work has identified that there is no separate contingent liability to disclose, i.e. the contingent liability that was reported in October 2022 has now lapsed.

Annex B explains the differences identified during the audit process.

I hope this letter is helpful in outlining some of the key issues relating to the Department's Annual Report and Accounts and recording my commitment to tackling the problems.

Please let me know if you require any further detail.

I am copying this to the Chair of the Health and Social Care Committee and the Comptroller and Auditor General.

Yours sincerely,

SIR CHRIS WORMALD
PERMANENT SECRETARY

Annex A: Letter from Jenny Harries to Chair of the Public Accounts Committee

Dame Meg Hillier MP
Chair of the Public Accounts Committee
Sent via email to: pubaccom@parliament.uk

Dear Chair

UK HEALTH SECURITY AGENCY ANNUAL ACCOUNTS 2021-22

The UK Health Security Agency's first annual report and accounts, covering our initial six months of operation up to March 2022, is due to be laid before Parliament on 26 January. I am writing to let you know that the Comptroller and Auditor General has taken the highly unusual step of disclaiming his opinion on the accounts. He concluded that he had not been able to obtain sufficient evidence from the NAO's audit to form a judgement and raised concerns about UKHSA's governance and controls. As Accounting Officer, I take this extremely seriously. UKHSA has faced some exceptional and unprecedented challenges, and I am proud of what we have achieved, both in delivering health security outcomes for the nation and in driving value for money for the taxpayer. But it is vital that we account fully and correctly for the public money we spend, and I am determined to put in place all necessary action to make the improvements that are needed, building on the progress we have already made since 2021-22. I have set out more details below.

Background on UKHSA

UKHSA was established as an executive agency of the Department of Health and Social Care. We became operational on 1 October 2021, bringing together NHS Test and Trace, the Joint Biosecurity Centre, and the health protection functions of the former Public Health England (PHE). Our mission is to protect the public from infectious disease and other health threats, including chemical, biological, radiological, and nuclear.

During 2021-22, UKHSA's top priority was COVID-19. We used our scientific expertise and operational capability to monitor and respond to the pandemic, through world-leading surveillance and technical briefings, genomic sequencing, and health protection response. When the Omicron variant emerged in November 2021, one month after the organisation's operations commenced, UKHSA mobilised immediately, with a record-breaking expansion of testing. We helped manage a safe transition to a new phase of the pandemic, supporting the Government's *Living with Covid* strategy. This required us to scale down testing and tracing services, delivering a £12 billion (85%) reduction in annual funding from April 2022: one of the largest and fastest spending cuts ever asked of a public service organisation. We have achieved this successfully.

The NAO's disclaimer

The C&AG's disclaimer opinion relates to both the "true and fair" and "regularity" opinion on UKHSA's financial statements. He has also been unable to form an opinion on the parts of the Accountability Report subject to audit including the audited parts of the Remuneration Report and Staff Report. His report highlights three particular areas of concern:

- The lack of high-level governance, since UKHSA's Advisory Board and Audit and Risk Committee were not in place during 2021-22.
- The lack of assurances and evidence for the balances transferred to UKHSA in October 2021. For example, full stock takes were not carried out before inventory was transferred from DHSC and PHE to UKHSA.

- Weaknesses in UKHSA's control environment – in particular, linked to the implementation of a new Enterprise Resource Planning (ERP) system. Some important controls were not operating properly (in particular, bank reconciliations); there were protracted delays in producing the accounts; and there were significant uncertainties where UKHSA was unable to provide sufficient appropriate evidence to support transactions and balances in the financial statements.

The C&AG concluded that these shortcomings in control and governance were pervasive to UKHSA's financial statements and left too high a level of uncertainty for him to be able to provide assurance on the accounts.

Context and challenges facing UKHSA

The pandemic meant that the context in which UKHSA was established was unprecedented, and there were many factors that UKHSA inherited or were outside the agency's control. In particular:

- Although UKHSA's non-executive chair was in place, no other non-executives were able to be appointed until April 2022, so the agency's Advisory Board and Audit and Risk Committee were not established until after the end of the financial year, leaving a gap in high-level governance. The delay was due to the absence of an agreed budget and remit for the organisation which were not settled until the end of March 2022. The Advisory Board and Audit & Risk Committee have been meeting regularly since June 2022 and July 2022 respectively.
- Creating UKHSA involved a complex organisational merger which meant that common financial governance and controls had to be established at pace, mid-way through the financial year, alongside managing a large-scale operational health protection response. There was considerable workforce churn both in finance and the wider agency during the period, with around half of the finance function on temporary contracts or loans.
- UKHSA inherited a decision to implement a new ERP in October 201. While adopting the new system was strategically the right direction and in line with government policy, it was highly risky and challenging to go live with a new ERP alongside such a degree of organisational change; this led to inevitable teething problems and transitional issues.
- Transferring NHS Test and Trace from DHSC into UKHSA (a significantly smaller organisation) inherently meant it would be subject to greater audit scrutiny and held to higher standards of accuracy, as the materiality threshold for audit was much lower (£91m in UKHSA compared to £1.6bn in DHSC).
- UKHSA inherited pre-existing audit qualifications relating to inventory which mean that some form of accounts qualification was unavoidable.
- The Government decided in February 2022 that UKHSA's test and trace activity should be scaled down rapidly, with a reduction of around £12bn in annual funding from April 2022, an unprecedented achievement for any public sector organisation. As a result, over the critical weeks before and after the financial year-end, when the whole finance team would normally prioritise producing accurate accounts, the overriding priority was to ramp down spending and contracts. This led to delays in producing the accounts, an increased risk of error, and some gaps in evidence for transactions.

The Governance Statement in UKHSA's annual report gives further explanation.

Actions and next steps

Whatever the underlying factors, there are important improvements that we need to make. As Accounting Officer I have already taken steps to strengthen UKHSA's governance to ensure UKHSA develops to be an exemplar organisation. I am committed to driving through further improvements as quickly as possible, while recognising that it will not be possible to resolve every issue in 2022-23.

We have reviewed our approach in detail in light of the C&AG's report and drawn up an action plan specifically to address the problems that have resulted in the disclaimer and other potential areas of concern. It aims to look systematically across UKHSA's systems and business processes, including central finance, HR and payroll, and accounts preparation. We have had positive initial feedback on the plan from HM Treasury and DHSC and will liaise closely with the NAO once the accounts are laid to seek further assurance that it is comprehensive. We are setting up the action plan as a formal programme, with an oversight board, with representation from HMT and DHSC, to assure progress, monitor risk and advise. UKHSA's Audit and Risk Committee will of course oversee closely. Additional specialist resources are being sought from DHSC and HMT to support the plan.

I hope that this letter is helpful in outlining the situation and recording my personal commitment to tackling the problems. I know that the Committee will wish to scrutinise further.

I am copying this to the Chair of the Health and Social Care Committee, the Comptroller and Auditor General and the DHSC's Principal Accounting Officer.

Annex B: Differences between Contingent Liabilities reported to PAC in October 2022 and the 2021-22 Annual Report and Accounts identified during audit

	Thematic reason for difference	Example identified during audit	
		Entity	Liability
1	During the accounts production process, some liabilities were assessed as provisions rather than contingent liabilities.	DHSC Core	Vaccine Damage Payment Scheme - £30m
		DHSC Core	Human Growth Hormone Scheme - £3.5m
		UKHSA	Construction of Rosalind Franklin laboratory - £15m
2	Due to timing differences, some contingent liabilities reported in October 2022 were not required to be disclosed in the 2021-22 Annual Report and Accounts as they had either been resolved prior to finalisation of the account or related to the 2022-23 financial year.	NHS Digital	Potential IR35 liability - £0.8m This was not disclosed in NHS Digital's Annual Report and Accounts as HMRC concluded their investigations prior to the laying of the accounts with no further liabilities arising.
		UKHSA	Santé Global LLP contract dispute – max £260m (ex VAT) This was recorded in UKHSA's contingent liability register as being initially recognised in the 2022-23 financial year.
3	In some cases, further work carried out has identified immaterial differences between what was reported in October 2022 in relation to contingent liabilities held within group bodies, and what has been disclosed in the underlying audited annual reports and accounts of these entities.	DHSC Core/ NHS England	West Suffolk Hospital Independent Review - £3m This was reported to PAC but is not reported in the underlying Annual Report and Accounts where the requirement is limited to the disclosure of material items.
		DHSC Core/ NHS England	Judicial review case into suspension payments made by former GP partners - £13m A liability of up to £13m was reported to PAC but is not reported in the Annual Report and Accounts. The case has subsequently concluded in the government's favour and so there is no longer a contingent liability.
		Human Tissue Authority	Insurable risk for professional indemnity, malpractice etc on behalf of the HTA - £1.5m A liability of £1.5m was reported to PAC relating to the Human Tissue Authority insurance risk. This has

			been disclosed as an unquantifiable contingent liability in the Annual Report and Accounts.
4	In some cases, further work has identified that there is no separate contingent liability to disclose.	NHS Blood and Transplant	<p>Contingent liability to cover any damages from advanced therapies sector activity - unquantifiable</p> <p>NHS BT have subsequently confirmed that any liability that exists is covered by NHS Resolution.</p> <p>Contingent liability relating to those impacted by infected blood products from Bio Products Laboratory (BPL) or other imports provided to the NHS - unquantifiable</p> <p>NHS BT have subsequently confirmed that it does not believe that the contingent liability exists in relation to BPL, and that it has no direct knowledge of the other imports referred to in the original submission. There may be a small risk that other imports may have been used by NHSBT predecessor organisations. However, NHSBT is not aware of these imports or indeed any previous claims relating to other imports.</p>