



Auditor's Annual Report 2021/22

**Calderdale and Huddersfield NHS
Foundation Trust**

July 2022

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This report is addressed to Calderdale and Huddersfield 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 Calderdale and Huddersfield NHS Foundation Trust (the ‘Trust’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

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

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

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

| | |
|------------------------|---|
| Accounts | <p>We issued an unqualified opinion on the Trust’s accounts on 8 July. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p> |
| Annual report | <p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p> |
| Value for money | <p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p> |
| Other reporting | <p>We did not consider it necessary to issue any other reports in the public interest.</p> |

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>The Trust last undertook a full revaluation of its land and buildings in 2018/19 and a desktop exercise was undertaken in 2021/22 to reflect changes in indices and market conditions.</p> <p>We determined this area as a significant risk due to the size of the balance and the judgement involved in determining the carrying amounts of land and buildings.</p> | <p>Our work assessed the competence of the independent valuer engaged by the Trust to value its properties. We also assessed the reasonableness of the key underlying assumptions to the valuation to ensure the recognised balance was not materially misstated. Additionally we considered whether there were any indicators of impairment for the land and buildings held by the Trust, with none identified. We reconciled the balances and valuation movements disclosed in the financial statements back to the valuation report provided to the Trust.</p> <p>We did not identify any material misstatements relating to this risk. We considered the estimate to be balanced based upon the procedures performed.</p> |
| <p>Fraudulent expenditure recognition - existence</p> <p>As the Trust agrees a financial plan as part of the ICS planning process, there is a risk that non-pay expenditure may be manipulated in order to report that the plan has been delivered.</p> <p>The setting of a plan can create an incentive for management to overstate the level of non-pay expenditure compared to that which has been incurred. We consider this would be most likely to occur through overstating accruals, for example to bring forward expenditure to 2021/22</p> | <p>We tested the design and implementation of controls over expenditure. We inspected a sample of expenditure transactions through to supporting documentation and also selected a sample of transactions posted around the year end to ensure they had been accounted for in the correct period.</p> <p>We also considered the outputs of the national Agreement of Balances (AoB) exercise with other NHS organisations to give us assurance with regards to the completeness and existence of expenditure recognised with NHS organisations.</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 identified higher risk journal transactions and agreed these back to supporting evidence / documentation to ensure they had been posted appropriately. We considered any significant transactions that were outside the course of the Trust's usual business.</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 | Overall – Good Use of resources – Requires Improvement |
| Governance statement | There were no significant control deficiencies identified in the governance statement. |
| Head of Internal Audit opinion | Unqualified – Significant 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 risks identified | No significant weaknesses identified |
| Governance | No significant risks identified | No significant weaknesses identified |
| Improving economy, efficiency and effectiveness | No significant risks identified | No significant weaknesses identified |

| 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 revised funding arrangements introduced in light of the pandemic were extended into the 2021/22 financial year. For H1 (April to September 2021) NHSE/I provided funding via system allocations based on the 2020/21 outturns adjusted for known pressures and efficiency assumptions, with block funding arrangements between providers and key commissioners. For H2 (October 2021 to March 2022) these arrangements were extended, with additional efficiency assumptions incorporated into the guidance.</p> <p>The Trust developed its financial plans for 2021/22 in the context of the West Yorkshire Integrated Care System (WYICS) in which it operates. Assumptions were based on NHSE/I planning guidance at a system level. This included incorporating individual entities workforce and operational plans. Due to the revised NHS funding arrangements the Trust does not request separate financial recovery funding as this is included within its base allocation. The Trust has also found that its management of cash flow is more favourable under this regime as block payments are made at the start of the financial year and then monthly after that.</p> <p>The H1 breakeven financial plan identified an efficiency requirement of £3m. Due to its relative size, this efficiency was delivered by taking a transactional approach and no formal efficiency plans/project management arrangements were implemented, in line with the Department of Health and Social Care (DHSC) requirements for 2021/22. The Trust maintained their Cost Improvement Programme monitoring throughout the year and reported a balanced outturn for H1 thus demonstrating that the efficiency requirement had been met. The efficiency target for H2 was more challenging and this was flagged early on to the Board to highlight the potential risk of non-delivery/slippage. The combined financial plan that was presented to the May 2021 Finance and Performance committee referred to a potential H2 requirement of £14.2m. However as the planning guidance for H2 was finalised and issued, this requirement was reduced to £6.7m. The main reason was the uncertainty around some elements of elective recovery funding was reduced and additional "ERF plus" funding was available that the Trust was able to access during H2. This has also meant the Trust has not needed to deliver the full efficiency requirement for H2.</p> <p>The Trust has submitted the full year financial plan for 2022/23 as part of the WYICS plan. The plan is based on NHSE/I guidance that the current block income arrangements remain in place for 2022/23. The Trust has identified a significant financial gap in its draft plans and is forecasting a deficit of £42.35m. However this is reduced to £17.35m after an efficiency requirement of £20m and £5m Covid-19 exit costs. Recognising that this level of efficiency requirement would require significant input in developing the related schemes/plans, the Trust held a planning day at the beginning of March to start the efficiency identification process. An Effective Resources Group (ERG) meets weekly to discuss these schemes and wider financial sustainability matters. The ERG is chaired by the Chief Executive Officer and attended by members of the Executive team including the Director of Finance, Director of Workforce and the Medical Director. Schemes totalling £20m have been identified, each scheme has been risk rated and delivery of the savings are monitored by the ERG.</p> |

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 Trust assesses and manages risks to financial sustainability through its risk strategy and associated policies and procedures. Our review of finance reports presented to the Finance and Performance Committee and also the Board show that overall financial impact and the associated risks were included within the narrative.</p> <p>The Trust was placed in breach of licence in January 2015. This was due to an unplanned year end deficit of £4.2m and was followed by the Care Quality Commission rating the Trust as 'Requires Improvement' in 2018 for the Use of resources inspection. The Trust entered a period of financial recovery following the breach, relying on DHSC support funding and loans to deliver the agreed control total each year. A key element of the recovery is dependent upon approval of the Trust's £197m reconfiguration scheme and resulting service transformation plans by the Secretary of State. As at 31 March 2022, the Outline Business Case has been supported by NHSE/I and approved at the national Joint Investment Committee. It now requires approval from HM Treasury.</p> <p>The Trust recognises that the temporary arrangements that have been in place since March 2020 have masked underlying financial sustainability risks. The 2022/23 financial planning process to date has highlighted the significant challenges the Trust continues to face in relation to its financial sustainability. The WYICS draft 2022-23 financial plan shows a balanced forecast, although there is variability across individual organisations. As part of the financial planning process for the WYICS, a deep dive was undertaken by the WYICS Finance lead to understand the factors underlying the financial gap for the Trust, that prevents it from delivering a balanced plan. This recognised that system-wide action is required to close the gap rather than specific actions by the Trust in isolation.</p> <p>Conclusion 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 secure value for money.</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>Strategic risks identified by Directors are based on the strategic objectives agreed at the start of the financial year. These strategic risks are recorded within the Board Assurance Framework (BAF) with risks scored using a 5x5 risk matrix to identify the current and target scores. The risks are updated regularly by risk owner, a Director, and are reviewed at the relevant lead Board Sub-Committee meetings. Oversight of strategic risks is performed by the Audit and Risk Committee (ARC) and the BAF is approved by the Trust Board. Financial risks are routinely reported to the Finance and Performance Committee (F&P) on a monthly basis and regularly discussed in this forum. The F&P Committee also has responsibility for specific BAF risks which are scheduled for regular in depth review prior to being received at Board meetings.</p> <p>The Trust has in place a Counter Fraud, Bribery and Corruption policy that was updated during the year in October 2021. The Trust also has a Local Counter Fraud Specialist as part of its internal audit provision. The ARC receives the Local Counter Fraud Workplan each year, supported by regular progress reports on the plan and also information on investigations that have been carried out and any additional national briefings that are shared with the Trust.</p> <p>The financial plan is presented each year to the F&P Committee to be reviewed, before taking the final version to the Board prior to submission. Due to delayed receipt of financial plan guidance for 2021/22, the H1 plan for 2021/22 was submitted to NHSE/I on 24 June 2021, and the H2 plan was submitted on 25 November 2021. The paper that was presented each time included commentary on the relevant financial risks.</p> <p>Budget holders receive monthly budget reports via an online portal. Budget variances are monitored against agreed tolerances and escalation protocols enacted accordingly. Full escalation to Executive Director level has been paused during 21/22 due to Covid but monitoring and discussions have been maintained at Divisional level.</p> <p>The Trust monitors its compliance with laws and regulations on an ongoing basis through the year, gaining assurance through commissioned internal audits, as well as other routes. The Governance Lead co-ordinates and monitors compliance with applicable legislation and regulatory standards, with the ARC receiving a compliance report each year setting out various compliance matters.</p> |

Value for money

| Governance | |
|---|---|
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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>The Trust has various forums that consider value for money and key strategic decisions. This includes the Executive Board, the Commercial and Investment Strategy Group and formal sub-committees such as the Transformation Programme Board and the Finance & Performance Committee. The Effective Resources Group also has a role to play in monitoring the Trust's performance against delivering the required efficiencies and financial savings to support the financial plan.</p> <p>Performance of services are monitored through the Integrated Performance Report (IPR), which reports on over 100 performance indicators, including CQC requirements. This is taken to and challenged by the Trust Board, as well as its sub-committees including the Quality Committee and the Finance and Performance Committee.</p> <p>A red, amber, or green rating is allocated to all performance indicators within the IPR, highlighting where improved performance is needed. Audits are performed over both red and green Key Performance Indicators (KPIs), including deep dives, with the results being reported to the Data Quality Board, Executive Board and the Finance and Performance Committee.</p> <p>The Trust is part of the West Yorkshire Association of Acute Trusts and also an active member of the ICS. Updates on activities and performance of these partnerships is provided to the Trust Board, the Executive team and relevant sub committees of the Board. The Trust cascades information from the ICS via its own communication channels.</p> <p>The Trust outsources its facilities management services to its fully owned subsidiary, Calderdale and Huddersfield Solutions Limited. A joint Trust and CHS Liaison Committee is in place to oversee the delivery of the arrangement at Huddersfield Royal Infirmary and assess any performance issues through the measuring of KPIs and reporting. An example of a review performed as a result of this monitoring during 2021/22 is a deep dive into the non-achievement of a standard relating to portering services.</p> <p>In respect of the provision of services by external subcontractors, the performance of the Private Finance Initiative (PFI) contractor in relation to the Calderdale site is reviewed monthly and monitored against the contract requirements, as well as a monthly contract performance meeting. Performance penalties are in place should the subcontractor fail to meet performance criteria.</p> |

Value for money

Improving economy, efficiency and effectiveness

| Description | Commentary on arrangements |
|---|--|
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