

# Auditor's Annual Report 2021/22

**Sherwood Forest Hospitals NHS  
Foundation Trust**

17 June 2022

## Key contacts

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This report is addressed to Sherwood Forest Hospitals NHS Foundation 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 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

<b>Accounts</b>	<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>
<b>Annual report</b>	<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>
<b>Value for money</b>	<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>
<b>Other reporting</b>	<p>We have had no reason to issue a public interest report in regard to our work.</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><b>Revenue Recognition</b></p> <p>As the Trust is required to meet a control total at the end of the year this may create an incentive for revenue to be manipulated in order to achieve budgeted financial performance.</p> <p>We anticipate that this would occur through manipulation of year end income accruals or deferred income to increase the level of income reflected in the financial statements.</p>	<p>The results of our testing were satisfactory. We considered the amount of revenue recognised to be acceptable.</p>
<p><b>Accrued Expenditure Recognition</b></p> <p>As the Trust is set a control total for its expected financial performance 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>We consider this would be most likely to occur through understating accruals and overstatement of pre-payments, if performance against the control total allows, for example to bring forward expenditure from 2022-23 to mitigate financial pressures.</p>	<p>Our testing of accrued expenditure is complete. We considered the amount of accruals recognised to be acceptable.</p>
<p><b>Property Plant and Equipment Valuation</b></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'. We consider that there is a risk of error due to the complex nature of how this is applied.</p> <p>The value of the Trust's land and buildings at 31 March 2022 is £268m, a £17m increase from 31 March 2021.</p>	<p>We have concluded that the basis of the valuation, the methodology and assumptions made are appropriate</p>
<p><b>Management override of controls</b></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk</p>

# 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 \(nao.org.uk\)](https://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:

<b>Care Quality Commission rating</b>	The latest assessment is from May 2020, which rated the Trust 'Good'
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Internal Audit opinion</b>	An opinion of significant assurance was issued.
<b>Single Oversight Framework rating</b>	The latest assessment is from 2021/22, which rated the Trust a 2 - Plans that have the support of system partners in place to address areas of challenge. Targeted support may be required to address specific identified issues.

## 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
<b>Financial sustainability</b>	One significant risk identified	No significant weaknesses identified
<b>Governance</b>	No significant risks identified	No significant weaknesses identified
<b>Improving economy, efficiency and effectiveness</b>	No significant risks identified	No significant weaknesses identified

We have not identified any significant weakness with regards to the Trust's arrangements for any of the three domains and as such have not reported a weakness in our opinion.

# 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"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>As part of our risk assessment work we identified one significant risk in relation to the processes for ensuring financial sustainability. In response to this, we considered the outturn position of the Trust and the ICS and noted appropriate actions to mitigate and reduce the deficit position. The outturn position of the Trust and System showed a deficit of £20m with the Trusts share £13m (pre-audit). The key driver for the deficit was the shortfall in ERF income due to the reduced elective activity due to Omicron. The Trust has monitored and reported its financial position throughout the year to the Board and also worked closely with the ICS to reduce the deficit and manage the financial pressures and challenges.</p> <p>We found that the Trust has an appropriate reporting framework in place. The financial performance of the Trust is reported each month to the Finance Committee prior to a summary report being taken to the Trust Board. During 2021/22, this has included regular updates on changes to the national NHS financial regime and the performance of the wider Nottingham &amp; Nottinghamshire Integrated Care System (ICS). The Trust has representation as part of the monthly ICS Directors of Finance Group, whereby financial performance is monitored and reported across the wider system.</p> <p>In addition, we considered the arrangements in place to align the Trust's 2022/23 financial plan with the ICS financial plan and found evidence of collaborative working between the Trust and ICS partners. The ICS financial plan after a number of iterations was submitted to NHSE/I on 28 April 2022 following appropriate review and approval, in accordance with the relevant guidance from NHS England. The Trust has followed the planning guidance by working within the ICS. The 2022/23 System plan shows a deficit position of £18.9m of which the Trusts share is £5.2m deficit (after allowing for excess inflation costs). The System plan includes efficiency targets of £100.7m of which £11.7m is the Trusts share. The Trust has developed and enhanced its medium-term Transformation and Efficiency Strategy following a review undertaken by internal audit and is currently working to develop individual programmes to achieve the required efficiencies in 2022/23. This will be a key area of focus for the Trust and the delivery of this strategy will be challenging.</p> <p>The Trust will be working collaboratively with the ICS to revise the System plan for final submission on 20th June 2022. The Trust has provided Board members with regular updates and has a clear understanding of the challenges and work needed to develop a financial plan for 2022/23. Reducing the deficit across the ICS continues to be a key priority within the System that in turn impacts the Trust. We noted that the ICS have, with input from the Trust, provided a clear summary of key challenges underpinning the plan and a number of programmes are being considered across the System to respond to these challenges.</p> <p><b><i>Based on the findings above we have not identified any significant weaknesses in the Trust's arrangements in regard to the identified risk.</i></b></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"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>Risk management is a key part of the Trust's performance management framework and helps inform business, planning and investment decisions. 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.</p> <p>Strategic risks and associated threats are recorded and identified using the Board Assurance Framework, and any identified risks are reported to the Risk Committee on a monthly basis. Our review of the risk register and BAF found they are sufficiently detailed to effectively manage key risks. Gaps in control are highlighted and an action plan detailed 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.</p> <p>The Trust have a dedicated counter fraud service provided by 360 Assurance. The LCFS has an agreed workplan and reports progress to each Audit and Assurance Committee, with an annual report taken at the end of the year. At the end of May 2022, the Trust submitted its 2022 Counter Fraud Functional Standard Return (CFFSR) achieving a green rating in all categories. LCFS is supplemented via consideration of fraud by the Audit and Assurance Committee and senior finance staff whilst preparing the financial statements. The Trust has an Internal Audit service provided by 360 Assurance. The year end Internal Audit Report provided significant assurance overall.</p> <p>In 2021-22, block funding continued for the majority of contracts the Trust holds. The Trust has maintained oversight of performance (both financial and operational) by holding monthly divisional performance meetings. These meetings are structured and a consistent reporting format helps to drive focus on areas where further work is required.</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 has a business case proforma and each case is subject to approval in line with the scheme of delegation. Completed cases are submitted through relevant governance process, which includes the Business Case Oversight Group, Trust Management Team, Trust Executive Team, Finance Committee and Board as appropriate. Capital business cases since November 2021 are subject to review by the Capital Oversight Group. The Group has been reviewing the process for overseeing business cases and will be looking to align process and governance of investments in July 2022, when the Director of Strategy is in post. During the period the Trust has had an interim Chief Executive Officer and Chief Financial Officer in place and has backfilled with deputy roles to ensure adequate capacity during this time whilst the process to appoint permanently was underway.</p> <p>The Trust has in place a staff code of conduct as per the standards of conduct and business behaviour policy. Specific guidance is in place for teams and managers via standards of behaviour for these roles. Statutory compliance is monitored and reported to the Trust Risk Committee. A comprehensive register of interests is in place which captures compliance for all staff members above a Band 8. The Report together with a policy for gifts and hospitality is reported regularly to the Audit and Assurance Committee to ensure full compliance of all its staff.</p> <p><b>Based on the findings above we have not identified any significant weaknesses in the Trust's arrangements.</b></p>

## Improving economy, efficiency and effectiveness

### Description

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.

### Commentary on arrangements

The Trust has a Financial Improvement Programme (FIP) savings plan in place for 2021/22. Plans are being monitored and reported to Finance committee by the Programme Management Office (PMO). For 2021/22, the FIP delivered £5.8m savings at the year end, which represents an adverse position of £2.0m against plan. Internal Audit completed a review of the FIP and PMO and issued a limited assurance opinion with a number of recommendations for improvement. In response, the Trust has developed and enhanced its medium-term Transformation and Efficiency Strategy following a review undertaken by internal audit and is currently developing individual programmes to achieve the required efficiencies in 2022/23.

To identify financial improvement schemes, the PMO uses a variety of benchmarking and comparative information (including Model Hospital, PLICS and GIRFT) which are presented to the relevant Divisions and Teams to determine which opportunities are to be scoped further and possibly taken forward. Validation of the opportunities are supported by the finance team. Divisions are also encouraged to identify schemes themselves (based on local intelligence), which the PMO will support in terms of scoping, developing and where appropriate delivering.

The Trust developed a 3 year forward plan which was agreed and approved by the Transformation and Efficiency Cabinet and Finance Committee in March 2022. FIP planning for 2022/23 is well underway with the Trust identifying a number of opportunities/programmes which Divisions are signed up too. Work is ongoing in this area with the FIP Strategy forming part of the NHS/E plan forecast.

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 when indicators are flagged for specific follow up. This SOF highlights performance in different domains in line with the Trust's strategy and draws out key areas for improvement within each domain. For these areas further information is provided such as the executive lead, trends in data, and benchmarking against national performance to help inform the Board and provide the full context.

A regular update on the financial position of the ICS is presented to the Finance Committee and to the Trust Board. The Trust has senior engagement both as part of the ICS (the Chief Financial Officer is the Finance Lead for the Nottinghamshire ICS) and with commissioners, and works with partners to address key issues as they arise.

PFI contract management is overseen by a contract management team - the team ensure the outputs in the PFI specifications are met. A monthly report is taken to Trust Board to update on PFI related issues. A recent review by the Governmental Infrastructure Projects Authority (IPA) commissioned by the DoHSC concluded that the SFHFT PFI 'Whilst examples of poor service delivery and contract management have been identified, there have also been recent improvements in service performance'.

**Based on the findings above we have not identified any significant weaknesses in the Trust's arrangements.**





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