



Auditor's Annual Report 2023/24

Lancashire and South Cumbria NHS Foundation Trust

27 June 2024

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This report is addressed to Lancashire and South Cumbria 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 Lancashire and South Cumbria 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 27 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 pages 7-8.</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 27 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 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'. There is a risk the assumptions used to determine the valuation are not accurate.</p>	<ul style="list-style-type: none"> • We critically assessed the independence, objectivity and expertise of Cushman and Wakefield, 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 challenged 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 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; • We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the GAM; • We utilised our own valuation specialists to review the valuation report prepared by the Trust's valuers to confirm the appropriateness of the methodology utilised; and • 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 misstatements relating to the treatment applied in recognising the year end valuation within the financial statements which have been corrected by management.</p> <p>We raised a recommendation relating to the formal documentation of the management review control over the assumptions used in the valuation.</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> Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over year end manual accruals.</p>	<ul style="list-style-type: none"> • We evaluated the design and implementation of controls for reviewing manual expenditure accruals at the end of the year to verify that they have been completely recorded; • We inspected a sample of expenditure invoices, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete; • We inspected a sample of expenditure invoices and payments made, in the period after 31 March 2024, to test for unrecorded liabilities. This was supplemented by a review of relevant minutes and inquires of management; • We inspected 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; and • We performed a year on year comparison of a sample of accruals made in the prior year and current year and challenged management where the movement is not in line with our understanding of the entity. 	<p>We have not identified any material misstatements relating to this risk to date.</p>
<p><i>Management override of controls</i> We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<ul style="list-style-type: none"> • We 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 accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias; • 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; and • We have analysed all journals through the year and focused our testing on those with a higher risk, such as journals impacting expenditure recognition posted during the final close down and those with unusual account combinations. 	<p>We have not identified any material misstatements relating to this risk to date.</p> <p>We raised a recommendation relating to the formal documentation of the management review control over manual journals.</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. We have not raised any recommendations in relation to the Trust's arrangements.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12-15	16-18	19-20
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

Lancashire and South Cumbria NHS FT provides mental health and learning disability services across its five networks: The Bay, Central and West, Fylde, Pennine and Specialist.

For 2023/24, the Trust had a planned surplus of £1.6m which contributed to a wider system planned deficit across Lancashire and South Cumbria of £80.7m. The system deficit was subsequently revised in November 2023 to report a planned deficit of £149.5m, as agreed with NHS England. At the year end, the Trust reported an adjusted financial performance surplus of £0.2m, which is £1.4m adverse to plan. The system overall delivered a deficit of £148.6m, which is £0.9m favourable against the adjusted planned position.

The Trust delivered cost improvement programmes totalling £18.6m in year, in line with the planned target.

During the year, the Trust received additional funding from Lancashire and South Cumbria Integrated Care Board (ICB) totalling £9.7m to contribute to the underfunding of Out of Area Placements (OAPs) expenditure.

The Trust had a planned capital spend of £23.8m for 2023/24 and delivered a total capital spend of £18.5m for the year. The majority of the under delivery against plan related to the re-phasing of PDC funded schemes over the next 2 years.

The Trust's Strategy for 2021-2026 details the Trust's 6 key strategic priorities: Putting service users first; employ and retain the best staff; deliver safe care; striving for the highest standards of quality and proactively reduce health inequalities; collaboration with system partners; and provide sustainable services. The 6 strategic priorities are consistently used to frame the Board Assurance Framework, Risk Management and Board and Committee structures and agendas. They also significantly underpin the 2023/24 Annual Business and Financial Plans. During the year, the 6 strategic priorities have been superseded by the Quadruple Aim.

The Trust are currently reporting a planned breakeven position for 2024/25, which includes a cost improvement target of £27.0m. The Capital Plan for 2024/25 is currently set at £41.4m.

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

Commentary on arrangements

Financial Planning

- Financial planning is carried out in collaboration with the Lancashire and South Cumbria Integrated Care System (LSC ICS) and financial plans are submitted at a system level. All budgets and financial plans are produced in line with any technical guidance provided by NHSE. We have evidence that these budgets and financial plans are presented to the relevant committees for review and approval in a timely manner, with appropriate challenge and scrutiny being applied.
- The draft financial plan for 2023/24 submitted to NHSE in March 2023 included an underlying deficit position with a significant funding gap totalling £50.1m. This funding gap already required the Trust to deliver cost reductions of £18.6m (4.4%) during the financial year in order to achieve this position.
- Per the financial plan presented to Board, the Trust had 3 options to address the gap. These were all clearly laid out within the proposal, on which the Board had the final decision. The Board agreed to submit a breakeven provision based on a number of factors which were clearly documented within both the financial plan and relevant minutes. The system and the Trust have jointly agreed the financial plan, with the Trust forecasting a surplus of £1.6m as part of a planned system deficit of £80.7m.
- The Trust was aware that this was a particularly challenging target and risks in achieving the planned outturn were clearly communicated within the financial plan to ensure decision makers have the appropriate information to challenge and approve the plan. These risks to achieving the financial plan are also communicated to the Finance and Performance Committee (FPC) and Board through the monthly finance reports presented.
- The Trust recognised a deficit for the year of £16.3m. When adjusted for I&E impairments and capital donations, this results in an overall adjusted financial performance surplus of £0.2m against the planned surplus of £1.6m. The Trust delivered efficiencies of £18.6m in year, with £8.6m being achieved recurrently.
- The Trust's 6 key strategic objectives are consistently used to frame the Board Assurance Framework, Risk Management, Board and Committee structures and agendas. They also significantly underpin the 2023/24 Annual Business Plan, with Section 6 focusing on the financial aspects. This shows strong integration of the body's strategic plans within the financial plans.

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

- The draft financial plan for 2024/25 currently proposes a planned breakeven position. The current plan includes a CIP target totalling £27.0m (£20.0m recurrent, £7.0m non-recurrent) to contribute towards system level support for 2024/25. Given that the Trust has already identified schemes totalling £14.5m to deliver these targets and opportunities to deliver the remaining £12.5m, although challenging, these are deemed to be achievable. Key risks within the plan are clearly documented to ensure FPC and Board are well informed of the challenges to be faced in achieving the 2024/25 financial plan.

Budget Monitoring

- We found that the budget monitoring and control processes were able to identify and incorporate significant pressures into the financial plan to ensure it was achievable and realistic. The budget for 2023/24 was constructed based on appropriate local and national planning assumptions and we saw evidence of appropriate review and sign off.
- Online budget reports are sent to budget holders on a monthly basis to enable them review and manage their budgets. The variance analysis reports viewable by budget holders includes details of the annual budget allocated and the year to date (YTD) budget compared to YTD actuals and annual forecast for each cost centre within the directorate to identify specific areas where cost improvement needs to be reviewed.
- The financial performance for the month is presented and discussed at each monthly FPC meeting. The monthly finance reports include a RAG rated summary to provide an overview of Financial Performance, as well as a more detailed review of specific areas such as Income, Pay Expenditure, Non-Pay Expenditure, Capital Expenditure, Out of Area Placements (OAPs) and Efficiency Improvement Programmes (EIPs). These reports are also presented to the Board to provide an overview of the current position, enabling the Board to have oversight of current performance and provide challenge where necessary.
- In addition to the monthly finance reports presented to FPC and Board, an update on the Integrated Care System (ICS) financial position is also presented to FPC on a monthly basis. The system were forecasting a full year deficit of £149.5m against a planned deficit of £80.7m. At M6 it was noted in the report that the Trust needs to decide if and at what point it wishes to formally alter its outturn, mindful that conversations continue with the ICB with regards to their desire to address the OAPS funding gap. At M9, the forecast outturn was updated to report a deficit of £9.7m to reflect the lack of recoverability of the OAPs funding gap. However, this was reverted back to the £1.6m surplus at M10 upon agreement that the ICB will, in part, address additional OAPs costs to ensure the Trust gets to breakeven.

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

- The Trust's cash position is monitored on a regular basis and an overview is provided on current and forecast position within the Finance Reports to each Finance and Performance Committee (FPC) and Board meeting. The Trust ended the financial year with a cash balance of £14.9m compared to a budget of £35.5m and opening balance of £48.1m. Reasons for the reductions in the cash balance have been communicated throughout the year and include factors such as an increase in receivables balance compared to plan of which discussion are ongoing with the ICB about the level of outstanding debt and when this is likely to be settled. The Trust has a forecast cash balance for the 24/25 year end of £21.0m.

Efficiency Improvement Programmes

- In 2023/24, the LSC system wide process continued whereby organisations continued to refine their financial plans to ensure that the LSC ICS plan would be approved. The final agreed EIP target for 2023/24 was divided between a recurrent target of £12.2m and non-recurrent target of £6.4m, totalling an overall EIP target of £18.6m.
- The Trust delivered efficiencies of £18.6m in year, with £8.6m being achieved recurrently.
- The Trust now has a Programme Management Office (PMO) team focusing on supporting the planning, delivery and reporting of EIPs. The team was in place by January 2023 and led the development of the high-level EIP plan for 2023/24. The PMO team manages the registration process to ensure that appropriate and rigorous oversight is maintained through the Cross Cutting Steering Groups and localities with formal reporting at the Efficiency Improvement Group (EIG) who meet monthly to monitor progress against plan.
- The PMO team have developed new, clear and robust dashboard reporting at Board and Locality level and produce monthly reports for FPC and the Finance and Investment Group (FIG), providing assurance and delivery status of the efficiency programme with risk status. Financial delivery of the schemes is assessed and collated monthly, and discussions held with regards to scheme delays and risk of delivery, with all mitigations and risks being reported through formal meetings.
- We have confirmed that the Trust carries out Quality Impact Assessments for all transformational EIP schemes and transactional EIP schemes over £30k to ensure that schemes put forward do not have an impact on patient safety or care.
- A financial summary is reported monthly to FPC and Board. We have evidenced that EIPs are reported on at both a FPC and Board level with appropriate challenge and scrutiny applied. A more detailed overview of progress on efficiencies is also presented to EIG and FIG on a monthly basis which includes an overview of financial performance per locality, including target EIPs and those registered and in the pipeline for the year. These are then RAG rated based on delivery status to identify the localities and cost centres that are at highest risk of not achieving the targeted EIP. The reports are clear and informative and provide management with sufficient information to make informed decisions.

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

- At the year end, the efficiency target for 2024/25 has been set at £27.0m. This is divided between a recurrent target of £20.0m and a non-recurrent target of £7.0m. Of this target, £14.5m has already been identified in schemes.

Conclusion

Based on the risk assessment procedures performed we have not identified a significant weakness in relation to financial sustainability arrangements in place to oversee and monitor value for money achievement.

Key financial and performance metrics:	2023-24	2022-23
Planned surplus/(deficit)	£1.6m	£0.0m
Actual surplus/(deficit)	(£16.3m)	(£9.8m)
Adjusted surplus/(deficit)	£0.2m	(£1.4m)
Planned CIP as a % of planned spend	£18.6m (3.5%)	£18.3m (3.7%)
- Recurrent	- £12.2m	- £11.4m
- Non-recurrent	- £6.4m	- £6.9m
Actual CIP as a % of actual spend	£18.6m (3.1%)	£13.3m (2.5%)
- Recurrent	- £8.6m	- £4.1m
- Non-recurrent	- £10.0m	- £9.2m
Year-end cash position	£14.0m	£48.1m

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

Commentary on arrangements

Risk Management

- The Trust operates a risk monitoring and reporting system to ensure that there is clear ownership of risk at the appropriate hierarchical levels and robust scrutiny and oversight of how risks are managed. Reporting on the Board Assurance Framework (BAF) and Corporate Risk Register has continued throughout the year, with issues being escalated as necessary and appropriate detail included to outline the risk, allocation across one of the 6 strategic objectives and controls in place that mitigate the risks, as well as any identified gaps in control.
- The Trust's risk assessment criteria is outlined in the Risk Management Policy and is used to assess all risks to ensure a consistent methodology is used. The BAF shows that the Trust has carefully considered the impact and likelihood of each risk with sufficient and appropriate rationale and how the Trust intends to reduce each risk to an achievable target risk score. Our review has demonstrated that these documents included sufficient detail and display strong and robust arrangements in place to help identify, assess and monitor financial risk.
- Risk identification activities provide an integrated and holistic view of risks, with the refreshed BAF aligning with both the current 6 strategic objectives, as well as the new Quadruple Aim approach.

Decision Making

- We have reviewed relevant committee and Board minutes as well as the attached papers throughout the financial year. We are satisfied that there is sufficient ability for committee and Board members to take informed decisions based upon the detail provided in the papers presented. These papers also demonstrate that with regard to financial risks reported and recommendations made, there are detailed discussions occurring to challenge and analyse the information.
- There is an overarching committee structure in place which is part of the internal governance arrangements, in which policies and procedures are continually validated and ratified. All relevant policies and procedures are communicated and made available to staff via the intranet. The Trust has a Code of Conduct Policy for the Trust Board and staff, in addition to the Standing Financial Instructions (SFIs). The SFIs outline both financial limits in place for various processes within the Trust, as well as operational roles, responsibilities and delegations to ensure both financial and non-financial authorisations and reviews are escalated appropriately.

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

- Agenda items are accompanied by front sheets offering a summary of the paper and linking to the strategic priorities and relevant BAF risk. The summaries included are appropriate and provide a concise high level overview of the paper so committee members are able to identify the key messages discussed in the wider report.
- The Trust has a comprehensive business case process to make informed decisions. All proposals begin with an Outline Business Case (OBC) or a proposal, based on the value of investment being requested. Business Cases are reviewed and approved at the Finance and Investment Group (FIG). Depending on the financial impact of the proposal decisions the business case would follow the Trust's committee structure ending with the Board. Where a request exceeds £1m annually, after being presented at FIG for review, the ultimate decision-making forum is Trust Board.
- The business case process is supported by templates and guidance for the OBC. For each business case, the preparer of the template must outline their proposed business case and how it aligns to the Trust's strategic priorities, the opportunities/mitigations the proposal offers and details of the proposed financial impacts. The templates also require the preparer to complete a Quality Impact Assessment, Equality Impact Assessment, Data Protection Impact Assessment and Information Security Questionnaire where applicable. Business cases which require NHSE approval are completed on the appropriate NHSE template and are required to follow the same internal governance.

Performance Monitoring

- Through our review of relevant committee and Board minutes, we are satisfied that the regular presentation of the Trust Performance Reports enables the Trust to undertake appropriate monitoring of its financial and non-financial performance, with reporting against key performance indicators occurring through an 'Assure / Advise / Alert' approach. The Trust governance structure has each of these key performance indicators allocated to relevant board sub-committees to ensure the consideration of value for money and key strategic decisions.
- The Board and FPC have been kept informed of the funding arrangements in place for 2023/24 and the monthly finance reports provide commentary on risks and uncertainties that may exist.

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

Compliance with Laws and Regulations

- Through our review of the Standing Financial Instructions (SFIs) we are satisfied that these detail the roles, responsibilities and delegation of the various committees, and that this gives an appropriate escalation framework for making key decisions.
- Management have established financial controls to prevent and detect fraud – this includes approval and authorisation limits linked to purchases and payments.
- Compliance with the Care Quality Commission (CQC) standards of Quality and Safety are monitored through the Quality Committee (QC). QC is responsible for monitoring all legal, regulatory and other obligations of the Trust. The Trust is currently rated as 'Good' overall by the CQC, including a 'Good' rating in Well-led, following the most recent report in January 2024.

Conclusion

Based on the risk assessment procedures performed we have not identified a significant weakness in relation to governance arrangements in place to oversee and monitor value for money achievement.

	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	Substantial Assurance	Substantial Assurance
Oversight Framework segmentation	Segment 3 (Mandated Support) Segment 2 (Targeted Support) from 10 April 2024	Segment 3 (Mandated Support)
Care Quality Commission rating	Good (January 2024)	Requires Improvement (May 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.

Commentary on arrangements

Identification of Cost Savings

- The Trust uses a wide range of different benchmarking tools to monitor and improve its cost performance, such as data from internal service line reporting, Model Hospital and National Cost Collection. The information is used to review the Trust's cost base and is compared to previous reporting periods to ascertain improvements or deteriorations that need to be investigated. We have viewed an example of reports produced across a variety of areas which demonstrates that the Trust is appropriately benchmarking performance against national averages
- Areas of high cost are regularly reported to the Finance and Performance Committee (FPC) as part of the monthly finance report. Introduced in 2023/24, the Head of PMO is co-chair and part of a system wide EIP Group which shares ideas and good practice. The Trust have also reached out to other Mental Health Trusts and shared efficiency schemes for ideas and benchmarking, disseminated into CCSGs and networks.

Non-Financial Performance Monitoring

- Performance is formally reported to the Board through the Trust Performance Report (TPR). These are initially presented at the subcommittees prior to Board in dedicated versions which include all Board Metrics, noting the ones specifically for that Committee's review, plus any contextual indicators that are useful for that Committee. For the indicators highlighted within TPR, a narrative is included to provide relevant context of why the indicators have been highlighted and an overview of actions in place to meet the targets in future months. The monthly performance for the past 12 months is then reported against each metric, with a RAG rating applied based on performance vs target, and commentary included to explain the performance to date and any actions identified as a result of these metrics. These reports are sufficiently detailed to allow robust monitoring of operational performance.
- TPR Metrics are presented at Locality and Network level in Network Performance Packs, from which Key Lines of Enquiry are identified and are subject of scrutiny from Executive Directors in monthly Network Performance Meetings. Metrics are broken down by each network - Specialist, The Bay, Fylde Coast, Central & West and Pennine, and summarises network themes for management analysis.
- Performance targets and thresholds within the TPR and Trust reporting are set via a hierarchy of sources – NHSE defined targets, in the absence of NHSE defined targets NHS Benchmarking is used, and in the absence of NHS benchmarks then locally defined benchmarks (based on typical Trust performance or clinical best practice) are used. Benchmarking Reports are scrutinised and applied further to local data.

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.

Partnership Working

- A Lead Provider Executive Oversight Group (LPOEG) Committee is in place with a main purpose of providing scrutiny into the planning, delivery and monitoring of the transition of commissioning activities through a provider collaborative arrangement hosted by Lancashire & South Cumbria NHS Foundation Trust. The LPOEG reports to the Executive Team following each meeting.
- The Trust's strategy aligns with that of the ICS, including a number of overlapping strategic objectives. The Trust plays a leading part in regular meetings with commissioners and other providers in relation to planning and delivery.
- The Board has agreed a strategic objective on system working, which includes local ICB relationships. Risks on this are reported as part of the BAF each Board meeting. ICS activities are also regularly reported to and discussed at both FPC and Board through individual Directors' briefings, Board papers and a dedicated ICB Financial Update.

Monitoring of Sub-Contractors

- The Trust has contracts in place with a number of organisations. All new sub-contractors are appointed using the NHS Standard Sub-Contract and are monitored through regular meetings and report against pre-determined KPIs written into the relevant contracts. Schedule 4 of the contract outlines quality requirements on both a National and Local scale and Schedule 6 outlines required reporting.
- The Trust maintains detailed minutes & action logs for relevant sub-contractors. The minutes of the meetings also show evidence that the specific actions mentioned in the Action Logs & Contract Reviews are being acted upon. We have also reviewed a sample of associated action logs which provide details of identified actions, a responsible lead and deadline, and evidence that these are being responded to and dealt with appropriately. The level of detail and discussion within these review meetings and action logs demonstrates a robust process for sub-contractor monitoring.
- The Trust has a Contract Register Process which outlines input review information and details on how to manage clinical contracts. We deem this to be sufficiently detailed to enable the Trust to monitor sub-contractors.

Conclusion

Based on the risk assessment procedures performed we have not identified a significant weakness in relation to arrangements in place for improving economy, efficiency and effectiveness to oversee and monitor value for money achievement.



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