



Auditor's Annual Report 2023/24

Dorset County Hospital NHS Foundation Trust

—

June 2024

Contents

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	Page
01 Executive Summary	4
02 Audit of the Financial Statements	5
03 Value of Money	9
a) Financial Sustainability	
b) Governance	
c) Improving economy, efficiency and effectiveness	

This report is addressed to Dorset County Hospital NHS Foundation Trust (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.



01 Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 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	We issued an unqualified opinion on the Trust’s accounts on 25 June 2024. 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 6.
Annual report	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 Department of Health and Social Care requirements.
Value for money	We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money. We have nothing to report in this regard.
Other reporting	We did not consider it necessary to issue any other reports in the public interest.



02 Audit of the Financial Statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Trust's financial statements:

- Give a true and fair view of the state of the Trust's affairs as at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS England with the consent of the Secretary of State in February 2024 as being relevant to NHS Foundation Trusts and included in the Department of Health and Social Care Group Accounting Manual 2023/24; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Audit opinion on the financial statements

We issued an unqualified opinion on the Trust's financial statements on 25 June 2024.

The full opinion is included in the Trust's Annual Report and Accounts for 2023/24 which can be obtained from the Trust's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements (continued)

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	Procedures undertaken	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 2024. The assessment of the fair value is a key estimate in the financial statements.</p>	<ul style="list-style-type: none"> – We critically assessed the independence, objectivity and expertise of Avison Young, the valuers used in developing the valuation of the Trust's properties at 31 March 2024; – We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the Group Accounting Manual; – We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances were identified; – We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; – We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement; – We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM; – We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the GAM; and – We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation. 	<ul style="list-style-type: none"> – No issues were identified with the assumptions or data underpinning the revaluation. – We did not identify any material misstatements relating to this risk. – We did not identify any control recommendation relating to the response to this significant risk.

Audit of the financial statements (continued)

Risk	Procedures undertaken	Findings
<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>	<ul style="list-style-type: none"> – Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate; – We analysed all journals through the year and focus our testing on those with a higher risk, such as journals impacting expenditure recognition; – We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates; – We reviewed the appropriateness of the accounting for significant transactions that are outside the Trust’s normal course of business, or are otherwise unusual; and – We assessed the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements. 	<ul style="list-style-type: none"> – We identified a number of journal entries and other adjustments which met our pre-determined high risk criteria. These included unusual entries to cash and borrowings as well as journal entries which were posted to accruals in the last quarter of the year. Our review and examination of supporting documents did not identify an instances of management override of controls. – We did not identify any material misstatements in relation to this significant risk.
<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 recognised this risk over all expenditure, excluding payroll costs and depreciation.</p>	<ul style="list-style-type: none"> – We evaluated the design and implementation of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely recorded; – We inspected a sample of invoices of expenditure and payments made, in the period after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period; – We inspected journals posted as part of the year end close procedures that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence; – We performed a retrospective review of prior year accruals in order to assess the existence and accuracy with which accruals had been recorded at 31 March 2023 and consider the impact on our assessment of the accruals at 31 March 2024. – We performed a year on year comparison of the accruals made in the prior year and current year and challenged management where the movement is not in line with our understanding of the entity. 	<ul style="list-style-type: none"> – We sampled a number of invoices of expenditure and cash payments in the period following 31 March 2024, and did not identify any inappropriate entries. – We performed a retrospective review of accruals (both through consideration of prior year accruals and through comparison to current year accruals), and did not identify any inappropriate entries. – We did not identify any material misstatements relating to this risk.

03 Value for Money

Value for Money

Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



Financial sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the Trust ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Approach

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.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12-13	14	15-16
Identified risks of significant weakness?	Yes	Yes	No
Actual significant weakness identified?	No	No	No
2022-23 Findings	No significant weakness identified	No significant weakness identified	No significant weakness identified
Direction of travel			

Value for Money

NATIONAL CONTEXT

Financial performance

The 2023-24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1bn against its agreed budgets. This came after additional funding had been made available earlier in the year to support the costs of industrial action.

Operational performance

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

System working

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements.

LOCAL CONTEXT

The Trust provides acute hospital services from its main site in Dorchester, serving a population of nearly 300,000 with over 3,500 staff. The Trust is a member of Dorset ICS ('Our Dorset').

Financial performance

The Trust has delivered a deficit excluding impairments of £0.3 million in the year, broadly consistent with the prior year surplus of £0.1 million. The position is largely aligned to the original breakeven plan submitted in April 2024 and the ICS reforecast in month 9.

Delivery of the financial plan remains a key challenge for the Trust, and this is achieved through a focus cost improvement programmes ('CIP') and receipt of £10.4 million additional funding from the ICB to support additional activity delivered in the year linked to the number of escalation beds open across the Trust. In year the Trust reported delivery of £4.5 million of cost savings compared to a planned target of £10.8 million.

System working

The Trust recognises being part of a ICS with a challenging financial position, with the system reporting a current year deficit of £14.6 million and an underlying deficit of over £160.2 million.

The 2024/25 Trust and ICS plan was approved by the Board on 27 March 2024, with the Trust forecasting to breakeven and the overall ICS forecasting a deficit of £20.4 million. The plans include challenging cost improvement targets of c. 5% for each provider Trust, which is greater than the CIP delivered in the current year.

Maternity CQC Inspection

Following a CQC inspection of the maternity services in June 2023, the Trust were issued with a Section 29 letter. The Trust responded promptly to the letter and have developed an action plan to respond the CQC findings, which is overseen by the Quality Committee.

Financial Sustainability

How the Trust plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Trust ensures that 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 which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Summary of arrangements

We have **not identified a significant weaknesses** in the Trust's arrangements in relation to financial sustainability.

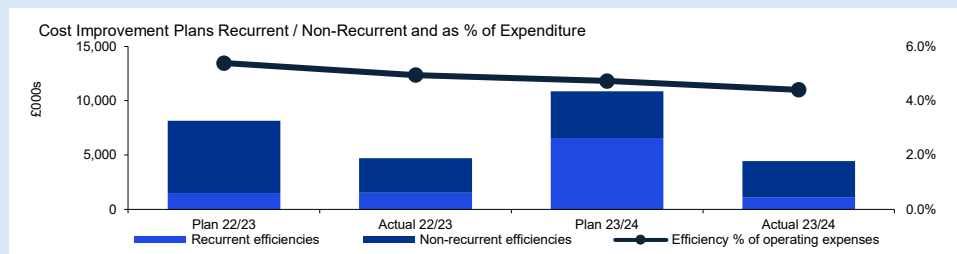
Delivery against 2023-24 financial plan

The original Trust financial plans for 2023/24 was a breakeven plan, which formed part of a wider ICS breakeven budget. The budgets were prepared based on appropriate local and national planning assumptions and were approved at both a Trust and ICS level prior to submission. However, during the period, risks within the budget crystalised, such as pressures arising due to the number of escalation beds in operation at the Trust which had not been funded. These pressures resulted in the Trust reporting a deficit position of £8.9 million at month 9 and a reforecast of the ICS position to a £37.1 million deficit. The Trust responded to this position by working closely with partners across the system to review the level of funding in place and consider system wide initiatives, for example, system work over agency framework rates.

The Trust was able to mitigate the reported month 9 deficit and achieved a £0.3 million deficit before impairment at the year end, with the main driver for this improved performance being delivery of Cost Improvement Programmes (CIPs) and receipt of additional funding in relation to the cost of industrial action and escalation beds from the ICB of £10.4 million.

To support the delivery of the financial position, the Trust planned delivery of £10.9 million of CIPs, with £6.6 million as recurrent savings and £4.3 million non-recurrent savings. The Trust failed to achieve the required savings, with only £1.1 million of recurrent and £3.3 million of non-recurrent CIPs delivered in year. The Trust worked closely with the ICB and other partners in the system to deliver a £0.3m deficit in the period.

The Trust has struggled to hit it's CIP targets in recent years as noted in the below graph, however the delivery of CIPS remains a significant focus in the Trust's financial plans and whilst delivery remains a challenge, there is increased focus on this in the 2024/25 plan.



Financial Sustainability

The Trust has submitted its 24/25 plan with a total CIP delivery target of £14.4m, split between recurrent savings of £6.4m and non-recurrent of £7.9m. Alongside this, the Trust continues to work with the ICB in the agreement of an income bridge, reflecting the increase in use of escalation beds across the Trust.

Capital Spend

As part of the 2023/24 plan, the Trust identified £28.2 million of capital spend, largely relating to South Walks House and routine maintenance work. The delivery of plans are monitored through the Finance and Performance Committee. The Trust delivered total capital spend of £25.7 million during the year, with the performance against plan being largely driven by delays in the New Hospital Programme. The additional capital spend is expected to be spent in 2024/25 with the Trust having submitted a total capital plan of £30m.

Planning process for 2024-25

The Trust has worked with ICS partner organisations to develop plans for 2024/25 in line with the national guidance, with planning initiatives, including but not limited to: planning workshops, recurring DOF meetings, challenge and confirm sessions and system development meetings. In particular, the Trust has ensured all relevant stakeholders including the Board, Finance Committee and Senior Leadership Group throughout the process, with necessary background and detail included within such updates. Prior to submission, management obtained approval from the Trusts Board on 27 March 2024, with minutes evidencing sufficient challenge and scrutiny on all relevant aspects of the draft plan.

The final Trust and ICS plans were submitted on 30 April 2024 with the Trust submitted a breakeven plan and the wider ICS forecasting a £21.1 million deficit. This plan includes a challenging CIP target of £14.4 million, along with an income bridge from the ICB to fund part of the anticipated use of escalation beds during the year. The Trust will need to ensure appropriate focus is maintained on the delivery of both the recurrent and non-recurrent CIP targets.

Key financial and performance metrics (Trust only):	2023-24	2022-23
Planned performance (adjusted financial performance)	Breakeven	Breakeven
Actual performance (adjusted financial performance)	£47k deficit	£43k surplus
Planned CIP as a % of spend	Planned CIP of £10.8 million:	Planned CIP of £8.2 million:
- Recurrent	— £6.5 million recurrent	— £1.5 million recurrent
- Non-recurrent	— £4.3 million non-recurrent	— £6.7 million non-recurrent
Actual CIP as a % of spend	Achieved CIP of £4.4 million:	Achieved CIP of £4.7 million:
- Recurrent	— £1.1 million recurrent	— £1.5 million recurrent
- Non-recurrent	— £3.3 million non-recurrent	— £3.2 million non-recurrent
Year-end cash position	£8.8 million	£18.9 million

Governance

How the Trust ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Trust 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 Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust 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 management or Board members' behaviour

Summary of arrangements

We have **not identified a significant weaknesses** in the Trust's arrangements in relation to governance.

CQC Inspections

The latest CQC inspection over maternity services, published in June 2023 resulted in an overall "Requires Improvement" rating. We noted that 3/5 elements of the report were rated good or higher, with grading of requires improvement in relation to whether services are safe and well-led in relation to the maternity services. As part of this review, the Trust received a Section 29(a) notice under the Health and Social Care Act 2006 relating to the quality of maternity services and care being provided at Dorset County Hospital. In response to the report, the Trust have developed a comprehensive action plan and have implemented a number of actions including the appointment of an independent maternity advisor to assist in addressing the issues identified by the CQC. The action plan is overseen by Jo Howarth as the Executive Lead, and is reported at each meeting of the Quality Committee, with a summary also provided to Board. The latest position to the action plan noted that of the eleven identified actions, all were on track or complete.

Risk Management Process

The Trust has defined processes in place to monitor and assess risk, with key documents including the Board Assurance Framework (BAF) to manage strategic risks, which is reviewed by both the Audit Committee and Board periodically throughout the year, and the Trust Risk Register, which contains key operational risks. The Trust utilise 5x5 scoring matrix to score operational risks, which include the risk of being unable to retain and recruit sufficient staff to deliver the Trust's strategy and the ability to deal with unplanned increase in demand across the service, reported first to the Risk and Audit Committee and then subsequently to Board.

Board Decisions

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.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	None	None
Head of Internal Audit Opinion	Moderate assurance that there is a sound system of internal control.	Moderate assurance that there is a sound system of internal control.
Oversight Framework segmentation	3 – Mandated Support required to address specific issues.	2 - Targeted support may be required to address specific identified issues.
Care Quality Commission rating	Requires Improvement – November 2023	Good – November 2018

Improving economy, efficiency and effectiveness

How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

Summary of arrangements

We have **not identified a significant weaknesses** in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.

Partnership Working

As a member of 'Our Dorset', members of the Board and leadership team are integrated within the governance of the system. This includes 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. This ensures the Trust is integrated into key system decisions and relevant Executives feed back to the Trust via Board, Committee and operational/clinical meetings.

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.

Overall, the ICS reported a 2023/24 performance of a £14.6 million deficit. All providers in the ICS broke even (or better), with the deficit being attributable to the ICB. However, given the underlying deficit of £160.2 million, there is pressure across the system for all parties to contribute to improve the position. The Trust take an active role in both 'Our Dorset Provider Collaborative' meetings and 'System Recovery Group', where parties discuss system performance, and progress against actions to recover the financial position.

We note that alongside financial planning, the Trust also has a number of roles in system wide working for clinical projects including Rheumatology and Urology, as well as being part of an Agency Programme Oversight Group.

Given the scale of the underlying deficit within the ICS, effective partnership working remains a key priority for the Trust and ICS partner organisations to deliver system wide efficiency and transformation. The Trust should continue to engage in the system working groups and collaborations to progress the system wide plans.

Monitoring of Performance of Services

The Trust has a performance management framework in place to set the structure of performance management. This details the format of reporting, outlining roles and responsibilities for 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.



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