



# Auditor's Annual Report 2020/21

Northumbria Healthcare NHS Foundation Trust

12 July 2021

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This report is addressed to Northumbria Healthcare NHS Foundation 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 2020-21 audit of Northumbria Healthcare NHS Foundation 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.

<b>Accounts</b>	<p>We issued an unqualified opinion on the Trust's accounts on 2 July 2021. 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 pages 4-6.</p>
<b>Annual report</b>	<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>
<b>Value for money</b>	<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 identified no significant weaknesses.</p>
<b>Other reporting</b>	<p>We did not consider it necessary to issue any other reports in the public interest.</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><b>Valuation of Land and Buildings</b></p> <p><b>The risk</b></p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'. There are a number of estimates and assumptions that are made in order to reach the recognised value. Due to this complexity and the high value of land and buildings there is a risk that that the value is materially misstated.</p>	<p><b>Findings:</b></p> <p>We have identified a low priority management review control enhancement and a number of non material misstatements. However we are comfortable that land and buildings are materially fairly stated.</p>
<p><b>NSECH Reinstatement Claim</b></p> <p>The Risk</p> <p>The Trust has an ongoing issue with the Main Contractors over the defects identified on the NSECH site. Discussions are ongoing over the solution to the rectifications or reimbursement for the work required to address the defects. Annually the Trust have to estimate the value that they assess as having unconditional contractual rights to reimbursement to rectify the defect. As this is an estimate there is a significant risk that the value is materially misstated.</p>	<p><b>Findings:</b></p> <p>Although we have identified a non material misstatement and a low priority management review control enhancement, overall we are satisfied that the movement in the debtor is attributable to the recognition of evidenced defects rather than suspected defects.. The Reinstatement debtor is materially fairly stated.</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><b><i>Fraudulent expenditure recognition</i></b></p> <p><b>The risk</b></p> <p>Due to the ongoing Covid19 pandemic the financial regime has changed during 2020/21 with the need to meet an agreed control total being removed from the Trust, however they are now expected as part of the local NHS system to show an overall system break even position.</p> <p>Each body within the system will be expected to play their part in the system position, and negotiations are continuing to understand the final position for Northumbria Healthcare NHS Foundation Trust.</p> <p>We consider this requirement can create an incentive for management to manipulate the level of non-pay expenditure compared to that which has been incurred.</p> <p>We consider this would be most likely to occur through manipulating the existence and accuracy of accruals at the end of the year to manipulate the required financial position, as it is our understanding that the pressures is to spend the funding in the system.</p>	<p><b>Findings:</b></p> <p>We identified one low priority control deficiency, one low priority management review control enhancement and a number of non material misstatements in relation to year-end accruals. We are however satisfied that expenditure is not materially misstated.</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><b><i>Fraudulent revenue recognition</i></b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader share based management concerns.</p> <p>As the Trust is required to play its part in balancing the local system at the end of the year this may create an incentive for revenue to be manipulated in order to achieve budgeted financial performance.</p> <p>As much of the Trust's income for 2020-21 has been contracted on a block basis our risk will be focused on the variable elements of income the Trust has received during the year, to ensure that the income is complete and is not materially understated.</p>	<p><b>Findings:</b></p> <p>We have identified a low priority control weakness, however we have not identified any inappropriate revenue recognition.</p>
<p><b><i>Management override of controls</i></b></p> <p>Professional standards communicate the fraud risk from management override of controls as significant. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p>	<p><b>Findings:</b></p> <p>We have identified a low priority control weakness. However we do not conclude that this is indicative of fraudulent management override of controls.</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 \(nao.org.uk\)](http://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:

<b>Care Quality Commission rating</b>	Overall - Outstanding
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Head of Internal Audit opinion</b>	Unqualified – Good Assurance

## 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
<b>Financial sustainability</b>	No significant risks identified	No significant weaknesses identified
<b>Governance</b>	No significant risks identified subject to testing the financial outturn position.	No significant weaknesses identified
<b>Improving economy, efficiency and effectiveness</b>	No significant risks identified	No significant weaknesses identified

We identified no significant weaknesses in relation to Financial sustainability, Governance or Improving economy, efficiency and effectiveness.

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"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>The Covid-19 pandemic has had a major impact on the NHS and this has resulted in changes to the financial planning regime. On 17 March 2020 normal contractual arrangements with NHS providers were suspended and the NHS moved to block contract payments on account. The value of these were determined centrally, rather than being agreed between the CCG and the providers. NHS organisations were also reimbursed with additional funding as required in order to reflect the additional costs incurred as a result of Covid-19. For months 7-12 of the year NHSE/I provided allocations for each provider to cover additional cost pressures due to Covid-19 and the provision of services.</p> <p>We found that the initial 2020-21 budget setting arrangements were in place, and the Trust was planning to deliver a surplus of £14.4m following negotiations with the main commissioners and a need to deliver Cost Improvement Plans (CIPs) of £13m to deliver the required surplus. The Trust financial strategy is built on recurrent savings, at the beginning of 20-21 93% of all CIP was planned to be delivered by recurrent savings therefore demonstrating strong arrangements in relation to financial sustainability.</p> <p>Following changes to the funding regime for the first 6 months the Trust reported a break even position, for months 7-12 the Trust presented a Financial Plan in October 2020 with a forecast deficit of £12m for the year. This deficit was after achievement of £7m of CIPs to be delivered in months 7 – 12.</p> <p>Q3 financial reporting to the NHSE/I reported a deficit of £0.9m for the 9 months to 31 December 2021, with a project outturn for 31.3.2021 of £10.2m deficit.</p> <p>At year-end the Trust recorded a deficit of £10.8m, in line with projected outturn at month 9. The movement between Q3 to Q4 included a number of significant changes in income and expenditure however these have been highlighted to Finance, Investment and Performance (FIP) committee in the Q4 report. Therefore demonstrating financial understanding which is key to managing financial sustainability.</p> <p>Business units present their development plans (which includes workforce and operational plans) to their Business Unit Board for scrutiny and challenge, these are then collated and reviewed by the Chief Executive and Executive Director of Finance before being approved by FIP and the Trust Board.</p> <p>The arrangements for 2021-22 are currently assumed as being the Integrated Care Provider (ICP) baseline funding adjusted to take account of the non-NHS income deflator. The financial forecast model assumes that the Trust is funded for NHS activity on a block basis and would agree upfront the cost of additional activity. There are no plans to remove services.</p> <p>Financial risks and assumptions are presented to FIP and highlights all the risk scenarios that have been identified and considered.</p> <p>Budget holders, FIP and the Board monitor, challenge and make decisions to address and financial sustainability risks.</p> <p><b>Conclusion</b></p> <p>Based on the procedures performed to date we have not identified any significant risks that the Trust does not have sufficient arrangements in place to ensure achievement for financial sustainability.</p>

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"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>We consider the Trust to have effective arrangements in place to monitor and assess risk. Strategic objectives, priorities and key risks in achieving these priorities are identified through the Board Assurance Framework (BAF). The BAF is reported to the Assurance Committee (sub-committee of the Board) quarterly, with the Business units recording their operational risks on the Datix risk registers in line with the approved Risk Management policy, which reports to the audit, risk and assurance committee</p> <p>The Trust has ensured appropriate scrutiny, challenge and transparency on decision making with recent updates to the SFIs regarding levels for business case approvals being trialled with full roll out in 2021-22.</p> <p>We have reviewed the governance over the draft 2020-21 financial plan presented to the Finance, Investment and Performance Committee (FIP) in Mid March as part of the Annual planning cycle, around the time that the NHS changed the financial planning regime. At the time of the change the Trust was planning to deliver a surplus of £14.4m and ongoing negotiations with the main commissioners and a need to deliver Cost Improvement Plans (CIPs) of £13m to deliver the required surplus. The level of CIPs identified to be delivered does not identify a significant risk.</p> <p>Following the changes in the financial planning regime in March 2020 due to Covid-19 the budgets and financial forecasts were updated on a regular basis, the updated budgets were reported to the FIP committee.</p> <p>Our initial assessment indicated that appropriate scrutiny and challenge of the budgets and appropriate approval through the operational budget holders. Business Unit and Subsidiary reports are presented at FIP and Trust Board meetings.</p> <p>We have tested the adequacy of these arrangements during the second half of 2020-21 by reviewing the movements and understanding of the movements between the Q3 and the Q4 reported position.</p> <p>The Assurance committee receive a quarterly CQC compliance healthcare report which self assesses the Trust against the CQC fundamental standards provided by the accountable Trust and Business Unit Leads.</p> <p>The Trust has "Northumbria Group Values" which are articulated to all staff. There are a number of HR policies including conduct at work, and staff are also requested to identify and declare all material interests at the earliest opportunity.</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"> <li>▪ Processes for the identification and management of strategic risks;</li> <li>▪ Decision making framework for assessing strategic decisions;</li> <li>▪ Processes for ensuring compliance with laws and regulations;</li> <li>▪ How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>The Trust has adequate controls in place to prevent and detect fraud. The Trust has the appropriate policies in place, which are regularly reviewed for their continuing relevance by the relevant committee. The Policy Assurance committee ratify these policies before being made available to staff.</p> <p>The Trust employ the NHS Fraud specialist to carry out both proactive and reactive fraud work and this work is reported to the Audit Committee to ensure that the Governance is achieved.</p> <p>The Trust last received a Well Led CQC assessment in October 2019 and this was rated as Good, demonstrating the Trust has adequate governance arrangements in place.</p> <p><b>Conclusion</b> Following our review of year end movements between the Q3 and Q4 reported position we have not identified any significant weaknesses in relation to arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p>

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"> <li>▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered;</li> <li>▪ The use of benchmarking information to identify areas where services could be delivered more effectively;</li> <li>▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and</li> <li>▪ Management of partners and subcontractors.</li> </ul>	<p>We note that from the report to FIP as part of the original financial planning for 2020-21 the Trust had identified £11.5m of CIP requirements and £1.5m CIP from the National procurement arrangements. These CIP requirements were overtaken by the change in the financial planning guidance dated 17 March 2020 to allow CCG's and providers to respond to the pandemic. The arrangements are that for all CIPs a PID document is created to identify any significant risks, including quality as a result of the identified CIPs. These risks are monitored as part of the Business Units monitoring of operational risks. Although the finance regime changed due to the Covid pandemic the Trust still delivered CIP throughout 20/21 reflecting good arrangements are in place to achieve efficiency plans.</p> <p>Despite the pressures of Covid-19 and the new financial regime, at year-end the Trust recorded a net adjusted financial surplus of £3.8m, (adjusting for I+E impairments, capital donations, and DHSC procured inventories) demonstrating strong arrangements in place for economic operations.</p> <p>Non-financial performance is measured according to the delivery of the Trust objectives which are articulated in the annual operational plan and this focuses on 4 key areas (activity, quality, operations and finance). Data on patient experience, complaints and patient feedback is also collated. From a Governance view the Trust carry out clinical audits to support the monitoring.</p> <p>FIP receive monthly reports on a Single oversight framework, including safety and quality measures, and other the KPI's for NHSi reporting. Despite the need to direct considerable resources towards Covid-19 operations, the Trust reported achievement of 9 out of 12 KPI's, including A&amp;E waiting times (95.6%) and Cancer referral to treatment (85%). This shows even with the impact of Covid-19, the Trust is demonstrating effective use of resources.</p> <p>The Trust received its last CQC assessment in October 2019, at this stage the CQC assessed the services provided by the Trust were outstanding for being effective, caring and responsive, and good for being safe. This provides assurance that the Trust's arrangements for improving the effectiveness of services are very strong.</p> <p>The senior executives of the Trust engage in Integrated Care System (ICS) activity attending meetings and collaborating across the system on the key areas, both as a participant and lead partner. Regular reporting of the ICS is made to the Board. The partnership arrangements with the ICS, local clinical commissioning groups has led to a focus on place, and a new model of engagement was developed between all parties and coordination of vaccination programmes for both Covid-19 and flu across the regional footprint has been possible with the ICS work.</p> <p><b>Conclusion</b> Based on the procedures performed to date we have not identified any weaknesses in the arrangements in place for improving economy, efficiency and effectiveness</p>

# Recommendations

We have not identified any significant weaknesses in the arrangements and therefore have raised no recommendations.



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