



Auditor's Annual Report 2023/24

Sherwood Forest Hospitals NHS Foundation Trust

—

26 June 2024

Contents

KEY CONTACTS

Richard Walton

Director

Richard.Walton@kpmg.co.uk

Jess Townsend

Manager

Jess.Townsend@kpmg.co.uk

Bilal Ahsan

Assistant Manager

Bilal.Ahsan@kpmg.co.uk

	Page
01 Executive Summary	3
02 Audit of the Financial Statements	5
03 Value of Money	9
a) Financial Sustainability	
b) Governance	
c) Improving economy, efficiency and effectiveness	
d) Prior year findings	

This report is addressed to Sherwood Forest Hospitals NHS Foundation Trust (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.



01 Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Sherwood Forest Hospitals NHS Foundation Trust (the ‘Trust’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).



Annual report - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.



Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



Other reporting - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

Accounts	We issued an unqualified opinion on the Trust’s accounts on 26 June 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust. We have provided further details of the key risks we identified and our response on page seven.
Annual report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust. We confirmed that the Governance Statement had been prepared in line with the Department of Health and Social Care requirements.
Value for money	We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money. We have nothing to report in this regard.
Other reporting	We did not consider it necessary to issue any other reports in the public interest.

02 Audit of the Financial Statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Trust's financial statements:

- Give a true and fair view of the state of the Trust's affairs as at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS England with the consent of the Secretary of State in February 2024 as being relevant to NHS Foundation Trusts and included in the Department of Health and Social Care Group Accounting Manual 2023/24; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Audit opinion on the financial statements

We have issued an unqualified opinion on the Trust's financial statements before 28 June 2024.

The full opinion is included in the Trust's Annual Report and Accounts for 2023/24 which can be obtained from the Trust's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements

The table below summarises the significant risks that we identified to our audit opinion as part of our risk assessment and how we responded to these in our audit.

Risk	Procedures undertaken	Findings
<p>Fraudulent expenditure recognition</p> <p>As the Trust and system is set a financial performance target by NHS England there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that the control total has been met.</p> <p>The setting of a control total can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred.</p> <p>We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2024-25 to mitigate financial pressures.</p>	<p>We evaluated the design and implementation of controls for reviewing manual expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;</p> <p>We inspected a sample of invoices of expenditure, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period;</p> <p>We selected a sample of payments from the bank statements in the period after 31 March 2024 and agreed these to underlying supporting evidence to determine that all the liabilities are completely and accurately recorded in the correct accounting period;</p> <p>We selected a sample of year end accruals and inspected evidence of the actual amount paid after year end in order to assess whether the accruals have been accurately recorded.</p> <p>We inspected journals posted as part of the year end close procedures that decrease the level of expenditure and accruals recorded at the year end in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence;</p> <p>We performed a retrospective review of prior year accruals in order to assess the existence and accuracy with which accruals had been recorded at 31 March 2023 and consider the impact on our assessment of the accruals at 31 March 2024.</p> <p>We performed a year on year comparison of the accruals made in March 2024 and April 2024 and challenged management where the movement is not in line with our understanding of the entity.</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>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments.</p> <p>We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.</p> <p>We assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Trust's normal course of business, or are otherwise unusual.</p> <p>We have analysed all journals through the year using data and analytics and focused our testing on those with a higher risk, such as unusual cash combinations and journals unexpectedly reducing the accruals balance at M12.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

Audit of the financial statements

The table below summarises the other key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these in our audit.

Risk	Procedures undertaken	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>We critically assessed the independence, objectivity and expertise of the District Valuer, the valuers used in developing the valuation of the Trust's land and buildings at 31 March 2024;</p> <p>We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual;</p> <p>We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM;</p> <p>We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement;</p> <p>We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances were identified;</p> <p>We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the GAM; and</p> <p>Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>
<p>PFI Transition to IFRS 16</p> <p>PFI transition to IFRS 16 will be fully adopted for the first time within the 2024 accounts.</p> <p>As per the GAM this will be processed as an adjustment during the period subject to audit instead of a restatement of the prior year balances.</p> <p>The main impact of these changes is the elimination of contingent rents as a concept, which will lead to an increase in interest costs and an associated remeasurement of the PFI liability and disclosures.</p>	<p>We reviewed the Trust calculation of the adjustment processed as at 1 April 2023, agreeing the information used to underlying records and compare the approach used to that set out in the GAM;</p> <p>We reperformed the calculation of the lease liability using the DHSC model as at 31 March 2024; and</p> <p>We critically assessed the disclosure proposed for compliance with the requirements of the GAM.</p>	<p>We did not identify any material misstatements relating to this risk.</p>

03 Value for Money


Value for Money

Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or ‘value for money’. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:

 Financial sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services.

 Governance: How the Trust ensures that it makes informed decisions and properly manages its risks.

 Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Approach

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.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor’s Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12	14	15
Identified risks of significant weakness?	<div></div> Yes	<div></div> No	<div></div> No
Actual significant weakness identified?	<div></div> No	<div></div> No	<div></div> No
2022-23 findings	Risk to significant weakness was noted but did not materialise into a significant weakness	No significant weakness identified	No significant weakness identified
Direction of travel	<div></div>	<div></div>	<div></div>

Value for Money

NATIONAL CONTEXT

Financial performance

The 2023-24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation felt during the year and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1bn against its agreed budgets. This came after additional funding had been made available earlier in the year to support with the costs of industrial action.

Operational performance

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

System working

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements both within the ICBs themselves and as systems.

LOCAL CONTEXT

The Trust delivers a range of emergency, specialist and general medical services through three main sites: King's Mill Hospital, Newark Hospital & Mansfield Community Hospital. The Trust is a member of the NHS Nottingham and Nottinghamshire Integrated Care System.

Financial performance

The Trust has reported an underlying deficit position for several years, with a current year adjusted deficit position of £14 million. The Trust initially planned to deliver a breakeven position, however reforecast this position to a £8.5 million deficit in month 9 as risks within the plan crystalised. The major reason for the difference between the revised outturn of £8.5 million and the adjusted deficit position of £14 million was non-receipt of Community Diagnostic Centres income of £5.5 million. The Trust were advised to assume this income throughout 2023/24, however were informed in March 2024 by NHS England that this would not be received.

As at M6, the Trust were forecasting a year end deficit position of £22 million. The Trust were able to improve their position through the introduction of Financial Recovery Cabinets and identification of further cost savings of c£13.5m. Delivery of the financial position remains a key challenge for the Trust, with additional PDC revenue support also received in Q1 of 2024/25 to ensure sufficient cash levels were available to operate in the short term.

System working

The Nottinghamshire system as a whole is recognised to have a challenging financial position, with an overall system deficit of £113.7 million at the year end. The Trust sits within the Single Oversight Framework segment 2 however the ICS rating dropped from a segment 2 to a segment 3 in Q2 2023/24, which requires mandated support to improve the financial position.

The 2024/25 Trust and ICS plan was approved, with the overall ICS forecasting a deficit of £100 million. The plans includes a challenging cost improvement target of 6.1% for the system, which is greater than the CIP delivered in the current year.

Financial Sustainability

How the Trust plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Trust ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Summary of arrangements

We raised a significant risk in relation to the financial sustainability of the Trust within 2023/24, linked to the underlying deficit reported compared to the planned position. We have **not identified any significant weakness** in the Trust's arrangements in relation to financial sustainability.

Delivery against 23-24 financial plan

As part of the 2023/24 planning process, the Trust issued a financial plan with an overall breakeven position, as in line with NHS England guidance. However as at September 2023 (M6), the Trust were forecasting a full year deficit position of c£22m. The main drivers for this include shortfalls in capacity vs. demand and the impact of industrial action on staffing and activity. The Trust revised their forecast outturn to c£8.5m deficit as part of the H2 refresh, which was confirmed by NHS England in December 2023 (M9).

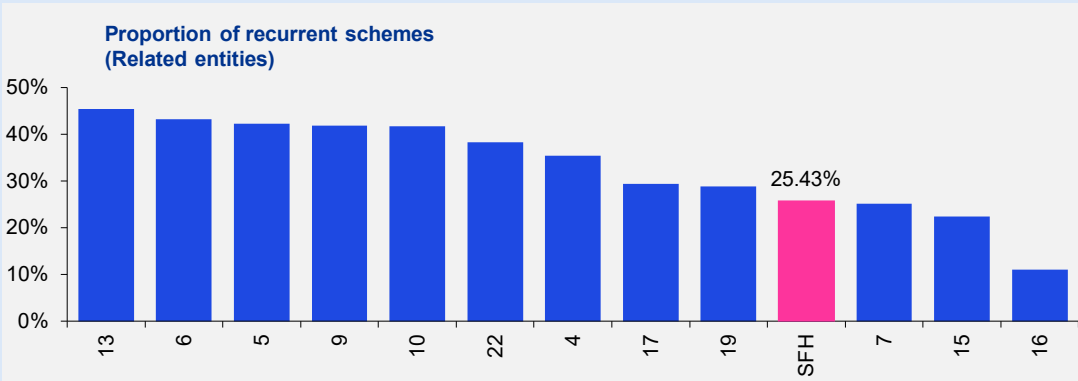
The Trust achieved a deficit of c£14m (adjusted financial performance) against a revised outturn position of c£8.5m. The main drivers for this adverse movement was non-receipt of Community Diagnostic Centres income of c£5.5m. The Trust were advised to accrue for this income throughout 2023/24, however were informed in March 2024 by NHS England that this would not be received.

Key financial and performance metrics:	2023-24	2022-23
Planned deficit (adjusted financial performance)	Breakeven	£13.7 million
Actual deficit (adjusted financial performance)	£14.0 million deficit	£3.9 million
Planned CIP as a % of spend	5.5%	2.6%
- Recurrent	£20.8 million	£11.7 million
- Non-recurrent	£6.6 million	£0
Actual CIP as a % of spend	4.9%	2.4%
- Recurrent	£6.5 million	£1.4 million
- Non-recurrent	£19.1 million	£10.4 million
Year-end cash position	£4.7 million	£23.5 million

Financial Sustainability

The Trust identified Financial Improvement Programmes (FIPs) of c£27.45m for 2023/24, with c£20.9m relating to recurrent savings as per the 2023/24 financial plan. The Trust achieved total FIPs of c£25.65m in the year, being c£6.5m recurrent and c£19.1m non-recurrent. Whilst the delivery of FIPs remain a continued challenge, the governance processes established at the Trust have ensured a continued focus in this area. A reliance on non-recurrent savings creates additional pressure for future periods and hence the Trust should prioritise recurrent savings where possible.

Trust recurrent schemes compared to related entities for the 2023/24 financial period:

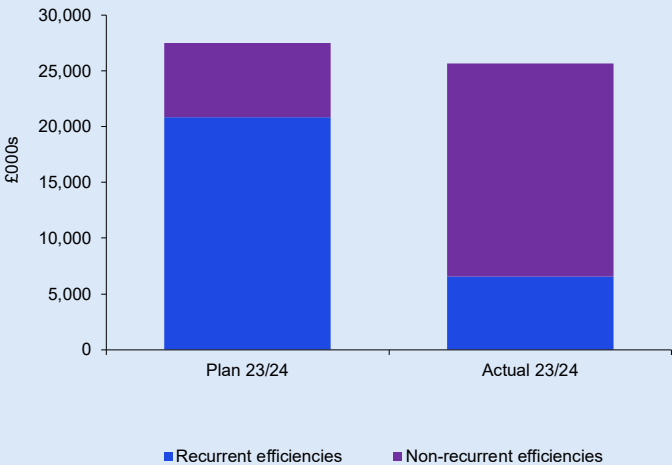


Planning Process for 2024/25

The Trust has worked with ICS partner organisations to develop plans for 2024/25 in line with the national guidance. The Nottingham and Nottinghamshire ICS has committed to working towards a balanced financial position by March 2026, which includes a significant efficiency targets, an increase in productivity and system transformation opportunities. As the plan is ambitious, there are a number of inherent delivery risks, for which all system partners are aware and working together to ensure strong communication so that appropriate plans and mitigations can be put in place.

The final Trust and ICS plans were submitted in June 2024 with the Trust submitting a £14 million deficit plan and the wider ICS reporting an £100 million deficit. The Trust's plan includes £38.5 million of FIPS, of which £9.6 million are recurrent. The Trust has highlighted that the Financial Recovery Cabinets – introduced in 2023/24 – will continue into 2024/25. These will be rebranded as Improvement Cabinets and will be aligned with the Financial Recovery Plan and system priorities, to ensure sufficient discussion and monitoring of the in-year Trust position, and timely identification of any potential issues or deviations from the plan.

Cost Improvement Plans Recurrent / Non-Recurrent and as % of Expenditure



Governance

How the Trust ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Trust monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour

Summary of arrangements

We have **not identified any significant weaknesses** in the Trust's arrangements in relation to governance.

Risk Management Process

The Trust use a risk management framework to determine the risk approach. Risks are identified in many ways; proactively by assessing corporate objectives, work related activities, analysing adverse event trends and outcomes, and anticipating external possibilities or scenarios that may require mitigation by the Trust. All staff have the responsibility to bring to the attention of their managers potential issues identified in their areas which may impact on the Trust delivering on its objectives.

Strategic risks and associated threats are recorded and identified using the Board Assurance Framework (BAF), and any identified risks are reported to the Risk Committee on a monthly basis. The Trust have a sufficiently detailed risk register and BAF which allows effective management of key risks. Gaps in control are highlighted and action plans are implemented to move each risk to a tolerable level. Divisions prepare a risk report following a standard format which are reported to the Risk Committee on a rotating basis. The BAF is regularly reviewed by Audit and Assurance Committee and the Trust Board, with key risks and issues escalated accordingly.

Financial Recovery Governance

A monthly financial performance report is shared with Finance Committee members and provides a comprehensive overview of in-month and forecast financial performance. Key financial information is also submitted to the Board as part of the Single Oversight Framework (SOF). Each division has a governance structure to review and challenge financial performance through service line meetings. Financial performance is also discussed at Divisional Performance Review meetings on a monthly basis.

The Trust implemented monthly Financial Recovery Cabinets from September 2023. These were introduced to develop a plan and create actions in order to reduce the forecast year-end deficit of c£22m as at M6. Four key workstreams were identified for the Trust for identify saving opportunities, aligned with the Financial Recovery Plan in place at the Trust. Reporting from the Financial Recovery Cabinets were taken to Finance Committee with any key assurances or actions escalated to the Trust Board.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	None	None
Head of Internal Audit Opinion	Significant assurance	Significant assurance
Oversight Framework segmentation	Trust – 2 System - 3	Trust – 2 System - 2
Care Quality Commission rating	Good	Good

Improving economy, efficiency and effectiveness

How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- how the Trust ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

Summary of arrangements

We have **not identified any significant weaknesses** in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.

Monitoring of Performance

The Trust uses benchmarking information from the Model Hospital, GIRFT and PLICS to help identify opportunities. Validation of the opportunities are supported by the finance team. Divisions are also encouraged to identify schemes themselves based on local knowledge, which the PMO will support in terms of scoping, developing and where appropriate delivering.

The Trust has a performance management framework in place to set the structure of performance management across the Trust. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the Single Oversight Framework (SOF) which provides the Trust Board with key operational performance indicators on a monthly basis. For each of these indicators, standards and thresholds are agreed at the start of the period to help drive identification of improvement areas. For these areas, further information is provided such as the executive lead, trends in data and benchmarking against national performance to inform the Board and provide full context. We will review a sample of the SOF reported to the Trust Board and conclude whether, for any significant issues noted, actions are agreed and followed up by the relevant Board sub-committees if required.

Partnership Working

The Trust is part of the wider Nottingham and Nottinghamshire Integrated Care System (ICS). Members of the Board and leadership team are integrated within the governance of the system. Planning is performed at an ICS level as well as considering the individual entities that makeup the system, with the aim of achieving financial sustainability at a system level rather than a traditional focus on individual control totals. Working in the system, the interaction between providers and other stakeholders is essential to ensure appropriate operational and clinical flow across the system and longer term objectives.

Overall, the ICS reported a 2023/24 deficit of £113.7 million. Given the financial position of the ICS, there is pressure across the system for all parties to contribute to improve the position. The Trust has engaged in both Trust and ICS planning initiatives. In particular, the Trust has engaged the Board, Finance Committee and kept the senior leadership team updated and informed throughout the process. Given the increased focus on deficits at a system level, increased joint working is essential and will need to continue to be a priority.



kpmg.com/uk

© 2024 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

Document Classification: KPMG Public