



Auditor's Annual Report 2023/24

Central and North West London NHS Foundation Trust

28 June 2024

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This report is addressed to Central and North West London NHS Foundation Trust (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.



01 Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Central and North West London 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 28 June 2024. 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 7.</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 Department of Health and Social Care requirements.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>



02 Audit of the Financial Statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Trust's financial statements:

- Give a true and fair view of the state of the Trust's affairs as at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS England with the consent of the Secretary of State in February 2024 as being relevant to NHS Foundation Trusts and included in the Department of Health and Social Care Group Accounting Manual 2023/24; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Audit opinion on the financial statements

We have issued an unqualified opinion on the Trust's financial statements on 28 June 2024.

The full opinion is included in the Trust's Annual Report and Accounts for 2023/24 which can be obtained from the Trust's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements

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	Procedures undertaken	Findings
<p>Valuation of land and buildings</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The Trust has undertaken a full revaluation of its land and buildings in year.</p>	<ul style="list-style-type: none"> – We critically assessed the independence, objectivity and expertise of Gerald Eve, the valuers used in developing the valuation of the Trust's properties at 31 March 2024; – We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual; – We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances are identified; – We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; – We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement. – We agreed the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the GAM; – We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM; – Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation. 	<p>We identified one factual corrected audit adjustment of £1.4m to the revaluation reserve, one factual uncorrected reclassification adjustment of £2.1m between PPE and ROU assets, and one projected uncorrected audit adjustment of (£4.0m) to the valuation resulting from incorrect floor area data.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>

Audit of the financial statements

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	Procedures undertaken	Findings
<p><i>Fraudulent expenditure recognition</i></p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over the completeness of manual accruals.</p>	<ul style="list-style-type: none"> – We evaluated the design and implementation of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely recorded; – We inspected a sample of invoices of expenditure, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period; – We vouched a sample of payments, in the period immediately after 31 March 2024, to supporting evidence to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete; – We inspected material journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; – We performed a year on year comparison of a sample of the largest accruals in the prior year and current year and challenge management where the movement is not in line with our understanding of the entity 	<p>We did not identify any material misstatements relating to this risk.</p>
<p><i>Management override of controls</i></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We performed the following procedures:</p> <ul style="list-style-type: none"> – Assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias. – In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments. – Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. – Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Trust’s normal course of business, or are otherwise unusual. – We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting expenditure recognition posted during the final close down 	<p>We did not identify any material misstatements relating to this risk.</p> <p>We note that our prior period recommendation relating to segregation of duties for posting manual journals remained open.</p>

03 Value for Money

Value for Money

Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



Financial sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the Trust ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Approach

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.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12-13	14-15	16-17
Identified risks of significant weakness?	No	No	No
Actual significant weakness identified?	No	No	No
2022-23 Findings	No significant weakness identified	No significant weakness identified	No significant weakness identified
Direction of travel			

Value for Money

NATIONAL CONTEXT

Financial performance

The 2023-24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation felt during the year and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1bn against its agreed budgets. This came after additional funding had been made available earlier in the year to support with the costs of industrial action.

Operational performance

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

System working

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements both within the ICBs themselves and as systems.

LOCAL CONTEXT

- CNWL is a large community facing Trust and operates with a divisional structure – Jameson, Goodall, Diggory and HQ. The Trust has two subsidiaries – Quality Trusted Solutions LLP (QTS) and CNWL Charitable Fund.
- In November 2023, the Trust appointed a joint chair in common with West London NHS Trust (WLT) and Central London Community Healthcare NHS Trust (CLCH), with the aim of improving collaboration and establishing joint strategic committees
- The Trust has a restrictive capital expenditure budget and faces challenges making all necessary investment within its capital allocation.
- The Trust recently underwent a CQC inspection, which led to the closure of an underperforming ward.
- The Trust is a member of three ICSs – North West London (NWL), North Central London (NCL) and Bedfordshire, Luton and Milton Keynes (BLMK).
- The Trust achieved a surplus of £0.04m in 2023/24 and has forecast a breakeven position for 2024/25.
- The Trust did not meet its targeted savings of £28.6m in 2023/24. They have set a similar target for 2024/25 of £28m.
- The Trust's performance was adversely affected by a £7.6m settlement paid by the QTS subsidiary to a subcontractor over a contract dispute.

Financial Sustainability

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

We have considered the following in our work:

- How the Trust ensures that 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 which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Summary of findings

- We inspected the 2023-24 financial plans and note that the submission was based on achieving break-even, in line with the North West London ICS system-wide plan. We reviewed evidence that the plan was approved by the Finance and Performance Committee, in March 2023, under powers delegated from the Board. The Trust's year-end performance was a surplus of £0.04m. It is noted that a £2.5m surplus in the Trust was offset by losses in the QTS subsidiary mostly due to the payment of a £7.6m settlement to a subcontractor over a contract dispute. On a divisional basis, Jameson saw the largest overspend of £8.6m, which was first flagged through monthly performance reports to the May 2023 Finance & Performance Committee.
- The Trust's 2024-25 financial plans were approved by the Finance and Performance Committee in March 2024 and included a breakeven position. The Trust's capital plan for 2024-25 was set at £15.4m financed by internally generated cash, £1.3m from national funding and £10.3m from lease capitalisation. We reviewed the minutes of the Board for March 2024 and noted that the Trust drafted a letter to the ICS stating that the Trust's 24/25 capital plan may not be compatible with the capital expenditure required to ensure the safety of staff and patients. This is a matter of ongoing discussion with the ICB.
- We found that the budget monitoring process was able to identify and incorporate significant pressures into the financial plan to ensure it was achievable and realistic. The initial draft budgets are prepared by the finance team based on a rollover of prior period activity adjusted for inflation and contractual changes. Emerging cost pressures were identified as part of the budget setting process and reported in the monthly finance report to the Finance and Performance Committee.
- The Trust has a risk management strategy and policy which details how risks are identified, analysed, evaluated, treated and scored within the Trust-wide Board Assurance Framework (BAF). The principal strategic risks to the strategic objectives are compiled in the BAF, which is regularly reviewed by the Board and relevant subcommittees. We note that the BAF includes a risk around financial health and viability, which is currently amber rated.

Financial Sustainability

Summary of Findings, cont'd

- The Trust has developed a strategic plan covering the period 2022-25 which was approved by the Board in May 2022. The strategic plan has been developed to support the sustainable delivery of services and has identified strategic priorities as part of this. In the prior year, we raised a recommendation that the Trust's plan should be supported by clear delivery plans and milestones with associated KPIs. The Trust have implemented this recommendation, and we have reviewed the KPIs as part of our procedures and consider them to be appropriate.

Conclusion

Based on the findings above we have not identified any significant weaknesses in the Trust's arrangements

Key financial and performance metrics:	2023-24 (£'000)	2022-23 (£'000)
Planned surplus	0	0
Actual surplus	41	194
Planned CIP as a % of spend		
- Recurrent	2.4%	2.6%
- Non-recurrent	1.2%	0%
Actual CIP as a % of spend		
- Recurrent	2.7%	1.9%
- Non-recurrent	0.6%	0.6%
Year-end cash position	43,341	55,424

Governance

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

We have considered the following in our work:

- how the Trust 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 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, including in relation to significant partnerships;
- how the Trust 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 management or Board members' behaviour

Summary of findings

- We consider the Trust to have effective processes in place to monitor and assess risk. The principal strategic risks to the Trust are recorded and identified using the Board Assurance Framework (BAF), and usually reported to the Board on a quarterly basis. The Executive Board regularly reviews the BAF prior to presentation to the Board. We note that the BAF and the Risk Register have merged after a recommendation from the recent Well-Led Review. As a consequence of this, the BAF was not presented to the Board or Audit Committee from April to August 2023. Regular review recommenced in September 2023.
- The Trust has policies in place to prevent and detect fraud, including a code of conduct, a conflict of interests policy, and a Freedom to Speak Up policy. In addition, the Trust has engaged a Local Counter Fraud Service (RSM) which reports regularly to each Audit Committee, including the production of an annual report of counter-fraud activity.
- Operational budget holders are provided with a monthly budget statement and attend budget meetings with finance business partners, in order to allow for appropriate challenge and response to adverse variances. This is summarised in a monthly finance report presented at the Finance and Performance Committee as well as the Executive Board.
- We note that the Trust monitors compliance with laws and regulations through the Board Assurance Framework, which has a table setting out compliance areas that is updated and discussed at the Board and Audit Committee on a quarterly basis.
- The Trust requires declarations of interest to be completed by Board members and senior staff on an annual basis. We reviewed this process, which occurs around the drafting of the Annual Report, as part of our year end procedures and noted no issues.. The Trust also maintains a gifts and hospitality register, maintained by the Trust Secretary, on which all gifts with a value over £25 should be declared.

Governance

Summary of findings, cont'd

- The Trust has ensured appropriate scrutiny, challenge and transparency on decision making. Business cases are presented to the Finance and Performance Committee and Board following internal review and approval. We reviewed the business case for 'Contract Renewal for Hosting Services' and found there was evidence of scrutiny and challenge.
- The Trust underwent a CQC inspection during 2023-24. The Trust's overall rating is 'Good', with 'Requires Improvement' for Safety, with 17 must do and 36 should do actions. The Trust has developed an action plan which has been presented to the Quality Committee in April 2024 and presented to the Board in May 2024. We note that the Trust has commissioned an Internal Audit report into their response to the CQC findings. We have inspected a draft version of the report, which issued a reasonable assurance opinion with two medium priority management actions.

Conclusion

Based on the procedures performed we have not identified a significant risk or weakness associated with governance.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	There were no significant control deficiencies identified in the governance statement	There were no significant control deficiencies identified in the governance statement
Head of Internal Audit Opinion	The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure it remains adequate and effective	The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure it remains adequate and effective
Oversight Framework segmentation	1 - Maximum autonomy. No support needs identified	1 - Maximum autonomy. No support needs identified
Care Quality Commission rating	Good (February 2024)	Good (June 2019)

Improving economy, efficiency and effectiveness

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

We have considered the following in our work:

- 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

Summary of findings

- The Trust has a process in place to ensure that proposed savings have undergone quality assurance and can be implemented safely. The 2023-24 efficiencies plan was approved by the Finance and Performance Committee in March 2023 and included £28.6m of savings, £19m of which were planned to be recurrent. A CIP tracker is maintained that lists the current year targets, plans and their delivery risks. At year end, The Trust had achieved efficiencies of £26.2m, of which £21.3m were recurrent. As the Trust did not achieve their full efficiency target, this will increase pressure to meet the 2024-25 target which includes a rollover of the unmet current year target. However, we noted that the Trust's proportion of recurrent schemes was strong compared to the sector average.
- The Trust's CIP plan for 2024-25 was approved by the Finance & Performance Committee in March 2024 and includes savings of £28m, of which £25.4m have been identified. We have reviewed minutes and identified clear evidence of scrutiny and challenge of the CIP target prior to being approved. Clinical buy-in for the schemes is managed through the identification and development of plans. The identification of £25.4m of the target at the beginning of the year indicates a strong level of divisional support for the plan.
- A monthly finance report is presented to the Finance and Performance Committee in order to report on financial performance, allowing the Trust to assess the level of value for money being achieved. Non-financial performance is measured through the Performance Quality Scorecards, which is reviewed by the Board and relevant sub-committees on a bi-monthly basis.
- The Trust is a member of three ICSs, North West London (NWL), North Central London (NCL) and Bedfordshire, Luton and Milton Keynes (BLMK). The 2023/24 financial plan was developed in conjunction with the NWL ICS, with Trust planning returns triangulated against the ICS planning returns and the planning assumptions and individual Trust/provider plans discussed at the NWL ICS CFO meetings. The Trust's Board is provided with monthly updates on key matters related to partnership working, including ICS-wide transformation programmes, through a quarterly paper on 'Partnership and Commercial Update'. We have not identified a significant risk in relation to partnership working.

Improving economy, efficiency and effectiveness

Summary of findings, cont'd

- The Trust appointed a joint chair in common with West London NHS Trust (WLT) and Central London Community Healthcare NHS Trust (CLCH) in November 2023, with the aim of improving collaboration and establishing joint strategic committees. At this time, the Trusts have not implemented a formal strategic vision and associated framework to guide the new governance and working arrangements.
- The Trust is part of the NWL Mental Health Collaborative, NWL Community Collaborative, UCL Health Alliance and BLMK MHLDA Collaborative. The Finance and Performance Committee is provided with updates on collaborative workings at each meeting.
- The Trust has three material sub-contracting arrangements with OCS, Rackspace and Daisy. We found there were appropriate measures in place for the Trust to monitor performance of outsourced services, both clinical and nonclinical, through monthly KPI reporting and regular partnership contract meetings.
- Following the recent settlement payment with a former QTS subcontractor, we have performed a review of historic subcontracting arrangements within the Trust's subsidiary. We identified that the subsidiary's management reviewed performance against KPIs through monthly monitoring meetings and issues identified from these meetings were escalated to the both the QTS and Trust Exec Boards and the Finance and Performance Committee on a regular basis. The subcontract was terminated in 2023 and the subsidiary no longer uses a single subcontractor model for maintenance services. The subsidiary management has performed a lessons learned exercise following the adjudication, although no changes to procurement or contract management process were identified from this exercise.

Conclusion

Based on the procedures performed we have not identified a significant risk or weakness associated with Improving economy, efficiency and effectiveness.



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Document Classification: KPMG Public