



Auditor's Annual Report 2020/21
Issued on 04 August 2021

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Key Messages

Audit opinion on the financial statements

We issued an unqualified opinion on the Trust's financial statements on 15 June 2021.

The Trust's arrangements to secure Value for Money

Commentary on the Trust's arrangements

Financial Sustainability

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

At 31 March 2021, the Trust had net assets of £1,107m (31 March 2020: £1,194m), net current assets of £104m (31 March 2020: £125m), and a strong cash balance of £325m (31 March 2020: £219m).

The Trust received £68.2m of Covid-19 top-up related funding and ended the year with a deficit of £111.5m (31 March 2020 £36.4m). This deficit includes items related to estate revaluation and other exceptional items and the Trust therefore also disclosed on the face of the SoCI an adjusted financial performance which shows a surplus for the year of £11.8m (31 March 2020 deficit £19.5m).

We concluded that there was no significant weakness in the Trust's arrangements.

Governance

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

The onset of the pandemic resulted in the Trust having to change elements of its governance arrangements.

The Trust has a significant capital program, including the Grafton Way building, and spent £44.7m (31 March 2020 £87.7m) in the current year.

We concluded that there was not a significant weakness in the Trust's arrangements.

Improving economy, efficiency and effectiveness

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

The Trust has historically achieved its CIP and in the current year there was only a 2% deviation noted from plan. The Trust has set a cost improvement plan for H1 of the year ahead that requires savings of £13.8m.

The Trust plays an active part in the local Integrated Care System (ICS), where it is also the ICS lead provider for the Covid-19 Vaccine Programme and has a collaboration agreement in place with Whittington Health, with the aim of improving the quality, safety and experience across a common local population. Furthermore, the Trust is actively engaged in developing the Provider Alliance.

Outside of the ICS the Trust has a number of key strategic partnerships, including with University College London and also East and North Herts NHS Trust, where the Trust is currently supporting proposals for the future provision of services currently provided on the Mount Vernon site.

We concluded that there was not a significant weakness in the Trust's arrangements.

Purpose of this report

Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at University College London Hospitals NHS Foundation Trust ("the Trust") for the year ended 31 March 2021.

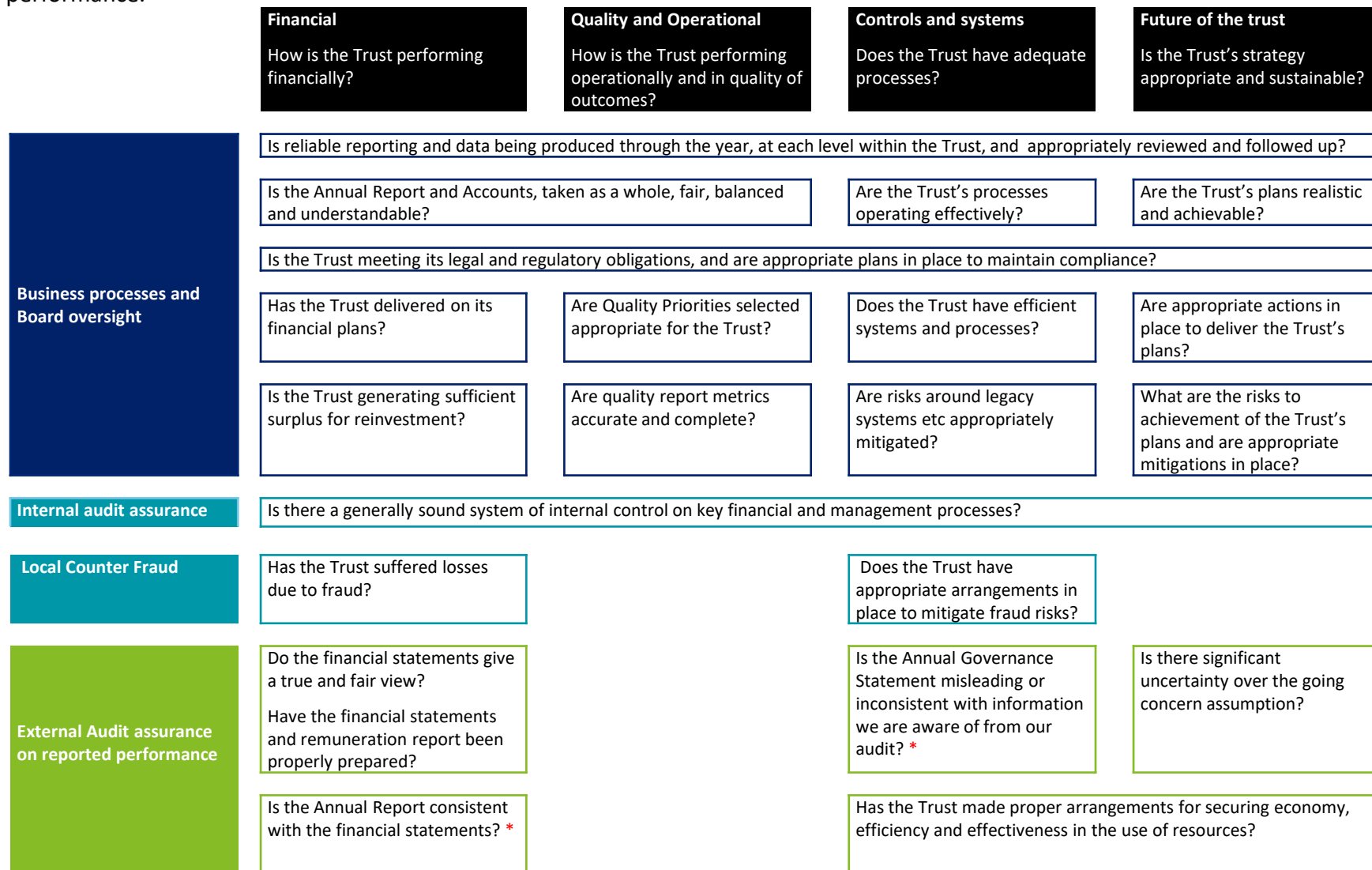
This report is intended to bring together the results of our work over the year at the Trust, including commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM").

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 07. These are available from the NAO website.

A key element of this report is our commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Trust has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Trust has in place, nor does it provide positive assurance that the Trust is delivering or represents value for money.

Assurance sources for the Trust

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Trust (in the green rows) and how this fits with some of the other assurances available over the Trust's position and performance.



* The scope of external audit in this area is "negative assurance" of reporting by exception of issues identified.

Opinion on the financial statements

We provide an independent opinion whether the Trust's financial statements:

- Give a true and fair view of the financial position of the Trust at 31 March 2021 and of the Trust's income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS Improvement; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006.

The full opinion and certificate are included in the Trust's Annual Report and Accounts, which can be obtained from the Trust's website.

We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We are independent of the Trust in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements:	We issued an unqualified opinion on the Trust's financial statements on 15 June 2021. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.
Remuneration and Staff Report:	We reported that the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the National Health Service Act 2006.
Annual Governance Statement:	We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual, was misleading, or was inconsistent with information of which we are aware from our audit.
Annual Report:	We reported that the information given in the Performance Report and Accountability Report for the year ended 31 March 2021 is consistent with the financial statements.
Reports in the public interest and reports to NHS Improvement:	We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2021.
Reporting to the group auditor:	In line with the group audit instructions issued by the NAO, we reported on 24 June 2021 that the Trust's consolidation schedules that feed into the Consolidated NHS Provider Account and Department of Health and Social Care's group accounts were consistent with the audited financial statements.
Audit Certificate	We certified completion of the audit on 08 July 2021, following completion of our responsibilities in respect of the audit for the year ended 31 March 2021.

Our financial statement audit approach

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Trust and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit partner, Craig Wisdom. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations and Information Technology systems.

Materiality

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Trust to be £12.0m, on the basis of 1% of operating revenue, which is c.0.8% of gross assets and c.2.2% of taxpayers' equity.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300k as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Procedures for auditing the Trust's financial statements

Our audit of the Trust's financial statements included:

- developing an understanding of the Trust, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the Trust's financial statements;
- interviewing members of the Trust's management team and reviewing documentation to test the design and implementation of the Trust's internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the Trust's financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances.

Data analytic techniques were used as part of audit testing, in particular to support profiling of populations to identify items of audit interest and in journal testing, using our Spotlight data analytics platform.

Our financial statement audit approach (continued)

Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Trust's Audit Committee setting out what we considered to be the significant audit risks for the Trust, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the following pages.

We have made recommendations in our Audit Committee reporting for improvement in the Trust's policies, procedures and internal controls based on observations from our work. However, we do not consider these recommendations to reflect significant weaknesses in the Trust's VfM arrangements.

Financial statement audit significant risks

Accounting for capital expenditure

Risk identified The Trust continues to significantly invest in its capital programmes and there is judgement in the accounting treatment of capital additions. (20/21 actual: £104.4m, 19/20 actual: £146.0m). Where the Trust develops properties as part of its capital programme, determining whether expenditure should be capitalised can involve significant judgement as to whether costs should be capitalised under International Accounting Standards, and when to commence depreciation. In addition, previously capitalised works that are being replaced or refurbished need to be appropriately written down. Accounting for capital expenditure can involve significant judgement. Whether expenditure is capitalised, and the period it is recognised in, can significantly impact against the budgetary control totals the Trust is assessed against by NHS Improvement. The increased level of expenditure in the current year and the higher level of capital budgets available in the current year increases the risk of amounts being incorrectly capitalised, or of incorrect recognition in the current period.

Deloitte response

- We have reviewed the Trust's procurement process and the two largest signed capital contracts relating to Grafton Way Building developments.
- We have tested the design and implementation of controls around the capitalisation of costs and the controls around the transfer of assets out of assets under construction and into use.
- We have tested spending on a sample basis to confirm that it complies with the relevant accounting requirements, and that the depreciation rates adopted are appropriate.
- We have reviewed the projects ledger and the status of individual projects to evaluate whether they have been depreciated from the appropriate point.
- We have challenged management's assessment whether any impairment arises in respect of newly capitalised expenditure.
- We have confirmed there are no adjustments to the value of previously capitalised works are required.

Key observations The evidence we obtained from our audit procedures supported the manner in which the trust accounted for capital expenditure.

Financial statement audit significant risks (continued)

Recognition of NHS revenue and recovery of related debt

Risk identified	<p>The risk of fraud in revenue recognition is a presumed risk under International Standards on Auditing. For our NHS Foundation Trust clients, we typically specify this significant risk as a risk that a Trust has recorded revenue that is not valid, accurate or valued appropriately. In the current year we have focussed this risk around the recovery of uncollected debt or unagreed income.</p> <p>These elements of unsettled revenue can involve management judgement and estimation, including management consideration of any unresolved commissioner challenges.</p>
Deloitte response	<ul style="list-style-type: none">• We tested the design and implementation on the controls around the agreement of disputes and challenges and any significant judgements and estimates involved in respect of recognition of unsettled revenue.• In conjunction with our work on the NHS Agreement of Balances (AoB) exercise, we requested, from management, a schedule of significant unresolved or potential commissioner challenges. We discussed those challenges, and the associated judgements used in estimating unsettled revenue amounts, with contract managers and relevant senior members of the Trust's finance team. We challenged management's assumptions over recoverability and we sought to corroborate management explanations to documentary evidence. Where relevant, we also considered the Trust's history of settling similar matters.• We selected a sample of differences between the amounts that the Trust reported as receivable from commissioners, and the amounts that commissioners reported that they owe the Trust, in the agreement of balances ("mismatch") report. For this sample, we sought explanations from management for the variances together with documentary evidence to corroborate those explanations. We considered these differences in light of the contract provisions held by the Trust.• We have recalculated the general credit note provision and determined an independent estimate of the amount provided using historic collection rate.
Key observations	<p>Consistent with previous years the Trust continues to have a bias towards prudence in its approach to its provision policies. Whilst we have concluded that the overall provisions are within a materially acceptable range, we believe that the current level of provision is at the very prudent end of that acceptable range.</p> <p>We have raised a recommendation to management that they should perform a more evidence based analysis of historic provisions in order to assess the reasonableness of the general credit note provision policy and that there is a more robust risk assessment over the probability of economic outflow for the specific credit note provision.</p>

Financial statement audit significant risks

Property valuations

Risk identified The Trust is required to hold property assets within Property, Plant and Equipment at valuation, which will usually be on a modern equivalent use basis. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value, particularly when there is a significant capital program. In FY20/21 management continued to elect to use an alternate site basis for the valuation (which had previously resulted in a significant decrease in the valuation) of the Trust's estate. Therefore the complexities of the model, and in the required accounting transactions mean that there is a risk over the valuation of the property assets.

We also note that the Trust undertook a desktop valuation exercise on its property portfolio together with an onsite valuation of the Grafton Way Building for the purposes of the 2020/21 financial year end. The last full revaluation was performed in 2018.

The on-site visit to the Grafton Way Building was carried out in November 2020, with the desktop valuation finalised on 31 March 2021.

Deloitte response

- We engaged our property specialists Deloitte Real Estate to review the assumptions and methodology used to value the estate. We have used their findings to challenge management's assumptions, including the potential impact of Covid-19 and of climate change on property valuations. We note that the costs assumed for valuing buildings are above the amounts reflected in the BCIS databases of building costs, although within the range we see elsewhere.
- The Depreciated Replacement Cost method, used for valuing most of the Trust's properties in line with other NHS bodies, is particularly judgemental. There are a variety of assumptions that must be made, together with the potential impact to give an indication of where the Trust lies within the acceptable range.
- We have considered the adequacy of the disclosure of material valuation uncertainty in the "key sources of estimation uncertainty" note in the financial statements.
- We noted that on the Grafton Way Building, the Trust instructed the valuer to adopt a smaller MEA area than the actual built area on Grafton Way. This resulted in a decrease in the value reported by the valuer indicated at £10.7m. We noted that the Trust undertook a process validating the assumptions on the GIA with the input of the clinical team confirming that reducing the GIA would result in equivalent economic service potential. The GIA was independently confirmed by the architects and validated by both the independent supervisors acting on behalf of UCLH and also the valuer.

Key observations We concluded our work satisfactorily.

Financial statement audit significant risks (continued)

Management override of controls

Risk identified	<p>In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Trust's controls for specific transactions.</p> <p>We consider that in the current year there is a risk across the NHS that management may override controls to fraudulently manipulate the financial statements or accounting judgements or estimates. In previous years, this has been to meet or exceed control totals – however, in light of the increased funding in the current year, we have also considered the potential incentives to recognise excess liabilities in the current year.</p> <p>Notes 1.26 and 1.27 to the financial statements detail the Critical Accounting Judgements and Key Sources of Estimation Uncertainty identified by management.</p>
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Deloitte response	<p>Manipulation of accounting estimates</p> <p>We tested the design and implementation of controls in relation to accounting estimates.</p> <p>We tested accounting estimates (including in respect of capital expenditure, accruals and provisions, and property valuations) discussed above), focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.</p> <p>In testing each of the relevant accounting estimates, we considered their findings in the context of the identified fraud risk. Where relevant, the recognition and valuation criteria used were compared to the specific requirements of IFRS.</p> <p>Manipulation of journal entries</p> <ul style="list-style-type: none">• We tested the design and implementation of controls in relation to journals and accounting estimates.• We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.• We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered all journals posted in the year. Investigation of items sampled using Spotlight did not identify indicators of management override.• We traced the journals to supporting documentation, considered whether they had been appropriately approved, and evaluated the accounting rationale for the posting. We evaluated individually and in aggregate whether the journals tested were indicative of fraud or bias. <p>Accounting estimates</p> <ul style="list-style-type: none">• We reviewed accounting estimates for biases that could result in material misstatements due to fraud.• We have confirmed that the Trust has adopted consistent assumptions on asset lives for the purposes of depreciation and valuation.
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Financial statement audit significant risks (continued)

Management override of controls

Deloitte response

Accounting estimates

- Our work on key accounting estimates included considering key areas of judgement for NHS providers. We have reviewed the papers submitted to the Audit Committee on the accounting rationale for the provisions recognised by the Trust and the validity of aged payables and accruals, and have considered judgements and their impact individually and in aggregate upon the financial statements. In testing the principal accounting estimates, engagement team members were directed to consider their findings in the context of the identified fraud risk. Where relevant, the recognition and valuation criteria used were compared to the specific requirements of IFRS.
- Regarding the credit note provision and the contract dispute provision management have:
 - In certain instances not performed sufficient evidence based analysis in order to assess the reasonableness of the provision policy; and
 - In certain instances not performed a robust enough risk assessment over the probability of economic outflow to support the value of the estimate.

Significant transactions

- We did not identify any material unusual transactions outside the normal course of business.

Key observations

As we have reported to the Audit Committee in previous years, the results of our audit work indicates that the Trust continues to have a bias towards financial prudence when making estimates and that there are instances where this prudence is either in excess of an acceptable range or at the end of an acceptable range.

We have raised recommendations to management that the Trust needs to enhance its processes to take a more robust and evidence based approach to certain estimates. The recommendations made will also help ensure that there is sufficient challenge of the Trust's tendency towards prudence and the principles of the recommendations should be applied to all areas of estimate.

Financial statement other areas of audit focus(continued)

Old payables and aged accruals

Observation

During our testing, we noted that the Trust continues to hold a significant amount of historic accruals and payables.

We note that the Trust has released aged accruals over 2 years, this amounted to £8.8m. The Trust has also continued to validate the old payables and accruals and we noted a net reduction of £12.1m of accruals over 2 years old in the current year. In order to assess the likelihood of an future economic outflow related to the old accruals, we challenged management on whether the movement on old accruals, in particular those over 2 years old, in the last year related to accruals that were subsequently paid or released as credits to the SoCI. The analysis showed that of the £12.1m net reduction in accruals over 2 years old, £3.7m was released as credits to the SoCI.

As part of our validity testing, we have tested a sample of the aged accruals. Whilst the Trust was able to provide evidence to support the majority of our testing of the accrual balances, they were not able to provide evidence to support 2 samples we made from the old accruals population.

As part of our testing we also developed our own assessment of the expected economic outflow based primarily on analysis of movement in old accruals during the year.

Key observations

We concluded as follows:

- through developing our own assessment of the expected economic outflow we noted that there is evidence that the older the accrual becomes the more likely it is that there will not be an economic outflow from the Trust and that it will be released as a credit to the SoCI. Based on our assessment we concluded that Accruals are overstated and we proposed a judgemental misstatement of £2.4m.
- There is a category of accruals within old accruals called Legacy accruals. Whilst there has been some movement in the 2-3 year category where accruals were invoiced and paid, the only movement in those amounts over 3 years old was a release of £1.6m to the SoCI in line with the Trusts policy of releasing accruals over 7 years old. We concluded that the likelihood of an economic outflow related to the remaining balance was low given the nature of these accruals and the recent movements. Our assessment is that these accruals should be released to the SoCI and we therefore proposed a judgemental misstatement of £5.7m.

We have made a recommendation that Trust accelerates its existing review of the aged accruals and payables to ensure that old accruals are cleared in the next 12 months. In addition we recommended that the Trust's enhances its review process of old accruals to actively track which accruals are valid and which are released unused in order to assess the effectiveness of the review processes currently in place.

Auditor's work on Value for Money (VfM) arrangements

The Accounting Officer and the Board are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Accounting Officer reports on the Trust's arrangements, and the effectiveness with which the arrangements are operating as part of their annual governance statement.

Under the National Health Service Act 2006, we are required to be satisfied whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

Financial Sustainability	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
Governance	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
Improving economy, efficiency and effectiveness	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

On the following pages, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Trust can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the Covid-19 pandemic, there have been changes in nationally led processes, changes in expectations around Trust's arrangements, and events occurring outside of the Trust's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2020/21 in assessing whether they are indicative of a risk of significant weakness.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with key stakeholders, including Interim CFO, Head of Financial Performance and Planning, Head of Finance – Capital, Projects and Partnerships and Director of Commercial and Contract Management.



Review of Board and committee reports and attendance at audit committee meetings.



Reviewing reports from third parties including Care Quality Commission internal audit reports, and correspondence with NHS Improvement.



Considering the findings from our audit work on the financial statements.



Review of the Trust's annual governance statement and annual report.

Auditor's work on VfM arrangements (continued)

Trust performance

The table on the right provides a summary of Trust performance across a range of measures and where appropriate additional commentary is provided on this.

NHS Oversight Framework - NHS England and Improvement's NHS Oversight Framework provides the framework for overseeing providers and identifying potential support needs.

The framework looks at five themes:

- Quality of care
- Finance and use of resources
- Operational performance
- Strategic change
- Leadership and improvement capability (well-led).

Based on information from these themes, providers are segmented from 1 to 4, where '4' reflects providers receiving the most support, and '1' reflects providers with maximum autonomy. The Trust continues to be categorised as 'Segment 2'.

Finance and Use of Resources - The finance and use of resources theme is based on the scoring of five measures (relating to Financial Sustainability, Financial Efficiency and Financial Controls) from '1' to '4', where '1' reflects the strongest performance. These scores are then weighted to give an overall score. The Trust has in recent years received the highest possible rating of 1 although a rating of 3 was received in 2019/20 due to the change in the Trust-wide funding mechanism, the withdrawal of the incentive PSF funding and the inclusion of COVID cost which were not reimbursed through income. A rating was not required to be reported in the current year.

	2020/21	2019/20	2018/19
Surplus / (Deficit)	(£111.5m)	(£48.4m)	£70.2m
Adjusted Surplus/(Deficit) as reported on the face of the SOCIE *	£11.8m	(£19.6m)	(£12.7m)
EBITDA margin	6.6%	(5.2%)	(9.2%)
CIP Actual/Target	£22.6m/ £23.0m	£45.0m	£47.2m
Use of Resources	Not required to be reported	3	1
Segmentation	2	2	2
Breaches of NHSI performance targets	None	None	None
Cash	£325.0m	£219.3m	£257.3m
CQC report conclusions	Good	Good	Good
Capital Expenditure	£104.4m	£113.8m	£162.8m

* The adjusted surplus deficit removes the exceptional items such as impairments and this measure is considered a better representation of the Trust performance by management.

VfM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

At 31 March 2021, the Trust had net assets of £1,107m (31 March 2020: £1,194m), net current assets of £104m (31 March 2020: £125m), and a strong cash balance of £325m (31 March 2020: £219m).

The Trust received £68.2m of Covid-19 top-up related funding and ended the year with a deficit of £111.5m (31 March 2020 £36.4m). This deficit includes items related to estate revaluation and other exceptional items and the Trust therefore also disclosed on the face of the SoCI an adjusted financial performance which shows a surplus for the year of £11.8m (31 March 2020 deficit £19.5m).

Through our review of relevant documentation and discussions held with management we noted that:

- The Trust's annual planning process and process around identification of significant financial pressures was significantly impacted by the Covid-19 pandemic. We saw evidence that the Trust adapted its arrangements to respond and they were in line with our expectation in the current operating environment.
- The Trust's planning process is completed via a bottom up approach which allows local boards to identify pressures which are then reflected into cost improvement plan (CIP) requirements and mitigations approved by the Board. The Trust has historically achieved its CIP and in the current year there was only a 2% deviation noted from plan of £23.0m (actual: £22.6m).
- The Trust has a monthly financial reporting cycle and reports are reviewed by the local Boards and issues are escalated as appropriate to agree potential mitigating actions.
- All the local boards are required to work in partnership with each other to review strategic and statutory priorities assessing the clinical, operational and financial requirements of major new and continuing programmes. This helps to ensure that the Trust has a forward view of the potential impacts and that priorities are sustainable for effective delivery.
- The Trust takes into account the financial impact of strategic initiatives in annual planning cycles and long term financial modelling.
- Governance arrangements were introduced related to the financial challenges of responding to the pandemic including in respect of Covid-19 capital expenditure.
- The Trust board and finance sub committees actively reviewed, monitored and challenged financial plans and financial reporting through the year.

We concluded that there was not a significant weakness in the Trust's arrangements.

VfM arrangements: Governance

Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- 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;
- how the body approaches and carries out its annual budget setting process;
- 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); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

Commentary

Through our review of relevant documentation and discussions held with the management we noted that:

- The onset of the pandemic resulted in the Trust having to change elements of its governance arrangements. The Trust has had an Internal Audit review performed that addressed the Trust's financial governance and controls during Covid-19 which gave significant assurance with minor improvement opportunities.
- The Head of Internal Audit opinion has given 'significant assurance with minor improvement opportunities' opinion on the overall adequacy and effectiveness of the framework of governance, risk management and control. The Trust received one partial assurance review on DSP Toolkit where a high priority risk was given in the year. We do not expect this to have a material impact on the arrangements of the Trust and we note that the Trust has put actions plans in place to address these recommendations due for submission by the end of June 2021.
- The Trust has established processes to manage risk and risks are identified and monitored at all levels in the organisation and mitigating actions are identified and assessed on a regular basis.
- The board assurance framework is kept under review and is updated on a quarterly basis and presented to the risk coordination board as well as the Audit Committee and the Trust Board.
- The Trust's budgeting process is well established and is appropriate for the size of the Trust. The monthly reporting cycle is also well established whereby review and forecasting is embedded within the process and are effectively challenged by senior stakeholders.
- The Trust has a significant capital program and spent £44.7m (31 March 2020 £87.7m) in the current year. There are established arrangements in place for major capital projects. Arrangements in respect of the Grafton Way building included a separate programme board holding weekly meetings that provided regular updates to senior management and the Trust Board and its subcommittees.
- The Trust looks for balance in the structure of those charged with governance between technical and sector experience. The Trust is able to show depth of experience on the Board and sub committees.
- The "Well Led" element of the last CQC report dated December 2018 rated the Trust as Good.
- The Trust is currently in Segment 2 of the NHS England and Improvement's oversight framework.

We concluded that there was not a significant weakness in the Trust's arrangements.

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations

We have considered how the body uses information

about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- How the Trust 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; and
- Where the Trust commissions or procures services, how the Trust ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Trust assesses whether it is realising the expected benefits.

Commentary

Through our review of relevant documentation and discussions held with the management we noted that:

- The Trust has an established financial and performance monitoring processes that identify and challenge areas of focus and improvement. The monthly performance reports and financial performance information are presented to the local board where variances are investigated and escalated to senior levels whereby actions are agreed to address the challenges.
- As noted on page 16, the Trust has historically achieved its CIP. The Trust has set a cost improvement plan for the year ahead that requires savings of £13.8m.
- The Trust plays an active part in the local Integrated Care System (ICS), where it is also the ICS lead provider for the Covid-19 Vaccine Programme and has a collaboration agreement in place with Whittington Health, with the aim of improving the quality, safety and experience across a common local population. Furthermore, the Trust is actively engaged in developing the Provider Alliance.
- Outside of the ICS the Trust has a number of key strategic partnerships, including with University College London and also East and North Herts NHS Trust, where the Trust is currently supporting proposals for the future provision of services currently provided on the Mount Vernon site.
- The Trust monitors its main contracts via monthly contract management meetings by the relevant service to assess performance against KPIs and monitor if the services commissioned are being provided in accordance with the requirements.
- Procurement is managed through the Trust procurement directorate which is required to procure goods and services in accordance with the necessary legislation, standards or policies.

We concluded that there was not a significant weakness in the Trust's arrangements.

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Trust's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Trust.

Also, there will be further information the Board of Directors and Council of Governors need to discharge their governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for the Board of Directors, as a body, and the Board of Governors, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

A handwritten signature in purple ink that reads "Deloitte LLP".

Deloitte LLP

St Albans | 04 August 2021

Appendix 1: Deloitte insights

During our audit, we identified areas where continued focus from the Trust would further strengthen arrangements to secure economy, efficiency and effectiveness in the use of resources. We have not identified any significant weaknesses in the Trust's arrangements, and so the recommendations we have made are not recommendations in respect of significant weaknesses (under paragraph 54 of Auditor Guidance Note 03).

Financial Sustainability - Cost Improvement Plan (CIP) requirements

Observation - We note that the Trust has an effective cost improvement process and programme established. As the Trust seeks to increase its focus on productivity following the most recent COVID waves, we would recommend that the trust recommences a more comprehensive process of benchmarking productivity and cost improvements against Trusts with similar characteristics to identify opportunities for efficiency.

Improving economy, efficiency and effectiveness - Local Integrated Care System (ICS)

Observation - As the Trust moves forwards with ever closer partnership working within the ICS and the increasing focus on system wide objectives, it is important that the Trust adapts its arrangements appropriately to incorporate new duties and responsibilities whilst maintaining the existing rigour over the its current arrangements.

Appendix 2: Trust's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Executive, as Accounting Officer of the Trust, is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting Officer is required to comply with the Accounts Direction issued by NHS Improvement, which requires the Trust to comply with the Department of Health & Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the Trust is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the Accounting Officer has applied the 'continuing provision of services' approach set out in the Group Accounting Manual, as it is anticipated that the services the Trust provides will continue into the future.

The Accounting Officer is required to confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for patients, regulators and stakeholders to assess the Trust's performance, business model and strategy.

The Accounting Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Trust, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer and the Board are responsible for ensuring proper stewardship and governance, and reviewing regularly the adequacy and effectiveness of these arrangements.

Appendix 3: Auditor's responsibilities

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities relating to the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the National Health Service Act 2006 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the foundation trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in April 2021, as to whether the Trust has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that, under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Trust a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021. Other findings from our work, including our commentary on the Trust's arrangements, are reported in our Auditor's Annual Report.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the National Health Service Act 2006 to:

- make a referral to NHS Improvement if we believe that the Trust or an officer of the Trust is
 - about to make, or has made, a decision which involves or would involve the Trust incurring unlawful expenditure;
 - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency
- consider whether to issue a report in the public interest.



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