



Auditor's Annual Report

Tees, Esk & Wear Valleys NHS Foundation Trust – year ended 31 March 2025

27 June 2025

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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 of Directors. 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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Introduction

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 2025. 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 National Health Service Act 2006 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 27 June 2025. Our opinion on the financial statements was unqualified.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 27 June 2025 we reported that the Trust’s consolidation schedules were consistent with the audited financial statements.



Value for Money arrangements

We did not identify any significant weaknesses in the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Trust’s arrangements.

Audit of the financial statements

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 Group and Trust and whether they give a true and fair view of the Group and Trust’s financial position as at 31 March 2025 and of its financial performance for the year then ended. Our audit report, issued on 27 June 2025 gave an unqualified opinion on the financial statements of the Group and Trust for the year ended 31 March 2025.

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.

Qualitative aspects of the Trust’s accounting practices

We have reviewed the Group and Trust’s accounting policies and disclosures and conclude that they comply with the DHSC Group Accounting Manual 2024/25, appropriately tailored to the Group and Trust’s circumstances. Draft accounts were received from the Trust by the deadline of 25 April 2025 and were of a good quality and supported by comprehensive working papers. The Trust produced good quality Group financial statements to very short timescales when it was identified that the Trust’s subsidiary, Positive Individual Proactive Support Limited (PIPS Ltd) needed to be consolidated into Group financial statements for the first time.

Significant difficulties during the audit

The production of Group financial statements and the audit of them for the first time presented a significant difficulty, as did the delay in receipt of the full Annual Report and Accounts until 11 June 2025, but we are pleased to report that we have had the full co-operation of management.

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.
Annual Governance Statement	We did not identify any matters where, in our opinion, the Governance Statement did not comply with the NHS Foundation Trust Annual Reporting Manual 2024/25. We also did not identify any matters where, in our opinion, the Governance Statement is misleading or is not consistent with our knowledge of the Trust and other information of which we are aware from our audit of the financial statements.
Remuneration and Staff Report	We report 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.

Our work on Value for Money arrangements

VFM arrangements

Overall Summary



VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether 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.

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 10.

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 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.

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	15	No	No	No
 Improving economy, efficiency and effectiveness	19	No	No	No

VFM arrangements

Financial Sustainability

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



VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

Significant weakness in 2023/24?	No
Significant weakness in 2024/25?	No

How the Trust ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

Integrated Care Systems (ICS) are the key unit for financial planning purposes, with the aim of encouraging greater collaboration and collective responsibility for financial performance. The Integrated Care Board (ICB) allocations for primary medical care services and running cost allocations remained broadly consistent with previous years, reflecting demographics of the serviced populations and broader economic factors.

The Trust worked collaboratively with North East and North Cumbria Integrated Care System (ICS), through the development of the financial plan for 2024/25, amending plans as necessary dependent on changes in systems wide plans and savings requirements. The Trust’s initial draft submission of its 2024/25 financial plan was a £427k deficit. In June 2024 an updated submission was made following a national exercise, and in this submission the Trust was able to submit a plan to achieve break-even for the 2024/25 financial year.

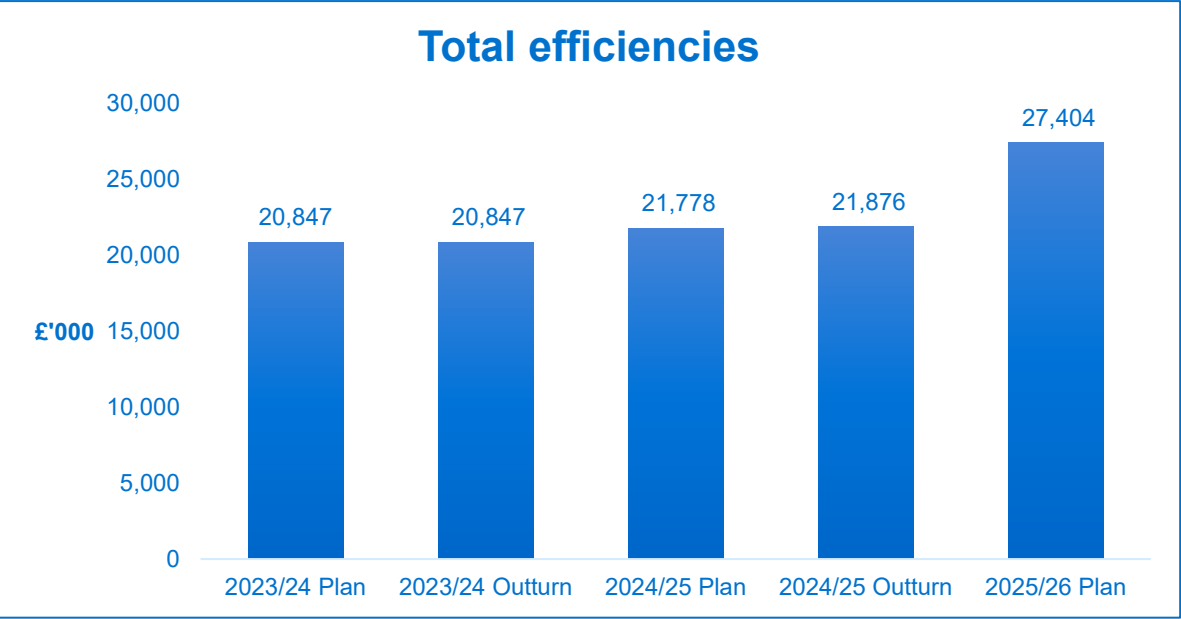
The Trust remained on track and delivered its planned 2024/25 break-even position, reporting a £37k surplus for 2024/25 (after technical adjustments), meaning that the Trust achieved its financial objectives.

How the Trust plans to bridge its funding gaps and identifies achievable savings

In 2024/25 the Trust was required to deliver Cash Releasing Efficiency Savings (CRES) of £21.778m. The Trust planned to achieve £6.055m of non-recurrent savings and over achieved that level to mitigate £1.6m slippage in the year. However, including the full year effects of 2024/25 efficiencies meant that recurrent planned savings were achieved in full. The variance reported to NHSE at month 12 was £0.098m ahead of plan.

Whilst the Trust has a track record of delivering the value of required savings, it places reliance, similarly to other NHS bodies, on non-recurrent measures to deliver financial balance.

The Trust recognises the financial risks in delivering the required efficiencies, and also that the over-reliance on non-recurrent measures is not sustainable in the long-term because it compounds pressure on future financial years. However, whilst the position in the sector remains challenging, the Trust has a good record of delivering on its efficiency targets, evidently in 2024/25 as well as 2023/24.



Despite this, the ever increasing need for identifying efficiencies in what is a challenging financial environment would require careful monitoring and planning throughout 2025/26.

Based on our review of Board and Committee papers and discussions with management, the Trust continues to manage the challenging financial position effectively.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability (continued)

Our review of Board and committee reports, meetings with management and relevant work performed on the financial statements, has confirmed the Trust's arrangements for budget monitoring are consistent with prior years, and remain appropriate to manage the Trust. There is 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, with operational performance being 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. Specifically, the Integrated Performance Reports brought together financial and operational performance.

How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The financial plans are recommended by the Trust Executive to the Board, or Resources and Planning Committee under delegated responsibility from Board, depending on the timing of national plan submission deadlines to support plan approval in line with NHSE timetabled deadlines. Business planning priorities are coordinated through Care Groups. Capital plans receive sign off at Care Board and Executive level before being recommended to the Board (or Resources and Planning Committee on the Board's behalf), which are supported by existing cash balances and income transactions. The Trust has a positive cash balance, with an actual cash balance of £51.37m as at 31 March 2025. This was £6.99m higher than planned due to lower than anticipated capital spend and higher capital creditors due to higher expenditure in the final two months of the year, with a lag in impact on cash flows.

The Trust's initial draft submission of its 2025/26 financial plan was a £7.5m deficit in February 2025. In March 2025 the final submission was made following a national exercise where a break-even position was achieved and agreed.

The Trust Board met on 20 March 2025 to consider and approve the draft financial plan which was due to be submitted to the NENC ICB on 21 March 2025 and to NHSE on 27 March 2025. At that point, the Trust needed to close a residual deficit of £1.85m and the Trust Board agreed that additional (yet to be identified) CRES of an equivalent value should be targeted to deliver a break-even plan. £1.26m additional ICB income was confirmed after agreement by the Board and before the national plan submission on 27 March 2025 allowing a reduction in the unidentified CRES to £0.6m at that point

How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

We have reviewed the Trust's overall governance framework, including Board and committee reports, the Annual Governance Statement, and Annual Report and Accounts for 2024/25 and these confirm the Trust Board undertook its responsibility to define its strategic aims and objectives, approve budgets and monitor financial performance against budgets and plans to best meet the needs of the Trust's service users.

How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

We have reviewed the Trust's submitted 2025/26 financial plan assumptions and underlying uncertainties. Those include impacts of nationally negotiated pay awards during 2025/26, the auto enrolment of staff into NHS pensions and the proposals from HM Treasury to revise asset valuation policy.

VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability (continued)

From our review of the financial plan submission, we noted that the Trust set out the risks and mitigations which were reviewed as part of the plan. The Trusts monitors and updates those each month (new risks and opportunities). As 81% of the Trust's expenditure is pay, we understand that the risk of expenditure volatility tends to be centred on a small number of 'hot spots' including ward rostering (linked to high bed occupancy) and medical locum premia rates.

As current run rates for expenditure are the basis for forecasting and planning, exit run rates are reflected in planning assumptions meaning current demand and expenditure levels are reflected in forward plans to restrict risk.

Other areas considered - Group performance

Positive Individual Personalised Support Ltd (PIPS Ltd) is a subsidiary of the Trust, which was consolidated into Group financial statements for the first time in 2024/25, as its income and expenditure were just above the overall materiality level for the Trust. PIPS Ltd made a small profit of £178k in 2024/25, and recorded income and expenditure of circa £13m, compared to the Trust's gross expenditure of £556m.

PIPS Ltd is now covered in the Trust's Annual Report and Accounts including the financial performance for the Group. Going forward, the Trust will have to consider the relevant impact of PIPS Ltd's financial performance on measures such as financial outturn for the year, as well as agency spend, and ensure that financial measures and overall targets are aligned.

We note that it is too late for the Trust to update its 2025/26 financial plan submission, but there are ongoing conversations around potential impacts going forward. Given the small relative size of the subsidiary, any impacts are marginal.

Overall, we have not identified any indicators of a significant weakness in the Trust's arrangements relating to the Financial Sustainability criteria.

VFM arrangements

Governance

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



VFM arrangements – Governance

Overall commentary on Governance

Significant weakness in 2023/24?	No
Significant weakness in 2024/25?	No

How the Trust monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Trust has a well-developed risk management process and Board Assurance Framework (BAF) across the Trust and individual services, with the Audit and Risk Committee and Board overseeing the process and strategic risks. Our review of the BAF, and attendance at Audit and Risk Committee confirms that the BAF and risk register is sufficiently detailed to effectively manage key risks. The Trust routinely produces a wide variety of reports such as Integrated Performance Dashboards, which align key performance metrics with the BAF risks. Internal Audit also provided a report into BAF and risk management arrangements which reported substantial assurance.

From our attendance at the Audit and Risk Committee, we are aware that it receives reports from Internal Audit that provide substantial assurance over the governance of financial processes and reporting and broader systems of control.

The Trust Committee structure includes the Audit and Risk Committee, with membership comprising of Non-Executive Directors. Other Executive Directors, Internal Auditors and Counter Fraud representatives attend each Committee. 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.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Trust has appointed Audit One as internal auditors and local counter fraud specialists. We confirmed a comprehensive Internal Audit Plan was developed for the 2024/25 financial year, noting that the planned work appeared appropriate and reasonable. The Plan was presented to, and agreed by, the Audit and Risk 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, and noted a consistently decreasing trend in overdue and outstanding recommendations highlighted in internal auditor reporting.

Furthermore, the Head of Internal Audit Opinion for 2024/25 stated: *‘From my review of your systems of internal control, I am providing good assurance that there is a sound system of internal control, governance and risk management designed to meet the organisation’s objectives. Controls are generally being applied consistently.’* No matters were noted to indicate a significant weakness in the internal control environment.

The Counter Fraud team at Audit One 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 2024/25.

In our audit work this year, we made a number of recommendations to improve internal controls in specific areas. These are detailed in the Appendix to this report. None of those were significant.

We note two events since the financial year end; the departure of the Trust’s Chief Executive to take up a new position elsewhere and resignation of the Chair of the Board for personal reasons. The Trust has interim arrangements in place, whilst recruitment is ongoing. At this stage, we have not been made aware of, or noted any significant changes to existing processes.

How the Trust approaches and carries out its annual budget setting process

As described more fully in the commentary on financial sustainability, there is an effective process for budget setting, monitoring and control, and for 2024/25 the Trust met its main financial objectives. 2025/26 financial plans have also been submitted to achieve an overall break-even position.

VFM arrangements – Governance

Overall commentary on Governance (continued)

How the Trust ensures effective processes and systems are in place to: ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information where appropriate); support its statutory financial reporting requirements; and ensure corrective action is taken where needed

Based on our work, and review of associated policies and procedures, we are satisfied that the Trust has established governance arrangements in place, and that these remain consistent with previous years. These are detailed in the Annual Report and Annual Governance Statement. We have considered both documents against our understanding of the Trust as part of our audit.

How the Trust ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency: this includes arrangements for effective challenge from the audit committee

The Trust's Annual Report and Annual Governance Statement clearly sets out the governance and risk management framework in place at the Trust and how oversight is exercised by both the Board and its sub-committees.

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.

Our review of the Trust's Annual Report and Governance Structure confirms that the Board of Directors carries the final overall corporate accountability for its strategies, its policies and actions as set out in the Codes of Conduct and Accountability issued by the Secretary of State. To discharge its responsibilities for the governance of the Trust, the Board has established a number of sub-committees of the Board. We consider the committee structure of the Trust is sufficient to provide assurance that decision making, risk and performance management is subject to appropriate levels of oversight and challenge.

Minutes are published and reviewed by the Trust Board to evidence the matters discussed, challenge and decisions made. To support discussions, the Trust makes use of a template covering report for all Board Reports, ensuring the purpose, proposal, overview, prior consideration and feedback, implications and recommendations are clear, and demonstrate alignment with key strategic risks (BAF). Minutes are prepared and agreed for all committee meetings and are reviewed by the Board, to evidence the matters discussed, challenge and decisions made. This is complemented by alert, assurance and advice reports presented by Non-Executive Director (NED) committee chairs to each subsequent Board meeting.

How the Trust monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour

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.

VFM arrangements – Governance

Overall commentary on Governance (continued)

Other areas considered - PIPS Ltd

Following on from our audit review of the Trust's subsidiary, PIPS Ltd) against the audit materiality threshold, it was concluded that the Trust needed to consolidate the subsidiary into Group financial statements, which also affects the commentary in the Trust's Annual Report and related disclosures. From our review of the Annual Report, we note that PIPS Ltd has an overall mission, strategy and business model which is described as “closely aligned with those of the Trust and its “Our Journey to Change” strategic objectives and values.”

Oversight of PIPS Ltd has always been included in the existing governance structure with matters relating to PIPS Ltd falling within the remit of the Resources and Planning Committee. It is important that the Trust reviews its current arrangements to ensure any matters which the Trust needs to consider at a Group level going forward, are considered as part of those committee meetings, or through alternative arrangements.

Overall, we have not identified any indicators of a significant weakness in the Trust’s arrangements relating to the Governance criteria.

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



VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

Significant weakness in 2023/24?	No
Significant weakness in 2024/25?	No

How financial and performance information has been used to assess performance to identify areas for improvement, and evaluates its services

The Trust continues to have performance management systems in place, detailing how operational, performance and financial issues are identified and acted upon to improve performance or address issues.

Financial and non-financial performance information is used to assess performance and to identify areas for improvement within the Trust’s Integrated Performance Approach (IPA) via an Integrated Performance Report (IPR). During 2024/25, the Trust launched two committee level dashboards, automated via the IIC data warehouse, People and culture (April 2024) and quality dashboard (January 2025) with the aim to provide oversight and assurance through the Board sub-committee.

The Integrated Performance Approach includes quality, workforce, activity and financial measures which is used to assess performance and identify areas for improvement. There is a monthly Integrated Performance Report at Trust and Care Group level which includes an Integrated Performance Dashboard (IPD) as well as other key performance information (e.g. Waiting Times, National Quality Standards and the Oversight Framework). Care Group level reports are considered by each Care Group Board, with reporting monthly from each Care Group into EDG.

Based on our review of the evidence, the Trust has effective arrangements in place that would highlight any issues that need to be addressed.

The Trust’s governance arrangements are designed to provide a clear evidence-based and up-to-date assessment of its financial and operational performance, so it can identify any issues and areas for improvement promptly, take whatever remedial action is needed and then evidence the improvement.

Our review of Trust Board and committee reports and minutes confirms that performance is summarised in a format which shows performance against target and over time. Board members are also able to analyse and review the information from these reports with the assurance summaries from supporting committees, where committee chairs draw attention to assurances provided or matters escalated for the full Board’s attention.

We also consider that the reports provide sufficient detail to allow understanding of performance, and the published minutes demonstrate sufficient challenge on the Trust’s costs, performance and service delivery. In our view, the Trust’s reports are adequately laid out and sufficiently detailed to monitor performance and take corrective action where required, which may include updating the Board Assurance Framework.

The most recent Care Quality Commission (CQC) trust-wide inspection was published in October 2023. The CQC report remained as ‘Requires Improvement’ overall, but it did recognise the progress that the Trust had made. Seven out of the Trust’s eleven services are assessed as Good and four services are assessed as ‘Requires Improvement’. This was an improvement from the previous inspection in 2021. All services were rated ‘good’ for caring and nine out of 11 services were rated ‘good’ or ‘outstanding’ for effective in the latest assessment.

We noted that the CQC had performed an unannounced assessment. The most recent inspection was of mental health crisis services and health-based places of safety Trust wide. The report was published in February 2025 and the speciality rated as ‘Good’ overall with rating of good for safe, effective, caring, and responsive and, ‘requires improvement’ for well-led.

The Trust has a CQC improvement plan, where from the February 2025 Board update, we noted a “good” control assurance rating being given, and we noted an internal audit report into CQC action plan embeddedness reported a substantial assurance rating. The Trust’s “Our Journey to Change” is providing direction for the Trust on commitments for continuous improvement.

PIPS Ltd’s latest inspection was published in May 2024, with an overall rating of ‘requires improvement’ which has been disclosed in the Trust’s Annual Report.

VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness (continued)

How the Trust ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The increasing move away from the more service focused internal market towards a greater level of integration of services across the health and social care sector, continues to be reflected in how the Trust works with partner organisations across the ICSs, planning the delivery of services to achieve a sustainable financial position for the Trust and the two wider ICS areas of North East and North Cumbria and Humber and North Yorkshire. This is intended, when combined with effective internal financial planning, to assist in ensuring the Trust's own financial sustainability.

In addition to ongoing engagement with Integrated Care Boards (ICBs) and local authorities, the Trust has strategic partnerships with ICBs in both North East and North Cumbria, and Humber and North Yorkshire, working collaboratively with NHS England and with Cumbria, Northumberland Tyne and Wear (CNTW) and others in Provider Collaboratives for specialist services, and develops new services for people with Learning Disabilities.

We have also seen evidence of benchmarking exercises that the Trust performs. For instance, based on the national cost exercise published by NHS England, TEWV has a unit cost index of 79 (80 and 90 in prior year national cost collections) which we note benchmarks extremely favourably when compared to peers, being 21 index points below the national average.

Where the Trust commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Trust uses the services of County Durham and Darlington NHS Foundation Trust for its procurement processes. There are set processes in place to ensure compliance with the relevant Acts.

Procurement procedures are in place for all third-party commissioned services. Procured services have a contract or SLA agreement which details required service delivery specifications and performance measures to be monitored throughout the delivery of the contract term.

Financial spend is monitored via the Purchasing system which is arranged in accordance with the contractual agreement, and any spend is approved by an allocated Trust service lead, with delegated limits and set out in the Trusts SFI's and scheme of delegation.

All procured services are required to have an operational Trust service manager to be the day-to-day contact for any delivery queries.

Procurement activities over public contracts regulations (PCR) 2015 thresholds now include mandatory social value and net zero considerations where the Trust is looking to improve its sustainability reporting.

Overall, we have not identified any indicators of a significant weakness in the Trust's arrangements relating to the Improving Economy, Efficiency and Effectiveness criteria.

Other reporting responsibilities

Other reporting responsibilities

Wider reporting responsibilities

Public interest reports

Auditors 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 make a report in the public interest during 2024/25.

Schedule 10 referrals

Under Schedule 10 of the National Health Service Act 2006, auditors of a Foundation Trust 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 reported to the relevant NHS regulatory body.

We have not reported any such matters.

Reporting to the group auditor

Whole of Government Accounts (WGA)

The Trust is consolidated into Consolidated NHS Provider Account which is then consolidated into the Department of Health and Social Care (DHSC) group. The National Audit Office (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 did not include the Trust in its initial 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.

We cannot formally conclude the audit and issue an audit certificate until we have received confirmation from the NAO that the group audit of the Department of Health and Social Care has been completed and that no further work is required to be completed by us.

Appendices

A: Further information on our audit of the financial statements

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
Management override of controls (Group and Trust) Description of the risk This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. 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.	How we addressed this risk We addressed this risk through our substantive procedures including: • making enquiries of senior officers involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; • recording the Trust's financial reporting processes and controls over journal entries and other adjustments, and performing a walkthrough of such controls; • determining risk-based fraud characteristics for journals and testing such journals; • critically reviewing accounting estimates and the judgements and decisions made by management in arriving at estimates to ensure there has been no manipulation of results; • considering any significant transactions outside the normal course of business; and • critically reviewing the selection and application of accounting policies. Audit conclusion We have obtained the assurance sought, with no significant issues arising that we are required to report to you.

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings (continued)

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
Risk of fraud in revenue recognition: focus on cut-off (Group & Trust) Description of the risk 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.	How we addressed this risk We addressed this risk through our substantive procedures including: • 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 a sample of revenue around the year end by agreeing the transactions to appropriate source documentation and obtaining assurance that each item is recorded in the correct financial year and at the correct value; • testing material year end receivables by agreeing the transactions to appropriate source documentation and obtaining assurance that each item is 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. We will identify any significant differences between the Trust's position and that of the counterparty and obtain assurance that the Trust's position is supported by appropriate evidence. Audit conclusion We have obtained the assurance sought, with no significant issues arising that we are required to report to you.

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings (continued)

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
Valuation of Land and Buildings (Trust only) Description of the risk 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.	How we addressed this risk We addressed this risk by: • 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 an ‘alternative-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 are presented and disclosed in the financial statements; and • using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2025. Audit conclusion We have obtained the assurance sought, with no significant issues arising that we are required to report to you.

Appendix A: Further information on our audit of the financial statements

Summary of uncorrected misstatements – Group and Trust

There are no uncorrected misstatements to be reported to you.

Appendix A: Further information on our audit of the financial statements

Internal control observations

Other deficiencies in internal control

A deficiency in internal control exists if:

- a control is designed, implemented, or operated in such a way that it is unable to prevent, detect, and/ or correct potential misstatements in the financial statements; or
- a control that is necessary to prevent, detect, and/ or correct misstatements in the financial statements on a timely basis is missing.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit, we have considered the Trust’s internal controls relevant to the preparation of the financial statements 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 the Trust’s internal controls or to identify any significant deficiencies in their design or operation.

The matters reported in this appendix are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and which 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 report or concluded that some of the reported deficiencies need not in fact have been reported. Our comments in Appendix A should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

This appendix sets out the internal control observations that we have identified as at the date of this report. These control observations are not, in our view, significant control deficiencies but have been reported to management directly and are included in this report for your information. In our view, there is a need to address the deficiencies in internal control set out in this section to strengthen internal control or enhance business efficiency. Our recommendations should be actioned by management in the near future.

Other deficiencies in internal control

Preparation of the Annual Report and Accounts

Description of deficiency

Management have responsibility for the preparation of the Annual Report and Accounts in line with the relevant accounting standards and guidance. We identified one material subsidiary which resulted in the late preparation of Group accounts.

Any delays in the provision of the Annual Report also mean we are unable to begin our audit work and report on findings at the Audit and Risk Committee.

Potential effects

Non-compliance with the accounting standards and incomplete/ inaccurate disclosures in the Annual Report and Accounts, which can impact on the Trust’s ability to submit the audited Annual Report and Accounts in line with required timelines.

Recommendation

Management to review and monitor the level of activity of any related entities.

The Trust should ensure that, as part of its preparation for the audit, all appropriate departments and wider management of the Trust input in a timely manner.

Management response

The Trust will closely monitor the financial statements of related parties, but it is unlikely any other related entities will become material due to dormant status presently. We propose the Trust and Mazars have more detailed discussions on this issue as part of existing annual arrangements through which pre-accounts briefings are diarised.

Executives have agreed that the Trust should review processes for coordinating content for the annual report, to bring forward drafting of content that is not dependent on ‘outturn’ related content. The Trust secretary is working with Executives to review and agree options.

Appendix A: Further information on our audit of the financial statements

Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

Authorisation controls over manual journals

Description of deficiency

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.

We found that there were no authorisation controls over journal entries posted in our sample. When this was raised with management, they explained that a general review of journals processed is performed, however we found that this control was not implemented consistently, and it was not always documented clearly. We would expect that management have authorisation controls over the posting of manual journals alongside other general financial controls.

Potential effects

Inadequate system of authorisation and approval of journals posted increases the risk of material misstatements and fraud to the financial statements. Segregation of duties is an essential internal control in any organisation designed to prevent fraud and error.

Recommendation

- Management should ensure that its review of journals processed is implemented consistently and clearly documented.
- We recommend that management introduce authorisation controls over manual journals, including a full audit trail of the authorisation process. This could be done manually, or management can alternatively explore Oracle’s functionalities for ensuring appropriate authorisation of journals posted.

Management response

All manual journals are reviewed by management prior to being posted, achieving an appropriate segregation of functions and including a technical review, however we acknowledge that this can not be evidenced currently e.g. via electronic signature on the reviewed posting control log. Our posting controls restrict which colleagues are able to post journals. We agree that the posting log for manual journals will include an approval column to respond to this finding.

Current year update

As part of our journal entry testing, we perform checks to note whether journals are created and posted by separate users. We were provided with a journals log which demonstrates a segregation of duties between those who create journals, and those who post journals. We identified no issues with the journals sampled.

This matter is now closed.

Appendix A: Further information on our audit of the financial statements

Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

Review of the Fixed Asset Register

Description of deficiency

We had noted that a number of assets had nil Net Book Value(NBV) on the fixed asset register, including buildings, IT and other equipment, some of which were no longer in use, but were still on the asset register. We also noted that not all assets on the asset register have asset numbers.

Potential effects

- Although the nil NBV assets have no financial impact on the financial statements, some of those assets may still be in use and therefore have some value. In this case, it could suggest that the Trust needs to review its accounting policy over the Useful Economic Lives (UEL) of its assets which affects valuation.
- Lack of asset numbers affects the verification of the existence of those assets and, also the Trust’s management of those which could result in potential misappropriation, although not materially as the majority of the Trust’s PPE is land and buildings.

Recommendation

- Review of the nil NBV assets to ensure where those are no longer in use, are being disposed off and removed from the asset register, or where those are in use, management could perform a re-living exercise to update the useful economic life of those assets.
- Management should ensure that their accounting policy is appropriate in light of the results from their review of the FAR.
- Management should consider how they get assurance over the assets that they have which have no asset numbers against what is included in their FAR.

Management response

We agree in respect of nil NBV assets and this was an oversight in the 2023/24 financial year. In respect of asset numbers, we have advised audit colleagues that the Trust has already acted to implement centralised asset recording processes, however this was implemented circa 3 years ago, meaning that legacy assets are out of scope (until the end of their useful lives). It would be impossible to apply to all historic assets but by implementing these processes in prior financial years we have responded to this request.

Current year update

From our review of the FAR, we note that a number of assets have a nil NBV at the 31 March 2025. Some of those related to land and buildings, where the property was either sold, or demolished. There were also a number of IT/ equipment assets which remained at nil value, and as such, management are still working through the tidy up of the FAR.

Updated Management response

FAR to be updated following completion of the audit to remove nil value assets. All buildings that have a nil NBV are no longer owned by the Group, there is no risk of misstatement in the accounts. We propose extending our end of year accounts checklist to incorporate this action.

Appendix A: Further information on our audit of the financial statements

Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

General Creditor Provision

Description of deficiency

Recognition of a provision of qualifying expenditure which covers invoices received after the year end closure that are not accrued elsewhere, for £1.24m.

Potential effects

Although immaterial for audit purposes, this results in potentially over-stated liabilities and an inaccurate year-end financial position against targets.

Recommendation

- We advise management to review the method of accounting for invoices received after the year end and how this provision is accounted for.
- We suggest that management to start collating data on the number/ value of invoices so any potential estimated liabilities as such are backed up by historic data.

Management response

We have discussed this with audit colleagues and do not believe this over-states liabilities. We understand that Mazars have seen general creditors incorporated as accruals in other audits of NHS accounts. We will consider this for next financial year, however believe the uncertain source and individual values of late billing charges mean a provision is more appropriate at the current time. This would not change liabilities, but potentially, reclassify as accruals.

Current year update

The Trust has released this provision and created an accrual estimate at the year end for the amount of £794k, which is an estimate based on the information available to them, being a more reasonable approach, albeit this accrual was not selected as part of our accruals sample for detailed review.

This matter is now closed.

Appendix A: Further information on our audit of the financial statements

Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

Lease agreements

Description of deficiency

All leases recognised in the accounts should be supported by lease/tenancy agreements.

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.

Management response

Management have explained that whilst they agree in principle on this, onerous NHS Property services terms mean this would be disadvantageous to the Trust commercially, including because those sites are generally ones the Trust is seeking to exit (more expensive and/or much lower quality).

Current year update

The two items we sampled for audit testing in 2024/25 did not have lease agreements. This makes valuation more subjective and increases the risk of differences of opinion with lessors regarding the terms of the lease. 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.U

Updated Management response

The Trust continues to negotiate with providers to reach agreement on revised lease documents, but will not sign up to onerous terms that tie the Trust into financially or commercially disadvantageous terms / periods.

Appendix A: Further information on our audit of the financial statements

Follow up on previous internal control points

We set out below an update on internal control points raised in prior periods.

Payroll

Description of deficiency

We performed a substantive test of detail of payroll costs, where we requested employment contracts to be provided as supporting information. For 17 out of the 27 staff sampled, management was unable to provide copies of the individual employment contracts.

Potential effects

Disputes over individual terms and conditions of employment.

Recommendation

We recommend that management keep an up-to-date HR record of all employment contracts (signed) / any other alternative evidence for terms of the contracts.

Management response

We have advised that Trust processes require the recruitment team to retain an (unsigned) copy of contracts of employment for new employees of the Trust, with a signed copy being placed by the individual's manager in their personal file (retained locally by line managers). However, where staff move internally (into a new/different role as an internal applicant) they do not receive another contract of employment as the change effected on ESR acts as/evidences the updated 'change' in terms. Those changes need to be approved by the individual's line manager to take effect.

Current year update

We note a similar observation. Out of a sample of 27 items, only 7 contracts were made available.

Updated Management response

We have advised that Trust processes require the recruitment team to retain an (unsigned) copy of contracts of employment for new employees of the Trust (only), with a signed copy being placed by the individual's manager in their personal file (retained locally by line managers). Where staff move internally (into a new/different role as an internal applicant) they do not receive another contract of employment as the change effected on ESR acts as/evidences the updated 'change' in terms. Those changes need to be approved by the individual's line manager to take effect and this serves as other alternative evidence, with a system audit trail. The Audit and Risk Committee has agreed that the People, Culture and Diversity Committee should seek assurance into the appropriateness of these arrangements during 2025/26.

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