

Auditor's Annual Report

Derbyshire Healthcare NHS Foundation
Trust – year ended 31 March 2022

June 2022



Contents

- 01** Introduction
- 02** Audit of the financial statements
- 03** Commentary on VFM arrangements
- 04** Other reporting responsibilities

This document is to be regarded as confidential to Derbyshire Healthcare NHS Foundation Hospitals Trust. It has been prepared for the sole use of the Audit & Risk Committee as the appropriate sub-committee charged with governance by the Board of Directors. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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 Derbyshire Healthcare NHS Foundation Trust ('the Trust') for the year ended 31 March 2022. 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 16 June 2022. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report to be issued we report that we have completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and have not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Trust's arrangements.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, we plan to report that the Trust's consolidation schedules were consistent with the audited financial statements.

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities

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 is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2022 and of its financial performance for the year then ended. The table summarises the key risks we identified to address through our work on the financial statements, how they were addressed and the conclusions we reached.

Audit Risk	Level of audit risk	How we addressed this risk	Audit conclusions
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p>	<p>Significant risk: an area that, in our judgment, requires special audit consideration.</p>	<p>We addressed this risk through performing audit work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to extract accounting journals for detailed testing based on specific risk characteristics.</p>	<p>There are no matters to report in respect of management override of controls.</p>
<p>Valuation of land & buildings</p> <p>Land, buildings and assets under construction are a significant balance in the Trust's statement of financial position, accounting for £95.8m of the Trust's £102.5m property, plant and equipment balance at 31 March 2022. The valuation of these assets is complex and is subject to a number of assumptions and judgements,.</p>	<p>Significant risk</p>	<p>We have addressed this risk through a range of procedures, including:</p> <ul style="list-style-type: none"> testing a sample of valuations, reviewing the valuation methodology used and the underlying data and assumptions; and considering the reasonableness of the valuation by comparing the valuation output with market intelligence and challenging the Trust's and the valuer's approach. 	<p>Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.</p>
<p>Recognition of capital expenditure and incorrect capitalisation of revenue spend</p> <p>The Trust has a significant capital programme in place for 2021/22, with £6.9m being capitalised during the year. The level of work in progress (Assets Under Construction) was also high with £7.6m being recorded at the year end. Capital expenditure is met from ring-fenced funding and with the Trust's large capital programme, we set an enhanced audit risk relating to the need to ensure that expenditure that has been capitalised meets the definition of capital expenditure and is correctly accounted for.</p>	<p>Enhanced risk: an area of higher assessed risk of material misstatement that requires additional consideration but does not rise to the level of a significant risk.</p>	<p>We have addressed this risk through a range of procedures, including:</p> <ul style="list-style-type: none"> considering the arrangements the Trust has in place to mitigate the risk of revenue expenditure being incorrectly classified; substantively testing the appropriateness of a sample of capital additions and considering the Trust's approach to addressing the value added nature of the expenditure. 	<p>There are no matters to report in respect of the recognition of capital expenditure and the risk of incorrect capitalisation of revenue spend.</p>

Our audit report, issued on 16 June 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Introduction

Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities

03

Section 03:

**Our work on Value for Money
arrangements**

3. VFM arrangements

Overall Summary



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

Introduction




Audit of the financial statements

Commentary on VFM arrangements

Other reporting responsibilities

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	2020/21 Actual significant weaknesses identified?	2021/22 Commentary page reference	2021/22 Identified risks of significant weakness?	2021/22 Actual significant weaknesses identified?	2021/22 Other recommendations made?
 Financial sustainability	No	11	No	No new matters arising in 2021/22.	No
 Governance	No	14	No	No new matters arising in 2021/22.	No
 Improving economy, efficiency and effectiveness	No	16	No	No new matters arising in 2021/22.	No

3. VFM arrangements

Financial Sustainability

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



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

Position brought forward from 2020/21

As set out in the table above, there are no indications of a significant weakness in the Trust’s arrangements for financial sustainability from 2020/21.

Background to the NHS financing regime in 2021/22

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 second half of the 2020/21 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. The 2021/22 financial year was also split into two halves, with a different funding regime in each. However, the regimes were largely a continuation of those introduced in 2020/21 in response to COVID-19, where system envelopes and block payment arrangements remained in place.

The 2021/22 H1 (April 2021 to September 2021) envelopes comprised of adjusted CCG allocations, system top-up and COVID-19 fixed allocation, based on the H2 2020/21 envelopes, adjusted for known pressures and policy priorities. The 2021/22 H1 NHS guidance also confirmed that block payment arrangements would remain in place for relationships between NHS commissioners and NHS providers. The guidance for H2 (October 2021 to March 2022) confirmed that the arrangements would stay broadly consistent with a continuation of the H1 framework. The 2021/22 H2 “system envelopes” contained adjusted CCG allocations, system top-up and COVID-19 fixed allocation, based on the H1 2021/22 envelopes adjusted for additional known pressures, such

as the impact of pay awards, and increased efficiency requirements.

Over the course of the year and into 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system. This has facilitated the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position in 2021/22, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for 2022/23 supports the transition back to local agreement of contracts, and requires systems to achieve a break even position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

Overall responsibilities for financial governance

We have reviewed the Trust’s overall governance framework, including Board and committee reports, the Annual Governance Statement, and Annual Report and Accounts for 2021/22. These confirm the Trust Board undertook its responsibility to define the strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Trust’s service users.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

The Trust’s financial planning and monitoring arrangements

Through our review of board and committee reports, meetings with management and relevant work performed on the financial statements, we are satisfied that the Trust’s arrangements for budget monitoring remain appropriate, and these include:

- Standing Financial Instructions with relevant provisions for budgetary control and reporting
- Oversight from the Trust Board and its Committees, through an Integrated Performance Report and detailed reports on finance, have received regular reports on financial performance and planning.
- The Trust has well established arrangements for year-end financial reporting, where we have seen consistently good performance each year, despite increasing challenges placed on the finance team concurrent financial reporting and 2022/23 financial planning deadlines.

The Trust’s financial outturn for 2020/21 does not indicate any significant VFM issues.

From the draft Financial Statements prepared for audit, the Trust has positive net assets of £99m and positive cash balance of £44m. The Income and Expenditure Reserve is a positive £11m. The 2021/22 Financial Statements provided for audit showed a £4m operating surplus and final surplus for the year of £63k. As shown in Note 15 of the financial statements, the Trust spent £6.8m on additions to Property, Plant & Equipment and our substantive testing of capital additions did not identify any issues.

The Trust’s arrangements and approach to Financial planning 2022/23

For 2022/23 the NHS will revert to contracting arrangements instead of the current block payments system introduced to simplify arrangements during the Covid pandemic. The Trust continues to work collaboratively with the Integrated Care System (Joined Up Care Derbyshire) through the development of the financial plan for 2021/22 and 2022/23. The system is currently planning for a deficit position, due to a reduction in non-recurrent income as a result of changes to COVID funding, as well as in year cost pressures. The overall system deficit is £65.9m and the Trust’s contribution is a £0.7m deficit.

We reviewed the 2022/23 financial plan and have discussed it with management. The plan forecasts an operating surplus of £5.7m, reducing to an overall deficit for the year of £0.7m, which is dependent on the achievement of efficiency savings of £6m, of which £3.7m are recurrent. In the initial planning guidance, Trust’s were asked to follow NHSE/I assumptions of 2.8% pay inflation (fully funded) and non-pay inflation of 2.7%, the rationale being that many Trust contracts are at a fixed price for 2022/23 (e.g energy) and nil inflation on these contracts will offset higher rises on others. In May 0222, NHSE/I requested all bodies to submit a revised financial plan on 20 June 2022 and the promise of providing detail on what additional funding will be made available to cover inflation above planning assumptions. Based on our discussions with management and our understanding of the approach being adopted by NHSE/I, we do not believe this has any reflection on the quality of the Trust’s arrangements for financial planning.

Through considering the Trust’s arrangements as summarised above, we have not identified a risk of significant weakness in arrangements for 2021/22.

3. VFM arrangements

Governance

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



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

Based on our work, we are satisfied that the Trust has established governance arrangements, consistent with previous years, in place. These are detailed in the Annual Report and Annual Governance Statement. We have considered both documents against our understanding of the Trust as part of our audit.

Our review of the Trust’s Annual Report and Governance Structure confirms that the Board of Directors carries the final overall corporate accountability for its strategies, its policies and actions as set out in the Codes of Conduct and Accountability issued by the Secretary of State. In order to discharge its responsibilities for the governance of the Trust, the Board has established a number of Committees of the Board:

- Audit and Risk Committee;
- Finance and Performance Committee;
- Mental Health Act Committee;
- Quality and Safeguarding Committee; and
- Remuneration and Safeguarding Committee.

We consider the committee structure of the Trust is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge. Minutes are published and reviewed by the Trust Board to evidence the matters discussed, challenge and decisions made.

The Trust has a well-developed risk management process and Board Assurance Framework (BAF). The Audit Committee and Board oversees significant risk with regular reviews in specific areas. Our review of the BAF and attendance at audit committee confirms that the BAF and risk register is sufficiently detailed to effectively

manage key risks. No significant weakness in internal control identified from our work nor from the work of Internal Audit.

We have attended Audit & Risk Committee meetings and reviewed supporting documents and are satisfied that the programme of work is appropriate for the Trust’s requirements. Our attendance at Audit & Risk Committee has confirmed there continues to be an appropriate level of effective challenge.

Through considering the Trust’s arrangements as summarised above, we have not identified a risk of significant weakness in arrangements for 2021/22.

3. VFM arrangements

Improving Economy, Efficiency and Effectiveness

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Significant weakness in 2020/21	Nil.
Significant weaknesses identified in 2021/22	Nil.

The Trust has in place a performance management and accountability framework, which details how operational, performance and financial issues are identified, stratified and reported through the organisation. We have reviewed key reports issued by the Board and confirmed the Trust reports its performance in several different ways, including:

- an Integrated Performance Report to Board, with Committees also providing detailed scrutiny challenge of performance reports at their meetings;
- the publication of the Annual Report, and Annual Governance Statement, which are reviewed by the Audit & Risk Committee before adoption by the Trust Board.

Our review of Board and Committee reports confirms that the Finance and Performance Committee and the Trust Board have continued to receive regular Integrated Performance Reports covering Finance, Quality and Operations, and Workforce. Performance is summarised in an assurance summary dashboard, which shows performance against target and over time. Board members are also able to triangulate information from this report with the assurance summaries from each Committee, where more in depth reports are provided. Our review confirms the reports provide sufficient detail to understand performance and published minutes demonstrate sufficient challenge from non-executive directors on the Trust’s costs, performance and service delivery.

We have considered that the Care Quality Commission (CQC) report on the Trust, where the Trust remains “Good”. We also reviewed NHSE/1’s website and confirmed, as at 17 May 2022, the Trust is in Segment 2 of the system oversight framework “Plans that have the support of system partners in place to address areas of

challenge”.

The Trust works closely with its local partners in the Derbyshire (‘Joined up Care’) Integrated Care Systems (ICS) and through its representation on relevant leadership and functional groups and workstreams. The Trust has worked with its partners in the ICS and continues to develop ICS level planning arrangements for 2022/23. Our review of Board reports confirms that the Board is regularly briefed on the Trust’s engagement with System partners and any emerging issues.

Through considering the Trust’s arrangements as summarised above, we have not identified a risk of significant weakness in arrangements for 2021/22.

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 have concluded and reported that the consolidation data is consistent with the audited financial statements.

Mark Surridge

Mazars

2 Chamberlain Square

Birmingham

B3 3AX

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

*where permitted under applicable country laws.