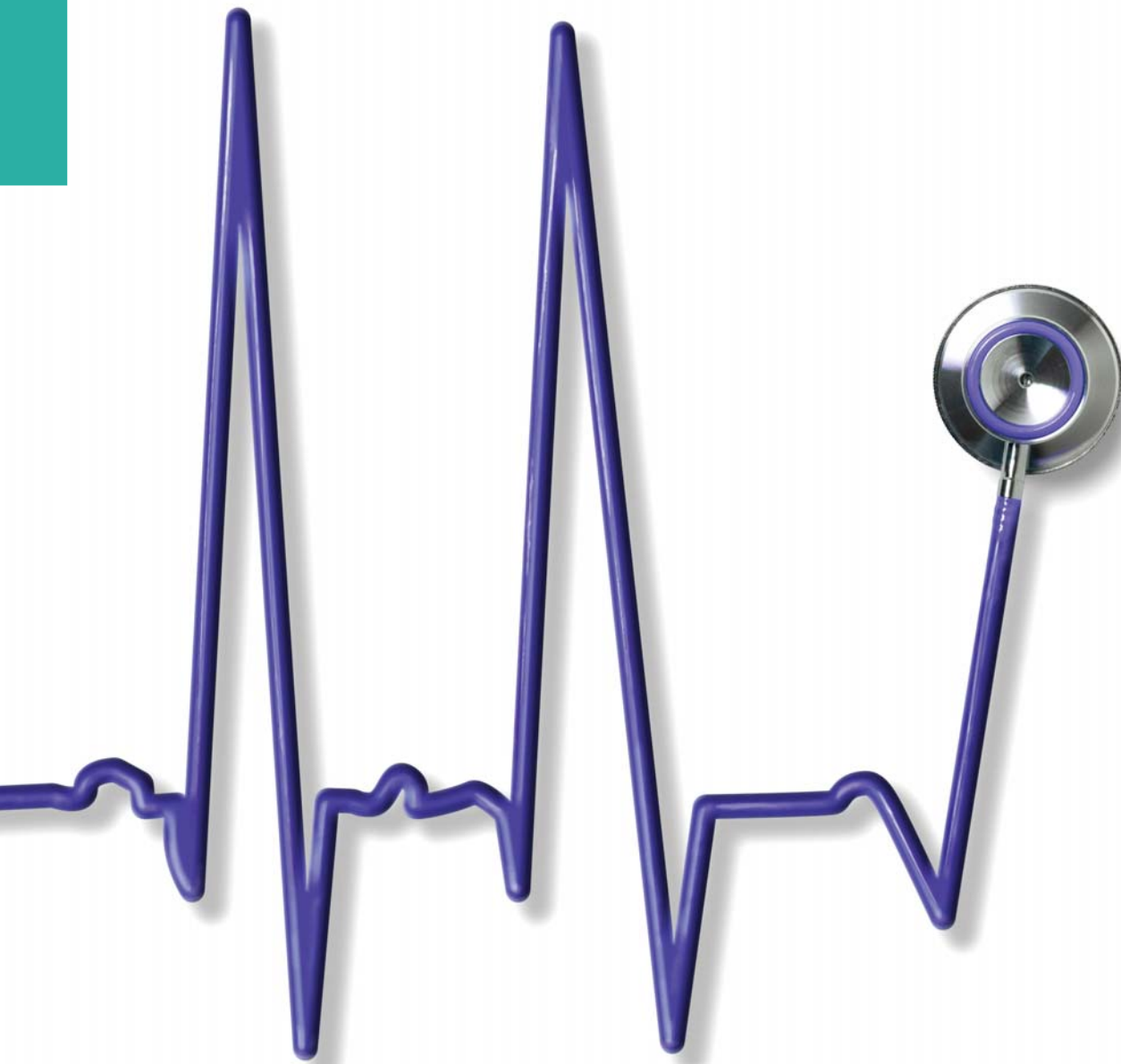


Health

National report

October 2007

 **audit**
commission



Review of the NHS financial year 2006/07

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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Summary

This report summarises the financial performance of NHS bodies during 2006/07 and comments on the audit and financial issues that arose during the year. Its main focus is the key themes and issues arising from the Auditors' Local Evaluation (ALE) assessments carried out in 2006/07 by auditors appointed by the Audit Commission. The report covers strategic health authorities (SHAs), primary care trusts (PCTs) and NHS trusts. We have only briefly touched on the financial performance of NHS foundation trusts since they are outside of the Commission's audit regime. The report includes some case studies on those organisations that have performed well. The report also looks forward to the key financial management issues arising in 2007/08 and beyond.

The NHS had a financially challenging year in 2006/07. A significant number of NHS bodies ended 2005/06 in financial difficulty, with the NHS overall incurring a deficit of £547 million. The Department of Health made financial recovery one of the top priorities for 2006/07 and implemented an ambitious financial turnaround programme, targeted on those organisations with the most serious financial problems. To aid recovery, SHAs topsliced¹ PCT funds to create local contingencies. These efforts have been successful and in 2006/07 the NHS reported an overall surplus of £515 million. Seventy-seven per cent of NHS bodies achieved year-end financial balance in 2006/07, compared to 67 per cent in 2005/06.

The financial position to date in 2007/08 appears to be equally positive. Recent figures issued by the Department of Health show that 22 organisations are forecasting that they will fail to achieve financial balance in 2007/08, compared to 81 in 2006/07. The Department of Health is forecasting an aggregate surplus of £983 million at the end of the financial year.

Changes were made to the NHS financial regime in 2006/07 to implement the recommendations contained in the Commission's *Review of the NHS Financial Management and Accounting Regime for the Secretary of State (Ref. 1)*. Changes to the financial regime included the introduction of new arrangements for cash loans; the end of

¹ The Department of Health's *Operating Framework* set out the facility for PCTs to lodge funds with SHAs, also known as the topslice.

the resource accounting and budgeting regime for NHS trusts; and the introduction of a new capital regime for NHS trusts from 2007/08.

As well as changes to the financial regime, changes were also made to the structure of the NHS. Implementation of the Department of Health's *Commissioning a Patient-led NHS (Ref. 2)* initiative, led to the number of SHAs reducing from 28 to 10 and the number of PCTs reducing from 303 to 152. In addition the number of ambulance trusts was reduced from 29 to 12. Reorganisation created additional challenges for those NHS bodies affected and it is to the credit of the NHS and its managers that this ambitious change programme was implemented at the same time as the NHS overall achieved financial balance and improved services. The total cost of the redundancy and severance payments arising from restructuring in 2006/07 was £192.1 million; the total savings were £90 million. Further costs will be incurred and savings delivered in 2007/08.

ALE assesses how well NHS trusts and PCTs manage and use their financial resources. It was undertaken for the second time for the 2006/07 financial year. Performance overall improved.

ALE involves auditors making scored judgements on five key themes: financial reporting; financial management; financial standing; internal control; and value for money. The Audit Commission then calculates an overall use of resources (UoR) score. This UoR score is included within the Healthcare Commission's Annual Health Check which consists of two elements: a score for quality of services; and a score for UoR. Monitor (the Independent Regulator of NHS Foundation Trusts) provides the Healthcare Commission with the UoR scores for NHS foundation trusts.

The overarching message is that performance of NHS bodies assessed under the ALE framework is improving. The ALE results show that:

- 69 per cent (231) of NHS bodies demonstrated adequate or more than adequate performance in their UoR (61 per cent in 2005/06);
- unsurprisingly, those organisations unaffected by the recent NHS reorganisation performed better than the new bodies created during 2006/07;
- of the 245 organisations that were in existence in both 2005/06 and 2006/07:
 - 95 bodies improved their UoR score;
 - 136 bodies' UoR score remained the same; and

- the performance of 14 bodies deteriorated;
- 27 per cent (91) of NHS bodies were judged to be performing well or performing strongly in their UoR (12 per cent in 2005/06);
- six bodies (five PCTs and one NHS trust) achieved the top category of performing strongly in their UoR (2 bodies in 2005/06);
- 31 per cent (104) of NHS bodies failed to meet the minimum requirements and, therefore, were assessed as having inadequate performance (39 per cent in 2005/06). The main cause of this was the 28 per cent of NHS bodies assessed as having inadequate financial standing; and
- in line with 2005/06 the performance of mental health and learning disability trusts was better than that of acute trusts and PCTs.

As well as making an assessment, ALE is also intended to help drive improvement. The upward trend in scores and the overall improvement in NHS financial management indicate that it is having that effect. However, there are still a significant number of bodies that have yet to meet minimum standards and others should take steps to ensure that they improve still further.

1

Financial performance

Introduction

This chapter examines the financial performance of NHS trusts, PCTs and SHAs in 2006/07. All NHS bodies have a statutory financial duty. NHS trusts are required to breakeven taking one year with another (over a three- or exceptionally a five-year period), however, they should normally plan to breakeven each and every year. The financial regime is different for PCTs and SHAs. They have a statutory duty to keep expenditure within an annual resource limit set by the Department of Health.

The operating environment for 2006/07

- 1 The Department of Health issued its *Operating Framework for 2006/07* (**Ref. 3**) in January 2006. The Framework set out the priorities for 2006/07, including the achievement of robust financial health. The NHS had a financially challenging year in 2005/06. The aggregate position at the year end was an overspend of £547 million, excluding NHS foundation trusts.
- 2 In the *Operating Framework* the Department made it clear that the overspend from 2005/06 had to be recovered in 2006/07 and that an overall surplus should be planned for. Organisations were told to plan to achieve in-year financial balance and recover 2005/06 deficits. It was recognised that there would be exceptions to this, where the size of the financial problem was so significant that recovery would take more than one year. To facilitate this recovery, the *Operating Framework* set out the facility for PCTs to lodge funds with SHAs, also known as the PCT topslice. According to the Department, during 2006/07 128 PCTs had their funds topsliced, totalling £1,144 million. By the end of 2006/07, SHAs had returned £319 million to PCTs.

Aggregate performance of the NHS

- 3 Overall, the NHS reported a year-end surplus of £515 million (excluding NHS foundation trusts). This is an improvement on the 2005/06 position by over £1 billion.
- 4 The aggregate position of PCTs was a net deficit of £370 million; the aggregate position of NHS trusts was a net deficit of £77 million. The overall surplus position was achieved

largely as a result of the topsliced funds retained by SHAs. The detailed analysis is shown in **Table 1**.

Table 1
Aggregate revenue performance of NHS organisations

	Gross surplus/ underspend 2006/07 £000	Gross deficit/ overspend 2006/07 £000	Net position 2006/07 £000	Net position 2005/06 £000
SHA	961,763	0	961,763	526,242
PCT	265,987	(635,718)	(369,731)	(492,059)
NHS trust ^I	203,712	(281,123)	(77,411)	(581,439)
Total	1,431,462	(916,841)	514,621	(547,256)

Source: Department of Health data

- 5 Twenty-three per cent of NHS bodies failed to achieve in-year financial balance, an improvement on the 33 per cent in 2005/06 (**Table 2**).

Table 2
Number of NHS organisations reporting a surplus or deficit

	Number (%) achieving financial balance 2006/07	Number (%) failing to achieve financial balance 2006/07	Percentage failing to achieve financial balance 2005/06
SHA	10 (100%)	0 (0%)	0%
PCT	110 (72%)	42 (28%)	36%
NHS trust ^{II}	144 (79%)	39 (21%)	30%
Total	264 (77%)	81 (23%)	33%

Source: Department of Health data

- ^I These figures include the part-year financial results of those organisations that became NHS foundation trusts part way through 2006/07.
- ^{II} These figures only include NHS trusts in existence at the 2006/07 year-end.

Financial performance of NHS trusts

- 6 The numbers of trusts reporting a year-end deficit fell from 30 per cent in 2005/06 to 21 per cent in 2006/07. No trusts reported receiving financial support in 2006/07. The trusts reporting a deficit over £10 million are set out in **Table 3**.

Table 3

NHS trusts reporting deficits over £10 million

NHS trust	Deficit £000
Royal Cornwall Hospitals NHS Trust	(36,464)
Barking, Havering and Redbridge Hospital NHS Trust	(16,844)
United Lincolnshire Hospitals NHS Trust	(13,761)
Hinchingbrooke Health Care NHS Trust	(13,354)
Surrey and Sussex Healthcare NHS Trust	(12,155)
Mid Yorkshire Hospitals NHS Trust	(11,688)
West Hertfordshire Hospitals NHS Trust	(11,413)
Barnet and Chase Farm Hospitals NHS Trust	(11,398)
Whipps Cross University Hospital NHS Trust	(10,467)
Bromley Hospitals NHS Trust	(10,002)

Source: 2006/07 audited accounts

- 7 According to the Department of Health in 2006/07, 15 NHS trusts failed their statutory duty to breakeven taking one year with another, (usually over a three- or a five-year period). These trusts were:
- Ashford and St Peter's Hospitals NHS Trust;
 - Avon and Wiltshire Mental Health Partnership NHS Trust;
 - East Sussex Hospitals NHS Trust;
 - North Bristol NHS Trust;
 - North Cumbria Acute Hospitals NHS Trust;
 - The Princess Alexandra Hospital NHS Trust;

- Queen Elizabeth Hospital NHS Trust;
- Queen Mary's Sidcup NHS Trust;
- Royal United Hospital, Bath NHS Trust;
- Royal West Sussex NHS Trust;
- United Bristol Healthcare NHS Trust;
- Weston Area Health NHS Trust;
- West Middlesex University Hospital NHS Trust;
- Worcestershire Acute Hospitals NHS Trust; and
- Worthing and Southlands Hospitals NHS Trust.

Financial performance of PCTs

- 8 The numbers of PCTs failing to keep expenditure within their resource limit fell from 36 per cent in 2005/06 to 28 per cent in 2006/07. No PCTs reported receiving financial support in 2006/07. The PCTs reporting a deficit of over £10 million are set out in **Table 4**. These figures are based on the final resource limit for the PCT and therefore reflect the impact of topslices.

Table 4
PCTs reporting overspends against their revenue resource limits over £10 million

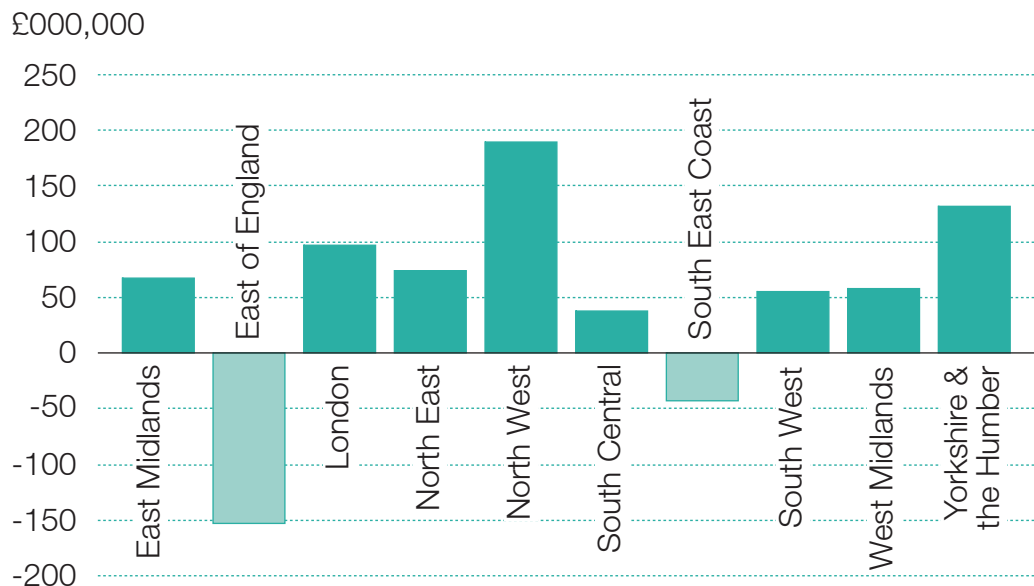
PCT	£000
Cambridgeshire PCT	(52,247)
Hillingdon PCT	(52,129)
Norfolk PCT	(46,686)
Cumbria PCT	(36,703)
North Yorkshire and York PCT	(32,067)
Suffolk PCT	(30,842)
West Hertfordshire PCT	(26,635)
Brent Teaching PCT	(25,074)
East and North Hertfordshire PCT	(23,625)
Kingston PCT	(21,080)
Wiltshire PCT	(20,221)
Buckinghamshire PCT	(20,123)
East Sussex Downs and Weald PCT	(18,091)
Leicestershire County and Rutland PCT	(17,755)
Mid Essex PCT	(17,744)
Bedfordshire PCT	(17,561)
Surrey PCT	(16,308)
West Kent PCT	(15,943)
Enfield PCT	(13,030)
West Sussex PCT	(12,862)
Hounslow PCT	(12,860)
Sutton and Merton PCT	(10,083)

Source: 2006/07 audited accounts

Financial performance of SHAs

- 9 All SHAs achieved their statutory duty to keep their expenditure within their resource limit. SHAs are responsible for performance managing the NHS trusts and PCTs within their area, including their financial performance. In 2006/07 two of the ten SHA areas reported an aggregate deficit across all the individual NHS bodies within their area (**Figure 1**).

Figure 1
2006/07 financial performance by SHA area



Source: Audit Commission

Financial performance of NHS foundation trusts

- 10 NHS foundation trusts are subject to regulation by Monitor (the Independent Regulator of NHS foundation trusts). They have a different accounting, funding, and accountability framework from other NHS bodies and unlike NHS trusts, NHS foundation trusts do not have a statutory breakeven duty.
- 11 Twenty-seven NHS trusts became foundation trusts during 2006/07. As reported by Monitor, in the 2006/07 financial year, the 59 NHS foundation trusts generated a net surplus of £130 million (**Ref. 4**). Fifty-six NHS foundation trusts reported a surplus. Both of these figures are before exceptional items are taken into account.

Financial performance of organisations in financial turnaround

- 12** The Department of Health established the national Turnaround Programme in 2005/06 to address PCTs and NHS trusts with significant financial problems. The aims of the programme were to identify and challenge organisations that were experiencing financial difficulties. In 2006/07 a total of 104 bodies were identified for this programme and were required to report their financial position and forecasts on a monthly basis to the Department of Health, which then reviewed and challenged these returns. At the end of 2006/07 the Department of Health identified 17 NHS trusts that are deemed to be in financial ‘special measures’ because of the severity of the financial challenges that they face. These measures include a rigorous review of their financial and operational position, performance and prospects to identify long-term solutions that best deliver value for money, while maintaining standards of patient care to the communities that they serve. All but one of the bodies in special measures were subject to the Turnaround Programme.
- 13** Of the 104 organisations that were part of the Turnaround Programme, 55 (53 per cent) failed to achieve financial balance in 2006/07. The aggregate performance of turnaround organisations in 2006/07 was a deficit of £637 million. NHS trusts subject to the Turnaround Programme fared better than PCTs, with 50 of the 60 trusts improving their financial position when compared to 2005/06.¹ Twenty-nine of the PCTs in the programme were created in 2006/07 as a consequence of the NHS reorganisation. Of the remaining 15 PCTs in the programme unaffected by the reorganisation, 6 improved their performance over the same time period.
- 14** Looking at the wider assessment of performance made by auditors under ALE, only 29 turnaround organisations failed to meet minimum standards for financial management. Eighteen bodies were assessed as good and one was assessed as excellent. Of the 17 NHS trusts in special measures, 11 scored a level 2 (meets minimum requirements) or higher for financial management, which indicates that current management is effective, but is often faced with a legacy of financial problems. These scores, as well as the bottom line figures for financial performance, are positive indicators that measures adopted to improve the financial management capacity and the financial standing of individual NHS organisations have had an impact.

¹ Changes to the NHS financial regime may mean that the financial performance of these organisations year on year is not directly comparable.

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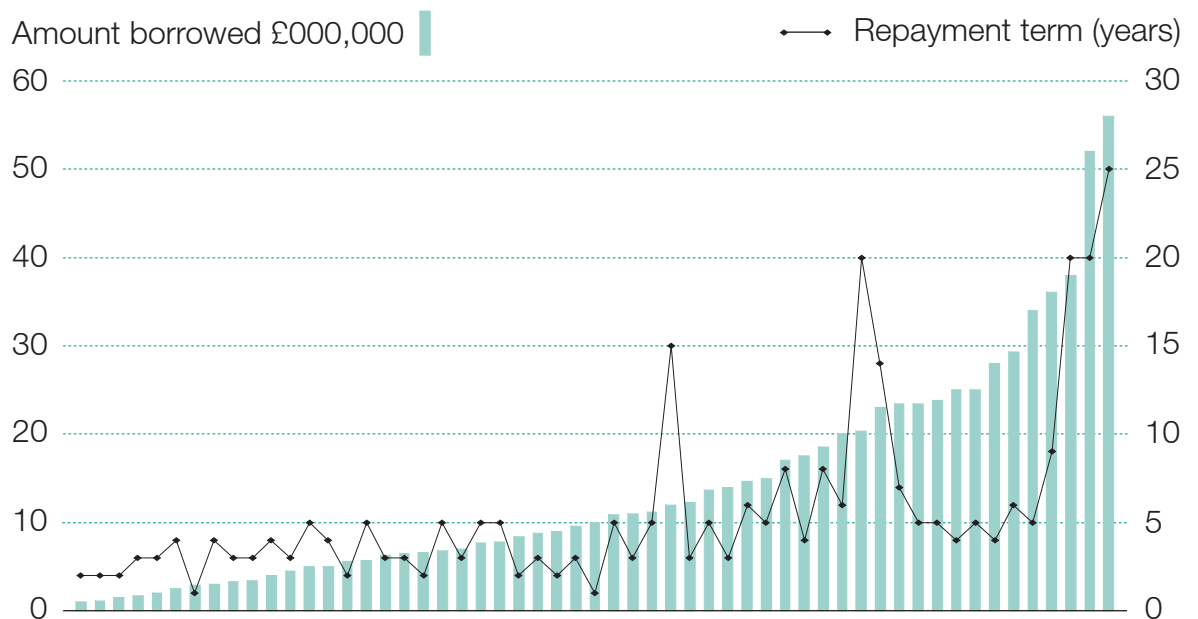
Financial management

Introduction

Additional pressure was placed on NHS financial management capacity and capability during 2006/07 as changes to the financial management regime were introduced at the same time as a major reorganisation of the NHS.

Audit Commission Review of the NHS Financial Management and Accounting Regime

- 15 In June 2006 the Audit Commission published its *Review of the NHS Financial Management and Accounting Regime* (**Ref. 1**). The Review was undertaken at the request of the then Secretary of State and recommended changes that would:
 - enable and encourage the NHS and individual bodies within it to operate on a sound and sustainable financial footing;
 - support the identification of financial problems and facilitate recovery;
 - promote clear and transparent accountability; and
 - support individual organisations to develop the necessary financial management capacity and capability to operate effectively.
- 16 The recommendations were agreed by the Secretary of State for Health. Some have already been implemented.
- 17 During 2006/07 the Department of Health replaced cash brokerage between organisations with a new formal loan arrangement. This has helped ensure that the financial performance of NHS bodies is clear, with all organisations understanding their cumulative, in-year and recurrent financial performance. In 2006/07 the Department issued cash loans totalling £771 million to 55 NHS trusts and PCTs. Under the arrangement, NHS bodies are required to pay interest on the loan to the Department and to repay the principal from cash arising as a result of the organisation reporting surplus. The repayment terms vary from 1 year to 25 years. **Figure 2** shows the cash loan amounts and the respective repayment terms.

Figure 2**Cash loans issued by the Department during 2006/07**

Source: Audit Commission

- 18 The Department financed NHS trust loans through surplus cash associated with the 2006/07 PCT topslice. This will be returned to SHAs and PCTs over time.
- 19 The Department of Health announced in March 2007 that it was also accepting the Audit Commission's recommendation that the resource accounting and budgeting (RAB)¹ regime should not be applied to NHS trusts. Those NHS trusts that had had their income reduced as a result of incurring a deficit in 2005/06 had that income reinstated, unless they had already received equivalent financial support. RAB deductions in previous years were dealt with via an amendment to the breakeven note in the annual accounts, to remove the effect of the income reduction on past performance. As the Commission recommended, the RAB regime remains in place for SHAs and PCTs.
- 20 The Department of Health also made changes to the capital regime for NHS trusts from 2007/08. The changes impose greater discipline over capital investment decisions by

¹ RAB is the financial management framework in place across central government.

replacing capital allocations with a new borrowing regime. From 2007/08, access to capital funding is determined solely by the affordability of proposed investments, with investment financed by a system of loans and borrowing subject to a prudential borrowing regime similar to that operated for NHS foundation trusts. No changes were made to PCT capital allocations and financing arrangements.

- 21 Taken together these changes represent significant amendments to the NHS trust financial regime which should be welcomed. The financial position of NHS trusts is now much clearer and the incentives for good performance are sharper. The changes will also help to identify earlier when NHS trusts fall into financial difficulty and will enable trusts more easily to prepare for the different foundation trust financial regime. The Commission is continuing to work with the Department of Health as they implement the remaining recommendations.

Implementation of Commissioning a Patient-Led NHS

- 22 Published in July 2005, the Department of Health document *Commissioning a Patient-Led NHS (Ref. 2)* outlined significant changes to the structure of the NHS, affecting PCTs, SHAs and ambulance trusts. The resulting reorganisation took place during 2006/07. The Department's prime aim was to improve commissioning within the NHS and ensure that all commissioners were fit for purpose to deliver the reform programme. On 1 July 2006, the 28 SHAs were reorganised into 10 new organisations. At the same time, the 29 ambulance trusts were reorganised into 12 new ambulance trusts. Only two of the 29 ambulance trusts were unaffected by the reorganisation. On 1 October the PCT re-organisation took place, reducing the number of PCTs from 303 to 152. Eighty PCTs were unaffected by the reorganisation.
- 23 In addition to developing stronger organisations and greater geographical coterminosity with social services authorities, the reconfiguration of SHAs and PCTs is expected to deliver £250 million of recurrent savings from management and administration costs for reinvesting in front-line services. In 2006/07 savings of £90 million were achieved. The balance of the £250 million savings are planned to be achieved in 2007/08. Additional savings have also been made as a result of the reorganisation of ambulance services.
- 24 However there have been, and will continue to be, considerable redundancy and severance costs associated with this reorganisation. The cost of the restructuring in

2006/07 was £192.1 million with SHAs bearing the majority:

- SHAs £106.9 million
- PCTs £74.5 million
- ambulance trusts £10.7 million

- 25 During the 2006/07 audits, the Audit Commission has monitored board level severance and redundancy costs. This work focused on the impact of the recent reorganisation and was undertaken as a result of concerns raised following previous restructurings regarding value for money. The Commission worked closely with the Department to ensure that these issues were addressed in guidance issued to the NHS, in addition to auditors reviewing and monitoring all senior management cases at individual body level. Auditors have reported that to date 124 SHA and PCT executive directors have been made redundant at a total cost of £38.2 million. The average cost per redundancy was £308,138. NHS bodies calculate the cost in accordance with the NHS (Compensation for Premature Retirement) Regulations 2002 and the Human Resources Framework associated with the *Commissioning a Patient-Led NHS* document (**Ref. 2**). Some of the payments made to individuals have been significant. Redundancy and severance payments are calculated according to a fixed formula that takes into account the individual's age, final salary and years of service. Where early retirement is involved, employers are required to meet the costs of any enhanced pension provision in a single payment. This usually amounts to a significant proportion of the cost and is not paid directly to the individual. Under the regulations an individual made redundant may not be re-employed in the NHS for at least four weeks. It has not been possible to identify those cases where re-employment after four weeks elsewhere in the NHS has occurred.
- 26 When considering redundancy and severance cases auditors take a risk-based approach and as part of their audit may consider whether:
- the payments have been made in accordance with the regulations and Human Resources Framework;
 - the disclosure of any payments in the annual accounts is accurate; and
 - the body has considered whether the severance payment delivers value for money. Severance cases may raise questions about the use of resources and auditors may examine the arrangements by which decisions are reached and consider the effects of those decisions.

- 27 To date, auditors have raised few significant concerns in respect of these redundancy and severance payments. There will be further costs associated with the reorganisation in 2007/08 as those employed by PCTs were guaranteed employment until July 2007. We will report on these costs in due course, alongside whether the savings target has been achieved.

NHS and local authority partnerships

- 28 The measures taken by NHS bodies to return to financial balance and the reorganisation of PCTs have had an impact on partnerships between local authorities and the NHS. Some auditors have reported that PCTs have been preoccupied with implementing new local structures to the exclusion of progress on more strategic issues. Auditors have also reported that pressures on budgets have affected partnership activities and relationships. The Department of Health's policies demand close and positive working relationships between local authorities and NHS bodies. If the policies are to be effectively implemented to the benefit of local communities, it is important that short-term difficulties caused through reorganisation and financial pressure are addressed.

Payment by results and practice based commissioning

- 29 During 2006/07, the remit of payment by results, the national tariff for NHS activity, was extended and now includes elective, non-elective, accident and emergency and outpatient activity in both NHS trusts and NHS foundation trusts. The Audit Commission intends to publish a report later this year which comments on the success of payment by results in the three years since its implementation.
- 30 The Commission also intends to publish a report later this year on progress made with practice based commissioning and the financial management issues that it raises.

3

Auditors' Local Evaluation results

Introduction

The Auditors' Local Evaluation (ALE) assesses how well NHS trusts and PCTs manage and secure value for money from their financial resources. It stems from auditors' statutory duty to satisfy themselves that NHS bodies have proper arrangements for securing economy, efficiency and effectiveness (value for money). ALE scores draw on auditors' work throughout the year. Auditors follow an agreed process to reach scored judgements that:

- drive improvement by giving clear messages about adequate, good and excellent performance;
- enable comparisons to be made between audited bodies; and
- seek to identify and share good practice on a timely basis.

Background to Auditors' Local Evaluation

- 31 This is the second year that audited bodies have been subject to an ALE assessment. The number of bodies assessed in 2006/07 has fallen as a result of reorganisation and some NHS trusts becoming NHS foundation trusts. The assessment was therefore carried out at 183 NHS trusts and 152 PCTs. ALE assessments are not undertaken at SHAs or at NHS foundation trusts.
- 32 The ALE process requires auditors to reach scored judgements for five key themes:
 - financial reporting;
 - financial management;
 - financial standing;
 - internal control; and
 - value for money.
- 33 These 5 themes are underpinned by 13 key lines of enquiry (KLOEs) or high-level questions, which are in turn supported by detailed audit criteria that describe adequate, good and excellent performance. The KLOEs are set out in Appendix One. The ALE framework has been widely consulted upon and developed in partnership with key

stakeholders to ensure relevance, fairness and clarity in auditor assessments. The framework is subject to annual review to ensure that it fully reflects developments within the health sector. Amendments are, however, kept to a minimum to help promote improvement both through consistency of approach and through comparison of scores over time. Following consultation minor amendments were made to the detailed criteria used to assess 2006/07 performance.

- 34 The scores arrived at for each of the themes are used by the Audit Commission to calculate an overall score which forms the use of resources (UoR) part of the Healthcare Commission's Annual Health Check for NHS trusts and PCTs. The UoR score sits alongside the quality of services assessment in the Annual Health Check. Monitor provides the Healthcare Commission with the UoR score for NHS foundation trusts.
- 35 The most significant change to the ALE framework was the introduction of a review procedure which gave NHS bodies the opportunity to request a review of their overall score before it was passed to the Healthcare Commission for inclusion within the Annual Health Check. Twelve requests for review were received; two of these requests would not have resulted in a change in the overall score and therefore did not meet the criteria for review. Of the ten cases where a review was undertaken, two resulted in a score change.
- 36 ALE assessments result in one of four scores which range from level 1, inadequate performance, to level 4 which indicates that the body is performing strongly. The scores and their descriptors are shown in **Table 5**.

Table 5
ALE scoring scale

Score/level	Description
1	Below minimum requirements – inadequate performance.
2	Only at minimum requirements – adequate performance.
3	Consistently above minimum requirements – performing well.
4	Well above minimum requirements – performing strongly.

Source: Audit Commission

- 37 The scores for each of the five key themes are calculated based on the average of the scores for the KLOEs within that key theme.
- 38 The overall ALE/UoR score is determined by the Audit Commission, as shown in **Table 6**.

Table 6
Rules for determining the overall score

Overall score	Rules
1	If the score of any of financial management, financial standing or value for money is 1.
2	Financial management, financial standing and value for money must each score at least 2.
3	No score below 2. Financial management, financial standing and value for money must each score at least 3.
4	No score below 3. At least two of the scores for financial management, financial standing and value for money must be 4.

Source: Audit Commission

- 39 Following the conclusion of auditors' assessments, each NHS trust and PCT is presented with a report that outlines their performance against each key theme and KLOE. The report also identifies the areas of improvement needed for the body to reach the next level of assessment.

Reducing the burden of regulation

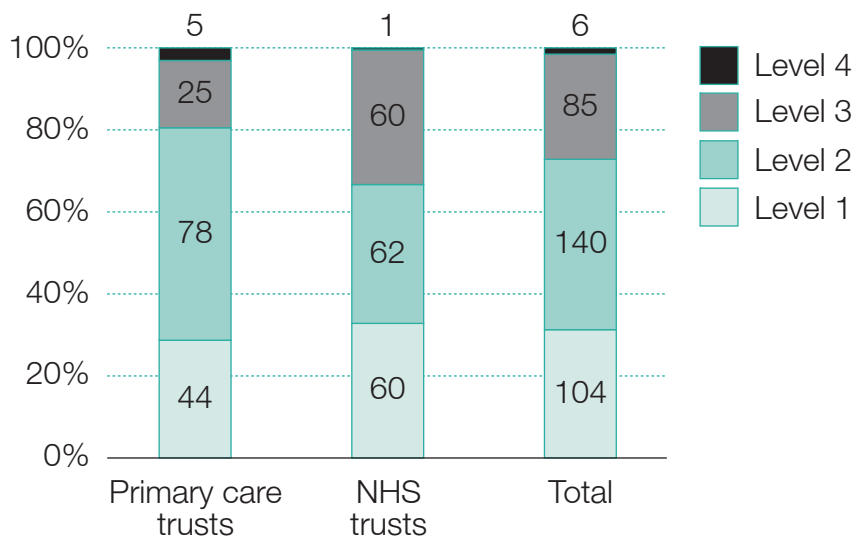
- 40 The Audit Commission is a signatory to the healthcare Concordat, an agreement between bodies which audit, regulate and inspect NHS bodies. The Concordat aims to improve information sharing and to reduce the duplication of assessment. During 2006/07, the Audit Commission also worked with both the Healthcare Commission and the NHS Litigation Authority (NHSLA) to identify areas where there was overlap in assessment and sought to share information and reduce duplication. This resulted in information sharing in a number of areas covered by ALE, the Healthcare Commission's Core Standards assessment and the NHSLA's risk assessment. Both of these initiatives have had a positive impact in reducing duplication and the burden of regulation and there are plans to take them forward in 2007/08. Also auditors were asked to take a more risk-based approach in 2006/07, concentrating on where there had been changes from 2005/06.

Auditors' Local Evaluation scores 2007

Overview

- 41 In 2006/07, 231 NHS bodies achieved scores of 2 or above, indicating that performance is adequate or more than adequate. The percentage of bodies achieving at least minimum standards has increased from 61 per cent to 69 per cent year on year.
- 42 Five PCTs and one NHS trust (2 per cent) achieved a level 4 score indicating that they are performing strongly. A further 25 per cent of bodies performed well, 42 per cent performed adequately and 31 per cent of bodies demonstrated inadequate performance. Appendix Two details the performance of every NHS trust and PCT and Appendix Three provides a summary of scores at individual KLOE level. The overall UoR assessments for PCTs and NHS trusts are summarised in **Figure 3**. PCTs have not performed as well as NHS trusts with only 20 per cent of PCTs scoring at levels 3 and 4 compared to 33 per cent of NHS trusts. However, this level of performance should be seen against the backdrop of NHS restructuring which has had a particular impact on PCTs.

Figure 3
Overall UoR scores for PCTs and NHS trusts

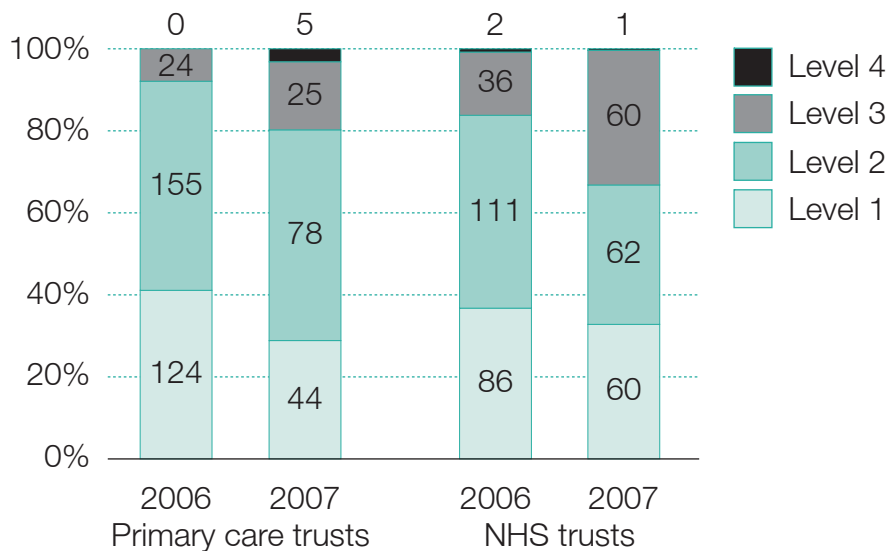


Source: Audit Commission

Clear improvement

- 43 There has been an improvement year on year in the overall UoR score. The percentage of bodies scoring at the highest level has increased marginally from 1 per cent to 2 per cent. Performance at level 3 has also increased with 25 per cent of bodies performing well relative to 11 per cent in 2005/06. The performance of NHS trusts has improved; the percentage assessed as performing well has more than doubled year on year to 33 per cent.
- 44 There has been a reduction in the percentage of bodies failing to meet minimum standards, falling from 39 per cent to 31 per cent, with 104 of the bodies assessed failing to demonstrate adequate UoR due to weaknesses in financial management, financial standing or value for money (or a combination of these). While the trend year on year is positive, these levels of performance demonstrate that there remains significant room for improvement. Most bodies assessed as level 1 in 2006/07 also failed to meet minimum requirements in 2005/06.

Figure 4
Overall UoR scores for PCTs and NHS trusts – 2006 and 2007

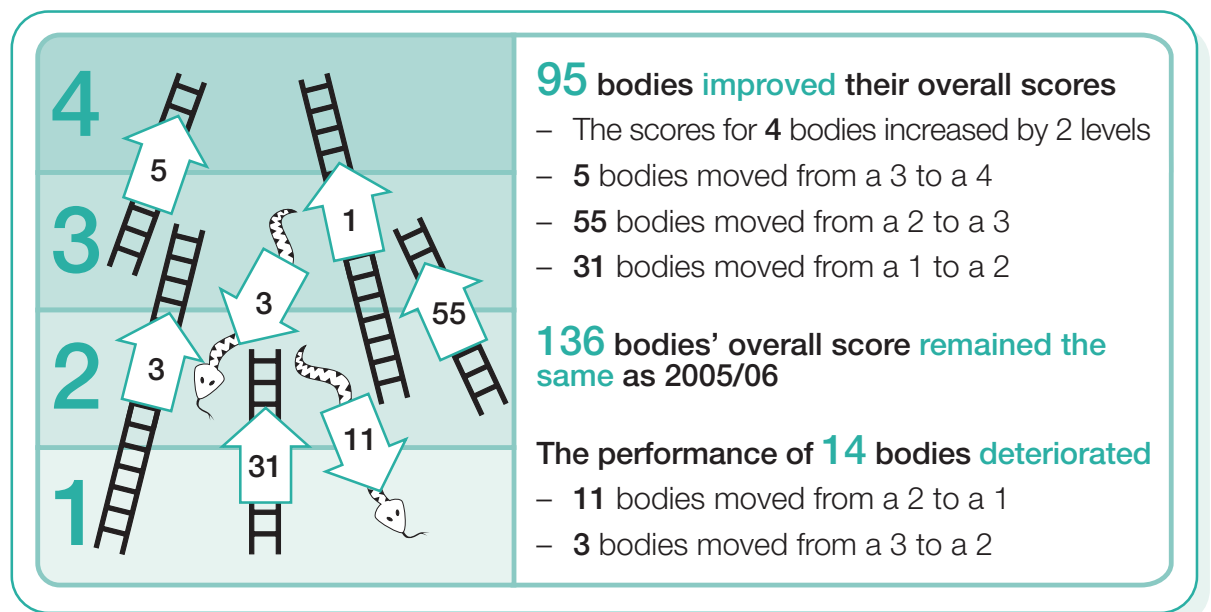


Source: Audit Commission

- 45 Progress was particularly marked in those bodies unaffected by reorganisation. Over six times as many of these continuing NHS bodies moved up a level compared with those

moving down between 2005/06 and 2006/07. A total of 91 continuing bodies have gone up 1 level in 2006/07, while 14 bodies dropped a level (**Figure 5**). Four NHS bodies, Barking and Dagenham PCT, Royal Free Hampstead NHS Trust, Mid Cheshire Hospitals NHS Trust and Swindon and Marlborough NHS Trust, moved up two levels in 2006/07. One hundred and thirty-six continuing NHS bodies maintained their level from last year. No NHS body dropped two levels between 2005/06 and 2006/07.

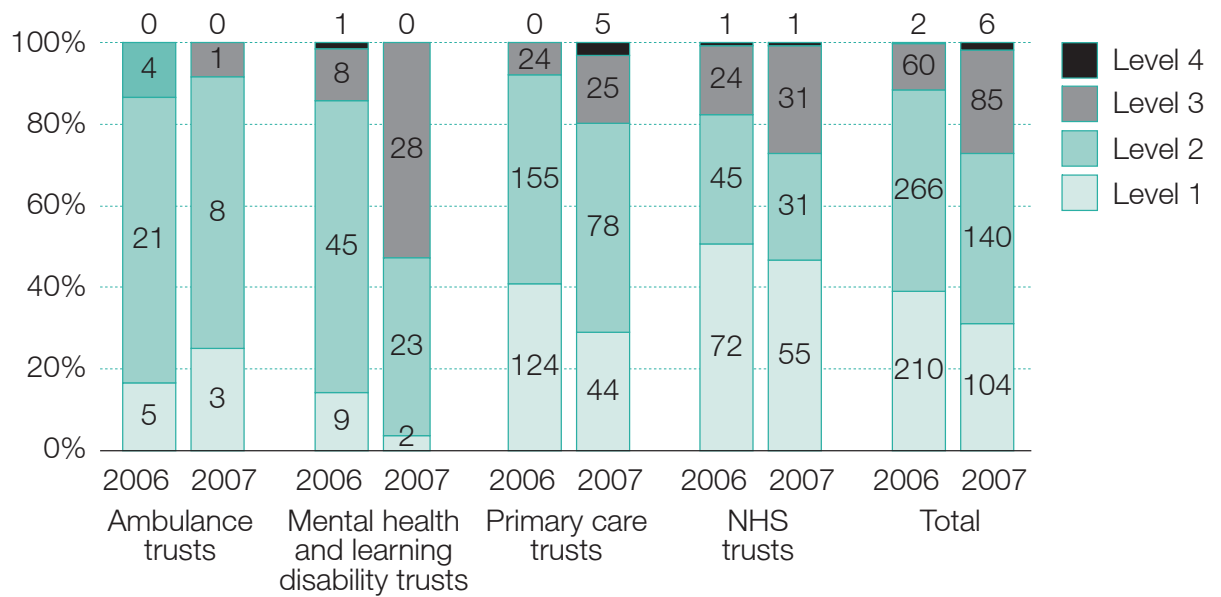
Figure 5
Changes in UoR score between 2005/06 and 2006/07
(continuing bodies)



Source: Audit Commission

46 **Figure 6** shows that there has been an improvement in performance by all sectors with the exception of ambulance trusts, but as there are now only 12 ambulance trusts, poor performance by a small number has a significant impact on scores for the sector as a whole. In addition, 10 of the 12 ambulance trusts are new bodies. Mental health and learning disability trusts performed better than other NHS trusts and PCTs, as was the case in 2005/06. These bodies have also improved significantly with over 50 per cent of bodies performing well in 2006/07. They outperform other sectors in all of the five key themes.

Figure 6
Overall scores – sector type 2006 and 2007



Source: Audit Commission

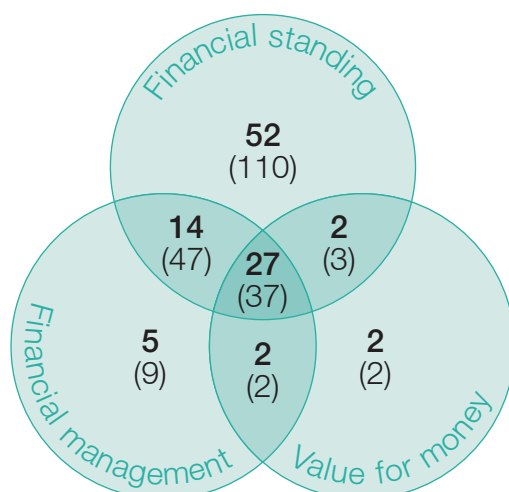
Remaining weaknesses

- 47 One hundred and four bodies received an overall score of 1 because of failure in one or more of the key themes of financial management, financial standing or value for money, compared to 210 in 2005/06. The number and proportion of NHS bodies that have failed to achieve financial balance has fallen year on year and is reflected in the scores. Financial standing remains, however, the reason for failure in the majority of cases where bodies were assessed as not meeting minimum requirements overall. Half of those scoring a level 1 did so solely because of problems in achieving breakeven in year and/or meeting their statutory breakeven duty in the case of trusts. Of the organisations that scored 1 overall for UoR, 91 per cent demonstrated inadequate performance in financial standing (2005/06: 94 per cent), 46 per cent in financial management (2005/06: 45 per cent) and 32 per cent had inadequate arrangements for securing value for money (2005/06: 21 per cent) (Figure 7, overleaf).

Figure 7

Numbers of NHS bodies scoring 1 in either financial management, financial standing or value for money, or a combination of these and thereby scoring 1 for UoR overall

(Note: figures in brackets represent scores for 2005/06)¹



Source: Audit Commission

- 48 The bodies of most significant concern are those 27 that have failed in each of the themes of financial standing, financial management and value for money, shown in the centre of the figure above. The number of bodies failing in all 3 themes has fallen from 37 to 27 bodies; but represents a slight increase in percentage terms from 7 to 8 per cent (due to the reduction in the number of NHS bodies). These bodies need to take urgent action to ensure that value for money services are delivered to patients. Of those 27 bodies, 4 failed to meet minimum standards in all 5 themes assessed.
- 49 Some of the NHS organisations that have scored a 1 for financial standing, and therefore a 1 overall, have scored well across the other themes. Some organisations are making good

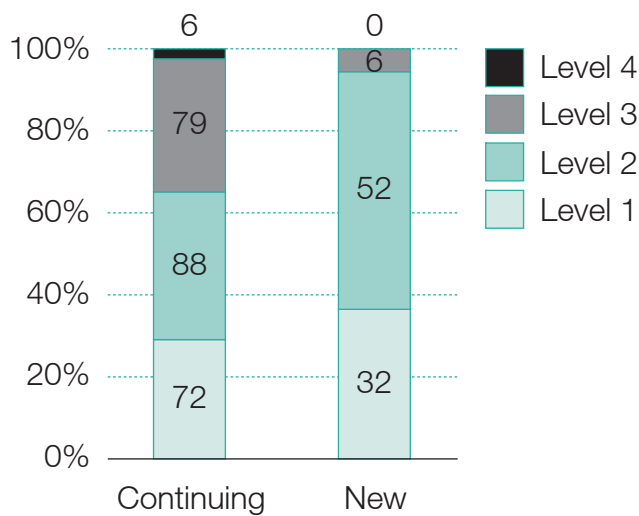
¹ Five organisations scored a 1 for financial standing in accordance with the assurances underpinning the financial standing KLOE. However, these organisations overspent by an amount less than funds topsliced by their SHA. So as not to unduly penalise those organisations, the Audit Commission exercised its judgement and awarded an overall score of 2. These PCTs are, therefore, not included in this diagram. More detail on this is included in paragraph 64.

progress in improving their financial management arrangements, but are still struggling to address a legacy of poor financial performance. For example, both the Oxford Radcliffe Hospitals NHS Trust and the North West London Hospitals NHS Trust have scored 3s in all four of the remaining key themes. The legacy, and overall financial standing, is usually reflected in the trust's failure to meet its statutory duty to breakeven taking one year with another. The Audit Commission is reviewing whether to change its approach in 2007/08 for those trusts where there are clear signs of recovery, but where overall financial standing as measured by the breakeven duty is still weak.

Reorganisation a factor in performance

- 50** The NHS reorganisation resulted in 90 newly merged NHS bodies, both PCTs and NHS trusts. Assessments were undertaken on these new bodies which covered the period from their creation to the end of the financial year, 31 March 2007. Ambulance trusts were assessed on their arrangements and performance for the nine months from 1 June 2006 to 31 March 2007 and PCTs were assessed on their performance in the six months from 1 October to 31 March 2007. Assessments at new and continuing bodies have been undertaken on the same bases using the same set of agreed criteria and the same scoring framework. This approach has been taken to avoid creating a two tiered assessment and to ensure comparability between bodies and year on year. But it also means that it should be regarded as a creditable achievement for a new body to reach an adequate standard of performance after only recently being established.
- 51** **Figure 8, overleaf**, shows that continuing bodies have performed better than new bodies overall. Seventy-one per cent of continuing bodies have reached minimum requirements or better compared to 64 per cent of new bodies. The difference in levels of performance is most pronounced at level 3, with 32 per cent of continuing bodies performing well relative to only 7 per cent of new bodies. This is largely because new bodies have not had sufficient time to embed new arrangements and have found it difficult to find evidence that their arrangements have resulted in the positive outcomes that the assessment framework calls for. The improvement shown, year on year, by continuing bodies is likely to be mirrored by new bodies in their second year of assessment, as a record of accomplishment is established and the benefits of new structures and arrangements become clear.

Figure 8
Overall distribution of scores for continuing and new bodies



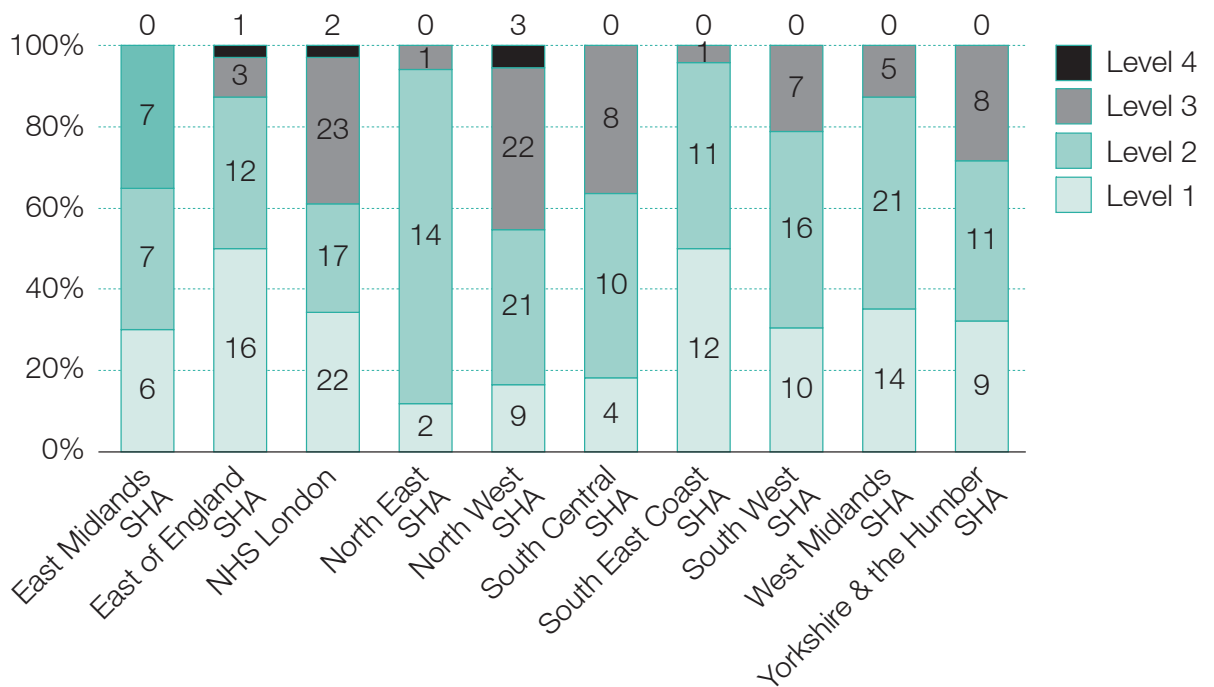
Source: Audit Commission

Regional variation in performance

52 Grouping the performance of NHS bodies into the ten SHA areas also demonstrates the difference in relative performance of new and continuing bodies. **Figure 9** shows considerable variation in the performance between SHA areas, with North West SHA and South Central SHA performing relatively strongly and East of England SHA and South East Coast SHA recording the weakest average scores. These were also the areas that were most challenged financially. In the North West 45 per cent of organisations scored 3 or 4 overall compared to only 4 per cent in South East Coast. Half of the bodies in East of England and South East Coast SHAs have failed to meet minimum standards, which is significantly higher than the national average. There is however significant variation in the number of bodies within each SHA area, which may also have a bearing on the performance reported.

Figure 9

Overall score: comparison between SHA areas



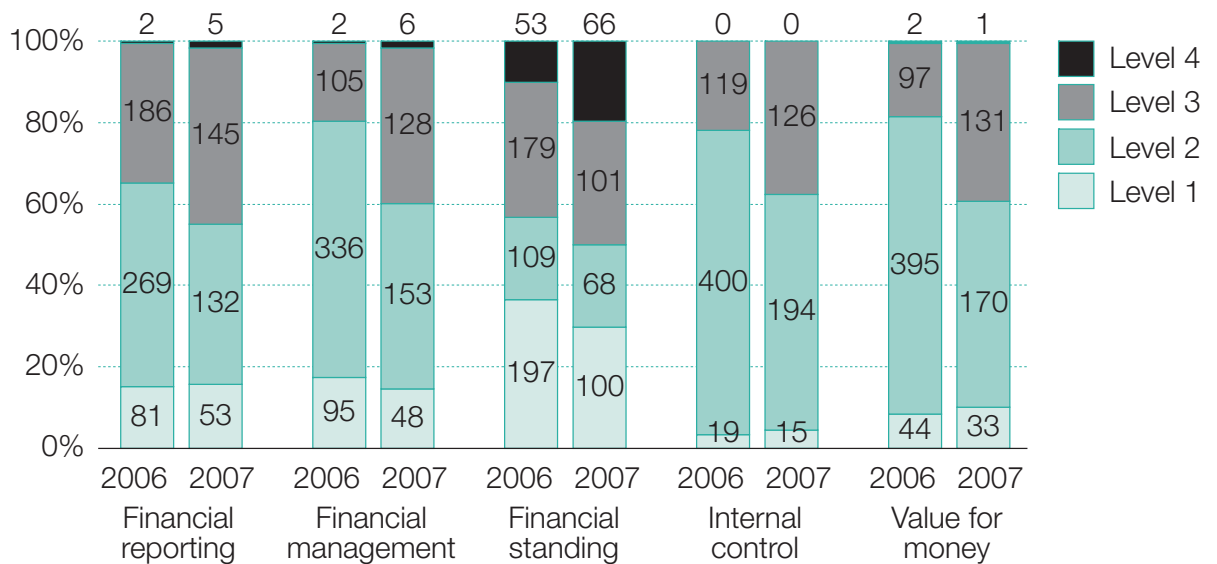
Source: Audit Commission

Performance by key theme

- 53 Disaggregating performance to theme level shows the variation in scores for the five themes assessed. There has been an improvement in performance for each of the themes. In percentage terms, bodies reporting level 1 for internal control and value for money have slightly increased but this is outweighed by the increase in the percentage of bodies moving up from level 2 to level 3.
- 54 Financial management and value for money themes have seen the greatest level of improvement year on year, with the percentage of bodies achieving levels 3 and 4 increasing from approximately 20 per cent to 40 per cent in both themes. There has also been an improvement in the percentage of bodies achieving financial standing requirements, with 70 per cent of bodies assessed as at least meeting minimum requirements, an increase of 7 per cent year on year.

55 Improvements in scores for financial management are an indicator that financial standing is likely to continue to improve in 2007/08 and beyond as robust financial management arrangements contribute to financial recovery.

Figure 10
Theme scores for 2006 and 2007



Source: Audit Commission

Financial reporting

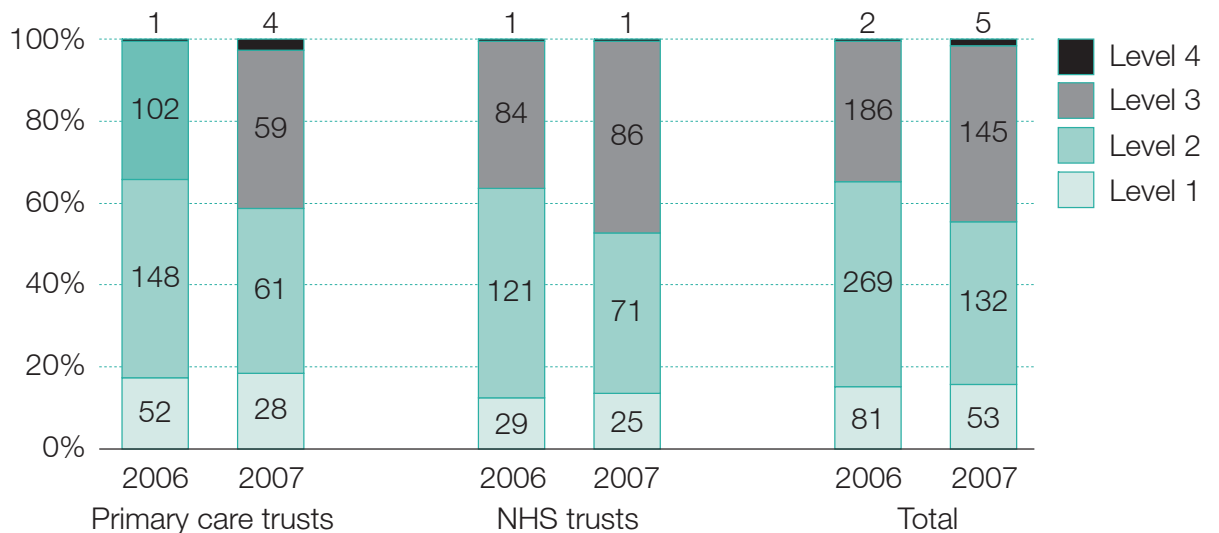
56 The financial reporting assessment is a measure of how good the organisation's financial accounting and reporting arrangements are. NHS bodies have a statutory duty to submit audited annual accounts and to issue an annual report on their financial performance and a range of other indicators, as set out in the NHS Manual for Accounts. There are therefore two main strands to the financial reporting theme; whether the organisation produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers; and how well the organisation promotes external accountability.

57 Financial reporting is an area in which NHS trusts and PCTs perform relatively consistently, with NHS trusts only narrowly outperforming PCTs. Continuing bodies have

performed better than new bodies in percentage terms, with 89 per cent of continuing bodies meeting minimum standards compared with 70 per cent of new bodies. In total 16 per cent of bodies have failed to meet minimum standards, which shows little improvement from 2005/06. The number of bodies scoring level 3 has increased from 35 to 43 per cent with a compensating reduction at level 2.

- 58 As in 2005/06, auditors highlighted that the timeliness of the accounts and the annual report, and the quality of working papers supporting the accounts were the most significant areas for improvement. As the timetable for the production and submission of the annual accounts is brought forward, NHS bodies must ensure that they are adequately prepared. Errors in the accounts found by auditors were either corrected or were not significant enough to result in qualification of the true and fair opinion. Unqualified true and fair opinions were therefore issued to all NHS trusts and PCTs.

Figure 11
Financial reporting 2006 and 2007



Source: Audit Commission

Case study 1

East London and the City University Mental Health NHS Trust

Quality of working papers

The Trust sought to improve the robustness of their financial statement preparation process, with the aim of leading to a more efficient audit.

For 2006/07 the Trust produced a set of financial statements and supporting documentation on a set of spreadsheets, made available to the auditors on a compact disc. The spreadsheets used hyper-links to provide a trail from the figures on the face of the income and expenditure account and balance sheet to supporting notes and working papers. For example there was a trail from the creditors figure that could be followed directly to the list of accrued invoices that made up part of that balance.

Providing good quality working papers ensured that officers spent less time answering basic audit queries and were able to produce the statements in a shorter period of time. The accounts were given an unqualified opinion and only minimal amendments to them were required. In the future this process will be used to meet the shorter accounts preparation deadlines, as well as to improve the Trust's ability to analyse account variances.

Source: Audit Commission

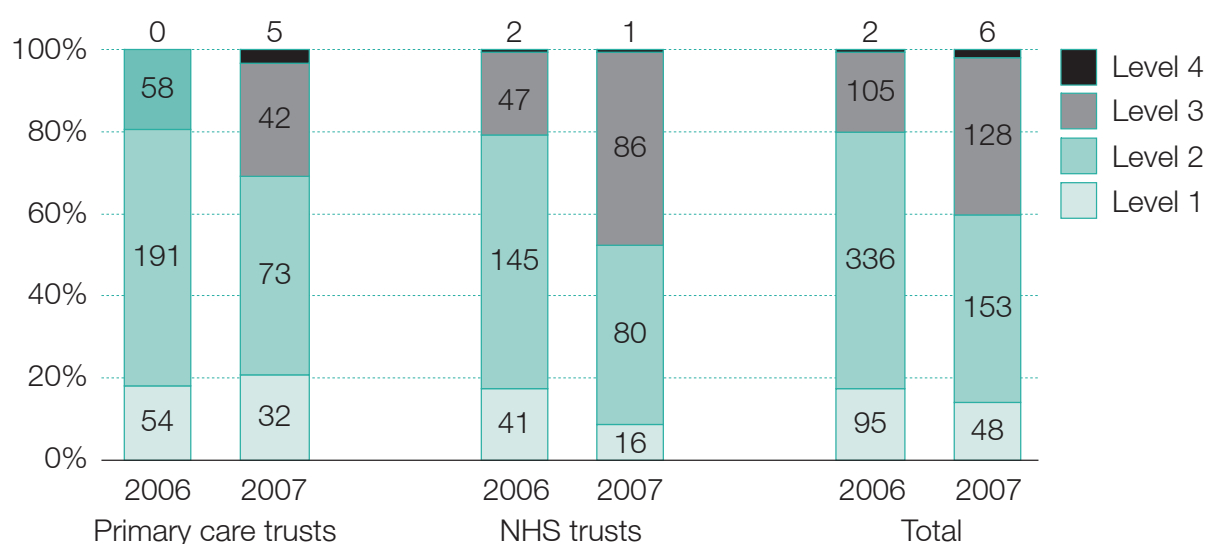
Financial management

- 59** The financial management theme assesses how well the organisation plans and manages its finances. The three KLOEs that support this theme focus on: the organisation's medium-term financial strategy/plan and whether budgets and the capital programme are soundly based and designed to deliver strategic priorities; whether the organisation manages performance against budgets; and the management of its asset base. Where the asset base of the body is not significant, in either its value or use, this KLOE is not assessed. In 2006/07 this was the case at 93 bodies, the majority of which were PCTs.
- 60** The improvement year on year in financial management by both PCTs and NHS trusts is encouraging, with 91 per cent of NHS trusts and 79 per cent of PCTs achieving at least minimum standards. Twenty-seven per cent of new bodies failed to meet minimum standards in this theme.

- 61 The most common areas for improvement identified by auditors were the links between the medium-term financial strategy and strategic objectives and the robustness of medium-term financial plans and projections.

Figure 12

Financial management 2006 and 2007



Source: Audit Commission

Case study 2

Norfolk and Norwich University Hospital NHS Trust

Savings and efficiency gains are identified, planned and agreed with key partners

Norfolk and Norwich University Hospital NHS Trust wanted to reduce staff costs and align resourcing to future service levels, as a result of the local PCT's plans for reducing demand in secondary care. The nature of the changes needed to achieve financial balance, as well as service flow changes, meant that staff costs were a key area of focus for the Trust in 2006/07.

An overall target of 10 per cent staff cost savings in all areas was set. Managers were tasked with identifying potential actions to achieve this level of saving. Each potential action, such as leaving posts vacant or redundancy, was ascribed a risk rating – either low or high.

A series of meetings were held between senior management and department managers to review the options and to validate the risk assessment. The Trust pursued the agreed actions of low risk. High risk options were not pursued but remain under review in case the risk level changes. In all high risk cases clinical input was received from clinical directors on acceptability of proposals.

The managers ensured that the plans were developed with service input and also that they were agreed and accepted at service level. This was key to the delivery of the savings proposals. Budgets were adjusted to align them with the savings proposals. Senior management and general managers held weekly and monthly meetings to discuss and monitor progress and to ensure that the right support was available at the right time to facilitate the timely achievement of the savings.

Financial reports to the Board separately identified the staff cost and non-staff cost elements of the savings plans achieved. The pay savings plans designed to deliver £4.4 million in total had been profiled through the year and by month eleven there was a 100 per cent achievement. The majority came from cancelling vacancies and an early retirement scheme; contract changes accounted for some savings and only a small percentage came from compulsory redundancies.

The approach recognised that some savings would be longer term. This was accepted and the benefit has been that the organisation is focusing more on service design to realise efficiencies and not short-term savings opportunities.

Weekly meetings were key to maintaining the momentum and achieving the objective. To achieve the level of savings to restructure the organisation it was essential that the Trust addressed staffing. The wider benefit was that it encouraged a focus on service design and delivery, not a focus on short-term savings. The proposals for the required cost efficiencies for 2007/08 follow this principle.

Source: Audit Commission

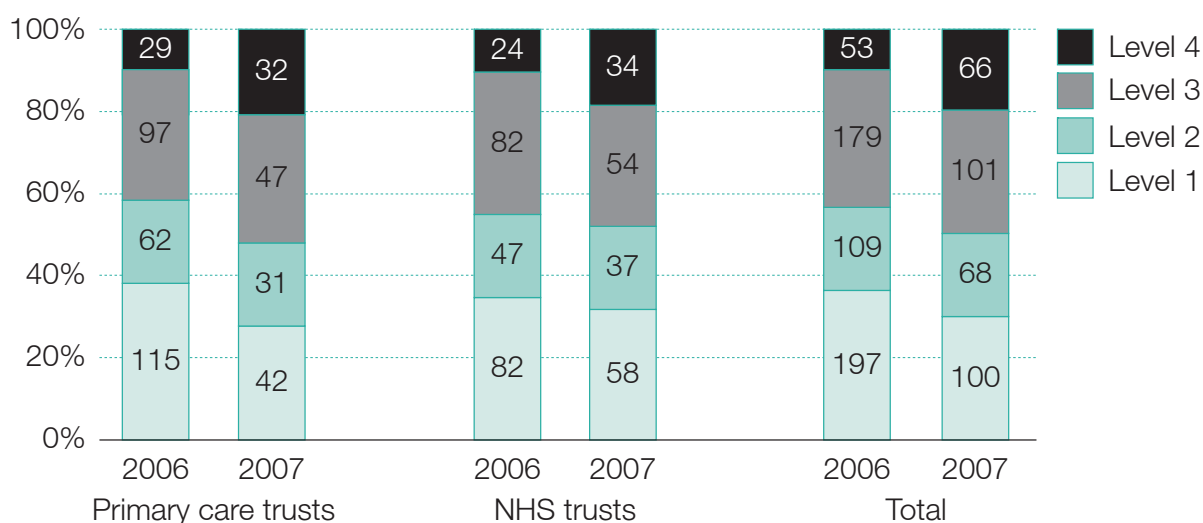
Financial standing

- 62 This theme focuses on how the organisation manages its spending within available resources. Assessments are largely based on the achievement of year-end breakeven and statutory financial targets. Failure to keep expenditure within the resources available results in a score of 'inadequate' for financial standing and therefore inadequate for the overall use of resources assessment. This is a key rule attached to the ALE framework and is consistent with the expectation set out in the *Operating Framework 2006/07 (Ref. 3)* for

NHS bodies to plan for a surplus each year. This assessment also looks at the track record of the body and their performance in prior years. As a result it has been difficult for new bodies to achieve assessments of excellent for financial standing, although this is the area in which the patterns of scoring by new and continuing bodies are the most similar.

- 63 This theme shows the greatest spread in scores across each of the levels. In 2006/07, 100 NHS bodies failed to achieve minimum standards against financial standing criteria (42 PCTs and 58 NHS trusts). All 42 PCTs failed to maintain their expenditure within the revenue resource limit and 4 PCTs also failed to keep capital expenditure within the available limit.
- 64 The *Operating Framework 2006/07* stated that PCTs would be expected to lodge funds with SHAs in order to deliver financial balance for the NHS as a whole. This resulted in SHAs deducting a proportion of PCT's revenue resource allocation for the year, in order to create a contingency with which to manage financial challenges within the SHA area. The amounts and terms were for local agreement, working within a framework determined by the Department of Health, and varied accordingly with deductions at individual bodies ranging from zero to £26 million. Of those 42 bodies that overspent against their revenue resource limits, 10 overspent by less than the resource topsliced by the SHA. In order not to unduly penalise these bodies and, following consultation with the Department of Health and Healthcare Commission, these bodies have been assessed as meeting minimum requirements overall, where they have also met minimum standards in the financial management or value for money themes and the SHA could confirm that it either had already or intended to increase the PCTs' resource limits by an amount equivalent to its retained topslice in 2007/08. Of these 10 bodies 5 met minimum standards in the other four themes and their SHA provided the necessary confirmations. The Audit Commission has not exercised discretion in respect of the other five bodies as weaknesses in financial management and value for money mean that a score of 1 would be scored overall regardless of the financial standing assessment.

Figure 13
Financial standing 2006 and 2007



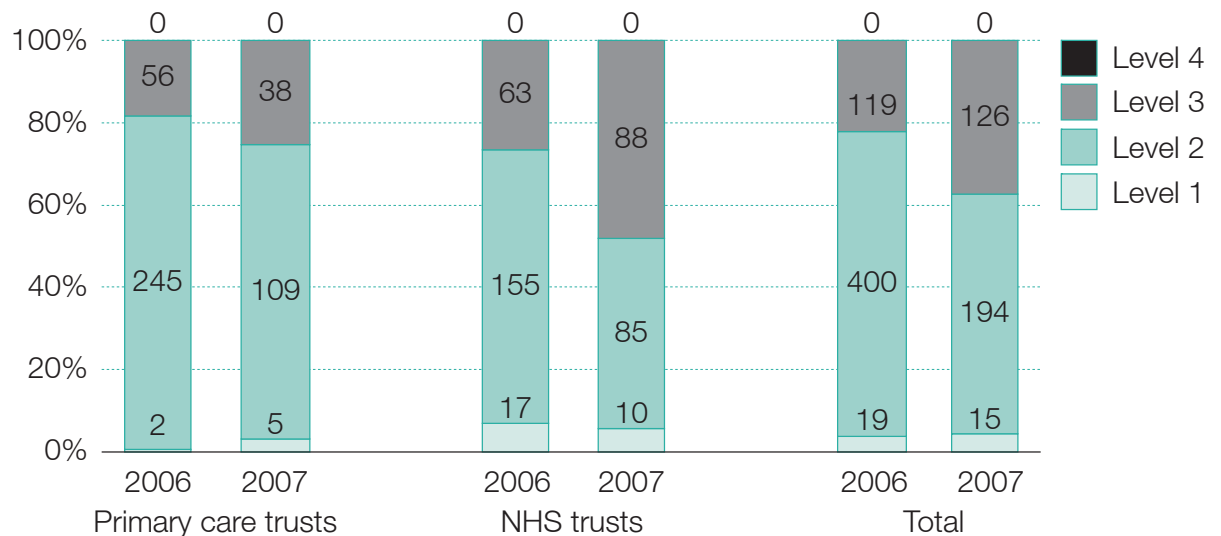
Source: Audit Commission

Internal control

- 65 The internal control element of the evaluation focuses on how well the internal control environment enables the organisation to manage its significant business risks. The assessment considers the arrangements in place to: maintain a sound system of internal control; and to promote and ensure probity and propriety in the conduct of its business.
- 66 This is a theme in which bodies perform well with 96 per cent meeting at least minimum standards (96 per cent in 2005/06). While the percentage of bodies assessed as inadequate remains the same, there has been an improvement in the percentage of bodies exceeding minimum requirements, with 38 per cent of bodies having good internal control arrangements. None were assessed as excellent, as was the case in 2005/06.

67 The effectiveness of the audit committee and risk management arrangements, particularly in relation to partnerships, were the most common areas for improvement identified by auditors. These two areas were also identified as weaknesses in 2005/06. The government is proposing to introduce new statutory local area agreements, with up to 35 targets negotiated with central government, in all areas from April 2008. They are part of the drive to deliver improved outcomes for people such as healthier lives and lower crime, through better coordination of the efforts of all relevant partners in an area. As local area agreements will extend partnership working, NHS bodies will need to ensure that risks arising from these partnerships are effectively assessed and managed.

Figure 14
Internal control 2006 and 2007



Source: Audit Commission

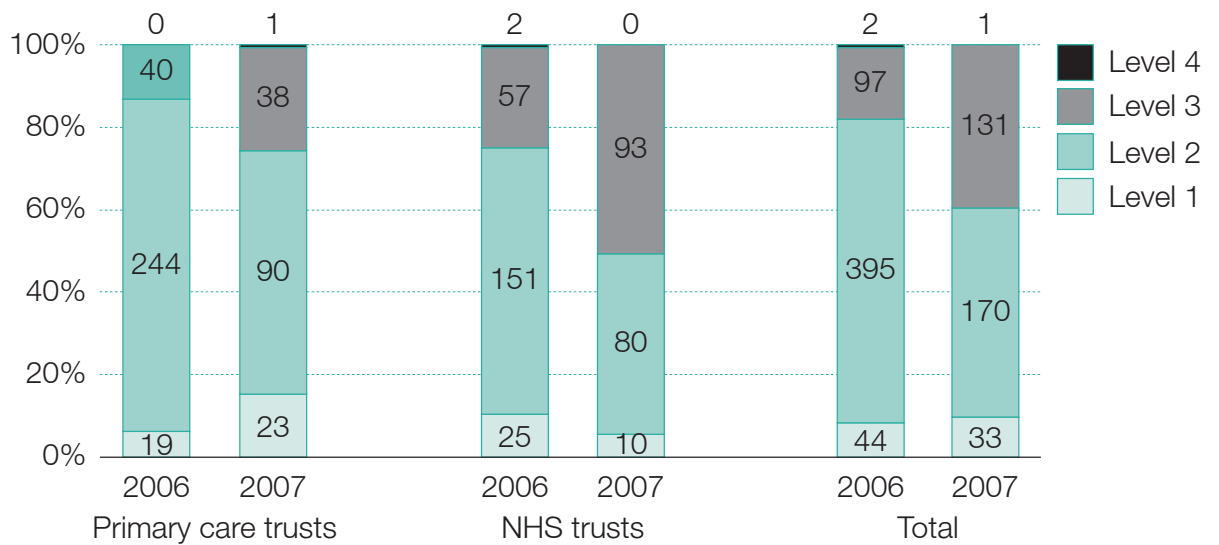
Value for money

68 This theme assesses the organisation's arrangements for managing and improving value for money. Auditors considered whether the organisation had proper arrangements for securing strategic and operational objectives; for ensuring that services meet the needs of patients and taxpayers; and to engage with the wider community. The assessment also considered arrangements for monitoring and reviewing performance, including arrangements to ensure data quality and whether the organisation had established

arrangements for managing its financial and other resources, which demonstrate that value for money is being managed and achieved.

- 69 As in 2005/06, the majority of bodies were assessed as having adequate or better arrangements, while 10 per cent did not meet minimum standards (9 per cent in 2005/06). Only one PCT was assessed as performing strongly in this theme. Overall NHS trusts performed better than PCTs, a reversal of the position in 2005/06.
- 70 The most common area that required improvement was the need for NHS bodies to demonstrate that efficiency savings were being delivered in practice and that there was a clear and realistic longer-term plan in place to improve economy and efficiency.

Figure 15
Value for money 2006 and 2007



Source: Audit Commission

Case study 3

Derbyshire Mental Health Services NHS Trust

Communication strategy with patients, stakeholders and partners

The Trust wanted to engage one of its hard to reach groups – people with learning disabilities. To do so, they initiated a staff training programme called Listen to Us, which was delivered autonomously by service users with learning difficulties. The programme outlined practices that people with learning difficulties found to be helpful or unhelpful and staff were able to hear directly from service users directly how their behaviours and interactions affected them.

Service users developed excellent delivery skills while giving the training programme and the Trust is now planning to train them as trainers. They are also looking into achieving accreditation for the programme.

Source: Audit Commission

Notable practice

- 71 The ALE assessment should be used as an improvement tool. The upward trend in scores between the first year of assessment and 2006/07 indicates that it is doing just that. However there is still a significant number of bodies that have yet to meet minimum standards and others should progress to achieving more than minimum standards.
- 72 One of the most effective ways of driving up improvement through the ALE framework is the identification of notable or innovative practices. This information is collected during the course of the assessment and made available to auditors and will ultimately be available to other NHS bodies, in order to provide practical examples that have helped to secure improvement elsewhere.

4

2006/07 accounts and audit issues

Introduction

This section of the report summarises auditors' views on the issues arising from the 2006/07 audits. The information has been gathered from audit opinions, audit reports and from a questionnaire that the Commission requires auditors to complete for every SHA, PCT and NHS trust.

Audit opinions and public reporting

- 73 Under the Audit Commission's *Code of Audit Practice 2005* (**Ref. 4**), auditors are required to give an opinion on the NHS body's annual accounts and to provide a conclusion on the arrangements that the NHS body has established for securing economy, efficiency and effectiveness in the use of resources, known as the VFM conclusion. For PCTs and SHAs auditors are also required to give a regularity opinion, which confirms that the expenditure and income of the body have been applied to the purposes intended by Parliament.

Opinions on annual accounts

- 74 Where auditors decide that the annual accounts do not provide a true and fair view of the NHS body's state of affairs as at the year end and of their income and expenditure for the year, they give a qualified opinion. Auditors did not qualify their opinions on the grounds of truth and fairness at any SHA, PCT or NHS trust in 2006/07. This was also the case in 2005/06.

Regularity opinions

- 75 Auditors of PCTs and SHAs are also required to give a 'regularity opinion' on the accounts, confirming that money has been spent in accordance with the intentions of Parliament. In 2006/07, auditors qualified their regularity opinions at 43 PCTs (28 per cent). This is an improvement on the 110 PCTs (36 per cent) in 2005/06.
- 76 In 2006/07, all the regularity qualifications arose due to breaches in resource limits (the expenditure limit set by the Department of Health). In 2006/07, there were 38 breaches of PCT revenue resource limits, 1 breach of a PCT capital resource limit, and 4 instances of both revenue resource limit and capital resource limit breaches at PCTs.

77 In 2006/07 auditors did not qualify the regularity opinion of any SHA.

VFM conclusions

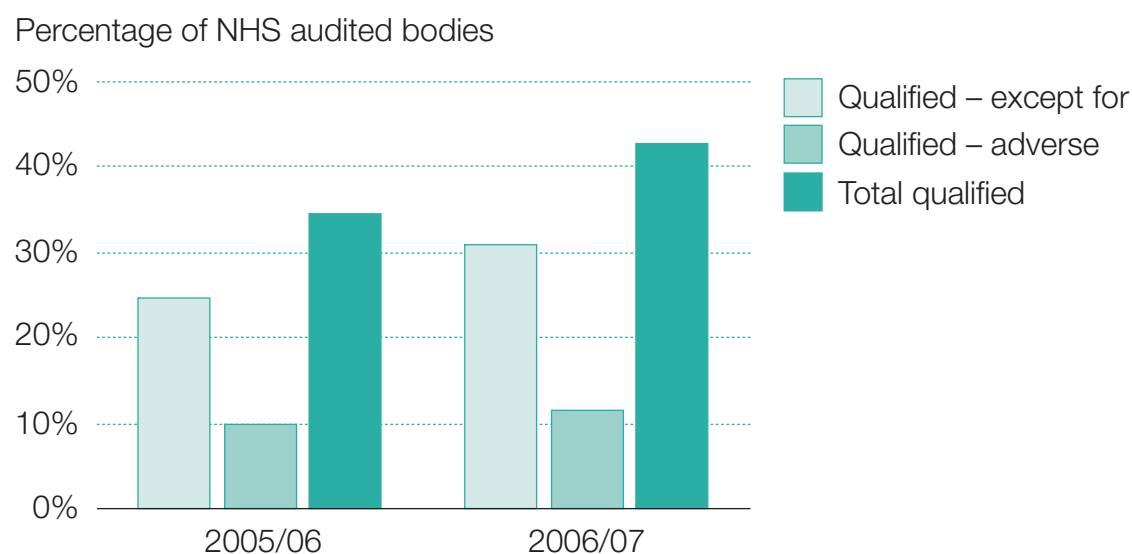
78 In 2006/07 auditors qualified the VFM conclusions of 147 (43 per cent) NHS bodies. This was very similar to performance in 2005/06 (198 NHS bodies, 35 per cent) (**Figure 16**). The VFM conclusion is based on an assessment against 12 criteria specified by the Audit Commission. Auditors apply a yes/no assessment to these criteria. If the assessment against each of the criteria is yes, auditors will give an unqualified VFM conclusion. If the assessment against any of the 12 criteria is no, auditors give a qualified VFM conclusion. This qualified conclusion can be either:

- an 'except for' conclusion, where there are some 'no' assessments but the overall arrangements are not in doubt; or
- an 'adverse' conclusion where the auditor considers that the criteria with assessments of 'no' give rise to doubts around the overall arrangements.

79 In 2006/07, 31 per cent of NHS bodies had 'except for' VFM conclusion qualifications (25 per cent in 2005/06) and 12 per cent of NHS bodies had an adverse VFM conclusion (10 per cent in 2005/06) (**Figure 16**).

Figure 16

Analysis of qualified VFM conclusions 2006/07 compared with 2005/06



Source: Audit Commission

- 80 The two most common criteria assessed as not being achieved were:
- the organisation managed its spending within available resources; and
 - the organisation's medium-term financial strategy/plan, budgets and capital programme are soundly based and designed to deliver its strategic priorities.

Public reporting

- 81 The Audit Commission Act 1998 provides auditors with the power to report where they have specific concerns arising from their audits:
- Section 8 requires auditors to consider whether in the public interest they should report on any matter coming to their notice (public interest reports); and
 - Section 19 requires the auditor to refer matters to the Secretary of State if he or she has a reason to believe that an organisation has made a decision that involves, or may involve, unlawful expenditure.

Public interest reports

- 82 In 2006/07 auditors issued 11 public interest reports to NHS bodies (25 in 2005/06). Nine of these reports were in respect of the poor financial standing of the bodies involved. One was in respect of a failure in corporate governance and poor financial standing, and the remaining public interest report was in respect of routine alterations made to ambulance response times. A listing of NHS bodies subject to public interest report is set out in **Table 7**. In 2005/06, 24 out of the 25 public interest reports issued were in respect of financial standing. The remaining report was in respect of serious misstatements and errors in a trust's accounts. To date, in 2007/08 three public interest reports have been issued by auditors.

Table 7
Public interest reports issued 2006/07 and to date in 2007/08

NHS bodies subject to public interest reports	Subject matter of public interest report
2006/07	
University Hospital of North Staffordshire NHS Trust	Failure in corporate governance and poor financial standing
Good Hope Hospital NHS Trust	Poor financial standing
George Eliot Hospital NHS Trust	Poor financial standing
West Hertfordshire Quadrant – PCTs and NHS Hospital Trust	Poor financial standing
Kensington and Chelsea PCT	Poor financial standing
Hartlepool PCT	Poor financial standing
South Huddersfield & Central Huddersfield PCTs	Poor financial standing
Royal Cornwall Hospitals NHS Trust	Poor financial standing
South Warwickshire General Hospitals NHS Trust	Poor financial standing
Ipswich Hospital NHS Trust	Poor financial standing
Great Western Ambulance Trust	Routine alterations made to ambulance response times
To date in 2007/08	
Kingston PCT	Poor financial standing
North Lincolnshire PCT	Poor financial standing
Yorkshire and Wolds PCT	Poor financial standing

Source: Audit Commission

Section 19 referrals

- 83** Auditors issued 57 reports under Section 19 relating to 2006/07 performance (115 in 2005/06); 43 were in respect of PCTs and 14 in respect of NHS trusts. The 43 PCT reports were due to failures by PCTs to achieve their 2006/07 revenue and/or capital

resource limits (110 in 2005/06). All but 1 of the 14 NHS trust reports were in respect of the trusts failing in their 2006/07 breakeven duty, ie, breaking even taking one year with another. The remaining report was where the auditor had concerns over directors' contracts and salary payments.

Timeliness and quality of accounts

- 84 NHS bodies are required to produce accounts in accordance with the Manuals for Accounts, issued by the Department of Health and approved by HM Treasury. These manuals set out the statutory requirements, accounting and reporting standards and timetables that NHS bodies are required to meet.
- 85 The production of high-quality accounts on a timely basis is an essential element in the process of accountability for the stewardship and use of public money. Over recent years, the deadlines within which NHS bodies are required to produce their accounts and have them audited have been advanced. In 2006/07 auditors of NHS trusts were expected to submit their audited accounts to the Department of Health three weeks earlier than in 2004/05 (**Table 8**). PCT and SHA auditors were expected to submit their accounts two weeks earlier than in 2004/05.

Table 8

Pre-audit and post-audit submission deadlines for NHS audited accounts to the Department of Health (2004/05 to 2006/07)

Year	NHS body	Pre-audit submission	Post-audit submission
2004/05	NHS trusts	by 13 May 2005	by 15 July 2005
	PCTs/SHAs	by 13 May 2005	by 22 July 2005
2005/06	NHS trusts	by 8 May 2006	by 10 July 2006
	PCTs/SHAs	by 15 May 2006	by 24 July 2006
2006/07	NHS trusts	by 1 May 2007	by 25 June 2007
	PCTs/SHAs	by 8 May 2007	by 9 July 2007

Source: Department of Health Manuals for Accounts

- 86 This acceleration of the submission timetable placed additional pressure on NHS bodies to produce their accounts more promptly. The mergers that followed the *Commissioning a Patient-Led NHS (Ref. 2)* announcements created additional pressures during the 2006/07 accounts closure process, as successor SHAs and PCTs were responsible for producing the accounts of the demising SHAs and PCTs, as well as their own financial statements.
- 87 Auditors reported that 23 NHS trusts, PCTs and SHAs (7 per cent) failed to achieve the earlier pre-audit submission deadlines. This is an improvement compared to 2005/06 when 52 (9 per cent) of NHS bodies missed the pre-audit submission deadlines.
- 88 For the NHS trusts, PCTs and SHAs in existence at 31 March 2007, auditors reported that they achieved the post-audit submission deadlines for 326 audited bodies (94 per cent). This is consistent with 2005/06 performance. In 2006/07 the main reasons for delays reported by auditors were:
- poor working papers provided to support the accounts;
 - complex fixed asset impairment issues requiring time to resolve;
 - sign-off delayed pending resolution of issues with associated demising PCTs; and
 - sign-off delayed pending audit review of the financial elements contained in the annual report.
- 89 The acceleration of the accounts timetable clearly leads to a timelier reporting of financial performance, which the Commission welcomes. However, as set out paragraph 57, 16 per cent of NHS bodies failed to meet the minimum standards in this area. Further advancement of the timetable is likely to result in poorer quality accounts being presented for audit, unless clear programmes are in place nationally and locally to support and enable delivery.
- 90 The net level of audit adjustments in 2006/07 was £4.2 million. This compares favourably with previous years, particularly 2004/05 when the net level of adjustments was £110.2 million. The reduction in the level of audit adjustments can be in part explained by the series of workshops held for NHS accountants by the Audit Commission. Between February and March 2007 the Commission held a series of NHS Chief Accountant workshops across England. The aim of these events was to ensure that a consistent approach was taken by audited bodies to the more significant accounting issues affecting

the completion of the accounts for 2006/07. These workshops were well received and the Commission will use the feedback from those who attended to improve a further round of events that will be repeated before the 2007/08 accounts preparation.

Agreement of intra-NHS balances

- 91 The agreement of balances between NHS bodies has for a number of years, been identified by auditors, the National Audit Office (NAO) and the Department of Health as an area of improvement. Errors in intra-NHS income; expenditure; debtor and creditor balances have impacted on the quality of accounts and summarisation schedules and account for a significant amount of the movement between draft and final accounts at individual NHS body level. The Department of Health attempted to address this issue through the introduction of a reconciliation exercise at month nine. While this had some success, the agreement of balances remains a significant issue. A small number of bodies failed to reconcile balances and misused the 'adjustment to balances line'. There is also a growing problem with disputed balances which were not resolved on a timely basis and in some cases were not effectively reported or monitored by management. The Audit Commission is continuing discussions with the Department of Health, the NAO and practitioners to identify what can be done further to improve the process in the future.

Other issues arising during the 2006/07 final accounts

- 92 Auditors reported fewer issues during the 2006/07 annual accounts process than had been the case in previous years. The main issues raised are set out in Appendix Four.

5

Looking forward to 2007/08 and beyond

Introduction

This section sets out the changes to ALE in 2007/08 and highlights two of the most significant financial management and reporting issues in 2007/08 and beyond.

Financial performance 2007/08

- 93 The steps taken by both the Department and NHS bodies to return the NHS to financial balance in 2006/07 were successful. The financial position to date in 2007/08 appears to be equally positive. The Department of Health issued a commentary on the first quarter performance of NHS bodies in September 2007 (**Ref. 6**). These figures show that 22 organisations are forecasting that they will fail to achieve financial balance in 2007/08 (compared to 81 in 2006/07). The Department of Health is forecasting an aggregate surplus of £983 million at the end of the financial year. This is a significant sum but amounts only to some 1.3 per cent of the overall resource limit. As the Audit Commission noted in its Review for the Secretary of State (**Ref. 1**), all organisations must carry some reserves if they are to operate effectively but these need to be planned and kept to an appropriate level.

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- 94 The overarching message is that performance of NHS bodies assessed under the ALE framework is improving. There has been a significant improvement in performance in the financial management and value for money themes, along with a reduction in the number of bodies failing to meet their financial targets. We hope that this trend will continue in 2007/08. In 2006/07 NHS trusts performed better than PCTs, largely due to the reorganisation, which has led to a large number of newly merged PCTs. As these new bodies enter their second year and as arrangements stabilise, the gap between types of bodies should start to disappear. The 2007/08 ALE assessment will be an opportunity for new bodies to show what they have achieved.

- 95 However, a third of NHS bodies are still not meeting minimum standards and should take action now to improve their performance and ensure that value for money services are delivered to the populations which they serve. The 27 bodies that have not met minimum standards for financial management, financial standing and value for money themes should ensure that they take immediate action to rectify this position. All Board members should drive forward standards within the organisations they lead and hold poorly performing bodies to account.
- 96 All bodies, through their auditors, have the ability to access a wealth of notable practice, which can provide examples of innovative practices that have enabled bodies to operate effectively. All bodies should be actively engaging with their auditors in order to secure the improvement from the experience of their peers.
- 97 A key objective in updating and developing the framework for 2007/08 has been to ensure consistency across years. We have therefore made a limited number of changes to the assurances underpinning the KLOE, mainly to take account of developments in the NHS on which PCTs and trusts are already working and of experience of ALE in 2006/07. It is likely that more significant changes will be made for 2008/09 for PCTs in particular, partly to take account of the introduction of Comprehensive Area Assessment. We expect to consult on these changes shortly.

Impact of implementation of International Financial Reporting Standards

- 98 While financial reporting is an area where NHS bodies are doing relatively well, Board members will need to ensure that they are prepared for the emerging challenges of alignment of the PCT and trust deadlines for the submission of the annual accounts and the adoption of International Financial Reporting Standards (IFRS).
- 99 In order to comply with expanded reporting requirements officers will need to ensure that they are familiar with the standards and have the appropriate systems in place with which to capture the additional information they need to report. While adoption takes place from 2008/09, it will be necessary for comparative information to be restated for 2007/08, so officers should be considering the impact of the new standards now. The Commission has already started and will continue publishing briefing papers, aimed at the preparers of accounts at NHS bodies, which will address developments in the application of IFRS.

Primary care trust allocations

- 100 PCT resource allocations for the 2008/09 financial year are to be announced in late 2007 in the Department of Health's *2008/09 Operating Framework*, following the 2007 Comprehensive Spending Review (CSR). As a result of the 2007 CSR NHS spending will increase by 4 per cent in real terms. This is more than other public services, but less than NHS growth in previous years. This will increase the importance of good financial management to ensure financial stability and best use of the resources available. However, financial management, most notably medium-term financial planning, continues to be an area of concern for NHS organisations. ALE scores show that PCTs and newly merged organisations have a particular need for improvement. The PCT fitness for purpose reviews carried out during 2006/07 also highlighted weaknesses in this area. An Audit Commission briefing on medium-term financial planning at PCTs will be published later this year.

Appendix 1

Key lines of enquiry summary

Further details on the key lines of enquiry (KLOEs) and the assurances underpinning them can be found at www.audit-commission.gov.uk

Key theme	Key question	Ref	KLOE
Financial reporting	How good are the organisation's financial accounting and reporting arrangements?	1.1	The organisation produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers
		1.2	The organisation promotes external accountability
Financial management	How well does the organisation plan and manage its finances?	2.1	The organisation's medium-term financial strategy/ plan, budgets and capital programme are soundly based and designed to deliver its strategic priorities
		2.2	The organisation manages performance against budgets
		2.3	The organisation manages its asset base
Financial standing	How well does the organisation safeguard its financial standing?	3.1	The organisation manages its spending within the available resources
Internal control	How well does the organisation's internal control environment enable it to manage its significant business risks?	4.1	The organisation manages its significant business risks
		4.2	The organisation has arrangements in place to maintain a sound system of internal control
		4.3	The organisation has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business
Value for money	How good are the organisation's arrangements for managing and improving value for money?	5.1	The organisation has put in place proper arrangements for securing strategic and operational objectives
		5.2	The organisation has put in place proper arrangements to ensure that services meet the needs of patients and taxpayers, and for engaging with the wider community
		5.3	The organisation has put in place proper arrangements for monitoring and reviewing performance, including arrangements to ensure data quality
		5.4	The organisation has established arrangements for managing its financial and other resources which demonstrate value for money is being managed and achieved

Appendix 2

Auditors' Local Evaluation scores 2006/07

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
5 Boroughs Partnership NHS Trust	2	3	2	3	2	2
Airedale NHS Trust	2	3	2	2	2	2
Ashford and St Peter's Hospitals NHS Trust	1	2	2	1	2	3
Ashton, Leigh and Wigan Primary Care Trust	4	4	4	4	3	3
Avon and Wiltshire Mental Health Partnership NHS Trust	1	3	2	1	3	2
Barking and Dagenham Primary Care Trust	4	3	4	4	3	3
Barking, Havering and Redbridge Hospitals NHS Trust	1	1	1	1	2	1
Barnet and Chase Farm Hospitals NHS Trust	1	2	2	1	3	2
Barnet Primary Care Trust	2	2	2	2	2	2
Barnet, Enfield and Haringey Mental Health NHS Trust	2	2	2	2	2	2
Barnsley Primary Care Trust	3	3	3	4	3	3
Barts and The London NHS Trust	3	2	3	4	3	3
Bassetlaw Primary Care Trust	2	3	2	3	2	2
Bath and North East Somerset Primary Care Trust	3	3	3	4	3	3
Bedford Hospital NHS Trust	2	2	2	2	3	3
Bedfordshire and Luton Mental Health and Social Care Partnership NHS Trust	2	1	2	4	3	3
Bedfordshire Primary Care Trust	1	2	1	1	2	1
Berkshire East Primary Care Trust*	2	1	2	1	2	2
Berkshire Healthcare NHS Trust (now Berkshire Healthcare NHS Foundation Trust)	3	3	3	3	3	3
Berkshire West Primary Care Trust	1	1	1	1	2	1
Bexley Care Trust	1	1	1	1	2	1
Birmingham and Solihull Mental Health NHS Trust	3	3	3	4	2	3
Birmingham East and North Primary Care Trust*	2	2	3	1	3	3

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Birmingham Women's Health Care NHS Trust	2	2	3	2	2	2
Blackburn with Darwen Primary Care Trust	2	3	3	3	3	2
Blackpool Primary Care Trust	2	3	2	3	2	2
Blackpool, Fylde and Wyre Hospitals NHS Trust	3	2	3	3	3	3
Bolton Hospitals NHS Trust	3	3	3	3	3	3
Bolton Primary Care Trust	2	3	2	3	2	2
Bolton, Salford and Trafford Mental Health NHS Trust	2	1	2	3	2	2
Bournemouth and Poole Primary Care Trust	2	3	3	4	2	2
Bradford and Airedale Primary Care Trust	2	2	2	4	2	2
Bradford District Care Trust	2	2	2	2	2	2
Brent Teaching Primary Care Trust	1	2	1	1	1	2
Brighton and Hove City Primary Care Trust	2	2	2	3	2	2
Brighton and Sussex University Hospitals NHS Trust	1	2	2	1	2	2
Bristol Primary Care Trust	3	3	3	3	2	3
Bromley Hospitals NHS Trust	1	2	2	1	2	2
Bromley Primary Care Trust	4	3	4	4	3	4
Buckinghamshire Hospitals NHS Trust	3	3	3	3	3	3
Buckinghamshire Primary Care Trust	1	1	1	1	2	1
Burton Hospitals NHS Trust	2	2	3	2	3	2
Bury Primary Care Trust	3	3	3	3	2	3
Calderdale Primary Care Trust	2	2	2	3	2	3
Calderstones NHS Trust	3	3	3	3	3	3
Cambridgeshire and Peterborough Mental Health Partnership NHS Trust	2	2	2	3	3	3
Cambridgeshire Primary Care Trust	1	1	1	1	2	1
Camden and Islington Mental Health and Social Care Trust	3	3	3	3	2	3
Camden Primary Care Trust	3	2	3	4	2	3
Central and Eastern Cheshire Primary Care Trust	2	1	2	2	2	2

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Central and North West London Mental Health NHS Trust (now Central and North West London NHS Foundation Trust)	3	3	3	4	3	3
Central Lancashire Primary Care Trust	2	2	2	3	2	2
Central Manchester and Manchester Children's University Hospitals NHS Trust	2	1	2	3	3	2
Cheshire and Wirral Partnership NHS Trust (now Cheshire and Wirral Partnership NHS Foundation Trust)	3	3	3	3	3	3
Christie Hospital NHS Trust (now Christie Hospital NHS Foundation Trust)	3	3	3	4	3	3
City and Hackney Teaching Primary Care Trust	2	1	2	3	2	2
Cornwall and Isles of Scilly Primary Care Trust	2	3	2	2	2	2
Cornwall Partnership NHS Trust	2	3	2	3	2	2
County Durham Primary Care Trust	2	2	2	2	2	2
Coventry and Warwickshire Partnership NHS Trust	2	3	2	2	2	2
Coventry Teaching Primary Care Trust	1	2	2	1	2	2
Croydon Primary Care Trust	3	3	3	3	2	3
Cumbria Primary Care Trust	1	2	1	1	1	1
Darlington Primary Care Trust	1	3	1	2	2	2
Dartford and Gravesham NHS Trust	2	3	3	2	3	3
Derby City Primary Care Trust	3	2	3	4	3	3
Derbyshire County Primary Care Trust	2	2	3	3	2	2
Derbyshire Mental Health Services NHS Trust	3	2	3	3	3	3
Devon Partnership NHS Trust	2	3	3	2	2	3
Devon Primary Care Trust	1	1	1	2	2	1
Doncaster and South Humber Healthcare NHS Trust (now Rotherham, Doncaster and South Humber Mental Health NHS Foundation Trust)	3	3	3	4	3	3
Doncaster Primary Care Trust	2	2	3	4	2	2
Dorset Healthcare NHS Trust (now Dorset Healthcare NHS Foundation Trust)	3	3	3	4	3	3

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Dorset Primary Care Trust	2	3	2	3	2	2
Dudley Group of Hospitals NHS Trust	3	3	3	3	3	3
Dudley Primary Care Trust	2	3	2	3	2	2
Ealing Hospital NHS Trust	3	3	3	4	3	3
Ealing Primary Care Trust	3	3	3	4	3	3
East and North Hertfordshire NHS Trust	1	2	2	1	2	3
East and North Hertfordshire Primary Care Trust	1	2	1	1	2	1
East Cheshire NHS Trust	1	1	2	1	2	3
East Kent Hospitals NHS Trust	1	2	2	1	2	3
East Lancashire Hospitals NHS Trust	2	3	2	2	3	3
East Lancashire Primary Care Trust	2	3	2	3	2	2
East London and The City University Mental Health NHS Trust	3	3	3	4	2	3
East Midlands Ambulance Service NHS Trust	2	2	2	2	2	2
East Of England Ambulance Service NHS Trust	2	2	2	3	2	2
East Riding of Yorkshire Primary Care Trust	1	2	2	1	2	2
East Sussex Downs and Weald Primary Care Trust	1	2	1	1	2	1
East Sussex Hospitals NHS Trust	1	3	2	1	2	3
Eastern and Coastal Kent Primary Care Trust	2	2	2	2	2	2
Enfield Primary Care Trust	1	1	1	1	1	1
Epsom and St Helier University Hospitals NHS Trust	1	2	2	1	2	2
Essex Rivers Healthcare NHS Trust	2	3	2	2	2	2
Gateshead Primary Care Trust	2	2	2	3	2	2
George Eliot Hospital NHS Trust	1	3	2	1	2	2
Gloucestershire Partnership NHS Trust (now Gloucestershire Partnership NHS Foundation Trust)	2	2	3	2	3	3
Gloucestershire Primary Care Trust	2	1	2	2	2	2
Good Hope Hospital NHS Trust	1	1	3	1	3	2

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Great Ormond Street Hospital for Children NHS Trust	2	3	2	3	3	3
Great Western Ambulance Service NHS Trust	1	1	1	1	1	1
Great Yarmouth and Waveney Primary Care Trust	1	1	1	1	2	1
Greenwich Teaching Primary Care Trust	3	3	3	3	3	3
Halton and St Helens Primary Care Trust	2	2	2	3	2	2
Hammersmith and Fulham Primary Care Trust	2	3	2	3	2	3
Hammersmith Hospitals NHS Trust	2	3	3	2	3	3
Hampshire Partnership NHS Trust	3	3	3	4	3	3
Hampshire Primary Care Trust	2	1	3	2	2	2
Haringey Teaching Primary Care Trust	3	3	3	3	3	3
Harrow Primary Care Trust	2	2	2	2	2	2
Hartlepool Primary Care Trust	2	3	2	2	2	2
Hastings and Rother Primary Care Trust	2	2	2	3	2	2
Havering Primary Care Trust	1	2	1	1	2	2
Heart of Birmingham Teaching Primary Care Trust	2	4	3	4	3	2
Heatherwood and Wexham Park Hospitals NHS Trust (now Heatherwood and Wexham Park Hospitals NHS Foundation Trust)	2	3	3	2	3	3
Hereford Hospitals NHS Trust	2	2	2	2	2	2
Herefordshire Primary Care Trust	2	3	3	3	3	2
Hertfordshire Partnership NHS Trust (now Hertfordshire Partnership NHS Foundation Trust)	3	2	3	4	3	3
Heywood, Middleton and Rochdale Primary Care Trust	3	4	3	3	3	3
Hillingdon Primary Care Trust	1	2	1	1	1	1
Hinchingbrooke Health Care NHS Trust	1	1	1	1	2	1
Hounslow Primary Care Trust	1	2	1	1	2	1
Hull and East Yorkshire Hospitals NHS Trust	1	2	1	2	1	1
Hull Teaching Primary Care Trust	2	2	2	4	2	2
Humber Mental Health Teaching NHS Trust	3	3	3	4	3	3

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Ipswich Hospital NHS Trust	1	1	1	1	2	2
Isle of Wight NHS Primary Care Trust	2	3	3	2	3	3
Islington Primary Care Trust	2	2	2	3	2	2
Kensington and Chelsea Primary Care Trust	2	2	2	2	3	2
Kent and Medway NHS and Social Care Partnership Trust	2	2	2	2	2	2
Kettering General Hospital NHS Trust	3	3	3	3	2	3
Kingston Hospital NHS Trust	3	2	3	3	3	3
Kingston Primary Care Trust	1	2	1	1	2	1
Kirklees Primary Care Trust	2	1	2	2	2	2
Knowsley Primary Care Trust	3	2	3	3	3	3
Lambeth Primary Care Trust	3	3	3	4	3	3
Lancashire Care NHS Trust	3	4	3	4	3	3
Leeds Mental Health Teaching NHS Trust (now Leeds Partnership NHS Foundation Trust)	3	3	3	4	3	3
Leeds Primary Care Trust	2	3	2	3	2	2
Leeds Teaching Hospitals NHS Trust	2	3	2	2	3	2
Leicester City Primary Care Trust	2	1	2	2	2	2
Leicestershire County and Rutland Primary Care Trust	1	3	2	1	2	2
Leicestershire Partnership NHS Trust	2	2	2	4	2	2
Lewisham Primary Care Trust*	2	3	2	1	2	2
Lincolnshire Partnership NHS Trust (now Lincolnshire Partnership NHS Foundation Trust)	3	2	3	4	3	3
Lincolnshire Primary Care Trust	1	1	1	2	2	2
Liverpool Primary Care Trust	2	3	2	3	2	2
London Ambulance Service NHS Trust	3	3	3	4	2	3
Luton Primary Care Trust	1	2	2	1	2	2

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Maidstone and Tunbridge Wells NHS Trust	1	3	2	1	3	2
Manchester Mental Health and Social Care Trust	2	2	2	2	2	2
Manchester Primary Care Trust	1	2	1	2	2	2
Mayday Healthcare NHS Trust	2	3	2	2	2	2
Medway NHS Trust	2	3	3	3	3	2
Medway Primary Care Trust	2	2	2	3	3	2
Mersey Care NHS Trust	2	3	3	3	2	2
Mid Cheshire Hospitals NHS Trust	3	3	3	3	2	3
Mid Essex Hospital Services NHS Trust	1	1	2	1	1	2
Mid Essex Primary Care Trust	1	2	2	1	2	2
Mid Staffordshire General Hospitals NHS Trust	3	2	3	3	2	3
Mid Yorkshire Hospitals NHS Trust	1	3	3	1	2	2
Middlesbrough Primary Care Trust	2	3	2	4	2	2
Milton Keynes General Hospital NHS Trust (now Milton Keynes Hospital NHS Foundation Trust)	3	3	3	4	2	3
Milton Keynes Primary Care Trust	1	3	3	1	3	3
Newcastle Primary Care Trust	2	2	2	4	2	2
Newham Primary Care Trust	2	2	2	2	3	3
Newham University Hospital NHS Trust	1	2	2	1	2	2
Norfolk and Norwich University Hospital NHS Trust	4	3	4	4	3	3
Norfolk and Waveney Mental Health Partnership NHS Trust	3	3	3	4	2	3
Norfolk Primary Care Trust	1	1	1	1	2	1
North Bristol NHS Trust	1	3	3	1	3	3
North Cheshire Hospitals NHS Trust	1	1	2	1	2	2
North Cumbria Acute Hospitals NHS Trust	1	2	2	1	2	2
North Cumbria Mental Health and Learning Disabilities NHS Trust (now Cumbria Partnerships NHS Foundation Trust)	3	3	3	3	2	3
North East Ambulance Service NHS Trust	2	2	2	3	2	3

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
North East Essex Primary Care Trust	2	2	2	2	2	2
North East Lincolnshire Primary Care Trust	3	3	3	4	3	3
North East London Mental Health NHS Trust	2	2	2	3	3	2
North Essex Mental Health Partnership NHS Trust (now North Essex Partnership NHS Foundation Trust)	3	3	3	3	3	3
North Lancashire Teaching Primary Care Trust	2	1	2	2	2	2
North Lincolnshire Primary Care Trust	1	3	1	1	3	2
North Middlesex University Hospital NHS Trust	1	2	2	1	2	2
North Somerset Primary Care Trust	1	2	1	1	1	1
North Staffordshire Combined Healthcare NHS Trust	3	3	3	3	3	3
North Staffordshire Primary Care Trust	1	1	1	1	2	1
North Tees and Hartlepool NHS Trust	2	2	3	2	3	3
North Tees Primary Care Trust	2	3	3	3	3	2
North Tyneside Primary Care Trust	2	2	2	3	2	2
North West Ambulance Service NHS Trust	2	2	2	2	2	2
North West London Hospitals NHS Trust	1	3	3	1	3	3
North Yorkshire and York Primary Care Trust	1	2	2	1	2	1
Northampton General Hospital NHS Trust	2	3	3	2	3	2
Northamptonshire Healthcare NHS Trust	3	3	3	4	3	3
Northamptonshire Teaching Primary Care Trust	1	2	2	1	2	2
Northern Devon Healthcare NHS Trust	1	2	1	1	2	2
Northern Lincolnshire and Goole Hospitals NHS Trust (now Northern Lincolnshire and Goole Hospitals NHS Foundation Trust)	3	3	3	4	3	3
Northumberland Care Trust	1	2	2	1	2	2
Northumberland, Tyne and Wear NHS Trust	2	2	3	4	2	2
Nottingham City Primary Care Trust	3	3	3	3	2	3
Nottingham University Hospitals NHS Trust	1	2	1	1	1	2
Nottinghamshire County Teaching Primary Care Trust	1	2	1	3	2	2
Nottinghamshire Healthcare NHS Trust	2	2	2	3	2	2
Nuffield Orthopaedic Centre NHS Trust	2	1	3	3	3	3

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Oldham Primary Care Trust	3	3	3	4	3	3
Oxford Radcliffe Hospitals NHS Trust	1	3	3	1	3	3
Oxfordshire and Buckinghamshire Mental Health Partnership NHS Trust	3	3	3	3	3	3
Oxfordshire Primary Care Trust	2	2	2	2	2	2
Pennine Acute Hospitals NHS Trust	1	3	3	1	2	2
Pennine Care NHS Trust	3	2	3	3	3	3
Peterborough Primary Care Trust	2	2	2	3	2	3
Plymouth Hospitals NHS Trust	2	3	2	2	2	2
Plymouth Teaching Primary Care Trust	2	3	2	2	2	2
Poole Hospital NHS Trust	3	2	3	3	3	3
Portsmouth City Teaching Primary Care Trust	2	3	3	4	3	2
Portsmouth Hospitals NHS Trust	3	3	3	3	3	3
Queen Elizabeth Hospital NHS Trust	1	2	2	1	3	3
Queen Mary's Sidcup NHS Trust	1	2	2	1	2	2
Redbridge Primary Care Trust	3	4	3	4	2	3
Redcar and Cleveland Primary Care Trust	2	2	2	4	2	2
Richmond and Twickenham Primary Care Trust	2	3	2	3	2	3
Robert Jones and Agnes Hunt Orthopaedic and District Hospital NHS Trust	1	1	1	1	2	2
Rotherham Primary Care Trust	3	3	3	4	3	3
Royal Brompton and Harefield NHS Trust	3	3	3	3	3	3
Royal Cornwall Hospitals NHS Trust	1	1	1	1	1	1
Royal Free Hampstead NHS Trust	3	3	3	3	3	3
Royal Liverpool and Broadgreen University Hospitals NHS Trust	3	2	3	4	3	3
Royal Liverpool Children's NHS Trust	3	3	3	4	2	3
Royal National Orthopaedic Hospital NHS Trust	1	2	2	1	2	2

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
Royal Surrey County Hospital NHS Trust	2	2	2	3	3	2
Royal United Hospital, Bath NHS Trust	1	3	3	1	3	2
Royal West Sussex NHS Trust	1	1	2	1	3	2
Salford Primary Care Trust	4	3	4	4	3	3
Sandwell and West Birmingham Hospitals NHS Trust	2	3	2	2	3	2
Sandwell Mental Health NHS and Social Care Trust	2	3	3	3	2	2
Sandwell Primary Care Trust*	2	2	2	1	2	2
Scarborough and North East Yorkshire Healthcare NHS Trust	1	2	1	1	2	1
Sefton Primary Care Trust	2	1	2	2	2	2
Sheffield Care Trust	3	2	3	4	3	3
Sheffield Primary Care Trust	1	3	2	2	2	1
Shrewsbury and Telford Hospital NHS Trust	1	2	2	1	3	2
Shropshire County Primary Care Trust	2	3	3	3	3	2
Solihull Care Trust	2	1	2	2	2	2
Somerset Partnership NHS and Social Care Trust	2	2	2	3	2	3
Somerset Primary Care Trust	2	1	2	3	2	2
South Birmingham Primary Care Trust	2	3	3	4	3	2
South Central Ambulance Service NHS Trust	2	2	2	2	2	2
South Downs Health NHS Trust	2	3	2	3	3	3
South East Coast Ambulance Service NHS Trust	2	2	2	2	2	2
South East Essex Primary Care Trust	2	2	2	3	2	2
South Gloucestershire Primary Care Trust	2	2	2	3	2	2
South Staffordshire Primary Care Trust	2	1	2	2	2	2
South Tees Hospitals NHS Trust	2	2	2	2	3	3
South Tyneside Primary Care Trust	2	2	2	3	2	2
South Warwickshire General Hospitals NHS Trust	1	3	2	1	3	2
South West Essex Primary Care Trust	2	1	2	2	2	2
South West London and St George's Mental Health NHS Trust	2	3	2	3	2	2

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
South West Yorkshire Mental Health NHS Trust	2	3	2	3	3	2
South Western Ambulance Service NHS Trust	2	3	2	3	2	2
Southampton City Primary Care Trust	3	3	3	4	3	3
Southampton University Hospitals NHS Trust	2	1	3	2	3	3
Southport and Ormskirk Hospital NHS Trust	1	3	3	1	3	3
Southwark Primary Care Trust	3	3	3	3	3	3
St George's Healthcare NHS Trust	1	3	2	1	2	3
St Helens and Knowsley Hospitals NHS Trust	3	3	3	4	3	3
St Mary's NHS Trust	3	3	3	3	3	3
Staffordshire Ambulance Service NHS Trust	2	2	2	4	2	2
Stockport Primary Care Trust	4	3	4	4	3	3
Stoke-on-Trent Primary Care Trust	2	2	2	2	2	2
Suffolk Mental Health Partnership NHS Trust	2	2	2	3	2	2
Suffolk Primary Care Trust	1	2	1	1	2	2
Sunderland Teaching Primary Care Trust	2	3	3	3	2	2
Surrey and Borders Partnership NHS Trust	2	2	3	3	2	2
Surrey and Sussex Healthcare NHS Trust	1	1	1	1	1	1
Surrey Primary Care Trust	1	1	1	1	2	1
Sussex Partnership NHS Trust	3	3	3	3	3	3
Sutton and Merton Primary Care Trust*	2	3	2	1	2	2
Swindon and Marlborough NHS Trust	3	3	3	3	3	3
Swindon Primary Care Trust	2	3	2	4	2	3
Tameside and Glossop Acute Services NHS Trust	3	3	3	4	3	3
Tameside and Glossop Primary Care Trust	3	3	3	4	3	3
Taunton and Somerset NHS Trust	3	3	3	3	3	3
Tees, Esk and Wear Valleys NHS Trust	3	2	3	4	2	3
Telford and Wrekin Primary Care Trust	2	3	3	3	2	2
The Cardiothoracic Centre – Liverpool NHS Trust	3	2	3	3	3	3
The Hillingdon Hospital NHS Trust	3	3	3	4	3	3

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
The Lewisham Hospital NHS Trust	1	1	2	1	2	2
The Princess Alexandra Hospital NHS Trust	2	2	2	2	2	2
The Queen Elizabeth Hospital King's Lynn NHS Trust	1	1	2	1	2	3
The Ridgeway Partnership (Oxfordshire Learning Disability NHS Trust)	3	2	3	4	3	3
The Royal Wolverhampton Hospitals NHS Trust	1	2	1	1	2	2
The Whittington Hospital NHS Trust	3	2	3	3	3	3
Torbay Care Trust	3	3	3	3	2	3
Tower Hamlets Primary Care Trust	3	2	3	4	3	3
Trafford Healthcare NHS Trust	1	2	1	1	1	1
Trafford Primary Care Trust	2	3	2	3	2	2
United Bristol Healthcare NHS Trust	2	3	3	2	3	3
United Lincolnshire Hospitals NHS Trust	1	2	1	1	1	1
University Hospital of North Staffordshire NHS Trust	2	3	2	2	2	2
University Hospitals Coventry and Warwickshire NHS Trust	1	2	2	1	3	2
University Hospitals of Leicester NHS Trust	3	3	3	3	3	3
University Hospitals of Morecambe Bay NHS Trust	2	3	2	2	2	2
Wakefield District Primary Care Trust	2	1	2	4	2	2
Walsall Hospitals NHS Trust	2	3	2	3	2	2
Walsall Teaching Primary Care Trust	2	3	3	4	2	2
Waltham Forest Primary Care Trust	1	2	1	1	2	2
Walton Centre for Neurology and Neurosurgery NHS Trust	3	3	3	3	2	3
Wandsworth Primary Care Trust	2	2	2	2	3	2
Warrington Primary Care Trust	1	3	2	1	2	2
Warwickshire Primary Care Trust	1	1	1	1	2	1
West Dorset General Hospitals NHS Trust (now Dorset County Hospital NHS Foundation Trust)	2	3	2	2	2	2

Authority name	Overall score	Key theme performance				
		Financial reporting	Financial management	Financial standing	Internal control	Value for money
West Essex Primary Care Trust	2	2	2	2	2	2
West Hertfordshire Hospitals NHS Trust	1	1	2	1	1	1
West Hertfordshire Primary Care Trust	1	2	1	1	2	1
West Kent Primary Care Trust	1	1	1	1	2	2
West London Mental Health NHS Trust	3	3	3	4	3	3
West Middlesex University Hospital NHS Trust	1	2	2	1	2	2
West Midlands Ambulance Service NHS Trust	1	1	1	2	2	2
West Suffolk Hospitals NHS Trust	1	2	2	1	2	2
West Sussex Primary Care Trust	1	2	1	1	2	2
Western Cheshire Primary Care Trust	2	1	2	2	2	2
Westminster Primary Care Trust	3	3	3	3	3	3
Weston Area Health NHS Trust	1	2	2	1	2	2
Whipps Cross University Hospital NHS Trust	1	1	1	1	1	2
Wiltshire Primary Care Trust	1	2	1	1	2	2
Winchester and Eastleigh Healthcare NHS Trust	2	1	2	2	2	3
Wirral Primary Care Trust	2	3	2	3	2	2
Wirral Hospital NHS Trust (now Wirral University Teaching Hospital NHS Foundation Trust)	3	2	3	4	3	3
Wolverhampton City Primary Care Trust	3	3	3	4	3	3
Worcestershire Acute Hospitals NHS Trust	1	2	2	1	2	2
Worcestershire Mental Health Partnership NHS Trust	1	1	2	1	3	2
Worcestershire Primary Care Trust	1	2	2	3	2	1
Worthing and Southlands Hospitals NHS Trust	1	2	2	1	2	2
Wrightington, Wigan and Leigh NHS Trust	3	3	3	3	3	3
York Hospitals NHS Trust (now York Hospitals NHS Foundation Trust)	1	3	3	1	3	3
Yorkshire Ambulance Service NHS Trust	1	1	2	1	2	2

* These organisations scored a one for financial standing in accordance with the assurances underpinning the financial standing KLOE. However, these organisations overspent by an amount less than funds topsliced by their SHA. So as not to unduly penalise those organisations, the Audit Commission exercised its judgement and awarded an overall score of 2. More detail on this is included in paragraph 64.

Appendix 3

Summary of scores at individual key line of enquiry level

Name	Level 1			Level 2		
	Number (percentage)			Number (percentage)		
	PCT	Trust	Total	PCT	Trust	Total
Use of Resources	44 (29%)	60 (33%)	104 (31%)	78 (51%)	62 (34%)	140 (42%)
Financial Reporting	28 (18%)	25 (14%)	53 (16%)	61 (40%)	71 (39%)	132 (39%)
KLOE 1.1	28 (18%)	29 (16%)	57 (17%)	57 (38%)	62 (34%)	119 (36%)
KLOE 1.2	33 (22%)	23 (13%)	56 (17%)	84 (55%)	106 (58%)	190 (57%)
Financial Management	32 (21%)	16 (9%)	48 (14%)	73 (48%)	80 (44%)	153 (46%)
KLOE 2.1	32 (21%)	34 (19%)	66 (20%)	72 (47%)	72 (39%)	144 (43%)
KLOE 2.2	33 (22%)	9 (5%)	42 (13%)	70 (46%)	65 (36%)	135 (40%)
KLOE 2.3	28 (47%)	28 (15%)	56 (23%)	19 (32%)	109 (60%)	128 (53%)
Financial Standing	42 (28%)	58 (32%)	100 (30%)	31 (20%)	37 (20%)	68 (20%)
KLOE 3.1	42 (28%)	58 (32%)	100 (30%)	31 (20%)	37 (20%)	68 (20%)
Internal Control	5 (3%)	10 (5%)	15 (4%)	109 (72%)	85 (46%)	194 (58%)
KLOE 4.1	14 (9%)	16 (9%)	30 (9%)	87 (57%)	60 (33%)	147 (44%)
KLOE 4.2	23 (15%)	15 (8%)	38 (11%)	110 (72%)	111 (61%)	221 (66%)
KLOE 4.3	5 (3%)	9 (5%)	14 (4%)	108 (71%)	93 (51%)	201 (60%)
Value for Money	23 (15%)	10 (5%)	33 (10%)	90 (59%)	80 (44%)	170 (51%)
KLOE 5.1	17 (11%)	13 (7%)	30 (9%)	86 (57%)	73 (40%)	159 (47%)
KLOE 5.2	17 (11%)	5 (3%)	22 (7%)	77 (51%)	69 (38%)	146 (44%)
KLOE 5.3	24 (16%)	15 (8%)	39 (12%)	97 (64%)	80 (44%)	177 (53%)
KLOE 5.4	38 (25%)	15 (8%)	53 (16%)	89 (59%)	98 (54%)	187 (56%)

Name	Level 3			Level 4		
	Number (percentage)			Number (percentage)		
	PCT	Trust	Total	PCT	Trust	Total
Use of Resources	25 (16%)	60 (33%)	85 (25%)	5 (3%)	1 (1%)	6 (2%)
Financial Reporting	59 (39%)	86 (47%)	145 (43%)	4 (3%)	1 (1%)	5 (1%)
KLOE 1.1	60 (39%)	91 (50%)	151 (45%)	7 (5%)	1 (1%)	8 (2%)
KLOE 1.2	34 (22%)	49 (27%)	83 (25%)	1 (1%)	5 (3%)	6 (2%)
Financial Management	42 (28%)	86 (47%)	128 (38%)	5 (3%)	1 (1%)	6 (2%)
KLOE 2.1	43 (28%)	75 (41%)	118 (35%)	5 (3%)	2 (1%)	7 (2%)
KLOE 2.2	41 (27%)	100 (55%)	141 (42%)	8 (5%)	9 (5%)	17 (5%)
KLOE 2.3	12 (20%)	44 (24%)	56 (23%)	1 (2%)	1 (1%)	2 (1%)
Financial Standing	47 (31%)	54 (30%)	101 (30%)	32 (21%)	34 (19%)	66 (20%)
KLOE 3.1	47 (31%)	54 (30%)	101 (30%)	32 (21%)	34 (19%)	66 (20%)
Internal Control	38 (25%)	88 (48%)	126 (38%)	0 (0%)	0 (0%)	0 (0%)
KLOE 4.1	46 (30%)	104 (57%)	150 (45%)	5 (3%)	3 (2%)	8 (2%)
KLOE 4.2	19 (13%)	57 (31%)	76 (23%)	0 (0%)	0 (0%)	0 (0%)
KLOE 4.3	39 (26%)	80 (44%)	119 (36%)	0 (0%)	1 (1%)	1 (0%)
Value for Money	38 (25%)	93 (51%)	131 (39%)	1 (1%)	0 (0%)	1 (0%)
KLOE 5.1	45 (30%)	94 (51%)	139 (41%)	4 (3%)	3 (2%)	7 (2%)
KLOE 5.2	55 (36%)	101 (55%)	156 (47%)	3 (2%)	8 (4%)	11 (3%)
KLOE 5.3	30 (20%)	86 (47%)	116 (35%)	1 (1%)	2 (1%)	3 (1%)
KLOE 5.4	24 (16%)	69 (38%)	93 (28%)	1 (1%)	1 (1%)	2 (1%)

Note: Some rows may not add up to 100% due to rounding.

Appendix 4

2006/07 final accounts issues

Annual reports

For 2006/07 the Department of Health directed NHS bodies to publish their annual report and audited accounts as one document. The Audit Commission welcomed this step as it reflected best practice and promotes greater transparency and accountability. Publishing non-financial information with the financial statements helps non-executive directors and stakeholders understand the accounts. The majority of NHS bodies responded well to this requirement. However, a small number of audit opinions were delayed pending audit review of the financial elements contained in the annual report.

Changes to asset lives and valuations

During 2006/07 auditors highlighted that, at a small minority of NHS bodies, asset lives and/ or asset valuations were being reviewed outside the normal five-yearly revaluation period applicable to the NHS. While there are some circumstances where this is appropriate, examples were noted where such changes were driven by the desire to achieve short-term, one-off, gains to the current year financial performance. The Commission provided guidance to its auditors on the issue and auditors reviewed the position at a number of trusts to ensure that changes to asset lives and valuations were appropriate, in accordance with accounting standards and the NHS Capital Accounting Manual. Auditors also drew the attention of those charged with governance to the issue so they could ensure they were fully aware of the rationale for and consequences of any changes. No audit opinions were qualified on this issue.

Innovative leasing schemes

In 2006/07 a number of auditors reported that NHS bodies were considering sale and leaseback schemes, whereby the body sells low value assets which are then leased back to the body. These schemes offered an additional in-year source of income and were considered by a small number of NHS trusts experiencing difficulties in achieving breakeven. The Audit Commission viewed these schemes as offering poor value for money for the NHS. The Audit Commission discussed the issue with the Department of Health which issued guidance to NHS bodies that was consistent with the Audit Commission's views. As a consequence, no audit opinions were qualified on this issue.

Partially completed spells

For 2006/07, the NHS Manual for Accounts detailed a change in the income recognition accounting policy for partially completed patient spells on the part of providers and the associated expenditure recognition on the part of commissioners. The issue created a number of potential accounting problems and audit issues for NHS bodies and their auditors for the 2006/07 close down. Auditors worked through these issues with NHS bodies and no significant concerns were raised as part of the 2006/07 audits.

Impairments/accelerated depreciation

During the 2006/07 audits, auditors noted a small number of NHS bodies adopting an inappropriate accounting treatment when assets are earmarked for disposal by treating what should be accelerated depreciation as an impairment. The resolution of this issue delayed the issue of audit opinions at a small number of NHS trusts. However these issues have now been satisfactorily resolved.

Source: [Audit Commission](#)

References

- 1 Audit Commission, *Review of the NHS Financial Management and Accounting Regime: A Report to the Secretary of State*, June 2006.
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- 3 Department of Health, *Operating Framework for 2006/07*, January 2006.
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- 6 Department of Health, *The Quarter: Quarter 1 2007/08*, September 2007.

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