

Trust Board paper O1

**UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**

**REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD**

**DATE OF TRUST BOARD MEETING: 4 October 2018**

**COMMITTEE: Audit Committee**

**CHAIR: Mr R Moore, Non-Executive Director**

**DATE OF COMMITTEE MEETING: 7 September 2018**

**RECOMMENDATIONS MADE BY THE COMMITTEE FOR PUBLIC CONSIDERATION BY THE TRUST BOARD:**

- None

**OTHER KEY ISSUES IDENTIFIED BY THE COMMITTEE FOR CONSIDERATION/ RESOLUTION BY THE TRUST BOARD:**

- Minute 49/18/2 – External Audit Annual Audit Letter 2017/18 (as appended to the Minutes of this meeting)

**DATE OF NEXT COMMITTEE MEETING: 2 November 2018**

**Mr R Moore  
Non-Executive Director and Audit Committee Chair**

**UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON FRIDAY 7 SEPTEMBER 2018  
AT 9:00AM IN THE BOARD ROOM, VICTORIA BUILDING, LEICESTER ROYAL INFIRMARY**

**Present:**

Mr R Moore – Non-Executive Director (Chair)  
Colonel (Retired) I Crowe – Non-Executive Director  
Mr A Johnson – Non-Executive Director  
Mr M Traynor – Non-Executive Director

**In Attendance:**

Mr C Benham – Director of Operational Finance  
Mr S Choudhury – Head of Privacy (for Minute 52/18/2)  
Mr J Clarke – Chief Information Officer (for Minutes 52/18/2 and 52/18/3)  
Mr R Manton – Risk and Assurance Manager (for Minute 52/18/1)  
Mrs K Rayns – Corporate and Committee Services Officer  
Mr N Sone – Financial Controller  
Mr P Traynor – Chief Financial Officer  
Ms J Tyler-Fantom – Deputy Director of Human Resources (for Minutes 48/18/2 and 48/18/3)  
Mr S Ward – Director of Corporate and Legal Affairs

Mr N Mohan – Local Counter Fraud Specialist, PwC  
Ms T Putwa – Local Counter Fraud Specialist, PwC

Mr M Stocks – Partner, Grant Thornton (the Trust's External Auditor)

Ms C Wood – Senior Manager, PwC (the Trust's Internal Auditor)

**ACTION**

**RECOMMENDED ITEM**

**44/18 CONFIDENTIAL REPORT BY THE CHIEF FINANCIAL OFFICER**

**Recommended – that this Minute be classed as confidential and taken in private accordingly.**

**RESOLVED ITEMS**

**45/18 APOLOGIES AND WELCOME**

Apologies for absence were received from Ms A Breadon, Head of Internal Audit, PwC and Ms E Mayne, Manager, Grant Thornton. The Audit Committee Chair welcomed Ms T Putwa, Local Counter Fraud Specialist to her first meeting of the UHL Audit Committee and introductions took place.

**Resolved – that the apologies for absence be noted.**

**46/18 MINUTES**

**Resolved – that the Minutes of the meeting held on 6 July 2018 (papers A1 and A2) be confirmed as correct records.**

**47/18 MATTERS ARISING PROGRESS REPORT**

The Audit Committee received and noted paper B, advising on progress of the actions and matters arising from previous Audit Committee meetings. Particular discussion took place regarding progress of the following entries:-

- (a) **Item 6a – Board Assurance Framework and Organisational Risk Register (Minute 37/18/1c of 6 July 2018 refers)** – the proposal for the Risk Assurance Manager and the Director of Safety and Risk to attend CMG Performance Review meetings to strengthen their understanding of the CMG-level risk management arrangements had been delayed whilst the revised format of the CMG review meetings was being embedded;
- (b) **Item 9 – Draft Annual Accounts and Annual Report (Minute 16/18(e) of 25 May 2018 refers)** – the Audit Committee Chair requested that an update be provided to the November 2018 meeting in terms of the scope for internal learning from UHL’s delivery of largescale projects; **CE/  
DCLA**
- (c) **Item 17 – Internal Audit Review re: Backlog Maintenance (Minute 5/18/3.3 of 9 March 2018 refers)** – the report on prioritisation of statutory compliance issues had been deferred from the August 2018 Finance and Investment Committee (FIC) meeting but this was being rescheduled for the September 2018 FIC meeting and an update would be provided to the Audit Committee in November 2018. In the event of any further delays, the Director of Estates and Facilities would be invited to attend the November 2018 Audit Committee to provide an explanation accordingly; **CCSO**
- (d) **Item 19 – Update on Alliance Asset Transfer and Asset Tagging (Minute 8/18/1 of 9 March 2018 refers)** – the Chief Financial Officer advised that the Alliance Asset Transfer had not yet been transacted as approval had not yet been provided by NHS England and he undertook to escalate this issue accordingly. In respect of the Asset Tagging issue, the Director of Operational Finance agreed to liaise with the Chief Information Officer and the Medical Equipment Executive Chair to update the proposals and submit them to the Capital Monitoring and Investment Committee. An update on both issues would be provided to the November 2018 Audit Committee; **CFO  
DOF**
- (e) **Item 21 – Internal Audit Review re: Data Quality (Minute 21 of 12 January 2018)** – the Director of Corporate and Legal Affairs advised that the Data Quality Group had not met as planned, due to operational pressures. The next quarterly update was scheduled for the November 2018 Audit Committee, and **DCLA**
- (f) **Item 23 – Local Security Management Progress Report (Minutes 56/17/1(c) of 6 July 2017 refers)** – the Director of Corporate and Legal Affairs briefed the Committee on the potential transfer of the security management function from the Corporate Medical Directorate into the Estates and Facilities Directorate. A further update on this proposal would be provided to the November 2018 Audit Committee. **DEF**

**Resolved – that the matters arising report and the associated actions be received and noted.**

**48/18 ITEMS FROM INTERNAL AUDIT**

**48/18/1 Internal Audit Progress Report**

Ms C Wood, Senior Manager, Internal Audit introduced paper C, providing an update on progress with the 2018/19 Internal Audit Plan. The draft terms of reference had been issued for the Emergency Floor Phase 2 Review, but she undertook to liaise with Colonel (Retired) I Crowe, Non-Executive Director to ensure that he was content with the scope of the review prior to its commencement. There had been a degree of slippage in the overall programme (due to staff taking annual leave over the summer) but none of these delays were expected to impact upon completion in the 2018/19 financial year.

**IA**

Mr A Johnson, Non-Executive Director queried the arrangements for selecting which wards would be audited in respect of the Internal Audit Review of Discharge Processes – Red to Green. Assurance was provided that these wards would be selected from different sites and specialties to make it representative. It was agreed that Internal Audit would consider increasing the number of wards to 6 (from 5) and to liaise with the Chief Financial Officer, Acting Chief Nurse, Medical Director and Director of Corporate and Legal Affairs regarding the most appropriate wards to be selected.

IA

Finally, the Committee Chair invited members to consider whether there were any new or additional issues which the Trust would wish Internal Audit to consider for inclusion in the Internal Audit Plan for 2018/19, noting the Chief Financial Officer's comment that the Plan was already over-committed and it might be necessary to remove some items if any new items were added. Mr A Johnson, Non-Executive Director advised his view that it would be helpful to audit the CMG Performance Review process in the second or third quarter of 2019/20.

IA

**Resolved – that (A) the Internal Audit Progress Report be received and noted as paper D;**

**(B) Internal Audit representatives be requested to:-**

**(1) liaise with Colonel (Retired) I Crowe, Non-Executive Director to ensure that he was content with the scope of the Emergency Floor Phase 2 review;**

IA

**(2) liaise with the Chief Financial Officer, Acting Chief Nurse, Medical Director and Director of Corporate and Legal Affairs to consider and agree the most appropriate wards to be selected for the review of Discharge Processes – Red to Green, and**

IA

**(3) consider including an Internal Audit review of UHL's CMG Performance Review Process within the draft 2019/20 Internal Audit Plan.**

IA

48/18/2

Internal Audit Review of New Payroll Provider (overall medium risk rating)

Ms C Wood, Senior Manager, Internal Audit introduced paper D1, providing the Internal Audit Report on the New Payroll Provider. Ms J Tyler-Fantom, Deputy Director of Human Resources attended the meeting for this item. The Trust's payroll service had transferred to Equiniti in August 2017. Since that time, a number of challenges had been experienced and the Trust continued to provide considerable support in relation to resolving individual pay queries, case management, the ESR payroll system and monitoring performance. As a result, the maximum level of financial penalty was being applied within the contract. The Committee particularly considered the following specific findings of the review:-

1. Reconciliations (low risk);
2. Equiniti payroll reporting (low risk);
3. Senior Trust reporting and oversight (medium risk);
4. Reporting of overpayments (low risk), and
5. Starters, leavers and amendments testing (low risk).

Members noted that a copy of the separate Equiniti Internal Audit report had recently been received by UHL, but it was difficult to establish which clients had been affected by the issues raised and the report did not contain any risk ratings. These concerns were being escalated as appropriate and the final report would be presented to a future meeting of the People, Process and Performance Committee (PPPC).

DDHR

Mr A Johnson, Non-Executive Director and PPPC Chair expressed his concern that

the PPPC had not been sighted to the full range of 40 key performance indicators for the Payroll contract and it was agreed that monthly reports on the Payroll contract would be presented to PPPC in future. Mr Johnson agreed to meet with the Deputy Director of Human Resources to agree the format of these reports and identify the core KPIs to be reported to that Committee. Mr M Traynor, Non-Executive Director and Finance and Investment Committee Chair agreed that the PPPC would also monitor any financial implications arising from the Payroll reports. Proposals for reducing the internal pressures upon UHL's Payroll Team and reducing the Trust's reliance upon manual paper systems, would be presented to the October 2018 PPPC meeting. The Chief Financial Officer suggested that this report should also cover issues such as improving effective communications and strengthening the interface with the Finance Team.

AJ, NED/  
DDHR

DDHR

A detailed discussion took place regarding salary overpayments, the importance of line managers submitting staff leaving information in a timely manner and the process for reclaiming overpayments from existing staff and for invoicing those staff that had left the Trust. The Audit Committee Chair requested that value of any staff overpayments be included in the October 2018 PPPC report.

DDHR

Finally, Mr A Johnson, Non-Executive Director and PPPC Chair highlighted a number of inaccuracies contained within the Internal Audit report (relating to verbally agreed reports, lack of detailed KPIs and the scope for PPPC to review financial issues). He agreed to feedback these comments to Internal Audit, who would then update the report where appropriate and recirculate it (outside the meeting).

AJ, NED/  
IA

**Resolved – that (A) Mr A Johnson, Non-Executive Director be requested to provide his comments and feedback on the Internal Audit Review of the New Payroll Provider (paper D1) to Internal Audit (outside the meeting);**

AJ, NED

**(B) Internal Audit be requested to update the above Internal Audit review report (paper D1) and re-circulate the report to Audit Committee members (outside the meeting)**

IA

**(C) the final version of Equiniti's Internal Audit review be presented to a future PPPC meeting;**

DDHR

**(D) monthly reports on the Payroll Contract be provided to the PPPC and Mr A Johnson, Non-Executive Director be requested to liaise with the Deputy Director of Human Resources to determine the format and content of these reports;**

AJ, NED/  
DDHR

**(E) the Deputy Director of Human Resources be requested to include the following items in the October 2018 PPPC report:-**

**(1) proposals for reducing the internal pressures on the Payroll Team and reducing organisational reliance upon paper systems;**

DDHR

**(2) proposals for improving effective communications and strengthening the interface with the Finance Team, and**

DDHR

**(3) an analysis and the total value of staff overpayments.**

DDHR

48/18/3

Internal Audit Review of Estates and Facilities Management Payroll and HR Controls (overall medium risk rating)

Ms C Wood, Senior Manager, Internal Audit introduced paper D2, providing the Internal Audit Report on the Estates and Facilities Management Payroll and HR Controls. Ms J Tyler-Fantom, Deputy Director of Human Resources attended the meeting for this item. Noting that the report had only been circulated on the afternoon of 6 September 2018, the Audit Committee Chair suggested that a high

level review of the key findings be undertaken at today's meeting and the report be resubmitted to the November 2018 Audit Committee. The key findings were noted as follows:-

CCSO

1. Lack of policies and procedures and defined roles and responsibilities (medium risk);
2. Record keeping within Departments (medium risk);
3. Overpayments (medium risk), and
4. Nominal roll (medium risk).

The Committee noted the heavy reliance upon manual processes and the need to improve the degree of centralised guidance, policies and procedures including the process for validation of staff timesheets. Discussion took place regarding the scope to merge the Estates and Facilities Payroll with the main UHL Payroll and opportunities to implement an automated process for timesheets which might include fingerprint recognition for staff clocking in and out. Members queried whether the overall risk rating should be classified as high (instead of medium), but noted the assurance that had been provided to Internal Audit in respect of the manual interventions in place to reduce the risks and the outputs of the Internal Audit testing already undertaken.

It was agreed that UHL's proposed response to this Internal Audit review would be included in the Payroll report for submission to the October 2018 PPPC meeting. The Chief Financial Officer offered the Finance Team's support to the Deputy Director of Human Resources noting the close links between this workstream and the ongoing review of UHL's back office services.

DDHR

**Resolved – that (A) the Internal Audit Review of the Estates and Facilities Payroll and HR Controls be re-presented to the Audit Committee in November 2018, and**

CCSO

**(B) the Deputy Director of Human Resources be requested to incorporate the Trust's response to the Internal Audit Review of Estates and Facilities Payroll and HR Controls within the Payroll report to be submitted to the PPPC in October 2018.**

DDHR

## 49/18 ITEMS FROM EXTERNAL AUDIT

### 49/18/1 External Audit Progress Report

Mr M Stocks, Partner, Grant Thornton introduced paper E providing an update on the External Audit deliverables for 2017/18. He also briefed the Committee on the positive dialogue and the depth of the relationship being formed with regular liaison meetings now scheduled between UHL and Grant Thornton throughout the year. He noted that a separate report featured elsewhere on today's agenda relating to the review of the annual accounts process and the proposed future working arrangements for 2018/19 (Minute 51/18/1 below refers).

It was proposed that an interim audit on UHL debtors would be undertaken in December 2018 as this had formed a contentious point within the 2017/18 annual accounts process and the Department of Health was yet to determine whether the decision not to proceed with the Facilities Management LLP would require a prior-year adjustment to the accounts or whether this would be modelled through the 2018/19 annual accounts. Mr Stocks also extended an invitation to the Non-Executive Directors to attend the next NHS NED Networking event in Leicester on the morning of 20 September 2018.

The Chief Financial Officer thanked Mr Stocks for his earlier comments, advising that technically UHL was now expected to bring forward the debt associated with not

reclaiming the VAT for the FM LLP into the 2018/19 annual accounts. He also noted that a further meeting was scheduled with NHS Improvement during week commencing 10 September 2018 to determine a process for managing the financial impact of not progressing with the FM LLP.

**Resolved – that the External Auditor progress report be received and noted.**

49/18/2

External Audit Annual Audit Letter 2017/18

As required by the National Audit Office, paper E1 provided the final version of the Trust's Annual Audit Letter as at 31 March 2018. The substantive amendment to the Financial Statements opinion on page 3 of the document was highlighted using a red font for ease of reference. Discussion took place regarding the financial implications of the advice received from NHS Improvement for UHL not to proceed with the Estates and Facilities subsidiary company and the likelihood that UHL would need to apply for additional financial loans to mitigate the position during 2018/19.

The Audit Committee Chair queried at what point a specific discussion would be required with NHS Improvement about the Trust's ability to remain a going concern. Members agreed that it would be good practice to discuss going concern issues on a regular basis and that such discussions could then inform the national workstream which was looking at the level of deficit within the NHS more generally. The Chief Financial Officer advised that a report on UHL's Financial Strategy would be submitted to the September 2018 FIC meeting and that a further conversation on going concern would be held at the Audit Committee prior to the commencement of the financial year end process. The Chief Financial Officer provided assurance that going concern issues would be flagged to the Trust Board within the context of the overall financial plan, financial strategy, and the forecast revenue and cash positions.

CFO

**Resolved – that (A) the final version of the Annual Audit Letter for 2017/18 be received and noted as paper E1, and**

**(B) the Chief Financial Officer be requested to report on going concern issues to the Audit Committee on a regular basis and flag any concerns to the Trust Board within the overall context of the financial plan, strategy and revenue and cash forecasts.**

CFO

50/18

**ITEMS FROM THE LOCAL COUNTER FRAUD SPECIALIST (LCFS)**

50/18/1

Local Counter Fraud Progress Report

Mr N Mohan, Local Counter Fraud Specialist introduced paper F, briefing the Audit Committee on progress of counter fraud activity against the 2018/19 Local Counter Fraud Work Plan, providing a summary of referrals received and detailing the alerts and publications which had been shared with the Trust. Mr Mohan reported verbally on a number of referrals received since the above report had been written, noting an increasing trend in the number of suppliers contacted by fraudsters attempting to order goods whilst claiming to work for UHL for delivery to non-UHL premises. Whilst such cases did not lead to any loss for the Trust, UHL was working to support those companies affected and the NHS Counter Fraud Agency had issued some specific guidance on this issue as the problem had become more widespread nationally.

LCFS

The Director of Corporate and Legal Affairs sought and received additional information regarding any allegations of payroll fraud, noting in response that payroll risks and mitigating actions were discussed in depth on a regular basis by the UHL Counter Fraud Group. In further discussion on the identification of potential payroll fraud, the Committee noted an opportunity to implement a joint review between Internal Audit and the Counter Fraud Team. The Counter Fraud Specialist was requested to liaise with the Chief Financial Officer to outline the proposed scope of

such a review for consideration by the Audit Committee on 2 November 2018.

The Audit Committee Chair noted the small number of counter fraud referrals at UHL and queried how this compared nationally with Trusts of a similar size. In response, the Counter Fraud Specialist agreed to arrange for appropriate benchmarking data to be shared at the next meeting of the Counter Fraud Group on 2 November 2018. Benchmarking data would also be included in the Counter Fraud report to the 2 November 2018 Audit Committee.

**Resolved – that (A) the Local Counter Fraud Progress Report be received and noted as paper F, and**

**(B) the Local Counter Fraud Specialist be requested to:-**

**(1) liaise with the Chief Financial Officer to outline the scope of a joint review between Counter Fraud and Internal Audit to identify potential payroll fraud, and** LCFS

**(2) arrange for benchmarking data on number of counter fraud referrals to be presented to the Counter Fraud Group and the Audit Committee on 2 November 2018.** LCFS

## 51/18 FINANCE – STRATEGIC AND OPERATIONAL ISSUES

### 51/18/1 Review of Annual Accounts Process 2017/18 and Confirmation of Working Arrangements between UHL and External Audit for 2018/19

Further to Minute 36/18/1 of 6 July 2018, the Chief Financial Officer introduced paper G, briefing the Audit Committee on the responses and action in place to address the key themes arising from the 2017/18 external audit of the financial statements. The process remained ongoing and a range of specific actions continued to be monitored through the Audit Committee matters arising/progress log. The report was taken as read and members commented upon the positive nature of the productive and open process that had been undertaken.

Section 2.18 of paper G highlighted a suggestion from External Audit that the Trust might like to consider cancelling the Month 1 reporting process to ease pressure during the audit period, or whether there were any other tasks which could be moved, delegated or deferred. The Director of Operational Finance advised his view that the Trust should continue to report on Month 1 financial performance. However, there may be some scope to review the Finance and Investment Committee (FIC) calendar of business to reduce the number of reports required for the May 2019 meeting. The Chief Financial Officer agreed to liaise with the FIC Chair to consider whether this would be feasible.

**Resolved – that (A) the update on working arrangements between UHL and External Audit for 2018/19 be received and noted as paper G, and**

**(B) the Chief Financial Officer be requested to liaise with the FIC Chair to consider reducing the volume of business on the May 2019 FIC agenda (to reduce pressure during the audit period).** CFO

### 51/18/2 Discretionary Procurement Actions

Paper H provided a summary of the 9 occasions when it had been necessary to waive the Trust's regular procurement processes during the period July 2018 to August 2018. Appendix 1 set out the details of each case of need and provided explanations for the respective approvals. Following a discussion on the requirements to comply with UHL's Standing Financial Instructions for renewal of



contracts over a given threshold and the arrangements for 'business as usual' contract extensions, it was agreed to invite the Head of Procurement and Supplies to attend the next meeting of the Audit Committee to update the Committee on the testing process adopted to prepare this report.

**Resolved – that (A) the summary of discretionary procurement actions be received and noted as paper H, and**

**(B) the Head of Procurement and Supplies be invited to attend the November 2018 Audit Committee to provide a briefing on the discretionary procurement process.**

CCSO

**52/18 GOVERNANCE**

**52/18/1 Integrated Risk and Assurance Report**

The Risk and Assurance Manager attended the meeting to introduce paper J, providing the Integrated Risk and Assurance Report as at the end of July 2018. Further to Minute 37/18/1 of 6 July 2018, the proposal to carry out a deep-dive into each principal risk and to invite the principal risk owner to present their risk to an Audit Committee meeting continued to be progressed. The aim of this deep-dive process was to provide assurance that key principal risks were being captured, defined, scored and presented appropriately within the organisation.

The Audit Committee was requested to approve the proposed BAF questions to principal risk owners (as set out in section 2.4 of the report) and to agree which of the principal risks would be the subject of the deep-dive in August 2018. Following discussion, members approved the list of questions to be raised and determined that the first risk to be presented to the Audit Committee in November 2018 would be Principal Risk 5: Information Technology and the risk to be presented to the January 2019 Audit Committee would be Principal Risk 2: Workforce. The Risk and Assurance Manager was requested to inform the principal risk owners of the above arrangements.

RAM

**Resolved – that (A) the Integrated Risk Management report (paper J) be received and noted,**

**(B) the proposed questions set out in section 2.4 of paper J be approved, and**

**(C) the Risk and Assurance Manager be requested to liaise with the risk owners for Principal Risks 5 and 2 to inform them of the Committee's decision to review these risks in depth at the November 2018 and January 2019 Audit Committee meetings (respectively).**

RAM

**52/18/2 Progress Report on General Data Protection Regulation (GDPR) Compliance**

Further to Minute 37/18/2 of 6 July 2018, the Chief Information Officer and the Head of Privacy attended the meeting to present paper K, updating the Committee on progress and issues in relation to compliance with the General Data Protection Regulation (GDPR), including the recent appointment of Mr S Choudhury to the roles of Head of Privacy and Data Protection Officer and the additional appointment of a new Privacy Officer which had enabled the team to focus on the roll-out of the three levels of training and raising awareness of GDPR within the organisation. In discussion on the report, the Audit Committee particularly considered the financial impact of no longer being able to recoup the administrative costs of responding to Subject Access Requests (SARs). The Trust currently employed approximately 30 people in the Access to Health Records Office. This loss of income had been raised as a cost pressure earlier in the financial year, but the volume of SARs had already increased by 20% since the implementation in May 2018. A clarification was

currently being sought regarding the treatment of access to the health records of deceased patients.

The Audit Committee Chair requested additional information on how close UHL was to achieving full compliance, noting in response that the next update report to the November 2018 Audit Committee would include a Gantt chart on compliance against each element of the Trust's GDPR action plan and would identify any areas which were causing particular challenges.

**Resolved – that (A) the progress report on GDPR Compliance be received and noted, and**

**(B) the Head of Privacy be requested to include a Gantt chart on compliance with each element of the Trust's GDPR action plan in his next update on this subject, for submission to the 2 November 2018 Audit Committee meeting.**

HP

52/18/3

Consolidated List of Outstanding Audit Recommendations

The Director of Corporate and Legal Affairs introduced paper L, providing the RAG-rated tracker of all outstanding and in-progress recommendations arising from Internal Audit, External Audit and Local Counter Fraud Reviews. In discussion on the report:-

(a) the Director of Corporate and Legal Affairs advised that some of the recommendations arising from the review of Consultant Job Planning could not be implemented until after the next software upgrade. Consequently, the lead officers would be seeking a formal extension to the deadline and this information would be fed back to Internal Audit to inform the next iteration of the report;

JJ, DMD

(b) the Chief Information Officer advised that he had been unable to submit the evidence to respond to the GDPR Readiness review directly onto the TrAction system. Instead, he had submitted the evidence to Internal Audit by email on 23 July 2018. Internal Audit agreed to look into this query outside the meeting and update the TrAction log (if appropriate);

IA

(c) the Chief Information Officer provided a verbal update on the establishment of the PMO for EPR Plan B, noting that further recruitment would be required in order to complete the actions that had been recommended and this would be reliant upon appropriate funding being made available. In further discussion, the Audit Committee noted that some aspects of the EPR Plan B workstream had now been superseded by the e-Hospital workstream which focused upon using the existing available funding to improve information flows. Regular updates on the e-Hospital workstream were being provided to the People, Process and Performance Committee. The Audit Committee requested Internal Audit to consider closing the remaining recommendations relating to EPR Plan B, noting the change in direction detailed above, and

IA

(d) the outstanding recommendation relating to the Data Quality Review and system access to ORMIS had only recently been referred to the IM&T Directorate by the ITAPS Head of Operations. In response, the Chief Information Officer provided assurance that UHL already had a standard operating practice in place to ensure that new starters were provided with the appropriate access to clinical systems and that staff leaving the Trust had their access removed. He agreed to update this entry in time for the next iteration of the report.

CIO

More generally, the Audit Committee noted that it would be helpful if the lead officers could respond to their Audit recommendations in a more-timely manner. It would also be helpful if each line of the report contained row numbers to assist members with referencing and locating the relevant entries more easily during discussion.

CCSM

**Resolved** – that (A) the Consolidated List of Outstanding and In-Progress Audit Recommendations be received and noted as paper L,

(B) Dr J Jameson, Deputy Medical Director be requested to liaise with Internal Audit regarding an extension to the recommendations from the Consultant Job Planning review;

JJ, DMD

(C) Internal Audit be requested to review the evidence submitted on 23 July 2018 in respect of GDPR readiness and update the TrAction entry accordingly;

IA

(D) Internal Audit be requested to consider closing the remaining recommendations relating to EPR Plan B;

IA

(E) the Chief Information Officer be requested to update the outstanding audit action relating to system access to ORMIS, and

CIO

(F) the Corporate and Committee Services Manager be requested to amend the format of the report to provide row numbers for ease of reference.

CCSM

## 53/18 REPORTS FOR INFORMATION

### 53/18/1 Leicester Hospitals Charity Benchmarking Information

Further to Minute 79/17/1(c) of 17 November 2017, paper M provided benchmarking data between the Leicester Hospitals Charity and 8 other NHS charities for the years 2016/17, 2017/18 and 2018/19 plan. The Chief Financial Officer noted the scope to undertake more work in this area, and he supported the suggestion from the Director of Corporate and Legal Affairs to refer this issue to the Charitable Funds Committee.

HoC

**Resolved** – that (A) the benchmarking information on the Leicester Hospitals Charity be received and noted as paper M, and

(B) the incoming Head of Leicester Hospitals Charity be requested to undertake more work in respect of benchmarking and report on this issue to a future meeting of the Charitable Funds Committee.

HoC

## 54/18 ASSURANCE GAINED FROM THE FOLLOWING COMMITTEES ON KEY RISKS/ISSUES OF THE TRUST

### 54/18/1 Quality and Outcomes Committee (QOC)

The QOC Chair introduced the Minutes of the QOC meetings held on 28 June 2018 and 26 July 2018. He drew members' attention to Minute 111/18 of 28 June 2018 which related to the quarterly update on the Compliance Assessment and Analysis System (CAAS) and his concerns that this issue did not align naturally with the QOC agenda. In response, the Director of Corporate and Legal Affairs undertook to consider the governance process for reporting of Estates and Facilities Management issues with the Trust Chairman (outside the meeting).

DCLA

**Resolved** – that (A) the Minutes of the Quality and Outcomes Committee meetings held on 28 June 2018 and 26 July 2018 be received and noted as papers N1 and N2, and

(B) the Director of Corporate and Legal Affairs be requested to discuss the governance arrangements for Estates and Facilities Management issues with the Trust Chairman outside the meeting.

DCLA

### 54/18/2 People, Process and Performance Committee (PPPC)

**Resolved** – that the Minutes of the People, Process and Performance Committee meetings held on 28 June 2018 and 26 July 2018 be received and noted as papers O1 and O2.

54/18/3 Finance and Investment Committee (FIC)

**Resolved** – that the Minutes of the Finance and Investment Committee meetings held on 28 June 2018 and 26 July 2018 be received and noted as papers P1 and P2.

54/18/4 Charitable Funds Committee (CFC)

**Resolved** – that the Minutes of the Charitable Funds Committee meeting held on 2 August 2018 be received and noted as paper Q.

**55/18 ANY OTHER BUSINESS**

55/18/1 Annual Review of Clinical Audit Systems and Processes

The Committee Chair queried when the Audit Committee was next expected to receive a report on the above subject, noting in response that this was currently scheduled for the November 2018 Audit Committee.

DCQ

**Resolved** – that the Director of Clinical Quality be requested to provide a report on the Annual Review of Clinical Audit Systems and Processes to the November 2018 Audit Committee.

DCQ

55/18/2 Care Quality Commission

The Committee Chair noted that the Quality and Outcomes Committee received regular updates on CQC compliance, but he requested that an updated be provided to the November 2018 Audit Committee.

**Resolved** – that the Director of Clinical Quality be requested to provide a report on CQC Compliance to the November 2018 Audit Committee.

DCQ

**56/18 IDENTIFICATION OF KEY ISSUES THAT THE COMMITTEE WISHES TO DRAW TO THE ATTENTION OF THE TRUST BOARD**

**Resolved** – that the following item be brought to the attention of the Trust Board:-

AC Chair

- Minute 49/18/2 – Annual Audit Letter 2017/18.

**57/18 CONFIDENTIAL ITEMS OF BUSINESS**

57/18/1 Report by the Chief Financial Officer

**Resolved** – that this Minute be classed as confidential and taken in private accordingly.

**58/18 DATE OF NEXT MEETING**

**Resolved** – that the next meeting be held at 2pm on Friday 2 November 2018 in the C J Bond Room, Clinical Education Centre, Leicester Royal Infirmary.

The meeting closed at 12:45pm

Kate Rayns  
**Corporate and Committee Services Officer**

**Cumulative Record of Members' Attendance (2018-19 to date):**

Name	Possible	Actual	% attendance
R Moore (Chair)	3	3	100%
I Crowe	3	3	100%
A Johnson	3	3	100%
M Traynor	3	3	100%

**Attendees**

Name	Possible	Actual	% attendance
C Benham	3	3	100%
N Sone	3	3	100%
S Ward	3	3	100%
P Traynor	3	3	100%



# Annual Audit Letter

*Year ending 31 March 2018*

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University Hospitals of Leicester NHS Trust

July 2018



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at University Hospitals of Leicester NHS Trust ( the Trust) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Trust's Audit Committee as those charged with governance in our Audit Findings Report on 25 May 2018.

## Our work

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### Materiality

We determined materiality for the audit of the Group's accounts to be £16,480,000, which is 1.7% of the Group's gross revenue expenditure. A separate materiality was not set of the University Hospitals of Leicester NHS Trust component as we do not consider that there is a material difference between the reported transactions and balances in 2017/18.

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### Financial Statements opinion

We gave an unqualified opinion on the Group's financial statements on 29 May 2018.

The Trust recognised income of £12.5 million in relationship to a VAT reclaim (via one of its subsidiary companies) in its financial statements. The Trust received financial reporting advice on this matter that supported its decision. We were unable to satisfy ourselves that the income should be accounted for in the 2017/18 financial statements. We also reported matters in relation to asset lives and debt recovery. These matters, while significant, were not material to our opinion and are detailed on page six, seven and nine.

**The Trust has received correspondence from NHS Improvement on 25 July 2018 confirming that it is the position of NHS Improvement, NHS England and the Department of Health that subsidiaries should not be created under the general powers of the NHS Act 2006. As the Board decision to create a limited liability partnership subsidiary was based on general legal powers the proposed subsidiary should not proceed as planned. This will result in the Trust not being able to complete the VAT reclaim detailed above and so will have to write the proposed income out of its financial statements in 2018/19.**

We included a going concern material uncertainty paragraph in our report on the Trust's financial statements to draw attention to the note which explains the basis on which the Trust has determined that it is still a going concern. This does not affect our opinion that the statements give a true and fair view of the Trust's financial position and its income and expenditure for the year.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Trust and Group's financial statements (section two)
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Trust and Group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.



# Executive Summary

## Our work continued

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<b>NHS Group consolidation template (WGA)</b>	We also reported on the consistency of the accounts consolidation template provided to NHS England with the audited financial statements. We concluded that these were consistent.
<b>Use of statutory powers</b>	We referred a matter to the Secretary of State, as required by section 30 of the Act, on 25 May 2018 because the Trust has breached the requirement to break even taking one year against another over a three year rolling period.
<b>Value for Money arrangements</b>	We were not satisfied that the Trust put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of the significance of the matters we identified in respect of the pervasiveness of the Trust's financial sustainability during 2017/18, we are not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore issued an adverse value for money conclusion in our audit report to the Trust Board on 29 May 2018.
<b>Quality Accounts</b>	We completed a review of the Trust's Quality Account and issued our report on this on 8 June 2018. We concluded that the Quality Account and the indicators we reviewed were prepared in line with the Regulations and guidance.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of University Hospitals of Leicester NHS Trust in accordance with the requirements of the Code of Audit Practice.

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We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Trust's staff.

**Grant Thornton UK LLP**  
**July 2018**

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# Audit of the Accounts

## Our audit approach

### Materiality

In our audit of the Group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £16,480,000, which is 1.7% of the Group's gross revenue expenditure. We determined materiality for the audit of the Trust's accounts to be the same as we do not consider that there is a material difference between the reported transactions and balances in 2017/18. We used this benchmark as, in our view, users of the Group and Trust's financial statements are most interested in where the Group and Trust has spent its revenue in the year.

We also set a lower level of specific materiality for Senior Officer Remuneration at £100,000.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Report to check it is consistent with our understanding of the Trust and with the accounts included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Accounts

## Audit opinion

We gave an unqualified opinion on the Trust's financial statements and on the consistency of the accounts consolidation template provided to NHS England. We did not make any significant adjustments to the financial statements including the reported surplus.

The Trust presented us with draft group financial statements in accordance with the national deadline. The accounts team worked positively with us throughout the audit and worked hard to ensure that the audit was completed within the statutory deadline. Our audit did identify areas where the accounts process could be improved. In particular, the financial statements preparation and quality review processes should ensure that:

- the financial statements and its notes are complete and, as far as possible, free from error prior to being presented for audit
- supporting working papers are available at the start of the financial statements audit.

We have recommended that the Trust review the resources available to achieve the areas above. We will also work closely with the Trust to align improvements to our practices and ensure that we deliver efficiencies within the audit process as part of your wider efficiency agenda.

## Issues arising from the audit of the accounts

We reported the key issues from our audit of the group accounts to the Trust's Audit Committee, and to the Extra-Ordinary Trust Board, on 25 May 2018. The key issues arising from the audit are:

- the Trust recognised income of £12.5 million in relationship to a VAT reclaim (via one of its subsidiary companies). The Trust received financial reporting advice on this matter that supported its position. We were unable to satisfy ourselves that the income should be accounted for in the 2017/18 financial statements
- our sample testing indicated that not all debt may be collectible
- the change in asset lives for buildings may not be appropriate.

While these matters are significant the sum of these matters were below the materiality level we set. As such we were able to issue an unqualified opinion.

## Annual Report, including the Annual Governance Statement

We are also required to review the Trust's Annual Report, including the Annual Governance Statement. The Annual Governance Statement was provided with the draft accounts and required few amendments. The Annual Report was received after the deadline and it was identified that an out of date format had been used. The Trust therefore, re-presented the content to adhere to the requirements of the Group Accounting Manual.

## Whole of Government Accounts (WGA)

We issued a group return to the National Audit Office in respect of Whole of Government Accounts, which did not identify any issues for the group auditor to consider.

## Other statutory powers

We are also required to refer certain matters to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014. On 25 May 2018 we reported to the Secretary of State that the Trust had breached the requirement to break even taking one year against another over a three year rolling period.

## Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of University Hospitals of Leicester NHS Trust in accordance with the requirements of the Code of Audit Practice.

# Audit of the Accounts

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Income from contract variations</b></p> <p>Approximately 85% of the Trust's income is from patient care activities and contracts with NHS commissioners. Patient care activities provided that are additional to those incorporated in these contracts (contract variations) are subject to verification and agreement by the commissioners. As such, there is the risk that income is recognised in the accounts for these additional services that is not subsequently agreed to by the commissioners.</p> <p>We have identified the occurrence and accuracy of income from contract variations as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>evaluating the Trust's accounting policy for recognition of income from patient care activities for appropriateness;</li> <li>gaining an understanding of the Trust's system for accounting for income from contract variations and evaluating the design of the associated controls;</li> <li>reviewing contracts with commissioners above tolerable error, confirming amounts and payment mechanisms to signed contracts and reviewing any significant variations between the contract amounts and the outturn in the financial statements;</li> <li>testing a sample of variations/performance adjustments and residual income from smaller contracts to supporting evidence to gain assurance that income properly belongs to the Trust, is accurately recorded and accounted for in the correct financial year;</li> <li>confirming, prior to issuing the opinion, whether variances identified have been settled and considered seeking management representations for any large monetary amounts not settled prior to this; and</li> <li>obtaining an exception report from the Department of Health and Social Care (DoHSC) that details differences in reported income and expenditure between NHS bodies; agreeing the figures in the exception report to the Trust's financial records; and for differences calculated by the DoHSC as being in excess of £300,000, obtaining corroborating evidence to support the amount recorded in the financial statements by the Trust.</li> </ul>	<p>We identified the following issues:</p> <ul style="list-style-type: none"> <li><b>VAT reclaim following the establishment of its estate company</b> – the Trust recognised income of £12.5 million with regard to the above VAT reclaim in its financial statements. We were unable to satisfy ourselves that the income should be accounted for in the 2017/18 financial statements. We therefore reported this as an unadjusted misstatement.</li> <li><b>Trust debt, particularly focussing on aged debt over 180 days old</b> – The balance of unimpaired debt is approximately £5 million. We identified that a proportion of the debt may not be collectible and that there is a risk that this balance is overstated.</li> <li><b>Agreement of balances</b> – We identified a number of differences between figures reported in the Trust's financial statements and that reported by its NHS counterparts. After reviewing these differences we were satisfied with the position taken by the Trust. However, as they are above £300k we will need to report them to the NAO..</li> </ul> <p>We concluded that these matters were not material to the audit opinion.</p>

# Audit of the Accounts

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Going concern material uncertainty disclosures</b></p> <p>As auditors, we are required to “obtain sufficient appropriate 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.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• discussing with officers the financial standing of the Trust;</li> <li>• reviewing management’s assessment of going concern assumptions and supporting information;</li> <li>• reviewing completeness and accuracy of disclosures on material uncertainties with regard to going concern in the financial statements; and</li> <li>• considering the guidance in the Treasury Financial Reporting Manual (FReM) 2017/18 and the guidance on interpretation of going concern in a public sector context and its application to the Trust.</li> </ul>	<p>The Trust incurred a £34.5 million financial deficit in 2017/18 and has received financial revenue support via working capital loans of £58.7 million during the year. The Trust had loans of £198.4 million as at 31 March 2018. It anticipates that loans will rise to £228.3 million by 31 March 2019.</p> <p>We discussed this with the Trust Board who concluded that the Trust remained a going concern due to the facts that:</p> <ul style="list-style-type: none"> <li>• it had a reasonable expectation of continued working capital funding from the Department of Health</li> <li>• it had agreed contracts with its commissioner for 2018/19</li> <li>• there was no indication from the DH that the Trust would not continued to deliver healthcare services.</li> </ul> <p>We concurred with this judgement. However, as the financial position represents a material uncertainty about the Trust’s ability to continue as a going concern we requested additional disclosure of this matter in the accounts, and included a going concern material uncertainty paragraph in our audit</p> <p>This does not affect our opinion that the statements give a true and fair view of the Trust’s financial position and its income and expenditure for the year</p>

# Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Trust faces both internal and external pressures to meet agreed deficit targets, particularly in light of not having accepted the control total in 2017/18. This could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• gaining an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;</li> <li>• obtaining a full listing of journal entries, thereby confirming completeness, identifying and testing any unusual or high risk journal entries for appropriateness, obtaining management explanations and tested all material journals or other adjustments made after the draft accounts stage; and</li> <li>• evaluating the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>We noted in our testing of journals a number of journals had not been appropriately authorised. Our testing of these journal entries to supporting documentation is complete and we are satisfied that the journal entries were reasonable. We recommend the Trust consider using automated authorisation, or performing additional checks on a sample of journals to ensure authorisation policies are carried out.</p> <p>We also identified that a number of manual adjustments were made outside the general ledger to correct entries made for in-year financial reporting. We have tested these entries and are satisfied they are reasonable. We recommend that all changes to the financial statements are made via the general ledger.</p> <p>Our audit work in this area did not identify any other issues in respect of management override of controls.</p>

# Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment (land and buildings)</b>            The Trust revalues its land and buildings on a quinquennial basis for the full valuation, with a desktop valuation in the intervening years, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>evaluating management's processes and assumptions for the calculation of the estimate, and the appropriateness of the instructions issued to valuation experts, the basis of valuations and the scope of their work;</li> <li>assessing the competence, capabilities and objectivity of any management experts used by the Trust;</li> <li>reviewing the basis on which the valuation was carried out, challenging the key assumptions including the basis of the MEA valuation based on the Trust's future 2-site model;</li> <li>discussing with the valuer, the basis on which the valuation was carried out and challenging key assumptions;</li> <li>challenging the information used by the valuer to ensure it is complete and consistent with our understanding; and</li> <li>assessing the overall reasonableness of the valuation movement.</li> <li>evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these were not materially different to current value; and</li> <li>testing of revaluations made during the year to ensure they were input correctly into the Trust's asset register</li> </ul>	<p>We identified some differences between the valuation report and the values in the accounts: two assets were not revalued and two items of land were valued but excluded from the asset register as the Trust only own the buildings. We were satisfied that these differences had been properly reflected in the financial statements.</p> <p>We reviewed the asset lives for buildings against those provided by the Trust's valuer and noted that the Trust has not followed the advice of its valuer. As such we reported the related reduction in depreciation, £600,000, as an error.</p> <p>We reviewed the basis of the MEA valuation and requested further information from the valuer with regard to the size of the MEA site that was value. We noted differences in the land and site areas valued by the valuer and the Trust's advisor. We have reviewed this differences and are satisfied that they do not present a risk of material misstatement. The Trust confirmed that it was satisfied with the basis of the land and site area valued within the letter of representation.</p> <p>Our audit work did not identify any other issues in respect of the valuation of land and buildings. We have undertaken sufficient testing to confirm that the valuation of property, plant and equipment are not materially misstated.</p>

# Audit of the Accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Employee remuneration</b></p> <p>Pay related expenditure represents a significant percentage (62%) of the Trust's operating expenses.</p> <p>As the pay related expenditure comes from a number of individual transactions and an interface with the ESR payroll sub-system/s there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>evaluating the Trust's accounting policy for recognition of payroll expenditure for appropriateness;</li> <li>documenting our understanding of processes and key controls over the transaction cycle;</li> <li>undertaking a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; and</li> <li>obtaining a year-end payroll reconciliation ensuring amounts in the financial statements could be reconciled to the ledger and through to payroll reports, and investigating any significant adjusting items (including testing of payroll related accruals and pay expenditure not sourced in the payroll system as appropriate); and</li> <li>completing a substantive analytical review of total employee remuneration expenditure in the year under audit.</li> </ul>	<p>Our work on testing of the Trust's payroll to ledger reconciliation identified a non-material unreconciled balance. We did not identify any other issues from our testing.</p> <p>We therefore concluded that employee remuneration was not materially misstated.</p>



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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Trust in May 2018, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

Because of the significance of the matters we identified in our work, we were not satisfied that the Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial resilience</b></p> <p>This risk relates to the sub-criteria of sustainable resource deployment.</p> <p>The Trust has a planned deficit of £26.7 million in 2017/18 and requires ongoing cash support from the Department of Health. The CIP programme is challenging with £5.8 million unidentified as at month 7. Substantial non-recurrent measures are planned in order to deliver the 2017/18 plan. The Trust's medium-term plan is to undergo a substantial reconfiguration and eventually return to financial balance.</p>	<p>Our response to this risk was to carry out further work to assess how the Trust has responded to these challenges in 2017/18 both in terms of the 2017/18 outturn performance and its plans for future years. This will include, but is not limited to:</p> <ul style="list-style-type: none"> <li>• Reviewing the arrangements the Trust has for managing its in year financial position including the final outturn position</li> <li>• Reviewing the arrangements the Trust has in place for ensuring the future sustainable management of its finances.</li> </ul>	<ul style="list-style-type: none"> <li>• The Trust submitted a financial plan for 2017/18 which delivered a £26.7 million deficit.</li> <li>• The financial statements report a deficit against the breakeven duty performance of £34.5 million, made up of the adjusted financial performance deficit of £36.8 million less the CQUIN Risk Reserve of £2.3 million</li> <li>• The Trust has an underlying deficit of £53.3 million.</li> <li>• The cumulative financial deficit has moved from £136.4 million (2016/17) to £170.8 million (2017/18).</li> <li>• Cost improvement plans (CIP) in 2018/19 at £51.5 million are ambitious (c5.3% of the Trust's cost base).</li> <li>• The Trust's PMO function is relatively small for a Trust of this size. The strength of the governance arrangements within the PMO function and the stature that they have within the Trust will be key to driving credible savings.</li> <li>• The PMO function needs to ensure delivery of these plans remains on track and support is provided where necessary. Currently, escalation meetings are held where performance is slipping, but there is scope to develop this process to drive greater savings going forward.</li> <li>• At month 1 of 2018/19, the Trust has identified schemes to the value of £42.5 million (82%). A quarter of the schemes are risk rated red and together with the unidentified element results in £19.7 million (38%) of the programme requiring further development or identification. This presents a significant risk.</li> <li>• The level of loans the Trust will hold is expected to rise to from £198.4 million to £228.3 million in 2018/19 representing over 23% of the Trust's projected turnover. The Trust accessed £58.7 million of 'Uncommitted Interim Revenue Support Facility' in 2017/18.</li> <li>• Further cash support of £29.9 million is projected as part of the 2018/19 financial plans and has been submitted to NHS Improvement as part of the annual planning process. This is not yet confirmed.</li> </ul>

# Value for Money conclusion

## Key Value for Money Risks – continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Financial resilience</b></p> <p>This risk relates to the sub-criteria of sustainable resource deployment.</p> <p>The Trust has a planned deficit of £26.7 million in 2017/18 and requires ongoing cash support from the Department of Health. The CIP programme is challenging with £5.8 million unidentified as at month 7. Substantial non-recurrent measures are planned in order to deliver the 2017/18 plan. The Trust's medium-term plan is to undergo a substantial reconfiguration and eventually return to financial balance.</p>	<p>Our response to this risk was to carry out further work to assess how the Trust has responded to these challenges in 2017/18 both in terms of the 2017/18 outturn performance and its plans for future years. This will include, but is not limited to:</p> <ul style="list-style-type: none"> <li>• Reviewing the arrangements the Trust has for managing its in year financial position including the final outturn position</li> <li>• Reviewing the arrangements the Trust has in place for ensuring the future sustainable management of its finances.</li> </ul>	<ul style="list-style-type: none"> <li>• The Trust has not agreed a control total for 2018/19. However, the Trust has agreed contracts with local CCGs.</li> <li>• The Trust has set a deficit budget for 2018/19 of £29.9 million with a CIP requirement of £51.5 million.</li> <li>• The development of robust, green rated saving plans, in excess of the CIP target to allow for slippage, will be critical to the successful delivery of the financial plan.</li> <li>• The Trust has established a Facilities Management Partnership (FMP) as a wholly NHS owned subsidiary of the Trust in the form of a Limited Liability Partnership (LLP). This will provide its future healthcare estates and facilities and procurement and supplies services.</li> <li>• As part of the STP the Trust is planning to reconfigure its hospitals from 3 to 2 sites. A capital bid of £397 million has been submitted but has not been approved. Work continues through STP partners to further the business cases to ensure the long-term sustainability of the Trust.</li> </ul> <p><b>Conclusion</b> - We concluded that because of the significance of the matters we have identified in respect of the Trust's financial sustainability during 2017/18, we were not satisfied that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We therefore gave a qualified 'adverse' conclusion.</p>

# Quality Accounts

## The Quality Account

The Quality Account is an annual report to the public from an NHS Trust about the quality of services it delivers. It allows Trust Boards and staff to show their commitment to continuous improvement of service quality, and to explain progress to the public.

## Scope of work

We carry out an independent assurance engagement on the Trust's Quality Account, following Department of Health (DH) guidance. We give an opinion as to whether we have found anything from our work which leads us to believe that:

- the Quality Account is not prepared in line with set DH criteria;
- the Quality Account is not consistent with other documents, as specified in the DH guidance; and
- the two indicators in the Quality Account where we have carried out testing are not compiled in line with DH regulations and do not meet expected dimensions of data quality.

## Quality Account Indicator testing

We tested the following indicators:

- Rate of clostridium difficile infections
- FFT patient element score

For each indicator tested, we considered the processes used by the Trust to collect data for the indicator. We checked that the indicator presented in the Quality Account reconciled to underlying Trust data. We then tested a sample of cases included in the indicator to check the accuracy, completeness, timeliness, validity, relevance and reliability of the data, and whether the calculation of the indicator was in accordance with the defined indicator definition.

## Key messages

- We confirmed that the Quality Account had been prepared, in all material respects, in line with the requirements of the Regulations.
- We confirmed that the Quality Account was not materially inconsistent with the sources specified in the DHSC Guidance.
- We confirmed that the commentary on indicators in the Quality Account was not inconsistent with the reported outcomes
- Based on the results of our procedures, nothing came to our attention that caused us to believe that the indicators we tested were not reasonably stated in all material respects in accordance with the Regulations and the six dimensions of data quality set out in the Guidance.

## Conclusion

As a result of this we issued an unqualified Limited Assurance report on the Trust's Quality Account on 8 June 2018.

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

## Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	May 2018
Annual Audit Letter	June 2018

## Fees

	Planned £	Actual fees £
Trust Audit	£82,550	£82,550
Charitable Fund	£5,900	£5,900
<b>Total audit fees (excluding VAT)</b>	<b>£88,450</b>	<b>£tbc</b>

There are no comparator fees as this is the first year of appointment as auditors of University Hospitals of Leicester NHS Trust.

## Fees for non-audit services

Service	Fees £
<b>Audit related services:</b> <ul style="list-style-type: none"><li>• Review of the Trust's Quality Report</li></ul>	6,950
<b>Non-Audit related services</b> <ul style="list-style-type: none"><li>- None</li></ul>	Nil

## 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. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Group's policy on the allotment of non-audit work to your auditor. The Quality Accounts Review was commissioned as part of the wider tender for external audit services under a framework contract.



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