



Auditor's Annual Report 2022/23

Queen Victoria Hospital NHS Foundation Trust

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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 2022-23 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

Accounts	<p>We issued an unqualified opinion on the Trust's accounts on 30 June 2023. 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 – 5.</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>This requires assumptions to be made about how assets would be provided, including their location and any changes that may be made to the assets from their existing state.</p> <p>Due to the value of properties and the complexity of estimating their valuation we identify a significant risk associated with this balance.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>The Trust commissions external valuers to prepare their valuation of the estate. We assessed the expertise of the valuers utilised by the Trust as well as reviewing the instructions and information that was provided to them to enable an accurate valuation to be prepared.</p> <p>We confirmed that the valuation had been prepared in line with the requirements of accounting standards and that appropriate assumptions had been applied in determining the value assigned to the properties.</p> <p>We considered the estimate to be balanced based on the procedures performed.</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 did not identify any material misstatements relating to this risk.</p> <p>We used data and analytics in order to assess whether there were any transactions that displayed characteristics suggesting they may have been inappropriate. We tested all transactions identified as a result of this procedure and did not identify any exceptions.</p> <p>We assessed the key estimates included within the accounts to consider whether there were any indications of bias in their preparation. This primarily relates to the value of property, plant and equipment as set out above and we did not identify any indicators of bias in the preparation of these balances.</p> <p>We tested the income and expenditure transactions around the year end to assess whether they had been recorded within the correct period.</p> <p>We did not identify any exceptions.</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><i>Fraudulent expenditure recognition</i> Public sector auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately by manipulating non-pay expenditure as the Trust is set a target for its budgetary performance.</p> <p>We considered this would be most likely to occur through overstating accruals given the current nature of the funding regime, for example to bring forward expenditure from 2022-23 to mitigate financial pressures.</p>	<p>We assessed the control environment around the accruals process.</p> <p>We inspected a sample of accruals made at 31 March 2023 for expenditure not yet invoiced to understand whether the valuation of the accrual was consistent with the value billed after year end. We also reviewed the accuracy of accruals made in previous periods to consider the risk that there are inaccuracies in the accruals and we compared the balances accrued year on year in order to assess whether there was a risk of missing accruals or accruals that were not required.</p> <p>We performed testing over a sample of non-pay expenditure items and specific cut-off testing over expenditure transactions around the end of the year and identified no instances of transactions having been recorded incorrectly.</p> <p>We identified immaterial adjustments that were not corrected by management. The impact of correcting these would have been to reduce accruals and operating expenses.</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	Good
Governance statement	The Trust has not identified any significant control deficiencies within its Annual Governance Statement.
Head of Internal Audit opinion	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.

Significant weaknesses followed up from the prior year

On page 10 we have set out commentary on the significant weaknesses identified in the prior year and whether the recommendations to address the weaknesses have been satisfactorily implemented.

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	One significant risk identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risk identified	No significant weaknesses identified

We have not identified any significant weakness this year.

Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>In assessing whether there was a significant risk of financial sustainability we reviewed:</p> <ul style="list-style-type: none"> The processes for setting the 2022/23 financial plan to ensure that it is achievable and based on realistic assumptions; How the 2022/23 efficiency plan was developed and monitoring of delivery against the requirements; Processes for ensuring consistency between the financial plan set for 2022/23 and the workforce and operational plans; The process for assessing risks to financial sustainability; Processes in place for managing identified financial sustainability risks; and; Performance for the year today against the financial plan. 	<p>The Trust submitted a break-even financial plan in June 2022 in line with the national timetable for undertaking financial planning. This followed an initial forecast deficit at the beginning of the financial year that was mitigated following the announcement of further funding to support the NHS in managing inflationary pressures affecting the wider system and economy.</p> <p>We considered that the financial planning processes in place for setting the 2022-23 financial plan were consistent with the expectations of the sector, with processes in place to help ensure alignment of financial, workforce and operational plans. There were appropriate approval mechanisms for engagement and agreement of operational budgets with budget holders as well as oversight of the overall financial planning process from the Board.</p> <p>The Trust has reported a consolidated surplus of £1.1m in 2022-23, though this is primarily driven by the consolidation of the charitable fund, which received a one off legacy donation during the year that has not been fully utilised. The reported accounting performance of the parent Trust was a deficit of £0.9m, including £0.6m of impairments that are not considered as part of the assessment of its performance as this is not considered controllable.</p> <p>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, which is regularly 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> <p>During 2022-23 the Trust was notified by NHS Improvement (now NHS England) that additional license conditions were being imposed upon it. As part of doing so NHS England highlighted concerns that the Trust was not financially sustainable. The Trust has previously identified concerns relating to its financial sustainability, however due to the conversion of funding received on a non-recurrent basis during the Covid-19 pandemic to recurrent funding the Trust has developed a financial plan for 2023-24 that is forecasting a deficit of £0.3m, driven by the impact of peppercorn leases, which is equivalent to a break-even position when assessed against the control total criteria used for performance management by NHS England.</p>

Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>In assessing whether there was a significant risk of financial sustainability we reviewed:</p> <ul style="list-style-type: none"> • The processes for setting the 2022/23 financial plan to ensure that it is achievable and based on realistic assumptions; • How the 2022/23 efficiency plan was developed and monitoring of delivery against the requirements; • Processes for ensuring consistency between the financial plan set for 2022/23 and the workforce and operational plans; • The process for assessing risks to financial sustainability; • Processes in place for managing identified financial sustainability risks; and; • Performance for the year today against the financial plan. 	<p>We have reviewed the financial plan for 2023-24, which includes £3m of additional forecast income due to changes in the volume of treatment provided. The Trust has set an efficiency plan of £5.4m in order to achieve the planned performance. This is equivalent to 5.7% of operating expenditure. At the time of submitting its financial plan the Trust reported that it had fully developed plans for £3.5m of the target while the remainder had plans in progress. The majority of this is forecast to be identified through reductions in pay spend. We note that the level of efficiency required to achieve the reported performance is challenging and exceeds the levels generally achieved within the sector or historically achieved by the Trust, though we do not consider that there is a significant risk of material financial sustainability issues given the progress made in developing the plan and the Trust's recent history of delivering balanced financial performance.</p> <p>We have observed evidence that there has been appropriate scrutiny and overview of the forecast financial performance for 2023-24 through the Finance and Performance Committee throughout the financial planning cycle and are therefore satisfied that the governance arrangements to oversee the financial position are sufficient.</p>

Value for money

Governance	
Description	Commentary on arrangements
<p>In assessing whether there was a significant risk relating to governance we reviewed:</p> <ul style="list-style-type: none"> Processes for the identification, monitoring and management of risk; Controls in place to prevent and detect fraud; The review and approval of the 2022/23 financial plan by the Board, including how financial risks were communicated; Processes for monitoring performance against budgets and taking actions in response to adverse variances; How compliance with laws and regulations is monitored; Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and How the Board ensures decisions receive appropriate scrutiny. 	<p>Governance structures</p> <p>The Trust has appropriately designed governance arrangements to provide oversight and scrutiny to operations and enable informed decision making. The governance structure includes the committees required under the Foundation Trust Code of Governance, including an Audit Committee and Remuneration Committee, as well as those expected within the sector, including a Finance and Performance Committee to oversee financial and operational performance.</p> <p>The Trust has established a Council of Governors as required by the Foundation Trust Code of Governance, with members representing appropriate local, patient and staff constituencies. The Council of Governors has an appropriate remit in line with guidance issued by NHS England.</p> <p>On 20 October 2021 the Trust received a notice of imposition of additional license conditions from NHS Improvement under section 111 of the Health and Social Care Act. Following a referral made by the Trust NHS Improvement stated that they were satisfied the Trust was going to breach four of its license conditions. These related to the need for the Council of Governors to implement arrangements to work effectively with the Board and to ensure that the Trust has sufficient and effective Board leadership, capacity and capability.</p> <p>We identified a significant weakness relating to the effectiveness of the governance arrangements as part of our 2021-22 value for money assessment due to there being evidence of the Council of Governors not having undertaken their full range of responsibilities during the year and due to the ineffective working relationship between the Board and the Council of Governors. At the time of completing our assessment the Trust had commissioned an independent review of the governance arrangements and had accepted the recommendations raised from the review but due to the timing of reporting there had been insufficient opportunity for the actions to be implemented and become embedded.</p> <p>12 recommendations were raised as a result of the independent review into the governance arrangements, all of which were accepted by the Trust Board. The majority of the recommendations have either been superseded following the decision not to progress with the proposed merger or have been implemented. Initiatives have been introduced to support the governors in undertaking their roles effectively, such as informal meetings between Non-Executives and governors.</p> <p>At the time of preparing our report one of the recommendations from the review was outstanding, relating to the development of a policy to set out the actions to be taken where governor actions are in breach of the Nolan Principles of Public Life. A draft policy was developed in April 2022 and unable to be agreed and we note that this is expected to be reassessed following the forthcoming governor elections.</p>

Value for money

Governance	
Description	Commentary on arrangements
<p>In assessing whether there was a significant risk relating to governance we reviewed:</p> <ul style="list-style-type: none"> Processes for the identification, monitoring and management of risk; Controls in place to prevent and detect fraud; The review and approval of the 2022/23 financial plan by the Board, including how financial risks were communicated; Processes for monitoring performance against budgets and taking actions in response to adverse variances; How compliance with laws and regulations is monitored; Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and How the Board ensures decisions receive appropriate scrutiny. 	<p>We have reviewed the papers of Council of Governor meetings held during the year in order to assess whether there was evidence of the Council undertaking its roles and responsibilities in line with the well led framework and guidance on governor responsibilities. We have been able to observe evidence from this review that the governors have been discharging their responsibilities where relevant during the year, including holding Non-Executives to account through regular attendance of Board sub-committee chairs. We have also performed inquiries of those associated with the Council, which have confirmed the improvement in the nature of the relationship between the Council and the Board and the effectiveness of Council meetings.</p> <p>During the year there has been an active legal case by one of the Trust’s governors associated with disciplinary actions set out by the Trust. Following review by the High Court during the year the Trust and the governor were urged to seek a mutual resolution and work has progressed to seek to resolve the matter subsequently, which at the time of preparing our report was ongoing.</p> <p>While we note that there remain challenges to resolve relating to the implementation of recommendations to improve the relationship between the Council of Governors and the Board we are satisfied that progress has been in improving its effectiveness and during the year there is evidence of the Council discharging its responsibilities as set out by NHS England. As such we do not consider that there is a significant weakness in the governance arrangements in place at the Trust during 2022-23.</p> <p>Assessment of potential merger</p> <p>During the year the Trust determined not to further pursue merger with University Hospitals Sussex NHS Foundation Trust. We had previously raised a risk as part of our value for money assessment that there may not be appropriate governance around any decision to progress with a merger due to the need for appropriate approvals to be obtained for significant transactions. We have reviewed minutes of the Board and are satisfied that there was appropriate governance arrangements in place for the decision to not pursue a merger and have therefore not identified a further risk associated with the decision making.</p> <p>Decision making</p> <p>The Standing Financial Instructions and Scheme of Delegation set out the decision making limits and authorities for different types of transaction. Limits and escalation processes are consistent with those observed within the sector and include appropriate escalation to the Board for revenue and capital expenditure decisions exceeding £1 million as well as procurement requirements that require tenders to be issued where expenditure is planned that would exceed £50,000, a lower limit than that required under public sector procurement regulations.</p>

Value for money

Governance	
Description	Commentary on arrangements
<p>In assessing whether there was a significant risk relating to governance we reviewed:</p> <ul style="list-style-type: none"> Processes for the identification, monitoring and management of risk; Controls in place to prevent and detect fraud; The review and approval of the 2022/23 financial plan by the Board, including how financial risks were communicated; Processes for monitoring performance against budgets and taking actions in response to adverse variances; How compliance with laws and regulations is monitored; Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and How the Board ensures decisions receive appropriate scrutiny. 	<p>The Standing Financial Instructions set a requirement for detailed losses and special payments procedures to be developed and cascaded. These are important as they are areas where taxpayer funds are not typically expected to be utilised and so additional control is required to ensure it is appropriate use of public funds. From inquiries with management we understand that no documented procedures are currently in place. We do not consider this to be a significant weakness in arrangements as the Trust has not entered into any significant special payments during the period under review, however we have raised a performance improvement observation to ensure that an appropriate policy and procedure is in place.</p> <p>Risk management</p> <p>There are appropriate governance arrangements in place for the oversight of risks to the achievement of the Trust's strategy. A Board Assurance Framework has been developed that sets out each of the key strategic objectives and risks that have been identified to their achievement as well as actions that are planned to be taken to mitigate the risks. The Board Assurance Framework is regularly reviewed by the Board as well as the Audit Committee and deep dive reviews of individual objectives are undertaken on a periodic basis through the Trust's Board sub-committee structure.</p> <p>A target risk is set for each of the key strategic objectives and compared to a current residual risk level. We note that for each of the key strategic objectives the Trust is currently not achieving its target risk level and could not confirm from review of the mitigations that there were appropriate plans in place that would achieve the target risk scores. Due to the wide range of risks captured within a strategic objective there is a high level of inherent difficulty in reducing risk scores significantly and therefore we consider that the risk appetite is unlikely to be achieved for a number of the objectives. Setting target risk scores that are unachievable makes it more difficult for the Board to assess where there are gaps that need more urgent remedial action to be taken. While we do not consider this to be a significant weakness and observed evidence that appropriate action was being taken in response to each of the individual risks we have raised an improvement observation to support the clarity of review of the strategic risks of the Trust.</p>

Value for money

Improving economy, efficiency and effectiveness

Description

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Trust has engaged with ICS partners in development of the organisation and system wide plans and arrangements;
- The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Commentary on arrangements

Assessing Value for Money and Opportunities for Improvement

A monthly paper is presented to the Trust's Finance and Performance Committee in order to report on financial performance. Management also maintains and monitors costs and services by reviewing the information received from the Model Hospital, which provides benchmarked insights on topics such as the quality of care, productivity and organisational culture across the NHS, in order to identify opportunities for improvement.

For 2022-23 the Trust set a cost improvement target of £3.5m, of which it was anticipated that 69% of savings would be identified recurrently. At the end of 2022-23 the Trust reported full year achievement of £2.1m of the required efficiencies, with a full year effect of £2.6m. The efficiency requirement for 2023-24 is significantly increased, with a savings target of £5.4m identified. We therefore note the scale of the challenge for the Trust in identifying and implementing the efficiencies required in order to achieve a recurrent break-even position. Good progress has been made in the identification of efficiency plans for the year, though we note that in the Trust's final financial planning return that the full value of the efficiencies was identified as being medium risk.

Monitoring of Performance of Services

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.

Partnership Working

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. 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. The Trust is also engaged in other partner integrated care systems such as Kent and Medway due to the reach of its specialised services.

Performance improvement observations – follow up from prior year

The following recommendations were raised in the prior year:

#	Risk	Issue, Impact and Recommendation	Management response from prior year recommendation	Update
#	1	<p>Relationship between Board and Governors</p> <p>During the year the Trust referred itself to NHS Improvement due to the deterioration in the relationship between the Board of Directors and the Council of Governors over the exploration of a potential merger. NHS Improvement issued additional license conditions related to the appointment of an experienced and effective chair, and the need for governors to operate in accordance with the Trust constitution, their statutory role and national guidance.</p> <p>A subsequent independent review made a number of recommendations to support the Trust’s ability to move forward with developing a full business case for potential merger, and promote ongoing work and effective relationships with staff, governors and external stakeholders.</p> <p>The Board has accepted the recommendations of the independent review and committed to actions developed in response to these, however there had not been opportunity for these to be implemented by 31 March 2022.</p> <p>The Board should monitor the implementation of the action plans agreed following the independent review and assess the effectiveness of the implemented actions in order to ensure that the Board and the Council of Governors are able to maintain an effective working relationship and that the Council of Governors discharges its responsibilities effectively.</p>	<p>The Board continues to monitor the implementation of the actions agreed following the independent review and to assess the effectiveness of the implemented actions. This includes work to support an effective working relationship between the Board and the Council of Governors, and to support the Council of Governors to discharge its responsibilities effectively.</p>	<p>Partially completed</p> <p>As set out in our commentary the majority of the recommendations raised by the independent review have either been implemented or superseded.</p> <p>There remains an outstanding recommendation relating to the policy to be implemented for actions to be taken where governors are identified to have not followed the Nolan Principles. A draft policy was presented in April 2022 but was unable to be agreed and has therefore not been ratified to date.</p>



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