

# Auditor's Annual Report

Southport and Ormskirk Hospital NHS  
Trust – year ended 31 March 2023.

October 2023



# Contents

**01** Introduction

**02** Audit of the financial statements

**03** Commentary on VFM arrangements

**04** Other reporting responsibilities

## **Appendix**

A. Further information on our audit of the financial statements

# 01

## 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 Southport and Ormskirk Hospital NHS Trust ('the Trust') for the year ended 31 March. 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 18<sup>th</sup> October 2023. Our opinion on the financial statements was unqualified.



### Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 18<sup>th</sup> October 2023 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.



### Value for Money arrangements

In our audit report issued we reported that we had completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Trust's arrangements.

# 02

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 18<sup>th</sup> October 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.

## Qualitative aspects of the Trust's accounting practices

We have reviewed the Trust's accounting policies and disclosures and concluded they comply with Department of Health and Social Care Group Accounting Manual 2022/23, appropriately tailored to the Trust circumstances.

Draft accounts were received from the Trust on 27<sup>th</sup> April and were of a good quality.

The draft annual report was received on 16<sup>th</sup> May 2023.

## Significant difficulties during the audit

During the course of our audit we had the full cooperation of management.

The delay in issuing our audit opinion was due to our review of the original classification of the Trust's backlog maintenance prepayment as Property, Plant and Equipment under the heading Assets Under Construction.

Reporting responsibility	Outcome
Annual Report	We did not identify 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 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.

# 03

Section 03:

**Our work on Value for Money  
arrangements**

# 3. VFM arrangements

## Overall Summary





# 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?
 <b>Financial sustainability</b>	10	Yes but no new matters arising in 22/23.	No	No
 <b>Governance</b>	14	Yes – see risk 2 on page 15	No	Yes – see page 15
 <b>Improving economy, efficiency and effectiveness</b>	18	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

## Risks of significant weaknesses in arrangements in relation to Financial Sustainability

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>1</p> <p><b>Financial Sustainability</b>            We have previously reported a significant weakness in the Trust's arrangements in respect of financial sustainability. The Trust has reported a growing deficit position for a number of years which is largely a result of growing pressures following the COVID-19 pandemic. In 2020/21 the original NHS Planning Guidance 2020/21 was suspended, and a new financial regime was implemented which continued into 21/22.</p> <p>Over the course of the year and into 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system. This has facilitated the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position in 2021/22, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for 2022/23 supports the transition back to local agreement of contracts, and requires systems to achieve a break even position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.</p>	<p><b>Work undertaken</b>            We have:</p> <ul style="list-style-type: none"> <li>• reviewed the Trusts financial results. Southport and Ormskirk Hospital NHS Trust delivered their 22/23 planned deficit of £14.73mil, they also achieved their savings target of £7.8mi.</li> <li>• held detailed discussions with management on the arrangements in place for the transaction with St Helens and Knowsley NHS Trust as we understand this to be a significant part of the Trust's recovery and long-term financial sustainability plan.</li> <li>• reviewed the financial plan and monthly budget reporting for the first three months of 23/24, pre merger. Management have a clear cost improvement plan in place to target identified savings and are addressing the recurring deficit position.</li> </ul> <p>The Trust have set a balanced budget for 23/24 which has been agreed and is part of the transaction business case. The significant improvement in the Trusts financial position is reflective of the strong arrangements that they have put in place.</p> <p><b>Results of our work</b>            We are satisfied that the Trust has appropriate arrangements in place to address the risk to financial sustainability.</p>

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria

### Background to the NHS financing regime in 2022/23

During the course of the year, and into 2023/24, the focus of the NHS funding regime has shifted away from responding to the immediate challenges caused by COVID-19 to supporting recovery across the healthcare system. This has facilitated the need for collaborative working between commissioners and service providers, as local systems were expected to work together to deliver a balanced financial position in 2022/23, with additional funding available for those systems exceeding target activity levels through the Elective Recovery Fund. The planning guidance for 2022/23 supports the transition back to local agreement of contracts and requires systems to achieve a break even position each year. This will necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

### 2022/23 financial performance

We have undertaken a high level analysis of the financial statements, including the Statement of Comprehensive Income, the Statement of Financial Position and the Statement of Changes in Equity.

The Trust has reported a deficit for the year from continuing operations of £13.2m, compared with a gain of £4.2m in the 2021/22 year. The deterioration in the financial performance is driven in part as a result of ongoing inflationary pressures and operating expenses increasing. Having said this, the Trust delivered their planned deficit and met their savings targets for the year of £10.8mil.

The Statement of Financial Position shows an improved position with total net assets of £118.2m at 31 March 2023 (£95.4m at 31 March 2022). This reflects an increase in property, plant and equipment of £34.9m and the recognition of £9.9m of “right of use assets” for the first time following the implementation of IFRS 16 from 1 April 2022. Other liabilities have also increased by £10m as at 31 March 2023 due to income received in advance of the year end from Cheshire and Mersey ICB as part of the transaction support but being deferred into 23/24. Total taxpayer’s equity for the Trust stood at £118.2m as at 31 March 2023 (£95.4m 31 March 2022). The increase has primarily been due to the increase in receipt of of public dividend capital (PDC).

The Trust received significant capital funding in the form of PDC payments in 23/24, totalling £26mil, to support the backlog maintenance work. The Trust are not accustomed to receiving this amount of funding and is a real benefit to supporting them in their delivery of services, this funding has been an important part of the transaction business case.

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

The Trust continues to hold monthly budget meetings between the finance team and budget holders to identify any budgetary issues and risks. Any issues arising are then escalated into monthly governance meetings and reported to executive team through the Performance, Improvement and Delivery Assurance board meetings (PIDA).

PIDA meetings will also highlight any potential risk around CIP programme. The risk section of monthly finance report to Finance, Performance & Investment (FPI) Committee identifies the key issues including any new and emerging risks to the delivery of savings plans. Monthly reports to the Executive Management Team and FPI Committee include an updated assessment of deliverability of the overall financial plan. Recovery action plans are then identified where possible.

The Trust also had a number of efficiency groups that met throughout 2022/23 to discuss, at the CBU level, the overall financial performance, in addition to the CIP position and the current progress of the identified savings schemes. These groups were also supported by the Corporate Efficiency Group which met monthly to receive the current CIP position report and to discuss the action tracker and scheme development updates. We have reviewed agendas and reports from 2022/23 and confirm they contain sufficient detail and enable risks to delivery to be identified and potential ideas in relation to CIP schemes to be discussed and explored.

The Use of Resources Programme Board also met during 2022/23 to provide further scrutiny at a higher level of the CIP position and targets and to allow consideration of identified opportunities. We have reviewed agendas and reports of the meetings held in 2022/23 and identified that progress of the CIP position is monitored at the sub-division level and they are BRAG (blue, red amber, green) rated to enable clarity of progress. The Board then receive a detailed breakdown of all schemes in each subdivision and their performance to date.

With effect from September 2021, the Trust has been part of a long-term Collaboration Agreement with St. Helens and Knowsley NHS Foundation Trust. This arrangement and the transaction of merging the two Trusts in July 2023 is intended to support the Trust towards a long-term sustainable position within the local healthcare 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 2022/23. These confirm the Trust Board undertook its responsibility to define the 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.

# 3. VFM arrangements – Financial Sustainability

## Overall commentary on the Financial Sustainability reporting criteria - continued

The Trust submitted their 22/23 financial plan in line with NHS requirements in April 2022, a revised plan was submitted in June 2022 and showed a deficit position of £14.1mil and identified savings of £7.8mil with an additional stretch target of £3mil.

Before the COVID-19 pandemic the Trust had a history of reporting a deficit position for each financial year since 2014/15. However small deficits were reported in 2020/21 and 2021/22 due to the increase in funding as a result of the pandemic and the block contract arrangements. The underlying financial pressures faced by the Trust were not addressed.

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

The Trust has a unique year ahead in 2023/24 as the transaction with STHK occurred in July 2023. The original plan submitted in April 2023 was amended following the delay of the transaction. The Trust has actively engaged with its ICS partners and the annual planning and budget setting exercise includes the identification and quantification of financial and operational risks. Financial plans are considered at various committees in the Trust including the Strategy and Operations Committee and the Finance, Performance and Investment Committee before receiving Board approval. We reviewed the committee and Board papers supporting the submission of the 2023/24 financial plan and have discussed these with management.

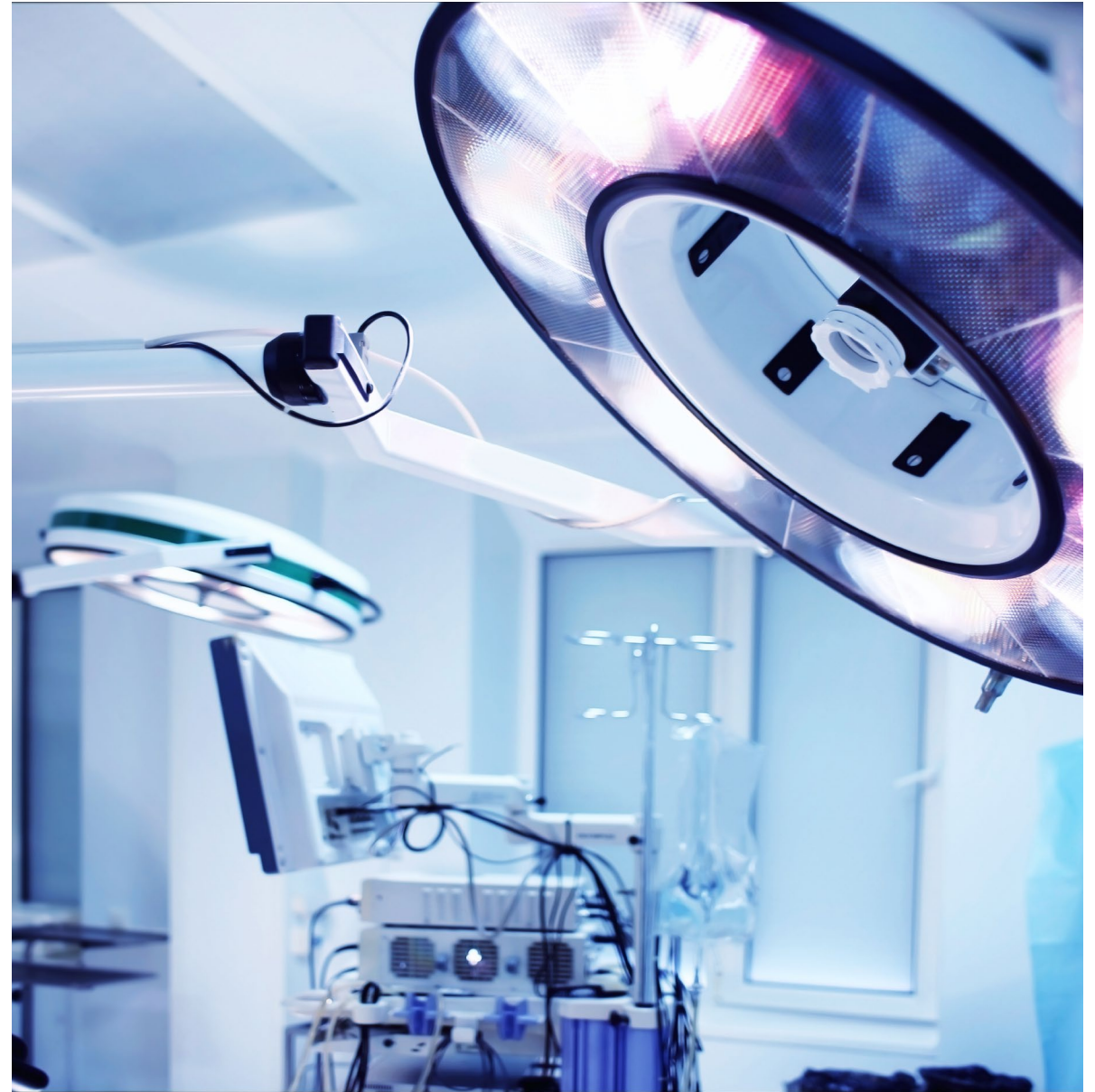
The Trust's submission to the ICS in April 2023 was for a breakeven position after the receipt of additional capital and revenue allocations which are consistent with the transaction business case. The Trust has set a CIP target of £11.6mil (4%) and have a good record of achieving these in recent years. As at the month three reporting, the Trust were at a £2mil deficit position. This was in line with their updated 23/24 plan which set out a pre-transaction deficit position and surplus for the last nine months of the year as a result of the significant transaction savings. The updated submission still reported the overall position for the Trust in the year of delivering a balanced breakeven position. The Trust continues to devote significant resources to deliver financial sustainability and the transaction with STHK is a significant step in them achieving long term financial sustainability.

**Based on the work undertaken, we are satisfied that the Trust have appropriate arrangements in place to address the significant weakness we have raised previously in 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 risk of significant weaknesses in arrangements that we have identified as part of our continuous planning procedures, and the work undertaken to respond to this. We have also highlighted an additional recommendation that does not constitute a significant weakness but would improve the Trusts arrangements.

Risk of significant weakness in arrangements	Work undertaken and the results of our work
<p>1</p> <p><b>Governance arrangement for backlog maintenance</b></p> <p>The Trust received a significant amount of money prior to the year end to fund backlog maintenance work across both the Southport and Ormskirk sites.</p> <p>Due to the significant amounts involved, and the timeframe involved, we identified a risk of significant weakness in respect of the Trusts governance arrangements in obtaining a contractor through the appropriate procurement procedures.</p>	<p><b>Work undertaken</b></p> <p>We have:</p> <ul style="list-style-type: none"> <li>• reviewed the Trusts scheme of delegation to understand the approvals that were required for a contract of this size.</li> <li>• held detailed discussions with management on the submission of the contract through the relevant framework to obtain an appropriate supplier.</li> <li>• understood that the Trust selected the chosen supplier as a result of their close working links with St Helens and Knowsley in similarly large capital projects.</li> <li>• reviewed communications of the capital to the Board through the transaction business case.</li> <li>• understood that the Trust have secured value for money in the payments they made up front to offset inflationary pressures and fluctuations in material prices.</li> </ul> <p><b>Results of our work</b></p> <p>We are satisfied that the Trust has appropriate arrangements in place to address the risk to governance.</p>
<p><b>Other recommendations</b></p>	
<p>2</p> <p><b>Statutory Financial Reporting</b></p> <p>The Trust received significant capital funding ahead of the year end which resulted in complex accounting arrangements. Through our audit we identified a material adjustment to the Trust's Statement of Financial Position, to reflect the payments made in respect of backlog maintenance as capital prepayments rather than assets under construction. We are satisfied that there was only one significant issue noted during the course of our audit and the draft accounts produced were of a good standard. However, as there has been a material adjustment to the accounts we recommend that for future complex accounting requirements the Trust consider the financial reporting implications in advance of the year end and seek advice as necessary.</p>	

# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria

### Collaboration with St Helens and Knowsley

On 1 September 2021 an agreement for Long Term Collaboration was signed between Southport and Ormskirk Hospital NHS Trust, St Helens and Knowsley Trust (STHK) and NHS Improvement. As part of this agreement both Trusts have committed to working in partnership.

This agreement aims to provide the immediate support required by Southport and Ormskirk Trust whilst progressing longer-term goals such as service configuration, in order to achieve sustainability, as well as:

- Delivering better outcomes for patients of both Trusts;
- Giving staff greater flexibility to develop their skills and experience; and
- Making the best use of available resources.

To maximise the benefits of the new arrangement for both organisations, the Southport and Ormskirk Board agreed changes to its management and governance structures. In September 2021 the Trust Board appointed the Chief Executive of STHK, to be the Trusts new Chief Executive. The Deputy Chief Executive/Director of Human Resources at STHK was also appointed to the new post of Managing Director and had day-to-day management responsibility for Southport and Ormskirk Trust, leading the Trusts executive team.

A new committee reporting to the Board, the Strategy and Operations Committee, was established following the Agreement with STHK in September 2021. The committee is chaired by the chair of the STHK board. The committee meets monthly and is attended by the executive directors of both Trusts and the non-executive directors of STHK. The role of the Committee is to provide operational management and strategic oversight of all Trust services and to progress the collaboration between the two Trusts.

In 2022/23 the Trust moved closer to merging with STHK with a planned transaction date of 1 April 2023. The transaction has been a strategic goal for the long-term collaboration of Southport and Ormskirk and STHK as a way to provide better services to the local communities and supporting financial sustainability. Following a slight delay with final sign off, the transaction occurred on 1 July 2023 with a new single Trust forming, Mersey and West Lancashire Teaching Hospitals NHS Trust.

### The Trusts decision making arrangements and control framework

The Trust's governance structure is set out within its Annual Governance Statement. This is supported by the Trust's Constitution, Standing Orders, Standing Financial Instructions and Scheme of Reservation and Delegation.

As previously noted, during 2021/22 the Strategy and Operations Committee was established as part of the Agreement with STHK. The Committee has the delegated authority from the Trust Board to:

- Create subcommittees, working or subgroups to provide assurance, in the interests of good governance or to oversee the delivery of specific programmes of work.
- Request information, reports, and assurances from any employee in relation to those areas within these Terms of Reference and all employees are directed to co-operate with any request made by the Committee.
- Obtain within the limits set out in the Scheme of Reservation and Delegation, outside legal or other independent professional advice on any matter within its terms of reference and to secure the attendance of external persons with relevant experience and expertise if it considers this necessary.

The Strategy and Operations Committee reviews and approves business cases for the creation of new staff posts, new service developments, and any material expansion or reduction of existing services including capital developments. The Committee also has the responsibility for reviewing and approving significant tender/bid documents submitted by the Trust for new services. Additionally, the Committee maintains oversight and receives assurance on performance against operational and quality targets, quality and safety, financial performance, workforce, regulatory and oversight matters, along with maintaining oversight of risk management systems and processes.

The Trust Board remains statutorily accountable for the services it is commissioned to provide. In order to fulfil this duty it receives assurance from a number of sources, including the Joint Review of Performance meetings which will be held quarterly and attended by representatives from the Trust, NHSEI and STHK. The Board also receives minutes and reports from the Audit Committee, Charitable Funds Committee and Strategy and Operations Committee

In 2022/23 we identified as part of our audit work a high value of payments made to a single supplier around the year end to provide backlog maintenance work. Due to the payments made being material we reviewed in detail the decision making, procurement and approval process in respect of the contract. We were satisfied with the arrangements in place.



# 3. VFM arrangements – Governance

## Overall commentary on the Governance reporting criteria - continued

### The Trust's risk management and monitoring arrangements

The Strategy and Operations Committee receives Board Assurance Framework (BAF) on a regular basis. The BAF provides a structure and process which enables the Committee/Board to review its principal objectives, the extent to which the Trust has appropriate and robust controls in place to manage strategic risks, and the level and effectiveness of assurance provided by and through those controls. The BAF reflects the existing Trust Strategy.

The BAF provides a structure and process which enables the Board/Strategy and Operations Committee to review its principal objectives, the extent to which the Trust has appropriate and robust controls in place to manage strategic risks, and the level and effectiveness of assurance provided by and through those controls. The BAF continues to be reviewed regularly by the executive director leads, and the BAF risks are aligned to the Assurance Committees.

The BAF provides a comprehensive record of the detailed risks together with the controls in place and the gaps in those controls, and the assurances together with the gaps in assurance. The BAF also identifies the mitigating actions. The BAF is informed by consultations with the Executive Directors and reviews by Committee Chairs. Updates to the BAF are also discussed at Audit Committee meetings.

### CQC Inspections

The latest CQC inspection carried out at the Trust was in 2019 with the CQC inspection report being published in November 2019. The report concluded that the Trust required improvement. Although CQC acknowledged that the Trust's services in the "caring" domain are good, significant and sustainable improvements were required across the other domains in order to reach an overall assessment of Good. The Trust was assessed as Inadequate in respect of its Use of Resources. Following receipt of the report, the Trust moved quickly to respond and submitted its refreshed CQC Improvement Plan to the CQC in December 2019. This revised plan identified the improvement actions to be taken throughout 2020/21 to support the Trust's 'Vision 2020' which aims to achieve a 'Good' CQC rating.

In March 2021 the CQC made an unannounced visit for a focussed inspection of medicine at Southport and Formby District General Hospital. The inspectors did not formally regrade the Trust following that visit. However, we have seen evidence that, in their findings reported in May 2021, they noted improvements since

their last inspection across all the areas they reviewed. The CQCs Head of Hospital Inspection said:

*"I am pleased to report that since the previous inspection in August 2019, we saw a number of improvements had been made on all the wards we visited. Concerns that had been raised to our inspectors had also previously been identified by the trust and were being addressed by the leadership team. Staff were positive about the culture, support and visibility of their leadership team."*

Despite the challenges faced as a result of the Covid-19 pandemic, the Trust has continued to monitor and report on progress against the CQC Improvement Plan. The Trust appears to have made significant progress against the improvement plan during 2022/23. Representatives from the Trust and from the CQC meet on a bi-monthly basis to discuss progress.

Although the Trust does have a number of areas which are currently formally graded by CQC as 'requires improvement' and is graded 'inadequate' in the use of resources, we are satisfied the Trust has adequate arrangements in place to implement recommendations.

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

### 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

The Integrated Performance Report (IPR) provides comprehensive information to the Board of Directors and its sub-committees including the Strategy and Operations committee. We have reviewed the IPRs presented during 2022/23 and have found these to make use of statistical process control reporting. This is an analytical technique to plot data over time and which allows the Trust to report performance pictorially. This is then supported by detailed contextual and explanatory narrative. This enables the Trust to identify where it needs to take action.

Performance information has been presented in a timely manner throughout 2022/23 and the S&O Committee and Board have received a wide range of performance related reports in addition to the IPR, for example, reports have been received in respect of the workforce performance and safety. Our review of minutes of the Board and committees has confirmed that detailed discussion and challenge was provided by the Trust in respect of these reports.

The Trust has a Single Accountability Framework which sets out the approach to overseeing and supporting Clinical Business Units in understanding how the Trust monitors their performance, identifies any support they may need to improve standards and outcomes, and ensures that agreed support packages are coordinated, where relevant.

In previous years, the Trust has identified a number of services that it has classed as 'fragile services'. In recent years, there has been a clear recognition that solutions will need to be found at the "system" level rather than by the Trust in isolation. The trust have been working with partners to discuss long term solutions for these services. The long-term collaboration arrangement with St. Helens & Knowsley Trust remains key to delivering this sustainability.

### The Trust's arrangements for effective partnership working

The Trust continued in 22/23 to have a relatively complex set of arrangements to work within because it's two hospitals fall within different council boundaries. This means the Trust must work across different Integrated Care Systems and with different local authorities. The ICS partnerships include NHS providers and commissioners along with local authorities, The financial regime since September 2020 has focused on the ICS level and this has enabled the ICS partnerships to strengthen. The Trust has played active roles in establishing the new systems and senior management are active members of the meetings within the ICS. Strong relationships and the collaboration with St Helens and Knowsley Trust have given the opportunity for the region

to work together on a number of programmes. This partnership is set to continue as the transaction with St Helens and Knowsley occurred in July 2023.

### The Trust's arrangements for commissioning services

The Trust has a professional procurement team and has up to date procurement policies and processes in place. This ensures that when commissioning or procuring services, the selection of a provider is always in accordance with relevant procurement legislation, either through the use of existing frameworks or by the design and implementation of a bespoke procurement process.

As per the Trust's Standing Financial Instructions, and depending on the expected value of goods or services being procured, relevant legislation is followed. From our continued attendance at Audit Committee, we are satisfied that where the tender process is not followed, and a tender waiver is exercised, this is subject to review and challenge by Committee. The Director of Finance is required to explain the basis for the tender and the Committee requests further detail or explanation if it considered it necessary.

The Trust has a conflict of interest policy which includes the registration of Gifts and Hospitality, Sponsorship and secondary employment. The Trust maintains a conflict of interest register and a status report is monitored by the Audit Committee. As part of the conflict of interest policy there are safeguards in place to mitigate the risk of conflicts of interests arising during commissioning and procurement processes.

**Based on the above we are satisfied that there is not a significant weakness in the Trust's arrangement in relation to improving economy, efficiency and effectiveness.**

### 3. VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



### 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>1 <b>Financial sustainability</b> Following the onset of the Covid-19 pandemic, the original NHS Planning Guidance 2020/21 was suspended, and a new financial regime was implemented. Systems were expected to achieve financial balance within this envelope and individual organisations were able to deliver surplus or deficit positions by mutual agreement within the system. The Trust complied with the temporary financial planning requirements put in place during 2020/21 and delivered a surplus financial position for the first time since 2014/15. However, underlying this, the Trust does not have a viable plan to return to financial balance once the normal operating framework is reinstated. The financial sustainability of the Trust is dependent on the resolution of long-standing issues in workforce planning, cost improvements and the need to identify and implement other efficiencies. It is also dependent on the integrated care structures, which are yet to be fully determined. In addition to this, The Trust's financial plans are based on key assumptions that are over reliant on non-recurrent income streams and the Trust has failed to deliver cost improvement plans at the scale and pace required to address the financial challenges facing the Trust. In our view, the above represents a significant weakness in arrangements in 2020/21 in relation to: Financial sustainability -how the Trust plans and manages its resources to ensure it can continue to deliver its services.</p>	<p>Financial Sustainability</p>	<p>Following the 31 March 2021 year end, the Trust has committed to a formal, long term collaboration agreement with St Helen's &amp; Knowsley NHS Foundation Trust, and as further details of the financial and operating framework for the NHS are emerging, the Trust should put in place a new financial plan that is agreed with the integrated care system and will deliver a balanced financial position in the short to medium term.</p> <p>This plan should be monitored at an appropriate level within the Trust, and performance closely monitored</p>	<p>The Trust delivered their planned deficit for 22/23 and achieved their CIP target.</p> <p>The 2023/24 plan factors in the transaction with STHK in July 2023 and the Trust have set out a balanced position for the 2023/24 year with identified savings of £11.6mil.</p> <p>Following discussions with management and our reviews of the M3 budget reporting the Trust are delivering their plan.</p>	<p>We are satisfied that the Trust have implemented appropriate arrangements in 22/23 to address the significant weakness previously identified.</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 exercised 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 issued a Section 30 referral to the Secretary of State as the Trust breached their statutory financial duty at 31 March 2023 to ensure that revenue meets expenditure.

#### 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. We have concluded and reported that the consolidated data is consistent with the audited financial statements.

### 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 Committee in April 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	£73,000	£67,000
Additional fees in respect of backlog maintenance accounting and value for money arrangements.	£10,000	£0
<b>Total fees</b>	<b>£83,000</b>	<b>£67,000</b>

### 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><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>In all entities, 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, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk through performing audit work over;</p> <ul style="list-style-type: none"> <li>• Accounting estimates impacting amounts included in the financial statements;</li> <li>• Consideration of identified significant transactions outside the normal course of business; and</li> <li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul> <p><b>We completed our work in this area and there are no matters to bring to your attention.</b></p>
<p><b>Risk of fraud in revenue recognition</b></p> <p>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.</p> <p>For the Trust we deem the risk to relate specifically to income around the year end.</p>	<p>We addressed this risk through performing audit work including;</p> <ul style="list-style-type: none"> <li>• Evaluating the design and implementation of controls the Trust has in place over the recognition of revenue;</li> <li>• Testing of material year end receivables</li> <li>• Testing receipts in the pre and post year end period to ensure they have been recognised in the correct year; and</li> <li>• Reviewing intra-NHS reconciliations and data matches provided by the Department of Health and Social Care and, if necessary, seek direct confirmation from third parties or their external auditors.</li> </ul> <p><b>We completed our work in this area and there are no matters to bring to your attention.</b></p>

# A. Further information on our audit of the financial statements

## Significant risks and audit findings (continued)

Risk	Our audit response and findings
<p><b>Risk of fraud in expenditure recognition</b></p> <p>In the public sector, auditors also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition, which may materialise due to the audited body manipulating expenditure to meet externally set targets. NHS Trusts have a statutory duty to break even taking one year with another. Following the continuation of block funding in year and the nature of the break even duty there is a risk that managements judgements will be made to record expenditure and/or liabilities within 2022/23 that do not meet the relevant recognition criteria.</p> <p>As a result of this we consider the risk to be in relation to the accuracy and existence of non-pay accruals and capital payables in addition to existence and accuracy of capital expenditure in quarter four of 2022/23.</p>	<p>We addressed this risk through performing audit work including;</p> <ul style="list-style-type: none"> <li>• The agreement of a sample of individual accruals to supporting documentation to confirm the method of calculation and to confirm inclusion in the correct period;</li> <li>• The agreement of a sample of capital additions of PPE assets with a focus on the transactions recorded in quarter 4 to confirm they met the recognition criteria of capital expenditure; and</li> <li>• The consideration of the completeness and valuation of other liabilities recorded in the statement of financial position including the allowance for credit losses, deferred income and provisions to confirm that they met the recognition criteria such as representing a probably outflow of resources.</li> </ul> <p><b>We have completed our planned work and procedures in relation to the risk. When performing our detail testing on capital additions in the final quarter of the year we identified a number of payments made to a single contractor. In the final accounts, £26mil of these payments have been reclassified to capital prepayments. We are satisfied that there is no indication of fraud in relation to these payments.</b></p>

# A. Further information on our audit of the financial statements

## Significant risks and audit findings (continued)

### Risk

### Our audit response and findings

#### Valuation of Property, Plant and Equipment

Land and buildings are some of the Trust's highest value assets accounting for £87m of the Trust's £110m Property, Plant and Equipment balance at 31 March 2022. The level of estimation uncertainty arising from the extensive use of judgement in the valuation process along with the size of the asset base means that we consider valuation of land and buildings to be a significant risk.

Management engages Cushman & Wakefield as an expert to assist in determining the current value of land and buildings to be included in the financial statements. Changes in the value of land and buildings, as well as additional capital works being completed in the year, may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual.

We addressed this risk through performing audit work including;

- Liaising with management to update our understanding on the approach taken by the Trust in the valuation of Land and Buildings in 2022/23, including documenting our review and challenge of the methodology that the Trust has used;
- Reviewing and testing the underlying data used in the valuations;
- Reviewing the scope and terms of engagement with the valuer;
- 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;
- Reviewing the valuation approach and assessment in respect of capital additions within the year to ensure we understand how valuations have been updated and amended as the assets have been brought into use; and
- Testing a sample of valuation movements to gain assurance that the accounting treatment is appropriate.

**We completed our work in this area and there are no matters to bring to your attention.**

## 5. Internal control recommendations

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 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. In summary, the matters arising fall into the following categories.

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
<b>2 (medium)</b>	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
<b>3 (low)</b>	In our view, internal control should be strengthened in these additional areas when practicable.	0

## 5. Internal control recommendations

### Other deficiencies in internal control – Level 2

#### Description of deficiency

Our IT audit work identified two individuals who had not had their IT access removed within one day of their employment ending. For one of these individuals no evidence demonstrating the timeframe or authorisation of system access removal could be provided.

---

#### Potential effects

If employees IT access is not removed immediately after their employment ends then they may still be able to access the Trust's systems.

---

#### Recommendation

The Trust should ensure that employee access is removed within one day of their employment ending.

---

#### Management response

The Trust is assured by two step access to the financial ledger. Access to SBS can only be obtained after first accessing a Trust device with a valid username & password. Upon leaving the Trust, this initial access is removed. The Trust will continue to ensure timely removal of users in SBS with this back up control in place.

---

## 5. Internal control recommendations

### Other deficiencies in internal control – Level 2

#### Description of deficiency

Our review of the Trust's allowances for credit losses identified allowances allocated against NHS receivables. However, in line with the requirements of the GAM, NHS bodies are not expected to provide against income due from other NHS bodies.

---

#### Potential effects

There is a potential for NHS receivables to be understated if the correct process is not followed.

---

#### Recommendation

Management should review their policy for credit loss allowances and ensure the treatment for NHS receivables is consistent with the treatment set out in the DHSC GAM.

---

#### Management response

Management will review the policy for credit loss allowances to ensure consistency with the DHSC GAM.

---

# Daniel Watson

## Mazars

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.