

GLOUCESTERSHIRE HOSPITALS NHS FOUNDATION TRUST

FINANCIAL GOVERNANCE REVIEW

Terms of Reference

BACKGROUND

In late 2015 the Board became concerned about the robustness of its cash position, some of these concerns emanated from issues raised by staff through about the lack of timeliness with which the Trust was paying its supplier; by early 2016 these delays were beginning to have operational impacts due to interruptions in the supply of goods and services and concerns being raised directly with staff on wards and departments by suppliers.

In early 2016, upon the advice of the Finance Director, the Board established a working capital facility to support the cash position, believing this would address the issue.

In June 2016, a new Chief Executive joined the organisation and a month into post brought her serious concerns to the Board's attention in respect of cash balances and other matters. The Board responded immediately and commissioned Deloitte to undertake a high level review of the Trust's cash position and the approach to financial reporting.

Deloitte's high level findings described a cash decline from its peak in 2013 of £30.7m to £3.9m at 31st March 2016. The reviewed found that the main reasons for the cash decline were

- The Trust has achieved its financial plans over the last two years, in part by changing accounting assumptions which have improved the reported financial position without improving cash generated. These changes have offset an underlying loss of cost control and failure to deliver cost improvement plans.
- The Trust has expended significant resources on the capital programme which, in each of the last three years, which has significantly exceeded the levels of cash available from trading operations after servicing existing debts.

REVIEW PURPOSE

The purpose of the review is to identify how the drivers of deterioration in the trust's financial position arose, why they went unnoticed for such a sustained period and who was responsible for these failings. The Review has been commissioned to provide external assurance to the Trust Board and its regulator, in order that the risk of similar issues occurring and/or going undetected by the systems of control and assurance is minimised so far as is possible. The Review will explore 3 main lines of enquiry:

- Independently reviewing the factors that led to the recent findings in respect of the Trust's deterioration in its financial position, as summarised in the *Deloitte Review Findings* and provide a view on how the issues highlighted in the review occurred;
- Consider the effectiveness of the Trust's system of internal financial control and Board governance assurance and financial oversight, given the events described ; and
- Establish a root cause or causes of these events, based on available evidence, from a specific financial governance and assurance perspective.

PROPOSED SCOPE

Retrospective

1. Review the extent to which the Board (past and present members), its relevant sub-committees (Audit and Finance & Performance) and staff fulfilled their respective responsibilities (with regard to financial governance) during the period FYE14 to FYE16,

setting out any specific issues that contributed to the findings set out in the Deloitte Review. Specifically undertake

- a detailed review of accounting records and any associated correspondence relevant to the issues highlighted in the Deloitte Review and any other drivers of the deterioration in the 2016/17 financial position identified by the trust', and notably the assumptions within the Annual Plan, and (insofar as practicable) to any subsequent concerns of a similar nature identified by the Trust or the external financial baselining review also being commissioned by the Trust
 - the authorisation of relevant accounting adjustments, and emails and other correspondence relevant to the items, above
 - based on this review of evidence, provide a view on how the issues in the Deloitte review occurred and (insofar as evidence is available) on the individual or collective responsibility of Trust management or the Trust Board for the occurrence of these issues. Insofar as the evidence is available, it should be made clear whether, and if so, which individuals did not fulfil their roles in accordance with expectations.
2. Identify any specific aspects of corporate culture, board dynamics or ways of working that contributed to any identified deficiencies in financial governance in the period in question, with a view to identifying specific changes required to address them.
 3. Review the robustness of the annual planning process and the extent to which it contributed to the apparently unrealistic 2016/17 plan, including the approach to developing and resourcing the Trust's capital programme over the period of the Review. This should include a review of the alignment between plans submitted to the regulator and those submitted to the Board and where any misalignment is identified to provide a reconciliation.
 4. Through interview with audit partners, review the role of internal and external audit functions during the period in question, in order to understand the extent to which they could and/or should have alerted the Audit Committee to emerging concerns. Specifically, in respect of the escalating deterioration in the Trust's cash position, changes to the Trust's accounting practices such as the treatment of depreciation, capital projects and the reporting of finance to the Board and its sub-committees.
 5. Review the findings of the Well Led Governance Review to understand whether any issues indicating concerns regarding financial governance were advised and/or overlooked.

Prospective

1. Determine the adequacy of the capacity and capability of the Board, its sub-committees' and Executive structures to deliver the agreed financial recovery plan. This should include the Board's capability to scrutinise operational management and control in the areas where this is likely to impact the delivery of financial improvement.
2. Assess the capability of the non-executive function to adequately scrutinise, challenge and hold the Executive to account for delivery of the agreed financial and operational plan. Similarly, review the capacity and capability of the Executive function to develop robust plans, oversee their delivery and effectively identify and mitigate risks.
3. Review the effectiveness of the Governor function in holding NEDs to account for the appropriate execution of their role and determine their adequacy of their contribution in reviewing the Trust's Annual Plan in line with their statutory responsibilities.
4. Assess the adequacy of the accountability arrangements between the corporate finance and operations function; alongside the arrangements to provide the Board with assurance

that Divisions are held to account for delivery of sound financial control, CIP delivery and financial forecasting.

5. Make recommendations to address any identified weakness in current financial governance arrangements, as a result of the enquiries set out above.

Methodology Note

- The Trust will make available, the recent Deloitte Review, relevant Audit Committee reports, Well Led Governance Review and all other materials agreed to be relevant to the scope below. Bidders are therefore expected to take account of this existing information, when considering their own time requirements.
- In addition to detailed review of accounting records, correspondence and the like, it is expected that Board members, governors and staff (past and present) are interviewed in so far as their relationship with the matters under investigation is considered to be relevant.
- This scope reflects the known requirements at this point in time; revisions or extensions to the scope may become necessary in response to emerging findings and it is expected that these will be dealt with through the usual variation to scope processes.
- The report should set out in summary and detail, the review findings and recommendations for both action and any further regulatory, investigatory or legal considerations that the Board should consider.
- Supplier selection will include representatives from both the Trust, NHS Improvement and a third party.
- NHSI and the Trust expect to maintain direct access to the reviewer throughout the Review and reporting periods.
- The draft report will be made available to the Trust and NHSI in parallel
- An executive summary of findings in this review and recommendations, will become publically available

Deborah Lee, Chief Executive

30th September 2016