

# NHS (England) Summarised Accounts 2002-2003



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
HC 505-I Session 2003-2004: 28 April 2004

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# executive summary



## Part 1 - Audit of the summarised accounts

- 1 Under "Shifting the Balance of Power", the Department's programme to implement The NHS Plan<sup>1</sup>, the NHS underwent a number of structural changes during 2002-03. The main changes have been the creation of Strategic Health Authorities, the abolition of the Department's Directorates of Health and Social Care, which has increased the performance management role of the Strategic Health Authorities; and an increase in the number, and an enhanced role, of Primary Care Trusts.
- 2 The Department of Health (the Department) prepares summarised accounts for the NHS in England, which for 2002-03 covered the:
  - 28 Strategic Health Authorities;
  - 304 Primary Care Trusts;
  - 275 NHS Trusts;
  - 320 charitable funds held on trust;
  - 18 Special Health Authorities; and
  - the Dental Practice Board.
- 3 The appointed auditors gave unqualified true and fair audit opinions on the accounts of all the underlying organisations.
- 4 Appointed auditors were also required to express an opinion on the regularity of the activities of Strategic Health Authorities, Primary Care Trusts, special health authorities and the Dental Practice Board. In 2002-03, they provided unqualified regularity opinions on all but sixteen Primary Care Trusts and the pharmaceutical services and general dental services financial statements.
- 5 On the basis of my assessment of the work of the appointed auditors, and my audit of the Department, I have given unqualified true and fair opinions on all of the 2002-03 summarised accounts. However, I have qualified my regularity opinion on seven special health authorities and the Dental Practice Board. These bodies breached their statutory duty to contain their use of resources within the amount specified for them in relation to the year by the Secretary of State.
- 6 Appointed auditors also drew attention this year to delays in producing underlying accounts and a reduction in the quality of those accounts and supporting working papers compared to last year. The Department received 87 per cent of the 626 audited accounts within the agreed deadlines. The Treasury have proposed that Departmental resource accounts should be prepared and audited prior to the Parliamentary summer recess by 2005-06. To achieve this, the preparation and auditing of the accounts of underlying NHS bodies and the summarised accounts needs to be significantly accelerated.



<sup>1</sup> *The NHS Plan: A plan for investment. A plan for reform, Department of Health, July 2000.*

- 7 Since my last report, appointed auditors issued two public interest reports under Section 8 and one referral to the Secretary of State under Section 19 of the Audit Commission Act 1998.
- 8 From 2003-04, I assumed direct responsibility for the audit of the existing Special Health Authorities from the Audit Commission. A statutory instrument will be necessary to transfer responsibility for new Special Health Authorities created, pending the amendment of primary legislation to bring the audit arrangements of new Special Health Authorities in line with existing bodies. These arrangements will also lead to the cessation of summarised accounts for most Special Health Authorities, apart from those which are not included within Central Government Accounts.
- 9 The Health and Social Care (Community Health and Standards) Act 2003 created NHS Foundation Trusts. The Independent Regulator of NHS Foundation Trusts will prepare and lay before Parliament an annual report which provides an overall summary of the accounts of NHS Foundation Trusts.
- 10 Subject to the passing of legislation, the Department currently proposes that the final Funds Held on Trust summarised account will be prepared and presented for my audit for 2003-04.

## Part 2 - Managing the finances of the NHS

### Section 1 - Did the NHS achieve its financial targets in 2002-03?

- 11 In 2002-03, the Department of Health met its target of ensuring that financial balance was achieved in aggregate across 607 individual NHS organisations spending a total of £53.5 billion. The aggregate underspend across all NHS bodies was £96 million, or 0.18 per cent of total expenditure.

### Section 2 - Do individual organisations reporting large deficits put at risk the achievement of financial balance across the NHS?

- 12 As in previous years, this aggregate underspend was achieved despite variable performance in individual NHS organisations. Of the 607 bodies, 71 (12 per cent) did not achieve financial balance compared to 50 out of 577 bodies (nine per cent) last year. Of these 71 bodies, significant deficits (where the deficit exceeds 0.5 per cent of revenue resource limit or total annual income) arose in 51 (eight per cent) compared to 31 (five per cent) last year. In particular, three Primary Care Trusts and seven NHS Trusts reported in-year deficits of over £5 million and six NHS Trusts had a cumulative deficit (for statutory break-even purposes) of over £10 million as at 31 March 2003.
- 13 Organisations have a duty to make good deficits arising. Where there are large and cumulative deficits, this represents a significant challenge to the individual bodies themselves. Also, at the aggregate level, if these are not matched by surpluses elsewhere, large deficits in organisations may put at risk the achievement of overall financial balance of the National Health Service.
- 14 Sound corporate governance arrangements are an essential component of good financial management. The example of North Bristol NHS Trust illustrates the impact of poor financial management and corporate governance procedures. In 2002-03, the Trust reported a deficit of £44.6 million, the largest deficit ever incurred by an NHS organisation. The true scale of the deficit was not reported to the Trust Board until the final part of the financial year, leaving little opportunity for remedial action to be taken.



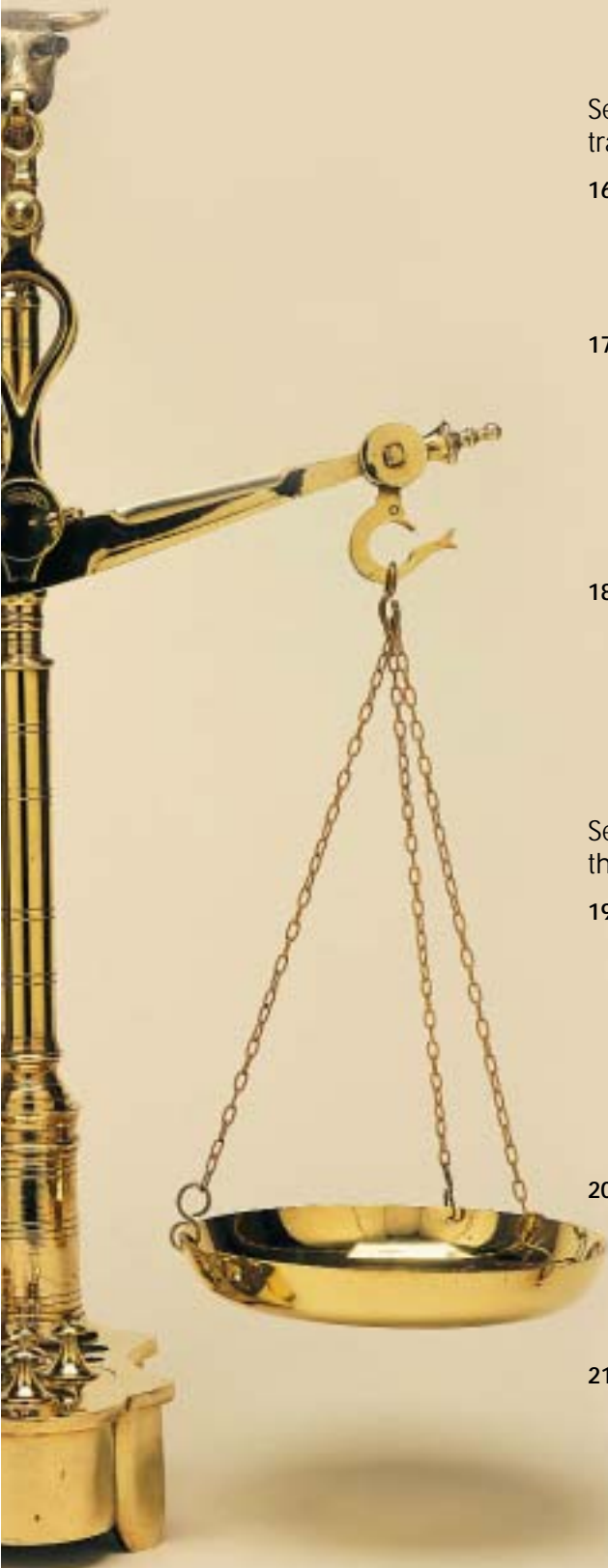
- 15 Factors leading to these significant deficits have been investigated by the bodies themselves and lessons are being learnt for the future. Recovery plans are in place in most organisations reporting deficits, and achievement against the plans is monitored by their Strategic Health Authority.

### Section 3 - Is the effect of financial support on the financial position transparent and is its use appropriate?

- 16 The results for the year for each organisation are stated after taking into account financial support. Financial support is a tool used by the Department to reallocate resources to help NHS organisations achieve financial balance. It can either be planned or unplanned.
- 17 It is useful to identify where planned support has been used because most forms of support are non-recurrent or carry risks. This may have implications for the achievement of financial balance in future years. The need for unplanned support represents a greater risk to bodies as it is caused by factors which had not been planned for. However, in 2002-03, the amount, source and use of planned and unplanned support was not comprehensively reported in the underlying accounts of individual NHS organisations.
- 18 Without support, a greater number of individual organisations would have failed to achieve financial balance. From 2003-04 the Department will be restricting the use of unplanned financial support, and surpluses and deficits will remain where they arise. This clarity should act as a further incentive for NHS organisations to manage within budget. This would not impact on the overall position of the NHS.

### Section 4 - Does the Department have systems in place to ensure that financial balance is achieved across the NHS?

- 19 The Department has high-level controls in place to monitor the achievement of financial balance across the NHS, with the detailed monitoring of NHS Trusts and Primary Care Trusts delegated to Strategic Health Authorities. The Department uses the Strategic Health Authority commentary on individual bodies, financial performance and forecasts for the purpose of its overall performance management of the NHS. The role of the Strategic Health Authorities in notifying the financial forecasts, and associated risks, to the Department is therefore crucial.
- 20 Strategic Health Authorities have procedures in place to ensure that robust budgets are set and to verify the reliability of monthly outturn figures reported to them. An understanding of the risks faced and the extent to which they are factored into the reported figures is an important element of understanding the overall position.
- 21 Sound corporate governance arrangements in individual NHS organisations are required to underpin the Department's high-level monitoring and for the control and management of the individual organisations themselves. No Strategic Health Authority, NHS Trust or Primary Care Trust had fully embedded risk management arrangements in place by 31 March 2003 to allow them to report a full statement on internal control for the whole of 2002-03. The Department requires all organisations to have an assurance framework in place by 31 March 2004, which will act as evidence for the statement on internal control.







### Clinical negligence

- 22 The financial impact of paying clinical negligence claims places increasing pressure on the Department's limited resources. The NHS paid out some £446 million to settle clinical negligence claims in 2002-03, the same amount as in 2001-02. Provisions for the probable future cost of clinical negligence within the NHS amounted to £5.89 billion at 31 March 2003, an increase of £0.64 billion since 31 March 2002. Of the £5.89 billion, some £0.67 billion is expected to be paid out in 2003-04.

### Fraud in the NHS

- 23 The Department has arrangements in place to tackle fraud, however more can be done to estimate the total levels of fraud across all activities and thus help target prevention and detection better.
- 24 A Special Health Authority, the NHS Counter Fraud and Security Management Service, was established on 1 January 2003 as the successor body to the NHS Counter Fraud Service, established in September 1998 with the remit of tackling losses due to fraud and corruption in the NHS. The target set, to reduce pharmaceutical patient fraud by 50 per cent by 2002-03, has been exceeded. The figure in 1998-99 was £117 million and is now £47 million, representing a 60 per cent overall reduction. Pharmaceutical, dental and optical patient fraud has been reduced from £170 million in 1998-99 to £87 million by the end of 2002-03.

### Section 5 - Will planned developments in the NHS have a significant impact on the way finances are managed in future?

- 25 The funding allocated to the NHS is increasing. The creation of Foundation Trusts and payment by results will have significant implications for the way the NHS is managed and financed. The Department is working with the NHS to implement these changes.

