



Auditor's Annual Report 2021/22

**Yeovil District Hospital NHS Foundation
Trust**

21 June 2022

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This report is addressed to Audit Committee of Yeovil District Hospital NHS Foundation Trust (the 'Trust' or 'Group' 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 Yeovil District Hospital NHS Foundation Trust (the ‘Trust’ or ‘Group’). 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 21 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>Risk of error – 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 has not undertaken a full revaluation in year, with its last valuation in 31 March 2020. To consider the fair value of the asset as at 31 March 2022, management have obtained a desktop valuation, which was not booked as the movement was deemed immaterial</p>	<p>The Trust used a qualified valuer to assess the fair value of land and buildings as at 31 March 2022 and concluded this was not materiality different from the previous year. 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 did not identify any material misstatements or raised any recommendations relating to this risk. We considered the estimate to be balanced based on the procedures performed.</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 or raised any recommendations 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>

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 Group, we do not consider there to be a significant risk of fraud and have rebutted this risk.

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	Requires improvement – May 2019
System Oversight Framework rating	Segment 3 (Mandated support)
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	No significant 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. The Plan was reviewed and approved by Financial Resilience and Commercial Committee (FRCC) and the Board. The Group did not have to submit a formal plan to NHSE/I for this period, reporting through the Somerset ICS for funding purposes.</p> <p>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 Trust reported a deficit in year of £5.4m, compared with 2020/21 £1.9m surplus. Whilst the Group reports a surplus of £83k. The Trust has a large capital programme, with capital spend in year of £9.9m. We have considered the arrangements for the reporting of progress of the capital plans and have not identified a value for money risk.</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>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's element of the system plan was approved for 2022/23 on 20 April 2022. Whilst the Group has delivered a strong financial position in the year, the 2022/23 draft system plan is a £20.3m deficit, of which Yeovil's share is £2.9m. 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 are engaging with system partners to finalise the revised plan ahead of the 20 June 2022 submission and expect to submit a revised ICB plan with a breakeven position.</p> <p>On the Trust's Board Assurance Framework there is a principle objective named 'Develop a Sustainable System', attached to this objective are a number of specific risks related to the system. The risks are regularly reported to the Board and Audit Committee, with assurance provided through reported actions and mitigations to manage the risk, providing the Board appropriate oversight.</p> <p>Whilst we have not identified a significant risk associated with the arrangements in place for the current period, we note the continued financial pressures, which are likely to increase through 2022/23 and hence the Trust will need to ensure these arrangements, including the reporting of both the Trust and system position, are robust and sufficient for the increased risk going forward.</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 Group 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. A 5 x 5 scoring matrix is used by the Group to score operational risks, and any with a score of 12 or higher are reported through the Board Assurance Committees for review by the Executive Directors and Non-executive 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. We consider the layout and clarity of the Groups risk management reporting as an example of best practise amongst our provider client base.</p> <p>Within the risk register, individual risks are marked and described, including the affecting Board Assurance Framework objective. Each risk is marked with a score per category. The latest BAF confirmed risk had been appropriate considered, with highest rated risks covering financial sustainability, COVID-19 impact on capacity, workforce, caring standards as well as failing to agree and adopt new models of care across the system.</p> <p>The effectiveness of internal controls is monitored by the Audit Committee, through reporting from Internal Audit and Local Counter Fraud. The programme of work for each organisation is approved at the start of the financial year by the Audit Committee, following input by the Lead Director. 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, compliance with relevant laws and regulations, Managing conflicts of interest and Whistleblowing Policy. All policies have been approved in line with their review requirements.</p> <p>Over the course of the next financial year the Group is planning a merger with Somerset NHS Foundation Trust, this has been delayed by six months to April 2023 to allow more time for the remaining parliamentary stages and to enable organisations to manage their more immediate pandemic response priorities. The Trusts have a joint Executive Team, who manage a number of joint groups set up to develop the content of the proposed merger both financially, and operationally. The Board minutes obtained show clear evidence of challenge and appropriate levels of scrutiny of the decisions made to date. Each organisation within the ICS has clear governance and reporting structures and they remain the sovereign organisations for decision making.</p> <p>The financial performance of both Group and subsidiaries are reported within the divisional meetings, where the Board scrutinises monthly performance. SHS and SSL are run independently from the Group, and reports to their own Board, with a process to escalate issues and performance to the Group Board. Our risk assessment over the Committees indicated that there was sufficient detail and follow up to understand any significant variances to plan.</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 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 Group to implement and deliver the identified savings plans for the majority of areas. NHSE/I did not require the Group to report on the delivery of efficiency schemes for months 1-6, from month 7-12 plans were set at 1.6%, with Yeovil delivering to plan. Historically, all material schemes have a Quality Impact Assessment, with Chief Medical Officer and Chief Nurse approval and all impacted stakeholders notified for high risk schemes.</p> <p>CIP performance is reported as part of the Finance Report to the FRCC, allowing the Group to assess the level of value for money being achieved, and identify any risks or deviation from plans which are then escalated to the scheme sponsor. Management also maintains and monitors costs by reviewing the information received from the Model Hospital as benchmarking within the STP as part of shaping efficiency plans and contracting rounds.</p> <p>The Group 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 divisional levels. 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. An escalation route to the Board Assurance Framework is provided.</p> <p>The Trust forms part of the Somerset ICS, and is formally progressing to merger with Somerset NHS Foundation Trust. Members of the Board and leadership team coordinate well within the system via ICS Shadow Board, ICS Chief Execs Group and DoFs group, ensuring the Trust is integrated into key system decisions and is able to feed back to the Group Board, Committees and operational/clinical meetings. Planning is performed at a 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.</p> <p>There is currently a significant combined ICS deficit (or system “gap”) for Somerset ICS and from review of Board papers and Board Assurance Framework, we note that the 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, for example the planned merger with Somerset NHS FT.</p>



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