



Auditor's Annual Report 2020/21

**Sheffield Health and Social Care NHS
Foundation Trust**

17 June 2021

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This report is addressed to Sheffield Health and Social Care NHS FT (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 2020/21 audit of Sheffield Health and Social Care NHS FT (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 17 June 21. 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 identified one significant weakness relating to failure to implement or achieve progress on recommendations raised by CQC to the degree that statutory/regularity requirements are not met for the year 2020/21 This related to both the Governance and Improving economy, efficiency and effectiveness domains of our value for money assessment. We have provided further detail on pages 7-10.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</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'. There are a number of estimates and assumptions that are made in order to reach the recognised value. Due to this complexity and the high value of land and buildings there is a risk that the value is misstated.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We raised a recommendation relating to valuation of land and buildings – enhancement of controls.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>
<p>Fraud risk from expenditure recognition</p> <p>As the Trust is set a control total by NHS Improvement for its expected financial performance there is a risk that non-pay expenditure 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 did not identify any material misstatements relating to this risk.</p> <p>We raised a recommendation relating to purchase order authorisation and accruals enhancement of controls.</p>
<p>Fraud risk from revenue recognition</p> <p>Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. We recognised this risk over all of the Trust's income.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We 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 \(nao.org.uk\)](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	Inadequate.
Single Oversight Framework rating	4 – Special Measures for Quality of care
Governance statement	There were significant control deficiencies identified in the governance statement relating to the CQC inspection.
Head of Internal Audit opinion	Moderate assurance.

Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant weaknesses identified	No significant weaknesses identified
Governance	One significant weakness identified	One significant weaknesses identified
Improving economy, efficiency and effectiveness	One significant weakness identified	One significant weaknesses identified

We identified a significant weakness that the Trust does not have sufficient arrangements in place in its Governance and Improving economy, efficiency and effectiveness arrangements. The significant weakness relates to the failure to implement or achieve progress on recommendations raised by CQC to the degree that statutory/regularity requirements are not met for the financial year 2020/21. We reported this as part of our audit report and have provided further details in our commentary on pages 7-10.

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 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 providers 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 CCG and the providers. 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 provider to cover additional cost pressures due to Covid-19 and the provision of services.</p> <p>The sustained financial pressure on the sector means that the Trust must continue to identify and achieve challenging savings goals to continue to meet its targets. At each year end, the risk therefore increases that the Trust will not be able to identify the required level of savings to meet further savings targets. We have considered whether there were sufficient controls allowing the Trust to effectively manage resources and ensure continuity in the delivery of its services.</p> <p>Our work found that the budget monitoring and control processes were able to identify and incorporate significant pressures into the financial plan to ensure it was achievable and realistic. The initial draft budgets were constructed based on appropriate local and national planning assumptions and we saw evidence of appropriate review and sign off by the relevant budget holders. Emerging cost pressures are identified through monthly review of budget statements by the budget holders and review of any material overspends.</p> <p>Following changes to the funding regime for months 7-12 the Trust presented a Financial Plan in October 2020 with a forecast deficit of circa £4.6m. CIP/efficiencies were not expected during the first 6 months of 2020/21. However the Trust continued to deliver CIPs where it did not impact on front line care. The Trust's CIP target was £2.5m, and the Trust delivered £1.7m recurrent and non-recurrent (68% of the annual target).</p> <p>We also found the Trust have plans in place to support the sustainable delivery of strategic and statutory priorities and maintain services. We have reviewed future plans and their monitoring up to the conclusion of our work. The latest 2021/22 financial plan went to Finance and Performance Committee on 13th May 2021. It notes a lack of clarity regarding income assumptions for the second half of 2021/22, therefore the Trust's internal plans assume income continues at a consistent level into the second half of 2021/22. The Trust are planning for a breakeven position in for the financial year 2021/22. The financial plan also shows a CIP target of £3,028k for 2021/22, of which £37k is identified, £165k plans are in progress and £2,826k is unidentified. We understand that the Trust is in the process of identifying CIP schemes to deliver the unidentified element.</p> <p>Conclusion</p> <p>Based on the procedures performed, we have not identified any significant weaknesses that the Trust does not have sufficient financial sustainability arrangements in place to oversee and monitor their value for money achievement.</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>In April 2020 the Trust received an overall inadequate rating by CQC. The Well-Led domain was rated inadequate as part of this inspection and as a basis of the report, the Chief inspector of Hospitals recommended that the Trust be placed into special measures. The CQC issued one warning notice and eight requirement notices to the Trust. The action related to 47 breaches of legal requirements in five core services and in relation to the overall governance of the Trust. Linked to this inspection we note the fact the Trust is unable to declare compliance with Provider Licence conditions relating to governance and systems for compliance.</p> <p>In response to this the Trust took a series of actions including developing a Well Led Development Plan and Back to Good Programme to address the issues. Each of the actions plans has been regularly reviewed by the Trust's Board and Back to Good Board to ensure appropriate oversight of the progress and issues identified. We note that by reference to the Trust's Back to Good Programme and Well Led Development Plan that progress has been made on actions on both areas however a number of actions remain outstanding and/or still to be quality assured and not embedded into the Trust's arrangements. While it is clear that progress has been made there are significant weaknesses that existed in the Trust's governance arrangements in the period 2020/21.</p> <p>We consider the Trust to have processes in place to monitor and assess risk, however we do recognise that the CQC inspection reported in April 2020 identified concerns regarding managing risks. Strategic risks are recorded and identified using the Board Assurance Framework, and any identified risks are reported to the appropriate governing body. Our review of the risk register found this was sufficiently detailed to effectively manage key risks.</p> <p>Our assessment indicates that the Trust has processes in place to enable appropriate scrutiny, challenge and transparency on decision making. Business cases are presented to the Board following internal review and approval. We reviewed a sample of business cases for 2020/21 and found there was evidence of scrutiny and challenge.</p> <p>We have also reviewed the approval of the 2020/21 financial plan by the Board and seen scrutiny and challenge within this approval leading to actions taken to improve the plan before submission. Financial risks from this plan are also then communicated within the risk register going forward and discussed within the Audit Committee and at Board meetings.</p> <p>The financial planning regime has significantly changed for 2020/21. We reviewed the revised governance arrangements in relation to budget setting and monitoring. This included a review of processes for identifying and monitoring additional costs associated with Covid 19. We have also reviewed changes to procurement processes during the pandemic.</p>

Value for money

Governance (continued)	
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>Our assessment indicated there to be appropriate scrutiny and challenge of the budgets and appropriate approval through the budget holders. In order to understand their financial performance against their budget, budget holders are provided with a monthly budget report which is also reviewed by the Finance Manager. Discussions between Finance Managers and budget holders allows for challenge and response to adverse variances. We also found processes in place to ensure accurate recording and monitoring of the additional costs associated with Covid19.</p> <p>Reviews of compliance with laws & regulations, staff code of conduct and the Trust's constitution is completed through Board meetings, Audit Committee and other governance structures as identified through our testing.</p> <p>We are also aware that during 2020/21, key capital decisions have been made in relation to major projects such as ACM II (Acute Care Modernisation Phase 2) and the EPR (Insight II). The decision to pause the ACM II was made in order to address weaknesses in the design of the clinical areas. The EPR project failed at the Procurement stage which is also being reassessed to improve the scope. Clinical reasons are the main factors to have reached the decision for the ACM. With regards to the EPR this was in relation to quality and procurement regulations in place. We consider that the Trust has made decisions based on appropriate evidence and following the appropriate governance arrangements, and therefore this does not result in a significant weakness. The Trust ensures key decisions are appropriately challenged and scrutinised by the executive team through the scheme of Delegation and SFI's, with escalation to Board as required. The Trust has an annual planning process that ensures strategic decisions follow the Treasury Green Book five case model and in particular ensure they describe links to Trust strategy and impact on Trust risk profile.</p> <p>Conclusion</p> <p>Based on the procedures performed we have identified a significant weakness in the Trust's governance arrangements. The significant weakness relates to the failure to implement or achieve progress on recommendations raised by CQC to the degree that statutory/regularity requirements are not met for the financial year 2020/21.</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>As reported in the Governance section of this report, in April 2020 the Trust received an overall inadequate rating by CQC. The Well-Led domain was rated inadequate as part of this inspection and as a basis of the report, the Chief inspector of Hospitals recommended that the Trust be placed into special measures. The CQC issued one warning notice and eight requirement notices to the Trust. The action related to 47 breaches of legal requirements in five core services and in relation to the overall governance of the Trust. Linked to this inspection we note the fact the Trust is unable to declare compliance with Provider Licence conditions relating to governance and systems for compliance.</p> <p>In response to this the Trust took a series of actions including developing a Well Led Development Plan and Back to Good Programme to address the issues. Each of the actions plans has been regularly reviewed by the Trust's Board and Back to Good Board to ensure appropriate oversight of the progress and issues identified. We note that by reference to the Trust's Back to Good Programme and Well Led Development Plan that progress has been made on actions on both areas however a number of actions remain outstanding and/or still to be quality assured and not embedded into the Trust's arrangements. While it is clear that progress has been made there are significant weaknesses that existed in the Trust's arrangements for securing economy, efficiency and effectiveness during the period 2020/21.</p> <p>We note that from the 17 March 2020 QIPP/CIP programmes were put on hold in accordance with national guidance. This was to allow CCGs and providers to respond to the pandemic. For months 7 -12 any service redesign, service extension and/or transformation are to be based on provider capacity, IPC guidelines and estates. We found appropriate processes in place to ensure the Trust used information about costs and performance to improve the way they manage and deliver services.</p> <p>Finance reports are presented to the Trust's Finance and Performance Committee in order to report on financial performance, allowing the Trust to assess the level of value for money being achieved. Management also maintains and monitors costs by reviewing the information received from benchmarking through benchmarking groups.</p> <p>The Trust's Quality Assurance Committee receive Integrated Performance and Quality Reports. This allows the Trust to monitor the performance of services.</p> <p>Conclusion</p> <p>Based on the procedures performed we have identified a significant weakness in the Trust's arrangements for improving economy, efficiency and effectiveness. The significant weakness relates to the failure to implement or achieve progress on recommendations raised by CQC to the degree that statutory/regulatory requirements are not met for the financial year 2020/21.</p>

Recommendations

We raised the following recommendations in response to significant weaknesses identified in our value for money procedures.

#	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	<p>Significant weakness In April 2020 the Trust received an overall inadequate rating by CQC. The Well-Led domain was rated inadequate as part of this inspection and as a basis of the report, the Chief inspector of Hospitals recommended that the Trust be placed into special measures. The CQC issued one warning notice and eight requirement notices to the Trust. The action related to 47 breaches of legal requirements in five core services and in relation to the overall governance of the Trust. At the time writing this report Trust has not been re-inspected by CQC.</p> <p>In response to these issues, the Trust took a series of actions including developing a Well Led Development Plan and Back to Good Programme to address the issues. Each of the actions plans has been regularly reviewed by the Trust's Board and Back to Good Board to ensure appropriate oversight of the progress and issues identified. We note that by reference to the Trust's Back to Good Programme and Well Led Development Plan that progress has been made on actions on both areas however a number of actions remain outstanding and/or still to be quality assured and not embedded into the Trust's arrangements. While it is clear that progress has been made there are significant weaknesses that existed in the Trust's arrangements that have persisted into 2020/21 and we note that as a result of this the Trust will be unable to confirm compliance with its Provider Licence conditions relating to governance and systems for compliance for the year 2020/21.</p> <p>Consequently our judgement is that during the course of the 2020/21, the Trust had significant weaknesses in its governance arrangements for overseeing the achievement for value for money and significant weaknesses in its arrangements for improving economy, efficiency and effectiveness in respect of ensuring statutory and regularity requirements were met.</p> <p>Recommendation: The Trust needs to continue to ensure: - the significant outstanding issues raised by the CQC are addressed; and - progress is monitored and scrutinised by the appropriate project groups and the Trust's Board to ensure the actions taken to address the issues raised are effective.</p>	<p>The Back to Good programme has overseen delivery of significant improvements during 2020/21 and will continue to do so during 2021/22. The programme board has undertaken a learning exercise to ensure it is best placed to build on what we learned last year to best support this. This has received oversight from Quality Committee, Board and the Council of Governors.</p> <p>In the context of the Covid pandemic, as well as essential changes in leadership as we sought to address wider cultural organisational issues, any improvement plan was bound to be challenging but we risk assessed any areas where slippage was anticipated and this was closely monitored through the Back to Good Board.</p> <p>Immediate concerns raised by the CQC have prompted the development of an action plan to address new 'must do' activity in relation to Firshill Rise specifically by the end of September. More broadly, any new actions arising from the most recent CQC programme will be absorbed into the Back to Good programme to monitor delivery as we saw in 2020/21.</p> <p>Key areas of progress in 2020/21 were in relation to our governance systems. An action plan for delivery of further embedding of risk arrangements has been set out and reported to Board. It will be monitored by Audit and Risk Committee. Further internal audits have been programmed to assist the monitoring of the embedding that is required for delivery. Progress against delivery is now better enabled through the refreshed governance structure we have put in place during 2020/21.</p> <p>Responsible for Back to Good programme oversight: Dr Mike Hunter, Executive Medical Director</p> <p>Responsible for Well-Led Development Plan: David Walsh, Director of Corporate Governance</p> <p>Due date: As there are interdependencies between actions these will be programmed into completion as part of Back to Good 2021/22 by the end of March 2022.</p>



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