



Auditor's Annual Report 2020/21

**University Hospitals Coventry and
Warwickshire NHS Trust**

September 2021

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This report is addressed to University Hospitals Coventry and Warwickshire 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 2020-21 audit of University Hospitals Coventry and Warwickshire 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 14 June 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 page 4.</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 reported no significant weakness in the Trust arrangements.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

Accounts audit

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>Valuation of land and buildings</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'.</p> <p>The Trust engaged an external valuer for a desktop revaluation for year ended 31 March 2021. There is a risk of material misstatement due to error in the valuation of land and building assets as it is a key estimate in the financial statements.</p>	<p>The Trust have engaged a suitably qualified, objective and independent valuer to complete the valuation. We have not identified any issues with the underlying data used within the valuation and the updated value has been recognised in accordance with the relevant guidance.</p> <p>We considered the estimate to be balanced based on the procedures performed to challenge key assumptions used. We have raised one recommendation in regard to the presentation of some related disclosures in the accounts however this is not material issue.</p>
<p>Fraudulent expenditure recognition</p> <p>Professional standards require us to consider whether there is a significant risk of fraud due to expenditure being recognised in an incorrect period. We considered this is most likely to occur through manipulating accruals at the end of the year to bring forward expenditure which should be deferred to the following year.</p>	<p>Based on the audit work performed and the evidence obtained we consider the recognition of non-pay expenditure and non-depreciation expenditure to be appropriate.</p> <p>We did not raise any recommendations relating to this risk.</p>
<p>Fraudulent revenue recognition</p> <p>Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately.</p> <p>We assess the fraud risk to be focused on the existence and accuracy of income within the NHS boundary around the period-end.</p>	<p>Whilst the nature of income received by the Trust has varied during the year due to Covid-19, income continues to be recognised appropriately and in accordance with relevant Accounting Standards</p> <p>Based on the audit work performed and the evidence obtained we consider the amount of income recognised from NHS sources to be materially appropriate.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We raised one low level recommendation relating to the design of controls in place in regard to management posting journals to make an adjustment to financial records.</p> <p>We did not find any instances errors happening in practice and management have agreed to strengthen controls in this area.</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:

Care Quality Commission combined rating	Good – February 2020
Single Oversight Framework segmentation	3 – Mandated and Targeted support: support needs identified in Quality of Care, Finance & use of resources and operational performance
Governance statement	There were three significant control issues identified in the annual governance statement. Two of these related to performance against national performance indicators and one relating to the occurrence of two never events.
Head of Internal Audit opinion	Significant 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
Financial sustainability	One significant risk identified	No significant weaknesses identified
Governance	No significant risk identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risk identified	No significant weaknesses identified

We confirm that we have identified no significant weaknesses to be included within our value for money report.

We identified one significant risk at the planning stage. This related to the financial sustainability domain. We have set out on the following pages the work performed in response to this risk and a summary of our findings.

Value for money

Financial sustainability

Description

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.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- 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.

Commentary on arrangements

Summary of risk assessment

We found that the initial draft budgets were constructed based on appropriate local and national planning assumptions. The budget monitoring and control processes are able to identify, and incorporate, significant pressures into the financial plan to ensure it remains achievable and realistic.

We also found that the Trust has an appropriate reporting framework in place. The financial performance of the Trust is reported each month to the Finance, Resources and Performance Committee, prior to a summary report being taken to the Trust Board. During the year this has included regular updates on changes to the national NHS financial regime and the development of the wider Coventry and Warwickshire Integrated Care System (ICS).

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 commissioners were suspended and the NHS moved to block contract payments on account. The value of these was determined centrally, rather than being agreed between the Trust and the commissioners. 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 NHSE/I provided allocations for each commissioner, with further funding made available to the ICS to cover additional cost pressures due to Covid-19 and the provision of services. The Phase Three system wide financial plan for the second half of 2020-21 was forecast to achieve a £18.7m deficit, of which the Trust's share was a £0.6m deficit. Since this plan submission further work has been undertaken at a system level, in conjunction with NHSE/I to agree an updated forecast outturn position.

At the time of writing this report the forecast outturn for the Trust is a £4.0m surplus (this is as per the Month 11 integrated quality, performance and finance report). The main driver of this change is additional funding from the CNST Maternity Incentive Scheme and changes in costs linked to different demand profiles to those in the initial plan. The Trust initially had a large capital programme of £55m for 2020-21, however this has been revisited and reduced to £18m due to the impact of the pandemic. This has been reported appropriately within the Trust.

In September 2020 the Coventry and Warwickshire Health and Care Partnership (CWHCP) agreed an updated system plan to respond to the Phase 3 planning guidance. As part of this document it was recognised that planning beyond 2020-21 was required. This paper established a common approach and work took place at the system level to prepare budgets for 2021-22 by preparing indicative system-wide scenarios. This planning work has been reported to the CWHCP board. However, at the time of our risk assessment, the current working plan for 2021-22 contains a large deficit position at the ICS level, with uncertainty of future funding flows beyond the initial Q1 period. At both the system and Trust level the 2021-22 plans assume a challenging level of efficiencies and transformation programmes. However these figures are before any further changes to the funding regime for 2021-22 due to the pandemic.

The underlying deficits and efficiency targets at an ICS and Trust level, together with a residual uncertainty due to the pause of the 2021-22 planning process at a national level, means that there remains a significant risk to the Trust being able to maintain financial sustainability in the medium term. **See our response to this risk on the next page.**

Value for money

Financial sustainability	
Description of risk	Commentary on arrangements
<p>Due to the current underlying deficit at both the Trust and Integrated Care System level there is a risk that the Trust does not have in place adequate arrangements to achieve financial sustainability in the medium term.</p>	<p>Our response</p> <p>We have reviewed the process followed to finalise the 2021-22 financial plan for both the Trust and the ICS, together with arrangements in place to establish the required efficiency programme central to achievement of the 2021-22 plan.</p> <p>Our findings</p> <p>The national emergency framework for COVID required a H1 only plan submission. Coventry and Warwickshire Health and Care Partnership (CWHCP) initially submitted a financial plan to the NHSE/I on 6 May 2021, following agreement by Partnership Executive Group (PEG). The overall plan showed a £3.3m deficit. Of this deficit, the Trust was reporting a break-even position, with the deficit arising as a result of a technical issue regarding the Independent Sector at the CCG, who are in discussion with NHSE/I and this expected to be resolved prior to the final submission in early June. For H1, the Trust have set a Waste Reduction Programme (WRP) target of £2m.</p> <p>At the time of assessment the H2 funding guidance was yet to be released. Therefore, there is no certainty of future funding flows beyond H1. The official H2 plan is required later in the year; however, an internal working plan assuming the reintroduction of pre COVID funding levels would show a large system deficit, this is likely to be mitigated by the revised framework for H2. Since presenting our risk assessment, the financial regime for H1 2021/22 has been confirmed providing further clarity.</p> <p>We noted that the ICS have provided a clear summary of the key challenges underpinning the plan for H1, including risks against workforce, activity levels and further coronavirus surges.</p> <p>We considered the arrangements in place to align the Trust financial plan with the ICS financial plan. The Chief Finance Officer chairs the Financial Advisory Board which considers finance issues for the wider system. This ultimately reports into the overarching Partnership Executive Group (PEG), where executives from across the system have oversight of sub-committees of the system, and is where the CWHCP plan was ultimately approved. We found evidence of collaborative working between the Trust and other providers through review of system meetings.</p> <p>Following consideration of the above we have concluded that there is no significant weakness in this area of the Trusts arrangements</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>Summary of risk assessment</p> <p>We consider the Trust to have effective processes in place to monitor and assess risk. Strategic risks are recorded and identified using the Board Assurance Framework, and any identified risks are reported to the Board. Our review of the corporate risk register found this was sufficiently detailed to effectively manage key risks. Risk scores are reported in the context of the Board's risk appetite with actions identified which set out how the Trust intends to achieve a target risk level. Risk scores are reviewed by the Risk Committee and each strategic risk is owned by a sub-committee of the Board.</p> <p>The Trust have a dedicated counter fraud service provided by CW Audit and Assurance Services (CWA). The LCFS has an agreed work plan and reports progress to each Audit and Risk Assurance Committee, with an annual report taken at the end of the year. This resource is supplemented via consideration of fraud by the Audit and Risk Assurance Committee and senior finance staff whilst preparing the financial statements. The Trust have an Internal Audit service provided by CWA, some elements of work have been deferred or re-scoped due to the pandemic, however a full assurance opinion is expected to be provided for the year.</p> <p>The financial planning regime has significantly changed for 2020-21 with block funding introduced for the majority of contracts the Trust holds. The Trust has maintained oversight of performance (both financial and operational) by holding monthly accountability meetings with the Group Management Teams and individual meetings with each budget holders. These meetings are structured and a consistent reporting format at Board helps to drive focus on areas where further work is required.</p> <p>The Trust implemented a specific financial regime during the first wave of the pandemic including a change in the scheme of delegation to enable a Trust Planning Group to oversee the process with regular reporting to Chief Officers Group to approve business cases over a certain level. Supporting this committee a separate process has been established to collate and report COVID related expenditure with separate ledger codes set up to record spend.</p> <p>Key strategic decisions are made via the Trust's governance process. A scheme of delegation is in place which sets out where different decisions/approvals should take place. The Trust have a business case proforma in use and each case is subject to approval in line with the scheme of delegation prior to formal approval and scrutiny. Projects over £1m require approval by the Trust Board.</p> <p>The Trust has in place a staff code of conduct as per Code of Business Conduct Policy. Specific policies are highlighted via regular communication within the Trust via the intranet or staff updates. Overall compliance with legislation, laws & regulations is monitored by the Director of Corporate Affairs with annual reporting to the Audit and Risk Assurance Committee and Trust Board as required. A register of interest is in place together with a policy for gifts and hospitality.</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>Summary of risk assessment</p> <p>We note that from the 17 March 2020 CIP programmes were put on hold in accordance with national guidance. This was to allow the Trust to respond to the pandemic. Despite this pause on headline cost reduction programmes the Trust has continued to work within the ICS structure to engage in discussions about change at the system level. The Trust has a dedicated waste reduction programme which has overseen savings of £3.7m during 2020-21.</p> <p>The Trust has a performance management framework in place to set the structure of performance management. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the integrated quality, performance and finance reports which provides the Trust Board with key operational performance indicators on a monthly basis. This report highlights performance in different areas of the Trust's services. For each element a high level summary is presented with areas of interest highlighted. For these areas further information is provided, such as trends, to help inform the Board and provide the full context.</p> <p>Regular benchmarking data is used to help challenge Trust performance in key areas. We have reviewed the October benchmarking report taken to the Finance, Resources and Performance Committee which sets out Trust performance compared to peer Trusts for a suite of KPIs. This report also notes areas for improvement and trends, with narrative explaining the key context. The Trust has a data assurance group which oversees the data quality team who undertake a programme of work to maintain the quality of information reported within the Trust performance reports.</p> <p>The sub-contracted service (Urgent Treatment Centre) provided by VirginCare is subject to a quarterly performance report, supplemented by monthly contract management meetings overseen by the Associate Director of Finance and Group Director of Nursing to monitor financial and clinical performance. We have noted that during the period specific action has been taken at the direction of the Trust in response to triage issues flagged during an earlier report.</p> <p>Regular updates on the development of the ICS is presented to the Finance and Performance Committee and Trust Board as part of the strategic updates from the CEO. The Trust has senior engagement both as part of the ICS and with commissioners and works with partners to address key issues as they arise. For example, the Chief Financial Officer is the finance lead for the ICS and as a result oversees the development of the system wide financial plan. Further to this the Medical Director is the clinical lead for the ICS and chairs the clinical forum, which is the key voice for clinical input to wider ICS developments.</p>



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