Auditor's Annual Report 2023/24

Countess of Chester Hospital NHS Foundation Trust

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28 June 2024

Contents

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This report is addressed to Countess of Chester Hospital NHS Foundation Trust (the Trust). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

01

Executive Summary

Executive Summary

Purpose of the Auditor's Annual Report

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of Countess of Chester Hospital NHS Foundation Trust (the 'Trust'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).

Annual report - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.

Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.

Other reporting - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities

Accounts	We issued an unqualified opinion on the Trust's accounts on 28 June 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust We have provided further details of the key risks we identified and our response on page 7-9.
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 the Department of Health and Social Care requirements.
Value for money	We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money. We have nothing to report in this regard.
Other reporting	We did not consider it necessary to issue any other reports in the public interest.

KPMG

02
Audit of the Financial Statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Trust's financial statements:

- Give a true and fair view of the state of the Trust's affairs as at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS England with the consent of the Secretary of State as being relevant to NHS Foundation Trusts and included in the Department of Health and Social Care Group Accounting Manual 2023/24; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Audit opinion on the financial statements

We have issued an unqualified opinion on the Trust's financial statements on 28 June 2024.

The full opinion is included in the Trust's Annual Report and Accounts for 2023/24 which can be obtained from the Trust's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Procedures undertaken	Findings
Fraud risk from expenditure recognition: Liabilities and related expenses for purchases of goods or services are not completely recorded As the Trust and system is set a financial performance target by NHSE there is a risk that non-pay expenditure, excluding depreciation, may be manipulated in order to report that the control total has been met. The setting of a financial performance target can create an incentive for management to understate the level of non-pay expenditure compared to that which has been incurred. Management agreed a planned deficit of £25.2m in May 2023. In our audit plan we stated that there were a number of internal risks to achieving this plan, which means the Trust is incentivised to reduce the expenditure recognised in order to meet their performance target. The actual outturn was a deficit of £30.1m given the pressure the Trust was facing. This did not change our risk assessment because the Trust was still facing a number of financial risks and was incentivised to be as close to the initial plan as possible. We consider this would be most likely to occur through omitting accruals in order to push back expenditure to 2024-25 to mitigate financial pressures in the current year.	We have performed the following procedures in order to respond to the significant risk identified: – We evaluated the design and implementation of controls for ensuring completeness of the accruals population; – We selected a sample of cash expenditure recorded in the bank statement in the post balance sheet and reviewed associated evidence including invoices where applicable to test for unrecorded liabilities. – We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; – We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2023 and consider the impact on our assessment of the accruals at 31 March 2024. – We compared the items that were accrued at 31 March 2023 to those accrued at 31 March 2024 in order to assess whether any items of expenditure not accrued for as at 31 March 2024 have been done so appropriately.	– Through our assessment of the design of controls for developing manual expenditure accruals at the end of the year to verify that they had been completely and accurately recorded, we noted the Trust has high level controls in place designed to detect misstatement of accruals (such as review of management accounts). – However as these controls are not formally documented and designed to a minimum required level of precision, they do not meet the management review control requirements as defined by Auditing Standards. As such we deem the control ineffective. Whilst we are not raising a formal control observation in this regard, and the Trust consider its existing controls to be proportionate to address the associated risk, as the accruals balance is associated with a significant risk we are required to bring this matter to your attention. – Through our search for unrecorded liabilities and cut off procedures we did not identify any expenditure recording in the wrong accounting period.

Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Procedures undertaken	Findings
Management override of controls: Fraud risk related to unpredictable way management override of controls may occur • Professional standards require us to communicate the fraud risk from management override of controls as significant. • Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. • We have not identified any specific additional risks of management override relating to this audit.	We performed the following procedures: • Assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias. • In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments. • Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. • Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the component's normal course of business, or are otherwise unusual • We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk.	• In light of the fact no automated controls exist that we can place reliance on to mitigate the risk of management override, we have assessed the design and implementation of manual controls. Management's journal control, whilst it does demonstrate a degree of segregation of duties, it does not meet the management review control criteria as stipulated by auditing standards. • We will not be raising a formal control observation having done so historically. The Trust consider its existing controls to be proportionate to address the associated risk. However, as the review of journals is associated with a significant risk we are required to bring this matter to your attention. • We identified 12 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify unauthorised, unsupported or inappropriate entries. • We evaluated accounting estimates, including the consideration of and did not identify any indicators of management bias. • Our procedures did not identify any significant unusual transactions.

Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Procedures undertaken	Findings
Valuation of Land and Buildings: The carrying amount of revalued Land & Buildings differs materially from the fair value Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'. The value of the Trust's land and buildings at 31 March 2023 was £79m, of which £74m are valued as specialised assets at depreciated replacement cost Judgemental assumptions are made by management with regards to identifying and applying impairment indicators to the property, plant & equipment. The Trust is due to undertake an interim revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2021.	We have performed the following procedures designed to specifically address the significant risk associated with the valuation: - We critically assessed the independence, objectivity and expertise of Cushman and Wakefield, the valuers used in developing the valuation of the Trust's properties at 31 March 2024; - We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual; - We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances are identified; - We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; - We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement.; - We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM - We agreed the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the GAM; and - Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation	See overleaf

Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
Valuation of Land and Buildings: The carrying amount of revalued Land & Buildings differs materially from the fair value Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'. The value of the Trust's land and buildings at 31 March 2023 was £79m, of which £74m are valued as specialised assets at depreciated replacement cost Judgemental assumptions are made by management with regards to identifying and applying impairment indicators to the property, plant & equipment. The Trust is due to undertake an interim revaluation of its land and buildings in year. The last full revaluation took place on 31 March 2021.	• Our findings have not identified any significant issues in relation to the valuation of land and buildings • In our assessment of design and implementation of controls we note the absence of a formal control with respect of reviewing the assumptions adopted by both the Valuer. This does not meet the requirements of a management review control as defined by Auditing Standards. As such we deem the control ineffective. A formal control observation was raised with respect of this in the prior year, but will not be repeated as the Trust consider its existing controls to be proportionate to address the associated risk. However, as the valuation is associated with a significant risk, we are required to bring this matter to your attention. • Through our enquiries with both the Trust and the Valuer, we are satisfied that the valuer has used up-to-date information (eg Buildings Cost Information Service (BCIS) indices, detail of capital spend) to inform the interim valuation as at 31 March 2024. • The Valuer explained that the modern equivalent asset is valued using the existing gross internal area (GIA), which was thoroughly scrutinised by the valuer as part of the full valuation undertaken in 2020-21. There were no changes in the GIAs, apart from the addition of Ellesmere Port Hospital (EPH) which was transferred to The Countess of Chester Hospital in 2024. We agreed the GIAs provided by the transferee were consistent with that recorded by the Trust and past on to the Valuer for the purpose of their valuation. • We are satisfied that the assumptions such as the BCIS indices and obsolescence factors adopted by management are appropriate. • Overall, following the completion of our procedures, we are satisfied that the valuation of the Trust's Land and Building assets is free from material misstatement and disclosure of estimation uncertainty is adequate.

Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Procedures undertaken	Findings
Existence of Assets Under Construction: Additions to property, plant and equipment are recorded inappropriately when the assets do not exist. • In each of the past three year-end financial statements, management have inappropriately recognised an asset under construction when there was no identifiable asset at the reporting date. • This has resulted in audit misstatements below our materiality level which have been reported to Those Charged with Governance. • The Women's and Children's Building is currently under construction and the trust is forecasting to spend up to £30m during the course of the year. It will still be under construction at the balance sheet date. Given the Trust's historical approach to recognition, we will need to validate that the value of the asset recognised by the trust exists. • Whilst management are constrained by the NHS capital funding regime, recurring attempts to justify inappropriate accounting on the basis of materiality is deemed a fraud risk. We therefore consider there to be a significant risk of fraud over the existence of Assets Under Construction.	We performed the following procedures designed to specifically address the significant risk associated with the capitalised costs: – We evaluated the design and implementation of controls for ensuring existence of additions capitalised as assets under construction – Through our testing of a sample of asset additions, we confirmed the existence and accuracy of assets capitalised on the balance sheet.	• We did not identify any issues in relation to the design and implementation of the relevant controls. • Through our testing of a sample of asset additions and review of the balance held in asset under construction, we identified the trust have included a payment in advance for the Women and Children's Building in 'Assets Under Construction and Payments on Account', amounting to £3.2m which is inappropriately classified. This payment specifically relates to the electrical capacity upgrade, which was paused as the scope of the work was changed. • The same issue has been raised historically in relation to Same Day Emergency Care (SDEC) and Women and Children's Building. This cannot be recognised as an asset under construction as there is no identifiable asset at the reporting date to which the payment can be attributed. This has been reported as an unadjusted audit difference.

03
Value for Money

Value for Money

Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:

- 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

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	15-18	19-21	22-23
Identified risks of significant weakness?	Yes	No	No
Actual significant weakness identified?	No	No	No
2022-23 Findings	No new significant weakness identified	No new significant weakness identified	No new significant weakness identified
Direction of travel	⇔	⇧	⇧

Value for Money

NATIONAL CONTEXT

Financial performance

The 2023-24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation felt during the year and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1bn against its agreed budgets. This came after additional funding had been made available earlier in the year to support with the costs of industrial action.

Operational performance

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

System working

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements both within the ICBs themselves and as systems.

LOCAL CONTEXT

The Countess of Chester Hospital NHS Foundation Trust is a district general hospital which employs 5,719 staff (headcount) to provide care and treatment to a population of over 400,000 people living in Chester and West Cheshire which includes Ellesmere Port and Neston as well as the Deeside area of Flintshire.

The Trust is part of the Cheshire and Merseyside Integrated Care System (ICS).

Following initial rejection of the financial plan in March 2023, NHSE held a series of escalation meetings with the trust and other providers who had the greatest challenges. In total there were six planning submissions made to the Integrated Care Board (ICB)/ NHS England, which reflects the financial challenges facing both Cheshire & Merseyside and the wider NHS.

The Trust continued to face increasing pressure from patients not meeting the criteria to reside as well as costs associated with the opening of escalation beds to support delivery of emergency activity and increased patient acuity. Pay inflation and other running costs such as utilities continue to add pressure on budgets.

The financial performance for the period ending 31st March 2024 (Month 12) was a deficit of £30.1m compared to a planned deficit of £25.2m, and adverse variance from plan of £4.9m. In conjunction with the Integrated Care Board (ICB) and national year end position, the Trust was able to take a more prudent approach in relation to the financial impact of anticipated pay costs.

The Trust's financial plans for 2024-25 have been based on the 2024-25 national planning guidance., The trust has a planned deficit of £23.6 million, which includes delivering a recurrent savings plan of £19.6 million plus a further 'stretch' target of £6.5 million. The Cheshire & Merseyside Integrated Care system have submitted a deficit plan of £150 million with a number of non-recurrent measures to achieve this position, whilst a plan to deliver a recurrent breakeven plan is developed. This is still with the NHSE for final approval.

Financial Sustainability

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

We have considered the following in our work:

- How the Trust ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Financial Plan 2023-24

Capital & revenue plans are reviewed for alignment to the Trusts Clinical, Estates and Corporate Strategies and Executive leads and Divisional Directors are involved in the development and sign off prior to presentation to the Board. Budget holders sign off their individual budgets on an annual basis.

The Trust submitted a final plan to ICS at the end of March of £35m deficit, which included £17.8m of assumed CIP. Following review by NHSE, the system plans submitted by the three North West ICSs for 2023/24 were not accepted as it was felt the system deficit was too large.

In April 2023, NHSE held a series of escalation meetings with the trust and other providers who had the greatest challenges. In total there were six planning submissions made to the Integrated Care Board (ICB)/ NHS England, which reflects the financial challenges facing both Cheshire & Merseyside and the wider NHS.

A number of other improvements were made to the financial plan, following further discussions with the ICB. Adjustments included a targeted release of balance sheet provisions (£4.8m), allocation of additional urgent and emergency care income (£3.4m) and other adjustments amounting to £1.6m.

Due to the timing of the submissions, it was not possible to get full Trust Board approval of the final plan, but the Finance & Performance Committee were given delegated authority to approve the plan prior to submission. The Trust submitted a £25.194m deficit plan, with £20.8m of efficiency savings (CIP) to the Integrated Care System (ICS). Risks and mitigations were included in the Trust plan and financial risks were triangulated with workforce and operational risks.

Financial Monitoring and Performance 2023-24

The financial performance for the period ending 31st March 2024 (Month 12) was a deficit of £30.1m compared to a planned deficit of £25.2m, and adverse variance from plan of £4.9m. Management confirmed it was agreed with the ICB that they were able to miss their planned deficit. The outturn position was achieved through the delivery of approximately £14m of non-recurrent contingencies, including central funding to cover strike costs and balance sheet releases.

Overall, the Trust has processes in place to enable opportunity for appropriate monitoring of the in-year financial position. The Trust also started to strengthen its identification and challenge of overspends in divisions and implementing processes to hold managers of overspending budgets to account.

We have seen regular monitoring of financial performance during the year through reporting to Board and Finance and Performance Committee (FPC) with financial performance being challenged, risks highlighted and mitigations identified.

Financial Sustainability

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

We have considered the following in our work:

- How the Trust ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Cost Improvement Plan

At month 12, the Trust delivered £20.7m of CIP savings (against a target of £20.8m), however only £10.6m (51%) of this was achieved recurrently. This means £10.2m will be carried into the 24-25 financial plan. Whilst delivery overall is positive, and as a percentage of spend is an improvement on 22-23, this does create additional pressure in the 2024-25 plan. Compared to other providers we audit, recurrent delivery by Trust is slightly below average (see page 18), however the Trust did make up the gap with non-recurrent measures.

Due to the level of risk around successful delivery of recurrent efficiencies, there is a lead manager for CIP within the Trust with the aim to provide a link between clinical and operational teams and finance to ensure required documentation and processes around CIP are maintained.

The Trust has a Cost Improvement Programme Delivery Group (CIPDG) which aims to provide formal governance arrangements to manage the Trusts cost improvement programmes and this has met on a weekly basis throughout the year. Its responsibilities include, but is not limited to, risk assessing individual projects impact on quality, review and identify trust wide interdependencies and to commission and de-commission individual projects within the programme. The terms of reference have recently been updated and the forum will be accountable to the Operational Performance Executive Led Group (OPELG) going forward.

The Trust has a RAG rated system which identifies which department is at greatest risk of delivering their CIP. These departments are then supported by CIPDG and the wider Finance Department. We have seen evidence of the operation of this group during the year.

In addition, the Trust engaged PwC to perform a review of its financial performance and the drivers of deterioration in underlying financial performance in the years following the Covid-19 pandemic. A series of recommendations were raised and this will form part of the review undertaken by the Director of Finance. The Trust have provided an update on how they are tracking against the Financial Management Action Plan, and whilst progress has been made, the majority are set of for implementation in 2024/25.

In addition, the CQC reported (14th February 2024) that the trust did not have a robust arrangement to consider the impact of cost savings on patient care. Quality impact assessments (QIAs) were rarely completed as part of the trust’s cost improvement programme and leaders told inspectors they were required only where the cost improvement programme’s value exceeded £50k. Management have recently implemented an action to revise the QIA template process and this is now in use for the 24-25 CIP planning.

Financial planning 24-25 and beyond

The Trust developed a 5 year financial plan to outline the scale of the challenge the Trust faces to achieve financial balance over the next 5 years. Emerging cost pressures include spend on drugs, building and engineering spend and gas and electricity.

Financial Sustainability

Financial planning 24-25 and beyond (cont.)

Planned Care and Urgent Care are at the greatest risk of non-delivery of their CIP and are being supported by the Trust. At the end of April, the financial plan was received by Board for approval. A £29.5m deficit including a £20m Cost Improvement Plan (CIP) was proposed.

Following subsequent review by the ICB and NHSE, the trust has revised its planned deficit to £23.6 million, which includes delivering a recurrent savings plan of £19.6 million plus a further ‘stretch’ target of £6.5 million. The Cheshire & Merseyside Integrated Care system have submitted a deficit plan of £150 million with a number of non-recurrent measures to achieve this position, whilst a plan to deliver a recurrent breakeven plan is developed. This is still with NHSE for final approval.

The Cost Improvement Programme is an area of high focus within the Trust and a revised reporting process is being implemented including the Chief Executive Officer taking the role of Senior Responsible Officer for efficiencies.

As at 31 May the Trust has reported £0.3m of recurrent CIP savings delivered. £4.7 million savings have been identified and going through the QIA process with a further £12.7 million of opportunities identified. £2.2m are unidentified.

Conclusion

We note that the financial position has been communicated transparently to FPC & Board throughout the year and whilst the Trust did not meet its deficit plan, this was agreed with the ICB. We note the following progress during the year to strengthen arrangements around financial sustainability, including appointment of a lead manager to support monitoring and tracking of CIP and weekly meeting of the CIPDG.

In addition, the governance arrangements are being further enhanced, including how CIP will be monitored and reported as well as revising the QIA process used for developing CIP schemes. There is a Financial Management Plan in place to respond to external review recommendations as well as actions incorporated into the wider Trust Improvement Plan.

Management are in a better position in terms of CIP planning than in May 2023, and whilst in-year recurrent CIP target was not achieved this was mitigated with non-recurrent delivery. For 2024-25, some progress has been made to identify recurrent CIP savings, however £12.7m are still being worked up and £2.2m are unidentified.

Consequently our judgement is that, during the course of 2023/24, we have not identified any new significant weaknesses in relation to the arrangements in place around financial sustainability, and we do not believe a significant weakness exists in the Trust’s arrangements to respond to the previous significant weakness identified. We do however recognise there is still work to be done by the Trust to identify savings, implement plans to deliver identified savings and manage funding gaps.

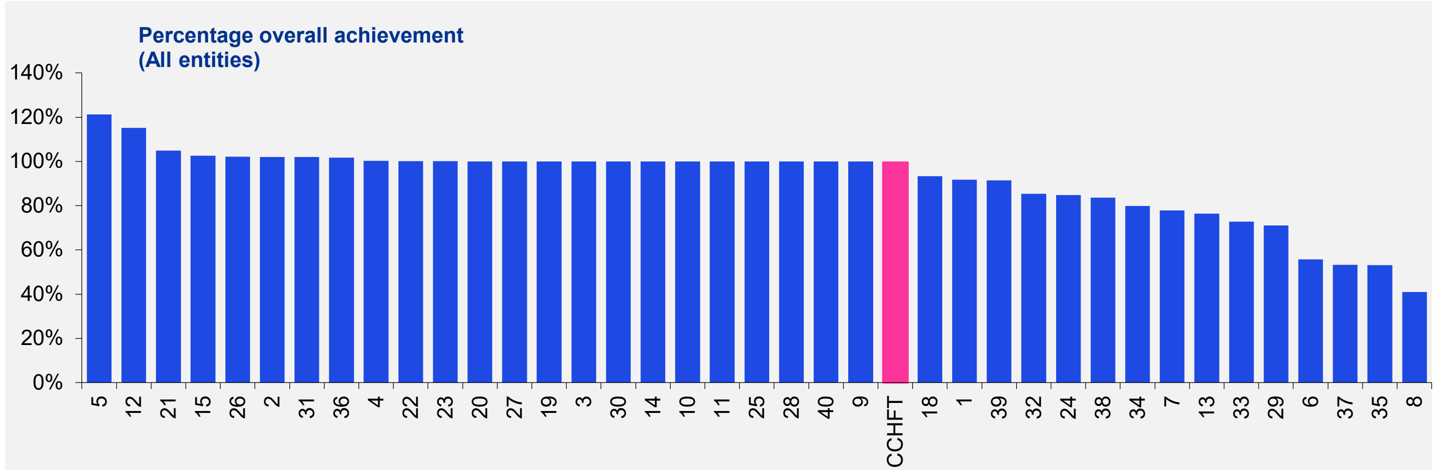
Key financial and performance metrics:	2023-24	2022-23
Planned surplus/(deficit)	(£25.2m)	(£3.1m)
Actual surplus/(deficit)	(£30.1m)	(25.7m)
Planned CIP as a % of spend	6%	4%
- Recurrent	£10.4m	£5.4m
- Non-recurrent	£10.4m	£7.9m
Actual CIP as a % of spend	5%	4%
- Recurrent	£10.6m	£5.3m
- Non-recurrent	£10.1m	£10.1m
Year-end cash position	£12.2m	£22.9m

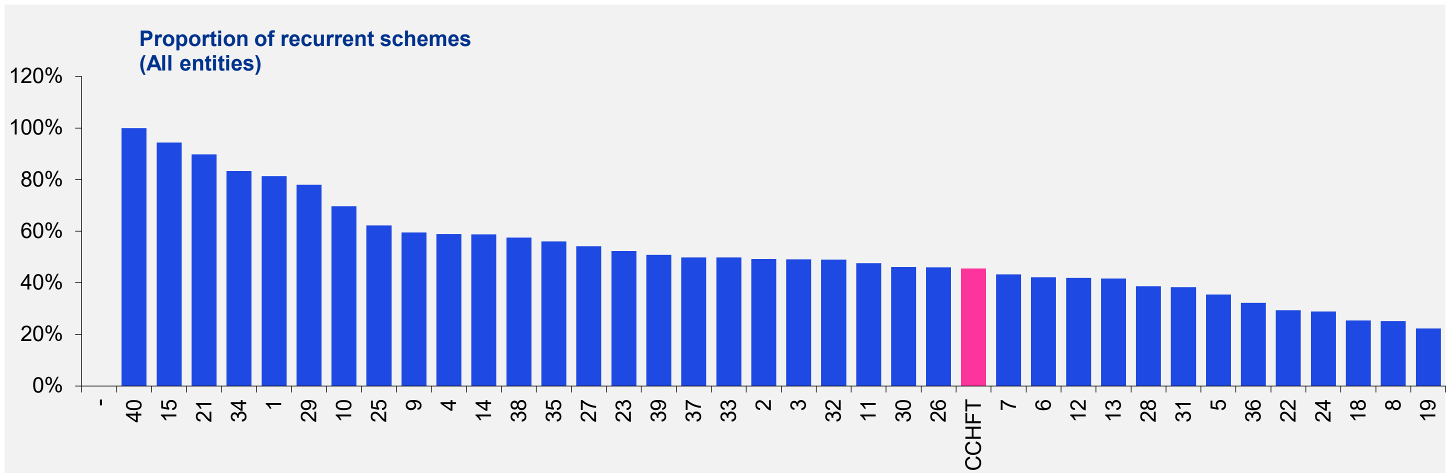
Financial Sustainability

Efficiency schemes benchmarking

We have benchmarked the Trust's efficiency schemes performance in 2023/24 against KPMG's other NHS provider audited entities.

- Most of the Trusts in our sample achieved or exceeded their scheme in full, noting this was using a combination of recurrent and non-recurrent schemes.
- The second graph does demonstrates however that the Trust was slightly below average of the provider comparator group in terms of the percentage of savings delivered recurrently.





Governance

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

We have considered the following in our work:

- how the Trust monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour

Risk Management

In response to some of the CQC findings in May 2022, the Trust introduced a refreshed Risk Management Policy and Procedure and Risk Management Strategy in September 2022. Following the outcome of the latest CQC review, there will be a further review of the Trust's Risk Management Policy and Procedures and the Trust's approach to Risk Management training by the end of Quarter 2 2024/25.

The central tool used in the management of risk is the Board Assurance Framework (BAF). Each department has an individual risk register which forms part of the action log in meeting agendas (risks, when mitigated are closed as actions; when in progress of being mitigated, updates are given; and when proposed to be mitigated, risks are added to the register). Strategic risks are recorded in the departmental risk registers and consolidated into the BAF for reporting to the Trust Board.

In 23/24 the Board Assurance Framework (BAF) was subject to executive review, both individually and collectively and changes were implemented to allow a more robust approach to the management of risk by seeing the residual scores in the context of risk tolerance.

However, the CQC did note during their inspection, the Datix system showed there were a significant number of risks which were overdue for review. Similarly, the risk registers provided by the trust showed there were 439 risks recorded on the electronic system, of which a third (143 risks, 33%) were overdue for review. The corporate services' risk register had the most risks which were overdue for review.

Financial planning and monitoring

Our commentary on the review and approval of the 2023-24 financial plan is included on page 12. In respect of the process for monitoring against budgets, financial forecasts are based on the run rate plus known impacts as discussed in budget holder meetings.

Budget monitoring takes place throughout the year between senior finance managers and budget holders, in order to understand and address variances. Since January 2024, managers of overspending budgets have been asked by the Chief Executive and Director of Finance to prepare financial recovery plans for a specified deadline to demonstrate how they will reduce current run rates. Our review of these arrangements is still in progress.

Compliance with laws and regulations

The Trust has an overarching Anti-Fraud, Corruption and Bribery Policy and Response Plan in place, produced by the Local Counter Fraud Specialist (LCFS). The Director of Finance is the Executive lead responsible for the monitoring of this Plan via the Audit and Risk Committee.

Compliance with regulations and standards is reported in the Annual Report and Annual Governance Statement (presented to Board and Audit committee)

Governance

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

We have considered the following in our work:

- how the Trust monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour

Compliance with laws and regulations (cont)

The Trust also performs a self-assessment annually against the NHS Provider Licence, which is considered by Audit Committee and Board. The Audit Committee is responsible for monitoring the effectiveness of internal control. The Trust's internal auditors (MIAA) develop and agree an annual work plan which is approved and monitored at the Audit Committee. Through our review of the Audit Committee papers, we have seen evidence of audit reports identifying recommendations for improvements for weaknesses identified in internal controls. MIAA have concluded an overall 'Limited Assurance' opinion for the financial year.

The NHS Standards of Business Conduct and Behaviour Standards are available to all staff on the intranet and all policies are provided to new employees as part of the Trust induction process. The Trust also has a Conflict of Interest policy which incorporates the gifts and hospitality policy. This is monitored and approved through the Audit Committee.

The Board relies on the governance structure in place at the Trust to ensure decisions receive appropriate scrutiny. The Trust's governance agenda is managed through the Board's governance committees each chaired by a Non-Executive Director, reporting directly to the Board. The terms of reference for each of the Board sub-committees stipulate the roles of each of the committee and their responsibilities for decision making.

Trust Improvement Plan

In response to May 2022 CQC findings, a System Improvement Board (SIB) was set up in July 2022 to provide oversight for the Trust's delivery of the Trust Improvement Plan (TIP). The SIB membership includes representation from the ICB, NHSE regional office and the CQC, amongst others, and receives regular updates including a TIP highlights report as well as deep dives across each of the key reporting themes

The Trust is in the process of revising its SIB exit criteria to align with the current position (following the recent CQC review) and supports the Trust moving from a National Oversight Framework (NOF) 3 to a NOF 2 Trust.

CQC

All CQC plans including the output from external reviews had been amalgamated into one plan in the prior year. In September 2023, the CQC highlight report confirmed all 36 milestones had been completed with ongoing monitoring of 7 areas to ensure actions are fully embedded.

Prior to the most recent CQC visit, the trust had also commissioned an external well led peer review. This reported in November and the findings were incorporated into the Consolidated Well-Led action plan which is presented at each Board Meeting.

Governance

We previously identified a significant weakness in arrangements at the trust in failing to implement or achieve progress on recommendations raised by the CQC and made a recommendation that was accepted by the trust. In the most recent CQC report, improvements were evident and the CQC increased the Well-Led rating from Inadequate to Requires Improvement, noting the trust had identified weaknesses in governance systems and plans to make improvements. However, they did identify risks to quality and safety in several services, particularly in the trust's urgent and emergency care services.

We also acknowledge the significant change in senior leadership at the trust that was noted by the CQC. However, a number of the interim posts have now been made permanent and we do not consider this to be a risk of significant weakness in arrangements at the trust.

Conclusion

We are satisfied that Trust has demonstrated the necessary arrangements to respond to the recommendations made in response to significant weaknesses identified in prior years. We have not identified any new significant risks associated with governance in the current year's arrangements.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	None	None
Head of Internal Audit Opinion	Moderate	Limited
Oversight Framework segmentation	3	3
Care Quality Commission rating	Requires Improvement	Requires Improvement

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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- how the Trust ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

Assessing VFM

The Trust takes part in the annual reference costs exercise which is shared throughout the organisation and used as a benchmarking tool to identify potential areas of in-efficiency. Model Hospital Data and Get it right first time (GIRFT) is used as part of the annual Cost improvement planning cycle. The Trust engaged the Head of Improvement and Transformation at Liverpool Heart Chest Hospital and introduced a benchmarking framework to strengthen the Trust's approach to assessing its VFM processes.

We have reviewed the process in place for major decisions and business cases. Decisions are taken through Directorate Boards in the first instance and subsequently submitted to the Executive Leadership Group for agreement before submission to the Operational Management Board) for approval and sign off. However, the Trust currently has no mechanism in place for monitoring the performance of the Business Cases approved and lack of agreed KPIs limits the challenge which can be applied. The Director of Finance reports that this will form part of the review which is to be undertaken.

The Trust has arrangements in place to monitor non-financial performance. Non financial performance is reported to the Board of Directors and its sub-committees through the Integrated performance report with key metrics presented using statistical process control charts split by the CQC domains (Safe, Effective, Responsive & Well Led). Performance is reported against either nationally determined targets or where these are not available locally agreed targets.

Assurance over the accuracy of non-financial performance data is controlled by the Business Intelligence team who produce the data which is incorporated into the Integrated Performance Report (IPR). The team performs data quality checks as part of its standard process.

Elective Care and Electronic Patient Record System

We had previously reported on the weaknesses in this area. It is evident arrangement have been put in place to deliver improvements in this area. The CQC noted the trust had delivered most of the quality priorities for 2022/23, including the elimination of waiting times exceeding 78 weeks for patients waiting for treatment. In addition, the trust had a national requirement to eliminate waiting times of more than 65 weeks by the end of March 2024 which was achieved.

The trust has also invested in new training for the EPR system and the CQC reported staff demonstrated familiarity and confidence in using the electronic patient record system.

Partnership working

The Trust is a member of the NHS confederation, NHS Providers, a partner member of HFMA and uses model hospital benchmarking to improve the efficiency and effectiveness of its services. Activities of the local Integrated Care system is communicated with the Board during the Board meetings.

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

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- how the Trust ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

Partnership working (cont.)

The Trust is required monthly to report the unmitigated financial risk within the position to the ICS. As the Trust is reporting off plan, monthly monitoring meetings with the ICS take place where best, most likely and worst case forecasts are discussed. A formal protocol has also been issued nationally for reporting a financial forecast off plan.

Conclusion

We are satisfied that Trust has demonstrated the necessary arrangements to respond to the recommendation made in response to significant weaknesses identified in prior years. We have not identified any new significant risks associated with Improving economy, efficiency and effectiveness in the current year’s arrangements.

Prior year findings

Significant weaknesses followed up from the prior year

In our annual auditor's report for the financial year 2021-22 we reported that the Trust had a significant weakness in arrangements over financial sustainability/governance/improving economy, efficiency and effectiveness surrounding delivery of future savings, responding to CQC recommendations and taking appropriate action or secure improvement in areas where the body has identified weaknesses in terms of service performance. In 2022-23, we considered that these recommendations were still in progress and reported as such in our Auditor's Annual Report 2022-23. As required by the Code of Audit Practice we have revisited this issue and set out in the table below an update in regards to the arrangements in this area.

#	Recommendation	Management Response	Current status
1	**Financial Sustainability** The Board should ensure that appropriate arrangements are implemented to identify and deliver the Trust identified savings in order to meet the financial plan for 2022/23 and future years.	The Trust agrees with the recommendation. Plans are in place to identify, monitor, risk rate and review progress of the Value Improvement Programme and will be reporting monthly to Finance and Performance Committee and through to the Trust Board. Delivery of the financial plan will also need to recognise the challenges the Trust faces to recover the elective programme, embed the implementation of the new Electronic Patient Record and respond to the requirements of the recent CQC inspection. In addition, the historical and structural financial position will need to be considered, particularly given that Model Hospital data indicates that the Trust is under-resourced comparatively. It should also be recognised that additional pressures may result from the fact that some elements of funding (such as Elective Recovery) may be clawed back.	**In progress** We note that the financial position has been communicated transparently to FPC & Board throughout the year and whilst the Trust did not meet its deficit plan, this was agreed with the ICB. We note the following progress during the year to strengthen arrangements around financial sustainability, including appointment of a lead manager to support monitoring and tracking of CIP and weekly meeting of the CIPDG. In addition, the governance arrangements are being further enhanced, including how CIP will be monitored and reported as well as revising the QIA process used for developing CIP schemes. There is a Financial Management Plan in place to respond to external review recommendations as well as actions incorporated into the wider Trust Improvement Plan. Management are in a better position in terms of CIP planning than in May 2023, and whilst in-year recurrent CIP target was not achieved this was mitigated with non-recurrent delivery. For 2024-25, some progress has been made to identify recurrent CIP savings, however £12.7m are still being worked up and £2.2m are unidentified. Consequently our judgement is that, during the course of 2023/24, we have not identified any new significant weaknesses in relation to the arrangements in place around financial sustainability, and we do not believe a significant weakness exists in the Trust's arrangements to respond to the previous significant weakness identified. We do however recognise there is still work to be done by the Trust to identify savings, implement plans to deliver identified savings and manage funding gaps.

Prior year findings

#	Recommendation	Management Response	Current status
2	**CQC inspection** The Board must ensure that significant improvement is made in the areas of concern not yet addressed from December 2019. Further the Board must manage the implementation of the improvement plan produced as a result of the published CQC report in June 2022. Progress should be monitored and scrutinised by the appropriate project groups and the Trust's Board to ensure the actions taken to address the issues raised are effective.	The Trust agrees with the recommendation. The Trust has included the recommendations not addressed from the 2019 inspection in the Trust wide action plan for the 2022 inspection recommendations and this will be consistently monitored via the Trust Quality Governance Group and, by exception, to the Quality and Safety Committee and to the Trust Board. In addition, the Trust Improvement Programme will monitor progress against the regulated activity recommendations and associated actions identified in the CQC reports 2019 and 2022 and, as set out above, will be monitored via the governance reporting structure.	**Closed** An established governance reporting structure is in place to monitor progress against the regulated activity recommendations from the CQC review with appropriate external oversight by the SIB. In the most recent CQC report (14 February 2024), improvements were evident and the CQC increased the Well-Led rating from Inadequate to Requires Improvement, noting the trust had identified weaknesses in governance systems and plans to make improvements. We are satisfied that Trust has demonstrated the necessary arrangements to respond to the recommendations made and therefore we consider this recommendation closed.
3	**Failure to take appropriate action or secure improvement in areas where the body has identified weaknesses in terms of service performance** The Board should review their risk processes to ensure that they are able to identify areas that could impact on their ability to deliver services effectively and efficiently. Where risks are identified, these should be managed appropriately with decisions made on a timely basis to address areas of concern.	The Trust agrees with the recommendation. The Trust's Risk Management Strategy and Policy is currently being reviewed and updated and will be presented to Trust Board in September 2022. This will incorporate lessons learned from all major change activity, including Electronic Patient Record (EPR) implementation. This will also introduce an organisational risk management framework which will be applied consistently throughout the Trust. .	**Closed** It is evident arrangement have been put in place to deliver improvements in this area. The CQC noted the trust had delivered most of the quality priorities for 2022/23, including the elimination of waiting times exceeding 78 weeks for patients waiting for treatment. In addition, the trust had a national requirement to eliminate waiting times of more than 65 weeks by the end of March 2024 and this was achieved. The trust has also invested in new training for the EPR system and the CQC reported staff demonstrated familiarity and confidence in using the electronic patient record system. We are satisfied that Trust has demonstrated the necessary arrangements to respond to the weaknesses identified in service performance made and therefore we consider this recommendation closed.

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