

Auditor's Annual Report

Tees, Esk and Wear Valleys NHS
Foundation Trust
– year ended 31 March 2023

August 2023



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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 2023. 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 29 June 2023. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued on 29 June 2023 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 recommendations in relation to identified significant weaknesses 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, which includes detail on one new recommendation for 2022/23 and 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 2022/23 financial year.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 29 June 2023 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

Our audit of the financial statements

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 2023 and of its financial performance for the year then ended. Our audit report, issued on 29 June 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Other reporting responsibilities

Reporting responsibility	Outcome
Annual Report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust. We confirmed that the Governance Statement had been prepared in line with Department of Health and Social Care (DHSC) requirements.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by NHS Improvement.
Remuneration and Staff Report	We reported that the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the National Health Service Act 2006.

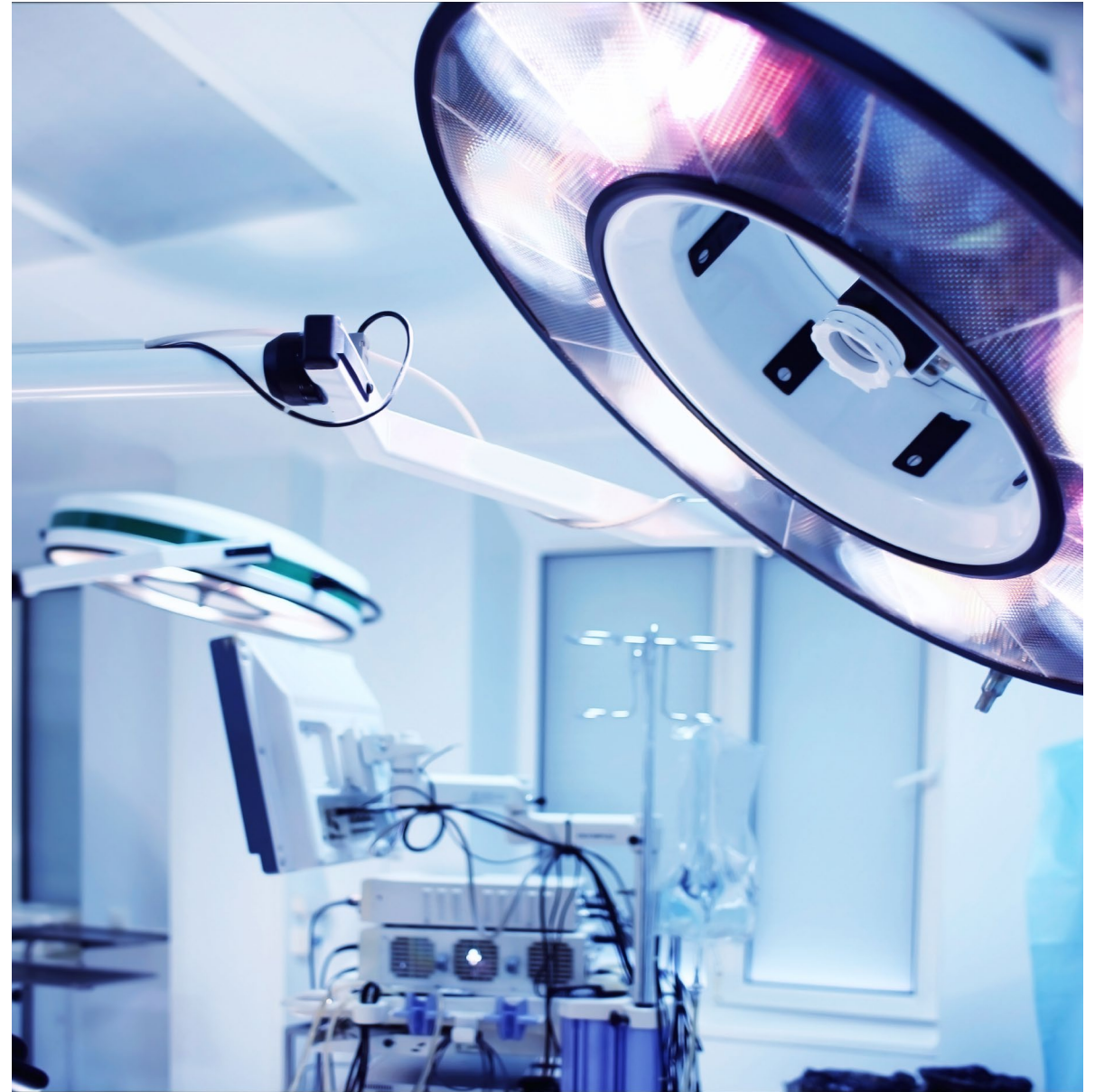
03

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
- 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 15.

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.

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 risk 1 on page 15	Yes – see recommendation G1 on page 23, as well as recommendation P1 on page 24	No
 Improving economy, efficiency and effectiveness	19	No	No	No

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 2022/23

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 during 2020/21 and 2021/22 whereby systems were established as the key unit for financial allocations. In 2022/23, this approach has been continued, with the aim to encourage greater collaboration and collective responsibility for financial performance.

The Covid-19 pandemic necessitated the implementation of interim 'block' allocations to ensure that systems had sufficient resource to respond to the pandemic. From 2022/23, programme funding allocations were reset to move back towards a 'fair share' distribution of resource. ICB programme allocations were based on annualised system funding envelopes (comprising previous CCG allocations and system top-up components) for H2 of 2021/22. These were then annualised for 2022/23 and adjusted to include uplifts for inflationary pressures and further adjustments (replacing CCG pace of change) to drive convergence to fair share allocations.

In support of programme allocations, trusts also received a number of other ICB funding allocations. Moving out of the pandemic, Covid-19 block payments have been replaced by local contracting and commissioning. Elective funding was allocated to commissioners at 104% of the pre-pandemic 2019/20 levels. Systems, working with providers, agreed activity plans with funding adjustments then based on the percentage of this activity achieved. ICB allocations for primary medical care services and running cost allocations remain broadly consistent with the previous system delivered by CCG's, reflecting demographics of the serviced populations and broader economic factors.

During 2022/23, the focus of the funding regime shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system. This facilitated the need for collaborative working between commissioners and providers, and planning guidance for 2022/23 supported the transition back to local agreement of contracts requiring systems to achieve a breakeven position each year. This will continue to 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 2022/23, the Trust delivered a financial surplus before impairments and profit on sale of assets of £1.21m. We note that the Trust faced a challenging position in 2022/23, initially forecasting a £24.4m opening underlying financial deficit. However, the Trust was able to mitigate the deficit to a revised forecasted outcome of £1.16m surplus. Therefore the Trust's final surplus of £1.21m was slightly above the revised forecast surplus.

The Trust's Statement of Financial Position remained stable when compared to the prior year, shown by total assets employed of £166.315m compared to prior year position of £167.414m. Due to the introduction of IFRS16 Leases from 1 April 2023, the Trust is recognising £18.926m of Right of Use Assets which are new on the face of the Balance Sheet compared to the prior year, however there is a corresponding liability which offsets the impact of these assets on the overall Balance Sheet Position. We also note that the Trust's cash position has decreased by £6.565m to £75.171m as at 31 March 2023, although this is still higher than the planned year end cash balances, which is mainly a consequence of higher than expected creditors and provisions held at year end.

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, including a specific decision to reinstate monthly full finance reports in light of the challenging financial context. Specifically, the Integrated Performance Reports brought together financial and operational performance.

As well as monitoring by the Board, which receives a finance update report on a 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 2022/23 on a monthly basis. The meetings were used to track financial performance for 2022/23 and assist with planning for future periods, although we noted that some other areas which are overseen by FSB, such as more ambitious costing transformation plans, 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 2022/23 planning through discussion with officers and review of minutes. The Trust submitted the detailed financial plan for 2023/24 as part of the North East and North Cumbria Integrated Care System (NENC ICS), and via the national NHSE submission portal. Previous versions of the plan and key underpinning risks and assumptions had been shared with Trust Board. Due to the delayed timing of final submissions, an extraordinary Strategy & Resources Committee reviewed the final plans on 18 April 2023, with final plan approval by Trust Board on 27th April 2023.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

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

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 which is in line with guidance provided by NHSI.

There is uncertainty on the demand for mental health services as society continues to recover from the Covid-19 pandemic; however, the Trust remain alert to the key risks and are aware of the pressures they are facing. We note that the Trust's 2022/23 financial plans included the assumed elimination of independent sector bed usage and reduced agency staffing costs however cost efficiencies in the period between July 2022 to March 2023 were not achieved in those cost categories.

Despite these challenges, 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 was able to deliver its planned position in 2022/23 achieving a surplus of £1.21m which was slightly above the Trust's planned objective of £1.16m. This provides assurance over the robustness of the Trust's planning, forecasting, recovery 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). As well as future planning, the Trust also provided updates and noted the actions that had been identified to mitigate against immediate financial risk.

The Trust's arrangements and approach to 2023/24 financial planning

We confirmed the Trust has developed its 2023/24 financial plan in line with national and regional timetables. We observed evidence of the planning commencing in the autumn of 2022 and engagement with various stakeholders. There have been several iterations of the plan with the final version submitted in May 2023. 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 and Sustainability & Resources Committee, as well as the regular updates provided to the Trust Board.

In line with expectation, the 2023/24 financial plan is subject to scrutiny by the Trust Board, with draft versions presented at both the March and April Board meetings. In March 2023, the Board received an update that indicated that plans would be submitted for a £12.7m (2.8%) deficit revenue plan for 2023/24. Further work by the Trust resulted in a targeted reduced deficit of £7.1m deficit by early April, however, via ICB discussions with NHSE on 13th April, all organisations within NENC ICS were requested to pursue additional actions with the aim of reducing the ICS collective deficit to £50m. The ICS confirmed to NHS England that it could deliver a deficit of £49.9m, which included a requirement for TEWV to achieve a breakeven position.

Delivery of a breakeven position in 2023/24 is expected to be hugely challenging, however the Trust are transparent in their reporting to Board and include a 'Key Risks' section within their 2023/24 Financial Plan which documents the Trust's consideration of the financial risks associated with the plan and shows how the Trust is planning to manage those risks. Per discussion with the Trust and from review of Board papers, the key financial risks faced by the Trust relate to several key areas, including: reliance on agency staffing including for medical vacancy cover, to support a small number of complex care packages and inpatient staffing, increased inpatient patient numbers, and out of area patients. The Trust has invested in annual safer staffing reviews and the Trust has committed to investing more in levels of permanent rostered staffing and temporary staffing to address increased patient levels.

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 operates a TEWV Commissioning Committee which monitors the Trust's exposure to commissioning risks.

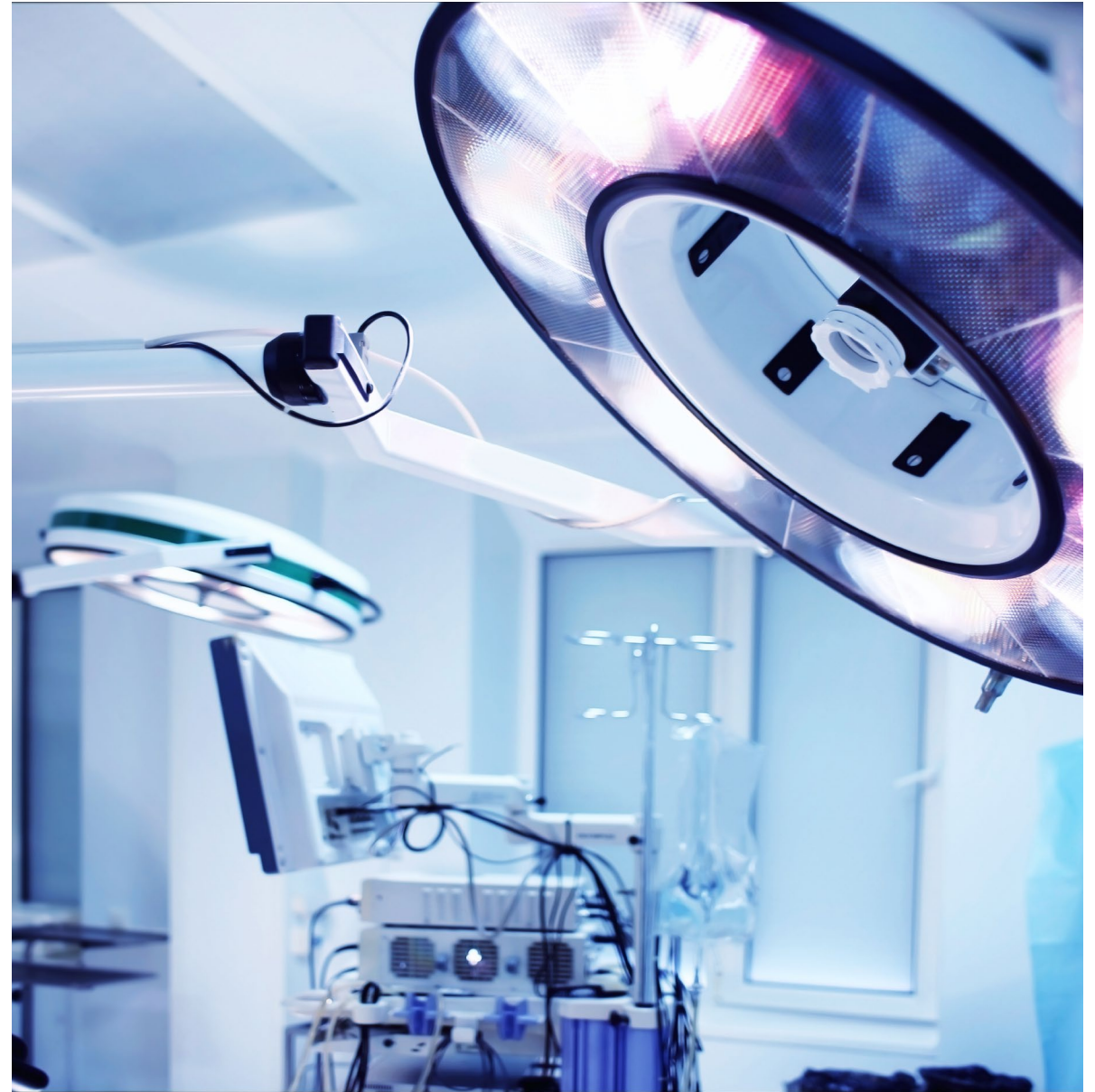
It is clear that the Trust is closely monitoring the progress against plan to date, is fully aware of where the gaps lie and continues to identify mitigating actions to bridge the funding gap. Therefore we are satisfied that there is not a significant weakness in the Trust's arrangements in relation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

3. VFM arrangements

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 data-bbox="122 461 988 515">1 Progress in responding to findings from Care Quality Commission (CQC) inspection –June to August 2021</p> <p data-bbox="224 534 1039 672">Following the weakness identified in the previous year in relation to the June 2021 CQC inspection, we identified that there is a potential risk that the Trust has not responded appropriately to the actions suggested in order to resolve the issues identified, or that they have not made sufficient progress against the findings for secure inpatient services.</p>	<p data-bbox="1072 461 1274 486">Work undertaken</p> <p data-bbox="1072 489 2397 515">We considered the work that the Trust has carried out to address the issues raised in the CQC inspection. Our work included:</p> <ul data-bbox="1072 518 2186 658" style="list-style-type: none"> – Discussions with senior management; – Review of minutes; – Review of action plan put in place to address the weaknesses identified by CQC; – Consideration of the progress made by the Trust to date in addressing the weaknesses identified; and – Consideration of findings from unannounced focused inspection carried out by CQC in July 2022 <p data-bbox="1072 689 1299 715">Results of our work</p> <p data-bbox="1072 718 2448 858">In our view, although the findings from the unannounced focussed inspection of secure inpatient services in July 2022 indicated improvements have been made by the Trust, evidenced by an overall rating increase to requires improvement, our review noted that the reported showed that the question of ‘Is the service safe?’ is rated as inadequate which continues to highlight a significant weakness in arrangements in relation to Governance and how the Trust ensures it makes informed decisions and properly manages its risks. See commentary below as well as page 24 for the follow up of this prior year issue.</p>

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 reviews and updates carried out on a regular basis. The Constitution, along with other documents, detail the governance structure of the Trust. The Trust launched a new governance structure in April 2022. Following the launch of the new governance structure, the Trust have kept the new structure under review, with regular reporting to Board to ensure the new structure provides the organisation with the ability to have meaningful interrogation of themes and trends to identify and respond to emergent risks and ensure safe and high-quality care for patients.

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. 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).

The Trust Committee structure includes the Audit and Risk Committee, which is attended by Non-Executive Directors and has been revised to include all Committee Chairs. 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.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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 2022/23 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 2022/23 provides “*reasonable 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 the 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 2022/23.

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. The BAF was updated in 2021/22 following feedback from the Good Governance Institute, and further work has been carried out during 2022/23 to further review and monitor the Trust’s approach to risk management. In addition, a revised risk management policy was approved during 2022/23, which defines the Trust’s risk management framework, including scoring methodology, risk appetite/tolerance levels, and governance arrangements for risk management. 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. Furthermore, Internal Audit carried out an audit of ‘Risk Management and BAF’ during 2022/23 and provided a rating of good assurance rating (an improvement on the 21/22 rating of reasonable assurance) as a result of “*significant improvements in the risk management framework and operational processes*”.

The Trust also has an Organisational Risk Management Policy which 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 reports. 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.

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.

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 in our 2021/22 Auditor’s Annual Report.

As part of our review in 2022/23, we noted that a follow up inspection was carried out in July 2022, with CQC publishing a reporting of their findings in October 2022. In the October 2022 report, CQC provide an overall forensic inpatient rating of requires improvement, which is an improvement on the previous inspection rating. This indicates that the Trust is continuing to make improvements and are putting appropriate actions in place to address the risks identified by the CQC , which is further supported by confirmation that there is no current enforcement action in place for secure inpatient services.

However, our review also noted that further improvements are required, as per the October 2022 report, the CQC gave a rating for forensic inpatients of ‘inadequate’ for the ‘Are services safe?’ question’ which was the same as the previous inspection. As a consequence, we believe there remains a significant weakness in the Trust’s arrangements regarding the safety of services on forensic inpatient and secure wards and as such the significant weakness and recommendation will be reported once again in 2022/23 as outlined on page 24.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

CQC inspection – June 2022

During June 2022, the Care Quality Commission (CQC) carried out a number of responsive inspections of the Trust in relation to Wards for people with a learning disability or autism in response to information of concern. The inspections took place across both Lanchester Road and Bankfields Court over a three-week period.

The CQC published their report in respect of these inspections in October 2022 and the Trust was given an overall rating of 'Inadequate' for this service, with ratings of inadequate provided for the service in the three domains of safe, effective and well-led. Both questions considering whether the services are caring and responsive to people's needs were rated as 'requires improvement'. The rating of inadequate was a downwards rating since the wards were previously inspected in September 2019 as part of the core service inspection, where a rating of 'good' overall and ratings of 'requires improvement in safe and good in the other four domains' were given.

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 23.

Further CQC inspections

Per discussions with the Trust, and from review of Board minutes, we understand that the Trust was subject to a CQC inspection of six of its core services again more recently in April 2023, as well as a 'Well Led' inspection in May 2023. We note that at the time of our review in August 2023, a final inspection report has not yet been published by CQC and so there is no formal feedback on the inspections. In the meantime, however, the Trust has received two letters from CQC which are not designed to replace the inspection report but instead provide confirmation of what CQC fed-back to the Trust in order to provide a basis to start considering what action is needed. Our review of these letters, alongside discussions with management who are in communication with CQC, do not indicate that there are any other significant weaknesses that have not already been addressed in the previous sections of this report.

The Trust's arrangements for budget setting and budgetary control

The Trust developed a detailed Financial Plan for 2023/24 and submitted the final version of the plan to NHSE/I in May 2022. 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 2023/24 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.

The Trust's decision making arrangements and control framework

Following the introduction of the new organisational structure in April 2022, the Trust also implemented a new governance structure. This was approved by the Board in November 2021 following the presentation of 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 new structure 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.

Following the introduction of the new organisational structure in April 2022, the new governance structure is now fully operational and nothing has been identified from our work or review of minutes which shows a weakness in arrangements during 2022/23. We confirmed that monitoring of decision making and oversight by relevant committees was still effective in challenging decisions made by the Trust.

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, Strategy and Resources Committee, 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.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

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 are 2 significant weaknesses in the Trust's arrangements, both in relation to governance following the reports issued by CQC in December 2021 and October 2022. See pages 23 to 25 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 Care Group, 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's revised governance arrangements in April 2022 disestablished the former Locality Quality Assurance Groups (and underpinning meetings 'Quaglets') and established Care Group Quality Assurance and Improvement Groups, with underpinning Service Improvement and Delivery Groups. An Executive Quality Assurance and Improvement sub group provides oversight across Trust activities and provides assurance into the Quality and Assurance Committee, with monthly performance dashboard reports taken to Board to provide oversight and detail of performance in key areas including quality, activity, workforce and finance.

As part of the continuous improvement of the Trust's Performance Management Framework, the Trust has developed a more integrated approach to quality and performance assurance and improvement. This approach enables the Trust to have oversight, monitor and report key measures that demonstrate the delivery of the quality of services it provides and provide assurance to the Board through its new governance structure. The Trust implemented a new Integrated Performance Dashboard (IPD) from May 2022, which included a new set of key measures designed to demonstrate the quality of services provided by the Trust. This change was made as one of the recommendations made from the Good Governance Institute review. The Trust created 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 Trust reported in their Performance Dashboard report (taken to Board in April 2023) that the challenges faced by the Trust following the pandemic will "require a strategic approach to enable our services to respond to the increasing demand and pressures being experienced nationally in mental health services". The Trust faces a challenge around providing a service in line with target waiting times in the context of high levels of demand and when managing staff absence and vacancy levels which have been higher than the Trust would like. The Trust are also uncertain in some areas what the post COVID world will mean for service delivery, albeit that it engaged in early leading national work to model unknown future demand where there is expected to be an increase in need for mental health services to deal with the ongoing effects pandemic.

The following month's Integrated Performance Dashboard Report, presented to Board in May 2023 covering the period to 31 March 2023, indicates that an "overall reasonable level of assurance has been determined by management based on the Performance & Controls Assurance Framework for the Board Integrated Performance Dashboard (IPD) and progress against the Long-Term Plan Ambitions". The report also goes on to explain that although there are a few areas which have limited assurance, performance improvement plans

have been developed or are in the process of being developed in order to address some of the issues that are impacting on performance. The report covers the key changes to the IPD from previous reports, as well as highlighting areas of concern where the Trust has limited performance assurance and negative controls assurance.

As previously discussed, the Trust is also subject to CQC inspections with the latest inspection of the Trust carried out between April and March 2023, although at the date of drafting our report the inspection report had not yet been published. In the meantime, however, the Trust has received two letters from CQC which are not designed to replace the inspection report but instead provide confirmation of what CQC fed-back to the Trust in order to provide a basis to start considering what action is needed

The most recent overall CQC report published in December 2021, covered the previous inspection 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.

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 the 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 (until 30th June 2022) and then transitioning to ICB-commissioned (from 1st July 2022) and for specialised (Lead Provider Collaborative) commissioning arrangements. Officers also explained that there is segregation of provider and commissioner functions and a commissioning committee 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>G1 Care Quality Commission (CQC) inspection – Wards for people with a learning disability of autism - June 2022</p> <p>During June 2022, the Care Quality Commission (CQC) carried out a number of responsive inspections of the Trust in relation to Wards for people with a learning disability or autism in response to information of concern. The inspections took place across both Lanchester Road and Bankfields Court over a three-week period. The CQC published their report in respect of these inspections in October 2022 and the Trust was given an overall rating of 'Inadequate' for this service, with ratings of inadequate provided for the service in the three domains of safe, effective and well-led. Both questions considering whether the services are caring and responsive to people's needs were rated as 'requires improvement'. The rating of inadequate was a downwards rating since the wards were previously inspected in September 2019 as part of the core service inspection, where a rating of 'good' overall and ratings of 'requires improvement in safe and good in the other four domains' were given.</p> <p>Following the initial inspection and subsequent report the Trust put in place an action plan to address each area for improvement and continues to liaise with CQC to ensure progress is made to implement and embed the actions agreed. The Trust had recognised for some time that the challenges remain (indeed the Trust had already proactively taken the decision to close these services to new admissions), and had been working to implement improvements with the local health and care system partners since before the inspection.</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 to address the issues identified by the CQC in relation to services on wards for people with a learning disability or autism.</p> <p>Specifically, the Trust needs to continue to work 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>Following discussion with the Trust we understand that these wards have been revisited as part of a wider 'Well led' inspection that the CQC carried out in May 2023. In advance of the publication of the report the CQC have written to the Trust and stated they can see the service has continued to improve.</p> <p>Although the CQC have confirmed in writing that they can see a further improvement in Wards for people with a Learning Disability, the current core service ratings will remain until the May 2023 inspection report is published later in 2023.</p> <p>The Trust is continuing work to oversee and embed improvements.</p>

3. VFM arrangements – Prior year significant weaknesses and recommendations

Progress against significant weaknesses and recommendations made in the prior year

As part of our 2021/22 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 2022/23 year.

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>P1 Care Quality Commission (CQC) inspection – Forensic Inpatient or Secure Wards – June to 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>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</p>	Governance	<p>In order to ensure systems, processes and training are in place to manage the risk 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>Against the backdrop of previous adverse findings by CQC, including the issue of a s29A warning notice, the CQC visited the Trust in July 2022 to carry out a further unannounced focused inspection of forensic inpatient and secure wards and an inspection of the safety domain in specialist community mental health services for children and young people to see whether improvements had been made since the June 2021 inspection to address the concerns identified. Actions taken to address the warning notice demonstrated impact and the warning notice lapsed.</p> <p>In a CQC report published in October 2022, in secure inpatient services the domains of effective, caring and well led improved, resulting in an overall improvement of the service with a rating of 'Requires Improvement'. The CQC rating of the safe domain remained as 'Inadequate' reflecting some specific concerns on safeguarding, and a need for embedding of some actions. The CQC were also satisfied improvements had been delivered in the safe domain in the community mental health services for children and young people and the safety rating improved to 'Requires Improvement'.</p>	<p>In our view, although improvements have been made to arrangements regarding the forensic inpatient or secure wards services provided by the Trust, the maintained rating of 'is the service safe' as inadequate means that there remains a significant weakness in this service, and further actions are required to address the risks identified by the CQC. These changes should be subject to internal scrutiny and monitoring to ensure the Trust is making progress against their plans.</p> <p>Therefore, we conclude that the significant weakness and recommendation raised in the prior year remains in place.</p>

3. VFM arrangements – Prior year significant weaknesses and 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>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 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>	<p>Governance</p>		<p>Following discussion with the Trust, forensic inpatient wards have been revisited as part of wider 'Well led' inspection that the CQC carried out in May 2023. In advance of the publication of the report the CQC have written to the Trust and stated they can see the service has continued to improve. Although the CQC have confirmed in writing that they can see a further improvement in secure inpatient services, the current core service ratings will remain until the May 2023 inspection report is published later in 2023. In our view, although improvements have been made to arrangements regarding the forensic inpatient and secure wards services provided by the Trust, the maintained rating of 'is the service safe' as 'Inadequate' means that there remains a significant weakness in this service until the actions taken to address the concerns identified by the CQC are publicly reported. These changes should be subject to ongoing internal scrutiny and monitoring to ensure the Trust is making progress against their plans.</p>	

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Other reporting responsibilities

Statutory recommendations and public interest reports

Under section 7 of the Local Audit and Accountability Act 2014, auditors of an NHS body can make written recommendation to the audited bodies. Auditors also have the power to make a report if they consider a matter is sufficiently important to be brought to the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue any statutory recommendations or exercise our power to make a report in the public interest during 2022/23.

Section 30 referrals

Auditors of an NHS body have a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and/or relevant NHS regulatory body as appropriate.

We have not issued a Section 30 referral to the Secretary of State.

Reporting to the National Audit Office (NAO)

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. The NAO also included the Trust in its sample of component bodies for the purpose of its audit of the DHSC group.

We reported to the NAO that consolidation data was consistent with the audited financial statements. We also reported to the NAO in line with its group audit instructions.

Fees for our 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 May 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2022/23 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£75,000	£48,560
Additional fees in respect of significant weakness and recommendation identified from VFM work	£7,500	£4,900
Additional fees in respect of additional work due to the introduction of IFRS 16	£5,000	-
Total fees	£87,500	£53,460

Fees for other work

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



Appendix

A. Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> – Accounting estimates impacting amounts included in the financial statements; – Consideration of identified significant transactions outside the normal course of business; and – Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>Audit conclusion</p> <p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.</p>

A. Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Risk

Risk of fraud in revenue recognition

The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.

For the Trust we deem the risk to relate specifically to the timing of income recognition, and in relation to judgements made by management as to when income has been earned. The pressure to manage income to deliver forecast performance in a challenging economic environment increases the risk of fraudulent financial reporting leading to material misstatement and means that we are unable to rebut the presumption.

This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism

Our audit response and findings

Our audit procedures included, but were not limited to:

- Evaluating the Trust's accounting policy in respect of revenue recognition to ensure that it is in line with the requirements of the Group Accounting Manual (GAM).
- Testing revenue transactions that had been recorded by journal entries. Journals were selected for testing on the basis of meeting one or more fraud risk indicators that we determined to be applicable to the revenue recognition significant risk.
- Testing a sample of revenue around the year end by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value.
- Testing a sample of year end receivables by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value; and
- Considering information provided by the Department of Health and Social Care in respect of year-end intra-NHS transactions. Where we identified any significant differences between the Trust's position and that of the counterparty, we obtained assurance that the Trust's position was supported by appropriate evidence.

Overall findings

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

A. Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Risk

Valuation of property, plant and equipment

Land and buildings are the Trust's highest value assets. Management engage Cushman and Wakefield, as an expert, to assist in determining the current values of property to be included in the financial statements. Changes in the value of property may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual.

Our audit response and findings

Our audit procedures included, but were not limited to:

- Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Trust.
- Obtaining an updated understanding of the basis of valuation applied by the valuer in the year. This included understanding and challenging the methodology applied to estimate the gross replacement cost of the Trust's operational land and buildings on a modern equivalent asset basis. Specifically, we evaluated the Trust's application of a 'single-site' valuation methodology which covers its existing hospital sites.
- Sample testing the completeness and accuracy of underlying data provided by the Trust and used by the valuer as part of their valuations.
- Testing the accuracy of how valuation movements were presented and disclosed in the financial statements.
- Making direct enquiries with the valuer to understand the nature of the material valuation uncertainty disclosed in his valuation report.
- Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2023

Overall findings

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

A. Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Risk	Our audit response and findings
<p>Accounting for any potential liability at 31 March 2023 from the PFI termination</p> <p>One of the Trust's PFI arrangements terminated in 2018/19. As PFI termination is rare, there is an increased risk that the accounting treatment of any liabilities arising from the termination is misstated.</p>	<p>Building on our audit work and knowledge from our audits in the period from 2018/19 to date, our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Holding discussions with the Trust's legal advisors to obtain evidence about their views. • Reviewing and challenging the Trust about the accounting treatment adopted for any potential liabilities at 31 March 2023 associated with the termination. • Considering the proposed accounting by the Trust against the requirements of IAS37 to determine the appropriate method to account for the potential liabilities. <p>Overall findings</p> <p>We obtained sufficient appropriate evidence to conclude that the accounting treatment for any potential liabilities was appropriate at 31 March 2023 and in line with the requirements of IAS37.</p>

A. Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Key areas of management judgement

Management judgement

Accounting for the Trust's ongoing PFI arrangements

The method of accounting for PFI assets/liabilities is complex and this therefore raises the risk of misstatement

Our audit response and findings

We reviewed the Trust's adopted approach for accounting for its ongoing PFI assets and liabilities including reviewing any changes from prior years to the long term financial model used, and considered any changes to the schemes in year in order to conclude on the appropriateness of the accounting entries in the Financial Statements.

Overall findings

Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention.

Summary of uncorrected misstatements

There are no unadjusted errors to report

A. Further information on our audit of the financial statements

Internal control observations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to the Audit and Risk Committee any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action.

Follow up of previous internal control recommendations

We did not identify any internal control recommendations as part of our 2021/22 audit work, therefore no follow up required.

Description of deficiency

All leases recognised in the accounts should be supported by lease/tenancy agreements. One of our samples per our lease testing did not have a supporting lease agreement.

Potential effects

This makes valuation more subjective and increases the risk of differences of opinion with lessors regarding the terms of the lease.

Recommendation

The Trust should negotiate formal lease agreements for all the property leases that it holds and ensure that they are signed, with clear commencement and termination dates by 31 March 2024.

Management response

The Trust will continue to work with its landlords to ensure signed lease agreements are in place for all properties occupied in a timely manner, but notes that this presents some practical challenges that will need to be worked through to ensure that the Trust continues to benefit from the most advantageous terms possible.

A. Further information on our audit of the financial statements

Internal control observations (continued)

Description of deficiency

There is no documentation to show that the Trust carry out a year-end reconciliation between the ledger (Oracle) and the lease register.

Potential effects

The figures relating to leases in the accounts may be misstated or incomplete.

Recommendation

Ensure a reconciliation is performed between the lease register and ledger (Oracle) on at least an annual basis.

Management response

This is completed when charges for the new year are communicated. Going forward we will evidence this in the minutes at Capital Investment Group.

Description of deficiency

Our review of prior year comparators per the draft 2022/23 financial statements against the final 2021/22 financial statements published per the Trust's website identified a number of differences. From discussion with officers, we noted that the Trust had submitted the unaudited, draft version of the 2021/22 accounts to Parliament and published the same version to the website.

The differences between the two versions of the 2021/22 accounts were limited to classification amendments within the expenditure note, with no impact on the bottom line.

Potential effects

There may be material errors in the financial statements which the reader of the accounts may assume to be materially accurate.

Recommendation

Checks should be carried out to ensure that the final, audited versions of the financial statements is the version published to the Trust website and lay before Parliament.

Management response

A review of all entries in the annual report and accounts is completed by each department to minimise the risk of error and we will ensure this process has senior formal sign off going forward.

Gavin Barker, Director

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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.

*where permitted under applicable country laws.