



# Auditor's Annual Report 2021/22

**Chesterfield Royal Hospital  
NHS Foundation Trust**

June 2022

## Key contacts

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This report is addressed to Chesterfield Royal Hospital 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 Chesterfield Royal Hospital 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.
- **Regularity** - We assess whether expenditure incurred is in line with the purposes for which it was provided.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

## Findings

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

<b>Accounts</b>	<p>We issued an unqualified opinion on the Trust's accounts on 21 June 2022. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
<b>Annual report</b>	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
<b>Value for money</b>	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
<b>Regularity</b>	<p>We did not identify any matters where irregular expenditure had been incurred.</p>
<b>Other reporting</b>	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

# Accounts audit

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p><b>Valuation of Property, Plant and Equipment</b></p> <p>There is a risk of material misstatement due to error in the valuation of land and building assets, either due to data inputs (e.g. floor areas) being incorrect or accounting estimates (e.g. market indices) not being appropriate.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>
<p><b>Management override of controls</b></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p><b>Fraudulent expenditure recognition</b></p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We consider this would be most likely to occur through understating accruals for example to bring forward expenditure from 2022/23 to mitigate financial pressures.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p><b>Fraudulent revenue Recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We recognise that the incentives in the NHS differ significantly to those in the private sector which have driven the requirement to make a rebuttable presumption that this is a significant risk. These incentives in the NHS include the requirement to meet regulatory and financial covenants, rather than broader share-based management concerns.</p> <p>As the Trust is required to meet a control total at the end of the year this may create an incentive for revenue to be manipulated in order to achieve budgeted financial performance. We anticipate that this would occur through understatement of year end income accruals or overstatement of deferred income to decrease the level of income reflected in the financial statements. As much of the Trust's income for 2021/22 has been contracted on a block basis and other income is not significant our risk will be focused on the completeness of income within the NHS boundary around the period end.</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:

<b>Care Quality Commission rating</b>	Requires improvement
<b>Single Oversight Framework rating</b>	2
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Head of Internal Audit opinion</b>	Unqualified

## Commentary on arrangements

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

## Summary of findings

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

Domain	Risk assessment	Summary of arrangements
<b>Financial sustainability</b>	<b>One significant risk identified</b>	<b>No significant weaknesses identified to date</b>
<b>Governance</b>	<b>No significant risks identified</b>	<b>No significant weaknesses identified</b>
<b>Improving economy, efficiency and effectiveness</b>	<b>No significant risks identified</b>	<b>No significant weaknesses identified</b>

We identified a significant risk relating to financial sustainability. We have set out on the following pages the work performed and a summary of our findings.

We confirm that we have not identified significant weaknesses to be included within our value for money report.

# Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>The revised funding arrangements introduced in light of the pandemic have been 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 CCG 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 reports through Joined Up Care Derbyshire (JUCD) ICS as its “lead” ICS. The budget setting process involves stakeholders at all levels of the Trust’s management hierarchy and takes place as part of the Trust’s annual business planning process and follows a pre-issued timetable and set of guidance which incorporates both national and local requirements as well as the CRH strategic objectives.</p> <p>Income and cost pressures are identified both at an individual budget level and at a directorate level through detailed discussions between management accounts and budget holder / service managers. These pressures are reviewed and challenged at both operational and finance senior leadership teams. The Trust looks to fund cost pressures as far as possible in order that services have realistic budgets against which they are held accountable, but recognises equally that it must manage within a finite envelope. An appropriate level of vacancy factor is therefore applied across budgets in order to offset and mitigate funded cost pressures and any remaining underlying deficit is managed centrally.</p> <p>Whilst development of formal and longer term Cost Improvement Programmes (CIP) continued to be constrained given the need to respond to the pandemic, CRH has continued to seek efficiencies where practically possible during 2021/22 with the overall aim of at least achieving a breakeven outturn.</p> <p>The planning process includes a specific workstream on transformation/efficiency. Finance partners work with Divisions to generate schemes and are informed by external benchmarking data e.g. the model hospital where appropriate. Development and challenge of the programme is managed through the transformation group and is discussed through the confirm and challenge sessions as part of the Divisions overall financial plans.</p> <p>Progress of CIP schemes are monitored through governance of project Boards and reporting into the relevant transformation meetings. Each workstream has a Quality Impact Assessment completed as part of the initial development paperwork. Any impacts are then monitored through the project board structure.</p>

# Value for money

## Financial sustainability (continued)

Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>▪ How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>▪ How financial performance is monitored and actions identified where it is behind plan; and</li> <li>▪ How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>During 2021/22 there have been two planning rounds within the 12 month accounting period. The plans were constructed based on appropriate local and national planning assumptions, with the involvement of budget holders in their setting and review and sign off by the Senior Leadership Team prior to approval by the Trust board. We found that the budget monitoring and control processes were able to identify and incorporate significant pressures into the financial plans to ensure they were achievable and realistic.</p> <p>The Trust submitted a breakeven plan for the second stage of the planning process (H2) which delivers a breakeven plan over the full financial year. The budget setting process is a part of the annual business planning process, which sits alongside the identification of workforce, IT and capital planning. Consequently the trust's operational, workforce and financial plans are developed simultaneously.</p> <p>Based on the procedures performed we have identified that there remains a significant risk to the Trust being able to maintain financial sustainability in the medium term.</p> <p>The Trust submitted a 22/23 plan that was discussed at the Joined Up Care Derbyshire ICS Senior Leadership Team (SLT) and approved prior to submission.</p> <p>The forecast deficit for the year ending 31 March 2023 is £4.2m. As a system the Trust were getting an additional £29.9m of funding as a system of which £12.3m was for East Midlands Ambulance Service.</p> <p>Total efficiencies planned for the year is £8.5m of which £5.7m relates to recurrent pay efficiencies as a result of price cap compliance and skill mix reviews.</p> <p>Estates and premises transformation is expected to provide £1.2m of recurrent non pay efficiencies.</p> <p>The Trust has engaged the Board and SLT in the development of the plan for 22/23 and there is additional challenge at Finance and Performance Committee. We deem there to be appropriate arrangements in place to deliver financial sustainability.</p> <p>Through considering these arrangements, we have not identified a significant weakness in arrangements linked to the identified risk, despite significant challenges in the financial position of both the Trust and the wider system.</p> <p>Whilst we have <b>not identified a significant weakness</b> associated with the arrangements in place for the current period, with regards to its financial sustainability we note the continued financial pressures, which are likely to increase in future periods and hence the Trust will need to ensure its arrangements, including the reporting of both the Trust and system position, are robust and sufficient for the increased risk going forward.</p>

# Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>We consider the Trust to have effective processes in place to monitor and assess risk. Strategic risks are recorded and identified using the Board Assurance Framework (BAF), and any identified risks are reported to the appropriate governing body. Our review of the risk register found this was sufficiently detailed to effectively manage key risks.</p> <p>The Trust has ensured appropriate scrutiny, challenge and transparency on decision making. Within the JUCD system, there are specific workstreams related to planned care, urgent care and mental health and learning disabilities which are reported back within the organisation and drive the system and organisations plans. There are delegations in the Scheme of Delegation associated with both varying budgets and capital cases. There is guidance on what is required for both processes. Cases are reviewed by the Hospital Leadership Team (HLT) and the Finance &amp; Performance Committee (FPC), prior to the recommendation to Board for final approval contingent on the values of the cases. All cases of a significant value are reviewed by HLT, and in Board subcommittee prior to recommendation to BoD, to ensure a robust multi-disciplinary view of the issues have been explored.</p> <p>We found there to be appropriate scrutiny and challenge of the budgets and appropriate approval through the budget holders and the Board. This is sufficiently detailed to enable informed decision making.</p> <p>The budget setting process involves stakeholders at all levels of the trust's management hierarchy and takes place as part of the Trust's annual business planning process and follows a pre-issued timetable and set of guidance which incorporates both national and local requirements as well as the Trust strategic objectives.</p> <p>Income and cost pressures are identified both at an individual budget level and at a directorate level through detailed discussions between management accounts and budget holder / service managers. These pressures are reviewed and challenged at both operational and finance senior leadership teams.</p> <p>Financial Plans are reviewed and approved at operational leadership level before being taken through the Trust's governance committee structure including the financial oversight group and finance working group before final sign off by the Trust Board.</p> <p>The Trust looks to fund cost pressures as far as possible in order that services have realistic budgets against which they are held accountable, but recognises equally that it must manage within a finite envelope. An appropriate level of vacancy factor is therefore applied across budgets in order to offset and mitigate funded cost pressures and any remaining underlying deficit is managed centrally.</p> <p>As part of the annual business planning process, the budget setting process is an integrated process which sits alongside the identification of workforce, IT and capital planning. Consequently the trust's operational, workforce and financial plans are developed simultaneously.</p>



# Value for money

Governance (continued)	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>Reviews of compliance with laws &amp; regulations, staff code of conduct and the Trust's constitution is completed through Board meetings, Audit Committee and other governance structures as identified through our testing.</p> <p>The Scheme of Reservation and Delegation together with the Trust's Constitution (including Standing Orders), Standing Financial Instructions (SFIs) and all other Trust policies provide a comprehensive framework for the Trust's business conduct. The Scheme of Reservation and Delegation sets out levels of decision-making in the current management structure of the Trust.</p> <p>As part of our financial statements audit we will review the process for identifying related parties and how they are disclosed. We have not noted any issues as part of our work to date.</p> <p>The Trust engage with their local counter fraud specialists who report to the Audit Committee on both reactive and pro-active work undertaken. Committee members are provided with the relevant investigation reports when required. The Trust has appropriate policies in place regarding fraud that are ratified by Board.</p> <p>Based on the procedures performed <b>we have not identified a significant weakness</b> associated with its governance arrangements in place to oversee and monitor achievement of value for money.</p>

# Value for money

## Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered;</li> <li>▪ The use of benchmarking information to identify areas where services could be delivered more effectively;</li> <li>▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and</li> <li>▪ Management of partners and subcontractors.</li> </ul>	<p>We note that from the 17 March 2020 CIP programmes were put on hold in accordance with national guidance. This was to allow the Trust to respond to the pandemic. Despite this pause on headline cost reduction programmes the Trust has continued to work within the ICS structure to engage in discussions about change at the system level.</p> <p>The activities of the ICS are reflected back into each Joined Up Care Derbyshire (JUCD) organisation via a key messages report following each JUCD Board meeting. A monthly update on the financial position of the ICS is presented to the Finance and Performance Committee and a bi-monthly update of strategic issues is presented to FPC. The Trust has senior engagement both as part of the ICS and with commissioners and works with partners to address key issues as they arise. A monthly update on the financial position of the ICS is presented to the Finance and Performance Committee and a bi-monthly update of strategic issues is presented to FPC. The Trust has senior engagement both as part of the ICS and with commissioners and works with partners to address key issues as they arise.</p> <p>The main partnership working occurs through the JUCD. There are specific workstreams related to planned care, urgent care and mental health and learning disabilities which are reported back within the organisation and drive the system and organisations plans. Urgent Care is reviewing the overall approach to the urgent care pathway which results in Derbyshire favourable emergency and out-of-hospital performance. Planned Care is reviewing the most clinically and cost effective route to scheduled care restoration which is resulting in a broad assessment of the approach to and merits of best approached to delivering access to services.</p> <p>Major hard and soft facilities management provisions are managed via formal oversight through a sub group of the Trust Board, who meet quarterly with monthly KPI reporting. Clinical equipment sub contracts are monitored through single clinical engineering contracts database and performance issues escalated to procurement. There is also a dedicated estates contract manager.</p> <p>In 2020 the Care Quality Commission (CQC) inspected four of the core services at the CRH hospital site (Urgent and Emergency Care, Surgery, Medical Care and Maternity) and rated elements of medical care as requires improvement. In March the CQC and NHSEI suspended their routine inspection processes and so neither the well-led or the use of resources reviews were completed. The Trust has a Quality Delivery Group which monitors CQC actions and compliance and these minutes are taken to the Quality Assurance Committee.</p> <p>As a result we have not <b>we have not identified a significant weakness</b> associated with improving economy, efficiency and effectiveness.</p>



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