



Auditor's Annual Report 2022/23

Royal Devon University Healthcare NHS Foundation Trust

June 2023

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This report is addressed to Royal Devon University Healthcare NHS Foundation Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Summary

Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2022-23 audit of Royal Devon University Healthcare NHS Foundation Trust (the 'Trust'). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).

Annual report - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.

Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.

Other reporting - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

Accounts	<p>We issued an unqualified opinion on the Trust's accounts on 30/06/23. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
Value for money	<p>We are required to report if we identify any significant weaknesses in the arrangements the Trust has in place to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

Accounts Audit

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p>Valuation of land and buildings Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The Trust has undertaken a full revaluation in year, with its last valuation in 31 March 2020 for Royal Devon & Exeter NHS Foundation Trust.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We assessed the professional qualifications and experience of Gerald Eve. We challenged the valuation using our valuation specialist and review of key assumptions. We assessed the accuracy of the accounting for the change in value and confirmed the relevant disclosures were valid.</p> <p>We considered the estimate to be neutral based on the procedures performed and in line with the Group Audit Manual.</p>
<p>Fraudulent expenditure recognition Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk around year end and the accruals process, for example to under-accrue liabilities to mitigate financial pressures.</p>	<p>We assessed the design and implementation of process level controls for the review of the accrued expenditure at the end of the year. We have performed our substantive testing procedures by inspecting cash payments and purchase invoices in the period prior to 31 March 2023 to verify expenditure had been recognised in the correct accounting period and evaluating a sample of year end accruals to confirm they were appropriate, as well as performing year on year comparison to understand variances. We also assessed the outcome of the agreement of balances exercise with other NHS organisations. No concerns were identified after performing the above stated audit procedures.</p>
<p>Management override of controls We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We tested the design and implementation of controls over the posting of journals including post closing adjustments. We also selected journals that were considered high risk, through applying specific risk based criteria, to test and agreed these journals to supporting documentation. We did not identify any material misstatements or raise any recommendations relating to this risk.</p>
<p>Fraud risk from revenue recognition: Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. Due to the nature of revenue within the Trust, we do not consider there to be a significant risk of fraud and have rebutted this risk.</p>	

Value for money

Introduction

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

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

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

Matters that informed our risk assessment

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

Source	Detail
Care Quality Commission rating	Overall Good – May 2023 Medical and Surgical services – requiring improvement
Single Oversight Framework rating	RDUH – Segment 4 (Mandated Intensive Support) Devon – Segment 4 (Mandated Intensive Support)
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	Significant assurance

Commentary on arrangements

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

Summary of findings

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

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

We have not identified a significant weakness with regards to the Trust's arrangements for ensuring value for money. We reported this as part of our audit report and have provided further details in our commentary on page 6 to 9.

Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> How the Trust sets its financial plans to ensure services can continue to be delivered; How financial performance is monitored and actions identified where it is behind plan; and How financial risks are identified and actions to manage risks implemented. 	<p>Royal Devon University Healthcare NHS Foundation Trust (RDUH) is a member of the Devon Integrated Care System ('ICS'), and, as a part of the ICS, shares responsibility for any deficit position across the system. The ICS reported a £49.1m deficit against a target deficit of £18.2m.</p> <p>RDUH delivered a final outturn deficit of £16.7 million versus an agreed target deficit of £18.3 million, a favourable variance to plan of £1.5 million. The Trust had targeted savings of £33.9 million during 2022/23 but only delivered £17.5 million of these, £16.4 million short of plan. The year end trust deficit position was therefore supported by additional income received from NHS Devon ICB, as well as other underspends and non-recurrent savings identified in year. It was also noted that a significant portion of the Trust savings were non-recurrent, and therefore whilst the Trust continues to work to deliver recurrent efficiency savings, the reliance on non-recurrent funding creates additional pressures on future years. Whilst we acknowledge the challenges to deliver recurrent savings, the Trust should ensure there remains a focus on these savings rather than non-recurrent items.</p> <p>To provide an overview of the level and nature of support required across systems and target support capacity as effectively as possible, NHS England and NHS Improvement allocate trusts and ICB's to one of four segments. A segmentation decision indicates the scale and general nature of support needs, from no specific support needs (segment 1) to a requirement for mandated intensive support (segment 4). The Trust and system was identified with a Single Oversight Framework rating of 4 ('SOF4') during the year, driven mainly by the underlying deficit of the system.</p> <p>The ICS has an agreed deficit plan for the year ending 31 March 2024 of £49 million, of which £28 million relates to RDUH. The £28 million deficit plan includes a challenging savings target of £45 million to be delivered within the Trust, and a further £15 million share of a system stretch target. Given the recent delivery performance on CIP, this will be incredibly challenging to deliver. The Trust have accepted this challenge and have a detailed improvement plan in place which is delivered under the umbrella of the Trust's 'Delivering Best Value' Programme ('DBV'). This programme brings together the operational recovery and financial recovery together under a single governance and delivery framework. The DBV programme is aligned to the domains of the SOF4 exit criteria to bring focus and link to the reporting requirements of the regular oversight under the Systems Implementation Assurance Group (SIAG).</p> <p>The Trust has set up the DBV board, which is responsible for driving the required change, alongside monitoring and challenging improvement plans, including progress against CIPs and other milestones within the overall Improvement Plan. All current and future operating plans progress through the DBV board before the main Board and/or other Committees. This is supported by the appointment of a new Director and appropriate consulting support. The Improvement Plan clearly targets the exit criteria of SOF4 with clear criteria tracked and monitored. It also aims to align with the Devon ICS long term plan and consider 3 year planning, rather than the annual planning typical within the national picture. We therefore have concluded that the Trust has an appropriate reporting framework in place.</p> <p style="text-align: right;"><i>(continued overleaf)</i></p>

Value for money

Financial sustainability (continued)

Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ How the Trust sets its financial plans to ensure services can continue to be delivered; ▪ How financial performance is monitored and actions identified where it is behind plan; and ▪ How financial risks are identified and actions to manage risks implemented. 	<p>The Trust also has a large capital programme, with capital spend in year of £56.6m, £11.2m of which relates to MYCARE in both locations, primarily Northern introduction. We have considered the arrangements for the reporting of progress of the capital plans and have not identified a value for money risk.</p> <p>The Trust has two financial strategic risks on the Board Assurance Framework reported to the Finance and Operations Committee. The principle risks identified being 'The Trust has a deficit plan which is at risk of being non-acceptable by the regulators. The Trust may be unable to deliver its strategic objectives through the continued cycle of short-term planning and lack of funding for longer term investment and restrictions placed on the Trust' and 'The Trust is unable to invest in capital plans that support delivery of its operation or strategic objectives', these risks are rated 25 and 20 respectively within the February 2023 Board Assurance Framework. The risk register is regularly reported to the Finance and Operations Committee and assurance provided over the key actions such as the ongoing system work and development of longer term efficiency plans being taken to manage the risk to ensure the Board provides appropriate oversight. This shows the identification, awareness and governance processes in place to respond to the risks.</p> <p>There is significant evidence that the organisations within the ICS are working collaboratively, not least reviewing the nil return from the ICB in the Agreement of Balances exercise. There is a fortnightly system recovery board, which tracks all implementation plans and strategic schemes across the system. This has representation from RDUH NEDs to assist in shaping the conversation and feeding back governance objectives to the Trust.</p> <p>Concluding remarks</p> <p>There are significant challenges for the organisation with an ambitious improvement programme relying on delivering a large efficiency programme and their part of a system stretch target. This is more challenging given the trust's recent history in delivering CIP, and the underlying systemwide deficit. However, CIP plans appear to be in place with supporting governance processes with systemwide support and focus. While there is continued pressure on reducing the significant system wide deficit, we note that the Trust delivered their planned position for 2023 (albeit through non-recurrent means), and have plans to deliver their CIP plan for 23/24. The Trust however fully recognise the scale of the challenge this represents. Due to these arrangements in place, we have not identified a significant weakness in the arrangements to deliver value for money at the Trust during the year.</p>

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; How controls in key areas are monitored to ensure they are working effectively. 	<p>On 1 April 2022, Northern Devon Healthcare Trust and The Royal Devon & Exeter NHS Foundation Trust merged their operations into a single Trust. The Trusts had been reporting collectively for some time previously in anticipation of this and the governance and risk management processes had been close previously due to shared management driving increased harmonisation. The synergy in the combined organisation will be further enhanced as the organisation moved to an upgraded and single ledger system on 1 April 2023. The consolidation process for the year ending 31 March 2023 was more complicated through this process, however the team had been submitting combined returns for the year and we noted no consolidation errors as part of our audit work.</p> <p>We consider the Trust to have effective processes in place to monitor and assess risk. Strategic risks are recorded and identified using the Board Assurance Framework and any identified risks are reported to the Board. The Board Assurance Framework is reviewed quarterly by the Board of Directors. A 5 x 5 scoring matrix is used by the Trust to score operational risks, and any with a score of 15 or higher are presented to the Safety and Risk Committee for approval onto the Corporate Risk Register. The Finance and Operational Committee review the BAF Finance and Operational Risks on a regular basis.</p> <p>Our review of the risk register found this was sufficiently detailed to effectively manage key risks and we viewed evidence of review within both the Governance Committee and Audit Committee with clear escalation up to the BAF where required. Any recommendations raised by Internal Audit or the Local Counter Fraud team are reported to the Audit Committee. Our review of the Audit Committee papers and attendance at the meeting confirmed that there was appropriate discussion and follow up of recommendations for both Internal Audit and Local Counter Fraud. We noted in the May Audit Committee that there were no outstanding Counter Fraud recommendations, but 148 open Internal Audit recommendations that were in progress, however we did note that many of these had recently extended completion dates, with some extended multiple times. Only 3 of the total recommendations were red rated however.</p> <p>The Trust has a set of policies, which clearly outline the expected behaviour of staff members in relation to areas such as Gifts and Hospitality, Managing conflicts of interest (Standard of Business Conduct Policy) and Whistleblowing Policy. Most policies have been approved in line with their review requirements and others have been extended as collective policies are being managed. These policies continued to apply throughout the period. We did not identify any significant risks associated with the arrangements in place for monitoring Fraud, compliance with Laws and Regulations and Officer Compliance with policies. We found there to be appropriate scrutiny and challenge of the budgets and appropriate approval through the budget holders.</p> <p>In order to understand their financial performance against their budget, budget holders are able to access budget performance in the finance system, and are provided with a monthly budget statement. Discussions on performance between Management Accounts and budget holders allowed for appropriate challenge and response to adverse variances. Monthly submissions are made to NHS England through the PFR which is approved by the Chief Financial Officer.</p>

Value for money

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. 	<p>CIP performance is reported as part of the Integrated Performance Report ('IPR') and is also tracked through the monthly NHSE/I returns. Management maintains and monitors costs by reviewing the information received from the Model Hospital as benchmarking. The Cost Improvement Programme for the year was targeted at £33.9m, of which the Trust delivered £17.5m in year, of which the PFR states £11.5, is non-recurrent. The Board reporting notes that the £16.4m under-delivery is due to pressures in Urgent and Emergency Care impacting the ability to deliver the elective activity plan.</p> <p>The 2023/24 plan requires significant CIP savings to be delivered, which have been drawn into RDUH's 'Delivering Best Value' (DBV) programme, which is discussed further within financial sustainability. CIP delivery is a key part of this transformational plan. Progress against CIP is also tracked and challenged within the new DBV Board</p> <p>The Trust has a performance management framework in place to set the structure of performance management. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the integrated performance report which provides the Board with key operational performance indicators on a monthly basis. Similar reports are also reported at divisional levels. This report highlights performance in different domains in line with the Trust's strategy and highlights key areas for improvement within each domain. For these areas further information is provided, such as trends, to help inform the Board and provide the full context. An escalation route to the Board Assurance Framework is provided.</p> <p>The Trust forms part of the Devon ICS. Members of the Board and leadership team coordinate successfully within the system and the merger to RDUH has necessitated shared executives for some time. This ensures the Trust is integrated into key system decisions and feeds back to the Trust via relevant Board, Committee and operational/clinical meetings. Planning is performed at an ICS level as well as considering the individual entities that makeup the system, with the aim of achieving financial sustainability at a system level. The Trust's CEO, Chair and relevant NEDs provide updates within their reports to Board with the system financial performance as required.</p> <p>There is currently a significant combined ICS deficit (or system "gap") for Devon ICS and from review of Board papers and Board Assurance Framework, we note Royal Devon University Healthcare NHS FT recognise that the ICS and RDUH require significant transformational plans to address the deficit and close discussions are ongoing within the system to support this end.</p>



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