



Auditor's Annual Report 2021/22

**University Hospitals Coventry and
Warwickshire NHS Trust**

June 2022

Key contacts

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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 2021-22 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 21 June 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 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 nothing to report in this regard.</p>
Other reporting	<p>In auditing the accounts of an NHS body auditors must consider whether, in the public interest, they should make a report on any matters coming to their notice in the course of the audit, in order for it to be considered by Trust members or brought to the attention of the public. There are no such matters we wish to bring to your attention. Due to the cumulative deficit position of the Trust, we are required to submit s30 referral to the Secretary of State.</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>The Trust is due to undertake a full revaluation of its land and buildings in year, following the last full revaluation as at 31 March 2016.</p> <p>Given the amount, level of assumptions and estimation uncertainty involved in determining a value, we deem there to be a significant risk over the carrying amount of revalued property, plant and equipment differing materially from the fair value.</p>	<p>We engaged with KPMG valuation specialists to assess the accuracy of the data provided to the valuers for the valuation, and challenged key assumptions, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, and challenged the appropriateness of the methodology utilised.</p> <p>We did not identify any material misstatements relating to this risk. We considered the estimate for buildings to be balanced, however we did find the estimate to be cautious on land, and have raised an immaterial adjustment relating to the land value, which has not been corrected.</p>
<p>Fraudulent expenditure recognition</p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We consider this would be most likely to occur through understating accruals, for example pushing expenditure to 2022-23 to mitigate financial pressures.</p>	<p>We assessed the design and implementation of process level controls for the review of the accrued expenditure at the end of the year. We have performed our substantive testing procedures by inspecting cash payments and purchase invoices in the period following 31 March 2022 to verify expenditure had been recognised in the correct accounting period and evaluating a sample of year end accruals to confirm they were appropriate.</p> <p>We did not identify any material misstatements relating to this risk.</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 tested the design and implementation of controls over the posting of journals including post closing adjustments. We also selected journals that were considered high risk, through applying specific risk based criteria, to test and agree these journals to supporting documentation.</p> <p>We did not identify any material misstatements or raise any recommendations relating to this risk.</p>

Fraud risk from revenue recognition: Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. Due to the nature of revenue within the Trust, we do not consider there to be a significant risk of fraud and have rebutted this risk.

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 rating	The Trust was rated good in its last inspection in November 2019 (report published February 2020).
Single Oversight Framework rating	Segment 3 (mandated support) ICS – Segment 4 (mandated support)
Governance statement	There were no significant control deficiencies identified in the governance statement.
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 risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We have not identified any significant weakness with regard to the Trust's arrangements for ensuring value for money. We reported this as part of our audit report and have provided further details in our commentary on page 6 to 8.

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

The revised funding arrangements introduced in light of the pandemic have been extended into the 2021/22 financial year. For H1 (April to September 2021) NHS providers were provided with funding via system allocations based on the 2020/21 CCG outturns adjusted for known pressures and efficiency assumptions, with block funding arrangements between providers and key commissioners. For H2 (October 2021 to March 2022) these arrangements were extended, with additional efficiency assumptions added into the guidance.

We found that the initial draft financial plan was 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. The H1 plan was breakeven and the Trust achieved an outturn of £3.6m deficit for the six months to September 2021. The national expectation is that deficits will be balanced within H2 to achieve a breakeven outturn, therefore the H2 plan was to achieve a surplus of £3.6m for second half of the year.

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 (FRPC), 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).

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.

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. The Trust is aware of the challenges in reducing this deficit and engages with the system in efforts to reduce this. We have obtained an outline Financial Recovery & Transformation Plan taken to Financial Advisory Board, which aims to bring system underlying deficit to £45.9m by 2025/26.

The Trust has identified financial sustainability as a strategic objective and has also included associated risks to achieving this In the Board Assurance Framework. The initial planning submission showed a system underlying deficit of £149m, with the Trusts share of the deficit is £56.6m, which includes assumed savings of £32m. We have noted the position has clearly been reported to the Board, with risks and potential mitigations noted. This presents a significant challenge to restoring financial sustainability. The system has been asked to create a recovery trajectory to recover a balanced position by 2025/26. In the 20th June resubmission, the Trust has set a deficit of £14.8m. The plan is reliant on achieving a £38.8m Waste and Productivity programmed, £20m of which is recurrent and £18.8m non recurrent.

We acknowledge there are continued planning rounds at ICS with continued pressure on reducing the sector wide deficit plan for 2022/23, however we have not identified a significant weakness in the arrangements to deliver value for money at the Trust during the year.

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 consider the Trust to have effective processes in place to monitor and assess risk. The Trust have a risk management strategy and framework outlining the approach to risk across the Trust. Strategic risks are recorded and identified using the Board Assurance Framework, and any identified risks are reported to the Board. In 2021/22, the Trust retained the objectives set previously, whilst working on development of a new strategy and strategic objectives for 2022/23 onwards. 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 local counter fraud service (LCFS) 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 also have an Internal Audit service provided by CWA.</p> <p>As noted within the Financial Sustainability section, Financial plans for 2021/22 were approved by the Board after appropriate recommendation from Finance, Resources and Performance Committee (FRPC). We found there to be appropriate scrutiny and challenge of the budgets and appropriate approval through the budget holders and the FRPC. Monthly accountability meetings are held by Deputies with the Group Management Teams. The FRPC scrutinise monthly performance through the Integrated Finance Report. An Integrated Quality, Performance and Finance Report is also taken to Trust Board meetings.</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> <p>Based on the risk assessment procedures performed, we did not identify any significant risks that the Trust does not have sufficient governance arrangements in place to oversee and monitor value for money achievement.</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>We found appropriate processes in place to ensure the Trust uses information about costs and performance to improve the way they manage and deliver services.</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 driven savings of £19.1m during 2021/22.</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 to provide oversight of 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. These meetings are overseen by the Associate Director of Finance and Group Director of Nursing to monitor financial and clinical performance.</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> <p>Based on the risk assessment procedures performed we did not identify any significant risk associated with the arrangements for improving economy, efficiency and effectiveness.</p>



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