



# Auditor's Annual Report 2021/22

**Somerset NHS Foundation Trust**

July 2022

## 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 2021-22 audit of Somerset 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 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>
<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 engages an expert valuer to provide a valuation of land and buildings at year end.</p>	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed to challenge key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed.</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 purchase of services and healthcare expenditure and the associated accruals at the end of the year.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>We tested the design and implementation of the controls in relation to Agreement of Balance exercise and expenditure. We completed substantive testing including reviewing transactions around the period end to confirm the correct recognition criteria, investigating a sample of variances within the Agreement of Balance exercise and performing sample testing of accruals made at year end to identify potential high risk transactions, which were then agreed to supporting documentation.</p> <p>We did not identify any material misstatements or raise any recommendations 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 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>

# 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>NHS System Oversight Framework</b>	Somerset ICS has been rated as Segment 2, which means that flexible support is offered by NHSE/I
<b>Governance statement</b>	There were no significant control deficiencies identified in the governance statement.
<b>Head of Internal Audit opinion</b>	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
<b>Financial sustainability</b>	No significant risks identified	No significant weaknesses identified
<b>Governance</b>	No significant risks 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 weaknesses 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.

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 revised funding arrangements introduced in light of the pandemic have been extended into the 2021/22 financial year. For H1 (April to September 2021) NHS providers were provided with 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 added into the guidance</p> <p>We found that the initial draft financial plan for 2021/22 was constructed based on appropriate local and national planning assumptions. The Trust has an appropriate reporting framework in place. The detailed financial performance of the Trust is reported each month to the Finance Committee with identification of risks within the position. There was evidence of discussion and challenge by the Committee. The financial performance of the Trust is also regularly reported to the Board.</p> <p>Somerset ICS faces significant underlying challenges with restoring medium-term financial sustainability as the current temporary funding regime tapers out to match the underlying spending review settlement for the NHS over 2022-25. Ensuring the Trust delivers against future financial targets, whilst reducing the system level deficit continues to be a key priority, which will require close working with the wider ICS.</p> <p>The Somerset system submitted a plan in March 2022 showing a deficit for 2022/23 in the order of £24m. Within this, the Somerset FT element is approximately £11 million. Following submission NHS E/I have requested all ICSs 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.</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>

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. The full corporate risk register is overseen by the Quality &amp; Governance Committee, with reports provided to the Audit Committee for assurance, and is regularly reviewed by the Board. Through our attendance at Audit Committees, we have observed effective challenge provided by NEDs.</p> <p>The effectiveness of internal controls is monitored by the Audit Committee, through reporting from Internal Audit, Local Counter Fraud and SIRO reports. The Trust have a dedicated counter fraud service provided in-house. The LCFS has an agreed work plan and reports progress to each Audit Committee, with an annual report taken at the end of the year. This resource is supplemented via consideration of fraud by the Audit Committee and senior finance staff whilst preparing the financial statements. The Trust have an Internal Audit service provided by BDO.</p> <p>The Trust has not been inspected by the CQC since it was formed in April 2020 following the merger. A visit by the Health &amp; Safety Executive in June 2021, focusing on compliance with Ionising Radiation Regulations, identified issues to which the Trust has already responded.</p> <p>Overall compliance with legislation, laws &amp; regulations is monitored by the Director of Corporate Governance with an outside legal firm available for expert advice if required. A register of interest is in place together with a policy for gifts and hospitality with regular reporting of entries on the register taking place to the Audit Committee.</p> <p>Key strategic decisions are made via the Trust's governance process, for example, the Strategic Case for Merger with Yeovil District Hospital NHS Foundation Trust was presented to the Trust Boards in September 2021. Major decisions require business cases to be approved through the relevant oversight group, such as the Strategic Estates Group. There is also peer review and challenge to strategic decisions through the system Directors of Finance group.</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 found appropriate processes in place to ensure the Trust used information about costs and performance to improve the way they manage and deliver services. The Cost Improvement Plan (CIP) Review Group oversee development of the savings plans with Directorates teams. Delivery against savings plans is tracked by Finance Business Partners and reconciled overall by the Trust CIP Lead as part of the month end reporting process. Progress against CIP plans is reported within monthly Board and Finance Committee reports.</p> <p>The Trust has a performance management framework in place to set the structure of performance management across the Trust. 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 Trust 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. For these areas further information is provided, such as trends, to help inform the Board and provide the full context. Directorate finance reports follow a similar format and are reported monthly to the Finance Committee and Quality &amp; Governance Committee.</p> <p>The Trust forms part of the Somerset ICS. Members of the Board and leadership team have roles in a number of key working groups such as the ICS Shadow Board, ICS Chief Execs Group and DoFs group. The Trust has also agreed a strategic case for merger with Yeovil District Hospital NHS Foundation Trust which has been approved by NHSE/I.</p>



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