



# Auditor's Annual Report 2022-23

Dorset County Hospital NHS Foundation Trust

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20 June 2023

Key contacts

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This report is addressed to Dorset County Hospital NHS Foundation Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

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

# Introduction

## Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our 2022-23 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:

<b>Accounts</b>	We issued an unqualified opinion on the Trust's accounts on 20 June 2023. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust.  We have provided further details of the key risks we identified and our response on page 4.
<b>Annual report</b>	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.  We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.
<b>Value for money</b>	We are required to report if we identify any significant weaknesses in the arrangements the Trust has in place to achieve value for money.  We have nothing to report in this regard.
<b>Other reporting</b>	We did not consider it necessary to issue any other reports in the public interest.

# Accounts Audit

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

Risk	Findings
<p><b>Valuation of land and buildings</b></p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The Trust engaged a valuer to undertake a desktop valuation for the year ended 31 March 2023. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<p>We assessed the independence, objectivity and competency of the valuer utilised by the Trust to complete the desktop valuation. We challenged key assumptions within the valuation including the cost rates applied, functional obsolescence and floor area.</p> <p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed.</p>
<p><b>Fraudulent expenditure recognition</b></p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over all areas of non-pay expenditure, excluding depreciation and impairment.</p> <p>We consider the risk would be most likely to occur through understanding accruals, to move expenditure into 2023-24 to mitigate the financial challenges in 2022-23.</p>	<p>We assessed the design and implementation of process level controls relating to the review and approval of accruals at the end of the year.</p> <p>We have performed our substantive testing procedures by inspecting cash payments and purchase invoices in the period prior to and following 31 March 2023 to verify expenditure had been recognised in the correct accounting period and evaluating a sample of year end accruals to confirm they were appropriate.</p> <p>We did not identify any material misstatements relating to this risk.</p>
<p><b>Management override of controls</b></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We tested the design and implementation of controls over the posting of journals including post closing adjustments. We also selected journals that were considered high risk, through applying specific risk based criteria, to test and agreed these journals to supporting documentation.</p> <p>We did not identify any material misstatements 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](http://nao.org.uk)).

## Matters that informed our risk assessment

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

Source	Detail
Care Quality Commission rating	Good – November 2018
Single Oversight Framework rating	2 – Targeted support may be required to address specific identified issues– May 2023
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 on how the arrangements in place at the Trust compared to the expected systems that would be in place in the sector.

## Summary of findings

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

Domain	Risk assessment	Summary of arrangements
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"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>The Trust is a member of the Dorset ICS, and, as a part of the Integrated Care system (ICS), shares responsibility for any deficit across the system. The introductions of an ICS break even target also increased the pressure on the Trust to deliver a strong financial performance to contribute to the wider system position. At 31 March 2023, the ICS reported a break even position, however, there remains a large underlying deficit creating additional pressure in future periods.</p> <p>The initial financial plans for 2022-23 were constructed based on appropriate local and national planning assumptions, with the involvement of budget holders in setting the financial plan and appropriate review and approval from the Finance and Performance Committee (FPC) and Trust Board. The Trust final outturn reported a small surplus of £101k after adjustment for impairments as at 31 March 2023, in line with a planned surplus of £219k. This included delivery of £4.7 million of CIP against a target of £8.2 million, a £3.5 million shortfall to plan. The year end position was supported by additional non-recurrent funding of £5 million received from NHS Dorset ICB in recognition of the financial challenges associated with above planned levels of operational and inflationary pressures incurred. It was also noted that a significant portion of the CIP was non-recurrent, and therefore whilst the Trust continues to work to deliver recurrent efficiency savings, the reliance on non-recurrent funding creates additional pressures on future years. Whilst we acknowledge the challenges to deliver recurrent savings, the Trust should ensure there remains a focus on these savings rather than non-recurrent items.</p> <p>To provide an overview of the level and nature of support required across systems and target support capacity as effectively as possible, NHS England and NHS Improvement allocate trusts and ICB's to one of four segments. A segmentation decision indicates the scale and general nature of support needs, from no specific support needs (segment 1) to a requirement for mandated intensive support (segment 4). The Trust and system was identified with a Single Oversight Framework rating of 2 during the year, reflecting that whilst there is a challenging position, NHS England have not identified the need for significant oversight.</p> <p>The Trust has monitors and reports against financial performance throughout the year and we noted an appropriate reporting framework in place for monitoring financial results. The financial performance of the Trust is reported to FPC each month, with reporting including identification of risks within the position. An escalation report, of matters raised from FPC, are presented to Trust Board by the FPC Chair.</p> <p>The Trust has worked alongside other ICS members to prepare the 2023-24 plan, which resulted in the submission of a break even ICS plan for 2023-24, despite the ICS noting an underlying deficit of £100 million.</p> <p>The Trust has identified the risk of failing to deliver sustained breakeven position and to be self sufficient in cash terms as a strategic risk within the Board Assurance Framework, during the year where forecasts identified a deficit position, however, the Trust achieved a small operating surplus after adjusting for impairment, in line with the planned position. The risk remains for future periods, as the Trust has reported an underlying deficit of £19.6 million for 2023-24, which is mitigated through CIP and agreed additional funding in 2023-24 from NHS Dorset ICB as part of the contract arrangements. These mitigations have enables the Trust to submit a break even plan for 2023-24 although we note the reliance on CIP, which will be challenging given recent delivery performance.</p>

# Value for money

Financial sustainability (continued)	
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"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>The Trust are aware of these challenges, and have introduced a new governance structure, including a new Value Delivery Board to review reporting against efficiency plans, which have been split into four key themes, with Executive Sponsors and additional support from members of the Finance and Transformation team. The Value Delivery Board will provide reporting to the FPC and Executive Management Team to ensure ongoing monitoring and scrutiny of efficiencies. Work has already identified 46% of the target efficiencies.</p> <p><i>Summary of Findings</i></p> <p>There are significant challenges for the Trust and ICS, with ambitious efficiency targets. However, work is underway to develop CIP plans, with a number of efficiencies already identified and supporting governance processes established to provide ongoing monitoring and review of progress. While there is continued pressure on reducing the underlying system wide deficit, we note that the Trust and ICS delivered their planned position for 2023 (albeit through non-recurrent means), and have plans to deliver the planned position for 2023-24. The Trust, however fully recognise the scale of the challenge this represents and have provided clear reporting to the FPC and Board to establish the risk and challenge within the planned position and need for action.</p> <p>Due to these arrangements in place, we have not identified a significant weakness in relation to the financial sustainability domain.</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"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>We consider the Trust to have effective processes in place to monitor and assess risk. We noted that the Trust Risk Management Framework was due for review in February 2023, however the document has not yet been approved. Although the document is not reviewed we note risk management processes outlined in this report continued to be in place throughout the period. Strategic risks are recorded and identified using the Board Assurance Framework (BAF), and any identified risks are reported to Board. The BAF is reviewed by the Risk and Audit Committee on a quarterly basis and at least bi-annually by the Board.</p> <p>A 5/5 scoring matrix is used by the Trust to score operational risks, with the most significant risks including risk relating to workforce and clinical demand, are reported first to the Risk and Audit Committee and then subsequently to board. Our review of the risk register and BAF found that these documents were sufficiently detailed to effectively manage key risks and we identified evidence of review within both the Risk and Audit Committee and Board throughout the year.</p> <p>The effectiveness of internal control is monitored by the Risk and Audit Committee, through reporting from Internal Audit, Local Counter Fraud and Security Management. Our review of the Risk and Audit Committee papers confirmed that there were appropriate discussions and follow up of recommendations for both Internal Audit and Local Counter Fraud. This included consideration of limited assurance reports, which included agreed actions and clear timetables to address recommendations raised.</p> <p>The Trust has a set of policies, which clearly outline the expected behaviours of staff in relation to areas such as gifts and hospitality, whistleblowing and managing conflicts of interest. All policies have been approved in line with review requirements and 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 Trust Board for the 2022-23 budget. We also saw evidence of review and approval of the 2023-24 plan at appropriate committees and Board meetings.</p> <p>We noted that a number of changes had occurred at Board level during the period, with a new CFO and CEO appointed in the period, and new Chair subsequent to the year end. A high level of turnover of senior Board members can impact governance processes in an organisation, however, we found no evidence that relevant processes were not followed. We also noted appropriate handovers and cover was in place through interim appointments.</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 processes for such matters at divisional operational, executive management and Board level. The Standing Financial Instructions and Scheme of Delegation provide guidance for authorisation limits and responsibility for decision making.</p>



# Value for money

Governance (continued)	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"><li>Processes for the identification and management of strategic risks;</li><li>Decision making framework for assessing strategic decisions;</li><li>Processes for ensuring compliance with laws and regulations;</li><li>How controls in key areas are monitored to ensure they are working effectively.</li></ul>	<p>The Trust delivered a large capital development programme totalling £39.7 million for 2022-23, which included a new car park. We have considered the arrangements for the reporting of progress of the capital plans and have not identified a value for money risk. During 2023-24, the Trust will continue to delivery significant capital projects, including the redesign of the Emergency Department.. The Business Case for significant capital schemes are reviewed and challenged at FPC before subsequently approved, with updates reported to the Committee for ongoing monitoring.</p> <p><i>Summary of Findings</i></p> <p>Our review of the arrangements in place did not identify any significant risks in relation to the governance domain.</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"> <li>▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered;</li> <li>▪ The use of benchmarking information to identify areas where services could be delivered more effectively;</li> <li>▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and</li> <li>▪ Management of partners and subcontractors.</li> </ul>	<p>A monthly paper is presented to the FPC in order to report on financial performance, allowing the Trust to assess the level of value for money being achieved. Management also maintain and monitor costs by reviewing the information received from the Model Hospital. This benchmarking data is used for financial planning and contracting rounds to shape efficiency plans. For financial year 2022-23, formal CIP programmes have been re-introduced, with the Trust achieving a CIP delivery of £4.7 million. This included £1.5 million recurrent and £3.2 million non-recurrent CIP.</p> <p>The Trust reports on performance to relevant Committees through the Operational Performance Report which provides the FPC and Board, with key operational performance indicators on a monthly basis. This report highlights performance across the Trust, noting trend over time to highlight movement in performance indicators. The report provides a detailed summary of operational performance to allow analysis and challenge by relevant committee members.</p> <p>The Trust forms part of the Dorset ICS, with members of the Board and leadership team integrated within the governance of the system. This includes the Chief Financial Officer and Chief Operating Officer involvement in system decisions through the Operations and Finance Reference Group and Chief Executive Involvement in the system Leadership Team. 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. We also noted that the ICS has four 'transformation areas', with one of these areas led by the Trust CEO and CFO.</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 flows across the system.</p> <p>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. We understand there is currently a significant combined underlying ICS deficit (or system "gap") for Dorset ICS and from review of Board papers and Board Assurance Framework, we note Trust recognise being part of an ICS in deficit, with significant CIP savings required by each ICS member to achieve the 2023-24 approved plan. The reports provided to the Board and FPC as part of the 2023-24 planning process clearly set out the risks associated with the plan, required efficiencies and clearly noted target areas for improvement across the system to reduce the deficit, with the requirement next steps for the Trust. The Trust acknowledge the need for a longer term approach to CIP savings and transformation to facilitate these, with further work expected across the ICS over the next six months.</p> <p><i>Summary of Findings</i></p> <p>Our review of the arrangements in place did not identify any significant risks in relation to the Improving economy, efficiency and effectiveness domain.</p>



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