



# Auditor's Annual Report 2023/24

**Dorset HealthCare University NHS Foundation Trust**

—

June 2024

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## KEY CONTACTS

### Rees Batley

Partner

Email: rees.batley@kpmg.co.uk

### Sam Hoey

Manager

Email: samuel.hey@kpmg.co.uk

### Natalie Reid

In-charge

Email: natalie.reid@kpmg.co.uk

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This report is addressed to Dorset HealthCare University 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 HealthCare University 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 27 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.
<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 Department of Health and Social Care requirements.
<b>Value for money</b>	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.
<b>Other reporting</b>	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 27 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><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 2024. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>- We critically assessed the independence, objectivity and expertise of the engaged valuers used in developing the valuation of the Trust's properties at 31 March 2024;</li> <li>- 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;</li> <li>- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;</li> <li>- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations;</li> <li>- We challenged the key assumptions and data used 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. The key assumptions linked to the significant risk include obsolescence and BCIS and key data includes floor area;</li> <li>- 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</li> <li>- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.</li> </ul>	<ul style="list-style-type: none"> <li>- No issues were noted with the key assumptions underpinning the valuation.</li> <li>- We did not identify any material misstatements relating to this risk.</li> <li>- We identified that incorrect Gross Internal Area's had been provided to the Trust valuer, resulting in an immaterial overstatement in the valued assets and hence have raised a low priority control recommendation in relation to this finding.</li> </ul>

# Audit of the financial statements (continued)

Risk	Procedures undertaken	Findings
<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.</p> <p>We consider this would be most likely to occur through the understatement of accruals, for example to push back expenditure to 2024-25 to mitigate financial pressures.</p>	<ul style="list-style-type: none"> <li>- We evaluated the design and implementation of any relevant controls including management’s controls over a review of the year end accruals balance to support our significant risk;</li> <li>- We inspected a sample of invoices of expenditure and cash payments, in the period following 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;</li> <li>- We inspected journals posted as part of the year end close procedures that decrease the level of expenditure (e.g. through accruals) 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; and</li> <li>- We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2023 and considered the impact on our assessment of the accruals at 31 March 2024. We also compared the items that were accrued at 31 March 2023 to those accrued at 31 March 2024 in order to assess whether any items of expenditure not accrued for as at 31 March 2024 have been done so appropriately.</li> </ul>	<ul style="list-style-type: none"> <li>- 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.</li> <li>- We performed a retrospective review (both through consideration of prior year accruals and through comparison to current year accruals), and did not identify any inappropriate entries.</li> <li>- We did not identify any material misstatements relating to this risk.</li> <li>- We identified one low priority control recommendation in relation to the calculation of the annual leave accrual.</li> </ul>
<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>	<ul style="list-style-type: none"> <li>- 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;</li> <li>- We analysed all journals through the year and focus our testing on those with a higher risk, such as journals impacting expenditure recognition;</li> <li>- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;</li> <li>- 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</li> <li>- 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.</li> </ul>	<ul style="list-style-type: none"> <li>- We identified a number of journal entries and other adjustments meeting our high-risk criteria, which included unusual combinations with Cash / Borrowings, and unusual debits to accruals in month 12 – our examination did not identify any inappropriate entries.</li> <li>- We did not identify any material misstatements relating to this risk.</li> </ul>

# 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
Identified risks of significant weakness?	No	No	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 mental health and community services across in Dorset, delivering both hospital and community-based care, serving a population of nearly 800,000 with over 7,000 staff. The Trust is a member of Dorset ICS ('Our Dorset').

### *Financial performance*

The Trust has delivered a surplus of £3.3 million for the year ending 31 March 2024. The position was in line with the original plan submitted in April 2023 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'). In year the Trust reported delivery of £17.5 million of cost savings compared to a planned target of £17.5 million.

### *System working*

Whilst the Trust continues to report a surplus position, it recognises being part of a ICS with a challenging financial position. The ICS reported a current year deficit of £14.6 million, with an underlying deficit of over £160.2 million.

The 2024/25 Trust and ICS plan was approved by the Board on 18 March 2024 and subsequently updated for submission to NHS England in June 2024, with the Trust forecasting a small surplus and the overall ICS forecasting a deficit of £20.1 million. The plans include challenging cost improvement targets of ca. 5% for each provider Trust, which is greater than the CIP delivered in the current year.

### *New Hospital Programme*

The Trust are in the process of undertaking several capital projects, including those related to the New Hospital Programme. The full business case for the St Ann's campus has been tabled and approved during 2023/24, with Board approval being obtained in October 2023.

# 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 any potential risks of significant weaknesses** in the Trust’s arrangements in relation to financial sustainability.

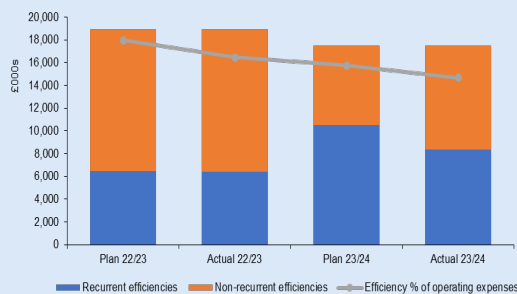
### Delivery against 2023-24 financial plan

The original Trust financial plans for 2023/24 was a break even position, which formed part of a wider ICS break even 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. The Trust continued to forecast delivery of a breakeven position throughout the year and was not required to update the original plan as part of the wider ICS reforecast at month 9, which showed a £31.7 million deficit. The financial performance of the Trust and ICS is reported each month to the Executive Committee and Board with identification of risks within the position.

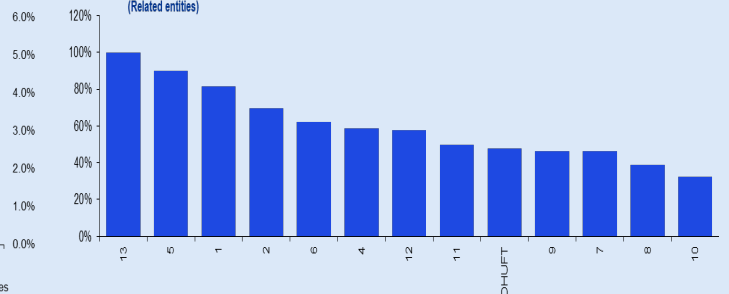
The Trust was able to achieve a £3.3 million surplus, with the main driver for this over performance being additional ring-fenced mental health funding. Overall, the ICS reported a 2023/24 outturn of a £14.6 million deficit. All providers in the ICS broke even (or better), with the deficit being attributable to the ICB.

To support the delivery of the financial position, the Trust planned delivery of £17.5 million through Cost Improvement Programmes (CIPs), with £10.5 million as recurrent savings and £7.0 million non-recurrent savings. Whilst the Trust achieved the planned CIPs of £17.5 million, a higher proportion was delivered through non-recurrent savings (£9.2 million). The Trust has delivered significant CIPs in recent years, but this has largely been through non-recurrent savings, as evidenced below. Whilst the delivery of CIPs remain a continued challenge, reliance on non-recurrent savings creates additional pressure for future periods and hence the Trust should prioritise recurrent savings where possible. This is demonstrated in the graphs below, which show recurrent and non-recurrent CIP delivered in the last two years and how the Trust compares when benchmarked to related entities against the level of recurrent schemes delivered.

Cost Improvement Plans Recurrent / Non-Recurrent and as % of Expenditure



Proportion of recurrent schemes (Related entities)



# Financial Sustainability

## Capital Spend

As part of the 2023/24 plan, the Trust identified £34.5 million of capital spend, with £11.5 million relating to developments linked to the New Hospital Programme. Due to delays with the New Hospital Programme, including final capital affordability and Full Business Case approval, the Trust recorded capital spend of £18.5 million against the plan. The additional capital is expected to be spent in 2024/25, with £41.5 million of capital included in the 2024/25 financial plan.

## 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 Director of Finance meetings, challenge and confirm sessions and system development meetings. In particular, the Trust has engaged the Board and Finance and Transformation Committee throughout the process, with necessary background and detail included within such updates to enable scrutiny and challenge. Prior to submission, management obtained approval from the Trusts Board on 18 March 2024, with minutes evidencing sufficient challenge and scrutiny on all relevant aspects of the draft plan.

Final Trust and ICS plans were submitted on 12 June 2024, with the Trust planning a £1.3 million adjusted financial performance surplus and the wider ICS forecasting a £20.1 million deficit. This plan includes a challenging efficiency target of £19.1 million, with £10.1 million planned as recurrent savings. The Trust has demonstrated the ability to deliver CIP targets in previous years, however, will require continued focus on recurrent savings to ensure the required levels are achieved.

Key financial and performance metrics (Trust only):	2023-24	2022-23
Planned performance (adjusted financial performance)	Breakeven	Breakeven
Actual performance (adjusted financial performance)	£2.8 million surplus	£0.1 million Surplus
Planned CIP as a % of spend	Planned CIP of £17.5 million:	Planned CIP of £18.9 million:
- Recurrent	— £10.5 million recurrent	— £6.5 million recurrent
- Non-recurrent	— £7.0 million non-recurrent	— £12.5 million non-recurrent
Actual CIP as a % of spend	Achieved CIP of £17.5m:	Achieved CIP of £18.9 million:
- Recurrent	— £8.3 million recurrent	— £6.4 million recurrent
- Non-recurrent	— £9.2 million non-recurrent	— £12.5 million non-recurrent
Year-end cash position	£44.3 million	£51.5 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 any potential risks of significant weaknesses** in the Trust's arrangements in relation to governance.

### **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 and the Trust Risk Register, which contains key operational risks. The Trust utilise 5/5 scoring matrix to score operational risks, with key risks relating to changes to the interpretation of Deprivation of Liberty Safeguards legislation and physical health care provisions in inpatient services reported first to the Audit Committee and then subsequently to Board.

Our review of the BAF highlighted that reporting to both Board and Audit Committee from May 2023 (where the Q4 2022/23 BAF was presented) had paused due to a delay in the agreement of the Trust strategic objectives. The BAF is defined as a critical aspect of risk management as per the Risk Strategy and Risk Management Policy, and should be presented to Board on a quarterly basis and relevant committee's at each meeting.

The Trust were able to demonstrate that key items contained on the BAF were discussed at Board, through other relevant documentation / papers, such as through 'Integrated Corporate Dashboard', 'CEO Report', 'Dorset ICB Performance Report', and various 'Escalation Reports' and presented a Q3 and Q4 BAF to the Board and relevant committees.

### **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, including significant capital projects such as those related to the New Hospital Programme. The full business case for the St Ann's campus has been tabled and approved during 2023/24, with Board approval being obtained in October 2023.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	No deficiencies reported	No deficiencies reported
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	2 - Targeted support may be required to address specific identified issues.	2 - Targeted support may be required to address specific identified issues.
Care Quality Commission rating	Outstanding – July 2019	Outstanding – July 2019

# 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 any potential risks of significant weaknesses** in the Trust's arrangements in relation to improving economy, efficiency and effectiveness.

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

As per page 12, the Trust has continued deliver significant CIPs. The main forum for tracking and reporting CIP is through the Trust Best Quality Best Value (BQBV) working group, which is chaired by the Chief Operating Officer and is responsible for CIP tracking and reporting. The group maintain an ongoing and live CIP tracker which is presented as part of regular meetings, where CIP delivery is discussed and challenged. The BQBV working group also reports to Trust Execs regularly, ensuring they have sight of risks of both under and over delivery.

## ***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.

Given the financial position of the ICS, with an underlying deficit of ca. £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. A specific example of action taken by DHU during 2023/24 through involvement in the above initiatives is temporary staffing (agency), with members of the ICS agreeing reduction in rate cards with agency providers, leading to reduced agency spend across the system. In addition, the system have held specific recovery sessions, including a recent meeting of the Joint Exec Management Team, where financially focussed executives discussed the current and future CIP programme.

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.



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