



# Auditor's Annual Report 2021/22

**Northern Devon Healthcare NHS Trust**

20 June 2022

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This report is addressed to Audit Committee of Northern Devon Healthcare 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 2021-22 audit of Northern Devon Healthcare 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 on 20 June 2022. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>On 1 April 2022, Northern Devon Healthcare Trust and The Royal Devon &amp; Exeter NHS Foundation Trust merged their operations into a single Trust, Royal Devon University Healthcare NHS Foundation Trust. On the same day, Northern Devon Healthcare NHS Trust was dissolved. Whilst Northern Devon Healthcare NHS Trust is therefore not a going concern due to its dissolution as part of the merger, the financial statements of the Trust have been prepared on a going concern basis because its services are continuing to be provided by the successor foundation 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>Risk of error – valuation of land and buildings</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>A full revaluation of NDHT’s land and buildings was undertaken as at 31 March 2020 by the District Valuer (DV) and a further desktop valuation was performed as at 31 March 2021. For 2021/22, the Trust have instead reviewed the movement in indices to support the decision not to book valuation adjustments.</p>	<p>We critically challenged management’s decision to not revalue the land and buildings, using market data such as BCIS indices and specialised asset build costs, considered any capital works completed since the last valuation, and indicators of impairment. We evaluated the Trust’s formal consideration of indication of impairment and surplus assets within its estate, including the process undertaken and the adequacy of the judgements made by management in determining whether assets are impaired or surplus to requirements.</p> <p>We did not identify any material misstatements relating to this risk. We considered the estimate to be balanced based on the procedures performed.</p>
<p><b>Fraudulent expenditure recognition</b></p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We consider this would be most likely to occur through understating accruals, if performance against the control total allows, for example to push back expenditure to 2022-23 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 2022 to verify expenditure had been recognised in the correct accounting period and evaluating a sample of year end accruals to confirm they were appropriate. We also assessed the outcome of the agreement of balances exercise with other NHS organisations.</p> <p>We did not identify any material misstatements relating to this risk.</p>
<p><b>Management override of controls</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 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.</p> <p>We did not identify any material misstatements relating to this risk.</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.

# 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 \(nao.org.uk\)](http://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:

<b>Care Quality Commission rating</b>	The Trust was rated 'requires improvement' in its last short inspection in July 2021.
<b>System Oversight Framework rating</b>	NDHT - Segment 3 (Mandated support) Devon – Segment 4 (mandated intensive support)
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Head of Internal Audit opinion</b>	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
<b>Financial sustainability</b>	No significant risk identified	No significant weaknesses identified
<b>Governance</b>	No significant risks identified	No significant weaknesses identified
<b>Improving economy, efficiency and effectiveness</b>	No significant risks identified	No significant weaknesses identified

We have not identified any significant weakness with regard 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 8.

## Financial sustainability

### Description

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.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- 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.

### Commentary on arrangements

The revised funding arrangements introduced in light of the pandemic have been extended into the 2021/22 financial year. For H1 (April to September 2021) NHSE/I provided funding via system allocations based on the 2020/21 CCG outturns adjusted for known pressures and efficiency assumptions, with block funding arrangements between providers and key commissioners. For H2 (October 2021 to March 2022) these arrangements were extended, with additional efficiency assumptions incorporated into the guidance.

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. As noted though, the Trust did not have to submit a formal plan to NHSE/I for this period. The Trust reports through the Devon ICS as its “lead” ICS for funding purposes.

The financial position remains tough in the Devon system and the impact of the Covid-19 pandemic continues to impact on the Trust and its regional partners, with a particular focus for the Trust as it becomes one merged organisation with Royal Devon & Exeter, Royal Devon University Hospital (‘RDUH’). The Trust achieved a deficit in year (£1.9m, compared with 2020/21 £1.0m deficit). The Trust is under no illusions regarding its underlying deficit and reporting to the Board underlines this.

We found that the Trust has an appropriate reporting framework in place. The financial performance of the Trust is reported each month to the Board with identification of risks within the position. We have considered the arrangements for the reporting of progress of the capital plans and have not identified a value for money risk.

We considered the arrangements in place to align the Trust financial plan with the ICS financial plan. The Chief Finance Officer was involved in the planning process and the Trust’s element of the system plan was approved for 2022/3 on 30 March 2022. The Devon system deficit is estimated at £104m with just under half of this being within the RDUH entity. The Trust also expect this deficit to be serviced through a significant reduction in combined cash from £78m to £14.7m by the end of March 2023.

We can however note that the ICS and RDUH have provided a clear summary of the key challenges within the region and the need for various programmes of work to establish the position of each Trust, including efficiency and productivity, short term service development opportunities and a long term plan. There is evidence of the recognition of the region’s Trusts to be more collaborative to face the on-going challenges within the STEC committee meeting Minutes. We also observed oversight of key financial decisions and robust governance arrangements to enable system based decisions, with a clear link back into the Trust’s governance structure.

We found that the Trust has financial sustainability risk as a high risk score on the latest risk register and Board Assurance Framework and to respond to this risk, management has put in place actions such as having regular Board briefings on key underpinning finance issues at Trust wide and system level and development of longer term efficiency plans within Trust divisions.

Whilst we have not identified a significant risk associated with the arrangements in place for the current period, we note the continued financial pressures, which are likely to increase in future periods and hence the Trust will need to ensure these arrangements, including the reporting of both the Trust and system position, are robust and sufficient for the increased risk going forward.

On 1 April 2022, Northern Devon and Royal Devon & Exeter merged their operations into a single Trust, Royal Devon University Healthcare NHS Foundation Trust. On the same day, NDHT was dissolved. Therefore, future financial sustainability risks relates to the merged Trust RDUH.

# 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"> <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>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 Safety and Risk Committee receives the CRR each time it meets, with the Governance Committee receiving a report twice a year, deep diving into risks selected by the Joint Chairs. Our review of the risk register found this was sufficiently detailed to effectively manage key risks and were viewed evidence of review within both the Governance Committee and Audit Committee with clear escalation up to the BAF where required.</p> <p>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.</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. All policies have been approved in line with their review requirements. 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.</p> <p>We found there to be appropriate scrutiny and challenge of the budgets and appropriate approval through the budget holders. 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, with issues escalated to divisional directors and at Performance Assurance Framework (PAF) meetings. We also found appropriate processes in place to ensure accurate recording and monitoring of the additional costs associated with Covid-19. Monthly submissions are made to NHS England through the PFR which is approved by the Chief Financial Officer.</p> <p>The divisional meetings and Board scrutinise monthly performance. Our review of the Committees indicated that there was sufficient detail and follow up to understand any significant variances to plan.</p> <p>On 1 April 2022, Northern Devon Healthcare Trust and The Royal Devon &amp; Exeter NHS Foundation Trust merged their operations into a single Trust. We have reviewed the full business case and the Board papers reviewed show clear evidence of challenge and appropriate levels of scrutiny.</p> <p>We reviewed the independent review of the Quality Governance for RD&amp;E and NDHT integration which was completed as part of the merger and noted that the review concluded RD&amp;E and NDHT have sound systems and processes in place to support/form a suitable Quality Governance Framework for the enlarged Trust. We did not identify significant issues that would impact our value for money assessment.</p>

# Value for money

## Improving economy, efficiency and effectiveness

### Description

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.

We considered the following areas as part of assessing whether sufficient arrangements were in place:

- 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.

### Commentary on arrangements

Typically CIP performance is reported as part of the Integrated Performance Report ('IPR'), although this was not done as regularly in the prior year as formal reporting was not required by NHSE/I due to the pandemic. Management also maintains and monitors costs by reviewing the information received from the Model Hospital as benchmarking within the STP as part of shaping efficiency plans and contracting rounds.

In line with the NHS national guidance for the first half of the 2021/22 financial year (April – September, referred to as H1) Northern Devon had a cost efficiency target of 0.28% (approx. £280k). H2 guidance was published in September 2021 for the second half of the year (October – March), with a greater efficiency requirement of 0.82% (approx. £1.9m). The Trust delivered its efficiency target of £2.2m for the full year.

The Care Quality Commission (CQC) carried out a short notice inspection in July 2021 and delivered an overall rating of "Requires Improvement", with similar ratings in the five sub-areas, apart from responsive to people's needs which was rated "Good" and caring which was rated "Outstanding". The report identified 4 items the Trust "should" implement. An action plan has been developed and progress is being monitored through the Governance committee

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.

The Trust forms part of the Devon STP. 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 a STP level as well as considering the individual entities that makeup the system, with the aim of achieving financial sustainability at a system level rather than a traditional focus on individual control totals. The Trust has a focus on partnership working, as noted as a key strategic risk on the BAF. The Trust's CEO, Chair and relevant NEDs provide updates within their reports to Board with the system financial performance as required, though it is not formally reported in the financial reports.

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 that Northern Devon Healthcare NHS Trust recognise being part of an ICS in deficit. Trust management note that the ICS requires transformational plans to address the deficit and discussions are ongoing with the wider ICS to engage support for this.



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