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Key Messages

Audit opinion on the financial statements

We issued an unqualified opinion on the Trust's financial statements on 21 June 2022.

The Trust's arrangements to secure Value for Money

Commentary on the Trust's arrangements

Financial Sustainability

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

The Trust prepares annual planning inline with national NHS timetables. The plans are prepared on a divisional basis.

Divisional Finance Managers work with clinical and non-clinical Divisions to identify and investigate any current and future cost pressures. In addition to this the Trust also has a Finance and Performance committee to aid the governance of the financial suitability arrangements.

Savings plans are identified at a divisional level and embedded within the budget process. Achievement of savings is monitored and reported throughout the financial year to Divisional and Trust Boards.

As part of the planning process and monitoring of financial performance, scenario planning is prepared and reported along with the identification of mitigating actions.

The Trust identifies and manages risks to financial resilience through the summary document of risks and mitigations submitted to the Board for review, challenge and approval.

The papers are prepared in advance and submitted to the Board prior to the Board meetings to allow sufficient time to review and scrutinise. There is a planned control total deficit of £19.3m for the Group for 2022/23 with a statutory deficit of £12m where the difference relates to donated asset income as set out in plan as at the end of June 2022. This plan has been agreed by the Integrated Care System. We understand that a procurement review is in progress to understand inflation risk. In addition, a detailed plan has been presented to the Board setting out plans to return to breakeven.

Risks and mitigations are identified through the monthly finance report prepared by the 3 Deputy Director of Finance.

Key Messages (continued)

Governance

How the body ensures that it makes informed decisions and properly manages its risks

The Trust has an established risk management process, with roles and responsibilities set out in the Risk Management Strategy. A range of formal processes and systems (including policies and procedures, risk registers, board assurance framework) enable the effective management of both strategic and operational risk.

The risk register is reviewed on a regular basis through Board meetings and new risks are added and managed as they emerge.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

The Trust Board and its Committees (including the Audit and Risk Committee) receives in advance of their meetings detailed papers and reports setting out decisions that are to be taken, along with supporting information and evidence put forward to support any recommendations.

The lead executive presents the paper and invites comment and challenge from other executive and non-executive Board or Committee members. Every member has the opportunity to challenge the recommendation or seek further information.

Purpose of this report

Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Royal United Hospitals Bath NHS Foundation Trust ("the Trust") for the year ended 31 March 2022.

This report is intended to bring together the results of our work over the year at the Trust, including commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM").

In preparing this report, we have followed the National Audit Office's ("NAO") Code of Audit Practice and its Auditor Guidance Note ("AGN") 03, Value for Money, and AGN 07, Auditor Reporting. These are available from the NAO website.

A key element of this report is our commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources ("Value for Money", "VfM"). Our work considering these arrangements is based on our assessment of the adequacy of the arrangements the Trust has put in place, based on our risk assessment. The commentary does not consider the adequacy of every arrangement the Trust has in place, nor does it provide positive assurance that the Trust is delivering or represents value for money.

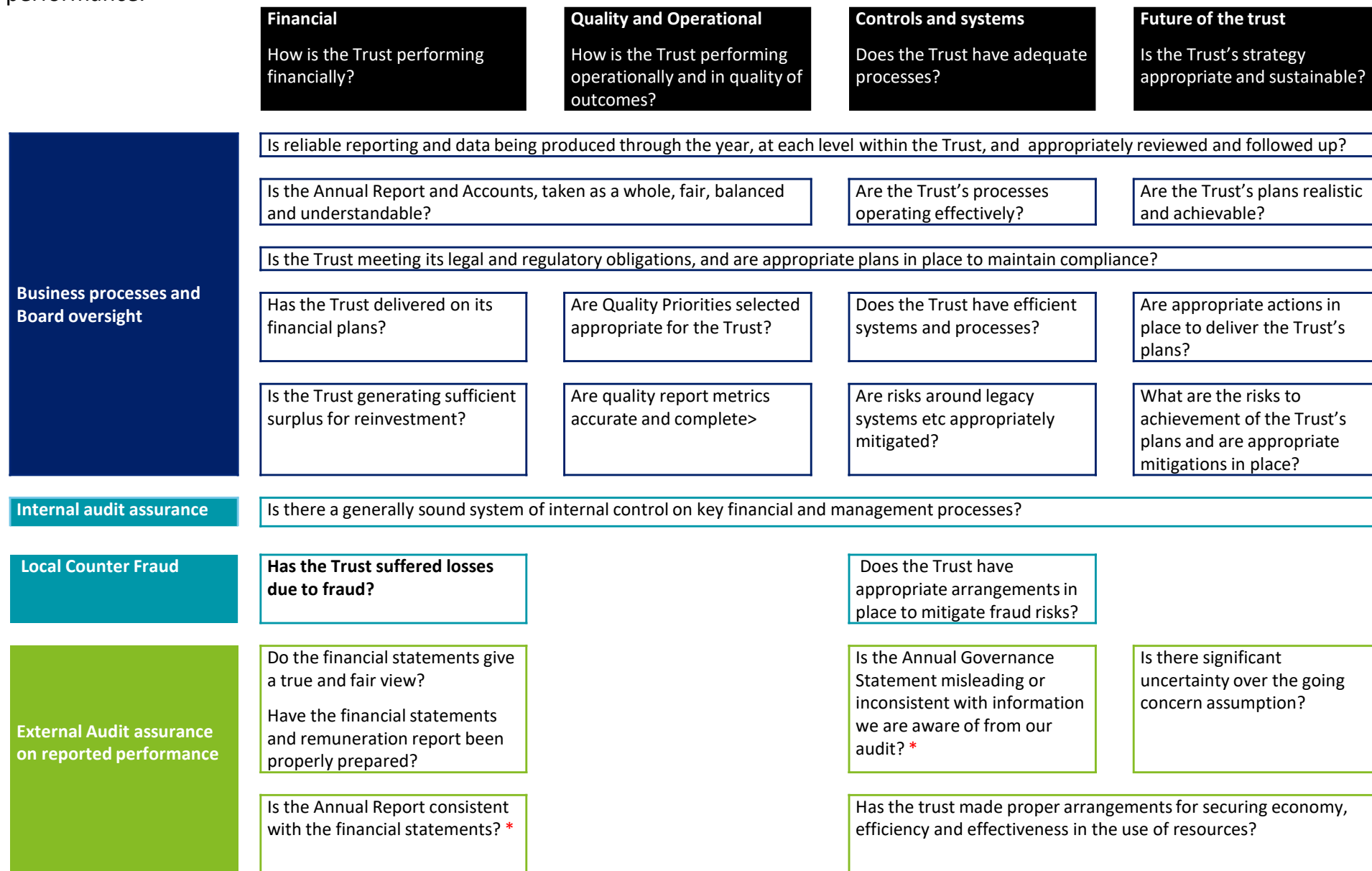
Where we identify recommendations, we indicate whether these are:

- Recommendations in respect of significant weaknesses in the Trust's VfM arrangements, which we are required to make in accordance with paragraph 54 of AGN 03 where we identify a significant weakness, or
- Other recommendations, which we have indicate as "Deloitte Insights" which are summarised in Appendix 1.

We have not identified any significant weaknesses in the Trust's VfM arrangements, and so have not reported any recommendations in respect of significant weaknesses. However, we have raised two Deloitte Insights in respect of Financial Sustainability and the use of Vesting Certificates at year end (see Appendix 1).

Assurance sources for the Trust

The diagram below illustrates how the assurances provided by external audit around finance, quality, controls and systems and the future of the Trust (in the green rows) and how this fits with some of the other assurances available over the Trust's position and performance.



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

Opinion on the financial statements

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

- give a true and fair view of the state of the group's and the foundation trust's affairs as at 31 March 2022 and of the group's and foundation trust's income and expenditure for the year then ended;
- have been properly prepared in accordance with the accounting policies directed by NHS Improvement – Independent Regulator of NHS Foundation Trusts; and
- have been prepared in accordance with the requirements of the National Health Service Act 2006.

The full opinion is included in Trust's Annual Report and Accounts, which is available from the Trust's website.

We conduct our audit in accordance with the NAO's Code of Audit Practice, International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

We are independent of the Trust in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements:	We issued an unqualified opinion on the Trust's financial statements on 21 June 2022. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.
Remuneration and Staff Report:	We reported that the parts of the Remuneration and Staff Report subject to audit have been properly prepared in accordance with the National Health Service Act 2006.
Annual Governance Statement:	We did not identify any matters where, in our opinion, the Annual Governance Statement did not meet the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual, was misleading, or was inconsistent with information of which we are aware from our audit.
Annual Report:	We reported that the information given in the Performance Report and Accountability Report for the year ended 31 March 2022 is consistent with the financial statements.
Reports in the public interest and reports to NHS Improvement:	We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2022.
Reporting to the group auditor:	In line with the group audit instructions issued by the NAO, we reported on 12 August 22 that the Trust's consolidation schedules that feed into the Consolidated NHS Provider Account and Department of Health and Social Care's group accounts were consistent with the audited financial statements.
Audit Certificate	We certified completion of the audit on 24 August 2022, following completion of our responsibilities in respect of the audit for the year ended 31 March 2022.

Our financial statement audit approach

An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Group and the environment it operates in, including internal control, and assessing the risks of material misstatement to the financial statements. Our risk assessment procedures include considering the size, composition and qualitative factors relating to account balances, classes of transactions and disclosures. This enables us to determine the scope of further audit procedures to address identified risks of material misstatement. During the year the Trust acquired Sulis Limited a fully owned subsidiary which is in scope for the group audit. In addition the Trust controls its associated Charity where specified procedures have been completed.

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

Materiality

Our work is planned and performed to detect material misstatements. We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Group of £9.7m on the basis of 2% of revenue.

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

Procedures for auditing the financial statements

Our audit of the financial statements included:

- developing an understanding of the Trust and group, including its systems, processes, risks, challenges and opportunities and then using this understanding to focus audit procedures on areas where we consider there to be a higher risk of misstatement in the financial statements;
- interviewing members of the management team and reviewing documentation to test the design and implementation of internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the financial statements to supporting documentary evidence, as well as other analytical procedures, to test the validity, accuracy and completeness of those balances.

Data analytic techniques were used as part of audit testing, in particular to support profiling of populations to identify items of audit interest and in journal testing.

Approach to audit risks

We focused our work on areas where we considered there to be a higher risk of misstatement. We refer to these areas as significant audit risks.

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

We have made recommendations in our Audit and Risk Committee reporting for improvement in the Trust's policies, procedures and internal controls based on observations from our work. However, we do not consider these recommendations to reflect significant weaknesses in the Trust's VfM arrangements.

Financial statement audit significant risks

Validity of capital expenditure

Risk identified The Trust has an extensive capital programme, with spend for the year of £35m, compared to £43.5m for 2020/21, as detailed in note 18 to the financial statements. Accounting for capital expenditure can involve significant judgement. Whether expenditure is capitalised, and the period it is recognised in, can significantly impact against the budgetary control totals the Trust is assessed against by NHS Improvement.

The higher level of capital budgets available in the current year, and the annual cut-off of capital budgets and requirements of PDC funding, increases the risk of amounts being incorrectly capitalised, or of incorrect recognition in the current period.

Deloitte response

- We requested management prepare accounting papers in respect of any areas of judgement in the application of accounting standards to determine whether costs should be capitalised. Our report to the Audit and Risk Committee included recommendations for improving papers in future years.
- We tested the design and implementation of controls around the capitalisation of costs.
- We tested spending on a sample basis to confirm that it complies with the relevant accounting requirements.
- We tested the validity of year end capital accruals to test cut-off of expenditure.
- We tested a sample of vesting certificates to assess whether they were appropriate accounted for, and also considered from a Value for Money perspective whether their use was in accordance with the requirements of Managing Public Money (which requires bodies not to make payments in advance of need or solely for the purposes of managing performance against spending controls).

Key observations A misstatement was noted in relation to an addition that was not delivered pre-year end and where a vesting certificate had not been signed. We reported a related control recommendation in our year-end report to the Audit and Risk Committee.

We have identified an insight in relation to the use of vesting certificates, which is set out on page 19.

Financial statement audit significant risks (continued)

Validity of accruals

Risk identified The changes to the NHS funding and monitoring regime in the prior and current year have meant that there has been a significant increase in the overall level of revenue and capital funding available to NHS providers, and a reduction in the overall pressure to achieve specific control totals.

As detailed in notes 29 and 34 to the financial statements, the Trust's accruals have increased from £22.3m at 31 March 2021 to £35.0m at 31 March 2022, an increase of £12.6m. Capital creditors have decreased from £6.6m to £3.9m, a decrease of £2.7m. Provisions have increased from £1.8m to £2.0m, an increase of £0.2m.

This may reduce the scrutiny of the validity of liabilities recognised at year end and/or create an incentive to make overly prudent estimates and judgements so as to recognise expenditure in the current year and make future targets easier to achieve. We have therefore identified an additional significant risk due to fraud in updating our year end risk assessment.

Deloitte response

Accruals

- We tested the design and implementation of controls over the year end accrual process.
- We tested a sample of accruals to supporting documentation to check whether they were valid liabilities, that the amount accrued was appropriately supported, and that the liability had been incurred as at 31 March 2022.
- We also considered the findings from our testing of capital expenditure with respect to the timing of recognition of expenditure and liabilities.

Provisions

- We tested the newly arising provisions met the definition of a provision and were valued appropriately (recognised in accruals see reclassification proposed).
-

Key observations

A number of misstatements were identified in relation to the overstatement of accruals and provisions. We reported related control recommendations in our year-end report to the Audit and Risk Committee.

Financial statement audit significant risks (continued)

Management override of controls

Risk identified In accordance with ISA 240 (UK) management override is a presumed significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Trust's controls for specific transactions.

We consider that in the current year there is a risk across the NHS that management may override controls to fraudulently manipulate the financial statements or accounting judgements or estimates. In previous years, this has been to meet or exceed control totals – however, in light of the increased funding in the current year, we have also considered the potential incentives to recognise excess liabilities in the current year.

Note 1.27 to the financial statements details the Critical Accounting Judgements and Key Sources of Estimation Uncertainty identified by management.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that: in the current year there are no direct financial incentives for achieving particular results; the Trust's reported results were ahead of plan by £0.8m; and senior management's remuneration is not tied to particular financial results. We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Specific areas of work are:

- We considered overall control environment and 'tone at the top'.

Journals

- We tested the design and implementation of controls in relation to journals and accounting estimates.
 - We made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
 - We used analytics tools to select journals for testing, based upon identification of items of potential audit interest. Our analysis covered the 102,997,206 journal lines posted in the year.
 - We conducted various tests using excel analytics to highlights journals which were indicative of fraud, due to their large value or being rounded in nature etc, with journal tests being refined to our significant audit risks in the current year. Investigation of items selected using data analytics did not identify indicators of management override.
 - In addition, we tested the appropriateness of journals and adjustments made in the preparation of the financial statements.
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Financial statement audit significant risks (continued)

Management override of controls

Deloitte response

Accounting estimates

- We reviewed accounting estimates for biases that could result in material misstatements due to fraud, this has included property valuations, capital expenditure, accruals and provisions and impairment of goodwill.
- We performed testing on key accounting estimates as discussed above, and considered or other accounting.
- In addition to our work focused on accounting judgements in relation to the recognition of accruals and provisions to ensure valid accruals and provisions were recognised at the year end.
- In relation to property valuations, we have challenged the assumptions applied in the desktop valuation through the use of our property specialists.

Significant transactions outside the normal course of business

- The Trust acquired Sulis Limited during the year. From our consideration of this transaction, we did not identify any indication of related risk of management override of controls. While not identified as a significant risk, we considered the accounting for the acquisition as an other area of focus in our audit testing.

Key observations

We noted that management have been more prudent in relation to the accruals and provisions with an increase of £13.4m in comparison to the prior year. As a result of this increase the validity of accruals has been identified as a significant audit risk.

Deloitte recommendation and insight

As detailed above misstatements have been noted in relation to judgements in relation to the recognition of accruals/provisions and capital expenditure. We reported related control recommendations in our year-end report to the Audit and Risk Committee.

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

The Accounting Officer and the Board are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

The Accounting Officer reports on the Trust's arrangements, and the effectiveness with which the arrangements are operating as part of their annual governance statement.

Under the National Health Service Act 2006, we are required to be satisfied whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Under the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

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

In this report, we set out the findings from the work we have undertaken. Where we have found significant weaknesses in arrangements, we are required to make recommendations so that the Trust can consider them and set out how it plans to make improvements. We have not identified any significant weaknesses in arrangements.

In planning and performing our work, we consider the arrangements that we expect bodies to have in place, and potential indicators of risks of significant weaknesses in those arrangements. As a result of the COVID-19 pandemic, there have been changes in nationally led processes, changes in expectations around Trust's arrangements, and events occurring outside of the Trust's control, which affect the relevance of some of these indicators. We have still considered whether these indicators are present, but have considered them in the context of the circumstances of 2021/22 in assessing whether they are indicative of a risk of significant weakness.

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



Interviews with key stakeholders, including Senior Finance Staff, Director of Finance.

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



Reviewing reports from third parties including Care Quality Commission, Internal audit, and correspondence with NHSE/I.



Considering the findings from our audit work on the financial statements.



Review of the Trust's annual governance statement and annual report.



VfM arrangements: Financial Sustainability

Approach and considerations

We have considered how the Trust plans and manages its resources to ensure it can continue to deliver its services, including:

- How the Trust ensures it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning; and
- How the Trust identifies and manages risks to financial resilience, including challenge of the assumptions underlying its plans.

Commentary

- The Trust reported a breakeven position for the year and is in a surplus position overall after gains from revaluation and impairment, to arrive at a total comprehensive income for the period of £3.8m for the year ended 31 March 2022.
- At 31 March 2022, the Trust had net assets of £254.6m (31 March 2021:£228.0m), net current assets of £3.4m (31 March 2021:£0.5m), and cash of £48.5m (31 March 2021: £28.3m).
- The Trust's annual planning process and process around identification of significant pressures was significantly impacted by the Covid-19 pandemic. We saw evidence that the Trust adapted its arrangements to respond and they were in line with our expectation in the current operating environment.
- There is a planned control total deficit of £19.3m for the Group for 2022/23 with a statutory deficit of £12m where the difference relates to donated asset income as set out in plan as at the end of June 2022. This plan has been agreed by the Integrated Care System. Management-monitor financial performance on a monthly basis through the a detailed integrated finance report presented to the Board. The plan prepared for the year show that the Trust has positive cashflows throughout the year, indicating that there is sufficient cash available to cover the financial year ended 31 March 2023.
- The Trust is has developed a Cost Improvement Programme (CIP) to achieve of £14.8m of savings for 2022/23. As at June 2022 the Trust had identified £11.5m of savings to date.. The Trust continued to report and monitor CIPs throughout the year.
- Due to the national picture following COVID19, we have not identified a significant weakness in the Trust's arrangements. We have however identified an insight on areas for improvement in this area (see page 19). The Trust needs to implement its strategy in order be in a position to achieve a breakeven position for FY24, as the on-going use of reserves to bridge funding gaps is not sustainable in the longer term.

VfM arrangements: Governance

Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

Commentary

- NHS Improvement has assessed the Trust under the Single Oversight Framework in segment 2, which is “Providers offered targeted support: there are concerns in relation to one quality of care, finance and use of resources, operational performance, strategic change and leadership and improvement capability).
- The full last CQC inspection was in June 2018 and rated the Trust as good overall with well-led rated as good and Caring as outstanding, responsive was rated as requires improvement. In January 2021 there was a focused CQC visit in relation to Urgent Care which rated the service as requires improvement, since this report the Trust has implemented actions in order to address the concerns raised, however this has not been reinspected.
- The Trust has established Risk Management arrangements in place which are supported by the Trust’s Risk Management Strategy. We saw evidence that the Trust had adapted its arrangements to respond to COVID-19 including the development of a separate COVID-19 Risk Register.
- The effectiveness of the Trust’s internal control environment including counter fraud is overseen by the Audit and Risk Committee, through an annual internal audit and annual counter fraud plan.
- The Trust's Head of Internal Audit opinion for the year was “Significant Assurance with Minor Improvements Opportunities”. The Trust’s Internal Auditors conducted a Financial Controls Audit in March 2022. They concluded that the Trust’s processes provided “significant assurance” with a few mainly minor recommendations for improvement.
- The annual budget setting process start point is the identification and roll-over of the recurrent position which is then adjusted for known changes and developments as well as factors such as NHS inflation etc. This helps identify the gap between funding and expenditure requirements which is to be addressed through a Cost Improvement Programme. There is an established process for engagement with budget holders and approvals which culminate with Trust Board sign-off at the start of the new year.

VfM arrangements: Governance

Approach and considerations

We have considered how the Trust ensures that it makes informed decisions and properly manages its risks, including:

- how the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the body approaches and carries out its annual budget setting process;
- how the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- how the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer behaviour.

Commentary

- Decisions are taken in line with the Trust's Scheme of Delegation with more material decisions taken at Executive or Board level, supported by relative and proportionate information.
- Board members are asked to make an annual declaration of being fit & proper. In addition there is a register of interest, including gifts and hospitality for members to declare any interests of relevance. These practises ensure that the Board is regulated and responsible. We also note that the Board must adhere to the Code of Conduct and Accountability which sets out appropriate behaviour for the NHS Boards.
- The Trust Board signs off NHSI self-certifications on an annual basis. Consideration is also given to whether there are any risks and mitigating actions which need to be highlighted in the Corporate Governance Statement self-certification.
- The Trust's most recent CQC inspection was published on 10th March 2021 in relation to Urgent Care with the last full inspection in June 2018. In June 2018 the Trust was rated 'Good' overall and rated 'Outstanding' for caring across its services. The inspection on the 4th January 2021 was a focused inspection as part of the winter pressures review.
- The overall rating and the Well Led rating for two of the eight services was 'outstanding' whilst the Urgent and Emergency Services received a rating of 'Requires Improvement'. The Trust has an action plan in place to improve performance in this area with issues associated with the A&E 4 hour wait target which is a national issue due to increased demand on A&E services. On this basis this has not impacted on the overall VfM opinion.

VfM arrangements: Improving economy, efficiency and effectiveness

Approach and considerations

We have considered how the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- How the Trust ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and
- Where the Trust commissions or procures services, how the Trust ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the Trust assesses whether it is realising the expected benefits.

Commentary

- The Trust's Audit and Risk Committee approves the annual Internal Audit Plan and Counter Fraud Plan, and receives updates at committee meetings through the year.
- The Trust produces an integrated balanced scorecard which outlines how it is performing under five domains: Caring, Effective, Responsive, Safe and Well-led. The Trust manages performance against the NHS Single Oversight Framework which does not give a performance assessment in its own right; it aims to help providers attain and maintain Care Quality Commission ratings of 'Good' or 'Outstanding'.
- The Trust's integrated balanced scorecard incorporates all the national indicators within NHSI's previous Single Oversight Framework across these five themes.
- The Trust is a key member of the Bath and North East Somerset, Swindon and Wiltshire Integrated Care System (BSW ICS). Integrated Care Systems are formal partnerships between NHS organisations, local authorities and other key local organisations whose role is to take responsibility for managing available resources with a view to improving the health of the local population. The BSW ICS was formally authorised by NHS Improvement/England in December 2020.
- The Trust has a suite of Procurement Standards and Policies in place. Contracts are procured in line with relevant legal standards and in line with the Trust's Scheme of Delegation/ Standing Financial Instructions. Tender Waiver Request Guidance and Request Forms are in place for any exceptional circumstances and any waivers of SFIs must be authorised by the CFO or CEO and any waivers and SFI breaches are reported to and scrutinised by Audit and Risk Committee.
- Major contracts are managed and monitored through contract meetings and the use of supplier KPI reports. These are considered further in deciding whether or not to extend contracts into optional periods.
- The Trust undertakes an Annual Procurement Review. Procurement activity is considered against benchmarks at a national level as well as considering performance against the prior year work plan at a local level and performance against KPIs.

Purpose of our report and responsibility statement

What we report

Our report fulfils our obligations under the Code of Audit Practice to issue an Auditor's Annual Report that brings together all of our work over the year, including our commentary on arrangements to secure value for money, and recommendations in respect of identified significant weaknesses in the Trust's arrangements.

What we don't report

Our audit was not designed to identify all matters that may be relevant to the Trust.

Also, there will be further information the Board of Directors and Board of Governors need to discharge their governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and work under the Code of Audit Practice in respect of Value for Money arrangements.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan provided to the Audit and Risk Committee.

Use of this report

This report is made solely to the Board of Governors and Board of Directors ("the Boards") of Royal United Hospitals NHS Foundation Trust, as a body, in accordance with the National Health Service Act 2006. Our audit work has been undertaken so that we might state to the Boards those matters we are required to state to them in our Auditor's Annual Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Boards as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP

Bristol | 22 August 2022

Appendix 1: Recommendations

We have summarised below the Deloitte insights where there are opportunities to strengthen arrangements to secure economy, efficiency and effectiveness in the use of resources.

Financial sustainability

- We note a Deloitte Insight in relation to financial sustainability. There is a planned control total deficit of £19.3m for the Group for 2022/23 with a statutory deficit of £12m where the difference relates to donated asset income as set out in plan as at the end of June 2022. Management continue to monitor financial performance on a monthly basis through the detailed a integrated finance report which is presented to the Board. The plan prepared for the year show that the Trust has positive cashflows throughout the year, indicating that there is sufficient cash available to cover the financial year ended 31 March 2023. The Trust is has developed a Cost Improvement Programme (CIP) to achieve of £14.8m of savings for 2022/23. As at June 2022 the Trust had identified £11.5m of savings to date.
- The Trust continued to report and We highlight the need for focus upon delivery of the financial plan during the year, including review of risks and mitigations to address any further variances from plan. The Trust needs to implement its strategy in order be in a position to achieve a breakeven position for FY24, as the on-going use of reserves to bridge funding gaps is not sustainable in the longer term.

Vesting certificates

The Trust's use of vesting certificates increased from £1.2m at 31 March 2021 to £1.8m at 31 March 2022. We understand that the Trust has not made use of vesting certificates during the year, and only made use of them towards the end of the year.

Vesting certificates are legal agreements are intended to transfer legal title ahead of receipt of goods, in exchange for payment in advance. Vesting certificates can be a legitimate risk management tool if advance payments are required for commercial reasons to secure orders for goods in high demand or with long lead times – however, in these cases, their use is driven by the underlying commercial circumstances to provide protection to a buyer making payments in advance of delivery, rather than any considerations on accounting treatments.

Managing Public Money states that public sector organisations should not make payments in advance of need, or use interim payments to circumvent spending controls, such as to avoid underspending the capital budget for the year.

We recommend the management review the use of vesting certificates and ensure they are used in line with Managing Public Money guidance and ensure controls are in place to mitigate the risk of vesting certificates being used inappropriately.

Appendix 2: Trust's responsibilities

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Executive, as Accounting Officer of the Trust, is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting Officer is required to comply with the Accounts Direction issued by NHS Improvement, which requires the Trust to comply with the Department of Health & Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the Trust is informed of the intention for dissolution without transfer of services or function to another entity. [In applying the going concern basis of accounting, the Accounting Officer has applied the 'continuing provision of services' approach set out in the Group Accounting Manual, as it is anticipated that the services the Trust provides will continue into the future.]

The Accounting Officer is required to confirm that the Annual Report and Accounts, taken as a whole, is fair, balanced, and understandable, and provides the information necessary for patients, regulators and stakeholders to assess the Trust's performance, business model and strategy.

The Accounting Officer is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources, for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance, for safeguarding the assets of the Trust, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Accounting Officer and the Board are responsible for ensuring proper stewardship and governance, and reviewing regularly the adequacy and effectiveness of these arrangements.

Appendix 3: Auditor's responsibilities

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities relating to the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under the Code of Audit Practice and the National Health Service Act 2006 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the foundation trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our work in accordance with the Code of Audit Practice, having regard to the guidance, published by the Comptroller & Auditor General in April 2021, as to whether the Trust has proper arrangements for securing economy, efficiency and effectiveness in the use of resources against the specified criteria of financial sustainability, governance, and improving economy, efficiency and effectiveness.

The Comptroller & Auditor General has determined that under the Code of Audit Practice, we discharge this responsibility by reporting by exception if we have reported to the Trust a significant weakness in arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022. Other findings from our work, including our commentary on the Trust's arrangements, are reported in our Auditor's Annual Report.

Auditor's other responsibilities

We are also required to report to you if we exercise any of our additional reporting powers under the National Health Service Act 2006 to:

- make a referral to NHS Improvement if we believe that the Trust or an officer of the Trust is
 - about to make, or has made, a decision which involves or would involve the Trust incurring unlawful expenditure;;
 - about to take, or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency
- consider whether to issue a report in the public interest.



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