



FRC NHS AUDIT MARKET STUDY

Issued 17 October 2024

ICAEW welcomes the opportunity to comment on the NHS Audit Market Study published by the **Financial Reporting Council** on **25 July 2024**, a copy of which is available from this [link](#).

Notable issues in how the market is functioning

- Some NHS providers and NHS commissioners have missed the deadline in recent years to publish their statutory accounts, which impacts certification of the Department for Health & Social Care accounts and NHS England group accounts.
- Difficulties are prevalent in the audit tendering process which may deter auditors from bidding for NHS audit contracts.
- There is a lack of understanding regarding the importance and the value of having an external audit across some areas of the sector.
- There remain significant barriers to entry for new audit firms to enter the market.
- The market may be viewed as increasingly unattractive due to the increasing complexity of audit work, difficulties within the audit tendering process and regulatory pressures.

Increasing auditor capacity is vital

- The current lack of capacity within the NHS audit market creates risks for audit quality, with there being a danger of some NHS bodies being unable to appoint an external auditor if capacity is not increased.
- There is a risk of similar backlogs forming as in the local government sector, without any enhancement in capacity.
- Reforming the Key Audit Partner requirements to further increase the pool of auditors who can undertake NHS audit work should be seen to be essential.

An opportunity for more radical solutions

- We welcome the development of the Financial Reporting Council's workforce strategy which will consider potential reforms in this sector. This may be an opportunity to examine more radical solutions, which we believe could hugely enhance auditor capacity and the attractiveness of the sector to new and existing entrants.

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This response has been prepared by ICAEW's Public Sector team in consultation with ICAEW's Public Sector Advisory Group. ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 13,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

For questions on this submission please contact our Public Sector team at representations@icaew.com quoting REP 73/24.

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INTRODUCTION

WE WELCOME THE OPPORTUNITY TO RESPOND TO THIS CONSULTATION REGARDING THE NHS AUDIT MARKET

1. ICAEW welcomes the Financial Reporting Council's (FRC) review into the performance of the NHS audit market in England.
2. While the market is functioning better than the local government audit market, where many local authorities are years behind in the publication of audited financial statements, we are aware of issues within the NHS audit market in relation to the capacity of external auditors, difficulties within the audit tendering process in attracting and appointing external auditors, and regulatory pressures which are impacting the overall attractiveness of the market for existing and new entrants alike.
3. We are also aware of difficulties at some NHS providers and NHS commissioners to complete their external audits by the audit deadline set by NHS England. Timely reporting is an essential qualitative characteristic for the effective management of public money, with stakeholders of NHS Trusts requiring timely reporting to hold NHS trusts to account. It is essential to ensure that reporting backlogs, as seen across local government, do not begin to occur in the NHS market as well.
4. We also consider that increasing the overall attractiveness of the NHS, and local audit markets, is a key issue which needs to be addressed. Reform of the Key Audit Partner eligibility criteria could go a long way to enhancing the sectors' attractiveness, opening up opportunities to new entrants to the market and allowing for more flexibility in career options for auditors. We welcome the FRC's Workforce Strategy which we understand to be reviewing these requirements in further detail.
5. Our [vision](#) for local financial reporting and audit sets out steps we believe are necessary to improve the quality and rigour of the financial information provided to councillors to enable them to be effective in holding their local authorities to account. It also sets out steps to strengthen local audit to assure that information. Many of the themes set out within our vision can also be applied to the NHS market.
6. We submitted [evidence](#) on 28 March 2022 to the FRC's consultation on the Revision of the FRC Statutory Guidance under the Local Audit and Accountability Act 2014, in response to the Redmond Review 2019.
7. We submitted [evidence](#) on 17 April 2023 to the House of Commons Levelling Up, Housing and Communities Committee (now the Housing, Communities and Local Government Committee) setting out how we believe financial reporting and audit in local authorities can be improved.
8. We submitted [evidence](#) on 7 March 2024 to the Department for Levelling Up, Housing and Communities (now the Ministry of Housing, Communities and Local Government) consultation on addressing the local audit backlog in England.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

How well is the NHS audit market functioning? What issues are affecting this market?

9. We are aware that the NHS audit market is not functioning well in some areas.
10. This is best highlighted by the recently published Auditor Guidance Note on NHS audit planning ([AGN 05](#)), which notes that 23% of NHS providers and 20% of NHS commissioners missed the audit deadline set by NHS England of 30 June 2023 for completion of 2022-23 accounts. The note also highlights that many of these audits were still ongoing as at 30 November 2023, the date that the Department for Health & Social Care (DHSC) and NHS England committed to certifying their accounts with Parliament.

11. This is significant as completion of NHS audits is essential in providing a sufficient level of assurance for the NHS England Group 2022-23 accounts and the DHSC 2022-23 departmental accounts. As a result, there was a delay in laying these accounts until January 2024, only just meeting the statutory deadline for publication. Such a delay prevented timely reporting – an essential tool in effective management of public money and ensuring public trust in how public money is spent. We are pleased however that for 2023-24, NHS England have been able to publish their [audited financial statements](#) in October 2024, which shows some progress in this respect.
12. One of the main issues impacting the NHS audit market is there being a lack of auditor capacity. For 2022/23 audits, only eight audit firms were appointed to NHS bodies, of which there are 143 NHS Foundation Trusts, 66 NHS Trusts and 42 Integrated Care Bodies (ICBs). Most audits are also being taken on by six of the eight firms operating within the market, with two newer firms taking on five audits respectively.
13. We believe that the market is seen as increasingly unattractive, with our members citing that the market is heavily regulated and often, there are tight and competing deadlines with local government audits. Difficulties are also prevalent within the audit tendering process, with there being tight timescales to complete the tender and there being concerns that some NHS bodies do not fully understand the value and purpose of a statutory audit.
14. We are also aware of one firm who has elected not to bid for NHS audits, which will further limit capacity in the market.
15. Furthermore, the lack of Key Audit Partners (KAPs) to sign the audit opinions of NHS Trusts only increases capacity issues within the market. Our response to Question 3 explores these issues further, but we do not believe that the current number of KAPs (106) to be a sustainable number for the future.

Question 2

What, if any, barriers do audit firms face in entering and expanding in the market?

16. As previously mentioned and expanded upon in our response to Question 3 below, a barrier to a firm entering the NHS audit market is that there is a lack of auditors with KAP status.
17. The requirements are particularly prohibitive for a new firm, as they require a KAP in their firm to be able to sign the audit opinion. This often results in new firms having to hire an individual with the appropriate local audit experience from one of the eight firms that currently operate in the market or have an individual within their existing firm who meets the minimum experience requirements to be eligible for the training route to become a KAP.
18. However, new KAPs following the training route are subject to mandatory hot file reviews from existing KAPs after their first local audit, which may subsequently be followed by further hot or cold file reviews as well. For a new firm in the market, without existing KAPs, this may be impractical, as they must commission such reviews from other firms currently performing local and NHS audit work.
19. Because of the above, a new firm entering the market does little to increase overall capacity, as it often means one of the eight other firms has less capacity to complete their audit portfolio, or that valuable KAP time from an existing firm must be utilised for the review process.
20. Therefore, as previously called for in our [response](#) to the FRC's revision of statutory guidance in response to the Redmond Review, we support the removal of the time experience requirements for new KAPs. We believe that a principles-based approach to assess the suitability of a potential new KAP would be more appropriate, with flexibility offered to the Registration Committee to make judgements over whether applicants have the necessary competence and expertise required. Removing this requirement would also match the requirements for signing the audits of central government entities or corporate sector companies, where no such time limitations on experience exist.
21. We also support removing the requirement for new KAPs to have their first local audit file hot reviewed and recommend aligning the requirement for hot and cold reviews with corporate

audits, where the RSB has full discretion regarding the level of monitoring required for a new 'Responsible Individual' (RI). This would decrease the burden of new and existing audit firms alike in entering and expanding in the market, as well as potentially increasing the overall attractiveness of the market to these firms.

Question 3

To what extent are there constraints on audit firms' capacity to supply NHS audits? Why?

22. As previously noted, we consider the main issue impacting the NHS audit market to be the lack of auditor capacity.
23. The market, as with the local government audit market, is seen as increasingly unattractive and there is a lack of auditors with the necessary KAP status (106) to sign the audit opinions of an NHS trust or ICB.
24. It should also be noted, as the FRC have within their [invitation to comment](#), that while the audit of an NHS Foundation Trust does not specifically require a KAP to sign off the audit opinion, it is likely that they will be.
25. ICAEW has previously called for reforms to the KAP eligibility criteria to enable broader access to this market, and the local authority audit market. As highlighted in our response to Question 2, it remains our view that the requirements for local auditors should not be more burdensome than those of other sectors to become a KAP.
26. We also remain of the view that the current examples on the type of work accepted as providing relevant experience of local and NHS audits are too restrictive. The core skills required – professional scepticism and clear communication for example - are common across all audits.
27. We do not believe that the audits of NHS trusts differ hugely in substance to audits of NHS Foundation Trusts, which are not subject to the same KAP requirements but are governed by the Companies Act 2006 and require RIs to sign off audit reports. Thus, aligning the requirements for signing NHS Trusts with those of Foundation Trusts may be an appropriate action to consider, as this would enable a wider range of auditors to undertake NHS trust audits. In tandem, for this to be successful in boosting capacity, it will be essential to subsequently persuade and attract auditors with RI status to undertake NHS audits.
28. As already noted, regulatory pressures are also seen to be a key issue for auditors, and we believe that these pressures may be impacting the overall attractiveness of the market. While we fully support high quality audits, the complexity of completing an NHS audit has increased over time, with audit risk increasing due to arrangements such as complex group structures, reorganisations across the sector and long-standing PFI contracts. The level of work required to gain assurance over these areas has also increased for auditors, with revised auditing standards (ISA 315 and ISA 240) requiring higher levels of testing and performance of detailed reviews of controls' processes for example.
29. The drive for audit quality must be proportionately balanced with the ability of auditors – and NHS finance teams, to complete and deliver these audits on a timely basis. There may be a danger that the NHS audit market could suffer from similar issues as in local government, if the appropriate balance is not determined and if measures to improve the attractiveness of the sector and to increase auditor capacity are not introduced.
30. We are also concerned that the capacity and capability of both auditors and finance teams may be impacted by the Government's intention to reduce funding allocated to Level 7 apprenticeships. Such apprenticeships have been a vital tool for all parties to train the next generation of auditors and finance professionals, encouraging people from diverse backgrounds to enter the public finance profession. There is a danger that removing funding for these apprenticeships could further exacerbate skills shortages within the public sector, making it more expensive for auditors and finance teams to hire aspiring finance professionals at a time when many organisations are subject to serious financial pressures.

Question 4***How effective is the process for selecting and appointing NHS auditors?***

31. We are aware that there are some difficulties within the audit tendering process.
32. The Healthcare Financial Management Association (HMFA), in their [written evidence](#) to the Public Accounts Committee's inquiry into the system of local government audit in England, highlighted that for 2022/23 NHS audits, a small number of NHS bodies had not appointed an auditor by March 2023. They also comment that there 'is an increasing risk that a situation will arise where an NHS organisation is unable to appoint an external auditor.'
33. HMFA also raise various concerns regarding the process itself, with bodies giving a high weighting to the cost of an audit rather than its value or quality and non-relevant items being included in tender documentation. Furthermore, tight timescales to complete the tender are also highlighted in their evidence, as well as not allowing for sufficient time between the tender and the audit start date to enable effective resource planning and orderly handover arrangements.
34. NHS England, in their [2023/24 timetable letter](#) to NHS Trusts in February 2024, raise similar concerns, recommending that bodies 'show good understanding of external audit and its value' when seeking to procure external audit services, as well as ensuring bodies allow a minimum period of six weeks for bidders to receive and respond to proposals, with a longer period being recommended for complex engagements. We are pleased that NHS England's [2023-24 audited financial statements](#) note that they are working closely with NHS bodies to ensure they appoint external auditors in good time, showing that they understand the importance of an effective tendering process in aiding timely financial reporting.
35. We believe that these issues, when inter-linked with the lack of overall auditor capacity and the increasing complexity of NHS audits, further reduce the attractiveness of the NHS audit market for new and existing audit firms. It is also concerning that some entities appear to not properly understand the importance or value of an effective, and timely, external audit; such misunderstandings are only likely to act as a deterrence to some audit firms from bidding in this market. In turn, this has subsequent impacts for NHS bodies in a lack of choice of auditors, audit delivery and audit cost.
36. We suggest that the NHS England recommendations setting out what an effective tendering process looks like are re-emphasised by the FRC. However an effective process can only go so far in increasing the number of auditors who can – or who are willing, to undertake NHS audits. As previously noted, challenges with appointing NHS auditors are likely to remain until underlying capacity issues are addressed and a wider pool of individuals – and audit firms, are attracted and able to work within the market.

Question 5***What do NHS bodies expect from their audits and are their expectations being met?***

37. NHS bodies, as with any entity which is subject to a statutory audit, ultimately expect that their audits provide them – and their various stakeholders, with a clear, unambiguous conclusion on the financial statements of the entity. This conclusion is derived from robust risk assessments, from the receipt of sufficient and appropriate audit evidence throughout the course of the audit and involves the exercise of professional judgement and professional scepticism by the auditors, in line with relevant accounting and auditing standards.
38. The FRC's [guide](#) detailing what makes a good audit, highlights many key aspects of the audit process which NHS bodies should expect to receive as part of their audits. These range from ensuring that an audit team is appropriately resourced at all levels, ensuring that an audit team's knowledge of the business and the environment they operate in is tailored to the sector and the specific entity, allowing time for detailed planning procedures and robust risk assessments, and crucially, effective implementation of the previously agreed audit plan, where possible.

39. We question, with the various problems which currently exist in the market, whether the expectations of NHS bodies are being met. Our response to Question 4 notes concerns regarding the audit tendering process not allowing sufficient time for auditors to consider tenders, as well as not allowing sufficient time to implement planning procedures. Furthermore, general capacity issues and contrasting priorities with other aspects of local government audit work create tension in achieving the expectations of NHS bodies – and the FRC, as the shadow system leader.
40. We consider that it will remain difficult to fully meet the expectations of NHS bodies without the various fundamental problems in the market being addressed. Measures to increase the capacity within the market, such as re-examining the KAP criteria, and making the market more attractive to new and existing audit firms, would assist hugely in this area.

Question 6

What distinguishes NHS audits and to what extent do the current audit (and reporting) frameworks serve the needs of NHS bodies?

41. NHS audits are distinguished from central government, or corporate audits, mostly by the need for a KAP, rather than a RI, to sign the audit opinion.
42. We do not consider that NHS accounts and audits differ hugely from those within central government or the corporate sector. They require less sector-specific knowledge than completing an audit of a local government body, as they do not contain statutory overrides and auditors of NHS bodies do not have to respond to objections from electors. The current framework, we believe, is too prohibitive in this aspect, as it unnecessarily prevents many experienced, competent auditors from working in this market.
43. Our response to Question 3 suggests aligning the requirements to sign audits of NHS Trusts with those of signing audits of Foundation Trusts, as we consider both audits to be similar in substance and requiring similar skillsets. This would enable experienced RIs to sign NHS audits and would enhance capacity within the market, as well as better serving the needs of NHS bodies in having an increased choice of auditors.

Question 7

What, if any, changes are required to ensure a well-functioning NHS audit market?

44. Our response details various suggestions which we believe the FRC should consider to ensure a well-functioning NHS audit market.
45. Re-assessing the KAP requirements and aligning the requirements to sign the audits of NHS Trusts with those of signing Foundation Trusts, are in our view, the most significant changes required. These changes would increase auditor capacity, which is arguably the biggest challenge impacting the current market. We appreciate that the FRC is in the process of developing their workforce strategy which will consider many of these issues, and we welcome the opportunity to work together with the FRC in this respect.
46. However, we have [previously](#) called for consideration of other more radical solutions, which we still believe could go some way to improve the attractiveness of the NHS market sector – and the local audit market, more broadly:
- Working with central government to amend the Companies Act to ensure experienced local auditors with equivalent overseas qualifications are not prevented from becoming KAPs.
 - Further amending the Companies Act to allow local and NHS audit to count towards the required 120 days of statutory audit to obtain the Audit Qualification. We believe this could make local and NHS audit more attractive at the junior level, as it could allow staff to flexibly transfer between company and local/NHS audit work.
47. The above suggestions are made in the context of the vital need to increase the numbers of auditors in the sector, but also in the context of increasing the sector's overall attractiveness

in opening up the market to a wider range of auditors, and to allow for ease of movement between sectors. We believe that there are many auditors, who have the necessary experience, knowledge and expertise, who are unnecessarily excluded from operating in the NHS or local audit markets.

48. Consideration must also be given to the auditors' experience once the initial tendering process has been completed and how the process can be made easier for accounts preparers working in NHS bodies. An effective and efficient audit begins with the timely preparation of the draft financial statements. It is therefore vital that the audited body values the audit process and has sufficient resources and capability to deliver high quality financial statements and supporting papers. Where there are delays in producing quality working papers, this increases the likelihood of being unable to meet key deadlines and ultimately makes the market less attractive for everyone working within it. We welcome that NHS England, as noted in their [2023/24 audited financial statements](#), are encouraging auditors to report to audit committees of NHS bodies where the quality of draft accounts and working papers needs to improve, and would recommend auditors report any concerns at an early stage in the auditing process.
49. The NHS accounts timetable can be challenging for accountants working in NHS bodies, as they often have a short time period within which they must produce draft accounts. This short time-period regularly includes the Easter holidays and clashes with other challenging deadlines such as completing operational planning returns. Vital guidance provided to preparers is also often untimely which can further exacerbate these difficulties.
50. Therefore, we believe that all system partners across the NHS must consider how to ease the current timetable constraints, as well as ensuring timely guidance is provided to accountants working in the sector and ensuring that preparers have sufficient time to create quality draft accounts and working papers. With risks of some bodies not being able to appoint auditors going forwards and the difficulties of hiring qualified and capable staff, these changes would go some way to improve the overall attractiveness of the market and would hopefully make the NHS auditing process more efficient as well.