Grant Thornton

The Annual Audit Letter for University Hospitals of Leicester NHS Trust

Year ended 31 March 2020

23 March 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 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. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the University Hospitals of Leicester NHS Trust (the Trust) and its subsidiaries (the group) for the year ended 31 March 2020.

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 March 2022.

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
- assess the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

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.

Financial statements audit 2019/20

The audit of the 2019/20 financial statements has taken many months. Our financial statements audit which initially started in May 2020 was completed in March 2022. During this period we have received 15 versions of the financial statements with a movement in the reported deficit from £67.2 million (version 1) to £120.9 million (version 10). This represents an increase in the reported deficit position of £53.7 million. We have also agreed adjustments to the 2018/19 financial statements resulting in the deficit position increasing to £64.7 million from £46.5 million.

Our initial audit (completed October 2020) concluded that a modified opinion was appropriate and we planned to disclaim our opinion on the 2019/20 financial statements (version 5). Following receipt of our draft ISA260 report, the Trust determined that it was not able to adopt the accounts presented for audit due to the likelihood of material misstatements in the financial statements. It determined that it wished to restate the financial statements and requested that the audit process was paused.

The Trust has received significant external support to improve its financial controls and to restate its 2019/20 financial statements. It has a number of interim Director appointments from NHSE/I as part of the Financial Special Measures programme and engaged Deloitte to support the restatement of the 2019/20 financial statements (focusing on the balance sheet entries) and the preparation of key working papers. The Trust have established a number of additional finance posts and have implemented a management of change process. In restating its financial statements the Trust determined that it was not possible to resolve the potential risk of a material misstatement of income and expenditure due to poor journal control. It therefore focussed on the restatement of its balance sheet. Revised accounts were prepared for audit in March 2021. The second stage of our financial statements audit has been undertaken between June – December 2021. The final version of the accounts was taken to the Audit Committee and the Trust Board in March 2022.

1. Executive Summary

2019/20 financial statements audit continued

We consider that the delay in producing accurate financial statements and the material changes in the financial statements are primarily caused by:

- Inappropriate 'tone from the Board' – the Trust has needed to resolve a number of matters including its accounting policies, inaccurate in-year financial reporting, and intentional misstatement of year end financial reporting. In our view this stems from an inappropriate focus by the previous board on achieving its control total. Invariably, until recently, the board has ignored our recommendations. We note that the new Board is now working closely with us.
- Management override of control – prior to the introduction of the new management team, management intentionally misstated both the Trust's in year financial position and its year end financial position. It has done so through the inappropriate recognition of both income and expenditure, changes in accounting policies, and the inappropriate use of journals.
- Poor control environment – there has been a fundamental breakdown in control. Combined with an underinvestment in the finance team this has resulted in a failure to account appropriately in a number of areas.

Audit opinion 2019/20

Following the completion of our re-audit of the 2019/20 financial statements we have issued a disclaimed 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 continues to be is a risk of material misstatement as a result of the undetected management override of control. The potential impact is pervasive to the financial statements.
- there continues to be is a risk of material misstatement as a result of inadequate journal control. The potential impact is 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 have been unable to obtain sufficient appropriate audit evidence in these areas.
- we have been 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 consider that material misstatements remain within the comparatives.

These issues also impact the Statement of Comprehensive Income (SOCI) , Statement of Financial Position, Cashflow Statement, Statement of Changes in Equity and notes to the financial statements. As such, we consider that they are material and pervasive such that we are unable to form an opinion on the financial statements.

1. Executive Summary

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Trust has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We consider that the Trust has inadequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We plan to issue an adverse value for money conclusion.

We have reached this conclusion as:

Financial sustainability

The Trust is not financially sustainable.

For 2019/20 the Trust planned to deliver a control total deficit of £10.7 million including PSF, FRF and MRET funding. In month 9, upon the arrival of the Interim Chief Financial Officer, the in year position moved to a deficit of £59.8 million. The accounts position as reported has subsequently been restated and the Trust has reported a revised deficit position of £120.85 million.

The Trust has had a deficit since 2013/14, although we note the surplus of £16 million in 2020/21 (under the revised Covid-19 funding arrangements). We consider that the factors impacting on the deficit are multi-factoral but note that one of these issues relates to the historic funding of the Trust. Given the issues identified by our work, 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 strengthen 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.

We have concluded that due to the deterioration in the in year financial position resulting in a failure to meet the control total and the Trust's significant underlying deficit 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.

Financial reporting

The Trust's arrangements for securing accurate in-year and year-end financial reporting are inadequate.

It is only in recent months (from January 2021) that the Trust has invested appropriately in its finance team, internal control systems, in-year financial reporting, and year end financial reporting procedures.

Due to the significant under-investment, board decisions on accounting policies, and deliberate management override of control in previous years it has not been possible for the Trust to resolve all the issues which have impacted on the accuracy of its financial reporting. In our view it is likely that the Trust may only be able to return to a position of having unqualified accounts in 2 to 3 years' time.

We consider that due to the issues identified within the Trust's financial reporting of its financial position, both to the Finance and Investment Committee and Trust Board, that the Trust did not have adequate arrangements in relation to reporting finances effectively such that its financial reporting does not support the delivery of strategic priorities for informed decision making and performance management.

1. Executive Summary

Value for Money arrangements continued

Governance

During our appointment as auditors we have become increasingly concerned with the governance and culture at the Trust. We consider that the financial pressure on the Trust, the financial incentives presented by PSF and other similar funding, and a lack of challenge of management by the Trust Board and Audit Committee has resulted in inadequate governance of the Trust. We also consider that the Trust has prioritised the delivery of the control total rather than accurate financial reporting.

We have concluded that due to the significant failings in governance arrangements the Trust did not have adequate arrangements in relation to informed decision making.

We note that since March 2020 that the Trust has taken action to improve its governance.

CQC review

The CQC issued a section 29A Warning Notice on the 3 February 2020, following an unannounced inspection on the 27 January 2020 which took place during a period of adverse pressure. The CQC identified five areas where action must be taken and four areas where action should be taken. The CQC findings were reported to the Trust Board on 7 May 2020 which included the findings of the report and the progress made to date. The majority of requirements were progressed through the Streamlining Emergency Care Workstream during 2020/21. Progress was reported through the Quality and Outcomes Board and Performance, People and Process Committee in August / September 2020. We concluded that due to the issue of a Section 29A Warning Notice for the Emergency Department by CQC 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.

We note that the Trust has now made improvements in this area and that the CQC warning notice has been withdrawn.

Overall Conclusion

We have issued an adverse VFM conclusion.

1. Executive Summary

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.

We have issued a s30 referral to the Secretary of State and have provided a copy of our report separately.

We have issued statutory recommendations and have provided a copy of our report separately.

We have considered whether to issue a report in the public interest and have determined that this is not necessary, primarily due to the recent actions taken by the Trust to resolve the issues identified with regard to financial sustainability, financial reporting and governance, and its decision to report these matters openly in public.

We expect to be able to certify the completion of the audit when we issue the audit opinion and Value for Money conclusion. Until the audit opinion is signed, we continue to consider the use of these powers.

Whole of Government accounts

Due to the late finalisation of the audit we were not required to make a submission to the NAO. We have, however, liaised with the NAO throughout the audit appraising them of the various issues that have arisen.

1. Executive Summary

Progress made by the Trust in 2020/21

We note that two financial years have passed since 2019/20. During this period the Trust has continued to take action to resolve the issues identified. We note the following:

Financial sustainability

The Trust delivered a surplus (subject to audit) of £52.2 million during 2020/21 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. However, the size of the underlying deficit (£109 million) and the lack of a fully worked-up and agreed plans to address the underlying deficit means that this remains a significant risk to the Trust. We note that, under the NHS System Oversight Framework, that the Trust was placed in segment 4 in July 2021 and is receiving support under the Recovery Support Programme.

Governance

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 has responded positively to our statutory recommendations and has a number of detailed plans and programmes to strengthen financial management and governance in the Trust. These plans are in progress 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.

Improving economy, efficiency and effectiveness

Despite the significant challenges around the Trust's financial position, evidence indicates that the Trust is delivering good quality services. The last CQC inspection undertaken in Q3 2019/20 rated the Trust as overall "Good", and the Trust's Summary Hospital-Level Mortality Indicator (SHMI) is within the expected range and performance.

The issues with the Trust's financial statements (and therefore the data submissions which inform costing data) means that the Trust, and external stakeholders, are unable to accurately measure how potentially economic and financially efficient the Trust is. However, the Trust has demonstrated effective use of non-financial information from 2020/21, and evidence indicates the Trust is delivering good quality services whilst responding to the challenge of the pandemic.

During the year, internal audit identified significant issues related to the Trust's procurement and contract management arrangements. Work to address the issues identified started in 2021/22 and is still ongoing. This areas remains a significant risk to the Trust.

The Leicester, Leicestershire and Rutland ("LLR") Integrated Care System ("ICS" or "the System") was established in April 2021. 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.

2. Audit of Financial statements

Scope of 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 Statement of Accounts to check it is consistent with our understanding of the Trust and with the financial statements included in the Statement of Accounts 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.

Audit Approach

Our audit approach was based on an understanding of the group's sector and is risk based, and included:

- an evaluation of the group's internal controls environment, including its IT systems and controls;
- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross operating costs to assess the significance of the component and to determine the planned audit response.
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We communicated our audit approach to the Audit Committee on 23 January 2020, 6 March 2020 and 19 June 2020 ahead of the initial audit process. We had to alter our original audit plan following the cessation of the audit in October 2020. An audit plan addendum was issued and reported to the Audit Committee in June 2021.

The key change to our plan relates to the Comprehensive Income and Expenditure Statement. The Trust concluded that it was not possible to provide sufficient assurance with regard to the income and expenditure balances and related notes. A decision has been taken by the Trust not to provide additional evidence in areas such as income, pay and non pay expenditure. The decision has limited the scope of our work.

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.

We determined materiality for the audit of the Trust and group's financial statements to be £7 million, which is 0.6% of the group's gross cost of services. This is significantly lower than the materiality used at similar audits and reflects the issues identified at the Trust. We also set a lower level of specific materiality for senior officer remuneration of £0.1 million. We set a lower threshold of £300,000, above which we reported misstatements to the Audit Committee in our Audit Findings Report.

2. Audit of Financial statements

Summary

Following the completion of our re-audit of the 2019/20 financial statements we disclaimed our 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 have reached this view as:

Management override of control
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 reported misstatements. It is uncertain as to whether other misstatements remain within the financial statements due to management override of control.

Due to the management override of control we concluded that we could not obtain sufficient appropriate evidence that material misstatements, arising from misstatement or error, do not remain in the 2019/20 financial statements.

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 mistatement had also 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 Director's costs were necessary.

2. Audit of Financial statements

Audit opinion

Inability to obtain sufficient appropriate audit evidence due to a management-imposed limitation after the auditor has Accepted the Engagement

From October 2020 the Trust's Management made the decision to focus available resources within the finance team on the restatement of the Trust's Balance Sheet. No further work has been carried out on the Trust's Income and Expenditure Account by the Trust. As such the audit team have not received any further working papers to support Income and Expenditure balances or movements, or to resolve previously identified issues. Audit testing on the Income and Expenditure account was not undertaken.

The decision not to provide evidence to support the Income and Expenditure balances was an informed decision made by management for the purpose of amending the 2019/20 financial statements, taking advice from appropriate bodies and its advisors, to focus on the restatement of the balance sheet. Management were aware that the impact of this decision would be to place a limitation of scope on our work. This limitation of scope forms part of our decision to issue a disclaimed opinion.

Other matters

We also identified the following matters:

- Inventories – We have been unable to obtain appropriate audit evidence with regard to inventory due to the lack of appropriate evidence and our own inability to attend the stock take due to Covid-19 (in March 2019)
- Comparatives and other notes – We consider that material misstatements remain within the comparatives and that misstatements may remain with regard to the Cashflow Statement, SOCITE and notes to the financial statements.

Conclusion

We concluded that the matters highlighted above are material and pervasive such that we are unable to form an opinion on the financial statements. We therefore issued a disclaimed audit opinion .

2. Audit of Financial statements

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work

Significant Risks identified in our Audit Plan	Commentary
Management over-ride of controls	<u>Journals</u> The Trust operated without appropriate journal controls throughout 2019/20. For the year, over 274,000 journals were posted in the financial statements. Our initial audit to October 2020 concluded that there was evidence of poor control over journals and management override of control. We were also unable to obtain appropriate evidence for a number of journals. We concluded that we were unable to rely on the accuracy of journals. Following the restatement of the accounts: - no additional work was carried out by the Trust relating to income and expenditure journals. As such, we have not carried out any additional audit work in relation to income and expenditure journals. Misstatements may remain in these balances. - significant work was undertaken by the Trust to ensure balance sheet journals were appropriate. For a number of the journals tested we were able to gain sufficient evidence and assurance. However, for some journals there was limited or no supporting evidence. We therefore concluded that material misstatements arising from poor control of journals or management override of control may remain in the 2019/20 financial statements. <u>Accounting policies</u> The Trust changed a number of accounting policies during the year to bring them in line with our previous recommendations and those set out in the Government Accounting Manual. This has led to prior period adjustments. We note that all accounting policy changes are now agreed by the Audit Committee. We are satisfied that accounting policies are appropriate.
Expenditure recognition	Our initial audit to October 2020 concluded that there were misstatements and uncertainties relating to expenditure balances and we concluded that they were materially misstated. We noted that c£14 million of non pay expenditure adjustments were made to the 2019/20 financial statements that we were not able to corroborate. We were also unable to gain assurance over a balance of £13 million within the payroll reconciliation, which consisted of multiple journals. The Trust addressed a number of issues from our initial audit but did not support the reaudit of expenditure. As such, we are not able to confirm whether this balance is not materially misstated.

2. Audit of Financial Statements

Risks identified in our Audit Plan (continued)	Commentary
Improper revenue recognition	Our initial audit concluded in October 2020 that the Trust had 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 the PSF income. We reported that income and receivables may have included c. £3 million of non material misstatement with regard to NHS debtors, prepayments, and sales ledger debtors. We also noted that the following balances were uncertain: classification of specialised services income between years c.£2.5 million, collection of NHS debt over 90 days old c.£2.5 million, and collection of RTA debt over 1 year old c. £2 million. The Trust addressed a number of issues from our initial audit but did not support the reaudit of income. As such, we are not able to confirm whether this balance is not materially misstated. We note that PSF income was withdrawn by NHSE/I.
Valuation of land and buildings .	Our initial audit concluded that the Trust had applied a different percentage reduction (9%) in its MEA estate valuation to that in its estate strategy (18%). The Trust was unable to provide a clear rationale for these changes. As such, it was not possible to conclude on the valuation of these assets. We were also unable to corroborate the capital salaries charged to buildings or whether assets under construction were appropriately stated. As part of its restatement of the financial statements the Trust has made material adjustments to the closing property, plant and equipment balances. Material misstatements remain in the opening balances. This also impacts on in year calculations which rely upon the opening balances, for example depreciation and impairment expenses.
Covid-19	We have reviewed the impact of Covid-19 and updated our going concern assessment. We have concluded that the following significant impacts apply: • Valuation of land and property – In the updated valuation report the valuer has advised the Trust of material uncertainties with regard to valuation. • Completeness of inventory – We were not able to attend a year-end, physical stock take and have been unable to gain any assurance over the inventory balances.

2. Audit of Financial statements

Issue	Commentary

Going concern

We consider that the Trust has a material uncertainty in relation to its going concern.

The Trust is facing significant financial challenges and reported a £120 million deficit position for 2019/20, not achieving its planned control total of £10.7 million. The reported deficit is a combination of in year deficit and the correction of changes in accounting policies and inaccurate reporting of income and expenditure in 2019/20, 2018/19 and prior years. The Trust required cash support to pay its expenses and at year-end was forecasting the need for further cash support, of which the source and value was not confirmed. The impact of the Covid-19 pandemic has removed the necessity for additional cash support which has been superceded by the block funding arrangements in place across the NHS. This does not detract from the Trust's significant underlying deficit (which is c£109 million). At the point of signing the opinion, the Trust did not have a fully worked up recovery plan, agreed with other stakeholders within the health economy.

The Trust has made appropriate disclosures of this matter at Note 1.2 to the accounts and we are satisfied that it remains a going concern.

Auditable elements of Remuneration Report and Staff Report

We are required to give an opinion on whether the parts of the Remuneration 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 have disclaimed our opinion on this report due to the issues outlined earlier.

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 comply with guidance issued by NHSEI or is misleading or inconsistent with the information of which we are aware from our audit,
- 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 Trust acquired in the course of performing our audit, or otherwise misleading.
- if we have applied any of our statutory powers or duties.
- where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. .

There are no matters to report with regard to the Annual Governance Statement and Annual Report. We have issued an adverse value for money conclusion. We have issued statutory recommendations.

3. Value for Money arrangements

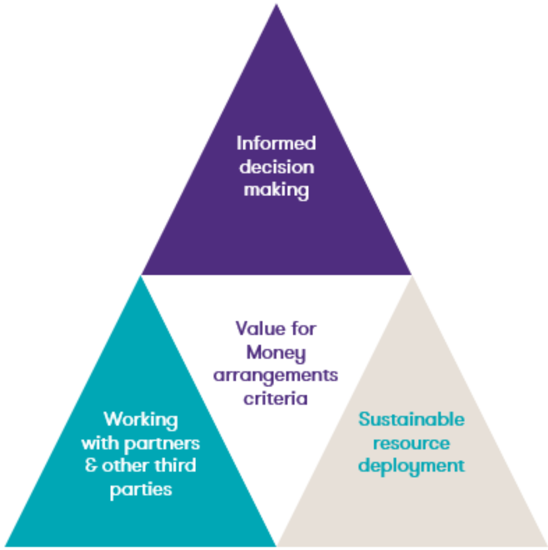
Background to our VFM approach

We are required to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception where we are not satisfied. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Trust. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2019. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our revised Audit Plan dated February 2020.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

- The governance arrangements within the Trust for financial reporting and financial management have been found to be lacking, from a transactional level up to decisions made by the Trust Board. We therefore identified this as a significant risk.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

3. Value for Money arrangements

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Trust's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Trust's arrangements. In arriving at our conclusion, our main considerations were:

- The Trust did not achieve its planned control total £10.7 million
- The Trust is reporting a deficit for 2019/20 of c.£120 million
- The Trust's cumulative deficit position has been impacted by the in year deficit and the prior period adjustment of £32 million (which reverses changes in accounting policies and adjusted for misstatements in 2018/19 and prior years)
- The Trust's procedures for the preparation of its financial statements are inadequate with insufficient management oversight of judgements, estimates and application of accounting policies which has resulted in misstatements in the current year and prior years
- There is evidence of intentional misstatement of the financial statements
- The Trust's financial control procedures include a significant number of deficiencies which have led to misstatements in financial reporting
- CQC issued of a Section 29A Warning Notice for the Emergency Department in January 2020 which required the Trust to address issues identified by CQC
- The Trust Board and its Committees have not effectively challenged the actions of management in its adoption of policies, practices, accounting models and schemes.

Overall conclusion

In summary, 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 Trust did not have adequate arrangements in relation to reporting finances effectively such that its financial reporting does not support the delivery of strategic priorities for informed decision making and performance management.
- the Trust did not have appropriate governance arrangements to support informed decision making.

Because of the significance of the matters we identified 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 conclusion.

3. Value for Money arrangements

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Financial performance & sustainability

The Trust is not financially sustainable.

For 2019/20 the Trust planned to deliver a control total deficit of £10.7 million including PSF, FRF and MRET funding. In month 9, upon the arrival of the Interim Chief Financial Officer, the in year position moved to a deficit of £59.8 million. The accounts position as reported has subsequently been restated and the Trust has reported a revised deficit position of £120.85 million.

The Trust has had a deficit since 2013/14, although we note the surplus of £16 million in 2020/21 (under the revised Covid-19 funding arrangements). We consider that the factors impacting on the deficit are multi-factoral but note that one of these issues relates to the historic funding of the Trust. Given the issues identified by our work, 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 strengthen 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.

We have concluded that due to the deterioration in the in year financial position resulting in a failure to meet the control total and the Trust's significant underlying deficit 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.

In summary, 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.

3. Value for Money arrangements

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Financial reporting

The Trust's arrangements for securing accurate in-year and year-end financial reporting are inadequate.

It is only from January 2021 that the Trust has invested appropriately in its finance team, internal control systems, in-year financial reporting, and year-end financial reporting procedures.

Due to the significant under-investment, board decisions on accounting policies, and deliberate management override of control in previous years it has not been possible for the Trust to resolve all the issues which have impacted on the accuracy of its financial reporting. In our view it is likely that the Trust will only be able to return to a position of having unqualified accounts in 2 to 3 years' time.

We consider that due to the issues identified within the Trust's financial reporting of its financial position, both to the Finance and Investment Committee and Trust Board, that the Trust did not have adequate arrangements in relation to reporting finances effectively such that its financial reporting does not support the delivery of strategic priorities for informed decision making and performance management.

In summary, 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 misstatements in the in-year financial reports to the Board
- As stated in the 'Basis for disclaimer of opinion' section above, we identified misstatements 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 misstatements 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.

3. Value for Money arrangements

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Governance

During our appointment as auditors we have become increasingly concerned with the governance and culture at the Trust. We consider that the financial pressure on the Trust, the financial incentives presented by PSF and other similar funding, and a lack of challenge of management by the Trust Board and Audit Committee has resulted in inadequate governance of the Trust. We also consider that the Trust has prioritised the delivery of the control total rather than accurate financial reporting.

In summary, 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 misstatements 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 misstatements in the 2019/20 financial statements, misstatements 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.

We note that since March 2020 that the Trust has taken action to improve its governance.

3. Value for Money arrangements

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Care Quality Commission (CQC) Inspection

The CQC issued a section 29A Warning Notice on the 3 February 2020, following an unannounced inspection on the 27 January 2020 which took place during a period of adverse pressure. The CQC identified five areas where action must be taken and four areas where action should be taken. The CQC findings were reported to the Trust Board on 7 May 2020 which included the findings of the report and the progress made to date. The majority of requirements are being progressed through the Streamlining Emergency Care Workstream during 2020/21. Progress was reported through the Quality and Outcomes Board and Performance, People and Process Committee in August / September 2020. We concluded that due to the issue of a Section 29A Warning Notice for the Emergency Department by CQC 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.

We note that the Trust has now made improvements in this area and that the CQC warning notice has been withdrawn.

4. Other statutory powers and duties

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

Issue	Commentary

Statutory recommendations

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Trust's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014 ('The Act'). These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law.

We concluded in January 2021 that it was appropriate for us to use our powers to make statutory recommendations under section 24 of The Act (Schedule 7) due to issues we had identified with regard to the Trust's financial reporting, governance and financial sustainability. We reported to the Trust that we considered that both financial reporting and the governance of the Trust had fallen below the standards expected of a public sector body. We also reported that, until 2020/21, that the Trust was not managing to deliver effective services within the funding made available to it. We noted that urgent action was needed by the Trust Board with regard to all of these matters . Our report was taken to the Trust Board on 4 February 2021

We have set out our recommendations below.

- The Trust Board should seek to create a culture that is focussed on accurate financial reporting. In particular, that the Board should discourage the use of aggressive accounting policies and practices and should provide appropriate challenge of management.
- The Trust Board should finalise and publish its Annual Governance Statement at the earliest opportunity.
- The finance and other management teams involved in finance should receive accounting, governance and ethics training to ensure that they are clear on the appropriate accounting practices and the governance standards required by the Trust Board.
- The Trust should complete its planned review of the structure and capacity of the finance team as soon as possible. As necessary additional investment should be made in the capacity and capability of the team.
- The Trust Board should undertake a review of its financial procedures and controls to ensure that they are 'fit for purpose'.
- The control of journals should be significantly enhanced. The Trust Board should ensure that the automated system recently introduced is effective and prevents the self-authorisation of journals.
- The Trust Board should undertake a detailed review of its accounts preparation processes and amend its procedures to allow accounts and supporting working papers of an appropriate quality to be prepared for audit.
- The Trust Board should take urgent action to complete the revision and audit of its financial statements.
- The Trust Board should agree with its commissioners, NHS England and Improvement, and the Department of Health a strategy that will return the Trust to a long term sustainable financial position.

The Trust has responded to our recommendations and has an action plan in place.

4. Other statutory powers and duties

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

Issue	Commentary
Referral to the Secretary of State	We wrote to the Secretary of State on 15 December 2020. We reported that: • The Trust continued to be in breach of its break-even duty over the three year period ending 31 March 2020, and that it was likely that the Trust would continue to breach its duty to break-even in 2020/21. • The Trust had prepared accounts for the year ended 31 March 2020 under section 232 of and Schedule 15 to the National Health Service Act 2006, which we had audited, but had determined that it is unable to submit these audited accounts. We were therefore unable to issue our audit opinion. As such we considered that, due to the non-submission of audited accounts, that the Trust was in breach of the National Health Service Act 2006 and the Directions issued by the Secretary of State.

5. Fees

We confirm below our final fees charged for the audit services.

Audit fees	Final fee
Trust Audit	£876k (estimated)
Audit of subsidiary company	£32k
Total audit fees (excluding VAT)	£908k (estimated)

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