Sixty-second report of Session 2022-23

Department of Health and Social Care

Department of Health and Social Care 2021-22 Annual Report and Accounts

Introduction from the Committee

The Department of Health and Social Care leads the health and care system in England. The Comptroller and Auditor General (C&AG) qualified his audit opinion on the Department's 2021–22 accounts for several reasons. There was insufficient evidence to support; the Core Department & Agencies' and Group's consumables inventory balance of £1.36 billion at 31 March 2022 and £3.6 billion at 31 March 2021; £1.56 billion of inventory impairments in 2021–22 and £9.0 billion in 2020–21; inventory consumed during 2021–22 of £8.0 billion and £6.1 billion in 2020–21; and the £1.2 billion onerous contract provision recognised by the Department for inventory purchased but not received as at 31 March 2021.

UKHSA was created on 1 April 2021, becoming fully operational on 1 October 2021 when it became responsible for the health protection functions of Public Health England, NHS Test and Trace and the Joint Biosecurity Centre. The C&AG disclaimed his opinion on the 2021–22 UKHSA Accounts, and this led to him qualifying the transactions and balances relating to UKHSA in the Department's Group Accounts as insufficient evidence was provided. This also led to a regularity qualification as there was not sufficient evidence to demonstrate that the spend incurred was applied to the purposes intended by Parliament and conformed with the authorities which govern it. In addition, Parliament authorised a Resource Non-Budget Expenditure limit of £Nil for the Department in 2021–22. Against this limit, the Department incurred an outturn of £2.457 billion, exceeding the authorised limit by £2.457 billion and causing an Excess Vote and a qualification of the C&AG's opinion on regularity.

Based on a report by the National Audit Office, the Committee took evidence on 20 March 2023 from the Department of Health and Social Care and the UK Health Security Agency. The Committee published its report on 5 July 2023. This is the government's response to the Committee's report.

Relevant reports

- DHSC Annual Report and Accounts 2021 to 2022 – (HC 1043)
- PAC report: Department of Health and Social Care 2021-22 Annual Report and Accounts – Session 2022-23 (HC 997)

Government response to the Committee

1. PAC conclusion: Three years after the start of the pandemic, the Department still does not have adequate controls over its PPE and there continues to be high ongoing storage and disposal costs for unusable items.

1. PAC recommendation: The Department should set out in its Treasury Minute response how it will ensure that:

- ***It puts in place adequate inventory controls over its PPE;***
- ***Its disposal plan for unusable inventory is carried out in the most appropriate and cost-effective way; and***
- ***It recovers maximum value from suppliers which failed to deliver against their contractual terms.***

We expect the Department to be able to report its progress on these matters to the Committee at a future evidence session.

1.1 The government agrees with the Committee's recommendation

Recommendation implemented

1.2 Since the pandemic, the Department of Health and Social Care has kept the Committee regularly updated on personal protection equipment (PPE) inventory controls, disposal activity and commercial resolution activity. Through the quarterly PPE updates, the department provides the Committee with updates specifically relating to PPE stock management; disposals and associated costs; running costs of PPE storage; and dissolution activities including legal proceedings. The most recent update was shared with the Committee in June 2023, with the next update due at the end of summer 2023.

1.3 In March 2023, the department also wrote to the Committee setting out the strategy for the future of PPE. This strategy sees Supply Chain Coordination Limited (SCCL) manage the PPE supply chain for business-as-usual distribution to health and care setting and responsibility for maintaining adequate inventory controls. SCCL ensures that inventory controls are in place across all warehouses and reports are produced on a periodic basis to inform future procurements and excess stock disposal plans. In addition, SCCL will continue to deliver the department's plan to dispose of remaining excess PPE including by product recycling and energy production through waste processes.

1.4 As the Committee will be aware, the Contract Dissolution Team within the department remain committed to recovering maximum value from suppliers which have failed to deliver against their contractual terms. The department continues to investigate contracts where there is some degree of dissatisfaction and will continue to report to the Committee on this through the quarterly updates.

2. PAC conclusion: The Department does not yet have a clear plan in place for a national emergency stockpile for any future pandemic.

2. PAC recommendation: The Department should develop and implement a clear, cost-effective plan for a national emergency stockpile to respond to any future pandemic.

2.1 The government agrees with the Committee's recommendation**.**

Recommendation implemented

2.2 The department has in place a clinical countermeasure programme of some appropriate medicines and consumables to respond to a range of scenarios, for example vaccines (including an Advance Purchase Agreement to guarantee access to a pandemic specific influenza vaccine), and therapeutics, such as antivirals. In addition, the new UK-Moderna strategic partnership is setting up research and development and manufacturing facilities in the UK with the capacity to produce up to 250 million vaccines per year in the event of a pandemic.

2.3 The department is working closely with SCCL on the necessary volumes of PPE that are needed to provide resilience to future pandemics and is preparing advice on both short-term procurements and longer-term resilience. The department will continue to refine its approach over time based on the latest information available. To provide additional resilience and value for money, in April 2023 the department signed a service level agreement with SCCL, to support rotation of stockpiled product into business as usual wherever possible.

2.4 The department is committed to learning lessons from the COVID-19 pandemic and has sought, and continue to consider, expert advice on products (including PPE, medicines and vaccines) that should be held, or otherwise contracted for, to support the UK's preparedness for future pandemic and emerging infectious disease threats. An enhanced approach to clinical countermeasures is one aspect of the department's wider, flexible pandemic response plans, which are kept under review and regularly updated to reflect the latest scientific information, lessons learned from exercises and our response to emergencies, including the COVID-19 pandemic.

3. PAC conclusion: There was a fundamental absence of formal governance arrangements at UKHSA and the Department failed to respond to the heightened risks of setting up a new and complex organisation at pace.

3. PAC recommendation: The Department must work with UKHSA to ensure that the governance arrangements at UKHSA are assessed, rectified and that the remaining vacancies within its governance structure are resolved as a matter of urgency.

3.1 The government agrees with the Committee's recommendation**.**

Recommendation implemented

3.2 On 1 April 2021, the government announced the establishment of the UK Health Security Agency (UKHSA) as this country's permanent standing capacity to prepare for, prevent and respond to threats to health. From 1 October 2021, the department and the newly formed UKHSA prioritised significant efforts on the response to the COVID-19 pandemic. The operational focus in winter 2021-22 was the response to the Omicron variant and then the implementation of the Living with Covid Strategy from February 2022.

3.3 As a new organisation, the Chair and CEO of UKHSA were centred on the need for effective governance from UKHSA's inception. Once the non-executive member recruitment which started in spring 2021 was completed in April 2022, UKHSA swiftly moved to establishing a fully functioning suite of corporate governance, including the advisory board, and holding four distinct committee meetings by September 2022. The Audit and Risk Committee appointed in April 2023 a non-executive as Chair who is a qualified accountant, with the department chairing the appointing panel and facilitating the approvals process.

3.4 The Chair and CEO engaged the Government Internal Audit Agency (GIAA) to assist in a review of the corporate governance, which was completed in May 2022. This helped identify detailed actions to improve the governance framework from the advisory board through the executive line. These were completed by March 2023, which a follow-up GIAA audit confirmed. The department contributed to GIAA's review and met regularly with UKHSA to support progress and commissioned a GIAA review of sponsorship to better support and oversee UKHSA. UKHSA and the department continue to work closely to further strengthen governance arrangements.

4. PAC conclusion: UKHSA had a fundamental weakness in financial controls and process which resulted in it being unable to prepare auditable accounts.

4. PAC recommendation: UKHSA should urgently ensure robust financial controls and processes are put in place and that there is a clear plan in place to deliver unqualified accounts.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2023

4.2 UKHSA is urgently working to improve and strengthen existing financial controls and processes, to evidence compliance with government functional standards and best practice. Following the disclaimed 2021-22 audit opinion, UKHSA immediately established a Finance and Control Improvement Programme to inform the production of 2022-23 auditable accounts and continue to provide oversight and scrutiny of UKHSA's financial controls.

4.3 The programme will develop to systematically address areas where controls and processes can be improved further. Activities have been focussed on the accounts production but will broaden out into wider financial management and controls without losing focus on the accounts.

4.4 The aim of the programme is to enable UKHSA to achieve a fully clean, unqualified audit opinion at the earliest feasible opportunity, which is the 2024-25 accounts. Due to the disclaimed opinion, NAO advised it is not possible to achieve a clean audit for 2022-23. Unqualified accounts must demonstrate a clean audit position over successive years to enable an accurate prior year comparator.

4.5 The programme is governed by a board chaired by UKHSA's Chief Executive, with representation from DHSC, GIAA and HMT. The UKHSA Audit and Risk Committee oversees the programme closely with regular formal progress reporting to the department.

4.6 The programme will have a fully developed, multi-year project plan in place by Autumn 2023. This aligns with the expected outcome of the 2022-23 audit and allows any further findings to be incorporated. In the meantime, UKHSA intends to continue driving rapid progress, tightly managed through the improvement programme.

5. PAC conclusion: The Department has not yet delivered a clear plan to remove the audit qualifications and deliver its accounts to a pre-summer recess timetable.

5. PAC recommendation: The Department must develop and implement a plan to remove the qualifications from the Departmental Group accounts and work with NHS England to restore timely financial reporting and local audit across the NHS, to support laying of the Departmental Group accounts to a pre-summer recess timetable.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2026

5.2 The department is committed to the removal of all qualifications. The department has largely addressed the root causes of ongoing qualifications, mainly through the provision of audit evidence for consumables inventories in the Core Department and Agencies' and Group's Statement of Financial Position.

5.3 The department is committed to a return to a pre-summer recess timetable. The department is working to a multi-year plan which aims to bring the timetable forward by approximately two months each year. The department currently aims to lay its 2022-23 accounts in November 2023 and return to a pre-summer recess timetable for the 2025-26 financial year.

5.4 However, the factors underpinning the delays in local audit completion, mainly capacity issues are not wholly within the control of the department. The government is working to address these, and successful resolution of these issues will be critical in enabling the

department to lay its accounts ahead of the summer recess. For context, local audits would need to all be completed at least one month sooner than the deadline of 30 June 2023 set for the 2022-23 audit cycle.

5.5 In addition, the increased requirements on auditors (including the National Audit Office (NAO)) lead to particular challenges on a large and complex departmental group. Whilst the department and NAO recognise these challenges, they themselves are not expected to be a barrier to achieving a pre-summer recess audit timetable.

6. PAC conclusion: There have been repeated and unacceptable governance and accounting failures within the Departmental Group which has led to poor financial control, undermined Parliamentary accountability, and money being spent without Parliamentary approval.

6. PAC recommendation: The Department must set out how it will establish sufficient capability to deliver effective oversight across its Group to manage emerging and developing issues and ensure it avoids future financial and governance failings.

6.1 The government agrees with the Committee's recommendation**.**

Target implementation date: December 2023

6.2 As the Committee is aware, the department has undertaken a financial reset programme. This programme established robust financial controls and governance across the department and its arms' length bodies.

6.3 This programme put in place a proportionate, risk-based financial control framework that ensures that areas of spend subject to external controls (for example, by HM Treasury and Cabinet Office) are reviewed and approved as required by Managing Public Money. Internal delegations ensure that spending proposals below those subject to external controls are also subject to appropriate review and approval and maximise value for money.

6.4 During 2021-22 the financial reset programme was still being implemented. The department has now put into place controls which are proportionate in reducing the risk of future financial and governance failings.

6.5 Despite the clear processes and improvements set out above, it is important to note that ensuring full compliance across such a diverse and sizeable group is inherently challenging. As such, whilst the department believes the processes and controls in place represent a proportionate and robust risk mitigation, they cannot guarantee full compliance from all bodies.

6.6 The department keeps these controls under continual review and applies a 'lessons learnt' process in the event that governance issues are identified.