EAST AND NORTH HERTFORDSHIRE NHS TRUST

Auditor's Annual Report

Year ended 31 March 2021

5 September 2021

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CONTENTS

Section	Page
Executive summary	3
Purpose and responsibilities	4
Financial statements audit	5
Value for money	6

EXECUTIVE SUMMARY

This Auditor's Annual Report provides a summary of the key issues arising from our audit of East and North Hertfordshire NHS Trust (the 'Trust') for the year ended 31 March 2021.

Area
Financial statements We issued an unqualified opinion on the Trust's financial statements on 5 July 2021. This means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year. Our opinion on the Remuneration and Staff report was modified in respect of pension benefit values being unavailable for inclusion in the remuneration tables, therefore this disclosure did not meet the disclosure requirements.
Value for money We have not identified any significant weaknesses in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources having regard to the specified criteria in the Code.
Other reporting We did not consider it necessary to use our auditor powers or report on other matters.

The contents of this report relate only to those matters which we are required to report under the NAO Code of Audit Practice (April 2020). This report has been prepared solely for the use of the Trust and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

PURPOSE AND RESPONSIBILITIES

Purpose of the Annual Audit Letter

This Auditor's Annual Report summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2021.

It is addressed to the Trust but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of the Trust

It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

The Trust is also responsible for preparing and publishing its financial statements, annual report and governance statement.

Responsibilities of auditors

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice – April 2020 (the 'Code').

Under the Code, we are required to review and report on:

- Whether the financial statements give a true and fair view of the financial position of the Trust and of its income and expenditure for the year and have been properly prepared in accordance with the relevant legislation;
- Whether the other information published together with the financial statements is consistent with the financial statements;
- Whether the auditable parts of the remuneration and staff report are properly prepared;
- Whether the governance statement complies with the guidance issued;
- Whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- Where appropriate, make statutory recommendations, referral matters to the Secretary of State or issue a Public Interest Report.

FINANCIAL STATEMENTS

Audit conclusion

We issued an unqualified audit opinion on the financial statements on 5 July 2021. Our opinion on the Remuneration and Staff report was modified in respect of pension benefit values being unavailable for inclusion in the remuneration tables, therefore this disclosure did not meet the disclosure requirements.

This means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

We reported findings whilst the audit was in progress to the 4 June 2021 Audit Committee meeting and circulated an update on our detailed findings 28 June 2021.

Significant deficiencies in controls

We did not identify any significant control deficiencies during the audit of the financial statement.

Audit differences

There audit identified no material misstatements.

There was one unadjusted audit difference identified by our audit which would increase the surplus for the year by a projected £0.658 million. Management did not to adjust the financial statements for these items as the impact was not material.

VALUE FOR MONEY

Scope

We are required to review and report on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in these arrangements we are required to report this in the auditor's report included in the financial statements and to make recommendations for improvement in the Auditor's Annual Report.

Specified criteria

The NAO has issued guidance for auditors to report against three specified reporting criteria:

- Financial sustainability - planning and managing resources to ensure the Trust can continue to deliver its services;
- Governance - informed decisions and properly managing risks; and
- Improving economy, efficiency and effectiveness – using information about costs and performance to improve the way the Trust manages and delivers its services.

The NAO guidance also includes a number of further areas for review within each criteria to allow the auditor to assess those arrangements.

Risk assessment

Our risk assessment identified one area of potential significant weakness, as follows:

- Monitoring implementation of Internal Audit recommendations marked as urgent/high priority

Funding and contracting arrangements for 2020-21

Our work has been performed in the context of the guidance issued by NHSE/I in response to Covid-19 and the suspension of normal Payment by Results contracting.

For the first six months, NHS providers moved to block allocations and top-ups to cover costs that was passed through CCGs. For the second six months, Integrated Care System areas received an overall funding envelope based on payments for the first half of the year that was distributed across commissioners and providers. This arrangement was designed to enable all commissioners and providers to break-even.

Funding and budgeting for 2021-22 is again based on system funding envelopes.

As a result, normal financial planning arrangements, savings and efficiency requirements, and performance monitoring arrangements were suspended.

Audit conclusion

We have not identified any significant weaknesses in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We had no matters to report by exception in the audit report on the financial statements.

VALUE FOR MONEY

Financial sustainability – planning and managing resources

Areas for review

Significant financial pressures relevant to short and medium-term plans are identified and built into plans.

There are plans to bridge funding gaps and to identify achievable savings.

Financial plans support the sustainable delivery of services in accordance with strategic and statutory priorities.

The financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system.

Risks to financial resilience are identified and managed, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Auditor's commentary on arrangements

The Trust's arrangements for 2020-21 were in the context of changes to the NHS financial framework as part of the coronavirus pandemic response. Transaction flows were simplified in the NHS, and the Trust and the CCGs moved onto block contract payments at the start of 2020-21. In the second half of the year, a revised financial framework was introduced, which built on these arrangements, but with a greater focus on system partnership.

A centrally-issued allocation was received by the Trust up to month 6, with retrospective top-ups for Covid-19 and other non-recurrent costs to fully fund all costs to month 6. At month 7, NHSE issued an overall system allocation based on the rate of expenditure at month 5. This allocation was to meet all provider and CCG costs, including the Covid-19 response and recovery costs for months 7 to 12. The retrospective top-up allocations as per months 1 to 6 ceased. The Trust reported a final adjusted surplus position of £2.528 million.

The Trust has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Trust has set operating plans in line with NHSE guidance in prior years, and initially set an operating plan for 2020-21 as per this guidance. However, planning for 2020-21 was put on hold due to Covid-19 and the guidance issued on 28 March 2020 "Reducing the burden and releasing capacity at NHS providers and commissioners to manage the Covid-19 pandemic".

The Trust sets an annual budget which is created by taking the prior year actual position as a starting point and adjusting for expected changes. As part of this process, the Trust identifies financial cost pressures and/or potential risks to the financial position in the short and medium term.

The Trust prepares a 'Finance report' on a monthly basis. This monitors performance against budget for the month prepared as well as for the year-to date, with a review of the actual position against budget in respect of NHS contract income and activity levels, other income, pay costs and other costs. This also provides an overview of capital programme progress and balance sheet positions for the month and year-to-date. This report is presented to the Finance, Performance and People Committee (FPPC) each month, who discuss and challenge the contents. The discussion typically covers the risks and challenges faced to meet the budget requirements and observed unexpected performance/trends. We have observed this report being included in the Board/committee papers on a monthly basis and reviewed related meeting minutes, enabling us to confirm that the report is used as described.

VALUE FOR MONEY

Financial sustainability – planning and managing resources - continued

Reports are regularly presented to the FPPC, Executive and Board on matters that are relevant to the Trust's financial planning. For instance, in September 2020 a thorough report was taken to FPPC and subsequently the Board by the Trust's Director of Finance and Deputy Chief Operating Officer on the national expectations for Phase 3 of the NHS response to the Covid-19 pandemic, the implications for the 2020-21 financial framework and specific financial plan impacts for the Trust and its Integrated Care System (ICS). A similar report was presented in April 2021 on the financial framework and budgeting implications for 2021-22 (the formal planning process for providers had been postponed to Q1 2021-22).

Review of internal reporting and minutes of meetings at which financial reports are discussed has demonstrated active governance arrangements with quality reporting and genuine critical challenge.

We have also observed that financial risks are included within the Board Assurance Framework (BAF) along with controls and assurance to mitigate the risks, gaps in controls and assurance and actions to address gaps. Through review of Board minutes and attendance at Audit Committees, we have confirmed that these risks are regularly monitored, updated and challenged.

How the body plans to bridge its funding gaps and identifies achievable savings

There was no formal reporting against Cost Improvement Plan (CIP) targets in 2020-21 as the achievement of cost savings was not required during the coronavirus pandemic. The Trust did identify approximately £2m of short-term (largely non-recurrent) CIP savings during 2020-21 to support achievement of a breakeven position following announcement of the system envelope mechanism of funding for the second half of the year. Savings were identified through engagement with divisional teams and exceeded the Trust's target by approximately 12%. Ultimately, the Trust was required to operate within the ICS funding envelope, with substantial funding being issued at ICS level and allocations being transferred between participating bodies. The Trust participated in an ICS initiative for Directors of Finance and Deputies to create a sub group to review plans across the ICS. The initial submission to NHSI planned for a Trust deficit of £1.6m, which triggered the Trust's identification of savings and monitoring by the FPPC.

The framework for 2021-22 funding was effectively carried over from the second half of 2020-21 and the Trust participated in ICS Directors of Finance meetings to develop financial plans across the System. NHSI required providers to identify efficiencies of 0.28% of turnover for the first half of 2021-22 and confirmed a continued efficiency requirement into the second half. For the Trust this amounted to £751k based on the ICS plan. The Trust again identified local cost pressures and opportunities for savings through engagement with divisional management teams, reviewed/challenged through Executive-led sessions and monitored by the FPPC. Divisional teams are supported by a central programme management office (PMO) function to identify, develop and monitor CIPs and a shared PMO function with ICS partner Hertfordshire Community NHS Trust was developed during the year with a view to savings schemes being increasingly at ICS level.

Risks to the Trust's share of the ICS deficit were reported through the Trust's governance channels when developing the plan and mechanisms to track the delivery of CIP targets were established for reporting to the FPPC during 2021-22.

We are satisfied that the Trust had arrangements in place to bridge funding gaps, arising locally and through the ICS, to identify achievable savings and to monitor these at an appropriate level.

VALUE FOR MONEY

Financial sustainability – planning and managing resources - continued

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

During 2020-21 the delivery of services has differed from previous years due to the Covid-19 pandemic. The way that commissioning contracts operated changed, and (through several streams) all expenditure in the first 6 months of the year was fully funded, with the second half of the year moving to a system-level allocation to operate within.

Sustainability is one of the Trust's five strategic priorities, from both a financial and clinical perspective, and there are clear objectives underpinning the path to achieving that strategic aim. The Trust has included on its BAF the risks identified against its ability to deliver against its strategic aims and objectives, one of which is the *risk of financial delivery due to the radical change of the NHS Financial Framework associated with the current COVID pandemic*. Internal Audit issued substantial assurance in a report on Covid-19 financial governance in response to this risk.

From our review of the Board meeting minutes, we note that significant focus was given to the impact of Covid-19 on the delivery of NHS services in the period of the pandemic, both in respect of the Trust's response to the direct impact of the pandemic and also the reinstatement of non-essential services.

Financial support for the provision of statutory and strategic priorities was in many respects more of a secondary consideration during 2020-21 than is usual, due to the revisions to the financial framework, but as noted throughout this report the Trust's arrangements to receive it's entitlement of funding for both halves of the year were effective. We considered the impact of a Covid-19 environment on the Trust's service priorities and determined that the challenges were the same as those facing healthcare providers throughout the country. We note that these issues were taken regularly to Board and other committee meetings, with detailed action plans and monitoring observed to be in place.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

Much of the usual NHS planning guidance was suspended as part of the response to the Covid-19 pandemic but the Trust has continued to plan within the revised framework.

As noted above, the Trust prepares a 'Finance report' for consideration of the FPPC on a monthly basis, which we have observed to be subsequently included within Board papers. This includes detail in respect of: income and expenditure (including divisional analysis), operational activity, workforce analysis, balance sheet, cash flow, capital and charity positions, all of which tie together within the report for discussion through income and expenditure and balance sheet statements for the period with sub-analysis. If an issue within one area has consequences to another area, this will flow through the report ensuring consistency is maintained between them from a planning and governance perspective. The report is discussed and challenged both at FPPC and Board level and we have observed evidence of this discussion and challenge within the minutes of the meetings.

VALUE FOR MONEY

Financial sustainability – planning and managing resources - continued

Similarly, Integrated Performance Reports that pass through the same governance channels include a Sustainable Services section which analyses Finance Plan, SLA income, Activity and Efficiency performance and draws out workforce metrics. These reports include commentary on issues arising throughout financial and operational performance, with Executive responses, which focus scrutiny of performance across service areas.

We note also that planning papers are presented consistently for review by the Board. For instance, approval of the capital programme, review of Integrated Performance Reports and ad hoc papers on the ICS all pass through the same governance channels. In relation to system-level financial planning, with interdependence for revenue and capital funding, papers appropriately include information for consideration on both the Trust and system position and implications for both. The Trust also participates in Director of Finance groups at system-level which promotes consistency in the financial planning and priorities between the Trust and its ICS.

In addition to our minute review, we also know from our inquiry of key management personnel, brought forward audit knowledge and Audit Committee attendance, that the Trust's finance team works closely with operational divisions to ensure planning is joined up and consistent. An example includes how Divisional teams drive the design of the CIPs, and of equal relevance to this discussion, as noted previously, the focus of savings scheme is increasingly at wider-system level and a shared PMO function was developed with ICS partner, Hertfordshire Community NHS Trust, during the year.

Evidence reviewed supports that the Trust's internal reporting for planning and governance purposes promotes consistency both across the Trust's own plans and the plans of the Trust and wider system.

How the body identified and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Trust has a risk management strategy in place which states *risks are identified, assessed and controlled and, where appropriate, escalated or de-escalated through the governance mechanisms of the Trust*. The existing strategy has been in place since 2018. Management of financial risks and risks to the Trust's internal control environment are supported through the application of Standing Financial Instructions.

As noted above, Trust management prepares a 'Finance report' and 'Integrated Performance Report' for review of the Board and committees. These reports include analysis of under and overspends, revised forecasting to the year end and variances to date. From reviewing these reports in Board and Committee papers, we have confirmed that management also provides commentary on issues and why variances arise, with Executive responses, and consequently initiates identification and discussion of risks to the financial plan and consequential efficiency requirements.

Budget planning and ad hoc reporting relating to plan changes (particularly relevant under the 2020-21 financial framework) has also provided opportunity for challenge of assumptions, particularly at FPPC level.

Sitting below the BAF, Corporate Services risk registers cover risks from corporate areas, such as Finance, and are maintained by Risk Leads with support from the Risk Manager. Corporate areas have Governance/Audit Leads who are responsible for consulting with teams to identify and assess risks. There are mechanisms in place to involve all staff in risk identification. The Risk Leads and Divisional Boards/Corporate Directorates approve escalation of risks from Corporate Services/Divisional risk registers to a Corporate Risk Register.

VALUE FOR MONEY

Financial sustainability – planning and managing resources - continued

Risks to the Trust's strategic priorities are identified by directors and through Risk Manager analysis reported quarterly and managed through the BAF. Risks to financial resilience will make it from the Corporate Risk Register on to the BAF if they are a risk to the Trust's strategic priorities and score at least 12 on the Trust's risk scoring matrix, for instance throughout 2020-21 a *risk of financial delivery due to the radical change of the NHS Financial Framework associated with the current COVID pandemic* was included on the BAF. Financial risks are classified as 'low appetite' on the Trust's risk appetite grid. meaning any of significance are escalated to strategic level.

Through the formal risk management processes and through routine scrutiny of financial reporting, the Trust's governance mechanisms for identifying and managing financial risks are comprehensive. Evidence obtained through minutes and reports confirms that these mechanisms operated during 2020-21.

VALUE FOR MONEY

Governance - informed decisions and properly managing risks

Areas for review

Risks are assessed and monitored to gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

The annual budget setting process is appropriate.

Effective systems and processes are in place to ensure budgetary control, support statutory financial reporting requirements and ensure corrective action is taken where needed.

The Trust makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

The Trust monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

Auditor's commentary on arrangements

For 2020-21, the Trust has had arrangements we would expect to see to enable it to make informed decisions and properly manage its risks.

The Trust's governance arrangements for 2020-21 have taken into accounts NHSE's 28 March 2020 guidance entitled "Reducing the burden and releasing capacity at NHS providers and commissioners to manage the COVID-19 pandemic."

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Internal audit is part of the Trust's governance and risk assessment structure and is outsourced to a third party provider, TIAA, and is particularly crucial to providing assurance over the Trust's operation of internal controls. The Audit Committee has received reports, progress updates and action logs from Internal Audit covering a wide range of areas, including those we would consider to be particularly relevant to the Trust.

A 2020-21 report from Internal Audit gave substantial assurance following review of the Risk Management Strategy and procedure document, strategic risk management processes and BAF document monitoring/assessment. This provides assurance that the Trust has well designed and implemented processes and controls to assess and monitor risks. Note Internal Audit's programme is risk-based. It is informed by a risk assessment which includes reviewing the Trust's risk registers, regulatory framework, external audit recommendations, previous internal audit work, the regulatory framework and corporate documentation, and is developed with input from senior managers and the Audit Committee.

As referred to in the context of financial risk above, the Trust has a comprehensive framework for risk management which is driven by a risk management strategy. The existing strategy for undertaking risk assessments and managing risks has been in place since 2018 and was reviewed in March 2021 following minor recommendations arising from Internal Audit's BAF report and is due for full review during 2021-22. The strategy and related procedures involve all Trust staff in the identification, evaluation and management of risk at varying levels initially through awareness of and access to risk reporting and related guidance, communication on risk and assignment of risk responsibilities.

The Trust's Risk Manager supports corporate services and clinical divisions in identifying, evaluating and managing risk at corporate/divisional level.

VALUE FOR MONEY

Governance - informed decisions and properly managing risks - continued

Arrangements include monthly meetings to identify and discuss risks and related controls for inclusion on local/divisional risk registers; Corporate Directorate meetings/Divisional Boards for monitoring risk management and approving escalation/de-escalation of risks to a corporate risk register; identification of Risk Leads and Approving Managers to manage and approve risks operationally; identification of divisional Governance/Audit Leads and Quality Managers with responsibilities for facilitating risk management a divisional level. Risks are escalated to a Corporate Risk Register and BAF based on assessed risk scores and relevance to the Trust's strategic priorities. Risk register reports have been observed to be included within the papers for Board meetings.

Through our attendance at the Audit Committee and review of Board and other committee minutes, we have observed formal consideration of the principal risks to strategic objectives and active monitoring of those risks through the BAF. Strategic risks included in the document are assessed with reference to controls and assurance to mitigate the risks, gaps in controls and assurance and actions to address gaps. The BAF is also considered at other Board Committees including Finance, Performance and People Committee, Strategy Committee, Charity Trustee Committee and Quality and Safety Committee.

The Trust has an anti-fraud and bribery policy in place approved by Board. It has an accredited Local Counter Fraud Specialist (LCFS), provided by TIAA in addition to internal audit services, with a programme of proactive counter fraud and corruption work which is risk based. The LCFS reports to the Audit Committee. From attending the committees, we can confirm that no major issues were identified during 2020-21.

We have referred to the Internal Audit reporting, policy documents, Board and committee minutes, evidence of corporate/divisional risk register management and knowledge from Audit Committee attendance to conclude the Trust has an effective system of internal control for monitoring and assessing risk, which includes arrangements for preventing and detecting fraud .

How the body approaches and carries out its annual budget setting process

In response to the coronavirus pandemic, the NHS suspended much of its normal planning procedures. The commissioning model has also changed to a simpler allocation model rather than the previous contracted one. We considered the potential for risk in this area, in that there will be fewer arrangements around operational planning in place. However, we are satisfied from our minute reviews and meetings with management that appropriate planning has still been conducted.

There was no formal budget setting process for 2021-22, with NHS England and NHS Improvement having nationally calculated provider plans for the first half of the year as a default position for systems and providers to adopt.

The Trust created a budget for the first half of 2021-22, the framework for which was aligned to the second half of 2020-21. Using the budget from the second half of 2020-21 as a starting point, the budget was built up locally to breakeven by factoring in agreed system funding allocation, expected changes in Covid costs, non-recurrence of CIPs from 2020-21, known local cost pressures, cost inflation and minimum CIP requirements. Assumptions around changes in Covid costs and local cost pressures were reviewed and tested in sessions with executives.

VALUE FOR MONEY

Governance - informed decisions and properly managing risks - continued

A budget report was presented to the FPPC and Board in April 2021 (draft and final system plans for the first half of the year were not due for submission centrally until May and June respectively), which set out the Trust's budget for the first half of 2021-22. This included an analysis of the Trust's own income and pressures and the system-level picture which showed an imbalance of £8.3m due to other members of the system, implications for the Trust of a potential redistribution of funding to Hertfordshire Community Trust and the Trust's role in identifying savings to achieve a balanced plan for the system. The report considered incentive funding available in 2021-22 (such as the Elective Recovery Fund) and what the Trust was doing to attain the funding. The report also included a risk vs opportunity analysis, demonstrating the Trust's consideration of occurrences that could impact on its ability to meet the budget it set.

Internal audit completed a review of Covid Financial Governance in 2020-21 and reported substantial assurance. The consistency of financial framework between the second half of 2020-21 and the first half of 2021-22 gives further comfort over the Trust's arrangements to operate within the revised Framework and exercise financial governance in a Covid environment.

Review of the reporting, minutes and relevant guidance and briefings on the 2021-22 financial framework for NHS providers has given comfort over the Trust's arrangements for budget setting under the prevailing framework.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports it statutory financial reporting requirements; and ensures corrective action is taken where needed

Budgetary control is principally monitored through monthly Finance reporting and Integrated Performance reports (inclusive of performance data for financial plans in addition to non-financial performance). As commented earlier in this report, we have obtained evidence of effective scrutiny of these reports by the Board and its committees, FPPC in particular.

The Trust has a statutory financial reporting requirement to break even and budgeted to do so in 2020-21. When performance fell below this requirement the Trust's reporting and governance arrangements identified and responded. This was well illustrated at FPPC in month 7 when the Director of Finance reported the Trust's financial plan for months 7-12 was forecast at £1.6m deficit and advised a savings target would need to be delivered, reminding the Committee of the Trust's statutory duty to remain at breakeven. The FPPC Chair requested an overarching view of performance against the required savings target and links of non-recurrence to 2021-22 planning. Corrective action was subsequently taken when divisional teams identified £2m savings, £2.5m savings were achieved and a surplus was reported.

Internal Audit also has a role in the Trust's arrangements relevant to this reporting criteria. The scope for Internal Audit's 2020-21 review of financial governance included compliance with statutory requirements, performance monitoring with timely corrective action and response to business interruption events. Whilst substantial assurance was reported, a routine recommendation was made, reported to the Audit Committee in January 2021 and removed from the action tracker by March 2021, indicating corrective action was taken.

Through review of minutes, performance reports and Internal Audit reporting it was evident systems for budgetary control, communication of management information and corrective action were in place and, particularly in the context of a surplus outturn, evidently effective.

VALUE FOR MONEY

Governance - informed decisions and properly managing risks - continued

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Primary oversight is the responsibility of the Trust's Board, with some delegated responsibilities to the Audit Committee. The Board is attended by all members of senior management when it meets (save apologies), and is presented with numerous papers covering a range of corporate and clinical matters of the Trust. We have reviewed papers and deemed them to cover key areas expected to inform effective decision making, for example operational and financial performance, summaries from the Board's committees, topical matters/risks relevant to the Trust's strategic priorities, governance and partnerships. A role of the Board is to ensure the Trust has appropriate arrangements for ensuring it exercises its functions effectively, efficiently and economically and complies with generally accepted principles of good governance as are relevant to it. Challenge and transparency are key to delivering robust governance and we have observed these behaviours during 2020-21 by the Board and its committees, including the Audit Committee which is responsible for maintaining an overview of the operation of internal control and governance.

We know from our review of Board and committee papers, minutes for these meetings and attendance at Audit Committee meetings, that the Board and its committees meet regularly and that key issues are addressed with effective challenge from members. We have also observed evidence of good arrangements in place regarding tracking and responding to the recommendations made by Internal Audit and that management has been held to account throughout the year regarding progress on recommended actions. The pace of implementing Internal Audit recommendations had been questioned by the Audit Committee, but there was an acceleration of implementing overdue actions during 2020-21, particularly those of high priority and recommended by the previous internal audit provider. Management has confirmed that action is being taken against all recommendations remaining on the internal audit action tracker and at the time of drafting there remains just 1 of high priority. Illustrating improvements in implementing recommendations, at the end of 2020-21 there are 32 Internal Audit actions outstanding (18 overdue, 1 high priority), compared to 46 outstanding at the end of 2019-20 (37 overdue, 6 high priority). We will be looking for the Trust to keep on top of Internal Audit recommendations having made these improvements and to continue to improve on its clearance of actions within agreed due dates.

We made enquiries and obtained supporting documentation regarding why the high priority recommendation, related to processes for consistent completion of consultant job plans, remained on the tracker given implementation was past its due date (original due date was 30 April 2020, revised to 30 April 2021 and now 30 September 2021). We established that job planning policy updates had passed through a ratification process and a job plan decision making panel had been refreshed. The Trust had experienced issues with its job planning e-system, the supplier's upgrade did not improve the system as expected and testing is underway on a new provider system. When Internal Audit complete a planned follow up review in respect of job planning during 2021-22, in addition to the new policy and more effective job plan panel, they should find that the Trust has been taking steps to ensure its IT solutions are adequate for its job planning needs and has not settled on an unsatisfactory system. Pending procurement of further e-Rostering software, they should also find the proportion of consultants on e-Roster significantly increase from the current 43%, which will help facilitate job planning. The Trust is also taking steps to introduce clinical teams job planning in addition to consultants. We are satisfied that the extended timeframe to implement this high priority recommendation is not due to weakness in governance processes but pending technology changes and evidence confirms the Trust takes seriously the importance of job planning to its operations and financial planning.

VALUE FOR MONEY

Governance - informed decisions and properly managing risks - continued

The Trust was observed to have an established BAF to meet the requirements of the Annual Governance Statement, which provides reasonable assurance that there is an effective system of internal control in place to manage principal risks to the Trust's strategic priorities.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interest)

Responsibility for ensuring appropriate standards such as meeting legislative/regulatory requirements in terms of member behaviour is sits primarily with the Audit Committee. Review of the effectiveness and compliance with key policies such as gifts and hospitality, declarations/conflicts of interest are confirmed to be covered by the Counter Fraud programme. This programme drew on the requirements of the NHS Standards in 2020-21 and incidentally the superseding Government Functional Standard's twelve components in 2021-22, in both of which policies and registers for gifts, hospitality and conflicts of interest are a component.

The Counter Fraud Specialist's (CFS) programme in 2020-21 included a review of Bribery Act compliance, which returned no red rated recommendations and compliance with *policies and registers for gifts, hospitality and conflicts of interest* was 'partially met'. A programme was subsequently agreed in 2020-21 to be completed in 2021-22 which includes a proactive review into declarations of interest, gifts, hospitality and donations.

The Trust has a Managing Conflicts of Interest Policy in place (a joint gifts and hospitality policy) and the Audit Committee approved a related Anti-Fraud and Bribery Policy during 20-21, a review of which was included in the aforementioned 2020-21 CFS programme.

A gifts and hospitality register is maintained in line with the Bribery Act 2010 by Trust Secretary's team and staff are made aware of its use for declarations of interest. Although the CFS found little evidence of the Trust measuring awareness of the requirements of its anti-fraud/bribery policies or registers, this in itself does not indicate a significant weakness in arrangements when the organisation has not identified significant fraud or Bribery Act contravention. An electronic system for the management of declarations of interests, gifts and hospitality was in its implementation phase in 2020-21 and, in response to CFS recommendations, a fraud awareness survey is planned for 2021-22. These actions and approval of a new Anti-Fraud and Bribery Policy demonstrate the Trust's commitment to ensuring regulatory/legislative standards are adhered to and the effectiveness of its counter fraud governance.

The 2020-21 Annual Governance Statement advises readers that the Trust has published on its website up-to-date registers of interests and gifts and hospitality, for decision-making staff, as required by 'Managing Conflicts of Interest in the NHS' guidance. We note that these registers are easy to locate and so are sufficiently prominent and were updated within the last 12 months, as required by the guidance.

Systems in place to ensure conflicts of interest are identified, recorded and considered, include public declarations of interest at Board meetings, precluding conflicted individuals from related decision-making. This has been confirmed through our review of the Board minutes. Declarations are also obtained from senior management at financial year-end for the purpose of preparing the related parties note for the annual accounts. We obtained and tested these declarations for completeness during the 2020-21 accounts audit.

The Trust has arrangements in place for officers and committees with responsibility for corporate risk management to receive reports on a regular basis and for the Board to take appropriate action to ensure that corporate risks are identified and effectively managed. From review of meeting minutes throughout the year, and attendance at meetings, it was noted that the Audit Committee and Board review items such as the BAF and risk register and that these include risks pertaining to compliance with regulatory and legislative standards.

VALUE FOR MONEY

Improving economy, efficiency and effectiveness - using information to improve services

Areas for review

Financial and performance information has been used to assess performance to identify areas for improvement.

Services provided are evaluated to assess performance and identify areas for improvement.

The Trust delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

Where the Trust commissions or procures services, this is done in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Auditor's commentary on arrangements

The Trust had arrangements in place to enable it to use information about its costs and performance to improve the way it manages and delivers services.

How financial and performance information has been used to assess performance to identify areas for improvement

Through review of Board papers, we have confirmed that the Board is provided with both financial and non-financial performance information on a monthly basis, principally through the Integrated Performance Report and Finance Report. Board and committee members are able to challenge officers regarding departures from plans or expectations, as confirmed to meeting minutes. Within these reports, commentary is provided on the reasons for variances and executive responses, for the Board and relevant committees to identify and drive forward areas for improvement.

Through review of internal audit reporting during 2020-21 and the preceding year, we have confirmed a number of reviews focussed on financial and performance related information were completed. The reports issued following these reviews, with emphasis on any recommendations raised, are reviewed by the Audit Committee. By responding to the recommendations raised and implementing actions arising from these, the Trust is identifying areas for improvement. We have confirmed this process to be in place through our review of minutes and attendance at Audit Committee meetings.

Analysis of financial information provides direction to the Trust during the year on its trajectory against plan and statutory reporting requirements. This process allows the Trust to identify areas for improvement and to focus resource in these areas. On page 14 of this report we described an example of how corrective action was taken mid-year when savings targets were introduced to bring the Trust back on track to breakeven from a forecast deficit.

VALUE FOR MONEY

Improving economy, efficiency and effectiveness - using information to improve services - continued

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Trust is required to report on the quality of its services against performance indicator targets throughout the year, culminating in an annual quality account report. The requirement for agreed upon procedures to be completed by an external auditor on the quality account was suspended during the coronavirus pandemic and may not return. However the requirement remained for the Trust to publish a report in June 2021.

Quality indicators against which performance is measured for reporting are wide-ranging and between them require numerous systems of processes and controls and IT applications to record and report accurate data. Performance against a wide range of indicators was monitored through the Board's Quality and Safety Committee (QSC) and reported to the Board through monthly Integrated Performance Reports. Integrated Performance reporting provided graphical dashboards for clear illustration of performance trends and also provided commentary on key issues identified and executive responses to aid Board scrutiny. Monitoring the Integrated Performance report at public Board level demonstrates clear accountability for improvement and arrangements in place to secure these improvements. Through review of minutes we observed the Board challenging performance, requesting further detail and suggesting follow up actions.

The Trust set four broad priorities for improvement linked to its five-year Quality Strategy and it has a programme of measures for progress across themes within its priorities for improvement. Performance against these measures and improvement priorities more broadly has been monitored by the QSC throughout 2020-21 and, given the broad scope of operational performance measures, through other sub-committees such as the Patient Experience Committee, which report into the QSC.

The Internal Audit programme builds in review of systems and internal controls impacting quality account reporting, either directly (e.g. Data Quality – Friends & Family Test 2020-21, Data Quality – Key Performance Targets scheduled for 2021-22), or indirectly (e.g. Serious incidents and Clinical audit, both 2020-21). These reports have been presented to the Audit Committee throughout the year, with no high priority recommendations but monitoring of implementation of recommendation through the internal audit action tracker.

The Audit Committee was informed by the Associate Director of Governance of quality account requirements and progress from a compliance perspective and the Quality and Safety Committee approved the report before publication. The Audit Committee has also received regular data quality reporting presented by Heads of Data Quality and Clinical Coding, which focusses on challenges, performance and improvements related to the data used to report centrally and used to assess performance and identify areas for improvement locally.

The Trust's last full CQC inspection was carried out in 2019 and returned an overall rating of 'requires improvement'. This was consistent with the previous rating, although the Trust had demonstrated improvement in a number of areas. In response to the CQC report, the Trust implemented a quality Improvement programme designed to address and monitor the improvements suggested as 'must' and 'should' by the CQC. Consequently, required actions have been were monitored through individual boards, committees and sub-committees who are required to review progress.

VALUE FOR MONEY

Improving economy, efficiency and effectiveness - using information to improve services - continued

For instance, the compliance team has linked with the divisional leads regularly to provide updates on the actions which are recorded on a central spreadsheet and reported through divisional governance structures to divisional boards. Joint concerns have been reported to a divisional oversight group, with executive and divisional leadership attendance, also providing CQC action plan updates. The Quality and Safety Committee has received detailed CQC compliance updates, including overviews of improvement action progress (by June 2021 96% of actions had been implemented). The CQC and NHSI have also been updated on improvements made through joint quality meetings. Papers reviewed post year-end also show the Trust has arrangements to continue its focus on improvement work beyond the conclusion of its CQC action plan, with a view to attaining good and outstanding ratings in future CQC inspections.

Internal Audit tested the Trust's compliance framework and reported findings to the Audit Committee during 2020-21 (reasonable assurance), in addition to a number of other quality areas including Health & Safety (substantial assurance), Serious Incidents (reasonable assurance) and Clinical Audit (substantial assurance), subsequent to which recommendations were monitored through an action plan and implemented.

Through performance reporting, actions plans, monitoring through governance channels, ongoing liaison with the CQC and internal audit reviews, the Trust has evidenced its commitment to improving services.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Trust is a partner in the Hertfordshire and West Essex Integrated Care System (ICS), working collaboratively with trusts, commissioners and other public bodies across Hertfordshire and West Essex. Commissioners and providers within the ICS include East and North Hertfordshire CCG, Herts Valleys CCG, West Essex CCG, Princess Alexandra Hospital, West Hertfordshire Hospitals NHS Trust and several community and mental health trusts.

Management has expressed increasingly effective collaboration within the ICS, accelerated in some respects as a result of Covid-19. The financial framework for the second half of 2020-21 increased interdependence between partners for funding, e.g. system envelope allocations, capital funding prioritisation and Elective Recovery Fund incentives, budget plans and consequently savings requirements. We have reviewed evidence of the Trust participating in DoF/deputy DoF groups to negotiate allocations of 2020-21 system funding and devising an ICS financial plan for the first half of 2021-22.

A procurement transformation project developed in 2020-21 will deliver significant savings to the ICS through consolidated procurement volumes between five Trusts within the partnership with common supplier needs. The business case identified financial savings of £35-£63m across the ICS over 5 years, £18-£39m of which is attributable to the Trust. The governance structure for this programme sees Trust executive and procurement representatives participate in collaborative steering, governance and working groups.

VALUE FOR MONEY

Improving economy, efficiency and effectiveness - using information to improve services - continued

Partners have been working together innovatively to not only achieve a balanced plan but also to deliver better services. The Trust played an instrumental role in creating at rapid pace, and evaluating, a Covid Virtual Ward. This was essentially collaborative working within the ICS to enable management of Covid positive patients' ongoing medical needs without requirement to remain in an acute hospital bed and its implementation is estimated to have saved an estimated 41-82 acute bed days.

In addition to evidence of clear and effective partnership working, we have observed minutes that demonstrate multiple representatives from the Trust Board have attended ISC Partnership Board Meetings throughout the year to help deliver its role within the partnership and engage with relevant stakeholders. Three stakeholders (and partners in the ICS), East and North Hertfordshire CCG, Hertfordshire County Council and Healthwatch Hertfordshire, provided statements on and for the Trust's Quality Account, largely recognising the Trust's quality achievements, support and collaboration in the year.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Hertfordshire NHS Procurement has provided procurement services to the Trust during the year, but with Capita successfully tendering to lead a transition to a collaborative ICS procurement solution, developed in-year to achieve volume efficiencies. Staff from ICS partner trusts have TUPE'd into Hertfordshire NHS Procurement and the final structure for the new procurement hub will be in place during 2021-22.

There has been less focus on the procurement of services from commissioners in 2020-21 due to the block contract arrangements in place. No issues have been identified in respect of these arrangements.

With regard to capital procurement, the FPPC approved the 2020-21 capital plan in May 2020. The capital resources available internally in the plan are determined with reference to the Trust's capital resource limit and capital planning reports taken to FPPC demonstrate this. Additional PDC, loan finance, donations and Covid funding have also contributed to capital procurement during 2020-21. Responsibilities for capital planning are split between the Trust and ICS, with the ICS ensuring capital spending remains within system capital budgets, setting prioritisation criteria for ICS-wide capital allocations and agreeing schemes in be included in the capital plan with estates and finance directors. Capital plan delivery for ICS partners and at system-level has been reported to the ICS Partnership Board.

The CFS reviewed whether the organisation has proportionate processes in place for preventing, deterring and detecting fraud and corruption in procurement in 2019-20. They found evidence of policy review, relevant staff training and awareness of materials on procurement risk, evidence procurement processes were followed and evidence of action tracking and implementation leading to improvements in procurement processes. The CFS also completed a proactive review into splitting orders to avoid tender rules in 2020-21, identifying two green rated recommendations that management responded to and implementation has been monitored via the counter fraud action tracker.

Internal Audit has a review of procurement scheduled for 2021-22 which ties in with implementation of the ICS's new procurement hub.

VALUE FOR MONEY

Improving economy, efficiency and effectiveness - using information to improve services - continued

A report was taken to the January 2021 Audit Committee on the Trust's waiver volume and value during Q1-3. 64 waivers totalling £4.9m had been raised in Q1-3, 21 of which were considered avoidable. The report also provided detail on which suppliers received higher value tender waivers and which suppliers received more than one. This reporting demonstrated an openness to scrutiny of procurement practices.

It has been a difficult year in some respects from a procurement perspective, with capital procurement in particular required at short notice with high demand and necessary collaborative working in response to Covid challenges. The 2020-21 year and into 2021-22 has also been a transitionary period for the Trust with the procurement transformation project. That the period is bookended by CFS and Internal Audit reviews into procurement, and a CFS review of order splitting completed in-year, gives comfort that weaknesses in compliance with procurement policy, standards and legislation have been under the spotlight, with remedial actions monitored. Ambitious savings targeted through the procurement transformation demonstrates the Trust does assess procurement benefits available. We expect to observe the Trust assessing the realisation of expected benefits from procurement transformation during 2021-22.

FOR MORE INFORMATION:

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