



# Auditor's Annual Report 2020/21

**Yeovil District Hospitals NHS Foundation  
Trust**

15 June 2021

## Key contacts

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This report is addressed to the Audit Committee of 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 2020-21 audit of Yeovil District Hospital NHS Foundation Trust (the Trust). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

## Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:

- **Accounts** - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).
- **Annual report** - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.
- **Value for money** - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.
- **Other reporting** - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

## Findings

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

<b>Accounts</b>	<p>We issued an unqualified opinion on the Trust's accounts on 15 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>

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

Risk	Findings
<p><b>Valuation of land and buildings</b></p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p> <p>The Trust undertook an indexation review for the year ended 31 March 2021 to consider if assets values had changed materially since the previous valuation. The assessment of the fair value of the assets is a key estimate in the financial statements.</p>	<p>We did not identify any material misstatements relating to this risk. We raised one recommendation relating to the revaluation of assets within the subsidiary entities.</p> <p>We considered the estimate to be balanced based on the procedures performed to challenge key assumptions, including the use of relevant indices.</p>
<p><b>Fraud risk from expenditure recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from expenditure recognition is a significant risk. We considered this is most likely to occur through manipulating accruals at the end of the year to bring forward expenditure which should be deferred to the following year.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p><b>Fraud risk from revenue recognition</b></p> <p>Auditing standards set a rebuttable assumption that there is a risk revenue is recognised inappropriately.</p> <p>We recognised this risk over the variable elements of income that the Trust has received during the year.</p>	<p>We did not identify any material misstatements relating to this risk.</p>
<p><b>Management override of controls</b></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<p>We did not identify any material misstatements relating to this risk. We raised one recommendation in relation to journals authorisation.</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>	Requires Improvement – May 2019
<b>Single Oversight Framework rating</b>	2 – Targeted support: support needs identified in Quality of care, Finance & use of resources and Operational performance
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Head of Internal Audit opinion</b>	Unqualified

## Commentary on arrangements

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

## 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 significant risk identified	No significant weaknesses identified
<b>Governance</b>	One significant risk identified	No significant weaknesses identified
<b>Improving economy, efficiency and effectiveness</b>	No significant risks identified	No significant weakness identified

We have not identified any significant weakness with regards to the Trust's arrangements for ensuring value for money. We reported this as part of our audit report and have provided further details in our commentary on pages 6 to 8.

We have not identified any recommendations based upon our risk assessment or work completed in response to the identified risk. We have provided management with performance improvement observations based upon our risk assessment for future consideration.

Financial sustainability	
Description	Commentary on arrangements
<p>This relates to ensuring that the Trust has sufficient arrangements in place to be able to continue to provide its services within the resources available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>How the Trust sets its financial plans to ensure services can continue to be delivered;</li> <li>How financial performance is monitored and actions identified where it is behind plan; and</li> <li>How financial risks are identified and actions to manage risks implemented.</li> </ul>	<p>The 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. 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. The Trust did not have to submit a formal plan to NHSE/I for this period.</p> <p>For months 7-12 of NHSE/I provided allocations for each system, with further funding made available to cover additional cost pressures due to Covid-19 and the provision of services. The System prepared a financial plan reporting a deficit of £14.4m, with the Trust noting a £0.5m deficit. Although the financial position of the Trust and system improved during the period, with the outturn position showing breakeven position, the ICS continues to report a large underlying deficit of c£85m.</p> <p>We found effective arrangements for the alignment of financial, workforce and operational plans. During the financial planning process, medium/long term plans are aligned to the budgets (financial plans) approved by budget holders. Budget holders also have joint ownership of workforce and operational plans, which ensures alignment of key planning documents within the Trust.</p> <p>Reducing the deficit across the ICS continues to be a key priority within the system that in turn impacts the Trust due to the nature of the collaboration agreement. We have identified a significant risk in relation to financial sustainability within the system.</p> <p>In response to the identified risk, we noted that the Trust had reported the financial position as a risk within relevant governance documents and considered the process to finalise the 2021-22 financial plan. The ICS financial plan was presented to the Financial Resilience and Commercial Committee (FRCC) and Trust Board on 5 May 2021 ahead of submission to NHS England, in accordance with the relevant planning guidance. The Trust has followed the planning guidance by working as part of the ICS and has included efficiency targets, identified at 0.77% of the six month forecast income.</p> <p>We considered the arrangements in place to align the Trust financial plan with the ICS financial plan. The Chief Finance Officer was involved in the planning process and the Trust has continued to engage with the ICS, forming part of a new ICW Shadow Board, to support the ICS Leadership Board. The ICS continue to develop a number of options for addressing the underlying deficit, with work ongoing at a ICS and local place level, including review of the structure of Acute and Primary Care. We note that the planned merger with Somerset FT is not considered a major solution to significant additional savings in the region.</p> <p>Through considering these arrangements, we have not identified a significant weakness linked to the identified risk.</p>

# Value for money

Governance	
Description	Commentary on arrangements
<p>This relates to the arrangements in place for overseeing the Trust's performance, identifying risks to achievement of its objectives and taking key decisions.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>Processes for the identification and management of strategic risks;</li> <li>Decision making framework for assessing strategic decisions;</li> <li>Processes for ensuring compliance with laws and regulations;</li> <li>How controls in key areas are monitored to ensure they are working effectively.</li> </ul>	<p>We consider the Trust to have effective processes in place to monitor and assess risk. 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 quarterly by the Board of Directors. 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 Governance Committee and Audit Committee with clear escalation up to the BAF where required.</p> <p>The Trust has a set of policies, which clearly outline the expected behaviour of staff members. All policies have been approved in line with their review requirements. Overall compliance with legislation, laws &amp; regulations is monitored by the Head of Governance and through the Governance Committee. 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.</p> <p>We found there to be appropriate scrutiny and challenge of the budgets and appropriate approval through the budget holders. We also found appropriate processes in place to ensure accurate recording and monitoring of the additional costs associated with Covid-19. The divisional meetings and Board scrutinise monthly performance, with the financial performance of both Trust and subsidiaries are reported within these meetings. SHS and SSL is run independently from the Trust, and reports to their own Board, with a process to escalate issues up to Trust Board. Our risk assessment over the Committees indicated that there was sufficient detail and follow up to understand any significant variances to plan.</p> <p>In 2019, CQC rated resources being used productively as inadequate for the Trust. Following the CQC inspection, the Trust commissioned an independent review of financial governance arrangements in October 2019, with the resulting reporting identifying a series of actions required to improve the arrangements. We identified a risk in relation to the implementation of the action plan to address the governance issues.</p> <p>In response to the identified risk, we obtained the action plan dated 25 March 2020 which was presented to the Board and FRCC. Through enquiry and review of the action plan, we understand that recommendations raised have taken longer than expected to implement due to the Covid-19 Pandemic, however as outlined in the latest Financial Governance Review Action Plan Update, dated 27 May 2021, of the 15 main action areas, nine are fully complete and a further three have been superseded by the merger workplan. For the remainder, the Trust have a revised timetable in place in order resolve these action points.</p> <p>We obtained an update from management in regard to the original CQC findings that led to the Financial Governance Review, and as above, actions have taken longer to implement due to the pandemic, or been superseded due to changes at the Trust. However, we note progress has been made to address or mitigate the key issues within the report.</p> <p>Through considering these arrangements, we have not identified a significant weakness linked to the identified risk.</p>

Improving economy, efficiency and effectiveness

Description	Commentary on arrangements
<p>This relates to how the Trust seeks to improve its systems so that it can deliver more for the resources that are available to it.</p> <p>We considered the following areas as part of assessing whether sufficient arrangements were in place:</p> <ul style="list-style-type: none"> <li>▪ The planning and delivery of efficiency plans to achieve savings in how services are delivered;</li> <li>▪ The use of benchmarking information to identify areas where services could be delivered more effectively;</li> <li>▪ Monitoring of non-financial performance to assess whether objectives are being achieved; and</li> <li>▪ Management of partners and subcontractors.</li> </ul>	<p>We note that from the 17 March 2020 QIPP/CIP programmes were put on hold in accordance with national guidance. This was to allow CCGs and providers to respond to the pandemic. It was therefore not possible for the Trust to implement and deliver the identified savings plans for the majority of areas; NHSE/I did not require the Trust to report on the delivery of efficiency schemes for months 1-6. Historically, all schemes have a Trust and a system Quality Impact Assessment approval from the Chief Nurse &amp; Chief Medical Officer.</p> <p>Typically CIP performance is reported to the Board, allowing the Trust to assess the level of value for money being achieved, however it has not been included during the pandemic as CIP reporting has been halted. The Trust has continued to provide other financial reporting to FRCC to ensure they remain aware of performance. Management also maintains and monitors costs by reviewing the information received from the Model Hospital, as well as benchmarking within the ICS as part of shaping efficiency plans and contracting rounds.</p> <p>The Trust has a performance management framework in place to set the structure of performance management. This details the format of reporting and outlines roles and responsibilities at each level. The main element of performance reporting is the integrated performance report which provides the Board, with key operational performance indicators on a monthly basis. Similar reports are also reported at monthly Divisional Reviews under the Accountability Framework. This report highlights performance in different domains in line with the Trust's strategy and highlights key areas for improvement within each domain. For these areas further information is provided, such as trends, to help inform the Board and provide the full context. Escalation root to the Board Assurance Framework is provided.</p> <p>The Trust forms part of the Somerset ICS, and has submitted a Strategic Outline Case for merger with Somerset NHS FT. Members of the Board and leadership team coordinate well within the system ensuring the Trust is integrated into key system decisions and feeds back to the Trust via relevant Board, Committee and operational/clinical meetings. Planning is performed at an ICS level as well as considering the individual entities that make up the system, with the aim of achieving financial sustainability at a system level rather than a traditional focus on individual control totals. The Trust CEO and Chair provide updates within their reports to Board with the system financial performance as required, though it is not formally reported in the financial reports.</p> <p>Working in the system, the interaction between providers and other stakeholders is essential to ensure the appropriate operational and clinical flow across the system and longer term objectives, which is flagged as a strategic risk on the Board Assurance Framework. System working is becoming more embedded as business as usual to enact the appropriate actions and change. This is underpinned by the Somerset Long Term Plan, "Sustainability and Transformation Plan", which states the agreed principles to work together in aiming towards its System Transformation Programme (STP).</p>





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