HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Auditing local government/incorporating local government and the NHS, HC 1738

Monday 28 January 2019

Ordered by the House of Commons to be published on 28 January 2019.

Watch the meeting

Members present: Meg Hillier (Chair); Chris Davies; Chris Evans; Shabana Mahmood; Stephen Morgan; Anne Marie Morris; Lee Rowley; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, David Aldous, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-144

Witnesses

I: Cllr Christopher Bloore, Chairman of Overview and Scrutiny Performance Board, Worcestershire County Council, Stephen Clark, Auditor, Ernst & Young, Jonathan Reid, Director of Finance, East Sussex Healthcare NHS trust, and Cllr Nick Sharman, Chair of the Audit Committee, Hackney Council.

II: Ian Dalton, Chief Executive, NHS Improvement, Jo Farrar, Director General, Local Government and Public Services, Matthew Swindells, National Director, Operations and Information, NHS England, and Sir Chris Wormald, Permanent Secretary, Department of Health and Social Care.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

Local authority governance (HC 1865)

Examination of witnesses

Witnesses: Cllr Bloore, Stephen Clark, Jonathan Reid and Cllr Sharman.

Q1 **Chair:** Good afternoon and welcome to the Public Accounts Committee on Monday 28 January 2019. We are here today to look at the role of audit in local government and local health bodies. When we consider that local public bodies—health and local government combined—spend about £64 million on external audit, which is supposed to provide independent assurance on how public money is being used and accounted for, it is important that the NAO has looked at this; and of course the NAO sets the guidelines for how that audit works, which is particularly important.

Today we are looking at what auditors are doing to use their public reporting powers to highlight any failings in public bodies. We are concerned that last year auditors concluded that more than one in five local public bodies did not have proper arrangements in place to secure value for money. As a Committee that looks at value for money across the piece, that is one of our concerns. When local bodies are not taking auditors' concerns seriously or addressing them promptly, there appear to be few consequences, so we are also keen to discuss that.

Our first panel of witnesses, who I will introduce in a moment, are here really to give the view from the ground of what it feels like to be audited; and we are really keen to hear what you think could be improved in this process, and what skills and talent are out there. The Committee has been looking at this for a long time, and there are issues about how many people in local government and in health—particularly members of the public and councillors—are actually qualified to look at these issues, so we are keen to explore that as well.

I am going to introduce our witnesses and then Mr Snell will make a declaration of interest. Going from my left to right, we have Councillor Christopher Bloore, chairman of the overview and scrutiny performance board at Worcestershire County Council—you are very welcome, Councillor Bloore. Then we have Jonathan Reid, director of finance at East Sussex Healthcare NHS Trust—thank you for coming and speaking up for the health sector. Then we have Stephen Clark, an auditor at Ernst and Young, one of the big four—welcome, Mr Clark. Then we have Councillor Nick Sharman, chair of the audit committee at Hackney Council. Councillor Sharman, your CV did not include all the things that I know you have done. Could you just explain your journey to being a councillor, because it is quite pertinent to this hearing?

Cllr Sharman: I had a long career in local government, on the officer side, and that included also a board-level appointment at one of the large outsourcing companies, so I have senior management experience of both

the public and private sectors. Late in life I have moved on to something that I was always fascinated with, which is the other side, as it were.

Chair: Thanks for that; I think it is important for this hearing. Mr Snell, would you like to make your declaration of interest?

Gareth Snell: I need to declare that I have known Councillor Bloore for more years than both of us would care to remember, and he is a member of my parliamentary staff.

Chair: Thank you very much. I am going to ask Anne Marie Morris to kick off, but I will just say that there are four of you, so if someone has said something that you agree with, you can always just agree with them; you don't need to repeat it. We want to get through the key bits of business today.

I am pleased to see Jo Farrar from the Ministry of Housing, Communities and Local Government in the Public Gallery; I am not sure whether anyone from the Department of Health and Social Care is here. I am sure she is listening with baited breath to your every word, and she will be asked to answer questions about what you have said, so this is your moment to influence Government even more than you normally do.

Q2 **Anne Marie Morris:** Mr Sharman, how do you use the information that the local auditors report to the audit committees?

Cllr Sharman: I think we have used it consistently and have picked up the messages. I am certainly reassured from my experience and officer reports that the information is both useful and used. That is a positive thing. The issue is less what comes and more what does not come back, but perhaps we can come back to that, because in my mind it is still too narrowly focused.

Q3 **Anne Marie Morris:** Why don't you expand on that now, while we have you?

Cllr Sharman: Okay. First of all, there is positive news from my experience in Hackney, which reflects knowledge going back some 30 years in various forms of the district auditor, the Audit Commission and so on—I have a bit of history here. My view is that all the key organisations in the audit accountability chain function quite well—I include in that the NAO, the PSAA and external audit. All those bits work together, and I think we pick up and use that information in an effective way.

However, although the individual parts work well, my worry is that the system as a whole does not function so that local government risks, particularly now, are adequately covered. Therefore, in my view it does not provide the necessary advice and support tailored to needs. Let me pick out three areas where I think there is a real change that the audit system does not pick up. First, increasingly we see local government departments working together. We often have an audit fundamentally focused on service areas, rather than on the whole function of the council. That becomes even more so when we work, as we do in Hackney, with the

NHS local commissioning body. You have a framework that is testing how the organisation as a whole works, and I do not think that either the audit system or the expertise we have available picks that up.

The second area, which the Audit Commission itself has noted, is that local government is increasingly moving to take capital risk. The audit function is set up to be focused more on the revenue side, and that goes all the way through the system. Capital presents risk in terms of raising money and using your money—whole Treasury management comes to the centre of it—and it also involves risk in terms of where you put your money.

There are some real changes that we have not caught up with, which is why, to come back to my first point, what is there works well but I don't think it covers fully the changes that we are now undergoing in local government. If you mix that with the pressure of cuts that is moving councils—particularly councils such as Hackney, but also many others—to be practically self-funding, that means that accountability locally becomes more important. Therefore, the need to have a really good system locally—the audit committee and support for it—becomes even more important. There is a whole range of changes there that I think we have not yet really grasped.

Q4 **Anne Marie Morris:** Mr Reid, could you give your perspective from a health background? Mr Clark, given that you are the qualified man at the table, if you like, I would like your comment on what Mr Sharman has just said and anything that Mr Reid might say. Mr Reid, the floor is yours.

Jonathan Reid: Thank you very much. I agree with Councillor Sharman about the process working very well. The whole system, from national audit to audit committees and the local audit expertise, works very well. I think the original question you asked was about what the reports are used for. In my trust we have a slightly different relationship with the public than local authorities do. We would use the audit report for briefing the board and members of the public on the key risks facing the organisation, usually through the publication of the annual audit letter and a public presentation on that.

The second thing we would do, which is possibly slightly different from local government, is use it for a local discussion with NHS Improvement and the kind of regulatory support team that sits alongside us as a trust, so that the report, for us, is not just about informing the board and the public; it is also for a dialogue about what support we might need from national bodies.

Q5 **Anne Marie Morris:** You do all the right things, but how much engagement do you actually get from those upstairs within senior local government, Parliament, the Departments and so on, and in terms of local residents? When you give them the opportunity, is there much uptake?

Jonathan Reid: That is a good question. I might be a slightly awkward example, from the NHS point of view, because my trust has one of the largest deficits in the country—last year it was over £50 million—and there

is a whole raft of reasons for that. That means we have had very intensive support from central Government bodies, and particularly from NHS Improvement. We have a process around us called "financial special measures", which is targeted support, and we also get support from the regional team.

How the audit process plays into that is probably different from how it would for an organisation that does not have such a significant deficit, or that is moving into or out of a deficit situation. So the majority of the support I get is from those central bodies. I would still turn to my external auditor for advice and guidance. I met him on Friday, actually, as we are coming up to the year end, to think about the sorts of challenges we might face, and also to get the preliminary thoughts on what work he might do, to work with me, to present to the board where we are on the value for money opinion. So I do think it is slightly different.

Where we might have an interesting distinction is in the relationship with the public. With an NHS trust the main ways in which we relate to the public is through our board meetings and through all the processes of public engagement that we have locally. I would say that there probably is not that much engagement on audit questions and financial questions. We spend a lot of time talking to the public about our financial position, but it is not really mediated through an audit perspective. It is more from the trust board.

Q6 **Anne Marie Morris:** Mr Bloore, do you any comments on what you have just heard, before we ask Mr Clark?

Cllr Bloore: I agree with large parts of what Councillor Sharman said at the beginning about how, in theory, many of these organisations can work together, and work effectively, but, as someone who comes from a shire county and district council, it is not the same experience that I have had at first hand. In fact, coming to it as a councillor in 2011, I kind of felt that I had come to the party just after all the cool people, when all the drinks were finished, because all I have seen throughout the period I have been a councillor is changes, transformations, cuts and service changes. What that inherently means is that year in, year out there are budget changes during the year. That has a massive effect on quality assurance and the audit process.

My concern, going forward, is that I am not convinced—I chair a scrutiny committee rather than an audit committee, but we pick up the bits that the audit committee raise concerns about. Whether we are getting value for money is a big issue in our audit reports. Value for money is often qualified in the shire areas that I represent. We get reports, year in, year out saying that there is still a problem for value for money, but I don't feel that our external auditors, or the outside organisations, use the powers that they have to really make the public aware of what is going on and how that is really going to affect services.

So, although in theory there is a series of procedures that can work, from my perspective, we are about to have a budget meeting at the county

council in February, and that budget still does not meet the pressures and the savings that need to be made for the year going forward. For me to have confidence in whether our audit process is working for value for money, I don't think we can say that yet, because we don't know the effect it is going to have on key services. We are talking about adult social care, alternative delivery models for children's social services—these are brand new things that are being done when the financial envelope is reducing rather than increasing. To me, that puts services at risk.

Q7 **Anne Marie Morris:** That is of some concern. Mr Clark, you have got three very different views. How can we do things differently?

Stephen Clark: I recognise all three perspectives, because I work across all of those different types of bodies, so I understand what each individual is saying in that context. In that respect, you have heard about the very differential nature of the activities and services of the key stakeholders that all three bodies are providing to you. Therefore, to have just one audit process covering everything would be really quite challenging, because they are operating at different levels.

That said, I recognise the level of risk and complexity in all those conversations. What I see as an auditor on the ground is that local authorities and NHS bodies work increasingly in partnership over a range of activities, particularly those new activities, and look at more holistic ways in which to work, whether through an STP or an alternative care provider. The key therefore is to be alert to those new risks that Councillor Bloore referenced, upping the governance arrangements internally.

The final point to make is that in respect of those audit processes, just from an internal audit perspective, I place reliance on the work of other inspectorate regimes—the CQC, Ofsted and so on. They, quite rightly, are the experts in those fields. Therefore, I do not believe that it would be my place to be able to second-guess, for example, some of the clinical expertise that would happen in a CQC inspection. I can take the information I get, but for me to be able to audit it in its own right would be beyond my skillset.

Q8 **Anne Marie Morris:** Let me ask you this then, Mr Clark: the concept of value for money is a hard one for non-professionals to understand—most of the time it is looking at whether or not you are in or outside the budget, in deficit, and so on—so, given the changing nature of the world that you are trying to audit, how do you even begin as a professional to look at what is value for money and how you will therefore put your audit together?

Stephen Clark: We are required to undertake the arrangements set down by the National Audit Office specifically. There are three key tenets to the value-for-money arrangements: making informed decisions, deploying resources in a sustainable manner for taxpayers, and working with third parties. Those are the three key aspects, and all of our work is focused on those aspects.

We then undertake a series of work throughout the audit year, looking at where we consider the greatest risk to that value for money to be in an audited body. I have a number of colleagues whom I work alongside and who also audit local authorities, so we compare and contrast what we see at different organisations, so that we have a level of consistency across the clients we audit.

We then undertake some direct work ourselves, where we have identified an area of risk, or—perhaps in addition—take some of that work, for example from the CQC, internal auditors or Ofsted, and pull it all together to get a view of the arrangements in place for value for money. It is very important to say that it is arrangements in place for value for money that I provide an opinion on, not de facto on value for money in its own right.

Q9 **Anne Marie Morris:** Mr Sharman, we have heard some of the views and a response from Mr Clark. You first said that the system is looking at this thing too narrowly. As we hear, clearly it is because we are now, in a way, integrating our working across a number of different areas. What would you like to see run differently to meet your concerns?

Cllr Nick Sharman: I would like to see a wider and deeper investigation. I said earlier about the range that it needs to cover in terms of looking at whole-organisation system working, rather than individual areas. I think that Mr Clark has illustrated my point about depth rather nicely. The auditors do, indeed, check whether the arrangements are in place; what they have no responsibility for is looking at whether those arrangements are actually working and producing the results. That is what I mean by depth: looking below compliance with arrangements and into whether they are working on the ground. It is that more local feel that we are now losing, in terms of the audit function that I was familiar with in my past, when I think there was deeper investigation of realities.

Q10 **Anne Marie Morris:** Forgive me, I am not an expert in this field, but why are we losing that? Is that because the rules have changed, or are people running out of time? What you are suggesting seems to be core to value for money.

Cllr Nick Sharman: I think what has happened is that the focus for audit has not narrowed in itself, but it does not have an infrastructure around it to support it. The Audit Commission provided that. I am not advocating a return to the Audit Commission—because we are moving towards less of a regulatory and performance review, which the Audit Commission did, and more towards supporting and working with people—but many of the expertise and support frameworks that the Audit Commission provided were very helpful. I notice that the Kingman report takes a similar view that some body needs to provide that wider service. Again, I am not going down with the Kingman recommendations about more regulation in this field, but I think he is on to an important gap in the present audit arrangements. They will only work if Mr Clark can look at something that has something underneath it, and that is where I am arguing we need some more support.

Q11 **Anne Marie Morris:** Interesting. Mr Clark, have auditors looked at the commercial exposure of the issues that have been raised?

Stephen Clark: Can I just clarify what you mean by commercial exposure?

Q12 **Chair:** Councillor Sharman raised it, and this Committee has looked at it before—things such as buying shopping centres, and increasingly going down that route, which is a risk but perhaps harder for you to look at.

Stephen Clark: As part of our work in that context, if I as an auditor had a client who was undertaking a significant commercial venture, making significant decisions on spending in both revenue and capital terms, and committing money that was funded in part through borrowing and in part through the taxpayer, I absolutely would look at the arrangements that had been put in place to come to the decision, the depth of evidence that the authority or NHS body had undertaken to make the decision and the governance processes around it. That definitely falls fair and square within the remit of what I would do.

Q13 **Chair:** Do you have any examples—you may be able to give us names or you may not—where you have had worries, and what has happened if you have raised concerns? We understand you may not be able to name a client.

Stephen Clark: Sorry, I won't be able to name individual bodies because of client confidentiality, but a number of my clients, particularly local government body clients, have looked at how they purchase land to secure that for forward investment, to then generate further business rates, jobs and revenue. Those are significant purchases and decisions for the authority. In the examples that I have, I have always been satisfied with the arrangements they have in place. I have not experienced with my particular clients those out-of-area commercial challenges that Councillor Sharman referred to.

Q14 **Chair:** But if you did, would you be prepared to challenge them? You have talked about client confidentiality, and that is obvious on one level, but you are the auditor of a public body, so there is a public reporting element too.

Stephen Clark: Of course, if I had a client that was undertaking those arrangements and I was concerned about the commerciality, the basis of the decision making or the area in which it was undertaking those investments, I would absolutely challenge that and understand the basis on which it was doing that. If I believed that that was the wrong thing to do, I would report that as such.

Chair: And you would be happy to report publicly about that?

Stephen Clark: Yes.

Chair: You have never had a problem where you have been leaned on not to?

Stephen Clark: No.

Q15 **Anne Marie Morris:** Mr Reid, receipt of qualified value-for-money conclusions is, sadly, increasingly common among NHS bodies. Do you think it is becoming normalised and people are just saying, "Well, most people get them,"—not quite, thankfully—"therefore we'll just ignore them"? What is your take on that?

Jonathan Reid: I should probably say that I can speak for my trust, but I would be very hesitant to venture into the world of NHS policy. It is certainly the case that an increasing number of provider trusts have been experiencing financial challenges over the last couple of years, and a consequence of that will be the value-for-money opinion. None of the organisations I have worked with, and certainly none of the organisations I am aware of, would take it lightly if their audit opinion was qualified for value for money. It just reinforces the board's need to be aware that it has overspent against its budget or its arrangements for value for money were not adequate. It is worth saying that there is definitely something structural that NHSI, the regulator, has acknowledged. It is really taking steps in this coming year to try to remedy some of that; we are going through a planning round. It would be fair to say that there have been some changes to the national financial framework for providers in terms of changes to the tariff and the way the control total regime has been set, and the aspiration is that we will move more providers out of deficit. What that should mean is that the funding framework is clearer and fairer—note that I am not casting aspersions on previous years' funding frameworks—

Q16 **Chair:** It's all right; I think we have probably already done that.

Jonathan Reid: Just don't quote me on that. Where organisations are going into deficit, it is more clearly an issue of management or local circumstance or a structural issue, rather than an overall funding framework. For a deficit the size of the one my organisation has, for example, there is something in there to do with tariffs and something to do with deficit. As members of the board, we have to understand that we are doing the best and demonstrate value for money. From outside, it could look as though it is becoming increasingly common for NHS bodies to have a VFM qualification, but—if you'll forgive the presumption—I would not draw a conclusion from that that it is just business as usual for NHS bodies. Provider boards are concerned about value for money and take value-for-money qualifications seriously, and the regulator recognises that and is working with us to try to strengthen the arrangements overall.

Q17 **Anne Marie Morris:** Do you think one could put in place incentives that would ensure that the issues around value for money were properly addressed?

Jonathan Reid: That is an interesting one. As trust board members, it is part of our responsibility to ensure that we are delivering value for money. In some ways, the auditors just remind us of that. I am not sure that we would necessarily need incentives around that.

Q18 **Chair:** You will know that we have looked at the health budget in great

detail, so I will not repeat what you know, but when you are firefighting, isn't it the reality that you just have to get the books balanced—or in your case not, but working towards it over a number of years—and value for money as a top priority goes out of the window?

Jonathan Reid: Yes and no. The pressure around the decision making is certainly increased. The need for significant improvements in year could potentially lead to difficult decisions. I have to say that most finance directors I know would be very careful not to get into that position, but it is unacknowledged, or it is definitely a risk. That goes back to one of the benefits of having that local external audit support. If my board, for example, was feeling the pressure and was looking to do a transaction that was not necessarily as good value for money as it could be, I would have the ability to go and talk to the local auditor and use the value for money framework to surface that to the board. I will emphasise that that has not happened, but it is nice to know that that opportunity is there. That is one of the strengths of having the local auditor.

Q19 **Chair:** Can I ask Mr Clark about in-year funding changes? We have seen money thrown at the NHS for winter crises in the middle of winter, and we see the uncertainty for local government of having funding thrown at it or taken away from it. That obviously has an impact on value for money. How do you take that on board when you are looking at things? It is a fact that it must have an impact, but it does not tend on its own to lead to adverse opinions.

Stephen Clark: You are quite right that it has an impact. The challenge for me as an auditor is that that money often comes at relatively short notice, as it does for the bodies. My responsibility then is to check that that money is being used for the intended purposes and for the decisions that the bodies make. In terms of whether I have ever qualified a VFM opinion because of that in-year money, no, that is not the case. It tends to be given and used for particular purposes to address some short-term issues, so from a value-for-money perspective it does not hit my radar. Some of the broader, bigger decisions that local bodies are making over a two or three-year period tend to have greater priority.

Q20 **Chair:** Do you feel that as an auditor you have the opportunity to feed in? I know auditors meet; you have a code and you obviously liaise with the NAO and have the NAO guidance. If you are seeing that sort of thing, for example—you could take other examples—do you get the chance to feed that up the line, to help the Government to shape their decision making on a value-for-money/audit level? You are obviously not getting involved in policy, but if you routinely saw something that was clearly bad value for money, or behaviour from Government that was causing bad value-for-money decisions, would you be able to feed that up the line?

Stephen Clark: I believe we would. You are right that there are a number of auditor forums across both the NHS and local government where, if problems or issues are identified, they are brought together and discussed. A good example of that was the STF funding that came in a couple of years ago—the use of that funding, and what bodies needed to

do to obtain that funding. Some of that funding was substantial, and therefore we were keen to understand the base on which it was used and what NHS bodies had to do to achieve it.

Q21 **Gareth Snell:** Obviously, Mr Reid, it is a different set-up in the health service compared with local government. Ultimately, how engaged do you think the public are in the auditing process—or even in understanding the auditing process—of the vast sums of money spent by commissioners and providers in the health system?

Jonathan Reid: I would say it varies from local health economy to local health economy, depending on the level of engagement that the audited bodies have. In East Sussex, there has been a lot of engagement with the public in a joint way through a programme called East Sussex Better Together, with the commissioners, the providers and the local authority working in a three-way partnership. Members of the public are very aware of the overall financial envelope, some of the constraints on that envelope, and our forward plans for integration.

If I am honest, I would not say that there is a huge amount of understanding of the audit process around that. To be fair, that does not necessarily have to be the case. Leaving aside the deficit and the financial challenges for now, if everything is working as it should—if the three bodies are working in partnership and doing things the way they should, and if there is no risk around governance, no breaches of probity and no irregularities—in some ways, they do not need to be aware of the audit process.

Q22 **Gareth Snell:** I entirely disagree. If I were a member of the public somewhere in East Sussex, and I felt there was something wrong with the way a trust was spending money or a clinical commissioning group was making decisions—if I was concerned about a decision that your trust had made—how easy would it be for me to raise a red flag with the right person, as opposed to not knowing where to turn?

Jonathan Reid: That is fair. If I came across as complacent, that is not the impression I intended to give. The first line of inquiry would be the public meetings of each of those three bodies. We have a monthly public board meeting and members of the public will come to that. We try to undertake all our decision-making in public. We do get challenged a lot by a vocal and interested public population on the decisions that we are taking. That is right; part of being on the board of a public body is to be open to that kind of scrutiny. If members of the public were not comfortable with the decisions that we were taking, initially they could write to us and go through the process that is advertised on our website.

You are right that there is something about how they interact with the audit process that I do not think is well publicised. I would be curious as to what my audit colleagues think about that. Our first line of inquiry would be, "Come to us. We'll have a discussion about it." Of course, they could then move up within the health framework, so they could complain to NHS Improvement or, for clinical matters, they could go to the CQC. All that is

well understood, particularly in a local health economy that has had a trust in clinical special measures. Members of the public are really sighted and aware of those issues.

Q23 **Gareth Snell:** I do not wish to push back too harshly, but my health economy is in financial special measures, at the provider and the commissioner end, and I would not agree that there is widespread public understanding of those processes at any level, in reality. Those who want to know, know; those who probably should know, don't.

Councillor Sharman and Councillor Bloore, from a member perspective, with audit becoming an in-house process, how engaged do you think councillors outside the audit committee are in that process? Without wishing you to get in trouble with your colleagues, how much do you think they understand the documentation that is presented to them?

Cllr Sharman: I will not hide from you that it is a struggle to engage—

Q24 **Chair:** How many members of the audit committee are there in Hackney? I should probably know the answer.

Cllr Sharman: There are six.

Q25 **Chair:** That is a mixture of lay and councillors, is it?

Cllr Sharman: No; it is all councillors, but from both the parties that are represented.

Gareth Snell: You have more than one party in Hackney; that is interesting.

Cllr Sharman: There is a small number. We have certainly tried, first of all, to engage the members of the audit committee in a more active way. We are trying to move audit from a rather passive tick-box committee that makes sure everything is going fine to one that actually looks at it. We have now, a little in imitation of the Committee, done some deep-dive investigations. One that we currently have going is into SEND funding, which is creating a real crisis for us, and trying to understand whether the council's planning and running of that is adequate. That is one way in which we are trying to get them involved.

We also back that up with regular training for audit committee members. That is also open to other councillors. I am trying to get them involved in it by having regular updates on it at full council meetings. I think that is going reasonably well.

I think that the gap is still with the public, and in reaching out and making this relevant to them. One thing that would certainly help us is changing the form of accounts that local government is asked to make. They are impenetrable not only to anyone without a financial background but to many people in finance departments, because of this private sector-public sector treatment mix. This whole simplification exercise, which has been going on for some time, is essential. You cannot get the public involved if you provide them with an impenetrable encyclopaedia.

Q26 **Gareth Snell:** I was going to come to the public in a minute. Councillor Bloore?

Cllr Bloore: I agree with large parts of that. However, talking from a shire perspective—particularly a district council perspective—it would be fair to say that a meeting that happens one, two or three times a year does not get the respect that it deserves from councillors. Many audit meetings tend to be nodding-through exercises to letters of auditors' concerns, rather than the deep-delving audit and scrutiny that they really should be.

One of my frustrations is that continual notifications on value for money are raised as a qualified opinion from our external auditors, year in, year out, whether on deleted posts or how shared services are scrutinised and evaluated. However, no stick is applied to councillors, the executive team or the senior leadership team, which often changes in councils up and down the country, to ensure that something follows through from those recommendations.

I have just been to an audit committee meeting in Bromsgrove, and concerns were raised about value for money and about the continual leaving open of staff posts, only to delete them to make savings during the budget process. How can members of the public then work out whether that will lead to a poorer service in the following year? That is impossible for them to do.

Bromsgrove has improved its treasury management. However, it is being told year in, year out that it is not being clear about how it is making those savings, and it is being asked how, in year, it will adapt to new funding arrangements—whether it is a grant from the Government or a change in the Better Care Fund offering. How should it respond to those? I do not think that councillors understand local government financing, let alone the audit process, enough to deal with that.

If we are being honest—I think Nick was slightly nicer about his colleagues than I will be about mine—sometimes a hospital appointment or a meeting elsewhere that they might like to go to takes precedence over staying in an audit meeting for hours and hours and going at it with the external auditor. Sometimes, in my experience, the external auditor has not pushed the cabinet, the executive or the senior leadership team enough either.

We are not quite at Hackney's stage of being a one-party state, but it is very close to that in the shires that I represent. If you do not have buy-in from Administration councillors from the same party as the Administration, you will not get anywhere with any concerns. That is why I slightly disagree with Nick. Before my time on the council, voluntary engagement with the Audit Commission seemed a much more effective way than it does currently of raising red flags and getting public attention.

Q27 **Chair:** Do you think that councillors make rational decisions about policies, such as budget cuts—perhaps they decide that a street that was being swept twice a week should be swept only once a week—or do they

look only at the raw numbers, without really understanding the impact of those decisions? I know that is slightly on the other side from audit, but it is important when looking at the cost of services.

Cllr Bloore: I think that many councillors take decisions on services that they might never use or see; they simply see a number on the bottom of a piece of paper that has to match up to the Government grant financial envelope or the council's funding situation. They are prepared to make any decision that makes the numbers add up.

Q28 **Chair:** Do you think that more members being engaged with audit—looking at decisions after the event—would help them to make better decisions in the future?

Cllr Bloore: Absolutely, but there have to be teeth for that, and audit has to have the same stature within a council as overview and scrutiny, or even the same stature as the cabinet. It has to be up at that level, because otherwise it will simply be used as a graveyard, for councillors to sit on and meet three or four times a year. I don't want to say that, but unfortunately that is sometimes the way it is treated.

Cllr Sharman: Nothing I have said would disagree with the need to have an effective audit committee. I think it does need teeth.

I will just raise another issue that is troubling us and that we haven't talked about: the relationship with Government in its various forms, and particularly some of the inspection bodies. We are being driven into conflict between the demands of those external bodies and our budget requirements. The SEND issue is a very clear one.

Chair: Special educational needs.

Cllr Sharman: Yes, special educational needs, where there is legislation that guarantees people rights. Ofsted and others are rightly insisting on it, yet we do not have the resource to do it, so we are put in an impossible position and that is a problem.

Another example—this comes back to the total picture I was trying to paint about needing an audit that looks at how the whole system works—is our work on the joint commissioning body with the national health service. We have a reasonably good relationship with our colleagues in the NHS on commissioning section 75 services, on the revenue side, but what has really undermined us are sudden changes in in-year funding, which upset the whole system and the provision of service. That is a real difficulty. Again, no one takes that and says, "Look, there's a problem here."

The other example was their property services, which run totally separately from the people at the front end—the people we are talking about—and yet can have an absolutely devastating effect in terms of releasing property or the value released. We took five years to get a very simple land swap in north Hackney, because people were arguing back and forth about planning gain within a public authority. It was madness. I use those two examples to make the point that, as well as looking internally at

all the points that Christopher has rightly made about how internal audit and the public work, we ought to look at its wider environment of working across Government bodies.

Q29 **Chris Davies:** I have two quick questions. The first is to Councillor Sharman. You have evidently had a distinguished career in local government. Do you see that as a great advantage or a disadvantage in being a councillor?

The second question is to both councillors. I share your pain. I was a county councillor before coming to this place, but for a very different type of authority—it covered a third of the land mass of Wales—with various different and challenging problems. But we had a diverse group of councillors who were really not interested in audit or scrutiny. That is not what one would call the sexy side of being a councillor, if there is a sexy side. So how can we get more councillors to be engaged in good audit and good scrutiny?

Cllr Sharman: It is quite interesting being on both sides. I have always had a long view that we are all colleagues—councillors and officers—in trying to improve the life chances—

Chris Davies: Some would say that officers make the decisions and councillors take the blame.

Cllr Sharman: Yes, and that culture goes very deep in local government, to too great an extent. There is an absolute requirement to respect the different functions that councillors and officers have, but too little attention is paid to where we have a joint mission. I suppose that one of the advantages in my coming here is that I really understand the pressures on officers and can kind of empathise with them, and work them, which creates a healthier collegiate attitude. Now, you have to balance that against the accountability and responsibility, but, heavens, we do that in management in all kinds of ways, accepting responsibility and accountability but working alongside colleagues. So I don't think that is impossible.

You raised a very important question about how we can work better together on this issue. I think it is possible to get the councillors more involved in this process by giving them an active role. As I said—Christopher put it well—there is this idea that it is just nodding through; that that's the function. But if we look at audit as an absolutely key role, which I think it increasingly will be as councils become more self-financing, then there has to be a proper job and a proper set of responsibilities set out for them, and a cultural expectation that they have to play an active role. That comes back to my point about bringing people in to do the sort of job that you do, investigating and looking at particular issues within councils. By the time you have got that, backed with some real powers, you then have a job to do—your job is not just to coast.

Cllr Bloore: One of the biggest problems that I face in local government is the power and strength of the executive within councils these days. I was not around during the committee system, when back benchers had far

more influence over decisions made in councils, but there is a particular culture in the councils that I have been involved with of not sharing information with all councillors who sit on the council. That leads to big problems, and I will give you an example.

I compare my frustration with external auditor reports to that with a report that was commissioned by Worcestershire County Council by CIPFA, which gave a damning assessment of some of the financial systems within the council and—to be quite honest—its lack of transparency on how it was making decisions and planning for the future to make £20 million or £30 million in savings in one or two years. That report was not actually released to councillors or members of the public but simply commissioned for the cabinet, and when it was finally revealed after a series of FOI requests by investigative journalists, it had far more influence on the decision making of councillors than any external auditor report ever had. In fact, it sent a shockwave through the council, to be frank, and it led to many back-bench councillors on the administration side asking very pertinent questions as we went forward.

Again, to quote you on "the sexy side" of being a councillor, I am yet to see it. I sit on one council and am 35 years of age, and I am the youngest councillor. I am on the county council and, at 35 years of age, I am the second youngest councillor. The four people giving you evidence now are all white men. We have a big problem attracting people from different backgrounds, whether that is about remunerating them properly for the time they give or giving them the support they need. One of my big frustrations is that, if I want to flag something with Government or a Department about what is going on in my councils, as a chief scrutineer I do not get information or the support back to raise these things.

Bear in mind the CIPFA report I discussed earlier, which raised severe concerns about children's services and adult social care. In five, six or seven years, those could be the things that we read on the front pages of newspapers. Support from Government would be hugely welcome from my point of view, because at the moment if I have a significant problem with the way in which the council is run, I am seen to be an opposition councillor who is merely trying to cause trouble, when actually what keeps me up at night is who people will come to for a comment when an adult social care facility falls down or a child is killed. They will go to the overview and scrutiny chairman, or the chairman of audit, to ask, "What did you do to stop this happening when there were things along the way that could have tipped you off?" That is what keeps me awake at night.

Q30 **Gareth Snell:** Mr Reid, there is a role for Government in how the health service is regulated and audited. I appreciate that that is not necessarily day-to-day interaction with individual trusts but—this question is similar to the one I asked the two chairmen—if you had a concern that you did not think your auditors were treating correctly or taking seriously, who would you turn to? How easy would it be to get past the auditors to someone who has authority to instruct different actions to take place?

Jonathan Reid: I think the first port of call for me would be within my own organisation. If I personally, or any other member of the board, had a concern, we would probably speak to the chief executive or the chair of the organisation. The second port of call would be in the regulatory chain, if you like—we have a regional regulatory support team and a national regulatory support team. We would not necessarily go directly to the auditors if there was a concern.

Say we were worried about a value-for-money concern or a transaction, we would see if we could deal with it as part of the governance of the trust, and then if we could go through the regulatory process. The fact that the auditor is there is just an extra lever to keep an eye on our governance and to make sure—I don't want to say that we are kept on the straight and narrow—that it provides somewhere for us to go to express concerns.

I have never been in a position where I was concerned that the auditor was not raising something. If there was a concern about the quality of the work that the audit was doing—that is not the case—I would know that we could go to the National Audit Office, which houses the core regulatory function for the auditors. Does that answer your question?

Q31 **Gareth Snell:** It does, and it leads nicely on to Mr Clark. As someone who does auditing work and who audits local bodies, one thing I am concerned about is that it only ever hits a ministerial desk or the NAO at crisis point. Northamptonshire is a prime example for me. We know all about Northamptonshire now, because it has gone bust. We know all about the financial special measures trusts, when they are reporting £50-million, £60-million or, in my case, £90-million deficits in their operating budgets year on year. From an auditor perspective, how receptive do you think the system is to feeding concerns up the chain so that Government can take those actions necessary to prevent things falling over, rather than picking them up once they have fallen over?

Stephen Clark: In my experience, and as one of the auditors who has issued statutory recommendations at a body, that was taken extremely seriously. That was not only at the point of issuing those recommendations, but at the point where the issues that led to those statutory recommendations were raised. I know that colleagues from MHCLG and colleagues from the NAO were equally interested in that point.

Q32 **Gareth Snell:** But those are quite rare, aren't they?

Stephen Clark: They are. The other point highlighted in the NAO's recent local auditor report is about the level and volume of qualified audit opinions across the NHS and local government. Those qualifications are all matters of public record; they are all publicly available documents. I know that in the examples I have dealt with they tend to get quite a lot of local press scrutiny and occasionally national press scrutiny. When I raise those issues with audit committee members, be they councillors or non-execs on NHS bodies, they take those particularly seriously, because usually they have an interest in being on those committees and it is about their

personal reputation. My experience is that they do react to them and they don't want qualifications. As the evidence from the NAO Report shows, there are an increasing number of those qualifications.

Q33 **Chair:** In Northamptonshire there were early warning signs. Whether or not they were heeded, it still collapsed. Perhaps I should ask the councillors first. Did you know about Northamptonshire before it happened? Councillor Sharman is nodding. You were aware that it was coming before it was public.

Cllr Sharman: We knew that there was an impending crisis in Northamptonshire for months beforehand.

Q34 **Chair:** Months. Councillor Bloore, did you know that there was an impending crisis in your neighbouring authority?

Cllr Bloore: Yes, but only because any councillor away event is like a busman's holiday; you get told what is happening.

Q35 **Chair:** You are a network.

Cllr Bloore: Yes.

Q36 **Chair:** Once it happened, did you get any guidance, support or advice from the Department about what to look for and what the lessons were from Northamptonshire? You are shaking your head, Councillor Sharman. For the record—

Cllr Sharman: We got no specifics, other than making sure that we had looked at our financial sustainability.

Q37 **Chair:** Councillor Bloore?

Cllr Bloore: No, but there were guidelines in terms of what happened. There were large-scale capital projects that were perhaps not scrutinised to the level they should have been. It was also about not meeting budgets year in, year out. Those are things that are happening in many county councils that I am aware of in my networks.

Q38 **Chair:** But there was nothing sent round saying, "This happened in Northamptonshire, can you go and double-check?"

Cllr Bloore: No. In fact, it was worse than that. The top-line message was, "We're not Northamptonshire." That was the message.

Q39 **Chair:** From your own council.

Cllr Bloore: Yes.

Q40 **Chair:** What about from the Department? Did anything come from the Department that you were aware of?

Cllr Bloore: Not that I was aware of.

Q41 **Chair:** But then you are in opposition in your council. You talked earlier about reports not coming to all councillors. That is quite worrying. These are quite important audit documents, but you are saying that they are

not routinely going to councillors. How will the public know what is going on?

Cllr Bloore: That is a great question. At the moment, the cabinet can spend what they want on outside advice. I asked the leader of the council whether he regretted the fact that it had come out in a manner that was damaging in the press, and his answer was no, because he felt that that sort of advice and blue-sky thinking that he should be able to get from outside agencies should be kept in-house so that they can make decisions. I wholeheartedly disagreed with that, because actually it was saying, "For the last three to four years you haven't been meeting these targets in transformation that you need to have." To be honest, it raised questions with me about why the audit process hadn't been picking that up and flying flags.

Chair: I have to say that I am so old that when I chaired a committee in Islington Council back in the day, all the decisions information was in front of the opposition. The officers had to give their evidence to the whole committee, and there wasn't a closed cabinet meeting—although they are theoretically public; I hear what you saying. Anyway, that is ancient history, so perhaps I should move on to Mr Snell, who is much more in the modern world than I am.

Q42 **Gareth Snell:** It is very rare that people say that I am modern. Finally, Mr Clark, on the points that we were pursuing before, I appreciate that statutory recommendations and public interest reports have a formal structure. You are an auditor, so you look at a set of books that have got their third year's-worth of qualifying accounts. You look at a health trust that is struggling financially. What is the informal mechanism for you to say, "Actually, guys, we might want to think about this one before it becomes a Northampton"?

As far as I can see, yes, they are public documents. Housing, Communities and Local Government does not routinely check those things. We get a broad state of the sustainability of the sector, but we do not get individual reports coming through. Is there an informal mechanism that allows auditors who are concerned about a particular thing to say, "Actually, we may want to have a look at how this is going"?

Stephen Clark: In terms of how I work with my clients, which I think is the best example I can give you, I have very regular meetings with all my clients, where we talk about the decisions they are making, particularly the big decisions, and particularly those that lead to significant spend. I understand the basis on which they are making them. I often have conversations both with officers and with councillors or non-execs in an NHS body, where they say, "We have got a big decision to make. This is the basis on which we are doing it. I am assuming you will look at this." So it is not necessarily just me; I often get it coming back the other way.

Those discussions may or may not lend themselves to a qualified VFM opinion, because the right decisions may have been taken, etc. That is the best time I can get involved, if I can make sure we have early scrutiny of those issues throughout the year, so that it is not an after-the-event issue.

That is the way we can make sure that local public bodies make the right decisions.

Q43 **Chair:** So if you are asked by an opposition councillor—so in this case if Councillor Bloor comes to ask the local auditor for information about something like that—are you bound to provide any information, or because you are being paid by the incumbent party does that limit what you put in the public domain?

Stephen Clark: No, I am not bound to provide that information. The other consideration that I must have is about taxpayers' money and the use of my time. Therefore, I would typically refer—whether it is a council or a member of the public; and there are different regimes between the NHS and local authorities—back to the information provided by the client. Ultimately, it comes back from those. I have had circumstances in which individual members of the public believe that they have not got the information. There are a number of routes that they could take. There is the local government ombudsman. There are FOI requests. Equally, I have also had conversations with bodies where I have got an individual who wants some information, and I have had an informal discussion that says, "They do not believe they are getting it; can you make sure?"

Q44 **Gareth Snell:** I am trying to understand the hierarchy. I appreciate that is for you as a provider of a service to the client that is commissioning your service. Obviously, within the audit world, within your company, there are certain responsibilities to the broader auditing guidelines. Also, if things go wrong, they feed up. Let's say you have got a client—it is hypothetical, and I hate hypotheticals, but bear with me—that is on the third year of qualifying reports. You have had your conversations with them and they have a very relaxed approach to this. You think they should have a slightly more concerned approach, but you have spoken to them and they are quite clear that their strategic plan for 20-whatever will take them to a point that they are happy with. You are not happy with that, so you have qualified their accounts, but what powers do you have? What levers are available to you, apart from simply putting it in writing to them and then saying, "I've told them, and now it is up to them"?

Stephen Clark: In that situation, we have a number of internal review mechanisms that would raise the profile of that client to what we would consider to be higher risk: I may have a second partner reviewing it, or we may have a professional practice team looking at it to make sure that it is not just based on my decision. Once we get beyond that, though, the actual levers that we have are laid down by our statutory recommendations: they go from public interest reports all the way to judicial review.

Q45 **Gareth Snell:** So it goes from internal—talking to partners—straight up to a statutory report. Is there no informal mechanism that allows for a gentle nudging towards an interest?

Stephen Clark: Not that would be enforceable, no. I can have those conversations and I will put issues into planning documents where I

consider things to be a significant risk, but there is no other formal lever that I could fall back on.

Q46 **Chair:** My final question is about the information to the public, which Ms Morris touched on earlier. Could I ask each of you whether you think that the information that is currently provided and that has to be made available on councils' websites is good enough for the general public to understand what is happening to their money when it is spent by your bodies? We'll start with Councillor Bloore and work along. Any suggestions for improving it would be helpful, too, but let's keep it quite short, because it is 5 o'clock.

Cllr Bloore: It was previously mentioned that all the information is available online, but things like a lost dog or the closure of a community centre will get far more press coverage than a qualified report on value for money. Until that changes—until information is shared with all councillors about the concerns going forward—it is not going to stop another Northamptonshire or the fall-down of a key service like adult social care or a children's service. So I would say that the best way to change it is for external auditors to produce non-standard reports and help councillors to raise the flag when things are going wrong. That is the only way it is going to happen: with publicity and political pressure from the public.

Jonathan Reid: I chose to work in the NHS for a reason. Local government has its challenges, but it is a slightly different scenario for us. It is the responsibility of individual NHS trust boards to make information available to the public so that they can be aware of whether there is a financial challenge and what we are doing with the resources.

Q47 **Chair:** Do you think that what the sector produces is clearer now?

Jonathan Reid: No, I think we can always improve. There are lots of repositories of good practice—CIPFA provides really good information for us and our regulator, NHS Improvement, tries to support us. There is always more that can be done to provide information to the public, but the primary responsibility to do that is with us. If we are not doing that, or if it is failing, external audit and regulation are the two ways in which we can be steered back on the right path. I think both parts of the equation work reasonably well in the local NHS context, but I could not necessarily speak for the local government side of things.

Q48 **Chair:** It is quite interesting: we are a bunch of MPs, so you would think we'd know our way around the NHS system, but since the changes of 2011, it has sometimes been very difficult to track down who is spending what money and how those decisions are made. Even as MPs, we find that quite hard.

Jonathan Reid: I wasn't saying it was straightforward. It is my job, and even I do not necessarily always know where the money is coming in from other sources.

Q49 **Chair:** From your perspective, Mr Clark, is there anything that you would like to see in the public domain, through the normal work that you do,

that is not currently required to be in the public domain but would be helpful in your role as a watchdog for taxpayer spending?

Stephen Clark: I am actually quite satisfied that the level of formal information that we are able to have published is sufficient. I think the question is more that there is a differential range of good practice across the whole span of public bodies regarding where that information is and the links to local government. I think it is very difficult for an individual to go to one place to navigate their way through that.

Q50 **Chair:** Councillor Sharman, a last word from you.

Cllr Sharman: I think we have a real challenge here in opening the channels to the public in a more effective way: we have to make sure that they work and that the information goes up on the website and is accessible. But what I think is really important is that the dry facts are built into a narrative. In other words, it is not a failing service, but is couched in such a way that people can understand that it is a service that touches them. I think that is where something like an audit committee or a proper communications function would come in. I think the formal release of information will not have any impact except when you shut down something of immediate concern. For a failing service, you need to explain what that means. There are some helpful things here, such as various Government reports or the LGA, which publishes some very good comparative information that allows you to locate your place within that. You have then got to do the job locally to turn a qualified opinion or issue, say, into something that will really enthuse and involve the public.

That goes back to my point about the annual report of the council. The annual accounts of the council are, in my view, a financial document and not a public one. We could do a lot there to make that much more accessible. I think that it is important that we have some teeth as an audit committee, to make sure that we are listened to. I remember well the world that you paint of the committee, with the powerful chair and the open function. We now have mayors and cabinets, in our case, which are self-contained. Our mayor has an individual democratic mandate from the people and appoints his own cabinet members, so there is a real danger. Fortunately, we have a good culture in Hackney that is very open—cabinet members hold meetings in the open. But if the mayor or the authority choose to do something different, we get into exactly the problem that Christopher outlined, so I think there are some real issues around opening up powers to support that.

Chair: Thank you very much indeed. That was really helpful and illuminating from the frontline. The uncorrected transcript of this section will be up on the website in the next couple of days. We will now switch over to our second panel—the Whitehall panel, if you like—so do feel free to stay and listen if you wish. If not, thank you very much indeed for coming and sharing your experience with us. We will produce a report on this, perhaps in February or early March.

Witnesses: Sir Chris Wormald, Jo Farrar, Matthew Swindells and Ian Dalton.

Chair: Good afternoon and welcome back to the Public Accounts Committee. We are here today off the back of a National Audit Office Report about local audit. We have just had a pre-panel of people from the frontline in health and local government. I will not repeat my preamble, but I am pleased to welcome as our witnesses for the second session Matthew Swindells, the national director of operations and information at NHS England; Jo Farrar, the director general for local government and public services—she was, of course, a chief executive of some repute when she was in local government, so she has been on both sides of the fence—Sir Chris Wormald, the permanent secretary at the Department of Health and Social Care; and Ian Dalton, the chief executive of NHS Improvement, who has just had a warm-up at the Health Committee.

Ian Dalton: I have indeed.

Chair: You are doubling up today. That is good value for money for the taxpayer.

Ian Dalton: We aim to please.

Q51 **Chair:** Sir Chris, you are the accounting officer. The Report was signed off and agreed by you, the National Audit Office and the permanent secretary at MHCLG.

Sir Chris Wormald: I think it was actually signed off by me, the permanent secretary at the Home Office and the permanent secretary at MHCLG.

Chair: That brings me to the point that we do not need to repeat everything in the Report. It is clear and lucid, and it raises a lot of the issues that we will discuss. There are four of you, and it is already quite late in the day. I am sure you have lots to do back in your Departments, so perhaps you will be short, sharp and focused in answering Mr Snell's questions. We do not need lots of narrative around them. If someone says something that you agree with, you can just agree with them.

Q52 **Gareth Snell:** Can I start with you, Sir Chris? The NAO states that 38% of local NHS bodies are judged to have inadequate arrangements in place to secure value for money. Does that responsibility now fall upon the Department of Health to try to fix?

Sir Chris Wormald: It falls on the Department of Health and the arm's-length bodies through which we discharge our functions, who are represented on my left and right. The vast majority of those issues are about spending within limits. I do not think any of them are actually about the propriety or regularity of the accounts. In terms of accountability and the overall health of the systems, my overall responsibility is discharged through NHS England and NHSI in line with their statutory and other functions.

Q53 **Gareth Snell:** Okay. That is a long way of saying it is your responsibility. To what extent are the qualified accounts becoming normalised?

Sir Chris Wormald: As I say, they are not qualified accounts. They are qualifications relating to value for money. The accounts have all been signed off.

Chair: Fair correction.

Q54 **Gareth Snell:** To what extent are those qualifications becoming normalised as part of the audit reporting process?

Sir Chris Wormald: That is a concern. It is why we have been taking the action that we have been taking both about the financial rigour of the system as a whole—we have discussed that with you lots of times, so I will not repeat it—and the investment that the Government have been making and the proposals in the long-term plan for the NHS, a significant chunk of which is about ensuring that not only does the NHS as a whole balance, which, as you know, it has, but that institutions within the NHS are able to balance as well.

Q55 **Gareth Snell:** How much proactive work is the Department of Health doing to look at the individual auditing reports of individual providers and commissioning bodies?

Sir Chris Wormald: Sorry—of the audit reports?

Gareth Snell: Of the auditing or the governance reports that demonstrate where there are qualifications—

Sir Chris Wormald: As some—

Gareth Snell: Let me finish my question, Sir Chris, and then you can give me an answer.

Sir Chris Wormald: I was trying to be short.

Gareth Snell: Interrupting will not get us there any quicker. How much proactive work does the Department do to look at the individual report where there are qualifications and work out what specific actions need to be taken? You said there are actions being taken. If I am a trust that has a qualification on my value for money report, on my audit report and on my governance arrangements, what will you do differently to make sure that next year that qualification is not there?

Sir Chris Wormald: As a result of the qualification—this is set out clearly in the National Audit Office Report. I apologise; I spent the weekend trying to think of a different word, but the role that local audit plays is basically a backstop. *[Laughter.]* I know; I couldn't think of a different word. We would expect every single issue that is raised in a local audit report to have already been identified and acted on by either NSHE or NHSI well before the report is received. Certainly, over the three years that this Report looked at, we couldn't find one that had not already been on our radar and action was not already being taken. This is set out in the NAO's Report.

On the way we use the local audit reports—the ones that have problems come to both the Department and our colleagues at NHSE and I—we use that as a check that there are no new issues that we have not identified through in-year financial monitoring. As I say, in the three years covered by this Report, we have not found any where action was not already being taken, so we would expect action to be under way on every issue that they raise.

Q56 **Gareth Snell:** I think we would expect that as well. Given that more and more CCGs and hospital trusts are having qualifications added to those reports—although the increase appears to be small, the trend is certainly upwards—how confident are you that the actions you are taking are actually having an effect on delivering improvements?

Sir Chris Wormald: I will bring in Ian and Matthew, but in terms of whether all the issues raised by local auditors have already been identified and action is under way, the answer is yes. Clearly, as the NAO sets out, not all of those actions are complete, and for those ones that are basically about ability to live within the resources available—which, as I say, are a lot of the ones in question—we took the view that we had to fix the whole system, as it were. I am very confident that NHSE and NHSI activate the right actions. Do those always result in quick changes around in those qualifications? No, they don't, but is action taken? Yes, it is.

Q57 **Gareth Snell:** I will come to the other two gentlemen, but if the answer to some of these problems is the long-term plan and the additional financial investment, how quickly will we see a reversal in the trends that will show a reduction in the overall number of qualifications?

Sir Chris Wormald: At this point, I will pass on to my colleagues. Ian, do you want to start?

Ian Dalton: Shall I talk about the trust sector—the 230-odd NHS trusts and foundation trusts? I would make a couple of points. First, we have a very detailed ongoing monitoring system against which we assess trusts. That is on our website; it is called the single oversight framework. It categorises every trust in the land against its financial performance on a regular basis. Where a trust has issues, those are documented, and many times, many of the things that you will see highlighted by local auditors are referencing back the concerns that we ourselves have raised in the financial monitoring of foundation trust and trust performance. Furthermore, in the consolidated provider accounts that I sign off every year, you will see a publicly available list of all the audit concerns of every trust in the land.

In addition to that, I would make a couple of contextual points, picking up on the reasonable question you just asked, which is "What is going on and what is going to be done about it?" It is fair to say—as I have said to this Committee in its discussions on financial sustainability, and, indeed, to the Health Committee—that deficits have increased, particularly across the acute sector, such that 112 trusts overall were in deficit at the end of 2017-18. That comes after several years in which the NHS as a whole is in

balance, but there is a surplus on the commissioning side and a deficit on the providing side.

The long-term plan gives us a chance to engage in what I am describing as a decisive and definitive move away from deficits across the provider sector, starting on 1 April. There is a new financial architecture, which aims to support trusts through a new distribution of resource so that those who need it get it. In addition to that, as part of the new funding for the NHS, we have managed to create a £1 billion financial recovery plan. The net upshot of that is that we expect to see the number of trusts in deficit cut by at least a half in 2019-20; the sector as a whole, which was around £960 million in deficit at the end of last year, moving into balance at the end of 2021—

Q58 **Chair:** This is a bit of a narrative about what has happened in the financial process. We are trying to probe how the audit process is working.

Ian Dalton: Sorry; I was responding to the question, which I took as being about what we are going to do to change the situation. The consequences of this new financial settlement are that we would expect to see the numbers of concerns raised by ourselves, or subsequently reiterated by local auditors—all of which we take incredibly seriously—decline starting next year, after many years of increasing.

Q59 **Chair:** Because there is more money in the system.

Ian Dalton: Well, because there is more money in return for an increased drive on productivity, efficiency and effectiveness, such that we can improve the cost base of providers as well as putting more resource into the system.

Q60 **Chair:** So they will have enough money to do what they set out to do from the beginning, rather than—

Ian Dalton: The aim is that we have every organisation, by the end of the next five years, in financial balance. That will be the first time in many, many years.

Q61 **Gareth Snell:** I understand the logic of the long-term plan. I understand that it is in exchange for increases in productivity. What I want to understand, then, is this. What part of the audit reporting process drove the decision that the answer to improvement inefficiencies was both more money and that productivity? How are you balancing them both and how are you using the audit process and gathering the information from those audit processes to be able to say to me that by next year there will be a reduction by half but, importantly, that that reduction is being achieved through the increase in production and more money going into the system?

Ian Dalton: I have to preface my response by saying that, to the best of my knowledge, there has been no issue raised by a local auditor in the reports of any foundation trust or NHS trust, certainly since NHS Improvement was created—I have only been with the organisation for just

over a year, but I believe this goes back to at least the start—that was not already identified by us through our regular monitoring of the trusts. So I think we clearly do understand the issues. We are in daily dialogue with the 230-plus organisations on their financial performance. We formally assess them. We go into huge detail. But of course we also take into account the findings of every single local audit report, albeit that by definition those are retrospective and we don't feel the need to wait for them.

Sir Chris Wormald: Just to be clear, local audit is not the driver of policy.

Ian Dalton: That is perhaps a more succinct way of putting it.

Sir Chris Wormald: In-year monitoring is the driver of policy. Local audit is the check—the very important check—that we haven't missed anything.

Q62 **Gareth Snell:** I appreciate that, and I can understand why it is the case. Mr Dalton, you said that you were looking at the local auditor reports. How is that information escalated up in good time, and in good quality, to the Department of Health?

Ian Dalton: We produce the consolidated NHS provider accounts, which, as I say, list every opinion and view of every auditor against every trust and which are published, signed by me as accounting officer of NHS Improvement and audited by the CAG for accuracy. That is available publicly. The point I am making is that not only do we not wait for the audit, but we are committed to complete transparency and to publishing that as part of a consolidated account, which I think is possibly unusual across Government but is necessary, given the scale of the expenditure.

Sir Chris Wormald: Should I add something about the process? What actually happens is this. When a local audit report is raising an issue of concern, about either a provider or a commissioner, it is emailed to a mailbox in the Department, side-copied to NHSE—

Q63 **Gareth Snell:** Is that from the auditor itself, or is it from the trust once they have got the report?

Sir Chris Wormald: I think it is direct from the auditor; I will absolutely check. We then review that to see whether any issues in the audit report are not already on the various lists that Ian describes. In the three years of this report, we haven't found any, but the protocol that would happen if we did is that it is then escalated, both within the Department and with NHSE and I. So there is a system for looking. It hasn't actually resulted in any action, because we haven't found anything that hasn't been already identified by either NHSE or I.

Ian Dalton: And it would be a matter of some considerable concern to us if there was an issue that we had not seen coming.

Gareth Snell: Mr Swindells, with the clinical commissioning groups seeing an increase in the qualifications on their reports, how effective do you think your in-year monitoring process is in identifying those problems?

Matthew Swindells: I would echo what my colleagues have said: we don't expect to find surprises in the audit reports, and indeed we don't, but we do expect them to be a check that we haven't missed anything. But we engage on a regular basis with the auditors as they are doing their work. Our financial team are in contact with the co-ordinators from the audit company, so information is fed back to us in year as well as at the end of the year, when the final reports are written. Then we review them all to make sure that nothing new has come up. We make sure that nothing has been missed.

We also work with the auditors to ensure that things that we are concerned about are captured. For instance, with the mental health investment standard, we approached the NAO to see if we could have it added to the audit. It was difficult to add it centrally, so we commissioned it directly as an extra piece of work by the auditors, to ensure that the mental health investment standard was legitimately being met by every CCG. So it is very much part of our check on the fact that we are intervening appropriately, and we would expect the number of qualified accounts to be reduced this year.

Q64 **Gareth Snell:** You have pre-empted my next question—

Matthew Swindells: I knew it was coming because I remember our last meeting—

Q65 **Gareth Snell:** I am becoming predictable with my "When's it going to happen?", aren't I?

Sir Chris Wormald: It has just been confirmed to me by—

Q66 **Gareth Snell:** What we heard from our pre-panel—certainly more on the local government side, but I will stick with heath for a minute—was that there is a statutory process if a qualification gets reported up. But there doesn't appear to be what there used to be with the old Audit Commission: an informal route, where if somebody has a problem they can just put up a flag and go, "Actually, we think this is a concern". From NHSE and I, and from the Department, is that a mechanism that unofficially could be accessed? Is there a way for somebody who may not have a qualification on report but has a concern about activity, to pick up the phone and go, "Actually, we think this needs to be looked at properly"?

Sir Chris Wormald: From a trust?

Q67 **Gareth Snell:** From a trust or an employee of a trust, or the public if it is on CCG decisions. Looking at how auditing works, I appreciate that it will not shape policy but audits look at particular things and do not necessarily always pick up where the people have concerns if the numbers do not match up.

Ian Dalton: There are a number of potential places, and those observations could potentially come from members of the public or from employees. The first and most obvious point would be to raise it with the organisations themselves, the local organisations that spent the money. In

many cases, that might be appropriate. They all have either an accounting officer, if they are a foundation trust, or an accountable officer, if they are a non-foundation trust. That would be one place to raise that. If that is not perceived to be the right way forward, on occasion people can ultimately whistleblow to NHS Improvement if there are issues they wish to raise with us. There are multiple points of contact for people to raise concerns, if they have them.

Sir Chris Wormald: The other key one—the other line of defence—is, of course, the CQC, which also looks at governance and financial management as part of its inspections.

Q68 **Gareth Snell:** This is the last question from me, Sir Chris. At what point do you, as the permanent secretary, start having a conversation with Ministers or the Secretary of State if there is a particular trust or commissioning group that you feel is in such dire straits that it may, maybe not now but in the future, need intervention from Government?

Sir Chris Wormald: We would expect that to be identified and dealt with by NHSE and I, rather than by departmental intervention.

Q69 **Gareth Snell:** So you would expect E and I to raise that directly with the Minister, if they had a concern about a trust?

Sir Chris Wormald: Yes. If something was of such concern that it needed to be escalated to ministerial level, you would expect that to be done by NHSE and I. Our conversations with E and I tend to be about the overall health of the sector as opposed to about an individual institution within the sector, which is their responsibility.

Q70 **Gareth Snell:** I will use my own CCG as an example. It told me on Friday that it is going to miss its control total, potentially by £90 million. At what point and at what level of financial distress or concerns from the audit report would you then go to the Department, see the Secretary of State and say, "We think CCG X or trust Y is in real trouble and at some point Government might need to make an intervention?

Sir Chris Wormald: Just to be clear, Government does not intervene. The intervention mechanism is the financial special measures mechanism run by E and I. I do not know your CCG, but if a CCG or a trust is at that level of financial distress we would expect a financial special measures regime to have been triggered.

Q71 **Gareth Snell:** But surely you would expect the Minister to know about that.

Sir Chris Wormald: We would expect to be informed and, indeed, we have lots of conversations about who is on the special measures lists, but the action is taken, rightly, under the various statutes, by E and I. My point was that it is not the Government taking decisions about this.

Q72 **Gareth Snell:** No, and I appreciate that, but Ministers are accountable to Members of Parliament. Members of Parliament will stand up in the House and say, "Minister, my trust X, Y and Z." What I want to understand is at

what point E and I would be expected to raise that with a Minister so that they would be aware, even if there is no intervention but it becomes of such importance or acute interest that it has a political, as opposed to an administrative, interest.

Sir Chris Wormald: We expect to be, and indeed are, informed of every single institution that goes into financial special measures, and we normally expect both E and I to inform us, which they do, for exactly the reasons you said, about trusts or CCGs that they are concerned may be on their way to special measures. I could not tell you how they identify who they are worried might be on the way, but that would be our level, for exactly the reasons you said. Matthew, how do you do it?

Matthew Swindells: It is worth noting that there is a non-executive from the Department of Health and Social Care's board sitting on the NHS England audit committee, so there is a direct transparency going on there. The number of times that I have discussed your CCG and your STP with Ministers over the last three years is innumerable.

Gareth Snell: Oh, is it?

Q73 **Chair:** Mr Snell has to pursue that now. I want to pick up on some points about individual issues that you were talking about, Ian Dalton. You talked about it being after the event that you put the annual report out. How are you picking up trends? One of the values we find from our work with the National Audit Office is that you can see trends over time and, as well as looking backward, it is an early warning system for what is to come. How are you capturing that, and how do you feed it into the Department?

Ian Dalton: Again, we could discuss many trends, but if I think about the publication that we produce on a quarterly basis, describing the financial, clinical and operational performance plus a whole range of data on workforce, I transparently publish a quarterly report on the performance of the 230 organisations that provide services.

Q74 **Chair:** We are hearing a lot about process—you publish a report, you do this—but what about the trends?

Ian Dalton: You are right to hurry me up. Let me respond, then. That report identifies trends; if you read it you will see that it identifies trends on deficits, on performance, on value for money and efficiency and on workforce.

Q75 **Chair:** Can you give us an example of a couple of things that you have got through the report?

Ian Dalton: It comments specifically, as it has done certainly in the quarters since I have been in this role, on the increasing pressure on both operational performance and finance from the rise in emergency demand on our hospitals. Those things you will see, if you then trace them through into my consolidated NHS provider accounts, often reflected in VFM considerations by local auditors. It is the driver of changing clinical need, which we discussed here in terms of financial sustainability, that gives us a

sense that it is a significant trend in the way the NHS is running. That is then the provocation for us to have a look at the financial architecture and how we manage into the long-term plan that I described before. The point I am drawing people's attention to is not just the process, but the transparency and the subsequent link to audit.

Q76 **Chair:** Absolutely. I will come to Mr Swindells on the same point about the CCGs. When you are looking at those audit reports and seeing a problem, whether it be Mr Snell's CCG or others, how are you assessing what the trends are for the future and the things that must be watched for, and—to both of you—how do you escalate that up through Sir Chris's Department to the politicians in charge?

Matthew Swindells: We are both tracking the overall financial performance of the CCGs on a monthly basis, and looking at what the drivers of that are.

Q77 **Chair:** It is the drivers that we are interested in.

Matthew Swindells: Yes. So is the financial position being driven by excess activity, because demand is higher than was forecast and there are more people turning up in an A&E department and more people being admitted to an A&E department? Is it being driven by staff shortages causing excess use of locums across the CCG's direct budget, including what it is buying from other hospitals? Increasingly, over the past two years, we have been trying to look at that at system level, because if you want to understand the financial position of the system, it is important to understand whether it delivers healthcare expensively or delivers more healthcare than it is being funded to offer. We are tracking those points and understanding whether it is a redesign of services. Are people going into an A&E department because there isn't an urgent treatment centre available to them or because primary care isn't offering easy enough access? Is this a demand-led element or is it that the configuration of services is such that this is an expensive way of delivering healthcare and if we were to use more modern approaches we could lower the cost?

Q78 **Chair:** When do each of you escalate those up through system? Sometimes there may be decisions about priorities that need to go to politicians.

Sir Chris Wormald: We see all the monthly data. We get the same data as NHSE and I. There would be a constant conversation going on about that data, focused mainly on the sustainability of the sectors as opposed to individual institutions. There is then a deeper dive or a deeper conversation quarterly, which looks at the kind of trends that you are describing. To take a current example, when we look at the provider side, we have seen a decline in the number of trusts in deficit over the last few years, but a greater concentration of the deficit in a smaller number of trusts, which tells you something about how the system is working. That is the kind of thing we would pick up at a quarterly discussion. Then annually, we have the accountability system with our ALBs that you know, and then anything else we have missed, the Comptroller and Auditor General tends to report on.

Q79 **Chair:** Can I just move back from the system to the individual with Mr Dalton? We have had this system for a number of years—pretty much most of the time I have been on this Committee, which is since 2011—where we have seen challenges with foundation trusts. They were intended to be self-sufficient, but they are running with deficits now. There has been the same approach for a number of years now. They also have to show satisfactory value for money arrangements, yet they start every financial year with not enough resource to do the basics. You have a system-wide approach, but how does that prompt improvement in individual trusts?

Ian Dalton: I think there is a system answer and a trust answer. The system answer—and I think I have been clear about this in discussions with this Committee before; we may even get to this when we talk about financial sustainability in a few weeks' time—is that for the last few years the difference between the amount of income that a trust gets for seeing a patient and the cost of that has been increasing, to the negative. What has ultimately driven most acute trusts into deficit, across the sector as a whole, is an increasing delta between cost and income, such that a reasonably efficient trust now expects to be in deficit. We manage trust performance against a reasonable but stretching level of expectation. Last week, we set 40 trusts a deficit control total, because that was all we felt reasonably they could achieve. That is the system issue that we are now trying to fix.

There is then the individual issue within that, which says, "How do we have confidence that you are driving a level of improvement that is sufficient, bearing in mind that you might be in deficit, but we expect you to be in the smallest deficit that you can reasonably be?" We have a series of measures, up to and including enforcement powers, including putting trusts into financial special measures, when we insert an improvement director and support—

Q80 **Chair:** Doesn't this just militate against value for money? How can you have a value for money approach if you are firefighting from day one? We have been saying this on this Committee. I welcome your honesty.

Ian Dalton: I don't think it is a question of honesty. I have been clear on this since day one in this role.

Chair: Your predecessor was actually in this Committee when it was said that the 4% efficiency savings were far too stretching.

Ian Dalton: We are looking for 1.1% efficiency now, as part of the long-term plan. From April, we are fundamentally redesigning the financial regime, so that we can deal with these problems. That relies on each individual trust playing its own part in terms of its efficiency and productivity. The two things have to come together to have a credible financial strategy.

Chair: Certainly, they have to come together. That is where we are at, I suppose—the beginning of that chapter.

Ian Dalton: That, I guess, is the answer to your question.

Chair: I am going to bring in Sir Amyas Morse, the Comptroller and Auditor General.

Q81 ***Sir Amyas Morse:*** I cannot help asking, haven't these arrangements for the strategy for the individual foundation trust—each with their individual audit, with their drawbridge, and their separate financial entity—been bypassed somewhat now? You are not really running the NHS like that any more are you? The reason the auditors have to qualify is because the rules say that they have to look at the individual trusts and they look at the state of them. You know about the issues, but what you are doing about them is based on the NHS as a whole system, not a trust-by-trust strategy. I do not think it is a terribly difficult point; it is just pretty obvious that things have changed, isn't it?

Ian Dalton: The answer, sadly, is yes and no. If you read the long-term plan, I think it sets this out. Of course, it is at the heart of the long-term plan, given that this is about integrated care, which is what the experts are telling us we need to do to look after an ageing population. Of course we are building that around groups of commissioners and providers called integrated care systems.

That is at the heart of the change and reform process, but as the long-term plan makes very clear, those entities are built up of strong organisations, and those organisations also have a legal duty, which remains, and which I hold to, to be efficient and effective in their own statutory operations, bearing in mind that each one is ultimately run by an accountant or an accountable officer in their own right. I think it is an "and", not an "or".

Sir Chris Wormald: I think the Comptroller and Auditor General is—I was about to say "on the money", but that is not really the right phrase for this—raising the right question. We need to distinguish between two things here. There are those trusts that end up in financial special measures. That is almost exclusively about the quality of the financial management, not the size of the deficit—i.e. it is things that are intrinsic to the trust, not external to it.

The deficits question, as you say, is quite frequently about the system, and can be solved only at a system level. There are lots of arguments about how you should structure the NHS, etc., but that basic question of whether an individual institution uses whatever money it has wisely should remain part of the system, regardless of whether you are managing the finances on a wider basis.

Q82 **Chair:** I think we would all agree with that. It is interesting the very clear acknowledgement that the financial system issues have had an impact on the deficit—which we had from your predecessor, to be fair, Mr Dalton, before.

Sir Chris Wormald: Oh, yes, and of course within the long-term plan are some proposals that the NHS has made for legislative changes, some of

which are on exactly the issue that the Comptroller and Auditor General raises.

Q83 **Chair:** I cannot let you get away with this, Mr Dalton. You mentioned that you are relying on whistleblowers. We have looked at this previously as a Committee. I have to say, if you are a whistleblower in the NHS you usually do not have a happy life after the event. Do you think that whistleblowing is fit for purpose, and is it a really useful source for you in terms of finding out what might be going wrong in a trust as an early warning sign?

Ian Dalton: For me, this is not just about quantity. We have whistleblowing, we have schemes to help whistleblowers, and we absolutely have the obligation to protect and look after whistleblowers. All parts of the NHS do that. There is more to do, and we are certainly committed as an organisation to supporting whistleblowers, for instance, back into employment in the NHS. That is one of the things that we do.

Q84 **Chair:** Do you think it is a good track record at the moment?

Ian Dalton: We work hard on it. We have discussed this many times at our board. I think we all acknowledge that we have more to do. It is something that is important and that we take seriously. It may not be large in number, but every case is important.

Q85 **Chair:** Don't you also think that whistleblowing is rather a sign of failure in the system? It should be normal that you have reporting of problems within the institution.

Ian Dalton: I do. I think that is absolutely the case, but I also think that there are unusual and potentially quite extreme situations where people need to blow the whistle. That is not the norm, but it is also important, and the NHS has to deliver the capability to listen to those people and to protect them. It is not the norm, and I do not believe that it will become the norm, but it does not mean that it is not really important.

Q86 **Chair:** I would love to go into that more, but that is not the main reason for the hearing. I will come to Ms Farrar about the local government element of this. We have discussed Northamptonshire. We have discussed the problems with you in previous hearings. How much are you using the audit reports as a canary in the mine for what might be going wrong elsewhere, or are they just adding, as we have heard from the health sector, things that you already know?

Jo Farrar: The audit reports are retrospective, so yes, we usually already know about these issues. In the five adverse ones that we have at the moment in local government, in Birmingham, Derby, Somerset, Sussex and the Isles of Scilly, we already have close working relationships with those councils. We know what the issues are there and we are working to address them. The audit reports inform part of our risk assessment system, which we have talked to you about before.

Q87 **Chair:** We were interested that the NAO's Report says that 18% of single-tier authorities are judged to have inadequate arrangements in place to

secure value for money. That seems to us to be quite high, but perhaps—a bit like the health sector—it is understandable in some ways, when they are firefighting on their budget. What do you think is an acceptable level?

Jo Farrar: Obviously, we would not want any, but I think that if we didn't have any we would probably question—given the number of authorities—whether the system was working. So I wouldn't put a number on an acceptable level.

What I would say is that there are qualifications for a variety of reasons, some more serious than others. Where we have adverse qualifications, we work very closely with those local authorities and they form quite a big part of our risk judgments, which we reported to—

Q88 **Chair:** Just to get the mechanism clear, when they are published, they go up on the council's website and you then know about them at that point.

Jo Farrar: We receive all non-standard audit—

Q89 **Chair:** When they arrive in the Department, is it someone's job to look through all of those?

Jo Farrar: Yes. They would be looked at by our risk team; they form part of our risk judgment. They also inform our six-monthly reports to our accounting officer, and our risk judgment is also reported to Ministers.

Q90 **Chair:** How do you monitor trends across local government? We talked in the earlier session about the commercial exposure of councils and what auditors are doing locally there. This Committee and the NAO have looked at that and seen some quite interesting exposures to sectors; we challenged you on it at the time about how you can see that. Are audit reports useful in that? Are they enough? What would you want to see changed, so that you could see where there is a risk of exposure in the sector?

Jo Farrar: The audit reports on their own are only one part of the judgment that we take, so we have a wider system that looks at all sorts of information that we get in from a variety of sources. But the audit reports are an important part of that. We talked about Northamptonshire. We have quite a high bar before we can undertake a best value inspection, and the two audit reports were very helpful in allowing us to have enough evidence for that. So we do use them, but we use them as part of our whole system for judging risks.

Q91 **Chair:** We won't go into the whole system; we had quite a long discussion about that.

If you look at figure 12 in the NAO Report, we were quite interested to see that although all local councils were surveyed by the NAO about what they were doing to address weaknesses before the auditor reported them, figure 12 says, "Fifty-seven respondents (95%) said that they already had plans in place to address weaknesses…However, only three respondents (5%) were able to confirm that they had fully implemented their plans".

How are you holding local government bodies—individual councils—to account for their response? You see the reports, you have got an idea of the trends and you have got an idea of what is going on in individual areas. What are you doing to make sure that they then address that, because, as we heard earlier, realistically most taxpayers and even audit committees may not be aware—well, the audit committee will be aware at that point, but most people wouldn't be aware of what was going on. You are guardians of taxpayers' money in that respect. What are you doing?

Jo Farrar: The first line of action would be the local authority and it is for the local authority to act on audit recommendations and—

Q92 **Chair:** But with Northamptonshire, there were questions about what they did.

Jo Farrar: With Northamptonshire, I think that was a different question. But as Councillor Sharman said earlier, we are very pleased that local councils take their audit recommendations very seriously; in fact, as you say, 95% of them do.

Where they are not implementing, that might be because it would take quite a long time to implement or to address the recommendations. So it might be because of an Ofsted challenge, for example, and then they may be waiting for the Ofsted inspection. It could be because of a financial issue that they need to resolve, which might take a number of years to resolve.

So we will look at each individual authority. If we think they are not acting on it, then there are a number of steps that we can take and that will ultimately lead to—possibly—some kind of intervention, as we have seen in Northamptonshire.

Q93 **Anne Marie Morris:** Ms Farrar, trying to ensure that all those local authorities actually do their bit must be quite challenging. So, in practice on the ground, how much engagement do your team have, to ensure that where there are issues to be addressed, they really are addressed, rather than just pulling together the information so that you have an overview of what's going wrong?

Jo Farrar: We have people based in each area of local government who will pick up with the individual local authorities in their area. As I said, if they are authorities that we are very concerned about, as we have been with the five adverse audit recommendations, we specifically work very closely with those councils. We will have a programme of work in place with them, which can vary from something light touch to something more interventional.

Q94 **Anne Marie Morris:** Let me ask Jo Farrar and Chris Wormald to respond to this. One of the comments that came out of the pre-hearing was the challenge that comes with the drive, rightly, towards the integration of health and social care. There are a number of things that the Department of Health and local government are working on together. The encouragement from Government is for you to work across the piece and

not get too upset about who is doing what—just get the job done.

The challenge, however, is when you look at the accounts to make sure that they are in balance, and that each part of that combined activity delivers value for money. How will you help the auditors deal with that, and help the councils and NHS bodies to deal with that, because there is friction? Sir Chris, perhaps you would like to start.

Sir Chris Wormald: It comes back to the conversation we were having with the Comptroller earlier. As we have discussed before, the friction is real. At the moment, the system requires us to be able to identify for every pound whether it is on my side of the line and therefore flowing down through my accounting officer responsibilities, or whether it is on the local government side of the line and therefore dealt with via the local system of accountability. That is how it works at the moment. We have to deliberately divide the money, even when we are pressing for joint action. There are things you can do—we discussed the Better Care Fund—but in the end you have to be able to say, "This is a national Government pound and that is a local government pound."

The question going forward is the legislative one, as we discussed before. That situation is what is required by the various Acts of Parliament in force at the moment. The NHS has come forward, as part of the long-term plan, with some proposals about legislative change in order to aid joint working—not specifically the one you describe, but a whole range of changes. We will need to see whether that is something that the Government wish to take forward as part of future legislative programmes, and whether Parliament wishes to change the law around those areas.

Q95 **Anne Marie Morris:** But would you agree that, pending legislation like that, this slightly uneasy way of working is inefficient and ineffective?

Sir Chris Wormald: Oh, yes. I think it is absolutely essential—I am sure the Committee will agree—that you can identify who is accountable for every single pound. We do not want to get to a situation where it is ambiguous where the financial responsibility for any given pound is. There will be an inefficiency in the system for exactly the reason you say, but maintaining proper accountability over the spending remains more important. If we can come up with a different legislative framework where you can have clear accountability and the kind of joint working you describe, that is even better.

Q96 **Anne Marie Morris:** Do you work with Ms Farrar, because clearly some of the issues on the ground will be for that reason?

Sir Chris Wormald: Yes. We work very closely together, both on local government finance overall and on adult social care in particular.

Q97 **Anne Marie Morris:** Can you give me an example?

Jo Farrar: On your first point, it is really important for us that local authority chief executives, as the accounting officers for their organisations, are held to account and audited. It is important to have a separate system; however, that is only one part of a wider system.

As Sir Chris said, we have worked quite closely together to bring the system together in a number of ways. We have delayed transfers of care where we have shared standards for local systems to adhere to; recent CQC inspections of the system always allow us to look across the board at the different organisations to make sure they are performing together. However, having that local audit of the accountable officer is still really important.

Q98 **Anne Marie Morris:** And at a local level?

Sir Chris Wormald: That is the thing I was going to add. The local discussion is of course far more important. The places that are doing integration really well—I will not repeat the examples; you will have heard them a lot—are always where the various local bodies have come together and had really sensible conversations. The thing we can do at the national level is to make it easier for people to have great local conversations, which are key to whether integration works well or not—"Is that local authority over there sitting down with its trust providers and having a really good conversation about it?"

Q99 **Anne Marie Morris:** Ms Farrar, other challenges mentioned by the previous panel include, first, the way that capital is spent and accounted for, and secondly, that money can sometimes come in a very bumpy way. If the Government decide that more money needs to go into care, you will suddenly find that a chunk goes into the budget that you did not envisage at the start of the overall financial period. That lumpiness, and trying to deal with capital as against revenue, they have found challenging. Do you have any comments on that, or thoughts as to how, if we look at changing this through legislation, we might make it work rather better?

Jo Farrar: Shall I start with the first point about the commercialisation that the pre-panel expressed concern about? One thing that we have done to help local audit is to update the statutory codes that local auditors rely on to make judgments. Some of the changes we have made are to extend the requirement to consider security, liquidity and yield to all investments, not only to financial investments. We have also enhanced transparency, and we have ensured that those signing off commercial decisions understand the risks and opportunities. There are several other things that we built into the codes that will allow—

Q100 **Chair:** Do you have an example of something that happened under the new code that would not have happened under the old code?

Jo Farrar: Under the new code, for example, we have made it clear that borrowing more in advance of need, solely to generate a profit, is not prudential. That was not specified before. I think that will help to deal with some of the issues that we have faced.

Q101 **Chair:** So now, if an auditor sees that, they will—

Jo Farrar: If an auditor sees that, they have codes that they can judge against and can therefore issue qualifications or use one of the tools in

their armoury to deal with that. That is one thing that we have done to respond and to help external audit-challenged councils.

On the lumpiness of money, we obviously agreed a four-year budget with local government. When agreeing a four-year budget, you cannot predict exactly how much people will need; there will always be changes in demand, which we have tried to monitor as we have gone through. That has meant that we have put money into the system over the four years of that budget. Sometimes that has come in year, but usually, as the pre-panel said, it is to deal with a specific issue, to help councils deal with a problem they have. That would be money coming into the council, so it is unlikely to lead to an adverse audit recommendation.

Q102 **Anne Marie Morris:** Okay. I hear what you say. However, this whole concept of partnership working that we are building—have built, in many cases—came up in the auditor report as causing problems. I hear what you say about your code, and I hear what Mr Wormald says about what is happening in the NHS, but there is clearly still a problem.

Sir Chris Wormald: Yes, there is. No one is disagreeing with you. We applied the system as the law sets it out right now. That has some advantages, including absolute clarity about who is accountable for which pound, and it has some disadvantages, exactly as you have described. At the moment, we seek to mitigate those disadvantages within the statutory framework that we work in, in the way that we have described—through the Better Care Fund and the other things that Jo described. However, the problems you describe are real.

Jo Farrar: We have to remember that for the vast majority of local authorities—the principal authorities—the new system has been in place only since 1 April 2018. It has not yet been in place a year. We have committed to review the system for local authorities after it has been running for a year. These are some of the points that we can pick up when we review the system.

Q103 **Anne Marie Morris:** We cannot guarantee that the legislation you suggest is needed—I agree with you—is actually introduced and that, should it be, it is introduced soon. How will you deal with this interregnum, assuming that ultimately we do get the legislation?

Sir Chris Wormald: We will go on doing what we are doing now.

Q104 **Anne Marie Morris:** What about the impact on the local bodies? Will we find more of them in financial difficulties and being seen as not achieving value for money?

Sir Chris Wormald: No, because as Ian and Matthew have described—certainly on the NHS side—the numbers quoted in the Report are largely driven by the quantum of money in the system and not by problems of partnership working. As Ian described, the long-term plan sets out quite a clear trajectory of how we expect that to improve. I think the challenge, on which we do not disagree with you, is not whether we will see problems in the accounting system—that is pretty clear at the moment. The

challenge is whether we will get less of the integration and partnership working that we want to see than we could have if we had a different system. I think your comments impact on effectiveness—not on the financial accounting issues.

Matthew Swindells: May I add to that? I think the important thing here is that the partnership working is happening. The legislation makes it more difficult but does not make it not worthwhile. Across the country we see local authorities, CCGs and trusts working in partnership to fix local problems. We could make it easier for them by introducing some legislation, but they are solving things better in partnership than they were when they were fragmented.

If you take an area such as East Sussex, where we had a CCG and a trust with significant financial deficits, the inclination of the old system was to get them to work out whose fault it was that the other one had a problem. They will deliver £20 million-worth of savings this year and another £20 million-worth next year by working in partnership together—touch wood, they will both hit their financial targets this year for the first time in a number of years. That is from coming together to work in partnership, rather than trying to work out whose fault it is.

David Aldous: Given the importance of partnership working that we are talking about and the way local auditing can feed into the information that national bodies have, figure 5 in the Report shows auditors raising more concerns about partnership working. It is a rising trend, and I wonder whether that is something that the bodies are looking at.

Sir Chris Wormald: Yes, but if you look at figure 8 in the same Report, you will see the difference between partnership working and the financial performance and financial stability bars, which demonstrates the point we are making.

Q105 **Chair:** Partnership working is going to become more the trend, isn't it? We heard from Councillor Sharman about the challenges of that particular case, which Ms Morris highlighted—the arguments that go on about capital budgets in the NHS and trying to do something locally.

Sir Chris Wormald: Yes.

Q106 **Chair:** And if you want value for money, these are going to work better, surely?

Sir Chris Wormald: Yes, and Mr Swindells' point is exactly right. There are examples all over the country—I know you have seen them—of brilliant partnership working to improve things. The accounting and legislative issues simply make that more difficult; as Matthew says, it does not make them impossible. We have seen great examples of partnership working and are extremely pleased at how the NHS and local government have both contributed to the detox questions and issues this year. We have seen a level of engagement between the two that we haven't seen before.

Q107 **Chair:** You make it sound so rosy. My own limited experience is that it has been quite challenging.

Sir Chris Wormald: No, it is undoubtedly challenging. Is it better because the NHS and local government have been working together? Yes, it is. Would it be easier for them to do so if we had a different framework for the system? I agree with Ms Morris and you that it would be. At the moment people are making it work almost in spite of the framework, instead of the framework helping them do it. That is probably the distinction.

Q108 **Anne Marie Morris:** When a witness is highlighted in a qualified value-for-money arrangement, do you think, Mr Wormald and Ms Farrar, that incentivising action to be taken locally would mean that we somehow begin to deal with this culture of, "Well, it's kind of the norm, isn't it?"?

Sir Chris Wormald: Yes, and that was what Ian was describing, certainly on the NHS side, as the new financial framework. Essentially—

Anne Marie Morris: That is not the same as an incentive.

Sir Chris Wormald: No—

Q109 **Chair:** Sir Chris, you are sitting next to Jo Farrar, who is probably weeping privately because you have the money in the Department of Health and in the NHS, but local government has not had the injection of cash, so just an injection of cash is not the only answer—you have won the lottery, I might add, and so have the patients—

Sir Chris Wormald: I don't think I will enter into that bit of the debate—

Chair: I was just saying that it is not the same for everyone.

Sir Chris Wormald: I was making a different point. For very sensible reasons—I was part of this, so I would say it—following what happened in the 2015-16 financial year, we set up a system that kept the NHS in balance, which is our overall responsibility, but undoubtedly put into that system a series of perverse incentives to do with local financial management. We did that knowing that that is what we were doing. Now we have a chance, which is partly about the money—

Q110 **Chair:** There was a different tone in those days. I remember back to those hearings, and it did not feel like it was a plan at the time.

Sir Chris Wormald: We did actually publish the plan—

Chair: I think you had to do it, and I think that your finance director was very creative, but—

Sir Chris Wormald: We did actually publish what we were doing—

Chair: I know, but it didn't feel quite so controlled.

Sir Chris Wormald: I think—I hope—that we were very open about the fact that we needed to get the system back under control. We took a series of measures that were not ideal to do that.

Chair: I love that civil service understatement. You are a master of the art.

Sir Chris Wormald: We did a series of things that we knew built in perverse incentives at a local level. We have now got an opportunity, which is partly about the new money and partly about the new framework, to say, "Can we have a system that incentivises good behaviour, as opposed to one that makes the system add up at a national level?" That is what the new framework is about.

Q111 **Anne Marie Morris:** Okay. Ms Farrar, what about on your side of the wall?

Jo Farrar: Local authorities take audit recommendations very seriously. As we said earlier, 95% respond to them and, ultimately, those recommendations can lead to interventions. Local authorities are required to report publicly as part of their annual governance statements, so there is no incentive for them not to comply with audit recommendations at a local level; most are very keen to do so.

Q112 **Anne Marie Morris:** The ultimate sanction, I guess, is members of the public. The challenge is that value for money is a very complicated concept, and for an awful lot of people their eyes glaze over when they hear talk about auditing. What could either of you do, on either of your sides of the wall, to make local bodies more accountable and more accessible to members of the general public? We got slightly different answers from the pre-panel in terms of both sides of your wall. Ultimately, if local electors aren't brought into this and don't understand whether you have achieved value for money, or are in or out of deficit, we will not get very far, will we, because it is all about what we do for the people, and it is their money? We will perhaps start with Ms Farrar this time.

Jo Farrar: I would say that the public are very engaged with local government.

Anne Marie Morris: But what evidence have you that they are engaged in the audit process and the report that follows it? That is a completely different question.

Jo Farrar: As I said, audit committees and councils are required to report publicly on the accounts. Those council meetings are generally well attended, I would say—people are interested. I don't know whether we have the evidence to show how much the public are engaging with the actual audit report—as we heard from the pre-panel session—but they do engage with the issues in local government in their area. There are lots of ways for the public to engage, whether through their local councillor, questions at council or the local government ombudsman.

Q113 **Anne Marie Morris:** Indeed. You are right technically, but I still question whether the local populations are engaged. I wonder, if we had some form of measurement or collection of data from the councils, we might get something a bit more specific. If we haven't got down to the lowest level of the general public, I don't think we have succeeded.

Jo Farrar: That is a very good point, and certainly something that we can look at when we review the system later this year.

Sir Chris Wormald: On the NHS side of the line, I do not think that the public are engaged at all with the audit process. Are they engaged with the performance of their local hospitals, including their financial performance? I suspect you see from your own postbags—yes. Audit would be a bit of a mystery to most people, but the answer to that is the kind of transparency that Matthew and Ian were describing earlier in terms of what we put into the public domain about the NHS, as opposed to thinking that the public will get involved in the audit process.

Q114 **Anne Marie Morris:** I was not suggesting that they actually get involved in the audit process—a lovely idea—but it is about understanding enough about the consequences and the outcomes of the audit, so they know what they can expect and what needs to be done differently.

Sir Chris Wormald: There are very specific things in the health service that Ian and Matthew can describe, but certainly there was an awful lot of public debate about performance, finance and the relationship between the two.

Q115 **Anne Marie Morris:** Give me an example of something like that locally.

Matthew Swindells: Given that the qualification of the audits are reflected directly in our ratings of CCGs and in Ian's ratings of trusts, when an organisation goes into financial special measures, it is local news—it makes the front page. When they come out, there is also a celebration in the local news. You see that all over the country. While it is not the audit report, it is the same information that is being played out: "Your CCG has been rated as needing to go into special measures and it is under directions." That is picked up by local newspapers and is discussed—

Q116 **Anne Marie Morris:** But that is the negative, not the positive. Is it not sad that they are only going to hear about when it goes wrong and not when it goes well?

Sir Chris Wormald: As Matthew said, people celebrate when they come out of it.

Ian Dalton: I think it cuts both ways. There is a huge amount of interest. Some of that is quite formal involvement, so foundation trusts have memberships—thousands of people—who have put themselves forward to be informed about and to participate in the governance of foundation trusts. In addition, there is huge transparency in terms of the audit findings. Inevitably, the nature of that is that the negatives are identified. For instance, any interested member of the public can go on to the

website and find out what is happening in Blackpool, Bolton, Bradford, Bridgwater, Brighton—the list is there and it is clear.

Q117 **Anne Marie Morris:** This is about pull versus push. I don't quite buy it, and I think, Mr Wormald, don't let him buy it. Can I suggest, given that we have a 10-year plan, during which you can give this some serious thought, that you look at this? Mr Wormald's first comment was that we do not actually do it very effectively.

Chair: The question is: what could be done better to engage? What would you like to see change? Can you do that, or where does that change come from? Who wants to take it from the health side—you might all want to chip in? What would you like to see, in an ideal world, to make sure the public are better engaged and the reporting is clearer and better—in plain English, perhaps? The National Audit Office auditors manage to write Reports that are very readable.

Sir Chris Wormald: One of the biggest things we have done is to build the financial management ratings into the CQC ratings. I do think that people understand the CQC ratings of their local hospital and local CCG—

Q118 **Chair:** But the CQC masks the detail of the finances, does it not?

Sir Chris Wormald: Yes, but in terms of clear public engagement, I think people know their local trust is outstanding, as opposed to in special measures. That is now a judgment across quality, value for money and financial management.

Q119 **Chair:** I am asking what could be done differently or better, and what could be clearer.

Sir Chris Wormald: Doing that gives us a huge opportunity to improve the public debate, nationally and locally.

Matthew Swindells: The long-term plan implies a whole series of changes in the way the NHS will interact with the public over the next 10 years. It is one of the crucial tasks of integrated care systems to have that dialogue with the public about what that change means, because otherwise every change will feel like a threat, rather than like moving into the next generation. The challenge is right: how does that dialogue take place in order that you move the NHS forward and not—

Chair: Exactly; "How" is the question.

Ian Dalton: Yes, I was going to pick up on that point. NHS England and NHS Improvement will be publishing an implementation framework for the long-term plan in the spring. That is a commitment that we have made. As part of that, we will be very clear on our expectations on every local patch in the country to work up their plans over the summer, but also to engage with local stakeholders in a very real way.

Q120 **Chair:** When you say "a very real way", that sounds great, but we all know that consultation and engagement can be buzzwords that are not actually followed through. Will you be recommending how that is done?

Ian Dalton: We will set out what our expectations are. I guess I would want to give you the assurance that the concept of engagement needs to be high in that and that we have high expectations. It is fair to say that sometimes plans have been developed that have not had good enough engagement. For the reasons that Matthew has outlined, the 10-year plan for the NHS sets out an expert-based and compelling vision for the future of healthcare, but those changes are real and we know we will do better if we properly engage people. That is how we will be setting our expectations.

Q121 **Chair:** Those are warm words and that's great, but we know that local government does not always get it right. Every council officer can potentially see a councillor who is very close to what is going on in their own patch, so there is a very direct link with the general population.

You mentioned foundation trusts. The idea behind that was that it would basically almost be a co-operative hospital owned by the people. There is a very big variation in how some of those governors are kept informed. Some are just told things and others engage more. Will you be looking at that, Ian Dalton, making sure that the foundation trusts as a starting point become more like the traditional co-op or mutual?

Ian Dalton: I think the foundation trusts needs to look at that, although it goes beyond individual foundation trusts for the reasons that we talked about earlier. This is about foundation trusts working into integrated care systems so that we have a proper conversation around place and talk about the nature of health services. It is fair to say that foundation trust members are part of that, but it also is about local government and clinical commissioning groups. There is a lot of jargon there, but what it means is that those entities, for the reasons we talked about earlier, have to come together and plan together, because we—NHS England and NHS Improvement are coming together to join ourselves up—will expect plans to come back, and those will have to have proper engagement.

Q122 **Chair:** We do not want to digress too much on this, but STPs were set up; some chairs were appointed; some were advertised, and some were not—it was very opaque. It was almost as though the NHS was trying to hide it and bring together smaller health economies into one big one. Those physical areas do not match local authority areas, so democratic accountability is weaker. It was all done remotely from the real world of making place. That is one of the ways you can engage the public—if that belongs to them. Can you give me a couple of concrete examples of what you will be doing to make governance different so that it is far more directly accountable to the public, and so that, as a member of the public, you can see who is in charge and ask them questions, if you need to do that, about money and other things?

Ian Dalton: What I have said is that we will be jointly issuing—NHS Improvement and NHS England, because we are coming together to demonstrate the fact that we cannot do this separately—

Q123 **Chair:** I am talking about locally.

Ian Dalton: We will be working with the NHS over the next couple of months so that we issue a comprehensive implementation framework to give local communities a sense of the planning they have to do. Frankly, this has to be owned locally. There are some things we can drive centrally, but we know that the changes we need to the model of care have to be owned locally.

Q124 **Chair:** In terms of the governance arrangements, there is the whole appointments process through the NHS. Will there be a requirement, for example, to have certain community leaders on the boards? Will you require, like with foundation trusts, something like a wider governing body or a consultative meeting so that information can be fed in? Will it be working through expert patient groups or other stakeholders like that? Have you thought through how you will engage the public not only in the delivery of services, but crucially, in understanding and helping to inform how that money is spent? When there is a problem with the money, they need to actually know about that, rather than having to wait for some audit report to be put on a website somewhere.

Ian Dalton: Yes, and I think the work we will be doing between now and publishing the implementation guidance will answer the questions about our expectations for a fully engaged, proper conversation with the public, because it may play out differently in different areas, but your point about engagement is right. I accept that the proof of the pudding will be in the eating, but fundamentally we are bringing bits of the NHS together so that they can have those conversations across organisations and with communities, for exactly the reason that Matthew said: that is what will drive the change.

Q125 **Chair:** Mr Swindells, I just want to touch on the Derbyshire CCGs. Ruth George MP sent us some information about some of the concerns there. This really plays to value for money. Apologies that it is not in the Report and I did not warn you in advance. They have had financial problems—I am sure you have your little list there. One of the things she mentions is their local gold standard dementia ward being closed, which has caused some problems, and that team of 25 specialist staff being broken up. It seems to me that that is a really good example—or a bad example, if you like—of a value-for-money issue. They have financial troubles—they have to make sure they balance their budget, understandably—but cutting a service like that, which will cause cost elsewhere in the system, is a pertinent example of the cost-shunting issues. A decision made in one part of the system—local government, or the NHS in this case—can have a knock-on cost elsewhere. Some of those people not getting that support may well cost the social care system more. Do you get into that with your CCGs? When you are trying to get their books into balance, are you making an assessment of that? Obviously the auditors will be, but are you?

Matthew Swindells: I do not know the specific example of the closure of the ward. That sounds like it was a trust decision rather than a CCG decision. More importantly, it needs to be a system decision. Across the whole of the Derbyshire system, they need to work out how they spend

their money most effectively for their population. I know that across those CCGs, the ones that have been in financial difficulty are now moving back into financial control, but they need to make smart decisions—not necessarily easy decisions—around that. In the end, if they are overspending, they are spending money from some other part of the system.

Q126 **Chair:** Ruth George raises another concern. She says, "I'm appalled at the inefficiencies and secrecy of the CCG system and the forcing of in-year cuts by NHS England." She puts it quite strongly, but MPs around the House who ought to know how the system works find it very difficult to get to grips with who is making the decisions on how money is spent. Do you take that criticism? Whether you do or not, what are you doing to try to make CCGs more accountable in the way that Ian Dalton has talked about trusts being more accountable to the public?

Matthew Swindells: I do take that criticism. I certainly take the criticism about secrecy, because CCGs need to be accountable organisations. They need to be open and their boards need to be transparent about their decision making, but equally, several of the CCGs in that patch have been spending significantly more money than their allocation. They have a responsibility to spend the money they are allocated; otherwise, they are spending somebody else's allocation.

Q127 **Chair:** Absolutely—I hear that. What are you doing to improve the governance of CCGs so it is clear who you go to with a concern and where decisions are made, and so they present their financial information—and their performance information, but in this case their financial information—and their audit reports and so on in a way that an average member of the public can access and understand?

Matthew Swindells: The direct linkage there is through to our regional offices, which I know are working with the CCGs in Derbyshire around their local challenges. Our view is that they—

Q128 **Chair:** I am talking about more widely. In an ideal world, what would you like CCGs to present to the public? Are they measuring up, or is it a mixed picture? What would you say? We have what the auditors have said, and one of the main takeaways from the NAO Report is that, in terms of transparency and accountability, the NHS falls some way behind local government—just to give Ms Farrar a momentary free pass.

Matthew Swindells: We have a very different governance structure from local government, but CCGs have public board meetings. We would expect the important decisions to be taken and presented at those meetings so people can hear them being taken. They also are required to consult over major change and expected to work with their overview and scrutiny committees, and increasingly now we expect them to bring major decisions to be discussed with their partners.

Q129 **Chair:** We expect that—that is fine. Do you think that is working wholesale throughout the system, or are there ones you are worried about that just are not measuring up to that openness?

Matthew Swindells: There are places that are better than others at it. That is part of our performance regime. Indeed, part of our annual audit of CCGs is to ask stakeholders how well CCGs engage with them. We know from that which ones do good engagement and which ones do less good engagement. We pick that up, and that feeds into the overall rating of a CCG. We take that requirement to be representative of the local public very seriously.

Q130 **Chair:** I have a few quick-fire questions, if I may, so you can take it in turns; if someone has said it and you agree with it, you can say that. In terms of joint working between health and local government, and how audit can then look at that, what needs to change to make that work more effectively? We will start with Ian Dalton and work along, just to give Mr Swindells a break.

Ian Dalton: Increasingly, auditors will want to look at how organisations work together. Already, the CQC is reviewing partnership working, and that is a beneficial approach.

Q131 **Chair:** Yes, but it's only a pilot and it's not fully funded, is it?

Ian Dalton: It is a direction of travel, though, because underpinning all this is the balance between individual accountability of organisations and that statutory process, which we all know and respect and require to continue. At the same time, the solutions for all parties come by working together and pooling decision making. I am optimistic that things like the CQC reviews will increasingly demonstrate progress, hopefully, or, if not, otherwise, so that we can all see as we move into that. Of course, there are accountability issues; of course, audit needs to remain on the current statutory framework until that is changed; but for me, that offers some hope.

Q132 **Chair:** So you feel we are in the foothills of sorting this out.

Ian Dalton: On the plus side, as we talked about before, there is now a huge recognition—certainly across the health service, and I suspect across local government as well—that by working together there are more opportunities to make more change for more people.

Q133 **Chair:** Then auditing it is the challenge. So, Sir Chris, does anything need to change?

Sir Chris Wormald: As I said before, it is about being able to pool budgets and pool decision making without diminishing accountability. That is the challenge.

Jo Farrar: Auditors do look at partnership working, so for us it is about making sure that the whole system picks up on all of this. As I mentioned earlier, the CQC inspections of the whole system were really well received by local government. That challenge across the system was really well received.

Q134 **Chair:** What else are you doing in your Department? Local government works jointly with all sorts of different bodies, although we are

particularly talking about health today.

Jo Farrar: We have been doing quite a lot to work with other Government Departments through our risk assessment work, to make sure that we are taking a joined-up approach to challenging local authorities across a range of services, but also to look at how they are working with their partners.

Q135 **Chair:** We would love to go into this more, but I think we might not have time. Mr Swindells, is there anything you would like to add to what has been said?

Matthew Swindells: Only to say that in the long-term plan, we have committed to increasingly look at and judge systems by how they work as systems, not just as individual organisations.

Q136 **Chair:** We have talked about local accountability and transparency. Auditors have certain tools to bring information to the public, but you can have lots of in-house warnings and then it is quite a long way before it is escalated to the public or to the Secretary of State. Do you think they have enough? Do you think they should have tools to raise things in the public domain at an earlier stage?

Matthew Swindells: I would say that what they should be doing is holding us to account for doing that, rather than doing it directly themselves. We are expecting good communications, and we do audits regularly. We would expect the auditors to make sure that those are giving us the information that we think they're giving us.

Q137 **Chair:** So you don't think they need to be able to say anything at an earlier stage.

Matthew Swindells: I think we have a constant dialogue with the auditors, so I don't think they're—

Q138 **Chair:** But that is not the public. That is different: you have a constant dialogue, but the public does not know that there is a problem about their council, or their local trust is overspending, or there is some big project that might be going wrong. The public might not know about that until it has happened.

Sir Chris Wormald: In terms of what we should do with local audit, of course, Sir John Kingman's review touched on local audit—more on the local government side than the NHS side, but the most important thing we have to do is consider the outcomes of that review and respond to that.

Q139 **Chair:** So there is some thinking going on in Whitehall.

Sir Chris Wormald: No, I have discussed this with Sir John. There is thinking to be done, and we should do that before we do anything else, given that we have just had a review that touches on exactly these issues.

Jo Farrar: We expect the local auditors to be having a relationship with their local council so that they are raising these issues as they see them rather than waiting until the end of the year. In most cases, that happens.

Q140 **Chair:** But that is with the councillors. As you've heard, that is not with opposition councillors, or even some back benchers.

Jo Farrar: Where we see really good audit committees, they will involve opposition councillors. They certainly involve back-bench members, and it gives members more of a chance to get involved.

Q141 **Chair:** But the audit committee does not necessarily see those private discussions with the cabinet members. That is the point, isn't it?

Jo Farrar: Actually, I think the audit committee tends to get very open accounts of the issues, of what's happening in a council throughout the year, so it does have access to that information. I would certainly encourage back benchers to be members of those audit committees.

Q142 **Chair:** That is encouraging. Mr Dalton, you ran a big trust. Would you have liked your private problems at Imperial to have been out there in the public domain? Probably not. But do you think that should be a duty?

Ian Dalton: I think we all believe in transparency, and auditors have extensive powers, including, rightly, the power to create a report in the public interest.

Q143 **Chair:** They do not do it very often, do they?

Ian Dalton: They don't. My contention would be that auditors know that they have those powers and if they decided they were necessary, because of the level of concern, they would use them. That said, I come back to the fact that they have not and that there have been zero times in which the audits have identified a problem with the creation of financial statements. I also come back to the fact that there is a huge amount of transparency around the audit and indeed the underlying financial performance in each NHS trust, which is out there and available for every member of the public to see. So I think that there is a high degree of accountability and transparency.

Q144 **Chair:** You would need to be quite a skilled member of the public to find that on the web. Let's say you are a patient—finding what you are looking for at that moment is not really easy.

Ian Dalton: I completely empathise with the fact that it can be hard for any citizen to find out about big complex public bodies—I take nothing away from that statement. My point is that the information is part of a monitoring system that is, by any comparison, extremely transparent. I accept that you have to have some knowledge, but it is there and is available for everybody.

Chair: My worry is that what I am hearing from you all is a bit system-wide and big picture. One of the joys of our role is that we meet people face to face with problems that they need answers for, and sometimes, some of those people would never be able to find their way through the system. That is not because they are stupid people, but because it is very opaque. Today has raised issues about governance and that transparency, which we may want to reflect on as a Committee. We will be publishing

our report in due course, so we will reflect in a moment on what we will say in it. I think you hear what we are saying about that human-level contact and understanding. It may be a meeting of some methodology and metrics that ticks your boxes, but actually, if things take a long while even to be escalated to the Secretary of State, a lot of people do not know about stuff along the way.

One thing that I would add is that when I was first elected nearly 14 years ago, it was routine for health bodies to contact MPs about major changes. That doesn't happen now, does it? We don't get much information about major changes going on. We are just not consulted in the same way. We are not particularly special but we represent our constituents, who are very special, and the deficit in local accountability and transparency alarms me. I will leave that there because it is a bit late to throw that in and have a discussion about it, but I will perhaps take it offline with you.

Thank you very much indeed for your time. The transcript will be up on the website in the next couple of days, uncorrected as usual. Our report will be out maybe at the end of February or early March. That depends partly on other business in the House, I suspect. Thank you very much for your time.