

# Report on the results of auditors' work 2015/16: NHS bodies

**Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.**

**The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.**

**The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.**

**Before 1 April 2015, these responsibilities were discharged by the Audit Commission.**

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## Summary

Overall, the quality of financial reporting for 2015/16 remained broadly consistent with the previous year, both for NHS trusts and clinical commissioning groups (CCGs), whilst there was an improvement in timeliness.

Auditors continued to report concerns about the financial resilience of NHS trusts. Similarly to 2014/15, over half of NHS trusts received a qualified conclusion on their value for money arrangements and almost a third were referred to the Secretary of State. There was also an increase in the number of CCGs that received a qualified regularity opinion and that were referred to the Secretary of State.

Table 1 summarises the key results for NHS trusts and CCGs for 2015/16 and compares them with the results for 2014/15.

Table 1: **Key results for 2015/16 and 2014/15**

	NHS trusts 2015/16	NHS trusts 2014/15	CCGs 2015/16	CCGs 2014/15
<b>Accounts submission</b>				
Audited accounts submitted by the deadline	100%	98%	100%	98%
<b>Opinions on the accounts</b>				
Qualified true and fair opinion	0%	0%	0%	0%
Emphasis of matter paragraph	6%	9%	0%	0%
Other matter paragraph	0%	0%	1%	3%
Qualified regularity opinion	N/A	N/A	16%	10%
<b>Conclusions on VFM arrangements</b>				
Qualified conclusion	59%	58%	12%	15%
<b>Statutory reporting powers</b>				
Public interest report	0%	0%	0%	0%
Statutory recommendations	0%	N/A	0%	N/A
Referral to the Secretary of State	32%	29%	16%	11%

Source: PSAA

# Introduction

## Background

- 1 In July 2015, Public Sector Audit Appointments Limited (PSAA) published its first report on the results of auditors' work at NHS bodies covering the 2014/15 financial year. This is the second report and summarises the results of auditors' work at 90 NHS trusts and 209 CCGs for 2015/16.
- 2 Auditors' work on the 2015/16 accounts for local NHS bodies was carried out under the provisions of the Local Audit and Accountability Act 2014 and the Code of Audit Practice (the Code) prepared by the National Audit Office (NAO).
- 3 For 2015/16, NHS bodies had a statutory duty to publish a three-part annual report and accounts (ARA)<sup>1</sup> which includes: a performance report; an accountability report; and the financial statements. The ARA is one of the main ways NHS bodies discharge their accountability to taxpayers and service users for their stewardship of public money.
- 4 The accounts submission and audit process provides assurance to the Department of Health (DH) and NHS England about whether the funds distributed to NHS bodies have been safeguarded and accounted for properly.

## Responsibilities of NHS bodies and auditors

### Accounts

- 5 NHS trusts and CCGs were required to prepare their 2015/16 accounts in accordance with:
  - the *Department of Health Group Manual for Accounts 2015/16*; and
  - relevant financial reporting standards.
- 6 Final audited accounts, along with other documentation<sup>2</sup>, had to be submitted by CCGs to NHS England by 12.00 noon on 27 May 2016, and by auditors of NHS trusts to DH by close of play on 2 June 2016.
- 7 Auditors give an opinion as to whether the accounts give a 'true and fair' view of financial transactions and the financial position, that is, in the auditor's view the accounts are free from material misstatement. A material misstatement is one that would cause a reader of the accounts to have an incorrect overall understanding of the body's financial transactions and financial position.

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1 The term 'accounts' is used in this report to refer to the annual accounts that NHS bodies are required to prepare in accordance with the *Department of Health Group Manual for Accounts 2015/16* issued by DH.

2 Other documentation includes the summarisation schedules and a statement confirming that this summary is consistent with the audited accounts on which the audit opinion has been given.

8 Auditors may issue five possible types of true and fair audit opinion on the accounts (Table 2). An opinion other than unqualified is known as a 'non-standard' opinion.

Table 2: **Types of audit opinion**

Type of opinion	Description
Unqualified opinion	The financial statements give a true and fair view, in all material respects, in accordance with the identified financial reporting framework.
<b>Non-standard opinions</b>	
Qualified 'except for' opinion – limitation of scope	The financial statements give a true and fair view, except for the effect of a matter where the auditor was unable to obtain sufficient evidence. For example, the auditor considers the accounting records for a material transaction or balance in the accounts to be inadequate.
Qualified 'except for' opinion – disagreement	The financial statements give a true and fair view, except for the effect of a matter where there was a material disagreement between the auditor and audited body about how the matter was treated in the financial statements.
Adverse opinion	There was a disagreement between the auditor and audited body that was so material, or pervasive, the financial statements as a whole were misleading or incomplete.
Disclaimer of opinion	The auditor was not able to express an opinion, because they could not obtain sufficient appropriate audit evidence to such an extent that the financial statements as a whole could be misleading or incomplete.

Source: PSAA

9 Auditors may add an 'emphasis of matter' paragraph after their opinion. This draws the attention of users of the accounts to a matter, or matters, presented or disclosed in the accounts, which are of such importance that they are fundamental to users' understanding of the accounts. This does not affect the auditor's opinion on the accounts.

10 CCG auditors are additionally required to give a 'regularity opinion' on whether money has been spent in accordance with the purposes intended by Parliament. Auditors qualify the regularity opinion if in their view this is not the case.

11 NHS auditors are also required to report on two 'other matters' contained within the NHS accounts:

- that the annual report is consistent with the financial statements; and

■ that the specified elements of the remuneration and staff report subject to audit have been prepared in accordance with the relevant guidance.

12 Where the auditor cannot confirm these ‘other matters’, they must state this by including an ‘other matter’ paragraph in their audit report.

### Value for money arrangements

13 For 2015/16, auditors had a duty under section 21(1)(c) and 21(3)c, as amended by Schedule 13(10)(a), of the Local Audit and Accountability Act 2014 (the Act) to satisfy themselves that the CCG or NHS trust made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. In discharging this duty, auditors were required to carry out their work in accordance with the Code. The Code required auditors of local NHS bodies to report by exception where the auditor concluded they were not satisfied that the body had put in place proper arrangements to secure value for money in the use of its resources for the relevant period.

14 It is the local NHS body’s responsibility to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal. As part of the material published with the financial statements, the local NHS body is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement, including commentary on the arrangements for securing value for money from its use of resources.

15 For 2015/16, auditors were required to reach their statutory conclusion on arrangements to secure value for money based on the following overall evaluation criterion specified by the NAO:

■ In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

16 If the auditor has no issues to report, they are required to confirm this under the ‘matters by which we report by exception’ section of the auditor’s general report. Where the auditor has matters to report, they should issue a separate qualified conclusion (Table 3).

Table 3: **Types of qualified value for money arrangements conclusion**

Type of qualified conclusion	Description
Adverse	The auditor concludes that the weaknesses in arrangements that they have identified are either so significant in terms of their impact, or so numerous in terms of the number of different aspects of proper arrangements affected, that they are unable to satisfy themselves that the body has proper

Type of qualified conclusion	Description
	arrangements in place to secure value for money.
'Except for'	The auditor has identified one or more weaknesses that are sufficiently significant in their professional judgement to warrant reporting, but are limited to specific issues or areas. In such circumstances, the auditor may conclude that the body does have proper arrangements in place, 'except for...' the issue concerned.

Source: PSAA

## Auditor reporting

### *Statutory recommendations*

**17** Under Paragraph 2 of Schedule 7 of the Local Audit and Accountability Act 2014, auditors may make a written recommendation to the body during or at the end of the audit. The auditor must copy the recommendation to the Secretary of State and, for CCGs, must notify NHS England.

### *Public interest reports*

**18** Paragraph 1 of Schedule 7 of the Local Audit and Accountability Act 2014 requires auditors to consider whether, in the public interest, they should report on any matter coming to their notice during the audit. Auditors may issue a public interest report where they consider a matter is sufficiently important to be highlighted to the audited body or the public, either as a matter of urgency, or at the conclusion of the audit.

### *Referrals to the Secretary of State for Health*

**19** Auditors have a duty under Section 30 of the Local Audit and Accountability Act 2014 to refer matters to the Secretary of State for Health if they have a reason to believe that a health service body:

- a) is about to make, or has made, a decision which involves, or would involve, the body incurring unlawful expenditure; or
- b) is about to take, or has begun to take, a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency.

**20** A qualified regularity opinion for a CCG constitutes a referral to the Secretary of State.

### Information on individual NHS bodies

**21** Appendix 1 to this report lists the NHS bodies where any of the following criteria apply:

- the audited accounts were not submitted to DH or NHS England by the deadline; or



■ the auditor:

- issued a non-standard opinion on the accounts;
- included an 'emphasis of matter' paragraph after their opinion;
- qualified the regularity opinion (CCGs only);
- included an 'other matter' paragraph in their audit report;
- issued a qualified value for money arrangements conclusion;
- issued a written recommendation;
- issued a public interest report; or
- made a referral to the Secretary of State.

**22** Where there is nothing to report against a criterion it is not listed in Appendix 1.

# NHS trusts

## Background

**23** This section of the report summarises the results of auditors' work on the 2015/16 accounts of 90 NHS trusts, comprising:

- 55<sup>3</sup> acute NHS trusts;
- 5 ambulance NHS trusts;
- 16 community NHS trusts; and
- 14 mental health NHS trusts.

**24** During 2015/16, one acute NHS trust and one mental health NHS trust converted to foundation trust (FT) status. One acute NHS trust and one community NHS trust merged with existing FTs. As the accounts for these four NHS trusts did not cover the full financial year, the auditors were not required to reach a conclusion on value for money arrangements.

**25** This report does not cover the results of auditors' work at NHS FTs, as PSAA does not appoint auditors to these bodies. FTs appoint their own auditors, and are regulated by NHS Improvement.

**26** Auditors' work at NHS trusts included the audit of the accounts; review of the arrangements to secure value for money; and the exercise of the auditor's statutory reporting powers.

## Audit of the accounts

### Submission of audited accounts

**27** The audited accounts for all NHS trusts were submitted to DH by the deadline of close of play on 2 June 2016. This compares with 98 per cent for 2014/15.

### True and fair audit opinions on the accounts

**28** All NHS trusts received an unqualified true and fair opinion on the accounts, as was the case for 2014/15.

### Emphasis of matter

**29** Auditors of five NHS trusts (6 per cent) added an 'emphasis of matter' paragraph after their opinion. These 'emphasis of matter' paragraphs are intended to highlight to the user of the accounts particular issues which are important. Three related to going concern, one of which related to an NHS trust that was in the process of merging with a FT; one related to financial position; and one related to a contingent liability.

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**3** Isle of Wight NHS Trust has been counted as an acute NHS trust, although it is also responsible for ambulance, community and mental health services on the island.

**30** For 2014/15, there were nine 'emphasis of matter' paragraphs. Five related to financial position, three related to NHS trusts that were in the process of being taken over by FTs and one related to a contingent liability.

#### Value for money arrangements conclusions

**31** Auditors of the 86 NHS trusts in existence at 31 March 2016 were required to undertake work in respect of value for money arrangements for 2015/16. Auditors issued a qualified value for money arrangements conclusion to 51 of these NHS trusts (59 per cent), compared with 52 (58 per cent) for 2014/15. Seventeen of the qualified value for money arrangements conclusions were adverse (18 for 2014/15).

**32** Of the 51 qualified value for money arrangements conclusions, 50 related to financial issues.

**33** The main reasons for the qualified value for money arrangements conclusions qualifications include:

- NHS trusts reporting a deficit for 2015/16;
- NHS trusts forecasting a deficit for 2016/17;
- NHS trusts failing to achieve Cost Improvement Programme targets; and
- reliance by NHS trusts on cash support from the DH to fund planned levels of operational activity.

#### Auditor reporting

##### *Statutory recommendations*

**34** No statutory recommendations were issued to NHS trusts for 2015/16.

##### *Public interest reports*

**35** No public interest reports have been issued to NHS trusts since the last report was published in July 2015.

##### *Referrals to the Secretary of State for Health*

**36** Referrals are often made for NHS trusts that fail to break even, when taking one financial year with another (the statutory break-even duty). The duty has been met if expenditure is covered by income over a rolling three year period. Exceptionally, this may be extended to five years.

**37** There have been referrals for 29 NHS trusts since July 2015 (29 referrals for the previous year). Most of the referrals relate to the failure or likely failure of an NHS trust to meet its statutory break-even duty; one relates to a breach of the capital resource limit; and one relates to a failure to set a budget for 2016/17 to return the trust to a surplus position.

# Clinical commissioning groups

## Background

**38** This section of the report summarises the results of auditors' work for 2015/16 at all 209 CCGs.

**39** CCGs in England commission healthcare services on behalf of the public. CCGs are made up of multiple general practitioner (GP) practices with the GPs, as the members of the CCG, being responsible for setting its strategic direction and governance framework. CCGs are accountable to NHS England which allocates their funding, as well as providing guidance on a range of issues, including governance.

**40** Auditors' work at CCGs included the audit of the accounts; review of the arrangements to secure value for money; and the exercise of the auditor's statutory reporting powers.

## Audit of the accounts

### Submission of audited accounts

**41** The audited accounts for all CCGs were submitted to NHS England by the deadline of 12.00 noon on 27 May 2016. This compares with 98 per cent for 2014/15.

### True and fair audit opinions on the accounts

**42** All CCGs received an unqualified true and fair opinion on the accounts for 2015/16 as was the case for 2014/15.

### Regularity opinions

**43** For 2015/16, 33 CCGs (16 per cent) received a qualified regularity opinion. Two qualified regularity opinions related to transactions considered by the auditor to be unlawful; 29 related to a breach of the CCG's revenue resource limit; and, two related to both of these issues.

**44** For 2014/15, 21 CCGs (10 per cent) received a qualified regularity opinion.

### Other matters

**45** For 2015/16, auditors of three CCGs (1 per cent) added an 'other matter' paragraph relating to problems with making pension-related disclosures in the remuneration report.

**46** For 2014/15, auditors of six CCGs (3 per cent) added an 'other matter' paragraph relating to the same issue.

### Value for money arrangements conclusions

#### *Background*

**47** For 2015/16, auditors issued a qualified value for money arrangements conclusion to 26 CCGs (12 per cent). Six of the conclusions were adverse. For 2014/15, auditors issued a qualified value for money arrangements conclusion to 31 CCGs (15 per cent). Eleven of the conclusions were adverse.

**48** Of the 26 qualified value for money arrangements conclusions, 21 related to financial issues. This compares with 29 for 201/15.

**49** The main reasons for the qualified value for money arrangements conclusions include:

- CCGs breaching their revenue resource limit by incurring a deficit for 2015/16;
- CCGs setting deficit budgets for 2016/17; and
- weaknesses in strategic financial planning.

Auditor reporting

*Statutory recommendations*

**50** No statutory recommendations were issued to CCGs for 2015/16.

*Public interest reports*

**51** There have been no public interest reports issued to CCGs since the last report was published in July 2015.

*Referrals to the Secretary of State for Health*

**52** There have been 33 CCGs (15 per cent) referred by auditors to the Secretary of State, compared with 24 (11 per cent) for 2014/15. Consistent with the regularity qualifications noted in paragraph 43, the referrals related to breaches of CCGs' revenue resource limits and transactions considered by the auditor to be unlawful.

## Appendix 1: Information on individual NHS bodies

NHS body	Emphasis of matter paragraph	Qualified regularity opinion	Other matter paragraph	Adverse VFM arrangements conclusion	Except for VFM arrangements conclusion	Referral to SoS for Health
<b>NHS trusts</b>						
Barking, Havering and Redbridge University Hospitals NHS Trust	✓				✓	✓
Barnet, Enfield and Haringey Mental Health NHS Trust					✓	✓
Barts Health NHS Trust				✓		✓
Bedford Hospital NHS Trust					✓	✓
Brighton and Sussex University Hospitals NHS Trust				✓		✓
Buckinghamshire Healthcare NHS Trust					✓	✓
Croydon Health Services NHS Trust				✓		
East Cheshire NHS Trust					✓	
East Midlands Ambulance Service NHS Trust				✓		
East and North Hertfordshire NHS Trust					✓	✓
East Sussex Healthcare NHS Trust				✓		

NHS body	Emphasis of matter paragraph	Qualified regularity opinion	Other matter paragraph	Adverse VFM arrangements conclusion	Except for VFM arrangements conclusion	Referral to SoS for Health
Epsom and St Helier University Hospitals NHS Trust					✓	✓
George Eliot Hospital NHS Trust					✓	✓
Hinchingbrooke Health Care NHS Trust				✓		
Hull and East Yorkshire Hospitals NHS Trust					✓	
Imperial College Healthcare NHS Trust					✓	
Ipswich Hospital NHS Trust					✓	✓
Isle of Wight NHS Trust					✓	✓
Leeds Teaching Hospitals NHS Trust					✓	
Lewisham and Greenwich Healthcare NHS Trust					✓	
Lincolnshire Community Health Services NHS Trust	✓					
Liverpool Community Health NHS Trust	✓				✓	
London North West Healthcare NHS Trust				✓		✓
Maidstone and Tunbridge Wells NHS Trust					✓	✓
Manchester Mental Health and Social Care Trust					✓	✓
Mid Essex Hospital Services NHS Trust					✓	✓
Mid Yorkshire Hospitals NHS Trust					✓	

NHS body	Emphasis of matter paragraph	Qualified regularity opinion	Other matter paragraph	Adverse VFM arrangements conclusion	Except for VFM arrangements conclusion	Referral to SoS for Health
North Bristol NHS Trust				✓		✓
North Cumbria University Hospitals NHS Trust				✓		
North Middlesex University Hospital NHS Trust					✓	
Northampton General Hospital NHS Trust					✓	✓
Nottingham University Hospitals NHS Trust					✓	
Pennine Acute Hospitals NHS Trust					✓	
Plymouth Hospitals NHS Trust				✓		✓
Portsmouth Hospitals NHS Trust					✓	
Royal Cornwall Hospitals NHS Trust					✓	✓
Royal Liverpool and Broadgreen University Hospitals NHS Trust					✓	
Shrewsbury and Telford Hospital NHS Trust					✓	✓
Solent NHS Trust					✓	
Southport and Ormskirk Hospital NHS Trust					✓	
Surrey and Sussex Healthcare NHS Trust					✓	
The Princess Alexandra Hospital NHS Trust				✓		✓



NHS body	Emphasis of matter paragraph	Qualified regularity opinion	Other matter paragraph	Adverse VFM arrangements conclusion	Except for VFM arrangements conclusion	Referral to SoS for Health
The Whittington Hospital NHS Trust					✓	✓
Torbay and Southern Devon Health and Care NHS Trust (merged with an existing FT during 2015/16)	✓					
University Hospitals Coventry and Warwickshire NHS Trust					✓	✓
University Hospitals of Leicester NHS Trust				✓		✓
University Hospital of North Midlands NHS Trust					✓	
United Lincolnshire Hospitals NHS Trust				✓		✓
Walsall Healthcare NHS Trust				✓		✓
West Hertfordshire Hospitals NHS Trust				✓		✓
West Middlesex University Hospital NHS Trust (merged with an existing FT during 2015/16)						✓
Weston Area Health NHS Trust					✓	
Worcestershire Acute Hospitals NHS Trust				✓		✓
Wye Valley NHS Trust	✓			✓		
<b>CCGs</b>						
NHS Barking and Dagenham CCG					✓	

NHS body	Emphasis of matter paragraph	Qualified regularity opinion	Other matter paragraph	Adverse VFM arrangements conclusion	Except for VFM arrangements conclusion	Referral to SoS for Health
NHS Barnet CCG		✓				✓
NHS Basildon and Brentwood CCG		✓			✓	✓
NHS Bedfordshire CCG		✓		✓		✓
NHS Cambridgeshire and Peterborough CCG		✓			✓	✓
NHS Cannock Chase CCG		✓				✓
NHS Croydon CCG		✓				✓
NHS Dartford, Gravesham and Swanley CCG		✓			✓	✓
NHS East Staffordshire CCG		✓				✓
NHS East Surrey CCG		✓		✓		✓
NHS Enfield CCG		✓			✓	✓
NHS Fareham and Gosport CCG		✓				✓
NHS Great Yarmouth and Waveney CCG		✓		✓		✓
NHS Havering CCG					✓	
NHS Isle of Wight CCG		✓				✓
NHS Kernow CCG		✓			✓	✓
NHS Luton CCG		✓			✓	✓

NHS body	Emphasis of matter paragraph	Qualified regularity opinion	Other matter paragraph	Adverse VFM arrangements conclusion	Except for VFM arrangements conclusion	Referral to SoS for Health
NHS Mid Essex CCG		✓			✓	✓
NHS North Hampshire CCG		✓				✓
NHS North Somerset CCG		✓			✓	✓
NHS North Staffordshire CCG		✓			✓	✓
NHS North Tyneside CCG		✓			✓	✓
NHS Northern, Eastern and Western Devon CCG					✓	
NHS Northumberland CCG		✓			✓	✓
NHS Nottingham North and East CCG			✓			
NHS Nottingham West CCG			✓			
NHS Redbridge CCG					✓	
NHS Rushcliffe			✓			
NHS Shropshire CCG		✓		✓		✓
NHS South East Hampshire CCG		✓				✓
NHS South East Staffordshire and Seisdon Peninsular CCG		✓			✓	✓
NHS South Gloucestershire CCG		✓			✓	✓

NHS body	Emphasis of matter paragraph	Qualified regularity opinion	Other matter paragraph	Adverse VFM arrangements conclusion	Except for VFM arrangements conclusion	Referral to SoS for Health
NHS South Norfolk CCG		✓				✓
NHS South Warwickshire CCG		✓				✓
NHS Southend CCG		✓				✓
NHS Stafford and Surrounds CCG		✓				✓
NHS Surrey Downs CCG		✓				✓
NHS Thurrock CCG					✓	
NHS Vale of York CCG		✓		✓		✓
NHS Warwickshire North CCG		✓		✓		✓
NHS West Cheshire CCG					✓	
NHS Wirral CCG		✓			✓	✓

Source: PSAA