



Auditor's Annual Report 2022/23

Sheffield Teaching Hospital NHS Foundation Trust

June 2023

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This report is addressed to Sheffield Teaching Hospitals 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 2022-23 audit of Sheffield Teaching Hospitals 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 30. 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 significant weaknesses in the arrangements the Trust has in place to achieve value for money.</p> <p>We have nothing to report in this regard.</p> <p>We have followed up on the significant weaknesses in the prior year on page 15.</p>
Other reporting	<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>Valuation of land and buildings An inappropriate amount is estimated and recorded for the land and buildings subject to valuation</p>	<p>We did not identify any material misstatements relating to this risk We considered the estimate to be balanced based on the procedures performed.</p>
<p>Fraudulent non-pay expenditure recognition Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately.</p> <p>We considered that any manipulation would be most likely to occur through overstating and inaccurate recording of non-NHS accruals, for example to bring forward 2023-24 expenditure to 2022-23 to mitigate financial pressures identified in future financial years.</p>	<p>We identified a misstatement relating to historic health services provided by an offsite third party that has not been corrected by management. Updating this would lead to a reduction in the Purchase of healthcare from non-NHS bodies, however we did not consider this material.</p> <p>We raised a recommendation relating to the preparation, review and methodology of accruals.</p>
<p>Management override of controls 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>

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).

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:

Source	Detail
Care Quality Commission rating	Required improvement
Single Oversight Framework rating	3
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	Significant

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.

Significant weaknesses followed up from the prior year

On page 11 we have set out commentary on the significant weaknesses identified in the prior year and whether the recommendations to address the weaknesses have been satisfactorily implemented.

Summary of findings

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

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

Value for money

Financial sustainability

Description

. 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.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- The processes for setting the 2022/23 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2022/23 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2022/23 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year today against the financial plan.

Commentary on arrangements

As at the start of the financial year, the financial plan had not been finalised for 2022/23 due to the central planning guidance from the National Health Service England/Improvement (NHSE/I) not being available. However in the absence of guidance, a draft of the 2022/23 plan was presented to the Board on 29th of March 2022 and the Finance and Performance Committee on the 11th April 2022, ensuring appropriate review and scrutiny prior to the plan's finalisation. The preparation of the final plan was underpinned by the Trust's Business Planning guidance. The plan was presented and approved by the Board on the 26th of April 2022 and submitted to the South Yorkshire Integrated Care System (ICS) on the 21st of April 2022. The plan included the brought forward underlying deficit of £9.1m. The Trust forecast a year end deficit of £10m, which was driven by excess inflation of £9.2m. The plan was revised post submission, reporting a forecast breakeven position. The setting of a breakeven plan was achieved largely through additional inflation funding (£6.5m) and additional inter-ICB elective recovery funding (£1.3m).

Directorate Budgets are an end point in the Annual Business/Financial Planning process, which is a bottom up process built on Directorate planning submissions. To ensure alignment between financial and operational plans, each Directorate budget is owned by the Triumvirate leads of Clinical Director, Operations Director and Nurse Director with support from their dedicated Finance Manager. Financial Planning assumptions (reflecting the agreed budget setting methodology set by the Chief Finance Officer and reviewed by the Trust Executive Group - TEG) are built into the Business Planning Guidance and inform the Directorate Plans.

We note that the financial plan incorporated an efficiency target of 1% into directorate budgets, supported by the 'Making it Better Programme' which outlined potential Directorate efficiencies. Performance against the efficiency target was monitored by the Trust's Business Planning Team, the newly established Use of Resources Committee and the Board. Our review of the Finance and Performance Committee minutes identified that at the start of the financial year the Trust reported unidentified efficiencies of £7.6m (£1.8m attributable to 22/23 and £5.8m of undelivered schemes from previous financial years) within Directorate plans, to ensure achievement of the financial plan. This was reported as a risk within the Finance and Performance Committee throughout the year. Our review of minutes of the Trust Board and Committees identified that communication of actions to mitigate underperformance of efficiency schemes could be strengthened. We have raised a recommendation regarding the reporting of efficiency mitigations.

Monthly budget and financial monitoring reports are produced for budget managers at both directorate and corporate level. Directorate finance reports are produced on a monthly basis and include analysis of the directorate financial position at a granular level. Directorate budgets are reported to the Trust Executive Group (TEG) on a monthly basis. We found these reports contained sufficient detail to enable informed decision making.

Value for money

Financial sustainability

Description

. 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.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- The processes for setting the 2022/23 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2022/23 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2022/23 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year today against the financial plan.

Commentary on arrangements

We have highlighted the Trust's risk management arrangements on page 19.

The Trust has identified a strategic risk regarding financial sustainability within the Board Assurance Framework (BAF) 'failure to manage our finances effectively and deliver value for money to ensure the long-term sustainability of care provision'. The January 2023 BAF assessed the aggregated assurance rating of this risk to be adequate. Each strategic risk is subject to an annual deep drive. This was undertaken in November 2022 and supported the adequate assurance rating.

As at the year end, the Trust reported a surplus of £12.6m and an adjusted financial performance surplus of £279k. This was a positive variance against its breakeven plan.

The Trust began developing the 2023/24 in advance of the start of 2023/24. In September 2022 a paper was presented to the Trust Executive Group to identify the outlook, key issues and scenarios for the 2023/24 Financial Plan. Further documents were presented to the Finance and Performance Committee in respect of 23/24 planning: Planning guidance for finance and Autumn statement Nov which highlighted the Trust's strategic aims/principles ahead of 2023/24 planning guidance.

The Trust were required to submit a draft plan to the ICB by 16 February 2023, which would form part of the overarching South Yorkshire ICB plan to be submitted to NHSE on 23 February 2023. On the 8 February a paper was submitted to TEG which detailed the Trust's intention to submit an initial 2023/24 plan with a planned £18m deficit and £16.7m of income gaps. Within the paper the Trust detailed further steps required to get to a final 2023/24 balanced plan. An update paper was presented to the Board on 28 March 2023, this report documented the risks to the Trusts financial plan for 2023/24. The Trust presented a balanced 2023/24 plan to the Board of Director's in April 2023.

The Trust submitted a final balanced plan to SY ICB on 4 May 2023, this included efficiencies of £58.5m. Of these efficiencies, £3.5m were unidentified. The efficiencies identified were underpinned by a report presented to the Board on 23 May 2023. The paper articulated the risks and opportunities of the efficiency plan to Board.

Conclusion

Based on the procedures performed we have not identified any significant risks and/or significant weaknesses that the Trust does not have sufficient financial sustainability arrangements in place to oversee and monitor the achievement of value for money.

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and How the Board ensures decisions receive appropriate scrutiny. 	<p>Business and corporate risks are initially identified at department level, at which point they are entered into Datix, the Trust's risk management software. Each risk has a current and target risk score with controls and mitigations in place designed to enable the trust to monitor each specific risk. Risks with a risk score of 8 or above are escalated to the Trust's Risk Validation Group (RVG) to validate the risk. Risks cannot be validated by RVG until the risk owner has provided sufficient information to support the risk. During periods of time where risks have not been validated, they are reported to RVG via the 'Risk assessments not validated and not returned to RVG' report. Extreme risks which have not been returned to RVG to be validated are reported via the 'Extreme risk summary report'. Both reports help ensure that the RVG has sufficient oversight of risks which are awaiting validation. We note that at 31 March 2023, there were no risks awaiting initial validation by RVG. However a process of review is also operated at Directorate level by the risk owner and we found that there remained a significant backlog in relation to this process (see commentary below).</p> <p>All validated risks with a risk score of 15 or above are reported to the Trust Executive Group (TEG) via a Corporate Risk Register Report, all extreme risks (a risk with a score of 15 or more) are aligned to strategic risks within the Trust Board Assurance Framework (BAF). The BAF is a mechanism for proactively assessing risks and controls at strategic level. Additionally, the BAF details controls to mitigate and manage the Trust's strategic risks.</p> <p>All risks are subject to review to ensure that risk scores remain appropriate. At the start of the financial year, there were over 500 risks which were overdue for review, however this had significantly reduced to 187 risks by March 2023. Of these risks, one was an extreme risk and 75 were high risks (a risk with a score of 8 or more). The extreme risk, regarding compliance with the Mental Health Units (Use of Force) Act 2018, was due for review in September 2022. Of the 187 risks awaiting review, 13 risks were over 12 months overdue for review, 6 of these 13 risks were high risks. There is a risk that previously validated scores are not being appropriately reviewed which may result in a lack of oversight of senior management and those charged with governance if risk scores have changed.</p> <p>We identified procedures in place to monitor the extreme risk which had not been formally reviewed in year and was due for review as at 31 March 2023. We noted that the risk was included in the CRR which was scrutinised by TEG. The risk aligns to a strategic risk within the BAF which is presented to the Board each quarter.</p> <p>The risk was also captured in the Risks Overdue for review report which is presented at the Risk Validation Group and Safety and Risk Forum. This ensured that the extreme risk had sufficient oversight from those charged with governance and any actions required</p>

Value for money

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Value for money

Governance	
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Value for money

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Value for money

Improving economy, efficiency and effectiveness	
Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> • The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved; • How the performance of services is monitored and actions identified in response to areas of poor performance; • How the Trust has engaged with ICS partners in development of the organisation and system wide plans and arrangements; • The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and • The monitoring of outsourced services to verify that they are delivering expected standards. 	<p>Directorates and budget holders are required to complete business cases for any major decisions, using the business planning proforma. All business cases must align to the Trust's six strategic objectives and must include a strategic, commercial, finance and management case. Business cases are initially scrutinised by the Business Planning Team, before being presented to TEG and the Board. It was evident from our review that appropriate oversight and scrutiny of business cases was applied by the Business Planning Team and TEG prior to submission to and approval by the Board.</p> <p>The monthly Corporate Financial Reporting pack incorporates efficiency monitoring which is appropriately shared across Trust management and Board. Finance managers also work with Directorates and budget holders to ensure that budget variances are explained and identify where corrective action might be needed. The Trust utilises benchmarking information from across the NHS to inform its position, in particular we note that regular comparison is made against other bodies within the South Yorkshire and Bassetlaw Integrated Care System (ICS).</p> <p>We note that the 2022/23 financial plan incorporated an efficiency target of 1% into directorate budgets, supported by the 'Making it Better Programme' which outlines potential Directorate efficiencies. Performance against the efficiency target was monitored by the Trust's Business Planning Team, the newly established Use of Resources Committee and the Board. Our review of the Finance and Performance Committee minutes identified that at the start of the financial year the Trust reported unidentified efficiencies of £7.6m to ensure a breakeven position. This was reported as a risk within the Finance and Performance Committee throughout the year, however we note that there were no mitigating actions other than 'to work with finance'. However, through our review of the Finance and Performance Committee minutes, we did identify that the Trust communicated risks to the financial position and opportunities to improve the financial position via the monthly Financial Performance report. We have raised a recommendation regarding the reporting of efficiency mitigations.</p> <p>We have seen that papers from key ICS meetings are made available to Board members and regular updates from ICS meetings attended by the Trust are given to Board, committees and the Executive Group by relevant members of management. We have seen from commentary on the development of the 23/24 financial plan that the Trust continues to work closely with the ICS and understand its financial position.</p>

Value for money

Improving economy, efficiency and effectiveness	
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<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 processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved; • How the performance of services is monitored and actions identified in response to areas of poor performance; • How the Trust has engaged with ICS partners in development of the organisation and system wide plans and arrangements; • The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and • The monitoring of outsourced services to verify that they are delivering expected standards. 	<p>An 'Activity Report' is produced each month for the Executive Group and this is also presented to the Finance and Performance Committee. The Trust also produces an Integrated Performance Report (IPR) every other month, which is considered by the Trust Executive Group, Board committees and Board. Both of these reports highlight performance against key performance indicators.</p> <p>On an individual basis, performance of clinical sub-contractors are monitored through the independent sector activity reports and meetings are held with the main independent sector providers. These reports detail performance against key performance indicators. Consolidated independent sector reporting is also performance on a monthly basis, this covers key performance indicators of each main outsourced provider. The activity reporting aligns with the Trust's planning assumptions which underpin the aims of the Trust's activity plan.</p> <p>The Trust outsource very few non-clinical services, the most notable being the outsourced sterile services contract. Performance of this contract is managed through contract oversight meetings held with the provider and senior Trust management.</p> <p>Conclusion</p> <p>Based on the procedures performed we have not identified any significant risks and/or significant weaknesses that the Trust does not have sufficient improving economy, efficiency and effectiveness arrangements in place to oversee and monitor their value for money achievement.</p>

Value for money

Significant Weaknesses followed up from the prior year

In our annual auditor's report for the financial year 2021/22 we reported that the Trust had a significant weakness in arrangements in regard to risk management and maternity services. As required by the Code of Audit Practice we have revisited this issue and set out in the table below an update in regards to the arrangements in this area

Weakness reported in 2021/22	Recommendation	Update
<p>Domain: Improving economy, efficiency and effectiveness and Governance</p> <p>Risk Management and Governance</p> <p>During the period, internal audit flagged concerns to the Trust with regards to weaknesses pertaining to risk management and patient experience.</p> <p>These findings raised concerns as to whether the Trust had maintained appropriate processes during the year to identify risks and/or performance issues.</p> <p>There is a risk that without appropriate sight of potential issues Trust management and Trust Board are unable to identify appropriate actions to address issues and improve performance.</p> <p>We further note the concerns raised by the CQC (April 2022 inspection report) in regards to the above areas and their conclusion that the quality of care and performance of the Trust required</p>	<p>We recommend that the Trust considers, in light of the CQC and internal audit findings, whether its governance arrangements are structured appropriately to enable timely sight of performance issues and the identification, delivery and monitoring of timely actions to enable a positive impact upon service delivery and patient experience.</p> <p>We also recommend that the Trust's risk managements arrangements are designed to enable the prompt identification of risks in relation to patient experience and service performance. They should then ensure the effective oversight of risks being flagged by departmental staff and those involved in patient care along with a timely response to take positive action.</p> <p>As part of the consideration of risk management arrangements the Trust should incorporate consideration of whether the processes underpinning risk management such as performance reporting and patient feedback are effective in helping manage actions taken to address identified risks and also identifying where there might be further risk not yet fully considered.</p>	<p>Implemented</p> <p>The CQC report of December 2022 demonstrated an improved rating from inadequate to required improvement, noting that "the Trust has complied with the requirements of the Section 29A Warning Notice by making significant improvements in the quality of healthcare provided to people who used services within the timeframe specified by the notice". Whilst the CQC indicates that further work is required to embed the improvements made to obtain an improved rating it demonstrated that Trust has put procedures in place to improve its services.</p> <p>We note that risk management processes have been strengthened in the year to promote clearer identification and validation of risks, including the information supporting those risks.</p> <p>Risk clinics were held with Care Groups to help risk owners identify risks and understand the quality of information required to support risks, risk scores and mitigating actions.</p> <p>This ensured that at the risk identification and validation stage, appropriate information was being used to identify risks and ultimately support decision making.</p> <p>Risks are added to Datix and Approved at Directorate level, as at 31 March 2023 there were 41 risks that had been added to Datix but not approved at a Directorate level within four weeks. This was a notable improvement from 2022, as at March 2022 there had been 204 risks added to Datix but not approved at a Directorate level within four weeks.</p> <p>Another notable improvement in the risk management process was demonstrated through the number of overdue/open actions of extreme risks. As of March 2022 there were no open/overdue actions.</p> <p>In respect of the oversight of risks, we identified that at the year end the Trust had 187 risks which were overdue for review by the risk owner. There is risk that effective risk management processes are not being followed, which could impact the ability for the Board to have oversight of Trust risks.</p> <p>As a result we consider the residual risk to relate to the Governance arrangements of the Trust.</p> <p>We have raised a recommendation to management regarding this.</p>

Value for money

Significant Weaknesses followed up from the prior year

In our annual auditor's report for the financial year 2021/22 we reported that the Trust had a significant weakness in arrangements in regard to risk management and maternity services. As required by the Code of Audit Practice we have revisited this issue and set out in the table below an update in regards to the arrangements in this area

Weakness reported in 2021/22	Recommendation	Update
<p>In March 2021 the Trust's maternity service was subject to an unannounced inspection by the CQC. The outcome of this inspection was that the service was rated 'inadequate' by the CQC.</p> <p>In response the Trust developed an action plan to address the concerns raised by the CQC. Whilst many of the actions on the plan had been implemented or were in the process of being implemented the actions taken did not achieve the desired and expected outcomes.</p> <p>This was as evidenced in the CQC's findings following reinspection with the conclusion "there was little or no improvement to the quality of care patients received, in some areas the service had deteriorated further." Following the reinspection the Trust have developed a revised CQC maternity action plan as well as undertaking a number of changes in staffing and management of the maternity service.</p> <p>There is a risk that without clear and focused actions, with measurable qualitative outcomes, the Trust's action plan does not result in the required improvements to its maternity service. In particular there is a risk that the Trust does not consider the lessons learned from its previous action plan exercise whereby actions were taken without the desired and expected outcomes.</p>	<p>The Trust should assure itself that the action plan in place directly addresses the concerns raised by the CQC. In particular it should ensure that robust monitoring processes are in place to enable the measurement of improvements in service delivery in a clear, transparent manner.</p>	<p>Implemented</p> <p>The CQC report of December 2022 demonstrated an improved rating from inadequate to required improvement, noting that "the Trust has complied with the requirements of the Section 29A Warning Notice by making significant improvements in the quality of healthcare provided to people who used services within the timeframe specified by the notice". Whilst the CQC indicates that further work is required to embed the improvements made to obtain an improved rating it demonstrated that Trust has put procedures in place to improve its services.</p>



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