



Auditor's Annual Report 2022/23

University Hospitals Coventry and Warwickshire NHS Trust

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June 2023

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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.

Introduction

Introduction

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2022-23 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 27th June 2023. 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 significant weaknesses in the arrangements the Trust has in place to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>In line with the requirements of the National Health Service Act 2006 we have made a section 30 referral to the Secretary of State relating to the Trust’s breach of the break-even duty.</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 a valuer to undertake a desktop valuation for the year ended 31 March 2023. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<p>We assessed the independence, objectivity and competency of the valuer utilised by the Trust to complete the desktop valuation. We challenged key assumptions within the valuation.</p> <p>We raised a recommendation relating to enhanced disclosures in relation to the sensitivities of key assumptions within the valuation.</p> <p>We considered the land values and building cost indices applied to be within an acceptable range. We identified one unadjusted audit difference in relation to this balance whereby we deem the overall owned buildings balance to be understated due to the application of £2.3m additional obsolescence in relation to Environment, Social and Governance (ESG). This was applied by adding an extra 2.5% of obsolescence to 40 building components out of a portfolio of approximately 113 building components. We did not deem this appropriate given the valuation was a desktop exercise and we did not deem the selection of buildings, nor the choice of 2.5% to have any clear rationale based on information provided to management and the audit team by the valuer.</p> <p>Overall, we concluded that the valuation was materially correct and assumptions used in the estimate were found to be slightly cautious based on the procedures performed.</p>
<p>Fraudulent expenditure recognition</p> <p>The setting of a financial performance target can create an incentive for management to understate the level of expenditure compared to that which has been incurred</p> <p>We consider the risk would be most likely to occur through omitting large manual accruals, to push back expenditure to 2023-24 to mitigate financial pressures.</p>	<p>We assessed the design and implementation of process level controls including management's control over a review of the year end accruals balance to support our significant risk.</p> <p>We inspected a sample of expenditure transactions, including invoices, as well as payments of expenditure, in the period after 31 March 2023, to determine whether expenditure has been recognised in the correct accounting period.</p> <p>Based upon testing of completeness of expenditure, we are satisfied the balance is not materially understated.</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 agreed 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).

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:

Source	Detail
Care Quality Commission rating	Good – November 2019
Single Oversight Framework rating	3 – Significant support needs against one or more of the five national oversight themes– May 2023
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	Significant assurance that there is generally a sound system of internal control

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

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>Whilst the Trust was funded to a break even position during covid, the revised arrangements require more robust financial management. The introductions of Integrated Care system (ICS) break even target also increased the pressure on the Trust to deliver a strong financial performance to contribute to the wider system position. The Trust is a member of the Coventry and Warwickshire ICS, and, as a part of the ICS, shares responsibility for any deficit across the system. At 31 March 2023, the Trust reported an adjusted financial performance of £14.650m deficit against a £14.802m deficit plan.</p> <p>The Trust has a well-developed financial planning process whereby the Annual Financial Plan is based on in-year actuals at a Trust-wide level, and the Budget Setting is undertaken through a bottom up approach whereby individual budget holders are engaged from the start. Budget assumptions are challenged and cost pressures are identified which are considered in the Annual Financial Plan. These two processes are reconciled throughout, resulting in a deliverable financial plan which supports the aims and objectives of the Trust. The process is overseen at Chief Officer level through various stages of challenge and review. Appropriate oversight is maintained by non-executives through the Finance and Performance Committee (FPC) meetings.</p> <p>On a monthly basis, an Integrated Quality, Performance and Finance Report is presented to the Finance and Performance Committee. In addition, this is then presented on a bi-monthly basis to Trust Board by the 4 responsible chief officers / executives. The report includes an executive summary, and each area contains a summary supported by infographics. All data has comparable information to targets and prior year or month where applicable and uses colour coding to clearly identify areas of note. The Chief Finance Officer also presents a Private finance report to the Private Trust Board session each month.</p> <p>We did identify a significant risk in relation to financial sustainability due to the large deficits and efficiency targets at both the Trust and the ICS. In response to this we considered the development of the Trust and system arrangements in place to establish the required efficiency programme and longer term savings central to achieve short and medium term financial sustainability, and understood the process for identifying cost savings for future financial periods at a Trust and ICS level.</p> <p>Our further consideration of this risk and our risk assessment conclusion is summarised on the following page.</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>The Trust reported a £14.650m deficit against a £14.802m deficit plan (£152k favourable variance). We note that the Trust has achieved the year end position through achieving the £38.8m efficiency programme, albeit only 18% was recurrent savings with the remaining non-recurrent.</p> <p>The Trust have an ambitious efficiency plan with £58.4m savings targeted in 2023/24 to achieve the planned breakeven position, although reported that £8.4m of efficiencies were unidentified in the submitted Financial Planning Return. The Trust have established the Financial Recovery Board (FRB) which is chaired by the Chief Executive in order to identify and develop workstreams to deliver the savings target. The FRB meet twice per month which demonstrates the focus and urgency. The Trust Board are sighted on the 2023/24 plan, including the risks and assumptions made in formulating it and there is evidence of discussion as well as an acknowledgement of the challenge and operational difficulty involved in delivering the breakeven position.</p> <p>The Trust's efficiency target is part of a total ICS target of £125.3m savings, and therefore a significant portion (47%) at a system level. The Chief Executive is the Coventry Place representative at the Integrated Care Board (ICB) Finance Committee and feeds back to FRB and Trust Board.</p> <p>Risk assessment conclusion</p> <p>There are significant challenges for the organisation with an ambitious improvement programme reliant on delivering a large efficiency programme as part of a system stretch target. While there is continued pressure on reducing the significant system wide deficit, we note that the Trust delivered its planned position for 2022/23 (albeit largely through non-recurrent savings), and efficiency plans appear to be in place for the majority of the ask with supporting governance processes and system wide support and focus. <i>Due to the enhanced arrangements in place to respond to the increased financial challenges, we have not identified a significant financial sustainability weakness in the arrangements to deliver value for money at the Trust during the year.</i></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 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. 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 Board Assurance Framework (BAF) was redeveloped during the final quarter of 2021/22 to have a focus on measuring levels of assurance and ensure ownership by each of the sub-committees. The new BAF was presented to Trust Board in June 2022. The BAF is presented to the Trust Board regularly and is proactively utilised as a tool by Board members to track assurances, identify gaps and require actions for each risk. The BAF clearly links the risks identified in the Corporate Risk Register. Each sub-committee of the Board has ownership of a section of the BAF in which it is discussed in detail, and then the complete BAF is presented to Trust 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. For 2022/23, the Head of Internal Audit Opinion concluded “significant assurance can be given...there is a generally sound system of internal control designed to meet the organisation’s objectives, and controls are generally being applied consistently”.</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 an investment proposal and 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 by Investment Case Assessment Group, Strategic Delivery Board and Chief Officers Group. Projects over £1m require approval by the Trust Board. We followed this process through for the Community Diagnostics Centre business case.</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, law s & 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>We did not identify any significant risks from our risk assessment and therefore did not perform any further work on this area, other than to reconfirm our initial risk assessment remains unchanged.</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 had a challenging Waste Reduction Programme (WRP) in 2022/23 with a target of £38.8m (£20m recurrent and £18.8m non-recurrent) which was achieved, although not the planned recurrent / non-recurrent split (£7.0m vs £31.8m respectively). We have noted on page 6 the ambitious savings targets for 2023/24. The Trust had a large capital development programme totalling £49.2m for 2022/23. We have considered the arrangements for the reporting of progress of the capital plans and have not identified a value for money risk.</p> <p>There is evidence of the Trust utilising benchmarking data, at the November 2022 FPC meeting, a Benchmarking Report was presented which provides comparisons of UHCW's performance on a suite of metrics against a selection of peer Trusts using the latest published national data. This report also notes areas for improvement and trends, with narrative explaining the key context.</p> <p>The Trust has a performance management framework in place to set the structure of performance monitoring and reporting. This outlines roles and responsibilities at each level. The main output for performance reporting is the integrated quality, performance and finance reports</p> <p>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 involved in the Financial Advisory Board for the ICS and as a result has involvement in the development of the system wide financial plan. Further to this the Chief Medical Officer is involved in the Clinical Forum which is key for clinical input to wider ICS developments, and the CEO is a member of the Executive group.</p> <p>The last full CQC inspection for the Trust was in November 2019 which achieved a 'Good' outcome. More recently, the Trust's maternity services have been inspected by the CQC where 'safe' and 'well-led' were assessed and reported as 'Good' and 'Outstanding' respectively. This was a planned visit and not as a result of any concerns raised.</p> <p>We did not identify any significant risks from our risk assessment and therefore did not perform any further work on this area, other than to reconfirm our initial risk assessment remains unchanged.</p>



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