



Auditor's Annual Report 2020/21

Somerset NHS Foundation Trust

June 2021

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This report is addressed to Somerset 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 2020-21 audit of Somerset NHS Foundation Trust (the 'Trust'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

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

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

Findings

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

Accounts	<p>We issued an unqualified opinion on the Trust's accounts on 15 June 2021. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

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

Risk	Findings
<p>Valuation of land and buildings</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The Trust engages an expert valuer to provide a valuation of land and buildings at year end.</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 to challenge key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p>Fraudulent revenue recognition</p> <p>Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. We recognised this risk over the variable elements of income the Trust has received during the year and recognition at year end.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p>Fraudulent expenditure recognition</p> <p>Auditing standards set a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over the existence of non-pay, non-depreciation expenditure at year end.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We raised one recommendation to propose formalising the Trust's process for review of accruals to enable us to place reliance on it for audit purposes.</p>

Value for money

Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at [Code of Audit Practice \(nao.org.uk\)](http://nao.org.uk)

Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

Care Quality Commission rating	The last full CQC report was in March 2020, with an overall rating of Good,
Single Oversight Framework rating	The latest NHSI Single Oversight Framework rating for the Trust was a 2: targeted support.
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	The HoIA opinion concluded that there is a generally sound system of internal control, designed to meet the organisation's objectives, and controls are generally being applied consistently.

Commentary on arrangements

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

Summary of findings

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

Domain	Risk assessment	Summary of arrangements
Financial sustainability	One significant risk identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We have not identified any significant weakness with regards to the Trust's arrangements for ensuring value for money. We reported this as part of our audit report and have provided further details in our commentary on pages 6 to 8.

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> How the Trust sets its financial plans to ensure services can continue to be delivered; How financial performance is monitored and actions identified where it is behind plan; and How financial risks are identified and actions to manage risks implemented. 	<p>The Covid-19 pandemic has had a major impact on the NHS and this has resulted in changes to the financial planning regime. On 17 March 2020 normal contractual arrangements with NHS providers were suspended and the NHS moved to block contract payments on account. The value of these was determined centrally, rather than being agreed between the CCG and the providers. NHS organisations were also reimbursed with additional funding as required in order to reflect the additional costs incurred as a result of Covid-19. The Trust did not have to submit a formal plan to NHSE/I for this period.</p> <p>For months 7-12, NHSE/I provided allocations for each CCG, with further funding made available to cover additional cost pressures due to Covid-19 and the provision of services. The forecast outturn for the Trust was a £18.65m deficit.</p> <p>The initial draft budgets were constructed based on appropriate local and national planning assumptions. The budget monitoring and control processes are able to identify, and incorporate, significant pressures into the financial plan to ensure it remains achievable and realistic</p> <p>We found effective arrangements for the alignment of financial, workforce and operational plans. The Trust business planning process is designed to ensure workforce, performance and activity issues are captured and included within financial plans. The Trust also completes separate workforce and activity returns to NHSI which triangulate with the main financial plan submission.</p> <p>The Trust has an appropriate reporting framework in place. the financial performance of the Trust is reported regularly to the Finance Committee and through the Business Planning Management Group, prior to a summary report being taken to the Trust Board.</p> <p>Achieving financial sustainability is a specific strategic risk on the Trust's Board Assurance Framework and the Trust has also identified a specific risk in its corporate risk register about Somerset STP system finances. The corporate risk register is reported to the Quality and Governance Committee, with escalation routes from the Board. As a result of the large underlying deficits and efficiency targets, we identified one risk in relation to the processes for ensuring financial sustainability.</p> <p>The Trust and its partners in the Somerset Integrated Care System (ICS) have agreed and submitted plans for the first 6 months of 2021/22 which deliver breakeven positions across the ICS. Discussions are underway to plan for H2 although further guidance is awaited on the funding regime that will be in place.</p> <p>The pre-Covid analysis identified a significant underlying deficit across the Somerset system and this will need to be revisited when further guidance is issued. However we consider the arrangements in place at the Trust to be appropriate and have not identified any significant weaknesses which would impact our value for money conclusion.</p>

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. 	<p>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. The full corporate risk register is overseen by the Quality & Governance Committee, with reports provided to the Audit Committee for assurance, and is regularly reviewed by the Board. Through our attendance at Audit Committees, we have observed effective challenge provided by Non-Executive Directors.</p> <p>Our review of the risk register found this was sufficiently detailed to effectively manage key risks although we note that the current risk management policy is a work in progress due to the merger.</p> <p>The effectiveness of internal controls is monitored by the Audit Committee, through reporting from Internal Audit and Local Counter Fraud. The Trust has a dedicated counter fraud service provided in-house. The Local Counter Fraud Specialist (LCFS) has an agreed work plan and reports progress to each Audit Committee, with an annual report taken at the end of the year. This resource is supplemented via consideration of fraud by the Audit Committee and senior finance staff whilst preparing the financial statements. .</p> <p>The financial planning regime has significantly changed for 2020-21. The Trust has maintained oversight of performance (both financial and operational) through review at the Business Planning Management Group, Finance Committee and the Trust Board.</p> <p>We also found appropriate processes in place to ensure accurate recording and monitoring of the additional costs associated with Covid-19: the Trust implemented a specific financial regime during the first wave of the pandemic including setting up specific cost centres for Covid-19 costs to be captured. During the year, NHSE/I commissioned a review of Covid-19 expenditure undertaken by Deloitte.</p> <p>The Trust has in place a staff code of conduct as per the standards of conduct and business behaviour policy. Specific guidance is in place for teams and managers via standards of behaviour for these roles. Overall compliance with legislation, laws & regulations is monitored by the Director of Corporate Governance with an outside legal firm available for expert advice if required. A register of interest is in place together with a policy for gifts and hospitality with regular reporting of entries on the register taking place to the Audit Committee.</p> <p>Key strategic decisions are made via the Trust's governance process. A scheme of delegation is in place which sets out where different decisions/approvals should take place. Major decisions require business cases to be approved through the relevant oversight group, such as the Strategic Estates Group..</p>

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. 	<p>From the 17 March 2020 QIPP/CIP programmes were put on hold in accordance with national guidance. This was to allow CCGs and providers to respond to the pandemic. Despite this pause on headline cost reduction programmes the Trust has continued to monitor and track delivery of CIPs, although the forecast delivery has been significantly impacted by Covid-19. The Trust has a dedicated CIP Review Group which works with the Directorate teams to develop of the savings plans.</p> <p>Trust undertakes analysis of how the Trust compares with peer providers nationally via the NHS Benchmarking Network projects in which the Trust participates. Areas where the Trust compares favourably or adversely against other providers are identified and highlighted to key leads within the respective service areas. The Trust also uses the Model Hospital digital tool to identify variation and areas for potential improvement at a Speciality level.</p> <p>The Trust has a performance management framework in place to set the structure of performance management across the Trust. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the integrated performance report which provides the Trust Board with key operational performance indicators on a monthly basis. This report highlights performance in different domains in line with the Trust’s strategy and highlights key areas for improvement within each domain. For these areas further information is provided, such as trends, to help inform the Board and provide the full context. Directorate finance reports follow a similar format and are reported monthly to the Finance Committee and Quality & Governance Committee.</p> <p>The Trust forms part of the Somerset Integrate Care System (ICS). Members of the Board and leadership team have roles in a number of key working groups such as the ICS Shadow Board, ICS Chief Executives Group and Directors of Finance group. The Trust has also agreed a strategic case for merger with Yeovil District Hospital NHS Foundation Trust which has been submitted to NHSE/I for consideration.</p>



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