

# Harrogate and District NHS Foundation Trust

## Auditor's Annual Report

**Year ended 31 March 2022**  
October 2022



Harrogate and District NHS Foundation Trust  
Harrogate District Hospital  
Lancaster Park Road  
Harrogate  
North Yorkshire  
HG2 7SX

**Private & confidential**

11 October 2022

Dear Board of Directors,

**Harrogate and District NHS Foundation Trust**  
**Auditor's Annual Report for the year ended 31 March 2022**

This Auditor's Annual Report summarises the findings of our audit for the year ending 31 March 2022, including our work on Value for Money. We have already communicated the findings from our audit of the financial statements to you in the following reports:

- Audit opinion on the financial statements for the year ended 31 March 2022.
- Audit Findings Report to Those Charged With Governance (ISA (UK) 260).

We performed our audit in accordance with International Standards on Auditing (UK). This report has been prepared in line with the National Audit Office's Code of Audit Practice (the "Code") and is required to be published by the Trust alongside the annual report and accounts. Our reports are prepared in accordance with ISAs (UK), the Code, all associated Audit Guidance Notes issued by the National Audit Office and relevant requirements of the NHS Act 2006.

We would like to take this opportunity to record our appreciation for the kind assistance provided by your team during our audit.

Yours faithfully

**Chris Brown**  
For and on behalf of Azets Audit Services

# Executive summary

This table summarises the responsibilities and powers of appointed auditors set out in the Local Audit and Accountability Act 2014 and our findings in each area.

	Our responsibilities	Findings
<b>Financial statements</b>	<p>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.</p> <p>We are required to give a separate audit opinion on the Trust accounts consolidation schedules and to carry out specified procedures under group audit instructions from the National Audit Office.</p>	<ul style="list-style-type: none"> <li>• Our audit opinion on the Trust's financial statements is unqualified.</li> <li>• The key audit risks we identified and our responses to those risks are summarised on pages 2 to 4.</li> <li>• In the group audit instructions the Trust was selected as a non-sampled component. There are no unadjusted inconsistencies identified between the financial statements and the Trust accounts consolidation schedules to date, which we are required to report in our audit opinion.</li> </ul>
<b>Annual report</b>	<p>We assess whether the annual report published with the financial statements is consistent with the financial statements and our knowledge of the Trust. We perform testing of certain figures subject to audit as prescribed by the NHS Foundation Trust Annual Reporting Manual, labelled in the remuneration report.</p>	<ul style="list-style-type: none"> <li>• We did not identify any significant inconsistencies between the information presented in the annual report and the financial statements, and with our knowledge of the Trust.</li> <li>• We confirmed that the Governance Statement had been prepared in line with the Department of Health and Social Care requirements.</li> </ul>
<b>Value for money (VFM)</b>	<p>For the year ended 31 March 2022, under the 2020 Code of Audit Practice and Auditor Guidance Note 03 ("AGN 03"), we consider whether there are sufficient arrangements in place at the Trust in each of the three elements that make up value for money, with the overall evaluation criterion:</p> <p><i>In all significant respects, the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</i></p> <p>We assess the arrangements in place for securing economy, efficiency and effectiveness 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.</p>	<ul style="list-style-type: none"> <li>• We are required to report if we identify any matters that indicate that there are significant weaknesses in the Trust's arrangements for achieving value for money.</li> <li>• We have nothing to report in this regard.</li> <li>• Our commentary on the Trust's VFM arrangements is set out on pages 5 to 8.</li> </ul>
<b>Other reporting</b>	<p>We are required to report, by exception, on whether we have:</p> <ul style="list-style-type: none"> <li>- issued a report in the public interest under schedule 10(3) of the National Health Service Act 2006, or</li> <li>- referred a matter to the regulator under schedule 10(6) of the National Health Service Act 2006.</li> </ul>	<ul style="list-style-type: none"> <li>• We did not consider it necessary to issue any other reports.</li> </ul>

# Financial statements audit

The key risks to our audit opinion that we identified as part of our risk assessment and our findings in each area are summarised below.

Significant audit risks	Audit findings
<p><b>Fraud in revenue recognition</b> Under ISA (UK) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Trust may adopt inappropriate accounting policies or treat income in such a way as to lead to material misstatement in the financial statements.</p> <p>Given the unprecedented and continued pressure on the NHS due to the COVID-19 pandemic as well as changes to the funding regime, we do not consider it appropriate to rebut this presumed risk in revenue recognition.</p> <p>We have therefore identified occurrence and accuracy of material income streams and the existence of associated receivable balances as a significant risk.</p>	<p>Our audit did not identify any issues of concern in respect of fraud in revenue recognition.</p> <p>We identified one unadjusted misstatement in relation to receivables.</p>
<p><b>Management override of controls</b> Under ISA (UK) 240 there is a presumed risk of management override of controls in all entities. Such transactions could lead to a material misstatement in the financial statements.</p> <p>Revised ISA 540 requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate to the complexity of the method applied, subjectivity in the choice of data or assumptions, or a high degree of estimation uncertainty.</p> <p>We therefore identified management override of control, in particular manual journals, management estimates and judgements, and one off transactions outside the ordinary course of the business, as a significant risk.</p>	<p>Our audit did not identify any issues of concern in respect of management override of controls.</p> <p>We have raised control recommendations for the Trust to consider in relation to journals.</p>

# Financial statements audit

The key risks to our audit opinion that we identified as part of our risk assessment and our findings in each area are summarised below.

Significant audit risks	Audit findings
<p><b>Valuation of land and buildings (key accounting estimate)</b> The Trust undertakes a full revaluation of its land and buildings on a five-yearly basis, with a desktop review being performed in all other years, to ensure that the carrying value is not materially different from the fair value.</p> <p>Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institution of Chartered Surveyors (RICS) to undertake a full revaluation as at 31 March 2022. This valuation involves a range of assumptions and is therefore sensitive to changes in market conditions. ISA (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p>This represents a key accounting estimate made by management within the financial statements. We have therefore identified the valuation of land and buildings as a significant risk.</p>	<p>Our audit did not identify any issues of concern in respect of valuation of land and buildings.</p>
<p><b>Fraud in non-pay expenditure</b> The setting of a year end financial target can create an incentive for management to manipulate the level of non-pay expenditure.</p> <p>There is a risk that this may take place by deliberately understating or overstating the level of non-pay expenditure recognised at the year end through accruals and prepayments.</p>	<p>Our audit did not identify any issues of concern in respect of fraud in non-pay expenditure.</p> <p>We have identified and reported one adjusted misstatement in relation to the Trust only statement of financial position.</p> <p>We have identified and reported an unadjusted misstatement in relation to a classification misstatement, however we are satisfied that this is not indicative of fraud.</p>

# Financial statements audit (continued)

## Other audit findings

### Uncorrected misstatements

Three uncorrected misstatements in the financial statements, which in total were above our trivial threshold, were identified as part of our audit. The impact of these misstatements, if adjusted, would have been an increase of £313k to the Trust's surplus and no impact to the group's surplus.

### Internal control recommendations

We raised no recommendations arising from significant deficiencies in internal controls. Our Audit Findings Report included a small number of minor internal control recommendations.

# Value for money audit

## Introduction

Our value for money audit work considered whether the Trust has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The scope of our work for 2021/22 was determined by the requirements of Auditor Guidance Note 3 'Auditor's work on Value for Money (VFM) arrangements' ("AGN 03"), issued by the National Audit Office.

We performed risk assessment procedures at the audit planning stage to identify any potential areas of significant weakness which could result in value for money not being achieved. This included considering the findings from other regulators and internal auditors, reviewing records at the Trust and performing procedures to assess the design of key systems at the Trust that give assurance over value for money. The resulting risk areas were set out in our audit plan.

For each identified risk area, we performed further procedures during our audit to consider whether there were 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 [NAO Code of Practice \(April 2020\)](#).

## Commentary on arrangements

The NAO Code of Audit Practice requires us to structure our commentary on VFM arrangements under three reporting criteria: financial sustainability; governance; and improving economy, efficiency and effectiveness.

We have set out on the following pages our commentary and findings on the arrangements at the Trust in each area.

## Summary of findings

Reporting criteria	Risk assessment at audit planning	Findings
<b>Financial sustainability</b>	One potential risk of significant weakness identified.	No significant weaknesses identified.
<b>Governance</b>	No risk areas identified.	No significant weaknesses identified.
<b>Improving economy, efficiency and effectiveness</b>	No risk areas identified.	No significant weaknesses identified.

Based on the audit work performed, we have not identified any significant weaknesses in the Trust's arrangements for achieving value for money and have therefore not raised any formal recommendations.

# Value for money audit (continued)

## Financial Sustainability

Description	Commentary on arrangements	Findings
<p>This relates to how the Trust plans and manages its resources to ensure it can continue to deliver its services.</p> <p>We considered the following areas:</p> <ul style="list-style-type: none"> <li>• how the Trust identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into the plans;</li> <li>• how the Trust plans to bridge its funding gaps and identifies achievable savings;</li> <li>• how the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;</li> <li>• how the Trust ensures that its financial plan is consistent with workforce, capital, investment, and other operational plans, which may include working with other local public bodies as part of a wider system; and</li> <li>• how the Trust identifies and manages risks to financial resilience.</li> </ul>	<p>From 1 July 2022 Clinical Commissioning Groups (CCGs) were abolished and Integrated Care Systems (ICS) came into place. The process for budgeting for 2022/23 therefore meant close working with the ICS that the Trust reports into, namely Humber and North Yorkshire.</p> <p>The Trust's process for 2022/23 planning was directorate led and included resource review sessions to explore financial, operational and workforce risks.</p> <p>At the March 2022 Board meeting, the budget was internally scrutinised and approved with a deficit of £8.064m. Plans to close the gap were discussed and were expected to be achieved through cost improvement programmes (CIPs). In March 2022, following close working with the Humber and North Yorkshire ICS, the Trust completed their system financial planning submission for 2022/23 in line with national timetables. The Trust submitted a forecast breakeven position. The ICS requested further cost reductions in June 2022 as, on a system basis, a deficit for all Trusts within the system totalled £143m. Revised budgets were submitted in June 2022 to reduce this on an overall system basis by taking into account additional CIPs.</p> <p>The full CIP target for 2022/23 is £8.3m. Cost improvement initiatives are identified at directorate level and are reported and monitored through the Resource Committee on a monthly basis. As at July 2022, £5.5m had been delivered, 45% of this has been delivered recurrently. This also includes the £1.5m stretched ICS efficiency ask factored into the June 2022 planning submission. £0.6m of CIP is unidentified as at July 2022. This accounts for 8% of the total CIP target for 2022/23 meaning 92% has either been actioned or identified.</p> <p>The Trust are aware of the risks and challenges faced with working with the Humber and North Yorkshire ICS whilst also servicing a proportion of the population which falls within the West Yorkshire ICS. This has been identified on the Board Assurance Framework (BAF) as a risk which is reported as a standing agenda point at Board meetings. Relationships and joint working are still in the early stages; however, the Trust is engaged in regular meetings with the integrated system at director and other management levels.</p> <p>As at July 2022, the Trust reported a year to date financial deficit of £0.596m against a break even plan. Performance is closely monitored and reasons for variances against budgets are discussed as appropriate.</p> <p>In addition to the above, the Trust is on track to complete the HFMA "Improving NHS financial sustainability" self assessment in line with their targeted timetable, which will be reviewed by Internal Audit.</p>	<p>Based on the procedures performed we have not identified any significant weaknesses that indicate the Trust does not have adequate arrangements in place to ensure financial sustainability.</p>

# Value for money audit (continued)

## Governance

### Description

This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.

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

- how the Trust monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the Trust ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- how the Trust monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

### Commentary on arrangements

The Trust have in place an internal audit function and counter fraud function which allows those charged with governance to monitor and assess risk, as well as gain assurance over the effective operation of internal controls. The Head of Internal Audit opinion for 2021/22 gave an overall level of "significant" assurance which is the second highest level out of four.

Risks are identified using a documented "risk review process" which considers ward and specialty risks, directorate risks and corporate risks. These risks are assigned scores and fit into the appropriate risk type based on this. Risks then feed into the Board Assurance Framework which is reviewed at Executive level on a monthly basis and then reviewed by Public Board bi-monthly.

The budgeting process for 2022/23 was a bottom-up process starting with directorates considering their activity and operational requirements. This was then considered alongside financial and workforce constraints and any potential opportunities identified. For the 2022/23 year, the initial budget was signed off by the Board in March 2022. There was a process to resubmit this budget in June 2022 on the request of the ICS to ensure that balanced budgets were being set, taking into account additional CIP targets.

The Trust has in place monthly Resource Committee meetings to discuss performance against plan, risks, and any significant projects. For 2021/22 and beyond, this included the Salix Carbon Reduction Programme. Appropriate challenge is made throughout these meetings which has been evident throughout review of the meeting minutes.

The Trust recently updated the declarations policy and moved to an electronic system for declaring and holding register of interests, in order to strengthen this process.

### Findings

Based on the procedures performed we have not identified any significant weaknesses that indicate the Trust does not have adequate arrangements in place for governance.

# Value for money audit (continued)

## Improving economy, efficiency and effectiveness

Description	Commentary on arrangements	Findings
<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>The Trust evaluate service quality using benchmarking as well as clinical metrics. The Trust has an established working relationship with neighbouring organisations, which is demonstrated through integrated working with West Yorkshire Association of Acute Trusts (WYAAT).</p>	<p>Based on the procedures performed we have not identified any significant weaknesses that indicate the Trust does not have adequate arrangements in place for improving economy, efficiency and effectiveness.</p>
<p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>• how financial and performance information has been used to assess performance and identify areas for improvement;</li> <li>• how the Trust evaluates service quality to assess performance and identify areas for improvement;</li> <li>• 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</li> <li>• where the Trust commissions or procures services, how it ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how it assesses whether it is realising the expected benefits.</li> </ul>	<p>Through discussions with non executive directors, we noted that the Trust is focusing on getting back to pre-COVID prioritisation, to ensure that processes and policies which may have been less of a priority during COVID are being addressed. The Trust recognise that, whilst they maintained standard meetings remotely, post project evaluations need to be considered and prioritised on agendas moving forward.</p> <p>The Trust are the largest provider of 0-19 services in the country and in 2021/22 engaged in a new local authority contract with Northumberland and, since the year end, with Wakefield to deliver 0-19 services. A risk identified by the Trust is the fact Harrogate's demographic is unusual in terms of its ageing population and there is a concern that this is not best understood when determining funding arrangements.</p> <p>The Trust mitigate this risk by having a diverse portfolio in terms of 0-19 service delivery. The Trust have built on an historically inherited service to offer this to wider areas through Local Authority contracts. The Trust have recognised, that moving forward, these contracts will be considered on a "bid/no-bid" basis, to ensure that the Trust is only pursuing opportunities to tender if it fits with their resource availability and long-term strategy, as well as considering whether they are fully sighted on risks for 0-19 services.</p>	



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