

Auditor's Annual Report

Gateshead Health NHS Foundation Trust
– year ended 31 March 2023

August 2023



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A. Further information on our audit of the financial statements

01

Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

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

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



Opinion on the financial statements

We issued our audit report on 29 June 2023. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued we reported that we had not completed our work on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Trust's arrangements.

Following the completion of our work we have issued our audit certificate which formally closes the audit for the 2022/23 financial year.



Wider reporting responsibilities

In line with group audit instructions issued by the NAO, on 29 June 2023 we reported that the Trust's consolidation schedules were consistent with the audited financial statements.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

Our audit of the financial statements

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs). The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Trust and whether they give a true and fair view of the Trust's financial position as at 31 March 2023 and of its financial performance for the year then ended. Our audit report, issued on 29 June 2023 gave an unqualified opinion on the financial statements for the year ended 31 March 2023.

A summary of the significant risks we identified when undertaking our audit of the financial statements and the conclusions we reached on each of these is outlined in Appendix A. In this appendix we also outline the uncorrected misstatements we identified and any internal control recommendations we made.

Other reporting responsibilities

Reporting responsibility	Outcome
Annual Report	We did not identify significant inconsistencies between the content of the annual report and our knowledge of the Trust. We confirmed that the Governance Statement had been prepared in line with Department of Health and Social Care (DHSC) requirements.
Annual Governance Statement	We did not identify any matters where, in our opinion, the governance statement did not comply with the guidance issued by NHS Improvement.
Remuneration and Staff Report	We reported that the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the National Health Service Act 2006.

03

Section 03:

**Our work on Value for Money
arrangements**

3. VFM arrangements

Overall Summary



3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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



Financial sustainability - How the Trust plans and manages its resources to ensure it can continue to deliver its services



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



Improving economy, efficiency and effectiveness - How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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

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

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

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

Phase 2 - Additional risk-based procedures and evaluation

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

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

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

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

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

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

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

- **Other recommendations**

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

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

3. VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
 Financial sustainability	11	No	No	No
 Governance	14	No	No	No
 Improving economy, efficiency and effectiveness	18	No	No	No

3. VFM arrangements

Financial Sustainability

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



3. VFM arrangements – Financial Sustainability

Overall commentary on Financial Sustainability

Background to the NHS financing regime in 2022/23

Following the onset of the Covid-19 pandemic in March 2020, the original NHS Planning Guidance 2020/21 was suspended and a new financial regime was implemented during 2020/21 and 2021/22 whereby systems were established as the key unit for financial allocations. In 2022/23, this approach has been continued, with the aim to encourage greater collaboration and collective responsibility for financial performance.

The Covid-19 pandemic necessitated the implementation of interim 'block' allocations to ensure that systems had sufficient resource to respond to the pandemic. From 2022/23, programme funding allocations were reset to move back towards a 'fair share' distribution of resource. ICB programme allocations have been based on annualised system funding envelopes (comprising previous CCG allocations and system top-up components) for H2 of 2021/22. These were then annualised for 2022/23, and adjusted to include uplifts for inflationary pressures and further adjustments (replacing CCG pace of change) to drive convergence to fair share allocations.

In support of programme allocations, trusts also received a number of other ICB funding allocations. Moving out of the pandemic, Covid-19 block payments have been replaced by local contracting and commissioning. Elected funding was allocated to commissioners at 104% of the pre-pandemic 2019/20 levels. Systems, working with providers, agreed activity plans with funding adjustments then based on the percentage of this activity achieved. ICB allocations for primary medical care services and running cost allocations remain broadly consistent with the previous system delivered by CCG's, reflecting demographics of the serviced populations and broader economic factors.

During 2022/23, the focus of the funding regime shifted from responding to the immediate challenges caused by COVID-19 to supporting recovery in the healthcare system. This facilitated the need for collaborative working between commissioners and providers, and planning guidance for 2022/23 supported the transition back to local agreement of contracts requiring systems to achieve a breakeven position each year. This will continue to necessitate further collaboration through the planning process, as individual organisations work together to achieve system-level outcomes.

The Trust's financial planning and monitoring arrangements

Per the annual accounts for 2022/23, the Trust delivered a financial deficit before impairments, revaluations and movements in charitable funds of £0.296m – which is lower than the Trust's planned objective of delivering a surplus of £1.6m. The position reflects the Trust's activity in year, with the Trust's Annual report noting that "the financial framework remained relatively stable the funding available to us was less than that received during the Covid years"

The Trust's Statement of Financial Position has strengthened during 2022/23 when compared to the prior year, which can be demonstrated by total assets employed increasing to £120.133m compared to a prior year position of £118.898m. The Group position also increased to £144.741m as at 31 March 2023, compared to £140.523m as at 31 March 2022. The increase is attributable to an increase in property, plant and equipment balances (Trust position has increased from £136.526m to £141.597m) although the Trust's cash position has decreased in year (Trust position has decreased from £50.519m to £46.704m) as at 31 March 2023.

We confirmed through review of Board minutes there was regular reporting of the Trust's financial position during the year. Reports contained a clear summary of the Trust's performance and provided explanation of variances against budget. We confirmed through review of minutes that Trust operational performance was regularly reviewed and reported to the Trust Board and sub-committees. The reports included detail of variances against targets and actions to be taken to address any under-delivery. We observed detailed reports presented at Board level.

As well as monitoring by the Board, who receive a finance update report on monthly basis, the Trust also has a Finance and Performance Committee who are responsible for finance risks. This Committee assists with the Trust's understanding of the financial information available and to inform decision making. Per discussions with officers and through review of minutes, we have confirmed that meetings have taken place throughout 2021/22. The meetings were used to track financial performance for 2021/22 and assist with planning for future periods.

We confirmed the arrangements for the 2023/24 planning through discussion with officers and review of minutes. The Trust submitted the detailed financial plan for 2023/24 to the North East and North Cumbria Integrated Care System (NENC ICS) in April 2023. The plan is based on a number of key assumptions including: 23/24 pay award, minimum cost reduction targets, retraction of covid funding as well as percentage uplifts for prices, covid and minimum growth targets. The Trust recognises several risks within the plan such as activity delivery and receipt of available Elective Recovery Funding which is assumed to be consistent with 22-23 until further notice is given.

Reporting to Board confirms that the 2023/24 projected deficit is mainly driven by a reduction in income flowing to the Trust which is the result of a loss of non-recurrent financial support which was provided during 2022/23, much of which was required to mitigate historic cost increases. It is clear that the Trust is closely monitoring the progress against plan to date, is fully aware of where the gaps lie and continues to identify mitigating actions to bridge the funding gap. However, they are aware of the risk to the financial plan, including capacity to achieve required cost efficiencies as well as the sustained impact of industrial action on both income and direct costs. Therefore, although the Trust is forecasting a deficit in 23/24, we are satisfied that there is not a significant weakness in the Trust's arrangements in relation to financial sustainability.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

The Trust's arrangements for the identification, management and monitoring of funding gaps and savings

As noted above financial planning over the last few years has been dictated by the arrangements put in place to address the pressures created by COVID. We are not aware of any significant issues that were included in the end of year position that had not already been highlighted to the Board through in-year reporting. The Trust has a history of meeting its financial challenges and our review of the Board minutes in year confirms NHSI has not identified any issues with the Trust's plan.

In terms of accounting measures we are not aware of any unusual or inappropriate one off accounting measures that indicate the Trust is struggling to meet its financial targets. As part of our work, we held discussions with officers to understand if there were any unusual proposed provisions or similar one-off accounting entries. No significant matters raised in these discussions to indicate measures to address financial targets (and specifically the need to break even). Some issues identified in our year end work with regards to provisions, however these are not material and are due to a difference in professional judgement between management and the audit team with regards to what should be included as a provision. Other adjustments made are in line with guidance provided by NHSI

The Trust also has a Transformation Programme in place, which is overseen by a Transformation Portfolio Programme Board. Per discussion with officers, the Transformation Portfolio Board was re-established in February 2022 and priorities were agreed by the Executive Team. The Transformation Portfolio Performance Board report to the Finance and Performance Committee, who in turn provide regular updates to the Board via their Assurance Report.

The Trust's arrangements and approach to 2023/24 financial planning

We confirmed the Trust has developed its 2023/24 financial plan in line with national and regional timetables. There have been several iterations of the plan with the final version submitted in May 2023. Through discussions with officers, review of minutes and our understanding of the region we believe the refinements to plans follow the instructions of NHSE/I and are not indicative of any weakness in the Trust's arrangements. We observed the process the plan went through in development including review through the Trust's Finance and Performance Committee, as well as the regular updates provided to the Trust Board.

Overall risk management arrangements have remained in place and include consideration of impact on the Trust's Finances. The Board Assurance Framework 2023/24 was approved at the Board meeting in July 2023. The most recent version of the Operational Risk Register (ORR) was also presented at the same meeting and includes the following risks:

- '3102 – Activity is not delivered in line with planned trajectories, resulting in the Trust having reduced access to core funding'
- '3103 – Efficiency requirements are not achieved'
- '3127 – There is a considerable risk that the Trust is unable to meet the financial projections included in its plan (There is a considerable risk that the trust will not be able to meet the planned trajectory of £12.588m adjusted deficit. Contributory risks include delivery of planned elective activity limiting access to income, delivery of CRP, impact of inflation, realisation of mitigations and cost of ongoing service pressures resulting from unscheduled care activity and further periods of industrial action)'
- '3128 - There is a Risk that the capital cost of delivery of the new operating model continues to increase resulting in revenue implications.

Recognised actions include continued reporting on financial position, including continued divisional finance reporting as well as additional detail regarding non-recurrent spending and mitigations actions. These arrangements will develop as the financial planning requirements become clearer. The planning arrangements include detailed input from divisions within the organisation on revenue run rates. These arrangements would identify any emerging pressures which created a risk to the Trust's financial plans

Based on the above considerations, we are satisfied there is not a significant weakness in the Trust's arrangements in relation to financial sustainability.

3. VFM arrangements

Governance

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



3. VFM arrangements – Governance

Overall commentary on Governance

The Trust's risk management and monitoring arrangements

The Trust has a comprehensive risk management system in place which is embedded into the governance structure of the organisation. We confirmed that the Trust Constitution is in place and, along with other documents, details the governance structure of the Trust. We confirmed that corporate governance includes clear and defined decision making and internal controls within the Trust. The other documents include Standing Financial Instructions (SFIs), Scheme of Delegation and Standing Orders, and Reservations of Powers and Delegations of Powers (SO's).

Following review of a report taken to Audit Committee in March 2022, we previously reported that the Trust is planning to undertake a review of the Trust's core governance documentation, starting with a review of the Constitution and Standing Orders. Through our review of Board minutes, we confirmed that there has been oversight of the Constitution by the Board with specific changes agreed by both the Council of Governors and the Board of Directors as necessary throughout the year.

In July 2022, the Trust reported to Board that a full review of the SFIs was due to commence in summer 2022 with a paper expected to be presented in September 2022. Following the initial work carried out, the Trust later reported via the Board Assurance Framework report that the review had become a wider piece of work than initially intended and that "Progress being made on updating internal governance processes that will feed into and inform the SFIs and Scheme of Delegation". Further updates and reporting of progress were provided to the Board throughout the year, with the most recent update in July 2023 noting that the Deloitte review was anticipated by the end of the month and a delivery plan would be agreed once the findings were known. Therefore although the review has taken longer than anticipated, this is due to a wider scope and more thorough review of overall internal governance processes and we are satisfied that there has been regular reporting to Board across the period to explain the progress being made.

The Trust also has a Board Assurance Framework (BAF), which "reflects the aims and priority objectives agreed by the board, as well as the strategic risks to these that were identified" and is regularly reported to the Trust Board throughout the year. The 2022/23 BAF was presented to the Board for review in July 2022 and confirmed that a new format BAF has been designed for 22-23 in response to feedback from the Board and Internal Audit.

The new format BAF is a 'dynamic document' which is continually updated during the year, and reviewed by the Board on a quarterly basis, with the Board committees reviewing their related extracts at each meeting. The BAF utilises a RAG-rating system when considering progress against action plans to address gaps in controls and assurances. The ratings are as follows:

- Blue – not yet started
- Purple – Started and on track, no risks to delivery
- Amber – plan in place with some risks to delivery.
- Red – off track, risks to delivery and or no plan/timescales and or objective not achievable
- Green – complete.

Confirmed through review of minutes and BAF that this process has occurred throughout 2022/23.

Internal audit also undertake an annual review of risk management and the BAF. The 2022/23 review of Trust arrangements concluded that 'governance, risk management and control arrangements provide a good level of assurance that the risks identified are managed effectively. A high level of compliance with the control framework was found to be taking place. Minor remedial action is required'. This provides good external assurance

Other governance reports regularly reviewed by the Trust Board includes the Corporate Risk Register. Each risk is given a current risk level, mitigating actions along with due dates and owners for each action, plus a progress rating. Through attendance and review of minutes of Group Audit Committee throughout the year, we observed that risks are monitored and progress on the actions taken against each risk is reported regularly.

The Trust Committee structure includes the Group Audit Committee which oversees the controls, governance and risk environment of the Trust and QE Facilities. As detailed in the Committee's Annual report, approved by the Audit Committee in June 2022 "The Group Audit Committee is a formal committee of the Board with delegated responsibility to conclude upon the adequacy and effective operation of the overall internal control system including an effective system of integrated governance and risk management". The Committee is attended by Non-Executive Directors, and has members with a wide range of skills and knowledge, including members with financial, and clinical experience. This skill mix is well balanced and provides comprehensive oversight and challenge in relation to the Trust's risks and associated controls. We have attended all meetings held since our appointment as the Trust's auditors and reviewed the minutes of all meetings prior and identified no evidence that the objectives and performance of the Committee as designed were not being achieved.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Trust has appointed internal auditors (IA) and local counter fraud specialists. We confirmed a comprehensive Internal Audit Plan was developed for the 2022/23 financial year, noting that the planned work appears appropriate and reasonable. The Plan was presented to, and agreed by, the Audit Committee.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

Internal Audit progress reports are presented to each Audit Committee meeting, including follow up reporting of recommendations not fully implemented by due dates. This allows the Committee to effectively hold management to account on behalf of the Board.. We observed Committee members providing scrutiny and challenge on findings and recommendations

The Head of Internal Audit opinion for 2022/23 was presented to Group Audit committee in June 2023, and provides *“good assurance that there is a sound system of internal control, governance and risk management designed to meet the organisation’s objectives and that controls are generally being applied consistently”*. No matters noted to indicate a significant weakness in internal control environment.

The Trust has a comprehensive fraud risk assessment that is continually reviewed and influences the annual fraud work plan. The Trust have a dedicated Fraud Team with robust processes, reporting and assurance in place. A comprehensive policy is in place to detail to Trust approach to fraud prevention. The Trust’s counter fraud work plan for 2022/23 covered the period from 1 July 22 to 30 June 2023.

This Fraud team, alongside the Internal Audit team, report to the Group Audit Committee as demonstrated through our attendance at the meetings in 22/23. Report are given appropriate attention at Audit Committee meetings and appropriate actions taken where deemed to be necessary.

In report presented to Group Audit Committee in June 23, the counter fraud update report noted that the 2022/23 counter fraud functional standard return (CFFSR)was *“submitted to the NHS Counter Fraud Authority (NHSCFA) by the counter fraud specialist (CFS), following approval by the group director of finance and audit committee chair. The trust continued to maintain an overall green rating for 2022/23, and the full submission details will be included within the 2022/23 counter fraud annual report, which is scheduled to be provided for the September 2023 audit committee”*

The Annual Work Plan for 2023/24 (covering period 1 July 2023 to 30 June 2024) was also presented to and approved by the Audit Committee at the meeting in June 2023.

No matters have been identified from our review of the above monitoring arrangements which suggest a weakness in arrangements.

The Trust’s arrangements for budget setting and budgetary control

The Trust developed a detailed Financial Plan for 2023/24 and submitted the final version of the plan to NHSE/I in May 2023. From our review of minutes, we have confirmed that the Trust carried out regular review and monitoring of the financial plan with revisions and updates to assumptions made as soon as the information became available. We have observed evidence that the 2023/24 plan has been produced and submitted in line with NHS/I requirements.

Sufficient evidence has been seen through review of minutes and attendance at Audit Committees throughout the year to provide assurance that the budget setting and monitoring processes are reported frequently and in sufficient detail that allows for effective review and challenge at senior leadership and Board level.

Strategic objectives are reflected in the annual plan and budget with performance against budget monitored monthly through the centre and departmental structures. This is consolidated and reported to Board with a monthly return submitted centrally to NHSE/I. This information supports the year end process with corrective action on performance escalated and approved by Board. Financial governance arrangements are managed within the corporate governance framework which includes Standing Orders, Standing Financial Instructions and a Scheme of Delegation.

In the 2021/22 Auditor’s Annual Report, an ‘other’ recommendation was raised for the Trust to review the year end close down processes and make improvements, particularly in relation to the reconciliations between Trust and Group figures as well as supporting working papers. This was a result of the audit not being signed off by the statutory submission deadline date of 22 June 2022, noting that the delay was not attributable to one specific issue but was a combination of factors including the complexity of the sale of Dunston Hill, the need to resolve several accounting issues, plus delays in receiving and reviewing information from officers due to resourcing issues at the Trust.

However, for 2022/23 we can confirm that the audit opinion was signed on 29 June 2023, ahead of the deadline of 30 June 2023, and therefore the other recommendation raised in the prior year is no longer relevant. We are satisfied that the weakness identified in the prior year has been sufficiently addressed

The Trust’s decision-making arrangements and control framework

The Trust has an established governance structure, which was in place during 2022/23 as set out within its Annual Governance Statement.

This is supported by the Trust’s Constitution, which is available on the Trust’s website. The Trust Constitution includes details of clearly defined delegation of powers and decision making groups/individuals. Executive Directors have clear responsibilities linked to their roles and the Board Sub-Committee structure in place at the Trust allows for effective oversight of the Trust’s operations and activity. Decisions are based on value for money principles.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

The Trust has various groups and committees that undertake a governance and risk approach, such as Trust Board, and the Group Audit Committee. We have reviewed the minutes of these meetings as part of our work and are satisfied that there is effective review and challenge of the Trust's activity. Furthermore, from our attendance at Audit Committee we have not identified evidence of a failure to challenge or hold officers to account.

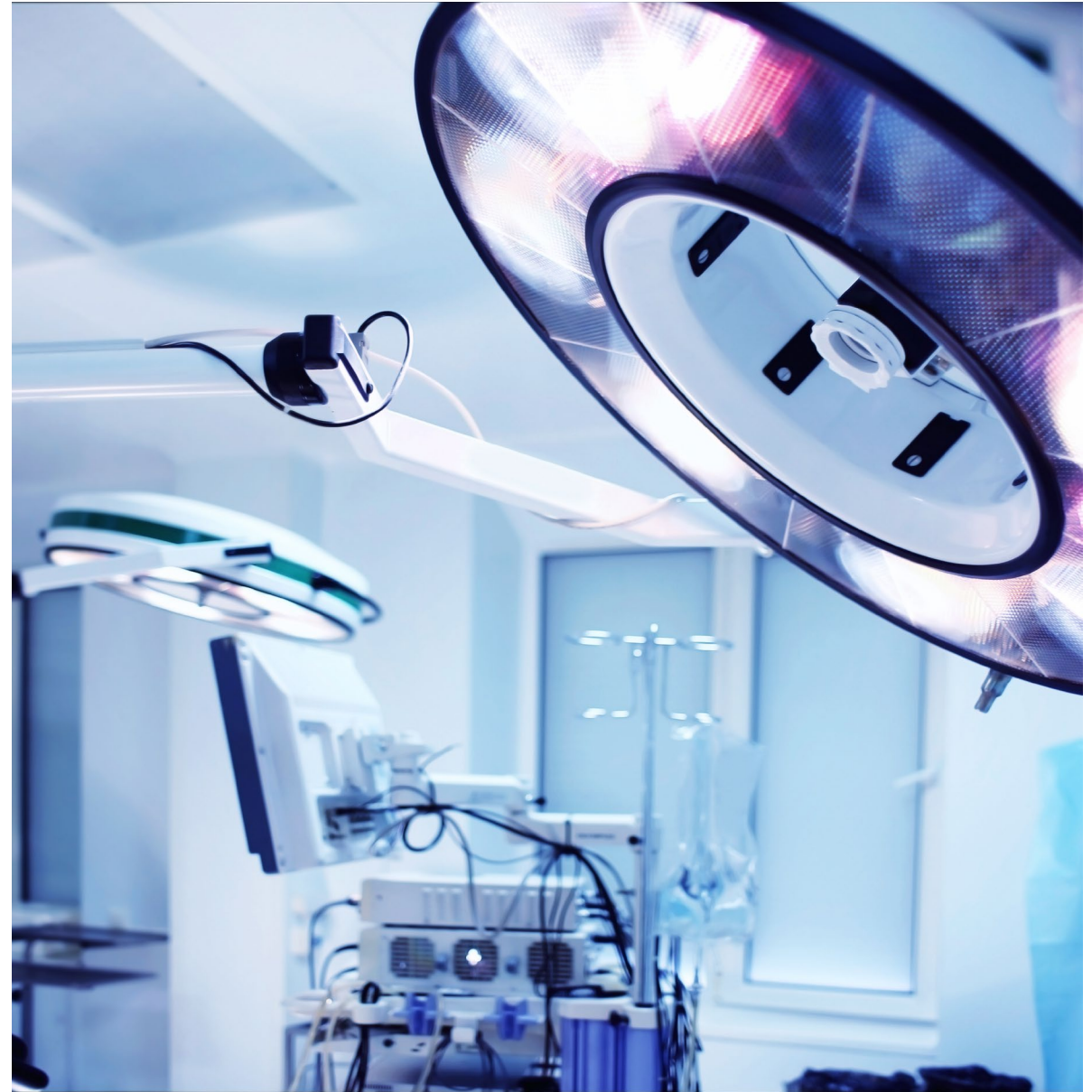
The Trust has appropriate standards of business conduct process, reporting and governance in place to manage and gain assurance that the Trust meet regulatory requirements. Appropriate checks are taken to ensure the declarations are managed effectively, that Fit and Proper persons checks are carried out and reporting of such is made effectively to the Audit Committee. The Trust has a comprehensive policy in place to detail the Trust approach to Standards of Business Conduct.

Based on the above considerations, we are satisfied there is not a significant weakness in the Trust's arrangements in relation to governance.

3. VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services



3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on Improving Economy, Efficiency and Effectiveness

The Trust's arrangements for assessing performance and evaluating service delivery

The Trust monitors performance across four key areas: financial, operational, workforce, and quality. Key performance measures for each are reported to Board committees with both current performance and trends reviewed and challenged. We confirmed the formal reporting of performance is through a monthly Integrated Oversight Reports to the Board. The Reports provide an integrated overview of the Trust's position. Our review confirms the reports provide sufficient detail to understand performance and published minutes demonstrate sufficient challenge from non-executive directors on the Trust's costs, performance and service delivery.

We have reviewed the Trust's Annual Report and Annual Governance Statement and found them to be consistent with the performance reported during the financial year.

The Trust's arrangements for effective partnership working

The Trust has well-developed mechanisms for engagement with third party bodies at all levels across the organisation. We have confirmed through review of minutes that there has been regular engagement with partners during the year.

Nine positions on the Council of Governors are allocated to partner organisations to ensure that partners are able to feed into the Trust's strategic and operational plans. A further 6 positions are allocated to staff representatives and other positions are elected by members (who may be staff, local residents or patients). Governors receive regular financial and operational reporting and are able to challenge management, through the non-executive directors, on performance.

The Trust has engaged with Integrated Care System (ICS) partners and in the North East & North Cumbria Provider Collaborative. The Trust has worked with the ICS partners in the financial planning submission. This required the Trust to work with ICS partners in developing a financial plan within the funding allocated.

The Trust signed up to the Gateshead Cares Alliance agreement in April 2021. The agreement and associated documents reported to the Board confirms the overarching framework for the strengthening of place-based collaborative arrangements for health and care provision in Gateshead and replaces the memorandum of understanding that was already in place for the partners who were already working together as 'Gateshead Cares'. The Trust is an active partner in the "Gateshead Cares" system board, which is used by the organisations involved to discuss how they can work differently to improve care.

Our review of Board reports confirms that the Board is regularly briefed on the Trust's engagement with System partners and any emerging issues. We have not identified any evidence of a significant weakness in the Trust's arrangements for working with partners.

The Trust's arrangements for commissioning services

Per discussions with management, services are not usually outsourced, but where this is required the procurement is usually managed by the Trust's subsidiary QE Facilities Limited (QEF) as part of the facilitated healthcare agreement between the two parties. Group management receive regular reporting on the activities of QEF from QEF management and financial and operational performance reporting considered above is usually for the Group as a whole. This was confirmed via review of Board minutes throughout the year.

Per discussion with officers, QEF follow the Group's Standing Orders (SOs) and Standing Financial Instructions (SFIs), including procurement processes. The SFIs includes a specific section on tendering and procurement procedures "21. Tendering and Contracting Procedure". The SFIs were updated in July 2022 to reflect revisions that were made to Public Procurement Thresholds. Furthermore, as noted in the Governance section above, the Trust commenced a full review of SFIs during summer 2022 with the findings and report from the external review expected in the coming period.

Trust employees are obliged to declare any actual or potential conflicts of interest with suppliers and this information is reviewed and published on an annual basis. We have confirmed this during our review of the related party disclosures in our audit opinion work. The Trust's policies are designed to meet the 'Managing Conflicts of Interest in the NHS' guidance.

We confirmed that Trust employees are obliged to declare any actual or potential conflicts of interest with suppliers. This information is reviewed and published on an annual basis. Our consideration of related party transactions confirmed this. The Trust's policies are designed to meet the Managing Conflicts of Interest in the NHS guidance. Registers of declared interests are available on the Trust website.

Based on the above considerations, we are satisfied there is not a significant weakness in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Other reporting responsibilities

Statutory recommendations and public interest reports

Under section 7 of the Local Audit and Accountability Act 2014, auditors of an NHS body can make written recommendation to the audited bodies. Auditors also have the power to make a report if they consider a matter is sufficiently important to be brought to the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue any statutory recommendations or exercised our power to make a report in the public interest during 2022/23.

Section 30 referrals

Auditors of an NHS body have a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State, and/or relevant NHS regulatory body as appropriate.

We have not issued a Section 30 referral to the Secretary of State.

Reporting to the National Audit Office (NAO)

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

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

Fees for our work as the Trust's auditor

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

Area of work	2022/23 fees	2021/22 fees
Planned fee in respect of our work under the Code of Audit Practice	£79,552	£81,175
Additional fees due to additional time taken in respect of Dunston Hill Hospital, provisions and delays in receiving evidence and responding to queries during the audit	-	£11,975
Additional fees in respect of additional work due to the introduction of IFRS 16	£5,000	-
Total fees	£84,552	£93,150

Fees for other work

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



Appendix

A. Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks, how we responded and our findings.

Risk	Our audit response and findings
<p>Management override of controls</p> <p>In all entities, management at various levels within an organisation are 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. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> Accounting estimates impacting amounts included in the financial statements; Consideration of identified significant transactions outside the normal course of business; and Journals recorded in the general ledger and other adjustments made in preparation of the financial statements. <p>Overall findings</p> <p>Our work provided the assurance we sought in each of these areas and did not highlighted any material issues to report.</p>

A. Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Risk

Our audit response and findings

Revenue recognition

The risk of fraud in revenue recognition is presumed to be a significant risk on all audits due to the potential to inappropriately shift the timing and basis of revenue recognition as well as the potential to record fictitious revenues or fail to record actual revenues.

For the Trust we deem the risk to relate specifically to the timing of income recognition, and in relation to judgements made by management as to when income has been earned. The pressure to manage income to deliver forecast performance in a challenging economic environment increases the risk of fraudulent financial reporting leading to material misstatement and means that we are unable to rebut the presumption.

This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism

We completed a range of substantive procedures including:

- Evaluating the Trust's accounting policy in respect of revenue recognition to ensure that it was in line with the requirements of the Group Accounting Manual (GAM).
- Testing revenue transactions that are recorded by journal entries. Journals were selected for testing on the basis of meeting one or more fraud risk indicators that we determined to be applicable to the revenue recognition significant risk.
- Testing a sample of revenue around the year end by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value.
- Testing a sample of year end receivables by agreeing the transactions to appropriate source documentation and obtaining assurance that each item was recorded in the correct financial year and at the correct value.
- Considering information provided by the Department of Health and Social Care in respect of year end intra-NHS transactions. We considered any significant differences between the Trust's position and that of the counterparty and obtained assurance that the Trust's position is supported by appropriate evidence

Overall findings

Our work provided the assurance we sought in each of these areas and did not highlighted any material issues to report.

A. Further information on our audit of the financial statements

Significant risks and audit findings (continued)

Risk

Valuation of property, plant and equipment

Land and buildings are the Trust's highest value assets. Management engage Cushman and Wakefield, as an expert, to assist in determining the current values of property to be included in the financial statements. Changes in the value of property may impact on the Statement of Comprehensive Income depending on the circumstances and the specific accounting requirements of the Group Accounting Manual

Our audit response and findings

We completed a range of substantive procedures including:

- Obtaining an understanding of the skills, experience and qualifications of the valuer, and considering the appropriateness of the instructions to the valuer from the Trust.
- Obtaining an updated understanding of the basis of valuation applied by the valuer in the year. This included understanding and challenging the methodology applied to estimate the gross replacement cost of the Trust's operational land and buildings on a modern equivalent asset basis. We evaluated the Trust's application of a 'single-site' valuation methodology which covered its existing hospital sites.
- Sample testing the completeness and accuracy of underlying data provided by the Trust and used by the valuer as part of their valuations.
- Testing the accuracy of how valuation movements are presented and disclosed in the financial statements.
- Using relevant market and cost data to assess the reasonableness of the valuation as at 31 March 2023

Overall findings

Our work provided the assurance we sought in each of these areas and did not highlighted any material issues to report.

A. Further information on our audit of the financial statements

Summary of uncorrected misstatements

		SOCI		SOFP	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Provisions			606	
	Cr: Expenditure		606		
	As recorded in section 04 of this document the Trust have recognised a provision of £0.6m associated with asbestos works. In our view no obligation existed at the 31 March 2023 and as such a provision is not appropriate per IAS 37.				
2	Dr: PPE – IT assets			334	
	Cr: Expenditure (depreciation)		334		
	As recorded in section 04 of this document, the Trust have written down to nil net book value a number of IT assets which are still in operation as at 31 March 2023. The above quantifies what the impact is if the Trust were to have extended the useful lives of these assets by an extra year, and review their lives again at 31 March 2024.				
3	Dr: Accrued income			448	
	Cr: Income		448		
	Dr: Expenditure	212			
	Cr: Payables and other liabilities – accruals				212
	Our audit work identified an issue where the amount of income accrued for by the Trust at the 31 March 23 was less than the amount received by the Trust post year end. Per discussion with the Trust, the amount accrued for was a prudent estimate relating to an arrangement the Trust has with an external third party who manage an IT Framework for which the Trust receives milestone based payments from other customers. There is a corresponding payable amount which was also under accrued for and relates to the amount paid by the Trust to the external party for running the service for them.				
4	Dr: Payables and other liabilities – accruals (Group)			453	
	Cr: Expenditure (Group)		453		
	Our sample testing of Group accruals identified an error where the amount had been over-accrued for at the year-end by £50,000. When extrapolated this gives an amount of £453,000 error.				
Total unadjusted misstatements		212	1,841	1,841	212

A. Further information on our audit of the financial statements

Internal control observations

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to the Audit Committee any significant deficiencies identified during the course of our work.

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Description of deficiency

All leases recognised in the accounts should be supported by lease/tenancy agreements. Two of our samples per our lease testing had a tenancy at will document rather than a formal lease agreement.

Potential effects

This makes valuation more subjective and increases the risk of differences of opinion with lessors regarding the terms of the lease including; lease term, frequency of rent reviews and rental increases.

Recommendation

The Trust should negotiate formal lease agreements for all the property leases that it holds and ensure that they are signed, with clear commencement and termination dates by 31 March 2024.

Management response

Recommendation noted and accepted. The Trust will engage with all relevant parties to confirm formal lease/tenancy arrangements including legal agreements as recommended; and maintain on a central register.

A. Further information on our audit of the financial statements

Follow-up on previous years recommendations

Description of deficiency

Our sample testing of employees to contracts has identified that personal files are not maintained. This meant the Trust found it difficult to provide details of contracts or letters of employment for individuals included in our sample. We note that no records could be provided for 23 of the 35 employees sampled.

Potential effects

The Trust is unable to confirm that employees are being paid in line with contracts.

Recommendation

Responsibility for maintaining staff records should be considered and allocated.

2022/23 update

From the sample of employees tested as part of our audit work in 2022/23, we noted that only 15 of the 27 contracts requested were provided, with only 3 of them signed. No records were provided for the other 12 employees included in the sample, and therefore the recommendation remains outstanding.

Description of deficiency

Our testing of valuations identified an issue with floor areas such that the area used in the valuation was not consistent with floor plans held by the Trust. This error was also existent in the 2020/21 period.

Potential effects

The valuations reflected in financial statements are materially misstated.

Recommendation

Checks should be carried out to ensure that the information included in the valuer's calculations is accurate and consistent with the data held by the Trust.

2022/23 update

The Trust carried out an exercise to review the data held on floor areas which was then provided to the Valuer to use in their 2022/23 valuations. Our review of floor areas did not identify any issues and as such we are satisfied that the deficiency reported in the prior year has been adequately addressed.

A. Further information on our audit of the financial statements

Follow-up on previous years recommendations

Description of deficiency

The predecessor auditor had raised control recommendations in respect of the segregation of duties within QEF, most notably with regards to the completion and review of bank reconciliations. Per our testing of the bank reconciliations in 2021/22, there was no record of who completed or reviewed the reconciliation. Therefore, the recommendation remained open, with the additional commentary that evidence of who completes and reviews the bank reconciliations even when carried out electronically.

Potential effects

The Trust is unable to confirm that employees are being paid in line with contracts.

Recommendation

Responsibility for maintaining staff records should be considered and allocated.

2022/23 update

Per our testing of the bank reconciliations in 2022/23, there was no record of who reviewed the reconciliation. Therefore, this recommendation remains open,

Description of deficiency

Our review of the fixed asset register in 2021/22 identified that there was a large number of non-land and buildings assets which are fully depreciated in the Trust's asset register and as such the recommendation remains outstanding. (Note this was an area highlighted by the predecessor audit who had raised control recommendation for management to carry out a review of the Fixed Asset Register following identification of a number of assets which were fully depreciated in the 2020/21 audit).

Potential effects

This high proportion of fully depreciated assets implies there is a risk that a number of these assets are no longer in use by the Trust and should have been removed from the asset register and financial statements.

Recommendation

If assets are still in use, management should consider whether the useful lives applied to these categories of assets are appropriate as it may indicate that assets are routinely used beyond the current accounting useful lives. The predecessor auditor understood management were planning a review of the fixed asset register during 2021-22, therefore recommended management include verification of the continuing use of all recorded assets and a review of accounting useful lives as part of this review.

2022/23 update

As per section 04 of our report, the Trust has carried out a review of the fixed asset register and undertaken an exercise to identify those assets that have nil net book value but are still in use by the Trust and those which are no longer in use. Where assets are still in use by the Trust, the impact has been calculated but is not considered material so included as unadjusted misstatement in section 06 below. Where assets are no longer in use, the fixed asset register has been updated and the balances have been appropriately treated in the accounts.

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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