Auditor’s Annual Report

Walsall Healthcare NHS Trust – year 31 March 2023

June 2023

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Section 01:

Introduction

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Walsall Healthcare NHS Trust ('the Trust') for the year ended 31 March 2023. Although this report is addressed to the Trust, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Opinion on the financial statements

We issued our audit report in June 2023. Our opinion on the financial statements was unqualified.

Wider reporting responsibilities

In line with group audit instructions issued by the NAO 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 have issued 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 recommendations.

Other reporting powers

We are considering issuing a referral under Section 30 of the 2014 Act as Walsall Healthcare NHS Trust has set a deficit budget of £14m for the year ended 31 March 2024, that plans to lead to its expenditure exceeding its income for the three-year period ending 31 March 2024, and does not address the total cumulative deficit of the Trust.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2023 and of its financial performance for the year then ended. Our audit report, issued in June 2023, gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined on the following pages.

Qualitative aspects of the Trust's accounting practices

We reviewed the Trust's accounting policies and disclosures and concluded they complied with relevant accounting practice.

Whilst financial statements were provided on 27th April 2023, in line with the national deadline, working papers were not available and were received sporadically throughout May and June.

In addition, there were a large number of errors in the financial statements and internal control weaknesses identified and reported to the Audit Committee.

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Other reporting responsibilities

Annual Report

We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust. We confirmed that the Governance Statement had been prepared in line with Department of Health and Social Care (DHSC) requirements.

Annual Governance Statement

We did not identify any 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.

Remuneration and Staff Report

We reported that the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the National Health Service Act 2006.

2. Audit of the financial statements

Main financial statement audit risks and findings

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment. Following the risk assessment, we identified risks relevant to the audit of financial statements and the significant audit risks and conclusions reached are set out below:

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
Management override of controls This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.	**Significant risk:** an area that, in our judgment, requires special audit consideration.	We addressed the risk through performing work over accounting estimates, journal entries and considering whether there were any significant transactions outside the normal course of business or otherwise unusual. In addition, we made enquiries of management and used our data analytics and interrogation software to extract accounting journals for detailed testing on specific risk characteristics.	Our work delivered the assurances we required to conclude that there are no significant matters to report in respect of management override of controls.
Valuation of land, buildings and dwellings The valuation of these properties is complex and is subject to a number of management assumptions, judgements and a high degree of estimation uncertainty covering: • Land (£15.28m – note 14.1) • Buildings (£178.5m - Note 14.1) • Dwellings (£1.6m - Note 14.1)	**Significant risk**	Our procedures to address this risk included, but was not limited to: • liaising with management to update our understanding of the approach taken by the Trust in its valuation of land, buildings and dwellings. This included understanding how capital additions and backlog maintenance is considered; • reviewing the work of management's valuation expert and how these have been incorporated into the financial statements; • testing a sample of valuations, reviewing the valuation methodology used and the underlying data and assumptions.	We experienced a number of issues obtaining the Trust's records to support valuations as well as various errors to resolve, overall we were satisfied that on completion of our work, there was no evidence of a material misstatement in the final financial statements.
Risk of fraud in revenue recognition Auditing standards include a presumption that there is 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. We considered the specific risk in relation to revenue recognition to be in the recognition of income and receivables around the year-end.	**Significant risk**	We evaluated the design and implementation of the controls the Trust has in place which mitigate the risk of revenue being recognised in the wrong year. In addition we undertook a range of substantive procedures including: • testing of material revenue and material year end receivables; • testing receipts in the pre and post year end period to ensure they had been recognised in the right year; and • reviewing intra-NHS reconciliations and data matches provided by the Department of Health.	Our work provided the assurances we required to conclude that there were no unresolved material errors in respect of the risk of fraud in revenue recognition.

2. Audit of the financial statements

Main financial statement audit risks and findings (continued)

Audit Risk	Level of audit risk	How we addressed the risk	Audit conclusions
Recognition of capital expenditure and incorrect capitalisation of revenue spend The Trust has a significant capital programme in place for 2022/23, with £38m initially planned. The level of work in progress (Assets Under Construction) brought forward from 2021/22 was high (£24.7m), and is likely to be significant again at the end of 2022/23. The Trust is responsible for ensuring it captures all directly identifiable costs, which can be capitalised, whilst ensuring expenses which are not eligible for being capitalised are identified and charged to revenue in the normal course of business. Capital expenditure is met from ring-fenced funding and with the Trust's large capital programme, we believe there is 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.	**Enhanced risk:** these require additional consideration but does not rise to the level of a significant risk and may include areas of management judgement	We considered the arrangements the Trust has in place to mitigate the risk of revenue expenditure being incorrectly classified. We substantively tested the appropriateness of a sample of capital additions and considered the Trust's approach to addressing the value added nature of the expenditure. We also considered the arrangements for ensuring Assets Under Construction (AUC) are correctly classified and substantively tested a sample schemes to confirm they are not complete and operational. We carried out further work to following our sample testing to confirm that the AUC was unlikely to be materially misstated.	On conclusion of our work, and through the resolution of issues arising, we were satisfied that there were no unresolved material matters to report in respect of recognition of capital expenditure or capitalisation of revenue spend.
Implementation of IFRS 16 (Accounting for Leases) IFRS 16 is applicable from 1 April 2022 and is designed to report information that better shows lease transactions and provides a better basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Trust is required to re-classify a number of lease arrangements in line with this new standard for the first time in the 2022/23 accounts.	**Enhanced risk**	Our work included testing lease and Right of Use Asset balances and supporting disclosures and obtaining evidence to support that they have been correctly classified and accurately measured under the new standard	We encountered a number of issues to resolve in obtaining sufficient and appropriate audit evidence regarding the Trust's judgements and supporting working papers over the Trust's calculation of IFRS16 right of use asset valuations. Following adjustments to the financial statements, we were satisfied that there was no evidence of further material errors.

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Section 03:

Our work on Value for Money arrangements

3. Value for Money arrangements

Overall Summary

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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 or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

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

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

Phase 2 - Additional risk-based procedures and evaluation

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

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

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

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

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

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

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

- **Other recommendations**

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

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

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	2021/22 Actual significant weaknesses identified?	2022/23 Commentary page reference	2022/23 Identified risks of significant weakness?	2022/23 Actual significant weaknesses identified?	2022/23 Other recommendations made?
Financial sustainability	**No**	13	**Yes:** extent of financial challenge and planning of cost improvement programmes	Yes	**No**
Governance	**Yes:** Clinical Performance (also under 3 E's)	16	**Yes:** Whilst we are satisfied that the prior year weakness has been addressed, a new issue arose for 2022/23 arising from inadequate financial reporting arrangements	Yes	**No**
Improving economy, efficiency and effectiveness	**Yes:** Clinical Performance (also under governance criteria above)	19	**No:** we are satisfied that the prior year weakness has been addressed.	No matters arising in 2022/23	**No**

3. Value for Money 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 2021/22	Nil.
Significant weaknesses identified in 2022/23	One significant risk has been identified during the year: • Development and delivery of cost improvements

Position brought forward from 2021/22

As set out in the table above, there are no indications of a significant weakness in the Trust's arrangements for financial sustainability brought forward from 2021/22.

Risks of significant weakness identified in 2022/23

As reported in our Audit Completion Report which has been presented to the Audit Committee in June 2023 we identified one risk of significant weakness in arrangements. This was in relation to:

- Development and delivery of cost improvements

The Trust is required to work with health partners to prepare an annual financial plan that estimates the surplus or deficit that it aims to achieve in the following financial year, which requires the need to have adequate arrangements in place for the identification and risk assessment over any cost improvement programmes needed to deliver the predicted position. Whilst the Trust agreed a financial plan with the health system, our review has raised over the value and deliverability of planned savings and as a consequence the adequacy of the financial plan for 2023/24.

Based on the work performed, we have determined that this risk materialises as an actual significant weakness in arrangements, with further details provided on page 32.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Context to NHS spending 2022/23 and 2023/24

The 2021 Spending Review set Government departmental budgets and spending plans for the three years from 2022/23 to 2024/25. The NHS's settlement provided additional funding for elective recovery, but also assumed inflation would be 2% and pay settlements of 2%.

However:

1) the Consumer Prices Index (CPI) rose by 10.1% in the 12 months to March 2023, down from 10.4% in February.

2) the Government announced pay awards for Agenda for Change (AfC) staff in England covering 2022/23 and 2023/24 comprising:

- a 2% non-consolidated award on top of the 2022/23 pay award, and a one-off NHS backlog bonus worth between £1,250 and £1,600; and

- a 5% consolidated award for 2023/24.

The Trust received £8.35m (Note 3.1 of the financial statements) to fund the £8.66m 2022/23 pay award accrual, which we tested as part of our work on the financial statements with no issues arising.

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 and Finance Committee 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 receiving regular reports on financial performance and planning, through an Integrated Performance Report and detailed reports on finance.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Capital

Whilst there has been an increase in the settlement and commitment for further investment in the NHS estate, the construction sector continues to experience the effects of inflation and availability of materials, increasing the cost of delivering capital projects and increasing the challenge of staying within Capital expenditure limits.

The Trust regularly monitor's progress against capital expenditure through its Performance and Finance Committee.

The Trust has a balanced capital plan with spend £41.9m at the year end, within the capital resource limit. During the financial year the Trust has been awarded further capital for specific investments (theatres) and also an increase in capital from the ICB. The handover of the new Urgent and Emergency Care Centre (UECC) from the contractor has caused delay to a number of other capital schemes in year. The Trust was £344k under the limit spending of £42.2m. Our testing of capital additions and capital accruals in the financial statements did not identify any material errors.

We also obtained the most up-to-date dataset regarding NHS backlog maintenance, published by NHS Digital in October 2022, which uses "ERIC" provided by all NHS trusts.

The estimated total cost to eradicate backlog maintenance across the NHS for the year ending 31 March 2022 was **£10.2 billion**, an 11% increase over 2020/21. For WHC, the comparable backlog maintenance figure has decreased from £36.4m to £28.8m. The issues arising from maintenance backlog have been report as part of the Board papers most recently in February 2023 where sufficient oversight was provided of the difficulties of managing this backlog. It was also highlighted the Capital Review Group was working with the Space Utilisation Group to prioritise the investments. The Trust had entered a bid to recently try to secure an additional £17m for decarbonisation works as a joint bid on the system from the ICS. The Trust Estates Strategy had expired but the ICS were looking at putting a system strategy in place which will encompass the Trust.

Against the backdrop of £41.9m capital spending in 2022/23, the rise in backlog maintenance is an area that the Trust must review and ensure its estates strategy is updated with this in mind.

"Estates Returns Information Collection" (ERIC) data (being defined in the 'Best Practice Guidance – A risk-based methodology for establishing and managing backlog' as the cost to bring estate assets that are below standards (called Condition B) in terms of their physical condition and/or compliance with mandatory fire safety requirements and statutory safety legislation up to Condition B).

Figures in £m	Cost to eradicate high & significant risk backlog	Cost to eradicate moderate risk backlog	Cost to eradicate low risk backlog	Total
Small Acute Trusts	600.5	789.5	79.7	**1,469.7**
Walsall Healthcare NHS Trust 2021/22	28.4	0.3	0.06	**28.8**
WHT 2020/21	27.7	4.7	3.9	**36.4**

Agency / Workforce

Our testing of pay costs, including agency, did not identify any significant issues. Our review of the financial statements confirms that agency costs have decreased in the current year and are £15.8m for 2022/23 (down from £17.5m in 2021/22 and £17.4m in 2020/21).

	2021/22 £'000	2022/23 £'000
Salaries and wages	175,789	198,184
Social security costs	16,409	20,919
Employer's contributions to NHS pensions	26,454	30,277
	218,652	**249,380**
Temporary staff (including agency)	17,490	15,779
Agency as %	**8%**	**6.3%**

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

2022/23 financial outturn

The Trust's final plan for 2022/23 was to achieve break-even after delivering £6.3m in savings. Throughout the year, the Performance and Finance Committee and the Trust Board, through an Integrated Performance Report, has received regular reports on financial performance and planning. We reviewed the Integrated Performance Report during the year, including that prepared for the April 2023 Board, identifying that the Trust continued to forecast a breakeven revenue position and, at Month 11, had delivered savings of £4.68m, a shortfall of c£1.7m against full year plan.

As set out in the financial statements, the Trust's operating deficit was £13.4m, compared to £0.5m in the previous year. Whilst an initial break-even plan was set for 2022/23, the deficit position is consistent with the adjusted financial performance control total. The ICS delivered a £16.8m deficit.

Breakeven duty of the Trust to 2022/23

Paragraph 2(1) of Schedule 5 of the National Health Service Act 2006 provides that each NHS trust must ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly chargeable to revenue account. This duty is known as the 'breakeven duty'. The phrase 'taking one year with another' has been interpreted by the Department of Health and Social Care and HM Treasury as meaning that the duty is met if income equals or exceeds expenditure over a three year rolling period.

Note 38 of the financial statements subject to our audit sets out the Trust's performance against the statutory break-even duty, which we have re-produced in the table below. Figures in brackets represent a deficit position:

	2020/21 (£'000)	2021/22 (£;000)	2022/23 (£'000)
Breakeven duty in-year financial performance	1,758	4,794	1,652
Breakeven duty cumulative position	(67,995)	(63,201)	(61,549)

Financial planning 2023/24

The Trust continues to work collaboratively with the Integrated Care System through the development of the financial plan in 2022/23 and now 2023/24. Planning negotiations with NHS England for 2023/24 are continuing across the country, although the current 2023/24 financial plan was built to deliver a deficit of £14m. The agreement of a deficit plan does mean the Trust would be taking a course of action that would lead it to breach its breakeven duty for 2023/24 and we would have a duty to make a referral under Section 30 (1) (b) of the 2014 Act.).

We also noted from our review of the 2023/24 financial plan, that the £14m deficit is reliant on £26.4m of efficiencies being delivered, equivalent to c6.9% of operating expenditure for the year. Furthermore, the financial plan categorises £23.3m of the savings as either an opportunity or as unidentified suggesting there will be substantial difficulty in achieving these savings. Therefore, whilst the Trust has developed a collaborative plan with the Integrated Care System, in our opinion there is significant doubt to its deliverability as a result of under-developed cost improvement plans.

The level of our concern over the deliverability of the financial plan is raised further having considered the Trust's track record in achieving planned savings where, in April 2023, the Board was informed that 2022/23 efficiency savings were not achieved: "Year To Date savings performance has been £4.68m against a plan of £6.3m, if delivered equally through the year the target to date would be £5.78m". This provides the position for M11 where it can be seen that Trust has missed their attempted savings by quite a significant way and next year proposed a 300% increase in the savings attempting to be achieved. Additionally, the 70% of the £4.68m savings achieved are non-recurrent and hence will not assist with 2023/24 targets. At Month 1 2023/24 there has been delivery of £0.1m against a plan of £0.3m. However, if the plan was phased in equal twelfths the Trust would need to secure £1.4m YTD and have therefore an adverse variance of £1.3m (CIP plans and unidentified schemes are back phased).

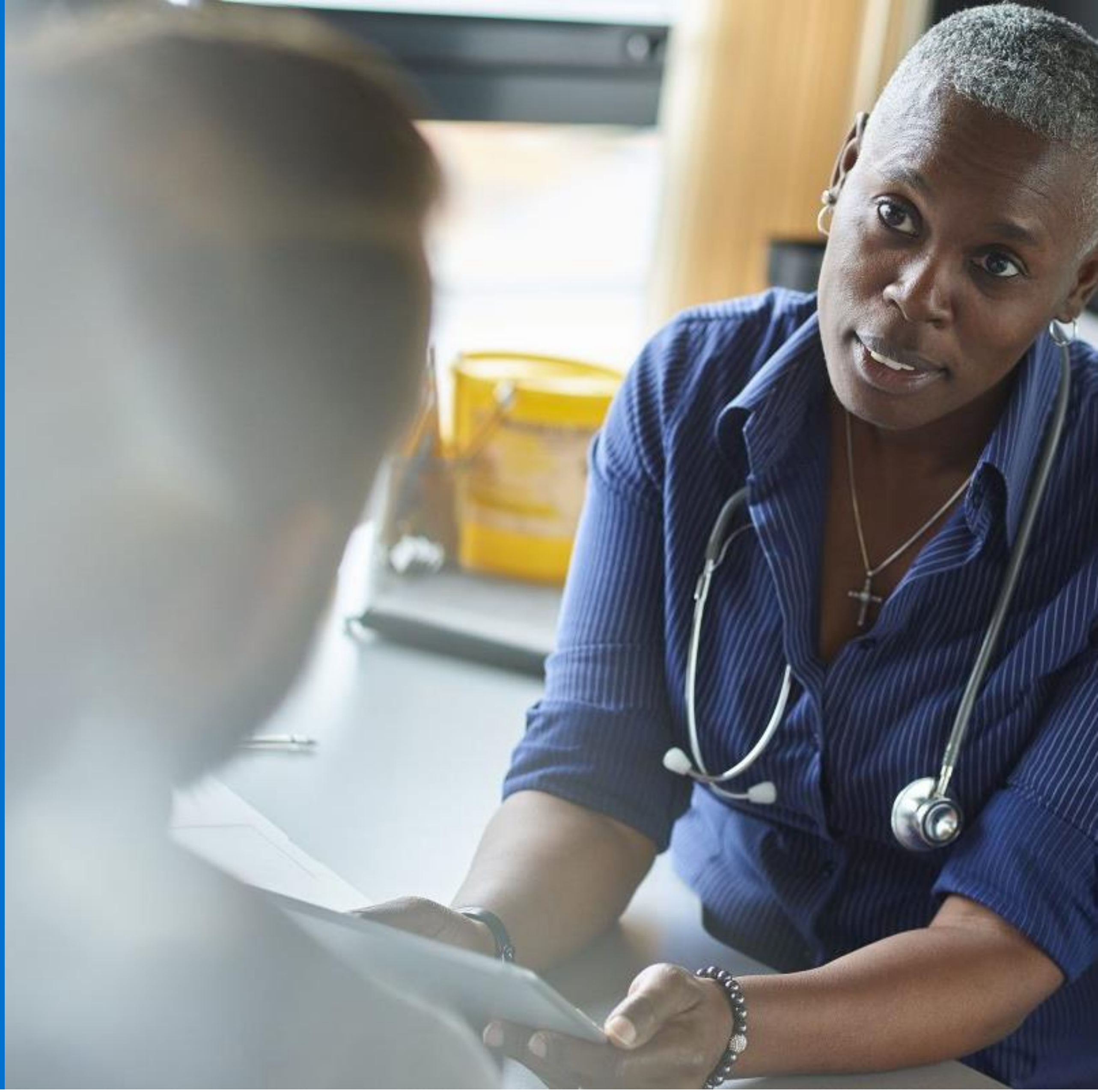
We are aware that the Trust has begun working on a revision to the financial plan in collaboration with the Integrated Care System, with a view to developing a break-even position for the system, involving the strengthening and development of cost improvements by Autumn 2023. Notwithstanding this, as set out on page 30, we believe there is a risk of significant weakness in arrangements under the financial sustainability criteria in relation to the significant levels of savings that would still lead to a large cumulative deficit.

Significant weakness in arrangements in financial sustainability
The Trust's financial plan for 2023/24 is based on unrealistic and under-developed cost improvement programmes that, in our view, is indicative of a significant weakness in arrangements on how the Trust plans to bridge its funding gaps and identifies achievable savings.

3. Value for Money arrangements

Governance

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



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3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Significant weakness in 2021/22	In 2021/22 we reported on one significant weakness in arrangements: • The Trust's clinical performance as reflected by the Care Quality Commission
Significant weaknesses identified in 2022/23	In 2022/23 we have identified one further significant weakness in arrangements: • Ineffective processes supporting statutory financial reporting requirements

Position brought forward from 2021/22

As set out in the table above, there was one significant weakness in the Trust's arrangements for governance brought forwards from 2021/22. Our follow up on the recommendation made is set out on page 30, where we conclude that sufficient action has taken place to address the recommendation and associated significant weakness in arrangements.

Risks of significant weakness identified in 2022/23

As reported in our Audit Completion Report which has been presented to the Audit Committee in June 2023 we identified one risk of significant weakness in arrangements. This was in relation to:

- Ineffective processes supporting statutory financial reporting requirements.

NHS England set a timetable for NHS providers to produce draft financial statements by 27 April 2023 and audited financial statements by 30 June 2023. To meet these deadlines, effective arrangements are required to deliver timely and accurate draft financial statements, annual report and remuneration tables all supported by good quality working papers. Our work on the financial statements identified significant number of concerns and issues regarding the financial reporting process. Further work has been undertaken and we have determined that this risk has given rise to a significant weakness and further details are provided on page 31.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

The Trust's Governance arrangements are set out in the 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.

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;
- Nominations and Remuneration Committee;
- Performance and Finance 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.

Through review of the papers submitted to the Board and Audit Committee meetings and minutes of such meetings, we are content that the level of details in the finance reports is sufficiently detailed and allows effective review and challenge by senior leadership.

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. The Audit Committee considers the Board Assurance Framework, Annual Report and Annual Governance Statement and progress with internal and external audit plans. Our attendance at Audit Committee has confirmed there is an appropriate level of effective challenge. We attended audit committee in December 2022 where the Board Assurance Framework was presented and were satisfied that there was no evidence of a significant weakness in arrangements.

We reviewed the Head of Internal Audit's annual opinion for 2022/23 being that "there are weaknesses in the framework of governance, risk management and control such that it could become, inadequate and ineffective. With further detail stating that references of findings of those pieces of work with partial / minimal assurance should be included within the Annual Governance Statement. This is due in part to several minimal assurance reports in "Effective Rostering including use of bank and agency staff" and "Covid recovery". The Trust needs to respond to the recommendations arising and the Audit Committee has oversight on progress via regular reports from Internal Audit. Whilst Internal Audit have highlighted concerns, we are satisfied this does not extend to a significant weakness in arrangements given that a 'no assurance' opinion was not given by Internal Audit.

CQC report

A further CQC inspection was undertaken between September and November 2022 and published in January 2023. We have noted this as part of this report the Trust was rated as "requires improvement" which is an improvement from the prior "inadequate". The CQC did however serve a warning notice under Section 29A of the Health and Social Care Act 2008 on the following basis: "This warning notice served to notify the trust that the Care Quality Commission had formed the view that the quality of health care provided by Walsall Healthcare NHS Trust in relation to the management of medicines, including prescribing, administration, recording and storage, in Medical services required significant improvement."

Whilst we have identified that there are still a number of must and should do actions the Trust has made improvements since our previous VFM qualification and are no longer rated as "inadequate" – see page 30.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Statutory financial reporting

All NHS bodies are required to prepare their annual report and accounts in accordance with the Group accounting manual 2022/23 (GAM)6 issued by the Department of Health and Social Care (DHSC).

The DHSC published the annual report and accounts timetable, with key dates for 2022/23 being:

- 27 April 2023: unaudited accounts submissions
- 30 June 2023: audited accounts submissions.

NHSE wrote to all NHS bodies to explain that the timetable was set, recognising ‘the resource challenges that many firms are experiencing, together with an increased concern about regulatory scrutiny, a local government backlog, and an increased number of health bodies for this year.’ It also references some instances of poor quality draft accounts and working papers last year, encouraging auditors to be clear in reporting this to the audit committees and finance teams to factor in senior review of draft accounts and working papers before the audit starts.

For finance teams, this means putting quality assurance arrangements in place to ensure that the annual report and accounts and the supporting working papers are properly reviewed. Good quality working papers reduce the likelihood of errors in the annual accounts, provide confidence in the underlying information, make high quality review easier and help maintain corporate memory.

Significant weakness in arrangements

As summarised on page 31, based on our work in auditing the Trust’s 2022/23 Annual Report and Accounts, we believe there is a significant weakness in the trusts arrangements to supports its statutory financial reporting requirements.

There were issues arising reflecting both capacity and capability of finance team staff, including but not limited to:

- Poor quality financial statements presented for audit, with multiple errors throughout.
- No, or limited working paper supporting the financial statements and those that were provided were late and inaccurate leading to significant changes in the financial statements
- Poor record management, particularly access to data within the estates team over floor plans needed to justify asset valuations (despite this being requested to be ready for audit review in August 2022)
- Lack of evidenced judgement for accounting decisions on significant accounting estimates (mainly lease accounting)
- High levels of staff turnover and vacancies, including significant reliance on interim staff with no knowledge retention on how to use the Trust’s fixed asset system
- Multiple versions of the annual report and numerous and repeated errors in the remuneration report, where guidance had neither been read or followed

As a consequence of the above, the audit took substantially longer than it could be reasonably expected to.

Significant weakness in arrangements in governance
Notwithstanding the above, as set out on page 31, in our view, the Trust’s financial reporting arrangements fall below satisfactory standards which is indicative of a significant weakness in arrangements for how the Trust ensures effective processes and systems are in place to support its statutory financial reporting requirements.

3. Value for Money 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

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3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness

Significant weakness in 2021/22	In 2021/22 we reported on one significant weakness in arrangements: The Trust's clinical performance as reflected by the Care Quality Commission
Significant weaknesses identified in 2022/23	Nil.

Position brought forward from 2021/22

As set out in the table above, there was one significant weakness in the Trust's arrangements for governance brought forwards from 2021/22. Our follow up on the recommendation made is set out on page 30 confirming that sufficient actions have taken place to address the initial recommendation and previously identified significant weakness in arrangements.

Risks of significant weakness identified in 2022/23

As reported above no indications of a significant weakness in the Trust's arrangements have been identified for the 2022/23 year.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

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

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

- an Integrated Performance Report to each Board meeting; and
- the publication of the Quality Report, Annual Report and Accounts, 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 Integrated Performance Reports have been received. Performance is summarised in format which shows performance against target and over time. Board members are also able to triangulate information from this report with the assurance summaries from supporting committees, where committee chairs draw attention to assurances provided or matters escalated for the full Board's attention. Our review 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. In our view, the Trust's reports are adequately laid out and sufficiently detailed to monitor performance and take corrective action where required, which may include updating the Board Assurance Framework.

Consideration of regulatory oversight

In 2020/21, we reported a significant weakness in arrangements arising from assessments of clinical performance by the Care Quality Commission. This weakness remained in 2021/22 and we have reviewed the position again for 2022/23, with further details included at page 30.

We have reviewed board reports and minutes during the year, including those of the Quality Governance Committee. This Committee receives a monthly update on the CQC Action Plan, with evidence of oversight and challenge on actions. We reviewed the CQC's website and confirmed the Trust's rating of "Requires Improvement" has not changed since the last published inspection from January 2023.

Our review also noted that NHS England had carried out an Infection Prevention and Control (IPC) visit to the Trust during 2022/23 which, following a change in the NHS England escalation matrix, the Trust being was placed into enhanced monitoring because of a breach being observed in waste management, increased rates against trajectories for healthcare acquired infections and perceived lack of progress in respect of sharps management. In April 2023, the Quality Governance Committee received the draft action plan which was due to be finalised in the coming month noting that where possible immediate actions had been taken. Whilst enhanced monitoring commenced, we do not judge this to be an identified significant weakness given the overall arrangements in place and that no formal intervention has been enacted.

Partnerships

Our review of Board minutes and discussions with management confirms the Trust continues to work in close partnership with other health and social care organisations in the area. This is evidenced through the ongoing group arrangement with Royal Wolverhampton NHS Trust.

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 2022 NHS Staff Survey published in March 2023 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 showing improvement in all areas.

	WHC (21/22)	WHC (22/23)	Best	Average	Worst	WHC position (21/22)	WHC position (22/23)	Trend
We are compassionate and inclusive	7.0	7.1	7.7	7.2	6.8	Below Average	Below Average	Same
We are recognised and rewarded	5.7	5.8	6.4	5.7	5.2	Below Average	Above Average	Better
We each have a voice that counts	6.5	6.6	7.1	6.6	6.2	Below Average	Average	Better
We are safe and healthy	5.8	5.9	6.4	5.9	5.4	Below Average	Average	Better
We are always learning	5.2	5.4	5.9	5.4	4.4	Average	Average	Same
We work flexibly	5.9	6.1	6.6	6.0	5.6	Average	Above Average	Better
We are a team	6.6	6.7	7.1	6.6	6.3	Average	Above Average	Better
Staff engagement	6.6	6.7	7.3	6.8	6.1	Below Average	Below Average	Same
Morale	5.6	5.7	6.3	5.7	5.2	Below Average	Average	Better

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 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

  Whilst the Trust remains below average, this indicator has gone from 48.3% to 51.6%, which is a considerable improvement over the prior year.

- Percentage of people happy with the standard of care Friends and Family would receive.

  Whilst the Trust's position remains below average this indicator has gone from 46.9% to 47.5%, which is an improvement on the prior year and is positive compared to the best, average and worst which have all decreased.

I would recommend my organisation as a place to work

	Best	WHC	Average	Worst
2021	77.9%	48.3%	58.4%	38.5%
2022	75.2%	51.6%	56.5%	41.0%
Trend over PY - relative movement	**-3.1%**	**6.8%**	**-3.3%**	**6.5%**
Trend of PY - absolute movement	**-2.7%**	**3.3%**	**-1.9%**	**2.5%**

If a friend or relative needed treatment I would be happy with the standard of care provided by this organisation

	Best	WHC	Average	Worst
2021	89.5%	46.9%	67.0%	43.5%
2022	86.4%	47.5%	61.9%	39.2%
Trend over PY - relative movement	**-3.5%**	**1.2%**	**-7.6%**	**-9.9%**
Trend of PY - absolute movement	**-3.1%**	**0.6%**	**-5.1%**	**-4.3%**

Overall, we have not identified any indicators of a significant weakness in the Trust's arrangements relating to the improving economy, efficiency and effectiveness criteria.

3. VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

3. VFM arrangements - Identified significant weaknesses and our recommendations

Progress against significant weaknesses and recommendations made in the prior year

As part of our 2021/22 audit work, we identified one significant weakness and made recommendations for improvement in the Trust's arrangements to secure economy, efficiency and effectiveness it its use of resources.

This identified weaknesses is outlined on the next page 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.

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work in 2022/23, we identified two new significant weaknesses in the Trust's arrangements under the criteria for Financial Sustainability and for Governance. These are summarised on pages 31 and 32.

Reporting criteria	2021/22 Actual significant weaknesses identified?	2022/23 Actual significant weaknesses identified?
Financial sustainability	**No**	**Yes:** extent of financial challenge and planning of cost improvement programmes
Governance	**Yes:** Clinical Performance (also under 3 E's)	**Yes:** Whilst we are satisfied that the prior year weakness has been addressed, a new issue arose for 2022/23 arising from inadequate financial reporting arrangements
Improving economy, efficiency and effectiveness	**Yes:** Clinical Performance (also under governance criteria above)	**No:** we are satisfied that the prior year weakness has been addressed.

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 it its use of resources. This continued into 2021/22 and the table below sets out 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	Recommendation for improvement	Our views on the actions taken to date	Overall conclusions
Clinical performance 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: • 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. 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. The areas of concern identified included: • 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. 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. 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.	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.	Actions have been implemented on an ongoing basis and the effectiveness of which were taken into account via a full CQC inspection undertaken between September and November 2022 and published in January 2023. We have noted this as part of this report the Trust was rated as "requires improvement" which is an improvement from the prior inadequate. The CQC did however retain the warning notice under Section 29A of the Health and Social Care Act 2008 on the following basis: "This warning notice served to notify the trust that the Care Quality Commission had formed the view that the quality of health care provided by Walsall Healthcare NHS Trust in relation to the management of medicines, including prescribing, administration, recording and storage, in Medical services required significant improvement."	**CLEARED** Whilst we have identified that there are still a number of must and should do actions, including the presence of a s29A warning notice, in the CQC's view, the Trust has made sufficient overall improvements to no longer be "Inadequate".

3. VFM arrangements – Identified significant weaknesses and our recommendations

Newly identified significant weakness in arrangements

As a result of our work, we have identified significant weaknesses in the Trust’s arrangements to secure economy, efficiency and effectiveness in its use of resources

Identified significant weakness in arrangements	Reporting criteria	Recommendation for improvement
Deliverability of the 2023/24 financial plan The Trust agreed a financial plan that would result in a £14m deficit for 2023/24, developed collaboratively with the Integrated Care System for 2023/24. A £14m deficit is reliant on £26m of efficiencies being delivered, equivalent to c7% of the Trust’s annual operating expenditure. The Trust’s financial plan categorises £23m of the required savings as either an “opportunity” or as “unidentified”, which indicates there is substantial difficulty in achieving these savings. Our judgement is also informed by the Trust’s track record in savings delivery, where £4.7m against a £6.3m planned requirement was achieved in 2022/23, of which 70% was on a non-recurrent basis. The target for 2023/24 is more than 4 times that delivered in 2022/23 and, in our view, is both unrealistic and unachievable and therefore a risk to the deliverability of the financial plan as a result of under-developed cost improvement plans. In our view, this exposes the Trust to significant financial loss or risk; and/or could reasonably be expected to lead to a significant impact on the quality or effectiveness of service or on the Trust’s reputation. As a result, we believe there is significant weakness in arrangements for financial sustainability in how the body plans and manages its resources to ensure it can continue to deliver its services, including how the body plans to bridge its funding gaps and identifies achievable savings.	Financial sustainability	1. The Trust should continue to work collaboratively with its Black Country ICS partners and NHS England to explore and agree sustainable, long-term plans to bridge its funding gaps and identify achievable savings.

3. VFM arrangements – Identified significant weaknesses and our recommendations

Newly identified significant weakness in arrangements

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

Identified significant weakness in arrangements	Reporting criteria	Recommendation(s) for improvement
Arrangements for Statutory Financial Reporting Whilst the financial statements for the Trust were received and submitted in line with the NHS statutory deadline they were of an extremely poor quality. Inadequate quality of working papers were prepared to support the production of the financial statements, as evidenced by the fact that when working papers were provided for the audit, late, these showed financial statements disclosures needed revision in the majority of cases. In addition to this, we encountered issues including, but not limited to: • poor maintenance and availability of supporting books and records for asset valuations; • poor evidenced accounting judgements, including incorrect application of accounting principles leading to errors to be adjusted; • late Annual Report and a materially inaccurate Remuneration Report that went through more than seven iterations. Underpinning the issues identified is a shortage of both capacity and capability/ experience of the finance team in part caused by high turnover of staff over the last few years affecting teams' knowledge about systems and processes. In our view, this can reasonably be expected to lead to a significant impact on the quality or effectiveness of service or on the Trust's reputation. As a result, we believe there is a significant weakness in the Trust's arrangements under the governance criteria for informed decisions and properly managing its risks, including ensuring effective processes and systems are in place to supports statutory financial reporting requirements.	Governance	1. The Trust needs to address the capacity and capability gap in the financial reporting team, to include appropriate recruitment and training on accounting standards, particularly capital, leases and accruals 2. The Trust needs to agree a financial reporting closedown plan and timetable for 2023/24, one that includes appropriate measures for quality control and review. Oversight of the plan should be escalated to the Audit Committee in good time for preparations for March 2024.

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 because of the Trust's financial position for the year end 31 March 2023 resulting in a breach of its breakeven duty.

Reporting to the National Audit Office (NAO)

The NAO, as group auditor, requires us to report to them whether consolidation data that the Trust has submitted is consistent with the audited financial statements. The NAO also included the Trust in its sample of component bodies for the purpose of its audit of the DHSC group.

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

Fees for our work as the Trust's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the Audit Committee in May 2023. Having completed our work for the 2022/23 financial year, we can confirm that our fees are as follows:

Area of work	2022/23 fees	2021/22 fees
Fee in respect of our work under the Code of Audit Practice	£80,000	£73,080
Additional costs associated with poor working papers, inadequate records and dealing with errors in the financial statements and annual report (estimate as this is ongoing)	£30,000	£5,000
Total fees	**£110,000**	**£78,080**

Fees for other work

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

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