

# Auditor's Annual Report

The Rotherham NHS Foundation Trust  
– year ended 31 March 2021

July 2021



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# 01

## Section 01: **Introduction**

# 1. Introduction

## Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for The Rotherham NHS Foundation Trust ('the Trust') for the year ended 31 March 2021. Although this report is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



### Opinion on the financial statements

We issued our audit report on 11 June 2021. Our opinion on the financial statements was unqualified.



### Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 11 June 2021 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.



### Value for Money arrangements

In our audit report, issued on 11 June 2021, we reported that we had not completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not reported any significant weaknesses in arrangements at that date. However, in our Audit Completion Report dated 3 June 2021, and presented to the Audit Committee on 8 June 2021, we highlighted three risks of significant weaknesses in arrangements which were likely to result in exception reporting, subject to the completion of our work.

Section 3 of this report confirms that we have now completed this work and provides our commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources, and includes a summary of the significant weaknesses identified and our recommendations.

Following the completion of our work we have issued our audit certificate on 30 July 2021 which formally closes the audit for the 2020/21 financial year. In the audit certificate we included a summary of the significant weaknesses identified and our recommendations since we issued our audit report.

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# 02

Section 02:

**Audit of the financial statements**

# 2. Audit of the financial statements

## The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit was to provide reasonable assurance to users that the financial statements are free from material error. We did this by expressing an opinion on whether the statements were prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they gave a true and fair view of the Trust's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 11 June 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021 as follows:

"In our opinion, the financial statements:

- give a true and fair view of the financial position of the Trust as at 31 March 2021 and of the Trust's income and expenditure for the year then ended;
- have been properly prepared in accordance with the Department of Health and Social Care Group Accounting Manual 2020/21; and
- have been properly prepared in accordance with the requirements of the National Health Service Act 2006."

## Qualitative aspects of the Trust's accounting practices

We reviewed the Trust's accounting policies and disclosures and concluded they complied with the Department of Health and Social Care Group Accounting Manual 2020/21 (GAM), appropriately tailored to the Trust's circumstances.

Draft accounts were received from the Trust on 27 April 2021 and were of a good quality, as were the working papers supporting the financial statements.

## Significant difficulties during the audit

We did not encounter any significant difficulties during the course of the audit and we had the full co-operation of management.

It is however worth noting that our audit work was carried out through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic and that this was the first year of our audit appointment. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers of the Trust these challenges were overcome. We would like to thank the Finance Team for the quality of their supporting working papers and for being available throughout the audit work to answer our queries.

## Internal control recommendations

As part of our audit, we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified three medium risk deficiencies in internal control as part of our audit - relating to journal authorisation (supporting issues highlighted by Internal Audit), IT general controls and payroll employment contracts. Management has highlighted a number of compensating controls to mitigate the associated risks and agreed to seek to address the recommendations as far as practicable. We are content with Management's response.

# 03

Section 03:

**Commentary on VFM arrangements**

### 3. VFM arrangements – Overall summary

#### Approach to Value for Money arrangements work

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Trust has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. On the following page we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	16	Yes – see risks on pages 9 (governance and financial management) and 11 (NHS Improvement license conditions)	Yes – see recommendations on pages 12 & 13 (governance and financial management) and 15 (NHS Improvement license conditions)
Governance	18	Yes – see risks on pages 9 & 10 (governance and financial management) and 10 (CQC inspections)	Yes – see recommendations on page 12 & 13 (governance and financial management) and 14 (CQC inspections)
Improving economy, efficiency and effectiveness	20	Yes – see risk on page 10 (CQC inspections)	Yes – see recommendation on page 14 (CQC inspections)

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# 3. VFM arrangements – Risks of significant weakness in arrangements

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1 <b>Governance and financial management</b></p> <p>The Trust identified significant weaknesses in its governance arrangements. These related to the 2019/20 financial year, but they emerged and were addressed mainly in the first half of 2020/21. This included governance issues in relation to the inception and approval of the Carbon Energy Fund project which called into question the basis for the project, financial monitoring and reporting in the previous financial year which had resulted in a worse than expected financial position, and breaches in standing financial instructions in relation to the Greenoaks project (final cost £1.8m).</p> <p>These matters indicate a risk of significant weaknesses in proper arrangements against the Financial Sustainability and Governance reporting criteria detailed on page 8.</p>	<p><b>Work undertaken</b></p> <p>We reviewed the Trust’s response to these issues as they were identified and addressed during the year. This included:</p> <ul style="list-style-type: none"> <li>• reviewing the documentary evidence presented in Board papers in relation to the issues identified, including the results of independent reviews where applicable, and the actions that were being taken to address those issues; and</li> <li>• discussing the issues arising, the implications of those issues and the actions being taken with management.</li> </ul> <p>The Trust clearly understood the significance of the weaknesses and the need to address the issues arising. The governance and financial management issues were identified and addressed by the Trust itself over the course of the year.</p> <p><b>Results of our work</b></p> <p>Notwithstanding the Trust’s response, in our view, the matters identified represented a significant weakness in arrangements during 2020/21.</p> <p>We reported this significant weakness to the Trust in our Audit Progress Report in July 2021 and supported it with a recommendation for improvement. The significant weakness in arrangements identified and the supporting recommendation for improvement are provided on pages 12 and 13.</p>

# 3. VFM arrangements – Risks of significant weakness in arrangements

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>2      <b>Care Quality Commission inspections</b></p> <p>The Care Quality Commission (CQC) took enforcement action against the Trust during 2020/21. In July 2020, a notice of intent was issued in relation to safeguarding children, warning of possible enforcement action under Section 31 of the Health and Social Care Act 2008, although no formal action was subsequently taken. However, in November a warning notice was issued in relation to the quality of care in the Acute Medical Unit and learning throughout the organisation (under Section 29A of the Health and Social Care Act). In addition, there are CQC registration conditions relating to paediatric services.</p> <p>These matters indicate a risk of significant weaknesses in proper arrangements against the Governance and Improving Economy, Efficiency and Effectiveness reporting criteria detailed on page 8.</p>	<p><b>Work undertaken</b></p> <p>We reviewed the Trust’s response to the CQC findings and reporting. This included:</p> <ul style="list-style-type: none"> <li>• Reviewing key correspondence from CQC;</li> <li>• Reviewing the documentary evidence presented in Board papers in relation to the Trust response to the CQC findings, the action plans developed to address the issues raised and the regular monitoring of progress; and</li> <li>• Discussing these issues with management.</li> </ul> <p>The Trust recognises the importance of addressing issues raised by CQC, and has taken action to address the issues raised (with specific action plans developed to ensure and track action and progress). The Trust is awaiting the results of a full inspection by CQC, which will provide an independent assessment of the progress that has been made.</p> <p><b>Results of our work</b></p> <p>In our view, the matters identified by CQC during 2020/21 and subject to enforcement action represent a significant weakness in arrangements.</p> <p>We reported this significant weakness to the Trust in our Audit Progress Report in July 2021 and supported it with a recommendation for improvement. The significant weakness in arrangements identified and the supporting recommendation for improvement are provided on page 14.</p>

# 3. VFM arrangements – Risks of significant weakness in arrangements

## Risks of significant weaknesses in arrangements

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>3      <b>NHS Improvement license conditions</b></p> <p>The Trust has outstanding license conditions in relation to financial planning breaches arising from enforcement action by Monitor (now NHS Improvement) between 2013 and 2015.</p> <p>These matters indicate a risk of significant weaknesses in proper arrangements against the Financial Sustainability reporting criterion detailed on page 8.</p>	<p><b>Work undertaken</b></p> <p>We reviewed the Trust’s response to the outstanding Monitor / NHSI license conditions . This included:</p> <ul style="list-style-type: none"> <li>• Reviewing Board papers in relation to the steps being taken by the Interim Chief Executive to resolve the issues; and</li> <li>• Discussing these issues with management.</li> </ul> <p>The Trust recognises the importance of addressing the outstanding license conditions, and this process is being led by the Interim Chief Executive.</p> <p><b>Results of our work</b></p> <p>In our view, the outstanding license conditions represent a significant weakness in arrangements.</p> <p>We reported this significant weakness to the Trust in our Audit Progress Report in July 2021 and supported it with a recommendation for improvement. The significant weakness in arrangements identified and the supporting recommendation for improvement are provided on page 15.</p>

# 3. VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified a significant weakness in the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The identified weaknesses have been outlined in the table below along with our recommendations for improvement.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p><b>Governance and financial management</b></p> <p>The Trust identified significant weaknesses in its arrangements through its own internal governance processes and these were detailed in its Annual Governance Statement for 2020/21. These included:</p> <ul style="list-style-type: none"> <li>• issues in relation to the inception and approval of the Carbon Energy Fund project;</li> <li>• financial monitoring and reporting issues relating to the 2019/20 financial year end which emerged in early 2020/21 and which also had implications in 2020/21; and</li> <li>• breaches in standing financial instructions in relation to the Greenoaks project.</li> </ul> <p>We have reviewed the weaknesses and the actions taken by the Trust.</p> <p><b>Carbon Energy Fund project</b></p> <p>This project (capital cost circa £10m) involves a third party providing capital investment in energy infrastructure, for which the Trust pays a lease rental and receives benefits in terms of reduced energy costs. Issues with the development of the business case and signing of the contract led the Trust to commission an external review, which reported in September 2020. This highlighted weaknesses in arrangements including that the Trust had entered into the contract without seeking the approval of NHSI, which was required in this case, that insufficient external guidance was sought and that the capital expenditure counted against CDEL (the Department of Health capital departmental expenditure limit) although the Board had entered into the contract on the basis that CDEL cover was not required.</p>	●	●		<p>We recommend that the Trust continues the steps it has already taken during 2020/21 to improve financial monitoring and reporting, improve compliance with internal controls and strengthen and develop governance and oversight at management and Board level</p> <p>The Trust should formally review its progress to date, to ensure that the changes are embedded.</p>	<p>We issued our recommendation for improvement to the Trust in our Audit Progress Report. As a result, there has not yet been time for the Trust to address our recommendation in full.</p> <p>The Trust clearly understood the significance of the weaknesses and the need to address the issues arising. The governance and financial management issues were identified and addressed by the Trust itself over the course of the year.</p>

# 3. VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified a significant weakness in the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The identified weaknesses have been outlined in the table below along with our recommendations for improvement.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p><b>Governance and financial management (Continued)</b></p> <p><b>Financial monitoring and reporting</b></p> <p>During 2019/20, the financial position was reported as being on track until significant overspends were revealed early in 2020. This called into question the quality of financial monitoring and reporting, and led to changes in senior personnel at the Trust. The issues arising led the Trust to commission an external review, which reported in September 2020. This highlighted a number of measures to address financial weaknesses including improved financial reporting, development of integrated financial and performance reporting, strengthening the finance team and enhancing the role of the Board.</p> <p><b>Greenoaks project</b></p> <p>This project was required urgently and was undertaken under a measured term contract designed for smaller packages of work. The outturn value of this project was £1.85m against an initial approval of £1m. An independent review was commissioned and this highlighted weaknesses in arrangements and concluded that the measured term contract had been misused for works well beyond reasonable value for money, and that the project should have been tendered for separately as required by standing financial instructions.</p>	●	●		<p>We recommend that the Trust continues the steps it has already taken during 2020/21 to improve financial monitoring and reporting, improve compliance with internal controls and strengthen and develop governance and oversight at management and Board level</p> <p>The Trust should formally review its progress to date, to ensure that the changes are embedded.</p>	<p>We issued our recommendation for improvement to the Trust in our Audit Progress Report. As a result, there has not yet been time for the Trust to address our recommendation in full.</p> <p>The Trust clearly understood the significance of the weaknesses and the need to address the issues arising. The governance and financial management issues were identified and addressed by the Trust itself over the course of the year.</p>

# 3. VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified a significant weakness in the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The identified weaknesses have been outlined in the table below along with our recommendations for improvement.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p><b>Care Quality Commission inspections</b></p> <p>The Care Quality Commission (CQC) took enforcement action against the Trust during 2020/21. In July 2020, a notice of intent was issued in relation to safeguarding children, warning of possible enforcement action under Section 31 of the Health and Social Care Act 2008. In November a warning notice (under Section 29A of the Health and Social Care Act) was issued and raised additional issues around the quality of care in the Acute Medical Unit and specifically about patient harm incidents and the management of risks to prevent patient harm, and in learning throughout the organisation. In addition, there are CQC registration conditions relating to paediatric services which date from issues identified in 2018.</p> <p>The Trust recognises that a failure to address the weaknesses identified in the CQC reports would adversely impact upon the safety of services provided to users and has developed an action plan to address each area for improvement.</p>		●	●	<p>In order to ensure systems, processes and training are in place to manage the risks relating to the health, safety, and welfare of service users we recommend that the Trust ensures that it embeds and sustains the action plans that it has put in place Trust-wide to address the patient care issues identified by the Care Quality Commission. In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for patients and sustain the progress made to-date in implementing the actions to address the issues raised by the CQC.</p>	<p>We issued our recommendation for improvement to the Trust in our Audit Progress Report. As a result, there has not yet been time for the Trust to address our recommendation in full.</p> <p>The Trust recognises the importance of addressing issues raised by CQC, and has taken action to address the issues raised (with specific action plans developed to ensure and track action and progress).</p> <p>The Trust is awaiting the results of a full inspection by CQC, which will provide an independent assessment of the progress that has been made.</p>

# 3. VFM arrangements - Identified significant weaknesses and our recommendations

## Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified a significant weakness in the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources. The identified weaknesses have been outlined in the table below along with our recommendations for improvement.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p><b>NHS Improvement license conditions</b></p> <p>The Trust has outstanding license conditions in relation to financial planning breaches arising from enforcement action by Monitor (now NHS Improvement) between 2013 and 2015. The fact that Trust has failed to achieve sufficient progress for these conditions to be lifted, provides evidence of ongoing weaknesses in the Trust’s arrangements, impacting on its ability to plan finances to support the sustainable delivery of services in accordance with its, and the wider systems, strategic and statutory priorities.</p> <p>The Trust has engaged with NHSI and is working through the actions required by the regulator that are needed to enable the remaining conditions to be removed.</p>	●			<p>The Trust should continue to take action in response to the issues raised by regulators in relation to financial planning, to appropriately manage financial risk and demonstrate financial sustainability. We recommend that Trust delivers the action plan that is being developed with NHS Improvement to address the outstanding breaches of license conditions. In particular, the Trust now needs to develop a three-year medium term financial plan linked to the revised Trust Strategy. Arrangements for challenging and scrutinising financial risks and performance, including escalation arrangements, should be revisited to ensure they remain ‘fit for purpose’ and drive the required improvements.</p>	<p>We issued our recommendation for improvement to the Trust in our Audit Progress Report. As a result, there has not yet been time for the Trust to address our recommendation in full.</p> <p>The Trust recognises the importance of addressing the outstanding license conditions, and this process is being led by the Interim Chief Executive.</p>

# 3. VFM arrangements - Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Background to the NHS financing regime in 2020/21

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020-21 was suspended and a new financial regime was implemented. For the first half of the year (April to September 2020) all NHS trusts and NHS foundation trusts were moved to block contract payments 'on account' and the usual Payment by Results national tariff payment process was suspended. The Financial Recovery Fund was also suspended and NHS providers were able to claim for additional costs due to COVID-19. Whilst commissioner allocations for 2020-21 had already been notified, individual commissioner financial positions were kept under review and top-up payments were issued to CCGs to cover the difference between allocations and expected costs to pass on to providers.

For the second half of the year (October 2020 to March 2021) there was a move to "system envelopes" with funding allocations covering most NHS activity made at the system level, including resources to meet the additional costs of the Covid-19 pandemic. There were no further general retrospective top-up payments and all Covid-19 costs from that point were funded through the fixed Covid-19 funding allocation with a few exceptions.

Systems were expected to achieve financial balance within this envelope and individual organisations were able to deliver surplus or deficit positions by mutual agreement within the system. However, NHS trusts and foundation trusts were still required to meet statutory break-even duty and CCGs required to meet their resource limits.

### The Trust's financial planning and monitoring arrangements

As identified in the significant weaknesses section of our report (pages 12 and 13), at the beginning of the 2020/21 financial year, the Trust was addressing issues in relation to the 2019/20 financial outturn.

During 2019/20, the financial position was reported as being on track until significant overspends were revealed early in 2020. This called into question the quality of financial monitoring and reporting during the year, and led to changes in senior personnel. The immediate financial problem for 2019/20 (an unplanned deficit of £3.9m) was addressed through support from the integrated care system. These issues had ongoing impacts into the 2020/21 financial year in terms of a need to strengthen financial monitoring and oversight. The issues arising led the Trust to commission an external review, which reported in September 2020. This highlighted a number of measures including improved financial reporting, development of integrated financial and performance reporting, strengthening the finance team and enhancing the role of the Board.

The Trust had already taken immediate action to address the issues and the improved arrangements were further strengthened and embedded throughout the year.

Our review of Board and other Committee papers during the first quarter of 2020/21 demonstrated robust action was being taken to address the issues with the 2019/20 outturn, there was evidence of a comprehensive review of the issues that had arisen, and strengthened financial monitoring was put in place with a good level of scrutiny and challenge.

The financial plan for the first half of 2020/21 included a requirement for top-up funding for the first half of the year to support the Trust in achieving its forecast break-even position. The agendas and minutes of the Finance and Performance Committee demonstrated close monitoring of all aspects of the financial position and there was appropriate reporting to the Board. Top-up funding supported the achievement of the break-even position.

A revised financial plan was approved by the Board for the second half of 2020/21, the period from October 2020 to March 2021. The financial position was managed under the South Yorkshire and Bassetlaw Integrated Care System (ICS). The Trust's financial plan was based on a total deficit of £7.6m, adjusted for allowable offsets to a £3.4m deficit to assess the Trust's underlying financial performance. The assumptions made by management appeared reasonable, the reports were clear and concise and adequate scrutiny by the Board was evident.

The Trust continued to monitor performance against this plan throughout the remainder of the financial year. The monitoring reports were comprehensive and demonstrated a good grip on the financial position, including actions to reduce the projected deficit. We reviewed a sample of reports presented for 2020/21, which contained evidence of a clear summary of the Trust's performance, detailing any variances and providing adequate explanation of the causes.

The Trust reported a final outturn position at 31 March 2021 of a deficit of £1.7m. If non-cash technical items are excluded then the final position was a £473k surplus. This was a significant improvement against the planned position.



# 3. VFM arrangements - Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria (continued)

### The Trust's arrangements for the identification, management and monitoring of funding gaps and savings

The Trust is aware that the issues that emerged in relation to the 2019/20 outturn are indicative of an underlying recurring deficit that needs to be addressed, so that the Trust's underlying financial position is sustainable when we return to more normal funding arrangements.

One key way in which the Trust is tackling this position is through the Cost Improvement Programme (CIP), which has been reintroduced as a key measure for 2021/22. A CIP target has been set for 2021/22 of £5m, which is above the level required by national guidance. The Trust are weighting the delivery of the CIP target towards the second half of the year, given the continuing impact of the pandemic, but delivery of this will be critical to addressing any structural deficit.

### The Trust's arrangements and approach to 2021/22 financial planning

For the first half of 2021/22 the NHS will remain under the same financial arrangements as for the second half of 2020/21. The arrangements will continue to include system funding envelopes. Block payments will remain in place for relationships between CCGs and NHS providers. NHS England and improvement (NHSE/I) have nationally calculated CCG and NHS provider organisational plans as the default positions for systems and organisations to adopt. These then provide a starting point for budget management without the need to complete an extensive planning process.

The requirement has been to submit plans for the first half of 2021/22. In April 2021, the Trust developed an initial plan for 2021/22 based on a forecast break-even position, with a contingency of £710k. We have reviewed the underlying assumptions used in the 2021/22 financial plan, and the identified risks and opportunities, and have concluded that management's assumptions are reasonable. It is clear that the Trust is closely monitoring the progress against plan to date, is fully aware of where the pressures lie and continues to identify mitigating actions address issues arising.

As identified in the significant weaknesses section of this report (page 15), the Trust has outstanding license conditions in relation to financial planning breaches arising from enforcement action by Monitor (now NHS Improvement) between 2013 and 2015. A key challenge for the Trust in terms of removing the outstanding license conditions will be to provide assurance over financial planning arrangements, and an important objective now needs to be to develop a three-year medium term financial plan linked to the revised Trust Strategy.

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# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### The Trust’s risk management and monitoring arrangements

The Board Assurance Framework (BAF) is subject to annual review:

- to ensure that risks held on the Board Assurance Framework/Corporate Risk Register are still relevant and reflect the key strategic risks to delivering the Trust’s Strategic Ambitions;
- to identify and agree any new risks to the delivery of the Trust’s Strategic ambitions; and
- to review the risk appetite framework and ensure the level of risk taken by the organisation for each key risk appetite category is still appropriate.

As well as this overall review each year, the BAF is subject to quarterly review by the Board. This follows consideration by individual committees of the risks they are responsible for and review of all risks by the Audit Committee. These processes are confirmed by our review of minutes and attendance at Audit Committee.

The Trust has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. The processes are supported by the Trust-wide Risk Management Framework and the Trust leadership plays a key role in implementing and monitoring the risk management process.

All risks, externally and internally generated including financial, are managed and monitored through the Trust’s risk management process. The Audit Committee and the Board are among those that receive a quarterly integrated Risk Management Report and Risk Register showing all risks rated above level 15. This allows for scrutiny and challenge by the Trust leadership.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Trust has appointed internal auditors who also provide a local counter fraud specialist role. Work plans are agreed with management at the start of the financial year and reviewed by Audit Committee prior to final approval.

We have reviewed the Internal Audit Plans for 2020/21 and 2021/22. Progress reports are presented to each Audit Committee meeting including follow up reporting of recommendations not fully implemented by agreed due dates. This allows the Committee to effectively hold management to account on behalf of the Board. Our attendance at Audit Committees throughout the period confirms the significance placed on internal audit findings.

In June 2021, the Audit Committee received the Head of Internal Audit Opinion for the 2020/21 financial year. The opinion, which clarified that it only related to work that was in scope during the year, stated:

*I am providing an opinion of moderate assurance that there is a generally sound framework of governance, risk management and control, however, inconsistent application of controls puts the achievement of the organisation’s objectives at risk.*

The Internal Auditor highlighted in particular the three internal audit reports that resulted in an assessment of limited assurance, and high risk issues identified in relation to its reviews of eRostering and Learning from Deaths governance. Internal Audit also reflected on some of the areas highlighted in our report, including financial governance, the Greenoaks project and CQC findings.

On a positive, Internal Audit also reflected on the implementation of recommendations due in the year (96% achieved), and the Trust’s staff survey results which “were the fifth most improved in the country, demonstrating above average benchmark results across eight out of ten themes, and year-on-year improvements across all themes.”

### The Trust’s arrangements for budget setting and budgetary control

The budget process is developed through a consultative process with divisions and corporate services, along with centrally calculated factors. Financial planning assumptions (reflecting the agreed budget setting methodology) are built into the financial plans that are produced.

The Financial Plan is developed to reflect the best available information and assumptions including funding growth, inflation costs, cost pressures, activity levels, efficiency plans and service priorities. Budgets are flexed in-year if new issues are identified or if activity levels are not as planned.

Monthly budget and financial monitoring reports are produced both at divisional and corporate level.

Finance managers work with divisions and budget holders to ensure that budget variances are explained and appropriate corrective action taken.

Reporting on financial performance is generated from the Agresso financial ledger, and is reported consistently through to budget holders, Executive Team, Finance and Performance Committee and the Board.

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria (continued)

An Integrated Performance Report is produced each month and includes financial performance alongside a range of operational and quality indicators. This is designed to support informed decision making.

### The Trust’s decision making arrangements and control framework

The Trust has an established governance structure and has a full suite of governance arrangements in place. These are set out in the Trust’s Annual Report and Annual Governance Statement. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the Trust’s arrangements, in place and operating. This includes arrangements such as registers of interests being maintained and published and the Board completing an annual review and self certification of its compliance with the conditions of the NHS provider licence.

It is important to recognise that the governance framework is not just about financial arrangements and controls relating to the finances. Governance is also concerned with the primary objectives of the Trust to provide care to its patients, and this is reflected in a range of operational management arrangements and risks, not least of which over the last year has been concerned with management in the context of the global pandemic and the wide ranging challenges this has presented to the Trust.

The Care Quality Commission (CQC) independently assesses the quality of patient care provided by the Trust. As identified in the significant weaknesses section of this report, there were adverse findings reported by CQC during the year. We have highlighted the issues raised by CQC in the significant weaknesses section of this report (page 14). The Trust recognises the importance of addressing these issues and there is extensive evidence of the Board closely monitoring progress against the action plans put in place to deliver improvement.

The CQC have recently carried out a full inspection of the Trust, and its forthcoming report will provide independent assurance on how well the Trust has addressed the urgent issues it has raised and how well the Trust is doing overall.

In the significant weaknesses section of this report we highlighted a number of issues in relation to governance and financial management (pages 12 and 13). The Trust clearly understood the significance of the weaknesses and the need to address the issues arising. The governance and financial management issues were identified and addressed by the Trust itself over the course of the year. As part of this process the Board developed a Governance Action Plan, the delivery of which continues to be monitored. This aims to both improve governance processes and make changes where needed and to strengthen / sharpen the operation of the processes that are already in place.

# 3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

## Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

### The Trust’s arrangements for assessing performance and evaluating service delivery

COVID-19 affected service delivery in 2020/21 and has made it difficult to consider current year activity against previous years and determine potential improvements. The Trust is also uncertain in some areas what the post COVID world will mean for service delivery as the Trust looks to model unknown future demand and deal with the long-term impact of the pandemic.

There has reported regularly on the Trust’s financial and operational performance throughout the year providing an opportunity for the Trust to identify and investigate any areas of under delivery. There are a wide range of performance metrics and monitoring within the reports. During the year the Trust developed further its approach to integrated financial and performance reporting. The reports address the four domains of Quality, Operational Delivery, Finance and workforce.

We have read and reviewed the Trust’s Annual Report and Accounts, which set out its performance against key indicators and how it evaluates and assesses performance and improvement opportunities.

The Care Quality Commission (CQC) independently assesses the quality of patient care provided by the Trust, which is a key element of performance and service delivery. As identified in the significant weaknesses section of this report, there were adverse findings reported by CQC during the year. We have highlighted the issues raised by CQC in the significant weaknesses section of this report (page 14). The Trust recognises the importance of addressing these issues and there is extensive evidence of the Board closely monitoring progress against the action plans put in place to deliver improvement.

### The Trust’s arrangements for effective partnership working

The Trust is a member of the South Yorkshire and Bassetlaw Integrated Care System (ICS). The Interim Chief Executive provides regular updates on ICS activity to the Trust Board. The Trust has worked with its partners in the ICS in developing a financial plan within the funding allocated. This included agreement on how to manage any financial risks associated with the financial plans.

Due to the revised arrangements in place in 2020/21, the Trust has increasingly had to work with partner organisations across the ICS to deliver a sustainable financial position for the wider area in addition to overseeing the Trust’s financial sustainability.

### The Trust’s arrangements for commissioning and procurement

The Trust has a professionally qualified procurement team with appropriate and up to date procurement policies and processes overseen by these professionals, including standing financial instructions.

The procurement team manage a tendering and contract management portal to identify contract renewals and advertise new opportunities. There are reports to Audit Committee on any tender waivers and / or any breaches in financial regulations.

In the significant weaknesses section of this report (pages 12 and 13), some issues were raised in relation to aspects of commissioning / procurement in respect of the Carbon Energy Fund project and the Greenoaks project.

We noted in relation to the Carbon Energy Fund project that the position on the project has been regularised, including securing the required CDEL cover, and the project proceeded during 2020/21. The Board has sought to learn the lessons from this experience and apply this learning to business case development in future.

We also noted that lessons have been learned from the Greenoaks project to avoid future breaches of standing financial instructions. This includes placing an immediate cap of £200k on any work undertaken with the current measured term contract, a proposed redesign and retender of the measured term contract to enable better management control of costs, and ensuring that all work over £200k is subject to separate traditional tendering processes.

# 04

Section 04:

**Other reporting responsibilities and  
our fees**

# 4. Other reporting responsibilities and our fees

## Matters we report by exception

The NHS Act 2006 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest; and
- make a referral to the regulator.

We have not exercised any of these statutory reporting powers.

We are also required to report if, in our opinion, the governance statement does not comply with relevant guidance or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

## Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We completed the required procedures and concluded and reported, on the 11 June 2021, that the consolidation data was consistent with the audited financial statements.

# 4. Other reporting responsibilities and our fees

## Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum, dated 21 January 2021, and presented to the Audit Committee on 29 January 2021. Having completed our work for the 2020/21 financial year, we can confirm that our fees are unchanged from the planned fees as follows:

Area of work	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice	£90,000
Additional fees	£0
<b>Total fees</b>	<b>£90,000</b>

*All fees are subject to VAT*

Due to the COVID-19 pandemic our work on the Trust's Quality Report was cancelled in 2020/21. There were no fees arising in relation to this work in 2020/21.

## Fees for other work

We confirm that we have not undertaken any non-audit services for the Trust in the year.

# Mark Dalton, Director – Public Services

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