

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of University Hospitals of Leicester NHS Trust (the 'Trust') and its subsidiary (the 'group') for the year ended 31 March 2020, which comprise the Consolidated Statement of Comprehensive Income and Expenditure (Group), the Statement of Financial Position (Group and Trust), the Consolidated Statement of Changes in Equity (Group), the Statement of Changes in Equity (Trust), the Statement of Cash Flows (Group and Trust) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Accounts Directions issued under Schedule 15 of the National Health Service Act 2006, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2019 to 2020.

We do not express an opinion on the financial statements of the Trust or the group. Due to the significance of the matters described in the 'Basis for disclaimer of opinion' section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

We were unable to obtain sufficient appropriate audit evidence in a number of key areas (which included, but were not limited to):

Management override of controls

Our testing identified evidence of management override of controls which has resulted in numerous misstatements in the financial statements. This included misreporting of £10 million of PSF income and £6 million of unsupported adjustments that were made to comparative figures. In total £32 million of adjustments were made to the comparative figures in 2019/20 of which 31 percent related to changes in accounting policy and 25 per cent related to previously report errors. For the reasons set out below it is uncertain as to whether other misstatements remain within the financial statements due to management override of control.

Use of Journals

The Trust operated without appropriate journal controls throughout 2019/20. For the year, over 274,000 journals were posted in the financial statements. Our testing found limited or no supporting evidence for a number of these transactions. We identified that journals had been used to intentionally misstate the financial statements and that errors had occurred due to the lack of controls.

We also identified a £13 million reconciling item within the payroll reconciliation which consisted of multiple journals. We were unable to obtain sufficient evidence to corroborate the reasons for these journals and consequently we were unable to determine whether any adjustments to staff and executive directors costs were necessary.

Inventory

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.

Summary

We considered alternative testing options, but due to the high volume of journal transactions, the limited follow up work completed by management (which focussed solely on balance sheet journals), and the

evidence of management override of controls which we had identified from the testing completed, we concluded that we could not obtain sufficient appropriate evidence that there were no material misstatements in the financial statements, arising from either intentional misstatement or error

Due to the matters outlined above, we were unable to obtain sufficient appropriate audit evidence or to determine the full value of any adjustments that would have been necessary to the Statement of Comprehensive Income and Expenditure, the Statement of Financial Position, or associated disclosures. We were also unable to determine the value of any related adjustments that would have been necessary to the Statement of Cash Flows, the Consolidated Statement of Changes in Equity, or the Statement of Changes in Equity.

We are therefore unable to form an opinion on the financial statements as a whole.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.

Material uncertainty related to going concern

We draw attention to note 1.2 to the financial statements, which states that the Board of Directors has considered the principle of going concern and the Directors have concluded that there are material uncertainties related to the financial sustainability of the Trust and group.

These events or conditions, along with the other matters as set forth in note 1.2, indicate that a material uncertainty exists that may cast significant doubt about the Group's and the Trust's ability to continue as a going concern. Although this report is a disclaimer of opinion on the financial statements, it is not modified by this matter.

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

Under the Code of Audit Practice published by the National Audit Office in April 2015 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the guidance issued by NHS Improvement or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Our responsibility under the Code of Audit Practice is to, report whether the other information published together with the audited financial statements is consistent with the financial statements. We are also required to report whether the part of the remuneration report to be audited has been properly prepared in accordance with international accounting standards in conformity with the requirements of the Accounts Directions issued under Schedule 15 of the National Health Service Act 2006, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2019 to 2020.

Based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Annual Report and Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements. However, because of the significance of the matters described in the 'Basis for disclaimer of opinion' section of our report, we have been unable to form an opinion whether:

- the other information published together with the financial statements in the Annual Report and Accounts for the financial year for which the financial statements are prepared is free from material misstatement.
- the parts of the Remuneration and Staff Report to be audited have been properly prepared.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of the above matters except:

- on 15 December 2020 we referred a matter to the Secretary of State under section 30b of the Local Audit and Accountability Act 2014 in relation to the Trust's breach of its break-even duty for the three year period ending 31 March 2020 and the Trust's failure to prepare accounts, Annual Governance statement, and Annual report for the year ended 31 March 2020
- on 4 February 2021 we issued statutory recommendations to the Trust Board and Secretary of State under section 24 of the Local Audit and Accountability Act 2014 in relation to financial sustainability, financial control, governance, and financial reporting at the Trust. Our findings and recommendations are contained in our report to the 4 February 2021 Audit and Risk Committee.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Trust's and group financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report.

However, because of the matters described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not satisfied that, in all significant respects, University Hospitals of Leicester NHS Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for adverse conclusion

Financial performance and sustainability

Our review of the Trust’s arrangements for the year ended 31 March 2020 identified the following matters:

- The Trust reported a deficit of £120.85 million in 2019/20 against a budgeted deficit of £10.7 million
- The Trust reported a cumulative deficit of £328.4 million at 31 March 2020
- During 2019/20, the Trust prepared a Draft Financial Plan for 2020/21 which budgeted for a deficit of £82.3 million, which would further increase its cumulative deficit.

These matters are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Financial reporting

Our review of the Trust’s arrangements for the year ended 31 March 2020 identified the following matters:

- There was limited oversight of the production of the Trust’s financial statements and consequently the financial statements initially presented for audit for 2019/20 were of a poor quality
- There was insufficient oversight of the accounting policies, judgements and estimates in the financial statements
- There were significant deficiencies in the operation of the Trust’s financial control procedures. We identified weaknesses in controls over journals, accounts payable, inventory, and financial models
- The finance team had insufficient capacity and capability to operate in a complex financial environment
- Controls over in-year financial reporting were inadequate, resulting in significant errors in the in-year financial reports to the Board
- As stated in the ‘Basis for disclaimer of opinion’ section above, we identified errors in the 2019/20 financial statements which arose from management override of control, which we consider to be intentional misstatement of the financial statements.

These matters resulted in material errors in the 2019/20 financial statements and a Disclaimer of Opinion being issued for the Trust’s 2019/20 financial statements. These matters are evidence of weaknesses in proper arrangements for reliable and timely financial reporting that supports the delivery of strategic priorities.

Governance

Our review of the Trust’s arrangements for the year ended 31 March 2020 identified the following matters:

- The Board adopted aggressive accounting policies, practices and schemes
- The Board failed to challenge the actions of management, accepting the views of management rather than taking a more balanced and prudent approach to financial management
- The Board prioritised the attainment of financial targets ahead of accurate financial reporting

- As stated in the 'Basis for disclaimer of opinion' section above, we identified errors in the 2019/20 financial statements which arose from management override of control which the Board failed to identify and address.

These matters resulted in material errors in the 2019/20 financial statements, errors in in-year reporting and a Disclaimer of Opinion being issued for the Trust's 2019/20 financial statements.

These matters are evidence of weaknesses in proper arrangements for:

- acting in the public interest, through demonstrating and applying the principles and values of sound governance
- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management
- managing risks effectively and maintaining a sound system of internal control.

Responsibilities of the Accountable Officer

The Accountable Officer is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of the Trust's resources.

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

We are required under Section 21(1)(c) and Schedule 13 paragraph 10(a) of the Local Audit and Accountability Act 2014 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report where we have not been able to satisfy ourselves that it has done so. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice 2015, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects, the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020, and to report by exception where we are not satisfied.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be able to conclude whether the Trust had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of University Hospitals of Leicester NHS Trust for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice 2015.

Use of our report

This report is made solely to the Directors of the Trust, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the Trust's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's Directors, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Stocks, Key Audit Partner

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

Birmingham

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