Auditor’s Annual Report 2022/23

Princess Alexandra Hospital NHS Trust

11 September 2023

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This report is addressed to Princess Alexandra Hospital NHS Trust (the Trust) and has been prepared for the sole use of 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.

Summary

Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2022-23 audit of Princess Alexandra Hospital NHS 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 25 July 2023. 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 4.
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 DHSC requirements.
Value for money	We are required to report if we identify any significant weaknesses in the arrangements the Trust has in place to achieve value for money. We identified one significant weakness relating to the arrangements for financial sustainability. We have provided further detail on page 6.
Other reporting	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have reported to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 on 10 May 2023 due to the Trust's breach of its breakeven duty as set out in paragraph (2)(1) of Schedule 5 of the National Health Service Act 2006.

Accounts Audit

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
Fraudulent expenditure recognition Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised a risk that the Trust may seek to reduce its reported expenditure in order to report that it had achieved centrally required financial performance targets. We considered this would be done through excluding accruals that should have been recorded at the end of the financial year.	We performed procedures that included reviewing invoices received and payments made either side of the end of the financial year in order to assess whether they had been recorded within the correct reporting period. We also assessed the accuracy of a sample of accruals that had been recorded at the end of the year compared to the actual invoices received after year end. We did not identify any material misstatements relating to this risk. We considered that estimates associated with accruals at the end of the year were cautious. We raised a recommendation relating to management review of month-end and year-end accruals posted to the general ledger.
Property, Plant and Equipment Valuation Land and buildings are required to be held at fair value in the financial statements. As hospitals are specialised assets and there is not an active market for them, they are valued on the basis of the cost to replace them with a 'modern equivalent asset'. The valuation includes assumptions in relation to the condition of the estate and obsolescence which are judgemental areas.	We performed procedures including challenging assumptions made by management in determining the valuation of the site at the end of the year. We did not identify any material misstatements relating to this risk. We considered the estimate to be balanced based on the procedures performed due to appropriate adjustments for obsolescence, appropriate uplift for the impact of inflation in line with construction cost indices, and that the Trust valuer is suitably independent.
Management override of controls We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.	We performed procedures including testing a sample of journals posted during the year that met high risk criteria identified by the audit team and assessing the control environment for the posting of manual adjustments to the general ledger. We have not identified any instances of management override of controls.

Value for money

Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at Code of Audit Practice (nao.org.uk).

Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

Source	Detail
Care Quality Commission rating	The latest overall rating published on the CQC website in November 2021 is 'requires improvement'.
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	The Head of Internal Audit opinion provided moderate assurance, meaning there is a sound system of internal control, designed to meet the Trust's objectives and that controls are being applied consistently.

Commentary on arrangements

We have set out on the following pages commentary on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	**One significant risk identified**	**Significant weaknesses identified**
Governance	**No significant risk identified**	**No significant weaknesses identified**
Improving economy, efficiency and effectiveness	**No significant risk identified**	**No significant weakness identified**

We identified a significant weakness with regards to the Trust's arrangements for financial sustainability. We reported this as part of our audit report and have provided further details in our commentary on page 6.

Value for money

Financial sustainability	
Description	**Commentary on arrangements**
This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ How the Trust sets its financial plans to ensure services can continue to be delivered; ▪ How financial performance is monitored and actions identified where it is behind plan; and ▪ How financial risks are identified and actions to manage risks implemented.	2022/23 financial performance In 2022/23 it was expected that NHS entities would achieve a break-even level of performance, both individually and as part of their wider Integrated Care Systems. As an NHS Trust PAH is also governed by a statutory break-even duty, which requires it to break-even on average over a period of three years to within 0.5% of its annual turnover. The Trust has reported a deficit for 2022-23 of £13.0m after adjusting for uncontrollable spend. This is a cumulative deficit of £154.5m due to a combination of the in year deficit and accumulated deficits from previous periods. The Trust had set a break-even plan following the submission of updated budgets during the year as further funding was made available to support with the cost of high inflation. The primary drivers of the Trust not achieving its planned performance were higher than planned levels of agency use, excess costs incurred in delivering the elective recovery plan and non-recurrent funding received during the Covid pandemic not being continued. The Trust reported high agency spend against its financial plan and other Trusts (7% of total staff costs compared to plan of 1.7%). The agency budget has been included at a level that is significantly less than the actual spend in 2022-23 so that it is compliant with NHSE directives. The Trust is currently taking action to reduce agency spend. This is through a recruitment drive, introducing medical rate guidance, working with other ICS acute providers to standardise rates, and productivity improvements designed to reduce agency need. In 2022/23 the Trust began the year with a large amount of unidentified CIPs, which increased the risk of the targets not being achieved. Over the year the Trust has put a lot of work in to developing an understanding of their underlying cost drivers and a more robust forecasting process and model. This has been utilised by the Trust to inform them of expenditure pressures, and these have been included in the budget process for 2023/24. The Trust has engaged with an external consultancy to assist with the historical financial challenges and embed a change and efficiency culture across the organisation. They helped to scope out the 2023/24 efficiency opportunities and lead on the early evaluation work. This focussed on reducing the run rate as costs such as agency premiums are not factored into budgets. Our review of the efficiency programme that has been delivered for 2022-23 showed approximately 90% of the efficiencies delivered were non-recurrent, which is a significantly higher proportion than the peers we compared the Trust to. This leads to additional pressures on future efficiency plans as there is not a recurrent benefit achieved from the savings achieved in year.

Value for money

Financial sustainability (continued)	
Description	**Commentary on arrangements**
This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ How the Trust sets its financial plans to ensure services can continue to be delivered; ▪ How financial performance is monitored and actions identified where it is behind plan; and ▪ How financial risks are identified and actions to manage risks implemented.	2023/24 financial planning The Trust has set a financial plan for 2023/24 that would achieve a £5.1m deficit, which would be a breach of the statutory break-even duty in year as well as the cumulative duty. In order to achieve the forecast deficit the Trust is required to achieve savings of £16.6m, equivalent to 4.5% of its expenditure. We note that at the time of completing our assessment the Trust had identified £18m of savings opportunities, however the level of savings required is significantly higher than the Trust has historically been able to achieve. We consider that there is a significant degree of risk associated with the Trust's projections for the achievement of its savings targets in the year. The Trust has set a budget of a £5m deficit for 2023-24. While this would not be a material deficit we consider that the risk of achievement to this position is high due to the level of efficiencies that are required to be delivered, the risk that they are not able to be implemented for the full year effect to be realised and because the Trust does not have a medium term financial plan for returning to break-even. We have been unable to identify that the Trust has developed a forward financial plan that sets out a trajectory for achieving break-even either in the short or medium term. The financial projections for 2023-24 are for the achievement of a £5m deficit, which would continue to be in breach of the expectation for the Trust to break-even. The Trust has not modelled the actions that would be required in order to achieve a break-even position in future financial periods to determine how it will achieve a recurrent break-even position. **Conclusion** We determined that there was a significant weakness in the Trust's arrangements for achieving financial sustainability. The Trust has made a £13m deficit during 2022/23 and is forecasting that it will make a deficit again in 2023/24. The Trust remains in breach of the statutory break-even duty and we have been unable to identify that there are plans in place for the Trust to achieve a recurrent break-even position in the short or medium term.

Value for money

Governance	
Description	**Commentary on arrangements**
This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ Processes for the identification and management of strategic risks; ▪ Decision making framework for assessing strategic decisions; ▪ Processes for ensuring compliance with laws and regulations; ▪ How controls in key areas are monitored to ensure they are working effectively.	<u>Identification, monitoring and management of risk</u> The risk management strategy sets out the approach to be taken for managing risks, including how they are identified, how scores are assigned and how they are expected to be managed, how they are reported and monitored through the various committees and to Board. There has been a significant amount of work relaunching the risk management strategy, adjusting Board level appetite for risk and new grading of risks. A risk appetite statement had been developed during 2021-22 (updated during 22/23) and incorporated into the risk management strategy. The Trust has an appropriate risk management framework established through its risk management strategy to enable the management of strategic risks and the escalation of risks to Board. The Board Assurance Framework (BAF) allocates risks to risk leads, who would be responsible for taking the risk forward to be acted against. Where applicable this could be a sub-committee of the Board. There is a good process for assessing risks. The BAF is well designed including current, residual and target risk scores, gaps in controls and assurance, review dates and key controls, and each risk assigned to an executive lead. It also includes relevant actions. However, all but one of the risks in the BAF has a residual risk score greater than the target risk score, which suggests the Trust need to reconsider their risk scoring or the actions being undertaken to bring residual and target risks more in line with each other. We have raised a performance improvement observation to the Trust as part of our reporting, however we do not consider that this constitutes a significant weakness in the arrangements in place. <u>Controls in place to prevent and detect fraud</u> The Trust has a Local Anti-Fraud, Bribery and Corruption Policy which has a review date of April 2023. Whilst this is due for review it was in date for the year 2022/23, so we have not identified this as a VFM weakness. The policy is to provide direction to staff who identify suspected fraud. The Trust also has a published Fraud and bribery - chief executive's statement which refers to the policy and describes the standards expected of staff, suppliers and service users.

Value for money

Governance (continued)	
Description	**Commentary on arrangements**
This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ Processes for the identification and management of strategic risks; ▪ Decision making framework for assessing strategic decisions; ▪ Processes for ensuring compliance with laws and regulations; ▪ How controls in key areas are monitored to ensure they are working effectively.	<u>Compliance with laws and regulations</u> The Trust has established a committee structure that includes each of the committees required under regulation including the Audit Committee and the Remuneration and Nomination Committee. The Governance Manual, which includes the Standing Financial Instruction, was created in 2019 and has a review date of 2021. Given that there have been committee and employee changes since 2019 this is out of date and should be updated. We raised a performance improvement observation to management for this to be addressed but did not consider it a significant weakness in arrangements. The Trust Board is required to comply with legislation, regulatory standards and other duties imposed on it by the DHSC. The Trust Head of Corporate Affairs is independent of the Trust Board to provide advice on corporate governance issues to the Trust Board and the Chair, and is responsible for monitoring the Trust Board's compliance with the law, Standing Orders, and guidance issued by the Secretary of State and Department of Health and Social Care. The Audit Committee monitors compliance with the Standards of Business Conduct and the Trust's arrangements for raising concerns. It also receive an annual report on the Registers of Interest, and Gifts, Hospitality, Sponsorship and other benefits. Breaches of the Standards of Business Conduct are reported to the Audit Committee. The Audit Committee also receives reports from Local Counter Fraud Service. The Capital Investment Manual sets out the requirements for business cases at the Trust. Business cases include a section on legal and regulatory considerations. The current business case template allows for a full evaluation of various criteria alongside the finances, including the potential benefits compared to known costs, involvement of Trust personnel and external agencies and appropriate project management and control arrangements. All major investments are discussed and challenged at Board allowing full opportunity to consider all aspects of each case. The Trust has appropriate policies in place for expected behaviour standards, and the processes for recording interests, gifts and hospitality. **Conclusion** We have not identified any significant weaknesses associated with governance.

Value for money

Improving economy, efficiency and effectiveness	
Description	**Commentary on arrangements**
This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it. We considered the following areas as part of assessing whether sufficient arrangements were in place: ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors.	<u>Procurement</u> During the year the Trust commissioned a review of procurement process, which identified that these should be strengthened. In particular the review identified gaps in the issuing of and monitoring of contracts by the Trust, which limits its ability to ensure that value for money is being achieved as suppliers have not signed up to agreed terms that the Trust can hold them against. While we note that deficiencies were identified by the internal auditors we did not consider that these constituted a significant weakness in arrangements given a limited number of instances were identified and the value of the affected spend. <u>Partnership working</u> The Trust is part of the East and North Hertfordshire ICS. The ICS have integrated with the West Essex Healthcare Partnership. The Trust has good representation across the ICB and have taken on a greater position over the year. There is representation from the Trust on each of the key boards. The Chief Executive is part of ICS working groups that have been established. They also have shared staff on specific ICB projects. Examples of projects which demonstrate good involvement in the ICS are collaborative working to support regional and system services during periods of industrial action, elective recovery collaboration across the system including shared paediatric urology services, sharing of best practice processes, working across urgent care to deliver safe services over winter, and development of a West Essex Community Diagnostic Centre and ICS Elective hub. The largest outsourced services are contracted directly with the ICB and are managed by operational leads at the Trust. Monitoring of the contracts is specific to each contract. **Conclusion** We have not identified any significant weaknesses in the Trust's arrangements for improving economy, efficiency and effectiveness.

Value for money

We raised the following recommendations in response to significant weaknesses identified in our value for money procedures.

#	Issue, Impact and Recommendation	Management Response
1	**Financial plan** The Trust does not have a financial plan to identify the efficiencies and changes required in order to achieve a recurrent break-even financial position and therefore we concluded that there was a significant weakness in the arrangements for achieving financial sustainability. The Trust should develop a medium term financial strategy that sets out the actions to be taken in order to achieve break-even and their timetable. This will require the identification of recurrent efficiencies based on the projected level of annual efficiency requirements and should be aligned to the ICS medium term financial plan that is under development, in line with NHS England guidance.	

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