



Auditor's Annual Report 2021/22 - draft

Princess Alexandra Hospital NHS Trust

25 June 2022

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This report is addressed to Princess Alexandra Hospital NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Summary

Introduction

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2021-22 audit of Princess Alexandra Hospital NHS Trust (the ‘Trust’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities

| | |
|------------------------|--|
| Accounts | <p>We issued an unqualified opinion on the Trust’s accounts on 20 July 2022. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page four.</p> |
| Annual report | <p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p> |
| Value for money | <p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard</p> |
| Other reporting | <p>We issued a referral to the Secretary of State for Health and Social Care as required by Section 30 of the Local Audit and Accountability Act due to the Trust being in breach of the cumulative break-even duty.</p> |

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

| Risk | Findings |
|---|--|
| <p data-bbox="114 459 506 483">Valuation of land and buildings</p> <p data-bbox="114 507 831 659">The Trust is required to hold its property at fair value. As hospitals are rarely sold on an active market we consider that they are specialised assets. These are required to be valued by estimating the cost of building a replacement asset on an instant build basis.</p> <p data-bbox="114 683 831 770">Due to the complexity of the estimate required to determine the cost of a replacement hospital we identified a significant risk.</p> <p data-bbox="114 794 831 914">We utilise valuation specialists to support our assessment of the valuation prepared by management's experts and critically assess the assumptions made in determining how the hospital would be replaced.</p> | <p data-bbox="896 459 1648 483">We did not identify any material misstatements relating to this risk.</p> <p data-bbox="896 507 2112 595">We considered the estimate to be balanced based on the procedures performed due to the assumptions made relating to the size and location of a replacement asset being appropriate given the current design of the hospital and the Trust's development of its future plans.</p> |
| <p data-bbox="114 938 528 962">Management override of controls</p> <p data-bbox="114 986 831 1074">We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p> <p data-bbox="114 1098 831 1189">We assess this risk by reviewing the controls in place for making manual adjustments to the accounts, for example posting journals and forming estimates.</p> | <p data-bbox="896 938 1648 962">We did not identify any material misstatements relating to this risk</p> |

| Risk | Findings |
|---|--|
| <p><i>Fraudulent expenditure recognition</i></p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over accruals posted at the end of the year.</p> | <p>We identified a misstatement relating to the accrual of costs for annual leave that were not consistent with the Trust's policies. This has not been corrected by management. Updating this would lead to an increase in the surplus of £1.3m, however we did not consider this material.</p> |
| <p><i>Fraudulent revenue recognition</i></p> <p>Auditing standards include a rebuttable assumption that there is a risk of fraud in the recognition of revenue. Due to the change in the NHS funding regime from Covid-19 we rebutted this risk relating to the block funding elements provided to the Trust. However, we did recognise this relating the recognition of deferred income at the end of the year.</p> | <p>We identified a misstatement relating to the deferral of revenue not being in line with IFRS 15 that has not been corrected by management. Updating this would lead to an increase in the surplus of £3.1m, however we did not consider this material.</p> |

Value for money

Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at [Code of Audit Practice \(nao.org.uk\)](https://nao.org.uk)

Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

| | |
|--|--|
| Care Quality Commission rating | Requires improvement |
| Single Oversight Framework rating | 3 |
| Governance statement | There were no significant control deficiencies identified in the governance statement. |
| Head of Internal Audit opinion | The Head of Internal Audit opinion was not modified |

Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

| Domain | Risk assessment | Summary of arrangements |
|--|---------------------------------|--------------------------------------|
| Financial sustainability | One significant risk identified | No significant weaknesses identified |
| Governance | One significant risk identified | No significant weaknesses identified |
| Improving economy, efficiency and effectiveness | No significant risks identified | No significant weaknesses identified |

Value for money

| Financial sustainability | |
|--|--|
| Description | Commentary on arrangements |
| <p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> How the Trust sets its financial plans to ensure services can continue to be delivered; How financial performance is monitored and actions identified where it is behind plan; and How financial risks are identified and actions to manage risks implemented. | <p>The Covid financing regime was revised significantly in 2020-21 and 2021-22 in order to support the response to the Covid-19 pandemic. Contracting for the Trust's services was moved to a block contract basis, with a fixed amount paid for the year and with contract values calculated in order to provide the funding necessary for the Trust to provide its services during the pandemic. Efficiency requirements were removed in 2020-21 and the first half of 2021-22, though the requirement to achieve efficiencies was restored in the second half of 2021-22, with a national 0.85% efficiency requirement introduced.</p> <p>The Trust has reported a surplus for 2021-22 of £1.3m. For the purposes of monitoring its financial performance this is adjusted to report on a "control total" basis by removing non-controllable expenditure such as impairments, against which it reported a surplus of £1.1m compared to a break-even plan, a favourable variance of £1.1m.</p> <p>The Trust is required to comply with a series of statutory financial duties, including the Break-Even Duty. This sets out that over a period of three years the Trust should not have a cumulative deficit of more than 0.5% of its annual revenue. At 31 March 2022 the Trust was reporting a cumulative deficit of £141.4m and was therefore in breach of the Break-Even Duty. As required by the Local Audit and Accountability Act we issued a referral to the Secretary of State for Health and Social Care to report this breach of the statutory duty. However, the cumulative deficit was caused by deficits made between 2013/14 and 2018/19 and the Trust has reported a break-even position in year for each of the last three years.</p> <p>We reviewed the processes in place for monitoring financial performance throughout the year. The Trust has established a Performance and Finance Committee which meets on a monthly basis. The Committee receives an overview of financial performance in order to set out the current and forecast financial performance and actions being taken in order to resolve adverse variances. Financial performance is also reported to the Board at each of its meetings through the integrated performance report to enable the full Board to monitor financial performance.</p> <p>At a directorate level regular review meetings are held, which assess the directorate's financial performance as well as its workforce and operational performance. This enables the Executive to hold the directorates to account for their financial performance throughout the year.</p> <p>The Trust has identified financial risks as part of its Board Assurance Framework, both relating to short term financial performance and medium term financial sustainability of the overall health system in Hertfordshire and the ability to provide the funding that will be required for the Trust's operations.</p> |

Value for money

| Financial sustainability | |
|--|--|
| Description | Commentary on arrangements |
| <p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> How the Trust sets its financial plans to ensure services can continue to be delivered; How financial performance is monitored and actions identified where it is behind plan; and How financial risks are identified and actions to manage risks implemented. | <p>We reviewed the Trust's financial planning arrangements for 2022-23. We note that for 2022-23 contracting arrangements are returning to having an activity element incorporated rather than being on a block basis. For 2022-23 the deadline for completing national financial planning was 20 June 2022, therefore during the period required to be reviewed in our value for money work up to 31 March 2022 it was not anticipated that the Trust would have fully completed its financial planning and developed a break-even budget.</p> <p>While the Trust had a deficit in its initial financial plan at the end of 2021/22 we have reviewed the final financial plan submitted. We noted that this was submitted as a break-even financial plan in June 2022, although we noted that risks were identified as part of the submission, such as the need to achieve elective recovery targets. We confirmed that there was appropriate oversight and scrutiny to the financial plan for the period through the Performance and Finance Committee, which received regular updates on the development of the financial plans.</p> <p>While the Trust has identified a risk to medium term funding availability we noted that it has not developed a medium term financial plan, as many providers within the sector have done. Given the funding challenges the Trust has identified we considered that the Trust would benefit from developing a medium term financial plan to support it in identifying the level of efficiencies it anticipates will be required and consider how they would be achieved.</p> <p>Summary of findings</p> <p>We have not identified any significant weaknesses with the Trust's financial sustainability arrangements. We are satisfied that sufficient progress was made in developing the 2022-23 financial plan so that by the final submission deadline a break-even plan was able to be submitted. While the Trust is in cumulative breach of the break-even duty this was driven by historic deficits and the Trust has recorded a break-even position in the last three years.</p> <p>While the Trust does not have a medium term financial plan we do not consider this a significant weakness due to the balanced financial plan that has been set, however we have raised a control observation to management as part of our reporting.</p> |

Value for money

| Governance | |
|---|--|
| Description | Commentary on arrangements |
| <p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. | <p>We have reviewed the governance structure that has been established by the Trust. The Trust has established a committee structure that includes each of the committees required under regulation, including the Audit Committee and the Remuneration and Nomination Committee.</p> <p>Following an independent governance review undertaken in 2020-21 the Trust has made improvements to its governance structure to improve the extent to which it acts as a unitary Board. It has also established a Strategic Transformation Committee in order to provide oversight to the range of strategic projects that are underway, including the electronic patient record system implementation and the New Hospital Programme.</p> <p>The Trust has an appropriate risk management framework established through its risk management strategy to enable the management of strategic risks and the escalation of risks to the Board. A Board Assurance Framework has been developed that incorporates a summary of the identified strategic risks and sets out for each of them the controls in place to manage the risks, assurance over their effectiveness and the gaps in control that require remediation. The Trust has been developing its risk appetite statement as part of developing the risk management framework and embedding this to support the management of risk.</p> <p>The Trust is progressing strategic projects relating to the development of a new electronic patient record system and proposed new hospital development. We have confirmed that there has been appropriate governance oversight to the projects and the approval of the business cases and that the Trust is obtaining appropriate approvals in order to progress with the developments as well as ensuring there are appropriate governance structures to oversee the projects' progress.</p> <p>The Trust received a report from the Care Quality Commission following an inspection during the year. This provided an overall rating of requires improvement for the Trust, including being rated requires improvement against the well-led domain. Of the services inspected the Urgent and Emergency Care services were rated as inadequate. The Trust has received a Section 29A warning notice from the Care Quality Commission with regard to services at its Emergency Department.</p> <p>We reviewed the governance arrangements in place to oversee the resolution of issues identified by the Care Quality Commission. We verified that there was an action plan in place that covered the findings both relating to the governance of the Trust and to the Urgent and Emergency Care services and improvements that had been identified as both 'must do' and 'should do' actions.</p> |

Value for money

| Governance | |
|---|---|
| Description | Commentary on arrangements |
| <p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. | <p>The Trust has a Programme Management Office that has been set up and oversees the implementation of the action plan from the Care Quality Commission findings. A weekly assessment is undertaken of the progress in implementing the actions identified in the plan. When actions are reported as complete a validation exercise is undertaken including peer review in order to confirm whether the actions are in place and if validated then they are recorded as part of business as usual.</p> <p>Monthly reporting is provided to the Quality and Safety Committee of the progress being made in implementing the actions in response to the Care Quality Commission findings. The Committee also undertakes a quarterly deep dive into the Urgent and Emergency Care services and the quality performance of the service. Key elements of the findings are also reviewed by the Board as part of its performance reporting, for example safer staffing ratios.</p> <p>At the end of March 2022 the status of all but two of the actions required for delivery against the action plan were considered to be either implemented as part of business as usual or on course for delivery as planned. Only two of these had been amber rated, which meant there was a risk to their timings but they were still expected to be implemented.</p> <p>Summary of findings</p> <p>While the Trust has received a warning notice and had its Urgent and Emergency Care services downgraded to inadequate during the year we are satisfied there are appropriate governance arrangements to oversee the implementation of the required improvements and that sufficient progress was being made by the end of the year. We have therefore not identified a significant weakness relating to the governance arrangements.</p> |

Value for money

Improving economy, efficiency and effectiveness

| Description | Commentary on arrangements |
|---|--|
| <p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. | <p>The Trust developed an efficiency programme for 2021/22 following the reintroduction of an efficiency factor into the level of funding provided in the second half of the year. The Trust has implemented a Programme Management Office in order to support oversight to the efficiency programme and provide greater structure to the identification and implementation of transformation projects.</p> <p>In 2021/22 the Trust delivered efficiencies of approximately 1.5% of its operating expenditure. We benchmarked this against the acute provider sector and identified this was in line with average delivery across the sector. Approximately 70% of the efficiencies were delivered on a non-recurrent basis. While this is a greater proportion than most providers we note that the ability to implement recurrent efficiency programmes was affected by the pandemic.</p> <p>We reviewed the efficiency planning for 2022-23. At March 2022 the Trust had identified opportunities for £11.7m of efficiencies that could be delivered. While the overall level of opportunities was in line with expectations for the sector we noted that all of the schemes were only identified as opportunities without plans in place and that the full value was red rated. We noted that by the end of the financial planning cycle the Trust had identified schemes to achieve a break-even financial plan and therefore we did not consider that there was a significant weakness in arrangements, however we have raised a control observation to management as part of our reporting for earlier engagement in the efficiency planning process so that schemes are identified and being put in place prior to the beginning of the financial year.</p> <p>The Trust has procurement policies and regulations in place in order to ensure that contracted expenditure is incurred efficiently and in line with public sector contracting regulations. During the year an internal audit was undertaken of the Trust's processes for waiving its procurement policies and processes, which provided limited assurance. This was due to the high level of waivers during the year and some waiver requests not being compliant with policies. The Trust has monitored the use of waivers through the Audit Committee during the year. We have confirmed that the level of waivers has continued during the year and that the level of waivers not compliant with policies was not material at the end of the year and therefore we were satisfied that there was not a significant weakness.</p> <p>Summary of findings</p> <p>We have not identified any significant weaknesses in the Trust's arrangements for improving economy, efficiency and effectiveness.</p> |



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