



# Auditor's Annual Report 2020/21

UNIVERSITY HOSPITALS DORSET NHS  
FOUNDATION TRUST

22 June 2021

## Key contacts

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This report is addressed to University Hospitals Dorset 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.

# Summary

## Introduction

This Auditor's Annual Report provides a summary of the findings and key issues arising from our first audit of University Hospitals Dorset NHS Foundation Trust (the 'Trust') for the period 1 October 2020 to 31 March 2021. 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 period. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

## Findings

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

<b>Accounts</b>	<p>We issued an unqualified opinion on the Trust's accounts on 22 June 2021. 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>
<b>Annual report</b>	<p>We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust.</p> <p>We confirmed that the Governance Statement had been prepared in line with the DHSC requirements.</p>
<b>Value for money</b>	<p>We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money.</p> <p>We have nothing to report in this regard</p>
<b>Other reporting</b>	<p>We did not consider it necessary to issue any other reports in the public interest.</p>

# Accounts audit

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

Risk	Findings
<p><b><i>Fraudulent expenditure recognition</i></b></p> <p>The setting of a year-end financial target can create an incentive for management to manipulate the level of non-pay expenditure. This can take place by purposefully understating or overstating the level of non-pay expenditure recognised at the year-end through accruals and prepayments.</p>	<p>We assessed the design and operation of process level controls for the purchase ordering of goods and services and the accrual of expenditure at the end of the year based on those that have been received. We have performed our substantive testing procedures on a sample of expenditure incurred during the year and year end accruals agreeing through to supporting documentation and cash payments. We also assessed the outcome of the agreement of balances exercise with other NHS organisations.</p> <p>At the time of issuing this report, we have no matters to report.</p>
<p><b><i>Management override of controls</i></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 operation of controls over the posting of journals including post closing adjustments and assessed the full population of relevant journal entries to identify journals displaying high risk characteristics and analysed the identified journals. We considered the reasonableness of methodology and assumptions used to prepare accounting estimates as at 31 March 2021 and have no matters to report.</p> <p>At the time of issuing this report, we have no matters to report.</p>
<p><b><i>Fraudulent revenue recognition</i></b></p> <p>Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately. We recognised this risk over all of the Trust's income.</p>	<p>We evaluated the design of controls in place for the Trust to engage in the agreement of balances exercise with other NHS providers and commissioners and follow up variances arising from the exercise. We agreed commissioner income to the agreed block contracts and selected a sample of the largest balances to agree that they have been invoiced in line with the contract agreement and payment has been received.</p> <p>We tested material other income balances by agreeing a sample of income transactions through to supporting documentation and bank balances. We completed sample testing of invoices for material income in the period prior to and following 31 March 2021 to determine whether income is recognised in the correct accounting period.</p> <p>At the time of issuing this report, we have no matters to report.</p>
<p><b><i>Valuation of Land and Buildings</i></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>We reconciled the fixed asset register to the property, plant and equipment note in the accounts. For a sample of additions, we agreed the amounts capitalised back to supporting documentation and confirmed that they had been classified appropriately. We recalculated the depreciation charge applied by the Trust and found it to be consistent with the Trust's accounting policies.</p> <p>We reviewed the information provided to the valuer with the instructions. 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.</p> <p>At the time of issuing this report, we have no matters to report.</p>

# Value for money

## Introduction

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

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

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

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

## Matters that informed our risk assessment

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

<b>Care Quality Commission rating</b>	Good
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Head of Internal Audit opinion</b>	Moderate

## Commentary on arrangements

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

## Summary of findings

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

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

We did not identify a significant weakness with regards to the Trust's arrangements.

# 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><b>Financial Sustainability</b></p> <ul style="list-style-type: none"> <li>• The Covid-19 pandemic has had a major impact on the NHS and this has resulted in changes to the financial planning regime. On 17 March 2020 normal contractual arrangements with NHS providers were suspended and the NHS moved to block contract payments on account that remain applicable to trust. The value of these were determined centrally, rather than being agreed between the CCG and the providers. NHS organisations were also reimbursed with additional funding as required in order to reflect the additional costs incurred as a result of Covid-19.</li> <li>• UHD started on 1 October 2020. For months 7-12 (October – March) of 2020/21, NHSE/I provided allocations for each CCG, with further funding made available to cover additional cost pressures due to Covid-19 and the provision of services. Following the changes, the Trust presented a Financial Plan with a deficit of £5.6m in November 2020, which was reduced to an expected forecast outturn deficit of £3.1 million. The plan was based on a £29.6m system top up for months 7-12 and £13m COVID funding to cover the Trusts significant underlying deficit. The Trust has continued to report the financial position to the Finance and Performance Committee, and to the Board, to mitigate the forecast deficit.</li> <li>• 2020/21 is a highly unusual year as financial rules mean that usual Cost Improvement Plans (CIP) approaches had been suspended. However as part of the overall Integrated Care System (ICS) plan a target of £1.6m was identified. Reporting of delivery against plan is included within the Finance and Performance Committee financial performance report.</li> <li>• The future financial regime continues to be uncertain, with block contracts extended to June 2021 and likely to be further extended. There is therefore uncertainty around future efficiency requirements for the Trust. However directorates have been asked to identify cost improvement schemes as part of planning for 2021/22.</li> </ul>

# Value for money

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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><b>Risk management</b></p> <ul style="list-style-type: none"> <li>• We consider the Trust to have effective processes in place to monitor and assess risk. Strategic risks are recorded and identified using the Board Assurance Framework, and any identified risks are reported to the Board. The Board Assurance Framework is reviewed by the Audit Committee on a quarterly basis and at least bi-annually by the Board.</li> <li>• A 5 x 5 scoring matrix is used by the Trust to score operational risks. All risks rated 12-25 will be escalated to the Board of Directors and risk status reviewed monthly and are reported to the Audit Committee and risk controls and action plans discussed quarterly. Our review of the risk register found this was sufficiently detailed to effectively manage key risks and we reviewed evidence of review within both the Audit Committee and Board throughout the year.</li> <li>• Within the risk register, individual risks are marked and described, including the affecting Board Assurance Framework objective. Each risk is marked with a score per category. Our review of the financial plan has confirmed risks have been appropriately considered.</li> </ul> <p><b>Fraud, Laws and Regulation and Office Compliance</b></p> <ul style="list-style-type: none"> <li>• The effectiveness of internal controls is monitored by the Audit Committee, through reporting from Internal Audit, Local Counter Fraud, commercial compliance reports and SIRO reports. The programme of work for each organisation is approved at the start of the financial year by the Audit Committee along with quarterly progress report to audit committee including any reactive work</li> <li>• Any recommendations raised by Internal Audit or the Local Counter Fraud are reported to the Audit Committee. Our review of the Audit Committee papers confirmed that there was appropriate discussion and follow up of recommendations for both Internal Audit and Local Counter Fraud.</li> <li>• The Trust has a set of policies, which clearly outline the expected behaviour of staff members in relation to areas such as Gifts and Hospitality, 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.</li> <li>• We did not identify any significant risks associated with the arrangements in place for monitoring Fraud, compliance with Laws and Regulation and Officer Compliance with policies.</li> </ul>



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# Value for money

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# Value for money

## Improving economy, efficiency and effectiveness

### Description

This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.

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

- The planning and delivery of efficiency plans to achieve savings in how services are delivered;
- The use of benchmarking information to identify areas where services could be delivered more effectively;
- Monitoring of non-financial performance to assess whether objectives are being achieved; and
- Management of partners and subcontractors.

### Commentary on arrangements

#### **Assessing Value for Money and Opportunities for Improvement**

- We found appropriate processes in place to ensure the Trust used information about costs and performance to improve the way they manage and deliver services. We have not identified any significant weaknesses or significant risks associated with improving economy, efficiency and effectiveness.
- A monthly savings report is presented to the Finance & Performance Committee in order to report on financial performance, allowing the Trust to assess the level of value for money being achieved.

#### **Monitoring of Performance of Services**

- Operational Performance is monitored through the weekly Operational Performance Group and monthly through the Finance and Performance Committee, and bi-monthly through the Board. A detailed Integrated Performance Report has been developed to ensure all key metrics are reported through to the Board. Our review of Board minutes and the weekly operating performance group reports found an appropriate level of review and challenge.

#### **Partnership Working**

- The Trust is a member of the Dorset ICS. The Trust's Board is provided with updates through chief executive reports and finance reports. The financial position of the ICS is reported through these reports and the ICS Finance lead attends the Finance and Performance committee meetings quarterly. We have not identified a significant risk in relation to partnership working.
- The Trust holds a leadership role in the Dorset ICS. Being an active member of the ICS this is integral to the work of UHD, with most major decisions being shared through the ICS governance, e.g. Clinical Reference Group meeting monthly with Chief Medical and Chief Nursing Officers. The Dorset Non-Executive Director (NED) network (chaired by a UHD NED) also ensures non-executives are also regular and active in partnership work, feedback and oversight at the Board level.
- We found appropriate measures in place for the Trust to monitor outsourced services, both clinical and non-clinical, through regular contract meetings and performance reporting.

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- Management of partners and subcontractors.

### Commentary on arrangements

#### **Partnership Working**

- The proposed revenue budget represents a break-even position during the first half of the year supported by continued national top-up funding and COVID funding.
- The trust has submitted a financial plan for H1 of 2021-22 which shows a balanced position. This is based on receipt of block top-up funding consistent with 2020-21, and assumes an efficiency factor of 0.5%. However, this should be considered indicative only at this stage pending the H2 planning guidance and financial allocations, which are expected within the coming months.
- We found appropriate processes in place to ensure the Trust used information about costs and performance to improve the way they manage and deliver services. We have not identified any significant weaknesses associated with improving economy, efficiency and effectiveness.



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