



Auditor's Annual Report 2021/22

**University Hospitals Dorset NHS
Foundation Trust**

22 June 2022

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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 2021-22 audit of University Hospitals Dorset 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 22 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'. The trust has undertaken a desktop revaluation as at 31 March 2022.</p>	<p>The Trust used a qualified valuer to assess the fair value of land and buildings as at 31 March 2022. We assessed the accuracy of the data provided to the valuer, and challenged key assumptions, using market data such as BCIS indices and specialised asset build costs, considered any capital works completed since the last valuation, and indicators of impairment. 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>We found the judgements in the valuation to be balanced. We did not identify any material misstatements or raise any recommendations relating to this risk, though did not one immaterial misstatement in the revaluation reserve, which was corrected by management.</p>
<p>Fraudulent expenditure recognition</p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We consider this would be most likely to occur through overstating accruals, if performance against the control total allows, for example to bring forward expenditure from 2022-23 to mitigate financial pressures.</p>	<p>We assessed the design and implementation of process level controls for the review of the accrued 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 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.</p> <p>We did not identify any material misstatements 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>
<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.</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:

Care Quality Commission rating	The Trust was inspected but not rated in the 20 April 2021 report.
System Oversight Framework rating	Segment 2 –Targeted support: Support needs identified in quality of care and operational performance
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 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 weakness with regard 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 page 6 to 8.

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. We found that the Trust has an appropriate reporting framework in place. The financial performance of the Trust is reported each month to the Board with identification of risks within the position. The Capital Departmental Expenditure Limit (CDEL) within the Dorset System is currently £62m, UHD notional share is £28m at the end of September 2021.</p> <p>Pre-COVID, the Dorset ICS recognized its underlying deficit and developed a Long-Term Plan to address the situation. The plan included a variety of recovery actions that, if delivered, would bring the system back into recurrent financial balance over the medium term. This long-term financial plan was used to support the UHD merger and Acute Reconfiguration Outline Business Case, both of which received significant, detailed scrutiny by the Trusts regulators and reporting accountants. Dorset ICS faces significant underlying challenges with restoring medium-term financial sustainability as the current temporary funding regime tapers out to match the underlying spending review settlement for the NHS over 2022-25. The Dorset system had identified a material underlying deficit in the order of circa £140m+ and within this, the UHD element is circa £65 million this is based on a suite of assumptions pending receipt of the planning guidance and financial allocations for 2022/23. As per recent planning rounds the ICS system plan for 2022/23 is set at a deficit of £76m including the ambulance Trust, with UDH share at £32m deficit.</p> <p>We noted evidence of details of the plan, including key assumptions and risks associated with delivery, being reported to the Board. Following submission NHS E/I have requested all ICS’ to review the plans and update submissions to reflect additional funding now available. The Trust engaged with system partners to finalise a revised plan ahead of the 20 June 2022 submission date, budgeting for the £32m deficit to be eliminated. This was achieved through confirmed additional national funding together with the release of ICS contingencies and a reliance upon additional non-recurrent funding through CCG programme slippage and assumed additional income. There remains a significant underlying deficit within this plan, together with a currently unidentified in year CIP challenge.</p> <p>There are five risks recorded on the risk register in relation to the financial control total not being achieved at the end of the Second Half of the financial year (H2), the Integrated Care System (ICS) financial control total not being achieved, GIRFT and model hospital not achieving the efficiency and productivity opportunities identified, medium term financial sustainability, especially in connection to the current year capital plan and the affordability of the capital program going forward.</p> <p>Based on the risk assessment procedures performed we have not identified any significant risks or weaknesses associated with financial sustainability. While the Trust has a structural deficit, based on risk assessment to date, we consider that there are appropriate arrangements in place to manage this.</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; 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. Financial risks are identified and managed in accordance with the Trust's risk management policy. Our review of the risk register and committee meeting minutes found reporting was sufficiently detailed and balanced to enable management to manage risks effectively.</p> <p>The Trust has appropriate controls in place around prevention and detection of fraud. There was a counter fraud policy, which was regularly reviewed by the Audit Committee. The Local Counter Fraud Specialist team will also provides assurance through their programme of work. The work of the Local Counter Fraud Specialist is reported to the Audit Committee at every meeting.</p> <p>We reviewed the governance arrangements in relation to budget setting and monitoring. We found there to be appropriate scrutiny and challenge of the budget. A comprehensive budget setting process has been developed at UHD which has been tailored over the last two years to meet the specific needs of the organisation. Specifically this included a joint process across both predecessor Trusts in the run up to the merger together with an amended process reflective of the COVID architecture. This process includes strong operational and clinical engagement, including meetings with Care Groups and corporate directorates, and review/ challenge through the Trust Management Group. It also ensures full alignment between finance, operational and workforce plans which are subsequently triangulated through the mandated NHSEI planning returns.</p> <p>A register of interest is in place together with a policy for gifts and hospitality with regular reporting on new entries to the register taking place to the Audit Committee. They also have an engagement policy and managing conflicts of interest policy in place.</p> <p>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 Manging Conflicts of Interest. All related policies have been approved in line with their review requirements. These policies continued to apply throughout the period.</p> <p>The Trust has in place a staff code of conduct and staff handbook. Specific guidance is in place for teams and managers via standards of behaviour for these roles. Overall compliance with legislation, laws & regulations is monitored by an annual review of license conditions and with regular meetings with the Care Quality Commission.</p> <p>We have not identified any significant risks or weakness in the Trust's arrangements in relation to governance.</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>We note that QIPP/CIP programmes were recommenced in 2021-22 after being suspended in the previous year due to the Covid-19 response. The Trust has a process in place to ensure that proposed savings have undergone quality assurance and can be implemented safely.</p> <p>A cost improvement target of 2.2% (£14.3 million) has been included and apportioned at directorate level. This represents the recovery of the 2021/22 recurrent CIP shortfall of £7.3 million plus the 2022/23 national efficiency requirement of 1.1% which equates to a further £7.0 million. The ICS capital allocation has been reduced by £3m, resulting in a UHD allocation reduction of £1.730m.</p> <p>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. 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.</p> <p>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.</p> <p>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 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. Transparency is also assured through their Council of Governors which has elected, public and staff governors, plus appointed governors from LAs, University and volunteers.</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 University Hospitals Dorset NHS Foundation Trust 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 with the wider ICS to engage support for this.</p> <p>We have not identified any significant risks or weakness in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.</p>



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