

Auditor's Annual Report

Tees, Esk and Wear Valleys NHS
Foundation Trust – year ended 31 March
2022

August 2022



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This document is to be regarded as confidential to Tees, Esk and Wear Valleys NHS Foundation Trust. It has been prepared for the sole use of the Audit and Risk Committee as the appropriate sub-committee charged with governance by the Board. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Tees, Esk and Wear Valleys NHS Foundation Trust ('the Trust') for the year ended 31 March 2022. Although this report is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 22 June 2022. Our opinion on the financial statements was unqualified.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 22 June 2022 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.



Value for Money arrangements In our audit report issued we reported that we had not completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued a recommendation in relation to an identified significant weakness in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Trust's arrangements and a summary of our recommendations, including detail on the recommendation raised in the prior year.

Following the completion of our work we have issued our audit certificate which formally closes the audit for the 2021/22 financial year.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 22 June 2022 gave an unqualified opinion on the financial statements for the year ended 31 March 2022.

Significant matters discussed with management

During the audit we maintained a regular dialogue with management. Among matters discussed through these conversations were:

Potential liabilities arising from the termination of the PFI at Roseberry Park

The PFI liability at Roseberry Park terminated in 2018/19, and we considered that as part of our audit work in both 2018/19, 2019/20 and 2020/21.

We have considered the accounting for any potential liabilities arising from the termination at 31 March 2022. Our work included discussions with both management and the Trust's legal advisors after the year end. We are comfortable that the accounting treatment in the 2021/22 statements is not unreasonable; that being to recognise a contingent liability rather than a provision or creditor.

IFRS 16 – Leases

From 1 April 2022, IFRS 16 Leases will replace IAS 17 as the accounting standard that the Trust uses to account for its leases. IFRS 16 is applicable to all leases unless the lease term is less than 12 months or if the underlying asset has a value less than £5,000. A presentation was given to the Audit and Risk Committee by the Trust's finance team in January 2022 which set out further details on the new standard and the Trust's approach to planning for implementation of the standard from 1 April 22.

'Note 1.26 Standards, amendments and interpretations in issue but not yet effective or adopted' of the 2021/22 finance statements includes an explanation of the new standard and provides detail of the Trust's estimate of the impact of IFRS 16. As part of our audit work, we have discussed the Trust's arrangements to identify leases and considered the calculation carried out to estimate that is included in Note 1.26. No issues were identified from our review, and we consider management's judgements reasonable in estimating the impact.

Group statements

From prior year audits and our discussions with management we are aware that the Trust has one live and one dormant subsidiary and is also corporate trustee for charitable funds. Management consider that they are not material to the Trust's accounts, and as such does not prepare group accounts. Management consider that this does not represent a material risk of misstatement given the values involved.

Having reviewed management's judgment for 2021/22, we consider the Trust's decision not to prepare group accounts remains reasonable.

Qualitative aspects of the Trust's accounting practices

We have reviewed the Trust's accounting policies and disclosures and concluded they comply with Department of Health and Social Care Group Accounting Manual 2021/22, appropriately tailored to the Trust's circumstances

Significant difficulties during the audit

During the course of the audit, we did not encounter any significant difficulties and we had the full co-operation of management. The finance team were very co-operative this year in responding to our audit queries, especially in light of the fact we have completed all of our 2021/22 audit work off site.

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Section 03:

**Our work on Value for Money
arrangements**

3. VFM arrangements

Overall Summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:



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

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Trust has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding of arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information;
- Information from internal and external sources including regulators;
- Knowledge from previous audits and other audit work undertaken in the year; and
- Interviews and discussions with staff and directors.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the risks that we have identified and the work we have done to address those risks on page 24.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements**
We make these recommendations for improvement where we have identified a significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations**
We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

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


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3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	Yes – see risks G1 and G2 on pages 15 and 16	Yes – see recommendation 1 on page 24	No
 Improving economy, efficiency and effectiveness	20	No	No	No

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3. VFM arrangements

Financial Sustainability

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



3. VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

Background to the NHS financing regime in 2021/22

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020/21 was suspended and a new financial regime was implemented. For the second half of the 2020/21 year (October 2020 to March 2021) there was a move to “system envelopes”, with funding allocations covering most NHS activity made at the system level, including allocating resources to meet the additional costs of the Covid-19 pandemic. The 2021/22 financial year was also split into two halves, with a different funding regime in each. However, these regimes were largely a continuation of those introduced in the previous year, whereby system envelopes and block payment arrangements remained in place to support the response to COVID-19.

The 2021/22 H1 (April 2021 to September 2021) envelopes comprised of adjusted CCG allocations, system top-up and COVID-19 fixed allocations, based on the H2 2020/21 envelopes, adjusted for known pressures and policy priorities. The 2021/22 H1 NHS guidance also confirmed block payment arrangements would remain in place for relationships between NHS commissioners and NHS providers. The guidance for H2 (October 2021 to March 2022) confirmed the arrangements would stay broadly consistent with a continuation of the H1 framework. The 2021/22 H2 “system envelopes” again contained adjusted CCG allocations, system top-up and COVID-19 fixed allocations, based on the H1 2021/22 envelopes adjusted for additional known pressures, such as the impact of pay awards, and increased efficiency requirements.

Over the course of the year and into 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system. This has facilitated the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position in 2021/22. The planning guidance for 2022/23 supports the transition back to local agreement of contracts, and requires systems to achieve a breakeven position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

The Trust’s financial planning and monitoring arrangements

Per the annual accounts for 2021/22, the Trust delivered a financial surplus before impairments and profit on sale of assets of £5.949m – this is £1.182m above the Trust’s planned objective of delivering a £4.767m financial surplus. The position reflects the Trust’s activity in year, with the difference being attributable to unplanned income received by the Trust in the year.

The Trust’s Statement of Financial Position remained stable when compared to the prior year, shown by total assets employed of £167.414m compared to prior year position of £168.497m. In particular, the Trust’s cash position has remained relatively stable with a small increase of £0.8m to £81.736m as at 31 March 2022.

We confirmed through review of Board minutes there was regular reporting of the Trust’s financial position during the year. Reports contained a clear summary of the Trust’s performance and provided explanation of variances against budget. We confirmed through review of minutes that Trust operational performance was regularly reviewed and reported to the Trust Board and sub-committees. The reports included detail of variances against targets and actions to be taken to address any under-delivery. We observed detailed reports presented at Board level. In particular the Integrated Performance Reports brought together financial and operational performance.

As well as monitoring by the Board, who receive a finance update report on monthly basis, the Trust also has a Financial Sustainability Board (FSB) who are responsible for developing medium term financial plans, as well as considering baselines and benchmarking, plus overhead allocations etc. The aim is for this information to assist in the Trust’s understanding of the financial information available and to inform decision making. The FSB was set up in 2020/21 although progress was limited due to the impact of the pandemic on Trust operations. Per discussions with officers and through review of meeting minutes, we have confirmed that FSB meetings have taken place throughout 2021/22 on a monthly basis. The meetings were used to track financial performance for 2021/22 and assist with planning for future periods, although we noted that some other areas which are overseen by FSB, such as costing, were paused in the year due to the lack of capacity within the team to support those and due to ongoing demands on the Trust finance team.

We confirmed the arrangements for the 2022/23 planning through discussion with officers and review of minutes. The Trust submitted the detailed draft financial plan for 2022/23 to the North East and North Cumbria Integrated Care System (NENC ICS) in April 2022. Prior to submission, the plan was discussed and reviewed by the Executive Directors Group, Strategy & Resources Committee, Financial Sustainability Board and Executive Management Team. The draft plan considered by the Trust Board in April 2022 showed that the Trust expected to deliver a deficit of £2.68m, equivalent to 0.6% of turnover, and Cash Releasing Efficiency Savings (CRES) of £12.936m. This allowed the Trust Board to set an interim operating budget, against which regular reporting could be established. Subsequently, NHS England confirmed that an additional £1.5bn national funding was to be allocated to systems, to support the development of balanced final system (and final organisation) level financial plans. The Trust was allocated £3.06m of the North East and North Cumbria system’s additional income allocation, and asked to identify £0.79m additional CRES. It is anticipated that the additional £0.79m CRES requirement will be met from the Trust’s equivalent income allocations from commissioner contracts in other ICSs. These changes meant that the Board approved a final financial plan on 15th June 2022 that is targeting a £1.16m surplus for 2022/23. This has been further detailed in the following section. We note that £5.55m schemes are to be fully developed in the first quarter of 2022/23, although the trust recognises the key risks which may impact on the achievement of these savings.

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Overall commentary on the Financial Sustainability reporting criteria - continued

We also note that due to the delay in submitting the financial plan for 2022/23 (i.e. after the year has commenced), the Trust Board approved an interim operating budget and is receiving regular reports against the draft plans as it continues to be updated and finalised.

The Trust's arrangements for the identification, management and monitoring of funding gaps and savings

As noted above financial planning arrangements normally in place differed during 2021/22 as a consequence of the ongoing impact of the pandemic. We are not aware of any significant issues that were included in the end of year position that had not already been highlighted to the Board through in-year reporting

Discussions with Director of Finance and Financial Controller took place in the run up to the year end. This included discussion of any proposed provisions or similar one off accounting entries. No significant matters raised in these discussions indicated measures to address financial targets. Our audit did not identify any issues with the accounts, including our review of provisions for CQC visit and PFI lifecycles. We confirmed that the adjustments are planned such as the annual leave accrual are in line with guidance provided by NHSI.

The Trust has a history of meeting its financial challenges and our review of the Board minutes in year confirms NHSI has not identified any issues with the Trust's plans, meaning the Trust's financial health remains robust. As noted in the section above, the Trust remained on plan in 2021/22 achieving a surplus which was £1.182m above the Trust's planned objective. This provides assurance over the robustness of the Trust's planning and monitoring processes, especially in light of the challenges faced as a consequence of the pandemic.

Per our review of meeting minutes, including meetings of the Board and FSB, we noted that there were regular reports and updates on Cash Releasing Efficiency Schemes (CRES). The Trust reported on progress against CRES planning, including for H2 of 2021/22 as well as for 2022/23. As well as future planning, the Trust also provided updates which covered the interim period for 2021/22 and noted the actions that had been identified to mitigate against immediate financial risk.

The Trust's arrangements and approach to 2022/23 financial planning

We confirmed the Trust has developed its 2022/23 financial plan in line with national and regional timetables. We observed evidence of the planning commencing in the autumn of 2021 and engagement with various stakeholders. There have been several iterations of the plan with the final version submitted in June 2022.

Through discussions with officers, review of minutes and our understanding of the region we believe the refinements to plans follow the instructions of NHSE/I and are not indicative of any weakness in the Trust's arrangements. We observed the process the plan went through in development including review through the Trust Financial Sustainability Board, as well as the regular updates provided to the Trust Board.

In line with expectation, the Trust updated their three-year Business Plan to cover the period 2022/23 to 2024/25. The plan is subject to scrutiny by the Trust Board, with draft versions presented at both the March and April Board meetings. We noted that the completed plan was not approved in April as the Trust could not confirm the financial position as ICS control total discussions were still in progress. Our review of the position reported by the Trust has shown that the overall position is prudent and that the assumptions made are reasonable in the absence of confirmed financial information. The overall position could not accurately be determined until the national funding position was confirmed, however this is a national position across all NHS Trusts and is not considered a weakness of the Trust who have responded appropriately and timely to information and guidance as it is published.

Furthermore, the Trust produces a 'Risks and Mitigations' document which shows their consideration of the financial risks within the 2022/23 financial plan and sets out the impact of those risks as well as the mitigations in place to show how the Trust has considered and is managing the risks.

In addition, the Trust has a number of more general controls in place, including frequent forecasting and monitoring at departmental level, as well as oversight by Executive Strategy and Resources Group, the Executive People and Culture Group, plus quarterly oversight by the Board Strategy and Resources Committee. The Trust is also working alongside its partners and is on a number of Boards, including the Provider Collaborative Board and the TEWV Commissioning Board which monitors the Trust's exposure to commissioning risks.

It is clear that the Trust is closely monitoring the progress against plan to date, is fully aware of where the gaps lie and continues to identify mitigating actions to bridge the funding gap. Therefore we are satisfied that there is not a significant weakness in the Trust's arrangements in relation to financial sustainability.

Based on the above considerations, we are satisfied there is not a significant weakness in the Trust's arrangements in relation to financial sustainability.

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Governance

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



3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>G1 Significant weakness - Care Quality Commission (CQC) inspection – January 2021</p> <p>During 2020/21, the Care Quality Commission (CQC) took enforcement action against the Trust following an inspection in January 2021. In our view, the inspection outcome represents a significant weakness in arrangements in relation to Governance and how the Trust ensures it properly manages its risks.</p> <p>Following the weakness identified in the previous year in relation to the CQC inspection (further detail provided overleaf), we identified that there is a potential risk that the Trust had not responded appropriately to the actions suggested in order to resolve the issues identified, or that they had not made sufficient progress against the findings.</p>	<p>Work undertaken</p> <p>Our value for money procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Review of CQC report, published in March 2021. • Ongoing discussions with senior management. • Review of action plan put in place to address the weaknesses identified in the CQC report. • Consideration of progress in addressing the weaknesses identified in the CQC report to-date. <p>We considered the work that the Trust has carried out to address the issues raised in the CQC inspection. We noted that a follow up inspection of the acute wards for adults of working age and psychiatric intensive care unit services was carried out in May 2021. CQC published their report in August 2021 which noted that this was an “unannounced focussed inspection to see whether improvements had been made since our last inspection in January 2021”. In the report, CQC provide an overall rating of ‘requires improvement’; rating both safe services and well led services as ‘requires improvement’. This is an improvement in ratings of those services for the specific cohort of patients being considered which had been rated as ‘inadequate’ at the January 2021 inspection.</p> <p>Per discussion with officers and review of minutes, we have also seen evidence of increased scrutiny and monitoring of actions taken by the Trust in implementing the actions and recommendations made by CQC to address the issues within the services inspected in CQC reports.</p> <p>Results of our work</p> <p>Based on our findings we are satisfied that the Trust have put in place appropriate action plans to address the risks identified by the CQC following their January 2021 inspection of the Trust’s acute wards for adults of working age and psychiatric intensive care unit services and that these changes are subject to internal scrutiny and monitoring to ensure the Trust is making progress against their plans. Improvements in arrangements were recognised by CQC in their follow -up report and arrangements in this area of the Trust’s operations are no longer assessed as ‘inadequate’.</p> <p>Overall, we are therefore satisfied that there is no longer a significant weakness in the Trust’s arrangements regarding acute wards for adults of working age and psychiatric intensive care unit services.</p>

3. VFM arrangements – Governance

Risks of significant weaknesses in arrangements in relation to Governance

We have outlined below the risks of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to each of those risks.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>G2 Care Quality Commission (CQC) inspection – June to August 2021</p> <p>We have identified one significant weakness in relation to the Care Quality Commission (CQC) report that was published in December 2021 in respect of forensic inpatient wards, community mental health services for working age adults, crisis and health based places of safety and community child and adolescent mental health services. The Trust was given an overall rating of ‘requires improvement’ (consistent with overall rating at previous inspection in March 2020), however we noted that the rating for mental health services on forensic inpatient or secure wards was rated ‘inadequate’. The CQC has also served the Trust a section 29A warning notice in relation to the findings from the inspection.</p> <p>From the work we have carried out to date, we are aware that the Trust has implemented an action plan to address the deficiencies identified in the CQC report.</p> <p>However, our view is that the report indicates that there is a significant weakness in relation to the Governance criterion at the Trust and as such a recommendation is required.</p>	<p>Work undertaken</p> <p>Our value for money procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Review of CQC report, published in December 2021. • Ongoing discussions with senior management. • Review of action plan put in place to address the weaknesses identified in the CQC report. • Consideration of progress in addressing the weaknesses identified in the CQC report to-date. <p>Results of our work</p> <p>In our view, the CQC report highlighted a significant weakness in arrangements in relation to Governance and how the Trust ensures it makes informed decisions and properly manages its risks. Significant weakness identified; see the following pages for further details and page 24 for a summary of the significant weakness and the recommendation/s made.</p>

3. VFM arrangements – Governance

Overall commentary on Governance

The Trust’s risk management and monitoring arrangements

The Trust has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. The processes are supported by the Trust-wide Risk Management Strategy and the Trust leadership plays a key role in implementing and monitoring the risk management process, as evidenced through our attendance at Audit and Risk Committee and review of Board minutes.

We confirmed the Trust Constitution is in place, with regular reviews and updates carried out throughout 2021/22. The Constitution, along with other documents, detail the governance structure of the Trust. We confirmed that corporate governance includes clear and defined decision making and internal controls within the Trust. The other documents include Standing Financial Instructions (SFIs), Scheme of Delegation and Standing Orders, and Reservations of Powers and Delegations of Powers (SO’s).

From our review of Board minutes, we note that most recent amendment to the Constitution was made in May 2022 following approval by the Board to reflect changes to the composition of the Board of Directors. The Trust SFIs and SOs were also recently reviewed by Board at meeting March 2022.

The Trust Committee structure includes the Audit and Risk Committee, which is attended by Non-Executive Directors. The Committee has members with a wide range of skills and knowledge, including members with financial, clinical, and social care experience. This skill mix is well balanced and provides comprehensive oversight and challenge in relation to the Trust’s risks and associated controls. The Committee terms of reference have been reviewed and are considered appropriate. The functions of the Committee include seeking assurance in respect of risk management, control and governance systems and anti-fraud controls. We have attended all meetings held during the year, noting that all meetings attended were held remotely due to the ongoing impact of the Covid-19 pandemic.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Trust has appointed internal auditors (IA) and local counter fraud specialists. We confirmed a comprehensive Internal Audit Plan was developed for the 2021/22 financial year, noting that the planned work appears appropriate and reasonable. The Plan was presented to, and agreed by, the Audit Committee. Progress against the Plan was regularly reported to the Trust Audit Committee.

Progress reports are presented to each Audit and Risk Committee meeting, including follow up reporting of recommendations not fully implemented by due dates. This allows the Committee to effectively hold management to account on behalf of the Board.. We observed Committee members providing scrutiny and challenge on findings and recommendations

Furthermore, the Head of Internal Audit Opinion for 2021/22 provides “*good assurance that there is a sound system of internal control, governance and risk management designed to meet the organisation’s objectives and that controls are generally being applied consistently*”. No matters noted to indicate a significant weakness in internal control environment.

The Counter Fraud team at AuditOne undertake and provide regular training and inductions to ensure trust staff remain alert to the risk of fraud. This team reports to the Audit and Risk Committee as demonstrated through our attendance at the meetings in 2021/22.

The Trust also has a Board Assurance Framework (BAF), which is regularly reported to the Trust Board throughout the year, along with the Trust’s Corporate Risk Register. Each risk is given a current risk level, mitigating actions along with due dates and owners for each action, plus a progress rating. Each risk is allocated an Executive Lead and also a sub-committee responsible for monitoring the risk. All risks scoring 25 or greater are added to the register and presented to the Audit and Risk Committee. Through attendance at Audit and Risk Committee throughout the year, we observed that risks are monitored and progress on the actions taken against each risk is reported regularly. As at 31 March 2022, the Trust were reporting a total of 38 risks open on the risk register, all of which has been allocated a sub-group responsible for overseeing the risk.

The Trust also has an Organisational Risk Management Policy, which was most recently updated and reported to Audit and Risk Committee in May 2022, prior to approval by the Board. The policy sets out the Trust’s integrated approach to the assessment, reporting and management of risk. The Policy was updated to reflect recommendations made by the Good Governance Institute following their ‘Well-Led’ review and also to support the delivery of the “must do” actions raised by CQC in their inspection report, published December 2021. The policy includes the Organisation Governance Structure and includes a summary of responsibilities held by different committees, groups and individuals with regards to risk within the organisation. It also sets out the Risk Escalation Framework which illustrates the responsibilities of each group in relation to the Board Assurance Framework and the Risk Register.

We considered the Trust Annual Governance Statement and confirmed it to be consistent with our understanding of the Trust. We did this through consideration of minutes, Internal Audit reporting and our attendance at Audit Committee meetings

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

CQC inspection - January 2021

In January 2021, the CQC carried out an unannounced focused inspection of five acute wards for adults of working age and psychiatric intensive care unit services. This inspection looked specifically at whether the service was safe and well led. In their report published in March 2021, CQC rated both of these key areas as 'Inadequate', with an overall rating for the service as 'Inadequate'. Following the inspection, the CQC served the Trust with a warning notice (under Section 29A of the Health and Social Care Act 2008) in relation to this service. As the CQC report highlighted a significant weakness in arrangements in relation to Governance and how the Trust ensures it makes informed decisions and properly manages its risks, we reported this as a significant weakness in arrangements as part of work carried out in 2020/21.

During 2021/22, we considered the actions taken by the Trust to address the issues identified by CQC. We noted that a follow up inspection of the acute wards for adults of working age and psychiatric intensive care unit services was carried out in May 2021. CQC published their report in August 2021 which noted that this was an "unannounced focussed inspection to see whether improvements had been made since our last inspection in January 2021". In the report, CQC provide an overall rating of 'requires improvement'; rating both safe services and well led services as 'requires improvement'. This is an improvement in ratings of those services for the specific cohort of patients being considered which had been rated as 'inadequate' at the January 2021 inspection.

Per discussion with officers and review of minutes, we have also seen evidence of increased scrutiny and monitoring of actions taken by the Trust in implementing the actions and recommendations made by CQC to address the issues within the services inspected in CQC reports.

Based on the work carried out, we are satisfied that there is no longer a significant weakness in the Trust's arrangements regarding acute wards for adults of working age and psychiatric intensive care unit services as outlined on page 15.

CQC inspection – June to August 2021

The Care Quality Commission (CQC) published a report in December 2021 following inspections carried out between June and August 2021. The inspections focussed on forensic inpatient wards, community mental health services for working age adults, crisis and health based places of safety and community child and adolescent mental health services. The Trust was given an overall rating of 'requires improvement' (consistent with overall rating at previous inspection in March 2020), however we noted that the rating for mental health services on forensic inpatient or secure wards was rated 'inadequate'.

Following the inspection, the CQC served the Trust with a warning notice (under Section 29A of the Health and Social Care Act 2008) in relation to this service. As a result of the Section 29A warning notice, the Trust has been urgently addressing the issues identified during the inspection in order to keep people safe and to avoid more significant enforcement action. There is a timeframe that the Trust must address the issues within.

As the CQC report highlighted a significant weakness in arrangements in relation to Governance and how the Trust ensures it makes informed decisions and properly manages its risks, we have reported this as a significant weakness in arrangements as outlined on page 16.

The Trust's arrangements for budget setting and budgetary control

The Trust developed a detailed Financial Plan for 2022/23 and submitted the final version of the plan to NHSE/I in June 2022. As noted in the financial sustainability section of this report, the late submission was a direct consequence of delays in publication of national planning guidance. This was a national issue and not a reflection on the Trust's arrangements. Rather, from our review of minutes from the Financial Sustainability board, we have seen evidence that the Trust carried out regular review and monitoring of the financial plan with revisions and updates to assumptions made as soon as the information became available. The submitted detailed plan includes the annual budget requirements for Directorates. We have observed evidence that the 2022/23 plan has been produced and submitted in line with NHS/I requirements.

Sufficient evidence has been seen through review of minutes and attendance at Audit and Risk Committees throughout the year to provide assurance that the budget setting and monitoring processes are reported frequently and in sufficient detail that allows for effective review and challenge at senior leadership and Board level.

Strategic objectives are reflected in the annual plan and budget with performance against budget monitored monthly through the centre and departmental structures. This is consolidated and reported to Board with a monthly return submitted centrally to NHSE/I. This information supports the year end process with corrective action on performance escalated and approved by Board. Financial governance arrangements are managed within the corporate governance framework which includes Standing Orders, Standing Financial Instructions and a Scheme of Delegation.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Trust’s decision making arrangements and control framework

The Trust has an established governance structure, which was in place during 2021/22 as set out within its Annual Governance Statement. This is supported by the Trust’s Constitution, which is available on the Trust’s website and was most recently updated in May 2022 following approval for changes by Board in March in order to reflect the new organisational structure and development of care groups.

The Trust Constitution includes details of clearly defined delegation of powers and decision making groups/individuals. Executive Directors have clear responsibilities linked to their roles and the Board Sub-Committee structure in place at the Trust allows for effective oversight of the Trust’s operations and activity. Decisions are based on value for money principles. The Trust has various groups and committees that undertake a governance and risk approach, such as Trust Board, Financial Sustainability Board, and the Audit and Risk Committee. We have reviewed the minutes of these meetings as part of our work and are satisfied that there is effective review and challenge of the Trust’s activity. Furthermore, from our attendance at Audit and Risk Committee we have not identified evidence of a failure to challenge or hold officers to account.

In November 2021, the Board received a paper detailing the revised organisational governance structure that has been developed to strengthen governance arrangements from ward to Board, which is supported by Executive Team. The restructure is to be effective from April 2022. Following the introduction of the new organisational structure in April 2022, the new governance structure is expected to be fully operational.

Although the Trust is implementing new arrangements from April 2022, nothing has been identified from our work or review of minutes which shows that the previous arrangements were not in place for the duration of 2021/22 and that monitoring of decision making and oversight by relevant committees was still effective in challenging decisions made by the Trust.

The Trust has appropriate standards of business conduct process, reporting and governance in place to manage and gain assurance that the Trust meet regulatory requirements. Appropriate checks are taken to ensure the declarations are managed effectively, that Fit and Proper persons checks are carried out and reporting of such is made effectively to the Audit and Risk Committee. The Trust has a comprehensive policy in place to detail the Trust approach to Standards of Business Conduct.

Based on the above considerations, we have concluded that there is a significant weakness in the Trust’s arrangements in relation to governance following the report issued by CQC in December 2021. See page 16 for further details.

3. VFM arrangements

Improving Economy, Efficiency and Effectiveness

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



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

The Trust’s arrangements for assessing performance and evaluating service delivery

Performance Reporting is carried out based on locality, and then reported to the Quality and Assurance Committee (QuAC), a sub-committee of the Trust Board, and also reported to the Board. The Trust also has Quality and Assurance Groups (QuAGs – both divisional and directorate) which are locality and divisional groups within the Trust who are responsible for quality and assurance, as well as Locality Management and Governance Boards. We confirmed through review of minutes that these arrangements have continued in 2021/22 with monthly performance dashboard reports taken to Board to provide oversight and detail of performance in key areas including quality, activity, workforce and finance.

The Trust reported in their Performance Dashboard report, taken to Board in March 2022, that “performance continues to be impacted by national pressures throughout the NHS and locally within Trust services in respect of high demand and staff capacity”. The Trust faces challenges around providing services in line with target waiting times when managing staff absence levels which continue to be at a higher level than anticipated. The Trust are also uncertain in some areas what the post COVID world will mean for service delivery, as the Trust look to model unknown future demand although are expecting to see an increase in the need for mental health services to deal with the effects of Covid.

The Trust continued to apply Statistical Process Controls (SPC) to understand and respond to variations within the measures which are monitored through the Performance Dashboard. Per the Performance Monitoring Report that was presented to Board in April 2022, the Trust used SPC against 18 of 21 measures, with the remaining three being finance related measures and detailed narrative provided for these instead. The report identified twelve areas of concern and four areas which required additional monitoring. The report notes the actions and timescales in place for implementation and monitoring of these actions.

We note that the Trust is due to implement a new Integrated Performance Dashboard (IPD) from May 2022, which will include a new set of key measures designed to demonstrate the quality of services provided by the Trust. This change is being made as one of the recommendations made from the Good Governance Institute review. The Trust is creating an automated dashboard on the Integrated Information Centre, and data is now available such that the Trust is able to triangulate information through different levels within the organisation including care group level, management level, and executive level. The second phase of the plan will be to introduce similar dashboards for board committees, which will allow initial reporting at a high level but allow the functionality to drill down further into the underlying data.

As previously discussed, the Trust is also subject to CQC inspections with the latest inspection of the Trust carried out between June and August 2021. Per the report published in December 2021, the Trust was given an overall rating of ‘requires improvement’ which is consistent with the rating provided in the previous full

inspection (March 2020). We confirmed that there are regular updates presented to the Board in relation to any CQC inspections.

Additionally, in 2020/21, the Trust commissioned a Good Governance Review. As well as a broad remit relating to the Trust’s governance arrangements, the review also considered the effectiveness of arrangements to ensure Board oversight of the challenges faced by different teams, including as represented through different waiting times and outcomes. Due to the geographical spread of the Trust, the recent operational restructure, and reorganisation into two geographical Care Groups, allows greater strategic oversight and supports better scrutiny and management of the Trust’s overall and localised performance. The final draft of the Well Led Governance Review report was taken to the April 2021 Board. We confirmed that regular updates were reported to the Board throughout the year, including the completion of an exercise to map the recommendations made by the Good Governance Institute across to the Trust’s existing business plan priorities and other activities. The Board received a report in March 2022 which provided an overview of progress made, noting that the plan was to be closed as a result of good progress made on delivery although it noted that continuing monitoring of the CQC Action Plan would give the Board sufficient oversight on relevant ongoing work.

The Trust’s arrangements for effective partnership working

The Trust has well-developed mechanisms for engagement with third party bodies at all levels across the organisation. The Trust has well-established Partnership Boards in the North East and in North Yorkshire which cover both planning and reporting of key financial information as well as performance issues across the geographical area for which the Trust provides services to patients.

Provider Collaboratives was a new approach introduced from 1 April 2021 in relation to the commissioning of specialised mental health, learning disability and autism services. In North East region, the Trust engaged in a partnership with Cumbria, Northumberland, Tyne and Wear NHS Foundation Trust to form the North East and North Cumbria Mental Health, Learning Disability and Autism Partnership.

The Trust has also engaged with Integrated Care System (ICS) partners in the financial planning submission process. This required the Trust to work with ICS partners in developing a financial plan within the funding allocated.

We have confirmed through review of minutes that there has been regular engagement with partners during the year, and we have not identified any evidence of a significant weakness in the Trusts arrangements for working with partners.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria - continued

The Trust’s arrangements for commissioning services

The Trust is part of collaborative Mental Health Partnership Boards, whereby decision making is made collectively by all partners for core commissioning resulting in risk being shared amongst partners. There are separate arrangements operating for CCG-commissioned and for specialised (Lead Provider Collaborative) commissioning arrangements. Officers also explained that there is segregation of provider and commissioner functions and a commissioning board has been established to monitor activities.

Trust employees are obliged to declare any actual or potential conflicts of interest with suppliers and this information is reviewed and published on an annual basis. We have confirmed this during our review of the related party disclosures in our audit opinion work. The Trust’s policies are designed to meet the ‘; Managing Conflicts of Interest in the NHS’ guidance. The trust maintain a ‘My Declarations’ site which *“allows members of the public to view the Trust’s Register of staff declarations of interest, thus providing transparency and accountability in compliance with the latest NHS England guidance”*

Based on the above considerations, we are satisfied there is not a significant weakness in the Trust’s arrangements in relation to improving economy, efficiency and effectiveness.

3. VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



3. VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work we have identified significant weaknesses in the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below.

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>1 Care Quality Commission (CQC) Inspection –June –August 2021</p> <p>During 2021/22, the Care Quality Commission (CQC) took enforcement action against the Trust following an inspection between June and August 2021. In our view, the inspection outcome represents a significant weakness in arrangements in relation to Governance and how the Trust ensures it properly manages its risks.</p> <p>Between June and August 2021, the CQC carried out inspections focusing on forensic inpatient wards, community mental health services for working age adults, crisis and health-based places of safety, and community child and adolescent mental health services. The CQC published their report in respect of these inspections in December 2021 and the Trust was given an overall rating of 'requires improvement' which is consistent with their previous overall rating (per the March 2020 CQC report). However, we noted that the overall rating for mental health services on forensic inpatient or secure wards was 'inadequate' and the individual 'safe' domain for community child and adolescent mental health services was rated as 'inadequate' (remaining 'requires improvement' overall for that core service).</p>		●		<p>In order to ensure systems, processes and training are in place to manage the risks relating to the health, safety, and welfare of service users we recommend that the Trust ensures that it embeds and sustains the action plans that it has put in place Trust-wide to address the issues identified by the CQC. In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for patients and sustain the progress made to-date in implementing the actions to address the issues raised by the CQC.</p>	<p>The Trust had developed and began to implement an action plan to address the concerns raised in the report published by CQC in December 2021. We note that the Trust has maintained regular communication with CQC who has reviewed the Trust action plan to ensure the actions in place are appropriate. The Trust continues to engage with CQC in order to address the issues identified.</p> <p>The Trust has also established internal oversight and monitoring arrangements over the action plan, including providing regular updates to the Trust Board to provide assurance that actions being taken and ensure that progress is being made. Additionally, the Trust reported monthly to a regional quality board which was established to support and review progress</p>

3. VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement (continued)

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>1 (continued)</p> <p>Following the inspection, the CQC served the Trust with a warning notice (under Section 29A of the Health and Social Care Act 2008) in relation to these services. As a result of the Section 29A warning notice, the Trust has been urgently addressing the issues identified during the inspection in order to keep people safe and to avoid more significant enforcement action.</p> <p>The CQC set an overall date of compliance of 1 March 2022 within which the Trust must address the specific areas in which the CQC identified issue. The report also notes that some areas for improvement were given an earlier compliance date of 1 November 2021, and the report published in December confirmed that the Trust had at that stage taken action to make the required improvements. .</p> <p>The CQC report sets out several improvements that the Trust must make to comply with the Section 29A notice that was issued by the CQC and to comply with its legal obligations.</p> <p>Following the initial inspection and subsequent report the Trust has put in place an action plan to address each area for improvement, which has been reviewed by and agreed by CQC. This includes the necessary steps to address the issues identified by CQC in their inspection report and Section 29A warning notice. The Trust continues to liaise with CQC to ensure progress is</p>					

3. VFM arrangements - Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement (continued)

Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
<p>1 (continued)</p> <p>made to implement the actions that the Trust must make in order to bring services into line with legal requirement.</p> <p>The Trust recognises that a failure to address the weaknesses identified in the CQC report would adversely impact upon the safety of services provided to users of forensic inpatient services and could lead to further enforcement action by CQC.</p>					

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

As part of our 2020/21 audit work, we identified the following significant weaknesses, and made recommendations for improvement in the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources. These identified weaknesses have been outlined in the table below, along with our view on the Trust's progress against the recommendations made, including whether the significant weakness is still relevant in the 2021/22 year.

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>1 Care Quality Commission (CQC) inspection – January 2021</p> <p>During 2020/21, the Care Quality Commission (CQC) took enforcement action against the Trust following an inspection in January 2021. In our view, the inspection outcome represents a significant weakness in arrangements in relation to Governance and how the Trust ensures it properly manages its risks.</p> <p>In January 2021, the CQC carried out an unannounced focused inspection of five (out of fourteen) acute wards for adults of working age and psychiatric intensive care unit services. This inspection looked specifically at whether the Adult Acute and Psychiatric Intensive Care Unit Services (one CQC core service) were 'safe' and 'well led'. In their report published in March 2021, CQC rated both of these key areas as 'Inadequate', with an overall rating of 'Inadequate' for this core service. This represents a downgrade from the previous inspection report from March 2020 that rated this service as 'Good'.</p> <p>We note that the Trust's overall rating of 'Requires Improvement' remained unchanged following this inspection.</p>	<p>Governance</p>	<p>In order to ensure systems, processes and training are in place to manage the risks relating to the health, safety, and welfare of service users we recommend that the Trust ensures that it embeds and sustains the action plans that it has put in place Trust-wide to address the patient care issues identified by the Care Quality Commission. In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for patients and sustain the progress made to-date in implementing the actions to address the issues raised by the CQC.</p>	<p>A follow up inspection of the acute wards for adults of working age and psychiatric intensive care unit services was carried out in May 2021. CQC published their report in August 2021 which noted that this was an "unannounced focussed inspection to see whether improvements had been made since our last inspection in January 2021".</p> <p>In the report, CQC provide an overall rating of 'requires improvement'; rating both safe services and well led services as 'requires improvement'. This is an improvement in ratings of those services for the specific cohort of patients being considered which had been rated as 'inadequate' at the January 2021 inspection. Per discussion with officers and review of minutes, we have also seen evidence of increased scrutiny and monitoring of actions taken by the Trust in implementing the actions and recommendations made by CQC to address the issues within the services inspected in CQC reports.</p>	<p>Based on our findings we are satisfied that the Trust have put in place appropriate actions to address the risks identified by the CQC following their January 2021 inspection of the Trust's acute wards for adults of working age and psychiatric intensive care unit services and that these changes are subject to internal scrutiny and monitoring to ensure the Trust is making progress against their plans. Improvements in arrangements were recognised by CQC in their follow-up report and arrangements in this area of the Trust's operations are no longer assessed as 'inadequate'.</p> <p>Overall, we are therefore satisfied that there is no longer a significant weakness in the Trust's arrangements regarding acute</p>

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>1 Following the inspection, the CQC served the Trust with a warning notice (under Section 29A of the Health and Social Care Act 2008) in relation to this service. As a result of the Section 29A warning notice, the Trust has been urgently addressing the issues identified during the inspection in order to keep people safe and to avoid more significant enforcement action.</p> <p>The CQC gave a timeframe of 3 May 2021 within which the Trust must address the issue. NHSE/I have also increased oversight of matters through establishment of a monthly regional Quality Board. In later May/early June the CQC re-inspected acute wards for adults of working age and psychiatric intensive care unit services and the Trust is currently awaiting the outcome of this re-inspection.</p> <p>The CQC report sets out several improvements that the Trust must make to comply with the Section 29A notice that was issued by the CQC and to comply with its legal obligations. These improvements include:</p> <ul style="list-style-type: none"> • Ensuring systems and processes are in place to effectively assess, monitor and mitigate the risks relating to the health, safety, and welfare of service users. • Have an effective procedure and process in place to review and learn from serious incidents. • Making sure staff receive appropriate training to carry out patient risk assessments appropriately and consistently. 	Governance			wards for adults of working age and psychiatric intensive care unit services. The commentary for inclusion in the AAR will cover progress in addressing these issues.

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>1</p> <ul style="list-style-type: none"> Ensuring staff understand and comply with the observation and engagement policy to maintain patient safety. <p>Following the initial inspection and subsequent report the Trust has put in place an action plan to address each area for improvement, which has been reviewed by and agreed by CQC. This includes the necessary steps to address the issues identified by CQC in their inspection report and Section 29A warning notice. The Trust has established additional internal oversight and monitoring arrangements, including through an internal Quality Improvement Board. It is progressing actions to improve governance arrangements that have been informed by a review it commissioned from the Good Governance Institute.</p> <p>The Trust recognises that a failure to address the weaknesses identified in the CQC report would adversely impact upon the safety of services provided to users of acute wards for adults of working age and psychiatric intensive care unit services and lead to further enforcement action by CQC.</p>	Governance			

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The NHS Act 2006 provide auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest; and
- make a referral to the regulator.

We have not exercised any of these statutory reporting powers.

We are also required to report if, in our opinion, the governance statement does not comply with relevant guidance or is inconsistent with our knowledge and understanding of the Trust. We did not identify any matters to report in this regard.

Reporting to the NAO in respect of consolidation data

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

4. Other reporting responsibilities and our fees

Fees for work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit and Risk Committee in March 2022. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£48,560
Additional fees in respect of significant weakness and recommendation identified from VFM work	£4,900
Total fees	£53,460

Fees for other work

We confirm that we have not undertaken any non-audit services for the Trust in the year.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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