



# Royal Berkshire NHS Foundation Trust

Auditor's Annual Report 2023/24

Issued 17 July 2024

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# Key Messages

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## **Audit opinion on the financial statements**

We issued an unqualified opinion on the Trust and group's financial statements on 28 June 2024.

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## **The Trust's arrangements to secure Value for Money**

### **Significant weaknesses in the Trust's arrangements**

On 7 July 2023, as part of our 2022/23 audit, we reported a significant weakness in the foundation trust's arrangements to secure financial sustainability. The significant weakness reported was in how the foundation trust identifies and manages risks to financial resilience such as from unplanned cost pressures, and plans to bridge its funding gaps and identify achievable savings. We concluded that there remained a significant weakness in arrangements in place for 2023/24, which we therefore referred to in our audit report of 28 June 2024.

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## **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 ended the year with a deficit of £7.5m on a control total basis (£11.6m accounts deficit). This compared to planned deficit of £3.7m (after adjustments for additional funding agreed in year). A number of factors affected the reporting deficit as detailed in the Annual Report, including challenges achieving planned increases in activity levels (and so access to additional income), demand on non-elective services, and the costs of the Trust's aged estate. The Trust reported achieving 106.9% of its planned efficiency savings of £15.0m, but these were offset by the additional cost pressures. Only 24.5% percent of the efficiency savings were recurrent, compared to a 2023/24 plan of 100% recurrent savings.

For 2024/25, the increased pressure on financial positions in the NHS is reflected in the Trust's plans, which show a planned £14.5m deficit on a control total basis, after £25.2m of efficiency savings. Although the timings of the national planning process meant that trusts needed to align their savings plans to national targets during the first quarter of 2024/25, at the point of the first plan submission in May, 60% of planned savings were classified as "high risk", and the majority of the Trust's savings plans were reported as "plans in progress" rather than a significant value of fully developed plans. The Trust has been taking actions to address its financial position, including a new Efficiency and Productivity Committee from April 2023, and appointing an internal "turnaround director" in June 2024 to lead financial improvement initiatives. However, the progress in identification and delivery of recurrent savings in year during 2023/24, and in planning for 2024/25, indicates that there remains a significant weakness in the Trust's arrangements, as detailed on page 11 to 12.

# Key Messages

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## The Trust's arrangements to secure Value for Money (continued)

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### Commentary on the Trust's arrangements (continued)

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#### Governance

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

NHS England's has assessed the Trust under the Single Oversight Framework in segment 2, which is "Providers offered targeted support". The "Well Led" element of the last CQC report issued on March 2024 rated the Trust as Good.

The Trust was allocated additional Public Dividend Capital ('PDC') funding during the year to support its capital programme. The conditions on this funding required it to be spent during the year on capital expenditure, and did not permit the funding (and capital allocation for Departmental budgetary purposes) to be carried over between years. We noted:

- Errors in capitalisation of expenditure, which overstated the capital expenditure incurred in year. The errors identified were not material, and so were not corrected in the financial statements. We have reported control recommendations to the Audit Committee. We have advised the Trust discuss with NHS England any action required in respect of the related PDC funding, which was conditional on capital expenditure being incurred in year.
- The Trust has recognised £4.9m of capital expenditure under vesting certificates. These 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. Managing Public Money states that public sector organisations should not use interim payments to circumvent spending controls, such as to avoid underspending the capital budget for the year. We have recommended that the Trust put in place controls to ensure that any use of vesting certificates is consistent with the requirements of Managing Public Money, and reflects genuine commercial requirements.

#### 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's Head of Internal Audit opinion for the year was "Generally satisfactory with some improvements required".

The Trust's most recent CQC inspection was published in March 2024. The Trust was rated Good overall.

# Purpose of this report

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Our Auditor's Annual Report sets out the key findings arising from the work we have carried out at Royal Berkshire NHS Foundation Trust ("the Trust") for the year ended 31 March 2024.

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") 2020 Code of Audit Practice and its supporting Auditor Guidance Note ("AGN") 03 Value for Money, and AGN 07 Auditor Reporting. These are available from the NAO website. The planned 2024 Code of Audit Practice will apply for 2024/25 onwards once issued by the NAO.

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 AGN 03 where we identify a significant weakness, or.
- Other recommendations, which we have indicate as "Deloitte Insights" (and which are summarised in Appendix 1).

The significant weaknesses in the Trust's VFM arrangements and related recommendations are set out on pages 11 to 12.

# 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.

	Financial	Quality and Operational	Controls and systems	Future of the trust
	How is the Trust performing financially?	How is the Trust performing operationally and in quality of outcomes?	Does the Trust have adequate processes?	Is the Trust's strategy appropriate and sustainable?
Business processes and Board oversight	Is reliable reporting and data being produced through the year, at each level within the Trust, and appropriately reviewed and followed up?			
	Is the Annual Report and Accounts, taken as a whole, fair, balanced and understandable?		Are the Trust's processes operating effectively?	Are the Trust's plans realistic and achievable?
	Is the Trust meeting its legal and regulatory obligations, and are appropriate plans in place to maintain compliance?			
	Has the Trust delivered on its financial plans?	Are Quality Priorities selected appropriate for the Trust?	Does the Trust have efficient systems and processes?	Are appropriate actions in place to deliver the Trust's plans?
	Is the Trust generating sufficient surplus for reinvestment?	Are quality report metrics accurate and complete?	Are risks around legacy systems etc appropriately mitigated?	What are the risks to achievement of the Trust's plans and are appropriate mitigations in place?
Internal audit assurance Local Counter Fraud	Is there a generally sound system of internal control on key financial and management processes?			
	Has the Trust suffered losses due to fraud?		Does the Trust have appropriate arrangements in place to mitigate fraud risks?	
External Audit assurance on reported performance	Do the financial statements give a true and fair view?		Is the Annual Governance Statement misleading or inconsistent with information we are aware of from our audit? *	Is there significant uncertainty over the going concern assumption?
	Have the financial statements and remuneration report been properly prepared?			
	Is the Annual Report consistent with the financial statements? *		Has the trust made proper arrangements for securing economy, efficiency and effectiveness in the use of resources?	

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

# Opinion on the financial statements

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

- Give a true and fair view of the financial position of the Trust and its group at 31 March 2024 and of the Trust's and group's income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting requirements of the Department of Health and Social Care Group Accounting Manual, as directed by NHS England; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006.

The full opinion and certificate are included in the Trust's Annual Report and Accounts, which can be obtained from the Trust's website.

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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.

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### **Audit opinion on the financial statements:**

We issued an opinion on the Trust and group's financial statements on 28 June 2024. We did not identify any matters where, in our opinion, proper practices had not been observed in the compilation of the financial statements.

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### **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.

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### **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.

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### **Annual Report:**

We reported that the information given in the Performance Report and Accountability Report for the year ended 31 March 2024 is consistent with the financial statements.

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### **Reports in the public interest or to NHS England:**

We did not exercise any of our additional reporting powers in respect of the year ended 31 March 2024.

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### **Reporting to the group auditor:**

In line with the group audit instructions issued by the National Audit Office, we reported on 3 July 2024 to them as group auditors for the purposes of the Consolidated NHS Provider Account and Department of Health and Social Care audits.

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### **Audit Certificate**

We certified completion of the audit on 3 July 2024, following completion of our responsibilities in respect of the audit for the year ended 31 March 2024.

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# Our financial statement audit approach

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## An overview of the scope of the audit

Our audit was scoped by obtaining an understanding of the Trust 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.

Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team, led by the audit partner, Ben Sheriff. We performed limited procedures on the group's other components, Healthcare Facilities Management Services Ltd and the Royal Berkshire NHS Foundation Trust Charity, where the extent of our testing was based on the risks of material misstatement to the group as a whole (primarily in respect of property valuations). 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 to be £10.5m and for the Trust to be £10.0m, on the basis of 1.8% 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 Trust's financial statements

Our audit of the Trust's financial statements included:

- developing an understanding of the Trust, 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 Trust's financial statements;
- interviewing members of the Trust's management team and reviewing documentation to test the design and implementation of the Trust's internal controls in certain key areas relevant to the financial statements; and
- performing sample tests on balances in the Trust's 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, using our Spotlight data analytics platform.

# Our financial statement audit approach

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## An overview of the scope of the audit (continued)

### 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. The significant risks identified in our audit plan were:

- existence and cut-off of capital expenditure,
- completeness of accruals and related expenditure,
- property valuations, and
- management override of controls (a required risk under International Standards on Auditing (UK)).

Other areas of audit focus where we reported to the Audit and Risk Committee on our procedures and findings were:

- IFRS 16,
- remuneration report, and
- recognition of NHS Revenue.

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.

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# 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. In accordance with the National Audit Office's Auditor Guidance Note 3, we are required to assess arrangements under three areas:

<b>Financial Sustainability</b>	<i>How the body plans and manages its resources to ensure it can continue to deliver its services</i>
<b>Governance</b>	<i>How the body ensures that it makes informed decisions and properly manages its risks</i>
<b>Improving economy, efficiency and effectiveness</b>	<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 reported a significant weakness in arrangements in 2022/23. As set out on the following pages, we consider there remains a significant weakness in this area. See pages 11 to 12.

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. Our assessment of potential indicators has been performed in the context of the overall operating environment for the NHS during 2023/24, including the impact of industrial action, demand pressures, and the activities to recover elective activity levels following the pandemic.

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.



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



Reviewing reports from third parties including Care Quality Commission and internal audit



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



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

# Significant weaknesses in VfM arrangements

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During the prior year audit, we identified a significant weakness in the Trust's arrangements to secure financial sustainability. We reported this weakness to the Trust, with recommendations for improvement. This significant weakness has not yet been addressed and the relevant recommendations remain valid.

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**Significant weakness**

**Weaknesses in financial sustainability arrangements to identify achievable savings**

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**VfM criteria affected**

Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services, including

- how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans
  - how the body plans to bridge its funding gaps and identifies achievable savings
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**Description of the significant weakness**

We identified a risk of significant weakness in the Trust's arrangements to secure financial sustainability, in how the Trust identifies and manages risks to financial resilience such as from unplanned cost pressures, and plans to bridge its funding gaps and identifies achievable savings. This was also identified and communicated in the prior year.

The Trust ended the year with a deficit of £7.5m on a control total basis (£11.6m accounts deficit). This compared to planned deficit of £3.7m (after adjustments for additional funding agreed in year). The Trust reported achieving 106.9% of its planned efficiency savings of £15.0m, but these were offset by the additional cost pressures. Only 24.5% percent of the efficiency savings were recurrent, compared to a 2023/24 plan of 100% recurrent savings.

For 2024/25, the increased pressure on financial positions in the NHS is reflected in the Trust's plans, which show a planned £14.5m deficit on a control total basis, after £25.2m of efficiency savings. Although the timings of the national planning process meant that trusts needed to align their savings plans to national targets during the first quarter of 2024/25, at the point of the first plan submission in May, 60% of planned savings were classified as high risks, and the majority of the Trust's savings plans were reported as "plans in progress" rather than a significant value of fully developed plans. The Trust has been taking actions to address its financial position, including a new Efficiency and Productivity Committee from April 2023, and appointing an internal "turnaround director" to lead financial improvement initiatives.

However, the progress in identification and delivery of recurrent savings in year during 2023/24 and in planning for 2024/25 indicates that there remains a significant weakness in the Trust's arrangements

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# Significant weaknesses in VfM arrangements (continued)

<b>Significant weakness</b>	<b>Weaknesses in financial sustainability arrangements to identify achievable savings</b>		
<b>Key considerations in respect of this significant weakness</b>	The key element of our work in respect of this risk was to review the arrangements the Trust had in place during 2023/24 to identify and manage risks to its financial plan, and to identify efficiency savings and associated implementation plans when developing the 2024/25 plan.		
<b>Our procedures in respect of the risk and conclusions</b>	<p>We reviewed relevant documentation setting out how financial pressures during the year were monitored and responded to, and setting out the arrangements in place in the year to identify efficiencies as part of the 2024/25 planning process.</p> <p>As set out on the previous slide, the Trust's internal targets were not met and the arrangements in place were not sufficient to identify a material element of the Trust's cost improvement plans ahead of the year-end.</p> <p>The Trust has identified the risks to delivery of its plan as among the principal risks in its risk register. We note that the Trust continues to take action in this area. By 21 June 2024, the Trust had identified, on a risk adjusted basis, £17.8m of savings, with remaining gap of £7.4m.</p> <p>We have concluded that these matters are indicative that there remains a significant weakness in the Trust's arrangements in the year to 31 March 2024 with respect to financial sustainability. We consider that there are unidentified savings/funding gaps for the Trust that could substantially threaten the delivery of the plan.</p> <p>On 7 July 2023, we recommended that the Trust build on the measures already taken to accelerate its efforts to identify and realise specific opportunities from those areas of potential efficiency savings identified to deliver its plan, including continued focus on its new governance arrangements over the cost improvements programme and related implementation plans. We also recommended that, in planning for future periods, that the timetable and governance arrangements around the cost improvement programme are further developed to enable identification of cost improvement opportunities and project planning ahead of the start of the relevant period. Although, as noted on the previous page, the Trust has taken actions during the year to strengthen arrangements in this area, we consider that these recommendations remain relevant.</p>		
<b>Conclusions</b>	<p><b>Does a weakness exist in the current year?</b></p> <p>Yes - there is evidence of a significant weakness.</p>	<p><b>Is a recommendation required in the current year?</b></p> <p>No – our existing recommendations remain relevant</p>	<p><b>Will this matter be referred to in our audit opinion?</b></p> <p>Yes - the significant weakness was referred to in our audit opinion.</p>

# VfM arrangements: Financial Sustainability

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## 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.

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## Commentary

The Trust ended the year with a deficit of £7.5m on a control total basis (£11.6m accounts deficit). This compared to planned deficit of £3.7m (after adjustments for additional funding agreed in year). A number of factors affected the reporting deficit as detailed in the Annual Report, including challenges achieving planned increases in activity levels (and so access to additional income), demand on non-elective services, and the costs of the Trust's aged estate. The Trust reported achieving 106.9% of its planned efficiencies savings of £15.0m, but these were offset by the additional cost pressures. Only 24.5% percent of the efficiency savings were recurrent, compared to a 2023/24 plan of 100% recurrent savings.

For 2024/25, the increased pressure on financial positions in the NHS is reflected in the Trust's plans, which show a planned £14.5m deficit on a control total basis, after £25.2m of efficiency savings. Although the timings of the national planning process meant that trusts needed to align their savings plans to national targets during the first quarter of 2024/25, at the point of the first plan submission in May, 60% of planned savings were classified as high risks, and the majority of the Trust's savings plans were reported as "plans in progress" rather than a significant value of fully developed plans. The Trust has been taking actions to address its financial position, including a new Efficiency and Productivity Committee from April 2023, and appointing an internal "turnaround director" in June 2024 to lead financial improvement initiatives.

However, the progress in identification and delivery of recurrent savings in year during 2023/24 and in planning for 2024/25 indicates that there remains a significant weakness in the Trust's arrangements. See pages 11 to 12.

# VfM arrangements: Governance

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## 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.

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## Commentary

NHS England's has assessed the Trust under the Single Oversight Framework in segment 2, which is "Providers offered targeted support".

The "Well Led" element of the last CQC report issued in March 2024 rated the Trust as Good.

The Audit and Risk Committee has the primary responsibility for ensuring that appropriate governance is in place, and in this role reports to the Trust Board. The Trust's Audit and Risk Committee also has primary responsibility for interacting with and directing Internal Audit and Counter Fraud services. The Audit and Risk Committee also receives reporting from relevant executives on identified areas of risk, including around Cyber security, and on progress made on the hospital modernisation programme.

The corporate risk register, directorate risk register, information governance and data quality issues are reviewed by the Integrated Risk Committee who receive updates and reports from relevant members of management.

One of the key matters highlighted by the risk register is the condition of the Trust's estate. The aged nature of the estate leads to risks associated with fire safety and reliability of plant. It also limits the capacity of the Trust to serve the needs of patients. As noted, this risk is included on the risk register and monitored through this process by senior management and the Board. A large part of the capex plan is focussed on ameliorating these issues as far as possible, and the Trust also continues to bid for additional capital funding. Another part of the plan for mitigation is the new hospital programme. The financial pressures discussed on page 13, as well as availability of capital budget, impact the Trust's ability to fund capital expenditure in the coming year, and therefore the extent of actions that can be taken to mitigate these risks.

These issues have been reflected in year in the disruption for several days in April 2023 due to flooding of the energy centre and consequent loss of power to much of the site. The Trust conducted a serious incident review following the power outage to identify lessons for management of Trust estate risks, including retaining institutional knowledge of issues, and for future incident management.

# VfM arrangements: Governance (continued)

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## Commentary

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### Capital expenditure

The Trust was allocated additional Public Dividend Capital ('PDC') funding during the year to support its capital programme. £18.2m was drawn down in year with £10.0m relating to the modular building. The conditions on this funding required it to be spent during the year on capital expenditure, and did not permit the funding (and capital allocation for Departmental budgetary purposes) to be carried over between years. We noted:

- Errors in capitalisation of expenditure, which overstated the capital expenditure incurred in year. The errors identified were not material, and so were not corrected in the financial statements. We have reported control recommendations to the Audit Committee.

Deloitte Insight - We have advised that the Trust discuss with NHS England any action required in respect of the related PDC funding, which was conditional on capital expenditure being incurred in year.

- The Trust has recognised £4.9m of capital expenditure under vesting certificates. These 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. Managing Public Money states that public sector organisations should not use interim payments to circumvent spending controls, such as to avoid underspending the capital budget for the year. We have not seen evidence of the Trust considering the appropriateness of individual vesting certificates against the requirements of Managing Public Money before entering into them.

Deloitte Insight - We have recommended that the Trust put in place controls to ensure that any use of vesting certificates is consistent with the requirements of Managing Public Money, and reflects genuine commercial requirements, rather than to achieve particular accounting or budgetary outcomes.

### Provider Code of Governance

The new NHS Provider Code of Governance was effective from 1 April 2023. The Trust's compliance statement with the Code is on page 30 of the Annual Report. As explained in the disclosure, the Trust has not complied with the provision over length of service of Non-Executive Directors in order to maintain specialist input during the transition to new directors.

### Financial reporting and close process

In the prior year we identified a number of control observations during the financial statement audit. Although the Trust had taken steps to address some of these issues, some observations raised in the prior year have not yet been addressed and further observations have been raised during the current year audit. These included issues which resulted in delays in the accounts and audit process compared to the planned timetable.

The number of misstatements identified in the financial statements remains relatively high. Although we have concluded this does not represent a risk of significant weakness in the Trust's overall governance arrangements, we have recommended that Trust review its financial reporting and close process as noted on page 23.

# VfM arrangements: Governance (continued)

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## Commentary

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### **Governance over climate-related risks**

Climate change presents significant challenges for the NHS in adapting to a changing environment. As part of its response to these challenges, the Government is adopting the Task Force on Climate-related Financial Disclosures (TCFD) as a framework for public sector bodies to analyse, understand and disclose climate-related financial information, in order to support the management of climate-related financial risks and opportunities. The Government is adopting a phased approach to implementing TCFD disclosures in the public sector, with 2023/24 only requiring disclosures under the “Governance Pillar”. The Trust’s disclosures in the Performance Analysis section of the Annual Report set out the board’s oversight of the Trust’s approach to assessing and managing climate-related issues, and underlying management structures in respect of this.

#### Deloitte insight

We recommend the Trust consider whether any enhancements should be made to how the Trust manages climate-related risks, and the alignment of the Trust’s processes with the reporting required under the additional pillars of the TCFD disclosures over the next two years. See page 22 for further details

# VfM arrangements: Improving economy, efficiency and effectiveness

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## Approach and considerations

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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

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The Trust's Audit Committee approves the annual Internal Audit Plan and Counter Fraud Plan, and receives updates at committee meetings through the year.

The Trust's Head of Internal Audit opinion for the year was 'Significant assurance with minor improvements' on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The Trust received two partial assurance reviews in the year, in respect of its travel and transport arrangements, and from review of the Data Security Protection Toolkit.

The Trust's most recent CQC inspection was published in March 2024 with a focus on Maternity services. The Trust was rated Good overall. In 2021, the CQC carried out a focussed inspection to review infection prevention and control. Their report, issued 1 July 2021, noted a number of areas of outstanding practice, including the approach taken to staff risk assessment and support, while also noting a number of "Should do" actions for improvement, including recommending continued focus on reducing healthcare associated infection rates.

### **Using information on Health Inequalities to inform service improvements**

NHS England published its first Statement on Information on Health Inequalities in November 2023, setting out NHS England's views on how the powers available to NHS bodies to collect, analyse and publish information should be exercised in respect of health inequalities.

As noted in the Annual Report, the trust is currently working on the capabilities of its data systems and process to understand health access, experience and outcomes through analysing information on health inequalities and using this to inform actions.

### Deloitte insight

We recommend the Trust review what changes are required to its data collection and analysis processes to support reporting in this area, and how additional analysis and reporting should be considered in the Trust's governance processes.

# VfM arrangements: Improving economy, efficiency and effectiveness (continued)

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## Commentary

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### **Use of Artificial Intelligence in service delivery**

The Trust is undertaking pilot programmes and research in the use of Artificial Intelligence in a number of areas, including analysis and prediction of likelihood of patients to attend or miss appointments, and in analysis of scans. Responsibility for oversight of the current programmes is managed through divisions, and there is not currently an overarching policy on governance and decision making in respect of AI solutions. The Trust currently does not have a risk in the Trust's Corporate Risk Register in respect of risks associated with the use of AI in provision of services. As the use of Artificial Intelligence solutions develops further, the significance of their potential impact on the organisation will increase.

#### Deloitte insight

We recommend the Trust consider whether the risks associated with the deployment of AI solutions are adequately reflected in the Trust's risk registers and risk management processes. We recommend the Trust review whether an overarching governance framework and supporting policies are needed for the deployment and operation of AI, particularly in provision of services.

# 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 Council 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.

## Use of this report

This report is made solely to the Council of Governors and Board of Directors ("the Boards") of Royal Berkshire 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 Audit Report and 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.



# Appendix 1: Recommendations

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We have summarised below the recommendations we have made in respect of significant weaknesses in the Trust's VfM arrangements and Deloitte insights where there are opportunities to strengthen arrangements to secure economy, efficiency and effectiveness in the use of resources.

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## **Weaknesses in financial sustainability arrangements (Identified in prior year)**

**Observation** – See pages 11 to 12

**Prior year recommendation** – We recommend that the Trust build on the measures already taken to accelerate its efforts to identify and realise specific opportunities from those areas of potential efficiency savings identified to deliver its plan, including continued focus on its new governance arrangements over the cost improvements programme and related implementation plans.

In planning for future periods, we recommend that the timetable and governance arrangements around the cost improvement programme are further developed to enable identification of cost improvement opportunities and project planning ahead of the start of the relevant period.

**Current year update** – Although the Trust has taken a number of actions to strengthen arrangements in this area, we consider that these recommendations remain relevant.

# Appendix 1: Recommendations (continued)

## **Capital expenditure - vesting certificates**

*Deloitte insight*

**Observation – See page 15**

The Trust entered into vesting certificates with certain of its capital suppliers ahead of year-end, with £4.9m (11.3%) of capital expenditure recognised under vesting certificates. These 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. Managing Public Money states that public sector organisations should not use interim payments to circumvent spending controls, such as to avoid underspending the capital budget for the year.

### **Current year recommendation**

We recommend that the Trust put in place approval processes to check that any use of vesting certificates is consistent with the requirements of Managing Public Money, and reflects genuine commercial requirements, rather than to achieve particular accounting or budgetary outcomes.

## **Capital expenditure – PDC funding**

*Deloitte insight*

**Observation – See page 15**

The Trust drew down Public Dividend Capital funding during the year to support its capital programme. The conditions on this funding required it to be spent during the year on capital expenditure, and did not permit the funding (and capital allocation for Departmental budgetary purposes) to be carried over between years. We noted errors in the capitalisation of expenditure, which overstated the capital expenditure incurred in year.

### **Current year recommendation**

We advised the Trust discuss with NHS England any action required in respect of PDC funding where the associated conditions were not met during the year.

# Appendix 1: Recommendations (continued)

## **Task Force on Climate-Related Financial Disclosures**

*Deloitte insight*

**Observation – See page 16**

The Government is adopting a phased approach to implementing TCFD disclosures in the public sector, with 2023/24 only requiring disclosures under the “Governance Pillar”.

### **Current year recommendation**

We recommend the Trust consider whether any enhancements should be made in respect of:

- whether climate-related risks are sufficiently reflected in the Trust’s risk registers and Board Assurance Framework;
- how climate-related issues are considered when setting strategy;
- how climate-related issues are considered when overseeing major capital expenditure;
- how information is reported back to the Board about processes within the Trust for assessing and managing climate-related issues; and
- the alignment of the Trust’s processes with the reporting required under the additional pillars of the TCFD disclosures over the next two years.

## **Information on Health Inequalities**

*Deloitte insight*

**Observation – see page 17**

NHS England published its first Statement on Information on Health Inequalities in November 2023, setting out NHS England’s views on how the powers available to NHS bodies to collect, analyse and publish information should be exercised in respect of health inequalities.

As noted in the Annual Report, the trust is currently working on the capabilities of its data systems and process to understand health access, experience and outcomes through analysing information on health inequalities and using this to inform actions.

### **Current year recommendation**

We recommend the Trust review what changes are required to its data collection and analysis processes to support reporting in this area, and how additional analysis and reporting should be considered in the Trust’s governance processes.

# Appendix 1: Recommendations (continued)

## **Governance over the use of Artificial Intelligence tools**

*Deloitte insight*

**Observation – See page 18**

The Trust is undertaking pilot programmes in the use of Artificial Intelligence. The Trust currently does not have a risk in the Trust's Corporate Risk Register in respect of risks associated with the use of AI in provision of services.

Responsibility for oversight of the current programmes is managed through divisions, and there is not currently an overarching policy on governance and decision making in respect of AI solutions.

### **Current year recommendation**

We recommend the Trust consider whether the risks associated with the deployment of AI solutions are adequately reflected in the Trust's risk registers and risk management processes.

We recommend the Trust review whether an overarching governance framework and supporting policies are needed for the deployment and operation of AI, particularly in provision of services.

## **Financial reporting and close process**

*Deloitte insight*

**Observation – See page 15**

We have identified a number of control observations in both the current and prior year audits, including issues which resulted in delays in the accounts (against the national timetable in 2022/23, and against the planned trust timetable in 2023/24).

The number of misstatements identified in the financial statements remains relatively high.

### **Prior year recommendation**

We recommend the Trust review its financial reporting and close process and put in place a plan to address control recommendations made during the audit.

### **Current year update**

While we noted some improvements with respect to the control observations, numbers of misstatements still remains relatively high, with an increase in the number of misstatements in the current year compared to prior year. As a result, the finding and recommendation remains valid.

# Appendix 2: Trust's responsibilities

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**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 England, 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

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## **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](http://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, 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 2024. 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 England 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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