



# UK Health Security Agency

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Dear Chair

## **UK HEALTH SECURITY AGENCY ANNUAL ACCOUNTS 2021-22**

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

### **Background on UKHSA**

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

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

## **The NAO's disclaimer**

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

- The lack of high-level governance, since UKHSA's Advisory Board and Audit and Risk Committee were not in place during 2021-22.
- The lack of assurances and evidence for the balances transferred to UKHSA in October 2021. For example, full stock takes were not carried out before inventory was transferred from DHSC and PHE to UKHSA.
- Weaknesses in UKHSA's control environment – in particular, linked to the implementation of a new Enterprise Resource Planning (ERP) system. Some important controls were not operating properly (in particular, bank reconciliations); there were protracted delays in producing the accounts; and there were significant uncertainties where UKHSA was unable to provide sufficient appropriate evidence to support transactions and balances in the financial statements.

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

## **Context and challenges facing UKHSA**

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

- Although UKHSA's non-executive chair was in place, no other non-executives were able to be appointed until April 2022, so the agency's Advisory Board and Audit and Risk Committee were not established until after the end of the financial year, leaving a gap in high-level governance. The delay was due to the absence of an agreed budget and remit for the organisation which were not settled until the end of March 2022. The Advisory Board and Audit & Risk Committee have been meeting regularly since June 2022 and July 2022 respectively.
- Creating UKHSA involved a complex organisational merger which meant that common financial governance and controls had to be established at pace, mid-way through the financial year, alongside managing a large-scale operational health protection response. There was considerable workforce churn both in finance and the wider agency during the period, with around half of the finance function on temporary contracts or loans.
- UKHSA inherited a decision to implement a new ERP in October 201. While adopting the new system was strategically the right direction and in line with government policy, it was highly risky and challenging to go live with a new ERP alongside such a degree of organisational change; this led to inevitable teething problems and transitional issues.
- Transferring NHS Test and Trace from DHSC into UKHSA (a significantly smaller organisation) inherently meant it would be subject to greater audit scrutiny and held to higher standards of accuracy, as the materiality threshold for audit was much lower (£91m in UKHSA compared to £1.6bn in DHSC).

- UKHSA inherited pre-existing audit qualifications relating to inventory which mean that some form of accounts qualification was unavoidable.
- The Government decided in February 2022 that UKHSA's test and trace activity should be scaled down rapidly, with a reduction of around £12bn in annual funding from April 2022, an unprecedented achievement for any public sector organisation. As a result, over the critical weeks before and after the financial year-end, when the whole finance team would normally prioritise producing accurate accounts, the overriding priority was to ramp down spending and contracts. This led to delays in producing the accounts, an increased risk of error, and some gaps in evidence for transactions.

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

### **Actions and next steps**

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

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

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

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

Yours sincerely



**Prof Dame Jenny Harries**  
**Chief Executive, UK Health Security Agency**