



West Hertfordshire Teaching Hospitals NHS Trust

Auditors Annual Report: Year ended 31 March 2023

Draft report to the Audit Committee issued on 13 October 2023

Presented to the Audit Committee on 17 October 2023

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1. Executive summary

This Auditor's Annual Report provides a summary of the key issues arising from our audit of West Hertfordshire Teaching Hospitals NHS Trust (the 'Trust') for the year ended 31 March 2023.

Financial statements

We expect to issue an unqualified opinion on the Trust's financial statements on 17 October 2023.

This means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

Value for money

We have not identified any significant weaknesses in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources having regard to the specified criteria in the Code. We do note that attention has been drawn to a specific issue around cost of living and meal subsidy payments which have been deemed as special payments. Further detail is included at section 6.

Other reporting

We did not consider it necessary to use our auditor powers or report on other matters except on 13 October 2023 we referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 in relation to the Trust's breach of its break-even duty for the year ended 31 March 2023. See section 4 for further details.

2. Purpose and summary

Purpose of the Auditor's Annual Report

This Auditor's Annual Report summarises the key issues arising from the work that we have carried out in respect of the year ended 31 March 2023.

It is addressed to the Trust but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

Responsibilities of the Trust

It is the responsibility of the Trust to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

The Trust is also responsible for preparing and publishing its financial statements, annual report and governance statement.

Responsibilities of auditors

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice – April 2020 (the 'Code').

Under the Code, we are required to review and report on:

- Whether the financial statements give a true and fair view of the financial position of the Trust and of its income and expenditure for the year and have been properly prepared in accordance with the relevant legislation;
- Whether the other information published together with the financial statements is consistent with the financial statements;
- Whether the auditable parts of the remuneration and staff report are properly prepared;
- Whether the governance statement complies with the guidance issued;
- Whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- Where appropriate, make statutory recommendations, referral matters to the Secretary of State or issue a Public Interest Report.

Disclaimer

The contents of this report relate only to those matters which we are required to report under the NAO Code of Audit Practice (April 2020). We do not accept any responsibility if this report is used for any other purpose or by any other party other than the Trust.

3. Audit of the financial statements

Audit conclusion

We expect to issue an unqualified audit opinion on the financial statements on 17 October 2023.

This means that we consider that the financial statements give a true and fair view of the financial position and its expenditure and income for the year.

Identification of control weaknesses

We did not identify any significant control deficiencies during the audit of the financial statements which have a significant impact on the Trust, including on its value for money requirements. We have identified one issue in relation to cost of living and meal subsidy payments which has been deemed as special payments. Further detail is included at section 6. This has also been reported in our Audit Completion Report.

Audit differences

We did not identify any misstatements above our clearly trivial threshold that required an adjustment to the financial statements. We do note however that a number of uncorrected misstatements were reported. The effects of not recording these financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

4. Value for Money (VfM)

Scope

We are required to review and report on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in these arrangements, we are required to report this in the auditor's report included in the financial statements and to make recommendations for improvement in the Auditor's Annual Report.

Specified criteria

The NAO has issued guidance for auditors to report against three specified reporting criteria:

- Financial sustainability - planning and managing resources to ensure the Trust can continue to deliver its services;
- Governance - informed decisions and properly managing risks; and
- Improving economy, efficiency and effectiveness – using information about costs and performance to improve the way the Trust manages and delivers its services.

The NAO guidance also includes a number of further areas for review within each criteria to allow the auditor to assess those arrangements.

Risk assessment

Our risk assessment has not identified any areas of potential significant weakness.

Audit conclusion

We have not identified any significant weaknesses in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have raised one issue in relation to cost of living and meal subsidy payments which have been deemed as special payments. Further detail is included at section 6. This has also been reported in our Audit Completion Report.

We had no matters to report by exception in the audit report on the financial statements. We also have no matters to report in our closing audit certificate, on completion of our work on the Trust's value for money arrangements.

Section 30 referral

Under Section 30 of the Local Audit and Accountability Act 2014, the auditor of an NHS body has 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.

On 13 October 2023, we referred a matter to the Secretary of State under section 30 of the Act in relation to the Trust's breach of its break-even duty for the three year period ended 31 March 2023.

The Trust's financial statements for 2022/23 report an in year surplus of £321k, resulting in a cumulative deficit of £195.7m at 31 March 2023.

The Trust therefore continues to take a course of action that is unlawful and has caused a loss which gives rise to a duty on us to report to the Secretary of State under section 30(b) of the Local Audit and Accountability Act 2014 in respect of the three year period ended 31 March 2023.

5. Financial Sustainability

Auditor's commentary on arrangements

The following areas have been considered:

- How significant financial pressures relevant to short and medium-term plans are identified and built into plans;
- Plans to bridge funding gaps and to identify achievable savings;
- Whether financial plans support the sustainable delivery of services in accordance with strategic priorities;
- The consistency of financial plans 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
- Identification and management of risks to financial resilience e.g., unplanned changes in demand, including challenge of assumptions underlying its plans.

Findings

Financial planning

The Trust has prepared a 2023/24 financial plan in accordance with the National Health Service Act 2006 (as amended by the Health and Care Act 2022) which requires WHTH and the other bodies within the Integrated Care System (ICS) to prepare a financial plan before the start of the financial year.

The purpose of the plan is to demonstrate how WHTH intends to arrange and provide NHS services to meet the needs of everyone within the ICS area for the next year. We have reviewed the plan and can see how resources are split across each of the different trusts. The plans are of sufficient detail to allow robust planning.

Finance reporting

The Trust prepares a finance report, which we have observed is included within the Finance and Investment Committee papers (the Finance and Investment Committee is a sub-committee of the Board). The report includes

overall monthly income and expenditure, a balance sheet summary, a monthly cash flow summary, and a detailed analysis of agency expenditure analysed by directorate. A summary finance report is presented to the Board as part of Finance and Investment Committee Summary presented at each Board meeting.

Board Assurance Framework

The Trust's Board Assurance Framework (BAF) includes Financial Objectives as an organisational risk that could have a high impact on the delivery of the Trust's strategic objectives. The risk recognises that failure to achieve its financial objectives may lead to the organisation no longer being considered a going concern. This indicates that risks to financial resilience are given high focus within the Trust and subject to the Trust's formal risk management arrangements, as summarised in the 'Governance' section of our report.

Surplus / deficit calculation

From our audit of the WHTH Annual Report and Accounts, we have reviewed the calculations in support of the surplus / deficit calculation based upon the Trust's operating activities (including both income and expenditure).

The Trust reported a deficit of £8,625k in its Statement of Comprehensive Income for 2022-23 and its adjusted financial performance on a control total basis was a surplus of £321k for the year. This compares to a deficit of £10,327k and an adjusted performance surplus of £689k in 2021-22.

The Trust were aiming for a breakeven position for their continuing operations position, in line with their Operating Plan. As the final position was a surplus and therefore a breakeven position (in that WHTH did have a surplus), the financial management and planning appears to be operating effectively.

Saving requirements

In 2021/22, a savings target of £8.0 million was achieved against a plan of £15.0 million.

In 2022/23, a savings target of £13.2 million was achieved with £8.6 million of cash-releasing improvements.

2023/24 plan

The Trust's 2023/24 Financial Plan includes a total savings requirement of £16 million for 2023/24. Of these savings £14.4 million relates to recurrent savings and £1.6 million relates to non-recurrent savings. The non-recurrent amount represents savings that may not necessarily be repeated in subsequent years. The percentage of non-recurrent savings has reduced for 2022/23 which should make it easier to embed these savings within the Trust.

Monitoring saving requirements

The Trust is to submit a monthly return to the centre which outlines how the Trust is performing throughout the year in relation to their Cost Improvement Programme.

The position is discussed on a monthly basis throughout the year to ascertain whether or not the target is going to be met. This ensures that the Board have oversight of the situation and provides the opportunity for suggestions to be made on how to increase the level of cost savings.

6. Governance

Auditor's commentary on arrangements

The following areas have been considered:

- Risks are assessed and monitored to gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.
- The annual budget setting process is appropriate.
- Effective systems and processes are in place to ensure budgetary control, support statutory financial reporting requirements and ensure corrective action is taken where needed.
- The Trust makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.
- The Trust monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

Findings

Corporate risk register

As part of our audit of the Annual Report and Accounts, we reviewed the Corporate Risk Register during planning. Periodic updates were provided throughout the year at the Audit Committee.

The risks identified by the Trust were effectively communicated at Board level and were monitored throughout the year via the processes highlighted during our discussions with management throughout the audit.

From our attendance at the Audit Committee meetings, we are satisfied that the Committee has sufficient oversight of the risks, and the processes for managing risks through their review of the BAF.

BAF

Risks are regularly monitored by the Board via the BAF, which is a standing item on the agendas of these meetings. The BAF clearly links each risk to the

strategic objectives of the Trust and includes appropriate details (including mitigating controls, further controls needed and gaps in assurance).

Counter fraud function

The Trust's Local Counter Fraud Specialist prepares a programme of proactive work annually. This is reviewed and approved by the Audit Committee. Updates on progress against the work programme are discussed at Audit Committee meetings, as witnessed during our attendance at those meetings.

Budget setting and monitoring

We documented the budget setting and monitoring process as part of the audit work on the Annual Report and Accounts. The process appeared to be robust with no significant control weaknesses identified.

Monthly Management Accounts (MMAs)

MMAs are prepared by the finance and are discussed in several committees, most importantly the Board of Director meetings. Actual figures are compared to the budgets and significant variances are discussed.

Budget and MMA discussions

We have confirmed that effective processes and systems are in place to monitor financial performance against budget, and to communicate relevant, accurate and timely management information (including nonfinancial information) to support the Trust's statutory financial reporting requirements, and we are satisfied that action is taken where deficits or issues are highlighted by this process.

Board minute review

We have reviewed papers and minutes of both the Board and its sub committees and confirmed that they cover all the key areas which we consider necessary to ensure that informed decisions regarding the future of the Trust are made.

Internal audit

During 2022/23, the Trust's internal audit function undertook eight internal audits. Five resulted in a 'moderate' assurance conclusion, three resulted in a 'substantial' assurance conclusion and one had a not applicable conclusion as

it related to an advisory review, No significant weaknesses which impact on VfM were identified.

As reported in the Trust's Annual Governance statement, the Head of Internal Audit's overall opinion for 2022/23 was that 'Significant assurance with minor improvement opportunities can be given on the overall adequacy and effectiveness of the Trust's framework of governance, risk management and control'.

Cost of living payment

During our audit we identified a cost of living payment that was made to staff members within specific bands. This payment was accrued in the 21-22 financial statements, however this was paid in 2022-23. The total payment made amounted to £318k. As this is a non-contractual payment, this falls within the category of a special payment.

Furthermore, we identified a meal subsidy payment relating to the 22-23 financial year. The total payment made amounted to £536k. As this is a non-contractual payment, this falls within the category of a special payment.

In 2020-21 HM Treasury reset the delegated authority limit for DHSC bodies to £95,000. NHSE set out a process on 22 April 2021 requiring providers to seek HM Treasury approval for proposed special payments that are either (i) above £95,000 and/or (ii) considered potentially novel, contentious or could cause repercussions elsewhere in the public sector. As this payment is above the £95,000 threshold, HM Treasury approval should have been sought for this payment, As a result, this payment may therefore be judged to be irregular.

We note that the Trust has agreed to disclose these special payments in their Annual Report.

We recommend that the Trust seeks retrospective approval from HM Treasury. Where possible, this should be sought in advance of the signing of the Annual Report and Financial Statements. If retrospective approval has not been obtained at the date of signing, these payments will be reported as irregular as part of the NAO group audit submission. We note that this will not impact the audit opinion of the financial statements.

The Trust should identify what improvements are needed to its internal approval and reporting process to ensure that in future, any similar payments, would be identified and appropriate approvals sought.

7. Improving economy, efficiency and effectiveness

Auditor's commentary on arrangements

The following areas have been considered:

- Financial and performance information has been used to assess performance to identify areas for improvement.
- Services provided are evaluated to assess performance and identify areas for improvement.
- The Trust delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.
- Where the Trust commissions or procures services, this is done in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits of officer or member behaviour.

Findings

Board and Committee paper reviews

Through reviewing Board and sub-committee papers, we have confirmed that the Board is provided with both financial and non-financial performance information on a monthly basis, which includes finance, workforce and integrated performance reports, and Board members are able to challenge officers regarding any departures from plans or expectations. Within these reports, the Trust monitors the reasons for movements against planned performance and, where applicable, key performance indicators and uses these to identify areas for improvement, focussing its resources as necessary.

KPI's for Trust performance

We are content that the performance monitoring measures via the various KPI's which apply to the Trust takes place on a regular basis. The Board is provided with regular updates on key performance metrics with the KPI's considered in detail as part of these meetings.

SFI's and waivers

The Trust's Standing Financial Instructions set out the path applicable to different types of procurement. The Audit Committee reviews circumstances where SFIs have been waived at each of its meetings. We have also substantively tested expenditure as part of our financial audit procedures, including standard procurement activity in line with the SFI's and waivers. No significant weaknesses were identified. We note that one issue has been raised in relation to the approval of one waiver in our Audit Completion Report. We do not believe that this gives rise to a significant weakness in respect of VFM.

KPI's for services provided to the Trust

Entities that provide services to the Trust are required to report back against KPI's which are included into the contractual agreement with the Trust. We have reviewed the reporting back of performance against KPI's by service providers and are content that it does take place.

Partnerships

During 2022/23, the Trust has continued to engage with partners across the main system in which it operates. This engagement has covered both strategic and operational matters. It also helps to ensure that resources are split out according to need and that money is being spent appropriately by partners within the ICS.

Performance is monitored centrally on a monthly basis and the Trust, and partners, are required to submit returns which are then discussed and scrutinised.

8. Prior year recommendation

Grant Thornton carried out the audit of WHTH in the prior year. As part of their VFM work, no significant weaknesses were identified, however, the following recommendations were made:

Area	Significant weakness	Recommendation	Follow up
Governance	No	Consideration should be given to including additional information within the Board assurance framework.	Fully implemented - we are content that sufficient information is included within the Board Assurance Framework (BAF). The BAF includes risks linked to each strategic and breakthrough objective, current level of each risk, key controls in place to mitigate each risk, control gaps, identified assurance and assurance gaps. It also includes actions to address the identified gaps.
Improving economy, efficiency and effectiveness	No	<p>To further improve performance reporting, consideration should be given to providing a summary one-page performance dashboard at the front of the integrated performance report to highlight the key issues for consideration of the Board.</p> <p>With greater integration across the system as the role of the ICB develops, the Trust may wish to look at the inclusion of some wider ICP performance measures in the integrated performance report which would be useful for Trust Board members to be aware of</p>	Fully implemented – a copy of a recent Performance Improvement Report was provided that demonstrated a one-page summary had been built into the report.

9. Conclusion and recommendations

We have concluded throughout the report that the Trust has appropriate arrangements in place and that we have not identified any significant weaknesses in relation to arrangements in any of the 3 criteria, financial sustainability, governance and improving economy, efficiency and effectiveness.

We have made one recommendation in relation to cost of living and meal subsidy payments. This has also been raised in the Audit Completion Report.

Audit finding and recommendation	Priority	Management response
<p>1. Special payment</p> <p><u>Finding</u></p> <p>During our audit we identified a cost of living payment that was made to staff members within specific bands. This payment was accrued in the 21-22 financial year, however this was paid in 2022-23. The total payment made amounted to £318k. As this is a non-contractual payment, this falls within the category of a special payment.</p> <p>Furthermore, we identified a meal subsidy payment relating to the 22-23 financial year. The total payment made amounted to £536k. As this is a non-contractual payment, this falls within the category of a special payment.</p> <p>In 2020-21 HM Treasury reset the delegated authority limit for DHSC bodies to £95,000. NHSE set out a process on 22 April 2021 requiring providers to seek HM Treasury approval for proposed special payments that are either (i) above £95,000 and/or (ii) considered potentially novel, contentious or could cause repercussions elsewhere in the public sector. As this payment is above the £95,000 threshold, HM Treasury approval should have been sought for this payment, As a result, this payment may therefore be judged to be irregular.</p> <p>We note that the Trust has agreed to disclose these special payments in their Annual Report.</p> <p><u>Recommendation</u></p> <p>We recommend that the Trust seeks retrospective approval from HM Treasury. Where possible, this should be sought in advance of the signing of the Annual Report and Financial Statements. If retrospective approval has not been obtained at the date of signing, these payments will be reported as irregular as part of the NAO group audit submission. We note that this will not impact the audit opinion of the financial statements.</p> <p>The Trust should identify what improvements are needed to its internal approval and reporting process to ensure that in future, any similar payments, would be identified and appropriate approvals sought.</p>	<p>1</p>	<p>The Trust is in direct communication with NHSE and will take the relevant action required. NHSE are exploring with HMT regarding the approval process for these special payments.</p>