The Audit Findings for University Hospitals of Leicester NHS Trust

Year ended 31 March 2021

5 September 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Foundation Trust or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was
not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of University Hospitals of Leicester NHS Trust ('the Trust') and the preparation of the group and Trust's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements	
Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the group and Trust's financial statements give a true and fair view of the financial position of the group and Trust and the group and Trust's income and expenditure for the year; and • The group and Trust's financial statements have been properly prepared in accordance with the Department of Health and Social Care (DHSC) group accounting manual 2020/21 (GAM) • The group and Trust's Remuneration and Staff reports are prepared in accordance with the Foundation Trust Annual Reporting Manual 2020/21. We are also required to report whether other information published together with the audited financial statements in the Annual Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee. As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements. Our audit work was completed remotely, with the exception of stock attendances, between October 2021-July 2022. Our findings are summarised on pages 8 to 39. The accounts presented for audit were improved on the prior year accounts and we note an improvement in some controls. However, we have continued to identify errors, accounting process and control weaknesses. In particular, we have continued to identify pervasive weaknesses relating to accounting process and controls over operating non-pay expenditure and with regard to capital expenditure and the management of plant and equipment assets. We also note that journal controls did not operate for the first 8 months of the year and have needed to extend our testing in response to this control weakness. Other weaknesses in control also exist and we have made a number of recommendations in Appendix A and B. We have identified a number of estimated errors which indicate that the accounts are materially misstated. The estimated errors, if adjusted for, would increase the Trust's retained surplus position (by over £15 million) and materially reduce the Trust's Property, Plant and Equipment balances (by c£40 million). We would not expect the accounts to be adjusted on the basis of audit estimates. In discussion with management, it has been agreed that it is not practical or possible to identify the actual error or to gain sufficient assurance over the estimated errors (either through additional testing by ourselves or further analysis by management) to enable the accounts to be adjusted. Due to the material nature of the estimated errors our anticipated audit report opinion will modified and we anticipate issuing an adverse opinion due to the errors and estimated errors we have identified. Further details regarding the audit opinion are given on the next page. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit(from 2017/18 to 2019/20) are detailed in Appendix B. The trust had made progress on some but not all prior year recommendations and should now seek to expedite the closure of these recommendations. Our work is substantially complete, subject to the following outstanding matters; • receipt of management representation letter – see appendix F; and • review of the final set of financial statements. As described in the basis for adverse opinion section of our report, financial statements have been materially misstated. We have therefore concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Annual Report.

1. Headlines

Audit Opinion

Due to the errors remaining in the financial statements we plan to issues a modified adverse opinion on the Trust's financial statements.

ISA 705 states with regard to a qualified adverse opinion:

' Adverse Opinion

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.'

There are two determining factors which have been considered. Whether we have sufficient appropriate evidence and whether the matters are material and pervasive

We have concluded that we have sufficient appropriate evidence on which to base our opinion. The evidence available is documented within the remainder of this report, in particular section 4.

We have concluded that the errors identified are pervasive. ISA 705 defines pervasive as:

'(a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

(i) Are not confined to specific elements, accounts or items of the financial statements;
(ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
(iii) In relation to disclosures, are fundamental to users' understanding of the financial statements. '

In this instance we consider that the effects on the financial statements of known misstatements are not confined to specific elements, accounts or items of the financial statements AND represent a substantial proportion of the accounts.

<u>Non-payroll operating expenses and payables</u>

We have reached this view as 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.

Continued overleaf

1. Headlines

Audit Opinion continued

Assets under construction

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.

Audit evidence

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Adverse opinion. In discussion with management, it has been agreed that it is not practical or possible to identify the actual error or gain sufficient assurance over the estimated errors (either through additional testing by ourselves or further analysis by management) to enable the accounts to be adjusted. We note that management will need to consider how to identify and make these amendments in future accounting periods.

Conclusion

Due to the material nature of the estimated errors our anticipated audit report opinion will modified and we anticipate issuing an adverse opinion due to the errors and estimated errors we have identified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. **Auditors are now required to report in more detail on the Trust's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.**

Auditors are required to report their commentary on the Trust's arrangements under the following specified criteria:

- Financial sustainability;
- Governance; and
- Improving economy, efficiency and effectiveness.

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified significant weaknesses in the Trust's arrangements and so are not satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report.

We have raised a key recommendation for each significant weakness. We consider that there are weaknesses in each of the core areas of financial sustainability, governance and improving economy, efficiency and effectiveness. Management has accepted and provided commentary against each recommendation setting out action already taken and further plans to address these key weaknesses.

Statutory duties

The National Health Service Act 2006 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

In 2019/20 we issued statutory recommendations to the Trust. The Trust received these and have continued to report progress to their Audit Committee which provides assurance back to the Trust Board.

We have also issued a section 30 referral to the Secretary of State for Health, reporting that the Trust has taken a course of action which will result in it breaching its duty to breakeven over a 3 year rolling period. We have also reported that the Trust does not have a plan to return to cumulative financial balance until 2027/28, and the Trust's failure to prepare accounts, Annual Governance statement, and Annual report for the year ended 31 March 2021 in accordance with the statutory timescale.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. Management have cooperated with the audit throughout the process.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff for their support during the audit. The audit process has been comprehensive and management have worked closely with us to resolve concerns and to provide the information we have needed to draw our conclusions.

1. Headlines

Impact of prior year opinion

Audit opinion 2019/20

Following the completion of our re-audit of the 2019/20 financial statements we issued a disclaimer audit opinion.
ISA 705 (Revised) - Modifications to the opinion in the independent auditor's report states

'The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.'

We reached this view as:

- there continued to be is a risk of material misstatement through error or intentional misstatement as a result of the undetected management override of control. The potential impact is pervasive to the financial statements
- there continued to be is a risk of material misstatement through error or intentional misstatement as a result of inadequate journal control. The potential impact was considered to be pervasive to the financial statements
- (to facilitate the restatement of the financial statements) management imposed a limitation of scope on the audit of income and expenditure including payroll. As such, we were unable to obtain sufficient appropriate audit evidence in these areas
- the Trust was unable to support in full its MEA valuation of its estate. It was concluded that a material error may remain in the valuation.
- we were unable to obtain appropriate audit evidence with regard to inventory due to the lack of sufficient appropriate evidence and our own inability to attend the stock take due to COVID 19 (in March 2020)
- we considered that material errors remained within the comparatives.

We considered that these issues impacted the Statement of Comprehensive Income (SOCI) , Balance sheet , Cashflow Statement , SOCITE and notes to the financial statements. As such, we considered that they were material and pervasive such that we are unable to form an opinion on the financial statements.

2020/21 audit

We have undertaken considerable work, including on opening balances in order to identify where we can place reliance on opening balances. Our work carried out on opening balances is detailed within this report under the relevant financial statement line item. Management has worked with us and the Trust has received support from NHSE/I and other external advisors.

Due to the issues identified in the prior year we have included qualifications (in the adverse opinion for 2020/21) with regard any 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 prior year comparatives and with regard to stock opening balances (as we were not able to attend the stock take due to COVID-19 measures being in place at the Trust).

2. Financial Statements

Materiality

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan presented to the Audit Committee.

We have revisited our materiality calculation throughout the audit process due to the protracted nature of this audit. We detail in the table on this page our determination of materiality for University Hospitals of Leicester NHS Trust.

	Group Amount (£)	Trust Amount (£)	Qualitative factors considered
Materiality for the financial statements	10,100,000	10,000,000	Materiality determined equates to approximately 0.8% of the Trust's total operating expenditure. In determining this percentage we have considered: - The nature of movements reported from planned budgeted position - The sector the Trust works within including debt arrangements and the business environment - Expectations from stakeholders and users of the financial statements - The Trust's own concept of materiality
Performance materiality	6,100,000	6,000,000	Performance materiality equates to 60% of headline materiality. In determining this percentage we have considered: - Errors and uncertainties identified in the prior year - Previous quality of working papers and responses to audit queries - The quality of financial systems and processes (including internal control components) - The nature of the Trust's income and expenditure streams.
Trivial matters	300,000	300,000	We are required to report any matters over £300,000 to the NAO as part of their consolidation process.
Materiality for Senior officer remuneration	100,000	100,000	We have set separate lower materiality levels for certain disclosures in the Remuneration Report. In view of the sensitivity of these disclosures to the reader of the report, we have set a materiality level of £100k in respect of the table of in-year remuneration, £250k for the cash equivalent transfer value disclosures of pension entitlement.
Materiality for work relating to CETV – pensions	250,000	250,000	

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management over-ride of controls (Trust only) Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Trust faces external pressures to meet the agreed targets, and this could potentially place management under undue pressure in terms of how they report performance. Management over-ride of controls is a risk requiring special audit consideration.	<u>Journals</u> **Background** In 2019/20 the Trust operated without appropriate journal controls. We concluded journals were an area of significant weakness and issued a disclaimer of opinion issued on the 2019/20 financial statements. Our interviews with staff in 2019/20 made it clear that the previous senior leadership team had requested the misstatement of the accounts, this was reported in our 'behaviours' report. A new senior finance leadership team was in place throughout 2020/21. The direction by the senior team throughout 2020/21 was to account appropriately (as evidenced by the Trust's improvement plan which includes ethics training for staff). No issues were identified with the behaviour or instructions issued by the current senior leadership team. We therefore concluded that the risk of management override of control and deliberate misstatement through the use of journals had reduced. However, we noted that appropriate journal controls had not operated for the first 8 months of the financial year increasing the risk of misstatement through error. We also noted that some employees who had misreported journals remained in the employ of the Trust. **Consideration of journal population** As part of initial audit procedures, the audit team carried out testing to ensure the journal population presented for audit was complete and had been appropriately extracted from the Trust's financial ledger. The journal population extracted was then analysed into sub-types and a detailed walkthrough completed to confirm whether manual intervention could occur for each of the journal sub-types identified. If, during the walkthrough, it was identified there could be manual intervention at any stage of processing ie not direct feeds from a subledger, these journals were identified as 'manual'. The remainder of the narrative within this section of the report details the work carried out on this manual journal population. We subsequently divided the population into journals posted by 'high risk' individuals, remaining journals posted in month 1-9 (before journals controls were operational, and remaining journals posted in month 10-12. We detailing our testing on the next pages.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Management over-ride of controls

Journals (continued)

Focus on named individuals

The audit identified several individuals as 'high risk' regarding the posting and processing of journal transactions. As such, specific testing on journal transactions posted by these individuals has been undertaken. Our analysis of the manual journal population highlighted that the majority of the individuals classified as 'high risk' did not post any journal transactions in 2020/21 . Two individuals did continue to post journal transactions in 2020/21. As such the following testing has been completed;

- all journals above £60k and a sample of the remaining journals below this level have been tested. This resulted in 226 journals out of 261 posted by these individuals being subject to testing across the year.
- we reviewed the untested value of journals relating to the individuals and conclude they are collectively below performance materiality.
- we considered whether other members of the finance could have been instructed others to post journals by these 'high risk' individuals. We have mitigated this risk by requesting all finance staff members to report whether they have been asked to post unusual journals. There has been a nil return in all cases which we consider provides a high level of assurance that no such instructions were issued.

Our testing identified one journal fail. The Trust have been unable to provide supporting documentation for the journal fail as the individual responsible has now left the Trust. The Trust has also been unable to retrospectively justify the transaction in full. We have challenged the Trust on this journal and the following response was given ' *A permanent creditor accrual of £631k has been entered in month 1 of 20/21 (April 2021) for disputed NHS invoices arising from the 19/20 agreement of balances exercise. The Trust excluded these from the 19/20 accounts but have provided 'prudently' for the payable items in month 1 in anticipation of having to pay them. This amount should have been released at year end (31 March 2021) as debit creditors and credit I&E as part of the AOB refresh. Instead, this has been moved from NHS creditors to Non-NHS creditors and remains a creditor as at 31 March 2021.* '

The audit team have considered whether this is an isolated error and whether there could be other undetected journals posted by this individual which would lead to error in the accounts. We have concluded that this is unlikely to result in a material error as:

we have challenged management on its view of the journal error and they have confirmed their view that this is an error rather than a deliberate misstatement
we have reviewed the residual value of postings by this individual and confirm that the journals untested are immaterial. As such there is no risk of material misstatement from journals posted by this individual
we have reviewed the General Ledger code where the error exists. We have not identified any other similar transactions
we have carried out a review of the Trust's Agreement of Balance exercise (which would identify material issues with regard to NHS creditors) and have not identified further issues.

We have therefore concluded that the journal was posted in error and is not an indication of deliberate misstatement, and that the risk of further material error from journals posted by individuals designated as 'high risk' is adequately mitigated.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Management over-ride of controls

Journals (continued)

Other testing
The Trust continued to operate without appropriate journal controls throughout the majority of 2020/21. The Trust did however, introduce a new process for authorisation of Journals in December 2020, as such, our journals risk assessment and subsequent testing was split into two periods, our testing in each period is summarised below:

Period 1 (months 1-9) where processes largely remained the same as 2019/20

For months 1-9 our risk scoring approach identified 21 journals for testing (1026 transaction lines). This is in addition to those individuals separately identified for testing above. We have not considered if journals have been appropriately authorized (given that we knew this control was not in place). Instead, we attempted to understand: the purpose and impact of the journal, if it has been agreed to supporting documentation, if we are satisfied the journal occurred, if the item has been recognised in the correct period, if it has been correctly classified, if there is evidence of fraud or error and if there is reasonable business rationale for the transaction.

Our testing did not identify any issues .

Period 2 10-12 where the Trust implemented additional authorisation controls.

For months 10-12, our risk scoring approach identified 24 journals (291 transaction lines) for testing. We took the same approach to these journals as to the month 1-9 process.

Our testing did not identify any issues .

Overall conclusion
Our sample testing of journals has not identified any matters that are indicative of management override of controls.

We note that there remains some risk of error due to the lack of journal authorisation controls in month 1-9. However, our sample testing does not indicate that this would be material.

Management over-ride of controls
Accounting estimates, critical judgement and accounting policies

We have also:

- Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We have no significant matters to report to you with regard to the Trust's accounting policies, accounting estimates, or critical judgements.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Revenue recognition We have concluded that there is also a risk of material misstatement relating to the occurrence and accuracy of income. The funding regime for 2020/21 differed significantly from that in the previous financial year. For patient care income nationally mandated block values applied from April 2020 to March 2021. Block contracts include CQUIN and commissioners have been instructed not to challenge the values or apply financial transactions. Top up and COVID funds have also been provided. Along with STP growth funds these are now considered to be contract income. This considerably reduces the risk relating to these forms of funding. In this environment, we have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue. We have rebutted this presumed risk for the revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price. We have determined these to be income from the block contract income element of patient care revenues , Top Up funds, and STF growth funding.. We have not deemed it appropriate to rebut this presumed risk for all other material streams of income including contract variations (should there be any), COVID income, education income, non patient service income, staff recharges and other income. We have therefore identified the occurrence and accuracy of these income streams of the Trust and the existence of associated receivable balances as a significant risk. These are one of the most significant assessed risks of material misstatement.	We have: • Evaluated the Trust's accounting policies for recognition of income from patient care activities and other operating revenue for appropriateness and compliance with the DHSC Group Accounting Manual 2020/21 and; • Updated our understanding of the Trust's system for accounting for income from patient care and other operating revenue and evaluate the design of the associated controls Patient Care Income - £1.069 billion • Using the DHSC mismatch report we have investigated unmatched revenue and receivables balances over the NAO £0.3 million threshold, corroborating the unmatched balances used by the Trust to supporting evidence; • We have agreed the items selected for testing to direct notifications/confirmations Income from patient care activities for the 2020/21 financial year is reported as £1,069m. Due to the change in the NHS funding regime in 2020/21 income testing was simplified as contract income is largely via block contract arrangements. We have been able to test £1.067 million of this balance via coverage. Leaving a residual untested balance below performance materiality. No errors have been identified within our testing. • We have evaluated the Trust's estimates and the judgements made by management with regard to corroborating evidence in order to arrive at the total income from contract variations recorded in the financial statements. Other Operating Revenue - £215 million • **Research and development - £36.1 million** We have completed sample testing of the balance and agreed to supporting evidence, such as contracts, and confirmed that income has been recognised in accordance with IFRS15. No issues have been identified from the work performed. • **Education and Training - £45.1 million** The Trusts LDA contract with Health Education England is £44.2m of the total Education & Training balance. We have therefore agreed the LDA income to the contract and year end confirmation of the total 2020/21 income from Health Education England. No issues identified and the residual untested population is below performance materiality.

2. Financial Statements - Significant risks

Commentary continued

Revenue recognition (continued)

Other Operating Revenue - £215 million continued

- **Non-Patient Care Services to Other Bodies - £5.8 million** - We have completed sample testing of the balance and agreed to supporting evidence, such as contracts, and confirmed that income has been recognised in accordance with IFRS15. No issues have been identified from the work performed.
- **Reimbursement and top-up funding - £62.3 million** - This balance has been tested in full and agreed to NHSE/I notification. No issues identified
- **Income in respect of employee benefits - £6.7 million** Prior to sample selection, an error of £2.926m was identified and as a result, the Trust revised the employee benefits figure from £6.697m in V2 of the accounts to £3.771m in V3 of the accounts. Sample testing has been carried out on the revised balance an no further issues have been identified. This has been reported as an adjusted misstatement in Appendix C
- **Receipt of capital grants & donations - £9.9 million** - We have completed sample testing of the balance and agreed to supporting evidence, such as contracts, and confirmed that income has been recognised in accordance with IFRS15. No issues have been identified from the work performed.

Charitable and other contributions to expenditure - £19 million. This balance relates to two transfers from DHSC, we have tested the figures in full by agreeing them to DHSC notifications. No issues identified.

Charitable fund incoming resources - £4.233 million. This relates to charity income which has been agreed to Charity signed accounts .No issues identified

Other Income - £29.629 million - We have completed sample testing of the balance and agreed to supporting evidence, such as contracts, and confirmed that income has been recognised in accordance with IFRS15. No issues have been identified from the work performed.

Conclusion

One error for £2,926k was identified relating to employee Benefit Income. The Trust have adjusted for this within its financial statements.

No other issues have been identified from our income testing and we are therefore satisfied that Other Income is materially correctly stated within the accounts.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Property, Plant and Equipment (Trust only) Revaluation of property, plant and equipment (in particular land and buildings) should be performed with sufficient regularity to ensure that carrying amounts are not materiality different from those that would be determined at the end of the reporting period. Additionally, the valuation is a significant estimate made by management in the accounts. We have identified the valuation of land and buildings revaluations and impairments as a significant risk.	We have : • Carried out testing on opening balances as at 1 April 2020 in light of the disclaimed opinion issued in 2019/20. We are satisfied that as land and buildings were subject to formal external valuation and we had reviewed and tested the valuation as at 1st April 2020 we could place reliance on land and building asset revaluations b/fwd • Evaluated management's process and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • Evaluated the competence, capabilities and objectivity of the valuation expert • Written to the valuer and confirmed the basis on which valuations were carried out • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • Devised a testing strategy, including testing all assets above performance materiality, assets with significant changes in assumptions, testing assets for which the movements were not in line with expectations and then testing and a judgmental sample of the residual population. This resulted in a sample of 101 assets (21 different buildings/land) with the value of £365,010,000. This represents over 75% of the Land and buildings balance within the financial statements • Tested the information and assumptions used in arriving at any revised valuations (including MEA assumptions). Our testing of the Trust's floor plans to the GIA used by Gerald Eve identified an overstatement on one floor area. This has resulted in an overstatement of assets by £675k. We have extrapolated this error across our population tested, which gives us an estimated error of £894k overstatement. We have reviewed the specifics of each error and have noted that this will impact the Revaluation Reserve, not the I&E reserve. (Error - Debit Revaluation Reserve £894k, Credit PPE £894k.) • Tested revaluations made during the year to ensure they have been input correctly into the Trust's asset register. We are satisfied that land and buildings closing balances are not materially misstated.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary

Operating Expenses (non-pay expenditure)
 	
Non-pay expenses on other goods and services represent a significant percentage of the Trust's operating expenses.
 	
In addition, management uses judgement to estimate accruals of uninvited costs.
 	
The 19/20 financial statements audit identified control deficient in relation to:
 	
• Accounting cut off- procedures for ensuring that expenditure is recorded in the correct financial year did not operate appropriately. As such 2019/20 expenditure was recorded in 2020/21
 	
• Unauthorised invoice register- the unauthorised invoice register allows invoices to be received but not recorded in the ledger. This is a fundamental control weakness and prevents effective oversight of the expenditure and payables position of the Trust.
 	
We there identified completeness of non-pay expenses as a significant risk
	We have :
	• evaluated the Trust's accounting policy for recognition of non-pay expenditure for appropriateness;
	• Gained an understanding of the Trust's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
	• Tested a sample of payment immediately prior to and after the year end to ensure that appropriate cut off has been applied, and therefore that the expenditure has been recognised in the correct period , no material issues have been identified
	• Carried out sample testing of the operating expenses balance as follows:
	
	Other operating expenditure - £385,054k
	
	We analysed the population by transaction type and carried out investigations to understand the nature of the populations involved. This resulted in a population split into two sub-populations, one relating to invoices/cashbook entries and the other relating to journals entries . The Trust process a significant number of journals in the year. This was also raised as a control point in 2019/20. From an operating expenditure perspective the journals are primarily correcting inaccurate postings or reclassifying expenses. The Trust were unable to fully cleanse the population for testing which has resulted in a significant sample. We are however, satisfied the appropriate level of testing has been carried out as follows:
	• Invoice/cashbook population: This is made up of £312.5 million debits and £13.2 million credits. We have tested 138 debits items and 7 credit items and have not identified any issues.
	• Journal entries population: This is made up of £399 million debits and £313.5 million credits. We have tested 163 debit items and 116 credit items. Our testing has identified 15 test fails, all of which are within the debit population. The main reason for the test fails include:
	    • 6 fails relate to samples where the Trust have nor been able to provide evidence to fully support the expenditure item being tested
	    • 5 fails relate to sample items where the Trust have accrued to a purchase order despite the purchase order amount being incorrect or despite the purchase order not entirely relating to the 20/21 financial year (this is a recurring issue that we have also identified within our GRNI, Non-NHS Payables and PPE additions testing).
	    • 4 fails relating to the incorrect treatment of VAT and accruals
	
	We have extrapolated these errors to give a projected misstatement of £7.4 million which is above performance materiality.
	
	Research & Development Expenditure of £19.6m – this has been sample tested separately. No non-trivial misstatements have been identified.
	
	Conclusion
	We have been unable to gain assurance over the journal entries included within non pay operating expenditure (net c£70m). We have also identified extrapolated misstatements of £8.550 million in Non-NHS Payables and £5.8 million within GRNI. This leads to a total projected error (overstatement) within payables of £14.350 million, which is material. We also do not have assurance over opening stock balances (as we were unable to attend the stock take due to COVID-19 measures). As such we cannot determine the impact on operating expenditure of any errors in the reported stock valuation.
	
	Due to the cumulative impact of these errors and uncertainties on non pay expenditure and payables we consider that both balances are materially misstated. We will modify our audit opinion due to these errors.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Inventory Our 2019/20 identified that adequate stock records were not maintained by the Trust for Pharmacy stock, materials management and pharmacy ward stock. The cumulative value of these inventory balances in the Statement of Financial Position was £6.75million at 31 March 2020. We also identified negative inventory balances, differences between individual stock sheets and the balances in the financial statements, and deficiencies in the Trust's stock taking procedures in the prior year, including management override of controls. Due to the issues identified we were unable to place reliance on management procedures relating to the existence and valuation of stock. The 2019/20 financial statement audit identified a control deficiency in that the Trust does not have appropriate arrangements in place for the management of stock, including its valuation and pricing. We have identified existence, completeness and accuracy of Inventory as a significant risk.	***Opening Balances as at 1st April 2020*** We were unable to gain assurance over inventories within our 2019/20 audit. The following was included within the 2019/opinion '*Due to the national lockdown arising from the Covid-19 pandemic we were unable to observe the counting of any physical inventories at the end of the year, which had a carrying amount in the Trust Statement of Financial Position of £18.1 million and the Group Statement of Financial Position of £19.6 million. In addition, we found that adequate stock records were not maintained for inventory balances relating to pharmacy stock, materials management and pharmacy ward stock, which equated to £6.75 million of this balance.*' Our audit opinion on the financial statements for the period ended 31 March 2020 was modified accordingly. Since opening inventories affect the determination of the results of operations, our opinion on the financial statements for the period ended 31 March 2021 will also be modified as we are unable to determine whether any adjustments to the Consolidated income and expenditure statement are necessary. ***Closing Balances as at 31st March 2021*** We have : • Gained an understanding of the Trust's system for accounting for inventory and evaluate the design of the associated controls; • obtained the Trusts year end stock balance summary and corresponding stock take sheets and confirmed that they agree to the figure disclosed within the accounts. • attended stock takes with year-end stock value of £7.596 million. We have tested a sample of stock items at each stock take attended and compared our count figure to the number of items included within the year end stock submission to finance. Our testing identified net variances between the number of stock items counted and the number of stock items reported on the year end stock sheet however these differences were trivial. Based on the stock takes attended, we are therefore satisfied that the stock balance in the accounts is not materially misstated due to inadequate stock take procedures. • Agreed a sample of inventory items to supporting documentation (e.g. invoices) to determine whether they have been costed correctly. We did identify minor variances however these are trivial issues and would not cause stock to be materially misstated • Identified that the year-end stock form for Cardiology includes consignment items with a value of £406k. Consignment stock is not an asset of the Trust and as such should be excluded from the inventory balance. This gives a total extrapolated misstatement of £2.2 million over the year end stock balance. Consignment stock is not present in all stock areas as for example will occur in areas such as cardiology and surgery (eg hip/knee replacements) This extrapolation across the full stock balance is a worst-case scenario and as such confirms inventory cannot be materially misstated for this issue. We are satisfied that the closing inventory balance is not materially misstated.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Non NHS receivables and Prepayments The 2019/20 financial statements audit identified control deficiencies in relation to prepayments. We identified errors in the recording of prepayments along with a number of items where there was an inadequate supporting information The 2019/20 financial statements audit identified control deficiencies in relation to the Trust's procedures for raising and authorising debtors. We have identified existence and accuracy of Non NHS receivables and Prepayments as a significant risk	**Receivables Testing** **Opening Balances as at 1st April 2020** During the 19/20 audit, the audit team conducted a significant level of sample testing across the various receivable account codes and identified the following non-trivial errors: Sales Ledger NHS Debtors - extrapolated overstatement of £905k identified, and Sales Ledger Debtors Non NHS. Extrapolated overstatement of £2,578k identified. To increase our assurance over the opening balance we carried out further testing on: - Sales Ledger NHS Debtors – no errors were identified - Sales Ledger Debtors Non-NHS – our top-up testing has identified an additional projected overstatement of £678k. All opening balances have been subjected to either testing via coverage or sample testing. In conclusion, we are satisfied that the receivables opening balances are not materially misstated. **Closing balances (£29m)** Contract receivables - We are satisfied we have completed appropriate sample testing and have not identified any risk of material misstatement. Allowance for impaired contract receivables - we have noted a control weakness that the Trust should review and cleanse their aged debtors more regularly. However, we have reviewed the bad debt provision and are satisfied that the provision is not materially misstated. **Prepayments** –We are satisfied we have completed appropriate sample testing and have not identified any risk of material misstatement. Other balances - We are satisfied we have completed appropriate sample testing and have not identified any risk of material misstatement. Completeness - our completeness testing we identified extrapolated misstatements of £537k within the cash receipts sample and £644k within the invoices raised sample (income not recognised in 2020/21). Both extrapolations are below materiality. We are therefore satisfied that receivables are not materially misstated.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Non NHS payables and goods received not invoiced (GRNI) The 2019/20 financial statements audit identified control deficiencies in relation to GRNI. A number of creditors in the GRNI listing were found to have already been paid. We have identified existence, and accuracy of Non NHS payables and GRNI and the completeness of Non NHS payables and significant risk.	**Our testing indicates that there are material errors in Non NHS Payables and Goods Received Not Invoiced balances. These are sub-analyses of note 4.1 providing by the Trust for the purpose of the audit.** **Non NHS payables £43.7 million** - We tested a sample of 34 credits (including 6 key items) and 14 debits (including 4 key items). Our testing has identified 9 fails (as summarized below): • One of the fails was due to no evidence being provided. • Five fails were due to the Trust accruing to a purchase order value where the purchase order amount was incorrect or the purchase order did not entirely relate to the 2020/21 financial year. This issue has also been identifies as a deficiency across the audit in areas such as GRNI, OpEx & PPE additions testing. We have therefore conclude this is a pervasive issue across these headings. • One fail related to a transaction that had been correctly classified as a prepayment in the 2019/20 financial year, however when the invoice was received in 2020/21, the prepayment was not reversed, the impact being both debtors and creditors are overstated within the 2020/21 accounts by £1.3 million (note that this will not impact on the I&E). • Two fails related to an accrual for catering orders that had not been invoiced. The Trust have confirmed that they have not received any subsequent invoices against M7 catering costs and that these accruals have been reversed in the 2021/22 financial year. • One fail relates to an accrual for expected monthly costs on various contracts, the Trust have provided a breakdown showing that £17k of the accrual related to maintenance contracts that have never been paid as the Trust no longer used the service. To gain assurance over the accrued balance that the Trust had classified as paid, we selected the two largest items to test, however the Trust were unable to provide any evidence to support these costs or payments. We extrapolated the results of the above testing and have a projected misstatement within Non-NHS payables of £8.6m (£7.2 million impacting on non-pay operating expenditure). **GRNI Testing £12.8 million** - Due to the nature of the population (large number of low value items) this initial sample covered less that 5% of the population, we therefore selected an additional top-up sample of 10 items using coverage. Our testing identified a large number of 'fails', these fails were due to the Trust using purchase orders as a proxy for GRNI and accruing to the purchase order amount. This has caused issues as in some cases no invoices were received against some purchase orders, in other cases the invoices received against the purchase order did not agree to the purchase order amount, and in other cases the purchase orders did not fully relate to the 2020/21 financial year (e.g. the PO related to a 2 year project but the full expense had been accrued in 20/21). We therefore discussed these issues with the Trust and discussed whether it was possible to review and restate the GRNI balance. The Trust's review identified a £2 million error within the population. The audit team also identified £307k of items older than 12 months within the GRNI listing which were unlikely to be relevant. The updated population for testing was therefore £10.5 million. A revised sample was selected. The results of this testing identified that errors remained in the population. We estimate that the remaining error is £3.5 million. The total estimated error for GRNI is therefore £5.8m . **Conclusion** - We have identified extrapolated misstatements of £8.6 million in Non-NHS Payables and £5.8 million within GRNI. This leads to a total projected error (overstatement) within payables of £14.3 million, which is material. We will qualify payables and non pay expenditure due to these errors and that we consider this is a pervasive issue.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Other Operating Income- Other Income £29.629m Cumulative knowledge of issues identified within prior year audits. We have identified the occurrence and accuracy of Other income as a significant risk	We have : • Gained an understanding of the Trust's system for accounting for other income and evaluated the design of the associated controls; • Tested, on an elevated sample basis items included within this account balance to source documentation; • Reviewed procedures the Trust has undertaken to address identified control deficiencies • carried out sample testing of the balance and agreed to supporting evidence, such as contracts, and confirmed that income has been recognised in accordance with IFRS15. No issues have been identified from the work performed. See details on pages 12-13
Other Operating Income- research and development £ 36.1m Cumulative knowledge of issues identified within prior year audits including income not being accounted for in accordance with IFRS 15 **We have identified the occurrence and accuracy of research and development as a significant risk**	We have : • Gained an understanding of the Trust's system for accounting for research and development income and evaluated the design of the associated controls; • Tested, on an elevated sample basis items included within this account balance to source documentation; • Reviewed procedures the Trust has undertaken to address identified control deficiencies • Carried our sample testing of the balance and agreed to supporting evidence, such as contracts, and confirmed that income has been recognised in accordance with IFRS15. No issues have been identified from the work performed. See details pages 12-13.

2. Financial Statements – Other risks

Risks identified in our Audit Plan	Commentary
Senior Officer's Remuneration	We have : • Gained an understanding of the process used for recording Senior Officer Remuneration and evaluated procedures; • Agreed, on a sample basis, entries in the remuneration report to payroll evidence and pension disclosures. No issues have been identified in our testing.

2. Financial Statements – other testing

The following testing has been carried out in areas not identified as significant risks.

Property, Plant and Equipment

The valuation of land and buildings has been identified as a significant risk – our work in this areas is detailed on page 14. Our findings relating to other balances and assertions are set out below.

Existence and Rights & Obligations

We selected a sample of Property, Plant and Equipment included in the asset register and requested evidence to confirm that the asset physically exists . The Trust could not identify 15 assets out of the sample selected, which give the following projected misstatements:

Buildings: £3,070k
Plant & Machinery: £9,377k
Assets under construction: £126k
Information Technology: £9,486k
Furniture & Fittings: £615k

Conclusion - we propose to qualify on the existence, rights and obligations of plant and machinery and IT assets. We do not consider that this is a pervasive issue or that the land and buildings valuation is materially misstated.

PPE Additions

We have carried out sample testing of the Property, Plant and Equipment additions balance within the financial statements.

Our testing has identified 9 fails, all of which are within the debit population. The fails identified all relate to the following two issues:

- Capitalised Salaries where the Trust have been unable to provide sufficient evidence to support the capitalisation.
- Accruing to purchase order amounts where the subsequent invoices received against the purchase order are for a lower amount or do not fully relate to the 2020/21 financial year. (Note that this is an issue that has also been identified within our Payables & Opex testing).

We estimate that additions are overstated by c£10m. This will form part of our qualification of plant and equipment.

PPE Disposals
This balance is below performance materiality and as such we have not carried out detailed testing of the balance. We have, however, considered whether our testing of additions indicates any potential disposals which have not been accounted for as replaced. The team is also not aware of any significant disposals of assets at the Trust.

2. Financial Statements – other testing

Property, Plant and Equipment (continued)

Depreciation
We have tested depreciation as part of the depreciation substantive analytical procedures. We are satisfied the variance from expectation of £2.4m is within our acceptable threshold and we are therefore satisfied that it is not materially misstated. We note that the SAP estimate is appropriate for land and buildings as we have conclude that the revaluations and year end estimates are appropriately stated. For plant, equipment etc. the depreciation balance could be impacted by the existence issues identified with these balances . This forms part of our qualification of operating expenditure and closing balances for these assets.

Assets Under Construction
Reclassifications - £12.140m – We tested a sample of 7 items, totalling £8.8m (73% of the population). We did not identify any errors and are satisfied reclassifications are appropriate. Our testing however did identify a control weakness . The Trust does not perform formal sign offs of completed capital projects held within AUC or document meetings discussing completion of assets. Spend that generally relates to additions was held in AUC codes 2580 (GH Backlog (2019/20)) and 2579 (LRI Backlog (2019/20)) at 2019/20 year end as it was not clear which buildings the spend related to. These should have been held in an additions code and is a classification error.

Closing Balance: The fair value of assets under construction represents 8 per cent of the Property, Plant and Equipment. The balance includes: i) £7.0 million of capital additions that are also included in the fair value estimation of property and ii) £6.0 million of capital additions for properties that were completed as at 31 March 2021 and which should have been revalued and then reclassified to land and buildings. The balance also includes additions which are overstated due to inadequate controls over the GRNI and accruals processes (see earlier). We have concluded that that Assets under Construction are materially overstated and if adjusted would materially reduced the Property, Plant and Equipment balance and associated. The cumulative extrapolated is material)£20.135 million. This forms part of our modified opinion.

Useful Economic Lives
The maximum useful economic lives used by UHL is high in comparison to other NHS Trusts however we deem it to be within a reasonable range.

We have identified assets within Plant & Machinery, Furniture & Fittings and Transport equipment which are carried above the maximum useful life as per UHL's policy with a NBV of zero. The trust are unable to confirm whether these assets are still in use due to a lack of asset verification (note that this was also a control issue in the prior year audit). All of the fails identified are on full depreciated / £0 NBV assets. As such there is no effect on asset values or depreciation charges, however we have noted the control points which we will report in the AFR.

2. Financial Statements – other testing

Property, Plant and Equipment (continued)

Conclusion
We have identified material errors relating to:

- Existence and Rights & Obligations – We have identified an extrapolated error of c£22.5m relating to existence. £3m of this error relates to a lease included within buildings, we have no similar errors on buildings and so would not propose to issue a qualification re this matter. The remaining £19.5m relates to plant and equipment. We note that this in an uncertainty due to lack of evidence rather than misstatement, but we will need to issue a qualification with regard to this matter.

- PPE Additions – We have identified a material extrapolated misstatement of £10.562 million. The misstatements identified are due to insufficient evidence to support capitalised salaries and a control issue in which the Trust accrue to purchase orders (which overstates expenditure). These are embedded control weaknesses at the Trust that we have identified in prior year and/or within our testing of other areas of the accounts. We therefore do not believe that increasing our testing will reduce this misstatement to an appropriate level. We propose to:
  - Qualify the disclosure note re additions
  - Qualify assets under construction as additions are material (£45m)
  - We have considered whether the error in additions impacts on land and buildings and concluded that it does not as (1) the assets have been subject to a year end valuation, (2) additions on land is £0, (3) additions on buildings is not material. As such any impact could not be material.

- Assets Under Construction – We have identified a material extrapolated error within the AUC closing balance of £20.135 million. We propose to issue a qualification on this balance as it contains costs that will already have been taken account of in the valuation of buildings c£10m and it contains completed assets that should have been transferred to buildings and revalued.

In summary:

- Land and property closing balance and related additions – no qualification proposed
- AUC closing balance and related additions – qualification proposed
- Plant, equipment, etc existence and additions – qualification proposed

2. Financial Statements – other testing

Non-current assets held for sale - £10.1 million

Opening Balances as at 1st April 2020
No assets were classed as held for sale in the 2019/20 financial year

Closing Balances as at 31st March 2021
The 2020/21 closing balance relates to one asset that was sold on 1st April 2021. We have tested the asset in full and are satisfied that the treatment is correct.

Conclusion
We are satisfied that non-current assets held for sale are not materially misstated within the 2020/21 accounts.

Cash and cash equivalents

Opening Balances as at 1st April 2020
We agreed the cash balance at 1st April 2020 to third party evidence from external bank letters, along with additional procedures for reconciling items within our 2019/20 audit testing. No issues were identified from our testing and we therefore have assurance over the cash opening balance.

Closing Balances as at 31st March 2021
We have carried out the following procedures;
Cash held at commercial banks and in hand totals £46k and relates to relates to petty cash balances across the trust. We have not carried our any further testing on this balance.

Cash with the Government Banking Service £99.7 million. We have agreed the year end balance to direct third party notification and carried out appropriate procedures on the Trust's year end bank reconciliation.

Bank overdrafts (£12.1 million) We have obtained third party notification and carried out appropriate procedures on the Trust's year end bank reconciliation, including the review and testing of reconciling items.

Conclusion
We have agreed the cash balance to third party direct notifications and tested a sample of any non-trivial reconciling items and have not identified any issues. We are therefore satisfied that cash and cash equivalents *are not materially misstated within the 2020/21 accounts.*

2. Financial Statements – other testing

Trade payables – £122.3 million

We have reported some of our findings earlier In addition we tested:

Opening Balances as at 1st April 2020
We have reviewed the payables balance as at 1st April 2020 and considered whether additional audit procedures were required in order to place reliance on the opening balance. Our 2019/20 audit identified the following errors:

- NHS Reserved Creditors £13 million: - Extrapolated overstatement of £2.3 million identified.
- Pharmacy system creditors £4.9 million - Extrapolated overstatement of £1.2 million identified.
- Goods Received Not Invoiced (GRNI) £10.3 million: - Extrapolated overstatement of £618k identified.
- Completeness Testing: Extrapolated understatement of £2 million identified

We have tested an additional sample of each balance and concluded that we had sufficient assurance over NHS Reserved Creditors and Reserved Creditors (non-NHS). We selected an additional sample GRNI balances but were unable to agree sample items to source documentation. We therefore concluded that we did not have sufficient assurance over the GRNI opening balance.

Closing Balances as at 31st March 2021
We tested:

- **NHS Payables £24.1 million** - We have tested a sample of 12 credits (including 6 key items) and 5 debits. We have identified one error within the key item population, in which a payable has been overstated by £445k. This error was part of the key item population and is therefore taken as an actual error. No other issues have been identified and we are therefore satisfied that NHS payables are materially correctly stated within the accounts.
- **Non NHS Payables £43.7 million (identified as significant risk)** – see testing under significant risks. We consider that the balance is overstated by c.£8.6m .
- **Payroll Payables £5.9 million** – This balance has been tested in full. We are therefore satisfied that payroll liabilities have been correctly stated within the accounts.
- **GRNI Testing £12.8 million (identified as significant risk)** - see testing under significant risks. We consider that the balance is overstated by c.£5.8m .
- **Annual Leave Accrual £9.8 million**- This balances has been tested and no issues have been identified
- **Completeness** – Within our completeness testing we have identified an extrapolated misstatements of £467k within the cash payments sample and £234k within the invoices received sample. Both extrapolations are considerably below performance materiality.

Conclusion
We have identified extrapolated misstatements of £8.6 million in Non-NHS Payables and £5.8 million within GRNI. This leads to a total projected error (overstatement) within payables of £14.3 million, which is material. We will qualify payables and non pay expenditure due to these errors and that we consider this is a pervasive issue.

2. Financial Statements – other testing

Borrowings (current) - £18.6 million

Opening Balances as at 1st April 2020

We have considered testing carried out as part of the 2019/20 audit and whether this remains appropriate. Our 19/20 work provided assurance over this balance following the adjustments and reclassifications that were identified as part of our audit testing and amended in the final accounts. The Trust has adjusted the classification between current and non-current borrowings. This balance relates to Government borrowing, bank overdrafts and lease transactions which have gone up overall primarily due to eQuip coming onto the balance sheet but adjusted to align with the accounting models. They have also included the Haemodialysis Lease which had previously been omitted. Lease liabilities were verified back to the accounting model. We are satisfied that opening balances are not materially misstated.

Closing Balances as at 31st March 2021

We have carried out the following audit testing:

- Bank overdrafts £12,167k - Tested as part of cash (see details within the cash section above). No issues noted.
- Obligations under finance leases £6,481k – The Haemodialysis lease had been omitted from the 20/21 draft financial statements. As in appendix C, the Trust have now adjusted for this to increase the Current obligations under finance leases to £7,089k. Our testing is now complete and we have assurance in the form of coverage over the leases balance within the financial statements.

We are satisfied that closing balances are not materially misstated.

Borrowings (non-current) - £7.5 million

Opening Balances as at 1st April 2020

We have considered testing carried out as part of the 2019/20 audit and whether this remains appropriate. Our 19/20 work provided assurance over this balance following the adjustments and reclassifications that were identified as part of our audit testing and amended in the final version of the 2019/20 financial statements. The Trust has adjusted the classification between current and non-current borrowings. We are therefore satisfied we can place reliance on opening balances as at 1st April 2020. We are satisfied that closing balances are not materially misstated.

Closing Balances as at 31st March 2021

Obligations under finance leases - £7.5million - The Haemodialysis lease had been omitted from the 20/21 draft financial statements. As in appendix C, the Trust have now adjusted for this to increase the Current obligations under finance leases to £12,073k. Our testing is now complete and we have assurance in the form of coverage over the leases balance within the financial statements.

We are satisfied that closing balances are not materially misstated.

2. Financial Statements – other testing

Provisions- £21.7 million

Opening Balances as at 1st April 2020
We have reviewed the provisions balance as at 1st April 2020 and considered whether additional audit procedures were required in order to place reliance on the opening balance.

We have considered testing carried out as part of the 2019/20 audit and whether this remains appropriate. Our 2019/20 work provided assurance over this balance following the adjustments and reclassifications that were identified as part of our audit testing and amended in the final accounts. We are therefore satisfied with the opening balances as at 1st April 2020.

Closing Balances as at 31st March 2021

The total balance for provisions at per version 2 of the financial statements is £21.7 million. We have tested this balance via coverage and have not identified any issues. The provisions balance is made up of the following specific balances:

• Pensions: early departure costs	£2.2 million
• Pensions: injury benefits	£1.1 million
• Clinician tax reimbursement	£2.9 million

Included within the other balance are the following:

• Section 106 monies	£2.2 million
• IBM VAT	£6.4 million
• MES VAT provision	£1.9 million
• Commercial Trials provision	£1.7 million
• Other balances, in total below PM	£3.3 million
Total	£21.7 million

The Trust identified an error regarding the processing of the Flowers provision. This adjustment has now been processed and has increased the provisions balance by £1.237m.This has been reported as an adjusted misstatement.

We have considered the linkage between provisions and payables and whether there could be cross-cutting errors. However, we note that the provisions are not derived from the purchase ledger system/accruals process or GRNI system . We have therefore concluded the issues identified within the payables balance is not relevant to provisions.

We are satisfied that provisions are not materially misstated.

2. Financial Statements – other testing

Deferred income (other liabilities) - £2.975 million

Opening Balances as at 1st April 2020

We have reviewed the deferred income balance as at 1st April 2020 and considered whether additional audit procedures were required in order to place reliance on the opening balance.

We have considered testing carried out as part of the 2019/20 audit and whether this remains appropriate. Our 2019/20 work provided assurance over this balance following the adjustments that were identified as part of our audit testing and amended in the final accounts.

Closing Balances as at 31st March 2021
We have tested the 3 largest items within deferred income, which leaves a residual untested balance of £134k, which is trivial. Our testing has identified one error relating to £798k of R&D deferred income that we classed as an error during the 19/20 audit. The Trust had not removed this within the 20/21 V2 draft accounts. We have now obtained the V3 draft accounts and confirmed that this has been correctly removed. This has been reported as an adjusted misstatement in Appendix C.

We are satisfied that deferred income is not materially misstated within the 2020/21 accounts.

Public Dividend Capital (PDC) - £742.817 million

Opening Balances as at 1st April 2020- We are able to place reliance on 3rd party external confirmations to substantiate the opening balance as at 1st April 2020
Closing Balances as at 31st March 2021 - We have verified the balance to third party evidence from NHSE/I. We have full assurance over both the opening and closing balance of PDC.

Revaluation Reserve

Closing Balances as at 31st March 2021 - We gained assurance over the opening balance within our 2019/20 audit testing. We have tested in year movements as part of our PPE revaluations testing and have not identified any issues. We are therefore satisfied that the revaluation reserve is not materially misstated.

Income and expenditure reserve

Management imposed a limitation of scope on income and expenditure in 2019/20 and as such we were not able to re-audit the restated balances. We do not therefore have surety over the opening balance for this reserve. Due to the estimated errors in payables and operating expenditure we consider that the recognised surplus in 2020/21 is materially misstated.

2. Financial Statements – other testing

Pay costs - £776 million

Our work has consisted of:

- ***revisiting our audit work in 2019/20 to identify whether we are able to bring forward assurance. We have concluded that we are able to rely on the* 2019/20 Payroll Substantive Analytical Review procedures (which indicate and** overall variance to expectation of £1.9m)
- we were are also satisfied appropriate reconciliations have taken place to agree the value per the accounts to the underlying payroll system values. [Note the primary issue reported with payroll in 2019/20 was with regard to the additional items of pay expense outside of the payroll system. For example, recharges from the University of Leicester processed as journals
- Payroll Substantive Analytical Procedure (SAP) 2020/21 – We have completed the payroll SAP and have obtained adequate explanations for all variances identified above our acceptable threshold. As part of this testing we have agreed a sample of starters and leavers to source documentation.
- Agency costs We have selected a sample of non pay costs (e.g. agency) to test. An extrapolated overstatement of £2.060m has been identified.

We had planed to place reliance on the controls operated by the service organisation (Equinti) that the Trust use to process payroll. We therefore requested a service auditors report. This report was not received until mid August. On review we identified that the SAR excluded assurance over NHS clients. We therefore determined that further audit procedures were required procedures before we could conclude on this balance.

We have carried out an Enhanced walkthrough of 25 payments to individuals. This has involved the review and agreement of gross pay to source documentation such as the ESR system and timesheets for additional hours worked. Deductions of PAYE, National Insurance and Pension costs have also been tested from both an employee and Employer perspective.

No issues have been identified in the additional procedures carried out.

2. Financial Statements – Key findings arising from the group audit

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Our work group components is substantially complete. Our findings are summarised below.

Component	Individually Significant?	Approach per Audit Plan	Findings
University Hospitals of Leicester NHS Trust	Yes	Full scope UK statutory audit performed by Grant Thornton UK LLP	See section 2 of this report
Leicester Hospitals Charity	No	Full scope UK statutory audit performed by Grant Thornton UK LLP	No issues identified.
Trust Group Holdings Limited	No	Full scope UK statutory audit performed by Grant Thornton UK LLP	No issues identified.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land, Building and Dwelling valuations (including assets held for sale) – £493.784m	Other land, buildings and dwellings comprises £475.180m of specialised assets such as 3 hospital sites, which are required to be valued at depreciated replacement cost (DRC) at year end, on a modern equivalent asset basis. Management have determined the amount of space and location required for ongoing service delivery in the light of their current and projected service needs and have instructed the valuer accordingly. The remainder of land and buildings with a value of £8.504m, are not specialised in nature and are required to be valued at in existing use in value (EUV) at year end. Assets held for sale were also measured at market value (MV) for £10.1m The Trust has engaged with Gerald Eve to complete a full valuation of properties and land as at 31 March 2021. 100% of total land, buildings and dwellings were revalued at 31 March 2021. The revaluation of properties has resulted in a net increase of £4.751m.	We have: • deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of estimates, which included understanding methods, assumptions, and data used; • assessed the competence, capabilities and objectivity of the valuation expert used by management; • determined the completeness and accuracy of the underlying information used to determine the estimate; • considered the appropriateness of any alternative site assumptions; and • considered the movements in valuations of individual assets and their consistency with market data. Findings In our testing of the Trust's floorplans to the GIA used by Gerald Eve, we have noted that assets have been overstated by £675k. We have extrapolated this error across our population tested, which gives us an estimated error of £894k overstatement. Overall, we are satisfied that land, building and dwelling are not materially misstated.	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation	Depreciation of £ 34.235 million has been changed in the financial statements. Items of property, plant and equipment are depreciated over their remaining useful lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated. For buildings and dwellings the useful economic lives are set by the Trust's external expert valuers. For medical equipment the Trust are advised of the useful economic lives by the internal medical physics department which is responsible for the overall management of this equipment. For other equipment the Trust make an assessment of the useful economic lives in a number of ways including reference to the manufacturers' recommendations or by a review of external sources including NHS capital guidance.	We have: • deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of estimates, which included understanding methods, assumptions, and data used; • determined the completeness and accuracy of the underlying information used to determine the estimate; • carried out substantive analytical procedures Findings We have tested depreciation changed within the financial statements via substantive analytical review. No issues have been identified from our testing. Overall, we are satisfied depreciation changed in the financial statements is not not materially misstated. However, we note that depreciation is charged on plant and equipment. Due to the uncertainty over the existence of plant and equipment this may impact the depreciation charged. This forms part of our qualification of operating expenditure and closing balances for these assets.	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Year end provisions and accruals	Accruals - £74.5 million The majority of our accrued expenditure relates to invoices received which have not yet been posted to the Trust's position. Other estimated expenditure accruals are made where the Trust have incurred expenditure during an accounting period but are yet to receive an invoice. There is a degree of uncertainty in relation to these accruals until the invoice is received, although the bulk of such expenditure is expected to be settled at a value which approximates the accruals. Most of the accruals relate to invoices and charges which are expected to be settled at a value approximating the accrual. The exception is the accrual for annual leave not taken of £9.7m, which will be realised by staff taking their leave, rather than being paid in cash Provisions - £21.7 million The Trust recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount	We have: • deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of estimates, which included understanding methods, assumptions, and data used; • determined the completeness and accuracy of the underlying information used to determine the estimate; • reviewed after date information regarding the relevant accrual or provision • engaged with VAT specialist team regarding VAT provision Findings Accruals - We have identified extrapolated misstatements of £8.6 million in Non-NHS Payables and £5.8 million within GRNI. This leads to a total projected error (overstatement) within payables of £14.3 million, which is material. Provisions – our findings are detailed in full on page 27. No issues have been identified. Overall, we are not satisfied payables are fairly stated. We will qualify payables and non pay expenditure due to these errors and that we consider this is a pervasive issue. We have not identified any issues in relation to provisions.	Light Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Credit loss and impairment allowances	The Tryst apply IFRS9 to their receivable balances at the year end. This requires the Trust to establish an allowance for credit losses based upon their assessment of the likely recoverability of the outstanding debt in future. Provision for Non NHS bad debts is made on an expected loss basis, using appropriate historical analysis undertaken in calculating these, to minimise the estimation uncertainty, which is in line with NHS Group Accounting Manual Guidance. Injury Cost Recovery (ICR) bad debt provision is accounted for in line with national guidance (22.43% of total ICR debtors)	We have: • deepened our risk assessment procedures performed including understanding processes and controls around the identification and determination of estimates, which included understanding methods, assumptions, and data used; • determined the completeness and accuracy of the underlying information used to determine the estimate; • considered after date information regarding debt recovery Findings We are satisfied judgements made are in line with our expectations, other NHS Trusts and DHSC guidance. Overall, we are satisfied that credit loss and impairment allowances are not materially misstated.	Light Purple

Changes to audit procedures as communicated in Audit Plan

Included in the Audit Plan presented to Audit Committee we stated we would complete procedures regarding the valuation of defined benefit net pension liability. This is not required as past and present employees are covered by the provisions of the two NHS Pension Schemes. Both schemes are unfunded, defined benefit schemes that cover NHS employers, general practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. The scheme is not designed in a way that would enable employers to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as though it is a defined contribution scheme: the cost to the trust is taken as equal to the employer's pension contributions payable to the scheme for the accounting period. The contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the operating expenses at the time the trust commits itself to the retirement, regardless of the method of payment.

Assessment

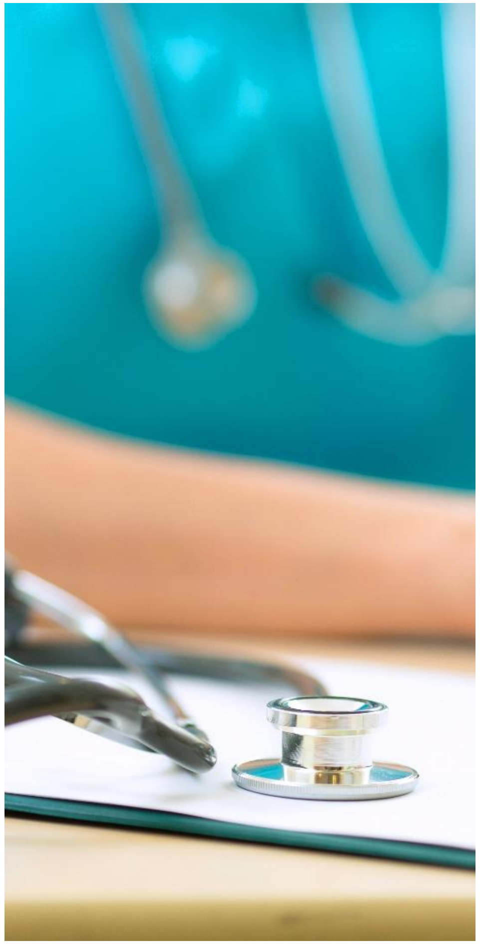
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Trust, which is appended to this report.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation request to the Trust's Bank. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Trust's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements, we did however identify some inconsistency in the application of accounting policies in relation to the impairment of receivables. A recommendation has been raised in appendix A.
Audit evidence and explanations/ significant difficulties	The audit of the 2020/21 financial statements has taken a number of months. Initial working papers were provided to the audit team on 23rd December 2021. There have been marked improvements in the quality of both the draft financial statements presented for audit and the quality of supporting working papers. This is highlighted by the audit team receiving 3 versions of the 2020/21 financial statements compared to 15 versions during the 2019/20 audit. We have received full co-operation from the Trust with regard to information requests and a positive working relationship has been maintained throughout. We have held scheduled meeting (3 times per week) with the Trust's finance team to ensure any bottlenecks or accounting issues could be tackled efficiently. The improvements made by the Trust are positive. Further progress will be needed for future years to address the following matters: • The Trust developed quality control procedures following the issues identified with the quality of evidence being provided to the audit team during the 2019/20 audit . This process has improved however there were a number of occasions where working papers had to be returned to the Trust. This directly impacted on the elapsed time to complete audit procedures and the overall efficiency of the audit . In some circumstances evidence could not be provided, as such these particular test items would be marked as a test 'fail' • The Trust has a small number of key staff who have been main contacts throughout the audit process. On a number of occasions such a limited pool of contacts coupled with other reporting duties of staff during the audit period caused delays in the audit process to the extent that the audit was paused to allow the trust to revisit its internal resourcing arrangements • As part of our audit procedures and importantly for the Trust's internal assurances we sought assurance in the form of a service auditors report in relation to the Trusts Payroll Provider (Equiniti) A report was produced however this explicitly stated it did not cover NHS clients. As such further audit procedures have been required and are currently still in progress. Recommendations have been raised regarding the above points in Appendix A

2. Financial Statements - other communication requirements

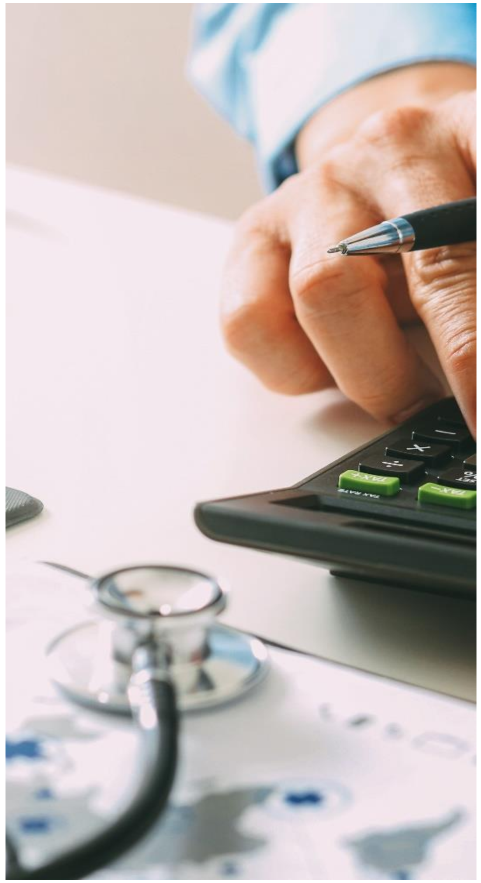
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Trust's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Trust meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Trust and the environment in which it operates • the Trust's financial reporting framework • the Trust's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E
Auditable elements of Remuneration Report and Staff Report	We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the Act, directed by the Secretary of State with the consent of the Treasury. We have audited the elements of the Remuneration Report and Staff Report , as required by the Code. We found no issues.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: - the Annual Governance Statement does not meet the disclosure requirements set out in the NHS foundation Trust Annual reporting manual 2020/21 is misleading or inconsistent with the information of which we are aware from our audit. We have no matters to raise in this area. - the information in the annual report is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit, or otherwise misleading. We have no matters to report in this area - if we have applied any of our statutory powers or duties. We issued a S30 report to the Secretary of State on 26 August 2022 highlighting that that Trust had not met its duty to breakeven and had not produced its accounts in line with the deadline set by the Secretary of State - where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weaknesses. We have reported further detail on page 40 and 41 of this report.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Review of accounts consolidation schedules and specified procedures on behalf of the group auditor	We are required to give a separate audit opinion on the Trust accounts consolidation schedules and to carry out specified procedures (on behalf of the NAO) on these schedules under group audit instructions. Due to the delay in undertaking the audit, we liaised directly with the NAO in January 2022 to provide appropriate information to enable them to sign the Consolidated NHS Provider accounts. We have not undertaken the full procedures required as our work has concluded after the NAO has completed its work. We highlighted key risks and the impact of the 2019/20 disclaimed opinion on our testing, specifically the opening balances (comparators). The NAO were satisfied with the information provided.
Certification of the closure of the audit	We intend to certify the closure of the 2020/21 audit of University Hospitals of Leicester NHS Trust in the audit report (see separate opinion).

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Trust's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. As part of our work, we considered whether there were any risks of significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified significant weaknesses in the Trust's arrangements and so are not satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code.

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness, see page 10 for more details.	We reviewed and analysed: • The make-up of the Trust's underlying deficit, including the Drivers of the Deficit analysis. • The Trust's in-year financial performance • The adequacy of the Trust's financial planning in FY20/21 and FY21/22. • The robustness of the medium-term financial plan and how the Trust's recovery is planned.	The Trust delivered a surplus of £52.2m during FY20/21 as a result of lower activity levels and additional funding due to the pandemic. It has undertaken substantial work to improve its financial information and reporting and has a better understanding of its financial position. The size (£109m) and the lack of a fully worked up plan to address the underlying deficit means that this remains a significant risk.	Area of significant weakness with key recommendation raised.
Governance was identified as a potential significant weakness.	We reviewed and analysed: • The Trust's risk management framework and processes, incl. internal audit's annual opinion. • The implementation of new financial and governance controls introduced during the year. • The FY20/21 Board and Committee minutes and papers to access the strength of challenge. We interviewed Board members and management to understand their impressions of governance.	The Trust has improved its governance, introduced effective controls, changes in finance and wider culture. The Trust is still delivering its Financial Governance Improvement Plan. There remain weaknesses in CMGs' understanding of financial responsibilities, line of sight from CMGs through to Board, reporting in an integrated manner and the transition from the current interim arrangements to longer-term sustainable financial management and governance.	Area of significant weakness with key recommendation raised.
Improving economy, efficiency and effectiveness was identified as a significant weakness, a more detailed review was undertaken.	We reviewed and analysed: • The Trust's understanding of its cost position. • Other non-financial information the Trust used to monitor and benchmark its performance. • The 2020/21 CIP tracker. • The procurement and contract management arrangements to secure value for money	The Trust is unable to accurately measure how potentially economic and financially efficient it is. Analysis indicates that the Trust has a significant efficiency opportunity of c£70 million. There are also significant issues in its procurement and contract management arrangements.	Area of significant weakness with key recommendation raised.
COVID-19	We reviewed and analysed: • The Covid-19 impact on governance and internal controls, its performance, delivery of services and finances and its plan to return to BAU.	The Trust adapted and made appropriate changes to governance arrangements in response to the Covid-19 pandemic. The arrangements were defined nationally, and the Trust's arrangements were broadly in-line with others.	Appropriate arrangements in place.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2019 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. No non-audit services were identified which were charged from the beginning of the financial year to August 2022.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report (grantthornton.co.uk)

Appendices

A. Action plan – Audit of Financial Statements

We have identified 8 new recommendations for the Trust as a result of issues identified during the course of our audit however some of the control recommendation from the 2019/20 audit have not been implemented by the Trust, therefore are still applicable in 2020/21, as documented in Appendix B. We have agreed our recommendations with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	(REC #1) Application of accounting policy The Trusts accounting policy per note 1.7 is to apply a 60% provision to all OSV debts over 3 months old, however in calculating the provision they have also applied a 60% provision to all OSV debts 0-3 months old, which is not in line with the accounting policy. Whilst the impact of this is trivial (£210k) on the actual bad debt provision figure, this does demonstrate a control weakness in the application of accounting policies.	The Trust should review the applicable of its accounting policies in the area of impairment of receivables and ensure the accounting treatment is consistent with that policy. **Trust response August 2022** Agreed. This will be included in acted upon within an Internal Controls Improvement Plan.
High	REC #2) The Trust has made a number of improvements regarding its financial reporting processes. however, during the course of the audit we did encounter the following difficulties, • Quality control procedures were not always robustly applied when responding to audit queries • The Trust has a small number of key staff who have been main contacts throughout the audit process. On a number of occasions such a limited pool of contacts has caused bottlenecks in the audit • The Trust had not obtained a Service auditor report from its payroll provided for 2020/21 which covers NHS clients.	The Trust should review its year end closedown processes to ensure sufficient resources are in place to support the audit, including necessary quality control procedures and external reports. **Trust response August 2022** Agreed. This will be included in acted upon within an Internal Controls Improvement Plan.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	(REC #3) Inventory consignment stock Inventory testing identified a stock form submitted to finance for the Cardiology contains consignment items totalling £405k. Consignment stock items are not assets of the Trust and as such should be excluded from the closing inventory balance. There is the risk further consignment items have been included in the closing stock balance.	The Trust should review stock take instructions provided to departments and ensure the treatment of consignment stock is clarified. **Trust response August 2022** Agreed. This will be included in acted upon within an Internal Controls Improvement Plan.
High	(REC #4) Our testing of payables, capital additions and GRNI has identified pervasive control issues. The Trusts systems for accruing expenditure to the value of purchase orders is not appropriate and has resulted in the overstatement of expenditure. We identified numerous instances where accruals are made based on purchase order value where the invoice value is substantially difference. The Trusts GRNI balances could not be substantiated fully. The Trusts review of the initial listing provided for audit identified £2m of error within the balance. Further testing carried our could not validate the remaining balance.	The Trust need to review its commitment accounting practices in relation to purchase orders. Detailed year end closedown guidance will need to be provided to staff and where necessary training provided across the finance team. GRNI balances need to be reviewed and cleansed to ensure older items are removed. Relevant departments will then need to maintain this review process at regular intervals throughout the year , for example monthly. To ensure the information within GRNI is accurate. **Trust response August 2022** Agreed. This will be included in acted upon within an Internal Controls Improvement Plan.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	(REC #5) Review of fully depreciated assets on the fixed asset register. Review of the Trust's fixed asset register at 31 March 2021 highlighted that there were a significant number of assets that were held at a net book value of £nil. These assets have a gross book value in excess of £38.9 million. There is a risk that the useful economic lives of these assets, used to calculate the Trust's depreciation charge, were too short.	We recommend that the Trust reviews the assets held in the asset register to ensure that the useful economic lives being applied remain appropriate. **Trust response August 2022** Agreed. This will be included in acted upon within an Internal Controls Improvement Plan.
High	(REC #6) The Trust's accounts payable system allows for the operation of an "invoice register" which holds invoices received before they are posted to the purchase ledger. We noted that the total value of invoices held on this register as at 31 August 2022, and as such not included in the purchase ledger, was £33.3m and that invoices held on this register includes invoices received up to April 2017 and that others may relate to the 2020/21 financial year. As such the invoices may not be included in the purchase ledger. We do note that items with a transaction date of prior than 31st March 2021 is £584k so is not material, however we consider that the use of the invoice register external to the ledger presents a risk that the in year financial reporting and year end financial reporting can be misstated. We understand that management accounts staff use this register to review for accruals required on a regular basis and management considered that appropriate accruals had been included. This is a fundamental control weakness and prevents effective oversight of the expenditure and payables position of the Trust.	We recommend that all invoices are recorded in the ledger on receipt and that the register is de-commissioned. **Trust response August 2022** Noted. The Invoice register is integral to the E-Financials Accounting suite. A review of alternative approaches as well as the controls in application of the register will be undertaken.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	(REC #7) The Trust does not perform formal sign offs of completed capital projects held within AUC or document meetings discussing completion of assets. Spend that generally relates to additions was held in AUC codes 2580 (GH Backlog (2019/20)) and 2579 (LRI Backlog (2019/20)) at 2019/20 year end as it was not clear which buildings the spend related to.	The Trusts should carry out documented reviews of all completed capital projects and in particular ensure the correct accounting entries to move AUC to the relevant asset category is agreed. **Trust response August 2022** Agreed. This will be included in acted upon within an Internal Controls Improvement Plan.
High	(REC #8) Allowance for impaired contract receivables - we have noted a control weakness that the Trust should review and cleanse their aged debtors more regularly. However, we have reviewed the bad debt provision and are satisfied that the provision is not materially misstated.	The Trust should review and cleanse its aged debtors listing on a regular basis to ensure old debts are written off against appropriate provision. **Trust response August 2022** Agreed. This will be included in acted upon within an Internal Controls Improvement Plan.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B. Follow up or prior years recommendations

We identified the following issues in the audit of University Hospitals of Leicester NHS Trust's 2017/18, 2018/19 and 2019/20 financial statements We have followed up on the implementation of these recommendations and have set out the Trust's progress.

Assessment	Issue and risk	Recommendations
X	Rec #1) We identified a number of instances where revenue costs have been incorrectly treated as capital costs. This includes staff salary costs and insurance costs. The risk is that the Trusts asset register does not represent items of a capital nature.	The Trust should carry out a review of its capitalisation process and ensure there are procedures in place to ensure that capital and revenue transactions are treated appropriately within the general ledger. GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expedite the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** The Trust policy on capitalisation is based on the national and account guidance, however errors have occurred. A more critical review of capitalisation at quarterly and year ends will be undertaken to ensure that correct accounting judgement is being consistently applied. This will include new guidance to all budget holders regarding asset capitalisation. Additionally, a new capital team is now in place to ensure robustness to the process.
X	Rec #2) The Trust was unable to provide evidence to support the existence of some assets within their asset register. The risk is that the Trust's asset register is inaccurate as it includes assets which the Trust no longer owns or have been scrapped. does not represent items of a capital nature.	The trust should carry out a full review of its asset base and ensure those assets which cannot be physically verified (or existence proved by alternative means)are removed from the asset register GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expedite the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** A review of the asset register has identified the need for recording asset verification data to eliminate errors in the asset register, and this is facilitated in the new Asset register that has been setup. The Trusts Internal Controls Review programme (being planned) will lead to a management decision on the best-fit approach and sustainable solution for asset verification.

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up or prior years recommendations

Assessment	Issue and risk	Recommendations
X	Rec #3) We note that the Trusts methodology for calculating the expected credit loss is not fully in accordance with IFRS 9 'Financial Instruments' . The Trust have calculated, based on historical recovery rates, a write off percentage to apply to receivables which reflects the element of the debt the Trust believers is unrecoverable. IFRS 9 requires recognition of impairment losses on a forward-looking basis, which means that impairment loss is recognised before the occurrence of any credit event. This is particularly relevant given for example, the potential impact of COVID on debt recovery.	The Trust should review its methodology for calculating expected credit losses. GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expediate the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** The Trust will ensure there is a review of the methodology for calculating expected credit losses correctly in the Annual accounts subsequently.
X	Rec #4) Our testing of the Trusts payables balances highlighted the complexity of the Trust's General Ledger. When testing certain items in order to track the full transaction it was necessary to review a number of general ledger codes, in some instances the initial transaction being in one code and an adjustment to that item in another code. Overall, this did not impact on the overall payables balance but the Trust should look to simplify its ledger and the use of codes.	Trust should look to simplify its ledger and the use of codes. GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expediate the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** Internal control reviews will be undertaken and new guidance issued to finance staff to apply correct transaction coding at all times. The improved journal controls process that has been introduced since the 1920 audit also enforces additional attention to correct financial coding.
Partially addressed	Rec #5) From our testing on VAT and conversations with the Finance team, it is clear that the Trust rely solely on VAT Liaison (the Trust's VAT expert) to complete all calculations and it appears nobody at the Trust understands or reviews these transactions. From our discussions it was also found that the Finance team did not understand the VAT part exemptions or the business/non-business activity splits workings and again relied solely on VAT Liaison.	The Trust needs to ensure they understand the work completed by their VAT expert and take ownership of the figures processed within their financial statements. **Trust response August 2022** The Financial accounts team continues to take responsibility for VAT treatment, and a member of the team reviews the output of VAT experts. VAT training courses have been organised recently for the appropriate staff and is ongoing to support and improve in-house VAT knowledge.
X	Rec #6) From our reconciliation between the General Ledger to the financial statements and our transactional testing, we had identified numerous manual adjustments between the Receivables and Payables account codes.	All amendments should be processed through the General Ledger and the Trust should undertake an exercise to ensure the mapping per the accounts and ledger is consistent. GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expediate the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** Noted. Action to update the chart of accounts has started and expected to complete by October 2022. This will improve consistency of coding and reduce the need for adjustments. Work on this is ongoing.

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up or prior years recommendations

Assessment	Issue and risk	Recommendations
X	Rec #7) We have identified a lack of control over the posting of income and expenditure transactions. Income codes have a large volume of debit entries which should only reflect credit notes issued and monthly management accounts prepayments/accruals.	The processing of income and expenditure should be reviewed to ensure the original transaction is 'posted right first time'. GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expediate the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** Under the new journal controls introduced since Month 9 in 2021, all journal transactions are reviewed and approved to ensure correctness of coding and to reduce errors. The Journal working papers now require evidence and backing information prior to the journal being approved and posted. A journals review audit was by Deloitte was commissioned as part of management effort to ensure the controls are effective.
✓	Rec #8) We have identified a lack of control over changes to accounting policies; management have made several adjustments to accounting policies through-out the audit process, without the adjustments first being approved by Audit Committee.	All accounting policy changes should be approved by the Audit Committee **Trust response August 2022** All new Accounting policy changes are approved by Audit Committee.
X	Rec #9] Equip verification exercise - The Trust were planning to conduct a verification exercise on several different asset classes. Work was started on the equip lease assets, however this proved to be difficult and time consuming. The Trust therefore decided not to proceed with this testing to focus on other work. Whilst we have not placed reliance on these procedures and have carried out our own existence testing, the fact that the Trust were unable to complete the testing exercise does raise a risk around their ability to verify the existence of assets.	An asset verification exercise should be undertaken to confirm the existence of assets purchased through the eQuip contract GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expediate the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** Noted. An action plan to address the verification of historical assets will be included in the over-arching Internal control review plan . In the meantime, regular reports are produced on the assets acquired through the equip lease, identifying the relevant information to enable asset verification.
✓	Rec #10] Receivable's classification – We identified classification errors between the NHS debtor and Non-NHS debtor general ledger codes. This does not impact upon the classification within the financial statements as NHS and Non-NHS debtors are both included together in contract receivables, however it is a general housekeeping point for the Trust to address.	The Trust should ensure that balances are appropriately classified **Trust response August 2022** A review of accounts is undertaken at month end, including ensuring that all the balances are appropriately classified

B. Follow up or prior years recommendations

Assessment	Issue and risk	Recommendations
X	Rec #11) Control issue relating to the matching of invoices to purchase orders/goods received notes – Within our receivables testing we identified 5 samples relating to charity GRNI's where the items had been received in March-May of 2019 but had not been matched to an invoice, or an invoice had not yet been received. Given the time that has passed since the goods were delivered, we would expect the invoices to have been received by the testing date (July 2021). We therefore consider it is likely that invoices have been received but have not been appropriately matched to the relevant GRN's/PO's. This issue will be isolated to the £376k charitable funds orders (account code 9998) within receivables as these are the only GRNI's within receivables (as they are due to be recharged to the Trust). The impact upon the receivables balance is therefore not material, however it does raise a risk around the control environment.	The Trust should review its GRNI balances and processes to ensure that GRNI is not misstated. GT update August 2022 – Similar issues have been identified as part of the 2020/21 financial statements audit. As such a new recommendation has not been raised however the Trust need to expediate the closure of this recommendation to ensure the risk it is exposed to is minimised. **Trust response August 2022** A purchase to Pay project is in progress, incorporating refreshed guidance and training to prevent and reduce potential errors in GRNI transactions.
Partially implemented	Rec #12) The Trust has had a deficit since 2013/14 and as at 31 March 2020 it has a cumulative deficit of £328.4 million. We consider that the factors impacting on the deficit are multi-factoral but note that one of these issues relates to the funding of the Trust. Given the issues identified in our report we do not consider that it is sustainable for the Trust to continue with its present level of funding. It requires investment to support the delivery of care, to improve governance, and to strength the capability and capacity of the finance team.	We consider that as a matter of urgency that the Trust should seek to engage its commissioners, NHSE/I and the Department of Health to agree a strategy that will return the Trust to financial balance. **Trust response August 2022** The Trust has invested in the finance team, ensuring that appropriate skills and experiences are in place across all aspects of it's work. Substantial improvements have been made in financial governance as reported to public Board in July. Covid has seen a change to the national finance framework which has enabled the Trust to develop a break even financial plan for 2022/23, albeit this is not without risk given the operating environment and recovery from covid. A medium term financial plan is under development to support longer term planning and financial oversight

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up or prior years recommendations

Assessment	Issue and risk	Recommendations
X	Rec #13) We have evaluated the appropriateness of the Trust's accounting policies, accounting estimates and financial statement disclosures. We identified issues with regard to: Accounting judgements, Accounting models, Accounting policy change and approval; and Accounting estimates.	We recommend that Trust Board should seek to create a culture that is focussed on accurate financial reporting. In particular, the Board should discourage the use of aggressive accounting policies and practices. **Trust response August 2022** An Interim Associate Director of Finance was appointed in April 2021 to review the structure of the Finance Team but also to lead a review of Culture and Behaviours in the department. An action plan has been generated to cover 4 workstreams and Freedom to Speak Up is a key focus of the Culture workstream. Related actions have included regular sharing of publications to ensure staff know how to speak up alongside F2SU guest speakers at Directorate-wide engagement events to ensure they feel supported and have permission to be able to do so. This will ensure staff feel empowered to raise issues if they are concerned about any accounting policy or treatment they are being asked to implement. Any accounting policy changes are agreed by Audit Committee in advance of application
Partially implemented	Rec #14) We consider that there has been management override of control in both 2018/19 and in 2019/20. Management have used, either intentionally or inadvertently, a number of mechanisms to achieve this including journals, estimation, financial models, and accounting policies	We recommend that the finance and other management teams involved in finance receive accounting, governance and ethics training to ensure that they are clear on the appropriate accounting practices and the governance standards required by the Board. **Trust response August 2022** A Training Needs Analysis (TNA) has been produced for the Finance and Procurement Directorate staff which lists all training modules provided by finance networks, The TNA is an embedded link in the Appraisal document and Directorate staff are requested to review the TNA as part of their Appraisal with their line manager and identify any specific training needs. Finance (Budget Holder training) and Procurement (Buy the Right Way training) is provided to all relevant non-finance staff and completion rates are in excess of 95%. Ethics training, via CIPFA, has been provided to the Directorate and the completion rate is 99.5%.
✓	Rec #15) During the 2017/18 and 2018/19 audits we raised concerns with the Director of Finance and Audit Committee over the capacity and capability of the finance team. While some recruitment has taken place we remain of the opinion that the finance team is not 'fit for purpose' and requires investment to both increase its capacity and to ensure that it has the skills needed in a complex financial environment.	We recommend that a detailed review is undertaken of the structure and capacity of the finance team. As necessary additional investment should be made in the capacity and capability of the team. **Trust response August 2022** In addition to some senior finance post recruitments in late 2020 and early 2021, the finance department underwent a Management of Change (MoC) programme in August 2021 and the structure was increased by 25 additional posts to bring it in line with structures in peer Trusts. An investment of c£1m was made. A set of 20 KPIs to measure the success of the restructure and delivery of a Return on Investment are currently being monitored and discussed at FIC quarterly.

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up or prior years recommendations

Recommendations arising from initial audit

Assessment	Issue and risk	Recommendations
X	Rec #16) We have identified a number of significant deficiencies in control. These require resolution as a matter of urgency.	We recommend that the Trust undertakes a review of its financial procedures and controls to ensure that they remain 'fit for purpose'. **Trust response August 2022** A new set of journal controls have been implemented, together with internal training and involvement of Financial Management Team in the Accounts Audit process. Internal control improvements will also continue through the Internal audit programme. An over-arching action plan, to be developed in response to the AFR on the 2021 accounts, will consolidate management actions on this control.
Partially implemented	Rec #17) The Trust has continued to operate without appropriate journal controls throughout 2019/20. No action has been taken on the recommendations we have raised in previous audit reports. In 2019/20 over 274,000 journals were processed by the finance team. Under the Trust's controls policy only 2,698 journals (c.1%) were subject to authorisation, i.e. those journals over £500,000.	We recommend that the control of journals is enhanced. An automated system should be introduced that prevents the self-authorisation of journals. **Trust response August 2022** A new set of journal controls have been implemented, together with internal training and involvement of Financial Management Team in the Accounts Audit process. Internal control improvements continue through Internal audit programme. Note that Internal Audit review has questioned the sustainability of the controls introduced. The journal controls remain under continued review for further possible enhancement.
Partially implemented	Rec #18) The finance team continues to be understaffed, lack leadership below Executive level, and is too reliant on key individuals. We consider that its overall performance is poor. We have received multiple sets of accounts, poor, inaccurate and missing working papers, and inaccurate trial balances. These issues along with the other matters highlighted in this report have delayed the audit and made it difficult to draw appropriate conclusions. While we note that the team has faced significant pressure to restate the accounts we do not consider that the finance team is fit for purpose.	We recommend that the Trust undertakes a detailed review of its accounts preparation processes and amends its procedures to allow accounts and supporting working papers of an appropriate quality to be prepared for audit **Trust response August 2022** The Finance team that undertook the re-statement of the1920 accounts had little time to re-prepare the 2021 accounts. The Accounts Team has subsequently been refreshed through recruitment and Finance management has undertaken improvement actions including; regular Team Briefs, more engagement with contributors from within the rest of Finance department, performance reviews and Lessons learned being fed-back into the team.
Partially implemented	Rec #19) We consider that the Trust misreported its financial position during the 2019/20 financial year and did not meet the financial performance criteria set by NHSE/I for drawing down this income. While the Trust has recognised the income in its financial statements we consider that there are grounds for NHSE/I requesting the repayments of these monies.	We recommend that the Trust undertakes a detailed review of its in year financial reporting process **Trust response August 2022** The Trust continues to review and introduce measures and approaches to support more robust in-year financial reporting and reviews. The finance report now includes reporting on I&E, balance sheet and working capital noting run rates and changes over time. A bi-annual balance sheet review will be reported to finance committee. Working capital KPIs are included in the overall Finance KPIs

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Rec #20)We identified that a number of manual adjustments were made outside the general ledger to correct entries made for in-year financial reporting which had not been fully reversed by year end. Manual adjustments represent a control risk as entries made outside the ledger are not subject to the same authorisation processes as those journaled into the general ledger. **Recommendation** The Trust should avoid making manual adjustments to the financial information outside the ledger.	**Update - October 2020** No action has been taken against this recommendation despite it being raised in 2017/18 and 2018/19. The Finance Team consider that it is appropriate to make manual adjustments to the financial statement balances. Version 4 and 5 of the draft financial statements included manual adjustments with regard to charitable funds and we continued to have issues in reconciling these accounts to the trial balance where errors were identified. **Update - November 2021** **Some manual adjustments have continued to be made outside of the ledger to support the reclassification of debtors and creditors.** Trust response August 2022 Adjustments to the accounts are required to be processed through the ledger and a reconciliation is undertaken at month-end to ensure compliance and assurance that the accounts reports are supported by the ledger.
X	We identified a leavers form for an employee who left the Trust in February 2019 which payroll did not receive until March 2019. **Recommendation** The Trust should ensure that adequate procedures are in place to ensure leavers forms are submitted to Payroll on a timely basis to avoid overpayments.	**Update - October 2020** We were not able to agree payroll journals to the value of £13 million. **Update - November 2021** We were not able to agree payroll journals to the value of £13 million. **Trust response August 2022** Noted. Management action to monitor performance and improve timeliness of payroll information will be included in the over-arching action plan following the 2021 accounts AFR. The new CPO has initiated a review of alll transactional processes for HR within the Trust to ensure that processes are timely and appropriate

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	We identified a number of differences on the agreement of balances exercise. Our audit identified deficiencies in the Trust's repost to the agreement of balances (AoB) process. **Recommendation** The Trust should review its processes for agreeing debtor and creditor balances at the year end, and should ensure that the Agreement of Balances exercise is undertaken with national guidance.	**Update - October 2020** The Trust is not fully compliant with the AoB processes. The Trust needs to address the weaknesses in its AoB processes. **Update - November 2021** **Some issues remain on the AoB exercise.** **Trust response August 2022** The Trust follows the AoB guidance and process as laid down by NHSI, endeavouring to agree balances as per the set limits. Similarly we are guided by the requirements of NHSI in the AOB mismatch process as we engage collaboratively with other NHS organisations to resolve any differences highlighted through the process. Closer attention will be paid to subsequent AOB exercise to ensure that weakness revealed in the accounts audit have been addressed..
X	There was no reconciliation between the fixed asset register and the accounts, or between the valuer's report and the valuations posted. This led to a number of errors in the accounts. The reversal of depreciation for fully-depreciated assets has not been reflected in the asset register. **Recommendation** The Trust should perform appropriate reconciliations to ensure the accounts are accurately supporting by working papers prior to the start of the audit The fixed asset register should also be fully updated to reflect all audit adjustments made in 2018/19 and to reflect the reversal of depreciation on previously fully depreciated assets.	**Update - October 2020** No action has been taken against this recommendation. The Trust has historically under invested in the Capital Accountant role and the fixed asset register has been maintained by financial reporting staff around their other duties. The Trust has also not invested in a dedicated Fixed Asset Register system which results in many transactions being processed manually. Our audit identified a number of errors with regard to PPE. **Update - November 2021** The Trust has now appointed a capital accountant and is in the process of purchasing a fixed asset register. GT update August 2022 – The Trust has not yet purchased a fixed asset register and record their fixed assets on a manual spreadsheet. **Trust response August 2022** A new capital accountant has been recruited and has started to introduce improvements to the capital accounting team's work practices and performance. A new Fixed asset register has been implemented and will be fully live by the 2023 accounting year-end.

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	In our sample of payables we tested an accrual for water charges. We were informed this was based on an estimate following a discussion with the service engineer, so there was no written support for the accrual. The final invoices were received at a later date and were approximately 16% higher than the accrual. **Recommendation** The Trust should ensure that all such estimates have written backings to ensure there is an audit trail to document how these are calculated.	**Update - October 2020** The Trust has significant issues with regard to the recognition of expenditure. The Trust needs to address the fundamental weaknesses in its non-pay control systems. **Update - November 2021** **To be reviewed as part of 2020/21 audit** **Trust response August 2022** Improvements are being made to the supporting information for accruals and prepayments. The CMG income teams keep a log of contracts with the associated information required to inform the monthly payments profile. Using such details, all accruals and prepayments are expected to be appropriately evidenced and subsequently checked as part of the journals control process. Similarly, all accrued expenditure is expected to be backed up by credible basis of estimation. Ongoing reviews of this process will continue as part of the higher standards being set within the teams.
Partially implemented	Accounts preparation and review; the accounts presented for audit included a number of errors and did not reconcile in full to working papers or associated IT systems. There were difference between the primary statements and the notes in intangible assets, inventories, receivables, cash and cash equivalents, and provisions. We received several additional versions of the accounts post the audit committee. We consider that the lack of review and quality assurance of parts of the account's preparation process represents a significant control issue. **Recommendation** The Trust should perform appropriate reconciliations to ensure the accounts are accurately supporting by working papers prior to the start of the audit The fixed asset register should also be fully updated to reflect all audit adjustments made in 2018/19 and to reflect the reversal of depreciation on previously fully depreciated assets.	**Update - October 2020** No action has been taken against this recommendation. We were provided with 4 versions of the draft financial statements. The first three versions contained a level of errors that we were not prepared to undertake testing. The Trust eventually provided a set of auditable financial statements on 19th May 2020 but it was clear from the initial review that there were still errors and that the time allowed for Senior Management Review was insufficient. **Update - November 2021** **Revised arrangements have been put in place for accounts preparation. However, the Trust continues to struggle with its account preparation** **Trust response August 2022** Significant improvements have since been introduced in the Accounts preparation process, and the impact will continue to be monitored for continual progress. The financial services team has seen a number of new posts since the previous audit that supports the production to high standards

Assessment

✓ Action completed

X Not yet addressed/ongoing

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Management of VAT; we note that the Trust has a number of on-going claims with HMRC. Not all of these claims are visible to the Audit Committee. **Recommendation** The Trust should undertake an assessment of its VAT claims and correspondence with HMRC. Further, we recommend that a paper is provided to the Audit Committee outlining 'disputed' VAT balances.	**Update - October 2020** The Trust has reviewed its VAT claims. This has resulted in numerous adjustments to the 2018/19 financial statements and the recognition of a significant level of VAT liabilities. We have reviewed the remaining claims and do not consider that they are materially incorrect. We continue to be concerned that there is no proper control or oversight of VAT claims. **Update - November 2021** Improvements are still needed in the management of VAT **Trust response August 2022** This is work in Progress. The refreshed Financial accounts team will be engaged in new oversight controls to be introduced as part of the over-arching internal controls review programme.
✓	Property, Plant and Equipment; we note that the Trust maintains its PPE register on excel, that the register was not maintained during the year, and that the Trust does not have a permanent capital accountant. We consider that these issues resulted in the significant errors in relation to PPE. **Recommendation** The Trust should introduce an IT based fixed asset register at the earliest opportunity, and ensure that a permanent capital accountant is appointed.	**Update - October 2020** The Trust has recently (from March 2020) appointed a Capital Accountant. The Trust has also agreed to implement a Fixed Asset Register. This was initially planned for 2019/20 but was deferred. This is now planned for 2020/21. However, the Trust continues to have significant issues with regard to its accounting estimates process. The Trust needs to address the fundamental weaknesses in its processes. **Update - November 2021** The Trust is in the process of purchasing a FAR **Trust response August 2022** A new Fixed asset register has been implemented and has gone live for the 2022-23 accounting year.
Partially implemented	We identified a number of accrual and prepayment estimates that had not been properly recorded or did not have adequate written supporting documentation. **Recommendation** We recommend that all estimates should be adequately supported.	**Update - October 2020** The Trust has significant issues with regard to its prepayment process. The Trust needs to address the fundamental weaknesses in its processes. **Update - November 2021** To be reviewed as part of 2020/21 audit **Trust response August 2022** Improvements are being made to the backing information for accruals and prepayments. The income teams keep a log of contracts with the associated information required to inform the monthly payments profile. Using such details, all accruals and prepayments are expected to be appropriately evidenced and subsequently checked as part of the journals control process. Ongoing reviews of this process will continue as part of the higher standards being set within the teams. The New journal controls in addition to the Deloitte journals review are part of the management action to improve accruals and prepayments.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of prior year unadjusted misstatements

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 of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000	Impact on adjusted net surplus/(deficit) £'000
Deferred income			
Included within the deferred income of £2.975 million is £798k relating to 'R&D deferred income' - this was also included in 2019-20 and as part of the AFR, we recommended that this should be removed from current liabilities and recognised as income in year	+ 798	+ 798	+ 798k
Income in respect of employee benefits			
The Trust have decided to revise the 'income in respect of employee benefits accounted on a gross basis' in note 4, from £6,697k to £3,770k. This is a presentation adjustment between SOCI headings only	+ 2,927 - 2,927		
Current Borrowings			
The Trust have now included the Haemodialysis lease as a finance lease, capitalised the assets accounted for appropriate depreciation.	- 551k	+ 4,582 - 5,133k	- 551k

C. Audit Adjustments

Impact of adjusted misstatements (continued)

Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000	Impact on adjusted net surplus/(deficit) £'000
Provisions The Trust recognised an error in provisions regarding Flowers provision. This has now been adjusted by the Trust, the impact being to increase provisions within the financial statements by £1,237k and increase expenditure by the same amount.	- 1,237k	- 1,237k	- 1,237k
Finance lease amendments Following the review of finance lease balances the trust identified an erroneous entry within payables (accruals) relating to finance leases. This has now been adjusted by the Trust, the impact being to increase payables by £2,065k and increase expenditure by the same amount. Included within payables (accruals)	- 2,065k	-2,065k	- 2,065k
Lease car VAT amendments The Trust recognised a VAT adjustment required in relation to lease cars. This has now been adjusted by the Trust, the impact being to increase the VAT liability within the financial statements by £480k and increase expenditure by the same amount.	- 480k	- 480k	- 480k
Overall impact	Decrease in net income - £3,535k	Increase in net liabilities- £3,535k	Decrease in surplus of -£3,535k

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Extrapolated Misstatements - unadjusted

The table below outlines extrapolated misstatements within the 2020/21 draft accounts, along with the impact on the key statements for the year ending 31 March 2021. Note that there are elements of our audit which are still underway as at the time of writing and therefore there could be further amendments required.

Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000
PPE		
Closing Balances - We have reviewed a sample of property plant and equipment to determine whether the assets existed at 31 March 2021. We have been unable to confirm the existence of the Haemodialysis lease assets and 14 other assets within our sample. The extrapolated errors give the following projected misstatements within the PPE closing balances		
- Buildings	- 3,070	- 3,070
- Plant & Machinery	- 9,377	- 9,377
- Assets Under Construction	- 126	- 126
- Information Technology	- 9,486	- 9,486
- Furniture & Fittings	- 615	- 615
Net extrapolated impact is an overstatement of buildings of £3m, and plant and equipment of £19.5m.		
We have also tested a sample of assets under construction to determine whether they are correctly classified within the PPE closing balances. We have identified extrapolated misclassifications of £20,135k. This would have been partially taken account of in the valuation of buildings. As such we consider that the net overstatement is c£10,000k		AUC is overstated - 20,135, PPE is understated - 10,000
PPE Additions – We have reviewed a sample of additions to determine whether they are accurate and exist. We have identified 9 fails. The fails relate to capitalised salaries and instances where the Trust have recognised assets based on the full purchase order value, despite the invoices being received against the purchase order for the 20/21 financial year being less than the full PO value	- 10,562	- 10,562
In summary, the net extrapolated error is an overstatement of PPE of c£40m.		

C. Audit Adjustments

Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000
Land and Buildings – Gross Internal Area's		
We have identified some differences in the GIA's that Gerald Eve have used in their calculation to the amount per the Trust's records. Overall we have identified that the valuation is overstated by £675k. This error has been extrapolated across the OLB population to give an estimated misstatement of £894k. DR Reval Reserve £894k, Credit PPE £894k		+ 894 - 894
<u>Payables</u>		
NHS Payables - We have identified one error within our NHS payables sample testing, which relates to the overstatement of NHS payables	+ 445	+ 445
Non-NHS Payables – We have identified several errors within our Non-NHS payables sample testing, relating to various reasons including lack of evidence, incorrect accounting treatment/year and accruing to a purchase order value where the Trust have not received subsequent invoices against the purchase order amount or have not considered the element of the purchase order that relates to the financial year.	+ 7,241	+ 8,550
GRNI – We identified various errors within the GRNI population. The Trust have then reviewed the balance and identified £2.5m of error within the population. Following the review we tested a new sample and identified extrapolated errors of £3.5m.	+ 5,800	+ 5,800

C. Audit Adjustments

Detail	Statement of Comprehensive Net Income £'000	Statement of Financial Position £' 000
Other Operating Income **Income in respect of Employee Benefits** – An error of £2,972k has been identified and adjusted for by the Trust in V3 of the accounts. We have tested a sample of the revised V3 amount and identified a projected understatement of £713k.	+ 713k	+ 713k
Other Operating Expenditure (Non-Pay) We have identified several 'fails' within this testing, for a variety of reasons including, incorrect accounting and also accruing to purchase orders where the purchase order amount is incorrect or does not relate entirely to the 2020/21 financial year (this is an issue we have found through-out our Payables & PPE testing also).	- 7,463	- 7,463
Income completeness testing Our testing of income completeness identified items which had not been included within income in 2020/21 accounts . An extrapolation has been performed and it is estimated Trust income is understated by £1.2 million.	+1,181	- 1,181
Expenditure completeness testing Our testing of expenditure completeness identified items which had not been included within income in 2020/21 accounts . An extrapolation has been performed and it is estimated Trust expenditure is understated by £701k.	- 701	+ 701
Inventories We have identified that the year-end stock balance for Cardiology includes consignment items with a value of £406k. Consignment stock is not an asset of the Trust and as such should be excluded from the inventory balance. This gives a total extrapolated misstatement of £2.2m over the year end stock balance.	+ 2,217	- 2,217

C. Audit Adjustments

Misclassification and disclosure changes continued

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
Capital Commitments We have tested a sample of capital commitment to supporting documentation. The Trusts approach for capital commitments is to base the commitment on what is outstanding for a particular capital purchase order at the year end date. This is an issue as the purchase order amount is not always accurate. As a result, we have identified overstatements in capital commitments of £687,571.69 within our testing. When extrapolated, this gives an expected overstatement of the capital commitment balance of £3.9 million	No as extrapolated
General A number of minor amendments were made to correct typing errors, page numbering and incorporate additional narrative information. We do not deem these significant enough to bring to the attention of those charged with governance.	Yes
Remuneration report We have tested the auditable elements of the remuneration report. The Trust had not labelled any areas of the remuneration report as 'subject to audit' which is required within the guidance . Our detailed testing of the CETV figure and the real increase in the CETV figure identified an error in relation to one senior manager – C Fox . This error was due to misreading the number on the Greenbury report	Yes
IFRS 16 disclosures within accounting policies. As per the draft accounts (version 2) - see below, the estimated impact has been disclosed as £9.723 million. However this has not included the Renal Dialysis lease units. Therefore this will be updated to reflect the correct value of £13.702 million.	Yes
Breakeven duty The breakeven duty in-year financial performance figure will need to be amended £46.161 million. The Breakeven duty cumulative position will need to be amended to £323.906 million.	Yes
Related parties Detailed testing identified two errors 1) Per Note 35, the disclosure relating to 'University of Leicester' expenditure figure should be £5.703 million rather than £4.901 million disclosed. 2) The Trust have disclosed a related party with Leicestershire County Council - upon review there were no transactions with this authority, therefore this disclosure will be removed.	Yes

D. Fees

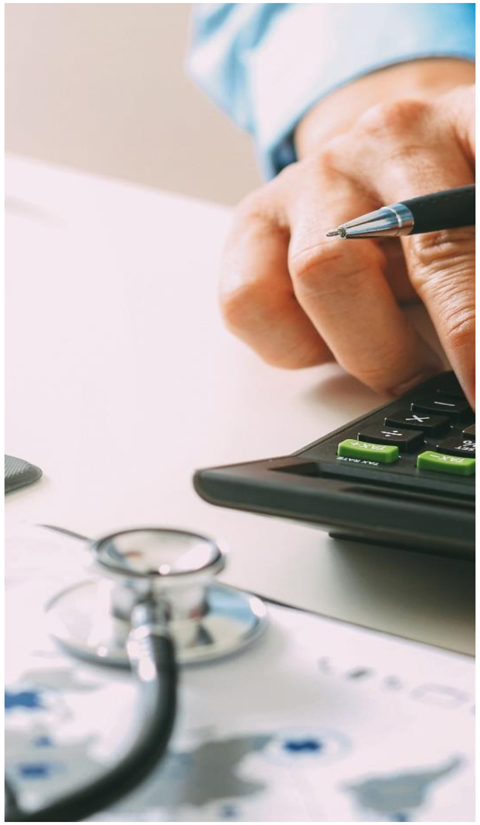
We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
University Hospitals of Leicester NHS Trust Audit	£350,000	£420,000
Trust Group Holdings Limited	£37,000	£37,000
Leicester Hospitals Charity	£5,900	£6,000
Total audit fees (excluding VAT)	**£392,900**	**£463,000**

As per note 6.1 of the financial statements the audit fee for 2020/21 is shown as £474,000. See below for reconciliation

Total Final Audit fees above	£463k
Over accrual made by the trust - TGH Limited fee	£18k
Journal amendment made relating to 2019/20	(£7)
Audit Fee per Trust's financial statements	£474k

The Trust's Audit fees per the financial statements should also include VAT at 20% resulting in a fee of £556k. This is a trivial difference of £82k.



E. Management Letter of Representation

We have set a draft standard management letter of representation below. The Trust Board will need to consider the statements contained in the letter and whether it is able to make these statements.

Grant Thornton UK LLP
17th Floor
103 Colmore Row
Birmingham
B3 3AG

XX August 2022

Dear Sirs
University Hospitals of Leicester NHS Trust
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of **University Hospitals of Leicester NHS Trust** for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Trust financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the Department of Health and Social Care Group Accounting Manual 2020/21 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements
We have fulfilled our responsibilities for the preparation of the Trust's financial statements in accordance with International Financial Reporting Standards and the Department of Health and Social Care Group Accounting Manual 2020/21 ("the GAM"); in particular the financial statements are fairly presented in accordance therewith.

We have complied with the requirements of all statutory directions affecting the Trust and these matters have been appropriately reflected and disclosed in the financial statements.

The Trust has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the GAM and adequately disclosed in the financial statements.

In calculating the amount of income to be recognised in the financial statements from other NHS organisations we have applied judgement, where appropriate, to reflect the appropriate amount of income expected to be derived by the Trust in accordance with the International Financial Reporting Standards and the GAM. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with International Financial Reporting Standards and the GAM, and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

We acknowledge our responsibility to participate in the Department of Health and Social Care's agreement of balances exercise and have followed the requisite guidance and directions to do so. We are satisfied that the balances calculated for the Trust ensure the financial statements and consolidation schedules are free from material misstatement, including the impact of any disagreements.

Except as disclosed in the financial statements:
- there are no unrecorded liabilities, actual or contingent
- none of the assets of the Trust has been assigned, pledged or mortgaged
- there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the GAM.

All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the GAM require adjustment or disclosure have been adjusted or disclosed.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Trust financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

F. Management Letter of Representation

Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We have updated our going concern assessment. We continue to believe that the group and Trust's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the group and Trust means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Trust's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Trust's ability to continue as a going concern need to be made in the financial statements.

Information Provided
We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the Trust's financial statements such as records, documentation and other matters;
- additional information that you have requested from us for the purpose of your audit; and
- access to persons within the Trust via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Trust and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

We have disclosed to you the identity of the Trust's related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement
We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Trust's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Annual Report
The disclosures within the Annual Report fairly reflect our understanding of the Trust's financial and operating performance over the period covered by the Trust's financial statements.

Approval
The approval of this letter of representation was minuted by the Trust's Audit Committee at its meeting on XXXX

Yours faithfully

Name.……………………………

Position.…………………………

Date.………………………………

Signed on behalf of the Trust

Auditor's Annual Report University Hospitals of Leicester NHS Trust

Audit 2020-21

22 April 2022

Contents

We are required under Section 21(3)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. 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.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Trust or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Commentary on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources

All NHS Trusts are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Trust's responsibilities are set out in Appendix A.

NHS Trusts report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Trust can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Trust makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the NHS Trust makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Trust delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 4 to 27. Further detail on how we approached our work is included in Appendix B.

Value for money arrangements and key recommendation

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Trust's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Trust's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Background and approach

Background

During the course of our 2018/19 and 2019/20 external audits, we identified significant issues related to the quality of the financial statements and the governance arrangements across the Trust.

In our 2019/20 Audit Findings Report (AFR), we concluded that the Trust did not have adequate arrangements in relation to planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. The key drivers of this were the Trust's failure to manage expenditure in line with budgets, failure to deliver cash-releasing CIP, and a significant underlying deficit.

We also concluded that due to the significant failings in governance arrangements the Trust did not have adequate arrangements in relation to informed decision-making. The key drivers for this were management override of control, inaccurate financial reporting, poor financial culture, particularly within the finance team and ineffective challenge by the Trust Board and its sub-committees.

At the time of undertaking this value for money review, we were still working on the completion of the external audit of the 19/20 and 20/21 financial accounts. This limited our ability to rely on the accuracy of these financial statements for the purpose of this value for money analysis.

There was recognition of the Trust's continued weak financial performance and sizable deficit, when in August 2020 the Trust was placed in Financial Special Measures. This was a significant development which placed the Trust under scrutiny by the national NHS leadership, while providing specialised external support to help the Trust address the breakdown in controls and governance and help it return to financial sustainability.

Approach

Due to our ongoing work on the 19/20 and 20/21 financial statements and the Trust being placed in Financial Special Measures, we employed a different approach to reviewing the 20/21 value for money arrangements. This allowed us to reflect the high-risk nature of the Trust's arrangements.

The value for money assessment was undertaken by our expert Healthcare Advisory team who have significant experience in undertaking financial planning, performance and governance reviews at NHS Trusts, including on behalf of the NHS regulator, NHS Improvement.

Whilst the focus of this value for money assessment was on 20/21, given the issues identified at the Trust, we have also taken into account any changes made in the 21/22 year to date to give a clearer narrative on the progress made by the Trust.

As part of our assessment our team has:

- interviewed 15 individuals across the Trust's Board, Executive and finance teams to better understand the Trust's current situation and future direction. See Appendix D for details.
- reviewed over 150 documents to better understand the Trust's arrangements. See Appendix E for details.

Our draft findings were discussed with the Interim Chief Financial Officer before the production of this report.

Due to the outstanding work on the 19/20 and 20/21 financial statements, our value for money assessment has been reported separately to the annual auditor's report.

Executive summary

Financial sustainability

We identified significant weaknesses in how the Trust plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the Trust's medium term financial planning arrangements. We recommend that the Trust continues to develop its medium term financial plan, in particular ensuring this is agreed with ICS partners and aligns with System long term financial and operational plans.

The Trust delivered a surplus (subject to audit) of £52.2m during 20/21 largely as a result of additional funding due to the Covid-19 pandemic. It has undertaken substantial work to improve the robustness and accuracy of its financial information and reporting and has a much better understanding of its underlying financial position and its causes. The size (£109m) and the lack of a fully worked-up and agreed plan to address the underlying deficit means that this remains a significant risk to the Trust.

Financial performance was achieved by the Trust during 20/21 largely as a result of the national Covid-19 pandemic top up funding. Prior to the pandemic, the Trust had submitted a 20/21 Draft Financial Plan with a projected deficit of £82.3m. A revised plan was submitted following the changes to the national financial regime which set a deficit of £30.5m. At year end 20/21, the Trust delivered a surplus of £52.2m.

While the budget setting process was cancelled from April to September 2020 because of the pandemic, the Trust applied interim budgets based on April 2020 spend and inflation. We consider that the budget setting process was adequate – it followed national guidance and involved the relevant stakeholders.

Following the issues identified in our 19/20 audit report, the focus of the Trust in the first half of 20/21 was trying to improve the accuracy of financial information and reporting, alongside addressing the financial management and governance issues and responding to the Covid-19 pandemic. As a result of the financial issues identified in our 19/20 audit and the issues around financial sustainability, the Trust was placed in Financial Special Measures during the financial year (August 2020).

At year-end, the Trust had an underlying deficit of £109m. The deficit has increased year-on-year and requires significant efforts to be reduced to a breakeven position. Whilst the Trust now has a better understanding of its underlying position, it is still at the early stages of developing a comprehensive recovery plan to address the underlying position, including agreement of it with System partners.

After being placed in Financial Special Measures, the Trust developed a 'Roadmap to Sustainable Financial Improvement' which is framed around four exit criteria agreed with NHS England & Improvement (NHS EI). This has enabled the Trust to progress a number of key actions and recommendations for improving its financial position and wider governance arrangements. This work is ongoing.

To better understand its underlying financial position, the Trust has undertaken a Drivers of the Deficit review (August 2021) which looked to identify the root causes of the Trust's deficit. Whilst the approach is based on NHS EI methodology and the sources of information and data used are comprehensive, the accuracy of some of the data is likely to be impacted by historic issues with the Trust's financial information, in particular reference costs, PLICS data and national benchmarking analysis.

The review identified that only 20% (£22.0m) of the underlying deficit related to operational efficiency. This does not correlate with other analysis, such as the Trust's externally commissioned Kingsgate efficiency analysis, which identified £70.0m opportunity (risk adjusted to £50.0m). The Trust should be more challenging around the level of Trust specific operational efficiencies within its Drivers of the Deficit analysis. We note that NHS EI have raised concerns with the Trust's Drivers of the Deficit analysis. The remaining elements of the deficit are made up of the NHS systemic deficit (44%), funding issues with commissioners (15%), educating and training costs and income (10%), CCG contract penalties (5%) and market forces factor (4%).

The Trust also recently prepared a draft medium term financial plan ("MTFP") which aims to deliver a breakeven position by 25/26. The Trust has identified that this is a first draft and that there remains some material gaps in information and assumptions, such as fully worked-up savings targets and investment values. Work is ongoing to reduce the level of risk in the plan and increase assurance that the plan can be delivered – this was due to be completed by January 2022 but we note that it has been delayed. Additionally, the MTFP has not yet been shared or agreed with System partners or NHS EI.

The Trust is currently engaged in a reconfiguration programme of its acute and maternity services which will see changes to the way care is provided across its three main sites. The context in which the Trust operates has changed since the original business case, in particular the restatement of its financial statements and a clearer understanding of the underlying financial position of the Trust.

The reconfiguration presents a significant risk to the Trust. The estimated capital costs of the scheme have increased from £460m at original estimate to £637m, and the Trust anticipates additional increases in estimated capital costs as further planning is undertaken. The Trust will be required to develop detailed financial analysis and plans at the next stage of its business case development. Therefore, it is critical that this work is based on the updated financial statements, the current understanding of its underlying deficit, and updated and improved financial information such as costing data and efficiency plans. This work needs to be undertaken in partnership with the System.

Governance

We identified significant weaknesses in the Trust's arrangements for making informed decisions and properly managing its risks. This included arrangements for robust internal control, overall financial management and reporting, governance and informed decision making, risk management and budget setting and management. We recommend that the Trust continues with its delivery of the Financial Governance Improvement Plan and Roadmap to address these issues.

The Trust has undertaken a lot of work to improve its governance arrangements, introduce effective controls and begin to change the finance and wider organisational culture and engagement around financial management and responsibilities. The Trust is still in the process of delivering its Financial Governance Improvement Plan and weaknesses in arrangements remain, especially around Clinical Management Groups' (CMGs) understanding and ownership of financial responsibilities, line of sight from CMGs through to Board, reporting in an integrated manner and the transition from the current interim arrangements to longer-term sustainable financial management and governance.

The Trust has had historic weak governance arrangements, as identified in our previous audit findings report, which flowed through into the early part of 20/21. However, in 20/21 there were significant changes in the overall governance arrangements at the Trust. These included:

- Changes to those charged with governance, including both executive and non-executive personnel. This includes the appointment of two associate non-executive directors in January 2021 to strengthen financial expertise and experience at Board level.
- Changes to the Board and sub-committee arrangements, following a review undertaken by Deloitte. This included improved committee relationships and changes to scope and terms of reference.
- Creating a Financial Governance Improvement Plan (FGIP) as a result of being placed in financial special measures in order to improve financial management, controls and reporting and put in place a roadmap to sustainable financial improvement.
- Establishing a Financial Recovery Board (FRB) as a sub-group to the Finance and Investment Committee. The FRB scrutinises all Trust expenditure and investments and this has strengthened the Trust's financial controls and helped manage its financial position.
- Interim senior finance support has been put in place, including NHS EI resource, to bolster the capacity and capability of the Finance Department. More recently, substantive appointments have been made to senior finance positions.
- Improved grip and control, by utilising the NHS EI grip and control checklist to introduce greater expenditure and investment controls, better month-end processes, improved financial reporting and enhanced controls over journal postings. This is overseen by FRB and the Audit Committee.

Combined, these changes have strengthened the financial management and governance at the Trust and have enabled the Trust to have a much clearer understanding of the financial challenges facing the organisation.

However, given the scale of the issues identified, and a recognition that the Trust has been addressing these issues whilst responding to the Covid-19 pandemic, there is more to be done to enable the Trust to move from improving through the Financial Governance Improvement Plan to a longer-term sustainable position. These areas include:

- Further development of the understanding and ownership of financial responsibilities by Clinical Management Groups (CMGs). This has improved in-year but is still in its infancy, partly due to the changes in the national financial architecture as a result of Covid-19. This will be a critical component as the Trust moves from heavily centralised arrangements and controls to 'business as usual' on its path out of financial special measures.
- Whilst the Board and Committee structure has been strengthened (and continues to be improved by the Chair) and there is better executive oversight and challenge of CMGs, the 'line of sight' from CMGs through to Board needs to be improved with better ward to Board reporting, challenge and oversight and follow-up on major issues and risks.
- The restructure of the finance department is ongoing and is due to be completed by January 2022. The move from experienced interims and senior NHS EI support is a risk to the Trust. Whilst the plans for the proposed structure and investment have been approved by FRB, the Trust should develop more detailed transition plans for moving from interim support to the new structure, including monitoring arrangements by the appropriate committee. It should be noted that the cultural and ethical issues we identified previously will take time to address before the Board can be fully assured that the Finance Department is acting with integrity and in-line with expected standards.
- The Trust is not reporting in an integrated manner, producing separate performance and quality reporting to financial reporting. Whilst this was understandable given the issues with the accuracy of financial information, the Trust should now move to fully integrated reporting. A dashboard approach would reduce the number of disparate reports flowing into key meetings, provide a quick and easy way to see key performance indicators and risks and ultimately increase effectiveness and oversight. This approach could easily be replicated at CMG level, increasing consistency across the organisation.

Improving economy, efficiency and effectiveness

We identified significant weaknesses in how the Trust uses information about its costs and performance to improve the way it manages and delivers its services. These weaknesses include:

- The issues with the Trust's financial information will impact on the accuracy of cost information and related benchmarking data which will mean the Trust, and external stakeholders, are unable to accurately measure how potentially economic and financially efficient the Trust is.
- There are significant issues with the Trust's procurement function which were identified in year, including several high-risk findings regarding the contract management processes. The Trust has been working to address these issues, but this remains a significant weakness.
- Collaboration with System (ICS) partners is not yet fully developed and therefore there is limited evidence that the Trust is ensuring it is using its significant partnerships for efficiency and/or performance improvement. This links to the significant weakness reported in the arrangements for financial sustainability.

To address these weaknesses in arrangements, the Trust should: (i) update local and national cost information once the 19/20 and 20/21 accounts have been finalised, (ii) refresh any benchmarking and efficiency analysis so that the Trust has a clear understanding of comparator performance at a service level, (iii) address the issues with procurement and contract management as identified in the internal auditor's review and (iv) drive forward partnership working with System colleagues, particularly around clinical strategy development, new models of care and effective demand management so that best and most appropriate use is made of secondary care resources

Despite significant challenges around the Trust's financial position and accuracy of financial data, evidence indicates that the Trust is delivering good quality services with an overall "good" rating from CQC, SHMI performance within the expected range and good performance across other indicators.

The Trust has also demonstrated effective use of other financial and non-financial information to inform its Cost Improvement Plans (CIPs) and the way it delivers and manages its services. Although the Trust has overdelivered against its CIP plans, our analysis indicates that a large proportion reflects the improved grip and control put in place over expenditure and, therefore, there is still substantial opportunity to deliver savings through clinical transformation, new models of care and clinical productivity and efficiency. This areas remains a significant risk to the Trust.

The issues identified with the Trust's financial statements over the last few years will impact the accuracy of cost information such as PLICS, national cost collection, and any benchmarking tools which use this data such as Model Hospital. This means that the Trust, and external stakeholders, are unable to measure how potentially economic and financially efficient the Trust is, particularly at service level.

However, the Trust has demonstrated effective use of other financial information (some of which may still be impacted by the issues with its financial statements) and non-financial information, for example Dr Foster, CHKS benchmarking and GIRFT. The Trust is using this information to drive its CIPs and the way it delivers and manages its services.

Historically, the Trust has underdelivered against its CIP plans. Prior to the Covid-19 pandemic and the issue with the financial information coming to light, the Trust engaged an external advisor to undertake an analysis of the potential efficiency and productivity opportunities. This showed a potential opportunity of £70.0m, which was risk adjusted to £50.0m. Due to the Covid-19 pandemic, the requirement to deliver CIPs was postponed across the NHS. However, as the Trust was placed in financial special measures, a CIP savings plan for H2 20/21 of £8.0m was set. As a result of the new governance arrangements and control environment, the Trust delivered £8.8m at year end.

This is good performance given this was delivered at the same time as responding to the Covid-19 pandemic. However, our analysis indicates that a large proportion reflects the improved grip and control put in place over expenditure, and to a lesser extent reduction in expenditure relating to reduced activity due to Covid-19 (but with stable income due to the national block funding arrangement). This means that there is still substantial opportunity to deliver savings through clinical transformation, new models of care, clinical productivity and efficiency, many of which will need to be developed and delivered in partnership with the System.

The Trust has put in place a new Transformation team with additional resource and has set up and implemented new processes for CIP identification, measuring and monitoring CIP delivery. This is built on a Quality Improvement (QI) approach and there is strong understanding across the Trust that efficiency and productivity initiatives need to be cash-releasing to impact the bottom-line. It should be noted that Covid-19 restoration may impact the Trust's ability to deliver cash-out savings in the short-term.

Despite the significant challenges around the Trust's financial position and accuracy of financial data, evidence indicates that the Trust is delivering good quality services. The last CQC inspection undertaken in Q3 19/20 rated the Trust as overall "Good", the Trust's Summary Hospital-Level Mortality Indicator (SHMI) is within the expected range and performance is good for safe metrics, such as c. difficile, MRSA and falls. However, HSMR is above the expected range, although investigation by the Trust indicates that this is directly attributable to Covid-19. The Trust also has a number of performance issues around responsiveness, such as referral-to-treatment and ED waits. This is understandable given the Covid-19 pandemic, although some of these issues pre-dated the pandemic.

Improving economy, efficiency and effectiveness continued

During the year, internal audit identified significant issues related to the Trust's procurement and contract management arrangements. These issues included absence of detailed policies and procedures, critical gaps in capacity and capability in both corporate and CMG teams, lack of formal management reporting arrangements and issues around people, skills and training. Work to address the issues started in 21/22 and still ongoing. This areas remains a significant risk to the Trust.

The Leicester, Leicestershire and Rutland ("LLR") Integrated Care System was established in April 2021, building on the existing Sustainability and Transformation Partnership (STP). The Trust is the only acute hospital in the ICS. Both the Trust's Board development programme and the FGIP have identified actions to improve collaboration with System partners. Engagement with the System is still in its infancy and further work is required to ensure the Trust works with the System to ensure it returns to long term financial sustainability. This includes:

- Sharing and agreeing the Medium-Term Financial Plan and aligning the Trust's MTFP with the System-wide recovery planning and longer-term planning
- Developing detailed delivery plans to drive clinical transformation and models of care which change the way care is delivered, manage demand and make maximum value of resource across the System. This is key to addressing the Trust's underlying financial position.
- Undertaking more detailed clinical, operational and financial planning as the Trust develops its Outline Business Case (OBC) for the reconfiguration of acute services. This area is a significant risk to the Trust given the change in its overall financial position.

COVID-19 arrangements

The Trust adapted and made appropriate changes to governance arrangements in response to the Covid-19 pandemic. The arrangements were defined nationally, and the Trust's arrangements were broadly in-line with others. However, the financial governance arrangements were not streamlined due to the financial issues identified early in 20/21.

We have not raised any recommendations in this area.

The Trust implemented appropriate interim governance arrangements from April 2020 to April 2021 to address the dynamic nature of the pandemic. This was nationally defined through the command, control and communication structure arrangements. This freed up bandwidth for executive directors to focus on navigating the Trust through Covid-19.

Governance arrangements were appropriately adapted to reflect the focus of the Trust. The Board meetings covered only key financial, operational and clinical issues. The Trust also set up a strategic and a tactical group which met daily to focus on strategic and operational matters.

Changes to the financial regime were limited as the Trust was cognisant of its financial position. Financial controls were improved by the introduction of a finance panel set up to review all Covid related costs. From H2, Board reporting included breakdown of spending by type: Covid-19, business as usual (BAU) and winter pressures, to help scrutinise the Trust's expenditure.

In each QOC meeting during the year, there was a verbal standing agenda item "Covid-19 position". This summarised the Covid-19 status of patients and any safety and operational issues related to the pandemic. The Board received a summary of the "Covid-19 position" discussion at QOC each month. The monthly quality and performance report also contained four safety related Covid-19 KPIs which were tracked and analysed to explain the Trust's performance.

Recommendations

Key recommendations

- To address the significant weaknesses in the Trust's arrangements for financial sustainability, the Trust should continue to develop the MTFP by ensuring:
  - remaining information and assumption gaps are addressed, or where these cannot be addressed at this stage, that the risks to the plan are transparent and clearly articulated
  - the plan is agreed with System partners and aligns with System-wide recovery planning and System long term financial plans
  - it aligns with other analysis such as the Trust's externally commissioned analysis on efficiency and productivity opportunities
  - timescales for reducing the deficit are realistic, with more achievable annual efficiency and productivity targets
  - detailed delivery plans are worked up which support the delivery and monitoring of transformation and efficiency progress
  - it sets out a clear path for securing additional funding to cover its structural deficit, once the figures have been updated and are robust
  - further financial analysis on the reconfiguration is undertaken to reflect updated financial statements, current underlying deficit and updated financial information and policy changes impacting on the reconfiguration
  - the updated financial analysis on the reconfiguration is then reflected in the MTFP and LTFP so that the full impact of the reconfiguration on the Trust's financial position can be fully understood
- To address the significant weaknesses in the Trust's governance arrangements, the Trust should continue with the delivery of the Financial Governance Improvement Plan and Roadmap, ensuring that:
  - CMGs are supported to understand and take ownership of their financial responsibilities and position, particularly as Covid-19 block funding arrangements are reduced
  - improved line of sight from CMGs through to Board is established, including integrated reporting across clinical, operational, finance and workforce
  - the outstanding actions on the 'grip and control' checklist are implemented and then reviewed for effectiveness and assurance
  - a more detailed transition plan is established for moving from the senior interim NHS EI support and centralised control (such as the Financial Recovery Board) to business as usual and longer-term financial management, including addressing the capacity and cultural issues identified in the Finance Department
- To address the significant weaknesses in the Trust's arrangements for securing economy, efficiency and effectiveness, the Trust should:
  - update local and national cost information once the 19/20 and 20/21 accounts have been finalised. This should include an assessment of the post-Covid baseline to reflect any permanent changes in the Trust's cost base
  - refresh any benchmarking and efficiency analysis so that the Trust has a clear understanding of comparator performance at a service level
  - drive forward partnership working with System colleagues, particularly around clinical strategy development, new models of care and effective demand management so that best and most appropriate use is made of secondary care resources
  - address the issues with procurement and contract management as identified in the Internal Auditor's review

Financial sustainability

We considered how the NHS Trust:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Key Section Messages:

We identified significant weaknesses in how the Trust plans and manages its resources to ensure it can continue to deliver its services. This was in relation to the Trust's medium term financial planning arrangements. We recommend that the Trust continues to develop its medium term financial plan, in particular ensuring this is agreed with ICS partners and aligns with System long term financial and operational plans.

Financial performance was achieved by the Trust during 20/21, largely as a result of the national Covid-19 pandemic top up funding. The Trust delivered a surplus of £52.2m at the end of the year.

The focus of the Trust in the first half of 20/21 was trying to improve the accuracy of financial information and reporting, alongside addressing the financial management and governance issues and responding to the Covid-19 pandemic. By Q4 the Trust was focussed on getting back grip and control which began to be reflected in financial reporting, with performance in line with plan.

At year-end, the Trust had an underlying deficit of £109m. Whilst the Trust now has a better understanding of its underlying position, it is still at the early stages of developing a comprehensive plan to address the underlying position, including with System partners. A draft medium term financial plan has been developed but there remain some material gaps in information and assumptions and it has not yet been shared with System partners or NHSI.

The Trust has undertaken substantial work to improve the robustness and accuracy of its financial information and reporting and has a much better understanding of its underlying financial position and its causes. The size (£109m) and the lack of a fully worked-up and agreed plan to address the underlying deficit remain a significant weakness in arrangements.

20/21 Outturn

The Trust's unaudited 20/21 outturn position was a surplus of £52.2m - the first time the Trust had reported a surplus in eight years. Due to the pandemic, the Trust received block funding for the whole year which covered all spend (baseline and Covid-19 related). Simultaneously, the Trust did not incur some of the costs associated with delivering clinical activity, as it was part suspended during the year. Therefore, the surplus was not a sign of the Trust's improved financial performance, but a result of the NHS's response to the pandemic and its impact on services. This was in line with the financial performance of other NHS trusts across the country.

The year end position included an adjustment for NHS EI's requirement that the Trust repay the received 19/20 Q1 to Q2 performance related funding from the Provider Sustainability Fund (PSF) and Financial Recovery Fund (FRF). The findings in our external audit work triggered adjustments to the 19/20 financial accounts, which meant that the Trust had been ineligible for the funding at the time it had been received. In 20/21, we noted no indication that the Trust received income they were not eligible for.

Financial special measures

In August 2020, the Trust was placed in Financial Special Measures as a result of its poor long term financial performance and increasing underlying deficit. NHSI Intensive Support personnel were embedded at the Trust to help it improve its financial management, governance and sustainability. The Trust produced a Financial Governance Improvement Plan (FGIP) and a Roadmap to sustainable financial improvement in H2 to guide the delivery of its financial recovery.

Financial sustainability

With the support available, the Trust focused on better understanding its true financial position driven by our external auditors' findings and adjustments related to the 19/20 financial statements. From Q4 onwards, the Trust's actual financial performance against budget significantly improved as a result of the FGIP driven grip and control enhancements made in Q3. The Trust built on these improvements in 21/22 by delivering significant further work per the FGIP. We consider that the changes made to the Trust's governance and control environment (see next section on Governance) have enabled the Trust to improve its financial planning, performance and reporting arrangements although this is still continuing to improve and is not yet fully embedded.

20/21 financial planning and budget setting

From April to September (H1) block contract payments replaced other forms of NHS income. There were additional top-up payments to compensate where actual costs were higher than the block contract and costs to respond to Covid-19 were fully covered. The operational planning process was suspended, and the Trust used interim budgets, based on April 2020 expenditure levels, critical patient safety investments and inflation, to manage its financial performance.

For the period from October to March (H2) the Trust submitted a plan which was created together with its System partners. The plan reflected the agreed block contract and top-up payments. There was significant focus on restoration and recovery of non-urgent elective services.

The H2 financial plan followed national guidance and was built using three scenarios which was an improvement to the Trust's budgeting process from previous years. It was aligned to the Trust's workforce and operational plans as best as it could be given the ongoing uncertainty around Covid-19. It was subjected to confirm and challenge sessions and finally signed off by the Board and System partners. We consider the preparation process appropriate.

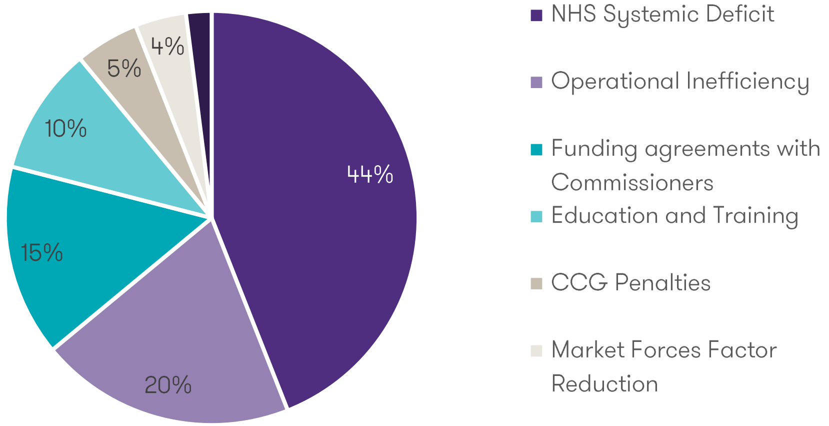
The Trust's year-end plan position reported to NHS EI was £30.1m deficit. At year-end the Trust reported a £52.2m surplus. The Trust's Board papers attribute this large favourable movement to the block contract arrangements, lower than planned spend on activity due to Covid-19, lower recruitment levels and lower winter fill due to staff shortages. Therefore, the key drivers of the Trust's positive financial performance were largely external to the Trust - the central NHS funding arrangements, the impact of the pandemic on providing non-urgent elective care and staff shortages. Although, we note that improved grip and control over expenditure in Q4 contributed to the positive performance.

Understanding the underlying deficit and way forward

The Trust has reported deficits for eight years which ultimately resulted in an accumulated deficit position of £109m as at 31 March 2021 (unaudited). Its significant size demonstrates that the Trust's financial arrangements are not sustainable, and action needs to be taken to prevent the deficit from increasing. The Trust has a difficult journey ahead to reduce the deficit and ultimately return to a breakeven or surplus position.

To better understand its financial position, the Trust produced a Drivers of the Deficit review issued in August 2021. The Drivers of the Deficit used a variety of data sources to deliver a robust analysis; however, it acknowledged that historic issues with the Trust's financial statements may have impacted the accuracy of the report.

The analysis provided a thorough examination of the Trust's deficit, exploring 30 hypotheses to understand whether they are relevant to and if so, how they contributed to the Trust's underlying deficit. Although NHSI methodology was used to prepare the report, two new hypotheses were added by the authors - i) the size of the NHS systemic deficit following the Government's fiscal tightening of NHS budgets (from 2010) and ii) examination of alternative service lines e.g., Education and Training. A breakdown of the Trust's assessment of the drivers of the deficit is set out in the chart below.



Financial sustainability

The underlying deficit (£109m) is made up of the following items:

1. NHS systemic deficit - £47.9m (44%)
2. Education and training - £10.0m (10%)
3. Operational inefficiency - £22m (20%)
4. Market Forces Factor Reduction - £5m (4%)
5. Funding agreements with commissioners - £15.8m (15%)
6. CCG penalties - £6.5m (5%)
7. Lost private practice income and write offs - £2m (2%)

Based on this methodology, over half of the deficit is allocated to structural issues, outside of the Trust's control, and only 20% (£22m) to operational inefficiency which the Trust is able to influence. This does not correlate with other analysis such as the Trust's externally commissioned Kingsgate report in March 2020, which quantified the Trust's efficiency opportunities at £70m (risk adjusted to £50m). The Trust should be more challenging around the level of trust specific operational efficiencies within its Drivers of the Deficit analysis. We note that NHS EI have raised concerns with the Trust's Drivers of the Deficit analysis.

Medium term financial plan

The Trust has recently prepared a draft medium-term financial plan (MTFP) which aims to deliver a breakeven position by 25/26. It is also supported by a long-term financial model (LTFM) which tracks the expected impact of recovery work over the five-year period.

The draft MTFP recognises that although a significant element of the deficit was identified as structural, the Trust must deliver improvement from local initiatives. This is reflected in the MTFP's four elements:

1. The consistent delivery of an annual savings programme, both specific to the Trust and schemes linked to a wider System Redesign programme.
2. A restriction on investment to meet growth achieved through productivity and care model changes (also linked to System partnership working).
3. Transfer of a share of surpluses manifesting in the CCG to the Trust, facilitating both Trust and System level financial balance.
4. Grip and control of investments and cost pressures, limited to control total values and triple lock agreements as per System Financial Strategy.

The Trust has identified that this is a first draft and that there remain some material gaps in information and assumptions, such as fully worked-up savings targets and investment values. Work is ongoing to reduce the level of risk in the plan and increase assurance that the plan can be delivered. This was due to be completed by January 2022. In February 2022, work was still ongoing to review and refresh the MTFP. The newly appointed CFO has made a commitment to providing a written progress update to FIC on updating the MTFP from February 2022 onwards.

Taking the four elements above into account, the current draft MTFP projects that the Trust will record a £7.8m deficit by 25/26 (see table below).

Forecast I&E	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Income	1,256	1,249	1,165	1,211	1,256	1,286
Expenditure	(1,239)	(1,249)	(1,252)	(1,266)	(1,280)	(1,294)
Surplus/(deficit)	17	0	(87)	(55)	(24)	(8)
Non-recurrent items	(155)	(109)	0	0	0	0
Surplus/(deficit)	(138)	(109)	(87)	(55)	(24)	(8)

In addition to the gaps in information and assumptions highlighted by the Trust, the savings element appears to be very ambitious at £29m annually, delivered by either the Trust's CIPs and/or System Redesign – savings allocation is not yet confirmed. Given the Trust's historic performance in delivering CIP plans and the present very early stages of System working, this level of annual savings within a five-year horizon appears unrealistic. Additionally, the MTFP has not yet been shared or agreed with System partners or NHS EI.

We consider the draft MTFP to be incomplete in its analysis of how the Trust will achieve a breakeven position within the next five-year period. The Trust does not yet have a detailed plan to achieve a sustainable financial position. This remains a significant area of risk for the Trust.

Financial sustainability

21/22 financial planning and budget setting

The continuing Covid pandemic uncertainty meant that national guidance for NHS financial planning in March 2021 was issued only for the first six months of 21/22. The H2 funding arrangements announced in September 2021 remained the same as in H1 – block contract plus Covid top-ups.

The Trust's budget setting process for H1 was in line with national requirements. Clinical management groups (CMGs) and directorates produced their own budgets, using the national guidance and CIP opportunities identified by Kingsgate. The budget also reflected the Trust's activity and workforce plans and was based on three scenarios to improve the accuracy of the budget setting process.

Although the basis of the H1 budget was the unaudited figures from 20/21, the plan was subject to months of review, challenge (at CMG and Executive level) and refinement against activity and workforce plans. This mitigated some of the accuracy issues which could have flowed into the H1 budget.

Provisions in the budget were also scrutinised in detail by senior Executives to ensure they were appropriate, as external audit had identified significant issues with the Trust's contingency balances in 19/20. To manage unplanned activity or changes to plan, the Trust was allocated non-recurrent £21m headroom from the System budget. There was a further £4m contingency available to support the Trust's elective recovery. Including these System allocations, the budget projected that the Trust would break even in H1.

The preparation of the budget went through robust governance. It was overseen by the Finance and Investments Committee (FIC) and approved by the Board. The preparations for the bottom-up budget started in December 2020 and included significant engagement with CMGs and directorates, including confirm and challenge sessions with senior Executives (Acting COO and Deputy CFO), as well as a HR representative to review the workforce assumptions.

The plan submitted to NHS EI outlined a breakeven position for 2021/22. The latest (M9, December 2021) financial report shared with the Board indicated that the Trust has a surplus of £9.2m at M9. This surplus is due the national funding block payment arrangement continuing, pay and non-pay underspends due to lower activity than planned, vacancies across the Trust and over delivery of CIP.

Reconfiguration

The Trust is currently engaged in a reconfiguration programme of its acute and maternity services which will see changes to the way care is provided across its three main sites and investment into new estates and infrastructure. The Trust prepared and submitted a pre-consultation business case (PCBC) in 2019 which received approval in 2020. The Trust are currently waiting approval to proceed to the next stage – developing the Outline Business Case (OBC).

The potential investment raises significant risks to the financial position of the Trust. The estimated capital costs of the scheme (£637m) have increased since the original PCBC (£460m), both to reflect a change in requirements and national policy (such as net zero and single room requirements) and a change in financial calculation (such as risk and optimism bias rates applied). The Trust anticipates that a further increase in estimated capital costs will be likely. This will have a direct impact on the revenue costs of the scheme, in particular Public Dividend Charges (annual capital charges) which will also reduce the anticipated benefit from the scheme. This therefore reduces the expected net contribution of the scheme to the Trust's underlying deficit and increases the risk of the scheme having a negative impact on its underlying position.

It should also be noted that the PCBC was developed in 2019, prior to the issues with the financial statements being identified and thus understanding the actual size of the underlying deficit of the Trust. Additionally, the Trust's current draft MTFP is based on the £637m capital costs which are expected to increase in future analysis, although it is noted that the impact of the hospital reconfiguration is outside of the MTFP timeframe which is generally 3-5-year time horizon.

The reconfiguration, therefore, presents a significant risk to the Trust. The Trust will be required to develop detailed financial analysis and plans at OBC stage. As a result, it is critical that this work is based on the updated financial statements, the current underlying deficit and updated and improved financial information, such as costing data and efficiency plans.

Significant weakness

The Trust has demonstrated that it has undertaken substantial work to improve the robustness and accuracy of its financial information and reporting and its grip and control in the year. It also delivered a Drivers of the Deficit analysis to better understand the root causes and created its first draft MTFP.

We consider that the Trust's significant underlying deficit of £109m and the lack of a fully developed and agreed plan to become financially sustainable constitute a significant weakness in the Trust's arrangements to plan and manage its resources and to ensure it continues to deliver its services. We have raised a key recommendation with regards to this issue.

Key recommendations

Financial sustainability

01	**Recommendation**	To address the significant weakness in the Trust's arrangements for financial sustainability, the Trust should continue to develop the MTFP by ensuring: • remaining information and assumption gaps are addressed, or where these cannot be addressed at this stage, that the risks to the plan are transparent and clearly articulated • the plan is agreed with System partners and aligns with System-wide recovery planning and System long term financial plans • it aligns with other analysis such as the Trust's externally commissioned analysis on efficiency and productivity opportunities • timescales for reducing the deficit are realistic, with more achievable annual efficiency and productivity targets and longer term model of care and transformation change opportunities • detailed delivery plans are worked up which support the delivery and monitoring of transformation and efficiency progress • a clear path is set out to secure additional funding to cover its structural deficit, once the figures have been updated and are robust • further financial analysis on the reconfiguration is undertaken to reflect updated financial statements, current underlying deficit and updated financial information and policy changes impacting on the reconfiguration • the updated financial analysis on the reconfiguration is then reflected in the MTFP and LTFP so that the full impact of the reconfiguration on the Trust's financial position can be fully understood
	Why/impact	Without a robust plan, the Trust will continue to have an unsustainable deficit (even if it somewhat reduces) and remain in Financial Special Measures. This could impact the Trust's ability to deliver services in the long term. The reconfiguration proposals could have a significant and material impact on the longer term financial sustainability of the Trust.
	Auditor judgement	Due to the size of its deficit, without a robust plan supported by the System to address it, the Trust is unlikely to return to a sustainable financial position.
	Summary findings	Continued overleaf…

The range of recommendations that external auditors can make is explained in Appendix C.

Key recommendations

Financial sustainability (continued)

01	**Summary findings**	The Trust has a significant deficit of £109 million. It was placed in Financial Special Measures in August 2020 and an NHSE/I Intensive Support team have been helping the Trust manage its financial performance and governance. The Trust improved grip and control in Q4, delivered a Drivers of the Deficit analysis in August 2021 and has drafted its first MFTP. The MTFP does not contain a plan of how the Trust will reach breakeven by 25/26. The CIP saving assumptions are also considered ambitious. The Trust does not yet have a robust and realistic plan, agreed with the System, to guide its journey to long-term financial sustainability. The financial analysis of the reconfiguration programme was undertaken prior to the financial issues being identified at the Trust, including a full understanding of the underlying deficit. The capital costs associated with the scheme have also already increased to an estimated £637 million (and may increase further). Financial Sustainability therefore remains a significant risk to the Trust.
	Management comment	Agreed: at the end of 2020/21 the future financial framework was uncertain. We now know that it will help support the erosion of historic deficits, albeit the future years will present a significant challenge to financial sustainability . Work has commenced to develop the MTFP, beginning with detailed understanding of the Trust's underlying recurrent position and modelled assumptions for future years. The UHL plan has been developed alongside the system financial plan for 2022/23, incorporating the same assumptions and with clear understanding of risk. System planning group is in place to oversee and support the plan development and the transformation schemes required. External support from PWC has been secured to support in the development of a system PMO to drive development of the system efficiencies. System working and relationships are also being developed more widely including on the emergency pathway. It should be noted hat the national New Hospitals Programme (NHP) have reduced their financial support to all Trusts in 22/23 as capital funding in the current review period to 2024 is limited, so it is likely to see a scaling back of the reconfiguration programme going forwards and therefore the associated revenue implications. Action owner DCFO.

The range of recommendations that external auditors can make is explained in Appendix C.

Governance

We considered how the NHS Trust:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Key Section Messages:

We identified significant weaknesses in the Trust's arrangements for making informed decisions and properly managing its risks. This included arrangements for robust internal control, overall financial management and reporting, governance and informed decision making, risk management and budget setting and management. We recommend that the Trust continues with its delivery of the Financial Governance Improvement Plan and Roadmap to address these issues.

The Trust has had historic weak governance arrangements, including limited challenge of the Trust's financial performance and prioritisation of meeting its control total, resulting in inaccurate financial information and the Trust being placed in Financial Special Measures in August 2020.

As a result of these historic issues, the Trust has undertaken a lot of work to improve its governance arrangements and controls, with changes to both executive and non-executive personnel, improved Board and committee arrangements, putting in place a Finance Governance Improvement Plan and establishing a Financial Recovery Board, enhanced finance department capacity and capability and improved grip and control over Trust finances.

The Trust is still in the process of delivering its Financial Governance Improvement Plan and weaknesses in arrangements remain, especially around CMGs' understanding and ownership of financial responsibilities, 'line of sight' from CMGs through to Board, reporting in an integrated manner and the transition from the current interim arrangements to longer-term sustainable financial management and governance which includes addressing the culture of the Finance Department.

Trust governance arrangements

In 20/21 the Board had six committees – Finance and Investments Committee (FIC), Quality Outcome Committee (QOC), People Process and Performance Committee, Audit Committee, Remuneration Committee and Charitable Funds Committee.

In Q1 a sub-committee of FIC that focused on scrutinising all Trust expenditure and investments was put in place – the Financial recovery Board (FRB). The FRB meets every two weeks and is attended by all Executive Directors, the Financial Improvement Director and the Deputy Financial Improvement Director (both from NHSI Intensive Support team). The establishment of the FRB has improved financial governance, with a focus on delivering changes to the financial governance, management and control. It has also particularly strengthened control overpay and non-pay expenditure which has been one of the drivers for poor financial performance against agreed plan, resulting in the underlying deficit.

We also note that there have been a number of changes to those charged with governance, including both executive and non-executive personnel. Some of these positions were filled by experienced interim personnel in 20/21:

- In Q4 19/20 – the Trust Board Chair and the Chief Financial Officer ("CFO") left the Trust. An interim CFO was appointed.
- In 20/21 – the Audit Committee Chair and the Chief Executive Officer ("CEO") left during the year. Two Associate NEDs with financial expertise joined the Board. In March 2021, the Trust Board Chair and Deputy Trust Board Chair left the Trust.
- In 21/22 – a new Board Trust Chair joined the team. In October 2021, a substantive CEO joined the Trust. In late 2021 and early 2022 a substantive CFO and Chief Operating Officer joined the Trust.

Governance

These changes in key personnel and the Covid-19 pandemic resulted in minimal changes to Board governance arrangements in the year, except for changes prioritised to address the financial governance failings identified, such as establishing the FRB. However, following the appointment of a new Trust Chair in April 2021, a review of Board arrangements was undertaken, with advice from Deloitte. This resulted in changes to the Board and sub-committee arrangements, including improved committee relationships and changes to scope and terms of reference. The evidence indicates improved oversight, scrutiny and challenge by committees although further changes are anticipated.

Board governance arrangements

Financial matters

There have been historic weak governance arrangements in place at the Trust which flowed through into 20/21. The Board minutes demonstrated limited engagement, discussion and challenge of the monthly financial performance and service quality & performance reports and the quarterly Board Assurance Framework (BAF).

This lack of challenge of the financial reporting was driven by limited Board financial knowledge and poor monthly reports:

- Early in the year, the Board self-identified its limited financial expertise which prevented adequate scrutiny of the Trust's financial performance. Board training on financial skills was postponed several times due to the pandemic. In Q4, the Board appointed two associate non-executive directors (NEDs) with relevant accounting qualifications to bolster its financial skills. Board minutes in Q4 demonstrate improved discussion and challenge of the Trust's monthly financial performance.
- The Board is not presented with a monthly integrated performance report, but rather two separate reports (financial and quality and performance reports) which total over 90 pages together. The information does not link financial and operational performance and clinical issues which limits the Board's ability to meaningfully challenge the overall Trust's performance.
- During the year, the quality of the financial performance report significantly improved. It now contains CMG and directorate-level performance, CIP and capital programme performance, working capital position and risks and mitigation to forecast outturn delivery. The accuracy of performance against budget also improved as a result of strengthened budgeting controls in Q3.

While the quality of Board reporting could be further improved through a monthly integrated performance report, we consider that there were improvements in the Board's financial governance from Q4, including Board's review and challenge of management decisions.

Clinical matters

We noted limitations in the line of sight from ward to Board. Although the Board receives a monthly quality and performance report, the Trust's operational and clinical KPIs were not discussed at Board meetings. In addition, there is limited clinical engagement at Board. Clinicians attend only to present a segment on patient stories and then leave the meeting.

Whilst the executive team's engagement with and support and challenge of CMGs has improved, as well as improvements in committee arrangements, more should be done to enhance the link between CMGs and the Board, i.e. the line of sight in the organisation. This will ensure ownership of performance, clinical delivery and financial position by CMGs and enable a better understanding of CMG performance by the Trust Board.

The Trust Board is already aware of these issues and has engaged Deloitte to deliver a tailored Board development programme. The programme started in 21/22 although we note that it has been paused until March 2022. It covers items such as: traits of a high performing board, good practice in financial governance, board line of sight, system engagement, committee chair training and executive team development. The programme should equip the Board and Executive team with the knowledge and tools to strengthen the current governance arrangements.

Financial governance improvement plan

To address its financial control gaps and issues, including those identified in our draft 19/20 Audit Findings Report, the Trust, heavily supported by the NHSI Intensive Support team, created a Financial Governance Improvement Plan. We consider that the FGIP is a robust plan to improve the Trust's controls across the following three areas: service and financial sustainability, financial governance, and financial skills development for the finance team.

Each section has an allocated senior reporting officer (SRO) and monthly progress is reported to the FRB and FIC. Work is continuing to progress the delivery of the plan, although some of it has been slow or postponed due to responding to the Covid-19 pandemic and due to the scale of the issues needed to be addressed, meaning some areas were prioritised over others. Therefore, some weaknesses in arrangements remain. These include:

- CMGs' understanding and ownership of financial responsibilities
- line of sight from ward to Board
- reporting in an integrated manner
- capacity and culture within the Finance Department, and
- transition from the current interim arrangements to longer term sustainable financial management and governance

Governance

Roadmap to sustainable financial improvement

The Board monitors monthly the Trust's progress against the NHS EI set criteria that would allow the Trust to exit Financial Special Measures. In January 2022, the Roadmap progress is captured in the table below.

The Roadmap reflects significant work on exit criteria 1 and 2, some of which is aligned to the FGIP. The System-related actions do not yet have agreed implementation timelines, although a reference to the MTFP preparation is noted. We consider that the Trust still has a significant amount of outstanding work to improve its financial performance in the context of System working and redesign of service delivery. This low maturity of System work will also impact the feasibility to deliver a breakeven position in 25/26 in the MTFP.

Exit criteria	Delivery timeline
1. Delivery against agreed financial recovery plan	Last action by 31 March 2022
2. Robust financial controls, process and governance	Last action by 30 September 2022
3. Trust and System have a shared understanding of financial risks and mitigations	TBC
4. Trust and System have dedicated oversight and support to ensure continue improvement	TBC

The Roadmap demonstrates that the Trust has strengthened its financial governance and continues to work towards further improvements. We note that there has been slippage against a number of the delivery timelines.

We consider that despite the improvements that have been made, the Trust's plan to exit Financial Special Measures is missing timelines on two of the four exit criteria it needs to satisfy. We note that these criteria have been missing delivery timescales since the original roadmap was established and are still 'to be confirmed'. As outlined in the financial sustainability section of the report, this lack of progress is a significant risk and work to ensure the Trust and System have a shared understanding of the financial risks and mitigations and appropriate governance and oversight, must be prioritised. Without this action, the delivery of the MTFP and plans to address the underlying deficit will be severely hindered.

Financial management and reporting:

In the Finance Department

The Finance Department continued to be stretched in the year. When the Trust entered Financial Special Measures, interim support from NHSI Intensive Support team was provided. However, capacity issues were managed with a mix of external and temporary staff. To address this capacity problem and the cultural issues identified in our 19/20 Audit Findings Report, the Trust has been developing a programme to restructure the Finance Department.

The programme began in December 2020 and is due to be completed in mid-January 2022. The aim is to sufficiently resource the finance team with substantive staff to meet the Trust's needs. This includes changing the team's organisational structure, creating role-specific job descriptions, conducting interviews with existing staff to ensure they meet the job requirements and recruiting new staff to fill any vacancies.

Additionally, in 20/21 a review of the Finance Department culture and behaviours was undertaken. An action plan to drive improvements is currently underway. Professional development plans and objectives for the entire department have been put in place to align the team to the professional standards they are required to deliver against. These controls should ensure robust culture in the Finance Department is embedded to enable high quality outputs that reflect the Trust's financial performance and support the Trust's governance arrangements.

Although senior interim support and the recruitment of a number of experienced personnel has strengthened the Finance Department in the short term, the restructure of the department is ongoing and, therefore, outcomes will only begin to materialise early in 22/23.

Although action has been taken, this area remains a significant risk to the Trust. There are still some gaps in filling posts and a significant ongoing work programme to address the financial issues at the Trust (before returning to a 'business as usual' operating framework) which will result in continued capacity and capability challenges. Additionally, there is more work to be done to ensure the culture change in the Finance Department is enacted and the Board is assured that the finance team is behaving appropriately and in-line with the ethical standards expected from the finance profession.

At CMGs/directorates level

In Q1 20/21 concerns were raised at FIC that the CMGs were insufficiently involved in the Trust's financial management activities. To improve CMG engagement with financial performance, a third of the monthly CMG performance review meetings (PRMs) were designated to cover performance against budget. In Q4, mandatory training for budget holders and requisitioners across the entire Trust was rolled out to ensure financial management responsibilities are clearly understood. The training completion rate was 94% in September 2021.

Governance

As the Trust's financial issues have been part driven by failure to keep expenditure in line with budgets, getting the CMGs more involved in financial management is an important step in the right direction. We observed two CMG meeting in October 2021, and both covered financial performance indicators. While the process is still relatively new, the CMGs demonstrated improved financial literacy.

There have also been significant improvements in the CMG engagement with the Trust's CIP processes during the year too. The Trust created a Transformation team in Q2 to support with the identification, assessment, quantification and monitoring of CIP schemes across the Trust. The team meets monthly with each CMG and directorates to review their CIP schemes progress against plan. Ownership of CIP delivery now sits clearly with the CMGs and directorates.

Although we consider that there have been improvements in the CMGs' financial engagement, this is still in its infancy, partly due to the changes in the national financial architecture as a result of Covid-19. This will be a critical component as the Trust moves from heavily centralised arrangements and controls to 'business as usual' on its path out of Financial Special Measures.

Care Quality Commission inspection and enforcement action

The last Trust-wide CQC inspection took place in September to November 2019 and rated the Trust as overall 'Good', with use of resources rated 'Requires improvement'. The latest CQC inspection was an unplanned visit of the emergency department at the Leicester Royal Infirmary in January 2020, as part of the winter pressure resilience programme.

The Trust has a plan to address the CQC findings from the Trust-wide inspection and these were discussed at the Quality Outcome Committee periodically during the year. Each requirement notice was assigned a Trust oversight committee to scrutinise the delivery of the work plan.

Due to the pandemic, the committees were disbanded and reinstated in Q2 and Q3. A governance review in Q4 of the first tranche of these committees identified cultural issues with lack of action ownership and improvements driven by the oversight committees. The Trust has been working with the respective committee chairs to address the identified issued and drive the delivery of the CQC recommendations.

In response to the CQC inspection of the emergency department, the Trust produced an action plan. In July 2020, QOC was informed that 8 of the 9 actions were complete and 1 was on track to complete by its due date. The Covid-19 pandemic had brought about significant changes to the operation of the Trust's emergency departments. As a result, the findings were resolved in H1.

Risk management

Whilst the Trust had an overall risk management framework and procedures in place in 2020/21, we noted issues with its implementation and the robustness of governance at Board level in relation to risk management. This meant that risk management was not working effectively. This was highlighted by the Trust's internal auditors in their annual Head of Audit opinion for 2020/21 (reported in July 2021) with a rating of "Major Improvements Required". The report noted that there were significant weaknesses and non-compliance in the framework of governance, risk management and control. Major improvements are required to improve the adequacy and effectiveness of governance, risk management and control.

The issues with financial controls and broader governance were also raised in our 19/20 Audit Findings Report.

Risks are identified by CMGs and directorates and entered in the risk register. Each risk is RAG-rated based on its likelihood and impact. CMGs and directorates review their live risks and corresponding mitigation in monthly performance review meetings.

The Trust's eight highest rated risks ('principal risks') are presented to the Board and the Audit Committee for quarterly review. Each of the eight risks is owned by an Executive Director and is reviewed at Executive level committees. In the Board minutes throughout the year, we noted very limited engagement with and challenge of the BAF principal risks status and mitigation progress. This included limited discussion and challenge of the financial sustainability risk in a year when the Trust was placed in Financial Special Measures.

In addition, the BAF states that the Audit Committee performs deep dives on principal risks to provide assurance to the Board. Only one principal risk was reviewed in the year and the outcome of the deep dive was unclear based on the paper provided to the Board, including whether assurance was provided for the risk management arrangements in place. The paper was not discussed by the Board to challenge what had been shared.

In 2021/22 work was started to address some of the issues, including a revised approach to BAF following the appointment of a new Trust chair in May 2021. This work is ongoing, and the Trust is still in the process of addressing the fundamental breakdown of control, risk management and overall governance.

Key recommendations

Governance

02	**Recommendation**	To address the significant weakness in the Trust's governance arrangements, the Trust should continue with the delivery of the Financial Governance Improvement Plan and Roadmap, ensuring that: • CMGs are supported to understand and take ownership of their financial responsibilities and position, particularly as Covid-19 block funding arrangements are reduced • improved line of sight from CMGs through to Board is established, including integrated reporting across clinical, operational, finance and workforce • the outstanding actions on the 'grip and control' checklist are implemented and then reviewed for effectiveness and assurance • a more detailed transition plan is established for moving from the senior interim NHSI support and centralised control (such as the Financial Recovery Board) to business as usual and longer-term financial management, including addressing the capacity and cultural issues identified in the Finance Department
	Why/impact	Without robust governance, the Trust cannot ensure effective clinical, operational, performance and financial delivery and sustainability of services.
	Auditor judgement	The Trust needs to strengthen its governance to ensure it can run effectively.
	Summary findings	The Trust has had historic weak governance arrangements. The Trust was placed in Financial Special Measures in August 2020 as a result of its continued poor financial performance. The Trust has several plans to help it improve its financial governance arrangements and performance. The Trust's Roadmap to sustainable financial recovery does not contain the timelines for delivery of all exit criteria. The Trust is still in the process of delivering its Financial Governance Improvement Plan and weaknesses in arrangements remain, especially around CMGs' understanding and ownership of financial responsibilities, 'line of sight' from CMGs through to Board, reporting in an integrated manner and the transition from the current interim arrangements to longer-term sustainable financial management and governance which includes addressing the culture of the Finance Department.
	Management comment	Agreed: Work will continue through the monitoring of the actions linked to the Road Map to sustainable financial improvement and will be monitored through the RSP Exit Steering Group chaired by the CFO, in addition to the Statutory Recommendations action plans which will continue to be reported/monitored through the Audit Committee. Assurance will continue to be sought for the Grip and Control activities that remain via appropriate forums. Grip and control KPI's are now monitored monthly to assist in ensuring existing progress and trajectory is not lost. The Finance Department has been on an intense journey of improvement. It has specific senior resource dedicated to improving culture, who has led the development and process of implementing a culture and behaviour action plan and undertook a review of its structure and the processes and procedures in place to enable the Statutory Recommendations to be delivered and facilitate exit from the Recovery Support Programme. Significant investment has taken place in the Finance Structure to ensure it has the capacity and is fit for purpose.

The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

We considered how the NHS Trust:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Key Section Messages:

We identified significant weaknesses in how the Trust uses information about its costs and performance to improve the way it manages and delivers its services. These weaknesses include:

- The issues with the Trust's financial information will impact on the accuracy of cost information and related benchmarking data which will mean the Trust, and external stakeholders, are unable to accurately measure how potentially economic and financially efficient the Trust is.
- There are significant issues with the Trust's procurement function which were identified in year, including several high-risk findings regarding the contract management processes. The Trust has been working to address these issues but this remains a significant weakness.
- Collaboration with System (ICS) partners is not yet fully developed and therefore there is limited evidence that the Trust is ensuring it is using its significant partnerships for efficiency and/or performance improvement. This links to the significant weakness reported in the arrangements for financial sustainability.

To address these weaknesses in arrangements, the Trust should update local and national cost information once the 19/20 and 20/21 accounts have been finalised, refresh any benchmarking and efficiency analysis so that the Trust has a clear understanding of comparator performance at a service level, address the issues with procurement and contract management as identified in the Internal Auditor's review and drive forward partnership working with System colleagues, particularly around clinical strategy development, new models of care and effective demand management so that best and most appropriate use is made of secondary care resources

Despite significant challenges around the Trust's financial position and accuracy of financial data, evidence indicates that the Trust is delivering good quality services with an overall "good" rating from CQC, SHMI performance within the expected range and good performance across other indicators.

The Trust has also demonstrated effective use of other financial and non-financial information to inform its Cost Improvement Plans (CIPs) and the way it delivers and manages its services. Although the Trust has overdelivered against its CIP plans, our analysis indicates that a large proportion reflects the improved grip and control put in place over expenditure and, therefore, there is still substantial opportunity to deliver savings through clinical transformation, new models of care and clinical productivity and efficiency. This area remains a significant risk to the Trust.

Improving economy, efficiency and effectiveness

Accuracy of financial and performance data

The accuracy of the Trust's financial and performance data is currently impacted by a number of historic issues and there are ongoing work streams to improve the data. The limitations of available Trust data means that the Trust cannot effectively assess its efficiency and economy or perform accurate like-for-like benchmarking with peers. These issues include:

- Significant and material issues with the Trust's pay and non-pay expenditure in 19/20, including imprudent expense recognition policies and unapproved journal entries. This translates into accuracy issues with the Trust's cost information, especially at service level, both in 19/20 and 20/21.
- The quality of coding lags behind peers, despite an upward trend in 20/21. For day cases and emergency activity, the Trust records fewer diagnosis codes per patient, while operating in a complex population health environment with many patients who have co-morbidities. This indicates potential data quality issues which may also be impacting on income (prior to the current Covid-19 top-up funding).
- The 19/20 Patient-Level Information and Costing Systems (PLICS) return highlighted areas where Trust information was unavailable, such as outpatients time in minutes not recorded, critical care activity data not captured at shift level or acuity level and not all activity is recorded against an actual consultant.

Taken together, these issues reduce the Trust's ability to understand the cost of services that it provides and how they compare to other NHS organisations and peers. The Trust is unable to accurately determine how effective, efficient and economical it truly is in the delivery of its services.

This issue impacts on all tools and analysis that use the same source of data, for example reference costs, PLICS data, Model Hospital and other benchmarking services.

There is ongoing work against each of the issues highlighted to ensure that Trust data capture is improved.

- The FGIP has an action to ensure 19/20 and 20/21 accounts pass external audit review
- The data coding team is expanding to meet the demands it faces
- In August 2021, the Trust reported progress against the delivery of its PLICS strategy.

There is evidence that the Trust understands its data gaps and is working towards resolving these. Moving forward, the Trust needs to ensure cost data is updated to reflect the work is has done to improve its financial information and any changes in the cost base as a result of Covid-19 and then utilise this data to inform CIP development and service management.

Benchmarking and learning from others

Despite the limitations to the Trust's financial data, we identified clear evidence of benchmarking and learning from others across the Trust. The Trust has been using non-financial data such as CHKS benchmarking, Dr Foster and other quality and performance analysis as an adequate proxy to identify opportunities for improvement.

In addition, the Trust appointed Kingsgate to help identify potential efficiency and productivity opportunities in late 19/20, looking at both financial and non-financial data. There were plans to develop these into tangible work programmes, however, Covid-19 and the suspension of the annual planning process delayed the implementation. The Trust's Transformation team have used this analysis when preparing the 21/22 CIP forecast.

Performance and performance monitoring

The Board receives a monthly quality and performance report, which covers whether the Trust is Safe, Caring, Responsive, Effective and Well Led. The reports also show performance trends for each KPI and narrative if the KPI is underperforming.

We benchmarked the Trust's operational and clinical performance in 20/21 against other NHS organisations. The Trust's performance against the following KPIs placed it in the bottom 25% of NHS organisations:

- Referral to treatment within 18 weeks or less (non-admitted patients)

- Referral to treatment within 18 weeks or less (admitted patients)

- Patients admitted, transferred or discharged from A&E within 4 hours

- FFT Maternity - % of respondents likely to recommend the Trust's Maternity services to friends and family (target 96%)

Improving economy, efficiency and effectiveness

The Trust's A&E 4-hour wait, referral to treatment and ambulance handover KPIs have remained below target in both 20/21 and 21/22. These issues are understandable given the Covid-19 pandemic, although some of these pre-date the pandemic. We consider that there are appropriate governance arrangements in place to address these issues, however, it will be important to ensure alignment of operational and performance issues to financial performance as we set out in the Governance section of this report, particularly at CMG level.

Referral to treatment within 18 weeks or less (non-admitted patients)

Referral to treatment within 18 weeks or less (admitted patients)

Patients admitted, transferred or discharged from A&E within 4 hours

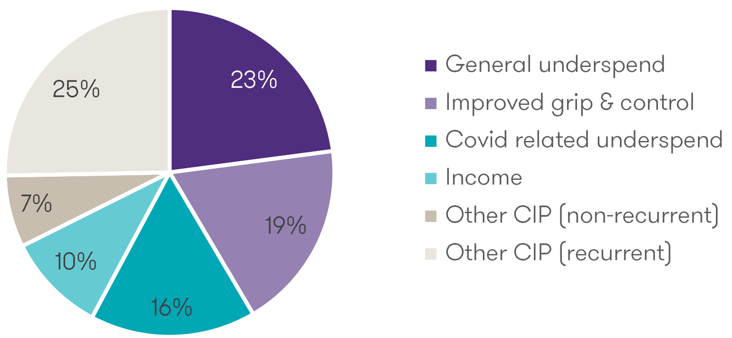
The Trust's benchmarked performance is reflected in the percentage figures. The bar line is the national average performance. Performance was measured based on October 2020 data.

Cost Improvement Plan (CIP)

Historically the Trust has underdelivered against its CIP plans. The Covid pandemic meant that in H1 the Trust did not have a CIP target. However, when it was placed in Financial Special Measures, the Trust had to set a CIP plan. The CIP savings forecast for H2 was £8m. The Trust delivered final CIP savings of £8.8m at year end.

This is good performance given it was delivered at the same time as responding to the Covid-19 pandemic. However, our analysis of the H2 CIP tracker identified that a large proportion reflects the improved grip and control put in place over expenditure (especially in Q4), and to a lesser extent reduction in expenditure relating to reduced activity due to Covid-19 (but with stable income due to the national block funding arrangement). This is set out in the chart below.

CIP tracker FY20/21 Analysis



Improving economy, efficiency and effectiveness

This means that there is still substantial opportunity to delivery savings through clinical transformation, new models of care, clinical productivity and efficiency, many of which will need to be developed and delivered in partnership with the System.

The H1 21/22 CIP forecast was informed by the external review the Trust received in April 2020. This work identified c. £70m efficiencies savings across the Trust, risk adjusted to £50m. The M4 financial performance report highlighted that the H1 cash-releasing CIP forecast was £8m compared to £4.8m in the plan.

The Trust has put in place a new Transformation team with additional resource and has set up and implemented new processes for CIP identification, measuring and monitoring CIP delivery. This is built on a Quality Improvement (QI) approach and there is strong understanding across the Trust that efficiency and productivity initiatives need to be cash-releasing to impact the bottom-line. It should be noted that Covid-19 restoration may impact the Trust's ability to deliver cash-out savings in the short-term but must be an area of significant focus if the Trust is to deliver against it's Medium Term Financial Plan and route out of Financial Special Measures.

Quality of services - Maternity

In December 2020, the Ockenden report on Emerging Findings and Recommendations from the Independent Review of Maternity Services was published. In response, the Trust was required to complete a self-assessment of its maternity services for submission to NHS EI in January 2021. The self-assessment identified that most Ockenden recommendations were already implemented at the Trust. For the rest, the Trust created a plan to implement appropriate actions.

The Ockenden review also mandated 12 urgent actions for immediate implementation. In December 2020, the Trust already had 7 actions completed, 3 on track, 1 pending further NHS EI guidance and 2 (related to CNST funding) were referred to the FRB for approval. Later in the year, the Trust also conducted a midwifery workforce review.

The Trust's CNST maternity incentive scheme processes improved in the year and its CNST year 3 submission showed that the Trust was compliant against all 10 safety requirements. Finally, the Trust is considering an external/peer review on its maternity arrangements to gain more assurance over its performance. Overall, we consider that the Trust provided the required response to the Ockenden recommendations and is focused on the continuous improvement of its maternity services.

Quality of services - Mortality

Mortality is monitored monthly in the quality and performance report that goes to QOC and the Board. On a quarterly basis, the Mortality Review Committee, chaired by the Medical Director, reviews and identifies improvements to reduce the Trust's crude and risk-adjusted mortality figures. The Committee reports to QOC through the mortality and learning from death report.

We analysed the Trust's two key mortality indicators: the summary hospital-level mortality indicator (SHMI) and the hospital standardised mortality ration (HSMR). The Trust's SHMI value for April 2020 to March 2021 was 1.04 which means the Trust's deaths were 'as expected' compared to the national baseline. The Trust's HSMR for the same period was 1.12 which placed the Trust in 'the above expected' range.

The Trust has been working with an external provider to conduct a deep dive into its HSMR performance. In August 2021, the external provider benchmarked the Trust's HSMR against Trusts with high numbers of COVID activity. The deep dive did not provide concrete answers but found that there were no issues related to poor clinical care identified but there was a potential link to Covid cases and HSMR performance was identified.

The Mortality Review Committee followed up on the external review and investigated the six diagnosis groups with a higher-than-expected HSMR, identified by the external provider. Overall, the Trust (and external advisors) did not identify any significant issues either with care of individual patients or with clinical pathways. Therefore, the Trust concluded that the change in expected mortality rate was likely due to:

a) Causal link between clinical coders working remotely and using electronic patient records for coding, and

b) Impact of Covid-19 pandemic on risk adjustment methodology

More recently (February 2022) the Trust noted that its crude mortality rate for 2021/22 was 1.3% (lower than the previous year) and the latest 12 month rolling HSMR had dropped to 1.06, which was still above the expected rate but also included deaths from the second wave of the pandemic. The Trust's SHMI remained in the expected range (1.05).

During the year, the Trust contributed to the Getting it Right First Time (GIRFT) report 'Clinical practice guide for improving the management of adult COVID-19 patients in secondary care'. The Trust's approach to providing care to Covid patients was recognised nationally and some of its processes were presented as good practice examples that other Trusts could learn from.

Improving economy, efficiency and effectiveness

The evidence indicates that the Trust's arrangements for assuring the quality of services is good. Although the Trust's HSMR was rated 'above expected' during the year and the increase appears to be linked to Covid-19, the Trust has proactively worked with an external provider to better understand the root causes so that corrective actions can be implemented.

Partnerships

The Leicester, Leicestershire and Rutland ICS was established in April 2021. Covid-19 and the increased need to collaborate with local partners to manage the pandemic response facilitated improved engagement between the Trust and its System partners.

The LLR ICS NHS Board is supported by the LLR System Quality, Safety and Performance Committee, LLR System Transition Committee and LLR System Finance Committee. It is also supported by the System Operational Group which has the following sub-groups: LLR System Planning Operational Group, LLR Clinical Executive Group and LLR Transformation Assurance Group. The ICS Board is attended by representatives from the Trust, Leicestershire Partnership, local CCGs, the East Midlands Ambulatory Services and local PCNs.

Historic engagement with partners in the local health economy, prior to the establishment of the ICS and Covid-19, was limited. This was particularly the case around financial issues, partly driven by the financial regime between the Trust and Commissioners. This has improved, however engagement with the System is still in its infancy and further work is required to ensure the Trust works with the System to ensure that the Trust returns to long term financial sustainability. As outlined in the financial sustainability and governance sections of the report this remains a significant risk to the Trust. This work should include:

- Sharing and agreeing the Medium-Term Financial Plan and aligning the Trust's MTFP with the System-wide recovery planning and longer-term ICS planning
- Developing detailed delivery plans to drive clinical transformation and models of care which change the way care is delivered, manage demand and make maximum value of resource across the System. This is key to addressing the Trust's underlying financial position.
- Undertaking more detailed clinical, operational and financial planning as the Trust develops its Outline Business Case (OBC) for the reconfiguration of acute services. This area is a significant risk to the Trust given the change in the overall financial position of the Trust.

Procurement and contract & supplier management

There were significant weaknesses in the Trust's arrangements around procurement and contract management in 2020/21. Issues with the Trust's procurement arrangements were first identified and discussed at the March 2020 Audit Committee. These issues included use of waivers for contracts, low use of purchase orders across the organisation and contract extensions being used due to being close to contract expiry dates. The Audit Committee noted the need to understand why procurement processes were not being followed and indicated that such actions were linked to the wider governance issues which had been raised at Board committees.

In November 2020, the Audit Committee requested that an internal audit review of the Trust's contract management process was undertaken. This was following the decision for an extension of 15-year bed and equipment contract for another 18 months, just 2 months before the contract expired. The occurred as the Trust had not timely identified the need to re-tender the contract. The report concluded that its contract governance framework and risk management arrangements were high risk. These issues included absence of detailed policies and procedures post contract signature, critical gaps in capacity and capability in both corporate and CMG teams, lack of formal management reporting arrangements, limited contract risk management, insufficient centralised information on contacts and ineffective management over this information and issues around people, skills and training. The Trust is working on implementing the recommendations from the report.

As a result of these issues, the Trust has not been able to demonstrate that it has effective arrangements for securing value for money in 2020/21. This is a significant weakness as the Trust has an annual spend of over £500m.

In order to improve arrangements, the Trust established a procurement improvement group which reports into the finance grip and control sub-group. The group is overseeing the delivery of the procurement improvement plan which includes review of the Trust's Standing Financial Instruments (SFIs), Standing Orders (SOs) and Scheme of Delegation (SD). This work includes the development of a Procurement Manual to support the procurement team and wider Trust on the rules and arrangements in place to improvement procurement arrangements at the Trust. This work is essential given that contract management is devolved to CMGs.

The work to address the procurement, contract and supplier management started in 2021/22 and is still ongoing. We note that extensions have been granted to a number of timescales set out in the internal audit report recommendations. This areas remains a significant risk to the Trust.

Key recommendations

Improving economy, efficiency and effectiveness

03	**Recommendation**	To address the significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness issues, the Trust should: • update local and national cost information once the 2019/20 and 2020/21 accounts have been finalised. This should include an assessment of the post-Covid baseline to reflect any permanent changes in the Trust's cost base • refresh any benchmarking and efficiency analysis so that the Trust has a clear understanding of comparator performance at a Trust, CMG and service level. • drive forward partnership working with System colleagues, particularly around clinical strategy development, new models of care and effective demand management so that best and most appropriate use is made of secondary care resources • address the issued with procurement and contract management as identified in the internal audit review
	Why/impact	The lack of accurate financial and performance data means that the Trust cannot effectively benchmark its performance against peers to identify additional areas for improvements, especially at a service level. Lack of effective procurement controls means that the Trust's economy is reduced. This also negatively impacts its bottom line and cash position.
	Auditor judgement	The Trust should improve the quality of its financial data and coding practices to ensure its performance is accurately captured and available for benchmarking and improvement analysis. The Trust should also improve its procurement controls and arrangements to secure better economy from its service and goods providers.
	Summary findings	The issues with the Trust's financial information will impact on the accuracy of cost information and related benchmarking data which will mean the Trust, and external stakeholders, are unable to accurately measure how potentially economic and financially efficient the Trust is. This is a significant risk. Although the Trust has overdelivered against its CIP plans, our analysis indicates that a large proportion reflects the improved grip and control put in place over expenditure and, therefore, there is still substantial opportunity to deliver savings through clinical transformation, new models of care and clinical productivity and efficiency. This areas remains a significant risk to the Trust. There are significant issues with the Trust's procurement function which were identified in year, including several high-risk findings regarding the contract management processes. The Trust has been working to address these issues but this is a significant risk.
	Management comment	Agreed. Work is underway across the Trust on themes including theatre productivity, length of stay improvement and outpatients utilisation – supported by the GIRFT Programme and Transformation Team. The Costing Team are currently developing a methodology to track the Trust's monthly productivity performance down to speciality level. This will be added to the Qliksense performance monitoring tool (IQS) for review and action on a regular basis (e.g. CMGs). Engagement with System Partners will also be taken forward when considering clinical strategy development, new models of care and effective demand management. Progress continues to be made to have in place a revised Contract Management Framework with a robust action plan to deliver against the IA actions and the CCIA Framework.

The range of recommendations that external auditors can make is explained in Appendix C.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how NHS services are delivered.

We have considered how the Trust's arrangements have adapted to respond to the new risks they are facing.

The global outbreak of the Covid-19 pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The Trust implemented interim governance arrangements from April 2020 to April 2021 to address the dynamic nature of the pandemic. This freed up bandwidth for Executive Directors to focus on navigating the Trust through Covid-19. We consider these interim arrangements to be appropriate.

Governance arrangements were appropriately adapted to reflect the new focus of the Trust. The Board meeting agenda was reduced to COVID-19, key quality, safety, financial and statutory matters and any time critical/ governance must-dos. The Trust also set up a strategic and a tactical group which met daily to focus on strategic and operational matters, along with 12 priority work streams, including Infection Prevention, HR, Finance Panel, Data and Reporting, Demand and Capacity, etc.

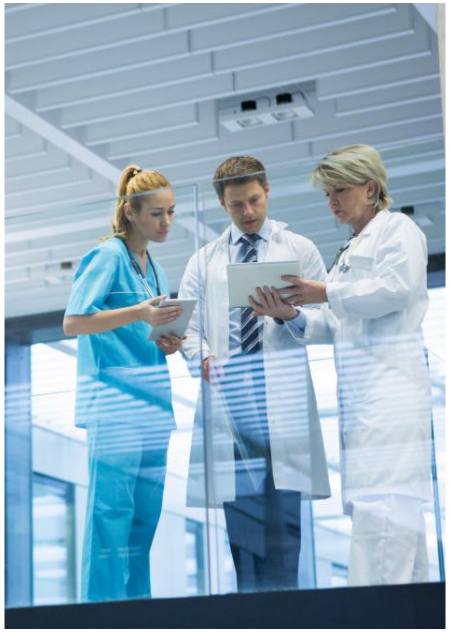
A Covid-specific principal risk was added to the BAF. This risk is owned by the Director of Strategy and Communications and the Acting COO. It is monitored monthly by the Executive Strategy Board and reviewed quarterly by the Board.

Changes to the financial regime were limited as the Trust was cognisant of its financial position. For example, SFI and standing orders were not changed. A finance panel was set up to review all Covid related costs. The panel was made up of representatives from Finance, Procurement, Nursing, Estates and IT. The panel reviewed weekly any submitted CMG/directorate requests for Covid-19 funding. Revenue expenditure was scrutinised and approved. From H2, Board reporting included breakdown of spending by type: Covid-19, BAU and winter pressures, to help scrutinise the spend.

In each QOC meeting in 20/21, there was a verbal standing agenda item "Covid-19 position". This summarised the Covid-19 status of patients and any safety and operational issues related to the pandemic. The Board received a summary of the "Covid-19 position" discussion at QOC each month.

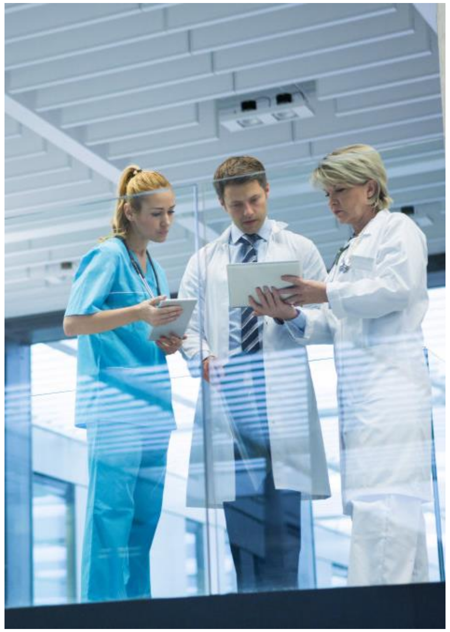
In addition, the monthly quality and performance report contained four safety related Covid-19 KPIs. Although these did not have performance targets, their trends were tracked, and analysis was provided to explain the Trust's performance.

We have not identified any significant issues with the Trust's arrangements to adapt and respond to the Covid-19 pandemic. The Trust's arrangements are largely in line with the national guidance and what we have seen at other Trusts.



Financial statements

To be completed



Appendices

Appendix A - Responsibilities of the NHS Trust

Role of the directors of the Trust:

- Preparation of the statement of accounts
- Assessing the Trust's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The directors of the Trust are responsible for the preparation of the financial statements and 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.

The directors are required to comply with the Department of Health & Social Care Group Accounting Manual and prepare the financial statements on a going concern basis, unless the Trust is informed of the intention for dissolution without transfer of services or function to another entity. An organisation prepares accounts as a 'going concern' when it can reasonably expect to continue to function for the foreseeable future, usually regarded as at least the next 12 months.

The Trust is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Appendix B - Risks of significant weaknesses - our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was identified as a potential significant weakness, see page 10 for more details.	We reviewed and analysed: • The make-up of the Trust's underlying deficit, including the Drivers of the Deficit analysis. • The Trust's in-year financial performance • The adequacy of the Trust's financial planning in FY20/21 and FY21/22. • The robustness of the medium term financial plan and how the Trust's recovery is planned.	The Trust delivered a surplus of £52.2m during FY20/21 as a result of lower activity levels and additional funding due to the pandemic. It has undertaken substantial work to improve its financial information and reporting and has a better understanding of its financial position. The size (£109m) and the lack of a fully worked up plan to address the underlying deficit means that this remains a significant risk.	Area of significant weakness with key recommendation raised.
Governance was identified as a potential significant weakness, see page 16 for more details.	We reviewed and analysed: • The Trust's risk management framework and processes, incl. internal audit's annual opinion. • The implementation of new financial and governance controls introduced during the year. • The FY20/21 Board and Committee minutes and papers to access the strength of challenge. We interviewed Board members and management to understand their impressions of governance.	The Trust has improved its governance, introduced effective controls, changes in finance and wider culture. The Trust is still delivering its Financial Governance Improvement Plan. There remain weaknesses in CMGs' understanding of financial responsibilities, line of sight from CMGs through to Board, reporting in an integrated manner and the transition from the current interim arrangements to longer-term sustainable financial management and governance.	Area of significant weakness with key recommendation raised.
Improving economy, efficiency and effectiveness was identified as a significant weakness, a more detailed review was undertaken see page 21 for further information	We reviewed and analysed: • The Trust's understanding of its cost position. • Other non-financial information the Trust used to monitor and benchmark its performance. • The 2020/21 CIP tracker. • The procurement and contract management arrangements to secure value for money	The Trust is unable to accurately measure how potentially economic and financially efficient it is. Analysis indicates that the Trust has a significant efficiency opportunity of c£70 million. There are also significant issues in its procurement and contract management arrangements.	Area of significant weakness with key recommendation raised.
COVID-19	We reviewed and analysed: • The Covid-19 impact on governance and internal controls, its performance, delivery of services and finances and its plan to return to BAU.	The Trust adapted and made appropriate changes to governance arrangements in response to the Covid-19 pandemic. The arrangements were defined nationally, and the Trust's arrangements were broadly in-line with others.	Appropriate arrangements in place.

Appendix C - An explanatory note on recommendations

A range of different recommendations can be raised by the Trust's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Trust under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Trust. We have defined these recommendations as 'key recommendations'.	Yes	Page 14, 20 and 26
Improvement	These recommendations, if implemented should improve the arrangements in place at the Trust, but are not a result of identifying significant weaknesses in the Trust's arrangements.	No	N/A

Appendix D - Interviews

Date of Interview	Name	Role
22/07/2021	Stephen Ward / Gilbert George	Director of Corporate and Legal Affairs
27/07/2021	Andrew Furlong	Medical Director
29/08/2021	Rob Cooper	Financial Improvement Director (later Interim CFO)
03/08/2021	Carolyn Fox	Chief Nurse
05/08/2021	Rebecca Brown	Acting Chief Executive
06/08/2021	David Streets	Head of Procurement
06/08/2021	Hazel Wyton	Chief People Officer
06/08/2021	Moira Durbridge	Director of Quality Transformation
09/08/2021	Simon Lazarus	Chief Financial Officer
09/08/2021	Mark Wightman	Director of Strategy and Communications
10/08/2021	Jonathan Shuter	Deputy Chief Financial Officer
11/08/2021	Debra Mitchell	Acting Chief Operating Officer
11/08/2021	Ben Shaw	Director of Productivity
03/09/2021	John Macdonald	Chair
29/10/2021	Lisa Gale	Reconfiguration Head of Finance

Appendix E – Documentation reviewed

#	Name of Document
1	Quality and Performance Report – March 2021
2	CQC Inspection Report
3	Board Paper CEO
4	Draft Annual Report 19/20 UHL
5	GIRFT Clinician Practice guide for improving the management of adult COVID 19 patients
6	Trust Board Minutes Feb 21
7	Procurement Supplies Strategy 2019-22
8	PwC Internal Audit Report – 2020-21
9	Trust Board Minutes – September 2020
10	Drivers of the Deficit – August 2021
11	Provider collaboration and Operational Delivery Networks
12	MOU LNR Pathology Network
13	LLR NHS System Executive Group Meeting 29 October 2020
14	CIP 21-22 Update Report – FRB
15	Kingsgate Report
16	LLR ICS System Development Plan

#	Name of Document
17	Social Values UHL
18	Strategic IT Partner – FIC Committee Oct 20
19	2020-21 BAF
20	EPM 10.3.2021 – Network Bid
21	Master QP New Format – May
22	System Quality and Performance Committee update for SOG
23	M1 Quality and Performance Report
24	Buddying up – Head of Services for ED Southampton
25	EQB DQCC Report May 21
26	Journals Procedure Doc – Jan 2021 V3
27	CQC Action Plan Dec 20
28	CQC Report 19/20
29	CQC ED Report 2020
30	CQC ED Action Plan – QOC July 2020
31	Use of Resources 2020
32	UHL Contract Management Framework - EQPB

Appendix E – Documentation reviewed

#	Name of Document
33	Standing Orders UHL Policy
34	MTFP Roadmap
35	National Costing Return
36	IA Review of contract management
37	Reconfiguration Programme – Building better hospitals
38	Ophthalmology LT Follow up – EQB August 2021
39	Final IA Opinion
40	FIC May 2021 – Capital Plan 21-22
41	Orthopaedic Solutions
42	Outline Financial Strategy - LLR
43	SHMI data at trust level – Jun 19 – May 20
44	Benchmarking of Trust – Using Power BI
45	NHS Resolution Factsheet 5 – Trust and health authority claims data 2019-20
46	Month 12 Quality and Performance Report
47	Audit Committee 20.08.2021
48	CIP Tracker Analysis

#	Name of Document
49	Audit Committee – May 21 – Procurement Waiver
50	Procurement Waiver – March 2021
51	Procurement Waiver – November 2020
52	PFR Return – 2020-21
53	Changes to COVID – 19 Financial Approvals Processes
54	UHL Coronavirus Support Costs Template
55	Master UHL Coronavirus Support Costs Tracker – 14 Jun 21
56	Final UHL Covid 19 Tactical Group Action Log 10.05.2921
57	Standing Orders UHL Policy
58	Board Governance Arrangements Covid – May 2020
59	QOC May 2020
60	QOC April 2020
61	BAF February 2021
62	BAF November 2020
63	BAF August 2020
64	PwC Daily Cashflow 21-22

Appendix E – Documentation reviewed

#	Name of Document
65	Accounts Payable Report 20-21
66	FSM Letter for NHSEI
67	UHL 2019-20 AFT draft v13
68	VfM 2020-21 Plan
69	M12 20-21 Board Report
70	FRB Paper May 2020
71	Covid 19 Phase 3 Restoration Recovery – September 2020
72	3 Year Quality Strategy & Priorities
73	Reconfiguration Programme – Building better hospitals
74	March 20 Board papers
75	March 21 Update on capital plan 2021
76	MTFP Roadmap
77	MTFP Plan for Plan v1
78	Drivers of Deficit Summary v4 – 30.07.2021
79	FIC minutes June 2021
80	FRB BtB and CIP Report – 21.7.21

#	Name of Document
81	Consolidated Tracker 2020-21
82	Consolidated Tracker 2021-22
83	CIP performance update – TB Thinking Day 15.7.21
84	PID Approval Process V3 21-22
84	Board May 20 Financial Plan Paper
85	PID Template 21-22 V2
86	CHUGGS Accountability Meeting Action Log
87	FRB Transformation Strategy
88	21-22 UHL Capital Plan
89	Risk Register Report as at 30th June 2021
90	Board Paper on M7-12 budget methodology
91	PPPC Minutes March 2021
92	PPPC January 2021
93	PPPC February 2021
94	CQC 2020 Follow-up report
95	Budget Setting Process 2021-22 Paper v1.3

Appendix E – Documentation reviewed

#	Name of Document
96	UHL Planning Update Dec 2020
97	B1 – H1 Financial Plan SOG 23.04.21
98	LLR ICS NHS Board approval of 21-22 budget
99	Paper M FIC Oct 20 for 3 E's
100	IA report – Financial Systems
101	FIC minutes 29.7.21
102	August 2021 – FIC 0 Costing Update v2
103	Signing off the H1 Plan V4 2021
104	Planning Guidance 2020-21
105	NHS H1 – 21-22 guidance on finance and contracts arrangements
106	EPB minutes – March 2020
107	Phase 3 WF 2nd submission – Revised H2 Plan 20-21
108	2020-21 First cut budget – CMG Top Down Bridge v5
109	2020-21 investments review
110	MTFP 2 September 21 Private Board
111	UHL MTFP v1.1

#	Name of Document
112	Board M4 21-22 finance report
113	H2 20-21 budget NHSEI submission
114	PFR 20-21 full year NHSEI submission
115	Board & committee minute review
116	Risk management UHL policy
117	The integrated risk and assurance report – 4 February 2021
118	Companies house document – UHL subsidiary
119	Board paper on approval of H1 21-22 Plan
120	Risk management UHL Policy
121	Standing orders UHL policy
122	UHL 2019-20 AFR draft v13
123	Conflicts of Interest in the NHS UHL Policy
124	Fit & proper declarations
125	Scheme of Delegation Reservation of Powers to the Trust Board UHL Policy
126	Confirmation of No signed agreements in 20-21
127	Patient and Public Involvement Strategy 2019

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#	Name of Document
128	Building better hospitals
129	Board effectiveness review
130	Board financial performance paper March 2021
131	Board financial performance paper Nov 2020
132	MSS PRM Pack July 2021
133	Budget Setting Process 2021-22 Paper v1.3
134	FIC May 21 minutes
135	MTFP Roadmap
136	UHL planning update Dec 2020
137	FIC May 21 Paper 2021-22 Financial Plan – April to September 2021
138	The integrated risk and assurance report – 4 Feb 2021
139	BAF at Audit Committee
140	IA Plan 21-22
141	NHS H1 21-22 guidance on finance and contracts arrangements
142	Fit and Proper Declarations
143	LLR Designation Application and Governance Arrangements

#	Name of Document
144	H1 Finance Plan NHS Board Approval 30.04.21
145	Audit committee deep dive
146	2021-22 Timetable run through
147	Planning Guidance 2020-21
148	Covid 19 Phase 3 restoration Recovery
149	Final IA Opinion
150	IA Plan 20-21
151	Counter Fraud Bribery and Corruption UHL Policy
152	Freedom to Speak Up – Raising Concerns UHL Policy (Whistleblowing)
153	LCFS report
154	Risk Register Report as at 30th June 2021