



Auditor's Annual Report 2021/22

**Dorset County Hospital NHS Foundation
Trust**

20 June 2022

Key contacts

Your key contacts in connection with this report are:

Rees Batley
Director
Tel: +44 7876 854886
Rees.Batley@kpmg.co.uk

Charles Morris
Manager
Tel: +44 7392 863318
Charles.Morris@kpmg.co.uk

Mingjia Guo
Audit In-Charge
Mingjia.Guo@kpmg.co.uk

Contents	Page
Summary	3
Accounts audit	4
Value for money	5

This report is addressed to the Risk and Audit Committee of the Trust and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Summary

Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2021-22 audit of Dorset County Hospital NHS Foundation Trust (the Trust). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

Accounts	<p>We issued an unqualified opinion on the Trust's accounts on 20 June 2022. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.</p> <p>We have provided further details of the key risks we identified and our response on page 4.</p>
Annual report	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
Value for money	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard.</p>
Other reporting	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

Accounts audit

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Findings
<p>Valuation of land and buildings</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The Trust engaged a valuer to undertake a full valuation for the year ended 31 March 2022. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<p>We reviewed the information provided to the valuer as part of the instructions issued by the Trust. We confirmed that the valuation has been undertaken in line with GAM requirements and that appropriate methodologies were applied by the valuer in assessing the valuation of land and building assets. We assessed the key assumptions used in developing the replacement cost of the Trust's site.</p> <p>We did not identify any material misstatements or raise any recommendations relating to this risk.</p> <p>We considered the estimate to be optimistic, based on the procedures performed to challenge key assumptions within the valuation, including the use of relevant indices.</p>
<p>Fraud risk from expenditure recognition</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from expenditure recognition is a significant risk. We consider this would be most likely occur through overstating accruals and expenditure around the period end, to bring forward expenditure from 2022-23 to mitigate future financial pressures.</p>	<p>We assessed the design and implementation of process level controls for the purchase ordering of goods and services and the accrual of expenditure at the end of the year. We have performed our substantive testing procedures by inspecting cash payments and purchase invoices in the period prior to and following 31 March 2022 to verify expenditure had been recognised in the correct accounting period and evaluating a sample of year end accruals to confirm they were appropriate. We also assessed the outcome of the agreement of balances exercise with other NHS organisations.</p> <p>We did not identify any material misstatements or raise any recommendations relating to this risk.</p>
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We tested the design and implementation of controls over the posting of journals including post closing adjustments. We also selected journals that were considered high risk, through applying specific risk based criteria, to test and agreed these journals to supporting documentation.</p> <p>We did not identify any material misstatements or raise any recommendations relating to this risk.</p>

Fraud risk from revenue recognition: Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. Due to the nature of revenue within the Trust, we do not consider there to be a significant risk of fraud and have rebutted this risk.

Value for money

Introduction

We consider whether there are sufficient arrangements in place for the Trust for each of the elements that make up value for money. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

Further details of our value for money responsibilities can be found in the Audit Code of Practice at [Code of Audit Practice \(nao.org.uk\)](https://nao.org.uk)

Matters that informed our risk assessment

The table below provides a summary of the external sources of evidence that were utilised in forming our risk assessment as to whether there were significant risks that value for money was not being achieved:

Care Quality Commission rating	Good – November 2018
Single Oversight Framework rating	3 – Significant support needs against one or more of the five national oversight themes – May 2022
Governance statement	There were no significant control deficiencies identified in the governance statement.
Head of Internal Audit opinion	Moderate assurance that there is a sound system of internal control

Commentary on arrangements

We have set out on the following pages commentary how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	One significant risk identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We have not identified any significant weaknesses with regards to the Trust's arrangements for ensuring value for money. We reported this as part of our audit report and have provided further details in our commentary on pages 6 to 8.

We have not identified any recommendations based upon our risk assessment or work completed in response to the identified risk.

Value for money

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> How the Trust sets its financial plans to ensure services can continue to be delivered; How financial performance is monitored and actions identified where it is behind plan; and How financial risks are identified and actions to manage risks implemented. 	<p>The revised funding arrangements introduced in light of the pandemic have been extended into the 2021/22 financial year. For H1 (April to September 2021) NHSE/I provided funding via system allocations based on the 2020/21 CCG outturns adjusted for known pressures and efficiency assumptions, with block funding arrangements between providers and key commissioners. For H2 (October 2021 to March 2022) these arrangements were extended, with additional efficiency assumptions incorporated into the guidance.</p> <p>The initial financial plans were constructed based on appropriate local and national planning assumptions, with the involvement of budget holders in setting the financial plan. As noted though, the Trust did not have to submit a formal plan to NHSE/I for this period. The Trust reports through the Dorset ICS as its “lead” ICS for funding purposes.</p> <p>The Trust has a large capital programme, with an initial budget of £20m in 2021/22 and actual spend in year of £26m, with the increase funded by additional PDC. In addition, the Trust have been notionally allocated £77m, subject to final business case approval, as part of the New Hospitals Programme . Appropriate arrangements are in place for monitoring and reporting progress of the capital plans.</p> <p>We found that the Trust has an appropriate reporting framework in place. The financial performance is reported each month to the Finance and Performance Committee (‘FPC’) with identification of risks within the position. There was evidence of discussion and challenge by the Committee. Reporting has been reduced to the Board during Covid-19 but an escalation report is produced which includes any key aspects that FPC want to be brought to the Board’s attention. This is presented by the FPC Chair.</p> <p>Reducing the underlying deficit across the ICS and locally within the Trust continues to be a key priority. We identified one significant risk in relation to the processes for ensuring financial sustainability in the short to medium term. In response to this, we considered the arrangements in place to support the development of the ICS financial plan, governance for reporting and approval of the plan and ongoing engagement across the ICS. The Trust engaged in the development of an ICS plan, which included a draft plan prepared in March 2022 which was refined ahead of a final plan submission in April 2022. We noted evidence of the key assumptions within the plan, including cost run rate, efficiency targets and proposed improvement programme areas, as well as the risks to delivery being reported through relevant governance structures, including FPC and Board. The plan was approved prior to submission by the Chief Financial Officer and Chief Executive Officer on 28 April 2022. Following submission NHS E/I requested all ICS’ to review the plans and update submissions to reflect additional funding now available. The Trust are engaging with system partners to finalise the revised plan.</p> <p>We noted evidence of collaborative working between the Trust and other providers through the development of the plan. As part of this process the ICS have agreed a Financial Improvement Programme, focussing on four key areas. The ICS has allocated SRO’s from each Trust to lead an area to aid achievement of the plans, further evidencing the system working in place.</p> <p>Through considering these arrangements, we have not identified a significant weakness linked to the identified risk.</p>

Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> Processes for the identification and management of strategic risks; Decision making framework for assessing strategic decisions; Processes for ensuring compliance with laws and regulations; and How controls in key areas are monitored to ensure they are working effectively. 	<p>We consider the Trust to have effective processes in place to monitor and assess risk. Strategic risks are recorded and identified using the Board Assurance Framework (BAF), and any identified risks are reported to the Board. The Board Assurance Framework is reviewed by the Audit Committee on a quarterly basis and at least bi-annually by the board.</p> <p>A 5x5 scoring matrix is used by the Trust to score operational risks, and any with a score of 12 or higher are reported to the Risk and Audit Committee and subsequently to the Board. Our review of the risk register found that this was sufficiently detailed to effectively manage key risks and we reviewed evidence of review within both the Risk and Audit Committee and Board throughout the year.</p> <p>The effectiveness of internal controls is monitored by the Audit Committee, through reporting from Internal Audit, Local Counter Fraud and Security Management. The programme of work for each organisation is approved at the start of the financial year by the Audit Committee, following input by the Lead Director.</p> <p>The Trust has in place a staff code of conduct as per the standards of conduct and business behaviour policy. Specific guidance is in place for teams and managers via standards of behaviour for these roles. The Trust also has a set of policies, which clearly outline the expected behaviour of staff members in relation to areas such as Gifts and Hospitality, Whistleblowing Policy and Managing Conflicts of Interest. All policies have been approved in line with their review requirements. These policies continued to apply throughout the period.</p> <p>We found there to be appropriate scrutiny and challenge of the budgets and appropriate approval through the budget holders and the FPC. The FPC scrutinise monthly performance, before recommending any specific actions to be escalated to the Board. Our review of the Committees indicated that there was sufficient detail and follow up to understand any significant variances to plan.</p> <p>Key strategic decisions are made via the Trust's governance process. A scheme of delegation is in place which sets out where different decisions/approvals should take place. Key decisions are made through management and escalation process for such matters at divisional operational, executive management and Board level. The Standing Financial Instructions and Scheme of Delegation provide for authorisation limits and responsibility for decision making.</p> <p>In the upcoming financial years, the Trust is undergoing two significant capital projects, with the ongoing construction of the multi-story car park and the re-design and extension of the emergency department. Both schemes are fundamental in the wider programme of site development and have undergone review to consider the wider implications at both the Trust and ICS level. FPC are provided with regular updates as to the progress of capital schemes with further reporting provided to the Board for further assurance.</p>

Value for money

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> ▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered; ▪ The use of benchmarking information to identify areas where services could be delivered more effectively; ▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and ▪ Management of partners and subcontractors. 	<p>A monthly paper is presented to FPC in order to report on financial performance, allowing the Trust to assess the level of value for money being achieved. Management also maintains and monitors costs by reviewing the information received from the Model Hospital. The benchmarking data is used during the financial planning and contracting rounds to shape efficiency plans. Whilst formal CIP programmes continue to be put on hold in the context of the pandemic, DCH continued with its planned CIP delivery for 2021/22.</p> <p>The Trust has a performance management framework in place to set the structure of performance management. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the integrated performance report which provides the Finance and Performance Committee, and subsequently the Board, with key operational performance indicators on a monthly basis. This report highlights performance in different domains in line with the Trust's strategy and highlights key areas for improvement within each domain. For these areas further information is provided, such as trends, to help inform the Finance and Performance Committee and provide the full context. Escalation reports for key areas are presented to the Board.</p> <p>The Trust forms part of 'Our Dorset' ICS. Members of the Board and leadership team are integrated within the governance of the system. This includes Finance Director and Chief Operating Officer involvement in system decisions through the Operations and Finance Reference Group and Chief Executive Involvement in the system Senior Leadership Team. This ensures the Trust is integrated into key system decisions and feeds back to the Trust via relevant Board, Committee and operational/clinical meetings. Planning is performed at an ICS level as well as considering the individual entities that make up the ICS, with the aim of achieving financial sustainability at a system level rather than a traditional focus on individual control totals.</p> <p>The Trust CEO and Chair provide updates within their reports to Board with the ICS financial performance also being considered in the finance reports. Working within an ICS, the interaction between providers and other stakeholders is essential to ensure the appropriate operational and clinical flow across the system. System working is embedded as business as usual to enact the appropriate actions and change. This is underpinned by the Dorset Health System Collaborative Agreement, which in its agreement principles, states that all providers agree to work within the aggregate of organisational control totals.</p> <p>There is currently a significant combined ICS deficit (or system "gap") for Dorset ICS and from review of Board papers and Board Assurance Framework, we note Dorset County Hospital recognise being part of an ICS in deficit. Trust management note that the ICS requires transformational plans to address the deficit and discussions are ongoing to engage support for this. The ICS bodies have also worked together to develop a ICS plan and have developed a Financial Improvement Programme with four key focus areas to help in addressing the deficit position, namely, elective recovery, reducing Covid costs, urgent & emergency care and reducing agency costs.</p>



© 2022 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.