

Auditor's Annual Report

Walsall Healthcare NHS Trust – year
ended 31 March 2022

June 2022



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This document is to be regarded as confidential to Walsall Healthcare NHS Trust. It has been prepared for the sole use of the Audit 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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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 Walsall Healthcare NHS Trust ('the Trust') for the year ended 31 March 2022. Although this report is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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



Opinion on the financial statements

We issued our audit report on 21 June 2022. Our opinion on the financial statements was modified to include reference to the Section 30 referral we made on 13 June 2022 relating to the Trust's breakeven position (see page 28).



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 any new recommendations in relation to identified significant weaknesses in those arrangements. Section 3 provides our commentary on the Trust's arrangements and a summary of our continuing recommendations against previously reported significant weaknesses.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, we expect to report that the Trust's consolidation schedules were consistent with the audited financial statements.

We issued a Section 30 Referral relating to the Trust's non-achievement of the breakeven duty on 13 June 2022, this is explained on page 28.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2022 and of its financial performance for the year then ended. Our audit report, issued on 21 June 2022 will give an unqualified opinion on the financial statements for the year ended 31 March 2022, modified to mention the Section 30 Referral (page 28) we made on 13 June 2022.

The table summarises the key risks we identified to address through our work on the financial statements and the conclusions we reached, which were reported to the Audit Committee on 20 June 2022.

Audit Risk Description	Level of audit risk	Audit conclusions
<p>Management override of controls</p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p>	<p>Significant risk: an area that, in our judgment, requires special audit consideration.</p>	<p>There are no matters to report in respect of management override of controls.</p>
<p>Risk of fraud in expenditure recognition</p> <p>With the changes in the NHS funding for 2021/22 and the move to Integrated Care Systems, we see the risk of fraud in expenditure recognition as being principally in relation to the completeness of manual accruals and provisions.</p>	<p>Significant risk</p>	<p>Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.</p>
<p>Valuation of land, buildings and dwelling assets</p> <p>Land, buildings and assets under construction are a significant balance in the Trust's statement of financial position, accounting for £166.3m of the Trust's £185m property, plant and equipment balance at 31 March 2022. The valuation of these assets is complex and is subject to a number of assumptions and judgements, which can involve a greater degree of estimation uncertainty.</p>	<p>Significant risk</p>	<p>Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.</p>
<p>Recognition of capital expenditure and incorrect capitalisation of revenue spend</p> <p>The Trust has a significant capital programme in place for 2021/22, totalling £28.8m made up of £17.4m for the emergency department, £10.3m for other expenditure and £1.1m to support PFI lifecycle. The level of work in progress (Assets Under Construction) was also high with £22.2m being recorded at the year end. Capital expenditure is met from ring-fenced funding and with the Trust's large capital programme, we set an enhanced audit risk relating to the need to ensure that expenditure that has been capitalised meets the definition of capital expenditure and is correctly accounted for.</p>	<p>Enhanced risk: an area of higher assessed risk of material misstatement that requires additional consideration but does not rise to the level of a significant risk.</p>	<p>Our work has provided the assurance we sought and has not highlighted any issues to bring to your attention.</p>

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Section 03:

**Our work on Value for Money
arrangements**

3. VFM arrangements

Overall Summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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

- **Financial sustainability** - How the Trust plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Trust ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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

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

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

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

further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation

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

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

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

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

- **Recommendations arising from significant weaknesses in arrangements**

We make these recommendations for improvement where we have identified a significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.

- **Other recommendations**

We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken

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

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3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	2020/21 Actual significant weaknesses identified?	2021/22 Commentary page reference	2021/22 Identified risks of significant weakness?	2021/22 Actual significant weaknesses identified?	2021/22 Other recommendations made?
 Financial sustainability	Yes Page 26	11	No	No new matters arising in 2021/22. In addition, all matters falling under the financial sustainability criteria have been addressed, see page 26.	No
 Governance	Yes Page 25	15	No	No new matters arising in 2021/22. However, the following matter from 2020/21 remains a significant weakness for 2021/22: Clinical performance and the CQC (also reported under the improving economy, efficiency and effectiveness criteria)	No
 Improving economy, efficiency and effectiveness	Yes Page 26	17	No	No new matters arising in 2021/22. However, the following matter from 2020/21 remains a significant weakness for 2021/22: Clinical performance and the CQC (also reported under the improving economy, efficiency and effectiveness criteria)	Yes, relating to workforce and staff engagement action planning (page 21)

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3. VFM arrangements

Financial Sustainability

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



3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Significant weakness in 2020/21	In 2020/21, we reported on one significant weakness in arrangements: <ul style="list-style-type: none"> • Workforce: agency spend and staffing indicators (also under Improving Economy, Efficiency and Effectiveness reporting criteria)
Significant weaknesses identified in 2021/22	Nil.

Position brought forward from 2020/21

As set out in the table above, we reported four significant weakness in the Trust’s arrangements for 2020/21. Our commentary on the progress made against these actions is set out on page 26, summarised as:

- Workforce: agency spend and staffing indicators (also under Improving Economy, Efficiency and Effectiveness reporting criteria) – in our view, this significant weakness in arrangements **no longer applies** in 2021/22.

Background to the NHS financing regime in 2021/22

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

The 2021/22 H1 (April 2021 to September 2021) envelopes comprised of adjusted CCG allocations, system

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

Over the course of the year and into 2022/23, the focus of the funding regime has shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system. This has facilitated the need for collaborative working between commissioners and providers, as local systems were expected to work together to deliver a balanced position in 2021/22, 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.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Overall responsibilities for financial governance

We have reviewed the Trust’s overall governance framework, including Board and Committee Reports, the Annual Governance Statement, and Annual Report and Accounts to confirm the Trust Board has a responsibility to make the best use of financial resources and deliver the services people need, to standards of safety and quality which are agreed nationally. We have reviewed reports and minutes of the Board to confirm there are financial governance arrangements in place, including the role of the Performance, Finance & Investment Committee (PFIC) to provide oversight on all aspects of financial management and operational performance on behalf of the Board.

The Trust’s financial planning and monitoring arrangements

Through our review of board and committee reports, meetings with management and relevant work performed on the financial statements, we are satisfied that the Trust’s arrangements for budget monitoring remain appropriate, and these include:

- Standing Financial Instructions with relevant provisions for budgetary control and reporting, including arrangements for Finance Managers to provide reports and support to budget holders and teams to support effective financial management of those component parts of Trust financial performance.
- Oversight from the Trust Board and its Committees with regular and sufficiently detailed reports on financial performance and planning during 2021/22.
- Established arrangements for year-end financial reporting, albeit in the context of increasing challenges placed on the finance team concurrent financial reporting and 2022/23 financial planning deadlines.

The Trust’s financial outturn for 2020/21 does not indicate any significant VFM issues. The Trust’s draft financial statements showed an operating surplus of £11.8m (Prior Year = £9.9m) and overall surplus for the year of £2.3m (Prior Year = £1.1m surplus), against gross expenditure of £359m. After taking account of specific measures, this equates to a £3.1m surplus against the control total. The Trust has positive net current assets of £12.8m and positive cash balance of £56m. The I&E Reserve is, however, [minus] -£163m.

Capital

The Trust spent within its CDEL limit (note 38 of the financial statements), incurring £25m in 2021/22 demonstrating that the Trust committed all available capital resources. Our testing of additions has not highlighted any significant issues.

Workforce

The Trust has taken action to improve workforce indicators, with demonstrable improvement in the NHS staff survey results. Agency costs are consistent with the prior year and there is evidence to demonstrate the weakness reported in the prior year has been addressed. See pages 20-22for further commentary.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Note 39 of the financial statements subject to audit, sets out the Trust’s performance against the statutory break-even duty, which we have re-produced in the table below as well as showing long-term borrowings and the two major components of Taxpayer’s Equity: Public Dividend Capital and the Income & Expenditure Reserve. Figures in brackets represent a deficit position:

	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
Breakeven Duty				
Breakeven duty in-year financial performance	(25,959)	1,839	1,758	4,794
Breakeven duty cumulative position	(71,592)	(69,753)	(67,995)	(63,201)
Long-term borrowings				
Borrowings	(202,939)	(116,013)	(111,956)	(107,888)
Taxpayer’s Equity				
Public Dividend Capital	64,190	68,300	215,632	227,334
Income and expenditure reserve	(165,379)	(166,167)	(164,981)	(162,568)
Total Taxpayer’s Equity	(85,264)	(83,035)	74,958	95,954

The Trust has met its breakeven duty in 2019/20, 2020/21 and 2021/22. The cumulative breakeven position is £63m deficit caused by annual deficits between 2014/15 to 2018/19.

The Trust’s arrangements and approach to Financial planning 2022/23

We reviewed the committee and board papers supporting the submission of the 2022/23 financial plan and have discussed these with management. In our view, the Trust’s arrangements are adequate.

For 2022/23 the NHS will revert to contracting arrangements instead of the current block payments system introduced to simplify arrangements during the Covid pandemic. The Trust was required to submit a draft financial plan as of the 17th March 2022, with the ICS plans agreeing a £48m deficit of which the Trust’s plan was for a £6.6m deficit. Within the draft plan are efficiency savings of £5.3m (2%), of which £4.1m had been identified.

The financial plan for 2022/23 was updated and submitted in April 2022, which, through agreement with the ICS, increased the planned deficit to £7.6m, with the overall system deficit being unchanged at £48m ie Walsall Healthcare taking a lower share of system income that before, instead £20m of the planned CCG surplus was given to Dudley Group of Hospitals and Sandwell Hospitals who are carrying the largest deficits in the black country. The impact to the Trust is an additional £1m (extra 0.5%) of efficiency savings to identify leading to £2.2m unidentified savings, which remains immaterial when compared to financial statements level materiality of £7m. Whilst, per page 28, we issued a section 30 referral as a result of the April 2022 financial plan on the Trust’s breakeven duty, we do not believe this results in a risk of significant weakness in arrangements.

In the initial planning guidance, Trusts were asked to follow NHSE/I assumptions of 2.8% pay inflation (fully funded) and non-pay inflation of 2.7%, the rationale being that many Trust contracts are at a fixed price for 2022/23 (eg energy) and nil inflation on these contracts will offset higher rises on others. In May 2022, NHSE/I requested all bodies to submit a revised financial plan on 20 June 2022 and the promise of providing detail on what additional funding will be made available to cover inflation above planning assumptions. Based on our discussions with management and our understanding of the approach being adopted by NHSE/I, we do not believe this has any reflection on the quality of the Trust’s arrangements for financial planning. The creation of the Statutory ICS from April 2022, along with the introduction of new financial/contracting arrangements, will lead to the need for, and opportunity to, develop more medium-term financial and operational plans. The Trust will continue to work with partners in the ICS, to shape new management arrangements and deliver improved service configurations in the coming years. The Trust is expected to respond to national requirements whilst endeavouring to work with patients and public to deliver good services within available resources.

Overall, we are satisfied that there are no indications of a significant weakness in arrangements under the financial sustainability criteria.

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3. VFM arrangements

Governance

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



3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Significant weakness in 2020/21	<p>In 2020/21, we reported on a significant weakness in arrangements:</p> <ul style="list-style-type: none"> Clinical performance [and CQC] (also falls within the improving economy, efficiency and effectiveness criteria)
Significant weaknesses identified in 2021/22	Nil.

Based on our work, we are satisfied that the Trust has established governance arrangements, consistent with previous years, in place. The Trust has a full suite of governance arrangements in place. These are set out in the Trust’s Annual Report and Annual Governance Statement. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the Trust’s arrangements in place.

In 2020/21, we did report on one significant weakness in arrangements, which, as explained on page 25, remains relevant in 2021/22.

Our review of the Trust’s governance framework confirms arrangements are in place, with the Trust Board being accountable for the Trust’s strategies, policies and performance. The Trust has established committees with responsibility for specific areas, such as finance and performance, clinical risk and patient safety, including:

- Audit Committee
- Quality, Patient Experience and Safety Committee
- People and Organisational Development Committee
- Performance, Finance and Investment Committee.

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.

Our review of Board and Committee papers confirms that a template covering report is used for all Board Reports, ensuring the purpose, strategic context, governance issues, and recommendations are clear. Minutes

are published and reviewed by the Board to evidence the matters discussed, challenge and decisions made.

The Trust records strategic risks in the Board Assurance Framework and our review confirms it is sufficiently detailed to manage the Trust’s key risks, identify controls, gaps in controls and obtain the assurance required to work towards a targeted risk score. Our review of reports as well as attendance at Audit Committee meetings confirms the Board Assurance Framework is regularly updated and in sufficient detail to allow for adequate review including primary risk controls, gaps, plans to improve controls and any additional actions required.

No significant weakness in internal control identified from our work and Internal Audit have not identified any significant weaknesses in the governance, risk and the control environment in the proposed 2021/22 Head of Internal Audit annual opinion.

The Audit Committee considers the Board Assurance Framework, Annual Report and Annual Governance Statement and progress with internal and external audit plans. We have attended Audit Committee meetings and reviewed supporting documents and are satisfied that the programme of work is appropriate for the Trust’s requirements. Our attendance at Audit Committee has confirmed there continues to be an appropriate level of effective challenge.

Overall, we have not identified any new indicators of a significant weakness in the Trust’s arrangements relating to the Governance criteria, but as set out on page 25, the significant weakness in arrangements relating to Clinical Performance remains relevant to 2021/22.

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 the Improving Economy, Efficiency and Effectiveness reporting criteria

Significant weakness in 2020/21	In 2020/21, we reported on two significant weakness in arrangements: <ul style="list-style-type: none"> • Clinical performance [and CQC] (also falls within the governance) • Workforce: agency spend & staffing indicators (also reported under the financial sustainability criteria)
Significant weaknesses identified in 2021/22	Nil.

Overview

We have reviewed key reports issued by the Board and confirmed the Trust reports its performance in several different ways:

- Highlight reports provided by Board sub-committees to each Board meeting; and
- the publication of the Annual Report, and Annual Governance Statement, which are reviewed by the Audit Committee before adoption by the Board.

Our review of Trust Board and Committee reports and minutes confirms that regular reports are produced to monitor performance with alignment to the Board Assurance Framework.

For 2021/22, the sub-committee responsible for monitoring and challenging performance is PFIC (Performance, Finance & Investment Committee) who provided a summary report to the Board alongside a regular report on performance linked to the Board Assurance Framework risk on “using resources well”. Our review confirms all board reports follow a consistent format for covering report ensuring action for the Board is clear. Being linked to the BAF, the Board is therefore sighted on the purpose of the report and associated risks, including actions required to address performance, controls, or gaps in assurance. As with PFIC, quality is overseen by Quality Patient Experience Safety Committee (QPES) and then reported to the Board.

Our review of confirms the reports provide sufficient detail to understand performance and published minutes

demonstrate sufficient challenge from non-executive directors on the Trust’s costs, performance and service delivery.

The Trust has an Improvement Programme, which underwent an Executive Review in June 2021, when all projects were reclassified following discussion with the workstream leads, resulting in a reduction in the number of projects from 167 to 88. Since November 2021, more detailed analysis has been undertaken by each Executive lead to understand the commitment required to deliver the remaining programme. The Improvement Board was stood down for 6 months from October 2021 to February 2022, replaced by the Efficiency Group (first meeting 21/2/22) and during the interim period Improvement Programme summary reports were presented to Divisional Directors. We reviewed Internal Audit’s report on the governance of the Improvement Programme, issued in April 2022, and are satisfied there are no indicators of a risk of significant weakness arising from their findings.

The Trust has also recently introduced an Integrated Quality & Performance Report, developed in conjunction with guidance from NHSEI (and use of reference sites) with Wolverhampton officers supporting the Performance team. Trust Board members can now use the report to receive assurance on action being taken to support enhanced quality and performance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Clinical performance [Care Quality Commission reports]

We have reviewed the reports issued by the Care Quality Commission (CQC), including the inspection report into Manor Hospital published in October 2021 and the S29a warning notice served on the Trust on 31 March 2021. As a result of the inspection, the overall rating of medical services at Walsall Manor Hospital changed from “requires improvement” to “inadequate”. Medical services were rated inadequate for being safe, responsive and well-led. The overall Trust rating remains unchanged as requires improvement.

We read Internal Audit’s draft Report on the CQC Improvement Plan, dated June 2022, which provided a “partial assurance, with improvement required” conclusion over the scope of work performed, being focused on the arrangements in place to oversee, evidence, report and embed the ‘must do’ and ‘should do’ actions arising from the CQC. In particular, we noted that Internal Audit found the Trust has put in place arrangements to develop, oversee and report on progress. Internal Audit reviewed 10 ‘closed’ actions from a population of 32, with 53 further actions remaining open. Of the 10 actions reviewed, 5 had evidence which did not demonstrate that either the CQC requirement had been fully actioned, or that the action taken did not demonstrate sustained or embedded improvements.

We have reviewed Board and committee reports relating to the Trust’s improvement plans during 2021/22, including the Board Assurance Framework reports to the Board in November 2021 and February 2022, which confirm a CQC Assurance Oversight Group has been established to ensure compliance with all CQC must and should do actions. We also noted that through to February 2022, the Board Assurance Framework consistently reported the following gaps in assurance under “BAF SO 01 - Safe, High Quality Care; We will deliver excellent quality of care as measured by an outstanding CQC rating by 2022” included, but not limited to:

- Some CQC ‘MUST’ and ‘SHOULD’ do actions remain outstanding.

- Inconsistent evidence, both through quality governance structures and performance reviews, of practice having changed as a result of learning from adverse events.
- Lack of evidence of risk assessments and quality impact assessments relating to staffing contingency planning and/or activity changes.
- Lack of clinical engagement and leadership oversight of the Quality Governance agenda.

These reflect some of the concerns raised by the CQC through the reports it has issued on the Trust in 2020/21 and 2021/22. In addition, the CQC has not published a follow-up on the issues identified at the Trust meaning there is insufficient evidence to demonstrate the Trust has addressed the issues that led to the significant weakness that was reported in 2020/21.

For the above reasons, as set out at page 25, we believe the Trust’s has taken steps to address the significant weakness in arrangements relating to clinical performance as highlighted by the Care Quality Commission, however, there is insufficient evidence to demonstrate adequate and sustained progress has been made in 2021/22 to the extent at which the significant weakness as previously reported has been fully addressed.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Workforce indicators: NHS Staff Survey

We obtained the 2021 NHS Staff Survey published in March 2022 and reviewed Trust Board and Committee papers, confirming the survey results received an appropriate level of scrutiny. The overall theme scores are shown in the table below, with the Trust's relative position improving to become closer to the average rather than amongst the worst performing Trust's in the survey.

	Best	Average	WHT	Worst
We are compassionate and inclusive	7.8	7.2	7.0	6.7
We are recognised and rewarded	6.5	5.8	5.7	5.3
We each have a voice that counts	7.3	6.7	6.5	6.1
We are safe and healthy	6.5	5.9	5.8	5.5
We are always learning	6.0	5.2	5.2	4.3
We work flexibly	6.7	5.9	5.9	5.4
We are a team	7.1	6.6	6.6	6.2
Staff engagement	7.4	6.8	6.6	6.3
Morale	6.5	5.7	5.6	5.3

We also reviewed the Trust's scores in relation to two other indicators which, in our view, represent key performance indicators relating to workforce:

- Percentage of people that would recommend the Trust as a place to work
- Percentage of people happy with the standard of care Friends and Family would receive.

The Trust's performance remains poor, but is moving closer towards the average.

I would recommend my organisation as a place to work				
	Best	Average	WHT	Worst
2017	78.1 %	60.8 %	47.5 %	42.8 %
2018	81.2 %	62.3 %	51.8 %	39.3 %
2019	81.1 %	63.0 %	47.8 %	36.1 %
2020	84.0 %	67.0 %	52.4 %	46.5 %
2021	77.6 %	58.4 %	48.4 %	38.5 %
Trend 2020 to 2021 - relative reduction	(7.6)%	(12.8)%	(12.8)%	(17.2)%
Trend 2020 to 2021 - absolute reduction	(6.4)%	(8.6)%	(8.6)%	(8.0)%

If a friend or relative needed treatment I would be happy with the standard of care provided by this organisation				
	Best	Average	WHT	Worst
2017	89.5 %	70.7 %	48.2 %	46.4 %
2018	90.4 %	71.1 %	49.4 %	39.7 %
2019	90.5 %	70.6 %	49.4 %	39.8 %
2020	91.7 %	74.3 %	53.4 %	49.7 %
2021	89.5 %	66.9 %	47.0 %	43.6 %
Trend 2020 to 2021 - relative reduction	(2.4)%	(10.0)%	(12.0)%	(12.3)%
Trend 2020 to 2021 - absolute reduction	(2.2)%	(7.4)%	(6.4)%	(6.1)%

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Workforce indicators: staff engagement

In considering the Trust’s arrangements in place, our work included:

- Reviewing the NHSE/I report which found the conduct of the Chief Executive fell short of expected standards, but no formal action was taken;
- meeting with management and non-executive directors to discuss the progress made regarding the NHS staff survey results, noting that the response rate increased from 33% to 52%;
- reviewing the report to the March 2022, People and Organisation Development Committee (PODC) who received a full analysis and report on the NHS Staff Survey and resolved to receive a monthly assurance report on the actions taken by the Staff Survey and Experience Oversight Group;
- reviewing the April 2022 Trust Board Report on the staff survey; and
- reviewing and discussing Internal Audit’s report on the Staff Survey presented to the Audit Committee in February 2022, which gave a rating of “partial assurance”.

Our review confirms there are improvements during the year, but in our view, there is still a substantial amount of work to do to introduced sustained levels of improved staff engagement. In particular divisional responsibility for improving staff engagement, developing action plans in response to the staff survey is mixed and inconsistently managed and reported during 2021/22. The issue was first highlighted in Internal Audit’s report in February 2022 where at the time of conducting their field work “only 3 out of 12 divisions had submitted an action plan”. Our follow up discussions with senior management was that this statement was factually incorrect and that the Trust had taken a deliberate approach to allow divisions to design their own action plans. Whilst we understand was intended to encourage ownership over improvement, we believe it hinders good governance and the ability for PODC to consistently and transparently hold management to account.

Recommendations arising

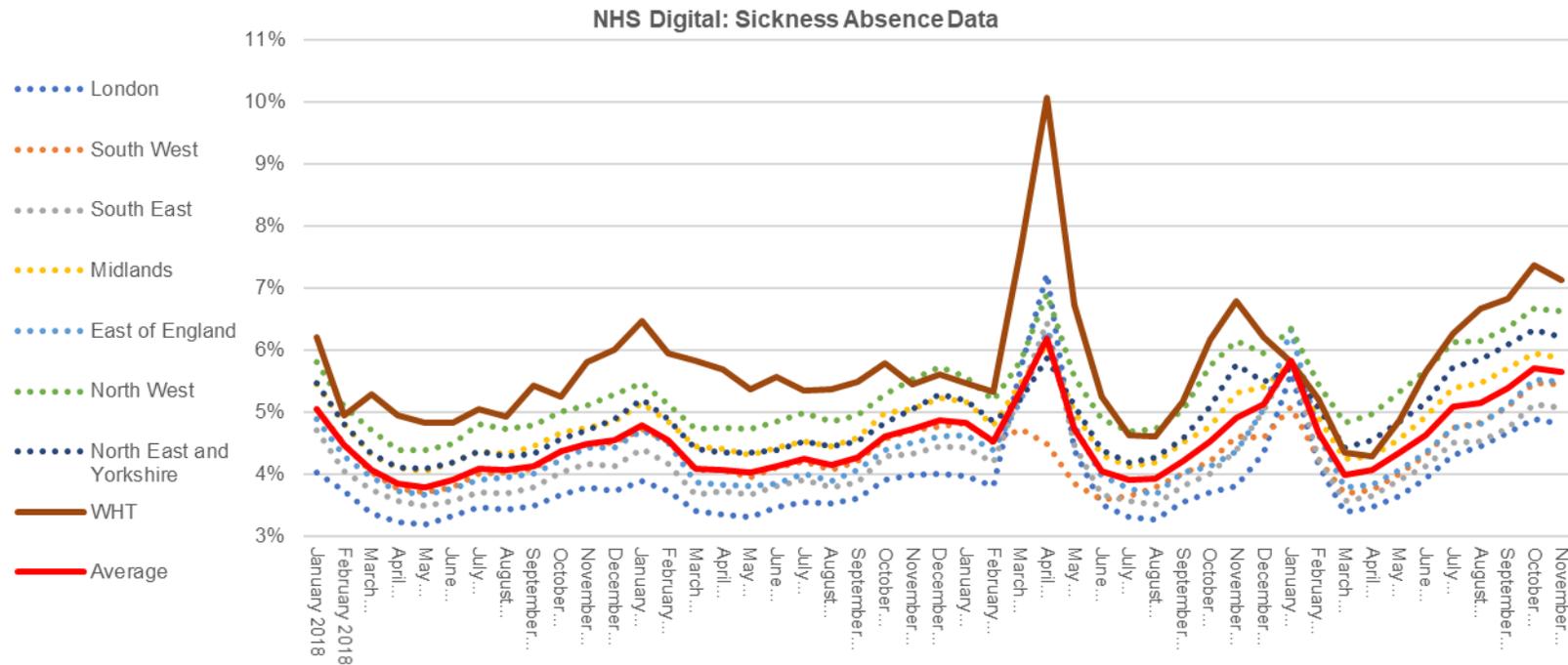
The Trust enforce a standard template for action planning improvements in staff engagement using data from the staff survey. These should contain SMART actions, with a focus on sustainable and inclusive improvement and be provided to PODC to provide assurance to the Board, including an annual review on whether the plans were achieved or not.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Workforce indicators: sickness absence

We also obtained staff sickness data from NHS digital, where, as at 19 May 22, the most recent data was up to November 2021. Our analysis shows sickness absence remains a challenge for the Trust when compared to all NHS organisations.



Introduction

Audit of the financial statements

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Workforce indicators: agency costs

We tested pay and related costs through our work on the financial statements with no significant issues arising. The table below also summarises our calculation of temporary costs as a percentage of Trust expenditure on salaries, wages, social security and pension costs as shown in Note 7 of the draft financial statements. It shows that temporary staff costs have remained static over the prior year, with a small reduction in the percentage. In our view, this does not demonstrate a risk of significant weakness in arrangements.

	2020/21	2021/22
Temporary Staff Costs	17,432	17,490
Salaries, wages, social security and pension costs	201,478	218,719
Temporary staff costs as a % of salaries and wages	8.65%	8.00%

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

Partnerships

The Trust continues to be in partnership under the umbrella of 'Walsall Together', which is an integrated care partnership between the organisations that plan and deliver health, mental health and social care services locally. Consistent with 2020/21, a Walsall Together Partnership Board, with senior representation from each organisation, meets on a monthly basis to provide strategic oversight and operational coordination for the services in scope. All organisations have signed an alliance agreement which sets out how they will work together to deliver sustainable, effective and efficient services.

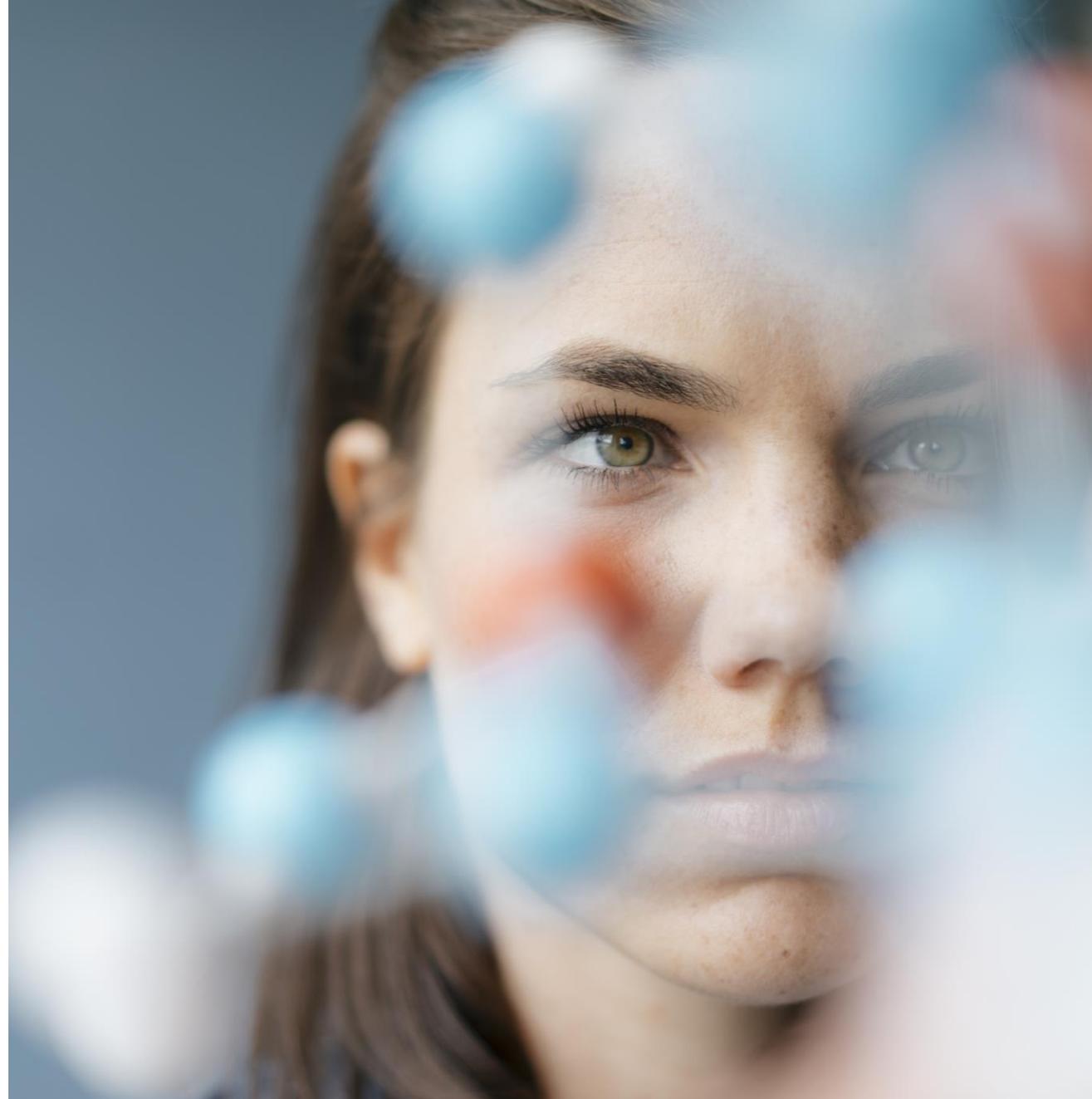
The Trust has also continued its strategic collaboration with Royal Wolverhampton Hospitals NHS Trust and now have a Board in Common. NHSE/I did carry out an investigation into the conduct of the Chief Executive and the Chair and the outcome was made public through the February 2022 Board meeting, which was also reported in the Health Service Journal. The report found the conduct of the Chief Executive fell short of expected standards, but no formal action was taken and the interim appointment of the Chief Executive has now been made permanent. There are no indicators of a risk of significant weakness in arrangements.

Significant weakness in arrangements to improve economy, efficiency and effectiveness

Notwithstanding the above, as highlighted on pages 19 and 25, we have a significant weaknesses in arrangements against the Improving Economy, Efficiency and Effectiveness reporting criteria as a result of the continuation of matters relating to clinical performance (staffing indicators).

3. VFM arrangements

Identified significant weaknesses in arrangements and our recommendations



3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

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

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>Clinical performance</p> <p>In September 2020, the Care Quality Commission (CQC) carried out a short notice announced focused inspection of the emergency department and maternity service at Manor Hospital in response to concerns around safety and governance. The CQC found areas for improvement including breaches of legal requirements that the Trust must put right, including:</p> <ul style="list-style-type: none"> In Urgent and Emergency Services, ensuring staff participate in mandatory training, and deploying sufficient numbers of suitably qualified, competent, skilled and experienced staff to make sure that they can meet patient's care and treatment needs In Maternity Services, putting in place arrangements to effectively assess and monitor the provision of staffing. <p>In March 2021, the CQC carried out an unannounced focused inspection because it had received information of concern about the safety and quality of services within the medicine wards at the Manor Hospital. The Trust's medical services were rated as "inadequate" and a Section 29a warning notice was served on the Trust on the 31 March 2021 due to breaches in regulations in staffing, governance and the provision of safe care and treatment.</p> <p>The areas of concern identified included:</p> <ul style="list-style-type: none"> ensuring staff have access to the information they need to provide person centred care, including maintenance of complete and accurate records that describe patients' individual needs and preferences, ensuring staffing is actively assessed, reviewed and escalated appropriately to prevent exposing patients to the risk of harm and that staff are suitably qualified, skilled and competent to care for and meet the needs of patients within all areas of the medical services. ensuring effective risk and governance systems are embedded that supports safe, quality care and to investigate, immediately upon becoming aware of, any allegation or evidence of such abuse. ensuring all staff adhere to policies and procedures to ensure patients are kept safe from avoidable harm of infection. <p>Oversight of progress against CQC Must and Should Do actions continues via a monthly CQC action plan oversight group and a detailed action plan is monitored by the Director of Nursing and Director of Governance. The Trust was given three months to rectify the areas of concern and wrote to the CQC by the end of June 2021 to confirm it had addressed the key recommendations.</p> <p>The matters identified by the CQC, specifically the breaches in legal requirements from September 2020 and the gaps in arrangements leading to the Section 29a warning notice in March 2021, are relevant to the financial year ending 31 March 2021 and, in our view, indicate a significant weakness in the Trust's arrangements under the Governance (how the body ensures that it makes informed decisions and properly manages its risks) and 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) reporting criteria that can be reasonably expected to lead to a significant impact on the quality or effectiveness of service and the Trust's reputation.</p>	<p>Governance</p> <p>Improving the 3Es</p>	<p>In order to ensure systems, processes and training are in place to manage the risks relating to the health, safety, and welfare of service users, the Trust must ensure it embeds and sustains the action plans that it has put in place Trust-wide to address the patient care issues identified by the Care Quality Commission. In particular, it needs to ensure that robust monitoring and reporting processes are maintained, and that challenge, scrutiny and escalation arrangements drive the required improvements for patients and sustain the progress made to-date in implementing the actions to address the issues raised by the CQC.</p>	<p>The Trust established a CQC Assurance Oversight Group to ensure compliance with all CQC must and should do actions. The Trust has also updated the Board Assurance Framework to support actions in relation to addressing the significant weakness in arrangements under "BAF SO 01 - Safe, High Quality Care; We will deliver excellent quality of care as measured by an outstanding CQC rating by 2022"</p> <p>However, further action is required to demonstrate a sustainable improvement in arrangements to the standards accepted by the CQC, who have not published a report as to whether the Trust's arrangements have sufficiently improved. Internal Audit provided a 'partial assurance' conclusion over the Trust's arrangements covering 10 closed actions and, in addition, we noted the Trust's concern in the BAF that there is a gap in assurance relating to a lack of clinical engagement and leadership oversight of the Quality Governance agenda.</p>	<p>ONGOING</p> <p>These reflect some of the concerns raised by the CQC through the reports it has issued on the Trust in 2020/21 and 2021/22. In addition, the CQC has not published a follow-up on the issues identified at the Trust meaning there is insufficient evidence to demonstrate the Trust has addressed the issues that led to the significant weakness that was reported in 2020/21.</p>

3. VFM arrangements – Prior year recommendations

Progress against significant weaknesses and recommendations made in the prior year

Previously identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
<p>Workforce - agency spend & staffing indicators</p> <p>Each year, an NHS-wide staff survey takes place, covering several themes including morale, quality of care and staff engagement. The survey results, published in March 2021, show the Trust is below average in all but one area. The survey highlights low engagement and low participation scores (30% response rate) and that only 52% of staff would Recommend the Trust as a Place to Work (average is 67%) and 53% would Recommend the Trust as a Place to be Treated (Friends and Family Test) (average is 74%). In April 2021, the Trust Board and the People and Organisational Development Committee also received an update on Workforce Race Equality Standard (WRES) and Workforce Disability Equality Standard (WDES) Annual reports for 2020 which reported significant concerns regarding harassment and discrimination.</p> <p>Within its own Board Assurance Framework (BAF), the Trust recognises in Risk S04 that a lack of an inclusive and open culture impacts on staff morale, staff engagement, staff recruitment, retention and patient care. At the end of 2020/21, we note the BAF included gaps in control regarding a delay to the leadership development programme.</p> <p>The Trust Board and the People and Organisational Development Committee recognise the issues raised through the NHS Staff Survey, the Workforce Race Equality Standard (WRES) and Workforce Disability Equality Standard (WDES) Annual reports for 2020 and has taken a series of actions including:</p> <ul style="list-style-type: none"> requesting each division to report to the People and Organisation Development Committee with their action plan and on progress; and introducing “Listening Circles”, “Cultural Heatmaps” and a multi-disciplinary Oversight Task Force to report back to the People and Organisation Development Committee for monthly assurance. <p>Despite the Trust’s recognition of the negative impacts on staff morale set out above, total expenditure on temporary staff, including agency (included in Note 7 of the 2020/21 audited financial statements) was £17.4m for 2020/21, an increase from £8.7m in 2018/19 and £10m in 2019/20. The average Sickness Absence rate, as recorded by NHS Digital is 5.7% over the period January 2018 – December 2020 (the most recent nationally available data), which is higher than the average of all acute Trusts (4.3%).</p> <p>In our view, the accumulation of matters above, and the actions taken by the Trust to improve workforce arrangements during 2020/21 do not demonstrate sufficient traction to evidence sustained levels of improvement. NHS Staff Survey results and Race Equality and Disability Equality reports continue to show the Trust is performing poorly with long-standing issues in staff engagement, including recommending the Trust as a place to work or as a place to be treated, and inclusivity and its culture. As a result, this indicates a significant weakness in the Trust’s arrangements under the “Financial Sustainability (how the body plans and manages its resources to ensure it can continue to deliver its services)” and “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)” reporting criteria that exposes the Trust to a significant risk to the quality and effectiveness of service as well as a risk of increased expenditure on agency costs.</p>	<p>Financial Sustainability</p> <p>Improving the 3Es</p>	<ol style="list-style-type: none"> The Trust should commence its leadership development programme, ensuring there is broad participation and a focus on inclusivity The Trust should take steps to improve take-up in the NHS Staff Survey to improve the quality of feedback The Trust should ensure the Culture and Leadership Programme demonstrates tangible and measurable improvements and that the People and Organisational Development Committee demonstrably challenge and scrutinise performance. The Trust should work with system partners to tackle its recruitment deficit and manage agency costs. 	<p>Based on the work we have performed, including discussions with senior management, non-executives and review of Board and Committee reports, we have seen sufficient progress, which have led to improvements in the NHS Staff Survey results show improvement over the prior year:</p> <ul style="list-style-type: none"> 52% response rate (up from 30%) Recommend as a Place to Work has fallen to 48%, but this reduction is at a smaller margin than the rest of the NHS Friends and Family has fallen to 47%, which remains substantially below average (being 67%), but not the worst (44%). WRES shows improvements in the Percentage of staff experiencing harassment, bullying or abuse from staff in last 12 months for both White and BME staff. WDES scores show marginal deterioration, but in line with the average for the NHS. <p>The rate of sickness absence continues to be above average, but the profile and trend is broadly consistent with the national increasing trend.</p> <p>Agency costs remain flat at £17.4m and there were no issues arising from our testing of agency costs through our work on the financial statements.</p>	<p>CLEARED</p> <p>The Trust had consistently poor NHS staff survey results particularly in staff engagement, the Friends & Family Test, Racial & Disability Equality standards. The position was compounded by higher than average sickness rates and rising agency costs.</p> <p>Action has been taken leading to tangible improvement in outcomes, which, in our view, show sufficient improvement to demonstrate that, while there remains challenges, the impact has reduced to such a level that it is no longer a significant weakness.</p> <p>There is, however, a need to embed and improve arrangements further, in particular providing consistency in staff engagement action plans to provide clearer and more transparent oversight for PODC.</p>

04

Section 04:

Other reporting responsibilities

4. Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provide auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State; and
- make a written recommendation to the Trust which must be responded to publicly.

We have not exercised any of these statutory reporting powers.

Section 30 referral

On 13 June, we made a referral under section 30 of the Local Audit and Accountability Act 2014.

Taking into account the ‘Statutory breakeven duty: a guide for NHS trusts’ issued by NHSI in April 2018 we have reason to believe that Walsall Healthcare NHS Trust has taken a course of action which, if followed to conclusion, would breach the Trust’s breakeven duty for the three year period ending 31 March 2022 (requiring a referral under section 30(b) of the 2014 Act). The Trust has set a Financial Plan for 2022/23 of £7.822m deficit, increasing the forecast cumulative deficit as at 31 March 2023 to £71.023m (requiring a referral under section 30(a) of the 2014 Act).

The Trust’s financial performance during the three-year period 2019/20 to 2021/22, and its plan to 2022/23 is set out below:

Breakeven Duty (£’000)	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Forecast
In-year financial performance	1,839	1,758	4,794	(7,822)
Cumulative deficit at year end	(69,753)	(67,995)	(63,201)	(71,023)

The Trust’s deficit plan for 2022/23 will lead to the Trust’s expenditure exceeding its income for the three-year period ending 31 March 2023 by £1.270m, resulting in a cumulative deficit of £71.023m.

As Walsall Healthcare NHS Trust has set a deficit budget of £7.8m for the year ended 31 March 2023, we have a duty to make a referral under Section 30 (1) (a) of the 2014 Act. And, as the Trust’s expenditure may exceed its income for the three-year period ending 31 March 2022, we have a duty to make a referral under Section 30 (1) (b) of the 2014 Act.

Annual Governance Statement

We are also required to report if, in our opinion, the governance statement does not comply with relevant guidance or is inconsistent with our knowledge and understanding of the Trust. Following suggested amendments, we have no matters to report in this regard.

Reporting to the NAO in respect of consolidation data

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

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