

University Hospitals Birmingham NHS Foundation Trust

Auditor's Annual Report for the year ended 31 March 2022

6 July 2022

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Key messages

Audit opinion on the financial statements We issued an unmodified opinion on the Trust's financial statements for the year ended 31 March 2022.

The Trust's arrangements to secure Value for Money

Financial Sustainability

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

The NHS has continued to operate an emergency funding framework in 2021/22 with block funding reducing the risk of income variability for providers like University Hospitals Birmingham NHS Foundation Trust ('UHB' or 'the Trust'). The Trust reported an adjusted surplus of £11.5m in 21/22 (£34.8m surplus before adjustments), thereby exceeding its break-even plan. Cash balances have remained strong at £288m compared to £208m in the prior year, whilst performance against Cost Improvement (CIP) continued to be impacted by the pandemic response with the target being achieved with some reliance on non-recurrent measures.

We have not identified a significant weakness in the Trust's arrangements. However, the Trust faces a challenging landscape going into 2022/23 with initial plans indicating an £18.5m deficit position for the Trust, within a £35.8m deficit at System level. Whilst we understand from the Trust that, following national support for inflationary pressures, the latest plan submissions show a breakeven position at Trust and System level, underlying positions remain in deficit. The Trust has historically achieved CIP targets, however, delivery of recurrent CIPs alongside managing an underlying deficit position will become increasingly challenging within a financially constrained environment where factors such as the timeliness and robustness of processes in place, operational ownership and clinical engagement will be essential.

Governance

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

The Trust has a range of formal processes and systems (including policies and procedures, risk registers and Board Assurance Framework) to enable the effective management of both strategic and operational risk.

The latest CQC inspection in June 2021 rated the Trust as 'Requires Improvement' overall and a 'Good' for Well-Led. The Trust has action plans in place to address the 'must do' actions highlighted in the CQC review. The Trust's Head of Internal Audit opinion for the year provided 'Significant Assurance'. No significant internal control issues have been identified in the Annual Governance Statement. The recently introduced System Oversight Framework (SOF) has rated the Trust at 3 due to operational performance challenges. These are areas the Trust has recognised and continues to address. **Having considered the Trusts arrangements and response in respect of the CQC review and drivers for the SOF rating, we concluded that there was no significant weakness in the Trust's 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

The Trust has a Performance Management Framework in place that is designed to support a culture of continuous improvement. A detailed Integrated Performance Report is presented to the Chief Executive's Advisory Group (CEAG) and each Board Meeting. This report provides assurance to the Trust Board on delivery against the Trusts key performance requirements aligned to its annual and strategic priorities along with information about regulatory compliance. **We have not identified a significant weakness in the Trust's arrangements.**

Purpose of this report

Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at University Hospitals Birmingham NHS Foundation Trust ("the Trust") for the year ended 31 March 2022.

This report is intended to bring together the results of our work over the year at the Trust, including commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM").

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 03, Value for Money, and AGN 07, Auditor Reporting. These are available from the NAO website.

A key element of this report is our commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Trust has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Trust has in place, nor does it provide positive assurance that the Trust is delivering or represents value for money. We have not identified any significant weaknesses in the Trust's VfM arrangements, and so have not reported any recommendations in respect of significant weaknesses.

Assurance sources for the Trust

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Trust (in the green rows) and how this fits with some of the other assurances available over the Trust's position and performance.

	Financial	Quality and Operational	Controls and systems	Future of the trust
	How is the Trust performing financially?	How is the Trust performing operationally and in quality of outcomes?	Does the Trust have adequate processes?	Is the Trust's strategy appropriate and sustainable?
Business processes and Board oversight	Is reliable reporting and data being produced through the year, at each level within the Trust, and appropriately reviewed and followed up?			
	Is the Annual Report and Accounts, taken as a whole, fair, balanced and understandable?		Are the Trust's processes operating effectively?	Are the Trust's plans realistic and achievable?
	Is the Trust meeting its legal and regulatory obligations, and are appropriate plans in place to maintain compliance?			
	Has the Trust delivered on its financial plans?	Are Quality Priorities selected appropriate for the Trust?	Does the Trust have efficient systems and processes?	Are appropriate actions in place to deliver the Trust's plans?
	Is the Trust generating sufficient surplus for reinvestment?	Are quality report metrics accurate and complete?	Are risks around legacy systems etc appropriately mitigated?	What are the risks to achievement of the Trust's plans and are appropriate mitigations in place?
Internal audit assurance Local Counter Fraud	Is there a generally sound system of internal control on key financial and management processes?			
	Has the Trust suffered losses due to fraud?		Does the Trust have appropriate arrangements in place to mitigate fraud risks?	
External Audit assurance on reported performance	Do the financial statements give a true and fair view?		Is the Annual Governance Statement misleading or inconsistent with information we are aware of from our audit? *	Is there significant uncertainty over the going concern assumption?
	Have the financial statements and remuneration report been properly prepared?			
	Is the Annual Report consistent with the financial statements? *		Has the trust made proper arrangements for securing economy, efficiency and effectiveness in the use of resources?	

* The scope of external audit in this area is "negative assurance" of reporting by exception of issues identified.

Opinion on the financial statements

We provide an independent opinion on whether the Trust's financial statements:

- Give a true and fair view of the financial position of the Trust at 31 March 2022 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS Improvement; and.
- Have been prepared in accordance with the requirements of the National Health Service Act 2006.

The full opinion and certificate will be included in the Trust's Annual Report and Accounts, which will be available from the Trust's website.

We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

We are independent of the Trust in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements:

We issued an unmodified opinion on the Trust's financial statements on 27 June 2022. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.

Remuneration and Staff Report:

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

Annual Governance Statement:

We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual, was misleading, or was inconsistent with information of which we are aware from our audit.

Annual Report:

We reported that the information given in the Performance Report and Accountability Report for the year ended 31 March 2022 was consistent with the financial statements.

Reports in the public interest and reports to NHS Improvement:

We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2022.

Reporting to the group auditor:

In line with the group audit instructions issued by the NAO, we anticipate reporting that the Trust's consolidation schedules that feed into the Consolidated NHS Provider Account and Department of Health and Social Care's group accounts are consistent with the audited financial statements.

Financial statement audit - approach

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Trust and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures.

Materiality

Our work was planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Trust to be £20.7m, on the basis of 1% of total revenue.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £300k.

Procedures for auditing the Trust's financial statements

Our audit of the Trust's financial statements included:

- developing an understanding of the Trust, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the Trust's financial statements;
- interviewing members of the Trust's management team and reviewing documentation to test the design and implementation of the Trust's internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the Trust's financial statements to supporting documentary evidence, as well as analytical procedures, to test the validity, accuracy and completeness of those balances.

Data analytic techniques were used in journal testing.

Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

We provided a detailed audit plan to the Trust's Audit Committee setting out what we considered to be the significant audit risks for the Trust, together with our planned approach to addressing those risks and set out how these were addressed in our ISA260 Report to the Audit Committee in June 2022. We have provided a summary of each of the significant audit risks on the next page.

We have made recommendations in our Audit Committee reporting for improvement in the Trust's policies, procedures and internal controls based on observations from our work. However, we do not consider these recommendations to reflect significant weaknesses in the Trust's VfM arrangements.

Financial statement audit - significant risks and other focus areas

Risk

Property valuations – Individual impairments

The Trust is required to hold property assets within Property, Plant and Equipment at valuation, which will usually be on a modern equivalent use basis. As detailed in our Audit Plan, valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. The Trust has had an independent desktop valuation carried out for the purposes of the 31 March 2022 financial statements.

The Trust's revaluation has resulted in a net impairment charged to operating expenditure of £13.5m and an increase in the revaluation reserve of £7.0m. Within this there has been a £23.5m impairment in relation to Bordesley Green, Good Hope and Solihull estate. There was a further £6.8m impairment on the Queen Elizabeth Hospital site.

Management override of controls

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Trust's controls for specific transactions.

Deloitte response

We tested the design and implementation of key controls in place around the property valuation, using our valuation specialists to challenge the assumptions applied by management in the valuations. This included engaging in discussions with the valuers regarding the significant impairments recognised in the year.

We tested a sample of inputs used in the valuation, such as gross internal areas, back to supporting documentation and challenged management's assessment of impairment charges on newly capitalised expenditure.

We have reviewed the presentation of revaluation movements and impairments, and the disclosures included in the Accounts.

Our work in this area identified a number of matters for reporting, including an uncorrected misstatement of £5.5m which would reduce the impairment recognised within operating expenditure and therefore increase the surplus reported by the Trust. Whilst these matters are included in our final audit report to the Audit Committee, **overall these did not constitute material issues for our reporting on the audit.**

We performed audit testing to address the risk of: manipulation of accounting estimates; manipulation of journal entries; and accounting for significant transactions.

We raised two control recommendations (relating to the review of journals and management estimates) in our final audit report to the Audit Committee.

We did not identify any significant bias in the key judgements or estimates made by management

Financial statement audit - significant risks and other focus areas

Risk	Deloitte response
<p data-bbox="79 335 830 378">Cut-off of accruals, payables and deferred income</p> <p data-bbox="79 385 830 521">There has been a significant increase in the overall level of revenue and capital funding available to NHS providers, and a reduction in the overall pressure to achieve specific control totals.</p> <p data-bbox="79 528 830 706">This may reduce the scrutiny of the validity of liabilities recognised at year-end and/or create an incentive to make overly prudent estimates and judgements so as to recognise expenditure in the current year and make future targets easier to achieve.</p>	<p data-bbox="830 335 1841 442">We tested the design and implementation of controls over the year-end accruals and payables processes and over the timing of recognition and deferral of income. We tested a sample of :</p> <ul data-bbox="830 449 1841 792" style="list-style-type: none"><li data-bbox="830 449 1841 578">• accruals, including the income provisions disclosed in accruals/deferred income, to supporting documentation to check whether they were valid liabilities, that the amount accrued was appropriately supported, and that the liability had been incurred as at 31 March 2022.<li data-bbox="830 585 1841 685">• payables to supporting documentation to check whether they were valid liabilities, that the amount recorded was appropriately supported, and that the liability had been incurred as at 31 March 2022.<li data-bbox="830 692 1841 792">• deferred income items to supporting documentation and evaluated management’s assessment as to whether the criteria for revenue recognition had been met as to 31 March 2022 and the value to be deferred <p data-bbox="830 828 1841 999">Whilst we identified a number of unadjusted misstatements from the testing performed, the net impact of these was a potential increase to the Trust surplus of £6.4m. Whilst these matters are included in our final audit report to the Audit Committee, overall these did not constitute material issues for our reporting on the audit.</p>
<p data-bbox="79 1063 830 1099">Regulatory developments</p> <p data-bbox="79 1106 830 1142">Financial sustainability</p> <p data-bbox="79 1149 830 1185">Revenue recognition on research contracts</p>	<p data-bbox="830 1063 1841 1128">Whilst not identified as significant audit risks, these areas were also identified as other areas of focus for our audit work.</p> <p data-bbox="830 1178 1841 1249">We did not identify any significant issues as a result of the testing performed across these areas.</p>

Auditor's work on Value for Money (VfM) arrangements

The Accounting Officer and the Board are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Accounting Officer reports on the Trust's arrangements, and the effectiveness with which the arrangements are operating as part of their annual governance statement.

Under the National Health Service Act 2006, we are required to be satisfied whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas which are shown alongside our risk assessment and summary conclusion in the table below.

Area	Risk assessment	Findings
Financial Sustainability	No significant risks identified	No significant weaknesses identified
Governance	Significant risk identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Trust can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the COVID-19 pandemic, there have been changes in nationally led processes, changes in expectations around Trust's arrangements, and events occurring outside of the Trust's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2021/22 in assessing whether they are indicative of a risk of significant weakness.

In addition to our financial statement audit, we performed a range of procedures to inform our VfM commentary, including:



Interviews with Board members and management.



Review of Board and committee reports and attendance at Audit Committee meetings.



Reviewing reports from third parties including Care Quality Commission, Internal audit, and correspondence with NHSE/I.



Considering the findings from our audit work on the financial statements.



Review of the Trust's annual governance statement and annual report.

Auditor's work on VfM arrangements (continued)

Trust performance

The table on the right provides a summary of Trust performance across a range of measures and where appropriate (including highlighted areas) additional commentary is provided on this and the following pages with comparison against peers across our client base.

The System Oversight Framework (SOF) - The SOF was published in July 2021 and replaced the previous NHS oversight frameworks. It is built around five national themes:

- quality of care, access and outcomes;
- preventing ill health and reducing inequalities;
- people;
- finance and use of resources; and
- leadership and capability.

The SOF gives a rating from between 1-4 (with 1 - maximum autonomy, 2 - targeted support, 3 - mandated support and 4 – special measures).

As can be seen on the right, the Trust is currently rated 3 – which indicates ‘Significant support needs against one or more of the five national oversight themes and in actual or suspected breach of its licence.

The Trust rating is due to concerns across a number of areas which are noted on page 15.

We comment on the CIP and CQC report on pages 12 and 14 respectively.

	2021/22	2020/21	2019/20
Surplus / (Deficit)	£34.8m	£13.7m	£0.4m
Adjusted Surplus/(Deficit)	£11.5m	£12.8m	£2.7m
CIP Actual/Target	£17.2m/£17.2m	£9.9m/£9.3m	£43.1m/£42m
Cash	£288m	£207.9m	£58.3m
Capital Expenditure	£143.6m	£89.1m	£43.0m
SOF rating/Segmentation	3	2	2
CQC report conclusions (last inspection June 2021)	Requires Improvement	Good	Good
Annual Governance Statement (Control deficiencies)	None	None	None
Head of Internal Audit Opinion	Significant Assurance	Significant Assurance	Significant Assurance

VfM arrangements: Financial Sustainability

Approach and considerations

Commentary

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
 - How the Trust plans to bridge its funding gaps and identifies achievable savings;
 - How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
 - How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
 - How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.
- The NHS financial planning framework has been severely disrupted by the pandemic response with 2021/22 seeing a continued focus on short term planning with organisations required to produce H1 and H2 plans with an overall break-even objective. Whilst the Trust has continued to apply usual operational and strategic planning processes to produce H1 and H2 plans, these have been modified to recognise the short-term focus and framework in place.
 - Against this break-even target for 2021/22, the Trust reported an adjusted surplus for the year of £11.5m (or £34.8m surplus prior to adjustments, as set on Page 10 of the Trust Annual Report) (2020/21 £12.8m and £13.7m surplus unadjusted). At 31 March 2022, the Trust had net assets of £385.0m (31 March 2021:£249.7m), net current liabilities of £88.9m (31 March 2021 net current liabilities: £89.1m), and cash of £288m (31 March 2021: £208m).
 - Given the ongoing impacts of the pandemic response, there has been limited focus on the identification and delivery of recurrent Cost Improvement Programmes (CIP) during 2021/22. The Trust reported full delivery of it's £17.6m target for the year. However, it recognised that this continues to be increasingly reliant on non-recurrent measures.
 - Following the acquisition of Heart of England NHS Foundation Trust (HEFT) in 2018, the Trust indicated that it has continued to manage an underlying deficit of c£70m (c.3% of total income) through various 'non-recurrent' funding measures. This is expected to have increased, with additional ongoing Covid-19 costs going into 2022/23.
 - Initial plans for 2022/23 indicated an £18.5m deficit position for the Trust, within a £35.8m deficit at System level. Whilst we understand from the Trust that, following national support for inflationary pressures, the latest plan submissions show a breakeven position at Trust and System level, underlying positions remain in deficit. The Trust's plan includes a CIP requirement of £25.2m (1.6%) for which the development of detailed plans was well progressed by the year-end. The Trust has also set itself a CIP stretch target of a further £8.5m.
 - **The Trust faces a challenging landscape going into 2022/23 and whilst it has historically achieved CIP targets, delivery of recurrent CIPs alongside managing an underlying deficit position will become increasingly challenging going forward within a financially constrained environment. Factors such as the timeliness and robustness of processes in place, operational ownership and clinical engagement will be essential. These are recognised as requiring a renewed focus as NHS bodies look to return to a more business as usual environment. It will be important to ensure there is sufficient capacity and capability across its arrangements to support delivery in 2022/23 and the early development of robust plans for 2023/24.**

VfM arrangements: Financial Sustainability (continued)

Approach and considerations

Commentary

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

- Financial risks are included within the Board Assurance Framework (BAF) along with controls and assurance to mitigate the risks, gaps in controls and assurance and actions to address gaps. Through review of Board minutes and attendance at Audit Committees, we have confirmed that these risks are regularly monitored, updated and challenged.
- Financial management teams complete bridges detailing the movements from their existing run rate to their anticipated run rate going into the new year as part of business planning and budget setting. These incorporate cost pressures and planned service developments and following scrutiny and challenge are incorporated into a trust wide plan. There is co-ordination at system level through discussion of assumptions at operational finance leads and CFO group meetings.
- The Trust has engaged at both system level and nationally through the Shelford Group in respect of the costs introduced in response to Covid-19 but which have since become business as usual and as such are recurrent in nature in order to inform national funding discussions as part of planning processes for 2022/23.
- The Trust's annual planning process includes triangulation of workforce, activity, performance and finance. Financial planning is aligned to the operational planning undertaken by divisions. During normal planning processes service priorities are agreed with Divisions and, where commissioner investment is required.
- The Board of Directors consider all potential risks and cost pressures through the annual financial planning process. Operational pressures are collated at both divisional and a corporate level. These are either funded within the plan or plans identified to mitigate the cost pressure (for example from savings elsewhere with divisional budgets or new ways of working).
- 2021/22 has seen a much greater move towards system working which is focused primarily on achieving an overall balanced position across the ICS. There is a return to local ownership of payment flows aimed at moving systems to fair shares distribution of resource, with signed contracts in place.
- **NHS planning has had a short-term focus over the last two years, with bi-annual plans being required. Whilst this has now transitioned to the more usual annual planning cycle, it will be important for the Trust, in conjunction with the ICS to focus on the development of a medium-term financial strategy to demonstrate the elimination of the system deficit.**

VfM arrangements: Governance

Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

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

Commentary

- The Trust has established Risk Management arrangements in place which are supported by the Trust's Risk Management Policy and Associated Procedures. The Trust has an anti fraud and bribery policy in place approved by Board. It has an accredited Local Counter Fraud Specialist (LCFS), with a programme of proactive counter fraud and corruption work which is risk based. The effectiveness of the Trust's internal control environment including counter fraud is overseen by the Audit Committee, through an annual internal audit and annual counter fraud plan.
- The Trust's Head of Internal Audit opinion for the year was "Significant assurance with minor improvements required". This included significant assurance on reviews Key Financial Controls & Budgetary Control, Payroll Controls, Risk Management and BAF. Partial Assurance ratings and seven high priority findings have related to IT based reviews, which has been an area of focus for the Internal Audit Plan. There were no 'No Assurance' opinions during the year.
- We identified a risk of significant weakness noting that the last CQC inspection in June 2021 rated the Trust as 'Requires Improvement' overall and a 'Good' rating for Well-Led. The Trust is implementing an action plan to address the issues reported by the CQC. The Action plan to address 'must do' actions from the June 2021 inspection was submitted to the CQC in November 2021. The completion of these actions is reported to the Care Quality Group, Clinical Quality Monitoring Group, CLOGG and Board of Directors. The Trust is continuing to make progress in addressing these actions and also developing action plans to address the 'should do' actions from the review. We noted from the Q4 BAF, that the Trust is continuing to monitor implementation of one action remaining from the 2018 inspection in respect of the number and skill mix of senior decision makers in ED.
- **Whilst we identified a risk of significant weakness, based on the action plans developed by the Trust and progress reported to the various scrutiny and governance forums, we have concluded that this is not a significant weakness in arrangements. However, the Trust should continue to ensure that 'must do' actions are implemented in the shortest timescale possible.**
- Whilst there were arrangements in place for the development of Business Cases, with due diligence processes being undertaken, it is recognised that these could be strengthened. **This should include ensuring that the expected benefits are clearly set out and post implementation reviews scheduled to ensure achievement is followed through. There will be a need to consider the benefits of any business cases going forward on a more system wide basis and this will be an area of focus during 2022/23.**

VfM arrangements: Governance (continued)

Approach and considerations

Commentary

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

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

- We identified a risk of significant weakness, noting that NHSE/I has as part of the new System Oversight Framework (SOF) assessed the Trust as rated 3, which indicates ‘significant support needs against one or more of the five national oversight themes and in actual or suspected breach of licence’. The Trust rating is due to concerns regarding performance across most Urgent and Emergency Care metrics as well as being one of the most challenged trusts in the country for ambulance handover delays. The Trust is also in the bottom quartile nationally for Elective and cancer 62 day targets with a significant elective backlog.
- The challenges in these are recognised as impacts of actions taken as part the Trust’s Covid-19 pandemic response and are actively being addressed to recover performance over the short and medium term. The Trust’s AGS reports on the performance challenges against these and a range of other metrics as a result of the pandemic response and that actions are in place to deliver against the improvements required as part of planning for 2022/23. Actions taken have included increasing inpatient capacity as part of its plans to reduce the elective backlog, opening two additional wards at the Queen Elizabeth Hospital Birmingham and five additional wards planned across trust sites during 2022/23. A new Oncology Treatment Suite also opened at QEHB in March 2022. In addition, the Heartlands Treatment Centre is scheduled for completion by November 2022 providing additional cold day case and diagnostic capacity.
- We understand, from the Trust that, to date, this SOF rating has not come with any sort of intervention or regulatory requirements from NHSE/I. Ongoing oversight and assurance on performance is being achieved through quarterly system review meetings undertaken at an ICS level as opposed to anything specific for UHB. **We have concluded that for 2021/22 this is not deemed to be a significant weakness. However, the Trust should ensure it engages in discussions to develop enablers that will help the Trust and the ICS move from a rating of 3 to 2 and then 1.**
- Decisions are taken in line with the Trust’s Scheme of Delegation with more material decisions taken at Executive or Board level, supported by relative and proportionate information.
- The Trust Board signs off NHSI self-certifications on an annual basis. Consideration is also given to whether there are any risks and mitigating actions which need to be highlighted in the Corporate Governance Statement self-certification.
- The Chief Executive, as the Accounting Officer, concluded that no significant internal control issues have been identified from the annual review .

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations

Commentary

We have considered how the body uses information

about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- How the Trust ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Trust commissions or procures services, how the Trust ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Trust assesses whether it is realising the expected benefits.

- The Board of Directors is responsible for ensuring systems are in place to maintain the economic, efficient and effective use of resources within the Trust. The Board receives a suite of reports at each of its meetings, including clinical quality, experience of care, operational performance, and finance, which combine to give both a comprehensive overview of performance, and to highlight any exceptions that need to be escalated. The Board is therefore able to triangulate performance across all domains and to assure areas of risk and approve mitigating actions.
- The Trust remains a regular contributor to NHS Benchmarking and uses this data to compare performance at both a trust-wide and divisional level as well as to identify CIP opportunities. Efficiency is benchmarked in a variety of ways, including through the national Reference Cost Index and by use of national benchmarking data including Getting It Right First Time (GIRFT) and use of the Model Hospital data sets.
- The Trust, as a key partner in the Birmingham and Solihull (BSoL) Integrated Care System (ICS). works closely with system partners to address the significant financial and workforce challenges, attending relevant ICS groups across all functions. The ICS financial governance structure provides for sharing of financial risk between constituent organisations within the overarching ICS. The Trust has been engaged in the development of provider collaboratives, which sees partnerships of providers working together to achieve the best possible outcomes for patients in key service areas. The alignment of clinical and corporate service planning across the BSoL ICS to improve integration for patients has been a strategic objective for the Trust.
- **It will be important to maintain this momentum with a focus on: shifting mindsets towards a system first position; strong governance to enable clear decision making; a shared financial recovery and investment plan to deliver on the shared vision for all stakeholders.**
- Tender Waiver Request Forms are in place for any exceptional circumstances and any waivers of SFIs must be authorised by the budget manager and CEO and any waivers and SFI breaches are reported to and scrutinised by Audit Committee.
- All commissioning / procurement exercises are run by the BSoL Procurement Alliance which follows set procurement processes and regulations in accordance with all relevant legislation.

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Trust's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Trust.

Also, there will be further information the Board of Directors and Council of Governors need to discharge their governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

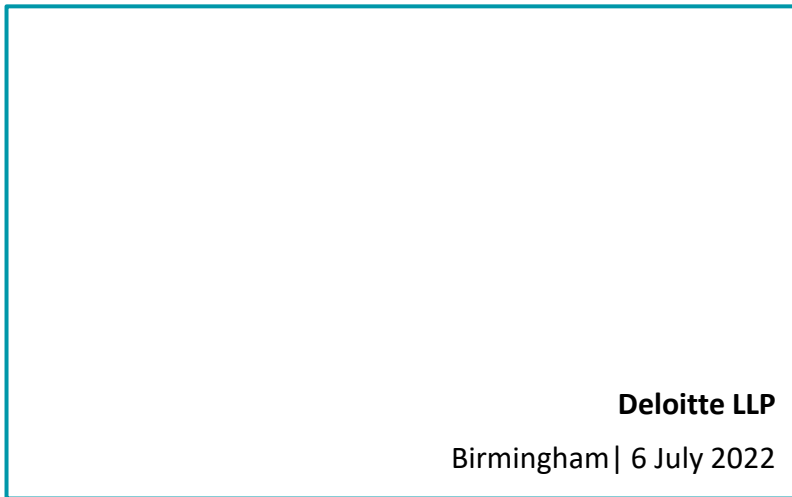
The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

Use of this report

This report is made solely to the Council of Governors and Board of Directors ("the Boards"), as a body, in accordance with the National Health Service Act 2006. Our audit work has been undertaken so that we might state to the Boards those matters we are required to state to them in our Auditor's Annual Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Boards as a body, for our audit work, for this report, or for the opinions we have formed.



Appendix 1: Trust's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Executive, as Accounting Officer of the Trust, is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting Officer is required to comply with the Accounts Direction issued by NHS Improvement, which requires the Trust to comply with the Department of Health & Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the Trust is informed of the intention for dissolution without transfer of services or function to another entity. In applying the going concern basis of accounting, the Accounting Officer has applied the 'continuing provision of services' approach set out in the Group Accounting Manual, as it is anticipated that the services the Trust provides will continue into the future.

The Accounting Officer is required to confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for patients, regulators and stakeholders to assess the Trust's performance, business model and strategy.

The Accounting Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Trust, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer and the Board are responsible for ensuring proper stewardship and governance, and reviewing regularly the adequacy and effectiveness of these arrangements.

Appendix 2: Auditor's responsibilities

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities relating to the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the National Health Service Act 2006 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the foundation trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in December 2021, as to whether the Trust has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Trust a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022. Other findings from our work, including our commentary on the Trust's arrangements, are reported in our Auditor's Annual Report.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the National Health Service Act 2006 to:

- make a referral to NHS Improvement if we believe that the Trust or an officer of the Trust is
 - about to make, or has made, a decision which involves or would involve the Trust incurring unlawful expenditure;;
 - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency
- consider whether to issue a report in the public interest.



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