



Auditor's Annual Report 2020/21

**George Eliot Hospital
NHS Trust**

June 2021

Key contacts

Your key contacts in connection with this report are:

Andrew Cardoza

Director

Tel: +44 121 2323869

Andrew.Cardoza@kpmg.co.uk

Liz Gardiner

Manager

Tel: +44 121 2323507

Liz.Gardiner@kpmg.co.uk

Georgina Moat

Assistant Manager

Tel: +44 121 2323769

Georgina.Moat@kpmg.co.uk

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This report is addressed to George Eliot 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.

Introduction

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2020/21 audit of George Eliot 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 7 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 nothing to report in this regard.</p>
Other reporting	<p>In line with the requirements of the National Health Service Act we have made a 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 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>We did not identify any material misstatements or raise any recommendations relating to this risk.</p> <p>We considered the estimate to be optimistic but within an acceptable range based on the procedures performed to challenge key assumptions used, including directly challenging the valuer engaged on the methodology used and assessing their competence and capabilities.</p>
<p>Fraudulent expenditure recognition</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from expenditure recognition is a significant risk. 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, but also to overstate expenditure to mitigate financial pressures in the following financial year.</p>	<p>We did not identify any material misstatements or 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 around the period-end as well as variable income streams outside of the block funding received by the Trust.</p>	<p>We did not identify any material misstatements or raise any recommendations 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 did not identify any material misstatements or raise any recommendations relating to this risk.</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 rating	Requires Improvement – May 2020
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	Adequate and effective framework with further enhancements identified

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	One significant risk identified	No significant weaknesses identified

We confirm that we have not identified any significant weaknesses to be included within our value for money report.

We identified two significant risks relating to financial sustainability and improving economy, efficiency and effectiveness. We have set out on the following page the work performed in response to these risks 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

Risk Assessment as at February 2021

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. The process is clear including a timeline, impacts of Covid-19 on the planning process, key stakeholders, training for budget holders, monitoring of budgets and escalations, and budgetary controls. There are monthly budget monitoring meetings held between the finance team and budget holders to review the financial position.

The planning processes are currently suspended for 2021/22, but the Trust is currently working on 2021/22 budgeting and we will reflect on this process within our value for money conclusion. The 21/22 plan will need to be agreed at the STP level with the commissioners and providers in the Coventry and Warwickshire Health & Care Partnership.

We also found that the Trust has an appropriate reporting framework in place. The financial performance of the Trust is reported each month on a divisional basis to the Finance and Performance Executive, 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 impact of the Covid-19 pandemic on related costs and lost income.

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.

Currently the Trust does not have a long term financial plan to restore a sustainable, breakeven position, partly due to the pandemic and the lack of certainty regarding future funding and financial regime. The latest long term planning was pre-Covid. The STP system trajectory letter from October 2019 showed a continuing deficit position for the Trust to 2023/24 with reliance on additional funding such as Financial Recovery Fund (FRF)/ Provider Sustainability Fund (PSF) to meet a breakeven point. Achievement of long term financial sustainability continues to be a concern for the Trust. At the time of writing this report, the Trust is currently forecasting a deficit of £0.9m from an original planned deficit of £2.1m. The overall STP year end position has also improved to a £9.8m deficit compared to a planned £18.8m deficit. Achievement of this forecast year end position is linked to the impact of increased Covid levels across the winter period.

The Trust reported a healthy £40.4m cash balance at the end of December 2020, forecasting an expected year end cash balance of £19.5m. The cash balance is significantly improved since March 2020 (c£1m), which reflects the block payments received in advance from Commissioners.

Financial sustainability

Description

Commentary on arrangements

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.

Summary of risk assessment as at February 2021 (continued)

In line with national guidance, CIP programmes were put on hold from months 1-6. From month 7-12 the financial plan includes delivery of CIP of £1.8m, predominantly on pay savings. At month 10 the Trust has delivered £1.2m in line with the M7-12 plan. Within the system level budget for 2021/22, the Trust anticipates delivering efficiency savings at 1.1%, which is c£1.2m of controllable spend.

This is significantly lower than previous years required savings; 2019/20 CIP target was £8.3m which represented 4.6% of revenues. The Trust has established processes in place for identification of CIP schemes and regular monitoring and reporting. The Trust previously has fallen short on delivery of the large CIP targets; with the reduced required savings going forward, achievement of the savings should be more realistic.

Follow up in May 2021

We note that a breakeven plan for M1-6 2021/22 was approved by Trust Board on 4 May 2021. The Trust are very much engaged with the STP planning process making a financial submission and being involved in negotiations for a share of the central funding. As at May 2021, GEH had agreed to contribute £3m towards the deficit position of the system.

The Trust have committed to a CIP target of £1.9m for 2021/22 above the national CIP requirement for H1 of £0.3m. There is a process underway to review ideas in the pipeline and to target key cost drivers.

The Trust's final position for 2020/21 was a surplus of £0.5m on the SOCI, however, the adjusted financial performance including top-up funding was a small surplus of £0.08m which is the same figure for the purposes of the system achievement. The Coventry and Warwickshire STP achieved a small deficit (unaudited) at 31 March 2021 of £2.5m, which was much lower than planned (£18.8m deficit).

Through further consideration of the arrangements in place, we have not identified a significant weakness linked to the identified risk.

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>Risk Assessment as at February 2021</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 through the Board and sub-committees. Our review of the 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. The BAF is linked to the Trust's overall objectives and 10 point plan, driving a more strategic approach to risk management, that is sufficiently focussed on the most high level risks. Progress is clearly tracked each quarter, and Board minutes show clear discussion of the risks and BAF.</p> <p>The Trust have a dedicated counter fraud service provided by RSM. The LCFS has an agreed workplan and reports progress to each Audit Committee, with an annual report taken at the end of the year. This resource is supplemented via consideration of fraud by the Audit Committee and senior finance staff whilst preparing the financial statements. The Trust have an Internal Audit service provided by RSM; this included a review of Covid financial governance in September 2020, giving assurance to the Audit Committee over the controls in place through the pandemic and through home-working.</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) through monthly Board reporting.</p> <p>The Trust implemented a specific financial regime during the first wave of the pandemic including a change in the scheme of delegation and standing financial instructions for emergency approval levels. A command and control structure was implemented and Board and sub-committee meetings were streamlined and moved to virtual meetings where required. Covid expenditure is tracked by a Finance Business Partner, which separate ledger codes set up and costs reported on through the Board and sub-committees.</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 updated the 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 at the Business Case Review Group who make recommendations to the Trust Management Board.</p> <p>The Trust has in place a Compact agreement which directs acceptable staff behaviour – and all staff are required to sign up to this. Overall compliance with legislation, laws & regulations is monitored by the Audit Committee, including progress against CQC actions and the NHSI undertakings letter. A register of interest is in place together with a policy for gifts and hospitality with regular reporting on new entries to the register brought to the Audit Committee.</p> <p>Through considering these arrangements, we did not identify a significant risk.</p>

Improving economy, efficiency and effectiveness

Description

Commentary on arrangements

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.

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

- 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.

Risk Assessment as at February 2021

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. For months 7-12 the Trust agreed a £1.8m CIP target within the STP; delivery of the savings are on track at M10 and progress is reported to Board.

The Trust was issued with regulatory action by NHSE/I. The updated Letter of Undertakings (LoU) signed on 17 December 2019 states that the Trust has provided and is providing health services whilst failing to comply with licence conditions FT4(5)(a), (b), (d) and (e).

The breaches span financial issues, operational performance, governance and quality. We raised a recommendation in our 2019/20 audit for the Trust to develop formal reporting to Board or Board sub-committees monitoring progress against the license breaches listed within the undertakings letter. An update was taken to the January 2021 Audit Committee and February Board meeting, demonstrating the progress made to date against the undertakings.

The Trust's LoU is under review by NHSE/I and an updated revised letter is expected imminently. The LoU is closely linked to our value for money assessment, and we will update our risk assessment after receipt of the updated.

The Trust is engaged with regional partners in the Coventry and Warwickshire Health and Care Partnership, and works closely with SWFT with shared job posts and cross-working. There are quarterly meetings across the partnership, underpinned by Executive and Leadership meetings with representation from all partners. Joint working arrangements are supported by a memorandum of understanding between partners, and the Trust utilises the partnership arrangements to improve value for money. Collaboration with partners has been key through the pandemic, seeing tangible changes across discharge management, digital/ virtual patient consultations/ appointments, and how Covid patients are cared for across the community.

Divisional performance is reported to the Finance and Performance Executive for each division, with a one-page headline sheet for 'what is going well', 'what is off-track', 'areas of concern' and 'issues raised' – these cover a wide range of updates. Further detail is then provided in a detailed operational performance pack for the division, as well as a quality pack and finance pack. Overall performance is reported into the Board on a monthly basis within the integrated performance report (IPR). The IPR includes a performance dashboard of key metrics and measures, aligned to CQC domains and to a responsible Director. KPIs are individually reviewed within the IPR with explanatory narrative. The IPR is sufficiently detailed that operational performance is effectively monitored and actions and analysis over poor performance are highlighted in the reporting.

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>Follow Up as at May 2021</p> <p>The Letter of Undertakings was received by the Trust in December 2019 with specific points made for improvement. In the 2019/20 financial year, the Trust did not make significant progress in light of the pandemic hitting shortly after receipt, as well as only having 3 months to the end of the financial year when we reported our previous VFM opinion.</p> <p>For 2020/21, the Trust have made significant progress against the actions raised and this was reported to Trust Board in February 2021. In this same month, the Trust applied to NHSE/I to have the letter of undertakings revised and lifted given the progress that had been made.</p> <p>In May 2021, the Trust received a letter from NHSE/I confirming that they were satisfied that the Trust were compliant with paragraphs 1.1 to 1.5 of the original letter (relating to Urgent and Emergency Care) and the remaining paragraphs 1.6 – 1.7 and 2 – 5 were to be discontinued (relating to cancer performance, 2019/20 financial performance, programme management, access and meetings and reports).</p> <p>Although the update to the original letter was received post-year end, as the Trust applied within the 2020/21 financial year which is in the scope of our value for money assessment, it is reasonable to assume that the original letter did not apply as at 31 March 2021. In addition, progress was made in the 2020/21 year against paragraphs 1.1 to 1.5.</p> <p>Through further consideration of the arrangements in place, we have not identified a significant weakness linked to the identified risk.</p>



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