



# Imperial College Healthcare NHS Trust

Auditor's Annual Report 2022/23

30 June 2023

# Contents

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## Auditor's Annual Report

Key messages	3
Purpose of the report	5
Assurance sources for the Trust	6
Opinion on the financial statements	7
Our financial statement audit approach	8
Financial statement audit significant risks	10
Our approach to VfM arrangements	14
Significant weaknesses in VfM arrangements	16
VfM commentary:	
• Financial sustainability	18
• Governance	19
• Improving economy, efficiency and effectiveness	22

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## Appendices

Trust's responsibilities	24
Auditor's responsibilities	25

# Key Messages

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## **Audit opinion on the financial statements**

We issued an unqualified opinion on the Trust's financial statements on 30 June 2023.

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## **The Trust's arrangements to secure Value for Money**

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### **Significant weaknesses in the Trust's arrangements**

On 27 June 2023 we reported to the Trust a significant weakness in the Trust's arrangements to secure financial sustainability. The significant weakness reported was that the delivery of the financial plan for 2023/24 is dependent upon material unidentified efficiency savings. Our recommendation for improvement is set out on page 17.

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## **Commentary on the Trust's arrangements**

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### **Financial Sustainability**

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

The Trust's plan for 2023/24 is to breakeven on a control total basis (this adjusts the surplus/deficit for the impact of donations, donated assets and impairments). This plan is dependent upon efficiency savings of £53.4m. The Trust did not achieve internal targets for the identification of savings opportunities and development of plans ahead of the new financial year, and has remained behind plan on identification and implementation of opportunities. As of May 2023, the Trust had fully developed £9m of efficiency plans, with plans under development for an additional £11.1m, for a total value of £20.1m and a material gap in the level of identified savings. Although the Trust exceeded its plan to deliver a breakeven position for 2022/23 by £0.2m, the Trust only achieved 42.6% (£15.8m) of its planned £37.0m efficiency savings for 2022/23. We have therefore identified a significant weakness in relation to the Trust's arrangements in place to identify achievable savings, as detailed on pages 16-17.

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# Key Messages

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## The Trust's arrangements to secure Value for Money (continued)

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### **Governance**

*How the body ensures that it makes informed decisions and properly manages its risks (continued)*

The "Well Led" element of the last Care Quality Commission (CQC) report published in July 2019 rated the Trust as Good.

The Accountable Officer concluded from his annual review of the effectiveness of internal control at the Trust that no significant internal control issues have been identified.

The age of the estate continues to be a risk for the Trust in the year and causes operational issues, as well as increasing operating costs. There are capital funding constraints within the NHS due to national limits set, therefore the Trust's ability to respond to the issues caused by the aged estate is constrained by these national limits, and this also impacts the ability to invest in other areas. The Trust has arrangements in place to identify priority areas for spend and there has been no evidence of significant operational disruption in the year.

In the year, the Trust has continued to focus on data quality, in particular in relation to patient waiting lists, as there has been a deterioration in data quality in recent years. The Trust has identified this issue and put in place arrangements to investigate and mitigate these issues, therefore we have concluded that this is not a risk of significant weakness in arrangements.

On 1 September 2022, the four acute Trusts in North West London came together as an acute provider collaborative, with a joint chair and a board in common. The structure of the Trust board, statutory committees and other subcommittees has remained the same, however a board in common and collaborate subcommittees have been created. This means that each Trust remains an independent sovereign organisation, whilst working together to make more effective use of collective resources.

We concluded there was no significant weaknesses in the Trust's arrangements in this area.

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### **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's Head of Internal Audit opinion for the year was 'Significant assurance with minor improvements' on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Trust's most recent CQC inspection was published in July 2019. The Trust was rated Requires Improvement overall.

The Trust plays an active part in the local Integrated Care System (ICS) and works collaboratively with the ICS and is part of the North West London Acute Provider Collaborative.

We concluded there was no significant weakness in the Trust's arrangements.

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# Purpose of this report

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Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Imperial College Healthcare NHS Trust ("the Trust") for the year ended 31 March 2023.

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"). This report fulfils the requirements of the Accounts and Audit Regulations for an Annual Audit Letter.

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.

The significant weaknesses in the Trust's VfM arrangements and related recommendations are set on pages 16-17.

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# Assurance sources for the Trust

The diagram below illustrates how and where the Trust seeks and receives assurance, and how the external audit fits into that assurance picture.



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

# Opinion on the financial statements

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

- Give a true and fair view of the financial position of the Trust at 31 March 2023 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting requirements of the Department of Health and Social Care Group Accounting Manual, as directed by the Secretary of State

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

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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.

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## **Audit opinion on the financial statements:**

We issued an unqualified opinion on the Trust's financial statements on 30 June 2023.

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## **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.

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## **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 England.

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## **Annual Report:**

We reported that the information given in the Performance Report and Accountability Report for the year ended 31 March 2023 is consistent with the financial statements.

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## **Reports in the public interest and reports to the Secretary of State and NHS England:**

We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2023.

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## **Reporting to the group auditor:**

In line with the group audit instructions issued by the NAO, we reported on 30 June 2023 that the Trust's consolidation schedules that feed into the Consolidated NHS Provider Account and Department of Health and Social Care's group accounts were consistent with the audited financial statements.

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## **Audit Certificate**

We certified completion of the audit on 30 June 2023, following completion of our responsibilities in respect of the audit for the year ended 31 March 2023.

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# Our financial statement audit approach

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## **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. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit partner, Jonathan Gooding. The audit team included integrated Deloitte specialists bringing specific skills and experience in property valuations and Information Technology systems.

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## **Materiality**

Our work is 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 £18.2m, on the basis of 1.25% of forecast expenditure, which is c1.8% of gross assets and c3.0% of taxpayers' equity.

We agreed with the Audit, Risk and Governance Committee that we would report to the Committee all audit differences in excess of £300k as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit, Risk and Governance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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## **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 and risks and then using this understanding to focus audit procedures on areas where we consider there to be a greater 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 other analytical procedures, to test the validity, accuracy and completeness of those balances.

Data analytic techniques were used as part of audit testing, in particular to support profiling of populations to identify items of audit interest and in journal testing, using our Spotlight data analytics platform.

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# Our financial statement audit approach (continued)

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## **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, Risk and Governance Committee setting out what we considered to be the significant audit risks for the Trust, together with our planned approach to addressing those risks. We have provided a summary of each of the significant audit risks on the next page.

We have made recommendations in our Audit, Risk and Governance 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.

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# Financial statement audit significant risks

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## Property valuations

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**Risk identified** The Trust held £498.8m of property assets within Property, Plant and Equipment, which it is required to hold at a current valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions (including the floor areas for a Modern Equivalent Asset, the basis for calculating build costs, the level of allowances for professional fees and contingency, and the remaining life of the assets) and which can be subject to material changes in value.

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**Deloitte response** We tested the design and implementation of key controls in place around property valuation.  
We tested the inputs to the valuation provided by the Trust to the valuer back to supporting documentation.  
We worked with internal valuation specialists to review and challenge the appropriateness of the key assumptions used in the valuation of the Trust's properties, including the potential impact of Covid-19 and climate change.

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**Key observations** We concluded that the Trust's valuer's work was satisfactory, that the key valuation assumptions were within the acceptable range and that the property valuation had been accounted for correctly. We identified a control weakness in this area and made a recommendation to the Trust to improve this control.

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# Financial statement audit significant risks (continued)

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## Accounting for capital expenditure

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**Risk identified** The Trust has an extensive capital programme with expenditure for the year of £131.4m, compared to £94.9m for 2021/22. Accounting for capital expenditure can involve significant judgement. Whether expenditure is capitalised, and the period it is recognised in, can significantly impact against the budgetary control totals the Trust is assessed against by NHS England. This has been identified as a significant risk due to fraud as there may be an incentive for the Trust to capitalise expenditure which does not meet the conditions for capitalisation to facilitate meeting its control total for the year.

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**Deloitte response** We tested the design and implementation of controls around the capitalisation of expenditure  
We tested expenditure on a sample basis to confirm that it complies with the relevant accounting requirements.  
We tested the validity of year-end capital accruals to test cut-off of expenditure.  
We tested a sample of vesting certificates to assess whether they were appropriately accounted for, and also considered from a Value for Money perspective whether their use was in accordance with the requirements of Managing Public Money (which requires bodies not to make payments in advance of need or solely for the purposes of managing performance against spending controls).

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**Key observations** We concluded that the design and implementation of the control in place around the capitalisation of expenditure was effective.  
Our sample testing of capital expenditure did not identify any exceptions where expenditure had been inappropriately capitalised.  
We made recommendations in relation to the Trust's use of vesting certificates and approval processes which should be implemented.

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# Financial statement audit significant risks (continued)

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## Existence of Plant and Machinery, Information Technology and Fixtures and Fittings

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**Risk identified** The Trust holds significant assets in relation to Plant and Machinery, Information Technology and Fixtures and Fittings with a gross cost of £241m and a net book value of £103.1m. During the prior year audit we identified that management had not performed an assessment of fixed asset disposals during the year or whether assets held at year end were still in use by the Trust. Whilst a process to identify disposals of land and buildings existed, for other elements of Property, Plant and Equipment (“PPE”), specifically Plant & Machinery, Information Technology and Fixtures & Fittings no control was identified. There is a risk that assets with a net book value which are no longer in use by the Trust have not been removed from the Trust’s asset register. During the year the Trust had disposed of £89.3m (gross cost) of assets which had a net book value of £3.5m.

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**Deloitte response** We tested the design and implementation of controls relating to the disposals process. We tested a sample of Plant and Machinery, Information Technology and Fixtures and Fittings with a positive net book value and have obtained evidence that these assets are still in use by the Trust as at 31 March 2023.

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**Key observations** We concluded that the Trust’s disclosures in respect of Plant and Machinery, Information Technology and Fixture and Fittings are materially correct, although we identified assets with a nil net book value that should be removed from the Trust’s asset register. We identified control weaknesses in this area and made recommendations to the Trust to improve those controls.

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# Financial statement audit significant risks (continued)

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## Management override of controls

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**Risk identified** 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.

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**Deloitte response**

**Manipulation of accounting estimates**  
We tested the design and implementation of controls in relation to accounting estimates.  
We tested accounting estimates, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.  
In testing each of the relevant accounting estimates, we considered their findings in the context of the identified fraud risk. Where relevant, the recognition and valuation criteria used were compared to the specific requirements of IFRS.

**Manipulation of journal entries**  
We tested the design and implementation of controls over journals.  
We used data analytic techniques to select journals for testing with characteristics indicative of potential manipulation of reporting.  
We traced the journals to supporting documentation, considered whether they had been appropriately approved, and evaluated the accounting rationale for the posting. We evaluated individually and in aggregate whether the journals tested were indicative of fraud or bias.

**Accounting for significant or unusual transactions**  
We considered whether any transactions identified in the year required specific consideration and did not identify any requiring additional procedures to address this key audit matter.

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**Key observations** We completed our work satisfactorily in relation to this risk.  
We identified weaknesses in relation to controls over journal entries and made recommendations to the Trust to improve those controls.

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

The Board is 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 Local Audit and Accountability Act 2014, 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:

<b>Financial Sustainability</b>	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
<b>Governance</b>	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
<b>Improving economy, efficiency and effectiveness</b>	<i>How the body uses information about its costs and performance to improve the way it manages and delivers its services</i>

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.

The significant weakness and related recommendation we have reported is set out on pages 16-17.

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. Our assessment of potential indicators has been performed in the context of the structural changes in the NHS during 2022/23, and the on-going impact of changes in national processes and expectations on arrangements during the pandemic.

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



Meeting with management.



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



Reviewing reports from third parties including Care Quality Commission.



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 additional commentary is provided on this and the following pages.

**NHS Oversight Framework** - NHS England's NHS Oversight Framework provides the framework for overseeing providers and identifying potential support needs.

The framework looks at five themes:

- Quality of care, access and outcomes
- Preventing ill-health and reducing inequalities
- People
- Finance and use of resources
- Leadership and capability (well-led).

Based on information from these themes, providers are segmented from 1 to 4, where '4' reflects providers receiving the most support, and '1' reflects providers with maximum autonomy. The Trust continues to be categorised as 'Segment 2'.

	2022/23	2021/22	2020/21
Surplus / (Deficit)	(£32.2m)	£30.6m	(£10.6m)
Adjusted Surplus/(Deficit) as reported on the face of the SOCI	£0.2m	£0.1m	£0.1m
EBITDA margin	4.1%	4.3%	4.0%
CIP Actual/Target	£15.8m / £37m	£24.7m / £31.6m	£6.0m / £6.0m
NHS Oversight Framework Segmentation	2	2	2
Cash at year end	£179.2m	£237.5m	£149.1m
CQC report conclusions (overall Trust rating – most recent report 2019)	Requires Improvement	Requires Improvement	Requires Improvement
Capital Expenditure	£131.4m	£94.9m	£85.9m

# Significant weaknesses in VfM arrangements

<b>Risk title</b>	<b>Weaknesses in financial sustainability arrangements to identify achievable savings</b>
<b>Risk description</b>	<p>We identified a risk of significant weakness in the Trust's arrangements to secure financial sustainability. The significant weakness reported was that the delivery of the financial plan for 2023/24 is dependent upon material unidentified efficiency savings.</p> <p>The Trust's plan for 2023/24 is to breakeven on a control total basis (this adjusts the surplus/deficit for the impact of donations, donated assets and impairments). This plan is dependent upon achieving efficiency savings of £53.4m. Although the Trust achieved its planned control total surplus for 2022/23, the Trust only achieved 42.6% (£15.8m) of its planned £37.0m efficiency savings for 2022/23.</p> <p>The Trust did not achieve internal targets for the identification of savings opportunities and development of plans ahead of the new financial year, and has remained behind plan on identification and implementation of opportunities.</p> <p>The Trust began planning for 2023/24 efficiencies in November 2022. By March 2023, £5.9m of the planned cost improvement plan had been finalised with detailed phasing of delivery, and a further £14.7m identified as opportunities to be developed into full plans. The £20.6m of potential savings identified represented a material gap to the required savings of £53.4m.</p> <p>Therefore, the delivery of the Trust's financial plan to break even in 2023/24 is dependent upon material unidentified efficiency savings.</p> <p>The Trust has rated the risk of delivering its plan at the highest level within its risk register.</p> <p>Taking these matters together we consider that there is a risk of significant weaknesses in the Trust's financial sustainability arrangements.</p>
<b>Relevant VfM criteria per AGN03</b>	<p><i>Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services.</i></p> <ul style="list-style-type: none"><li>• <i>how the body plans to bridge its funding gaps and identifies achievable savings</i></li></ul>
<b>Key considerations in respect of this significant weakness</b>	<p>The key element of our work in respect of this risk in 2022/23, is to review the arrangements the Trust had in place to identify efficiency savings and associated implementation plans, when developing the 2023/24 plan, and determine whether we consider there to have been a significant weakness in those arrangements.</p>



# Significant weaknesses in VfM arrangements (continued)

Risk title	Weaknesses in financial sustainability arrangements to identify achievable savings		
<p><b>Our procedures in respect of the risk, status of our work, and conclusions where applicable</b></p>	<p>We reviewed relevant documentation setting out the arrangements in place in the year to identify efficiencies as part of the 2023/24 planning process.</p> <p>As set out on the previous slide, the Trust's internal targets were not met and the arrangements in place were not sufficient to identify a material element of the Trust's cost improvement plan. The Trust has rated the risk of delivering its plan at the highest level within its risk register.</p> <p>We note that the Trust is taking action in this area and, subsequent to year-end, management has established a "Productivity through Transformation Board" to oversee large scale transformation that delivers sustainable financial improvement. By May 2023, the Trust had fully developed £9m of efficiency plans, with plans under development for a further £11.1m, giving a total value of £20.1m. Therefore, there remained a material gap to the target of £53.4m, and increased risk due to the overall programme due to the impact on the required phasing of delivery of savings.</p> <p>We have concluded that these matters are indicative of a significant weakness in the Trust's arrangements in the year to 31 March 2023 with respect to financial sustainability. We consider that there are unidentified savings in financial planning for the Trust that could substantially threaten the delivery of the plan.</p> <p>We recommend that the Trust build on the measures already taken to accelerate its efforts to identify and realise specific opportunities from those areas of potential efficiency savings identified to deliver its plan, including continued focus on its new governance arrangements over the cost improvements programme and related implementation plans. In planning for future periods, we recommend that the timetable and governance arrangements around the cost improvement programme are further developed to enable identification of cost improvement opportunities and project planning ahead of the start of the relevant period.</p>		
<b>Conclusions</b>	<p><b>Does a weakness exist in the current year?</b></p> <p>Yes - there is evidence of a significant weakness in that the Trust has a material gap in the savings identified compared to its efficiency target for 2023/24.</p>	<p><b>Is a recommendation required in the current year?</b></p> <p>Yes – a recommendation has been set out above.</p>	<p><b>Will this matter be referred to in our audit opinion?</b></p> <p>Yes - the significant weakness identified and our recommendation were referred to in our audit opinion.</p>

# VfM Commentary: Financial Sustainability

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## Approach and considerations

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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.

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## Commentary

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On a control total basis (which adjusts for the impact of impairments and various technical adjustments) the Trust recognised a surplus for the year of £199k. On an IFRS basis, the Trust recognised a deficit for 2022/23 of £32.2m (2021/22: £30.6m surplus), which was driven by net impairments of land and buildings recognised within operating expenses of £61.5m (2021/22: £12.6m net reversal of previous impairments). At 31 March 2023, the Trust had net assets of £593.9m (31 March 2022: £594.2m), net current liabilities of £49.0m (31 March 2022: £28.9m), and cash of £175.2m (31 March 2022: £237.5m).

The Trust has implemented a new accounting standard, IFRS 16, Leases, in the year, which effectively brings most leases on balance sheet. Although this has no cash impact, this has an on-going impact on capital budgets and planning, as the recognition of new “right of use” assets for leased assets counts as capital expenditure. We identified a number of control recommendations, which we have reported to the Audit, Risk and Governance Committee, to embed the new standard in the Trust’s financial systems and processes.

The Trust has a monthly financial reporting cycle with monthly divisional/corporate reviews conducted with Executive oversight. Monthly Finance reports are produced for the Executive Management Board and bi-monthly for Finance, Investment and Operations Committee. The Trust’s planning process is completed via a bottom-up approach which allows each division to identify pressures which are then reflected into efficiency plans and mitigations approved by the Board.

In 2022/23, the trust has returned to an annual planning cycle. The planning was focussed on reaching operational targets within block funding set nationally and on plans for delivering the allocated elective recovery target. Divisions reviewed their operational capacity at the Executive level and agreed plans.

For 2023/24, the trust has collaborated with North West London Integrated Care Board to develop an annual plan which is consistent with system financial envelopes.

The Trust has an efficiency target of £53.4m for 2023/24. As of March 2023, £20.6m of efficiencies had been identified (£5.9m developed and £14.7m in the pipeline). As at May 2023, £9m of efficiencies had been fully developed and £11.1m were in the pipeline. We have identified the material gap compared to the Trust’s efficiency target as a significant weakness as detailed on pages 16-17.

# VfM Commentary: Governance

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## Approach and considerations

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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.

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## Commentary

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The “Well Led” element of the last CQC report published in July 2019 rated the Trust as Good. NHS England has assessed the Trust under the Single Oversight Framework in segment 2.

The Trust looks for balance in the structure of those charged with governance between technical and sector experience. The Trust is able to show depth of experience on the Board and sub committees.

### **Response to prior year control observations**

In the prior year we identified a number of control observations during the financial statement audit. The Trust has been proactive in responding to these observations in the current year. However, some observations raised in the prior year have not yet been fully addressed and further observations have been raised during the current year audit. The number of misstatements identified in the financial statements remains relatively high, however no material audit misstatements were identified. Therefore, whilst there are weaknesses in the financial control environment and more progress to be made in resolving these control observations, we have concluded that this does not represent a risk of significant weakness in the Trust’s overall governance arrangements.

### **Special payments**

As part of its recognition of its staff, the Trust made additional, non-contractual, payments to staff as a “thank you” of £45 each (£0.7m in total). As they were non-contractual, these payments technically were “special payments” and over the Trust’s delegated authorities. As such, they should have received prior approval from HM Treasury. We have recommended the Trust request retrospective approval for these payments, and request advance approval future such payments. This has been identified as a common issue across the NHS and we understand NHS England will be seeking retrospective approval for all Trusts that have made similar payments.

# VfM Commentary: Governance (continued)

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## Commentary (continued)

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### **Estate and redevelopment programme**

The Trust has a significant capital programme and spent £131.4m (2021/22: £94.9m) in the current year. We understand there are established arrangements in place for major capital projects which include having a Capital Steering Group and a Capital Expenditure Assurance Group along with Individual Project Boards for major schemes.

We note that a significant portion of the capital programme each year is spent on backlog maintenance. The Trust continues to have one of the largest backlog maintenance liabilities for all trusts in the country and this causes operational issues, as well as increasing operating costs. There are capital funding constraints within the NHS due to national limits set, therefore the Trust's ability to respond to the issues caused by the aged estate is constrained by these national limits, and this also impacts the ability to invest in other areas. The Trust has arrangements in place to identify which backlog maintenance projects are of highest priority using an estates survey undertaken as a starting point which is regularly reviewed by the Estates Operations Team. In addition, the Trust has monitoring arrangements in place to ensure it remains compliant with regulatory requirements. We have seen no evidence of significant operational disruption due to issues occurring in the year or failure to comply with regulations in the current year.

The Trust's three main sites (St Mary's, Charing Cross and Hammersmith) are part of the New Hospital Programme. The Trust is committed to progressing business cases for these to approval by Department of Health and Social Care (DHSC): St Mary's Strategic Outline Case was submitted in September 2021 and Charing Cross and Hammersmith Strategic Outline Case was developed in the year with the planned submission in October 2023. The Trust has appropriate governance arrangements in place in relation to the New Hospital Programme with regular meetings of the Redevelopment Planning and Delivery Group and the Executive Delivery Group to track progress.

### **Vesting certificates**

The Trust entered into vesting certificates with certain of its capital suppliers ahead of year-end, with £5.8m of capital expenditure recognised. These agreements are intended to transfer legal title ahead of receipt of goods, in exchange for payment in advance. Vesting certificates can be a legitimate risk management tool if advance payments are required for commercial reasons to secure orders for goods in high demand or with long lead times. Managing Public Money states that public sector organisations should not use interim payments to circumvent spending controls, such as to avoid underspending the capital budget for the year. During our financial statement audit we identified assets for which vesting certificates had been put in place, however despite repeated requests, finance management had not been made aware of these.

We raised a recommendation in our reporting to Audit, Risk and Governance Committee that finance had not been made aware and therefore had no opportunity to consider the issue from a Managing Public Money perspective and recommended that the Trust improves its process around the identification of vesting certificates entered into and puts in place approval processes to check that any use of vesting certificates reflects genuine commercial requirements.

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# VfM Commentary: Governance (continued)

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## Commentary (continued)

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### Data quality

In the year the Trust has continued to focus on data quality as there has been a deterioration in data quality in recent years. The Trust has a Waiting List and Waiting Times Data Quality Framework and in the year a deep dive review of waiting list data has been performed to understand root causes of these issues and implement actions to address these. We note internal audit performed a review of data quality in relation to discharges which received 'partial assurance with significant improvements required' and we understand that management has an action plan in place in order to address findings from this review.

We note that the Trust has identified this issue and put in place arrangements to investigate and mitigate these issues, therefore we have concluded that this is not a risk of significant weakness in arrangements. Data quality is important to enable the Trust to make informed decisions and manage risks and as the Trust transitions out of covid-19 arrangements and returns to a payment by results mechanism, proper data quality and appropriate arrangements in place to manage data quality becomes increasingly important and the Trust is rightly focussing on this.

### North West London Acute Provider Collaborative

On 1 September 2022, the four acute Trusts in North West London came together as an acute provider collaborative, with a joint chair and a board in common. The structure of the Trust board, statutory committees and other subcommittees has remained the same, however a board in common and collaborate subcommittees have been created. This means that each Trust remains an independent sovereign organisation, whilst working together to make more effective use of collective resources. The board in common meets on a quarterly basis and performance of all trusts is reviewed. Collaborative committees (covering Quality, People, Finance and Performance, and Infrastructure and Capital) were also created and the Trusts introduced a model of shared non-executive directors across Trusts and lead chief executives for strategic priorities across the collaborative.

The board in common is comprised of the four Trust boards, meeting as individual Trust boards but following a common agenda and sharing reporting across trusts. Decisions are made by each individual trust boards. To ensure agility in decision making and maintain oversight the board in common delegates some specific responsibilities to the board in common cabinet, comprising the chair, vice chair and chief executives, which meets in the months the board is not meeting. These responsibilities include the approval of business cases where there is an urgent need for a decision that cannot wait until the next board in common meeting.

These arrangements are still becoming embedded within the organisations, and a review is planned in the Autumn of the effectiveness of the arrangements (including of how the arrangements align to the new NHS Provider Code of Governance).

### NHS Provider Code of Governance

The new NHS Provider Code of Governance is effective from 1 April 2023. Although not part of the arrangements for 2022/23, we have considered the Trust's preparation for the implementation of the new Code. We have highlighted to the Audit, Risk and Governance Committee that the Board has not yet received or evaluated an assessment of the application of the Code, and whether any consequent changes are necessary to the Trust's governance arrangements, and the importance of doing so. The Trust plans to consider this as part of the review of the North West London Acute Provider Collaborative arrangements in the autumn.

We concluded that there was no significant weaknesses in the Trust's arrangements.

# VfM Commentary: Improving economy, efficiency and effectiveness

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## Approach and considerations

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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.

## Commentary

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The Trust's Audit, Risk and Governance Committee approves the annual Internal Audit Plan and Counter Fraud Plan, and receives updates at committee meetings through the year.

The Trust's Head of Internal Audit opinion for the year was 'Significant assurance with minor improvements' on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The Trust received two partial assurance reviews in the year, on discharge data quality and the trust's complaints handling process.

The Trust's most recent CQC inspection was published in July 2019. The Trust was rated Requires Improvement overall.

The Trust plays an active part in the local Integrated Care System (ICS) and works collaboratively with the ICS and is part of the North West London Acute Provider Collaborative. The Board in Common meets on a quarterly basis and performance of all Trusts is reviewed. Financial and operational information is also reviewed monthly at Executive Management Board to assess performance and identify areas for improvement.

The Trust also operates in partnership with Imperial College to host one of 20 National Institute for Health Research Biomedical Research Centres. In addition, with partners Imperial College London, The Royal Marsden NHS Foundation Trust, Chelsea and Westminster NHS Foundation Trust and The Institute of Cancer Research they form the Imperial College Academic Health Science Centre.

As the Trust moves forwards with closer partnership working within the ICS and the increasing focus on system wide objectives, it is important that the Trust adapts its arrangements appropriately to incorporate new duties and responsibilities whilst maintaining the existing rigour over the its current arrangements.

The procurement framework is set out within the Trust's Standing Financial Instructions and Scheme of Delegated Financial Authority which describes the standard processes for procurement of goods and services. The Standing Financial Instructions note that the Trust shall comply with all UK Government regulations regarding public sector purchasing and the procedures set out for awarding all forms of contracts.

We concluded that there was no significant weaknesses in the Trust's arrangements.

# 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 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

NHS Trusts: This report is made solely to the Board of Directors of Imperial College Healthcare NHS Trust in accordance with the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the trust 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 trust, as a body, for our audit work, for this report, or for the opinions we have formed.



**Deloitte LLP**

St Albans | 30 June 2023

# Appendix 1: Trust's responsibilities

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**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 and the directors are 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 they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are required 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 directors have 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 directors are 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 ensuring that there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance, for ensuring that value for money is achieved from the resources available to the Trust, for ensuring that expenditure and income of the Trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them, and for ensuring that effective and sound financial management systems are in place.

The directors are responsible for safeguarding the assets of the Trust, for taking reasonable steps for the prevention and detection of fraud and other irregularities, for ensuring proper stewardship and governance, and for reviewing regularly the adequacy and effectiveness of these arrangements.

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# Appendix 2: Auditor's responsibilities

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## **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](http://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 Local Audit and Accountability Act 2014 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, 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 2023. 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 Local Audit and Accountability Act 2014 to:

- make a written recommendation to the Trust, copied to the Secretary of State
- make a referral to the Secretary of State and NHS England 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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