

## Independent auditor's report to the Directors of the University Hospitals of Leicester NHS Trust

### Report on the Audit of the Financial Statements

#### Adverse opinion on financial statements

We have audited the financial statements of the University Hospitals of Leicester NHS Trust (the 'Trust') and its subsidiary (the 'group') for the year ended 31 March 2021, which comprise the Consolidated Statement of Comprehensive Income (Group), the Statement of Financial Position (Group and Trust), the Consolidated Statement of Changes in Equity (Group), the Statement of Changes in Equity (Trust), the Statement of Cash Flows (Group and Trust) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Accounts Directions issued under Schedule 15 of the National Health Service Act 2006, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2020 to 2021.

In our view, because of the significance of the matters discussed in the Basis for the Adverse Opinion paragraph below, the financial statements:

- do not give a true and fair view of the financial position of the group and of the Trust as at 31 March 2021 and of the group's expenditure and income and the Trust's expenditure and income for the year then ended; and
- have not been properly prepared in accordance with international accounting standards as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2020 to 2021; and
- have not been prepared in accordance with the requirements of the National Health Service Act 2006.

#### Basis for Adverse Opinion

We did not express an audit opinion on the financial statements of the Trust or the group for the year ended 31 March 2020, as we were unable to obtain sufficient appropriate audit evidence in a number of key areas, including (but not limited to): journal entries; inventory; and the comparative figures to the 2020 accounts. While fewer and more isolated than in the prior year, we have continued to identify system and control weaknesses resulting in material misstatements during 2020/21.

##### *Purchases cycle*

We identified material misstatements relating to non-payroll operating expenses, and a large number of errors where the Trust has accrued expenditure based on purchase order value, despite the purchase order amount being incorrect and / or not entirely relating to the current financial year. There were also a number of inaccurate postings between different classes of expenditure. This issue also impacts trade payables (specifically balances relating to non-NHS payables and goods received not invoiced) and property plant and equipment additions.

##### *Assets under construction*

In respect of assets under construction, which has a carrying value of £46.3 million testing was performed to determine whether these were correctly categorised in the financial statements. Our testing identified material errors, specifically:

- i. £7.0 million of capital additions which are also included in the fair value estimation of land and buildings; and
- ii. £6.0 million of capital additions that were completed as at 31 March 2021 and which should have been revalued and then reclassified to land and buildings.

The material effect of these errors is to overstate the assets under construction balance by £13 million; understate land, buildings, and equipment by £6 million. The impact on the valuation of buildings has not been determined.

The sum of the factual errors found in both the purchases cycle and assets under construction and their extrapolated impact is in excess of materiality and considered to be pervasive because it is not confined to specific elements accounts or items of the financial statements as it affects the Consolidated Statement of Comprehensive Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows (Group and Trust), and associated disclosures.

Notwithstanding the adverse opinion we have expressed on these financial statements, there are other matters that would have required a modification to the audit opinion as follows:

#### *Plant and equipment*

The Trust does not operate a system to track the location of its plant and equipment and we were therefore unable to obtain sufficient appropriate audit evidence over the existence of such assets. In addition, our testing of plant and equipment additions identified transactions totalling £550,000, for which the Trust has been unable to provide sufficient evidence to support the capitalisation of these costs. While these actual errors identified were not individually material, the extrapolated impact of these errors is in excess of materiality.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded plant and equipment.

#### *Prior year disclaimer*

We were unable to obtain sufficient appropriate audit evidence during our financial statements for the period ended 31 March 2020 in a number of key areas (which included but were not limited to) management override of controls, use of journals, and inventory. Our audit opinion on the financial statements for the period ended 31 March 2020 was modified accordingly. Our opinion on the current period's financial statements is also modified because:

- we were unable to determine the value of any related adjustments that would have been necessary to the Statement of Cash Flows (Group and Trust), the Consolidated Statement of Changes in Equity, or the Statement of Changes in Equity; and
- of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Adverse opinion.

### **Conclusions relating to going concern**

We are responsible for concluding on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the Trust to cease to continue as a going concern.

In our evaluation of the Directors' conclusions, and in accordance with the expectation set out within the Department of Health and Social Care Group Accounting Manual 2020 to 2021 that the group and Trust's financial statements shall be prepared on a going concern basis, we considered the inherent risks

associated with the continuation of services provided by the group and Trust. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Trust and the group and Trust's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and the Trust's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Directors with respect to going concern are described in the 'Responsibilities of the Directors and Those Charged with Governance for the financial statements' section of this report.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

As described in the basis for adverse opinion section of our report, financial statements have been materially misstated. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Annual Report.

### **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the guidance issued by NHS Improvement or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Opinion on other matters required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Accounts Directions issued under Schedule 15 of the National Health Service Act 2006, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2020 to 2021; and
- based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Trust, the other information published together with the financial statements in

the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we refer a matter to the Secretary of State under Section 30 of the Local Audit and Accountability Act 2014 because we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- we make a written recommendation to the Trust under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters except on 26 August 2022 we referred matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 in relation to the Trust:

- breaching its break-even duty for the three-year period ending 31 March 2021
- having no plans to achieve cumulative financial balance over the period of its current medium term financial plan to 2022/23
- failing to submit audited accounts and a Corporate Governance Report as part of its Annual Report and Accounts for the year ended 31 March 2021 in accordance with agreed national timescales.

### **Responsibilities of the Directors and Those Charged with Governance for the financial statements**

As explained in the Statement of directors responsibilities in respect of the accounts, the Directors are responsible for the preparation of the financial statements in the form and on the basis set out in the Accounts Directions, for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's and the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Trust and the group without the transfer of its services to another public sector entity.

The Audit and Risk Management Committee\_ is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the group and Trust's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Trust and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (international accounting standards and the National Health Service Act 2006, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2020 to 2021).
- We enquired of management and the Audit and Risk Management Committee, concerning the group and Trust's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Management Committee, whether they were aware of any instances of non-compliance with laws and regulations; and with those same parties, and internal audit whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the group and Trust's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and the evaluation of fraud in revenue and expenditure recognition. We determined that the principal risks were in relation to:
  - journal entries that altered the Trust's financial performance for the year;
  - potential management bias in determining accounting estimates, especially in relation to the valuation of property, plant and equipment, occurrence and accuracy of non-block funded income, and existence, and accuracy of year-end payables.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud;
  - journal entry testing, with a particular focus on significant journals at the end of the financial year which impacted on the Trust's financial performance, and those which were posted by officers who in our view had access and/or approval privileges in excess of the requirements of their role;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of property, plant and equipment valuations; and accruals for non-block income and year end payables.
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of the Trust's property, plant and equipment, and income and expenditure accruals.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Trust's engagement team including consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the health sector and economy in which the group and Trust operates
  - understanding of the legal and regulatory requirements specific to the group and Trust including:
    - the provisions of the applicable legislation
    - NHS Improvement's rules and related guidance
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the group and Trust's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The group and Trust's control environment, including the policies and procedures implemented by the group and Trust to ensure compliance with the requirements of the financial reporting framework.

## **Report on other legal and regulatory requirements – the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources**

### **Matter on which we are required to report by exception – the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources**

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter except on 9 May 2022 we identified significant weakness in respect of:

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

During 2020/21 the Trust did not have an up to date medium term financial plan to support the delivery of services and to address its underlying financial deficit, which totalled £109 million at 31 March 2021. We recommended that the Trust continue to develop its medium term financial plan, in particular ensuring that the plan is agreed with partners in the local integrated healthcare system and is aligned with system-wide long term financial and operational plans.

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

During 2020/21 the Trust did not have adequate arrangements for robust internal control, financial management and reporting, governance and informed decision making, risk management and budget setting and management. We recommended that the Trust continues with its delivery of the Financial Governance Improvement Plan and Roadmap to address these issues

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

During 2020/21 the Trust did not have adequate arrangements in place to ensure the accuracy of information about its costs and performance when benchmarking itself against others, to ensure that its procurement and contract management processes were followed, and for collaborating effectively with partners in the local integrated healthcare system. We recommended that the Trust update its cost and performance information and refresh its benchmarking and efficiency analysis, address the issues with procurement and contract management, and drive forward partnership working with colleagues in the local healthcare system, particularly in respect of clinical strategy development, new models of care and effective demand management.

### **Responsibilities of the Accountable Officer**

As explained in the Statement of the chief executive's responsibilities as the accountable officer of the Trust, the Chief Executive, as Accountable Officer, is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of the Trust's resources.

### **Auditor's responsibilities for the review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 21(3)(c) and Schedule 13 paragraph 10(a) of the Local Audit and Accountability Act 2014 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- 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; and
- 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 document our understanding of the arrangements the Trust has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

### **Report on other legal and regulatory requirements – Audit certificate**

We certify that we have completed the audit of the University Hospitals of Leicester NHS Trust for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### **Use of our report**

This report is made solely to the Directors of the Trust, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the Trust's Directors those matters we are required to state to them in an auditor's report and for no other

purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's Directors, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Stocks, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date