



# Auditor's Annual Report 2020/21

QUEEN VICTORIA HOSPITAL NHS  
FOUNDATION TRUST

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## Key contacts

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Contents	Page
Summary	3
Accounts audit	4
Value for money commentary	5

This report is addressed to Queen Victoria Hospital 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 2020-21 audit of Queen Victoria Hospital 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:

<b>Accounts</b>	<p>We issued an unqualified opinion on the Trust's accounts. 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>
<b>Annual report</b>	<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>
<b>Value for money</b>	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard</p>
<b>Other reporting</b>	<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><b><i>Fraudulent expenditure recognition</i></b></p> <p>The setting of a yearend financial target can create an incentive for management to manipulate the level of non-pay expenditure. This can take place by purposefully understating or overstating the level of non-pay expenditure recognised at the yearend through accruals and prepayments.</p>	<p>We assessed the design and operation of process level controls for the purchase ordering of goods and services and the accrual of expenditure at the end of the year based on those that have been receipted. We have performed our substantive testing procedures on a sample of expenditure incurred during the year and year end accruals agreeing through to supporting documentation and cash payments. We also assessed the outcome of the agreement of balances exercise with other NHS organisations.</p> <p>We have no matters to report.</p>
<p><b><i>Management override of controls</i></b></p> <p>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 operation of controls over the posting of journals including post closing adjustments and have no matters to report. We considered the consistency of methodology and assumptions used to prepare accounting estimates in 2020-21 as compared to the prior year and have no matters to report.</p> <p>We have no matters to report.</p>
<p><b><i>Fraudulent revenue recognition</i></b></p> <p>Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. We recognised this risk over all of the Trust's income.</p>	<p>We evaluated the design of controls in place for the Trust to engage in the agreement of balances exercise with other NHS providers and commissioners and follow up variances arising from the exercise. We agreed commissioner income to the agreed block contracts and selected a sample of the largest balances to agree that they have been invoiced in line with the contract agreement and payment has been received.</p> <p>We tested material other income balances by agreeing a sample of income transactions through to supporting documentation and bank balances. We completed sample testing of invoices for material income in the period prior to and following 31 March 2021 to determine whether income is recognised in the correct accounting period.</p> <p>We identified one adjustment which has been corrected by management.</p>
<p><b><i>Valuation of Land and Building</i></b></p> <p>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>We reviewed the information provided to the valuer with the instructions. We confirmed that the valuation has been undertaken in line with GAM requirements and that appropriate methodologies were applied by the valuer in assessing the valuation of land and building assets. We assessed the key assumptions used in developing the replacement cost of the Trust's site.</p> <p>We assessed the valuation overall to be cautious but within an acceptable range.</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 \(nao.org.uk\)](https://www.nao.org.uk/code-of-practice/)

## 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:

<b>Care Quality Commission rating</b>	Good
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement/describe any significant deficiencies.
<b>Head of Internal Audit opinion</b>	Adequate and effective framework for risk management, governance and internal control.

## 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
<b>Financial sustainability</b>	One risk	No significant risks identified
<b>Governance</b>	No significant risks identified	No significant risks identified
<b>Improving economy, efficiency and effectiveness</b>	No significant risks identified	No significant risks identified

We identified a risk due to the Trust having previously identified an underlying deficit position. Our assessment of the processes in place for managing the Trust's financial performance did not have any significant weaknesses and were in line with the guidance issued. We have provided further details in our commentary on the following pages.

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"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p><b>Setting the financial plan</b></p> <p>The Covid-19 pandemic has had a major impact on the NHS and this has resulted in changes to the financial planning regime. On 17 March 2020 normal contractual arrangements with NHS providers were suspended and the NHS moved to block contract payments on account. The value of these were determined centrally, rather than being agreed between the CCG and the providers. NHS organisations were also reimbursed with additional funding as required in order to reflect the additional costs incurred as a result of Covid-19. The Trust did not have to submit a formal plan to NHSE/I for this period.</p> <p>For months 7-12 of the year block contract values were centrally determined that aimed to meet the cost of providing care during the pandemic, with further funding made available to cover additional cost pressures due to Covid-19 and the provision of services. Following the changes, the Trust presented a Financial Plan with a deficit of £682k in November 2020. This was consistent with the level required to enable the Trust’s Integrated Care System to achieve the funding envelope set for the overall system.</p> <p>The Trust has achieved a reported surplus of £3.1m for 2020/21, approximately £3.7m higher than the planned position. The initial financial plans were constructed based on appropriate local and national planning assumptions, with the involvement of budget holders in setting the financial plan to help ensure the achievability of local budgets.</p> <p>We found that the Trust has an appropriate financial reporting framework in place. The financial performance of the Trust is reported each month to the Finance and Performance Committee with identification of risks within the position. There was evidence of discussion and challenge by the Committee. A monthly financial report is presented to the Board which includes key aspects, including monthly financial performance, run rate, income and expenditure and working capital. The financial reporting includes an effective analysis of the recurrent financial position of the Trust alongside analysing changes during the period.</p> <p>The Trust has identified financial sustainability as a key strategic objective, which is included on the Board Assurance Framework reported to the Board. The principle risks identified being ‘loss of confidence in the long-term financial sustainability of the Trust due to a failure to create adequate surpluses to fund operational and strategic investments’. This risk is regularly reported to the Audit Committee and assurance provided over the actions being taken to manage the risk to ensure the Board provides appropriate oversight.</p>

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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"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p><b>Risk management</b></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 by the Audit Committee on a quarterly basis and at least bi-annually by the Board.</p> <p>The Corporate Risk Register records all risks to the organisation that score 12 and above. The Corporate Risk Register is designed to provide overarching analysis for all types of risk e.g. from incidents, complaints, claims, standards, targets. Our review of the risk register found this was sufficiently detailed to effectively manage key risks but at the time of our review there were certain risks that had not been updated in line with the Trust's policy requirements. We have raised a low priority recommendation relating to this and best practice design in the information presented as part of the register to facilitate effective review and monitoring of risks.</p> <p>Within the risk register, individual risks are marked and described, including the affecting Key Strategic Objectives (Board Assurance Framework objective). Each risk is marked with a score per category. Our review of the financial plan has confirmed risks have been appropriately considered.</p> <p><b>Fraud, Laws and Regulation and Office Compliance</b></p> <p>The effectiveness of internal controls is monitored by the Audit Committee, through reporting from Internal Audit, Local Counter Fraud and Local Security Management. The programme of work for each organisation is approved at the start of the financial year by the Audit Committee.</p> <p>Any recommendations raised by Internal Audit or the Local Counter Fraud are reported to the Audit Committee. Our review of the Audit Committee papers confirmed that there was appropriate discussion and follow up of recommendations for both Internal Audit and Local Counter Fraud. We noted in the January Audit Committee that there were seven Internal Audit recommendations that were in progress, with four recommendations not yet due however. A review of the outstanding recommendations did not indicate a value for money risk and generally the Trust has been effective in implementing recommendations arising from audits on a timely basis.</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, Whistleblowing Policy and Managing Conflicts of Interest. All policies have been approved in line with their review requirements. These policies continued to apply throughout the period.</p>



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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"> <li>▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered;</li> <li>▪ The use of benchmarking information to identify areas where services could be delivered more effectively;</li> <li>▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and</li> <li>▪ Management of partners and subcontractors.</li> </ul>	<p><b>Assessing Value for Money and Opportunities for Improvement</b></p> <p>We note that from the 17 March 2020 QIPP/CIP programmes were put on hold in accordance with national guidance. This was to allow CCGs and providers to respond to the pandemic. It was therefore not possible for the Trust to implement and deliver the identified savings plans for the majority of areas; NHSE/I did not require the Trust to report on the delivery of efficiency schemes. As noted elsewhere in this risk assessment the Trust has continued with a programme of service reviews across a number of its service lines as part of which it has sought opportunities to improve the efficiency with which services are delivered.</p> <p>A monthly paper is presented to the Trust’s Finance and Performance Committee in order to report on financial performance, allowing the Trust to assess the level of value for money being achieved. Management also maintains and monitors costs and services by reviewing the information received from the Model Hospital e.g. service reviews - clinical areas; source data to reference costs against tariff, etc.</p> <p><b>Monitoring of Performance of Services</b></p> <p>The Trust has a performance management report format in place to set the structure of performance management. The main element of performance reporting is the integrated performance report which provides the Finance and Performance Committee, and subsequently the Board, with key operational performance indicators on a monthly basis. This report highlights performance on different indicators in line with the Trust’s strategy and highlights performance risk for each indicator. For these areas further information is provided, such as trends, to help inform the Finance and Performance Committee and provide the full context.</p> <p><b>Partnership Working</b></p> <p>The Trust is a member of the Sussex Health and Care Partnership (SHCP), which is an Integrated Care System (ICS) formed by 13 organisations. The financial position of the ICS is reported to the Board through chief executive reports and finance reports. The Trust is an active participant in Sussex ICS OPD programme. We have not identified a significant risk in relation to partnership working.</p> <p>During the Covid-19 pandemic the Trust has supported partners within the local health system by making use of its facilities for treatments in areas such as cancer, helping other hospitals to cope with the response to the pandemic.</p> <p>We have not identified any significant weaknesses associated with improving economy, efficiency and effectiveness.</p>



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